Viewpoint

The official journal of the Pensions and Lifetime Savings Association

Issue 2 2018

THE GREAT TRANSPARENCY DEBATE

RISHI SUNAK MP

PATIENT CAPITAL

DB WHITE PAPER

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

RESEARCHING ENGAGEMENT

GENDER PAY GAPS AND PENSIONS

CEO'S *Viewpoint*

Julian Mund updates you on what's been happening inside and outside the PLSA.

WELCOME TO THE SECOND EDITION OF *VIEWPOINT* FOR 2018. AS USUAL THERE'S PLENTY INSIDE FROM THE PLSA AND OUR MEMBERS AND FRIENDS.

Cost transparency is one of the big issues on the pensions agenda at the moment. As key participants on the Institutional Disclosure Working Group, we've been at the heart of developing standardised disclosure that works for you. We've spoken to a lot of PLSA members about this issue, and we've found that it's something everyone knows pension funds need to get to grips with, but they don't always know how. That's why we were pleased to hold a roundtable event on this topic with KAS Bank in May – in a six-page feature inside you can learn from experts with a range of perspectives.

As this issue lands on your desk or in your inbox, we'll be looking for people to join our new Policy Board, which will be chaired by Emma Douglas, Head of DC Solutions at LGIM. We hope to receive applications from members who haven't been part of our policy work before, as well as from people who currently serve on Councils and committees. Our aims are broad representation and diverse points of view as well as continuity of the policy work we have underway.

That work includes *Hitting the Target*, which you can read about inside as we approach the publication of our next report this summer. There's also plenty of content relevant to our Local Authority members, following our recent conference at the Cotswold Water Park. And it's great to see an article from a former member of the Pension Quality Mark team, Tracey Dawson, looking at member engagement. That's another of the current major discussion points in pensions and the main theme of our Annual Conference & Exhibition this year – 'understanding members' perspectives'. Look out for details inside, and a recap of the Investment and Local Authority Conferences to whet your appetite.

I hope you enjoy reading this edition of Viewpoint. As ever, we'd be happy to hear about how you think we can improve it and we'd really like to receive contributions too. Get in touch with our team and our Editor, Maggie Williams, on **viewpoint@plsa.co.uk**.

Julian Mund

OUR AIMS ARE BROAD REPRESENTATION AND DIVERSE POINTS OF VIEW

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PENSIONS AND LIFETIME SAVINGS ASSOCIATION

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Viewpoint UPDATE

TWO NEW MADE SIMPLE GUIDES

IMPACT INVESTING

Impact investment – which prioritises positive social and environmental impacts alongside financial return – is rapidly rising up the agenda for pension funds and investment professionals.

The PLSA's guide has been created in association with Hermes Investment Management and explores:

- Environmental, social and governance (ESG) strategies
- The pillars of impact investment
- Why sustainability matters
- Taking a long-term view

"Many trustees are finding members – especially in DC schemes – are interested in sustainable, more impactful investing," says Andrew Parry of Hermes Investment Management. "It's not about giving up return, but potentially enhancing it in a world with scarce return opportunities."

GLOBAL SECURITIES FRAUD LITIGATION

Our Global Securities Fraud Litigation Made Simple guide explains:

- What securities litigation is and how claims can be pursued.
- How trustees can make informed decisions on behalf of their members, should the scheme find itself the victim of securities fraud.
- Class action opportunities in the US as well as mechanisms in other markets such as the UK, Canada, Germany, Japan and Australia.

"It's an important issue because fiduciaries are expected to treat the property they manage as if it is their own," says Mark Solomon, partner at Robbins Geller Rudman & Dowd LLP, the sponsors of the guide. "When fiduciaries find the assets they manage have been victimised by fraud, it is incumbent on them to make efforts to recover the damage that has been caused."

https://www.plsa.co.uk/Resources-Made-Simple-guides

TOP TWEETS

@pensionsexpert
Signpost savers towards default pathways, says @ThePLSA. "Default decumulation pathways need not conflict with the freedom and choice reforms."

Senior Policy Advisor George Currie states the case for retirement pathways.

@jwalshPLSA
Must say that was a fact-packed presentation to @PensionsEurope by Emmy Labovitch of @OECD. Intriguing range of default funds across OECD countries – must find out how the Swedes deliver 19% returns.

James Walsh, Policy Lead: Engagement, EU and Regulation, explores the European landscape.

OUR PICK OF THE BEST HEADLINES

'MICRO-MANAGERIAL' REGULATION HAS DRIVEN DOWN TRUSTEE ENGAGEMENT WITH ADVISERS

Caroline Escott, Investment and DB Lead at the PLSA, tells *Professional Pensions* how occupational pension schemes have been "regulated to the lowest common denominator"...

www.professionalpensions.com/professional-pensions/news/3031319/micro-managerial-regulation-has-driven-down-trustee-engagement-with-advisers-says-plsa

...but don't just take our word for it!

REGULATION IS TOO PRESCRIPTIVE, SAY RESPONDENTS

Professional Pensions' PensionsBuzz survey showed that the majority of its readers agree with us.

www.professionalpensions.com/professional-pensions/news/3031630/pensions-regulation-is-too-prescriptive-say-respondents

RECORD NUMBER OF EMPLOYEES ARE SAVING TOWARDS A PENSION

Nigel Peaple, deputy director for defined contribution, lifetime savings and research, argues in *Moneywise* that, although more people are saving, they're not yet saving enough.

www.moneywise.co.uk/news/2018-05-09/record-number-employees-are-saving-towards-pension


1.


2.


3.

INVESTMENT CONFERENCE UPDATE

1. What will history make of the UK's decision to leave the EU? The audience had plenty of questions for broadcaster and historian Dan Snow.
2. Mary Starks, Director of Competition and Chief Economist, Financial Conduct Authority gives her views on the evolution of the defined contribution (DC) market in our DC stream debate.
3. Our opening plenary speaker, former Deputy Prime Minister Nick Clegg, takes questions from the floor on political and economic issues.
4. As usual, the exhibition hall was the social hub of the Investment Conference.
5. Ian Blackford MP, Westminster Leader, Scottish National Party focuses on current opportunities and threats to the Scottish investment sector in a lively panel session.
6. Fearless Girl joins the action in the exhibition hall
7. Delegates debate the issues of the day during a break in the speaker programme
8. Campaigner and asset manager Gina Miller had forthright views on what it takes to challenge authority and defy the status quo.


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8.

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

UNDERSTANDING MEMBER PERSPECTIVES

ANNUAL CONFERENCE & EXHIBITION 2018

17-19 October 2018 | Liverpool

Keynote speakers include:

Andrew Marr
Broadcaster and Author

Guy Opperman
Pensions Minister

Lesley Titcomb
Chief Executive,
The Pensions Regulator

Matthew Syed
Journalist and Author,
'Black Box Thinking'

FOR MORE INFORMATION AND TO BOOK PLEASE VISIT

WWW.PLSA.CO.UK

PLSA APPOINTS EMMA DOUGLAS AS CHAIR OF ITS NEW POLICY BOARD

On 22 May we announced that **Emma Douglas** (Head of DC, Legal & General Investment Management) has been appointed as Chair of the new Policy Board, which will be introduced in autumn 2018.

THE CREATION OF THE PLSA POLICY BOARD WAS ONE OF THE PROPOSED CHANGES ANNOUNCED AT OUR ANNUAL CONFERENCE IN OCTOBER 2017, AND WHICH THE ORGANISATION HAS SINCE CONSULTED ON. FROM AUTUMN, THE POLICY BOARD WILL TAKE STRATEGIC OVERSIGHT OF THE PLSA'S POLICY WORK PROGRAMME ACROSS THE FULL BREADTH OF ITS MEMBERSHIP, MAKING SURE IT SUPPORTS THE PLSA'S PURPOSE AND VISION TO HELP EVERYONE ACHIEVE A BETTER INCOME IN RETIREMENT.

With a career that spans more than 20 years in the pensions and investment management industries, Emma is currently Head of DC for Legal & General Investment Management and is also Chair of the PLSA's existing Master Trust Committee and sits on the PLSA's DC Council.

As part of her new role, Emma will represent the PLSA's membership in policy making and provide leadership in bringing a diverse range of members together behind common policy goals.

COMMENTING ON EMMA'S APPOINTMENT, RICHARD BUTCHER, CHAIR OF THE PLSA, SAID:

"I am delighted to announce Emma as Chair of our new Policy Board. Throughout this process we have been looking for someone who can represent our broad membership and who is dedicated to helping improve retirement outcomes, and Emma certainly fits the bill. Having someone with Emma's extensive experience take forward this important position will help keep us at the forefront of pensions policy within Whitehall and Westminster. I look forward to working closely with her in her new role."

EMMA DOUGLAS SAID:

"I am very proud to be appointed as Chair of the PLSA's new Policy Board. The PLSA is a leading voice within the pensions industry that is well known for its robust and far-reaching policy work. I intend to use my new role to build on these foundations and ensure that we continue to stay ahead on policy issues and shape the pensions landscape to help everyone achieve a better income in retirement."

The search for the remaining members of the Policy Board will begin in the coming weeks and the PLSA will be looking for members who can represent all areas of its broad membership and deliver its ongoing policy agenda. The PLSA will ask its members to approve Emma's appointment and the appointments of other Policy Board members at the PLSA Annual General Meeting (in October.

Emma Douglas

Emma is Head of DC at Legal & General Investment Management with responsibility for developing DC investment and bundled business. Emma joined Legal & General Investment Management in 2014 from Mercer where she was a partner and Head of Mercer Workplace Savings.

Prior to that, she was Head of DC Sales at BlackRock and Head of DC Pensions at Threadneedle Investments, and has more than 20 years of experience in the investment management industry.

Emma graduated from Trinity College, Oxford, and holds an MBA from Manchester Business School via a Women in Management Scholarship from the Guardian. Emma is currently a member of the PLSA DC Council and chairs the PLSA Master Trust Committee.

DB: A PUNCHY MANIFESTO

Joe Dabrowski welcomes the publication of the long-awaited DB White Paper.

ON 19 MARCH THE DEPARTMENT OF WORK AND PENSIONS (DWP) PUBLISHED ITS LONG-AWAITED WHITE PAPER, *PROTECTING DEFINED BENEFIT PENSION SCHEMES*. THIS WAS ONE DAY BEFORE THE SPRING EQUINOX – MEETING, JUST IN TIME, ITS COMMITMENT TO PUBLISH 'THIS WINTER'.

The White Paper's lesser-reported cousin, the BEIS consultation on *Corporate Governance and Insolvency*, was published the following day. This examines overlapping issues about the treatment of schemes following company insolvencies, in the wake of the high-profile collapses of BHS and Carillion.

The White Paper itself is a punchy manifesto, with the main body of proposals set out in 50 concise pages, almost half that of the 2017 Green Paper. Given the intense scrutiny and headlines in the run-up to its publication, the paper has a strong emphasis throughout on the protection of members' benefits.

It also states that for the most part the rules are being clarified, and has avoided making some headline-grabbing changes, such as a statutory override from RPI to CPI. But, despite this positioning, the DWP has set out some potentially very substantial changes. These include:

- Strengthening the regulatory framework, TPR's enforcement and information-gathering powers;
- Proposals to rewrite scheme funding standards and governance requirements, including requiring a DB Chair's statement; and
- Changes to the legislative framework to facilitate scheme consolidation and create an authorisation regime for commercial consolidators.

These are proposals that DWP and the Regulator intend to consult on during the course of the year, and in advance of any Pensions Bill in 2019/20.

So, in the months ahead there will be plenty to do, and review. And to get ahead of that work, the Work and Pensions Select Committee has launched its own inquiry into the White Paper proposals, which we look forward to engaging with.

ENCOURAGING PROPOSALS

Taking stock, we believe there is a lot to welcome in the proposals; and we have been pleased to see many of the recommendations reflect the very close working relationship we have developed over the course of the production of the Green and White Papers. Although we, like the DWP, are confident the regulatory framework will ensure most members of DB schemes see their benefits paid in full, we share its view that supporting schemes through a range of different measures will improve benefit security. More than 11 million people rely on private sector DB pensions for all or some of their retirement income, so it is vital they can do so with confidence.

We know some employer covenants are under pressure. High-profile company failures like Carillion and BHS clearly signal that this is a situation which cannot be ignored. The White Paper proposals, and those set out in the BEIS consultation *Insolvency and Corporate Governance*, will help avoid or mitigate such scenarios. And while work will be needed to define their use in practice, the ability for TPR to impose significant fines, undertake enhanced information-gathering exercises and introduce an increased oversight regime can all play a role in safeguarding people's pensions.

We have always believed that ensuring all schemes are run well is a basic tenet of achieving good member outcomes. So, it is good to see the DWP take up our recommendation that all schemes should have a chair of trustees; and that it is also introducing the requirement for a DB Chair's statement – this will help ensure high standards of governance and operational effectiveness across the whole sector.

Consolidation is a key consideration in the White Paper, a theme that has been consistent in reviews from the FCA, the Pensions Regulator and the work of the PLSA DB Taskforce. There is, as referenced, a growing body of evidence that consolidation (in many forms) could help some schemes – but there is still much to do to build a framework that would allow that to happen safely.

DB WHITE PAPER CONSULTATION EVENT

The PLSA and The Pensions Regulator (TPR) are co-hosting a member-only consultation event in Manchester to get your views on issues such as:

- New powers for TPR
- Changes to the Funding Code
- Proposals for an authorisation regime for consolidators.

TPR will also be giving its perspective on the regulatory framework as well as its new enforcement and information gathering powers.

27 June, Willis Towers Watson offices, Manchester.

To register contact cheryl.wilkinson@plsa.co.uk

WARNING : RESTRICTED BUSINESSES

NO BOMBS

NO BOOZE

NO BETTING

NO BURNING COAL

NO BULLDOZING

NO BLACK GOLD

NO BONKING

NO BACCY

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NO BRIBERY

NO BULLYING

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- Have a high degree of certainty of growth from reinvestment of their cash flows at high rates of return
- Are resilient to change, particularly technological innovation
- Have a valuation which is considered to be attractive

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- Metals and Mining
- Oil, Gas and Consumable Fuels
- Pornography
- Tobacco

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We believe the leading LGPS funds of the future will have mastery over their data. Wherever you are on your journey we can give you a clear plan of action and innovative solutions to overcome the data challenge and ensure better outcomes for you and your members.

1.

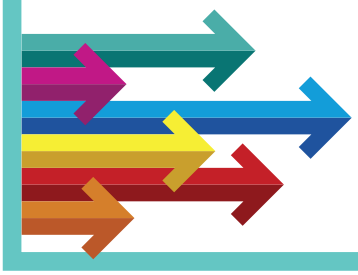
LOCAL AUTHORITY CONFERENCE

THE PLSA'S LOCAL AUTHORITY PENSION SCHEME CONFERENCE TOOK PLACE AT THE DE VERE COTSWOLD WATER PARK HOTEL, GLOUCESTERSHIRE, FROM 21-23 MAY 2018.

With pooling still dominating the Local Authority landscape, there was plenty to discuss under our strapline of 'Leading, Growing, Changing'. Investment strategies, governance, cost transparency and finding the right mix of skills for the future were all high on the agenda.

The programme featured senior government policy makers, such as Rishi Sunak MP, Minister for Local Government and Martin Clarke from the Government Actuary's Department. We welcomed speakers including Jeff Houston, Head of Pensions at the Local Government Association and Andrien Meyers, Head of Treasury and Pensions, London Borough of Lambeth who were able to give the audience a perspective on the practicalities of working in Local Authority schemes.

As ever, the conference also brought in perspectives from outside pensions, with Steve Bull, former Team GB and England cricket psychologist giving us insights into how to help teams deliver to the best of their ability in high pressured situations.



1. Andrien Meyers gives his perspective on value for money in investment fees
2. A warm welcome to the conference from PLSA Chair Richard Butcher
3. Keynote speaker Rishi Sunak sets out his vision for pension scheme investment in infrastructure

Andrien Meyers CC @AndrienMeyersCC - 19m
As part of an expert panel I was honoured to echo the Minister's message on LGPS Pooling and cost transparency at the PLSA National Conference @ThePLSA**#LAConf** @RButcherpti

2.

Richard Butcher @RButcherptl - 16h
#LAConf 52% of local authority pension assets now in their own investment pools. Consolidation is happening.

3.

Caroline Escott @cfjescott - 22h
"A particular challenge is on infrastructure investment...the LGPS does not yet punch at its weight in this area..." Rishi Sunak **#LAConf**

INTERVIEW: RISHI SUNAK MP

Maggie Williams asks the Parliamentary Under-Secretary (Housing, Communities and Local Government) for his thoughts on Local Authority schemes.

Q

WHAT DO YOU THINK ARE THE BIGGEST CHALLENGES FACING LOCAL AUTHORITY SCHEMES AT PRESENT?

I see three main challenges – delivering on pooling, sustainability for the long term, and improving the quality of data.

Although I've only recently come into this post, there has already been a lot of incredibly hard work towards making pooling happen. I'd like to congratulate the pools that are already completely up and running and pay tribute to all the people who have worked very hard to be where they need to be. I'm also confident that those that still need to cross the finishing line will have done so by the summer. We are already seeing the increases in scale and expertise that the pools bring beginning to lower costs and improve returns.

There are 2 million people paying into Local Authority schemes each year, and their pensions are being underwritten by the taxpayer. We really need to make sure the money is there to pay everyone when the time comes, so sustainability is another top priority. It is a sobering thought that people paying contributions in today could still be receiving their pensions into the 22nd century. You must have a long-term perspective and ensure everyone takes that seriously. We can't be complacent, people will be reliant on this money in retirement.

I come from a financial services background, and I'm really passionate about good quality data. But this isn't just a personal focus – it is a priority for the Pensions Regulator, and the Government Actuaries Department has also highlighted this as a challenge. Our team are working with the Local Government Association and others to make sure we have high quality, consistent data to do our jobs as well as we can. Without that, we are less able to make well-informed decisions, manage risk effectively and ensure we have adequate transparency. Employers, employees and scheme administrators all need good data to support the way pensions are run.

Q

HOW DO YOU SEE THE RELATIONSHIP BETWEEN PENSIONS AND OTHER LOCAL AUTHORITY PRIORITIES, SUCH AS HOUSE BUILDING AND INFRASTRUCTURE?

I've run international investment funds myself and lived and worked abroad, so I have a perspective on this beyond the UK. Pension funds in other countries tend to invest between 10 and 15% of their assets in infrastructure, and it is a constant investment theme for them. The US and Canada are obvious examples, but there are others as well. In the UK, investment in infrastructure is as little as 0.5% of scheme assets. If the gap between levels of UK pension fund investment and those seen elsewhere reduced, that could create around £20 billion incrementally for infrastructure. That opens up some very exciting prospects.

There are good reasons for pension funds to explore infrastructure. It is a long-term, high quality asset class. As a country we need infrastructure investment, whether it's building new homes or other projects that drive economic growth forward and act for social good.

We have already seen some examples of this, such as Matrix Homes, Greater Manchester Pension Fund's joint venture with Manchester City Council, which is funding construction of new homes in the area.

Pooling will help this to happen. Infrastructure isn't as accessible an asset class as publicly traded equities, for example. You need expertise and scale to make this happen, which will be available in pooled funds.

We also need to ask more broadly what other support is needed. The recipients of capital will need to play their part, for example. They can't just expect pension schemes to walk through their door. Funds need to be structured in such a way that they match the needs of pension funds.

WE CAN'T BE COMPLACENT, PEOPLE WILL BE RELIANT ON THIS MONEY IN RETIREMENT

THE PRIZE, IF WE GET IT RIGHT, IS FANTASTIC

Q

WHAT DO YOU THINK WILL BE THE KEY PRIORITIES FOR LOCAL AUTHORITY SCHEMES OVER THE NEXT FIVE YEARS?

We have estimated that we will save up to £2 billion in the next 10 to 15 years as a result of pooling, so the continuing development of this strategy is definitely a priority. The prize, if we get it right, is fantastic and we want pools to grow their capacity and reap the greatest possible benefit.

The second priority for me is greater transparency. The Scheme Advisory Board is an excellent initiative within TPR's code of practice. We need to use this intelligently to improve performance and ensure value for money and accountability from asset managers. Similarly, I don't want funds to lose sight of admin costs alongside investment management fees. We want to maximise the net return after all the costs of running the scheme have been taken into account.

Q

WHAT ONE THING DO YOU THINK LOCAL AUTHORITY PENSION SCHEMES AND THEIR TRUSTEES COULD DO BETTER?

We are seeing a move across pensions towards individuals taking more ownership of their future and making good retirement choices for themselves. Auto-enrolment and freedom of choice have both driven awareness of this. I think pension boards could do more to encourage this thinking as well. We could do a better job of scheme communications with members and of educating them about the importance of their pension as part of their future wellbeing.

MIND THE GAP

Maggie Williams reports on some early findings on the UK's gender pay gap – and how it relates to pensions

IN APRIL 2018, THE UK BECAME ONE OF THE FIRST COUNTRIES IN THE WORLD TO REQUIRE BUSINESSES TO PUBLISH DETAILS OF THEIR GENDER PAY GAP. COMPANIES WITH MORE THAN 250 STAFF MUST REPORT ON THE FIGURE ANNUALLY BY LAW, ALTHOUGH MANY SMALLER COMPANIES HAVE ALSO OPTED TO PUBLISH THEIR SCORES ON A VOLUNTARY BASIS.

The first year's figures have shown some interesting trends. Seventy-eight per cent of businesses have a gender pay gap in favour of men, with 14 per cent in favour of women and 8 per cent claiming no pay gap at all. More than 1,500 businesses who should have done so had not submitted their figures by the 6 April closing date – and a month later 500 still had not.

The measures required by the government are basic. They assess the difference in the mean and median pay and bonuses between all men and women in a workforce. Businesses must also divide their staff up into quartiles based on pay, and report on the number of men and women in each quartile.

By themselves, the numbers are only a rough guide to gender balance in business. For industry sectors and employers with sizeable pay gaps, however, deciding how inequalities will be reduced in the future is as important as the numbers themselves.

When it comes to pensions and the wider financial services industry, gender pay gap reporting could influence everything from investment decision-making to future retirement savings design.

Gender pay gap = gender pensions gap. Most workplace pensions are a percentage of salary, so where there's a pay gap, there's a pension saving gap. Research from Aegon in January 2018 showed that by the age of 50, women have accumulated around half the average pension savings of men (£56,000 compared to £112,000). While that difference isn't just attributable to the gender pay gap, it continues to be a significant factor.

Diversity and investment. More asset managers are beginning to view gender diversity – including pay gaps – as part of the performance and governance of the companies in which they invest (see further comment from Joe Dabrowski in our boxout).

Gender pay gaps in pensions companies. Asset managers and others in financial services may monitor diversity as a part of their investment approach, but there's still plenty to do to narrow the gap within the sector itself. According to 2018 reporting, the 'financial and insurance activities' sector had one of the widest gender pay gaps in the UK, with a mean pay gap of 25.8 per cent compared to a national mean average of 18.4 per cent. Initiatives such as the Treasury's Women in Finance and The Diversity Project, which works to improve diversity of all kinds in the investment and savings industry, are helping to tackle the problem.

Future retirement savings planning. Gender pay gap reporting, alongside other research such as the RSA's Taylor Review, contributes to a more in-depth picture of how work and earnings trends are changing for both men and women. Jobs for life have all but disappeared. Flexible working, the gig economy, voluntary breaks from employment, shared parenting and a push towards greater diversity of all types at work will ultimately affect how people earn and therefore how they need to be supported as they save for retirement.

GENDER PAY AND GOVERNANCE

Joe Dabrowski, Head of Governance and Investment, Pensions and Lifetime Savings Association

The vast majority of pension schemes agree that the composition, stability, skills and engagement levels of a company's workforce are an integral part of its long-term performance. As long-term investors with £2.2 trillion of assets under management[1] UK pension schemes are acutely interested in how the companies they invest in perform against these criteria.

It's important to remember that pension fund members are not just invested in companies through their pension saving – they're also workers in those businesses. So, the workforce cultures they experience day-to-day are influenced by how pension funds steward their investments.

As a matter of simple corporate governance, pension funds would expect the companies they invest in to comply with their basic legal requirements and will look very sceptically on those that fail to do so.

Our analysis, and toolkit for workforce reporting, highlights the importance of these issues to pension funds. It also notes the importance of providing metrics alongside a narrative explanation that sets out how businesses' employment practices relate to their long-term organisational strategy and purpose.

Our 'Hidden Talent' report into the FTSE100, produced with Lancaster University Management School, highlights many areas alongside gender reporting for improved disclosure. You can read the report at www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2017/7160%20Hidden%20Talents%20research%20report%20v4.pdf

SOURCES

https://gender-pay-gap.service.gov.uk/

Financial and insurance activities gender pay gap: http://genderpaygap.uk/Industry/Companies/13

Aegon research: https://www.aegon.co.uk/news/21st_century_genderinequalityaspensiongapwidenswithage.html

RULES OF ENGAGEMENT?

James Walsh reports on the latest initiatives taking place in the PLSA's *Hitting the Target* project.

IF THERE WAS ONE PLACE WHERE I NEVER EXPECTED TO WIN MANY VOTES, IT WAS THE TUC.

For a start, I've never won an election anywhere, though goodness knows I have tried. Before I went straight by joining the staff of the PLSA I spent years toiling in the murky world of party politics, in the course of which my name appeared on ballot papers for elections to local councils, Westminster and even the European Parliament. *Nul points* every time. And without going too far into my personal allegiances, I wasn't standing for a party usually associated with the left of the political spectrum.

So when I was 'volunteered' to present the PLSA's *Hitting the Target* policy ideas in a 'competitive pitch' session at the TUC Pensions Conference, it felt a bit like being thrown to the wolves. My best hope was that they hadn't read my biog in the conference programme. Mind you, no one ever does, so I was probably safe on that score.

Strong as the 'rival' pitches from Which? and NEST were, the PLSA's proposals found favour with the audience of pension scheme trustees in the Congress House conference room and the show of hands at the end went in our favour. A result!

The point I drew from this minor triumph – and from the support we have been getting wherever we have presented our *Hitting the Target* programme – is that a positive consensus seems to be building around the broad thrust of our proposals. I wrote in the last edition of *Viewpoint* that the responses to the consultation paper we published last autumn had been broadly supportive, albeit with some good pointers to issues requiring further investigation.

Readers will recall that our central proposal was for national Retirement Income Targets – a straightforward way of helping people to understand what kind of income they are on track to receive in their later years. Crucially, the targets could be used by schemes and providers to show people how they could increase their likely retirement income by increasing the amount they save now.

Alongside Retirement Income Targets we set out ideas on the next steps for auto-enrolment, improving pension scheme governance, helping people work longer, managing pensions freedom and getting people more engaged with their pension saving – to name but a few.

ENGAGEMENT WITH A PURPOSE

Since the last edition of *Viewpoint* we have been refining our thinking in several areas, with a view to publishing our finalised proposals in the summer.

One of the key issues on which we have spent time is engagement, where we addressed the fundamental question of what is the purpose of engaging people with their pension saving. The common assumption is that, the more engaged people are with their pension saving, the more likely they are to do things that will work to their advantage, such as increasing their contributions or making active fund choices instead of falling into the default.

Other voices have cautioned that there are dangers in 'waking up' savers who have been auto-enrolled into solid workplace pension schemes, especially in their earlier years of saving. After all, an engaged saver who sees their pot has gone down because of a tough year on the markets might just decide to opt out of pensions altogether.

We also debated the tension in the system between the saving phase, where automatic enrolment, inertia and default investments are now the common features, and

AS WELL AS HAVING READY ACCESS TO INFORMATION ABOUT ALL THEIR PENSIONS, PEOPLE NEED TO BE ABLE TO UNDERSTAND IT

initiatives

retirement, when pensions freedom requires savers to make a series of active decisions (potentially very complicated ones).

These are complex issues, so we decided our best option would be to design a set of principles for pensions engagement, starting with a statement that engagement should always have a clear purpose. This is not as trite as it might first sound. How many trustees or scheme managers have really thought about *why* they are making that change to the scheme website or *what* response they hope to get from the annual benefit statement that members receive?

CONNECTING TO THE DASHBOARD

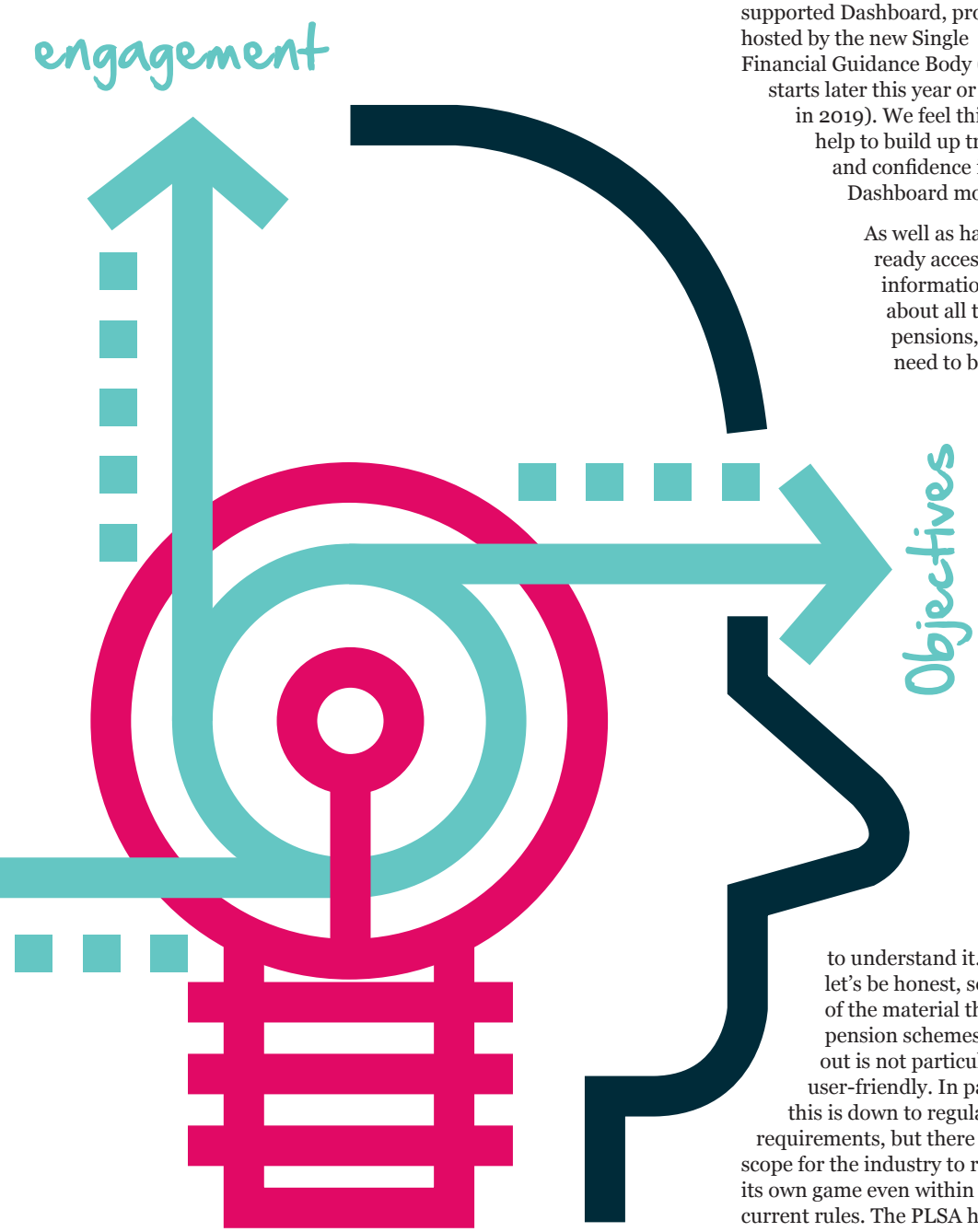
Our central idea of Retirement Income Targets is, of course, all about engagement, but it has become clear to me that the idea is hugely interdependent with two other major initiatives currently underway – the Pensions Dashboard and the simpler, standardised annual pensions statement.

Targets are about showing people what kind of retirement income they can expect from all of their pension entitlements combined – state pension, current and former workplace schemes and any personal pension they might also have.

The Dashboard is the mechanism that will pull all this information together and allow people to see it in one place. In fact, our targets idea will not be possible unless the Dashboard is delivered as well.

The PLSA has argued that there should be at least one publicly supported Dashboard, probably hosted by the new Single Financial Guidance Body (which starts later this year or early in 2019). We feel this will help to build up trust and confidence in the Dashboard model.

As well as having ready access to information about all their pensions, people need to be able to understand it. And, let's be honest, some of the material that pension schemes send out is not particularly user-friendly. In part this is down to regulatory requirements, but there is scope for the industry to raise its own game even within the current rules. The PLSA has been a supporting a project led by our former Chair Ruston Smith to develop a simpler, standardised annual pension statement couched in plain English and limited to one sheet of paper. The idea is that this would make it easier for people to make sense of the statements they receive from their different providers. We see it as another step towards better engagement.



THE OVERALL OBJECTIVE IS TO DEVELOP POLICIES THAT, IF IMPLEMENTED, WOULD DELIVER THE KIND OF RETIREMENT SYSTEM WE IDEALLY WANT TO SEE A DECADE FROM NOW

Engagement is just one part of the spectrum of ideas we have been developing as part of our *Hitting the Target* project. The overall objective is to develop policies that, if implemented, would deliver the kind of retirement system we ideally want to see a decade from now.

We have commissioned the Centre for Research in Social Policy at Loughborough University to develop the Retirement Income Targets that will form part of that landscape. They are now undertaking an extensive programme of focus group research and to turn the targets concept into hard numbers. We expect to publish the targets early next year.

In the meantime, we will continue making the case for our proposals wherever we can. If we can keep building the consensus around Retirement Income Targets and the rest of our ideas, then we have a fighting chance of making real progress on the PLSA's mission 'to help everyone achieve a better retirement income'.

THE ENGAGEMENT CHALLENGE

Tracey Valentine discovers first-hand that it's still good to talk...

YOU CAN'T PICK UP A PUBLICATION FROM THE PENSIONS INDUSTRY OR ATTEND A SEMINAR OR CLICK THROUGH A PENSIONS NEWS SITE WITHOUT ENCOUNTERING A LOT OF HAND-WRINGING OVER 'ENGAGEMENT'. EVERYONE IN THE INDUSTRY KNOWS THAT THERE'S A PROBLEM – DISENGAGED MEMBERS MIGHT NOT BE SAVING ENOUGH, THEY'RE LOSING TRACK OF OLD POTS, THEY'RE NOT KEEPING THEIR EXPRESSION OF WISH FORMS UP TO DATE, THEY MIGHT BE INVESTING IN UNSUITABLE FUNDS OR PAYING HIGH CHARGES – BUT NO-ONE SEEMS TO KNOW WHAT TO DO ABOUT IT.

Enter me, with my 20 years' experience in various disparate areas of the industry, freshly 'graduated' from the initial taught year of a professional doctorate and free to unleash my newly-acquired research skills on some weighty problem. What better to solve for once and for all than the knotty conundrum of pension engagement?

They say that if you have a hammer, every problem looks like a nail. I have always been very interested in language (hasn't everyone?), with a particular enthusiasm for plain English, and I decided that language was the tool with which to deal with engagement! My theory was that I could tweak the language in a benefit statement, testing how much people liked various wordings, then retesting until I arrived at the Holy Grail – a benefit statement that was so compelling that members drank in every word.

That mighty, ocean-going liner of a theory was grounded very promptly on the rocks of reality. I conducted one experiment a week for seven weeks, testing whether people preferred one phrase over another, or one pictorial representation over another, or one layout over another – and I found that no-one really cared one way or another. It was to do with pensions, and that made it boring. No-one was interested in the big picture, let alone the nuance.

This was not at all the finding that I'd expected, or that I'd hoped for; however, it was useful nonetheless. It told me

PERHAPS IT'S THE HUMAN ELEMENT THAT'S MORE CRUCIAL THAN ANY NUMBER OF BITS OF PAPER

that the amount of time we all spend poring over the siting of every comma on every member communication may in fact be – well, if not exactly wasted, then certainly placed somewhere along the scale of diminishing returns. I presented this finding at the University of Middlesex's 2017 research conference, making my addition to the sum of knowledge in this area.

PAPERS AND PRESENTATIONS

I rethought my strategy. If pushing bits of paper at people was unlikely to have the desired effect, what else could I try? What about member presentations – a far more active way of disseminating information? So I found a large employer and carried out individual semi-structured interviews on two groups of people – one group who had attended an employer presentation on the pension scheme and one group who had not. The purpose of the interviews was to determine people's feelings towards pension savings. Previous research has concentrated on numerical information – for example, the percentage of people who log on to a pension portal following an employer intervention, or who increase their contributions or review their investment strategy. I was more concerned with people's feelings.

I found that there was a measurable difference between the attitudes of the two groups. In comparison to an employee who has not received a presentation, one who has is likely to:

- Have a more realistic view of when they will be able to retire: a decade later than the non-presentation group, on average
- Be more concerned about how they are going to pay for their retirement (although, in contrast, they mention it less)
- Be less attracted to non-pension assets as a way of funding retirement
- Be more scared or daunted by, or anxious about, retiremen
- Be more aware of the need to save for retirement and also trying harder to do so
- Be more fatalistic about the future in general
- Be less ready to trust the state or any other parties to provide for them
- Be more likely to have made firm plans for retirement – but also...
- ...be no less amorphous about what they will actually do
- Be less likely to think about figures relating to it
- Be more concerned about the lack of information on the subject – and...
- ...express a greater need for better/simpler/more accessible information
- Have no more or no less confidence in their knowledge of the subject – and...
- ...be equally as likely to contradict themselves on various aspects

WE SHOULDN'T MAKE THE MISTAKE OF CONCENTRATING EXCLUSIVELY ON THE WRITTEN WORD

It's encouraging that the presentation appears to have not just raised a recipient's awareness that pensions is not something that can be parked for now to be sorted out later, but also given them an understanding that it's up to them to do something about it, however young they may be.

Perhaps I shouldn't have been surprised. Indeed, after I'd presented at the research conference, I found myself holding an impromptu 'surgery' for a queue of people who had got pensions queries and who hadn't known who else to ask – the human touch in action.

So what does this mean for the industry? While we shouldn't abandon our attempts to make our communications easier to read and more accessible, perhaps we shouldn't make the mistake of concentrating exclusively on the written word? Maybe there's a place for face-to-face interventions, and perhaps it's the human element that's more crucial than any number of bits of paper.

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PUBLIC SERVICE ANNOUNCEMENT

Chief Executive **Lesley Titcomb** explains how TPR has been engaging particularly closely with public service pensions.

PUBLIC SERVICE PENSION SCHEMES PROVIDE RETIREMENT SAVINGS FOR SOME 16.7 MILLION WORKERS ACROSS THE PUBLIC SECTOR – AND THIS IS WHY WE'RE BEING CLEARER, QUICKER AND TOUGHER IN THE WAY WE REGULATE THEM

Delivering the best outcomes for these savers cannot be achieved without good governance, which is the bedrock of any well-run pension scheme and the focus of our regulatory work.

Public service schemes have come a long way in a relatively short space of time, and I'm confident that our work with scheme managers, pension boards and scheme advisory boards over the past three years has turned the tide. We now see significant improvements in standards of governance including in data management, communications and internal controls.

However, we're not complacent and remain alive to the challenges ahead. We'll continue to work with public service schemes to ensure progress continues and member outcomes are secure.

Many schemes now have solid processes in place and it's important we continue to build on the success we've achieved so far. We want to see all schemes with robust processes. And on top of that, it's not enough to have processes in place. They must operate, be adhered to and maintained.

At the end of last year we surveyed 207 schemes and received responses from 191, covering 98% of memberships. We've also been gathering information from case work, board meetings, training sessions, conferences and speaking events.

A key part of good governance is getting the basics right. While there's still work to be done, in the third year of having a statutory deadline 60% of schemes reported that all members had received their annual benefit statement on time. This is a commendable improvement on the previous year when fewer than half (43%) of schemes met the deadline.

We're also pleased to see that the vast majority of schemes now have a documented policy to manage board members' conflicts of interest, and for assessing and managing risks. TPR will be keeping an eye on this to make sure schemes are actually using the arrangements they've put in place.

While there's been increased engagement from scheme managers and pension boards in the running of schemes, our research shows that nearly half (43%) of schemes hold fewer than four meetings a year. In our view, this doesn't provide enough opportunity for pension boards to effectively carry out their role.

DEALING WITH DATA

Much of our messaging to public service schemes over the past year has been about the importance of good quality scheme data. It's therefore disappointing to see an apparent fall in the number of schemes regularly monitoring records for accuracy and completeness.

This year 15% of schemes stated they didn't have data checking arrangements in place, an increase of 4% since 2016. This suggests schemes may have reviewed the systems they believed they had in place and found them either absent or inadequate. We now look to these schemes to make the necessary improvements.

We've been clear that failure to maintain complete and accurate member records will affect a scheme's ability to carry out its most basic function; paying the right members the right benefits at the right time.

Record-keeping issues in public service schemes are well known: schemes reported that almost a fifth (18%) of breaches of law were caused by a failure to maintain records or rectify errors. The number of respondents identifying it as a top risk to their scheme rose slightly this year to 39%.

Over the coming year we'll continue to focus on improving governance in public service pension schemes. Our ongoing 21st century trusteeship programme will continue to provide relevant material as support for those involved in running public service schemes. In addition, we'll continue to educate scheme managers and pension boards through face-to-face meetings and continue efforts to reach disengaged boards and managers.

Engagement by TPR was identified by 43% of schemes as a driver of improved governance, and 93% of schemes used the materials available to them on the public service section of our website. The vast majority of respondents who've used the resources found them useful, and we'd encourage schemes to make further use of them.

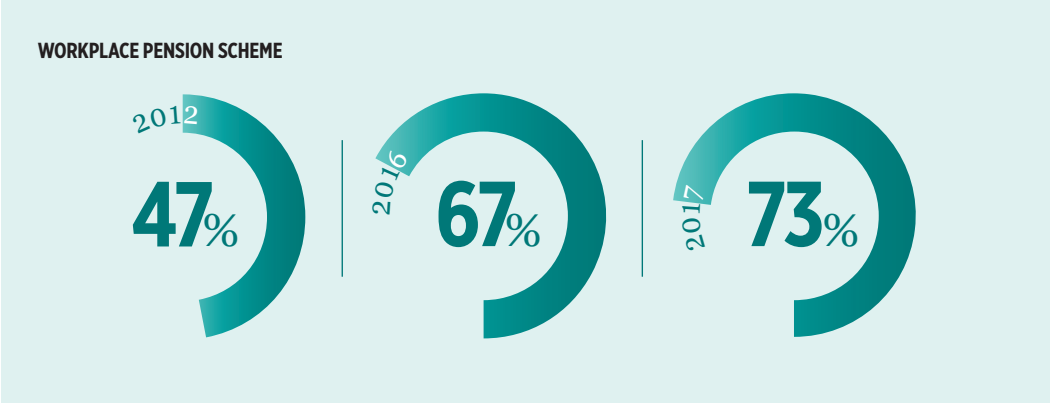
We know from our research and work with scheme managers and adviser boards that they want to achieve good governance, and that those who govern their schemes well want to see consequences for those who are not meeting the required standards.

We've been clear with pension schemes about what's expected of them and we'll continue to provide guidance and information. We're here to help, but as well as being clear we'll also be tough. Schemes which are not demonstrating good governance can expect us to intervene.

ON THE UP

Recent figures from the ONS show an increase in membership of workplace pension schemes as well as in contribution rates. **Kate Boulden** looks into some of the detail.

AT THE END OF MARCH THE OFFICE FOR NATIONAL STATISTICS (ONS) RELEASED ITS LATEST ANNUAL SURVEY OF HOURS AND EARNINGS (ASHE) PENSION TABLES FOR 2017. ASHE COLLECTS INFORMATION ACROSS ALL TYPES OF WORKPLACE PENSIONS IN THE UK: OCCUPATIONAL PENSION SCHEMES, GROUP PERSONAL PENSIONS AND GROUP STAKEHOLDER PENSIONS.



MEMBERSHIP OF WORKPLACE PENSION SCHEMES

The new figures from ONS show that the proportion of workers in a workplace pension scheme has increased since the introduction of automatic enrolment (AE) in 2012, as has the provision of DC schemes in the workplace.

Prior to AE, occupational defined benefit (DB) schemes accounted for 60% of all workplace schemes. The latest figures show that, while DB still accounts for the largest proportion of schemes, the proportion itself has dropped to around two-fifths (39%). On the other hand, the provision of occupational defined contribution (DC) schemes has increased from 15% of all workplace pension schemes in 2012 to 32% in 2017.

AE has also brought more younger people into saving for a pension. Those aged 22 to 29 were the age group that saw the largest growth in participation. However, employees aged 40 to 49 and 50 to 54 were most likely to be members of a pension scheme (81% in both age groups).

Participation rates between genders were almost the same for full-time employees – 76% of women and 78% of men working in the private sector and 92% of both men and women working in the public sector participated in a workplace pension. However, there were gender-linked differences for private part-time employees. Female part-time employees were more likely than their male counterparts to have a workplace pension (43% compared to 33%).

However, this survey does not collect data on the value of pensions. Even though participation rates are similar across genders, there is still an imbalance in the value of pensions. Research from Aegon

found that by the time women reach 50 they have, on average, pension savings of £56,000 compared to an average of £112,000 saved by men[1].

Differences in participation can also be seen when looking at employer size. Those working for larger employers were more likely to be participating in a workplace pension than those working for smaller employers. However, the largest growth in participation in the last year was in private sector companies with 1 to 99 employees. Participation within these companies increased from 35% in 2016 to 52% in 2017, as a result of the staged AE duty date (the date for employers with fewer than 30 employees was 1 January 2016 to 1 April 2017). However, companies of this size still have the lowest proportion of employees with a workplace pension scheme.

PRIVATE SECTOR PARTICIPATION

SIZE OF EMPLOYER (NUMBER OF EMPLOYEES)	PARTICIPATION IN A WORKPLACE PENSION
1 to 99	52%
100 to 499	77%
500 to 999	78%
1000 to 4999	80%
5000 and over	75%

EMPLOYEE CONTRIBUTIONS

As well as collecting data on workplace pension scheme membership, ASHE collects data on contributions. In 2017 the level of employee contribution varied greatly by scheme type: overall, employees with a DB scheme had higher contribution rates than those participating in DC schemes.

EMPLOYEE CONTRIBUTION RATES

Employee contribution rate (%)	Percentage of occupational DB	Percentage of occupational DC	Percentage of group personal and group stakeholder
Zero	2%	5%	8%
Greater than 0 and under 2%	5%	57%	41%
2% to under 3%	1%	6%	12%
3% to under 4%	2%	9%	11%
4% to under 5%	6%	7%	9%
5% to under 6%	28%	7%	7%
6% to under 7%	12%	3%	3%
7% and over	45%	7%	8%

EMPLOYER CONTRIBUTION

As with employee contribution rates, the level of employer contributions varied by scheme type. Almost all (94%) public sector employees with a workplace pension scheme received employer contribution rates of 12% or more of pensionable earnings, compared to just 12% of private sector employees with a workplace pension. Almost three in five (58%) private sector employees with a workplace pension received contribution rates in the range of greater than zero and under 4% from their employer. This was an increase from 52% in 2016, largely driven by the minimum employer contribution of 1% under AE.

A large majority (86%) of employees with an occupational DB scheme received employer contributions of at least 12%. In comparison, only 9% of employees with an occupational DC scheme and 7% of employees with occupational group personal and group stakeholder pensions received the same level of employer contributions.

Just under two-thirds of employees with a workplace DC scheme and 55% of employees with group personal and group stakeholder pensions received contributions of greater than zero and less than 4% of pensionable earnings. This had increased from 60% and 51% respectively in 2016.

EMPLOYER CONTRIBUTION RATES

Employee contribution rate (%)	Percentage of occupational DB	Percentage of occupational DC	Percentage of group personal and group stakeholder
Zero	21%	1%	1%
Greater than 0 and under 4%	6%	64%	55%
4% to under 8%	4%	17%	27%
8% to under 10%	2%	6%	6%
10% to under 12%	1%	4%	4%
12% to under 15%	30%	4%	3%
15% to under 20%	33%	3%	2%
20% and over	24%	2%	2%

As part of our 'Hitting the Target'[2] consultation published in October 2017, we advised that savers should aim to contribute 12% of pensionable earnings. Data from ASHE suggests that contribution levels for employees in workplace DC schemes are currently well below this level. Previous research from the PLSA found that 13.6 million current workers were at high risk of failing to achieve an adequate income in retirement[3]. One of the problems is that people are not clear how much they need to save to achieve the standard of living they hope to enjoy at retirement. In 'Hitting the Target' we proposed the development of National Retirement Income Targets to help savers. We have now started work on this and will provide an update later in the year.

More encouragingly, there has been an increase in the number of people saving into a pension since the introduction of AE, which is reflected in this data. This is a positive first step to ensuring people achieve an adequate income in retirement.

1. Aegon, Pensions-the other gender pay gap, March 2018, https://www.aegon.co.uk/content/ukpaw/news/pensions_the_othergenderpaygap.html
2. PLSA, Hitting the Target: Delivering Better Retirement Outcomes, October 2017. https://www.plsa.co.uk/Policy-and-Research-Defined-Contribution-Hitting-the-target-project
3. PLSA, Retirement Income Adequacy: Generation by Generation, November 2016. https://www.plsa.co.uk/Policy-and-Research/Document-library/Retirement-Income-Adequacy-Generation-by-Generation

DC TRUSTEE BOARDS: RIGHT FOCUS, RIGHT PEOPLE, RIGHT PROCESSES


New PQM standards herald a strengthened governance regime for DC boards. **Matthew Doyle** and **Jackie Wells** report.

DEFINED CONTRIBUTION (DC) SCHEMES AND THEIR BOARDS HAVE EMERGED FROM THE SHADOW OF DEFINED BENEFIT (DB) SCHEME BOARDS IN THE PAST TEN YEARS AS DC HAS BECOME THE MAINSTREAM PENSION PROVISION FOR MILLIONS OF UK WORKERS.

Many DC trustee boards are now managing the levels of capital that we see in listed companies and are responsible for the financial wellbeing of millions of savers. Therefore, we should expect – if not demand – the same level of diversity, competency and professionalism that we would of the listed company boards they are invested in.

It is true that many DC trustee boards have come a long way in the past few years. These improvements have been driven partly by changes in regulation, partly by the need to demonstrate value, and partly by a desire to demonstrate more professionalism and accountability. Unfortunately not all schemes are at this higher standard, so the question is: how do we get more DC trustee boards to raise their game and better serve scheme members?

The Pension Quality Mark (PQM) accreditation process requires schemes to demonstrate high standards of governance – however we are releasing new PQM standards later this year, with the aim of further strengthening the governance of accredited schemes. These new standards are more revolution then evolution, and have the obvious benefit of improving outcomes for members by professionalising trustee boards to a corporate board standard.

The new standards have been designed to complement the new authorisation and supervision environment, and will focus on:

- Helping trustee boards better understand members to ensure that the scheme develops the right tools, investment strategies and support to deliver good value and outcomes;
- Ensuring that boards develop and maintain the right mix of skills, knowledge, experience and understanding; and
- Supporting trustees in developing and applying processes that will drive more effective governance.

FOCUS ON SCHEME MEMBERS

One of the key aims of the new PQM standards is to ensure that, above all, DC scheme boards focus on the needs of their members.

It sounds obvious, but understanding the profile and needs of the scheme's membership should underpin all of the work of the trustee board. Without it, trustees are second-guessing how best to invest members' funds, how best to communicate with members, and how to help them optimise their pension at and in retirement.

As contributions and average fund sizes increase, schemes become bigger and more members begin to think hard about how best to exercise their new-found freedoms. This is where knowing more about the diversity of member needs at different stages of the pension journey becomes even more critical.

THESE NEW STANDARDS ARE MORE REVOLUTION THEN EVOLUTION, AND HAVE THE OBVIOUS BENEFIT OF IMPROVING OUTCOMES FOR MEMBERS

Among PQM accredited schemes, we have seen good, documented examples of boards reviewing the profile of their membership on a regular basis, including:

- The age, gender, income profiles of members and their proximity to retirement age
- The distribution of contribution levels and fund sizes
- The split between active and deferred members
- Length of tenure
- At-retirement behaviour.

Good schemes also supplement their own segmented data with external research and data to enrich trustee understanding of member attitudes and needs.

THE RIGHT PEOPLE

Much has been written about ensuring that trustee boards are made up of trustees with the right mix of skills, knowledge and experience, and that these are maintained and enhanced on a continual basis. The Pension Regulator's (TPR's) trustee toolkit, skills matrix and board evaluation tools should help to ensure that boards have the basics in place, but this must be an ongoing process.

Good boards will review on a regular basis whether there are any gaps emerging in the board's skills and understanding, and plans put in place to fill those gaps through recruitment, training or appointment of additional advisers.

The best schemes not only document their skills gaps and review trustee skills on a regular basis but also look hard at whether the new DC environment requires new skills. These might include member communication and engagement, knowledge of behavioural finance as it applies to pensions, understanding of retirement income needs and the best ways of delivering an income in retirement.

STRATEGY, OBJECTIVES AND PLANNING

In addition to having the right skillset, and focusing squarely on members, it's also crucial that trustee boards put in place the right processes for effective management. As well as meeting regulatory requirements, good boards will have a clear strategy for meeting member needs, document the board's objectives and have a documented plan for how it will meet those objectives. The board will also review its performance against this plan at the end of each year. TPR's business plan and annual planner templates are key resources that boards can use to help ensure they run effectively.

Excellent schemes work hard on their strategy and objectives and review whether they are meeting their objectives on a regular basis. Action plans will emerge that ensure that the strategy remains on track.

In addition to the launch of the new PQM standards, in autumn this year PQM will be supporting those boards that wish to improve with the launch of our *Good Governance Guide*. This guide will complement the *Good Communications Guide* that is already available at **www.goodcommunicationsguide.com**, as well as individual best practice examples such as the *Best Practice Guide to a Chair's Statement* due out in the summer.

We operate in a world where the future is DC, making the governance of our DC trustee boards essential in delivering good outcomes for members.

UNDERSTANDING THE PROFILE AND NEEDS OF THE SCHEME'S MEMBERSHIP SHOULD UNDERPIN ALL OF THE WORK OF THE TRUSTEE BOARD

COST TRANSPARENCY ROUNDTABLE DISCUSSION MAY 2018

Chair:

Pádraig Floyd, freelance journalist

Edward Levy, independent professional trustee, **Law Debenture**

Pat Sharman, managing director of UK business, **KAS BANK** and trustee of its DC pension scheme

Richard Jones, trustee director, **Railways Pension Scheme**

Scott Foster, product specialist working on cost transparency and benchmarking, **KAS BANK**

Caroline Escott, investment and DB policy lead, **Pension and Lifetime Savings Association**

James Parish, business development manager, **KAS BANK**

Naomi Clark, Head of DC Product for **USS Investment Management**

Q **Floyd:** *To what extent is (a lack of) cost transparency a major governance risk/blindspot?*

A **Levy:** It can be a blind spot. It is particularly important for DC where cost has a more direct impact on members' benefits in the long-term.

A **Sharman:** There is a difference between DB and DC, but from a trustee perspective it is all about governance and making more informed decisions, so the better the information I have, the better decisions I can make for my members. There are many trustees and schemes unaware of what we call the total cost of ownership, and the detail that sits under that. It is therefore a big potential governance risk.

A **Jones:** I'm not sure there is such a difference between the impact on DB and DC schemes. The Railways pension is a shared cost scheme, so as far as our DB sections are concerned, the employees have skin in the game like the employers do. We have tried to understand costs better and take steps to reduce them – and have the scale to do so. It will be a bigger issue for small and medium-sized schemes, who can't employ a squadron of people or leverage scale with their suppliers. So a governance issue, yes, but not universal.

A **Clark:** USS is a hybrid DB and DC scheme, though I focus on the DC section. We manage most of our DB assets in-house, and as such we have expertise available to enable us to understand the cost of trading and so on, we have found that the cost of that transparency can be quite high. We've been pleased to see progress around the DCPT industry template. It's a good start, but not everything you need. What is unhelpful is other industry groups looking at different things for managers to report. We need an industry standard way of reporting and, to be fair to the manager, they need that as well, as making changes to their systems is expensive.

A **Parish:** The lower to middle end of the spectrum have more of a governance challenge when it comes to understanding costs. I'm not suggesting costs are bad – costs are costs and they need to be put into perspective as to what you as a pension fund buys. You can't look at costs in isolation if you don't have the full details and performance data as well.

A **Escott:** We are seeing a lot more awareness about investment returns and the value of pensions, and we are also seeing many more complaints being made to the pensions ombudsman and financial services ombudsman. It is therefore a growing governance risk, particularly in DC. If trustees in DB and DC schemes can't show they are on top of scrutinising costs and getting the best possible value for money, they may be storing up trouble for the future.

A **Foster:** From a product perspective, we want to help schemes of all sizes uncover what is called their total cost of ownership. This includes the costs of running the legal entity of the scheme in addition to investment costs; including charges that have previously been unreported or undisclosed. A UK standard would be very useful to drive cost transparency across the industry.

Q **Floyd:** *What are the costs that are not commonly disclosed/reported?*

A **Sharman:** We talk about costs not commonly reported rather than not disclosed. We often say that trustees don't know what they don't know, and they haven't previously asked for the information and so asset managers haven't given up that information. Rather than hidden or undisclosed, it's not been reported.

A **Levy:** In the past, people have understood investment costs are X per cent of Y, but not necessarily understood what lies beneath. The size of the scheme is also important, not only from the point of view of governance, but because of the terms you may get. A smaller scheme is unlikely to get the same economies from an investment manager as a very large scheme.

A **Clark:** There are also differences in asset classes. The equity market is relatively easy, but for bonds and credit it is much more opaque and there is no standard test. You could end up spending quite a lot of money to understand your costs in order to drive those costs down.

A **Jones:** The asset class point is well made – and just think of all the jurisdictions around the world. We might be able to come up with a standard for UK equities, but emerging market debt may prove to be much more difficult. That standard might only be applicable to a fraction of the assets held – and not all costs are bad. If by paying a larger charge the member gets greater protection, or better performance, there is value in that which should be included.

Q Floyd: *So, how will pension funds benefit from greater transparency?*

A Escott: Through better tools to understand the costs of various service providers and to get a better grip as to how good a service provider is in terms of value for money. On a larger scale, transparency could have a key role in the storytelling of pensions and financial services in general, be they asset managers, consultants, actuaries, etc.

Q Floyd: *So that would mean it falls in step with some of the aspirations of the DB white paper?*

A Escott: The white paper and some of the findings of the CMA's consultant investigation, which has been very much focused on how to improve the skills of the demand-side while also looking at how to improve the standardisation and quality of data from investment consultants and other third-party providers.

A Clark: Looking at trading costs was helpful in the manager selection process, and transparency and openness absolutely builds trust with our members, but too much information can sometimes undermine that because charges may make a fund look high and they don't understand the interplay between costs, performance and risk.

A Levy: Cost transparency can also help with competition. Just asking the question can help expose an anomaly. Regular reviews are also useful. For example, a historic fiduciary management arrangement was reexamined and found to be out of line with current pricing, and there was an immediate saving to be made.

Q Floyd: *There is a fantastic amount of information available, so why isn't more of this being done? And just how much do trustees need to know?*

A Parish: There is no-one banging on the door to tell a scheme they must do it, so it remains a 'nice to have' rather than 'need to have'. Whatever data collection standard we employ in the UK, it needs to be at a level that is of benefit to trustees, which does not swamp them. There is a danger we may go down a road where the number of costs or in-depth analysis around costs will lead to analysis paralysis.

A Sharman: Simplicity is where we must start. The Dutch started the discussion in 2008/9, introduced best practice in 2011 and made it a legal obligation in 2015, but gave the industry time to determine what worked and what didn't, and with that the industry built on the protocols each year.

A Foster: A lexicon of cost definitions would enable the industry to adopt a standard and we are happy that the FCA IDWG has initiated that lexicon of cost definitions. We must also help the industry move forward by educating trustees – cost-effectively – to help service the market in this area as it can get complex very quickly. Trustees have huge agendas to contend with, generally little time, and in some cases limited knowledge and resources to deal with cost transparency requirements.

A Jones: That's interesting. Trustees have their TKU obligations, and having sat an exam recently the syllabus was almost silent on the topic of costs. Trustees are reminded frequently of their numerous responsibilities, and this is not really on the radar.

Q Floyd: *Which partners should trustees look to for support in this matter? To what extent is it the role/responsibility of the consultant/asset manager/custodian/other?*

A Parish: Custodians are naturally at the forefront as they hold a lot of investment data on behalf of schemes, and can leverage the relationships they have with the asset management world.

A Clark: I agree the custodian is the place to provide this, but on behalf of the asset manager, as you won't have any contentious arguments about asset managers sharing position-level data with in-house teams they may consider to be competitors.

A Sharman: As a pension fund you usually employ the custodian to provide valuations as an independent party. They can also deliver performance measurement, risk analytics and other governance data. Cost data just sits alongside that governance data.

A Clark: I fear that consolidation at the pension fund level will only make managers less willing to share data, even with an independent third party.

A Sharman: The Dutch market is almost totally managed in-house, and the custodians conduct this exercise on behalf of the schemes, collecting the costs from the asset managers, and provide that data to the regulator. It's a proven model that works.

Q Floyd: *Can the industry improve cost transparency alone or does it require a guiding hand? If so, what should be the role of the regulator?*

A Sharman: The Netherlands has one regulator so it's straightforward, but regulator responsibilities for UK pensions are divided and therefore it's less clear in the UK. For smaller schemes we need to have standard metrics, or else we'll be comparing apples to pears. So, let's give clear guidance to trustees about what we want them to measure in terms of costs, whilst ensuring they evaluate value for money in the context of strategy, performance and risk.

A Escott: There is a role for the regulator to get more actively involved, not only in terms of using the template, but also in terms of bringing the whole investment chain into the room.

A Jones: The consolidation point is an interesting one and we find some managers who will not supply data as they have no legal obligation to do so. That is very frustrating and no degree of consolidation is going to resolve it. I don't know if we need regulatory intervention or a standard, but something has to change.

A Levy: The chair's statement will encourage trustees to consider value for money within the context of their scheme. I am less convinced it will be of as much benefit for informing members, as you may get some fairly generic responses, particularly from smaller schemes.

Q Floyd: *Naomi, how much is this about governance rather than communication?*

A Clark: For me, it is all about governance. Communication should be to tell members that the scheme is well governed and how it is well governed. It will be more helpful to explain to members what you do than to provide them with all the outputs of what you do. If the trustees and consultants are doing their job, the member shouldn't have to worry about this stuff.

We talk about regulation and cost and value for money and there is a lot of pressure, but that is coming rather early in the DC journey. We have not yet created any DC schemes that are very sophisticated in the UK, compared to somewhere like Australia. The focus on cost may drive the wrong kinds of products. We're looking at putting illiquid assets into our DC section's default fund because we believe it is the right thing to do for members. That is quite expensive, and there's a danger we may reach a public determination of how much you should pay for something before we have even worked out what that something should be. That doesn't feel right to me.

Q **Floyd:** *Where do you stand on what needs to be communicated to members? Is it a governance issue?*

A Jones: It is predominantly a governance issue, and that is because most members will stay in the default fund. You can communicate whatever you want to them about costs, but they will continue paying x% into the default until they retire – and that's why we have to get the default right.

A Levy: There are more important things to be communicating to members, particularly in DC – in terms of how much they should be saving, what lifestyle choices they should make, the kinds of funds they will be in, etc – and members may only have a certain amount of bandwidth to think about all of this.

A Sharman: We generally give too much information to DC members, so I would focus on a simple message in the first instance. However, those that do go outside the default fund need to make an informed decision and understand there are other choices and how they might affect their potential retirement income.

A Escott: I'm more optimistic about member communication being framed to encourage people to think beyond the default fund. I will be interested to see what happens with DC transaction and other charges further down the track.

A Foster: The key thing for me is that it goes back to simplicity and visualising the necessary information that I receive in an easily digestible format. The role of technology is key to help get succinct messages across.

A Sharman: In respect of DB even a scheme of two or three billion in assets may have 25+ asset managers, so there's really only one way to do this across 5,000+ DB pension schemes through standardisation. That means standardise what you want collected, standardise the output to trustees and then hopefully we will adopt a standard approach for communication to members.

Q **Floyd:** *To what extent do you think cost transparency will make a meaningful change – or improvement – to standards of governance within the UK?*

A Parish: It will make a huge difference. As a nation, we want transparency in all areas of our life, and people will want greater certainty of what they are paying in, can expect at retirement and how much it costs them.

A Escott: It is really important, but cannot be seen in isolation. Standardised information will be great, but you have to look at the ability of trustees and the capacity of their governance structure to be able to use and act upon this information. It must be part of the process, not the be all and end all.

A Foster: I believe cost transparency can reinvigorate trust at all levels in the pensions industry. I believe it will also enhance efficiencies of the market which this £2 trillion market will benefit from.

A Jones: If you can't measure it, you can't manage it – and we've got to get better at measuring it. But it is so complicated and so perhaps the way forward is to select something achievable and build upon that.

A Levy: Cost transparency is important and if nothing else it puts costs on the trustees' agenda and gets them asking the right questions.

A Sharman: We could learn from the Dutch pensions industry – it's not perfect, but one of the better governed systems. Let's take it progressively, let's be collaborative and let's have an industry standard.

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PENSIONS AND LIFETIME SAVINGS ACADEMY UPDATE

Frances Corbett
Head of PLSA Academy and PINNACLE

The latest news – and a valedictory message – from the PLSA Academy's **Frances Corbett**

WHILE WE'VE ALL BEEN ENJOYING AN EARLY START TO THE SUMMER, THE PLSA ACADEMY IS CONTINUING TO OFFER BOTH CLASSROOM AND VIRTUAL TRAINING SESSIONS. SUPPORTING OUR AIM TO PROVIDE A RANGE OF LEARNING OPPORTUNITIES FOR TRUSTEES, WE OFFERED TWO DIVERSE TOPICS AT OUR TRUSTEE LEARNING ZONE SESSIONS AT THIS YEAR'S INVESTMENT CONFERENCE, SPONSORED BY COLUMBIA THREADNEEDLE AND LINKLATERS. BOTH SESSIONS WERE WELL RECEIVED BY A RECORD NUMBERS OF TRUSTEES.

At the end of March we began our 2018 series of teach-ins, with the first entitled 'Currency – Return Drivers, Efficient Hedging and Cost Transparency', sponsored by Record Currency Management. During this session, Dmitri Tikhonov and Carl Beckley introduced the audience to currency as it applies to UK institutional investors' portfolios.

Our April teach-in – 'Future-Proof your Pensions Administration by Learning from the Past' – was ably delivered by Dan Taylor of Trafalgar House. Dan kindly repeated his session in Manchester at the beginning of May. As always, if you weren't able to attend these teach-in sessions, you can see the highlights in the post-session video on the Academy webpage.

Sadly this is my last update for Viewpoint, as I retire at the end of May. I'd like to take this opportunity to say thank you to everyone who has helped me deliver training and development programmes for the PLSA: your support has been exceptional, and it has been a pleasure working with you. And finally, thank you also to all the trustees and employees I've met on PLSA courses and training events over the last 14 years. I hope you'll continue to thrive in your roles, and I wish you well for the future.

VIRTUAL ACADEMY COURSES: TO OCTOBER 2018

INTRODUCTORY COURSES

PENSION BASICS

Session 1 – 11:00-12:00
Session 2 – 14:00-15:00

5 July, 4 September, 9 October

£160 *(covers both sessions)*

RETIREMENT GUIDANCE – SUPPORTING EMPLOYEES

Session 1 – 11:00-12:00
Session 2 – 14:00-15:00

10 September, 2 October

£160 *(covers both sessions)*

UNDERSTANDING INVESTMENT

Session 1 – 11:00-12:00
Session 2 – 14:00-15:00

26 September

£160 *(covers both sessions)*

TRUSTEE COURSES

BECOMING A TRUSTEE

Session 1 – 11:00-12:00
Session 2 – 14:00-15:00

11 September, 23 October

Free to members, **£200** non-members *(covers both sessions)*

INTRODUCTION TO TRUSTEESHIP PART 1 – THE THEORY

4 July, 19 September, 11 October

£488 members, **£868** non-members

INTRODUCTION TO TRUSTEESHIP PART 2 – THE PRACTICE

19 June, 4 October

£488 members, **£868** non-members

FINANCIAL ADVICE IN THE WORK PLACE

David Allard argues the case for advising workforces on their finances

I HAVE ALWAYS BEEN A FIRM BELIEVER IN COMPANIES OFFERING FINANCIAL ADVICE TO THEIR EMPLOYEES BECAUSE IT IS AN 'ALL WIN' SITUATION. EMPLOYERS WHO REMOVE THE DISTRACTIONS OF FINANCIAL CONCERNS FROM THE WORK PLACE WILL HAVE FULLY ENGAGED STAFF RATHER THAN EMPLOYEES WHO ARE SOMEWHERE BETWEEN SLIGHTLY AND HUGELY DISTRACTED BY THEIR FINANCES.

Employees feel valued and welcome having someone to simplify their finances. When working with a company to help staff, financial advisers benefit from the economies of scale of being able to see several people in one place during a day, and can therefore offer better terms based on the efficiency.

To illustrate my points above, a number of recent surveys tell us the following:

- Only 2 in 10 employees are satisfied with the efforts of their employer in helping them manage their finances (Barclays YouGov Survey, 2017)
- 38% of employees said they would move to a company which put financial wellbeing as a priority (Barclays YouGov Survey, 2017)
- 32% of Londoners say that money distractions have caused them work issues (CIPD Outlook report, 2017)
- 70% of the nation's workforce admit to wasting a fifth of their time at work worrying about finances, costing the economy £120.7 billion a year. (Neyber's DNA of Financial Wellbeing, 2016

It is clear from these statistics that it is totally in the interest of the employer to provide a source of financial advice in the work place to remove these distractions. If just 5% of an employee's time and energy is being lost to financial concerns, and providing the solution to the problem takes up a small fraction of this lost resource, the investment in financial advice makes sense.

As evidenced above, a vast majority of employees feel that their employers aren't doing enough to help them with their finances. A company that can reverse this statistic, by offering a comprehensive wellbeing programme, will move well ahead of one that doesn't in terms of employee engagement, staff retention and the attraction of top talent.

From an employee's point of view, having access to basic or comprehensive advice will be a big source of motivation. In my experience, an employee will be able to form proper financial goals and that then creates a clear link between their job and their future.

The really motivating factor for an employer is that the provision of comprehensive financial advice in the work place can be provided for little or no cost to the business. The key is to find a professional source of financial advice that will invest in your business and create a solution for your workforce. Most financial advice firms will seek access to your highest paid staff for obvious reasons, however a progressive firm will understand that investing time and resources with all staff is the key to providing a holistic solution that will pay dividends in the long term.

I attended Employee Benefits Live in October and spoke with a large number of HR Directors. All were seeking financial advice or wellbeing solutions for their workforce, and the majority wanted to provide the same level of advice for all. Whilst I am all for the approach of equality, I don't think this makes sense for financial advice in the workplace due to the vastly different needs of employees based on their age, income, tax position, assets and aims.

Younger, lower earners will want ideas on how to save and get on the property ladder. Employees in the middle part of their career are more likely to want to focus on family finances, efficient ways to clear their mortgage and how to maximise returns on the investments they have built to date. Employees who are in the later part of their working lives will be focused on their pensions, tax-efficient income sources in retirement and Inheritance Tax planning for parents. High earners will be seeking a source to help them with their tax-returns, alternatives to pensions, Lifetime Allowance and Annual Allowance Pension advice plus government approved ways to reduce their tax liabilities.

If I was the head of an HR team, I would be looking to engage with a source of advice that has the flexibility to take on all of these challenges and be able to demonstrate that they were offering my staff a better deal than they would ordinarily receive as an individual.

David Allard is CEO of Financial Lifestyle Management (FLM) and has been a Financial Adviser for over 30 years, working with St. James's Place for the last 20 years. For all wealth management advice FLM introduces to Allard Associates, Appointed Representatives of St. James's Wealth Management Group Plc, who are authorised and regulated by the Financial Conduct Authority.
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POSITIVE FUTURES

Caroline Escott examines the growing interest in patient capital and social impact investing.

AS LONG-TERM OWNERS OF CAPITAL, PENSION FUNDS ARE IDEALLY PLACED TO INVEST IN A LONG-TERM WAY. THIS IS INCREASINGLY A FOCUS FOR DC SCHEMES, WITH AUTO-ENROLMENT BRINGING IN A YOUNGER COHORT OF SAVERS WHO ARE MORE LIKELY THAN PREVIOUS GENERATIONS TO WANT THEIR RETIREMENT SAVINGS TO HAVE A POSITIVE IMPACT ON SOCIETY, THE ENVIRONMENT AND THE 'REAL' ECONOMY.[1]

At the same time, the recent market and financial environment has made getting good risk-adjusted returns tricky for all schemes, especially for those which undertook significant de-risking in the wake of the financial crisis. There has therefore been growing scheme interest in investing both in illiquid assets (thus benefiting from the attached premium) and investments which incorporate environmental, social or governance factors to achieve a beneficial impact.

However, growing interest does not necessarily directly lead to growing portfolio allocations, and as a result the last few years have also seen UK policymakers focus their attention on how to encourage UK pension schemes – with their £2.2 trillion in assets under management – to consider predominantly illiquid investments in certain key areas.

One such initiative has been HM Treasury's patient capital work, which aims to increase the supply of capital to innovative, entrepreneurial firms and projects. A key strand of this work is the Pensions Investment Taskforce; this was announced by the Chancellor in his November 2017 Budget, is chaired by senior Treasury official Charles Roxburgh, and has a remit to think about how to overcome any real and perceived barriers to DB and DC pension scheme investment in patient capital projects.

The PLSA sits on this Taskforce, alongside others from across the pensions and venture capital industry, and will be feeding in member views and practical experiences in this area. We're also hoping to pull together guidance for schemes. Member experiences and views on this issue will be invaluable – if you'd like to get involved or share your views on investing in patient capital initiatives, please do get in touch.

MAKING AN IMPACT

Another key government focus has been on social impact investment. In contrast to ESG investment, which is often undertaken to improve risk-adjusted returns over the medium to long term and is better established, social impact investment (SII) is still a relatively new market and includes investments which aim at both a specific financial *and* social objective. This can include anything from investment in social enterprises to the buying of financial securities which fund (for example) firms which help rehabilitate ex-offenders or provide rental accommodation to homeless individuals.

In the wake of former UK Prime Minister David Cameron's Big Society agenda, recent years have seen several initiatives aimed at encouraging investors to consider using their capital to generate positive social outcomes. One of the most influential has been the Social Impact Investment Advisory Group, led by Elizabeth Corley. This published its report *Growing a Culture of Social Impact Investing in the UK* in November 2017, which made a series of recommendations to industry, regulators and policymakers to boost the impact investment market.

The PLSA had a role on this advisory board, and in March this year we published an *Impact Investment Made Simple Guide* with Hermes Investment Management to inform trustees about the practicalities of investing in this growing market. We've also been invited to take part in the follow-on Corley Steering Group: we'll be leading the sub-group responsible for making it easier for people to invest to achieve social impact through their pensions.

As schemes search both for better, diversified returns and to better reflect the attitudes of new pensions savers, illiquid investment into the real (innovative) economy or projects with a positive social impact should be added to the array of options under consideration. There is significant policymaker will behind the patient capital and social impact investment agendas in particular, making this a good time to think more broadly about how schemes can invest for the long-term benefit of their members and society.

RECENT YEARS HAVE SEEN SEVERAL INITIATIVES AIMED AT ENCOURAGING INVESTORS TO CONSIDER USING THEIR CAPITAL TO GENERATE POSITIVE SOCIAL OUTCOMES

THERE IS SIGNIFICANT POLICYMAKER WILL BEHIND THE PATIENT CAPITAL AND SOCIAL IMPACT INVESTMENT AGENDAS IN PARTICULAR

1. A PwC survey in 2016 found that 68% of 25-34-year-olds thought it was important that people "use their money for the good of society and the wide world".

GOVERNING THE PLSA – IMPLEMENTING THE NEW STRUCTURE

As the PLSA prepares to carry through its governance reforms, **Edward Bogira** updates you on progress so far.

LAST TIME I UPDATED YOU ON CHANGES TO OUR GOVERNANCE, WE HAD JUST CONSULTED YOU ON OUR PROPOSALS TO CREATE A NEW POLICY BOARD AND RESTRUCTURE THE PLSA BOARD. I CONFIRMED WE HAD YOUR SUPPORT TO GO AHEAD AND IMPLEMENT THE CHANGES AND THAT WE WERE LOOKING FOR OUR FIRST POLICY BOARD CHAIR AND CONSULTING ON RULES THAT WOULD GOVERN THE WAY THE POLICY BOARD AND PLSA BOARD ARE SET UP – THOSE RULES ARE NOW FINAL AND YOU CAN SEE THEM ON OUR WEBSITE.

OVER THE NEXT FOUR MONTHS, OUR FOCUS IS ON IMPLEMENTATION

As look ahead to finalising the changes from this year's AGM in October, we're nearing the end of a two-year journey of reform.

We set out to make sure we had the right structure to deliver what we want to deliver now and to support us as we implement our strategy over the next five years. We wanted to make sure we're as efficiently governed as we can be. We also wanted to increase the flexibility in our enough to be able to respond to changes in our environment and in members' needs now and in the future.

It has involved removing the Constitution and Articles of Association we'd been governed by more or less since the early 1970s, which were incredibly rigid and prevented us from modernising even simple elements of governance.

And it has involved conceiving a new structure for the governance of our policymaking and a new Board composition, plus helping members to understand and support the changes. Over the next four months, our focus is on implementation.

PUTTING THE POLICY BOARD IN PLACE

It's great to have Emma Douglas from Legal & General confirmed as the first Policy Board Chair Emma was the strongest of a really strong field of candidates – which shows what a high-profile role this will be.

Emma and Chair of the PLSA Richard Butcher have already been working closely together as we begin the search for the other members of the Policy Board. We want to ensure we have continuity in taking forward our policy work programme, strong representation of all of our member types and, of course, a diverse group of people around the table.

See the Governance section of our website for more details on the skills we're looking for and how to apply. We're aiming to have all of the Policy Board members in place by the middle of the summer. The Policy Board will then be able to agree its Terms of Reference and confirm the committees it needs to support its work before its members are formally appointed by the whole PLSA membership at this year's AGM.

A NEW BOARD

Another search is also beginning, as we look to appoint a second independent non-executive director to join our Board in October. And we're looking for a non-executive director from among the PLSA membership who will sit alongside Richard Butcher and Emma Douglas. They will make up the small, flexible and focused non-executive board membership that you supported when we consulted at the end of last year.

LOOKING AHEAD TO THE AGM

All of this means that this year's AGM business is likely to be dominated by appointments at Board and Policy Board level. As usual it will take place on the Friday morning of the Annual Conference & Exhibition, for which registration is open. We hope to see you there.

PLENTY OF POTENTIAL

Pensions Management Institute
ACHIEVING PENSIONS EXCELLENCE

Tim Middleton anticipates lively debate over the Pensions Dashboard.

IN RECENT YEARS, THE PUBLIC HAS BECOME USED TO DATA AGGREGATION WEBSITES AS CONSUMERS REGULARLY USE THE SERVICES OF COMPANIES SUCH AS EXPEDIA, RIGHTMOVE AND CONFUSED. THE ADVENT OF THE PENSIONS DASHBOARD WILL SEE THE CONCEPT INTRODUCED TO PENSIONS, AS INDIVIDUALS WILL BE ABLE TO SEE INFORMATION ABOUT ALL PENSION SAVINGS ACCRUED OVER THEIR WORKING LIVES PRESENTED VIA A SINGLE PORTAL. THE POTENTIAL FOR THE DASHBOARD IS PARTICULARLY EXCITING, BUT CREATING THE CONCEPT WILL NEED TO ADDRESS SIGNIFICANT TECHNOLOGICAL AND COMMERCIAL CHALLENGES. FOR INDIVIDUALS, THERE WILL PERHAPS BE THREATS TO MATCH THE OPPORTUNITIES.

Today's school leavers will enter an employment culture in which they may have 12 or more jobs over their working lives; the gig economy has seen many millennials adapt to two or more jobs at the same time. The Dashboard will enable informed retirement decisions in what would otherwise be an extremely fragmented environment.

However, there is a lively debate about what information should be held on the Dashboard and the measures required to ensure co-operation from the pensions industry as a whole. Legacy DB pensions will need to be recorded, but this will involve significant costs to schemes without providing any obvious benefits to them. Some retail pension providers may well be wary of a facility which allows consumers to compare costs and quality of service. Legislation to compel full industry co-operation will surely be necessary.

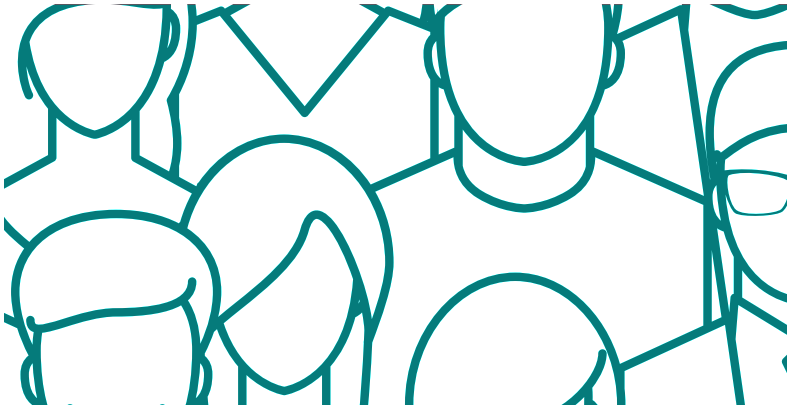
THE DASHBOARD IS AN EXCITING PROSPECT

It is unlikely that the Dashboard will provide a 'vanilla' information service, and there will be pressure from advisers to have a presence in order to promote services such as pension transfers. The risk of scammers using the Dashboard is also a serious threat which will need to be addressed.

The Dashboard is an exciting prospect. It is something that will be addressed in detail at PMI's Administration Summit on 7 November, and will surely be the subject of extensive debate over the coming months.

Tim Middleton is a Technical Consultant at The Pensions Management Institute

MEMBER NEWS



WELCOME TO NEW MEMBERS

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StepStone is a private markets group with $35 billion AUM and 350 professionals globally. StepStone provides commingled funds and customised separately managed accounts across Real Estate, Infrastructure, Private Debt and Private Equity. StepStone currently works with several UK pension schemes from their London office.

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Trium Capital is a London-based alternative asset manager. Trium offers a multi-architecture and distribution-led, full-service Irish UCITS set-up and platform to external managers looking to benefit from the growing UCITS market. Trium Capital has a growing focus on ESG, highlighted recently by adding the revolutionary Trium Morphic ESG long/short fund to the platform.

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LEGAL UPDATE

NEW LAW SINCE 6 APRIL

Springtime always brings a raft of new pensions law. A number of amendments to pensions legislation came into effect on or around 6 April 2018, including:

- **Deferred debt arrangements**. An employer in a multi-employer DB scheme can now defer the requirement to pay an employer debt on ceasing to employ an active member.[1] Trustee consent is required, and trustees may terminate if they consider the employer's covenant is likely to weaken materially in the short term.
- **DC-to-DC bulk transfers**. To support scheme consolidation, DC-to-DC bulk transfers may be made on a without-consent basis if the receiving scheme is an authorised master trust or else if the trustees have consulted with a professional who they have verified to be independent.[2]
- **Bulk transfers from former contracted-out salary-related schemes without consent**. A connected employer transfer payment of accrued contracted-out rights may be made without consent to a scheme that was never contracted out if certain conditions are met, including that the receiving scheme provides benefits similar to those which a formerly contracted-out scheme would have provided in line with the appropriate legislation as it had effect at the time.[3]
- **New rules about the disclosure of costs and charges in DC schemes**. Trustees and managers of DC schemes are now responsible for publishing specified information on costs and charges on a website and in the Chair's annual governance statement, for each default arrangement and each alternative fund option which the member is able to select.[4]

RECENT PENSIONS CASES INCLUDE:

- The Advocate General's opinion [5] in an ECJ reference in a claim concerning the impact of the PPF compensation cap on early retirees. The AG suggested EU law requires compensation of at least 50% of the total value of one's accrued rights on employer insolvency. ECJ judgment is awaited.
- Confirmation that that the recovery of pension overpayments by exercise of the equitable right of recoupment is not subject to a six-year limitation period.[6]
- Upholding the Regulator's appeal against the quashing of a fixed penalty notice for failure to submit an auto-enrolment declaration of compliance by the statutory deadline.[7]

1. Occupational Pension Schemes (Employer Debt and Miscellaneous Amendments) Regulations 2018 (SI 2018/237)
2. Occupational Pension Schemes (Preservation of Benefit and Charges and Governance) (Amendment) Regulations 2018 (SI 2018/240)
3. The Contracting-out (Transfer and Transfer Payment) (Amendment) Regulations 2018 (SI 2018/234).
4. Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 (SI 2018/233)
5. Grenville Hampshire v The Board of the Pension Protection Fund (Case C-17/17) EU:C:2018:287.
6. Burgess v BIC UK Ltd [2018] EWHC 785 (Ch)
7. Pensions Regulator v Strathmore Medical Practice [2018] UKUT 104 (AAC)

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PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

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In collaboration with **KPMG,** we have developed a new online **governance review service specifically for LGPS funds**. This allows pension committees and boards to conduct an honest assessment of how their scheme is performing against all key areas of **The Pensions Regulator's** guidance and related legislation.

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