Viewpoint

ANNUAL CONFERENCE 2018: ANDREW MARR DISSECTS BREXIT

The official journal of the Pensions and Lifetime Savings Association

Issue 3 2018

GUY OPPERMAN MP

HITTING THE TARGET LAUNCH ANALYSIS

LGPS TALENT MANAGEMENT

A NEW-LOOK PENSION STATEMENT

MATTHEW SYED ON HAVING A GROWTH MINDSET

PENSIONS AND LIFETIME SAVINGS ASSOCIATION


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CEO'S *Viewpoint*

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

WELCOME TO THIS YEAR'S PENULTIMATE EDITION OF VIEWPOINT.

Inside you can catch up on the PLSA's policy work and learn about a range of other developments in pensions, from climate risk to the next generation of pensions professionals.

As it's the autumn edition, we're also looking ahead to our Annual Conference & Exhibition later in October. Pensions Minister Guy Opperman MP and author Matthew Syed have both contributed to the magazine ahead of taking to the stage in Liverpool for the biggest pensions event of the year in the UK. The conference theme is 'Understanding Saver Perspectives' and an article from former PLSA Chair Ruston Smith on the new simpler pension statement and one from Margaret Snowdon on the pensions dashboard will start you thinking about that. There's also an update following the launch of our report *Hitting the Target: A vision for retirement income adequacy* in the summer.

The conference is set to be another great event, and this magazine is a great companion to it. Don't forget – if you can't make it, you can join the live webstream or catch up on our YouTube channel.

BIG CHANGES AT THE PLSA

Inside the PLSA we've been working on a series of big changes that members will feel in the way you interact with us – and also where you do it.

At the start of the month we moved into new offices at 24 Chiswell Street in London, close to the Barbican. It's a much more efficient space for our 50 people and will be a great place to welcome members to meetings and small events. I'm looking forward to seeing many of you come through the doors in the future.

Within the new office, some of our staff are sitting in new teams following a restructure over the summer that will make sure we're set up to deliver our strategy for members and structured around the benefits you get from membership. Most importantly a new Membership Engagement team will make sure our purpose and activities are aligned with your needs: we want members to join us for the long term, participate in our work, collaborate with us and advocate membership.

So much of what we do is about communicating with members and stakeholders, so a new Marketing & Communications team is responsible for powerful communications about what we do and what we stand for. In the critical area of policy, a redesigned Policy & Research team will work closely with the new Policy Board to shape the public policy agenda for all aspects of lifetime savings. And our Events, Business Development and Corporate Services teams will continue to bring you the benefits you value within a strong association.

The Policy Board is one of two major changes to our governance structure, alongside a new PLSA Board that will shape the future direction of the PLSA. Both will come into being at our AGM on 19 October and equip us to give all of our members a stronger voice with government, Parliament and regulators and to continue to evolve and remain relevant to our members.

So, in summary, there are plenty of exciting changes at the PLSA, and I know you'll feel the difference. If you want to know more, get in touch – or, even better, speak to me or one of the PLSA team up in Liverpool.

Best wishes

Julian Mund

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Viewpoint UPDATE

IF YOU'RE READING THIS ISSUE OF *VIEWPOINT* AT YOUR VERY FIRST ANNUAL CONFERENCE, YOU'RE NOT ALONE. THIRTY-EIGHT PERCENT OF OUR ATTENDEES THIS YEAR ARE ENJOYING THEIR FIRST PLSA CONFERENCE EXPERIENCE – A SIGN OF HOW THE PENSIONS AND SAVINGS INDUSTRY IS CHANGING AND EXPANDING. WHETHER YOU'RE HERE FOR THE FIRST TIME, OR PART OF THE 62% WHO ARE PAYING US A RETURN VISIT, WE HOPE YOU ENJOY THE EVENT.

We're also delighted that 64% of the delegates joining us at the 2018 Annual Conference are from pension funds. Trustees, pension managers, scheme secretaries, in-house administrators, investment managers and more will all find plenty in our programme that will bring them up to speed with the latest thinking and skills required to help understand savers' perspectives.

TOPTWEETS

@ThePLSA
When a company is in financial difficulty and decisions need to be made, it's important the interests of all parties – including the pension scheme – are taken into account.

Read our comment on **@beisgovuk** consultation on insolvency and corporate governance https://bit.ly/2PHFR0C

@ThePLSA
Worrying to see so many older workers feel unsupported by their employer in today's **@avivaplc** report. We strongly agree with the need for a mid-life financial health check & in our **#HittingtheTarget** report we called for wider uptake of CIPD's Age Diversity principles.

Read more about *Hitting the Target* on page 18, and at www.plsa.co.uk/Policy-and-Research-Defined-Contribution-Hitting-the-target-project

OUR PICK OF THE BEST HEADLINES

WHAT CAN BE DONE TO HELP SAVERS ACHIEVE A BETTER RETIREMENT INCOME?

James Walsh, Policy Lead: Engagement, EU and Regulation talks to Alex Janiaud of *Pensions Expert* about the PLSA's *Hitting the Target* report

www.pensions-expert.com/Special-Features/Video/What-can-be-done-to-help-savers-achieve-a-better-retirement-income

PLSA CALLS FOR MANDATORY FM TENDERS TO BE RUN ON CLOSED BASIS

Caroline Escott, Investment and DB Lead, talks about the fiduciary management tendering process in *Professional Pensions*

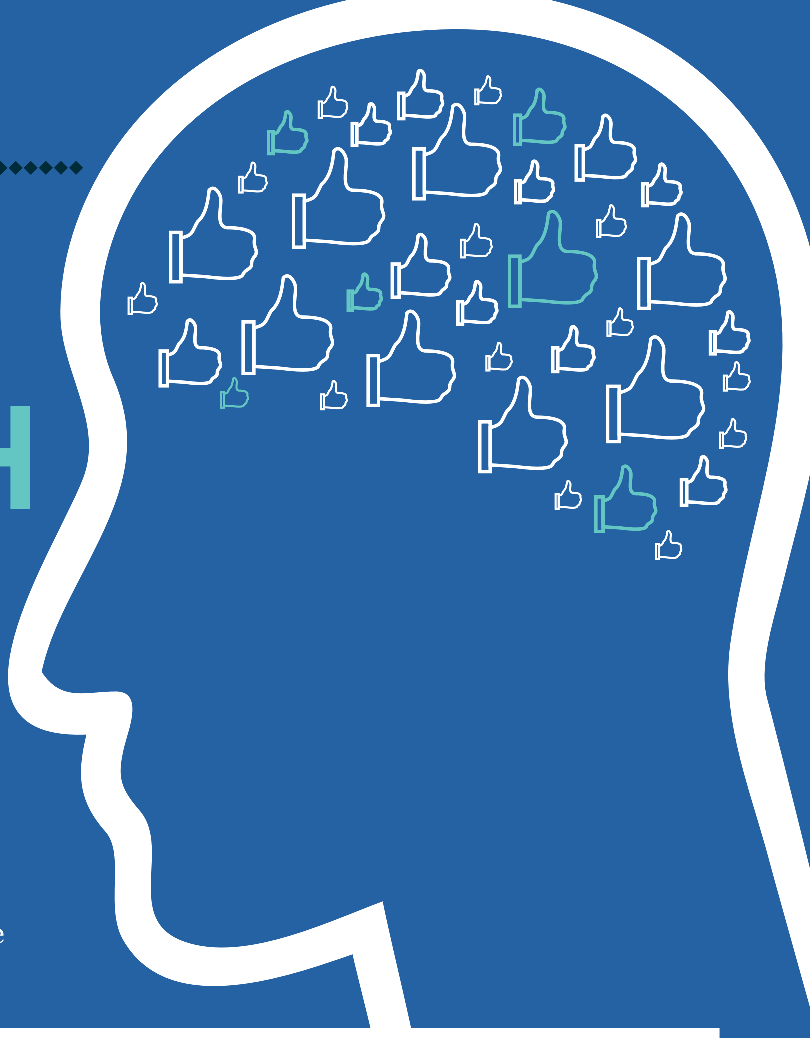
www.professionalpensions.com/professional-pensions/news/3061760/exclusive-plsa-calls-for-mandatory-fm-tenders-to-be-run-on-closed-basis

CONCERNS REMAIN OVER GOVT SUPPORT FOR DASHBOARD AFTER MCVEY'S STATEMENT

The PLSA's Director of Policy and Research, Nigel Peaple, reinforces the importance of government involvement in the pensions dashboard

www.professionalpensions.com/professional-pensions/news/3062160/concerns-remain-over-govt-support-for-dashboard-after-mcveys-statement

GOING FOR GROWTH



Having a growth mindset means believing in our continual ability to improve and perform better. **Maggie Williams** met **Matthew Syed** – business writer, Olympic sportsman and keynote speaker at our Autumn Conference – to ask him how that can be applied to pensions.

Q
CAN A GROWTH MINDSET HELP PENSION PROVIDERS DEVELOP BETTER PROPOSITIONS?

Organisations need to focus on strategy and also on their culture and mindset to find ways to improve. It's about not being afraid to look at aspects such as new communication approaches, or exploring artificial intelligence and machine learning. If you get the culture right, a whole range of downstream effects will follow.

Q
IS THAT JUST ABOUT THE CEO'S ATTITUDE AT THE TOP OF A COMPANY, OR DOES IT APPLY TO ALL EMPLOYEES?

I'd like to think it's about everyone, but it is also dependent on the CEO. When Satya Nadella became CEO of Microsoft, for example, he focused on culture above all else and a growth mindset became a top company value. That sent a signal to everyone that the culture had to change. Everyone had to be able to collaborate more effectively, be less defensive around feedback and learn from mistakes.

Q
YOU'VE EMPHASISED THE IMPORTANCE OF BEING ABLE TO LEARN FROM MISTAKES – DO YOU THINK THAT FINANCIAL SERVICES HAS A CULTURE OF BEING ABLE TO DO THAT?

There are certainly big differences in the way that different sectors approach learning from their mistakes. Firms in some industries are better at having an open mindset and learning the nature of disruption. The oil and gas industry tends to be quite fixed in its approach, but in contrast the technology sector is extremely good at learning from mistakes – it has to be, because its world changes so quickly. While sometimes there are system-wide failures that companies have to learn from, there can also be many tiny ways to improve. If a business has the mindset to analyse those tiny aspects, these accumulate over time to deliver marginal gains [small improvements that gradually add up to significant change]. It's about a combination of continuous evolution and great attention to detail, but also asking how you can change the broader system to make everything more effective.

Q
CAN THE FINANCE INDUSTRY USE MARGINAL GAINS TO ENCOURAGE PEOPLE TO SAVE MORE INTO PENSIONS OR OTHER SAVINGS?

If people save less than they rationally know they should, or don't put as much away as they would do if they knew the relevant facts, then communications can play a big part. Taking a marginal gains approach will improve the impact that communications have on people by delivering the right messages at the right time, so that they have the maximum effect on behaviour. There is a huge amount in social psychology about how to drive messages into people's minds – good advertising firms do this all the time.

When it comes to where people choose to save, that's quite complex. It's almost a branch of forecasting to think about how much you put away and where you put it. In his book *Superforecasters*, Philip Tetlock differentiates between 'hedgehogs', who tend to have a fixed world view and will look for facts that back up that view, and 'foxes' who have many different sources of information and will change their approach over time, making them better forecasters. With a growth mindset, people don't get stuck on particular ideologies or world views – perhaps becoming more of a fox can help everyone.

PLANNING FOR HOLIDAYS – AND RETIREMENT

Former PLSA Chair **Ruston Smith** sees more than a few parallels between how people plan for a short break and for the longest one of all – the industry needs to step up and help...

I DON'T KNOW ABOUT YOU, BUT WHEN WE START THINKING ABOUT OUR NEXT HOLIDAY THERE ARE SOME KEY QUESTIONS WE ALWAYS ASK OURSELVES – TYPICALLY:

- When should we go?
- Where should we go?
- How much will it cost?

Like when they think of their holidays, people tend to think about retirement stuff in a really simple way. Although they may express themselves slightly differently, the key questions I've found they ask include:

- What retirement income and savings do I already have?
- How much income and savings will I need?
- How much more should I save (and can I afford)?
- What difference will those extra savings make to me?

And, of course, within these questions they ask themselves 'what's the earliest I'll be able to retire?'.

Long gone are the days when people retired at 50 with an unreduced final salary pension income – when retirement meant *retirement*, with them skipping out of the door singing Madonna's top hit 'Holiday'!

Today, there are more choices and – inevitably since most savings now go into what we call 'defined contribution' – there's less certainty of the income and savings people will get. Retirement planning has therefore never been more important.

KEEPING IT SIMPLE – KEEPING IT PERSONAL

When I think about the questions people ask when they're considering their retirement savings, I just wonder whether we make it easy enough for them. There's:

- No consistent way to help them think about how much they'll need – and therefore will need to save;
- No consistency between all the statements they get about their existing savings – words, numbers, assumptions; and
- Nowhere to see all their retirement savings and income in one place – the information is with their schemes and providers.

I think I've just answered the question of whether we make it easy enough – which was the conclusion from the consultation that was held as part of the DWP's 2017 Automatic Enrolment Review.

We've successfully supported people to save for retirement – but not to make the right choices with the right simple information.

For example, the Annual Pension Statement that's sent by all DC schemes and providers was considered to be a 'missed opportunity'. While the industry spends loads of time, money and effort to produce statements, relatively few are opened – never mind read, understood and properly considered.

As we look to the future, with automatic enrolment at the heart of retirement savings, information will become more fragmented – and therefore it'll be critical to provide information in a simple, consistent and accessible way for savers. This is particularly the case when, on average, people are likely to have around 11 employers during their lifetime, with 25% expected to have 14 – so there will be more savings with different providers than ever before.

Martin Freeman from Smart Pension believes that “we need to make it as easy as possible for people to understand what they’ve got saved for retirement. Consistency and simplicity are key for this. That means working together as an industry and agreeing a common way of presenting the same fundamental information. It’s easy for us to focus on our own schemes so much that we lose sight of the member’s perspective.”

THE OPPORTUNITY – WORKING TOGETHER

With Brexit sucking out every bit of parliamentary time, Guy Opperman MP threw down the challenge to our industry to work collaboratively together to find solutions that helped savers without the need to change regulation.

There are some key initiatives that are being developed to help those saving for retirement which, in the main part, won’t need regulation if we can work collaboratively and in an agile way.

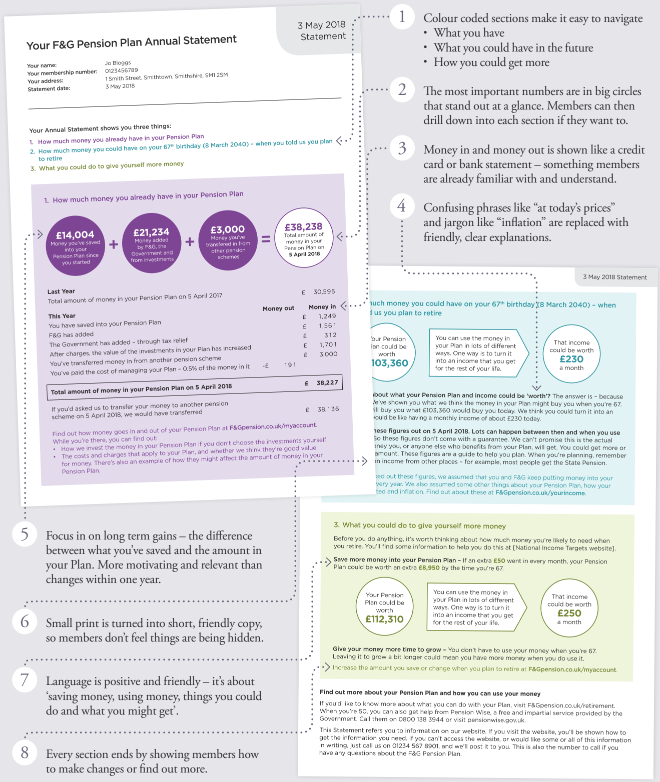
The three initiatives are:

- Hitting the Target – helping people think about the cost of living in retirement and how much they need to save
- Simpler Annual Statement – a short, simple (no jargon) statement – where ultimately all annual statements would use the same words and numbers based on the same assumptions
- Pensions Dashboard – all my retirement income and savings shown simply and consistently ‘in one place’.

These three initiatives would make a big difference to helping people make sense of their own retirement income and savings – and would contribute towards the DWP’s objective of supporting individuals to have a greater sense of personal ownership of their retirement savings.

Margaret Snowdon, Chair of PASA, says that “a Simpler Annual Statement for all is a crucial first step in normalising pension saving. We owe it to people to make it as easy as possible to see and appreciate their pensions wealth. Complex statements sent at different times and of variable quality do nothing to restore faith in our industry. The work needed for a Simpler Annual Statement is also a step on the road to a Pensions Dashboard, so well worth it.”

Proposed Simpler Annual Statement – this draft is currently being tested with consumers



SIMPLER ANNUAL STATEMENT

Having listened to the overwhelmingly consistent feedback from the DWP’s consultation, as part of the review, the communication consultants Quietroom and lawyers Eversheds Sutherland were asked to help me develop a short and simple statement that focused not on what the regulation said, but on the information that mattered most to those saving for retirement.

We worked with the PLSA, ABI and others to develop this statement before then consulting the DWP, TPR and FCA on what more would be needed to make it compliant with current regulation and guidance.

The surprising answer was ‘very little’ more was needed, so with that encouragement we developed it further to include the additional information to make it compliant – which I have to say did make it more wordy than we would have liked, but then again it needed to meet therequirements currently in place. The Simpler Annual Statement was included in Annex 5 of the Automatic Enrolment 2017 Review Report.

SO WHERE ARE WE NOW?

We’ve continued to improve the Simpler Annual Statement and it’s just going through the latter stages of quantitative and qualitative user testing that’s being done by Ignition House. You can see the latest version above.

The aim is to launch the Simpler Annual Statement later this year.

THE VISION AND THE HOPE

The vision is to deliver a Simpler Annual Statement that will include the same words and numbers – and, in due course, base the numbers on the same assumptions (this aspect of the project is progressing in parallel).

Inevitably, it’s important that schemes and providers continue to use their own illustrations, branding and their unique approach; but the hope is that, in due course, all statements will include this basic information in the same place – providing people with some consistency so that they can compare, add up and make sense of their own information.

Emma Douglas, Head of DC at LGIM, says that “the Simpler Annual Statement has the potential to be a real breakthrough in helping members to understand the income they can expect in retirement. L&G are keen to introduce benefit statements in the new format, with industry, to make statements simpler, clearer and more consistent for members.”

Will the statement be perfect? Will it meet everyone’s needs? Probably not – what does? But, by working together and making this first step towards providing simpler and more consistent information, we’ll keep learning. We’ll strive to continuously improve for the many people who we support in planning and saving for life’s longest holiday!

THE FUTURE LOOKS BRIGHT FOR UK PENSIONS

Ahead of our Annual Conference 2018, **Guy Opperman MP**, Minister for Pensions and Financial Inclusion, outlines his key priorities for retirement savings.

FOR TOO LONG IN THE UK, SAVINGS, INVESTMENT AND PENSIONS WERE IN RETREAT. MOREOVER, THIS RETREAT WAS LONG AND SEVERE, SPANNING A NUMBER OF GOVERNMENTS. A RADICAL INTERVENTION WAS REQUIRED TO REVERSE THIS TREND.

Thanks to our policies, we're now in the midst of a quiet revolution in pension saving. Nowhere is this more apparent than with automatic enrolment (AE), which is transforming pension saving for millions of people.

AE has been based on a widespread and long-standing consensus about the need to re-energise retirement saving in the United Kingdom. And we're already seeing the benefits. Over 9.8 million people have been automatically enrolled into a workplace pension so far, with more people being enrolled every day.

This has seen the previous trend of dwindling workplace pension participation completely reversed. In 2012, the percentage of eligible private sector workers participating in a workplace pension hit a low of 42%. According to the latest figures this has now risen to 81%. We have completed the staging process for employers, and are now increasing minimum contribution rates to ensure that people can enjoy a secure and sustainable retirement. In April the minimum total contribution was raised from two to five per cent , with a further increase to a total rate of eight per cent planned for April 2019.

Automatic enrolment has brought a new generation of young savers into pensions who will have different demands and interests when investing. Younger, millennial savers are increasingly concerned with environmental and social impacts of their consumer and investment decisions, with research showing that 86% say they are interested in socially responsible investing. Regulations laid in Parliament in September will increase transparency in the pension industry by requiring pension trustees to report to pension scheme members on how their investment strategies are affected by environmental, social and governance issues.

This will help millions of pension scheme members understand how their money is invested and help to build a better environment for future generations by ensuring these funds are more likely to be used to build a sustainable world. This would also mean that for the first time, trustees of defined contribution schemes will be required to publish information about how they will take account of issues such as climate change, corporate governance and social responsibility, and report annually on how they have done so.

By increasing transparency within the pension industry we can de-mystify the pensions landscape and engage this new audience, helping young savers understand where their money is going.

Under the changes, trustees will remain free to set the investment strategy they think is right for their members. However if they disregard long-term financial risks and opportunities arising from the environment, social issues or corporate governance, they will need to justify why this doesn't harm member outcomes.

We are taking big steps to support people in making retirement decisions and to help people understand the new options available to them. We're launching the Single Financial Guidance Body (SFGB) – which will bring money and pension guidance together with debt advice, in order to provide people with easier and free access to impartial help.

The government is also working with a range of stakeholders – including the regulators, wider industry and other sectors, to consider how we can work together to introduce the Pensions Dashboard.

Finally, we need to ensure that we have effective regulation in place to protect savers, alongside comprehensive guidance and support.

In the spring, we published our Defined Benefit (DB) White Paper. Most of DB is working well, but the White Paper sends a strong message that reckless behaviour will not be tolerated. The White Paper also highlights the significant potential benefits that DB consolidation can bring. Later this year we will consult on a new legislative framework, which provides for consolidation.

By working with industry and other partners, we will provide the space to innovate and improve overall efficiency. With record numbers looking to the future and putting money away towards the retirement they want, we're doing everything we can to make sure the proper protections are in place for a nation of savvy savers.

Guy Opperman will be speaking at our Annual Conference on 18 October.


DISCOVER
BETTER DC
built on INSIGHT
Our expertise in Defined Contribution pensions is built on our wealth of market data, renowned consultancy services and our range of award-winning pension solutions.
We can offer the complete range of DC services for employers or trustees, helping you find the right solutions to deliver your aim of better outcomes for your members.
Employers and trustees will naturally want to support employees in securing financial adequacy in retirement. But what barriers to saving are employees facing and how can you overcome them? Request a copy of our latest DC and Financial Wellbeing research to find out more about what your members are thinking.
Talk to us now. Call +44 (0)800 279 5588, email talktous@aon.com or visit aon.com/dcpensionsuk
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UNDERSTANDING SAVER PERSPECTIVES

Ahead of this year's PLSA Annual Conference & Exhibition on 17 October, **Edward Bogira** looks into what goes into making the event, and what we can expect in Liverpool this year.

WHEN I MEET PEOPLE WHO JOIN THE PLSA STAFF, I ALWAYS TALK ABOUT THE PRIDE WE HAVE IN THE ANNUAL CONFERENCE & EXHIBITION. IT'S THE PLACE WE GET TO MEET THE GREATEST NUMBER OF OUR MEMBERS, TO SIT ALONGSIDE YOU TO LEARN FROM THE EXCELLENT SPEAKERS OUR EVENTS TEAM ALWAYS FIND, TO CATCH UP WITH YOU AND TELL YOU ABOUT WHAT'S GOING ON AT THE PLSA – AS WELL AS ENJOYING THE BRILLIANT ATMOSPHERE IN THE EXHIBITION HALL. WE ALSO ENJOY GETTING TO SEE (OR TRYING TO, IF WE CAN FIND THE TIME) LIVERPOOL AND MANCHESTER.

> WE SEE OUR EVENTS AS THE PHYSICAL MANIFESTATION OF EVERYTHING WE DO AND WHAT THE PLSA STANDS FOR

As readers of our fortnightly update PolicyWatch will know, so much of our work goes on behind the scenes as we make sure your views are heard and understood by decision-makers in government, Parliament and regulators. By contrast, we see our events as the physical manifestation of everything we do and what the PLSA stands for: bringing together the industry and other parties to raise standards, share best practice and support our members – so that we can all help everyone achieve a better income in retirement.

ASSEMBLING THE PROGRAMME

We start working on the themes and outline of the event in February, before the Investment Conference takes place in Edinburgh. Our policy and research team works with PLSA members on our Councils and committees to decide which topics will generate the most debate and engagement – and help you do your jobs better. This year it's all about savers and their perspectives on pensions. Do we know them well enough? Are we designing schemes and services that they want? Are we doing enough to help them understand pensions and lifetime savings?

It's a rich area at the moment. Effective engagement and guided retirement decisions are key components of our work on retirement income adequacy, as you can read in *Hitting the Target*. The newly-appointed Policy Board Chair, Emma Douglas of LGIM, will be talking about that on the opening day, after we've heard about how to understand often idiosyncratic consumer behaviours. There's also a 'pensions den' session, with Francis Goss from AHC and Vincent Franklin from Quietroom pitching their member engagement ideas to a group of decision-makers from across our membership.

Pensions Minister Guy Opperman MP is one of the highlights of a busy Thursday. He'll be talking about DWP's thinking on collective defined contribution, the possibility that trustees will have a legal imperative to consider ESG issues, and his ideas for a midlife MOT to encourage saving and retirement planning. We'll also welcome David Geale from

IF YOU'VE BEEN BEFORE, YOU'LL KNOW THE CONFERENCE ISN'T RESTRICTED TO THE SPEAKERS IN THE MAIN AUDITORIUM

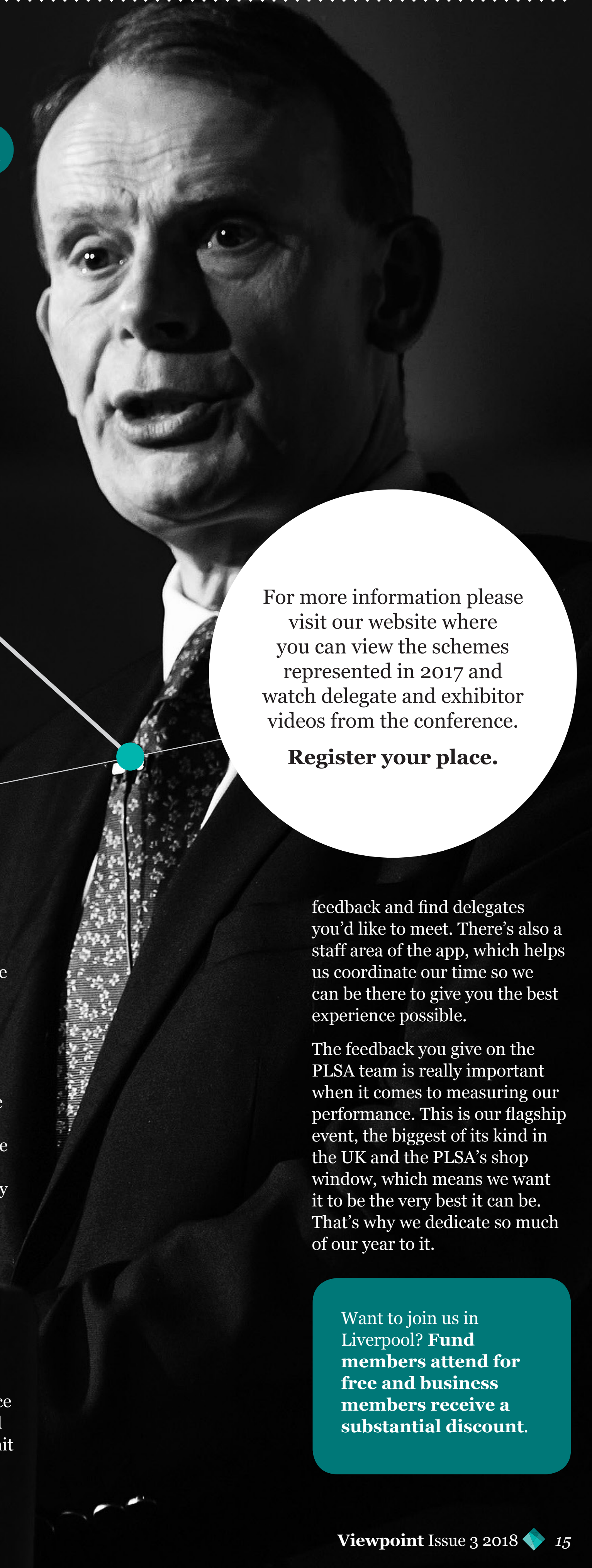
the FCA and Lesley Titcomb, the TPR Chief Executive who recently announced she'll stand down in 2019, to talk about the regulatory system as pensions continue to change rapidly. Could the next big development be consolidation? Lesley's recently-appointed colleague David Fairs will look to the future of DB. And we'll be looking at future generations of savers too, with economist Noreena Hertz setting out what expect from today's teenagers and university-age young adults, also known as Generation K (after Katniss Everdeen from *The Hunger Games*).

Will they get a good deal from their pensions? Intergenerational fairness has been a hot debate for a few years, and we're pleased to welcome back David Willetts, Executive Chair of the Resolution Foundation, to tell us how we can create it. He'll be with us on the Friday morning, along with two other intellectual big-hitters, Andrew Marr and Matthew Syed. Andrew will share his insights on where Brexit is heading, while Matthew will round off the conference on theme, looking at how a growth mindset can improve pension scheme member engagement.

BEYOND THE AUDITORIUM

If you've been before, you'll know the conference isn't restricted to the speakers in the main auditorium. The DB, DC, Saver Engagement and Pension Vision streams will bring you plenty of practical experience and advice. Topics include risk management, investment and communications, as well as the latest from the CMA and the PPF and more on what the future holds for savers.

This year we'll be publishing more of our popular Made Simple guides during the conference. We have a guide to cost transparency – another hot topic – from KAS Bank, HSBC will explain master trusts, bulk annuities are covered by Just Retirement, and currency hedging is the subject of a guide from Record Currency Management. They'll be available online and on the PLSA stand from day one. Delegates can pick one up and come for a chat about our policy work, or perhaps get one during the Thursday night drinks reception in the exhibition hall, which will have over 80 stands and be the place to gather and (very importantly) enjoy refreshments and lunch for the three days.



THIS IS OUR FLAGSHIP EVENT, THE BIGGEST OF ITS KIND IN THE UK AND THE PLSA'S SHOP WINDOW, WHICH MEANS WE WANT IT TO BE THE VERY BEST IT CAN BE

For more information please visit our website where you can view the schemes represented in 2017 and watch delegate and exhibitor videos from the conference.

Register your place.

Our AGM will take place on the Friday morning of the conference as usual. This year we'll be asking you to appoint new members to the reconfigured PLSA board and to approve the first members of the new Policy Board. We always want as many members as possible to come along and have a say in the way we run the PLSA – so we hope you'll be getting up early!

TELLING THE WORLD

As you read this article, we'll be putting the final touches to preparations. All of our speakers will have had a call to talk through how their sessions will run and what key issues they should pick up on when they speak – especially important for those outside pensions. Their arrival and movements around the conference centre are carefully coordinated to make the best use of their time and make sure everything runs smoothly. Coverage of their participation by the trade and national press needs to go smoothly too, so the press office is a key part of the event; it's a busy organisation within the organisation that many delegates don't get to see. Many speakers will also be interviewed in our studio in the exhibition hall. We're working with our film crew to coordinate that and to make sure we get great video content for our daily highlights and for members who can't make the conference to watch online – either live on the webstream or later on our YouTube channel.

Technology is a big part of the experience for everyone. We don't stop working on improvements to our conference app, which you can use to build your own event schedule, submit questions for speakers, give feedback and find delegates you'd like to meet. There's also a staff area of the app, which helps us coordinate our time so we can be there to give you the best experience possible.

The feedback you give on the PLSA team is really important when it comes to measuring our performance. This is our flagship event, the biggest of its kind in the UK and the PLSA's shop window, which means we want it to be the very best it can be. That's why we dedicate so much of our year to it.

Want to join us in Liverpool? **Fund members attend for free and business members receive a substantial discount.**

DASHBOARD AND THE ART OF THE POSSIBLE

Margaret Snowdon OBE, Chair of PASA, sketches out the likely development of the crucial pension tool.

DASHBOARD HAS GENERATED SO MUCH INTEREST THAT THERE WERE HOWLS OF ANGUISH OVER RUMOURS OF ITS DEMISE AT THE HANDS OF GOVERNMENT. THE MESSAGE IS LOUD AND CLEAR: WHAT GOVERNMENT COULD FAIL TO BE MOVED BY SUCH OUTPOURINGS? DASHBOARD WILL HAPPEN BECAUSE IT MUST.

DWP ministers recently announced that they would facilitate a more industry led dashboard. It has therefore not lost its focus on a dashboard being built to help as many people as possible get a simple line of sight to all their pension savings. It is a shame that the DWP feasibility report has been delayed again until later this year, but there is still time to answer outstanding questions and deliver a functioning dashboard within the next year or so. It is unlikely to be fully formed by 2019 but if everyone joins together, we can make a strong start.

The challenges to address are mainly governance and funding. Security is key, so strong governance will be needed to give confidence that the dashboard will be safe territory and reliable too. The dashboard must be paid for, but it won't be by government. The industry will pay ultimately, probably through a levy, but that will take time. We will need immediate private funding to get started and we need to have government involvement, but at a minimal level. Despite the various intepretations of 'facilitated', government will need to lead the way in some key aspects.

The DWP do not have to build the dashboard themselves to make it happen, but government needs to be firmly behind it for now, or the public will turn their backs on it.

Consumers – i.e. those that will use the dashboard or not – have spoken, and have clearly said they want a government-backed dashboard. That's simply because they don't trust us enough yet. They have also said that they want it to be free and to be comprehensive from Day 1.

THERE IS A LOT OF INNOVATION OUT THERE ALREADY WITH PLATFORMS AND APPS HELPING PEOPLE WITH THEIR FINANCES

ALTERNATIVE MODELS

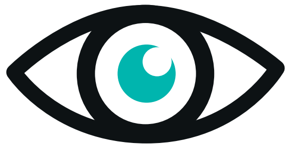
While most people agree that a dashboard is needed, there are two schools of thought on how it should be delivered. Some believe there should be a single government-provided dashboard, as it would be more secure, better trusted and free from commercial interests and influence. This is viewed as a static, informational dashboard, probably accessed for free via the Single Financial Guidance Body and to which all schemes and providers will be compelled to provide data. Many in the industry want government to drive a dashboard and to make sure it functions securely and fairly. This means ensuring it is accurate and not misleading and that organisations involved are fit and proper.

Others believe that multiple commercial dashboards are the only way to ensure competitiveness and services for consumers. With multiple dashboards, consumers will be able to select whichever available dashboard best delivers information to them. Access should still be free to consumers, so financing will come from other means, either by marketing products or by trading in data.

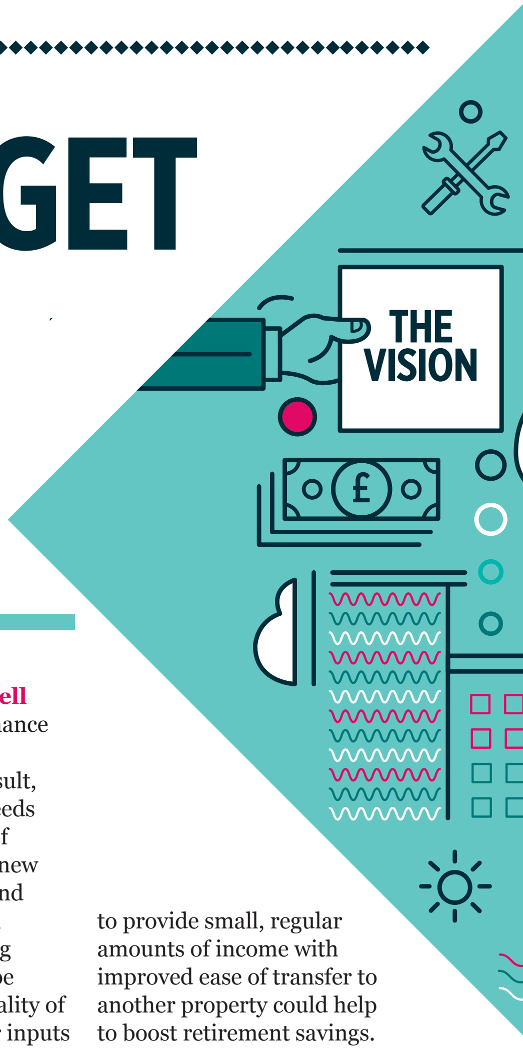
These two designs are seen as mutually exclusive and each side argues strongly for consumer interests. However, I believe we need the best of both and we should work collectively to achieve that.

I believe that a single dashboard is a good starting point, but not an end one. An uncontrolled proliferation of dashboards in the early days could be confusing to consumers and could mean variable experiences (and probable consolidation later). We need to get one going, which will mean attracting industry players to fund and build a single trusted dashboard now, with the DWP as facilitator – a dashboard that can be expanded quickly to offer more and more services, allowing consumers to see and also take action on their pension pots, whether to pay more in, consolidate them or see them alongside other assets, debt and spending. This is where the innovation and clever apps and platforms can add huge value – using the data from the dashboard to deliver better options, solutions and clarity to consumers in a way that suits them and their lifestyle. Call them dashboards if you like, but we don't need to. There is a lot of innovation out there already with platforms and apps helping people with their finances. Financial wellbeing must include pensions and a single dashboard allowing trusted providers to use and adapt the information would be a good start, with opportunity for all.

I don't have a problem with organisations making money from pensions, in fact I applaud it. What I hate is organisations making money from pensions at the expense of the members. Dashboard providers, or rather "dashboard service providers", should be able to make money from providing more tailored services; we just need to explore a bit more what is acceptable and what is not. We don't want scammers providing dashboard services and we don't want hard-selling; but helping people to understand their pension (and other) savings – and, importantly, helping them do something sensible with those savings – is perfectly fine.



HITTING THE TARGET LAUNCH REPORT



On 5 July the PLSA launched the final recommendations from its Hitting the Target consultation. **Maggie Williams** reports.

HITTING THE TARGET: A VISION OF RETIREMENT INCOME ADEQUACY IS THE PLSA'S ANALYSIS REPORT FOCUSED ON HOW POLICIES AND PRACTICES MUST CHANGE TO IMPROVE RETIREMENT OUTCOMES. IT PRESENTS A SERIES OF FINAL RECOMMENDATIONS AND POLICY RESPONSES, DRAWING ON FEEDBACK FROM MORE THAN 50 ORGANISATIONS TO AN INITIAL CONSULTATION PAPER ISSUED IN OCTOBER 2017.

At the launch in London on 5 July, PLSA chair Richard Butcher introduced the findings and set the scene:

"Current retirees are in general well placed to meet the cost of retirement and live at the standard they want. The average pensioner has around £16,000 per year – with the state pension, private pension and property assets as the most significant sources of wealth that most people possess.

"But that will change. Future generations will not have that same level of income. The move from DB to DC, early life debt and lower levels of home ownership mean that around 51% of savers (13.6 million people) are unlikely to achieve an adequate income in retirement. For those in DC schemes, the number is even lower, with only 3% expected to reach that level.

"Unless we save more, make more efficient use of those savings and become able to make better decisions, more people will not be able to cover the cost of later life.

"Hitting the Target is an important body of recommendations to address that problem, and we are really proud of them. The consensus is that it is time to change, but we can't be complacent – the savings situation needs to improve or there will be widespread pensioner poverty in future. Please get on board to help us launch these proposals."

Richard gave an overview of the seven key recommendations from the report, which we reproduce here:

Introduce income targets – The UK needs to develop retirement income targets and make sure that these are well promoted. In our research, 74% of savers said that retirement saving would be easier with income targets. The PLSA is in the process of developing minimum, modest and comfortable retirement levels based on a basket of goods, and these will be completed in 2019.

Encourage adequate pension contributions – We want to see more people, including younger savers and the self-employed, contributing more. Auto-enrolment levels are too low and we would like to see a contribution rate of 12% of all salary phased in during the late 2020s. The split between employer and employee contributions needs to be 50/50. We'd also like to see more development of 'sidecar' savings and exploration of the risks of over-saving.

Ensure schemes are well governed – Good governance adds 1-2% to returns for scheme members. As a result, the Pensions Regulator needs to ensure that standards of governance are high. The new master trust regulations and standards for professional trustees are a good starting point, but there needs to be continued work on the quality of boards, measured by their inputs and outputs – not just checklists. Savers don't know if a scheme is contract- or trust-based, so we want to see consistent standards of governance across both types of arrangement from the Pensions Regulator and the FCA.

Help individuals make good decisions at retirement – We want a reformed regulatory approach for trustees and independent governance committees (IGCs) to signpost savers towards suitable retirement products, with a government-mandated approach. There is also a need for pre-retirement guidance to help with accessing savings. It's important to note that this is not undermining freedom and choice – it is about providing a framework for making effective decisions.

Provide access to property wealth – Over-55s currently have around £1.5 trillion of housing wealth, which will rise to £2.9 trillion by 2036. That equity is a valuable extra source of income, but it is not widely accessed. Using this to provide small, regular amounts of income with improved ease of transfer to another property could help to boost retirement savings. We would also like to see property included in financial health checks.

Extend working lives – Working longer is the only option for those with insufficient savings and no property. We would like to see the CIPD's principles on age diversity in the workplace widely adopted, and a new guidance agenda with a default health check with guidance sessions.

Achieve adequate income – We want to aim for greater engagement with all savers. That includes retirement income targets displayed on the pensions dashboard, simple annual benefit statements and mid-life financial health checks. We can make much better use of technology to help everyone achieve this, and keep an open mind on what technology might be able to achieve in the future.

RESPONSES TO THE REPORT

***Nigel Mills MP**, Chair, All-Party Parliamentary Group on Pensions*

The report sets out the landscape very well and has many useful ideas. We would hope that the government can take these forward.

Everyone needs to understand how much they need in retirement and how much they have to save at each point in their working life, into good quality schemes that will look after their interests with a decent rate of return. They also need to monitor whether they are on track to meet their aspirations and then at retirement have a good range of products to choose from.

We have made a lot of progress on parts of that, but there is still a long way to go and no magic fix. Many people don't know what they are aiming for and don't know what they've saved because statements are too complicated.

We also have an architecture built around people retiring at 65 with an annuity, but that is no longer appropriate. The government brought in freedom and choice partly because people were buying the wrong annuities from the wrong providers – but we won't achieve anything if people instead buy the wrong drawdown products from the wrong providers. Everyone needs to understand their options and shop around.

***Jenni Allen**, managing director of Money Content and Guidance at Which?*

We think these are very good suggestions. Three factors that stand out for us are: the value of retirement income targets, the role of information and guidance, and measures on how we can cater for disengaged savers.

There is consensus about the benefit of retirement income targets and understanding whether people are saving enough for retirement. We are really looking forward to seeing how the PLSA's targets compare to work that Which? has done on income needs in retirement. People need to understand the size of their pension pot and provision for meeting the retirement standard they are looking for. They need guidance to do that. We are supportive of the PLSA's default pathway into guidance – but that's not the only point at which people need support. We also believe that there are key life moments that could offer guidance, such as starting employment or taking out a mortgage.

We need to recognise that targets and guidance will only go so far, and there will always be a proportion who are not engaged, so we welcome a pathways approach.

Questions from the floor

How can you be sure the targets will be used?

Richard Butcher (RB) – The government has a lot on its plate at the moment, so we can't ask them to commit a lot of time to drive this forward. However, we can ask them to support it. It is also incumbent on the industry to make sure the targets are adopted. If people know how much they need to save they will save more, which has benefits for everyone. We are already having good conversations with master trusts, single employer schemes and insurance providers, as well as software providers and guidance bodies.

Nigel Mills (NM) – It's also important to have one single, consistent set of targets, rather than different targets from different providers. Maybe there is a role for the regulator in ensuring consistency. We also need to think about how we will get savers to engage early with it.

How do you think consumers will react to an industry-sponsored target, versus targets determined by government?

Jenni Allen (JA) – Trust in pensions isn't that high – the targets do need to be presented as belonging to the consumer, rather than the industry telling people what to save. The right approach is essential.

RB – We have commissioned Loughborough University to work with us to calculate the targets. They will have academic rigour and objectivity behind them, which will help.

How can we make sure the targets are motivational and don't feel like an impossible mountain to climb?

RB – There is an argument that we shouldn't tell people how high a financial mountain they have to climb, in case they give up trying to climb it. But we have to be honest. Nudges might give some options. We can look at deferred motivation, by asking people what they aspire to later in life. It's also about choices – such as cutting back on good living now, to reduce the risk of retiring in poverty.

If you had to pick one of the recommendations to implement, what would it be?

JA – For me, developing the the retirement income targets and rolling those out.

NM – I would say extending pensions to people in the gig economy and those who are not auto-enrolled.

RB – I can't choose one! I'd like to see them all introduced.

HITTING THE TARGET: A TIMELINE

PLSA RETIREMENT INCOME TARGETS LAUNCHED	2019	VFM METRICS
LATER LIFE AGE DIVERSITY PRINCIPLES	2020	ACCESSIBLE HOUSING WEALTH
PENSION: AE SCOPE WIDENED	2021	ENHANCED ENGAGEMENT
ENHANCE GOVERNMENT	2023	GUIDED "AT RETIREMENT" DECISIONS
PENSIONS TAX RELIEF OBJECTIVE ADOPTED	2024	
	2025	PENSIONS: AE CONTRIBUTIONS START TO INCREASE FROM 8% TO 12%
PENSIONS: AE CONTRIBUTIONS AT 12%	2030	

CMA INVESTIGATION – PROVISIONAL DECISION REPORT

Caroline Escott brings us up to date on the flagship report which will introduce important changes for the investment consultancy and fiduciary management market.

IN SEPTEMBER 2017, THE COMPETITION AND MARKETS AUTHORITY (CMA) SET OUT TO INVESTIGATE HOW WELL THE MARKET FOR INVESTMENT CONSULTANCY AND FIDUCIARY MANAGEMENT SERVICES WORKS, AND WHETHER IT OPERATES IN THE BEST INTERESTS OF PENSION SCHEMES AND SAVERS. NOW – NINE MONTHS, EIGHT WORKING PAPERS, ONE (HEFTY) TRUSTEE SURVEY AND MANY HUNDREDS OF DATA REQUESTS LATER – THE CMA HAS PUBLISHED ITS PROVISIONAL DECISION REPORT (PDR). THIS SETS OUT ITS FULL ANALYSIS OF THE SECTOR AND PROPOSES A SERIES OF REMEDIES TO ENSURE BOTH THE SUPPLY AND THE DEMAND SIDES OF THE MARKET WORK EFFICIENTLY.

THE FINDINGS

The CMA undertook an extensive information-gathering exercise, getting data from investment consultants and fiduciary managers as well as engaging widely with industry representatives such as the Pensions and Lifetime Savings Association (including through speaking at our 2018 Investment Conference as well as coming in to discuss key issues with our member governance committees), trustees, scheme investment practitioners and asset managers.

Along the way, the CMA outlined its emerging thinking and analysis to date in a series of Working Papers which provided further opportunities for comment and gave the industry a good idea of what might be coming further down the track. To anyone who was keeping track of the CMA's publications (like yours truly) the conclusions outlined in its July PDR were therefore, mostly, unsurprising.

The CMA determined that the investment consultancy market was not highly concentrated, but that some trustees "do not have the time or skills to scrutinise their consultants"; and that there are schemes "including small and DC schemes" which have low levels of market engagement. These findings on scheme governance echo concerns expressed by The Pensions Regulator (TPR) and others that there is a variation of skills, knowledge and understanding across trustee boards.

The CMA stated that it had "more serious concerns" regarding the still relatively new and evolving market for fiduciary management services. Key findings included that it was hard for trustees to get the information necessary to help them make a good choice in picking or assessing a fiduciary management provider; that firms offering both investment consultancy and fiduciary management services (IC-FM firms) had an incumbency advantage; and that trustees often were not shopping around when moving into a fiduciary management arrangement.

One particular aspect of the institutional investment advice market, as highlighted by the CMA at the beginning of its investigation, was the potential for conflicts of interest surrounding the sale of an in-house master trust pension by investment consultants that provide employee benefit consultancy (EBC) services. The Working Papers had been noticeably quiet on this issue and the PDR explained the reason why: the CMA found that the "potential conflict [is] unlikely to [lead to] a competition problem… [as the] master trusts of investment consultants which also act as EBCs currently [have] only limited take up."

> **IT IS IMPORTANT THAT TRUSTEES ARE ABLE TO COMPARE APPLES WITH APPLES WHEN MAKING A DECISION, AND WE THEREFORE STRONGLY WELCOMED THE CMA'S PROPOSAL TO REQUIRE BETTER INFORMATION ON FEES AND QUALITY**

IT WON'T JUST BE INVESTMENT CONSULTANTS AND FIDUCIARY MANAGERS WHO HAVE TO COMPLY WITH NEW REQUIREMENTS, BUT TRUSTEE BOARDS AS WELL

THE REMEDIES

The CMA's powers and scope on competition issues goes beyond that of the FCA, including the ability to recommend far-reaching remedies such as structural reform of a given sector. For the investment consultancy/ fiduciary management markets specifically, this could have included a proposal to break up the vertically integrated IC-FM firms. However, the PDR did not go down this route, instead proposing a series of other (less radical) remedies for both investment advice service providers and their pension scheme clients.

The PLSA has called for provision of clearer and more standardised information by service providers along the investment chain to their pension scheme clients for some time, not only through our responses to the CMA investigation but also our work as part of the FCA's Institutional Disclosure Working Group (IDWG). It is important that trustees are able to compare apples with apples when making a decision, and we therefore strongly welcomed the CMA's proposal to require better information on fees and quality from consultants. This includes a suggested requirement that fiduciary managers break down the fees for their services, and the introduction of industry performance standards.

We have also long noted the discrepancy between the level of regulation of institutional investment advice and retail investment advice. Given the fact that poor advice by consultants can have a negative impact on the retirement income of thousands of scheme members (as opposed to the relatively limited impact of poor retail investment advice) it seems anomalous that regulation of the financial advice given to individuals is so much tighter. We are therefore hopeful that the CMA proposal that the Financial Conduct Authority (FCA) has greater oversight of the consultant industry will be a positive step in correcting this anomaly.

It won't just be investment consultants and fiduciary managers who have to comply with new requirements, but trustee boards as well. The PLSA had been concerned that measures such as mandatory switching of (which we believed would have reduced the choice for trustees) or mandatory re-tendering for investment advice might have been suggested. We welcomed the more proportionate suggestion in the PDR that trustees undertake mandatory tendering for the first move to fiduciary management (or within five years for those who had already moved to such an arrangement but did not tender).

Other demand-side remedies included new guidance from TPR on the tender process and a requirement placed upon trustees to set their consultants strategic objectives and review performance against these objectives every few years. Most of these steps seem sensible, yet the devil is – as always – in the detail: any new requirements will impact the market and must be designed intelligently, so that their implementation does not have unintended adverse consequences while also achieving its purpose.

NEXT STEPS

By the time you read this, the deadline for formal responses to the Provisional Decision (24 August) will have passed. However, attendees at our Annual Conference in Liverpool in October will also have the opportunity to hear from the CMA and feed in their views directly. The CMA will also undertake a number of evidence sessions before considering all the feedback received and publishing its Final Decision by March 2019.

It is vital that pension scheme trustees and their investment teams continue to feed in views to the investigation at what is a critical juncture. Creating a well-functioning investment consultancy market is a vital step in supporting pension schemes to invest wisely and in a way which protects the value of individuals' retirement savings.

2019

THE CMA WILL ALSO UNDERTAKE A NUMBER OF EVIDENCE SESSIONS BEFORE CONSIDERING ALL THE FEEDBACK RECEIVED AND PUBLISHING ITS FINAL DECISION BY MARCH 2019.

IT IS VITAL THAT PENSION SCHEME TRUSTEES AND THEIR INVESTMENT TEAMS CONTINUE TO FEED IN VIEWS TO THE INVESTIGATION AT WHAT IS A CRITICAL JUNCTURE

Integrating sustainability intelligently

Hilary Vince, DC Business Development Director, Schroders

IN TODAY'S WORLD, INVESTORS ARE TURNING TO SUSTAINABLE AND ESG-DRIVEN INVESTMENT MORE THAN EVER BEFORE. AS THE DEPARTMENT FOR WORK AND PENSIONS (DWP) CONSIDERS NEW LEGISLATION TO REQUIRE DC SCHEMES TO INCORPORATE ESG INTO THEIR INVESTMENT PRINCIPLES, RECOGNITION OF THE RISKS POSED BY UNSUSTAINABLE BUSINESS PRACTICES CONTINUES TO GROW.

Investing in companies that are best equipped to address these issues seems like common sense – both ethically and financially. There is more, however, to a sustainable investment strategy than being 'ethical' (an ambiguous term). So from a practical perspective, how should schemes look to incorporate ESG in a way that will generate stable returns but provide protection against future ESG risks?

Index-based products that incorporate ESG criteria through exclusions or third-party ratings have seen strong growth lately helped by low fees and ease of access. However, there are challenges with these approaches.

Negative screening, aka excluding companies based on their business, such as tobacco and gambling, is a popular way of injecting a social conscious into an investment process. This approach benefits from being easy to understand and implement. However, simply screening out 'controversial' industries has the potential to reduce returns and increase risk unless portfolio construction is carefully managed. For some schemes, negative screening will be entirely appropriate based on the nature of their business or type of employee, but many DC schemes may find this approach too narrow.

After exclusions, the most popular way of integrating ESG is to buy a third-party rating and use that as an additional factor in the investment process. Many common ESG indices use these ESG ratings as the sole investment criteria. The rating systems cover large numbers of companies and offer easy-to-understand grading systems giving them the clear benefit of simplicity and easy execution. However, our analysis and experience highlight their limited worth as an investment tool. They focus too narrowly on analysing ESG performance in isolation and emphasise disclosure over performance, resulting in the largest companies receiving the strongest scores, thereby potentially introducing a size bias in the results, see figure 1.

As investors become more discerning, they will expect more from their investments than a simple screen or arbitrary third-party rating. Many will recognise the benefits of robust ESG analysis and therefore it is important that investors recognise that "ESG" in fund labels doesn't actually say much about how they are constructed. The right passive products may exist for some investors but finding them will require some digging into the strategy's construction rather than relying solely on the label.

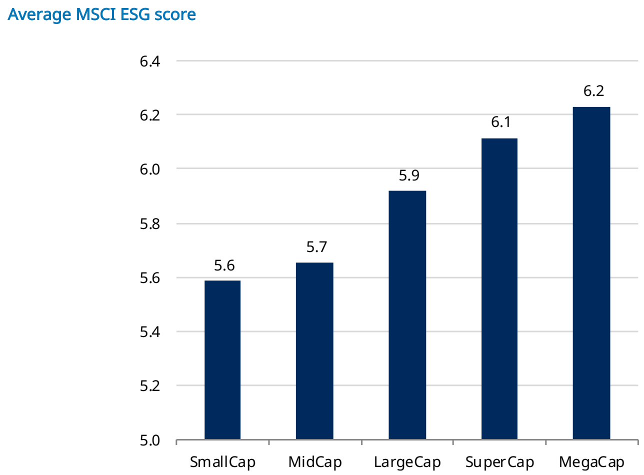
We believe companies should be measured on a wide range of social and environmental areas and the measures used should be quantifiable and transparent. In order to do this, and provide a robust framework to incorporate ESG factors, we approach things differently. We have developed a unique model that scientifically combines measures of both the 'harm' companies can do (the negative social or environmental impact resulting directly or indirectly from their business practices) with the 'good' they can bring (the positive impact). This analysis provides us with an aggregate measure of each company's social impact allowing us to target ESG considerations effectively. However, we also recognise that the output from this model needs to be available in an easy to access and simple to understand format, see figure 2.

We know that DC investors do not want to sacrifice returns and do not have an unlimited budget to spend on investment. For this reason, we have developed a solution that combines our market-leading sustainability credentials and unique ESG research with our low-cost, low governance multi-factor approach.

For more information please contact me on **Hilary.Vince@Schroders.com** or visit our website **www.schroders.com/uk-pensions**

FIGURE 1. VARIOUS BIASES ARE INTRODUCED

Over-exposure to larger companies and certain sectors



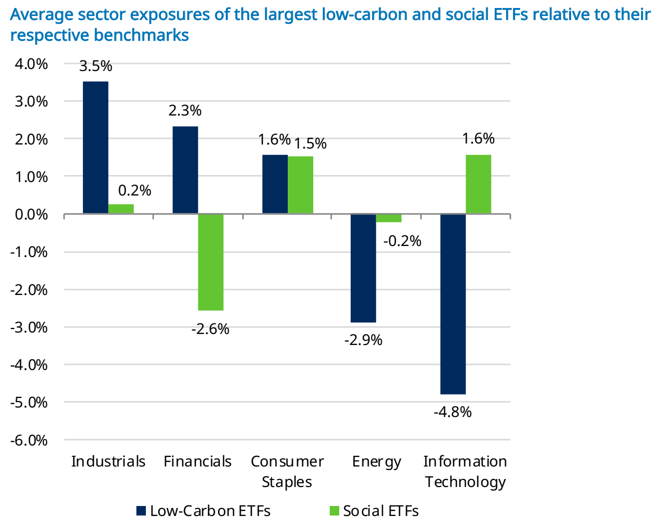
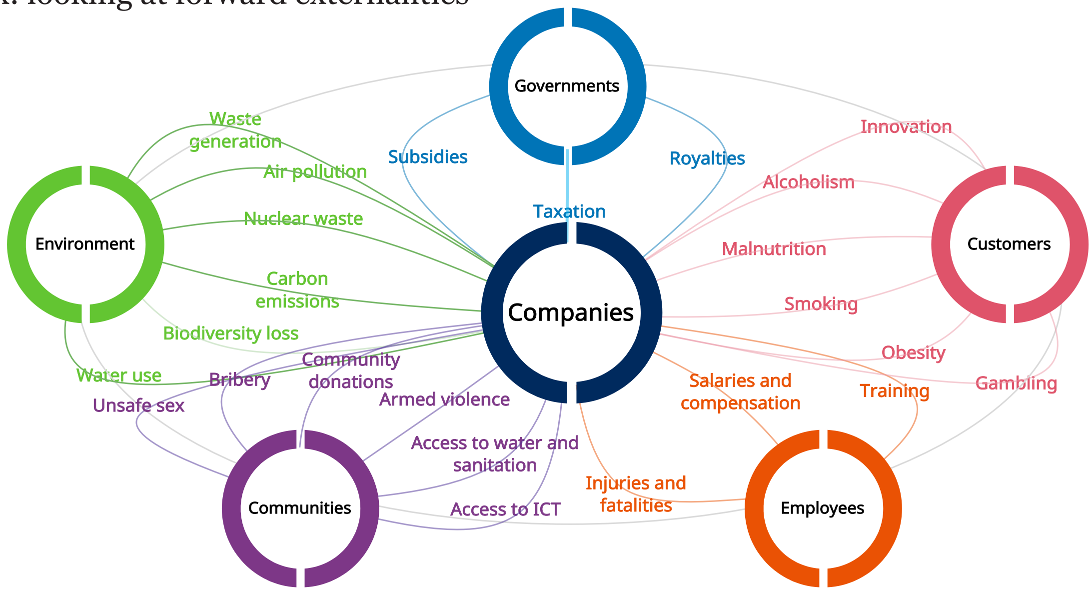


FIGURE 2. WE HAVE IDENTIFIED A RANGE OF QUANTIFIABLE IMPACTS

SustainEx: looking at forward externalities

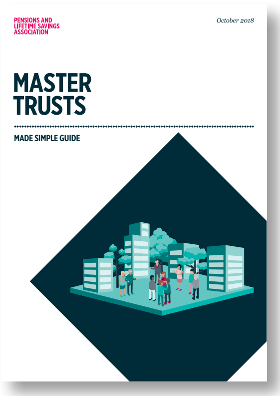


SCHRODERS WILL BE HOSTING A FRINGE MEETING AT THE PLSA ANNUAL CONFERENCE, AT 5PM ON 17 OCTOBER

Schroders

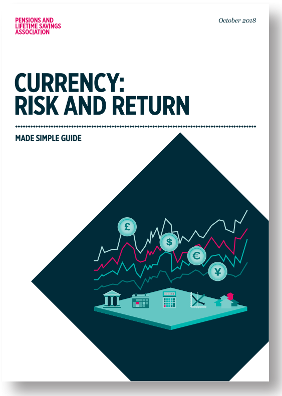
MADE SIMPLE GUIDES

The PLSA will be launching four new ‘**Made Simple**’ guides at the Annual Conference. Come to the stand to pick up a copy, or download them from the website.



HSBC MASTER TRUSTS MADE SIMPLE

The master trust market has enjoyed strong growth over the past decade or so, as master trusts offer an efficient and cost-effective way of meeting members’ objectives. Now a new regulatory framework designed to protect members could make master trusts more popular than ever, while resulting in some consolidation of the market. This guide, sponsored by HSBC Global Asset Management, traces the emergence of the master trust, charts the evolving regulatory environment and looks in detail at the elements that have made it so attractive to UK employers.



RECORD CURRENCY MANAGEMENT CURRENCY: RISK AND RETURN MADE SIMPLE

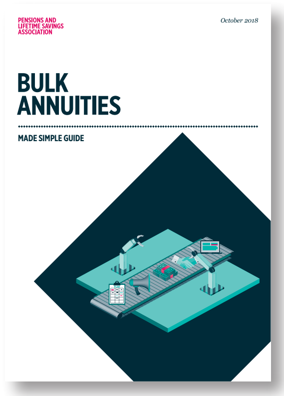
Seeking to expand on domestic asset allocation opportunities, many UK pension funds have significantly increased their exposure to international assets. As such, many UK pension fund portfolios have increasingly large exposures to foreign currency risk. Furthermore, many investors are now turning to factor investing and alternative risk premia as a way of targeting enhanced, risk-adjusted returns and improving portfolio diversification.

This guide, sponsored by Record Currency Management, is intended to improve your understanding of currency risk factors and the role they can play within a UK pension fund portfolio – both for generating excess returns and for management of currency risk in international asset allocations.

KAS BANK COST TRANSPARENCY MADE SIMPLE

Cost transparency has become an increasingly important part of good governance and value-for-money assessments. There is an onus on UK schemes to report on costs, and we believe it is important to support trustees and pension executives, so that they can effectively demonstrate good governance and fulfil their reporting requirements.

This guide, sponsored by KAS BANK, intends to give you a good working knowledge of the various costs associated with managing a pension scheme, so you can make more informed decisions on behalf of your members.



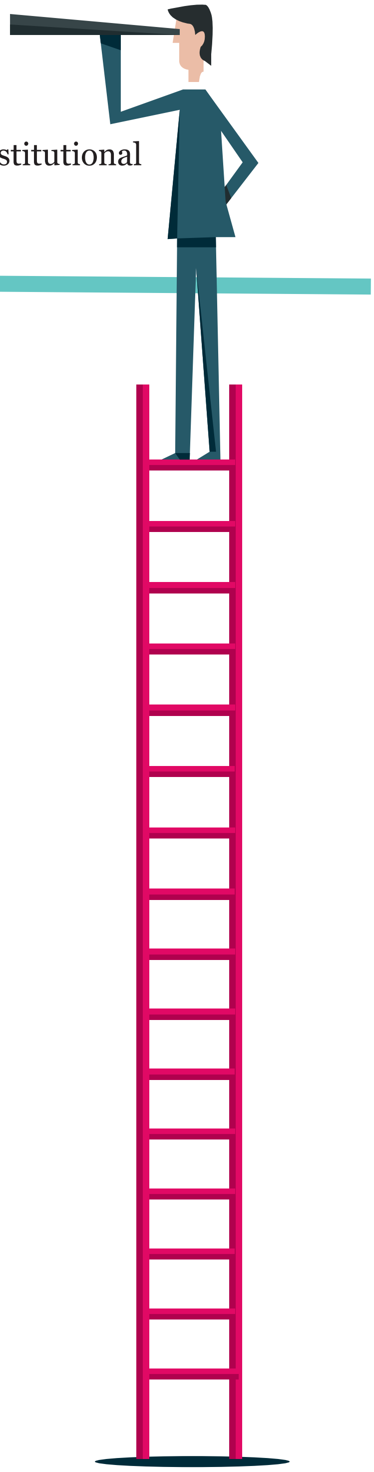
JUST BULK ANNUITIES MADE SIMPLE

The bulk annuity market has seen recent explosive growth and shows no sign of slowing. This demand, coupled with the significant costs of preparing quotes, means insurers are highly selective and look for schemes that offer transaction certainty when deciding where to focus their participation. Trustees who come to the marketplace well prepared will be more likely to gain the attention of insurers and secure a competitive tender process.

This guide, sponsored by Just, will help trustee boards and sponsoring employers navigate the market and get the best engagement from insurers.

RISKS, RECOVERIES AND REWARDS

John McElroy predicts a future where more institutional investors get involved in shareholder actions.



MANY INSTITUTIONAL INVESTORS HAVE AT SOME POINT BEEN ADVERSELY AFFECTED BY CORPORATE SCANDALS AFFECTING THE BUSINESSES IN WHIH THEY INVEST, FROM BANKS TO FTSE 500 COMPANIES. MANY TOOK STEPS TO RECOVER COMPENSATION IN THE RBS RIGHTS ISSUE LITIGATION, AND SOME ARE INVOLVED IN THE ONGOING TESCO CLAIM (WHILE MORE MAY BE WAITING IN THE WINGS TO SEE WHAT OTHER GROUPS EMERGE).

While the RBS Rights Issue Litigation can be regarded as a success for the claimants in that significant settlements were achieved, there seem to be mixed feelings in the sector about participation in shareholder actions. Part of this may be nervousness in the market given that shareholder actions are a developing area of law in England; or due to the concern that the potential financial reward is not worth the time, investment and costs risk.Nevertheless, the tide is slowly rising when it comes to shareholder actions here and in Europe. While the law will continue to evolve as more shareholder actions are brought, there are opportunities with significant financial reward that are being missed by some shareholder investors. As the market moves, there is a need for institutional investors to understand the issues and be able to react accordingly.

WHY PARTICIPATE?

The key driver for shareholder actions is the financial loss caused by wrongdoing. Investors must decide if the loss is significant enough to warrant litigation and if the time and resource cost of pursuing claims is worthwhile.

Participation does involve a level of time commitment. At the outset, it will be necessary to work with lawyers and experts to identify evidence to support the case. It is also important to understand what is likely to be required from the organisation and at what stage.

The other key concern is the financial risk. However, many of these cases can be fully or partly funded by a litigation funding specialist who will fund the case for a percentage of the potential financial reward, so the case can be brought on a no-costs basis. The financial risk is thereby eliminated.

ARE YOU LEGALLY OBLIGED TO BRING CLAIMS?

No UK pension fund trustee has ever been sued for not joining a shareholder action in this jurisdiction. However, as trustees have a duty to protect assets in their scheme, it would be prudent to at least consider opportunities to recoup losses where cost and effort do not outweigh the likely end reward.

IS THERE ANY FINANCIAL DOWNSIDE TO CONTINUING SHAREHOLDERS?

Shareholders may be concerned that by participating in litigation they are prejudicing the value of their ongoing shareholding. However, once a claim is in the public domain, the prospect of civil litigation is likely to be factored in to the share price of the issuer already – so the decision of one single fund or shareholder to participate is unlikely to impact the market cap, whereas the upside to that individual claimant could be quite significant.

Further, while it's true that existing shareholders will likely bear an indirect cost from expenses arising from the litigation, this is also true if they do not participate in the litigation. Any such costs are likely to be significantly smaller than the recovery made on a successful outcome in the litigation.

CAN YOU JOIN THE CLAIM?

Your external lawyers should advise early on whether an organisation meets the legal criteria to join the claim. It is crucial to grapple with these issues at the outset because failure to do so may result in an organisation wasting time preparing a claim that will not succeed.

POINTS TO REMEMBER

As investors navigate the new landscape of shareholder litigation, it is important to remember these key points:

1. Institutional investors should be aware of the increasing activity of shareholder litigation in the English courts, which also benefit from a diverse and mature funding and costs insurance market.
2. They should also consider if it is a prudent investment decision not to take advantage of potential financial rewards – with limited time investment and the ability to remove risk.

John McElroy is a commercial litigation partner at Hausfeld.

...with our Pension Fund Cost Transparency Solution.

As a specialist in servicing pension funds, we know that ensuring value for money and compliance with your regulatory obligations are key to good governance.

Our **Pension Fund Cost Transparency Solution** is a flexible tool giving you a clear overview of your costs, including those typically unreported. Powered by state-of-the-art technology, the app and online dashboard displays data in a simple and secure way so you can inform your Trustees and improve pension fund governance.

The tool meets industry transparency standards and it's compliant with industry legislation, guidance and templates.

Our team of independent data specialists, pension professionals and cost transparency experts see things from your perspective.

Try our **Pension Fund Cost Transparency Solution** and we think you'll be tickled green too!

TREVOR, JODIE AND THEIR AVOCADO PRIORITIES

Michael Watkins of Smart Pension argues that diversified thinking is the only way of understanding – let alone meeting – the varied pension needs of Britons today.

If there's one thing we've learned from events in British politics over the past two years, it's that you never really know what the person next to you is thinking. There's also a good chance that, if you do find out, you won't understand why they're thinking it.

This highlights a universal issue: people think differently.

Primarily, this is because they have different needs. A 59-year-old man likely has a different set of priorities and needs to that of a 24-year-old woman, even if their behaviour is the same. Both might be partial to crushed avocado on sourdough bread, for example, but for one it's a matter of tracking their macro-nutrient intake and for the other it may be a way of attracting likes on their Instagram account.

We are all aware that there are differences between us; whether they're generational, socioeconomic, financial or one of a multitude of others, but what do we do to ensure that those needs are, at the very least, heard and understood, let alone catered for?

Let's look at this question specifically in relation to a topic we all know and love dearly: pensions and lifetime savings. For this example, I'm going to give the older man and younger woman names to ensure that we feel connected to them: Trevor and Jodie.

It's our job as professionals in this industry to ensure that Trevor and Jodie are afforded an income that fits their needs in retirement, without causing a cognitive overload when working out how much they need to save, or searching for the right solution when they come to retirement. Simple, right?

But we know the problem isn't a simple one; it's multifaceted, incredibly complex, and the common thread through it all is that there isn't one solution. And that's because Trevor's needs are likely to be very different to those of Jodie, let alone the rest of the population.

Not only do Trevor and Jodie need retirement solutions that meet their specific needs, they also need their contribution rates and benefit statements to be communicated to them in a way that they intuitively understand, and they need tools that help them plan effectively for their respective futures.

Trevor may want to see his benefit statement via talking avatar, on the bus back from his yoga class; while Jodie may want to read through a hard copy of her investment options while drinking Bovril and reflecting on a victorious evening at her local bingo hall.

The point here is that we often make assumptions about cohorts within society, rarely inviting them to actively participate in shaping that knowledge, let alone offering them a seat at the decision-making table.

What this clearly illustrates is that we need diversification of thought.

Diverse thinking, opinions and representation helps provide solutions to problems that 'groupthink' can't. It helps bridge generational, ethnic and socioeconomic gaps, and while it won't lead to a bespoke solution for every individual, it can only go some way to ensuring that there is a range of solutions that will be adequate for most.

The pensions industry is a representation of society. The industry isn't made up only of pale, male and stale figures; there is a hugely diverse pool of people within our industry, but PMSers do make up a large percentage of decision-making groups and boards, and this is a problem. This isn't to say that the views within these groups and boards aren't well considered, or well informed, but it does go back to my original point about the fact that, however well informed we believe we are, we never really know what other people are thinking, let alone what they need.

As a 34-year-old man, I don't represent the views or needs of all 34-year-old men, let alone the views of my generation – but I do represent the views of an individual within my generation, and that alone leaves me well placed to offer a perspective that is likely to be different to that of Jodie, or Trevor.

The more inclusive and diverse the decision-making groups and boards are, the better chance we have of solving the problem for all, rather than just for some.

SO HOW DO WE ACHIEVE THIS?

The solution doesn't need to be a complete revolution. To start introducing executive and trustee board quotas wouldn't necessarily guarantee that the best people are given opportunities; diverse thinking isn't about representation for the sake of representation, it's about challenging the status quo and creating healthy tension within those decision-making groups to ensure that a variety of viewpoints are discussed and considered.

The best way forward is to provide opportunities for younger voices to be heard when selecting conference panellists, media quotes and speaker slots; it's about facilitating or providing mentoring and training to better prepare the next generation of leaders, and considering the profile of your scheme and how best to hear and represent all of the views within it. This may be through appointing an age-appropriate trustee or executive member to your team, for example.

We don't do enough as an industry to provide a platform for the next generation of voices to be heard, or give them opportunities to positively affect the future that they represent, even though it's clearly in our interest to do so. Through a collaboration of experience and new thinking, we end up being able to learn from our mistakes, which in turn prevents us from making them in the future. If you, like me and many others, are interested in supporting diverse thinking and the next generation of pension professionals visit **www.nextgennow.co.uk**, or email **info@nextgennow.co.uk** for further details.

STATE STREET GLOBAL ADVISORS

Building a Core with a Conscience

By **Ana Harris**, CFA – Head of Equity Portfolio Strategists

Efficient targeting of market factors using a Smart Beta approach has become a feature of many investment portfolios over recent years. Now investors can address their responsible investing needs as part of their Smart Beta strategy.

Why Combine Smart Beta and ESG?

In this lower-return world, investors are increasingly challenged to achieve their return objectives while appropriately balancing risk, returns and fees.

At the same time, we need to meet these challenges while ensuring that underlying investments incorporate an awareness of environmental, social and governance (ESG) issues.

Innovations in both Smart Beta and ESG investing are helping investors to directly address these diverse requirements.

The Attraction of Smart Beta

Smart Beta strategies seek to efficiently capture exposure to core equity factors, which are believed to drive returns over the long term.

Over fifty years of academic literature has demonstrated that excess returns associated with these factors have proven to be persistent over time.

Factors capture risks which cannot be diversified away, such as systematic risk, behavioural biases, or market structure issues. Smart Beta strategies that target these factors also offer the potential to outperform a cap-weighted benchmark with lower fees than active strategies.

It's not surprising, then, that these strategies are becoming a more common feature of investors' portfolios. In the most recent Smart Beta survey from FTSE Russell, the proportion of asset owners allocating to Smart Beta strategies had risen from 26% to 46% over the last two years .

The Multifactor Advantage

Early Smart Beta approaches focused on portfolios that targeted a single factor, but that meant more exposure to the cyclicality of factor performance. So, multifactor portfolios are becoming an increasingly popular alternative. In the FTSE Russell survey, among respondents who are already using Smart Beta strategies, the adoption of multifactor portfolios has tripled, from 20% in 2015 to 64% in 2017[1].

A multifactor approach can give exposure to factors which are outperforming based on the economic cycle, mitigating the impact of underperforming factors. The low correlations between factor excess returns can provide diversification benefits over the long term.

Where Next? ESG as a 6th Factor

Another trend gaining traction is the demand for integration of ESG factors into portfolios helping align investments with their personal or institutional values, as well as policy requirements.

A company's environmental actions, social behaviours and governance practices can also have a meaningful impact on performance. This is supported by a growing body of research that explores the potential impact of positive (or negative) ESG characteristics in the context of company and stock performance. Recent research from MSCI[2] demonstrated that positive ESG characteristics can lead to financially significant effects by examining how that ESG information finds its way to the equity market.

With growing interest in Smart Beta strategies alongside an increasing need to address ESG requirements, can investors simultaneously strive for both?

The answer is yes. Within a multi-factor Smart Beta portfolio, ESG factors can be integrated into the stock selection process. Each security carries an ESG score, which becomes an additional critical factor in portfolio construction.

This process, can however, introduce trade-offs between targeted factor exposures and a favourable ESG profile. A security with a high ESG exposure might capture some unwanted factor characteristics. For example, such stocks tend to have larger capitalisations, which is inconsistent if the objective is to target the premia associated with small cap stocks. Optimisation-based portfolio construction methods can be employed to achieve a portfolio with the desired aggregate characteristics.

The end combination can help investors achieve their return objectives while also addressing responsible investing needs and the potential to capture the long-term performance of companies with stronger ESG credentials.

Visit us at ssga.com

[1] FTSE Russell, "Smart beta: 2017 global survey findings from asset owners", May 2017 [2] MSCI, "Foundations of ESG Investing. Part 1", November 2017

CLIMATE CHANGE: FACING UP TO REALITY

The facts speak for themselves and must be acted on – trustees need to prioritise climate risk, says **Andrew Voysey**.

I WAS RECENTLY INVITED TO A TRAINING DAY FOR THE TRUSTEE BOARD OF A UK CORPORATE'S OCCUPATIONAL PENSION SCHEME. THEY WANTED MY VIEWS ON WHAT TRUSTEES SHOULD BE PRIORITISING UNDER THE THEME OF 'SUSTAINABLE INVESTING' BASED ON OUR TRACK RECORD DEVELOPING SUSTAINABLE FINANCE BUSINESS STRATEGIES AND IN EXECUTIVE DEVELOPMENT.

One of the topics I focused on was the financial implications of climate change. I left the room rather stunned – the overwhelming belief in the room was that this was nothing more than an ethical issue.

Of deeper concern was that the scheme's investment consultant, who was present, said nothing to challenge this perspective. For me, this implies systemic failings in how pension savers' capital is stewarded today.

This may sound alarmist, but the logic is clear – the conclusion of mainstream institutions in recent years, from Blackrock to the Bank of England, is that climate change has become a driver of *tangible financial risks and opportunities.*

Those close to the investment value chain have long been aware of how challenging it can be to engage decision-makers with the longer-term aspects of climate change. So why this shift in thinking?

First, we should not underestimate the near-term impacts of a market shock related to decarbonisation. According to recent Cambridge research[1], sudden and significant market repricing moments are plausible, with industries restructuring as a result of technological disruptions.

Another challenge often highlighted is whether policy change is credible. While the potential of a global carbon price remains unclear, the automobile industry provides a good example of how stricter environmental policies are already going hand in hand with new value drivers, in this case via the shift to electric vehicles[2].

The energy sector also illustrates how the economics behind low-carbon business models are already compelling. By 2020, all the renewable power generation technologies that are now in commercial use will fall within the fossil fuel-fired cost range, with most at the lower end or undercutting fossil fuels, according to the International Renewable Energy Agency[3].

FUNDAMENTAL FACTS

From a broader perspective, three fundamentals distinguish this issue from pure ethics.

First, few realise that if we want to *stabilise* global average temperature at any level, the only way to achieve that is to achieve *net zero* carbon emissions across the entire global economy in the coming decades[4]. 'Net zero' is equivalent in terms of scale of change to the industrial revolution. The impacts of this kind of restructuring of the global economy are clearly more than ethical in nature.

Second, the material financial opportunities derived from zero-carbon solutions are too often dismissed. From energy storage to green building technologies or electric vehicles, many companies are providing products and services that help mitigate climate change risks, generating significant revenue opportunities. Discovering those investment opportunities early on across various asset classes could allow trustees to generate better returns for their members.

Third, despite political and economic progress towards decarbonisation, the United Nations[5] and investment managers[6] alike conclude that the world is currently heading for a global temperature rise of 3.4 – 4°C this century. The last time the planet saw this scale of change was over a 10,000-year time period after the last ice age[7]. Younger pension savers may witness this same scale of change in just the time it takes them to reach retirement age.

The facts themselves should lead trustees to conclude that climate change presents serious financial implications and should therefore be managed like any other investment driver. The growing focus from regulators, politicians[8], lawyers and beneficiaries[9] on trustee action on climate should help further.

Practical investment solutions already exist. But for the investment value chain to seek them out systematically, trustee boards need to signal loud and clear to investment service providers that they expect the risks and opportunities of climate change to be integrated into the investment advice and management process by default.

Thinking back to my experience of the trustee training day, my view is that the board chair and chair of the investment committee should discuss climate risk with their investment consultant and bring options back to the board as a priority.

For the subsequent conversation to be confident and effective, however, the trustee board needs to invest urgently in building its own capacity to understand this new priority. We know from our work across the market that they are not alone.

Andrew Voysey is Director of Sustainable Finance at the University of Cambridge Institute for Sustainability Leadership (CISL) and an Academic Visitor at the Bank of England. Among other activities, CISL convenes the Investment Leaders Group, a global network of pension funds, insurers and asset managers committed to advancing the practice of responsible investment.

[1] https://www.cam.ac.uk/research/news/carbon-bubble-coming-that-could-wipe-trillions-from-the-global-economy-study
[2] https://www.corporateleadersgroup.com/reports-evidence-and-insights/the-future-of-road-transport-in-europe
[3] https://www.irena.org/ /media/Files/IRENA/Agency/Publication/2018/Jan/IRENA_2017_Power_Costs_2018_summary.pdf?la=en&hash=6A74B8D3F7931DEF00AB88BD3B339CAE180D11C3
[4] https://onlinelibrary.wiley.com/doi/pdf/10.1111/1467-923X.12239
[5] https://europa.eu/capacity4dev/unep/document/emissions-gap-report-2016-unep-synthesis-report
[6] www.schroders.com/en/uk/pensions/insights/climate-progress-dashboard/
[7] www.theccc.org.uk/tackling-climate-change/the-science-of-climate-change/climate-variations-natural-and-human-factors/a-natural-climate-cycle/
[8] www.ipe.com/countries/uk/committee-warns-complacent-large-schemes-over-climate-change-updated/10024897.article
[9] www.clientearth.org/twenty-three-year-old-takes-his-pension-fund-to-court-over-climate-change/

LGIM's approach to responsible investing

Anton Eser,
Chief Investment Officer, LGIM

From diesel emissions to oil spills, there have been many tangible examples in recent years of how failures in the way companies are run can have a harmful impact on the environment, society and investor returns.

We believe responsible investing can mitigate the risk of such outcomes and has the potential to improve returns through the integration of environmental, social and governance (ESG) considerations, active ownership and long-term thematic analysis. Crucially, it can also unearth investment opportunities, which the market may not fully appreciate, and should not require a trade-off with performance.

At LGIM, as one of the world's largest asset managers with a long history of corporate engagement on the most material long-term issues, we have the scale and ability to make a real, positive impact on the companies in which we invest and on society as a whole. We share this objective – made far more attainable by ongoing improvements in ESG data – with a growing number of clients.

Responsible investing cannot be just a box-ticking exercise. So from the votes cast by our industry-leading Corporate Governance team to the investment processes deployed in our funds, we continue to take steps to embed the principles of responsible investing across our entire business – and act on them.

MANAGING THE MANAGERS

There is a clear change in the behaviour of consumers, who are demanding more sustainable products and services due to a growing awareness that they are responsible for the societal and environmental implications of their choices.

A similar shift is underway among investors. Increasing numbers expect the asset managers most likely to deliver the greatest shareholder value over the long term, to be those that truly recognise the importance of incorporating long-term themes alongside ESG considerations into their investment processes.

But there are an almost overwhelming number of ways to characterise and conduct responsible investment strategies. We support the consensus view[1] that responsible investing aims to incorporate ESG factors, in order to better manage risk and generate sustainable, long-term returns. Importantly, unlike other approaches, such as ethical investing, we define responsible investing as seeking to deliver desired financial outcomes, rather than being subject to moral or ethical considerations.

And while the collection of hard, empirical data on responsible investing remains somewhat in its infancy, a growing body of academic and industry work indicates that it can indeed engender better risk-and-return outcomes.

MAKING RESPONSIBLE INVESTING MAINSTREAM

We have devoted significant resources to extending our capabilities in responsible investing across our business. We also work to make a positive impact through strategies such as our Future World funds, which go even further in addressing sustainability issues.

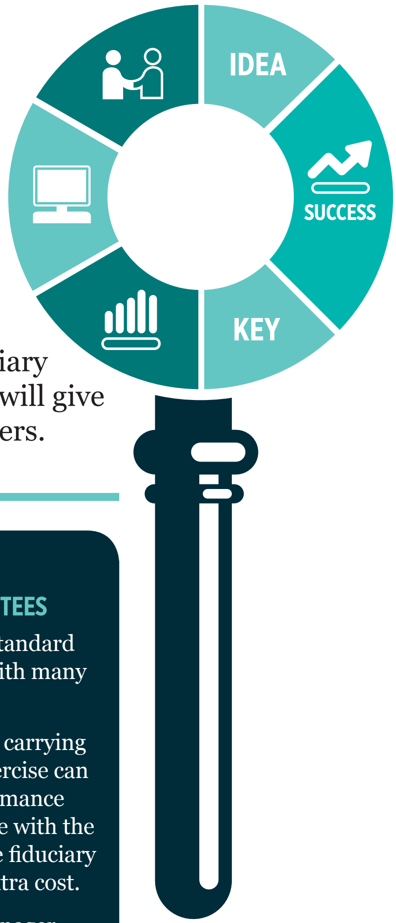
Markets, meanwhile, do not yet reflect the systematic incorporation of ESG considerations by their participants. But as investors are increasingly recognising that these factors play a crucial role in determining asset prices, we believe responsible investing is destined to become the new normal.

As it becomes mainstream, we are likely to see a virtuous circle of more investors demanding higher standards in order to allocate capital to companies, and more companies raising their standards in order to receive that capital. We also expect growing numbers of investment decision-makers to view the consideration of ESG factors as a fundamental part of fiduciary duty, as they acknowledge that it need not entail the sacrifice of investment returns.

For our part, we will continue to endeavour to embed these principles in everything we do, in order to deliver sustainable, long-term returns for our clients and help bring about the real, positive change of which the world is in urgent need.

1. Established by the UN-backed Principles for Responsible Investment.

SETTING A NEW STANDARD



Donny Hay introduces the IC Select Fiduciary Management Performance Standard, which will give trustees co-ordinated information on providers.

FIDUCIARY MANAGEMENT TAKES PLACE WHEN A DEFINED BENEFIT PENSION SCHEME DELEGATES THE INVESTMENT OF ITS ASSETS TO A SINGLE MANAGER. THEIR PERFORMANCE IS MEASURED AGAINST INVESTMENT RETURNS, NET OF ALL COSTS, RELATIVE TO A LIABILITY BENCHMARK.

The sector continues to grow rapidly in the UK, having increased ten-fold over ten years. It is estimated that 13% of pension schemes now use the services of a fiduciary manager.

The launch of the IC Select Fiduciary Management Performance Standard (FMPS) coincides with unprecedented regulatory scrutiny of investment consultants and fiduciary managers.

The Financial Conduct Authority (FCA) and Competition and Markets Authority (CMA) have both highlighted that trustees are not receiving the information they need to assess performance and value for money when selecting fiduciary managers.

IC Select recognised the need for this more than four years ago. April 2018 saw the launch of its FMPS, which makes it possible for pension scheme trustees to compare the skills of their fiduciary managers.

This is the first of a two-part note which explains why the Standard is necessary and how trustees can benefit from the information. The second note, which will be published in the December edition of Viewpoint, will focus on how the Standard works and how trustees can use the information.

WHY THE STANDARD IS NECESSARY

The problems in fiduciary management performance reporting resulted from each provider using a different methodology to calculate performance and risk. This was combined with a lack of transparency, standardisation and consistency in the way that fiduciary manager performance was presented to potential clients. It led to accusations that managers are cherry-picking their performance record when responding to invitations to tender.

Many of these problems can be solved by moving to a standard basis for classifying funds, calculating returns and displaying performance. Consequently, IC Select engaged with the UK's leading fiduciary managers, industry professionals and the CFA Institute to produce a co-ordinated approach. With the support of a steering group, it has agreed a standardised methodology for data calculation, along with a presentation of fiduciary management performance for selection purposes. The UK's fiduciary managers have agreed to comply with the Standard[2].

The FMPS puts trustees in control of the information they receive, avoiding the potential for fiduciary managers to cherry-pick funds. It provides trustees with confidence that the performance data provided has been calculated on a consistent basis and is being presented in a standardised manner.

BENEFITS FOR TRUSTEES

The Performance Standard provides trustees with many advantages:

- Any trustee board carrying out a selection exercise can request the performance information in line with the Standard from the fiduciary managers at no extra cost.
- Each fiduciary manager will have a list of core performance composites on different risk and return characteristics for trustees to select from.
- As performance composites are calculated on average performance for a group of clients with similar objectives, this prevents the fiduciary managers from reporting on only their best-performing funds.
- When requesting performance information on the Standard trustees can have confidence that performance has been calculated and verified according to an industry standard.
- Trustees can be confident that the information they are getting will be presented in a standardised format.

13%

OF PENSION SCHEMES ARE NOW ESTIMATED TO USE THE SERVICES OF A FIDUCIARY MANAGER .

In summary, the IC Select FM Performance Standard will put trustees in control of the due diligence of the fiduciary managers they are assessing, and will remove subjective assessments of performance records by managers. This is good for trustees, good for the managers and good for the industry.

Donny Hay is a Director at IC Select

1. Source: CMA Investment Markets Investigation Provision Decision Report, 18 July 2018
2. Aon Hewitt, BlackRock, Cardano, Charles Stanley, Goldman Sachs Asset Management, JLT Investment Solutions, Kempen Capital Management, Legal & General Investment Management, Mercer, P-Solve, Russell Investments, Schroders, SEI and Willis Towers Watson.

LGPS TALENT MANAGEMENT

Local Authority pension funds face pressure over recruitment, retention and resourcing. **Tiffany Tsang**, Policy Lead: LGPS and DB, reports on the PLSA's research into these challenges.

WITH ASSETS TOTALLING £263 BILLION, THE LOCAL GOVERNMENT PENSION SCHEME (LGPS) IS ONE OF THE LARGEST DEFINED BENEFIT (DB) SCHEMES IN THE WORLD. IT PLAYS A PROMINENT PART IN THE RETIREMENT OUTCOMES OF ITS 5.6 MILLION MEMBERS, AND HAS SEEN A 50% INCREASE IN THE NUMBER OF EMPLOYERS JOINING THE SCHEME BETWEEN MARCH 2013 AND MARCH 2017.

But it is facing recruitment, retention and resourcing challenges. The pressures have been brought about by changes to the structure of the LGPS, such as the introduction of investment pools, and policy developments including pay freezes and austerity measures.

In August the PLSA published *Talent Management in the LGPS: The 3Rs*, which explores recruitment, retention and resourcing (the three Rs) challenges and best practice in the LGPS.

THE CHALLENGES

The complex relationship between LGPS funds and their Local Authority is the source and the potential solution to some of the talent management challenges we identified. Pay, location and skills are three key factors:

Pay

The LGPS faces fierce pay competition from the private sector, but slow wage growth in local government and rigid pay bands restrict compensation packages. Pensions roles can be difficult to compare with other aspects of Local Authority work, so 'pricing' them correctly is not straightforward.

Non-competitive pay makes it difficult to attract young people, and drives high turnover of junior staff. It also means that local authorities cannot fill vacancies quickly.

Some funds are more independent from their Local Authority than others and have greater autonomy in recruitment and resourcing. These practices could be explored as a model for other funds.

Location

There are two key issues related to location: either funds are too far from urban hubs where highly skilled people tend to migrate, or they are too close to other LGPS funds and investment pools. This intensifies competition for an already limited group of candidates.

Specialist skills

The LGPS requires specialisms including pension and investment management experience, regulatory knowledge and accountancy skills. Finding candidates with all the relevant experience, agreeing terms, and then holding on to them in the face of the challenges outlined above can feel like a mammoth task. It takes time to build up relevant skills, which is difficult if younger recruits are not incentivised to stay. Paradoxically, the high turnover of junior staff is partly due to retention of senior staff over time, as there is limited space for career progression. When funds lose senior managers to retirement, they struggle to replenish roles fast enough.

THE SUCCESSES

Our guide explores remedies to tackle the above and analyses potential levers for change. Solutions already in place include offering apprenticeships to create a pipeline of talent, career fairs and systematic training for both junior and senior staff.

Private sector schemes of comparable size face similar challenges and employ similar remedies. However, LGPS funds often cannot match the private sector's speed of reaction when it comes to remuneration.

WHAT NEXT?

There are important strengths in the current Local Authorities' approaches, including a turnover rate that is lower than the national average. But, high vacancy rates point to the need to widen applicant pools and to encourage a speedier hiring process. Recruiting and retaining young people is a priority, as expert knowledge is being lost through retirement.

There are still knowledge gaps to tackle. Some of these, such as the impact of LGPS investment pooling and the increase in employer numbers, will take time to fully understand and resolve. We will continue to work with our Local Authority members and partners in local government to monitor and tackle these issues together.

The Talent Management in the LGPS guide has been sent to all of our Local Authority members. If you are a member and haven't received your copy, or if you are not a member and would like more information, please contact Tiffany.

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Defined Benefit Schemes and The Importance of Advice

Caitlin Lambert, Financial Planner at
Financial Lifestyle Management

One of the big differences that recent legislative changes have made is to put investors in control of their long-term wealth planning again. Some of the main changes worth mentioning are below:

- There is no requirement to purchase an annuity with the pension fund.
- The fund, or any part of it, may be used to purchase an annuity in the future that can continue, and therefore provide an income, after death.
- The fund can be actively managed while you take an income.
- The arrangement can provide a lump sum on death that will be tax free if death occurs before age 75 or subject to the beneficiaries marginal rate of Income Tax after age 75. This is an important piece for Inheritance Tax Planning.
- You need not retire to take benefits (and will not be required to take benefits at retirement).

This level of freedom marks a radical step towards returning control of pension plans to their investors, however, it has also added complexity to already difficult financial decisions. This is no different for savers considering a transfer from a Defined Benefit (DB) arrangement into a Defined Contribution (DC) arrangement.

Making such a transfer is potentially a life changing decision and requires complex and detailed analysis. All transfers above £30,000 require advice from a regulated financial adviser so advisers must get it right, and fact-finding is the starting point.

Do personal circumstances make a difference?

The simple answer is yes. This is why personalised advice is so important. A broad spectrum of circumstances can affect your retirement plans and the decision to stay within a Defined Benefit Pension Scheme or transfer out. For example:

- You may have a spouse, civil partner or other financial dependent to provide for.
- You may want your income paid monthly, or less frequently.
- You may prefer an income that is initially higher and reduces through the course of your lifetime or stays the same throughout your retirement.
- You may want to take some of your pension as a tax-free cash sum.
- If you have few sources of income at retirement, a guaranteed income, however small, may be better than taking a cash sum.
- If you are in poor health, you may be able to get a higher income than if you were in good health or you may want to access your pension fund earlier than anticipated and without penalties.
- You may have several other assets and sources of income in retirement or you may be solely dependent upon your pension fund.
- You may have exceeded your Lifetime Allowance.

It is only possible to highlight the upsides and downsides fairly and clearly by creating a truly personalised piece of advice.

What else to consider?

It is also important to remember that Income Tax is payable on any pension income received and any pension income that is not spent at the point of death will form part of one's estate for Inheritance Tax purposes.

Tax advice is vital. Retirees aren't interested in gross income, they want to know what their net of tax position is. Most people coming up to retirement have a number of sources of income that can be drawn upon to meet their income needs and each of these sources will have a differing tax treatment that should be considered from an Income Tax, Capital Gains Tax and Inheritance Tax perspective.

How do you ensure that the right conclusion is reached for a member of a Defined Benefit Scheme?

It is important they receive a piece of advice that is personalised, flows logically from subject to subject and avoids repetition. Coming to a summary that is based on balanced upsides and downsides is the clearest way to help a member make a decision. In short, life-changing decisions need advice you can trust.

- Caitlin Lambert, Caitlin.Lambert@sjpp.co.uk

NEW TEAM, NEW OFFICE

Introducing changes to the PLSA Senior Management Team.

We're making some changes to our team structure so that we're best set up to deliver the best service possible for our members.

The first stage is a new Senior Management Team, which was put in place during summer 2018. Your new team is:

Julian Mund
Chief Executive
(executive director)

Mark Cooke
Chief Operating Officer
(executive director)

Alison Binks
Director of Business Development

Kate Hadley
Director of Events & Training

Dawn James
Interim Director of Marketing & Communications

Nigel Peaple
Director of Policy & Research

Laura Webb
Director of Membership Engagement

Mark Hepworth
Deputy Director of Finance & Corporate Planning

The new team are looking forward to seeing you at the **Annual Conference & Exhibition in Liverpool, 17-19 October**.

CHANGING OFFICES

In early October we're moving from Cheapside House to a new office at 24 Chiswell Street, EC1 4TY.

We're looking forward to welcoming members to a modern office space in an exciting part of central London, 5 minutes' walk from Moorgate station and 10 from Farringdon.

GOVERNING THE PLSA – ALL CHANGE IN OCTOBER

UPDATE

With the PLSA about to implement its governance reforms, **Edward Bogira** updates us on progress so far.

AS YOU RECEIVE THIS ISSUE OF *VIEWPOINT* OUR ANNUAL CONFERENCE & EXHIBITION WILL BE VERY CLOSE. WHILE THE AGM AT 8.30AM ON FRIDAY 19 OCTOBER IS NOT EVERYBODY'S CONFERENCE PROGRAMME HIGHLIGHT, IT'S THE PLACE WHERE MEMBERS GET THE CHANCE TO HAVE A SAY IN THE RUNNING OF THE PLSA. THAT'S WHY WE HOLD IT AT THE LARGEST ANNUAL GATHERING OF MEMBERS (ALTHOUGH YOU DON'T NEED TO BE REGISTERED AS A CONFERENCE DELEGATE TO ATTEND): WE HOPE TO SEE PLENTY OF YOU THERE.

This AGM marks the end of a two-year journey of reform to our governance structures, which we announced at the Annual Conference & Exhibition in 2016. We set out to make sure we had the right structure to deliver our strategy. We wanted to make sure we're as efficiently governed as we can be. We also wanted to increase the flexibility in our governance enough to be able to respond to changes in our environment and in members' needs now and in the future. This has led to three major changes.

1.

A 21ST CENTURY TRADE ASSOCIATION

First, at the 2017 AGM, members removed the Constitution and Articles of Association we'd been governed by more or less since the early 1970s. These were incredibly rigid and prevented us from modernising even simple elements of governance. Our new Articles of Association give us much more flexibility in how we run a 21st century trade association.

2.

SHAPING THE POLICY AGENDA

Second, we are creating a new Policy Board. Chaired by Emma Douglas, Head of DC at Legal and General Investment Management, the Policy Board will have a high-profile role in our work. It will guide and decide on the Association's public policy positions, shaping the policy agenda for all aspects of retirement income.

At the end of June we began the search for the remaining members of the Policy Board, and we closed on 31 July with a fantastic response from our membership. Our selection panel of Emma, PLSA Chair Richard Butcher and Nigel People, Director of Policy & Research, reviewed applications – and by the time you read this magazine the proposed membership will be confirmed. The first task for the 15 or so new Policy Board members will be to agree their terms of reference and begin establishing the working groups (focused on specific sectors) and reference groups (larger, less formal groups of members) that will support the Policy Board's work. There will be more information on those soon – we really hope they will bring a wide range of PLSA members into our policy work.

3.

A NEW BOARD

The third part of our governance reforms involves changes to the PLSA Board. From October it will be smaller, with six non-executive directors instead of the current nine. Four of these will be PLSA member representatives – including Richard and Emma – and two will be independents. CEO Julian Mund and COO Mark Cooke will be the executive directors. This means the Board will be smaller and more agile, have more access to skills beyond pensions but still be guided by PLSA member organisations. We recruited for a member and an independent non-executive director over the summer and they will have been chosen by the time you read this.

LOOKING AHEAD TO THE AGM

All of this means that this year's AGM business will be dominated by the new appointments to the Board and Policy Board level. As PLSA members, you have control of your Association, so we'll be asking you to confirm that you are happy with the proposed membership. Assuming you do, the biggest change in governance structure the association has ever made will be complete, and we'll get on with showing you a renewed and stronger PLSA helping everyone achieve a better income in retirement.

AS PLSA MEMBERS, YOU HAVE CONTROL OF YOUR ASSOCIATION, SO WE'LL BE ASKING YOU TO CONFIRM THAT YOU ARE HAPPY

PMI UPDATE

Pensions Management Institute
ACHIEVING PENSIONS EXCELLENCE

Tim Middleton, Technical Consultant at the Pensions Management Institute welcomes industry progress towards professional trustee standards.

THERE HAS PROBABLY NEVER BEEN SO CLOSE A FOCUS ON THE ROLE OF PENSION SCHEME TRUSTEES THAN OVER THE LAST 12 MONTHS. SERIOUS SCANDALS AT BHS AND CARILLION HAVE MADE THE PUBLIC AWARE OF THE ROLE AND RESPONSIBILITIES OF TRUSTEES, AND OF THE STANDARDS EXPECTED OF THEM. THE LEVEL OF EXPERTISE REQUIRED HAS MADE THE PENSIONS INDUSTRY MORE AWARE THAN EVER OF THE IMPORTANCE OF PROFESSIONAL TRUSTEES. THIS IN TURN RAISES A QUESTION: WHAT STANDARDS SHOULD BE EXPECTED OF A PROFESSIONAL TRUSTEE?

The GP Noble scandal of 2012 forced the pensions industry to address some uncomfortable truths: there is currently no formal regulation of professional trustees, and there are no prescribed professional standards for them to observe. The establishment of the Association of Professional Pension Trustees (APPT) in 2012 was an important step, but membership of that body remains voluntary.

However, in 2017 the Pensions Regulator (TPR) formed a working group tasked with formally identifying professional standards for trustees and agreeing appropriate accreditation for them. The Professional Trustee Standards Working Group (PTSWG) contains representatives from TPR, APPT, PMI, TACT and PLSA, and has spent the last 18 months considering how professional trustees work and how an effective regulatory structure might be implemented.

At the end of 2017, some draft standards were issued as a consultation to gauge industry views. Suggestions were quite varied. For example, some respondents favoured a form of AAF-style accreditation to apply to firms rather than to the individuals who worked for them, although such an approach could not realistically be applied to sole traders. All suggestions were carefully considered as part of PTSWG's deliberations.

The task is far from straightforward. Professional trustees have diverse professional backgrounds and operate via a range of different business models. An effective regulatory model has to accommodate those who are by profession lawyers, actuaries, accountants and pensions managers, as well as those who are former lay trustees with no professional background. Professional trustees may work as employees in firms or as sole traders. To be acceptable, any proposed regulatory model must fit any and all of these variations. It will also have to be scalable: the number of active professional trustees is set to grow significantly in coming years.

After much hard work, PTSWG has made encouraging progress. It seems possible that PTSWG will be in a position to present revised proposals towards the end of this year. Crucially, these proposals will respect the differing backgrounds of trustees and will not favour any particular business model.

With the governance of pension schemes subject to public scrutiny, it is absolutely crucial that appropriate standards for professional trustees be introduced as soon as circumstances permit. We should all feel encouraged that so many industry bodies have been able to work together effectively to resolve an issue that has caused concern for so long, and to create a robust framework for effective scheme governance for the years to come.

Tim Middleton is a Technical Consultant at The Pensions Management Institute

THERE IS CURRENTLY NO FORMAL REGULATION OF PROFESSIONAL TRUSTEES, AND THERE ARE NO PRESCRIBED PROFESSIONAL STANDARDS FOR THEM TO OBSERVE

MEMBER NEWS

WELCOME TO NEW MEMBERS

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CASE STUDY:
LEGAL & GENERAL'S £325 MILLION BUY-IN WITH THE BAA PENSION SCHEME

Dominic Moret explores the creative approach behind Legal & General's £325 million buy-in with the BAA Pension Scheme

LEGAL & GENERAL'S £325 MILLION BUY-IN WITH THE BAA PENSION SCHEME ANNOUNCED IN JUNE 2018 WAS UNIQUE IN THAT THE SCHEME'S CORPORATE SPONSOR ISSUED A BESPOKE CORPORATE BOND TO LEGAL & GENERAL TO FACILITATE THE TRANSACTION.

As an insurer, Legal & General is required by our industry regulators to invest in such a way that that the expected cashflows from the assets we invest in match closely with the pensions we expect to pay out. We do this primarily by investing in government bonds, high quality corporate bonds (both of which provide regular, predictable income streams) and 'direct investments' with bond-like payment profiles, such as UK infrastructure projects.

Direct investments provide long-term secure income and often have other attractive features such as inflation linkage which make them a good match to pension scheme cashflows and therefore the pension liabilities that we have taken on. Investing in these assets typically allows us to deliver lower premiums for buy-ins and buyouts than might otherwise have been available.

This knowledge was vitally important earlier this year during our discussions with the BAA Pension Scheme and the Scheme's corporate sponsor Heathrow Airport Limited. Knowing that Legal & General would place value on particular asset structures it was suggested that the sponsor might issue a bespoke bond to Legal & General to create value for all three parties – the pension scheme, the sponsor and the insurer.

Through these collaborative discussions, Heathrow Airport Limited were able to structure and issue a bespoke, long-dated £160 million bond to Legal & General, including innovative features such as inflation linkage which switches from RPI to CPI. We understand this is the first time a bond with this structure has been issued in the public debt market, making the buy-in one a particularly noteworthy transaction in recent years.

WHAT DOES THIS TRANSACTION DEMONSTRATE?

By designing a bond with these bespoke features:

- The pension scheme could secure a buy-in transaction and provide greater security to the members' benefits at a more affordable premium.
- The sponsor could strengthen their long-term, global financing platform whilst supporting the de-risking of the pension scheme
- Legal & General could access a valuable asset to support our £60 billion annuity book

Whilst this structure may not be suitable for all pension schemes, or indeed all sponsors, it clearly demonstrates what can be achieved through collaboration, innovation and a solution-driven approach. Clear communication between all stakeholders, and an understanding of each party's requirements, can yield favourable results for all.

John Towner, Head of Origination and Execution at Legal & General and **Chris Parrott**, Head of Pensions at Heathrow Airport Holdings will be co-presenting a DB stream session at the PLSA Annual Conference on **Thursday 18th October** from **09:55 - 10:45AM**. John and Chris would be delighted to welcome you to their presentation *'De-mystifying de-risking'* in which they will share their experiences and examine some of the practical strategies and ground-breaking approaches being used in the buy-in and buyout market.

Legal & General

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PRACTICAL LAW™

LEGAL UPDATE

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

IN THE COURTS

In British Airways[1], the Court of Appeal held in favour of the sponsoring employer of the Airways Pension Scheme, ruling that the trustee's decision to exercise its unilateral power of amendment to introduce a new discretionary pension increase power was invalid, being made for an improper purpose. It remains to be seen whether the trustee will appeal (it has been granted permission).

The Court of Appeal also overturned the High Court's decision in **R (Palestine Solidarity Campaign Ltd)**[2], regarding statutory guidance on investment strategy for local government pension schemes. It was held that the government had a broad statutory discretion to issue guidance on non-financial considerations which could include the wider public interest, like foreign and defence policy.

In the High Court, in the **G4S**[3] case it was held that the scheme was "frozen" for the purposes of the employer debt regime since based on the proper interpretation of "pensionable service", if a scheme has closed to future accrual but retained a final salary link, those members benefiting from the final salary link were not in pensionable service in respect of the scheme.

REGULATORY ACTION

The Pensions Regulator has confirmed its "clearer, quicker, tougher approach", issuing a £25,000 fine to a trustee for late completion of two scheme funding valuations[4]. **The Upper Tribunal** clarified the criteria for prohibiting an individual from acting as a trustee under section 3 of the Pensions Act 1995[5], ruling that the civil law standard of proof would apply to the question of "fit and proper" behaviour, rather than a more onerous criminal law test.

NEW LAW ON THE HORIZON

Current consultations and draft legislation include:

- **A Stronger Pensions Regulator**. Consultations have begun on measures proposed in the DB White Paper (March 2018). The first, on enforcement options, would allow the Pensions Regulator to trigger criminal proceedings and issue civil fines up to £1 million.
- **ESG in investment**. The DWP proposes reform of scheme trustees' investment duties to better reflect environmental, social and governance and stewardship concerns.
- **Master Trusts**. Regulations implementing the authorisation and supervision regime under the Pensions Schemes Act 2017 are expected to come into force on 1 October 2018[6].

1. *British Airways plc v Airways Pension Scheme Trustee Ltd [2018] EWCA Civ 1533*
2. *R (Palestine Solidarity Campaign Ltd) v Secretary of State for Communities and Local Government [2018] EWCA (Civ) 1284*
3. *G4S plc v G4S Trustees Ltd and another [2018] EWHC 1749 (Ch)*
4. Initial Hospital Services Ltd No.1 Pension Scheme *(case ref: E64630566)*
5. *McLarry and another v The Pensions Regulator (Tax) [2018] UKUT 234 (TCC)*
6. *Draft Occupational Pension Schemes (Master Trusts) Regulations 2018*

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

PLSA EVENTS AND TRAINING CALENDAR

OCTOBER

10
TEACH-IN: SUPERFUNDS AND MASTER TRUSTS: THE FUTURE OF DB & DC CONSOLIDATION
London, 16:30-17: 30
(FREE for PLSA members)

11
TRAINING: INTRODUCTION TO TRUSTEESHIP - PART 1: THE THEORY
London, 10:00-1600

17-19
PLSA ANNUAL CONFERENCE AND EXHIBITION 2019
ACC, Liverpool
View conference sessions online: https://goo.gl/YNRoxk

23
TRAINING: BECOMING A TRUSTEE
Online, 11:00-12:00

25
TEACH-IN: WHY FINANCIAL ADVICE IS IMPORTANT TO ALL EMPLOYEES
London, 09:00-10:00

30
TEACH-IN: CURRENCY OVERLAY: WHY AND HOW?
London, 16:30-17:30

NOVEMBER

06
LOCAL AUTHORITY CONFERENCE UPDATE
London, 10:00-16:00
(FREE for LGPS members)

14
TRAINING: PENSIONS BASICS
Online, 11:00-12:00

20
TRAINING: INTRODUCTION TO TRUSTEESHIP - PART 1: THE THEORY
London, 10:00-1600

20
SCOTLAND LOCAL GROUP HALF DAY CONFERENCE
Edinburgh, 09:00-12:30

21
TRAINING: INTRODUCTION TO TRUSTEESHIP - PART 2: THE PRACTICE
London, 10:00-1600

DECEMBER

06
PLSA TRUSTEE CONFERENCE 2019
London, 09:00-17:00

For more details on all of these courses and events visit:
www.plsa.co.uk