Viewpoint

HAS ESG FINALLY GONE MAINSTREAM?

The official journal of the Pensions and Lifetime Savings Association

Issue 2 2019

Q&A: JEFF HOUSTON, LOCAL GOVERNMENT ASSOCIATION

HUMAN CAPITAL AND THE FTSE 100

INNOVATION IN DEFINED CONTRIBUTION

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

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CEO'S *Viewpoint*

Julian Mund wants to hear from you...

WHAT DO YOU WANT FOR THE PENSIONS SYSTEM, AND WHAT DO YOU WANT FROM THE PLSA?

We've been asking these simple questions quite a lot recently. On the map of our member visits that I wrote about last time, the number of orange dots to mark where we've been is continuing to grow – you can read some of the things we've learned inside. But it doesn't stop there: we're also running a large member survey to understand in greater depth what you want and need from us. There will be two sets of communications from us and our research partners in the second and third week of May – get in touch if you think you've missed them and want to take part.

What you want for pensions is part of our Policy Board's ambitious work programme that stretches to 2022, which we published at the beginning of April. Its four themes will shape what we do for all of our members over the next four years: achieving well-run schemes, encouraging effective engagement, supporting adequate contributions, addressing scale and consolidation.

Behind these themes we've been putting in place the final elements of our new governance structure, with four new policy committees representing defined benefit, defined contribution, master trust and local authority members. They'll be supported by much larger reference groups of 50+ members who'll bring ideas and intelligence from their day jobs – another way you could contribute.

WHAT YOU WANT FOR PENSIONS IS PART OF OUR POLICY BOARD'S AMBITIOUS WORK PROGRAMME

Of course, we know our events are one of the services you value the most. It feels like a long time since we passed the first big waypoint of the year, the Investment Conference – our biggest ever with more than 1,000 delegates. Now the Local Authority Conference is almost here. The strong community of our local authority fund members will as ever have a lot to talk about as they tackle some unique governance and investment challenges. There will be plenty of discussion about pooling and cost transparency – this is where the local authorities have really led the way from the fund side. They're a key driver behind the Cost Transparency Initiative, which is preparing to launch new cost transparency templates very shortly.

Both pooling and CTI are key parts of our work on well-run schemes and scale, within the Policy Board's themes – so you see how our policy priorities feed into other areas. I hope you'll be telling us what you think via the member survey, which will inform our ongoing development of the PLSA, the way we work and what we do for you: we want to hear from as many members as possible.

And finally, if you want to tell us anything about this edition of Viewpoint, get in touch via viewpoint@plsa.co.uk

Best

Julian Mund

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PENSIONS AND LIFETIME SAVINGS ASSOCIATION

PLSA Team:

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

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

Lisa Hampton
Tel: +44 (0)20 7601 1712
Email: lisa.hampton@plsa.co.uk

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

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

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

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PENSIONS AND LIFETIME SAVINGS ASSOCIATION

KEY MEMBER BENEFIT: POLICYWATCH

PolicyWatch is an e-bulletin of the latest pensions news, political and regulatory development.

Our team provide a synopsis of everything you need to know in a convenient enewsletter format.

Sent every other Friday, this is a key member benefit, if you haven't been receiving your copy, please email **openPLSA@plsa.co.uk** with your name, company and email address.

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Q&A: JEFF HOUSTON, HEAD OF PENSIONS, LOCAL GOVERNMENT ASSOCIATION

Jeff Houston tells **Maggie Williams** about the costs and complexities currently facing local authority schemes

Q

MW: WHAT ARE THE THREE BIGGEST CHALLENGES FACING LOCAL AUTHORITY PENSION SCHEMES TODAY, AND HOW ARE SCHEMES REACTING TO THEM?

JH: I'd say that the challenges can be summarised as three Cs: Costs, Complexity, Cases.

The LGPS is a very good pension scheme but it is expensive, especially when the finances of local authorities and other scheme employers such as schools, colleges and universities are under severe pressure. Don't get me wrong, I believe that good pensions are the right thing both for individuals and for society. However, good pensions should also be affordable for the member and the employer.

At this valuation it may be that LGPS funds will see the back of deficits that have led to high employer costs over the last decade. That might be good news for deficit contributions, however the seemingly ever-upward trajectory of future service costs due to falling discount rates could well be the cloud in that silver lining.

Uncertainty over scheme costs is not being helped by the current 'pause' in the cost cap. This process was designed to instill a degree of cost sharing in the LGPS, which was a laudable objective. However, the main drivers of the member/employer split of costs have gone in unexpectedly different directions. The result, in unfunded schemes at least, appears to be a confusing mix of employer cost rises alongside potential benefit improvements.

Pension schemes by their very nature are complex beasts. This has been exacerbated by the fact that, at least up to now, all scheme changes can only be applied in the future. This has resulted in increasingly complex layering of scheme rules.

That layering is contributing to a situation where schemes may now be at, if not beyond, the limit of understanding of both the members that use them and the employers who must provide the necessary data for them. For example, the LGPS now has at least three definitions of pensionable pay depending on what length of service a member has and if they have been absent. Also, many members have three tranches of pension calculated in different ways and payable on three different dates.

This makes for a confusing scheme that is expensive to administer, baffling for members and a headache for scheme employers. The Scheme Advisory Board will be scratching the surface of this issue with its simplification project but much, much more needs to be done in this space.

Finally, cases – the legal sort. Walker (equalisation of survivor benefits for same-sex couples), Brewster (survivor benefits for co-habiting couples) McCloud (transitional protections given to scheme members), Sargeant (age discrimination and transitional reforms) and Lloyds (GMP equalisation in public sector schemes) all ask fundamental questions about the scheme in relation to equality of benefits.

Not only do they question the amount of benefit but also seek to backdate the impact, potentially (in the case of Walker) challenging the previously unbreakable rule that 'the past cannot be changed'. In all these cases there is a danger that schemes will become ever more complex and more costly through trying to fix inequalities by tinkering at the edges rather than taking the opportunity for a fundamental review of the nature and purpose of public service pensions.

Q

WE'VE SEEN ISSUES WITH HIGH EARNERS QUITTING THE NHS OVER ANNUAL AND LIFETIME ALLOWANCES RECENTLY. WILL WE SEE ANY SIMILAR ISSUES WITH OTHER SCHEMES, SUCH AS POLICE OR FIREFIGHTERS – AND IF SO, WHAT IMPACT WILL THIS HAVE ON UNFUNDED SCHEMES? AND WHAT OTHER CHALLENGES ARE THEY FACING THIS YEAR?

Pensions tax relief rules are resulting in significant unintended consequences in public sector pension schemes. These include not only increasing numbers opting out, putting pressure on contributions income, but also workforce problems around recruitment, retention, promotion, acting up and overtime. This has been highlighted most recently in the NHS, but it affects all schemes.

No-one is asking for a 'pass' from paying tax, but, unlike in the private sector, our schemes have very little flexibility in them to allow people to effectively manage the balance between pension growth and tax liability or to exchange pension for other benefits. This leads to many members, and not just those on top salaries, facing the binary choice of paying the tax or opting opt.

Employers and unions across the public sector are currently collecting evidence and developing options for flexibility in public service schemes to put to government.

So far as other challenges for unfunded schemes are concerned probably GMP reconciliation and equalisation are two of the biggest outside the cost, complexity and cases shared by all.

Q

YOU'RE INVOLVED WITH THE COST TRANSPARENCY INITIATIVE (CTI) – HOW DO YOU THINK THIS WILL BENEFIT LOCAL AUTHORITY SCHEMES?

If you don't know your total cost of investment how can you manage it, make more informed decisions, compare the effectiveness of vehicles or select the most efficient route into a particular asset class?

The CTI will build on what the LGPS is already achieving through the Code of Transparency. It will extend the range of cost templates to private markets and real assets and include 'machine readable' versions.

The LGPS Code will adopt the CTI templates once they become available. It will also introduce a compliance and reporting system which will check that cost information is being delivered, show on-screen summaries broken down by asset type and provide usual comparison data.

Q

WE'VE HAD A LONG PERIOD OF UNCERTAINTY OVER BREXIT – WHAT DO YOU THINK THE EFFECTS WILL BE ON THE SCHEMES YOU ARE INVOLVED WITH?

The effect will depend on which way high level economic indicators go, such as inflation, interest rates, exchange rates and market performance. If the outlook is less than rosy, then I would expect a continued downward pressure on discount rates resulting in more upward pressure on future service costs.

Q

WHAT SESSION ARE YOU LOOKING FORWARD TO MOST AT THE LOCAL AUTHORITY CONFERENCE?

The social housing debate – it's not only a fascinating subject, but as my wife is a local authority housing manager it'll be something to discuss when I get home!

Jeff Houston will be appearing at the PLSA's Local Authority Conference on 14 May. See page 8 for more information about the event.

PREVIEW: LOCAL AUTHORITY CONFERENCE

The PLSA's Local Authority Conference 2019 takes place on 13-15 May at De Vere Cotswold Water Park Hotel, Gloucestershire. Here are just a few of the many highlights awaiting delegates...

FIVE TO WATCH

1. Rishi Sunak MP: The view from Whitehall
(14 May, 9.25)

The Minister for Local Government sets out his current thinking about the LGPS and looks ahead to the future

2. Hot and bothered? Getting to grips with climate change
(13 May, 15.30)

How will the need to respond to climate change affect LGPS funds in the long term? Catherine McFadyen, Head of Public Sector Actuarial, Benefits and Governance and William Marshall, Head of LGPS Investment Clients, Hymans Robertson, discuss.

3. Panel debate: The floor to ceiling view
(14 May, 10.05)

Senior experts from local government discuss some of the key issues affecting the LGPS, including the 2019 scheme valuations. *Read our interview on page 6 for panellist Jeff Houston's views on LGPS priorities*

4. What's the deal about big data?
(15 May, 12.15)

Science writer, broadcaster and comedian Timandra Harkness delves into the uses, and potential abuses, of the vast wealth of information that is now being collected about every one of us.

5. TPR and the LGPS: strengthening ties
(14 May, 9.30)

Fiona Frobisher, Head of Policy, The Pensions Regulator explores ways that TPR and the LGPS can work together effectively.

... and don't miss our 'This house believes' debate

Should the LGPS be required to build social housing and infrastructure for the good of the nation?

Join us for a hotly-contested 'This house believes' debate on Tuesday 14th, where William Bourne, Independent Adviser (against the motion) and Ted Frith, Chief Operating Officer, GLIL Infrastructure (pro the motion) state their case and try to win the audience over to their point of view.

Visit **www.plsa.co.uk/Events-Local-Authority-Conference** to see the full programme and booking information

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REPORT: INVESTMENT CONFERENCE 2019

What keeps chief investment officers awake at night? How will organised cybercrime affect pension funds? How are trade wars affecting financial markets? Fund managers, pension schemes and global experts came to the 2019 PLSA Investment Conference in Edinburgh to find out…

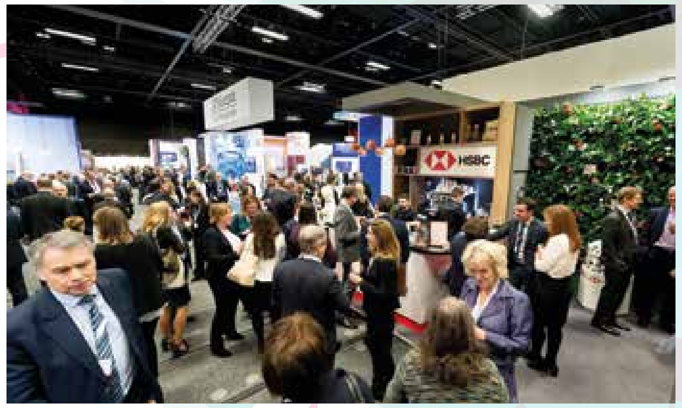
"In the past five to seven years for the first time we have seen a merging of traditional mafia capabilities with cyber-criminal capabilities. These two very different communities are learning to co-operate and how they can leverage each other's skills to be a much more powerful criminal force."
Keynote speaker Misha Glenny, Journalist and author of 'McMafia'

"Returns on investments are very low, so it is much harder than in the past to get members an adequate income in retirement. People need to be able to understand that, but not be put off from trying [to save]. That requires a huge focus on communication and building confidence."
Keynote speaker Paul Johnson, Director, Institute for Fiscal Studies

"If you put the same problems in front of the same group of people you will always get the same answers. And diversity of thinking isn't just about psychometrically how you might be different, but also about your lived experiences."
Diversity panellist Debbie Gupta, Co-Director, Life Insurance and Financial Advice Supervision, Financial Conduct Authority (second from left in the photo)

"Cross-party [politicians] have to make sure that if you set a regime in place and you ask people to plan on that basis, that you don't break the deal. If you do it is bad for everyone and it further erodes trust."
Alistair Darling, former chancellor of the exchequer.

The third day of the conference (8 March) was International Women's Day. Delegates celebrated by making pledges to drive equality in the future.



Mathematician and science presenter Hannah Fry delved into the power and limitations of using algorithms to predict outcomes in an increasingly data-driven world.

This year's Investment Conference attracted more than 1,000 delegates – our highest ever attendance for the event. Everyone got the opportunity to network in the exhibition hall and at the PLSA's stand.

PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

SPONSORSHIP OPPORTUNITIES AVAILABLE

The PLSA offers a range of opportunities including sponsorship of our industry-leading events, publications, individual teach-ins and webinars.

UPCOMING CONFERENCES:

Annual Conference & Exhibition 2019
The most important annual event for anyone involved in pensions
16 – 18 October 2019, Manchester

Trustee Conference
A one day event designed exclusively for trustees
12 December 2019, London

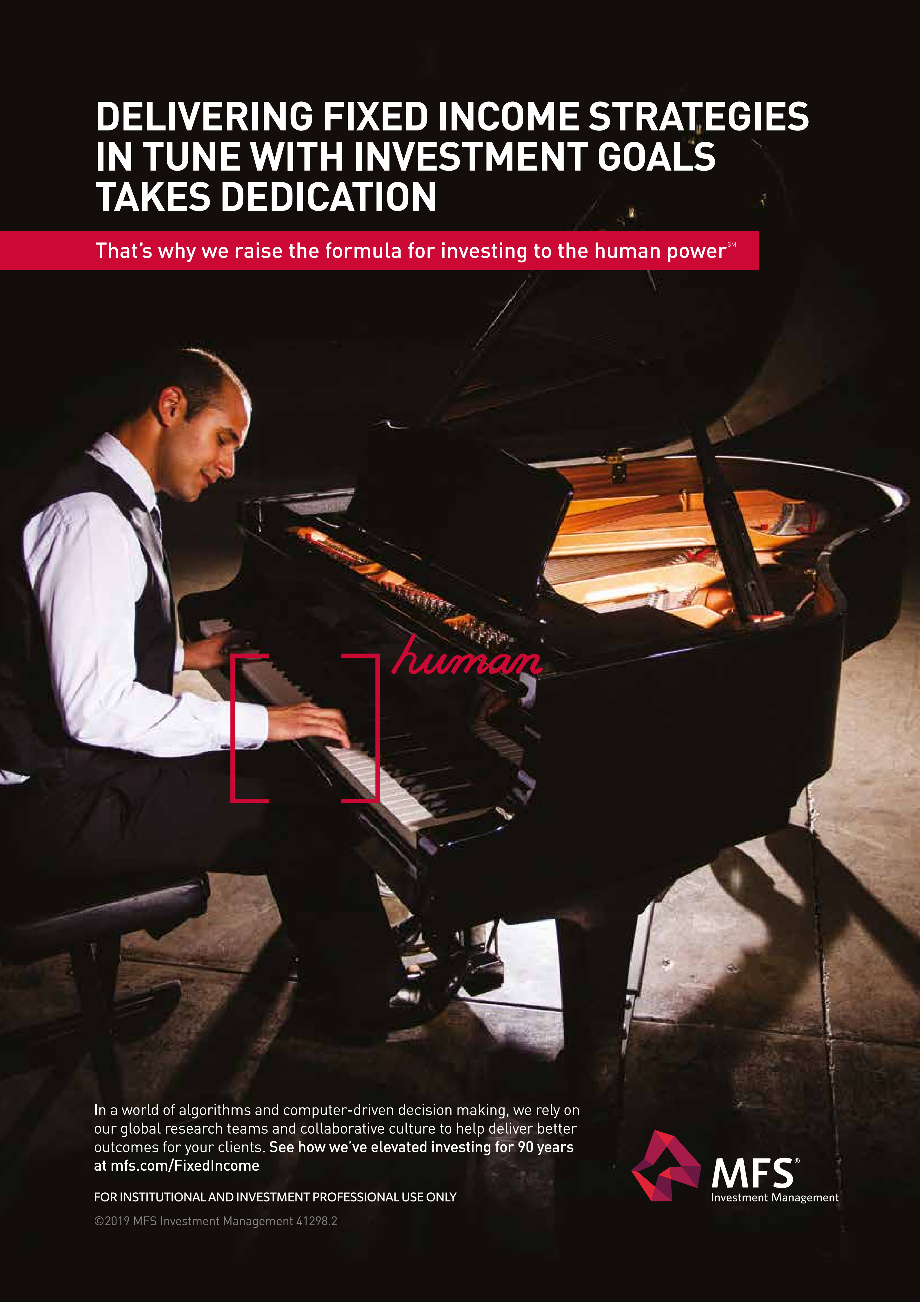
Limited opportunities are still available for:

- Stream sponsorship
- Exhibition stands
- Brand placement

If you would like to network with decision makers and build your profile across the pensions industry, get in touch now:

Adrian Messina
adrian.messina@plsa.co.uk
020 7601 1772

Ben Harwood
ben.harwood@plsa.co.uk
020 7601 1752



CONFERENCE PREVIEW: COSTS AND COMPLEXITIES - GOVERNING THE LGPS

Rachel Pine looks forward to tackling the big questions at LA19

WAS IT THE CHICKEN OR THE EGG?

The convoluted nature of the tasks facing the UK's local authority pension funds can only be compared to one of the great riddles of the universe.

After all, we have the cost cap and ceiling consultation to help us work out the increased amounts that employers may need to contribute to our funds. This consultation, however, has been paused. The New Fair Deal consultation concluded in January, but to put this into action, properly, requires the cost cap and ceiling information to be sorted. And the 2019 valuation is nearly upon us, which also has ramifications up and down the funding food chain.

Not to mention that the draft statutory guidance from MHCLG said that for the most part, all of the funds must be in the investment pools by 2020, with some additional requirements as well which have the potential to change the relationship between funds and pools. Which could easily be likened to watching Love Island on fast forward – can someone please press the pause button?

And it's only May!

On a more serious note, we at the PLSA recognise the tremendously hard work that's done by the local authority funds year in and year out, amid policy changes, financial market moves, and – more recently – very little legislative time for anything that doesn't begin with the letter B. In planning the conference, we tried to build content that would help everyone to understand these significant issues better.

The work of the LGPS provides a secure retirement for its 5.6 million members – a task of extraordinary size and importance.

This year's conference, titled 'Costs and complexities – governing the LGPS', examines many of the issues that local authority funds will be looking at, not just now but in the months and years to come. We wanted to provide the context for what global events may mean locally, and to promote discussion on the most critical issues for LAs, including the previously-mentioned cost cap, ceiling and new fair deal, but also investment cost transparency, the overall relationship between the funds and their respective local authorities, and how the regulator will work with the LGPS in an effective and mutually respectful manner.

For the first time at our LA Conference, we have invited a team of student debaters to deliberate an issue that is vexing for both local authorities and central government: should the LGPS be required to build social housing and infrastructure that will serve everyone, or does it not have a responsibility beyond its own scheme members? We're looking forward to seeing how the debate goes and how the audience votes. We're sure though that however it goes, it will give everyone lots to talk about at the drinks and conference dinner on Tuesday evening.

As is traditional at the LA Conference, we've built in a good amount of networking time, which we hope provides lots of opportunities to connect, commiserate and celebrate the significant achievements of the scheme overall.

We may not know how many were going to St Ives, but we do know that there will be 400 attendees in Gloucestershire, puzzling out the responses to the most important challenges for the UK's largest funded pension scheme.

HIDDEN TALENT 2: REVEALING THE NEED FOR MORE TRANSPARENCY

Maggie Williams reports on the launch of the PLSA's latest high-profile report

Setting the scene: Caroline Escott,Policy Lead: Investment and Stewardship, PLSA

The value of people's pension savings depends in large part on the performance of the companies in which their money is invested. Understanding that performance requires a robust and forward-looking approach to many issues in the business environment. The greater recognition of ESG risks that we have seen in recent years is a positive development.

In terms of reporting, the 'S' of ESG has often been a poor relation. Environmental factors including climate change have become high profile, and there has been a growing focus on governance considerations such as poor board behaviour. But social issues like human capital and the role of an engaged, fulfilled workforce make a real difference to a company's bottom line, and have typically been under-reported. This is a salient issue for pension funds, particularly as we move into a more uncertain economy.

We need a vision for concrete data, targets and benchmarks as part of the narrative of broader business strategy. The results in Hidden Talent 2 are disappointing in this context. It's not enough for companies to wait for legislation to force them into doing the bare minimum. Forward-looking companies need to listen to their customers, and investors must act.

"OUR PEOPLE ARE OUR GREATEST ASSET" MAY BE A REGULARLY-REPEATED BUSINESS MANTRA, BUT NEW RESEARCH FROM THE PLSA AND HIGH PAY CENTRE (HPC) SHOWS THAT FTSE 100 COMPANIES ARE NOT PROVIDING MUCH EVIDENCE TO BACK IT UP.

Hidden Talent 2, released in April 2019, shows that poor transparency in annual reporting means pension funds struggle for evidence to evaluate how well companies are treating their workers.

However, there is increasing and compelling evidence that when companies care for their workforces they tend to perform better, which in turn creates value for shareholders. Trustees and their investment managers need better workforce reporting to make a fair assessment of the risks and potential returns from businesses.

Hidden Talent 2 follows on from our first *Hidden Talent* report in 2017. Then, the PLSA analysed the annual reports of FTSE 100 companies, to assess how well they report on workforce issues and what this means for pension fund investors. This year, we have repeated the exercise with the HPC, to find out how reporting practices have changed.

> My Committee has consistently recommended more transparency, better reporting on key metrics and tougher sanctions when companies fall short on these fronts. Investors have always understood the value of meaningful information on issues that affect a company's bottom line, so that they can use this to shape their corporate engagement and dialogue. Pension schemes in particular, with their long-term investment horizons and £2.2 trillion of assets under management, are well placed to influence companies for long-term economic success.
>
> **Rachel Reeves MP**
> chair, Business Energy and Industrial Strategy Select Committee

The HPC analysed each annual report to assess whether it provided meaningful statistics and appropriate narrative to support them, on four themes.

- Composition: who are the company's workers and on what terms are they employed?
- Stability of workforce: how stable and secure is the current workforce and how might it change over time?
- Skills and capabilities: how equipped are the workforce to meet the company's future skills needs?
- Employee engagement and voice: how motivated is the workforce? How fulfilled do workers feel in their jobs and how committed are they to corporate goals?

The process also assessed whether each report met the general characteristics of good workforce reporting.

Although different industry sectors will have different workforce characteristics, these four themes underpin strong performance in any type of business. The underlying metrics for each theme are based on those proposed in the PLSA's *Understanding the Worth of the Workplace: A Stewardship Toolkit for Pension Funds.*

Speaking at the launch of *Hidden Talent 2*, Dr Ashley Walsh, head of policy and research at the HPC, who led the research, said: "In general, the annual reports showed few disclosure practices beyond statutory minimum requirements. Companies are complying with government mandates, but we need to see much more on issues such as the mental health of the workforce, training and age diversity.

"Some areas have improved since the 2017 report, such as reporting on the proportion of full- and part-time staff. There is also some evidence of improved commitment to motivating employees, such as awards and team work schemes.

"We also saw a substantial variation in the quality of reporting. It would be good to understand more about the reasons behind that variability. Data reporting issues and commercial sensitivities might be considerations – but some businesses may be structuring reports around what they think shareholders want to see.

"Overall, business culture has been slow to react to changing expectations, both from government and from the public who expect CEOs to drive change, not wait for government to enforce it. Investors also need to help drive that change."

Some of the key findings included:

COMPOSITION

- All companies complied with mandatory disclosures on gender pay gap reporting, but only 51% discussed their gender pay gap at board level. Only 3% discussed their ethnicity pay gap and 7% discussed age diversity.
- 11% provided a breakdown between full- and part-time staff, and there was little discussion of the use of agency staff (6% referenced this). Use of short and zero hours contracts was not discussed at all.

STABILITY

- The proportion of businesses reporting aggregate turnover has increased to 31%, up from 18% in the 2017 report. However, few companies provide a narrative on the metric that relates it to wider performance.
- There is a real lack of disclosure around employee mental wellbeing, with only 3% of companies reporting on this. Given the increased public and regulatory attention being paid to wellbeing as an indicator of workforce stability, this figure is very low.

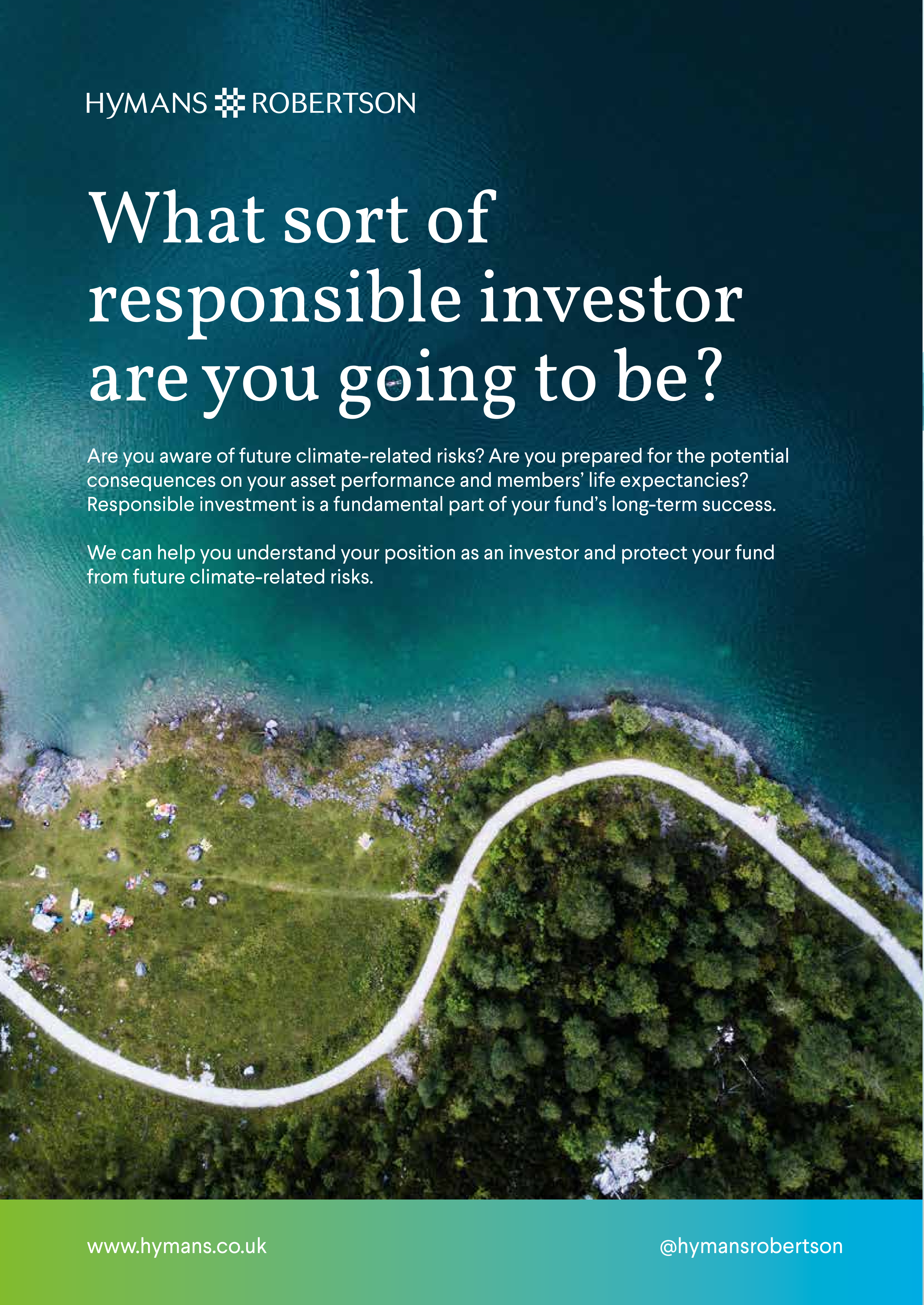
SKILLS AND CAPABILITIES

- There was a marginal increase in the number of companies reporting on their training programmes, from 23% in 2017 to 24% in the current analysis. There is clear roomfor improvement on this metric, which demonstrates how well equipped a workforce is to meet future business needs.
- Only 1% reported on the details of training arrangements across different groups within the workforce, such as managers or younger workers.

EMPLOYEE ENGAGEMENT AND VOICE

- Meaningful narrative around employee motivation and commitment has improved since 2017 but, given the importance of employee morale and engagement with business goals, the proportion of businesses that are reporting on this area is still low at around a third (37%).
- More companies are reporting on employee share ownership (18% compared to 5% in the 2017 report).
- Reporting on workforce satisfaction and engagement fell from the previous report. Only 35% of companies provided concrete data on employee satisfaction scores, down from 42% in 2017. Fifty-three per cent reported on workforce engagement practices – down from 64%.

> From the TUC's perspective, reporting is a means to an end – we want to see improvements in practice as a result, both through external pressure to raise standards and internal review.
>
> In that context, it's disappointing to see such low reporting figures in some areas. One example is the use of agency workers, where we've seen a decline from the previous report. All organisations need temporary staff from time to time, but if you outsource whole functions or large parts of the workforce, that has a significant impact on employees.
>
> **Janet Williamson**
> senior policy officer, TUC



We surveyed Nest's members to find out more about what matters to them from an ESG perspective, and found that investing in robust, stable businesses that treat employees well is important to them.

All companies need labour, and if they are not managing that effectively company economies, and therefore members' savings, will be at risk. If companies aren't putting out good data on the workforce, then DC funds don't have the ability to assess this.

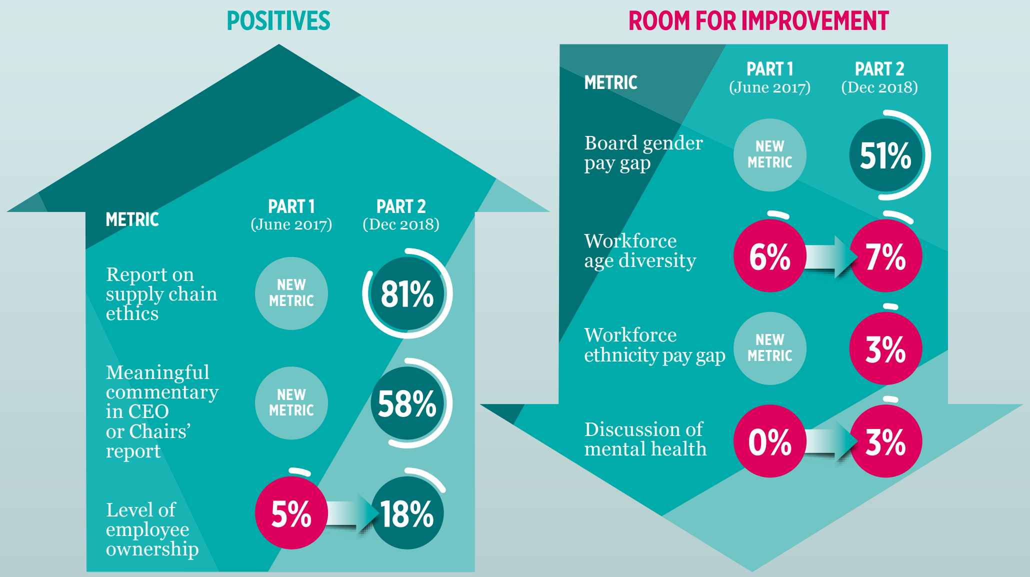
Companies also need to understand why investors want certain information, such as part-time and full-time work disclosures. A lack of part-time work could mean a lack of diversity, for example. For that reason, we're keen to avoid heavily prescriptive frameworks – businesses need to get better at disclosing the reasons behind their strategy, as well as what their aspirations are for the future.

Diandra Soobia
head of responsible investment, NEST

Policymakers, investors and industry bodies are taking action to raise the profile of workforce reporting. Some key initiatives include:

- **UK Corporate Governance Code – Financial Reporting Council**. The Code calls on businesses to engage more effectively with the workforce. It advocates appointing a director from the workforce, introducing a workforce advisory panel or requiring a non-executive director to look at workforce issues. It also recommends giving employees a means of raising concerns in confidence.
- **Good work: the Taylor Review of modern working practices**. Matthew Taylor, CEO of the Royal Society of the Arts, explored current and future working models and made a series of recommendations focused on factors such as wages, quality of employment, training, working conditions and work/life balance.
- **Thriving at work: a review of mental health and employers**. Paul Farmer (CEO of Mind) and Lord Dennis Stevenson's report recommended six core standards that all employers should adopt to support staff mental health.
- **Workforce Disclosure Initiative – ShareAction**. This industry body brings investors, savers and companies together. It aims to use investors' power to influence corporate behaviour, through campaigns, research and policy work.
- **Pay gap reporting**. The second annual round of UK gender pay gap reporting has now been published – and a government consultation earlier this year could soon pave the way for ethnicity pay gap reporting as well. CEO pay ratio reporting will also be required for businesses' fiscal years starting on or after 1 January 2019.

As part of the PLSA's work to support investors in understanding employment issues, we asked the High Pay Centre to examine disclosures in FTSE 100 annual reports to find out how workforce reporting has changed since the first *Hidden Talent*[1] report in 2017.



PENSIONS AND LIFETIME SAVINGS ASSOCIATION

EFFECTIVE GOVERNANCE

In collaboration with

KPMG

Developed in collaboration with KPMG, the PLSA Effective Governance service aims to help individuals involved in running a pension scheme to review their scheme governance and check how it measures up to the Pensions Regulator's expectations of best practice. There are two versions of the tool:

Effective Governance for Trustee Boards of trust-based schemes

Effective Governance for LGPS Funds including pension boards, LGPS pension managers and pension committee members.

GOING THROUGH AN EFFECTIVENESS REVIEW IS A BIT LIKE UNDERGOING A 'HEALTH CHECK'. IT HELPS YOU GAUGE HOW YOUR BOARD THINKS IT'S PERFORMING, AND HOW IT MEASURES UP AGAINST THE PENSIONS REGULATOR'S (TPR) EXPECTATIONS OF A WELL-GOVERNED SCHEME.

WHAT OUR EFFECTIVENESS REVIEW OFFERS:

- **Independent and objective insight, backed by specialist market experience.** As a third party, we're able to conduct the review from a completely independent standpoint.
- **Wide coverage of TPR guidance.** The online tool touches on all the key areas that TPR has issued guidance on so far, serving as a timely reminder to all schemes of their responsibilities and evolving standards of best practice.
- **Open and honest feedback.** All results from the online tool are presented on a grouped, anonymous basis only, enabling those participating to be completely open in their views, and gives all individuals an equal voice.
- **Efficiency.** It only takes about 30 minutes to complete the online tool. We've done the hard work of distilling the various codes and guidance papers into the questionnaire, and enhanced it with input from KPMG's pensions, audit and assurance expertise.

HOW THE PROCESS WORKS:

- **Each relevant individual completes an online questionnaire.** It's a simple but comprehensive multiple choice questionnaire that takes just 30 minutes to complete.
- **The results are collated and analysed by experienced consultants.** You will receive a report of these results presented in a grouped, anonymised way, together with added commentary and insights.
- **Most importantly, we discuss the results with you in an independently facilitated workshop, arranged at your convenience.** This is the most valuable and insightful part of the review that brings out the areas of strength and improvement, and helps you build a tangible action plan to address any areas for development.

For more information please visit **www.plsa.co.uk**

GENDER DIVERSITY: A FATHER'S PERSPECTIVE

PLSA Editor-in-Chief **Edward Bogira** talks gender roles in our latest column

IF YOU CAME TO THE PLSA'S INVESTMENT CONFERENCE 2019 YOU'LL KNOW IT WAS INTERNATIONAL WOMEN'S DAY ON THE FRIDAY, WHICH WE MARKED THROUGHOUT THE MORNING. WHAT MIGHT HAVE PASSED YOU BY HOWEVER, UNLESS YOU HAVE YOUNG CHILDREN, WAS WORLD BOOK DAY THE DAY BEFORE. THIS IS WHEN MOST CHILDREN GO TO SCHOOL DRESSED UP AS THEIR FAVOURITE CHARACTERS. (I SAY MOST BECAUSE MY WIFE OVERHEARD SOMEONE IN THE SUPERMARKET WHO WAS UNSURE IF HER DAUGHTER'S SCHOOL'S WORLD BOOK DAY WOULD BE ON THE SAME DAY AS WORLD BOOK DAY...)

> AS A DAD I HOPE FOR NOTHING MORE THAN TO RAISE TWO CONFIDENT, INDEPENDENT GIRLS WHO CAN BE WHOEVER THEY WANT TO BE WHEN THEY GROW UP

The instructions from our daughter's school were simple: please don't send your child (son) in a superhero outfit because "their behaviour changes significantly" (they fight). So Spiderman had to go as a Gruffalo. Girls were Snow White and Cinderella. Except our four-year-old, who wanted to be one of the characters from her favourite book, Charlie and the Chocolate Factory.

Violet Beauregarde? No. Shame – the big blueberry costume could be easy. Veruca Salt? Even better, just wear school uniform – but sadly not. No, our daughter decided to be... Willy Wonka.

So aside from the new skills in costume-making my wife acquired, we enjoyed our girl wanting to dress as a man aged 60-plus in the book and about 40 in the films (that might be a little generous to Johnny Depp). And on the eve of Wonka Day, she said "Tomorrow I'm going to be a boy all day aren't I? I'm not going to be a girl-boy; I'm going to be a boy-boy."

A boy-boy? If she was any older she'd have to be careful where she says this kind of thing because if the wrong person overhears she'll be in a gender reassignment programme before she knows what she's saying. She sees that there's something different about being a boy (part of it is about how boys eat cake, she tells me) and thought it would be fun to play one. And she couldn't see any reason why it should matter that a girl would be Willy Wonka. There isn't one: here was a girl having fun and being whatever character she wanted to be.

But I know it gets more complicated later. I look at my wife, an amazing mother and a high-achiever at work, trying to balance her career and parenting aspirations and expectations of herself. She's a lawyer and women are very well represented in senior roles at both the firms she's worked for, though I know for some that's at the expense of being the mother they want to be – and there are some things only a mum can do, both physical and emotional. I also know how hard they have to work just to be taken seriously by some clients, including pension scheme trustees, because of their gender. Our industry and others are focussing on improving things for women. Parenting roles are becoming more balanced too thanks to progressive attitudes towards parental leave and flexible working. I worked flexibly for 18 months and there's nothing like being the only dad joining in with toddler ballet or a Friday afternoon swim and a 5pm dinner date.

We're making great progress. I just hope it doesn't increase the pressure to succeed at everything as much as it creates the possibility to, because the roles required of women can be complex. As a dad I hope for nothing more than to raise two confident, independent girls who can be whoever they want to be when they grow up. If that's a mum with a great career in the pensions industry, great. Although the eccentric owner of a world-famous chocolate factory would make me quite proud too.

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M&G INVESTMENTS

CLEARER, QUICKER, TOUGHER

The **Pensions Regulator** continues its drive to help savers achieve the best outcomes

THE PENSIONS REGULATOR IS CONTINUING TO BE CLEARER, QUICKER AND TOUGHER TO ENSURE SAVERS ARE PROTECTED AND ARE SAVING INTO SAFE AND SECURE PENSION SCHEMES.

The last few weeks have seen us tackling criminality but also intervening to persuade employers, advisers, providers and trustees to do the right thing without obliging us to use our powers.

We've recently seen a number of enforcement firsts for TPR – the launching of our first money-laundering prosecution and the securing of our first convictions for fraud, including the jailing of accountant and pension scheme trustee Roger Bessent for fraud and making prohibited employer-related investments.

This was the first custodial sentence following a TPR prosecution, and it showed that the courts will not tolerate abuse of the system. Sentencing Bessent, Judge Nicholas Barker highlighted that the defendant had breached the trust that the whole pensions system is based on – that savers can rely on pension scheme trustees to invest their funds prudently so they are available for their retirement.

We don't want to have to prosecute trustees. We want to educate them about their responsibilities so they do the right thing for their schemes and savers – keeping themselves out of trouble at the same time.

WE WANT TO EDUCATE [TRUSTEES] ABOUT THEIR RESPONSIBILITIES SO THEY DO THE RIGHT THING FOR THEIR SCHEMES AND SAVERS – KEEPING THEMSELVES OUT OF TROUBLE AT THE SAME TIME

Read our recent blog on scheme investments at *thepensionsregulator.gov.uk* to make sure you understand the rules so you stay on the right side of the law.

BEING CLEARER ABOUT DB SCHEME FUNDING

We recently published our 2019 Annual Funding Statement (AFS), which clarifies how we expect trustees and employers to fund a DB scheme. It's particularly relevant to those conducting valuations with effective dates between 22 September 2018 and 21 September 2019.

We've set out our expectations on investment and covenant and we've put additional focus on scheme maturity. We've emphasised that employers and trustees should establish a long-term funding target and agree a clear strategy, or journey plan, to achieve it, recognising how the balance between investment risk, contributions and covenant support may change over time.

We've articulated how a comprehensive approach to integrated risk management (IRM) should allow schemes to ensure they only take an appropriate level of risk with investments. IRM is an important approach that helps trustees to assess, prioritise and manage the employer covenant, investment and funding risks, only taking investment risk where it can be supported by the covenant.

Since the majority of DB schemes are closed to new members and future accrual, we expect scheme maturity issues to assume greater significance for setting funding and investment strategies in the future, particularly where schemes are experiencing high levels of transfer values.

This year we're contacting more schemes before triennial valuations are submitted to identify potential risks which could impact on members.

ENSURING CONFIDENCE FOR MILLIONS OF MASTER TRUST SAVERS

Following the official closure of the window for master trust applications for authorisation, TPR is now working hard to assess the large volume of submissions received.

The last-minute high volume of applications was expected, and we're confident that we'll process them within the legal timeframe laid out in law. Our list of schemes which have achieved authorisation will be updated weekly.

Authorisation puts safeguards around master trusts by ensuring they're run by fit and proper people and have the right systems, processes, plans and finances in place. We're looking forward to the authorisation of more master trusts in the coming months and to a market of master trusts which millions of pension savers can have confidence in.

Looking ahead we'll be maintaining a close relationship with authorised schemes as part of our supervision work to ensure these standards continue to be met.

We anticipated scheme consolidation, and for those which did not apply or do not receive authorisation, we'll continue to oversee their exit from the market.

Where a master trust is being wound up, trustees must provide us with a plan of how they will transfer out their members' assets. We'll be analysing elements of the transferring and receiving schemes, challenging trustees where necessary, to ensure members get the best outcomes.

IF AN EMPLOYER HAS NOT ALREADY CHECKED ITS STAFF ARE RECEIVING THE CORRECT MINIMUM PENSIONS CONTRIBUTIONS, IT SHOULD ACT NOW

Where trustees are managing an exit well, we'll be taking oversight and having regular engagement. However, if we have concerns about an exit, our engagement will be more frequent and intense.

THE NEXT STEP FOR AUTOMATIC ENROLMENT

With more than 10 million people now newly saving or saving more into a pension, automatic enrolment has fundamentally changed the way people are planning for retirement.

But this far-reaching social policy is not standing still. The last scheduled increase to minimum pensions contributions in April means staff are saving at least 5% of their earnings and employers contributing at least 3%.

More than 1.4 million employers have done the right thing for their staff and are complying with their ongoing duties. The contributions increase is an important next step to help cement the success we've achieved so far.

If an employer has not already checked its staff are receiving the correct minimum pensions contributions, it should act now. Failure to make the correct payments may lead to a financial penalty.

More information can be found at: **www.thepensionsregulator.gov.uk/en/employers/increase-of-automatic-enrolment-contributions**

1.4 MILLION

EMPLOYERS HAVE DONE THE RIGHT THING FOR THEIR STAFF AND ARE COMPLYING WITH THEIR ONGOING DUTIES.

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MEET THE BOARD

Patrick Heath-Lay, Chief Executive Officer at B&CE and The People's Pension, talks to **Maggie Williams** the future

Q

CAN YOU TELL US ABOUT YOUR CURRENT ROLE AND BACKGROUND IN PENSIONS?

A

I've been at B&CE (which runs The People's Pension) since I left school. I started in the mail room here and have worked in jobs across the organisation, including heading up the finance, IT and marketing departments on my way to becoming Chief Executive. Our focus is on the everyday person who would not have had a pension scheme in the past, and who is absolutely the target market for automatic enrolment. That's been at the heart of our strategy over the last few years.

Q

WHAT DRIVES YOU WHEN IT COMES TO PENSIONS AND LIFETIME SAVINGS?

A

I'm passionate about making auto-enrolment work for the mass market – and that motivates me to make the pensions industry better.

In the past, the pensions industry was designed to look after only 20 to 30 per cent of the population – those working for large companies or who had a certain amount of money. Auto-enrolment has changed that now. While it's been a huge administration challenge for schemes, it's also been a chance for the industry to reshape itself to support people without huge pots of money or the fees for advice who need help on their savings journey.

I also want to remove excessive complexity. Some practices and legislation in pensions have been done with good intentions but ended up introducing complications that lose sight of the policyholder. And, as providers, you must factor in the costs of putting those changes into place. With more people now saving into pensions and a maturing market, there will also be more that we can do which will ultimately benefit policyholders, at low cost. The PLSA has already recognised that in its *Hitting the Target* report.

Q

IF YOU WERE GIVEN ONE WISH FOR PENSIONS AND LIFETIME SAVINGS TODAY, WHAT WOULD IT BE?

A

My wish would be for a period of political stability. Being able to implement changes that build towards a more affordable pension system that is better for all savers is key. At the moment, pensions feels like a big box of jigsaw puzzle pieces that don't all belong to the same picture. We need to establish how to put that picture together in a better way.

That means building the foundations for better savings in the future, rather than just thinking about how things are today. There are so many more people in pension savings with lower wages and we need to enable them to make more efficient decisions.

Q

IF YOU COULD PASS ONE PIECE OF PENSIONS-RELATED LEGISLATION, WHAT WOULD IT BE?

A

I'd like to opt for something that is already here now – the pensions dashboard. It is one of the keys to unlocking efficiency in the pensions market.

The PLSA advocates a pension register in a single, safe place, free from commercial pressures, where savers can ask 'what have I got and where is it?'. We need to make that a reality. Once that is in place, there are many more interesting things that the market can do, but small steps are important to achieve big gains.

People who are saving as part of auto-enrolment don't have any control over who they are saving with, and as you move around in different jobs you can lose a sense of ownership. The dashboard addresses that, but it needs to support savers who don't understand pensions.

BREXIT PREDICTIONS FOR PENSIONS

James Walsh, Head of Membership Engagement, focuses on what we do know...

MY FIRST THOUGHT, WHEN THE EDITOR ASKED ME TO PRODUCE 1,200 WORDS ON BREXIT, WAS THAT THIS TIME I MIGHT HAVE TO RESORT TO COPYING AND PASTING 'I DUNNO' 600 TIMES OVER.

I can understand his logic: 'There's nothing but Brexit in the news. There must be loads you can write. You did 600 words for the November edition and it's all ramped up even further since then, so 1,200 words this time, please. And we need it by Friday.'

If only it were all so simple. I could certainly fill a good few pages with speculation about the various political scenarios and how it might all pan out. No deal, Norway-plus, customs union, second referendum, revocation, whatever. But speculation isn't much use to *Viewpoint* readers and there's more than enough of it in the newspapers anyway. So what can I say about Brexit that might actually serve some useful purpose – and keep our word-hungry editor happy?

I reckon my best shot is to focus on what we know: what schemes are telling me about Brexit; what the regulators are doing that affects pension schemes; and what you can do to help your scheme. At least these pass the 'know or dunno' test. Let's start with what schemes are telling me.

WHAT SCHEMES ARE SAYING

Sometimes I wish the more fevered Westminster commentators could sit in on a Brexit discussion with pension scheme managers, because it might help them to calm down a bit. Scheme managers mostly tell me that their investments are highly diversified across the globe (of course) and that any Brexit-related damage to asset prices would be unwelcome, but not a dramatic blow. Other issues in the world economy, such as the US-China trade tensions, are much more of a concern. So when it comes to the investment side of pensions, Brexit is just one of a list of issues to watch – it's certainly not the only game in town. There is a welcome sense of keeping things in perspective.

Many managers also tell me that they have stepped up their hedging to give them more cover against unexpected swings in interest rates or inflation. So there is a sense of being prepared.

> SCHEMES THAT HAVE OVERSEAS PARENTS OR JUST HAVE SPONSORS THAT DO SIGNIFICANT AMOUNTS OF INTERNATIONAL TRADE ARE SERIOUSLY CONCERNED ABOUT POTENTIAL BREXIT IMPACTS

The key Brexit issue for pension schemes, of course, is potential impact on the sponsoring employer's support for the scheme – the 'sponsor covenant'. This is not just about DB; DC schemes also need strong employers that can put generous contributions into their workers' pension pots. Here the responses vary tremendously, depending on the type of sponsor.

Some schemes with sponsors engaged in essentially UK-only business tell me that Brexit is, frankly, not much of an issue for them; their sponsor will be there regardless.

Other schemes that have overseas parents or just have sponsors that do significant amounts of international trade are seriously concerned about potential Brexit impacts. These could arise through weaker sales, through delays at the ports or through decisions on relocation or cutting back investment in the UK.

Even local authority pension funds, which might be thought to have a very domestic-only focus, point out that their multiplicity of employers often includes public sector agencies that distribute EU money or rely on it for their funding. In a post-Brexit world, these monies would still be distributed, but not necessarily in the same pattern; there would be winners and losers – and that will have an impact on sponsor covenant. So monitoring these employer impacts is a real issue for funds in the local government sector, too.

WHAT THE REGULATORS ARE TELLING US

Good engagement with our members means we're better placed when we talk to the Pensions Regulator and the Financial Conduct Authority. It's perfectly clear to me that the regulators are doing their best to maintain continuity, to keep markets working and – ultimately – to protect people's retirement savings through a period of potential disruption.

The FCA has been holding increasingly frequent briefings for trade associations on the state of 'no deal' contingency planning and I've been attending these alongside colleagues from the ABI, CBI, IA (Investment Association) and around 25 other financial services trade associations. I've never seen so many acronyms in one room!

At one of the most recent of these occasions I was able to ask Andrew Bailey, the FCA's Chief Executive, about the future of the pension scheme exemption from central clearing of over-the-counter derivatives trades. The current legal basis for the exemption expired in August 2018 and regulators have been keeping it in place on an interim basis until the EU's revised 'EMIR' regulation takes effect later this year. Many in the pensions industry have been asking whether the UK authorities would replicate the renewed exemption in the UK post-Brexit – especially if there is 'no deal'.

Answering my question, Mr Bailey said the FCA's guiding principle is to keep the UK's regime as close as possible to the EU's. The emphasis is very much on continuity. UK pension schemes will continue to be exempt from clearing during the interim period and the exemption will then continue in the UK in parallel with the renewed EMIR rules once they take effect in the EU later in the year, although exactly how that will be achieved will depend on what form Brexit takes.

> THE REGULATORS ARE DOING THEIR BEST TO MAINTAIN CONTINUITY, TO KEEP MARKETS WORKING AND – ULTIMATELY – TO PROTECT PEOPLE'S RETIREMENT SAVINGS

The Pensions Regulator, meanwhile, is still preparing for the rather lower-profile task of updating its code of practice to take account of the revised EU Directive on workplace pensions – 'IORP II' – later this year. A TPR consultation is now expected in the summer, although – inevitably – all this is highly dependent on what happens with Brexit in the meantime.

> THE FCA'S GUIDING PRINCIPLE IS TO KEEP THE UK'S REGIME AS CLOSE AS POSSIBLE TO THE EU'S

WHAT YOU CAN DO

So much for the regulators, but what can trustees and scheme managers do to make sure your schemes are Brexit-ready?

The key thing is to read TPR's recent Brexit statement. This is now the essential pensions reference on Brexit and the steps it advises apply in either a 'deal' or 'no deal' scenario. It echoes many of the points in the PLSA's own 10-point Brexit trustee's to do list and stresses the importance of talking to the sponsor and putting contingency plans in place – insofar as that is possible.

TPR's statement emphasises that Brexit will not lead to any significant change in the regulatory framework for workplace pension schemes. It underlines, however, the advice previously issued by TPR and by the PLSA – that trustees should discuss with their sponsoring employers and advisers what impact Brexit (including 'no deal') could have on the sponsor's support for the scheme.

Ultimately, this is what Brexit is all about for PLSA members. Understanding how workplace pension schemes might be affected has to start with understanding the sponsoring employer. Amid all the Brexit uncertainty, that is one thing we know that Viewpoint readers can definitely do.

THE HYDRA OF UK PENSIONS POLICY

Tiffany Tsang reports on the daunting challenges facing the enormous LGPS

IN ANCIENT GREEK MYTHOLOGY, THE HYDRA WAS THE SERPENTINE WATER-DWELLER THAT WOULD SIMPLY REGROW A PAIR OF HEADS FOR EACH ONE SEVERED BY A WOULD-BE HERO. MANAGING AND NAVIGATING THROUGH THE CONSTANT CHANGES OF THE LOCAL GOVERNMENT PENSION SCHEME (LGPS) CAN FEEL A BIT LIKE TRYING TO DEFEND SAVERS AGAINST THE HYDRA.

With 6.1 million members and assets totalling over £312 billion, the LGPS is the largest defined benefit (DB) scheme in the UK and one of the largest in the world. The LGPS has great prominence in retirement outcomes for so many savers, which makes the LGPS policy work at the PLSA, alongside that of our local authority partners, all the more salient.

As we approach our annual Local Authority Conference, we pause to reflect on some of the biggest challenges facing the LGPS community in 2019 and beyond.

LGPS ASSET POOLING: NEXT STEPS

There has been rapid change within the LGPS in the last few years and much has been accomplished in a very short span of time – the largest of these successes being the reform of investment management in England and Wales through the consolidation of the LGPS into eight pools, which formally came into being on 1 April 2018.

The transferring of assets from the 89 funds – which will all continue to exist as distinct entities – into the pools has already begun, but there is still much left to be done and to be decided.

Statutory guidance from the Ministry of Housing, Communities and Local Government (MHCLG) is the next step in the process, and it intends to cover a wide range of issues, including instruction on structure, governance, the transition of assets, and reporting, to name but a few areas. It's no easy feat, as the guidance will need to strike the right balance between providing clarity and consistent direction while also not being overly prescriptive. Flexibility will be key, as rigidity at this early stage of asset pooling could be harmful to investment innovation.

The statutory guidance will also need to be clear in terms of responsibilities and accountability. The relationship between pools and funds must be specified; funds have established the pools to deliver their goals, and the investment strategy should reside with funds, unless decision-making is deliberately delegated for specific reasons. This is particularly important, given the complex governance arrangements of the LGPS.

Guidance on what constitutes value for money, and over what kind of time horizon, would be helpful as well. Funds are currently delivering value for money and it is important to recognise that cost savings alone will not provide a full picture of the value being provided to the LGPS and its members.

THE LGPS IS THE LARGEST DB SCHEME IN THE UK AND ONE OF THE LARGEST IN THE WORLD

We all now also await announcement from Scotland's Scheme Advisory Board on its decision on additional Scottish consolidation through either collaboration in investing and administration between the 11 funds; pooling investments between the funds; or merging the funds into one or more new funds. There is already a degree of shared services in existence and the purpose of this consultation, which closed at the end of 2018, was to seek views on whether the outcomes – for members and sponsors of the Scottish LGPS – could be improved.

FAIR DEAL REGULATIONS

In January 2019, the LGPS community welcomed the final consultation from MHCLG on implementing the Fair Deal Regulations. This was a long time coming, following an intermediate 2016 consultation on the same issue area.

The government first introduced its Fair Deal guidance in 1999 to provide pension protection to staff outsourced from central government to private sector contracts. A similar but not identical framework was set out for local government staff, called the Best Value Direction, in 2007. When the government amended Fair Deal in 2013 to give transferred central government staff continued access to their public service pension scheme, the same amendments were not brought across to local authority employees. This 2019 consultation is part of a series of attempts to bring parity between the two different public service pension schemes.

The PLSA's consultation response clearly stated its support of the vast majority of proposals set out, which are intended to equalise pension rights between those who have and have not been outsourced from their LGPS employer, so that those transferred can have continued access to LGPS membership.

We were also encouraged by the proposals that seek to provide a new way for employers to participate in the LGPS, as well as the reforms that will give greater certainty on the pensions costs contractors will face over the life of a contract for outsourced work.

However, there are additional challenges that should be considered when finalising the regulations for implementing the Fair Deal into the LGPS, including the following:

- Broadly, where there is an increase in administrative burden, such as in calculating transfer benefits in transitional arrangements or in confirming deemed employer status, it may be important to communicate to local authorities the need to increase resources for pensions administration teams to cope with the increase in workload pressure.
- In the transitional arrangements proposed, it may be difficult for scheme members to make an informed decision on whether to transfer past service benefits.
- Guidance is also needed from the Scheme Advisory Board (SAB) on the deemed employer approach, including to provide clarity in complicated scenarios on who is the deemed employer; how good and timely data can be ensured; how discretionary decisions should be considered; how contractors' total employer contribution rates should be determined; how funding deficits of failed contractors should be handled; and how accountability of responsibilities can be ensured.
- To encourage timely consideration of pensions issues, it may help to offer training on the outsourcing process and to provide a checklist of key tasks for Fair Deal employers and service provider responsibilities.

THE COST CAP SUSPENSION AND SCHEME ACTUARIAL VALUATIONS

Following the December 2018 McCloud judgment from the Court of Appeal – which ruled against the government, deeming that the 'transitional protection' offered to some public sector scheme members is unlawful discrimination of age and indirectly discriminatory on grounds of sex and race – Her Majesty's Treasury (HMT) announced that there would be a pause in the cost cap process across all public service schemes until there is clarity on whether the government can appeal the Court's decision. At the time of the publication of this article, there has been no further announcement or decision from HMT on the cost cap issue.

The provisional estimate is that the potential impact of the judgment could cost approximately £4 billion per annum. In light of this development, the SAB will need to reconsider its recommendations to MHCLG on member benefits, as a result of its own cost cap process. If McCloud is upheld, LGPS could be required to make changes to the underpinning of its calculations. Such changes would need to be taken into account in a revised SAB cost cap result.

The key problems with the cost cap determination suspension stem from (a) the timing of it, as it's during the formal valuations in England and Wales; and (b) the future administrative burden it may cause for any necessary back-dating.

THE HYDRA'S MANY OTHER HEADS

There are additional areas that will need to be monitored and developed over the next few years for the LGPS, including:

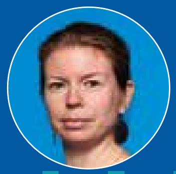
- Strengthening ties with The Pensions Regulator since the launch of its new corporate plan in 2018 to be clearer, quicker and tougher
- Good governance
- Cost transparency
- Simplification
- LGPS and the Dashboard
- The role of the LGPS in infrastructure investment
- GMP equalisation.

With some help, Hercules did eventually slay the Hydra – but then again, it was only one of his 12 assigned tasks. Perseverance and joined-up efforts offer up hope – though, in the LGPS, there probably won't ever be much respite to be had for too long.

Please join us as we come together again for our annual Local Authority Conference this May, to share ideas and solutions to safeguard the LGPS and its members, especially during these times of economic uncertainty.

Feature F

THE CONSOLIDATION GAME



In February, the government launched a long-awaited consultation on consolidating DC schemes across the UK. **Elizabeth Pfeuti** reports

IN LATE 2012 AND EARLY THE FOLLOWING YEAR, A PROCESSION OF SENIOR INDUSTRY FIGURES APPEARED BEFORE THE WORK AND PENSIONS COMMITTEE TO DISCUSS BEST PRACTICE AND IMPROVING GOVERNANCE FOR SCHEMES OF ALL SIZES. CONSOLIDATION WAS ONE OF THE OPTIONS MOST COMMONLY MOOTED AS BEING ABLE TO ACHIEVE THEIR AIMS.

Some seven years later, the government has been spurred into action, asking the industry whether merging smaller defined contribution (DC) schemes might be the silver bullet to a potential UK savings crisis after all – and if so, how best it might be achieved.

In early 2017, the Executive Director for Regulatory Policy at The Pensions Regulator was clear that consolidation was a kind of "nirvana" for the industry.

In an interview to accompany the regulator's DC survey, Andrew Warwick-Thompson said the sector was a "great fragmented amorphous mass of inefficiency with a small number of big well-run schemes and this enormous tail of probably unsustainable not-very-well-run schemes."

He said this had been the result of years of trying to improve governance across the board, but while some businesses were interested in pulling their socks up around their pension schemes, others were not.

LETTING THINGS SLIP

Jo Sharples, Partner in Aon's DC Investment Team, agrees that the regulator has been trying hard to improve scheme governance for some time.

"There has been a huge focus on increasing standards – including chair's statements and demonstrating value for members – as it has been found that a lot of schemes aren't doing what they are meant to, and it is the members that will suffer," says Sharples.

Sharples says that there is a lot to do to make sure a scheme is run well and in the interest of members, and that pooling might be an option to cut down this burden on companies.

"I would like to see the regulator engage with smaller DC schemes as a priority, as getting it wrong can be very easy," she says.

Many, fearful of getting it wrong, have already jumped off the pensions ship and are consolidating of their own accord. From more than 3,000 pure DC schemes operating in the UK in 2010, less than half still exist. However, there are still more than 20 times more such schemes available for savers than in Australia and the Netherlands, according to government figures (which accept each nation's population is smaller).

But with the move already happening, just speeding up the process is not necessarily the right option, according to industry experts.

IF A TRUST-BASED SCHEME IS RUN WELL, IT IS THE BEST OPTION FOR MEMBERS... IF IT IS DONE BADLY, IT IS THE WORST

"The focus should be on improving governance across the board, rather than just forcing them to consolidate, as this could be counterproductive," says Sharples. "For example, if an employer has been running a scheme for many years, and it is being run well, there is no benefit for it to move members into a master trust."

SIZE DOESN'T MATTER

The view that "small shouldn't equal bad" was voiced by the then Pensions Minister Steve Webb in early 2013, and many believe it holds water.

"The question should be more about governance than about size," says Niall Alexander, Head of DC Solutions at River and Mercantile Solutions. He points to some sister DC schemes of large DB funds that might be in a worse state than some that are run by a dedicated team at a smaller employer.

He adds: "If they share a trustee board, the DB scheme, which poses the biggest risk to the company, takes up most of its time. To improve governance, they could separate out a DC trustee board or have a DC sub-committee, for example."

If they cannot or will not commit to improving governance for their DC scheme, it is time to consider consolidation or a master trust, says Alexander.

"If a trust-based scheme is run well, it is the best option for members," he says. "They will get a bespoke scheme, with proper communication. If it is done badly, it is the worst."

For Darren Philp, Head of Policy at master trust SmartPension and former staffer at the PLSA, maybe unsurprisingly, consolidation makes sense: "Running a pension scheme well is costly and needs to be done properly. Good governance, good investments and good communications don't come cheap, and schemes either need scale to drive good outcomes or they need a sponsoring employer that is willing to support the scheme."

For those willing to commit to keeping a standalone pension scheme, the chance to prove themselves will come around every three years, should the terms of the consultation period be passed.

Trustees will be asked to take a holistic view on whether it might be in the members' interests to transfer to an authorised master trust. They might also be asked to make a similar assessment following a significant corporate event or the shifting of a large part of a scheme's membership elsewhere for any reason.

Philp at SmartPension says: "The regulator will need to provide guidance to ensure trustees understand their obligations clearly and are doing the assessment correctly, and there needs to be regulatory intervention if schemes aren't playing ball."

Already in the consultation document, the government has warned of penalties for those not carrying out their trustee duties properly.

But Sharples at Aon raises a concern that this might become a box-ticking exercise and serve to lower standards that were, in some cases, already in need of improvement.

"I will be interested to see how prescriptive they make the procedure," she says. "Employers will want to meet policy objectives, but if they have to spend a lot more money on it, they may decide to get rid of the scheme all together."

The consultation seems set on asking all pensions below a certain size to carry out the exercise regularly, never mind the cost and time needed.

For Alexander, this might be a mistake. He says: "I understand the argument, but it is a shame they have taken a broad-brush approach to all schemes of less than £10 million as some schemes are doing really well and have been well run for some time."

ILLIQUID GOLD

Underlying all this government talk of consolidation lies one main theme. While "governance" appears 22 times in the consultation document, "illiquid", related to investing, is there 85 times.

This is in stark contrast to the industry witness debates in 2012 and 2013, in which, according to Hansard, there was not one mention of expanding the investment universe available to DC savers to include illiquid investments.

Whatever lies behind this push to get so-called "patient capital" invested in infrastructure, real estate and other non-exchange-traded assets, there is plenty more money to play with.

Since 2010, the amount of capital within pure DC funds has risen from £20 billion to £60 billion, according to the government's figures. This is mainly thanks to auto-enrolment, which has increased the level of assets in each scheme from around £6.5 million to £47 million. However, with these assets spread across more than 1,250 micro, small and medium-sized schemes across the UK, they are unlikely to make their way into complex illiquid investments.

For Philp, opening up these investments, alongside many others that have proved popular with DB pension funds, is only possible through scale.

THERE ARE A VARIETY OF REASONS WHY SCHEMES MIGHT ACHIEVE BETTER VALUE FOR MEMBERS BY LOOKING TO CONSOLIDATE IF THEY DON'T HAVE SIGNIFICANT SUPPORT FROM THE SPONSORING EMPLOYER

He says: "Good investment solutions are costly, so investments are an important reason [to consolidate]. However, equally important is good governance, good communications, good systems and monitoring, so there are a variety of reasons why schemes might achieve better value for members by looking to consolidate if they don't have significant support from the sponsoring employer."

But while the options for a larger asset pile might be broader, some members might find they had more opportunities with their former, contract-based scheme, but might have been forced to consolidate.

"For members going into a master trust, they may find that their investment choices are slimmer than at their original scheme," says Sharples. "Trustees are duty-bound to hone down the strategies, and as such they could restrict their choice."

Additionally, with such a range of members from many employers that each take a different view on contributions, there may be other problems.

"Some employers give the minimum, some up to 20% – and that should have an impact on the kind of investment strategy someone follows through their accumulation phase," says Alexander. "The money has to work differently, according to how much is being put into the pot."

The consultation closed on April 1, 2019. The PLSA worked with its members to submit a response, which is available to read on our website: www.plsa.co.uk/Policy-and-Research/Document-library/Investment-innovation-and-future-consolidation

PENSION QUALITY MARK

NEW PENSION QUALITY MARK (PQM) STANDARDS

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

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

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

PQM STANDARDS

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

2019 THE YEAR ESG BECAME MAINSTREAM?

Caroline Escott reports on the irresistible rise of sustainable investing

December 2016
IORP II published

June 2017
Law Commission report – *Pension funds and Social Investment*

October 2017
Patient Capital Industry Panel Review published

November 2017
Growing a culture of social impact investing in the UK report published

January 2018
High-Level Expert Group on Sustainable Finance Final Report published

March 2018
Parliament's *Environmental Audit Committee* writes to top 25 UK pension funds regarding their approach to climate risk

Sept 2018
DWP publishes final response on Occupational Pension Schemes (Investment) Regulations

March 2019
FRC *Stewardship Code consultation closes*

AT EVERY PLSA CONFERENCE, I HAVE A TRADITION: AFTER THE EXHIBITORS' STANDS HAVE BEEN SET UP, BUT BEFORE THE DELEGATES ARRIVE, I WALK AROUND THE MAIN HALL AND SEE WHAT EACH EXHIBITOR IS CHOOSING TO FOCUS ON. THIS CAN GIVE AN INTERESTING PERSPECTIVE ON WHAT'S 'HOT' (AND WHAT'S NOT) IN THE INDUSTRY.

This March, at our Investment Conference in Edinburgh, perhaps half of the exhibitors chose to talk about their ESG approaches – a marked increase over previous years. And it's not just the asset managers who are keen to discuss sustainable investment. Before planning for each conference starts, the PLSA team surveys our pension scheme members to ask what they would like to hear about. For Investment Conference, ESG investment was the third-most-requested topic by schemes. Taken together with the number of standalone ESG editorials and conferences that seem to be popping up across the UK, it would appear that ESG has well and truly entered the investment mainstream.

But what do we mean, when we talk about ESG? And how does it differ from impact investment? These questions are among those I hear most frequently from schemes. Given the number of terms used in the industry (sustainable/responsible/socially responsible etc.) it is unsurprising that confusion remains. The PLSA perspective goes like this: although every asset manager will have a slightly different house style, at its core ESG investing draws upon the recognition that many E, S and G factors – like climate change, gender diversity or human capital – are material to a company's bottom line. As a result, it makes good financial sense to consider these factors in any investment analysis and management process to seek to improve risk-adjusted returns over the long term.

NEW ESG DUTIES

Impact investment differs primarily owing to the additional *intentionality* factor. The Growing a Culture of Social Impact Investing in the UK Advisory Group – chaired by Elizabeth Corley and on which the PLSA has had a continuing role – notes that "social impact investing specifically targets companies and organisations that intentionally create a positive social benefit, either as a primary or secondary purpose." So where ESG investing is often undertaken to boost investment returns over the long run, impact investing aims to achieve *both* a financial objective *and* a positive (environmental, social or governance) impact objective.

Although momentum on ESG or impact investment approaches had been building in the industry for a few years, one of the most clear-cut reasons for this happening has been the Department for Work and Pensions' (DWP)'s changes to the Occupational Pension Scheme (Investment) Regulations. This places new duties upon DB and DC scheme trustees (as of 1 October 2019) to:

- Clarify in their Statement of Investment Principles (SIP) how they take into account **financially material**[1] E, S and G factors, "including climate change"
- Clarify in their SIP how they undertake stewardship (to include both voting and engagement activities)
- State the extent (if at all) to which the trustees take into account "**non-financial** matters"[2].

DC schemes have an additional set of responsibilities where they will need to publish their SIP online as well as producing and publishing an 'implementation statement' where they will report how they have acted on the principles set out in the SIP.

It's not just last year's Regulations which are encouraging schemes to consider how they incorporate and communicate their ESG approaches. This year will also see significant policy and regulatory activity on stewardship specifically, with key developments including the implementation of the EU's Shareholder Rights Directive (SRD II) in the UK and an update to the Financial Reporting Council (FRC)'s Stewardship Code.

Which brings us to another question I'm often asked: what is stewardship? Again, the definition varies, but in its broadest (investment) sense, being a good steward means looking after the assets with which an investor has been entrusted. In practical terms, this means schemes working with their managers and advisers to monitor, and engage with, the companies they invest in on material issues with an eye to protecting the value of individuals' savings. Material issues can include ESG topics, but also broader areas of relevance to a company's business model and strategy. The implementation of the SRD II – depending on what shape Brexit takes – will meanall FCA-regulated life insurers and asset managers will need to become more transparent about their engagement policies and investment strategies, including how they exercise voting rightsand cooperate with other shareholders in the investee companies.

EVOLVING STEWARDSHIP APPROACHES

The Stewardship Code is not mandatory, but how it evolves frames the debate on stewardship practices more widely. The Code "aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders". Both pension schemes and asset managers can currently sign up to the Code, and signatories must comply with the Code's Principles (or explain why they do not). To coincide with SRD II implementation, the FRC has just finished consulting on an updated Code. Proposed changes include:

- An explicit reference to "ESG factors, including climate change"
- Broadening the scope of the Code to asset classes beyond listed equity
- A new definition of stewardship
- A new section of the Code which applies to service providers (including proxy advisers and investment consultants).

With so much happening in policy land, it's no wonder that ESG is rapidly climbing up schemes' to-do lists. And with the 1 October deadline on the Regulations looming, ESG should be on the agenda for the next few trustee meetings. As well as helping shape the policy framework on members' behalf, the PLSA offers several guides and resources for schemes:

- *More Light, Less Heat: A Framework for Pension Fund Action on Climate Change* (December 2017). Given the specific reference to climate change in the new Regulations (and the Code), it is even more important that trustees can clearly set out their approach to dealing with climate risk and the rationale behind it. This guide offers practical tips for schemes in doing so.
- *PLSA 2019 Corporate Governance Policy & Voting Guidelines* (January 2019). These provide high-level practical guidance on the key issues that schemes should be considering when working with their managers to engage with companies, and vote at company AGMs.
- *ESG Risks in Default Funds: Analysis of the UK's DC Pension Market* (February 2017). The Guide assesses which are the biggest sources of ESG risks facing the companies in which default funds invest, and identifies strategies to help mitigate this risk.

Only time will tell whether next year's Investment Conference will see further growth in the number of exhibitors advertising their sustainable investment approaches, or whether ESG will continue to top members' session topic wish-lists. Love it or loathe it, however, it seems clear that 2019 is the year ESG finally became mainstream.

ESG INVESTING DRAWS UPON THE RECOGNITION THAT MANY E, S AND G FACTORS – LIKE CLIMATE CHANGE, GENDER DIVERSITY OR HUMAN CAPITAL – ARE MATERIAL TO A COMPANY'S BOTTOM LINE

WITH SO MUCH HAPPENING IN POLICY LAND, IT'S NO WONDER THAT ESG IS RAPIDLY CLIMBING UP SCHEMES' TO-DO LISTS

1. So where ESG issues are financially material to the performance of an investment, trustees should be taking account of them
2. This includes members' ethical concerns but also social and environmental impact matters and quality of life considerations

PLSA TRUSTEE SUPPORT

The most important ingredient of good pension scheme governance is the people who provide it: pension scheme trustees. They play an important, complex and rewarding role in delivering good outcomes for scheme members.

We provide a number of services to support our member trustees.

✔ TRUSTEE TRAINING

Our introduction to trusteeship courses help new trustees and people interested in becoming a trustee to understand their role and responsibilities and the issues they'll deal with – and put it into practice with boardroom simulation exercises.

Class sizes are small, participation is high and the instruction is expert. Through group work, case studies and an open and supportive learning environment, we improve attendees' knowledge and impact and make them the best trustees they can be. Coming soon, Introduction to Trusteeship: Part 3.

✔ PUBLICATIONS

We have a number of resources including our Made Simple Guides which deliver the latest technical information in a digestible format. These are available on our website or you can collect hard copies from our conferences.

✔ TRUSTEE CONFERENCE

An exclusive one-day event designed for trustees to help them keep up-to-date on the latest changes affecting pensions and the growing complexity of the role of a trustee. Free to attend for professional and non-professional trustees who are PLSA members.

✔ EFFECTIVE GOVERNANCE

We have teamed up with KPMG to provide an online tool to help trustee boards review their scheme governance. Going through an effectiveness review is a bit like undergoing a 'health check'. It helps you gauge how your board thinks it's performing, and how it measures up against The Pensions Regulator's (TPR) expectations of a well-governed scheme.

2019 dates for trustees

INTRODUCTION TO TRUSTEESHIP – PART 1: THEORY
10 September | 09 October | 06 November

INTRODUCTION TO TRUSTEESHIP – PART 2: THE PRACTICE
11 June | 20 November

NEW FOR 2019 INTRODUCTION TO TRUSTEESHIP – PART 3
12 September

TRUSTEE CONFERENCE 2019
12 December
Allen & Overy, One Bishops Square, London, E1 6AD

For more information on these services and PLSA member benefits, please visit **www.plsa.co.uk**

Pensions Management Institute
ACHIEVING PENSIONS EXCELLENCE

CDC: A LONG-TERM ROLE TO PLAY

Tim Middleton takes a look at current views on the controversial topic of CDC

AT THIS YEAR'S PENSIONS ASPECTS LIVE!, A CASE STUDY ON ROYAL MAIL'S INTRODUCTION OF A COLLECTIVE DEFINED CONTRIBUTION (CDC) SCHEME PROVED TO BE AN EVENT HIGHLIGHT. DELEGATES LEARNED ABOUT THE DISPUTE OVER PENSION PROVISION, THE EMERGENCE OF CDC AS A PROPOSED SOLUTION, THE CHALLENGES OF DESIGNING THIS SCHEME IN THE UK AND THE LEGISLATION SET OUT IN THE FORTHCOMING PENSIONS BILL WHICH WILL ALLOW SUCH A SCHEME TO BE ESTABLISHED. THERE WAS MUCH ANIMATED DISCUSSION: CDC HAS BECOME A CONTROVERSIAL TOPIC WITH STRONG FEELINGS EXPRESSED ON BOTH SIDES OF THE DEBATE.

Serious discussion of CDC in the UK began with the publication of David Pitt-Watson's paper on the subject for the Royal Society of Arts in 2014. CDC is a well-established scheme design in the Netherlands and Denmark, where it has proved successful. As with conventional defined contribution (DC) schemes, the benefit promise takes the form of a fixed rate of contributions for both sponsor and members. However, unlike traditional DC, CDC contributions are invested in a single central fund – just as they would be in a defined benefit (DB) scheme. Benefits take the form of scheme pensions rather than through annuitisation and are based on a 'target' which can be calculated in a number of different ways. It is important to note that this target is not guaranteed and that benefits can be reduced both before and after they come into payment.

Proponents of CDC note that it is a far less volatile form of pension provision than conventional DC. Members are spared the uncertainty that arises from long-term investment and inflation risk, as well as changing annuity rates at the point of retirement. A scheme pension is a lifetime benefit and so not subject to longevity risk in the way that drawdown most certainly is. The combination of fixed rates of contribution and target pensions achieves the 'holy grail' of effective risk-sharing between members and sponsor. Crucially, Dutch CDC members have higher post-retirement incomes than British pension members drawing benefits from traditional DC arrangements.

> **PROPONENTS OF CDC NOTE THAT IT IS A FAR LESS VOLATILE FORM OF PENSION PROVISION THAN CONVENTIONAL DC**

However, CDC does have its detractors. The principal concern is that CDC introduces significant intergenerational cross-subsidies, with younger members' contributions funding older members' benefits. Some see the concept as being incompatible with the Freedom and Choice ethos. To achieve the economies of scale necessary for efficiency, CDC schemes have to be very large.

CDC was examined as part of Sir Steve Webb's 'defined ambition' initiative but was unceremoniously abandoned following the 2015 election. It has taken an innovative solution to a significant industrial dispute to persuade the government to reconsider the system, and it will be interesting to consider how CDC might factor into future pensions policy. The DWP has made a cautious start. Initially, CDC schemes are to be an option for single employers, and so would be an option for a limited number of private sector employers. However, it is interesting to speculate what the future might hold. A CDC Master Trust could bring the concept to automatic enrolment. This would be the next logical step as defaults could apply to induction, accumulation and decumulation – an impossible approach with existing DC Master Trusts. A future government might also see CDC as having a part to play in the public sector – possibly as an alternative design for the Universities Superannuation Scheme or the Local Government Pension Scheme.

> **IT HAS TAKEN AN INNOVATIVE SOLUTION TO A SIGNIFICANT INDUSTRIAL DISPUTE TO PERSUADE THE GOVERNMENT TO RECONSIDER THE SYSTEM**

While CDC remains controversial, it does seem that the design will play a long-term role in UK workplace pension provision and remain the subject of animated discussion for years to come.

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FOUR THEMES FOR THE FUTURE OF PENSIONS

Edward Bogira reports on the PLSA's medium-term policy priorities

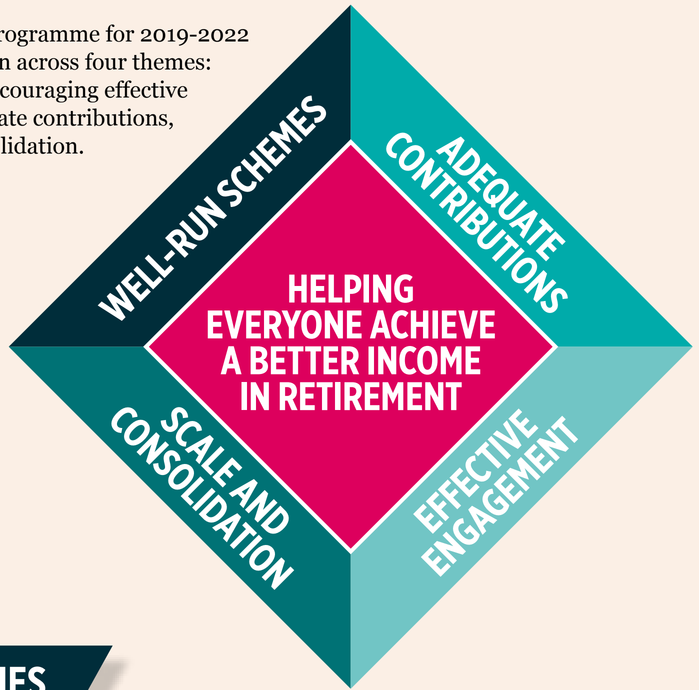
PLSA POLICY BOARD SETS PRIORITIES FOR NEXT FOUR YEARS

At the beginning of April, we published the Policy Board's four-year work plan designed to support the PLSA's mission to help everyone achieve a better income in retirement.

FOUR THEMES FOR THE FUTURE OF PENSIONS

The Policy Board was created in October 2018 to guide and decide on PLSA policy, with its remit and representation covering the PLSA's broad and diverse membership. Its members were selected for their senior and strategic level of experience in advising and implementing on regulatory change. This followed a long period of governance reform and consultation with our members that was frequently covered in these pages.

The new and ambitious work programme for 2019-2022 will deliver on the PLSA mission across four themes: achieving well-run schemes, encouraging effective engagement, supporting adequate contributions, and addressing scale and consolidation.



WELL-RUN SCHEMES

The focus on well-run schemes recognises that good scheme governance goes to the heart of trust in the industry and the delivery of good outcomes for savers. As well as scheme governance this area covers cost transparency, value-for-money, sound investments, and stewardship.

Specific work areas include the Cost Transparency Initiative – a partnership between the PLSA, the Investment Association and the Local Government Pension Scheme (LGPS) Advisory Board to implement new industry standards to improve transparency in investment costs and charges; and further work to help members implement new investment regulations that come into force on 1 October.

EFFECTIVE ENGAGEMENT

Achieving better retirement incomes for everyone requires savers to actively engage and understand the consequences of their pension saving decisions.

Work in this area will include developing the new Retirement Income Standards – which will help the industry communicate people's likely lifestyle in retirement and help them understand the impact of savings decisions. We're also playing a proactive role in the development of the Pensions Dashboard and Simpler Annual Statements, so people have the tools to help them understand their savings.

ADEQUACY

Recognising that just 3% of those with only DC pensions are likely to achieve the required pension income identified by the Pensions Commission, this theme includes increasing auto-enrolment contributions to 12% by 2030 while taking into account the affordability of higher contributions and widening the scope of automatic enrolment. We will also be introducing the new Pension Quality Mark Standards, which reward well-run schemes that offer 12% contributions.

The DB funding regime will be another specific focus of the PLSA over the next four years. 2019 is set to be a particularly important year for DB funds with Parliament debating a new Pensions Bill which will give greater powers to The Pensions Regulator, and TPR itself will be consulting on a new DB Funding Code.

SCALE AND CONSOLIDATION

We want to increase the quality and performance of workplace pension schemes. Large schemes tend to score highly on these tests, so the PLSA welcomes the current trend towards consolidation. But smaller schemes may also deliver some or all of these benefits, so scale should not be pursued as an end itself.

Nevertheless, the PLSA is playing a major role in the development of DB Superfunds, an idea pioneered in 2017 through the PLSA's DB Task Force. We estimate they could increase security for 11 million members.

Additionally, having played a part in the development of a strong authorisation regime for master trusts, the PLSA will continue to advocate for an effective regulatory regime to safeguard millions of auto-enrolment savers.

3% OF THOSE WITH ONLY DC PENSIONS ARE LIKELY TO ACHIEVE THE REQUIRED PENSION INCOME IDENTIFIED BY THE PENSIONS COMMISSION

A VOICE FOR PLSA MEMBERS

Organisationally, the Policy Board has also now formed four new sub-committees of eight to 10 members each to help implement the work programme and ensure PLSA members from across the pensions landscape inform the work. Representing the DB, DC, local authority and master trust segments of the industry respectively, the four committees will inform the PLSA's consultation responses, sit on industry working groups, and support the PLSA in representing policy positions to government, regulators and stakeholders. They will also provide advice to the Policy Board on certain policy matters as requested by the Policy Board. In selecting members, the Policy Committees sought policy expertise, continuity of involvement with PLSA policy, and representation from key membership groups.

Additional Reference Groups comprising experts from relevant sectors of the PLSA membership will also provide support in developing PLSA policy positions by bringing more PLSA members into the foundation of the organisation's policy work. The Reference Groups will usually operate in virtual form via email and survey.

This wider, more inclusive approach is a further way in which the PLSA is implementing our openPLSA initiative. Members who would like to participate in the Reference Groups should contact openplsa@plsa.co.uk.

EMMA DOUGLAS, CHAIR OF THE PLSA POLICY BOARD

"We have an ambitious policy agenda to ensure the UK regime for retirement savings delivers a better income for everyone. Drawing on the wide expertise of the PLSA's Policy Board we have identified four key priority topics – well-run schemes, effective engagement, adequate contributions, and addressing the challenges of consolidation – with some actions for government and some for the industry. I am looking forward to pursuing these goals."

NIGEL PEAPLE, PLSA DIRECTOR OF POLICY AND RESEARCH:

"Our policy work is designed to deliver the priorities of our Policy Board which is made up of PLSA members with expertise in all types of retirement provision – DB and DC, large and small, private and public. These priorities take forward the objectives identified in our 2018 Hitting the Target report for DC schemes and the earlier work of the PLSA DB Task Force. Key deliverables include our work on Retirement Income Standards, the Pensions Dashboard, DB Super Funds, and the DB Funding Regime. It also involves addressing the challenges and opportunities created by the growth of savers in our Master Trust members, and by the effects on our Local Government Pension Scheme members of the new asset pools."

PLSA POLICY GOVERNANCE STRUCTURE

The Policy Board, Policy Committees and Reference Groups provide a voice for our members and work to make sure that our policy adds value for our membership, the pensions industry and society as a whole.

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MEMBER INSIGHTS: WHAT YOU'VE BEEN TELLING US

DURING THE FIRST QUARTER OF THE YEAR WE'VE BEEN SPEAKING TO MEMBERS ABOUT WHAT MATTERS TO THEM AND WHAT THEY WANT FROM PENSIONS POLICY AND THEIR PLSA MEMBERSHIP.

HOW WE MET YOU

We went on **20 visits to PLSA fund members** from the private sector and local authorities in Wales, the Midlands, the East of England, London and Scotland.

At our Investment Conference 2019 we held a **dinner for CIOs** to discuss investment issues with our policy team. We also had two **group meetings** of three fund members with our Chair, Richard Butcher, at the Investment Conference.

And finally, we visited six of our **business members**.

WHAT WE'VE LEARNED

When we discussed policy issues with you, the following came up frequently.

- **GMPs and regulatory complexity**
  - GMP reconciliation and equalisation remain key challenges for schemes
  - Pensions freedoms are a source of extra admin
- Managing engagement with **The Pensions Regulator** on funding time horizons and 1-1 supervision.
- **ESG** is a big area of interest at the moment and you'd like to see case studies of approaches across different funds.
- **Engagement and technology** are important, especially for complex corporates with employees across multiple sites, which rely increasingly on electronic engagement.
- **Brexit** is not a major issue for most, but there are notable exceptions for funds with multinational or overseas sponsors, and for those who have had to spend time and money novating derivatives contracts.
- It is increasingly common for **senior executives** to be outside the company scheme, due to lifetime allowance issues, which can weaken senior-level support. We heard this both from private sector and local government members.

We also got your insights on PLSA member services, including:

- **Networking** – members really value opportunities to meet peers and exchange thoughts on how they're tackling current challenges.
- **Conferences** are still the best way to do that, but time pressures in the office can stop you attending (which goes for **training**, too). You'd like sessions on ESG, engagement and technology, tax and administration.
- You find our **Made Simple Guides** and **PolicyWatch** popular – but we could do more to tell you about what we're doing on your behalf day-to-day.
- Our relationships with you can depend on one or two **key individuals** and it's a challenge for us and for you if they move on and contacts are lost.

WHAT WE DO WITH THIS INFORMATION

We use this information in a variety of ways

- **Improvements to PLSA member services** – we'll be asking how we can cover the policy topics you want in PolicyWatch or other communications, how we can improve our membership data and what new networking opportunities we can create.
- **Conference programmes** – these are always designed around the key issues for members and your operating environment.
- **Support and guidance** – we'll make sure your key policy needs are being addressed and our Made Simple Guides cover the topics you want them to.
- Twice a year we'll do a full report to our **Policy Board** and **Policy Committees** to give them a detailed analysis of members' views and concerns.

This is also the first step in a broader programme of engagement with you this year. The second is a survey of all PLSA members which we're conducting with ICM, beginning this month (May 2019). We want to understand what you, our members, want from your association; and we want to deliver it in the way that you want it.

PENSIONS AND LIFETIME SAVINGS ASSOCIATION | EDUCATION PARTNER

PLSA EDUCATION PARTNERS

Photo by Thought Catalog on Unsplash

THE PLSA EDUCATION PARTNERS WILL SHARE THEIR EXPERTISE VIA WEBINARS, TEACH-INS AND THOUGHT LEADERSHIP ARTICLES. KEEP CHECKING THE WEBSITE FOR THE LATEST UPDATES.

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

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PRACTICAL LAW™

LEGAL UPDATE

RECENT PENSIONS LAW CASES: EU LAW, FIDUCIARY DUTY AND SEGREGATION

Loreto Miranda
Head of Thomson Reuters' Practical Law Pensions service

Reflecting the enduring relevance of EU law, in March 2019, Advocate General Tanchev (AG) gave his opinion[1] in proceedings brought by Safeway regarding the equalisation of normal pension age in its DB pension scheme. He proposed that, during the so-called Barber period, the EU law prohibition on retrospectively levelling down benefits applied even where the pension scheme rules had a scheme amendment power that allowed retrospectively reducing the value of accrued rights (the facts arose before national legislation barred such amendments). The AG's opinion is not binding; judgment is expected from the ECJ in due course.

Also in March, the High Court dismissed a claim for breach of pension trustee fiduciary duty, ruling that the defendants had not owed a fiduciary duty to the sponsoring employer on scheme funding and investment strategy[2]. The trustees' primary duty was to promote the purpose for which the pension scheme trust was created, so they could have regard to the employer's interests, but only where this did not conflict with the primary duty. There is scant case law on these balance-of-interest issues; further questions are likely to arise in future.

In April, an interesting ex tempore (oral) judgment was given about scheme segregation. The High Court confirmed the trustees of a DB pension scheme could claim a shortfall on a scheme winding-up as a debt due from participating employers in a multi-employer pension scheme, as there had not been a deemed segregation when the principal employer entered insolvency[3].

Legislation and regulatory action

Outside the courts, legal developments to note include:

- The DWP re-confirmed it is considering changes to GMP conversion legislation to clarify certain issues, when issuing its latest guidance[4] after the recent Lloyds Bank case confirmed the obligation to equalise overall pension benefits to reflect unequal GMPs.
- The DWP completed its consultation on age discrimination and bridging pensions: a new statutory order[5] (effective from 15 May) will permit occupational pension schemes paying bridging pensions to continue to do so without breaching equality requirements.
- The Pensions Regulator's intervention activity continues apace, publishing guidance on master trusts (upon fining trustees of two master trusts for failures regarding the chair's annual statement) and on its approach to takeovers with a likely significant impact on employer support (stating it is likely to investigate transactions with unsatisfactory mitigation arrangements, or where parties have not applied for clearance)[6].

1 *Safeway Ltd v Newton and another (Case C-171/18) EU:C:2019:272 (28 March 2019)*
2 *Keymed (Medical and Industrial Equipment) Ltd v Hillman and another [2019] EWHC 485 (Ch)*
3 *PS Independent Trustees Ltd v China Shipping (UK) Agency Co Ltd*
4 *DWP: Guidance on the use of the Guaranteed Minimum Pension (GMP) conversion legislation (18 April 2019).*
5 *Equality Act (Age Exceptions for Pension Schemes) (Amendment) Order 2019 (SI 2019/879).*
6 *Pensions Regulator: Regulatory intervention report in relation to the GKN PLC Pension Schemes (14 March 2019) and Press release: Schemes warned to comply with law on chair's statements (23 April 2019).*

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

PLSA CALENDAR OF EVENTS

MAY

13-15	**LOCAL AUTHORITY CONFERENCE** De Vere Cotswold Water Park Hotel, Gloucestershire
22	**FIDUCIARY MANAGEMENT: PRACTICAL GUIDE FOR TRUSTEES CONSIDERING OR USING THIS APPROACH, TEACH-IN (KAS BANK)** PLSA

JUNE

6	**YOUR INSIGHT INTO COST TRANSPARENCY, WEBINAR (KAS BANK)**
11	**INTRODUCTION TO TRUSTEESHIP – PART 2: THE PRACTICE** PLSA

SEPTEMBER

10	**INTRODUCTION TO TRUSTEESHIP – PART 1: THE THEORY** PLSA
11	**FIDUCIARY MANAGEMENT, WEBINAR (RUSSELL INVESTMENTS)**
25	**COST TRANSPARENCY, TEACH-IN (KAS BANK)** PLSA

OCTOBER

8	**FIDUCIARY MANAGEMENT, TEACH-IN (RUSSELL INVESTMENTS)** PLSA
9	**INTRODUCTION TO TRUSTEESHIP – PART 1: THE THEORY** PLSA
16-18	**ANNUAL CONFERENCE & EXHIBITION** Manchester Central

NOVEMBER

5	**COST TRANSPARENCY, WEBINAR (KAS BANK)**
6	**INTRODUCTION TO TRUSTEESHIP – PART 1: THE THEORY** PLSA
20	**INTRODUCTION TO TRUSTEESHIP – PART 2: THE PRACTICE** PLSA

DECEMBER

12	**TRUSTEE CONFERENCE** Allen & Overy, London

For more details on all of these courses and events visit:

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PENSIONS AND LIFETIME SAVINGS ASSOCIATION

LOCAL AUTHORITY CONFERENCE 2019

COSTS AND COMPLEXITIES – GOVERNING THE LGPS

13-15 May | The De Vere Cotswold Water Park Hotel, Gloucestershire

THE LEADING EVENT IN THE LOCAL GOVERNMENT PENSION SCHEME (LGPS) CALENDAR

OPENING KEYNOTE SPEAKER:

Rishi Sunak MP,
Minster for Local Government

SESSIONS ON:

- LGPS pooling and governance
- Cost cap and the 2019 valuations
- New fair deal amendment
- Longevity implications of climate change
- Cost transparency
- Global economic impact on local authorities
- LGPS and the pensions dashboard
- Debate on the role of the LGPS in infrastructure and social housing investment

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TOP SPEAKERS INCLUDE:

Jeff Houston
Head of Pensions, Local Government Association

Fiona Frobisher
Head of Policy, The Pensions Regulator

Sabina Kalyan
Co-Head of Global Research & Global Chief Economist, CBRE Global Investors

Karen Shackleton
Independent Adviser, Local Authority Funds

AFTER DINNER SPEAKER:

Ayesha Hazarika
Columnist, broadcaster, political commentator and comedian

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