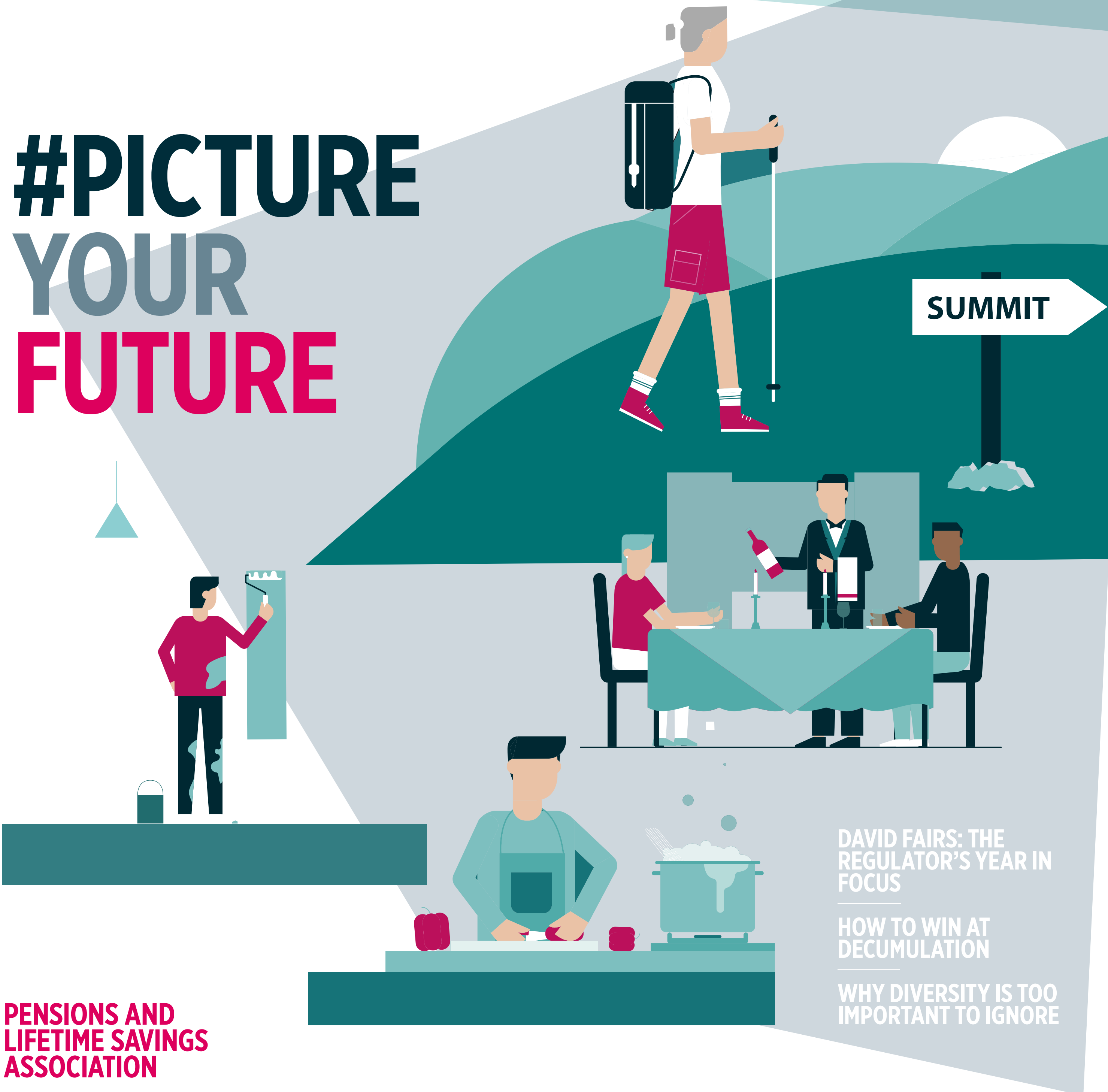
Viewpoint

The official journal of the Pensions and Lifetime Savings Association

Issue 4 2019

RETIREMENT LIVING STANDARDS

#PICTURE YOUR FUTURE



PENSIONS AND LIFETIME SAVINGS ASSOCIATION

CONTENTS

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

PLSA Team:

Maggie Williams, Editor
Tel: 07876 823 716
Email: maggie.j.williams@googlemail.com
Twitter: @mrsmaggiew

Edward Bogira
Tel: +44 (0)20 7601 1733
Email: edward.bogira@plsa.co.uk

Design
arc-cs ltd
www.arc-cs.com

Advertising
Adrian Messina
Tel: +44 (0)20 7601 1722
Email: adrian.messina@plsa.co.uk

Ben Harwood
Tel: +44 (0)20 7601 1752
Email: ben.harwood@plsa.co.uk

ISSN 2398-7626

Published by the Pensions and Lifetime Savings Association, a company registered in England and Wales. Company number 1130269.

24 Chiswell Street London EC1Y 4TY

CEO'S *Viewpoint*

Julian Mund reflects on another big year for the PLSA and looks ahead to 2020.

LOOKING BACK OVER THE YEAR, THE EASY HIGHLIGHTS TO PICK OUT ARE USUALLY THE EVENTS, FROM INVESTMENT CONFERENCE IN MARCH, TO THE BEST ATTENDANCE EVER AT AN ANNUAL CONFERENCE & EXHIBITION IN MANCHESTER IN OCTOBER, WITH LA CONFERENCE AND TRUSTEE CONFERENCE TOO: BRINGING OUR MEMBERS TOGETHER ALWAYS STANDS OUT FOR ME.

And that's because it's how we fulfil our mission to help everyone achieve a better income in retirement – by bringing people together.

We bring together well over 3,000 people at those conferences every year to make new connections and share new ideas. Our drinks receptions, morning runs, openPLSA sessions and long refreshment breaks all mean that our members can meet likeminded people the way they want to – as well, of course, as attend all of the conference sessions.

We're known for these world-class events. But bringing people and ideas together goes far beyond conferences. We bring together thought leadership, insight and analysis to keep you informed, up to date and ready to act. We do that with our top 10 Brexit tips, ESG guidance, talent management work for our local authority members and the Cost Transparency Initiative.

We also help you gain the skills and knowledge you need to succeed in your day job: our independent and expert training can help you be a better trustee, and our Made Simple Guides develop your understanding of topical issues and new trends – without the sales pitch.

DEMONSTRATING IMPACT

This is our core member offering, our foundation. It's something we have to maintain and strengthen by improving our events, improving the way we communicate, and by improving the way we listen to you so we can give you a better quality service. As we look ahead to 2020, demonstrating our impact will be one of our major themes for the year, or 'big rocks' as we call them.

Evidence of our impact is vital because as a membership body we set out to influence the pensions system together, and we're making that a priority in direct response to feedback from PLSA members. Over the summer we carried out a wave of member research to find out what you value about the PLSA, where we can improve and what we should focus on in the future. Showing how we engage the industry, lobby and influence, and play a high-profile public role is one of your key challenges to us.

Thank you to all of you who spoke to us. You can find out more about the results on our website and inside this edition of *Viewpoint*, alongside a look at how we helped PLSA members speak to the House of Commons Business, Energy and Industrial Strategy Committee about matters of investment, stewardship and corporate governance. That's an example of how we bring together our members with government and regulators so they can talk to each other, challenge each other, question each other and find solutions to the big policy issues. Our work on voting guidelines, ESG and workforce reporting show how active we are in those areas.

AS WE LOOK AHEAD TO 2020, DEMONSTRATING OUR IMPACT WILL BE ONE OF OUR MAJOR THEMES FOR THE YEAR

POLICY AND PRACTICE

The most important thing about all of this is not that we do it – it's that PLSA members do it. Put simply, we don't exist without the expertise of our members.

The people whose day job it is to put policy into practice come together on our Policy Board, its committees and our reference groups. We have had our new governance structures in place for about a year, and we now have around 400 of our members involved in those bodies. They contribute their time, experience and intelligence to make sure policy reflects what's really going on in schemes, and help us to find solutions that really work.

The Policy Board has built our work programme around four themes:

- Raising the bar with adequate contributions: a better income in retirement depends on making sure enough money goes into pensions and lifetime saving.
- Raising standards with well-run schemes: because good governance goes to the heart of trust in the industry and the delivery of good outcomes for savers.
- Driving clarity with effective engagement: so savers have the understanding and the confidence to make the right decisions.
- And building value with the right approach to scale and consolidation so we maximise quality across all schemes.

Those are the rallying cries for PLSA members in among a huge range of challenges, such as the fact that schemes are not always well governed, the problems of affordability and deficits for some DB schemes, the complexity of regulation in pensions and investment, and the lack of trust and confidence in pension saving.

We get behind those goals as the basis of our engagement with our members and across our industry. We add insight from outside these bodies to the mix, too. We come to see you where you are and hear about what matters most to you in your day job: patient capital investing, GMP equalisation, recruitment or the annual allowance. All of these areas regularly come up in our member visits.

That's how we combine your expertise to influence the pensions system so that together we can fulfil our mission. We've been doing that in 2019 and we'll keep doing it in 2020.

BRINGING PEOPLE AND IDEAS TOGETHER GOES FAR BEYOND CONFERENCES

But we want to be even more proactive in bringing the industry together and to play an increasingly influential public role as the voice of pensions and a voice that shouts about the value of pensions – a role as the captain of the pensions industry.

RECHARGE – THEN BUILD!

In all respects it's clear we need to push boundaries and define the future of the pensions sector, mapping out the new approaches, opportunities and fringe issues that will be essential in the future – such as helping our members harness the opportunities of fintech.

We can do that by building on the platform created by pioneering projects such as the Retirement Living Standards, which empower people to better understand what kind of lifestyle they can seek for their retirement. That was the major PLSA project of 2019, which we launched at our Annual Conference last month – and another reason why the events really stand out as places to showcase all that lobbying, influencing and engagement.

So like you, we're all hoping to recharge the batteries over Christmas (although it's never easy), and I'm looking forward to working on your behalf to take forward our policy agenda and showing you the difference we make in 2020.

I wish you all a very happy festive period, and I look forward to seeing you next year as we work together to build a world-class Pensions and Lifetime Savings Association and a world-class pensions system.

Julian Mund

PUT SIMPLY, WE DON'T EXIST WITHOUT THE EXPERTISE OF OUR MEMBERS

ANNUAL CONFERENCE 2019 IN TWEETS

I'm four metres from Fiona Bruce and couldn't be more excited about being in the company of greats. Great session.

@93_smithereens

Fantastic panel for the final day of the #PLSAannual19 – the discussion has ranged from gender to ESG and how to engage with members at all stages.

@nestpensions

We've adopted @ThePLSA's Retirement Living Standards. They will empower people to better understand their cost of living #pictureyourfuture.

@wealthwizards

It's great to see so many NextGen members out and about at the #PLSAannual19. Even better to see so many of our members speaking across various panels and topics at the conference – including @MJWatkins13 at the launch of the #RetirementLivingStandards this morning

@NextGen_Now

"If we want to build more inclusive workplaces, language mattes and so does the way we are treated" @ingabeale on why we need #diversityandinclusion in pensions.

@mrsmaggiew

It really is an incredible privilege to be a part of #PLSAannual19. Thanks to everyone who attended for the lively questions asked and interesting conversations held. See you in Liverpool next year!

@cfjescott

Great opening session by Julian @ ThePLSA. I agree we all need to work collaboratively to improve retirement incomes, and this conference helps to enable that. Looking forward to a 'world-class' conference.

@patonpensions

Some amusing political quotes from @bbcnickrobinson for a non-political audience. I thought I might duck Westminster for a few days at #PLSAannual19 but no luck!

@LizziCollinge

Good to hear from @stephbreakfast at PLSAannual19 about the desperate need for financial education in schools to help engage with #pensions.

@nellyknights

"You save for what you care about" Wise words @stephbreakfast. We just need to help people visualise what retirement looks like and the value of deferred gratification.

@lorri_porter

@RButcherptl says that the way we behave when things go wrong is really important – we need to express regret, give a reason, then offer a remedy

@quietroomtweets

Some tweets have been edited for brevity.

A *Article*

CYBER-SECURITY: THE TRUSTEE TO-DO LIST

The threat of cyber crime has become one of the hottest topics in pension scheme governance. We asked experts for their views on what trustees should be prioritising when it comes to keeping their scheme safe.

JESSICA KERSLAKE

Counsel, Allen & Overy LLP

A cyber breach is 'when' rather than 'if,' but thinking through the issues beforehand will help you handle a crisis situation. This isn't a 'once and done' exercise – your plans and safeguards must evolve alongside technology and scammer sophistication, so keep things under review.

The following should be on every trustee's to-do list:

- Training: understand the risks and how to manage them. Human error is one of the biggest causes of cyber breach.
- Protect members' personal data: have a policy in place and (crucially) follow it. Failure to do the simple things (e.g. encryption, password protection, software patches) is not an option.
- Check that any third-party service providers operate appropriate technical and security measures to prevent and detect a breach.
- Plan your incident response: who to contact/ responsibilities in the event of a breach; what questions to ask (in particular to determine your reporting duties); critical functions and in-crisis management.

LUCY STONE

Policy Lead, The Pensions Regulator

Cyber resilience is about two things: putting in place measures to minimise the risk of breach, but also planning for resilience. Trustees need to understand that cyber incidents will happen, and they need to have a clear plan for how they respond and how they get things back up and running quickly but safely.

So ask yourselves: have we put in place the right protections? Am I confident that any third party we work with has also put in place robust protections? And do I know how we will react if things go wrong?

Jessica Kerslake and Lucy Stone will be taking part in a panel debate on cyber security at the PLSA's Trustee Conference on 12 December.

A PENSIONS MANIFESTO

With the election results coming in as *Viewpoint* reaches PLSA members, ***Nigel Peaple***, Director of Policy and Research at the PLSA, challenges the next government to act on four areas for pensions...

USUALLY, WHEN WE ENTER THE LAST WEEKS OF A YEAR, THE FURTHEST THING FROM OUR MINDS WHILE WE START TO ENJOY A MINCE PIE OR TWO IS THE PROSPECT OF A FORTHCOMING GENERAL ELECTION.

2019, however, has been anything but a normal year – so perhaps it's best that we've been planning for the unexpected. And it's in those plans that we're challenging the next government – whomever has been elected as PLSA members read this magazine – to be bold in their decision-making for 2020 and beyond, while ensuring that pension saving and engagement form a large part of future policymaking.

But we don't expect them to make those changes on their own, and in true political fashion – as befits an election process – the PLSA has launched its own policy manifesto urging the new government to do everything it can to help everyone reach a better income in retirement.

We are now in a world where more people than ever before are saving into workplace pensions, with more freedom over how to use their savings once they retire. That choice means that many savers simply don't know how much they'll need to put aside; although they can review our new **Retirement Living Standards** to give them an idea what to aim for.

Added to that, many defined benefit (DB) schemes and their employers face funding challenges. This paints a rather uncertain picture, one we urge the next government to help smooth out to ensure millions of savers have enough put aside for later life.

We've broken it down into four proposals:

- **Adequate contributions: Increase automatic enrolment contributions** – The next government must build on the success of automatic enrolment and increase contributions to 12% of salary by 2030 (split 50-50 between employer and employee).
- **Effective engagement: Ensure Pensions Dashboard helps people set and achieve goals** – Savers' engagement with their retirement savings is too low. The next government should support the development of the Pensions Dashboard, including state pensions, ensuring the first one is non-commercial, has access to data, and protects consumer information.
- **Well-run schemes: Put in place the right funding regime for DB schemes, backed with appropriate powers for the regulator to prevent reckless behaviour** – The next government should legislate quickly to give The Pensions Regulator new powers to take action sooner, impose appropriate fines, and have more oversight of risky corporate transactions in order to prevent reckless behaviour and protect savers' hard-earned money. The Pensions Regulator should also press ahead with its plans for a new code for DB schemes so it can set clear standards on pensions funding.
- **Pensions and Scale: Facilitate new large-scale schemes to protect savers and help employers** – Despite employer contributions of £400 billion over the last decade, 3,500 DB schemes have a combined £188 billion deficit and 3 million people have just a 50/50 chance of receiving their benefits in full. The next government should take forward the proposals from its 2018 White Paper to strengthen protection for savers by allowing consolidation and the creation of superfunds to protect member benefits and create an incentive and achievable goal for employers to accelerate funding into schemes.

An obvious starting place for all this is the introduction of the Pension Schemes Bill. After that, and with the retirements of millions of people hanging in the balance, the next government cannot allow pensions to become a backburner issue.

While pensions may always seem like a job for tomorrow, ensuring adequate contributions, fostering effective engagement and allowing well-run schemes to operate at appropriate scale must be the blueprint for making the greatest difference to the greatest number of savers. Together with the pensions industry, the new government must be bold and seize this opportunity to help more people achieve a better income in retirement.

WITH THE RETIREMENTS OF MILLIONS OF PEOPLE HANGING IN THE BALANCE, THE NEXT GOVERNMENT CANNOT ALLOW PENSIONS TO BECOME A BACKBURNER ISSUE

IN FOCUS: TRUSTEE TRAINING

Terry Ritchie, Development Director, Pinsent Masons Pension Services, explains why good quality trustee training remains as important as ever, especially for new trustees.

TRUSTEE TRAINING IS AT THE HEART OF GOOD PENSION SCHEME GOVERNANCE, WITH THE PENSIONS REGULATOR APPLYING PRESSURE TO MAKE SURE THAT TRUSTEE BOARDS IDENTIFY AND ADDRESS TRAINING NEEDS TO A CONSISTENTLY HIGH STANDARD.

The first and most important priority, however, is to take some training! There are still some trustees who are not doing so, and that has significant risks attached.

Any trustee – and new trustees in particular – needs training to make sure they fully understand their role and its responsibilities, how to work with their advisers and how a pension scheme is structured. Good governance and risk control should always be core topics. It's also essential to get to grips with key documents such as the scheme's Statement of Investment Principles and Trust Deed & Rules.

WAYS OF DELIVERING TRAINING

Nothing beats face-to-face training. Good quality training isn't just about knowledge of a technical subject, it's also about passing on tips and tricks to make sure trustees don't fall into traps. That is best achieved in a face-to-face forum. It also makes topics come alive and enables trustees to ask all the questions that they need. As well as being beneficial in a training context, confidence in asking questions and challenging advisers is an important part of trusteeship.

When it's not possible to deliver face-to-face training, there is value in formats such as podcasts where you can listen and absorb information in bite-sized chunks. Many trustees also have day-jobs, so podcasts enable them to listen at a time that works for them. Everyone has time constraints, so convenience is really important.

Trustee chairs have a big role to play in making sure trustees' training remains current. For example, they can share their own knowledge and make sure that advisers deliver training at the end of every trustee meeting. However, it's also important that they spend time talking to their trustees and understanding any gaps in their knowledge. They can then use this to create a structured personal training programme and log for each individual.

There are plenty of ways in which trustees can develop their skills and keep up to date, including industry events, input from advisers and independent training from industry bodies such as the PLSA. The PLSA has the benefit of being independent as well as maintaining active dialogue with government and The Pensions Regulator, which helps to make sure standards remain high (see boxout).

Supporting new MNTs and MNDs through training is vitally important. Once familiar with the role, new trustees bring fresh perspectives and question the way in which the board and its advisers operate. That opens up new conversations and potentially new ways of working, so everybody benefits from top quality, well presented trustee training.

Terry Ritchie is a trainer on the PLSA's Trusteeship: Part 1 – the theory trustee training course.

PLSA TRUSTEESHIP: PART 1 – THE THEORY

The PLSA's Trusteeship Part 1 course is aimed at new trustees and those with less than 12 months' experience. It details how pension schemes work, what is expected of trustees and how to apply good scheme governance.

Topics include:

- Pension trustee duties, responsibilities and powers
- How trustees protect themselves against legal challenge
- Types of advisers and advice
- How workplace pension schemes are financed and how they value their assets and liabilities
- Investment strategies
- Accountability and communication
- Good pension scheme governance

Visit www.plsa.co.uk/Education/Trustee-Training/Trusteeship-Part-1-The-Theory for more details and to book places.

HOW TO WIN AT DECUMULATION

Elizabeth Pfeuti investigates how scheme members are approaching Pensions Freedoms, what support is available, and what the industry needs to focus on.

DOING SOMETHING FOR THE FIRST TIME IS ALWAYS A LITTLE DAUNTING. WITHOUT EXPERIENCE, PRACTICE OR AT LEAST SOMEONE TO FOLLOW, YOU MIGHT END UP GETTING IT WRONG.

While there are plenty of opportunities to try, try and try again in many aspects of our lives, for defined contribution (DC) post-retirement saving and investing, we just get one shot. Get it right and we live in comfort, with the occasional treat thrown in. Get it wrong and the future looks very bleak indeed.

This quandary has been facing UK retirees since Pensions Freedoms were announced in 2015. Gone was the almost blanket requirement to purchase an annuity, and instead workers were given the liberty to plan their own future.

Typically, we've been taught to think that freedom and choice are great, and they are, if you know what to do with them – the problem is many don't.

A study carried out by State Street and The People's Pension on the first cohort of workers entering retirement under the freedoms returned some worrying reports. Respondents said they found the whole process of choosing what to do with their retirement pot "bewildering", "a minefield" and "impossible to understand".

If this is representative of the UK landscape as a whole, it should be concerning that the number of retirement pots being converted to annuities in 2018 dropped to 12% from 90% just five years earlier, according to the Pensions Policy Institute.

BEWILDERED RETIREES

While the focus of government has, until now, been on getting people to open and save for a pension, there is a desperate need at the other end of the equation that has been largely ignored.

Chris Wagstaff, head of pensions and investment education at Columbia Threadneedle Investments, explains how we've got into this situation.

"Trustees of most single employer DC schemes are often reluctant to offer members an in-house drawdown option at retirement, principally because of budgetary constraints and/or trustee liability considerations," says Wagstaff. "Almost all focus on the accumulation phase."

Currently, DC schemes are not compelled to offer support, guidance or any investment options to their members once they retire, nor do they have to transfer them to a master trust that can do all of the above. This leaves the bulk of retirees to go it alone, hoping they get it right first time.

Independent financial advice is available, of course, yet the State Street/People's Pension report showed few appreciated its value or took more than the free one-hour meeting. Additionally, compared to the huge number of retail funds available for wealth accumulation, there have been precious few products created for the post-retirement, decumulation market that financial advisers can sell.

However, with The Pensions Regulator giving the green light to several master trusts in recent months, the sands might be shifting, giving hope to the bewildered post-freedoms retiree. It seems the pension and asset management industries are waking up to what is urgently required and putting into place the mechanisms that will help many of these first-time financial planners.

"As employers increasingly utilise master trusts and, to a lesser degree, contract-based DC schemes for their employees, so members can seamlessly and usually inexpensively transition, on a non-advised basis, from accumulation to decumulation, by utilising the flexible access drawdown offered by an increasing number of these DC providers," says Wagstaff.

However, this is just the first step. The next, much more complex one is for the master trusts and DC schemes to create the vehicles into which the newly retired can switch.

DECISIONS AND DEMOGRAPHICS

Moving from defined benefit (DB) – where everyone sits in one big pot and which offers the option of asking an employer for more cash – to a system of investing for a group of individuals without a safety net is a huge feat.

> **WE'VE BEEN TAUGHT TO THINK THAT FREEDOM AND CHOICE ARE GREAT, AND THEY ARE, IF YOU KNOW WHAT TO DO WITH THEM – THE PROBLEM IS MANY DON'T**

Smart Pension was created to take this decision out of the hands of those with no experience – or willingness – to do it. It has teamed up with some of the biggest names in finance to come up with the models that cater for this new breed of retiree.

Its strategy director, Shri Krisnansen, says companies offering DC schemes that want to support members through retirement need to be aware of The Pensions Regulator's DC Code of Practice, particularly around how to design investment strategies with member demographics in mind.

"A crucial consideration is liquidity. Retirees will need to make regular withdrawals, and unexpected expenses can also occur with the drawdown pot being the only likely source to fund them," says Krisnansen. "Balancing the need to generate predictable income while providing liquidity will be a key consideration."

Emma Douglas, head of DC at Legal & General Investment Management, says her firm's research shows withdrawals are indeed frequent and unpredictable, especially with a significant number of members immediately taking the initial tax-free 25%.

"Schemes need to understand trends in their member behaviour and ensure that their drawdown investment strategy provides enough growth, as members may not access the majority of their assets for some time after the first withdrawal," she says.

Solutions designed specifically for income drawdown tend to use a sophisticated investment toolkit, according to Douglas. "Dynamic risk management is important, as the effects of adverse market conditions are no longer mitigated by contributions," she says. "This focus on risk needs to be balanced with the need for growth, as income drawdown doesn't come with a fixed term and some members may want to use income drawdown throughout their retirement."

This point about growth needs careful consideration, according to Krisnansen: "Members will need their pots to last throughout their retirement, but taking too much risk to generate [growth] could lead to quick pot depletion in adverse market environments."

MULTIPLE STRATEGIES

Wagstaff says that for drawdown withdrawal rates to be both sustainable in real terms over 25 years or more, while also retaining the flexibility to accommodate changing circumstances, they need to be underpinned by an appropriate investment strategy.

"It needs to deliver a stream of real returns while minimising volatility, reducing the member's susceptibility to investment sequencing risk and offer ready access to capital if needed," he says. "Research shows that combining a cash rainy day fund with a well-diversified multi-asset fund, which taps into a multitude of diverse return drivers and risk premia, performs this role best."

Considering unpredictable costs such as social care needs will help schemes design suitable investment portfolios and pick assets that emulate the right growth, risk and liquidity levels, says Krisnansen.

"It is likely that multiple strategies will be needed, such as the creation of income portfolios that can support sustainable fixed and inflation-linked withdrawals, complemented by liquidity portfolios to meet any unexpected expenses and prevent erosion of the income portfolios," he says.

Might some of these strategies involve lifestyling, which aims to invest in line with a member's risk tolerance, making surer bets as a member approaches retirement?

Not necessarily.

"While this works for the majority of members in accumulation, in drawdown, the heterogeneity of members' needs, circumstances and life expectancies means that traditional risk reduction over pre-set time periods is unlikely to meet the needs of the majority of members," Krisnansen says.

MOST PEOPLE STRUGGLE WITH MAKING AN INFORMED DECISION ON HOW BEST TO UTILISE THEIR DC PENSION POT AT RETIREMENT

Wagstaff adds that the lifestyle approach had worked better in a time of targeting annuitisation at retirement, by running down the risk of being hit by market fluctuations. If a member continues to invest after retirement, the requirement to derisk is much reduced.

KEY ELEMENTS

So, without the ability to accurately predict a member's unexpected needs or ultimate demise, what are the key elements for both DC schemes and newly minted master trusts to focus on when creating a post-retirement solution?

"Given that few members select their own investments in retirement, schemes and providers should focus on whether the default solution arrives at an asset allocation or a fund that is suitable for income drawdown. And they should focus on value for money and overall costs for this strategy," says Douglas.

Wagstaff highlights that most people struggle with making an informed decision on how best to utilise their DC pension pot at retirement, pushing the Financial Conduct Authority to recommend the introduction of investment pathways. These are intended to help those who are seeking both flexibility and income security through drawdown but are unwilling or unable to select an appropriate investment strategy.

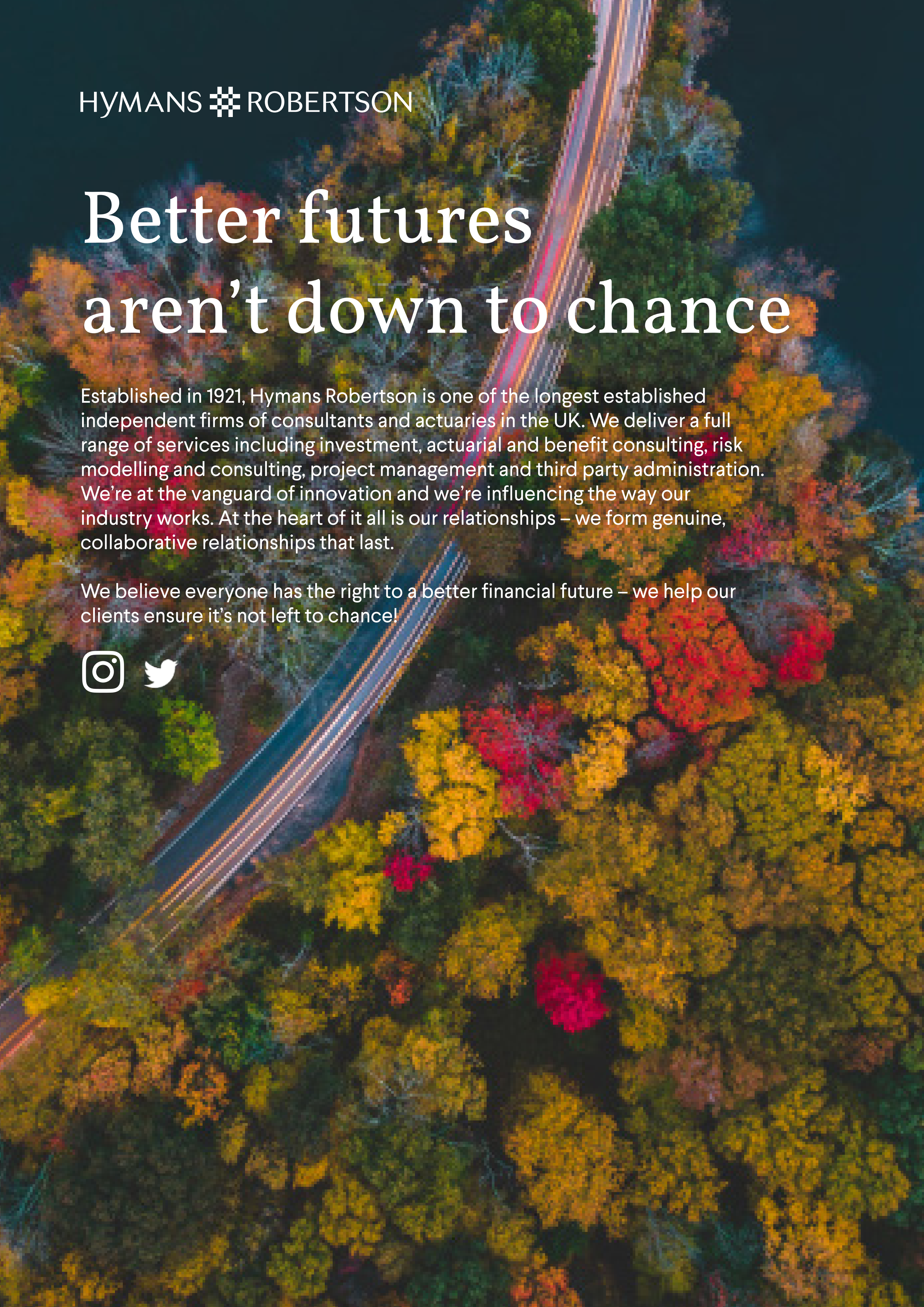
This suggestion from the regulator could fire the imagination of the pension and asset management industry.

"The market is crying out for product innovation in decumulation," says Wagstaff. "This could comprise auto enrolling those at retirement into a well-diversified multi-asset fund, coupled with a cash rainy day fund and a deferred annuity to provide longevity insurance."

The options, if not endless, are broader than we see available today.

For Krisnansen, with the sector still in the relatively early days of Pension Freedoms, innovation is needed.

"We need to speak to members to better understand what they need, what they will use and what will work for them," he says. "This is a global problem and one that no single country has adequately solved, so we need to go back to basics and look at the problems that need to be solved for retirees – and for the industry to build from there."


HYMANS ROBERTSON
Better futures aren't down to chance
Established in 1921, Hymans Robertson is one of the longest established independent firms of consultants and actuaries in the UK. We deliver a full range of services including investment, actuarial and benefit consulting, risk modelling and consulting, project management and third party administration. We're at the vanguard of innovation and we're influencing the way our industry works. At the heart of it all is our relationships – we form genuine, collaborative relationships that last.
We believe everyone has the right to a better financial future – we help our clients ensure it's not left to chance!

Employer covenant and IRM

Achieving integration in a visual way

Paul Brice and Zoe O'Donnell discuss how the strength of employer covenant can be brought alive visually in DB scheme funding and IRM discussions.

Background

The Pensions Regulator's (TPR) guidance on Integrated Risk Management requires trustees to adopt an integrated approach to the consideration of the strength of employer covenant, investment strategies, and different funding approaches.

In practice, many different approaches are used to seek to achieve integration - but it can be difficult to visualise how the variables of covenant, investments and funding 'fit' with each other, and how they might move individually and collectively in different scenarios.

A particular challenge faced by trustees and sponsors is how the employer covenant can best be represented and considered in those discussions.

As covenant advisors, in reporting to our clients we consider both the sponsor's legal obligations to fund the scheme and their financial capacity to do so. We usually consider financial capacity principally through the lens of free cash flow available to support scheme funding, whether from trading, other sources - or even recoveries on insolvency.

But understanding free cash flow and other metrics of financial strength, whilst highly important, may not illustrate other key questions in integrated funding and IRM discussions such as the importance (and likelihood) of potential corporate longevity – particularly given the long time periods over which a scheme may be reliant on the sponsor covenant; and possible time horizons over which off-plan performance in different investment strategies might be repaired. For example, how realistic is it to assume that a sponsor may continue for 5, 10, 15 – or even 50 years given disruptive technologies, market shifts, M&A or the impact of other social or economic factors such as climate change? Many businesses only plan or forecast a year ahead. Some track five-year plans. Listed companies may have projections provided by equity analysts.

Another challenge in IRM discussions is visualising the impact – iteratively – of different economic or financial scenarios and how the three variables of IRM move individually and in combination.

So as Trustees consider their progress towards Long Term Funding targets, seeking to understand sponsor financial capacity and longevity in different scenarios is vital – finding the right balance between contributions and investment returns over sensible time horizons.

What can you do?

To support our clients with the challenge of visualising how views of sponsor covenant fit with the other variables of scheme funding we have developed **IRM Gateway**. This is a highly visual tool which builds on our traditional covenant advice and supports collaborative IRM discussions by allowing trustees and sponsors to see the key elements and dynamics of integrated funding 'on screen' and to understand how they might move together in different economic and other scenarios.

IRM Gateway explicitly shows, for example – based on a range of assumptions – how much covenant headroom particular investment and funding strategies might leave; how long the sponsor covenant is relied upon in the proposed funding arrangements ('self-sufficiency' still needs a sponsor as liabilities run off!); how different operational and economic scenarios might impact scheme funding; and how contingent assets or other support might enhance the position.

IRM Gateway is not a substitute for detailed ALM modelling, actuarial or investment advice – as its name suggests, it is a 'gateway' tool designed to stimulate Trustees' thinking and discussions with their advisors. But we believe that it will help trustees and sponsors understand the covenant dynamics of their scheme funding and investment choices more clearly and help them with richer, collaborative conversations around integrated funding and IRM.

Should you wish to understand more about this tool, please contact Paul Brice, who leads Grant Thornton's UK Pensions Advisory team, or Zoe O'Donnell, an actuary in the team who has been closely involved in the development of **IRM Gateway**.

Visit grantthornton.co.uk to find out more, or contact:

Paul Brice
Partner
T +44 (0)20 7728 3423
E paul.f.brice@uk.gt.com

Zoe O'Donnell
Associate Director
T +44 (0)20 7865 2773
E zoe.e.odonnell@uk.gt.com

Grant Thornton | An instinct for growth™

MEET THE BOARD: EMMA DOUGLAS

Maggie Williams talks to ***Emma Douglas,*** head of DC at LGIM, PLSA Board Member and chair of the PLSA's Policy Board, about her personal highlights of the year.

Q

IT'S BEEN A VERY BUSY YEAR FOR PENSIONS AND FOR THE PLSA. WHAT HAVE BEEN YOUR PERSONAL HIGHLIGHTS?

A

The launch of the Retirement Living Standards was a great moment (see page 18 for more information). The standards are a huge step forward in making defined contribution (DC) easier to understand.

They mean that a DC pension is no longer a pot of money for something unspecified that is so far in the future that you can't think about it. The £10,000, £20,000 and £30,000 levels (or £15,000, £30,000 and £45,000 for couples) are really helpful guidelines which give people a rule-of-thumb answer to the question of "What type of lifestyle will I have when I retire?"

Because the standards use expenditure levels rather than pension savings, it means that the figures could be funded through a combination of the state pension, workplace pensions, wider savings and even property wealth. So, they are also flexible and reflect savers' real lives.

There was a lot of press interest when we launched this at the Annual Conference, including Nigel Peaple, the PLSA's Director of Policy and Research, appearing on breakfast TV, and it was great to be a part of that. We've also had a lot of interest from schemes since then, particularly around how they can make the standards work for their members. It has really hit the mark.

> **WE'VE GOT A MAJORITY OF WOMEN ON THE POLICY BOARD AND WE'VE WORKED HARD TO MAKE SURE WE HAVE A MIX OF DIFFERENT AGES AND ETHNICITIES TOO**

Another personal highlight for me has been the Policy Board's new governance structure. It's been running for nearly a year now and it's really getting into its stride. We've distilled our work into four broad but simple themes: well-run schemes, effective communications, adequate contributions, and consolidation and scale. That has given us clarity, and the four themes cover the pensions industry well from a policy perspective.

Q

IF YOU COULD CHANGE ONE THING IN PENSIONS, WHAT WOULD IT BE?

A

I would look at extending auto-enrolment. It was a real omission that this wasn't included in the Pension Schemes Bill released before the general election. Auto-enrolment has been the biggest pensions success story of our generation, but there's still much more to do. We know the value of starting to save early, so we need to bring the age limit down. There's also the removal of the lower earnings limit, even if that has to be phased in more gradually. That will bring more people into pension savings and mean that their savings start from the first pound of earnings.

Q

WHAT DO YOU ENJOY THE MOST ABOUT WORKING WITH THE POLICY BOARD AND THE PLSA BOARD?

A

Diversity – of characteristics, experience and thinking – are a strength of both. We've got a majority of women on the Policy Board and we've worked hard to make sure we have a mix of different ages and ethnicities too. At LGIM, women being in the majority at meetings has become the norm for me, so I'm pleased that so many of the women on the Policy Board are now experiencing that feeling as well!

There's also diversity from a pensions perspective, with representatives from DB, DC, master trusts, local authorities and consumers on the Policy Board, as well as some fantastic non-executives on the PLSA's board who bring real diversity of thinking.

That diversity provokes some really good discussions. In pensions, there's rarely one right answer, so we can work through the issues from different perspectives to come up with a cohesive policy. The opportunity to collaborate with the PLSA's in-house policy team is also a joy, as they're a really talented group producing very high quality work.

I respect the PLSA for following through on its diversity commitments. In so many cases, diversity policies are just words on a page that don't translate into action. The PLSA has very clearly turned its thinking into action. I'm thrilled to be a part of its evolution.

PICTURE YOUR FUTURE: THREE NEW STANDARDS FOR RETIREMENT LIVING

Maggie Williams reports on the launch of the PLSA's potentially game-changing Retirement Living Standards.

WHEN THE PENSIONS AND LIFETIME SAVINGS ASSOCIATION (PLSA) CARRIED OUT ITS *HITTING THE TARGET* RESEARCH IN 2017-18, IT FOUND THAT ONLY 23% OF PEOPLE WERE CONFIDENT THAT THEY KNEW HOW MUCH THEY NEEDED TO SAVE FOR THEIR RETIREMENT.

As individuals become more responsible for managing their own financial path to retirement, helping everyone understand what standard of living their pension savings might support is becoming more and more pressing.

Hitting the Target found that 73% of respondents would find it easier to plan for their retirement if they had some standards or goals to aim for.

At this year's PLSA Annual Conference, those goals became a reality with the launch of the Retirement Living Standards, a set of clear measures that identify how much money individuals will need to save in order to achieve one of three standards of living after they stop work.

The Retirement Living Standards are backed up by a new set of online tools to support both individual savers and the pensions industry in making full use of the measures.

Developed in conjunction with the Centre for Research in Social Policy (CRSP) at Loughborough University, the Retirement Living Standards identify how much money an individual or a couple would need to maintain a minimum, moderate and comfortable standard of living in retirement.

This equates to £10,200 for a minimum, £20,200 for a moderate and £33,000 for a comfortable standard of living – which the PLSA summarises as £10k-£20k-£30k. For couples, the figure is 1.5 times the single standard, so a minimum standard of living for a couple would require around £15,000 per year. For those living in London, there is an additional set of figures that reflect the higher cost of living in the capital.

The figures include the State Pension at its current rate of £8,750 per year. So savers would require extra income from workplace pensions to support additional expenditure of around £2,000 for the minimum standard, £12,000 for moderate and £22,000 for comfortable.

HOW THE STANDARDS WERE DEVELOPED

"Our starting point has been a robust methodology and making sure that the Retirement Living Standards are based on real aspirations," says Emma Douglas, Chair of the PLSA Policy Board and Head of DC at LGIM.

The standards use a methodology which is underpinned by more than a decade of ongoing research. It draws on the Minimum Income Standard developed by the CRSP for the Joseph Rowntree Foundation, which is used to help determine the National Living Wage. This is based on a 'basket of goods' approach, broken down into six categories: house, food and drink, transport, holidays and leisure, clothing and personal, and helping others.

"As a part of that research, CRSP works with multiple groups of members of the public to define and describe minimum standards of living," explains Matt Padley of CRSP. "That includes basics such as food and shelter, and also being able to participate in the world around you."

CRSP adapted the Minimum Income Standard methodology to formulate retirement living standards at three different levels (see diagram, right). "It's not about asking the groups what they can afford, or what they should or do spend – it's about a negotiated consensus around what you need," says Padley.

The 'moderate' standard is defined around key principles such as a sense of security and knowing you'll always have enough for your minimum needs, plus some money to spare to allow you to eat out and have a holiday overseas once a year. A comfortable standard of living would ensure more financial freedom and the greater flexibility that this provides.

Michael Ambery,
Head of DC Provider Relations at Hymans Robertson

The arrival of the PLSA's retirement savings targets is great news for the industry and for retirement aspirations across the country. By pairing target lifestyles to an annual income, savers can start to seriously consider what they'll need to live off when they retire, and how best to achieve that.

These definitions of minimum, moderate and comfortable then formed the basis of debate with 26 discussion groups around the UK which included retired and non-retired people. "We explored both needs and standards and how to cost those," explains Padley. "For example if you needed to replace a sofa, what criteria you would use, such as quality and how long you might expect it to last."

Based on this analysis and discussion, Padley says that the standards are "rooted in lived experience and guided by shared expectations."

"The basket-of-goods approach is very tangible and outcome-focused, which can help people to 'time-hop' and picture their own futures," adds Lizzy Holliday, Head of DC, Master Trusts and Lifetime Savings at the PLSA. "Rather than just a set of figures, it helps to define a standard of living that people can aim for or aspire to."

HOW WILL THE STANDARDS BE USED?

"The next step is to create real change using these standards," explains Holliday. She identifies three main steps to achieve this: awareness, understanding and action. "The standards should create better awareness, and the website which accompanies them will illustrate what each one means."

She adds: "We can move to promote greater understanding by looking at what the standards might mean for someone, based on their current situation. We can look at a range of salaries, ages, savings histories and lifestyle elements, for example, with personas on the website to use as examples." Using that information could create a picture for a scheme member about which of the three standards they might expect in retirement and what they could do if they need to improve that outcome.

Steven Cameron,
Pensions Director at Aegon

The new Retirement Living Standards are a useful addition to tools which can raise awareness of what you might need to save in order to have a certain lifestyle in retirement. The sooner people are able to picture the retirement they aspire to, the sooner they can start making sure they are paying in enough, or investing appropriately, to deliver on that aspiration.

Matthew Binnington

Business Development Manager at PTL

This will help members to genuinely envision their future self and what their retirement will look like in terms of practical commodities and choice. These standards have all the hallmarks of a potential game changer and should be fully embraced by the industry.

Holliday explains that those personalised outcomes can then help to drive action. "We need support from other parts of the industry to achieve that. That means adopting the Retirement Living Standards and developing tools around them to support savers. Our target is to reach 90% of active savers by 2025." At launch, 22 major providers and pension schemes had already committed to using or supporting the Retirement Living Standards – including Legal & General, M&S and Nationwide.

Adopting the standards could mean incorporating them into annual benefit statements and signposting employees to the Retirement Living Standards website, through to developing innovative technologies and tools around them that could nudge employees to act.

Michael Watkins, Head of Proposition Development at Smart Pension, also believes that the standards could help to address specific savings challenges such as the gender pensions gap. "In every single age band, men contribute more towards their pension than women. There are a number of reasons for that, but we know that maternity leave is one of the biggest factors. Using targeted communications early on in people's careers, to encourage them to save about 2% extra for around 10 years from the age of 21, would make up for the contributions a man or woman would miss over a six-year career break and keep them on track to reach the standards."

Over the long term, a consistent set of standards will help people maintain a constant savings goal as they move from job to job. Chris Curry, Director of the Pensions Policy Institute and Principal of the Pensions Dashboard Industry Delivery Group, believes the Retirement Living Standards could become a social norm. "There are lots of people who are not thinking about what they need for retirement and are not engaging with their pension. They will now be able to think in terms of a rough idea of what they need across their working lives."

Curry also believes that there are close links between the development of pensions dashboards and the Retirement Living Standards. "They are two sides of the same coin," he concludes. "The dashboard is about letting savers know what they've got, and the standards will enable them to know what they're aiming for. Without both the dashboards and Retirement Living Standards, it's very hard to link those. It's important that we maintain the relationship between the two going forward."

More information about the Retirement Living Standards is available at: wwwretirementlivingstandards.org.uk

Jamie Jenkins,

Head of Global Savings Policy at Standard Life Aberdeen

These new Retirement Living Standards are a welcome addition to the current revolution we're seeing in pension saving. They will collectively help people understand exactly what they need to better prepare for the future and help to build greater engagement with life savings.


M&G INSTITUTIONAL
IT TAKES
IM&GINATION
TO GO FURTHER TO
FIND VALUE
We understand that meeting your long-term requirements means working closely with you to find investment solutions for your specific needs – targeting the right blend of risk and return through an active value management approach that generates performance for investors.
The value of investments will fluctuate, which will cause fund prices to fall as well as rise and you may not get back the original amount you invested. Past performance is not a guide to future performance.
www.mandg.com/institutions

Help and support...

for transitioning through later life

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

The end of working life is no longer a fixed point. As a person transitions towards retirement and beyond NFOP can offer a number of ongoing support services providing help and signposting.

NFOP Membership Services and Benefits

- Initial support over the phone on legal, tax, and financial matters
- IT assistance on computer problems via a dedicated helpline or email address
- A regular informative and entertaining magazine
- Access to the members' area of the NFOP website, filled with useful information and resources
- NFOP Travel Club offers holiday, cruise and travel insurance deals
- Grants from the NFOP Welfare Fund to help support members in need
- Offers from select third party service providers exclusive to members
- E-newsletter throughout the year keeping members informed on issues relevant to them and any new services
- Private audiology services
- Dedicated team at Headquarters for general support and help

There is a network of independent local groups across the UK, run by their members.

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

CASE STUDY:
ROYAL BANK OF SCOTLAND

The Royal Bank of Scotland has committed to integrating the Retirement Living Standards into its financial wellbeing programme. "We know that saving for life is important but hard to visualise," says Carol Young, Director of Reward, Pensions & Benefits at RBS. "Employees don't know how much is enough, so the standards are a good goal for people to work towards."

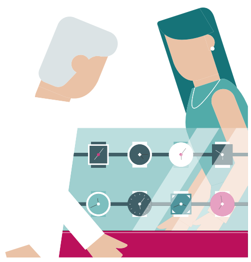
One challenge for all employers is encouraging employees to act once they are aware of how much they will need to spend in retirement. "We've talked to our DC trustees and the standards will become part of our benefits statements. We also talk to employees about this as a part of our wider financial wellbeing strategy," explains Young. "That can help people plan and take action in different ways. If they are struggling to understand pensions, for example, we can help them."

Young adds that the financial wellbeing approach helps in other ways too, by guiding employees to tools to help them with other aspects of their finances, such as debt.

"One of the reasons why we have incorporated this into our wider financial wellbeing is that a goal without a plan is overwhelming, and we need employees to feel confident that they can achieve this," says Young. "On the other hand, some employees might also think the standards are not as onerous as they thought – but they may not have looked at how much they need to save to meet them. Either way, we need to move people quickly to tangible action."

Taken as part of a wider financial wellbeing offering, Young believes the Retirement Living Standards will have a key role over time. "On their own they won't be a silver bullet for engagement, but they are a very important part of the drumbeat of getting retirement savings levels into people's minds," adds Young.

THE STANDARDS USE A METHODOLOGY WHICH IS UNDERPINNED BY MORE THAN A DECADE OF ONGOING RESEARCH



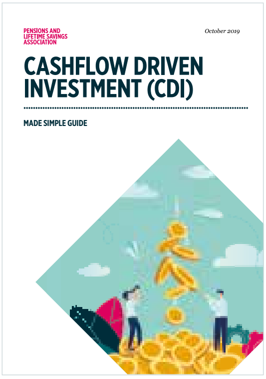
Find out more about the
Retirement Living Standards

Visit **www.retirementlivingstandards.org.uk** to explore the basket of goods, see examples and download the full research behind the standards.

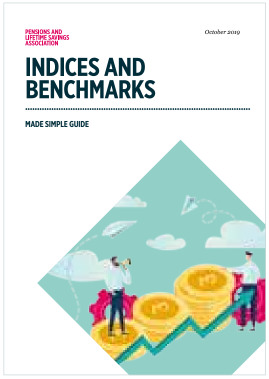
2019 MADE SIMPLE GUIDES

The PLSA gives its members the practical knowledge and support you need to excel in your role. Develop your understanding of pensions investment trends without the sales pitch with our impartial, jargon-free Made Simple Guides.

ESG ***Made Simple***, sponsored by Kames Capital, aims to explain the concept of environmental, social and governance in investment decision-making and to suggest how it can be integrated into the investment strategy and oversight of pension schemes. We include a suggested template for pension schemes to help them create their own ESG policy.



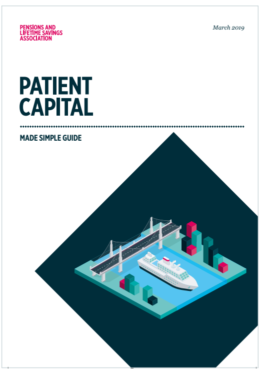
Cashflow Driven Investment (CDI)
Made Simple, sponsored by Schroders, explains what this form of asset-liability matching entails and how it compares to more traditional methods. It details how it can create greater accuracy of outcomes for defined benefit plans and the ways in which trustees can manage and monitor CDI.



Indices and Benchmarks
Made Simple, sponsored by FTSE Russell, explains the multiple ways in which pension funds can use indices and benchmarks to measure investment performance and determine asset allocation. It also explains how indices can be used to create specialist investment products.

Defined Benefit De-risking
Made Simple, sponsored by Insight Investment, is a guide to the full range of de-risking options on offer. Its aim is to help pension funds choose the most appropriate option for their circumstances.

ESG & Stewardship: A Practical Guide To Trustee Duties



Patient Capital
Made Simple

Multi Strategy Alternative Credit
Made Simple

Bulk Annuities
Made Simple

If you are interested in producing a Made Simple guide in 2020, please contact
Business.Development@plsa.co.uk

CATCHING UP WITH TPR

Maggie Williams gets an update on progress from ***David Fairs***, Executive Director at The Pensions Regulator.

Q

WHAT HAVE BEEN THE PENSIONS REGULATOR'S BIGGEST ACHIEVEMENTS IN 2019?

A

There's so much happening in pensions at the moment that it's difficult to choose! There have been high spots both in defined contribution (DC) and defined benefit (DB).

Auto-enrolment has continued to be a great success, and in February we reached the landmark of 10 million new auto-enrolled DC savers. However, we have also had to take significant actions against people and companies trying to evade their pensions responsibilities, in line with our mantra of being clearer, quicker and tougher.

Master Trust Authorisation has been another standout achievement, setting high standards for all schemes in this market. We have now authorised 37 master trusts, and the feedback we've had is that the process has been intensive, but its focus on trusteeship, financial stability and good quality processes has been worthwhile.

I passionately believe in improving governance for all schemes. A major milestone for me was our *Future of trusteeship and governance* consultation, which ran between July and September this year and addressed many challenging areas of trusteeship.

As part of that, we explored whether there should be an independent trustee on every board. There aren't enough professional trustees to enact that overnight, but this could address situations where trustees don't take governance seriously. We'll publish a response to the consultation early next year.

Charles Counsell joined as CEO in April, bringing a lot of enthusiasm and focus on the saver. He's continued the transformation programme begun by (former CEO) Lesley Titcomb that means we're challenging standards in many areas, such as quality of record-keeping, and payment of shareholder dividends versus contributions into schemes in deficit.

We've also continued our work with the FCA around scams. Our TV campaign has had a big impact in raising savers' awareness of this hugely important issue.

Q

WHAT FUTURE CHALLENGES DO TRUSTEES FACE AND HOW CAN THEY PREPARE NOW?

A

A key focus is the changing nature of DB schemes, with many closed to both new members and future accrual.

WE'RE CHALLENGING STANDARDS IN MANY AREAS

I PASSIONATELY BELIEVE IN IMPROVING GOVERNANCE FOR ALL SCHEMES

Research indicates that over 70% of closed schemes in the UK are cash flow negative, so benefits in payment exceed scheme income. Some will also have a deficit and time will be running out to achieve full funding. That can put enormous pressure on the sponsoring employer, so making sure trustees take account of these changes was a significant consideration in our 2019 Annual Funding Statement.

The positive feedback we've had on the Annual Funding Statement has paved the way for a new DB funding Code of Practice. Although it's not in the public domain yet, the new Code has been a major priority for us and our panel of nine experts who are making sure that the proposals are robust.

Two or three years ago, we were asking whether DC master trusts would achieve the scale required to be sustainable. Now, there are 16 million savers in 37 authorised master trusts, many of which are growing quickly. As a regulator, we have to ask ourselves whether master trusts can become too big and how we ensure that they remain well governed.

We also have to look at small DC schemes and whether they can continue to maintain good governance, offer competitive charges and provide investment strategies that are best possible options for their members in the context of the Mast Trust Authorisation regime.

Q

WHAT CAN WE EXPECT FROM THE PENSIONS REGULATOR IN 2020?

A

Overall, 2020 is set to be another busy year. As well as addressing current scheme governance issues, we're looking at longer-term strategies over the next 10 to 15 years. We need to explore how the pensions landscape will evolve over that time and what will shape it in the future, including technology, demographics and different levels of pension savings. We'll be testing our perceptions and using the findings to develop our strategy and engagement.

We'll take forward the findings from our *Future of trusteeship and governance* consultation, as well as planning two consultations on DB funding. The first will address the principles behind the new funding Code of Practice, which builds on themes introduced in this year's Annual Funding Statement. Then, we'll consult on the Code of Practice itself.

Crucially, we will also have to see whether the new government plans to revive the items detailed in the previous Pension Schemes Bill.

PQM DISTINCTION AWARD 2019

THE 2019 PQM DISTINCTION AWARD WINNER IS MY LV= PENSIONS PLAN.

The judges were impressed by the stylish, attractive design of LV='s communications and praised its clear, jargon-free language. "LV='s approach to communication is excellent and manages to explain pensions in a simple and engaging way," said one judge.

Strudwick said: "We were very surprised to win and couldn't stop smiling for the rest of the day. It's great to bring this back to the business and to be able to share with members of the scheme that their trustee board is being recognised and doing the role as well as they can. Getting recognised helps you to know you are on the right track.

"Along with our communications consultancy, we think that there are lots of different ways you can engage people with the difficult messaging of pensions. We like to see if we can include some emotion and use communications that are both written and visual.

"We know that people don't have a lot of time in their day, so every communication should be meaningful. We want to make sure that every second counts that we get with our members."

Further details of LV='s communications are publicly available at

www.lvpensionsvillage.co.uk/

ABOUT THE AWARD

The PQM Distinction Award highlights examples of best practice in DC pensions, focusing on good communications. The judges look for attractive, interesting and clear communications which help employees and members understand the pension scheme and engage with saving for retirement.

This year's judges are both members of the PQM Standards Committee:

- **Mike Nixon**, Head of Pensions, Leonardo
- **Lesley Williams**, former Group Pensions Director at Whitbread and a past Chair of the Pensions and Lifetime Savings Association
- **Andrew Cheseldine**, Client Director, Capital Cranfield

THE 2019 SHORTLIST

- Vodafone UK Defined Contribution Pension Plan
- **My LV= Pension Plan**
- Schneider Electric DC Trust
- The BAE Systems DC Retirement Plan
- Euler Hermes Group Personal Pension Plan

PLSA Chair Richard Butcher (left) presents the award to (left to right) Peter Strudwick, Pensions and Benefits partner, LV=, Becky Mockridge, Pensions Partner, and Lauren Williams, Reward & Benefits Analyst.

CRASH HELMETS READY!

Tiffany Tsang rounds up the LA Update Conference.

MY HUSBAND IS A SPORTS JOURNALIST AND I AM A CASUAL BUT ENTHUSIASTIC SPECTATOR FOR GAMES OF ALL SEASONS. THIS MEANS THAT AS DARKNESS GREETS US EARLIER IN THE DAY AND AS THE END OF YEAR CELEBRATIONS APPROACH, SO DO THE AWE-INSPIRING WINTER ATHLETICS FEATS OF DARING AND BRAVERY THAT GRACE MY TELEVISION AT THIS TIME OF YEAR. WHILE ADMIRING THE SOARING SKI JUMPERS, THE LUGERS HURTLING DOWN TRACKS AT BREAKNECK SPEED, THE SNOW BOARDERS' ACROBATIC FLIPS, I NOTICE THEY ALL SHARE SOMETHING IN COMMON – CRASH HELMETS.

Increasingly, the Local Government Pension Scheme (LGPS) is being asked to complete similar death-defying acts of heroism in order to both keep up with mandatory changes and to protect members' benefits. So, the LGPS needs crash helmets of its own, which take on various forms of proactive risk management – a key theme that emerged from discussions at the PLSA's one-day event on 12 November which updated the LGPS community on important policy developments, six months since its annual three-day Local Authority (LA) Conference.

CRASH HELMET #1: RESPONDING TO CLIMATE CHANGE

As LGPS funds are long-term investors, it's important for them to consider any long-term risks to returns on investments. Climate change is one of these considerations.

The LGPS has been leading the way in responsible investing (RI), with the private sector following behind, but perhaps now sprinting to overtake. So, as we discussed at the LA Update, there is fresh work to be done.

The first of two sessions at the Conference dedicated to RI included a plenary examining how the LGPS is responding to potential investment risks caused by climate change; the pros and cons of divesting from fossil fuels; and how funds can effectively communicate fossil fuel policies to stakeholders. The second session unpacked the legal duties of trustees in relation to environmental, social and governance (ESG) requirements, as well as its interaction with MHCLG's guidance on setting investment strategy. It also looked at how funds can promote ESG dialogue with investment managers.

Next for the LGPS in this area of work is the consultation from the England and Wales Scheme Advisory Board (SAB) on ESG guidance, which runs from late November 2019 until 11 January 2020. The intent will not be to prescribe the extent to which ESG policies must be adopted into investment strategy, but rather to provide guidance for administrating authorities on their duties to develop and maintain RI policies in accordance with "relevant scheme regulations, statutory guidance and public law" as well as developments in the private sector pension legislation in this area[1].

It has also been agreed that the SAB will begin work on drafting Part II of the guidance, which will aim to provide a 'toolkit' for integrating ESG policies into investment strategy. Any case studies submitted with Part I's consultation responses in January 2020 – evidencing best practice of adopting ESG practices, especially those related to mitigating climate change investment risk – will contribute to the Part II guidance draft, which is scheduled to be presented to the Board for consideration in early February 2020.

CRASH HELMET #2:
GOOD GOVERNANCE

The day's session on Good Governance discussed the recent report from The Pensions Regulator (TPR) on a "deep dive" study on the LGPS's Governance and Administration, updated the audience on the England and Wales' SAB's Good Governance project's latest developments, and next steps.

In recognition of the challenges emerging from the intricate and myriad structures in place to run the LGPS, some of which are discussed in TPR's deep dive report, the SAB commissioned Hymans Robertson in 2019 to examine the effectiveness of current LGPS governance models through a Good Governance project.

The SAB created two working groups to develop proposals included in the final report for Phase I of the Good Governance project. The PLSA and several of our Local Authority Committee's members participate in these working groups. The first working group focused on specifying outcomes and standards. The second working group focused on establishing the compliance regime that will be used to independently assess funds.

The groups made a series of recommendations[2] in the final report for Phase II of the work, including the following:

- MHCLG to produce statutory guidance to establish new governance requirements for funds.
- Each fund to publish a conflicts of interest policy, including details of how they are addressed within fund governance.
- Key individuals within the LGPS are to have the appropriate level of knowledge and understanding to effectively carry out duties.
- Each administering authority to publish a roles and responsibilities matrix detailing how key decisions are made.
- Administering authorities to undergo a biennial Independent Governance Review.

These proposals will form a package of proposals that will consider implementation in Phase III in the New Year.

CRASH HELMET #3:
PREPARING FOR THE MCCLOUD IMPACT

This may be one of the trickiest of the upcoming challenges to prepare for.

The December 2018 *McCloud* judgment from the Court of Appeal – which ruled against the government, deeming that the 'transitional protection' offered to some public sector scheme members is unlawful discrimination of age and indirectly discriminatory on grounds of sex and race – is provisionally estimated to cost approximately £4 billion per annum.

The LGPS should make preparations to cushion the blow of what could potentially be a seismic impact on cost. But how to begin risk management preparations, when there are still so many unknowns? We still don't know which members are in scope, when protections will stop, if or how ancillary benefits such as survivors' benefits will be included, how knock-on effects onto pensions tax will be handled – and we still don't know the full cost of the judgment or its impact on employers[3].

It doesn't make for relaxing bedtime reading, but costing up worst-case scenarios (which assumes pay growth of CPI + 1.5% p.a.) has already begun, as demonstrated by one of our panellists at the Conference. Varying the assumptions provides a wider deck of possible outcomes to prepare for as well, including changing the salary increase assumptions, the allowance for withdrawals, and the allowance for promotional pay.

On a positive note, even in the face of cost uncertainty, the panel expressed confidence that the LGPS will still be affordable and sustainable in the long term, given its consistently strong investment performance, effective administration, and commitment to good governance.

We await news from the Employment Tribunal on its remedy for the McCloud judgment; remedy implementation is unlikely to happen before the financial year of 2020/21.

CRASH HELMET 4:
GOOD DATA FOR THE PENSIONS DASHBOARD

The Pensions Dashboard simultaneously provides a solution for one big problem (member engagement) but also creates many new challenges to consider. Across the pensions sector, savers are not engaging with their pensions early or frequently enough, which means that people often approach retirement with knowledge gaps in how much income they will likely have and how much they will likely need. The Pensions Dashboard could be a great solution to these concerns.

However, there remains a risk of miscommunication with savers with unclear or incorrect data. This is why having good data and strong data standards across the pensions industry is so important to the long-term success of the Dashboard and to the larger savers' disengagement problem at hand.

Nigel Peaple, Director of Policy and Research at the PLSA, represents the PLSA on the Pensions Dashboard Steering Group, and was one of the panellists for the Dashboard session. He confirmed that the PLSA will be actively seeking to represent the interests of our LA members on the Dashboard, and will be returning to its membership for guidance on the unique needs of the LGPS to make it work. Key next steps in the project will be to determine what data standards schemes and funds should have to comply with when making individuals' pension savings data available to the Dashboard, and what a minimum viable product looks like.

2020 FORWARD LOOKING

There are of course other policy developments that we are expecting to see in 2020 – additional areas of work that may need their own risk management strategies:

- Implications of **TPR's Harmonisation of Codes and Guidance** for the LGPS[4]
- The formal consultation from MHCLG on **asset pooling guidance**
- The government's response to the **Fair Deal** 2019 consultation
- The **Annual Allowance** impact on talent management and administrative resources.

As the LGPS launches into 2020 like the confident ski jumper that it is, the challenges and uncertainties it faces make the landing point unknown, but we've got our crash helmets ready.

AS LGPS FUNDS ARE LONG-TERM INVESTORS, IT'S IMPORTANT FOR THEM TO CONSIDER ANY LONG-TERM RISKS TO RETURNS ON INVESTMENTS

1. SAB (2019) Responsible Investing in the Local Government Pension Scheme. Available from www.lgpsboard.org/images/Consultations/RIGuidance/DRAFT_Part_1_Responsible_Investment_Guidance_Final_pdf_version.pdf
2. Please refer to the report for the full list of recommendations. Available from: https://www.lgpsboard.org/images/PDF/HymansRobertson_GoodgovernanceintheLGPS_Phase-II_November2019.pdf
3. The actual cost is likely to vary significantly by employers in practice.
4. Consultation is due out in early 2020.

Feature

FACING UP TO THE CLIMATE CRISIS

Climate change is now at the top of the ESG agenda. ***Caroline Escott*** reports on what this means for pension schemes.

ASK ANY REGULATOR, POLICYMAKER, TRUSTEE, LGPS FUND OFFICIAL OR INVESTMENT SERVICE PROVIDER WHAT THEY THINK THE HOTTEST OF ALL THE HOT ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) ISSUES IS RIGHT NOW AND THEY WILL HAVE ONE ANSWER: CLIMATE CHANGE.

There are several reasons for this, both from a top-down regulatory perspective as well as bottom-up developments in terms of individual/scheme member engagement.

Firstly, 2019 saw the implementation of the Department for Work and Pensions (DWP)'s changes to the Occupational Pension Schemes (Investment) Regulations, which supported trustees to consider financially material ESG factors "including climate change". Although the regulations are aimed at ensuring schemes consider which ESG factors are most relevant to their portfolio over the appropriate time horizon, this was a clear indication that although all ESG issues are hypothetically equal, some are more equal than others.

The seminal Regulation changes paved the way for other tweaks to relevant Codes and regulations. In October, the Financial Reporting Council (FRC) published the new Stewardship Code which for the first time explicitly mentioned the consideration of ESG issues "and climate change"; while the expectation is that the Ministry for Housing, Communities and Local Governance (MHCLG) will tweak its statutory investment guidance on Investment Strategy Statements for LGPS funds and decision-makers to including climate change as a specific expectation.

There is also clear and growing interest from the public in climate change. An August 2019 Ipsos MORI poll found that 85% of individuals in the UK were concerned about the issue, while protests by both Extinction Rebellion and the broader public have brought traffic and public transport to a standstill on many occasions over the last year. Campaign groups have capitalised on the fact that pension schemes are the most important interface between capital markets and individuals, and are a key part of the reason behind growing scheme member calls for pension schemes – particularly LGPS funds – to demonstrate how they are tackling the climate emergency.

The PLSA agrees that climate change is a systemic risk and one which will affect the overwhelming majority of businesses in every sector, bringing profound consequences for pension funds' investments and ultimately individuals' retirement savings. This is why we have long sought to support schemes in their consideration of climate risk. In 2017, we published a guide with ClientEarth to provide a framework for schemes to consider and manage their approach to climate change. Our popular June 2019 guide *ESG and Stewardship: A practical guide to trustee duties*, devoted a section and case studies to climate risk too.

Our 2018 and 2019 AGM Review and Voting Guidelines also specifically call out climate change as a key factor for investors to consider when undertaking engagement with firms, including when deciding how to cast their vote – a key tool in the stewardship toolkit – at company Annual General Meetings (AGMs). The next edition of our Voting Guidelines, to be published in January 2020, will provide further guidance for investors on how to assess the growing number of climate-specific resolutions being tabled at AGMs.

2020 VISION

2020 will see pressure on schemes and their climate-related investment activities intensify. Ministerial intent on climate change – regardless of the colour of

SCHEMES MUST CONTINUE TO THINK NOT ONLY ABOUT HOW THEY CONSIDER AND IMPLEMENT CLIMATE-AWARE INVESTMENT APPROACHES, BUT ALSO ABOUT HOW THEY COMMUNICATE THEM

CLIMATE CHANGE IS A SYSTEMIC RISK AND ONE WHICH WILL AFFECT THE OVERWHELMING MAJORITY OF BUSINESSES IN EVERY SECTOR

the next government – is very clear, as demonstrated by the recent letter from the Minister for Pensions to the top 50 schemes on this issue. Given that the UK will be hosting the high-profile global COP26 Climate Summit in November 2020, the pressure is on for the government to demonstrate its leadership in tackling the climate emergency.

Key amongst 2020 top-down developments will be the guidance for asset owners on using the Taskforce for Climate Related Financial Disclosures (TCFD) framework, a draft of which is being produced by the cross-industry Pensions Climate Risk Industry Group (PCRIG) which the PLSA sits on. The guidance is intended to help asset owners of every size and shape comply with their new regulatory duties in advance of the 2022 TCFD reporting expectations for "large asset owners" as announced in the government's Green Finance Initiative.

Next year will also see a double whammy in terms of scheme member engagement on climate change. Firstly, the new 'implementation statements' for DC schemes will come into force in October 2020, offering scheme members and civil society groups the opportunity to identify, assess and compare what their schemes are doing on financially material ESG issues. We know that campaign groups are already examining publicly available Statements of Investment Principles on this issue and feeding the results back to government and regulators.

Then the Make My Money Matter campaign – a high-profile initiative targeted at pension savers and backed by filmmaker Richard Curtis – will be encouraging scheme members to ask their schemes what they are doing to comply with the UN Sustainable Development Goals. The PLSA has already been helping individual schemes consider how they design their public-facing ESG and climate communications to 'tell the ESG story' so please do get in touch if you'd like to find out more.

Taken together with TPR's incorporation of climate change as a key consideration in its supervisory regime – including 1:1 supervision – it is clear that schemes must continue to think not only about how they consider and implement climate-aware investment approaches, but also about how they communicate them to their scheme members, regulators and the industry.

The PLSA will continue to ensure the pension scheme voice is heard at every level of policymaking, and we continue to welcome all and any member views on how we can best drive the agenda forward in a way which works for both pension schemes and savers.

STEPPING UP TO THE D&I CHALLENGE

Lee Georgs, COO-Corporate at consultants Redington, explains how the firm addressed diversity and inclusion – and why this is important for organisations across the pensions industry.

UNFORTUNATELY, THERE IS NO ONE-SIZE-FITS-ALL SOLUTION FOR D&I

FROM PEOPLE BEING REWARDED UNFAIRLY BECAUSE OF THEIR BACKGROUND, TO EMPLOYEES RECEIVING PROMOTIONS BASED ON PERSONALITY TYPE OVER PERFORMANCE, WORKPLACE DISCRIMINATION HAS QUITE RIGHTLY COME TO THE FORE IN RECENT YEARS. THOUGH THE MAJORITY OF FIRMS NOW RECOGNISE THE IMPORTANCE OF DIVERSITY AND INCLUSION FROM A BUSINESS PERSPECTIVE, MANY ARE YET TO MAKE THE FUNDAMENTAL CHANGES NEEDED TO FULLY INGRAIN THESE VALUES INTO THEIR ORGANISATIONAL CULTURE.

So much of what we do in the pensions industry is about finding and implementing solutions that make sense for all, even with the most diverse of memberships. Why wouldn't we take the same approach for our own workforce?

Unfortunately, there is no one-size-fits-all solution for D&I. Doing it properly is a significant commitment and involves a constant dialogue that may span over many years, but the right investment will yield substantial returns.

LEARNING THE LESSONS

Three years ago, Redington set out to overhaul its own approach, recognising that something needed to be done to improve our gender diversity. From the graduate intake to the lack of female leaders and role models, it was clear that something needed to be done to increase the number of women at the firm. Furthermore, it became apparent that this formed just part of a broader diversity issue both at Redington and in our industry overall.

For a firm that had built its history on sharing our IP with the wider industry, it only seemed fitting that we would share our lessons learned, experiments and journey with others, in an attempt to improve the situation for ourselves and others across the competitor landscape. It's always been important to us that our employees represent the communities we are serving, so we decided to attack the problem at all levels of the organisation, at every entry point, to ensure that each and every person would have equal access to benefits and opportunities – regardless of age, gender, social background, ethnicity or sexuality.

Starting with recruitment, and no longer willing to tolerate receiving lists made up of one type of candidate from selection firms, we brought the function in-house. The way we see it, by continually fishing from the same pond, you cut yourself off from a huge pool of potential talent who may not be reached by 'traditional' means, in turn creating an echo chamber within the organisation that fails to drive progress.

We got creative with the channels we were tapping into, harnessing job boards dedicated to difference and launching apprenticeship programmes. We also looked to collaborate with external groups on initiatives that would help school leavers and those from non-traditional academic backgrounds enter the workplace, as well as providing tailored support for people returning to work at a more senior level. For the latter, an ongoing focus for us is steering away from the traditionally negative narrative around someone who might have taken a career break to overcome personal circumstances or care for children, helping them ease back in a way that fits their individual circumstances.

BY CONTINUALLY FISHING FROM THE SAME POND, YOU CUT YOURSELF OFF FROM A HUGE POOL OF POTENTIAL TALENT WHO MAY NOT BE REACHED BY 'TRADITIONAL' MEANS

WE TALK OF DIVERSITY ON TRUSTEE BOARDS BUT THE ISSUE EXTENDS SO MUCH WIDER THAN THIS

INTERNAL CHANGE

Internally, we looked at our reward and bonus processes. Wanting to steer away from a regimented system that favours those who 'shout the loudest', we scrapped our annual review process and started capturing individual performance more regularly. We implemented an online tool to support a continuous feedback approach, whereby people could provide feedback on their peers and obtain checks or balances at any given time. This means that discussions around remuneration remain focussed on specific performance, with the continuous nature limiting recency bias.

Alongside this, our remuneration committee, made up of a diverse group of business leaders, now takes an active role in all team leader presentations on pay and bonuses. Acting as an objective challenger to ensure factors such as unconscious bias aren't coming into play when decisions are being made, this provides further certainty that all rewards given are seen through the same fairness lens.

Furthermore, and to support parents and others who may benefit, we rolled out our approach to flexible working as a formal policy, providing laptops and enhanced technology for all to make this happen. A review of our parental leave approach formed part of this and continues to be an important ongoing focus, with the latest development providing the first eight weeks of shared parental leave at full pay for all employees – regardless of gender – meaning it's not down to women only to leave the workforce.

There is a great deal more work to be done. We're not a big enough organisation to tackle it all at once and we still don't have the level of diversity we wish we had, which is why we'll continue to roll out initiatives to recruit diversely and promote inclusion to support our overarching aim – achieving true, cognitive diversity. It's a constant learning curve, recognising that while improvements on measures such as the gender pay gap are to be wholeheartedly applauded, they represent just one element of a much bigger puzzle. Harnessing such learnings and using them to build better solutions is key and is why we are currently focussed on building a comprehensive dashboard to measure progress on D&I from a more holistic point of view.

Equally important is being certain that whomever is being hired is the absolute best person for the job. We've learned that Redington's high-performance culture is something we are not prepared to compromise on and have now developed an interview programme that enables us to better gauge technical ability in the context of cultural fit. Doing so provides full reassurance that our recruitment efforts are consistent with *everything* we are looking to achieve.

It has been said that the diversity issue is 'too hard to solve'. It's hard, but simply too important to ignore – especially in the pensions industry. We talk of diversity on trustee boards but the issue extends so much wider than this, to the tens of thousands of people who all have a hand in member outcomes every single day. An organisation made up of people from the same background represents just one sliver of the community. True D&I isn't about ticking boxes, it's about hiring for difference – difference in background and difference in thought. The way we see it, a diverse group who can challenge each other's views will make far better and more informed decisions, and that will benefit all of us.

THE NETWORK BUILDING
PENSIONS AND LIFETIME SAVINGS ASSOCIATION

Register now for the biggest events in the Pensions Industry:

THE 2020 CONFERENCES

NEW MEMBER

The Quinbrook Infrastructure Partners group ('Quinbrook') is a specialist investment manager focused on lower carbon and renewable energy infrastructure investment and operational asset management in the US, UK and Australia. Quinbrook was founded in 2015 by David Scaysbrook and Rory Quinlan, experienced power industry professionals and investment managers who have been working together for over 15 years. Quinbrook has completed multiple investments in both utility and distributed scale wind power, reserve power gas plants, and 'smart grid' projects in the US, UK and Australia.

Quinbrook's value-add investment strategy targets higher returns from a combination of new asset development and construction, and operational improvement of assets. Quinbrook believes strongly in delivering tangible ESG outcomes such as job creation, economic stimulus, community benefit and environmental improvement, as well as clear and concise ESG reporting.

Contact

Mark Burrows
Head of Investor Relations

T: +44 7968 958 027
E: mb@quinbrook.com
W: www.quinbrook.com

A: 5th Floor, 53/54 Grosvenor Street, London, W1K 3HU
United Kingdom

Pensions Management Institute
ACHIEVING PENSIONS EXCELLENCE

PMI UPDATE
SPOTLIGHT ON SOFT SKILLS

Tim Middleton Director of Policy and External Affairs, PMI, reports on a previously missing piece in the accreditation jigsaw.

ACCREDITATION FOR PROFESSIONAL TRUSTEES HAS PRESENTED A NUMBER OF CHALLENGES. THE PROFESSIONAL TRUSTEE STANDARDS WORKING GROUP (PTSWG) HAD TO BALANCE COMPETING PRIORITIES IN ORDER TO ENSURE THAT THE PROCESS REMAINS SUFFICIENTLY ROBUST WHILE REMAINING PRICED AT A LEVEL WHICH WOULD NOT DETER POTENTIAL TRUSTEES. AS A CONSEQUENCE, THE ASSOCIATION OF PROFESSIONAL PENSION TRUSTEES (APPT), WHICH HAS LONGER-TERM RESPONSIBILITY FOR MAINTAINING THE STANDARDS, HAS WORKED CLOSELY WITH THE PENSIONS MANAGEMENT INSTITUTE (PMI) TO DESIGN A REGIME WHICH WOULD BE LEGITIMATELY ACCESSIBLE TO TRUSTEES WORKING AS SOLE TRADERS AS WELL AS THOSE WORKING THROUGH FIRMS. GOING FORWARD, TO ACHIEVE INITIAL ACCREDITATION, APPLICANTS MUST UNDERGO A FIT AND PROPER TEST AND PROVIDE REFERENCES. THEY'LL ALSO NEED TO COMPLETE THE PENSIONS REGULATOR'S (TPR) TRUSTEE TOOLKIT AND PMI'S AWARD IN PENSION TRUSTEESHIP (APT). HOWEVER, A CRUCIAL PIECE OF THE JIGSAW HAS – UNTIL NOW – BEEN MISSING.

PTSWG was anxious that the accreditation process included an assessment of an applicant's 'soft skills.' Skills such as negotiation, team-building and prioritisation are a vital part of the skill set which distinguish the professional trustee from his or her lay counterpart, and so it's important that they be included in the accreditation regime. However, they're very difficult to assess in an objective manner. APPT concluded that the assessment process needed to be inexpensive, scalable and simple to arrange. Here at the PMI, we were confident that such a qualification could be designed.

Our new qualification is the Certificate in Pension Trusteeship (CPT). There has been a deliberate desire to have the new qualification resemble the existing APT as closely as possible. It will consist of a 90-minute examination with 60 multiple-choice questions; but unlike APT, CPT will concentrate on trustee behaviours. These are split into four areas: Leadership and Communications, Problem Solving and Decision Making, Negotiation and Conflict Management, and Critical Thinking.

The examination's format means that it will be priced at the same level as APT. Additionally, it will be one of PMI's first online examinations, ensuring that the new qualification meets the requirement for scalability as well as easily accommodating any demand for private sittings. A pilot examination is to be held before the end of 2019 and it's expected that the first public sittings will be held early in 2020. While the new examination has been designed to meet the specific requirements of professional trustees, it's likely that it will also appeal to many lay trustees keen to demonstrate a higher level of expertise. Soft skills form such an important part of the professional trustee's skill set. CPT will offer the perfect solution for assessing these skills. The final piece of the jigsaw is in place.

SKILLS SUCH AS NEGOTIATION, TEAM-BUILDING AND PRIORITISATION ARE A VITAL PART OF THE SKILL SET WHICH DISTINGUISH THE PROFESSIONAL TRUSTEE FROM HIS OR HER LAY COUNTERPART

CHANGE, AND HOW WE MAKE IT HAPPEN

Our research over the summer has provided some useful perspectives on our future engagement with you, our members.

WHAT DO YOU THINK OF THE PLSA? DO WE PERFORM WELL AT BRINGING YOU WORLD-CLASS EVENTS? DOES OUR POLICY WORK ADDRESS THE CHALLENGES YOU FACE, AND DOES OUR SUPPORT AND GUIDANCE HELP YOU FACE THEM? DO WE GIVE YOU A VOICE WITH GOVERNMENT?

In the summer of 2019 we partnered with social research experts ICM to understand what our members value about the PLSA and where you think we can improve.

You said you want to know more about our role captaining the industry, bringing people together to lobby and influence change.

Here's how we make good changes happen.

REGULATION

> *"A key challenge from a trustee perspective: the rate of regulatory change, and our ability to stay current, and our understanding… the pace of regulation change."*
>
> PLSA Fund Member

Decisions made in government and by public bodies change the way our members do their jobs and the way millions of people will experience their retirement. Regulation keeps changing. It can be difficult and exasperating to keep pace.

But among PLSA members there's a widespread sentiment that pensions are under-valued by government and society more generally. They feel besieged by change, not supported by it.

That's why representing our members' interests and acting as their voice in Whitehall and Westminster is our core purpose. As the voice of the pensions industry – something 85% of our members see as a core strength – we see the bigger picture and we make sure the government sees it too.

Success depends on excellent links with ministers, civil servants, regulators, Parliamentarians, influencers and industry bodies. Those relationships mean we know what's coming, what's most important to our members, where we're most likely to succeed and how to go about it.

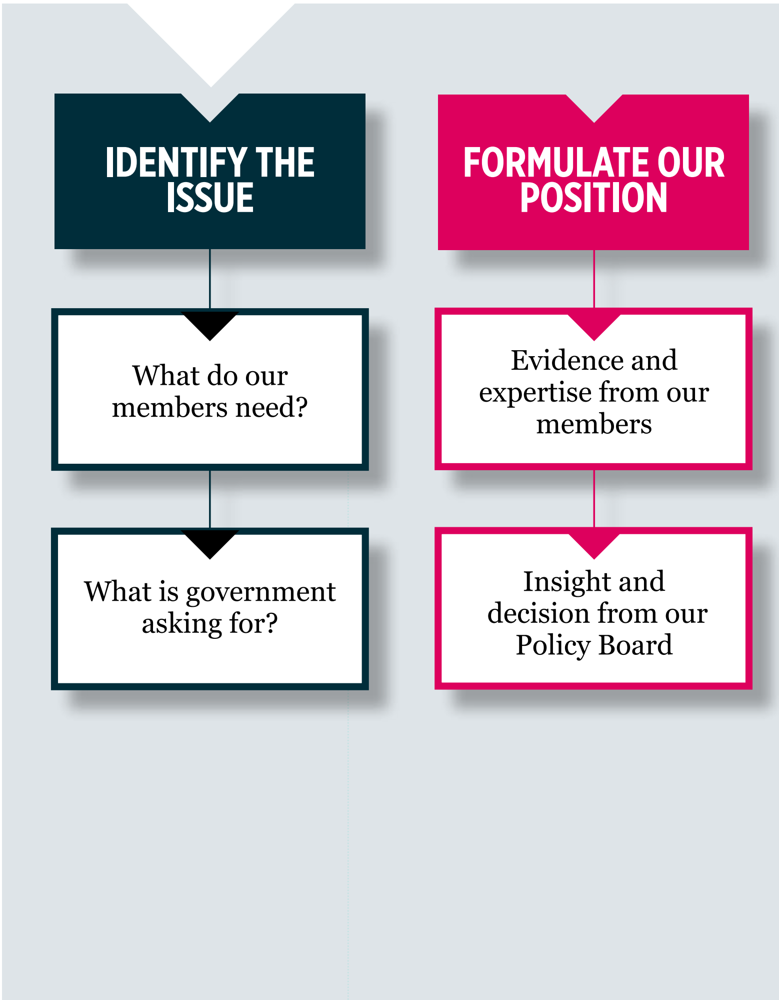
PLSA members can recognise our influence across the pensions sector:

- 84% say we're influential with regulators – the Financial Conduct Authority and the Pensions Regulator
- 78% say we influence the government
- And with pension schemes and employers – 78%

THE POLICY PROCESS

Formulating and communicating our policy positions and getting results for members isn't a linear process. Improving the system isn't as simple or as easy as publishing an idea or responding to a consultation. Pensions policy is developed through several iterations and interactions and success can take some time to shape and to measure.

Nevertheless, we can see our work on behalf of our members in four phases: identify the issue, formulate our position, make our case, and follow-up.



DIRECT ENGAGEMENT ON STEWARDSHIP

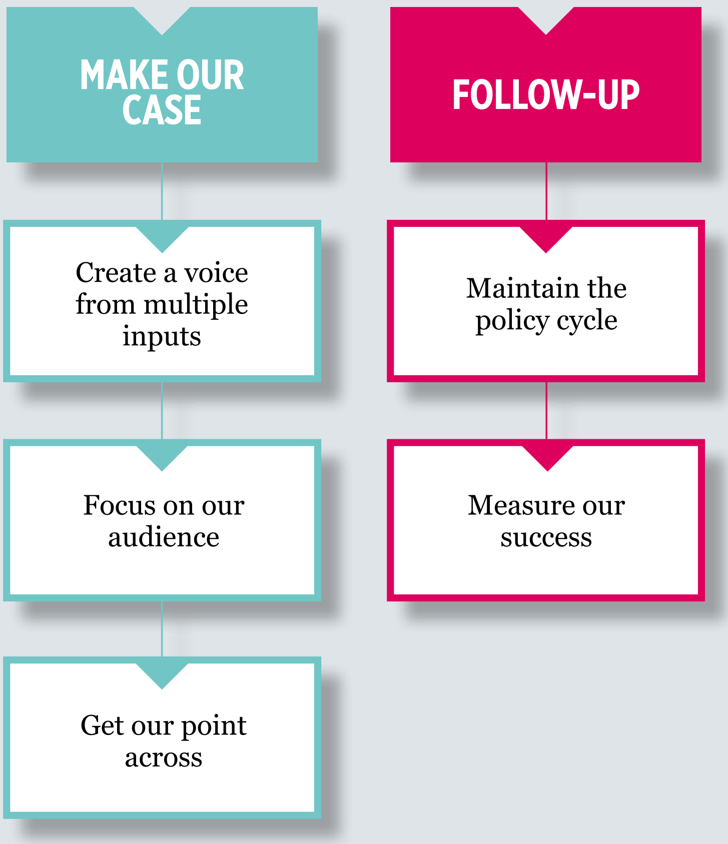
Our work on investment and stewardship helps over 80% of our members run their schemes

IDENTIFYING THE ISSUE

Increasing public and media interest in areas such as the gender pay gap, executive pay and business culture and poor corporate behaviour means corporate governance, stewardship and investment issues are in the parliamentary spotlight.

Our members are significant investors in UK companies. We've supported their engagement with the companies they invest in for many years and we've been a strong supporter of the UK Stewardship Code since its launch in 2010.

We provide a range of resources to support members' responsible investment and stewardship activities including practical advice for engaging with companies and asset managers, events and discussion papers on stewardship issues, and responses to government consultations. Our ability to bring people together is especially valuable in an area where collaborative engagement by asset owners is crucial in making a difference.



FORMULATING OUR POSITION

We work closely with our Asset Owners Advisory Group and our Stewardship Advisory Group (which looks at ESG and stewardship issues specifically) and seek views from our wider membership to inform stewardship policy. This engagement informs work such as:

- Our annual Corporate Governance & Voting Guidelines and AGM Review
- *Hidden Talent* – our reports on workforce reporting in FTSE 100 companies
- *ESG and Stewardship: A practical guide to trustee duties* – our June 2019 guidance.

MAKING OUR CASE

Giving our members direct access to decision-makers helps to influence change and shape an environment that works for them. Of course we engage closely with the Work and Pensions Select Committee, which helps open other doors in Westminster.

In June 2019 we facilitated a lunch in Westminster with eight of our members and the influential House of Commons Business, Energy and Industrial Strategy (BEIS) Committee when it wanted to hear asset owners' views – to add to the investment industry's – as it looked to talk through key areas of investment, stewardship and corporate governance.

This gave our members a fantastic opportunity to give their views directly and help shape the thinking of Parliamentarians as they formulated their own positions in high-profile areas.

FOLLOWING UP

Broad and rapidly changing areas such as this require continuous engagement. We're in ongoing contact with parliamentarians on the Committee, helping to inform their continuing thinking and progress on a range of corporate governance, stewardship and investment issues such as:

- The link between asset owners and day-to-day management of investment decisions.
- The role of policymakers in creating the right environment for asset owners to act as engaged stewards of their assets.
- The role of asset owners in improving corporate governance in ESG and climate change, gender balance on boards, excessive executive pay and focussing on long-term performance.

Beyond the BEIS Committee we're leading a range of collaborative activity across these issues. We have discussed corporate governance issues with House of Commons Library staff, organised meetings for members with key ministers on climate change and stewardship policy issues (until purdah intervened), captained a PLSA members' response to a ministerial letter on climate change and stewardship – which secured a ministerial meeting – and in December we held a teach-in with Clerks of the Work and Pensions Select Committee on corporate governance and ESG issues.

We're also building our role as a forum for collaborative engagement between asset owners, particularly on workforce disclosure, bringing together expert members to massively update our Corporate Governance Policy and Voting Guidelines for 2020, and updating the Stewardship Disclosure Framework (in line with the new Stewardship Code).

Sometimes success can be measured through our voice being recognised in new forums. In November we joined a new Task Force on Climate-Related Financial Disclosures (TCFD) pensions industry working group which will produce guidance for asset owners – to be launched at our Investment Conference 2020. In the same month we appeared in national media, speaking about the significant negative implications Labour's plans to nationalise water and energy utilities, train companies, Royal Mail and parts of BT Group could have on the value of UK savers' pensions and the wider longer-term impact on the private sector's willingness to invest in the UK infrastructure and economy.

STAY IN TOUCH

Constant change is hard to keep up with. Our independent updates, insight and analysis keep you **informed, up to date and ready** to act. We bring you news on PLSA policy, updates on our lobbying and influencing and perspectives from across our membership.

"Informative', 'thought-leading', 'authoritative', 'high-quality'. When it comes to their fortnightly newsletters, then I think it's very much current, up-to-the-minute."

(Pension scheme trustee on PolicyWatch)

PolicyWatch puts the latest news and analysis from pensions policy and public affairs in your inbox every fortnight. Sign up on our website.

"It's absolutely brilliant. I read it cover to cover at least 3 or 4 times... I carry it with me to pull out at every trustee meeting."

(Professional trustee, on ESG and Stewardship: A practical guide to trustee duties)

THE MEMBER BACKING PENSIONS AND LIFETIME SAVINGS ASSOCIATION

What else did you tell us about your views of the PLSA? Here are the key stats:

- 87% of our members would recommend joining the PLSA
- 94% of our members would renew their membership
- Our members think we understand (71%), respond (72%) and represent (74%) their needs.
- 84% of PLSA members think attending our world-class events is the best way to engage with the PLSA in the future.

PENSION QUALITY MARK

NEW PENSION QUALITY MARK (PQM) STANDARDS

To help raise the quality of defined contribution (DC) pension schemes, we are very pleased to launch our new PQM standards.

The revised standards recognise the changes to governance and standards in DC pensions since 2009 and focus on four key areas to help ensure savers can get better outcomes in retirement.

To find out more, visit
www.pensionqualitymark.org.uk

PQM STANDARDS

PUTTING OUR MEMBERS ON THE MAP

James Walsh, Head of Membership Engagement, has been getting out and about...

AS READERS OF THE LAST ISSUE OF *VIEWPOINT* WILL REMEMBER, I'M ON A MISSION TO COVER A MAP OF THE UNITED KINGDOM WITH AS MANY RED DOTS AS I CAN, EACH ONE REPRESENTING A VISIT TO A PLSA MEMBER. SINCE MY LAST UPDATE THE HEADS OF PENSIONS OR TRUSTEES AT LANCASHIRE AND OXFORDSHIRE COUNTY COUNCILS, THE ENVIRONMENT AGENCY, SCOTTISH POWER AND – CLOSER TO HOME – J.P. MORGAN PENSION FUND AND ICI HAVE BEEN AMONG THE MANY MEMBERS KIND ENOUGH TO WELCOME ME OR OUR DIRECTOR OF MEMBERSHIP, LAURA WEBB, FOR A DISCUSSION ABOUT WHAT'S ON THEIR AGENDA AND HOW THE PLSA CAN KEEP IMPROVING ITS SERVICE TO THEM.

That means new red dots on the wall map, more updates to staff on the PLSA intranet so we're all aware of members' main issues, and more insights to feed into our policy, events and communications work.

GMPS STILL A HEADACHE

As ever, the Guaranteed Minimum Pensions (GMPs) issue was raised by many schemes. The usual call is for clarity on what schemes are required to do – which means guidance from HMRC. Getting data in order for GMP conciliation work is also a significant challenge for schemes.

One large pension scheme in the retail sector described GMP equalisation as a very "thorny" problem because of its large number of short-service members, including many from an era when record-keeping was below current standards. There is also frustration in some schemes that GMP work involves the scheme actuary and, therefore, extra fees.

To show you that visiting our members isn't always a comfortable chat, we were also told that the PLSA has not "kept up the momentum" on GMPs and is "very quiet" on the issue. This tells us we need to communicate more with members about our close involvement in the many industry working groups looking for a solution – look out for the PLSA's PolicyWatch where we share our lobbying and engagement results of the last fortnight. We're also looking for contributors to *Viewpoint* and a sponsor for a Made Simple Guide on GMPs – get in touch if you can share practical expertise.

DB DERISKING ACTIVITY GROWING

One large scheme told us that derisking activity is higher than expected – a point reflected in several meetings. Some claim DB provision will soon be much more a matter for large consolidators and insurers than for traditional single-company schemes. Others focused on self-sufficiency, the long-term aim for some of the larger schemes. In each case, monitoring sponsor covenant and ensuring investments support the self-sufficiency objective is a top agenda item for the scheme's management.

Changes in DB are a key policy issue for us – but also a strategic issue as our membership base changes in size and the type of service members need from us. This is a key part of our long-term planning for the organisation.

MORE POLICY INSIGHT

Meanwhile, engagement with DC members remains a key issue. Members are looking at videos, default drawdown products and guidance around taking pensions as cash. One particularly interesting point involved a scheme with many members from eastern European countries who focus more on sending money home than saving. A Romanian interpreter had to be employed for a recent pensions seminar.

KEY POLICY ISSUES: FUND MEMBERS

Members raised a vast array of other issues with us. Relations with the Pensions Regulator – both good and bad – once again featured and will again form part of our feedback in our own discussions with TPR staff. The switch from RPI to CPI(H) and its impact – again both good and bad – came up, as did varying approaches to ESG, a growing issue or a short-term opportunity depending on scheme size and lifecycle.

Our member visits form part of a wider engagement strategy that also includes breakfast roundtables, telephone catch-ups and much more. But there is no substitute for getting on a train or on the road and visiting our members at their place, not ours. If you would like the PLSA team to pay you a visit, then please contact me on **james.walsh@plsa.co.uk**

THOMSON REUTERS
PRACTICAL LAW™

LEGAL UPDATE

PENSIONS LEGISLATION IN THE PIPELINE: KEY POINTS

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

THE PENSION SCHEMES BILL 2019-20 IS GONE, BUT NOT FORGOTTEN. INTRODUCED TO PARLIAMENT IN OCTOBER, THE GOVERNMENT CONFIRMED IN NOVEMBER THAT FOLLOWING THE DISSOLUTION OF PARLIAMENT AHEAD OF THE GENERAL ELECTION, THE BILL WOULD MAKE NO FURTHER PROGRESS. HOWEVER, THE PENSIONS MINISTER HAS PUBLICLY INDICATED[1] THAT THE BILL HAS CROSS-PARTY SUPPORT AND IS LIKELY TO BE BROUGHT FORWARD AGAIN AFTER THE GENERAL ELECTION.

To be prepared for these potentially significant legislative changes, we have summarised the key points of the short-lived Bill. A wide range of changes were proposed, including:

- **Introducing a statutory framework for the authorisation and supervision of "collective money purchase schemes" by the Pensions Regulator.** In past consultations, these were known as "collective defined contribution" or "CDC" schemes. The framework coincides with plans to develop a CDC scheme for the Royal Mail.

- **Amending the Regulator's powers to issue contribution notices in the context of corporate transactions.** In particular, two new grounds on which a contribution notice may be issued regarding the potentially detrimental impact of a transaction on employer insolvency or resources – subject to a reasonableness test.

- **Introducing new criminal offences and non-criminal sanctions.** These include a new power for the Regulator to issue financial penalties of up to £1 million in certain circumstances, including where an employer deliberately avoids an employer debt. The Regulator's information-gathering powers may also be extended, and a new financial penalty regime would apply if a person knowingly or recklessly provides false or misleading information to the Regulator.

- **Developing the scheme-specific funding regime** by creating a new obligation on trustees of defined benefit schemes to prepare a "funding and investment strategy" for the purpose of ensuring that pensions and other benefits can be provided over the long term. This will need to be agreed with the employer. A "statement of strategy" will also be required.

- **Amending the legislation regarding transfers** from occupational and personal pension schemes, by introducing new restrictions regarding the transferring member's employment or place of residence.

- **Putting in place a new regime for pensions dashboards,** including providing for pension schemes to be compelled to give information to dashboard providers.

Many of these changes were foreshadowed in the DWP's 2018 White Paper and related consultations. Further debate is expected, and the detailed legal provisions would be contained in secondary legislation.

For more information on Thomson Reuters' Practical Law knowhow service for pensions professionals visit **https://uk.practicallaw.thomsonreuters.com/Browse/Home/Practice/Pensions or contact loreto.miranda@thomsonreuters.com**.

1 *In a speech to the conference of Association of Member-nominated Trustees on 31 October 2019.*