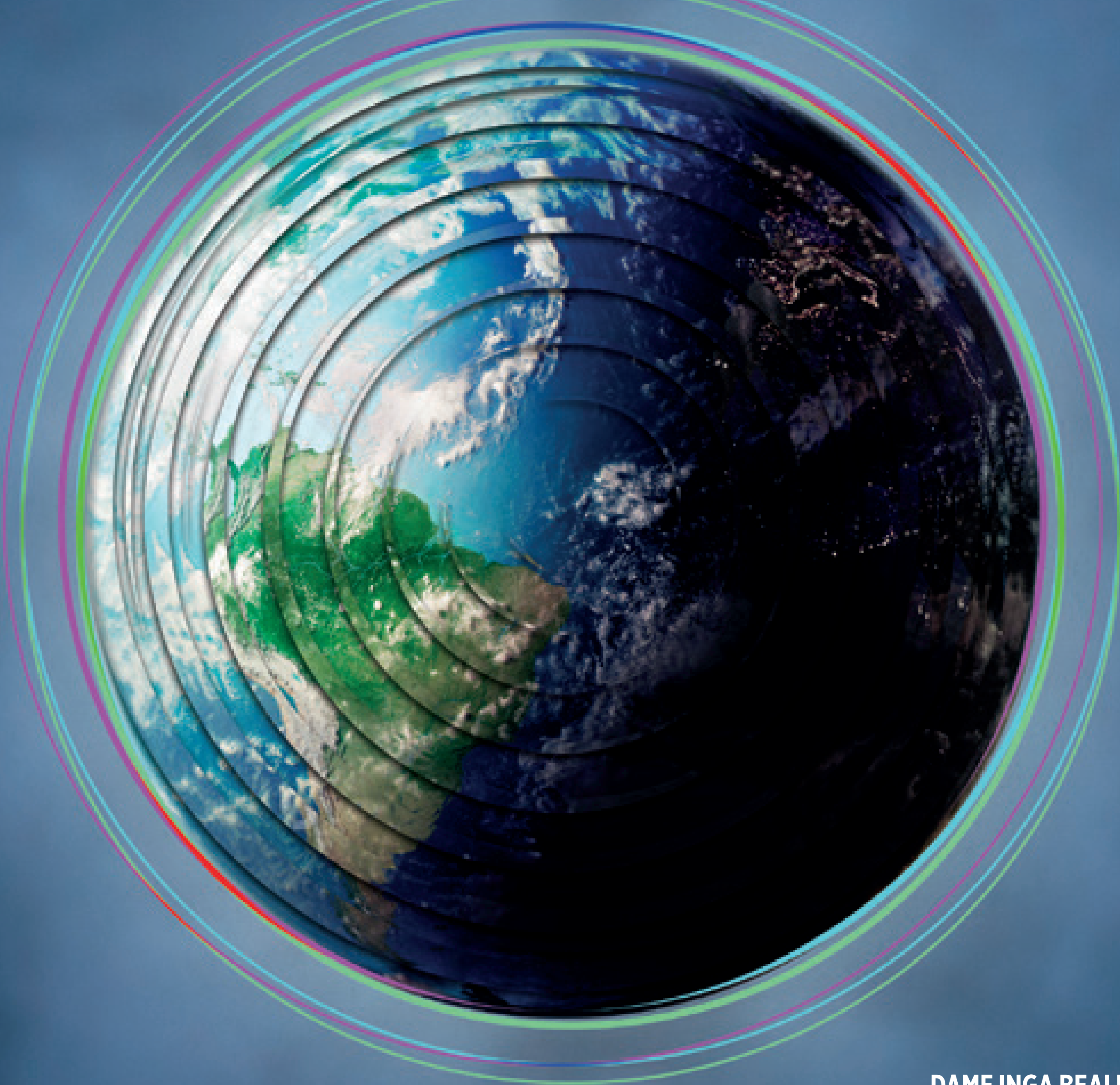
Viewpoint

The official journal of the Pensions and Lifetime Savings Association

Issue 3 2019

A WORLD-CLASS FUTURE: PLSA ANNUAL CONFERENCE 2019



DAME INGA BEALE: EVOLUTION ISN'T WORKING – TIME FOR REVOLUTION

WHY DIVERSITY AND INCLUSION IS A PENSIONS ISSUE

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

CEO'S *Viewpoint*

Julian Mund looks back over a busy summer and forward to a busy autumn...

IT'S BEEN QUITE AN EXCITING SUMMER OF ACTIVITY IN THE UK, WITH A GREAT DEAL OF CHANGE SINCE MY LAST VIEWPOINT MESSAGE.

July saw us welcome in a new Prime Minister in the shape of Boris Johnson, taking over the reins from Theresa May. Without a shadow of a doubt, Brexit will be his top priority in the first few months of his leadership. However, I'd like to think that UK pensions will hold a portion of his focus when Mr Johnson and his ministers look to make their mark on the domestic front.

Before looking forward, let's not forget that there have already been some exciting developments this year. The Pensions Regulator's master trust authorisation regime went live and the Cost Transparency Initiative was launched in April. Add to that auto-enrolment figures passing the 10 million mark and it has been a pretty hectic first half of 2019.

But if Mr Johnson and his ministers do want to continue the momentum 2019 has already generated, then one way they can make their mark is to progress with the much-anticipated Pensions Bill. Fingers crossed this happens, as it's something you as members have said is deeply desired.

The Bill's publication should be a priority as it covers a number of important measures for savers such as the eagerly anticipated Pensions Dashboard, consolidation of defined benefit (DB) pension funds, and a new DB funding regime.

When the Pensions Dashboard does go ahead, it will be a real eye-opener for savers and a really important opportunity to get them more involved with their pension savings. The PLSA has long supported a dashboard that helps savers to see the full picture for all their pensions across state pension and all their other pension pots. We know that you're all looking forward to seeing this project come to fruition as well.

We're also eagerly anticipating the launch of our Retirement Living Standards that will be published at our October Annual Conference in Manchester. Pitched at three levels – minimum, moderate and comfortable – the Retirement Living Standards will help people to get a better understanding of the amount they'll need for their retirement for different kinds of lifestyle. We really hope that the government sees how valuable these standards are in helping people understand their retirement needs, and incorporates them into the Dashboard.

Our own research has shown that at a contribution rate of 8%, the majority of savers are unlikely to meet the Pension Commission's Target Replacement Rate.

In our Hitting the Target report, we proposed that the next government should legislate for an increase in automatic enrolment contributions to 12% of salary by 2030 and move to a 50/50 employer/saver split. We know that members have backed such a proposal and we will continue to push for these changes as a matter of course in our policy work.

There are also a host of emerging issues coming to the fore in 2019 and beyond.

It's hard to escape reference to the impact of climate change, and it remains an important agenda item for pensions. Trustees are very much in the regulator's sights too, as it begins an in-depth consultation about their role and duties.

Cost transparency is under greater scrutiny; not just from the Cost Transparency Initiative but from the Work and Pensions Committee.

To meet these issues head on, our policy team will keep its foot firmly on the pedal. With TPR consulting on the funding regime and ESG guidelines coming into force in October, the tail end of 2019 looks like it will be keeping everyone on their toes.

Best

Julian Mund

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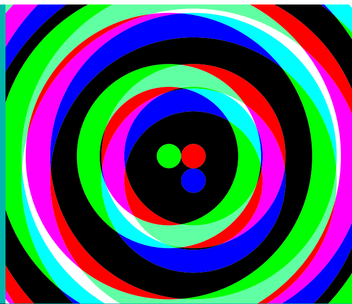

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INTERVIEW:
DAME INGA BEALE

Maggie Williams talks to the Director of London First and former CEO of Lloyd's of London ahead of her PLSA Annual Conference keynote speech.

Q

THE TITLE OF YOUR SPEECH IS ABOUT BREAKING BARRIERS BY HITTING THEM HARD. WHAT DO YOU MEAN BY THAT, AND WHICH BARRIER DO WE NEED TO HIT FIRST AND HARDEST?

A: You can approach issues that need to be transformed through evolution or revolution. I've worked in financial services for over 37 years and the pace of evolution has been glacial. So, I'm now more in favour of revolution. The world is changing very rapidly around us and we've got to keep up.

We need to think differently about how we serve consumers. That means attracting the best and most diverse people to work in our profession and using technology in ways that I would never have thought possible in the past.

Q

YOU'RE PATRON OF INSURING WOMEN'S FUTURES (IWF). WHAT IMPACT DO YOU THINK IWF HAS HAD SO FAR, AND WHERE DO YOU SEE THIS MAKING AN IMPACT IN THE FUTURE?

A: Our work started over two years ago, bringing together participants from across the insurance and personal finance professions. IWF has the overarching aim of helping to improve women's lifelong financial resilience and to secure a better future for all.

We uncovered facts and figures that are alarming. For example, the average pension wealth of women aged 65 is £35,800 – just one fifth of that of men of the same age. This sparked a host of activity through IWF, bringing finance professionals and consumer groups together to understand what causes such a large gap.

BY WORKING TOGETHER WE CAN HELP TACKLE FINANCIAL INCLUSION FOR ALL AND IMPROVE PENSION PROVISION

It starts early on in life, to the extent that female apprentices earn 21% less per hour than their male counterparts. To make it simple for everyone to understand we developed '6 Moments that Matter' in a woman's life and have built a financial wellbeing guide to help women take control and secure their financial futures.

We're working on further proposals with the financial services profession, as well as with government, employers and wider society to improve women's pension provision.

THE WORLD IS CHANGING VERY RAPIDLY AROUND US AND WE'VE GOT TO KEEP UP

Some of these proposals are already developed, such as ensuring that pension assets are fully included in divorce settlements. Others include simple personal guidance to women like SmartPURSE, the brainchild of Jude Kelly who launched the WOW (Women of the World) festivals.

Q

WHAT DO YOU THINK SHOULD BE THE BIGGEST PRIORITIES OF THE PENSIONS INDUSTRY, EMPLOYERS, GOVERNMENT AND INDIVIDUAL SAVERS WHEN IT COMES TO BREAKING DOWN BARRIERS AND IMPROVING EQUALITY AROUND PENSION SAVINGS?

A: The gender pension gap is clearly one of the inequalities to be tackled. We know that the government is keen to address this and the Women's Empowerment Roadmap, launched in July by Penny Mordaunt, Minister for Women & Equalities, is evidence of this.

But there are further barriers that affect many other groups of savers: pensions are seen as confusing; it can be difficult to engage young people in something that seems such a long way off; the rising number of entrepreneurs who feel unable to contribute to a private pension when they're starting out; the list goes on...

A major priority has to be the way we communicate and engage with savers. That means developing easy-to-use, mobile-friendly apps where people can quickly see how their savings are working for them and what their future retirement income will be. We also need to demystify how pensions and savings can work together, by using simple, everyday language.

One in four families in the UK is now classed as low-income and their focus is how to find enough money to pay their weekly bills. We have an important opportunity to address financial inclusion as a broader topic, with simple and affordable options for low-income households.

Q

WHAT ARE YOU MOST LOOKING FORWARD TO AT THE PLSA'S CONFERENCE?

A: I love the notion that by working together we can help tackle financial inclusion for all and improve pension provision.

I'm particularly interested in the sessions that focus on individuals as savers, such as how to develop trust in pensions, how to tackle the gender gap, and how to use Fintech to build a better service for everyone.

You can find out more about IWF at **www.insuringwomensfutures.co.uk**

PREVIEW: ANNUAL CONFERENCE & EXHIBITION

Rachel Pine, Events & Training Content Manager, looks forward to a world-class conference…

WHAT DOES IT MEAN TO BE WORLD-CLASS? ATHLETES SUCH AS JESSICA-ENNIS HILL, ANDY MURRAY AND THIS YEAR'S ENGLAND CRICKET SIDE COME TO MIND, AS DO CULTURAL INSTITUTIONS – THE ROYAL OPERA, THE BRITISH MUSEUM AND EVEN GLASTONBURY. AND UNIVERSITIES — OXFORD, CAMBRIDGE, LSE, THE UNIVERSITY OF MANCHESTER — AND THAT'S JUST A FEW. WE'RE FULL OF WORLD-CLASS IN THE UK.

This year's Annual Conference & Exhibition examines the idea of building world-class systems. How might world-class look in our industry? Pensions that provide people with lifelong benefits that they can enjoy. A nation of engaged savers who understand how much money they need to save to enable them to have the retirement lifestyle they're hoping for. An industry that savers can trust to deliver services efficiently and transparently.

10 MILLION
SAVERS IN THE UK'S DC SCHEMES

We believe, wholeheartedly, that our pension system here in the UK is truly world-class. The UK's pension system has 45.6 million memberships (with 17.3 million active members) and around £2.4 trillion in savings. Due to auto-enrolment, just about everyone in full-time employment, and many who work part-time, have a pension with their savings matched, and sometimes exceeded by, their employer's contribution. Auto-enrolment has introduced pension saving to 30% more savers; and today there are more than 10 million savers in the UK's DC schemes.

We were pleased to participate in the DB funding consultation that led to sweeping changes by the DWP, including the establishment of Superfunds, which could provide a variety of options to shore up challenged smaller schemes.

At this year's conference, we're looking not just inward, but we've turned our gaze outward as well, inviting representatives from pension systems around the world to contribute to our understanding. Australia, with its mature, high-contribution DC system. The Netherlands, who are in the process of moving from a fully DB system to one that has elements of both DB and DC. The US, the world's largest DC market, which is making an effort to expand access to retirement savings and security to minority groups, lower-paid workers, and those who may not have been able to save previously. All are world-class systems, each with unique characteristics that we'll surely wish to consider as we look to the future of our own savings system.

THE UK'S PENSION SYSTEM HAS 46.6 MILLION MEMBERSHIPS

We have Guy Opperman, the Minister for Pensions and Financial Inclusion, who'll bring us up to date on what he's working on in a keynote presentation, as well as joining our new 'Engagement Tech' stream with a session on bringing the Pensions Dashboard from concept to reality.

During the conference, on Thursday morning first thing, we'll be launching the Retirement Living Standards, an easy-to-understand method to help savers plan for their retirement through a system of targets that offer a clear link between in-work savings and post-work lifestyle.

We've assembled a group of industry speakers we believe are truly world-class to discuss topics including how to use technology to engage savers and trustee boards, illiquid investing for DC schemes, the pensions gender gap, the future of DB funding, and how investment may look in the environment of 'lower for longer' interest rates and global political upheaval. We'll discuss the consolidation models for DB and DC, present original research on the newly auto-enrolled – a group we at the PLSA call 'Generation AE' – and look at the benefits and improved outcomes that investment cost transparency can bring. We'll look at many other subjects as well.

This conference will rely on lots of interaction from our delegates – never more so than during what may be the world's first (or at least our and TPR's first!) live DB consultation.

And world-class doesn't stop at pensions – we're delighted to have many speakers from outside our sector who are absolutely world-class in their fields. They include Dame Inga Beale, the first female chief executive in the 300+ year history of Lloyd's of London, who'll talk to us about how to create a culture of inclusion within our own organisations – and why inclusion is critical to any diversity mission; the BBC's Laura Kuenssberg, who has become nearly as well-known a Brexit figure as Boris Johnson and Michel Barnier, and will be providing an up-to-the-minute update on the negotiations; Steph McGovern, who can be seen nearly every day on BBC Breakfast, reporting business stories from around the country, who'll tell us what she hears from savers nationwide about their attitudes toward pensions, and what we may need to do to engage people more fully with their retirement savings.

Particularly exciting this year – Fiona Bruce will be hosting a pensions debate, featuring a panel of industry experts. We are sure the session will be contentious and exciting. Panellists include shadow pensions minister Jack Dromey, former pensions minister and investment management policy head Steve Webb, financial journalist Paul Lewis, millennial personal finance expert Iona Bain and Nigel Peaple, who is the director of our policy and research area.

The Annual Conference & Exhibition is chock-full of content, with our Trustee Learning Zone in full swing covering trustee investment duties and reputation management, and a slew of Specialist Sessions to enlighten, amuse and inform you on topics ranging from consolidation options to the UK's savings habits to a 'Back to the Future'-themed session on DC default design. Our Learning Hub, which can be found inside the Exhibition Hall, features five fully informational sessions that you can enjoy while taking a break. We'll be discussing everything from ESG guidance for trustees, to a deep dive into the research that supports the Retirement Living Standards, to the fastest and most furious presentation on DB endgame planning that's ever been attempted.

We hope that you'll participate fully in the conference – attend sessions, ask questions, answer polls, and network with colleagues, peers and exhibitors.

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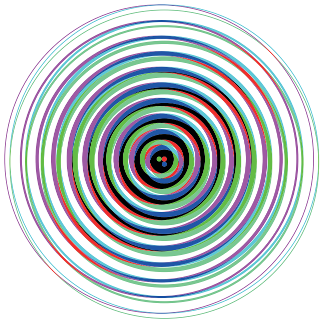

It may not quite be Glastonbury, but it is most definitely world-class!

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

EDUCATION PARTNER

PLSA EDUCATION PARTNERS

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THE PLSA EDUCATION PARTNERS WILL SHARE THEIR EXPERTISE VIA WEBINARS, TEACH-INS AND THOUGHT LEADERSHIP ARTICLES.

If you are interested in becoming an Education Partner for 2020, please contact **Ben.Harwood@plsa.co.uk**

BUILDING WORLD-CLASS PENSION SYSTEMS

We asked three of our *Looking ahead to 2020* Annual Conference panellists how to do it....

Q: WHAT CAN SCHEMES DO TO BUILD WORLD-CLASS PENSION SYSTEMS?

A: Pension systems the world over are experiencing tension between the twin goals of adequacy and sustainability, creating challenges for policy makers, pension institutions, employers and members.

According to the Melbourne Mercer Global Pensions Index, the UK trails many countries on adequacy but holds its own on sustainability. UK legacy arrangements – of relatively low state pensions and employers backing substantial 'second pillar' promises – served a previous generation well. But as economic systems have become more dynamic, this approach has proved less resilient and UK pensions are in a process of transition.

Financial security in later life will continue to make claims on future generations' outputs, through capital interests in the means of production. Large-scale pension schemes set up as trust-based or insurance companies (or amalgams of both) mostly as a result of auto-enrolment, will be important intermediaries in this process.

An appropriate number of pension schemes of suitable scale, with full understanding of the capital markets in which they operate, good quality decision-making processes, and competing for the best opportunities for members will improve outcomes for individuals and also contribute to the efficient use of capital across the economy.

The industry spends a lot of time debating optimal levels of employer and employee contributions, as well as how to promote deferred gratification. Pension schemes must not simply rely on the state or employers to make these decisions – it is a partnership. A scheme that is trusted, impartial and delivers information cost-efficiently at scale can be hugely influential. Support for retirement decisions is also critical, including financial tools that convert capital to income in different ways, provision of default pathways and unbiased information.

As the paternalistic impulse that drove final salary schemes becomes too expensive to maintain, our new paternalism must be access to advice and guidance that helps individuals transition to retirement. We are in the foothills of understanding how to deliver that cost-effectively, safely and at world-class standard.

Bill Galvin, CEO USS

Q: WHAT CAN PENSION SCHEME PROVIDERS DO TO BUILD WORLD-CLASS PENSION SYSTEMS?

A: Ultimately, a world-class pension system delivers great retirement outcomes for its members. Key to this is understanding members' needs and preferences.

At Nest we take decisions based on an in-depth understanding of our members. We know more than 90% of people automatically enrolled into Nest stay in the fund they're first put in, so our default strategy is the highest quality and tailored to the year our members are expected to retire. We also know some of our members want flexibility, so we have designed a set of investment choices which are straightforward for members to understand. We engage with our members to make sure they have the right information to make informed and considered decisions about their pension pots.

So, what can pension schemes do to build world-class pension systems? Understand members and what they need from their scheme, and build systems based on that.

Helen Dean, CEO NEST

Q: HOW COULD NEW LEGISLATION HELP SCHEMES BUILD WORLD-CLASS PENSION SYSTEMS?

A: I'm currently working on three pieces of legislation which, with sufficient traction, could revolutionise pensions.

The first is a VAT exemption on data cleansing work for (a) pension dashboard readiness and (b) contribution towards digitisation of UK pensions. This could make the pension dashboard more meaningful. It could also improve scheme management and build consumer trust in the industry.

Secondly, I'd like an amnesty on unauthorised payment tax charges for victims of pension scams up to 1 Jan 2014. This is coupled with requiring HMRC to work to its own charter and treat those affected by scams as victims, not criminals.

The final piece is a change that would give trustees powers to refuse a transfer where good practice due diligence steps show red flags. This will protect thousands of people from scammers.

Margaret Snowdon, President, Pensions Administration Standards Association

The Looking Ahead to 2020 panel is at **13.40** on **16 October**

OFF WITH A DASH!

Director of Policy and Research ***Nigel Peaple*** reports on the work taking place to deliver the Pensions Dashboard.

IN APRIL, THE GOVERNMENT PUBLISHED ITS VIEWS ON THE PENSIONS DASHBOARD FEASIBILITY STUDY, FOLLOWING FEEDBACK FROM THE INDUSTRY DURING THE CONSULTATION PERIOD (DECEMBER 2018-JANUARY 2019). THE VAST MAJORITY OF THE GOVERNMENT'S CONCLUSIONS WERE IN LINE WITH THE PLSA'S VIEWS. SINCE THEN, REAL PROGRESS HAS BEEN MADE IN ESTABLISHING THE PENSIONS DASHBOARD INDUSTRY DELIVERY GROUP. WITH THE PLUMBING FIRMLY IN PLACE, IT'S FAIR TO SAY THE REAL WORK STARTS NOW – AND THERE'S A GREAT DEAL TO DO!

THE GOVERNMENT'S DECISION TO COMPEL PENSION SCHEMES TO PROVIDE DATA TO DASHBOARDS IS THE RIGHT ONE

CONSULTATION RESPONSE

The Feasibility Study explored several elements of the dashboard project, including funding, governance, scheme participation, and the dashboard's architecture. In its response to the consultation on the Study, the government came to a number of key conclusions that are worth highlighting.

The government committed to deliver a non-commercial dashboard provided by the Money and Pensions Service. The PLSA has consistently argued that this is essential to ensure that savers trust dashboards and have confidence in the information presented on them. Though we recognise that pension schemes will face a variety of challenges in making their data available to dashboards, we believe that the government's decision to compel pension schemes to provide data to dashboards is the right one. It is necessary to ensure that savers will be able to see all their pensions in one place, which will help them make informed decisions.

Crucial to a successful 'on-boarding' process is the timeline according to which schemes will have to make their data available. The government's decision to give schemes three to four years to do so is welcome and respects the needs of all types of scheme in the pensions sector. The government expects that some large DC schemes, including master trusts, will be able to provide data on a voluntary basis from 2019/2020. This might be possible, but our understanding is that these schemes are likely to need around 12 to 18 months from the point of certainty about the required data standards to provide data to dashboards.

The information presented on dashboards should be phased, in the government's view, starting with simple information that will allow savers to 'find and view' their pensions. We agree that this is the right approach. It will help to ensure that appropriate time is available to develop an adequate consumer protection regime and contain costs for schemes.

RECENT DEVELOPMENTS

Since the publication of the government's response to the Feasibility Study, the dashboard project has accelerated. In June, the Money and Pensions Service (MAPS) appointed Chris Curry as the Principal of the Pensions Dashboard Industry Delivery Group. Chris is Director of the Pensions Policy Institute and was a member of the DWP's Automatic Enrolment Review (2017) Advisory Group. He's also well known to the PLSA, having been on the steering group that oversaw our Hitting The Target project.

Following Chris's appointment, MAPS hired an Implementation Director, Angela Pober, and consultancy support, Capgemini, in July. Their immediate task is to develop a robust business case and roadmap for the dashboard project. MAPS also formally opened the application process for stakeholders interested in being on the steering group of the Industry Delivery Body, which will provide strategic direction for the development of the project.

NEXT STEPS

The PLSA's main priority in the short term is to secure appropriate representation on the dashboard delivery body's steering group. Our engagement with the government is focusing on achieving this end. We're also encouraging schemes to start preparing their data for the dashboard as soon as possible. Primarily, this process will be concerned with the completeness and correctness of data. The pace of the project is likely to accelerate towards the end of 2019 and the PLSA will keep members informed about further developments as and when they arise.

Nigel Peaple has been appointed to the Dashboard Delivery Industry Group. This new steering group will support the work of the Industry Delivery Group (IDG) which has been established within the Money and Pensions Service.

MEET THE BOARD: CATHERINE MAY

Maggie Williams finds out more about experienced non-executive director and PLSA Board Member ***Catherine May***.

Q
CAN YOU TELL US A BIT ABOUT YOUR BACKGROUND, AREAS OF EXPERTISE AND HOW YOU BECAME INVOLVED WITH THE PLSA BOARD?

A

I started what I call the second phase of my career early in 2015, when I began to build a portfolio of roles. Before then I'd spent my professional life more conventionally, working full-time as a reputation management specialist, culminating in my serving as Corporate Affairs Director on the executive committees of three different FTSE 40 businesses: SAB Miller plc, Centrica plc and RELX plc.

I now divide my time between serving on boards, working as an executive leadership coach and acting as an adviser on reputation management and talent development issues. I really enjoy working across different environments and dealing with such a great variety of challenges.

Q
AS AN OUTSIDER TO THE PENSIONS INDUSTRY, WHAT DO YOU SEE AS THE SECTOR'S MAIN CHALLENGES?

A

I joined the PLSA board at a time when the board leadership was very keen to find someone from outside the sector, who would bring different perspectives to the team. I feel very fortunate to have joined the board last autumn and to have got the chance to get under the skin of the pensions sector and develop an understanding of the strategies and policies that have shaped all of our retirement and savings options in the UK.

I hope I can help the PLSA look at some of the sectors and organisations working successfully to shape and inform policy in other areas, and see whether there are lessons we can learn from their successes. I've seen great work in the fast-moving consumer goods (FMCG) and pharmaceutical sectors for example, with global collaborations that have made a great impact on the delivery of better healthcare – we should aspire to make that kind of difference too.

One of our biggest challenges in the sector is, I believe, the need to educate everyone in our society, from as early an age as possible, and get them to take a holistic, long-term view of their working life and the options they have to manage their incomes to cover all of the ups and downs of a typical life.

Big challenges like this require committed engagement from both the public and private sector, with all organisations bringing a creative spirit to work out how we can engage people of all ages and backgrounds, and to develop options that will work for those from every part of our society. In my experience most people are uncomfortable with financial planning, either because they find it dull, or more often because they are actually rather frightened of what they may see when they look closely at their finances. Winning the attention of millions of people with a money management issue can't be done quickly or easily but I hope the PLSA can play a significant role in helping make progress in this area.

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

A

I have been struck by the integrity and professionalism of the pensions professionals I have got to know through my PLSA role. It's a great source of pride for me to be associated with people who are so focused on something so important to our societal success and our well-being.

Professional membership bodies and trade associations play a vital role in bringing together key organisations and individuals to work collectively on the biggest issues facing their sectors. I think the PLSA is well placed to grow in stature as the thought leader in our world, and bring together great insights from our members and our association teams to shape our pensions and investment landscape for the better.

PROFESSIONAL MEMBERSHIP BODIES AND TRADE ASSOCIATIONS PLAY A VITAL ROLE IN BRINGING TOGETHER KEY ORGANISATIONS AND INDIVIDUALS TO WORK COLLECTIVELY ON THE BIGGEST ISSUES FACING THEIR SECTORS

Russell Investments

FIDUCIARY MANAGEMENT: BENEFITTING FROM A HOLISTIC APPROACH TO ESG

BETTER OUTCOMES FOR TRUSTEES AND MEMBERS

The investment landscape is constantly changing. Market volatility on its own is a significant challenge for investors. But even in volatile markets, we see more and more trustees including Environmental, Social and Governance (ESG) factors when constructing and managing investment portfolios. In a market where efficiency and proactive management is more crucial than ever, the intersection of ESG and fiduciary management (FM) can provide trustees with a richness of information and specialised strategies to incorporate these approaches.

At its core, FM is a governance solution. In our experience, trustees of all sizes of pension schemes continue to be time-constrained and faced with a growing range of potential investments to consider. Decisions need to be made at every stage of the investment process, from putting investments in place to monitoring and managing the portfolio on an ongoing basis. By selecting the right FM partner, trustees are, in our opinion, better able to do the following in order to improve their investment outcomes:

- Identify issues
- Manage risks
- Comply with regulatory developments

A FULLY INTEGRATED APPROACH

Fiduciary management is about using the expertise of the chosen provider and making the most of their investment expertise. This includes understanding their processes – including how they're capturing and utilising ESG factors. By hiring a specialist who acts as an extension of their own resources and preferences, trustees can improve the likelihood of achieving their overall objectives – both in performance and in ESG factors.

Whilst ESG factors do impact security prices, we believe ESG does not have to mean sacrificing performance. In fact, building an investment portfolio that has a greater focus on ESG considerations could potentially even improve investment returns.

FM clients can benefit from a holistic approach to ESG integration across business and culture, rather than it being a separate consideration or afterthought. We believe the following are the best practices and considerations that trustees can potentially benefit from when FM and ESG are integrated.

Manager evaluations: A sound awareness of ESG factors and a robust process are essential for responsible investing. A robust process can deliver strong investment returns and meet objectives over the long term. As such, establishing a dedicated ESG rank for managers' investment strategies. These ESG ranks are a qualitative assessment of how well active managers understand the impact of ESG factors on short and long-term security price evolution, portfolio-level risk, and the return profile of the portfolio. This evaluation considers the asset class, region and industry and how their approach to ESG is evolving over time.

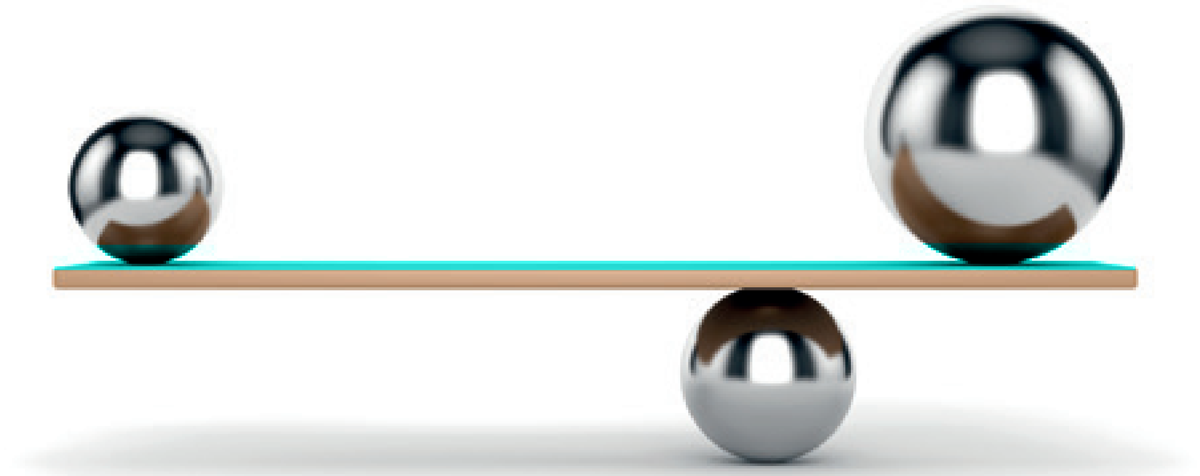
Bespoke ESG strategies: In addition to incorporating ESG considerations in all funds, fiduciary managers can build bespoke ESG strategies. These strategies can create innovative, proprietary methodologies and tools to support advanced ESG clients in pushing boundaries, allowing continual delivery on fiduciary responsibilities.

Screening: A robust screening policy and procedure can help ensure that pooled funds for investors avoid investing in companies involved in controversial production. A key part of the screening process is the creation of an exclusion list and reviewing it quarterly.

MOVING AWAY FROM A TRADITIONAL MODEL

We believe the traditional model of pension fund investing is broken. This older approach uses a static asset allocation, following advice from consultants. It often takes between 12-18 months for changes to be proposed, agreed and implemented within the investment portfolio. FM can take a different approach and incorporate responsible investing in the investment manager evaluation process, portfolio management, advisory services, and through implanting proprietary solutions, as desired by clients. It includes closely monitoring and managing the portfolio in real-time. In addition to considering ESG factors within pooled funds, having a dedicated internal task force that works with clients to build bespoke ESG strategies is crucial.

The focus on ESG is only likely to increase in the coming years. Choosing an FM partner who fully embeds ESG within its investment process is a positive step to prepare for an ever-changing world.



PENSIONS FIT FOR ALL

Craig Rimmer, Policy Lead, Master Trusts, describes some of the plans the PLSA has in place to promote diversity and engage with the under-pensioned.

AT THE PLSA, OUR MISSION IS TO HELP EVERYONE ACHIEVE A BETTER INCOME IN RETIREMENT, AND IT IS A STATEMENT THAT HAS BEEN VERY MUCH PART OF OUR DNA SINCE OUR INCEPTION. WE WERE INSTRUMENTAL IN CREATING THE TAX TREATMENT THAT UNDERPINS THE PENSIONS SYSTEM IN 1921 AND WE ARE ARGUING FOR 12% MINIMUM CONTRIBUTIONS FOR AUTOMATIC ENROLMENT TODAY.

Helping everyone means doing so with equality in mind. Pensions were initially designed around a post-war social norm of a husband and wife and 2.4 children, where the husband goes out to work and the wife takes on all the caring responsibilities. There has been some progress in reverse engineering pensions to fit the more diverse nature of households and families that we have today but there is still much to do.

NOW: PENSIONS RECENTLY REPORTED THAT WOMEN'S PENSION WEALTH IS CALCULATED TO BE **£51,100** BY THEIR 60s COMPARED TO **£156,500** FOR MEN, AND THERE ARE OTHER GROUPS THAT ARE UNDER-PENSIONED.

We have been working with the CII on its Insuring Women's Future project, looking at life moments that contribute to the pensions gender gap – this work is due to culminate in a report in November. As well as looking at broader societal issues around shared parental leave, co-habiting and studying for STEM subjects, there is a spotlight on the pensions system and how it is designed.

Engaging with the LGBTQ+ community is also part of an ongoing challenge of improving retirement outcomes. The Aegon report, LGBT: *Retirement Preparedness amid Social Progress* (2017), found that LGBT retirement readiness in the UK was less than heterosexual retirement readiness, with an index score of 5.8 out of 10 compared to 6.2 out of 10. As these figures were part of a broader international study, it will need more granular research to understand why this is so in the UK and how we change this. The PSLA is involved with the #50for50 initiative, with our CEO Julian Mund pledging support for LGBTQ+ diversity, as the first step in ensuring that the pensions industry can better reflect the needs of its diverse membership. Hopefully in the long term this will tackle the LGBTQ+ savings gap.

WE HAVE CONSISTENTLY CALLED FOR MORE DIVERSITY AT BOARD AND TRUSTEE LEVELS, BECAUSE WE BELIEVE DIVERSE THOUGHT CREATES GOOD DECISION-MAKING

The Pensions Policy Institute's paper on the under-pensioned (2016) specified the five groups of people that fell into this category: women, ethnic minorities, disabled people, carers and the self-employed. The PLSA is working with the DWP and others in trying to find ways to get the self-employed to save more, and our work with the CII on the pensions gender gap is also looking at solutions for carers. The report stated that changes to the State Pension and automatic enrolment may address some of the imbalance for some of the under-pensioned, but again more research is needed to see the effects of these policies.

The Office of Disability Issues encourages more inclusive communications, and this may be one of the levers that we should be using for all the under-pensioned groups to have more effective engagement.

We have consistently called for more diversity at board and trustee levels, because we believe diverse thought creates good decision-making. To have a truly diverse board, consideration should be given to protected characteristics and having a spectrum of ages. The PLSA has also signed up to the Diversity Project, promoting all forms of diversity including Neurodiversity, and the Women in Finance Charter. Diversity is one of the major pensions challenges that we need to fix, to help everyone achieve a better retirement.

GOOD COMMUNICATIONS, BETTER OUTCOMES

Francis Goss makes the case for the fundamental importance of creating engaging member communications.

***"IS MEMBER ENGAGEMENT REALLY THAT IMPORTANT?"* WAS THE TOPIC OF A DEBATE AT A RECENT SUPERANNUATION EVENT IN MELBOURNE. IT'S A QUESTION THAT MANY IN THE RETIREMENT SAVINGS INDUSTRY GRAPPLE WITH, AND INVARIABLY THE CONCLUSION IS "YES, IT IS IMPORTANT". AHEAD OF THE DEBATE IN MELBOURNE, 90% OF THE AUDIENCE AGREED THAT MEMBER ENGAGEMENT IS IMPORTANT.**

In favour of member engagement was Nicole Shoaei from First State Super, who stated that *"A key issue when members are not engaged, is multiple accounts. Australians are paying about $2.6 billion in fees for multiple accounts, so member engagement is absolutely vital."* Challenging this view was consulting actuary Neekhil Shah, who argued that *"What matters is a well-designed system and that we are the stewards of people's money. We should not transfer the responsibility to them."*

Whatever views people hold on member engagement, all would agree that it's important that members understand *what* a pension is, *why* saving for retirement is important, and *how* much income they'll need for their lives after work.

There are multiple data sources available to measure member engagement, e.g. the volume and frequency of logins to the pensions platform, email open rates, interactions with digital modelling tools, and member actions such as increasing contributions or nominating beneficiaries. These are all useful metrics that measure levels of activity and interaction – but ultimately what we are aiming for are positive member outcomes.

A member who checks their DC fund balance on a daily basis and makes fund changes based on their response to weekly market fluctuations may be highly engaged with their pension, but they could end up with a less favourable retirement outcome than a member who has opted to remain in the default fund (caveat: this is not advice!).

THE ROLE OF COMMUNICATION

Effective communication plays a vital role in helping members to understand the most complex (and often most valuable) benefit that they receive – their pension. Employees who understand their retirement savings are more likely to make positive informed decisions and will be less reliant on the pensions department for advice and support; a win-win for employer and employee.

When communicating about pensions, the challenge is firstly to get the audience's attention, and then to keep their attention for long enough to positively influence their understanding and behaviour. So how can trustees, pension departments and internal benefit communication teams ensure that their pension communications are engaging and effective? Here are five tips on delivering engaging pension communications from our work with retirement savings teams around the world.

1. Speak their language.

People tend to switch off when they read terminology or language that they don't understand. "DC", "DB", "annuity" and "drawdown" are all familiar phrases for industry professionals, but they can be a barrier for many. A communication encouraging members to take advantage of the company match, for example, will typically focus on the percentage that the employer pays and may also include information on the tax and NI advantages of increasing contributions.

Members with low levels of financial literacy may not understand percentages, tax and NI, so we need to be creative about how we get the message across, and make sure we are speaking their language – e.g. *"For every £10 you put away for your retirement, we'll double that to £20, plus you'll get an extra £4 from the tax man. That means it costs you £10 to save £24! Where else will you get an offer like that? Don't miss out on free money!"*

2. A picture speaks a thousand words.

This well-used phrase emerged in the USA in the early 1920s and is attributed to Frederick R Barnard, who published a piece commending the effectiveness of graphics in advertising. Barnard was right. Multiple studies have concluded that the human brain processes images faster than text, and that images are more memorable than the written or spoken word. The average person reads just 20% of the text on a web page, and web content that includes images receives 94% more total views than text alone. Pension communications are among the most complex communications that employees receive. Include images, infographics, film and animation to ensure that your communications get the attention they deserve.

3. Make it personal.

There's much that we can learn from the marketing industry when it comes to communicating with members. Marketers that use personalisation in their communication campaigns report that it has wide-ranging positive impacts on communication effectiveness. Eighty-two per cent link personalisation to an increase in email open rates, and personalised video has been shown to deliver an eight-fold increase in engagement. Many organisations are now using these personalisation techniques to communicate more effectively with their members. Personalisation is more than simply including the member's name in a letter. Effective personalisation delivers the right message at the right time using the right medium, making the individual feel that they are truly known, rather than just a number in a system. Personalised communications that focus on an individual's stage in life, preferred communication style and unique aspirations for retirement will get greater attention and deliver results.

AHEAD OF THE DEBATE IN MELBOURNE

90%

OF THE AUDIENCE AGREED THAT MEMBER ENGAGEMENT IS IMPORTANT

4. Make it interactive.

While emails, posters, newsletters and websites are important, they're all one-directional and don't require any interaction from the member. Interactive communications such as modelling tools, games and quizzes provide an opportunity for members to input information that's personal to them, and tailor their experience based on their own information. A study conducted by the Financial Capability Lab found that when a monthly repayment slider was offered to credit card holders (replacing the standard minimum monthly repayment figure in a box approach), there were significant increases in repayments for users who interacted with the slider. If we want to encourage members to consider the income they'll need in retirement, for example, they're more likely to engage if they can interact with a modelling tool that illustrates their lifestyle and the income needed to support it. Interactive modelling tools can be fun, engaging and educational.

5. Measure, adjust and improve.

Finding the most effective communications approach is an iterative process. Define the success criteria and measurement process from the outset, measure continuously and analyse which communication approaches deliver the best results for your audience.

To conclude, TPR's code of conduct states that "*Good member communications, provided at the right time and in an accessible format, are vital if members are to engage and make decisions that lead to good outcomes in retirement.*"

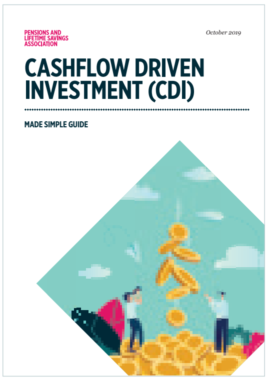
Ultimately, communication is about helping members to understand their options and achieve better outcomes in retirement, and that's got to be good for everyone.

***Francis Goss** is Chief Commercial Officer at AHC*

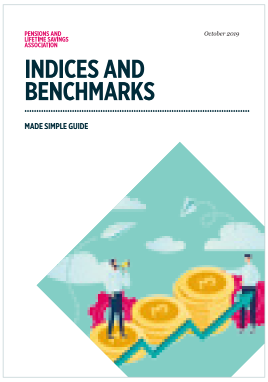
NEW MADE SIMPLE GUIDES

Look out for ***four new guides*** in the popular series from the PLSA.

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.



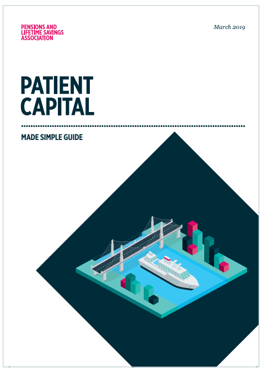
Indices and Benchmarks *Made Simple*, sponsored by FTSE Russell, explains the multiple ways in which pension funds can use indices and benchmarks to measure investment performance and determine asset allocation. It also explains how indices can be used to create specialist investment products.

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.

AVAILABLE IN THE EXHIBITION HALL AT OUR ANNUAL CONFERENCE AND ON OUR WEBSITE FROM 16 OCTOBER

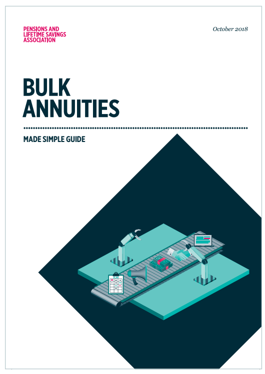
Other recent publications from the PLSA include:

ESG & Stewardship: A Practical Guide To Trustee Duties



Patient Capital
Made Simple

Multi Strategy Alternative Credit
Made Simple



Bulk Annuities
Made Simple

PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

LOCAL AUTHORITY UPDATE 2019

SURFING THE WAVE OF OPPORTUNITY

A one day update event free for our Local Authority members.

12 November 2019

FEES:
FREE FOR PLSA LOCAL AUTHORITY MEMBERS

Aberdeen Standard Investments
Bow Bells House, 1 Bread St, London, EC4M 9HH

Topics includes:

- McCloud judgment – its impact and potential policy responses
- Prioritising LGPS governance ideas
- Climate – should Local Authorities divest or engage? What are some climate-positive investments Local Authorities can make?
- The Pensions Dashboard for the LGPS
- Administration – understanding the employer perspective
- Affordability of the LGPS
- Currency management

Headline sponsor:

AberdeenStandard Investments

TO REGISTER, VISIT
www.plsa.co.uk/Events-Local-Authority-update

EMBEDDING A NEW APPROACH TO REGULATION

Charles Counsell, Chief Executive at The Pensions Regulator, considers the impact of the organisation's recent transformation.

WHEN PLANNING AND EMBEDDING A NEW APPROACH TO MEET AN ORGANISATION'S OBJECTIVES, THE WAY IT WORKS IN PRACTICE IS WHAT REALLY MATTERS.

Our transformation into a clearer, quicker and tougher regulator began in 2017. We're now at a point where we can see the impact this work is having, and the signs are positive.

We're now proactively supervising significantly more schemes, including targeting hundreds more through new initiatives across a broad range of areas.

To date we've been working on a one-to-one basis with 35 public service, defined benefit (DB) hybrid and defined contribution (DC) schemes, and we'll be extending this supervision to more than 100 schemes this financial year.

Our latest Compliance and Enforcement Bulletin highlighted how this one-to-one 'relationship supervision' is going, focusing on a scheme which has been through the process.

The chair of trustees and pensions director of the scheme were wary when they were selected for supervision. It's an attitude we've heard from many schemes concerned about the scrutiny, control and additional workload it may bring. But they've since told us that it has been a positive learning experience.

The DC scheme was well run, but we were able to offer a different opinion on a wide range of pensions issues, including suggesting putting in place succession planning for the chair of trustees and supporting the trustees in asking their external administrator for more detailed reporting.

Our new approach has also been noted by the industry. A survey by PwC found that eight out of 10 pension lawyers think TPR's new approach and use of powers is having an impact on their clients, in part due to active intervention from TPR.

Relationship supervision is not only focused on schemes of strategic importance. It also involves more direct contact with large numbers of schemes, using data we hold to target them in relation to particular elements of governance and administration. We'll give clear direction about the standards that schemes are expected to meet and what the consequences of failing to meet those standards could be.

We've already begun to operate in this way. In relation to DB, we're initially looking at schemes where our data shows that deficit reduction contributions may not be proportionate against dividends paid to shareholders.

Our new approach also includes event supervision, where our rapid response teams act quickly on reports of events which pose increased risks to schemes. This will generally involve events that affect the employer covenant supporting DB schemes, particularly corporate transactions or corporate distress.

This more front-footed approach was applied with the GKN/Melrose takeover, where we took the initiative and got involved much earlier than we would have previously. It meant that much greater rigour could be applied and an outcome was reached with far less corporate anxiety and a better result for the pension scheme.

This is an approach we found to be beneficial for all parties concerned. Savers were protected, corporate entities learned, and we forged deeper and stronger relationships.

Where necessary, we'll use our powers to prosecute people when they abuse their position and put savers at risk. We've used more of our powers more often, and we've been creative in using the law to protect savers.

But we're not an enforcement-led regulator. We'd much rather those we regulate worked within the law, within our guidelines and with us.

We'll not be complacent. As an organisation we'll continue to adapt and change to meet the risks in the pensions landscape around us. Our new long-term strategy, published for consultation later this year, will build on TPR Future and ensure we continue to be the clear, quick and tough regulator that we've pledged to be as we put the protection of savers at the heart of regulation.

100

SCHEMES RECEIVING ONE-TO-ONE SUPPORT.

REASSESSING DC DEFAULTS

Caroline Escott, Policy Lead: Investment and Stewardship, introduces a key focus for PLSA research in the swiftly changing world of DC investment.

IT IS ALREADY WELL ESTABLISHED THAT GOOD RETIREMENT OUTCOMES FOR SAVERS DEPEND ON THE CONTRIBUTIONS THEY AND THEIR EMPLOYERS MAKE OVER THEIR LIFETIME. YET THE ABILITY OF SCHEMES TO INVEST THESE CONTRIBUTIONS IN MEMBERS' BEST INTERESTS IS JUST AS IMPORTANT TO ENSURING PEOPLE HAVE A SECURE AND STABLE RETIREMENT. THIS IS WHY THE PLSA, AS PART OF ITS 'WELL-RUN SCHEMES' PRIORITY THEME FOR THE NEXT FOUR YEARS, CONTINUES TO FOCUS ON POLICY WORK TO ENSURE SCHEMES CAN MAKE THE BEST POSSIBLE INVESTMENTS.

> **IT IS IMPORTANT THAT DC SCHEMES OF ALL SHAPES AND SIZES CAN MAKE THE BEST POSSIBLE INVESTMENT DECISIONS FOR MEMBERS**

This work takes place against the background of a defined contribution (DC) scheme investment landscape which has changed almost beyond recognition over the last 10 years. Auto-enrolment has brought in more than 10 million new savers – the vast majority of which remain in default strategies – while DC assets under management are predicted to hit £1.68 trillion by 2030, much of it within master trust arrangements (another recent phenomenon). We've also seen a proliferation of policy initiatives such as pension freedoms and choice, the 0.75% charge cap and government efforts to encourage DC scheme investment in several discrete areas, from infrastructure and social housing to venture capital and impact investments.

The PLSA will therefore be undertaking research into UK DC investment over the next 12-18 months. More specifically, given the ever-growing importance of default strategies to member outcomes – and the fact that it is individuals which bear the investment risk in the DC world – we will be exploring whether the current default investment strategies pursued by UK DC schemes are fit for purpose. Key areas examined will include what can be learned from other countries with similar pensions regimes, as well as what else policymakers and the industry can do to ensure schemes can invest how they see fit and in a way which best meets members' needs and objectives.

EMERGING THEMES

We've already been working with members and industry experts to explore what DC schemes are doing and how they expect their investment approaches to change to keep pace with regulatory and market developments. Although we will be publishing conclusions about the 'State of the Nation' for DC default investment towards the end of 2019, there are already a number of themes which have been highlighted for further consideration. These include the growth in Environmental, Social and Governance (ESG) investing and illiquid investment approaches; the quality of DC investment default governance; the level of risk taken throughout both the accumulation and decumulation phases; the role of the charge cap – particularly pertinent given the scheduled 2020 review; and a debate over the use and continued relevance of Target Date Fund strategies.

NEXT STEPS

The PLSA will continue to work with the full breadth of its membership, including schemes both large and small, investment consultants and asset managers to better understand what the industry needs to do as well as what it needs to see from the regulatory and industry framework to evolve and innovate. We intend to hold a policy roundtable for members in early Autumn to dig down into our emerging findings before publishing our 'State of the Nation' DC default investment survey in Winter 2019. This will be followed by a 2020 report setting out our vision for DC investment and outlining recommendations to policymakers and the industry.

It is clear that the environment for DC default investment will continue to develop rapidly. It is important that DC schemes of all shapes and sizes can make the best possible investment decisions for members, and the PLSA hopes that our research will ensure that members are as well placed as possible to do so.

FOCUS: DANISH PENSIONS

Maggie Williams speaks to ***Nicolai Olsen***, Practice Leader Risk Products Partner, Human Capital and Benefits at Willis Towers Watson.

Q
HOW IS THE DANISH PENSIONS SYSTEM STRUCTURED?

A: The retirement savings system in Denmark is based on three pillars: a state pension, workplace provision and private pension savings. At present, the state pension age is 65.5, but this is set to increase to 68 for younger workers. The state pension comprises a basic pension and other supplements.

Workplace pensions underwent a major shift in the 1990s, with the introduction of a voluntary system similar to auto-enrolment. Although it's not required by law, all employers of all sizes now provide this type of pension, which is supported by collective agreements involving unions and employers.

Under this voluntary arrangement, employers offer staff a defined contribution-style plan, with the employer contributing two thirds, and one third coming from the employee. The minimum contribution rate is now typically 12% (8% from employer and 4% from employee), but in many sectors expected contributions are upwards of 15% (i.e. 10% from employer and 5% from employee). However, when the system was first introduced, typical contribution rates were much smaller, starting at just 1%, and have built up steadily over time.

Over the long term, the contribution rates from voluntary workplace pensions, plus state provision, should equate to around 60% of salary at retirement. This is a good income replacement ratio which should be achievable for employees who are currently early in their career. However, many older workers didn't have any workplace pension at all before the early 90s, and in the early days of the voluntary regime contribution rates were very low indeed. As a result, older workers will be more dependent on state benefits as a bigger proportion of their income in retirement.

Q
WHAT ARE SOME OF THE DIFFERENCES WITH THE UK'S DC SYSTEM?

A: The voluntary workplace pension bundles retirement savings with insurance cover as well, including life cover, income protection and critical illness cover. There's very little paperwork for employees to complete to get this cover, making it a straightforward way of ensuring employees are well protected during their working lives as well as preparing for retirement.

There is relatively little competition in the Danish workplace pensions market, with around five major providers offering bundled pensions and insurance. That means there are significant economies of scale, which underpins the combined approach to pensions and insurance. However, bundling can mean limited choice and that some components in the package aren't necessarily best of breed.

Denmark uses a 'pot follows member' system, so although we have an online service that allows employees to keep track of their pension savings, in most cases employees will only have one pension pot. It's up to the individual to move their own savings when they change job, but employers help to make this straightforward and actively encourage it.

Q
WHAT ARE THE BIGGEST CHALLENGES FOR DANISH WORKPLACE PENSIONS?

A: It has to be the effect of the low interest rate environment on investment strategies. Until recently, most pension companies used funds that committed to delivering a consistent rate of return (say, 3%) each year over 30 to 40 years. That has become increasingly difficult to do without taking excessive risks, particularly as individuals get closer to retirement age. There has been a major move to encourage everyone to swap these guaranteed return arrangements for funds that take a long-term view of risk and return. In general, this has been well received and many savers – particularly younger employees – have now switched away from guaranteed return funds.

Like the UK, engagement with pensions is a challenge, particularly for younger savers. However, with saving rates upwards of 12%, employees' pension pots grow quickly, and savers start to take more interest once there are larger sums involved.

Q
WHAT HAPPENS AT RETIREMENT?

A: Employees can choose to take their savings from the voluntary workplace scheme as a cash lump sum or as an annuity. There's no drawdown option as there is in the UK. In the majority of cases, savers convert their pot to an annuity. This is the most attractive option from a tax perspective, and is encouraged by the Danish government.

Craig Rimmer, Policy Lead: Master Trusts, reports on the first year of an initiative to improve member communications.

SIMPLER ANNUAL STATEMENT: ONE YEAR ON

AT LAST YEAR'S ANNUAL CONFERENCE, THE PENSIONS MINISTER GUY OPPERMAN LAUNCHED THE 'SIMPLER ANNUAL STATEMENT'. THIS WAS DESIGNED BY RUSTON SMITH, QUIET ROOM AND EVERSHEDS IN CONSULTATION WITH A NUMBER OF SCHEMES TO SUPPORT CLEARER COMMUNICATIONS AND FOSTER BETTER MEMBER ENGAGEMENT.

The Simpler Annual Statement presents the information required for the annual benefits statement on two easy-to-understand pages, and orders the material into three very clear sections. It seeks to achieve consistency across the sector, as savers will be receiving statements from more than one scheme, and may wish to compare statements year on year.

Section one of the statement shows the saver how much they have already saved, while section two shows how much they should have by retirement. Section three is optional but is a nudge to the saver to save more and see how much more they would have at retirement if they were to do so.

Many schemes have adopted good practice, incorporating plain language and engaging videos or e-versions of the statement. The Simpler Annual Statement has inspired many of our members towards greater consistency – to shorten and simplify their statements, and to layer the information they communicate.

The Simpler Annual Statement has three essential layers that flow throughout the sections. Savers who digest information at a glance can easily understand the state of their pension by reading the information in the circles and vector arrows that pop out of the page. For those who read in a bit more depth, information presented like in a bank balance statement with explanatory notes. Savers who like to look under the bonnet at how their pension is performing and understand all the scheme rules are signposted to webpages that hold that information.

The PLSA and ABI have been working together to help promote the Simpler Annual Statement as an example of good practice. We've set up a cross-industry steering group to develop broader discussion and a programme of promotion. This includes PLSA and ABI members, government, regulators, and representatives from consumer organisations.

Despite Pensions Dashboards being around the corner and us all communicating more and more electronically, it's clear that paper is not dead. With this in mind, it's important that schemes continue to invest in their annual statements and use innovative examples such as the Simpler Annual Statement to guide them.

If you're interested in adopting the Simpler Annual Statement for your scheme, the PLSA hosts the example statement on our website alongside the technical guidelines that show how each section complies with DWP regulations.

HELPING TRUSTEES RISE TO THE CHALLENGE OF NEW DC PENSION FUND REGULATIONS

Pat Sharman, Managing Director, UK.

THIS AUTUMN, UK PENSION FUND TRUSTEES OVERSEEING DEFINED CONTRIBUTION SCHEMES FACE A LONG LIST OF CHALLENGES. HIGH UP THEIR LIST OF PRIORITIES IS THE PREPARATION OF THE CHAIR'S STATEMENT. THIS INVOLVES CLEARLY ARTICULATING THEIR SCHEME'S STRATEGY AND GOVERNANCE, DISCLOSING ITS COSTS AND CHARGES (INCLUDING TRANSACTION COSTS) AND DRAWING UP A 'VALUE FOR MONEY ASSESSMENT' FOR THE SCHEME'S MEMBERS.

On the last point, as the *House of Commons Work and Pensions Committee* recently observed, there is currently no clear definition as to what 'value for money' means for a pension scheme. Schemes will therefore have to interpret this for themselves, communicating their approach to their members and how it might be achieved.

Although cost collection and consolidation is the first step to assessing 'value for money', we believe that this shouldn't focus solely on costs – there are many other factors that go into assessing the value for money of a pension scheme's advisers and it's difficult to conceive a one size fits all solution. Instead, we believe greater focus should be placed on ensuring that any future framework should be fit for purpose.

COSTS: MUCH HIGHER THAN ESTIMATED

Nevertheless, costs and charges are a fundamental part of a *Value for Money Assessment*. At KAS BANK, we have been helping pension funds with their cost reporting since 2011. In the UK, for example, we work with a range of DC schemes such as Nest, alongside multiple DB schemes, including LGPS Central, in various shapes and sizes. During the course of our research, our cost transparency experts have found that investment costs are often up to three times higher than most in-house estimates. This is largely driven by previously unreported transaction costs, although miscellaneous items, particularly in pooled funds, have also been uncovered in deeper cost analysis. There is a large body of evidence that the compounding effect of these previously unreported costs, over the long term, can eat away at savings and have a material impact on pension schemes and member outcomes.

BASED ON KAS BANK'S OWN RESEARCH, HERE'S A MORE DETAILED BREAKDOWN OF TYPICALLY REPORTED INVESTMENT COSTS:

Management fees -
around
50%
of the total investment costs

Transaction costs -
account for
25%
of the total investment cost

Performance fees -
around
10%

General investment costs -
custody, performance measurements and custody fees
10%

The standardisation of cost reporting templates is key to the successful adoption of Cost Transparency across the industry. In line with this, Guy Opperman, the *Minister for Pensions and Financial Inclusion*, has encouraged pension trustees and investment managers to embrace the new Cost Transparency Initiative (CTI) templates. Once in effect, the industry can then begin comparing costs on a like for like basis, which should further enhance the cost element of assessing 'value for money' currently required of Defined Contribution schemes.

Unlike DC schemes, there is currently no regulatory requirement for Defined Benefit schemes to carry out full cost transparency. However, following the *House of Commons Work and Pensions Committee's* recommendation that DB schemes should also carry out full cost transparency, they are likely to come under much greater regulatory scrutiny. This is already encouraging many DB schemes to seek external help.

ESG IS NOW IN THE MIX

Adding to the list of challenges, trustees of DC schemes, and DB schemes, are bound by new environmental, social and governance (ESG) requirements on 1 October 2019. The schemes will need to consider long-term risks and opportunities of ESG factors in their investments. We believe this will involve trustees developing a stronger understanding of how the investment managers overseeing their scheme's funds or mandates are factoring in ESG principles, whilst developing a governance process to ensure these principles are implemented. The theme of greater transparency continues to evolve in the pensions industry.

A FINAL WORD ON MACHINE LEARNING

KAS BANK is also harnessing new technology. From this October, for example, our cost transparency dashboard will be complemented by machine learning and Artificial Intelligence to consolidate and analyse cost data efficiently. This will help improve the quality of the data gathered, while also improving the timeliness of reporting cost transparency results to our pension fund clients.

As regulatory scrutiny continues to tighten, a cost transparency and benchmarking tool can help pension funds visualise their data and meet their regulatory obligations. For DC schemes, we can assist in providing an end-to-end generation of the cost element of the Chair's Statement, while for DB schemes it can help to position themselves for any potential regulatory obligations.

KAS BANK

RAISING GOVERNANCE STANDARDS

Tim Middleton discusses the sometimes-controversial subject of professional trustees.

JULY SAW THE PENSIONS REGULATOR'S PUBLICATION OF ITS LONG-AWAITED CONSULTATION 'FUTURE OF TRUSTEESHIP AND GOVERNANCE.' THIS WAS A PARTICULARLY THOROUGH EXERCISE IN EXPLORING OPTIONS FOR RAISING GOVERNANCE STANDARDS ACROSS UK PENSION SCHEMES – AND IT WAS NOT AFRAID TO ASK SOME PROVOCATIVE QUESTIONS. ONE OF TPR'S LONG-STANDING CONCERNS HAS BEEN THE PROLIFERATION OF SMALL SCHEMES, WHERE GOVERNANCE STANDARDS HAVE REMAINED CONSISTENTLY POOR IN STUBBORN DEFIANCE OF PREVIOUS INITIATIVES. IT IS CLEARLY UNLIKELY THAT OPTIMAL RETIREMENT OUTCOMES WILL BE ACHIEVED WHERE BOARDS MEET INFREQUENTLY, ARE ILL-EQUIPPED TO MAKE EFFECTIVE DECISIONS AND WHERE THERE MAY NOT EVEN BE A PERMANENT CHAIR.

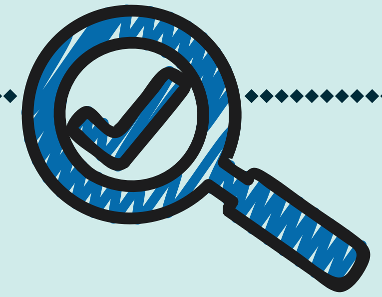
One of the most controversial suggestions in the consultation was that, in time, all registered schemes be required to appoint an accredited professional trustee. At first glance, this idea appears extremely impractical: there are simply not enough professional trustees in the country, and it is difficult to say how many of these will seek to achieve accreditation. Additionally, it would appear extremely unlikely that small schemes could afford the fees of an accredited trustee.

However, it is worth examining the proposal in more depth. The professional trustee sector is set to expand significantly over the short to medium term and supply will therefore grow to meet demand. More tellingly, a formal requirement to appoint an accredited trustee might act as a driver for boards and sponsors to consider alternatives. This might, most obviously, include transfers. Members in small defined contribution (DC) arrangements might be better served by a transfer to a master trust. The options for members of small defined benefit (DB) schemes are less obvious, but the emergence of DB consolidators over the last year does present an intriguing alternative to buy-out.

An area of concern in TPR's consultation is the growing use of sole trusteeship appointments, and this has given rise to a degree of conflict between TPR and the professional trustee sector. TPR has a number of concerns about the sole trusteeship model. It points to the potential for a lack of diversity in decision-making and the risk that a single individual might dominate decision-making. Additionally, the Regulator is concerned that a sole trustee can too easily be controlled by an aggressive scheme sponsor.

In response, professional trustees argue that the Professional Trustee Standards Working Group (PTSWG)'s standards all but eliminate the risk of poor practice. Schedule 3 of the standards, dedicated to sole trusteeship, requires at least two accredited trustees to be involved in all decision-making and also requires firms, rather than sole traders, to accept sole trusteeship appointments. Moreover, such firms are required to have achieved AAF02/07 (A Frameworkfor Assurance Reports on Third Party Operations) from the Institute of Chartered Accountants in England and Wales (ICAEW).

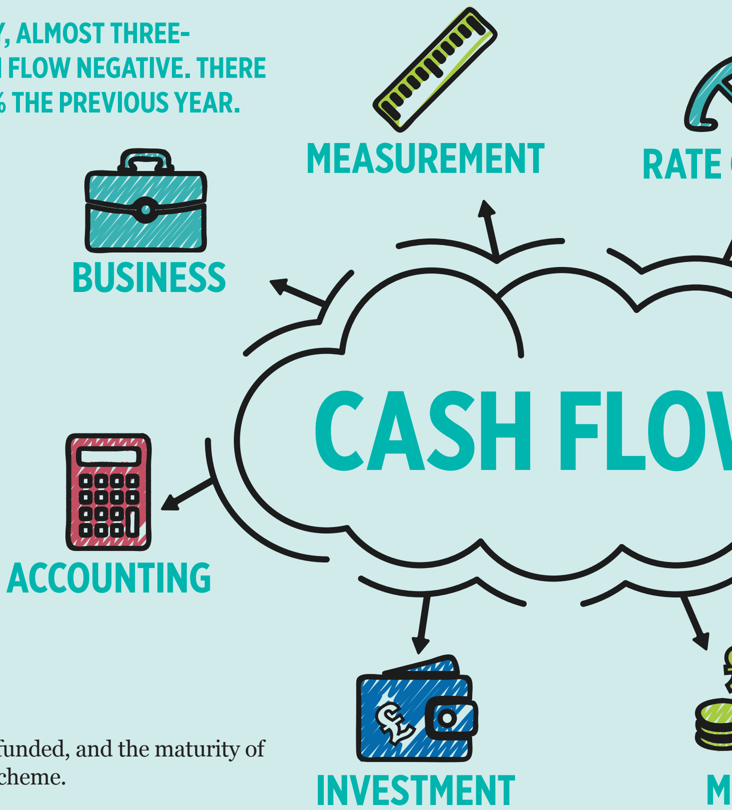
While we might note areas of disagreement between TPR and the pensions industry, it is surely more important to recognise the constructive dialogue around improving standards. As long as there is a real commitment to improve governance, we are more likely to achieve improved retirement outcomes for members of small schemes.



CASH FLOW NEGATIVE INVESTMENT

Charlotte Moore reports on the options for meeting benefit payments in a cash flow negative DB environment.

ACCORDING TO MERCER'S 2019 EUROPEAN ASSET ALLOCATION SURVEY, ALMOST THREE-QUARTERS OF UK DEFINED BENEFIT PENSION SCHEMES ARE NOW CASH FLOW NEGATIVE. THERE WAS A 7 PERCENTAGE POINT INCREASE TO 73% IN JULY 2019 FROM 66% THE PREVIOUS YEAR.



The high proportion of schemes now paying out more cash than they receive in contributions reflects the fact that the majority of private sector schemes are closed both to new entrants and to accruals.

Louis-Paul Hill, investment consultant at Aon, says: "Thoughts of many schemes are turning to how to adapt their investment strategy to meet those cash flow requirements."

But meeting these benefit payments is not a simple process. Ross Fleming, senior investment consultant at Hymans Robertson, says: "Setting the scheme's investment strategy needs to be determined in the context of the full funding picture."

KEY CONSIDERATIONS

There are three key considerations to be taken into account: the strength of the covenant sponsor, the funding strength and whether the scheme is targeting buy-out or self-sufficiency.

The strength of covenant sponsor is, perhaps, the most important consideration. Assessing this requires taking account of the current credit strength of the supporting employer and current contribution levels.

Matt Gibson, partner at LCP, says: "The strength of covenant sponsor is crucial in determining how much risk the scheme is able to take." The weaker the covenant, the less risk it can take.

Fleming says: "The recent annual funding statement from The Pensions Regulator also requires the maturity of the scheme to be taken into account." That's because a scheme is more vulnerable to asset shocks if it is cash flow negative. Fleming goes on: "A less mature plan may have time to recover from a sharp devaluation of asset prices."

If a scheme is not only mature but the credit strength of the supporting employer is weak, a scheme will have to pursue a lower risk strategy, he adds.

Funding levels will also affect the type of investment strategies which are likely to be pursued. Hill says: "A closed scheme with either no deficit or a very low deficit will no longer need to takemuch investment risk to close the funding gap."

In other words, trustees' ability to pursue a particular cash flow investment strategy will be determined by whether the sponsor covenant is weak or strong, whether the scheme is well funded, and the maturity of the scheme.

The regulator is categorising schemes by their covenant strength and funding levels and then each category is further divided by the maturity of the schemes.

Fleming says: "The regulator is then quite prescriptive about the steps a scheme should take to work with its employer to improve funding levels as well as the investment strategy it can pursue."

LONG-TERM FUNDING

Changes expected from the regulator on the funding code later this year will also have an impact on how a scheme funds its cash flow demands. Fleming says: "This will require schemes to set their long-term funding targets – for example, buy-out or self-sufficiency."

Setting these long-term objectives will help schemes to define their investment strategy more clearly.

Fleming says: "This will enable trustees to set a target portfolio as well as provide a way of achieving this goal."

This, in turn, will help a scheme to assess whether it will need to take more or less investment risk and over what period.

The end goal of a pension scheme will also determine the type of investment strategy it can use to meet its cash flow requirements. Fleming says: "If a scheme is targeting a buy-out in the near term, it will likely target a lower risk portfolio."

THE STRENGTH OF COVENANT SPONSOR IS CRUCIAL IN DETERMINING HOW MUCH RISK THE SCHEME IS ABLE TO TAKE

That's because the scheme will need to build a portfolio of assets similar to those held by an insurance company, which will prefer cash and bonds.

In addition, schemes which are close to buy-out are likely to be near to narrowing the funding gap and will have already switched out of riskier assets to lock in that funding level.

A scheme which has a longer term aim of buy-out will have more flexibility over its investment options. If, for example, a scheme were to target buy-out in eight years, it could invest in a private debt portfolio.

Julien Halfon, head of pension solutions at BNP Paribas Asset Management, says: "This would reach maturity before buy-out."

But it might be the case that schemes will not have to sell those private debt portfolios at buy-out. Halfon continues: "Many forms of private debt are treated well under Solvency II regulations so depending on the preference of the insurer they could be able to be included in a buy-out portfolio."

Trustees must ensure, however, they have the right form of private debt. Halfon adds: "Only senior debt can be included and asset-backed and mortgage-backed securities are often excluded."

Trustees targeting sustainability, however, may choose from a broader variety of assets. Fleming says: "It is likely schemes targeting sustainability will narrow the deficit gap, through higher returning assets."

A scheme with a strong covenant targeting self-sufficiency is likely to be investing in illiquid assets to meet its cash flow requirements. Gibson points out: "As they have no requirement to sell assets to meet a buy-out they can take advantage of the expected higher returns of these assets."

CASH FLOW MAPPING

Taking all the factors which shape the funding picture of a scheme into account is not enough, however, to avoid the risks associated with being cash flow negative. Trustees also need to avoid becoming forced sellers.

Nasty surprises can be avoided by mapping out a projected cash flow over the next five years. Giles Payne, professional trustee at Cranfield Trustees, says: "A scheme with a strong sponsor knows it can access cash if it is needed."

Rather than having to sell assets at a bad price a scheme could, at a pinch, ask for contributions in advance to pay benefits, says Payne.

But a firm with a weak sponsor on the road to self-sufficiency will not have such recourse. Payne says: "These schemes need to map out their cash flow in more detail and over a longer time period to avoid being forced to sell at a sharp discount."

Some argue it's important for all schemes to map out a scheme's complete cash flow requirements.

Neil Walton, head of investment solutions at Schroders, says: "A scheme is likely to have the cash to make the near-term payments but it's not certain they will have the cash over the longer term." Trustees need to ensure they will be able to hold the assets they have for long enough to be able to make the returns required to meet all the benefits payments.

"If charted, a typical long-term cash flow profile would resemble a hill with a gentle sloping curve you could walk up and a slope leading to a broad plain on the way down," says Walton. A scheme needs to ensure it has the funds to meet those peak payments as well as maintaining them throughout the long tail across the broad plain.

POSSIBLE CASH FLOW DRIVEN INVESTMENT OPTIONS

Mature scheme, strong sponsor covenant, well-funded, buy-out plan in the short term

"CDI is not necessarily appropriate in this case unless wrapped in a captive insurance vehicle as an alternative to formal buy-out," *says* **Julien Halfon**, head of pension solutions at BNP Paribas Asset Management.

"Short-dated buy and maintain investment grade credit plus some higher yielding credit opportunities to the extent that additional returns are required to attain buy-out," *says* **Neil Walton**, head of investment solutions at Schroders.

Mature scheme, strong sponsor covenant, well-funded, buy-out plan in the medium-long term

"Senior debt with maturity <10 years, AAA, AA, BBB assets across senior infrastructure debt, social housing, commercial real estate debt," *says* **Halfon**.

"Long-dated buy and maintain investment grade credit," *says* **Walton**.

Mature scheme, strong sponsor covenant, well-funded, self-sufficiency

"Senior debt with maturity <12 years, AAA, AA, BBB assets across senior infrastructure debt, social housing, commercial real estate debt," *says* **Halfon**.

"Long-dated buy and maintain investment grade credit," *says* **Walton**.

Mature scheme, strong sponsor covenant, reasonable funding level, self-sufficiency

"Mostly senior debt with maturity <12 years with some sub-investment grade, 80-85% senior debt as above with 15-20% in mezzanine infrastructure debt, commercial real estate debt, US/European mid-market loans, UK SME loans," *says* **Halfon**.

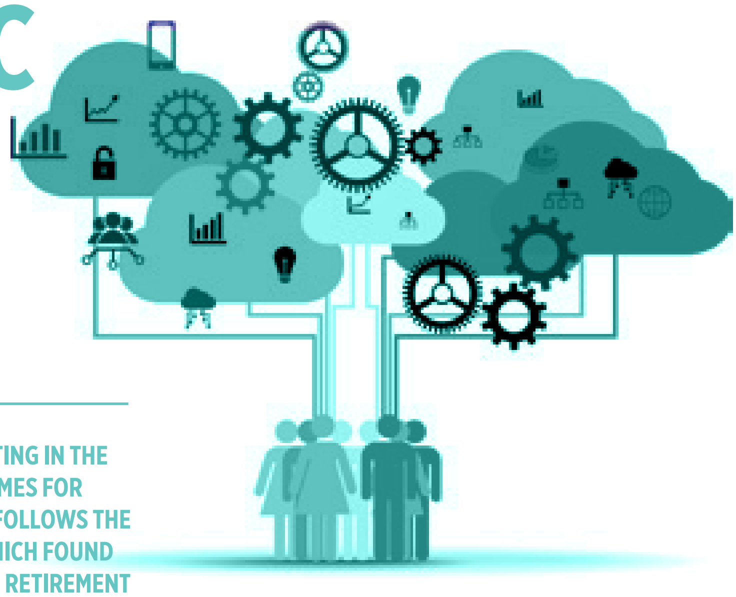
"Long-dated buy and maintain investment grade credit plus some higher yielding credit opportunities to the extent that additional returns are required to move towards self-sufficiency," *says* **Walton**.

Mature scheme, weak sponsor covenant, low funding level, self-sufficiency

"Blend of senior debt with maturity <12 years with higher exposure to sub-investment grade, 50-60% senior debt as above with 40-50% in mezzanine infrastructure debt, commercial real estate debt, US/European mid-market loans, UK SME loans," *says* **Halfon**.

"Some long-dated buy and maintain investment grade but mainly higher yielding credit opportunities with reinvestment to sustain higher returns to the extent that this is supported by the covenant and potentially risk assets including equity alongside the credit asset," *says* **Walton**.

TRUST-BASED DC DECUMULATION



George Currie, Policy Lead: Lifetime Savings, reports on the PLSA's evolving position.

OVER THE COURSE OF THE LAST YEAR, THE FCA HAS BEEN BUSY INNOVATING IN THE CONTRACT-BASED PENSIONS SECTOR IN AN EFFORT TO IMPROVE OUTCOMES FOR SAVERS IN DECUMULATION. THE FCA'S RENEWED ENERGY IN THIS AREA FOLLOWS THE PUBLICATION OF ITS *RETIREMENT OUTCOMES REVIEW* (ROR) IN 2018, WHICH FOUND THAT MANY NON-ADVISED DRAWDOWN CUSTOMERS HAVE LOST OUT ON RETIREMENT INCOME BECAUSE THEIR PENSION POTS WERE INVESTED IN CASH.

As part of a remedy package to address the consumer detriment uncovered by the ROR, the FCA has decided to introduce 'investment pathways' aimed at savers who, having received the above prompts to take advice or guidance, decided to access their pensions through drawdown without taking advice. These pathways will offer savers four objectives to choose from, with suitable investment strategies related to each.

The PLSA is in the process of considering what the right framework for trust-based DC decumulation might be. Our thinking builds on what we set out in our *Hitting the Target* report in 2018.

HITTING THE TARGET

Decumulation was a key area of focus in *Hitting the Target*. The PLSA recommended that the government and the pensions industry should adopt a new regulatory framework for decumulation. This should provide for a new decumulation process and new product/solution principles. The new decumulation process should work as follows:

- Schemes and providers, where possible, should seek to support members to make active decisions.
- They should also help savers in their decumulation choices by signposting them towards suitable products/solutions.
- The products/solutions are to be selected by an independent body, a trustee or IGC, which has responsibility to operate in the interests of members.
- The products/solutions must conform to government-mandated principles (see Annex A) which would also provide a 'safe harbour' for the trustee or IGCs which have selected them.

Members would be encouraged to make an active decision. No member would be moved into the signposted decumulation product/solution without their explicit consent, and all communications with the member would present the full range of options open to them (e.g. cash, annuity, drawdown, transfers, and other product options). Information about typical scheme member decumulation choices would also be provided as standard, alongside information on where further guidance and advice can be obtained.

INVESTMENT PATHWAYS

But why can't we just adopt the framework set out by the FCA and implement investment pathways in the trust-based sector? We have considered this option and, of course, there are things that trust-based schemes can learn from those in the contract-based sector. However, we have real concerns about the assumptions behind investment pathways and do not believe they are an appropriate solution for workplace pensions.

Although the FCA's solution enables savers to plan for different circumstances, by allowing them to split their drawdown pot between different objectives, it presupposes that a customer has chosen drawdown over other product options in the absence of advice. We do not think it is likely that customers will have taken this sort of product choice.

The PLSA is also concerned about the appropriateness of savers making drawdown decisions on a non-advised basis. Where decisions are made on a non-advised basis, it is clear that the quality of the support provided becomes paramount. We do not believe that this issue has been properly addressed in the rules set out by the FCA.

It is also important to recognise the uniqueness of the trust-based sector, in particular the fiduciary responsibility that trustees have to savers. This creates an entirely different relationship between the saver and the scheme compared to that which exists in the contract-based world, and could be the source of a solution that is fit for purpose in the trust-based sector.

NEXT STEPS

The PLSA continues to believe that the approach to trust-based DC decumulation set out in *Hitting The Target* remains appropriate. In particular, we continue to see the pre-eminent role of trustees in selecting a sustainable retirement solution that combines some flexibility with income security as one that is desirable. In combination with members, we are currently considering the best way to implement this solution.

THE PLSA RECOMMENDED THAT THE GOVERNMENT AND THE PENSIONS INDUSTRY SHOULD ADOPT A NEW REGULATORY FRAMEWORK FOR DECUMULATION


Helping you find
YOUR OWN PATH
through the complexities of pension investment
Trustees need a partner to provide bespoke investment solutions for today and tomorrow. And with us, it's always personal. As a market leader, we use our size to benefit clients by delivering advice with a personal touch – rooted by a thorough knowledge of our clients' individual needs and preferences, we help schemes to find their own path through the complexities of pension scheme investment.
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SUPPORTING SAVERS' RETIREMENT PLANS: HOW MUCH DO THEY NEED?

More people than ever are saving towards their pension, but it's hard for them to engage with how much their retirement could cost. ***Mark Smith***, Senior PR Manager, explains how the PLSA's new Retirement Living Standards will help.

THANKS TO AUTOMATIC ENROLMENT, MORE THAN 10 MILLION PEOPLE WITH NO PREVIOUS PENSION SAVINGS ARE PUTTING MONEY AWAY FOR THE FUTURE. THERE IS NO DOUBTING THE SUCCESS OF THE POLICY. IT HAS HARNESSED PENSION INERTIA AND SET THE YEARS OF COMPOUNDING EMPLOYER AND SAVER CONTRIBUTIONS, TAX RELIEF AND INVESTMENT GROWTH TRAIN IN MOTION FOR MILLIONS OF PEOPLE.

But the pensions landscape continues to evolve and we need to respond to a growing need to engage savers. Savings can now commence with a low level of engagement at the outset. There are also now even more options about how to spend pensions savings at the point of retirement. And savers need to consider early on what sort of outcome they want from their retirement.

IT'S HARD TO PICTURE FUTURE NEEDS TODAY

Many people are unable to balance current financial needs with future financial needs. According to PLSA research, **51% of people** focus on their current needs and wants, at the expense of providing for the future. Only **23% of people** are confident they know how much they need to save for retirement.

Our research also shows that understanding how much money people need in retirement, and how it compares with their lives now, would help them engage more with pension savings. But working out the exact amount people need is tricky. We all have different ideas about what we want from retirement and no two people's lives are the same.

51%

OF PEOPLE FOCUS ON THEIR CURRENT NEEDS AND WANTS

THE NEED TO CONSIDER THE OUTCOME FROM SAVINGS IN RELATION TO EXPENDITURE HAS NEVER BEEN GREATER

For years the pensions industry has focused on the Pensions Commission's target replacement ratio – an estimated proportion of your current income that you aim to generate in retirement – as a guide.

However, for many people the concept is hard to grasp, too rooted in financial detail and doesn't give them a tangible sense of the future lifestyle their savings will likely provide.

MAKING IT RELATABLE

That is why we have developed a simple set of Retirement Living Standards that enable people to mentally time travel – to visualise a future lifestyle and start thinking about what their saving might need to achieve.

The Standards establish three levels of retirement lifestyle: minimum, moderate and comfortable, to provide three points of focus for discussion and the first step of engagement and understanding.

For each level there is a basket of goods and services, and their costs: household bills, food and drink, transport, holidays and leisure, clothing, helping others. This is not a prescriptive definition of what individuals should aim for, but an illustration of the kind of lifestyle each Standard could offer.

The great thing about this system is that people can think practically about the kind of lifestyle they might want in retirement and whether they are on track to achieve it. The Retirement Living Standards will fill the gaps in current approaches and act as a practical and meaningful starting point on a saver's engagement journey.

REALISTIC AND RELEVANT

The Standards are based on independent research with the British public, which goes well beyond a simple survey. Researchers at the Centre for Research into Social Policy at Loughborough University formed focus groups of retired and non-retired people. Two hundred and fifty people held over 60 hours of discussions at sites all over the UK.

They were asked to describe and define what 'higher' living standards above the given Minimum Income Standard meant, and to develop key descriptors for each standard. They then were asked to imagine what an individual would need for that standard, to establish the basket of goods. This was developed iteratively, and then the final basket of goods was costed up to arrive at the RLS figures.

HOW WILL RETIREMENT LIVING STANDARDS BE USED?

Goal-setting can greatly assist people in planning, and a series of simple standards could transform pensions engagement. **Nearly three-quarters (74%)** of people believe that retirement living standards would make it easier to plan for retirement and **70%** of people believe that income targets would encourage them to save more for retirement. Industry participants and consumer groups such as Age UK who gave feedback during our 2017-2018 *Hitting the Target* public consultation agreed universally.

Neuroscientific and behavioural studies have shown that imagining personal future events or 'mental time travelling' can help to reduce the human tendency to undervalue future rewards. This suggests that developing retirement standards that are relatable to an individual and help them picture future events may be beneficial.

23%

OF PEOPLE ARE CONFIDENT THEY KNOW HOW MUCH THEY NEED TO SAVE FOR RETIREMENT.

70%

OF PEOPLE BELIEVE THAT INCOME TARGETS WOULD ENCOURAGE THEM TO SAVE MORE FOR RETIREMENT.

LIKE THE 'FIVE A DAY' HEALTHY EATING MAXIM, WE ARE AIMING FOR THE STANDARDS TO ONE DAY BECOME A RULE OF THUMB FOR RETIREMENT PLANNING

OUR AMBITION

The Standards are a key step on the journey to engagement. They respond to what we have heard about saver needs and plug the gaps in the public debate.
Our ambition is for the Retirement Living Standards to become a widely adopted industry standard to help people engage with their retirement savings. By 2025, we want to see 90% of active savers belonging to pension schemes that are using the Standards. Like the 'five a day' healthy eating maxim, we are aiming for the Standards to one day become a rule of thumb for retirement planning.

There are a number of existing tools that let users work out what income they may be able to draw from their pension when they retire. These are a fantastic starting point for people to understand the pounds and pence they will have to spend. What they don't do yet, and where we think the Retirement Living Standards will be invaluable, is relate expenditure to a tangible lifestyle. That would help people understand if they are on track, and potentially provide the impetus for them to save a bit more into their pension if they see a shortfall in being able to afford an annual overseas holiday, for instance.

We are working closely with industry to ensure pension schemes incorporate the Standards into the full range of their communications, including annual benefits statements, videos, online calculators, pensions engagement tools and workplace communications.

We are also working hard to ensure the Retirement Living Standards are used by the Money and Pension Service and, in due course, included on pension dashboards.

The Standards will support better saver engagement. They distil robust and complicated modelling into easy-to-understand and relatable figures that can provide a powerful and immediate imperative for encouraging healthier savings habits. They will go a long way to help everyone achieve a better income in retirement.

We're launching the **Retirement Living Standards at the PLSA Annual Conference & Exhibition 2019:** Building world-class systems. Find out the cost of each level and learn about the research at the event in Manchester or on our live webstream.

MEMBER NEWS

WELCOME TO NEW MEMBERS

BROADSTONE

Broadstone is a nationwide provider of pensions and employee benefits services. We work with all types of pension schemes and their sponsoring employers. The schemes range in size from less than 100 to 15,000 members, and with assets of up to £1bn.

Our team comprises of over 250 people in eight UK locations, and our services include pension consulting, actuarial and investment advice, pension administration, risk benefits and secretarial services to trustee boards.

Our approach is a tailored one – we are truly a consultancy in the widest sense of the word. We don't have our own agenda, nor do we have house views – we look at each client individually and we pride ourselves on delivering a truly unique solution that is fully matched to their individual requirements.

Contact: Neil Barton, Head of Business Development
E: neil.barton@broadstone.co.uk
T: 07904 492921
www.broadstone.co.uk

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Cboe Global Markets, Inc. is one of the world's largest exchange holding companies, offering cutting-edge trading and investment solutions to investors around the world. The company is committed to relentless innovation, connecting global markets with world-class technology, and providing seamless solutions that enhance the customer experience.

Cboe offers trading across a diverse range of products in multiple asset classes and geographies, including options, futures, U.S. and European equities, exchange-traded products (ETPs), global foreign exchange (FX) and multi-asset volatility products based on the Cboe Volatility Index (VIX Index), the world's barometer for equity market volatility.

Contact:
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We offer global reach through direct access to 60+ currencies through 80+ routes, superior FX wholesale markets and competitive rates. Backed by the latest technology, our on-demand team of global business experts support the FX needs of businesses with reliability and quality service.

Our customers are from a variety of sectors including supply chain businesses, tourism operations, NFP organisations, global manufacturers as well as those paying suppliers or employees abroad.

Contact: Dave Joel
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www.earthport-fx.com

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Bankhaus Metzler is the oldest German merchant bank still owned exclusively by the founding family. Established in 1674, Metzler is known for its distinctive profile and concentration on bespoke capital market services for institutional investors and discerning private individuals. Metzler's currency management department has been established on 2014 and focusses on in-depth consulting and systematic currency management services powered by its award-winning quantitative trading model strategies. As an integral part of the bank, currency management can rely on an excellent in-house infrastructure for trading and settlement of foreign exchange transactions.

Contact: George Tsiourvas
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T: +49 69 2104 682
www.metzler.com

SAMMONS PENSIONS RECRUITMENT CONSULTANCY

Sammons Pensions Recruitment is an award-winning, industry-leading recruitment specialist. Average tenure of our professionally-qualified staff is over 15 years. For over 25 years we have successfully recruited across the UK and International pensions industry for permanent, interim, temporary, contingency and executive search-based appointments for FTSE100 to SMEs. We have placed the highest calibre candidates at all levels including: in-house administration to global director, third party/consultancy administration, client management, consultancy, new business and actuarial. We have also placed specialists including communications, technical, tompliance, IT, implementation, project management, accounts, payroll, trustee, investment.

Our additional services include: outplacement; salary benchmarking, annual salary survey (now in its 18th year of production), career, CV, interview, offer counselling and recruitment techniques.

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T: 020 7293 7022 /07827 837562
www.sammons.co.uk/pensions

WORLD GOLD COUNCIL

The World Gold Council is the market development organisation for the gold industry. Our purpose is to provide industry leadership and be the global authority on the gold market. We develop gold-backed solutions, services and products, working with a range of partners. We also provide insights into the international gold market, helping people to understand the wealth preservation qualities of gold and its role in meeting the social and environmental needs of society.

Contact: Jaspar Crawley
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T: ++44 20 7826 4787
www.gold.org

PUTTING OUR MEMBERS ON THE MAP

James Walsh, Policy Lead: Engagement and EU, has been getting out and about…

I'VE ALWAYS LIKED MAPS, SO WHEN I MOVED FROM THE PLSA'S POLICY TEAM TO OUR MEMBERSHIP ENGAGEMENT DIRECTORATE – WITH A BRIEF THAT INCLUDED RAISING STAFF AWARENESS OF OUR PROGRAMME OF MEMBER VISITS – I SPIED MY OPPORTUNITY.

One quick trip to Rymans later and I had what I wanted – an office wall map of the United Kingdom, complete with a sheet of red stickers to mark every member we visit. Unfortunately Rymans omit most of Orkney and all of Shetland (a personal bugbear of mine), but I have a plan for that.

Eight months later and the red dots are piling up nicely – 40 to date. The heads of pensions at Rolls-Royce (Derby), Torfaen County Borough Council (Pontypool), Alliance Boots (Nottingham), Heineken (Edinburgh) and many more have been 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.

After every trip we write up the notes, share the key points with colleagues and finally (my personal highlight) add a new red dot to the wall map, which occupies pride of place next to the staff kitchen. The idea is that colleagues now have better 'visibility' on where the Membership team have been, whom we've met and – most importantly – what our members want us to do for them.

Our Chief Executive, Julian Mund, is a strong advocate of getting out of the office to meet our members, so he gets closely involved in this work. In fact Julian holds the title for the longest recent trip from our London office with his visit to the North-East of Scotland Pension Fund in Aberdeen, but see below for my plan to topple him from that perch in due course.

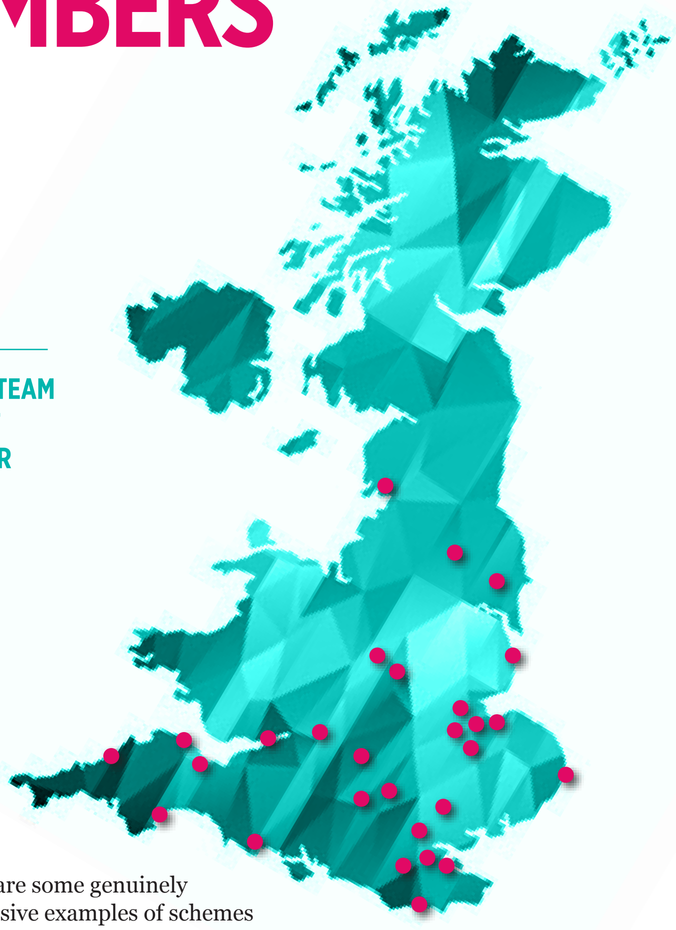
ENGAGING WITH THE ISSUES

Our members raise a vast array of issues with us, but certain themes come up time and again. Top of the list is relations with the Pensions Regulator – both good and bad – and we use this feedback in our own discussions with TPR staff. Plenty of our members are concerned that TPR focuses exclusively on a five-to-seven-year time-horizon and doesn't give sufficient credit for recovery plans that stretch beyond that. There are also comments about the variable quality of TPR caseworker staff – some are genuinely good, but that's not always the case.

THERE IS NO SUBSTITUTE FOR GETTING ON A TRAIN OR ON THE ROAD AND VISITING OUR MEMBERS AT THEIR PLACE, NOT OURS

Many of our members highlight engagement with DC members as one of their key agenda items.

It's quite usual for scheme managers to tell us they have put a good structure in place for engaging with their DB members and are now focussing on better communications on the DC side.



There are some genuinely impressive examples of schemes providing pensions seminars, free at-retirement advice and even smartphone apps.

Two regulatory or legislative headaches crop up in almost every conversation – Guaranteed Minimum Pensions and problems with the Annual and Lifetime Allowances. On GMPs the PLSA is closely involved in the industry working groups that are looking for a solution, and we will be using an Annual Conference session to help members share best practice. Tax issues will also be a key focus at the Conference; we know our members really value hearing how their industry peers are tackling these common challenges.

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**

As for our members in the Northern Isles, their absence from the Rymans map doesn't mean we overlook them. I visited the Orkney Islands Council three years ago (it must be time for a follow-up) and am confident that I'll be passing through Shetland at some point en route to a birdwatching holiday on Fair Isle, so I can envisage a business-mixed-with-pleasure visit to the local authority fund while I'm in Lerwick. We'll just need a new map.

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LEGAL UPDATE

CASE LAW HIGHLIGHTS: NEGLIGENCE AND REGULATOR POWERS

Loreto Miranda
Head of Thomson Reuters' Practical Law Pensions service

It's rare that negligence cases come to trial (often they are settled), but two noteworthy recent High Court decisions indicate that such claims can succeed in a pensions context (both were appeals from the Pensions Ombudsman):

- In relation to police pensions, the court held[1] that the scheme administrator had a duty of care and was liable for negligent misstatement where it had informed retiring officers that they would receive a tax-free lump sum in circumstances where it should have known about the adverse tax consequences arising where the officers were to be re-employed within one month of retirement.
- In relation to a pension transfer, the court held[2] that investment losses claimed by a member due to an administrator's delay in making a transfer payment from his SSAS to a SIPP (to allow him to invest in the stock market immediately following the Brexit referendum) were, under ordinary negligence principles, reasonably foreseeable.

Another important case involved ongoing litigation against the Pensions Regulator's efforts to impose a financial support direction (FSD) on five ITV group companies, to address the multi-million pound deficit in the Box Clever pension scheme after the failure of the Box Clever joint venture. The Court of Appeal confirmed[3] that the Regulator had jurisdiction to issue the FSD and it was reasonable to do so. This is a reminder of the complex issues that can arise when the Regulator seeks to enforce its anti-avoidance powers; the judgment tackled wider questions about when a person has control of a company for FSD purposes. The amount and form of the financial support will now be determined and the quantification of the FSD may yet be challenged.

LEGISLATION HIGHLIGHTS: DISCLOSURE AND TRANSPARENCY

Outside the courts, regulations made in June[4] introduce further disclosure obligations on pension trustees regarding voting and shareholder engagement. These duties, which will require schemes to amend their statement of investment principles and make certain information available free of charge on a website, take effect between October 2019 and October 2021.

Also in June, the Competition and Markets Authority (CMA) made an order[5] requiring fiduciary managers and investment consultants to provide clearer information about their services. The Order also requires pension trustees who plan to delegate investment decisions over more than 20% of trust assets to run competitive tenders. In July, the DWP published draft regulations[6] to introduce the CMA's recommendations.

1 *Corsham v Police and Crime Commissioner for Essex [2019] EWHC 1776 (Ch).*
2 *Tenconi v James Hay Partnership [2019] 6 WLUK 162.*
3 *Granada UK Rental and Retail Ltd v Pensions Regulator [2019] EWCA Civ 1032.*
4 *Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (SI 2019/982).*
5 *Investment Consultancy and Fiduciary Management Market Investigation Order 2019.*
6 *Draft Occupational Pension Schemes (Governance and Registration) (Amendment) Regulations 2019.*

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PENSIONS AND LIFETIME SAVINGS ASSOCIATION

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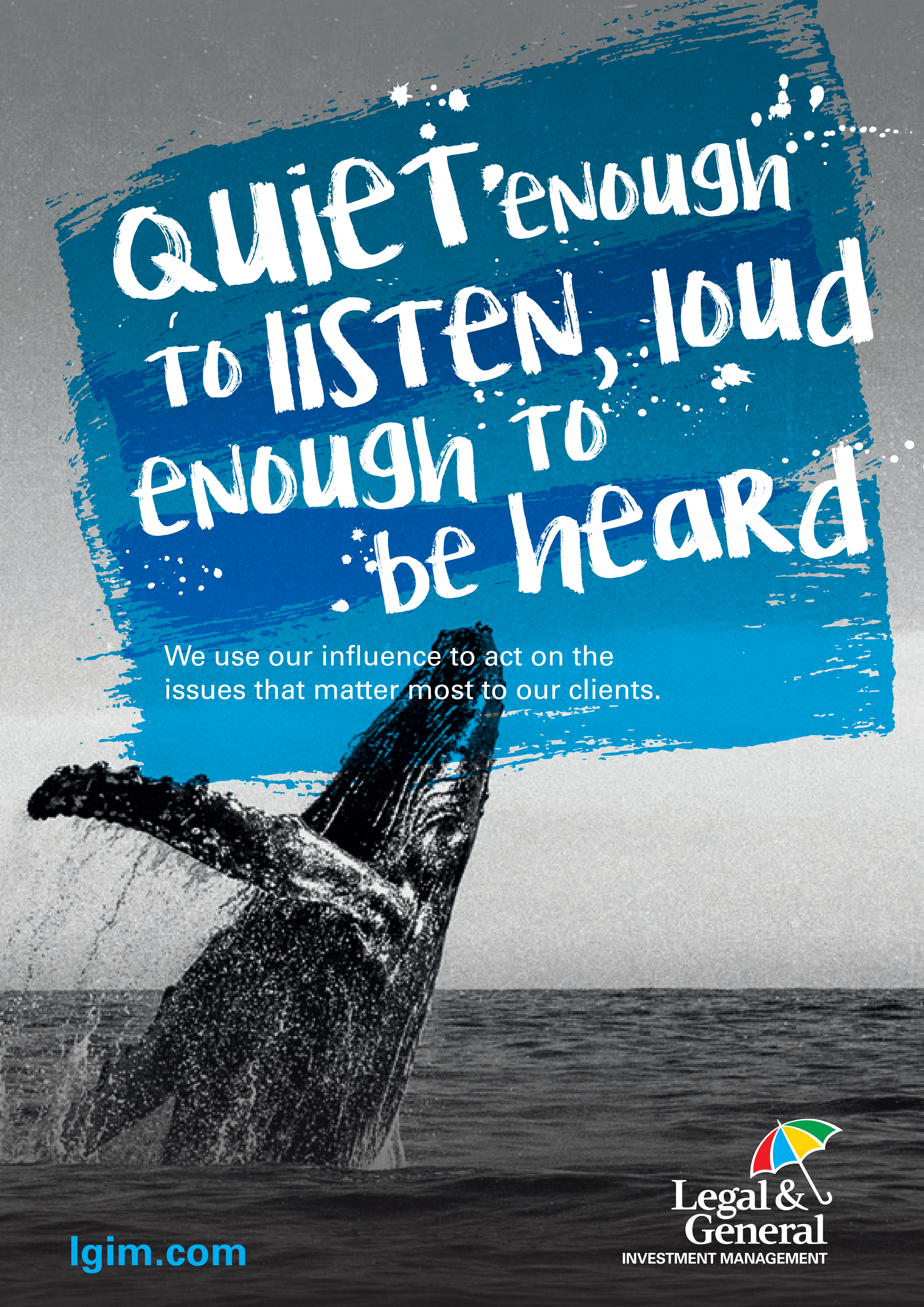
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