Viewpoint

COUNTDOWN TO CONFERENCE:
OUR FLAGSHIP EVENT GOES VIRTUAL

The official journal of the Pensions and Lifetime Savings Association

Issue 3 2020

THE CHILDREN'S SOCIETY PENSIONS EXCELLENCE

SUPERFUNDS IN FOCUS

RETHINKING RETIREMENT DECISION-MAKING

PENSIONS TAX RELIEF: GOLDEN GOOSE OR SITTING DUCK?

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

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ASSETS UNDER MANAGEMENT
(HY 2020)
£47.7 BILLION

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CEO'S *Viewpoint*

It's a time of great change but the PLSA is working hard to meet the challenges, says ***Julian Mund***

AUTUMN IS ALWAYS A TIME OF CHANGE – AND NEVER MORE SO THAN THIS YEAR. BACK TO SCHOOL FOR MANY, BACK TO THE OFFICE (OR NOT) FOR SOME, ANOTHER STEP FURTHER INTO WHAT CONTINUES TO BE THE UNKNOWN FROM THE PERSPECTIVE OF COVID-19. I HOPE YOU, YOUR FRIENDS AND FAMILY HAVE ALL STAYED SAFE AND WELL THIS SUMMER.

2020 has been an exceptionally difficult year for society, business and the pensions industry alike. We have all faced new challenges and been forced to find new ways of working. Communications with savers worried about their future retirement, investment strategies dealing with market shock, governance and administration carried out remotely and with a reduced workforce: these are just a few of the issues reported by PLSA members.

The PLSA has been extremely busy speaking to our members, over video conference this year rather than in person. While concerns remain regarding interest rates and the employer covenant, it's reassuring to hear that schemes have generally coped very well with the impact of Covid-19.

One aspect that has stood out is members' resilience and determination to continue delivering the best possible outcomes for their schemes and pension savers.

JOIN US ONLINE FOR THE BIGGEST EVENT IN PENSIONS

In July we announced that our events for the rest of 2020 will be online, digital experiences, and that we aren't planning to return to live events as we knew them until at least 2022.

This October the PLSA Annual Conference takes place online – the biggest pensions event in the UK. It will run over five shorter days instead of the usual three, and will include all the networking opportunities you've come to expect, only this year with a digital twist. Learn about our networking tools and how the exhibition will work on the digital platform in our Digital Conference Centre.

The theme of this year's conference is how the pensions sector can prepare, invest and provide for the future, as the economy and our society go through the most dramatic transformation in living memory. I'm looking forward to sharing with you some fascinating new research on the evolution of workplace pensions in my keynote address.

The world-class programme will cover everything from investing for good, which continues to be an important theme, to Pension Freedoms five years on. The global pandemic has shone a light on the challenge of providing financial wellbeing for savers and this will be another key focus at conference. We'll also reveal new data and insight from the award-winning Retirement Living Standards.

You can read a taster on these and other conference sessions in this edition of Viewpoint.

PARADIGM SHIFT IN THE WAY ORGANISATIONS WORK

Covid-19 has brought a digital revolution front and centre. We're really excited to be embracing digital – a direction we believe the pensions sector was taking anyway as shown by the launch of our brand new Tech Conference later this year.

Technology has enabled us to continue doing what we do best – bring people together. The remainder of our conferences this year will be online, as will the first part of our trustee training, which you can read more about in this issue.

Here at the PLSA we're continuing to work from home, but we're considering ways to capitalise on the benefits experienced during the world's biggest and most successful home working experiment.

Across many sectors, like ours, there has been a huge emphasis placed on the wellbeing and support of staff. The ability for employees to work from home and personalise their daily routine can only be good from the perspective of diversity and inclusion.

For the rest of this year there continues to be much uncertainty, many unknowns. I hope you enjoy this issue of *Viewpoint* and Annual Conference. But most importantly, stay safe.

COST TRANSPARENCY INITIATIVE

Open source and free to use, the Cost Transparency Initiative (CTI) templates are designed to help pension schemes understand and compare the cost of investment management.These templates and tools are free to download from **www.plsa.co.uk**.

TEMPLATES INCLUDE:

The User Summary
The Main Account Template
The Private Equity Sub-Template

Coming soon, a preliminary Fiduciary Management Template, look out for further details.

Visit **www.plsa.co.uk**

ANNUAL CONFERENCE 2020

Rachel Pine looks forward to a flagship event with a big difference...

WHEN OUR INDUSTRY LAST GATHERED, AT INVESTMENT CONFERENCE 2020 IN EDINBURGH IN MID-MARCH, NO ONE HAD ANY IDEA THAT IT WAS TO BE THE LAST TIME A LARGE EVENT COULD BE CONVENED FOR THE FORESEEABLE FUTURE. OVER THE COURSE OF THE CONFERENCE AND THE DAYS IMMEDIATELY FOLLOWING, THE CORONAVIRUS MOVED FROM DISTANT THREAT TO IN-PERSON REALITY, WITH THE UK'S LOCKDOWN FOLLOWING JUST DAYS LATER.

And while there is no single industry that has been unchanged by the pandemic, the pensions sector – encompassing every single employer in the nation and nearly every working-age adult – is certainly central to the economic issues of the day, and will remain so in the coming months and years as we move toward recovery.

There were plenty of top-of-mind issues to discuss at Annual Conference 2020 before Covid ever reached our shores – the Pension Schemes Bill, the proposed DB funding code, the pensions dashboards and an increasing focus on climate, the environment and asset stewardship for schemes. If anything, the unfolding news over these past months has solidified the inextricable relationship between the economy, society and pensions – every single industry and employer has been impacted, and therefore every pension scheme and fund. With many policy issues to cover, investment strategies to examine and ideas to share, at the heart of the AC20 programme is the irrefutable fact that the UK's pensions industry has much to contribute to provide a safe and just future for our society.

What you'll see over the five days of the conference is our continued commitment to questioning, examining and picturing that future from a wide variety of perspectives. With speakers including legendary political broadcaster and publisher Andrew Neil on our 'New, new normal' – the government, Brexit and the American election; Money Saving Expert Martin Lewis, who'll talk to us about his views on how the British public view their pension savings; and David Olusoga, the noted historian and broadcaster, discussing what history can tell us about our potential future and the deeper meaning behind the recent focus on societal inclusion; our programme looks to engage, enlighten and inform the bigger picture.

Guy Opperman, the Minister for Pensions, addresses the conference live on Wednesday morning, giving us the latest on his priorities and the Pension Schemes Bill, and we'll discuss the results of our 'Facing the Future' survey – research work in which many of you participated – with him. Charles Counsell, chief executive of The Pensions Regulator, is on hand to talk about what TPR has in store for schemes, for superfunds and for overall supervision.

Over the days of the conference we will be presenting information on a raft of topics, including new ways to increase saver engagement, our latest thinking on DC decumulation, an update on the Retirement Living Standards, battling pension scams (featuring Stephen Timms MP, chair of the Work & Pensions Committee), new solutions to the not-small issue of small pots, and a presentation on our own Investing For Good work, which gets under the bonnet of schemes' thinking about climate change, and climate-positive investing. We have a debate on pensions tax relief where you'll be able to share your views, too, and let us know which side of this contentious issue you're on.

Our leap into digital started off slowly, gathering momentum as we fully redesigned Annual Conference into a five-day online event brimming with ways for attendees to engage with content, speakers and sponsors. We remain committed to providing up-to-the-minute content on our industry to all of our fund and business members, at a time when disaggregation rules the day.

Throughout the conference we invite you to get involved – take polls, play the digital game that's part of the exhibition, chat with our session 'whips' in the chatbox that runs alongside every session, visit the sponsors in the networking channels and keep letting us know your thoughts about the issues of the day, and how this new way of meeting feels to you.

While we hope to be able to meet again in person in the very near future, the positives of the digital conference are difficult to ignore. We've broken our record of participating schemes this year, with 283 schemes registering, up from our previous record of 226, a 25% increase in the number of schemes attending. We have 472 people attending who've not attended for at least the past three years and we are excited to welcome them back. The carbon footprint of the conference, without the travel, accommodation and shipping of stands, is much lower and this is an important consideration. It is likely that we will continue to include a digital element to many of our conferences in the future.

See you on the other side!

RETIREMENT LIVING STANDARDS: ONE YEAR ON, TWO AWARDS

We're delighted that the PLSA's Retirement Living Standards campaign, launched at our Annual Conference 2019, has won two industry awards this year:

Headlinemoney

Headlinemoney Awards 2020: Thought Leadership Initiative of the Year

PIPA

Pensions and Investment Provider Awards (PIPA) 2020: Innovation of the Year

"Entries to the category demonstrated that the pensions industry is catching up with the rest of financial services in its commitment to customer services and embrace of technology," said PIPA. It described Retirement Living Standards as "A cross-industry effort…the standards translate desires and expectations about quality of life in retirement into a financial cost, helping savers to set achievable targets."

"WHEN WE SET ABOUT LAUNCHING OUR RETIREMENT LIVING STANDARDS WE WANTED IT TO RESONATE WITH BOTH THE INDUSTRY AND SAVERS, AND THROUGH A WELL-MANAGED AND PRECISE PR CAMPAIGN WE MANAGED TO GET THE TONE OF THE MESSAGE JUST RIGHT. I'D LIKE TO CONGRATULATE EACH AND EVERY ONE OF THE TEAM WHO MADE THIS LAUNCH A HUGE SUCCESS AND THANK THEM ALL FOR THEIR TIRELESS EFFORTS AND SLEEPLESS NIGHTS."

Julian Mund, CEO, PLSA

MORE INFORMATION:

https://headlinemoneyawards.co.uk/headlinemoney-thoughtleadership-oty

content.yudu.com/web/43wcl/0A43wm7/PE-Pipa-App-Aug2020/html/index.html?page=76&origin=reader

POLICY IN PRACTICE

Luisa Ciavucco runs down some of the recent releases from the PLSA

CURRENT CIRCUMSTANCES AREN'T STOPPING US FROM DELIVERING A BUSY POLICY AGENDA AND ACHIEVING THE BEST OUTCOMES WE CAN FOR OUR MEMBERS. TO KEEP YOU UP-TO-DATE WITH WHAT WE'VE BEEN WORKING ON, HERE ARE SOME OF OUR KEY RECENT POLICY DOCUMENTS:

PLSA RESPONSE TO THE TREASURY SELECT COMMITTEE CALL FOR EVIDENCE: TAX AFTER CORONAVIRUS

Questions were asked about the level of taxation the economy can bear and long-term pressures for the tax base, as well as the role of tax reliefs in rebuilding the economy. We believe it's essential that government continues to provide support and incentives to help people save enough for retirement.

PROTECTING PENSION SAVERS CALL FOR EVIDENCE: PLSA RESPONSE

The PLSA shares the Work and Pensions Select Committee's desire to stamp out pension scams. In this response, we discuss measures taken by regulators, industry and government to tackle pension scams. We define types of pension scam and mis-selling, and set out recommendations for combatting scams and protecting savers.

DB FUNDING CODE – PLSA RESPONSE

Our response to TPR's first consultation on its DB funding code of practice supports the principles and believes its aims and objectives to be practical, with the two compliance routes – 'Fast-track' and 'Bespoke' – able to help smaller schemes achieve compliance as efficiently as possible. *How* the code can be adequately applied in Fast-track is complex and requires further consideration.

DATA STANDARDS: CALL FOR INPUT – PLSA RESPONSE

The Pensions Dashboard Programme has made significant progress and its work on data standards illustrates this. It is essential that appropriate data standards are released as soon as possible to allow pension schemes sufficient time to prepare the data they hold for onboarding.

PLSA RESPONSE TO THE DWP CALL FOR EVIDENCE: REVIEW OF THE DEFAULT FUND CHARGE CAP AND STANDARDISED COST DISCLOSURE

The PLSA supports the current charge cap but does not believe it should be reduced. Including transaction costs as a component of the charge cap would act as a barrier to enabling schemes to act in members' best interests and would limit investment options. We also discuss in this submission the proposed limitations on the flat fee structure and cost transparency.

JOINT TREASURY/UKSA CONSULTATION: REFORM TO RETAIL PRICES INDEX (RPI) METHODOLOGY: PLSA RESPONSE

The joint consultation from the government and UKSA sought views on the alignment of RPI to CPIH, including among other things, the issue of timing. We understand that RPI is a flawed measure of inflation and support plans to develop a more robust measure.

PLSA IMPLEMENTATION STATEMENT GUIDANCE FOR TRUSTEES

Our guidance and vote reporting templates provide practical support for trustees of both DB and DC/hybrid schemes around the production of their new Implementation Statements, where trustees must disclose how they have followed the objectives and policies set out in their Statement of Investment Principles.

DC DECUMULATION CALL FOR EVIDENCE

This set out a new framework to support savers and schemes in the member journey towards retirement. Key areas of focus included the statutory obligation, scheme impact, product mix, the default, signposting, the role of IGCs and member communications and engagement. Look out for our recommendations soon.

ENGAGING THE ENGAGERS: A PRACTICAL TOOLKIT FOR SCHEMES TO ACHIEVE EFFECTIVE STEWARDSHIP THROUGH THEIR MANAGERS

Our joint guidance with the Investor Forum supports schemes in holding their asset managers to account on engagement and stewardship issues. In this toolkit, we've included suggestions for schemes to ask their managers, and provided a broader framework for assessing stewardship and engagement approaches.

GMP EQUALISATION MADE SIMPLE

This guide, sponsored by Equiniti, covers the history, the methods and the roadmap for the future to help trustees prepare for and begin their GMP equalisation project, a complex and long-term undertaking with significant implications for many DB schemes.

To find out more about any of the topics above, visit our website at ***https://www.plsa.co.uk/Policy-and-Research-Document-library#/by-title*** and keep up to date with PolicyWatch.

PENSIONS TAX RELIEF: NO GOLDEN GOOSE

With a hole in the nation's finances, ***Nigel Peaple***, director of policy and research, PLSA, warns against cutting imaginary 'costs' and finding illusory 'savings'

THE CORONAVIRUS PANDEMIC HAS OPENED UP A SUBSTANTIAL HOLE IN THE BUDGET AS THE GOVERNMENT HAS PROVIDED VITAL SUPPORT FOR BUSINESSES, PUBLIC SERVICES AND INDIVIDUALS. THERE HAS BEEN MUCH SPECULATION IN RECENT WEEKS ABOUT HOW THIS WILL BE PAID FOR, AND PENSIONS TAX RELIEF IS REPORTEDLY UNDER REVIEW BY CHANCELLOR RISHI SUNAK.

Speaking from a pensions perspective, we'd prefer that government find some other way to find the funds. But if the government does choose to raise them from pensions, we'd like to emphasise that the amounts available are less than often quoted and the consequences less appealing.

Under the current rules, which are designed to incentivise people to lock money away for their retirement, most savers pay no income tax on any earnings they contribute towards a pension. However, apart from a 25% tax-free lump sum, they do pay income tax when they come to draw it. So the figures quoted are not all that they seem.

It's often said that pensions tax relief "costs" the government about £40 billion a year. The implication is that if the government changed the rules on pensions tax relief, they could save a significant proportion of this sum of money. The reality is far from this.

About 40% of the amount is allocated to public sector pension schemes so, if the government did reduce fiscal support, it's more likely than not that the employers involved might make up some or all of the resulting fall in take-home pay for the senior nurses, doctors and headteachers affected, especially if we're still battling COVID-19. Obviously, any additional funding would have to come from the public purse.

Around 20% of the sum is tax not levied on employers who are making up the pension deficits in traditional final salary schemes. These contributions are generally used to make sure pension promises, to former and current employees for work done in the past, are honoured. Amending this part of the regime would simply add a tax on business and make the pensions of millions of people less secure.

The remainder goes to the minority of people in the private sector that are contributing to a final salary pension and the many millions of others, nearly all in the private sector, who have a money purchase or defined contribution pension. We estimate the total savings to government available from this part of pension saving is under half of the £40 billion so often quoted – and, of course, the government would not want to remove *all* support from people saving for retirement. So the total "savings" for the public purse will be far, far lower.

Reducing fiscal support might be a reasonable approach if people in the UK were already saving enough for retirement. However, this is not the case.

In 2016, the PLSA undertook a research project that examined the likelihood that current workers would have a pension equivalent to the pension targets identified by the 2006 Pensions Commission.

Using the Commission's targets, the PLSA's research found that just over 50% of the working population, or 13.6 million people, were at high risk of failing to meet their target replacement rate. Moreover, it is the middle-aged savers of Generation X, today aged around 40 to 55, and the young millennials, aged around 25 to 39, who are most likely not to be saving enough.

So the government should think very carefully before reducing the amount of support it provides for pension saving.

However, if the government is determined to alter pensions tax relief, then we'd urge them to ensure that any change is primarily designed to help people save enough for retirement. Ideally, any change would also be simple to adopt and administer, and should be sustainable over the long term. Everyone knows that the current system is not perfect, so the pensions sector is open to considering how it can be improved. But let's keep our eyes on the prize: everyone having an adequate income in retirement.

THE GOVERNMENT SHOULD THINK VERY CAREFULLY BEFORE REDUCING THE AMOUNT OF SUPPORT IT PROVIDES FOR PENSION SAVING

This piece originally appeared in Understanding Pensions, a special report produced by Raconteur in association with the *Sunday Times*, on 27 September 2020.

https://www.raconteur.net/report/understanding-pensions-2020/

THE MEMBER BACKING
PENSIONS AND LIFETIME SAVINGS ASSOCIATION

TRUSTEE TRAINING PROGRAMME

PART 1 - THE THEORY

4 & 5 November 2020

ONLINE TRAINING

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Our trustee training programme helps new trustees and people interested in becoming a trustee to understand their role and responsibilities and the challenges they'll face.

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

Find out more: **www.plsa.co.uk**

TRUSTEE TRAINING

Terry Ritchie introduces a new virtual approach to training at the PLSA and beyond as he explains to Maggie Williams

Q
HOW HAS THE COVID-19 CRISIS AFFECTED TRUSTEE TRAINING?

A
We've all had to change our mindset over the last few months as a result of the pandemic. Face-to-face training still isn't practical or desirable at the moment, and the PLSA has been developing its trustee training so that it can be delivered virtually.

In the longer term, when work and travel practices have stabilised, learners could have a choice between face-to-face and virtual methods, as both have different advantages. Face-to-face training brings benefits such as enabling presenters to observe delegates' body language and gauge their level of understanding. Tasks that require collaborative working in a group, such as case studies, can also be delivered more easily in person. And, of course, you won't have a problem with your wi-fi signal dropping out!

However, virtual training can offer greater flexibility – there's minimal travelling time, and training can be delivered more cost-effectively. It also means that we can deliver information in bite-sized chunks. Rather than packing everything into a single day course, we can divide up the materials and have, for example, a session on legal requirements and actuarial work, then cover governance, investment matters, and annual reports and accounts on another day.

Delegates also have more control over accessing training at a time that suits them. As technology develops and we get more comfortable with it, we'll be able to replicate even more parts of the face-to-face experience online.

Q
WHAT ARE THE KEY TOPICS THAT TRUSTEES NEED TO LEARN ABOUT?

A
Most core subjects – such as the role of the trustee, legal considerations, actuarial, governance, and understanding the annual report and accounts – remain the same as ever.

However, there will be new and updated directives from The Pensions Regulator (TPR) linked to many of these areas. For example, the need to publish DB schemes' Statement of Investment Principles online is new this year, as well as the requirement to produce an Implementation Statement for both DB and DC schemes. The content of the SIP is also changing, to include information on how schemes are addressing ESG issues and stewardship. Investment strategies are also coming under the microscope, with changes to the Defined Benefit Funding Code on the horizon.

Another key issue for DB trustees is the employer covenant. Even seemingly strong covenants could be severely tested by the effects of Covid-19 and ongoing uncertainty over Brexit. I have focused a lot on the covenant recently in my own trustee work, and we're likely to see more emphasis from TPR on making sure trustees review the strength of the covenant regularly.

One key message that is applicable for all trustees is to make sure that they remain up to date with the latest requirements from TPR. Both new and experienced trustees need to make sure they stay on top of these, and we'll always include a session in our training to recap on recent changes. All trustees should also make sure they keep their continuous professional development (CPD) up to date, reflect on whether their knowledge is sufficiently current, and ask themselves if there's any additional training they need from their advisers.

Q
WE'VE SEEN ACCREDITATION INTRODUCED THIS YEAR FOR PROFESSIONAL TRUSTEES – SHOULD MEMBER-NOMINATED TRUSTEES ALSO BE REQUIRED TO HAVE A QUALIFICATION?

A
The Trustee Knowledge and Understanding programme from the Regulator is very user-friendly, and provides a lot of sensible guidance. That is augmented with CPD requirements which trustees should be addressing as part of their role.

Beyond that, a qualification might be a step too far for many member-nominated trustees, especially as the demands of the role are becoming ever-greater and TPR more vigilant. Pensions are always complicated, but with the overlay of the pandemic and other factors, there is already so much for trustees to consider and learn as part of their role.

Trusteeship – part 1: the theory is available as an online course in 2020.

7-8 October 2020

4-5 November 2020

Our follow-on courses, part 2: the practice and part 3: the expert will return in 2021

https://www.plsa.co.uk/Events-and-training/Trustee-Training/

THREE WAYS TO IMPROVE COST TRANSPARENCY

Samuel Condry, Policy Lead: Standards, has a trio of tips for trustees

BE PREPARED TO CHALLENGE PRIORITIES

As we've moved through the intervening months since the start of lockdown, many people's priorities have naturally focused on funding and investment risks – as well as juggling the myriad tasks needed to provide an uninterrupted service to pensions savers.

In such a turbulent environment, it has been all too easy to lose sight of some of the more 'hidden' priorities. Investment costs can often be overlooked at the best of times – yet Covid has provided a real opportunity for schemes to reassess their priorities and to find unturned stones to peer under. Investment costs are certainly worth a closer look, as poor investment performance means their basis points-impact can be magnified just now.

As dividend payments and other investment returns are expected to be squeezed further over the coming months, some of the most progressive pension funds have already been finding significant monetary savings through renewed scrutiny of investment costs, as well as helping to exert downward pressure on fees, renegotiating where appropriate.

If you're a trustee, or a member of an independent governance committee (IGC), this autumn will be a key time to ensure you keep investment costs on the meeting agenda. You should challenge your advisers and investment managers to justify any priorities, and be prepared to push back if you feel costs and charges might have been unduly relegated or dropped off the agenda.

While the focus for pensions remains long-term, the link between how individuals manage their money today, and how they build up savings for the future, is becoming ever stronger – and ever more important to members.

ALWAYS CONSIDER THE WIDER CONTEXT

However, too great a focus on simply cutting back costs comes with its own risks. Any assessment of investment costs should be made with the wider context of value for money (VFM) firmly in mind. And when it comes to VFM, things are heating up.

The FCA has an open consultation on proposals to strengthen IGCs' obligations to assess the ongoing VFM of workplace pensions (CP20/9 'Driving value for money in pensions'). The proposals include a three-pronged approach to VFM assessments, incorporating charges and costs, investment performance, and services provided (including member communications). While the FCA is unlikely to become overly prescriptive in this space, it's apparent that IGCs will need to examine the moving parts of investment performance and costs together, and to some level of detail.

Similarly, pensions trustees are likely to have equivalent new obligations imposed on them, with The Pensions Regulator (TPR) and the Department for Work and Pensions (DWP) making it clear that they will be bringing forward proposals. At time of writing, the DWP has just published a consultation paper which details new requirements for small scheme trustees (schemes with less than £100 million in total assets) to assess key elements of value, including investment performance and charges. This is no bloodless process – trustees must proactively identify and recommend whether it might be in scheme members' interests to move to a larger scheme (or an authorised master trust), which provides better value.

DIG OUT THOSE DETAILS

A thorough assessment of investment costs and charges can be onerous, especially when time and resources are stretched by competing priorities. Collecting the necessary data can be time-consuming at best, even before you begin to wrestle with data quality and comparisons. Yet it's just those areas of detail – such as incidental costs, administration costs, or governance-related costs – which can really add up to impact on the net return on investment performance.

This is where I want to plug the Cost Transparency Initiative (CTI), which the PLSA runs on behalf of the pensions industry, alongside its partner organisations the Investment Association (IA) and the Local Government Pension Scheme Advisory Board (SAB).

The CTI framework is an industry standard for institutional investment cost data – developed by industry, for industry. The framework consists of several templates and tools which enable asset owners to view all their costs and charges in a consistent and comparable way. These are all free to use and, if you're a trustee or IGC member, you can use this information to get a full and detailed understanding of your investment costs.

Gaining such a detailed view of investment costs will allow you to make meaningful comparisons across investment mandates and across your different managers (including where in-house and external managers are employed); facilitating changes or other recommendations where appropriate.

The CTI framework has the benefit of compatibility, as it has been designed to be easily harmonised with other regulatory or reporting requirements, such as ILPA or MiFID II. The framework has also been incorporated into the services provided by the leading information providers (utilities) in the marketplace, as well as the LGPS Transparency Code.

Whichever approach you take to scrutinise investment costs, it's vital to have open conversations with your investment managers and advisers about your requirements – help them to help you and make sure cost transparency is kept high on the agenda.

Further information about the CTI framework is available on the website:

www.plsa.co.uk/Policy-and-Research-Investment-Cost-Transparency-Initiative

RETHINKING RETIREMENT DECI

Lizzy Holliday, Head of DC, Master Trusts and Lifetime Saving at the PLSA, assesses current issues and attitudes

THE PENSION FREEDOMS GAVE SAVERS GREATER CHOICE ABOUT HOW TO ACCESS THEIR RETIREMENT SAVINGS.

Prior to the reforms, 90% of pension pots moved into annuities in the decumulation phase. By June 2018 FCA reported that twice as many pots were moving into drawdown than annuities, with 2019 figures suggesting the downward trend in annuity sales has continued. The total value of flexible withdrawals has risen steadily, and now exceeds £35 billion.

But a significant body of evidence shows the confusing range of options and risks is potentially leading to poor decision-making that's affecting the adequacy of people's retirement living standards.

What's more, the new array of choices shift a number of risks onto the individual in retirement: the possibility of running out of money, ongoing exposure to stock market fluctuations, and potential diminished decision-making capabilities needed to manage their retirement income.

In the five years since the introduction of the pension freedoms, several attempts to improve savers' knowledge, understanding and level of engagement have had limited success, and there's clearly room for improvement in the 'at-retirement' processes to better serve savers.

According to research by the PLSA, nearly three-quarters (71%) of savers in defined contribution (DC) funds want support when deciding how to access their pension, including some wanting to be guided by their pension scheme to a ready-made retirement income option.

Pension schemes want to support savers more effectively by improving the help they get when they're thinking about drawing their pension and setting a path that protects savers from poor outcomes. But the current system also presents a variety of operational, litigation, and other risks for schemes, which results in many choosing to provide minimal support (signposting savers to Pension Wise and providing pre-retirement 'wake up' packs). Among these risks is how schemes navigate the line between guidance and advice.

THE PLSA'S DECUMULATION PROPOSAL

The PLSA has, over the last few weeks, been getting input from the industry, consumer groups and other stakeholders on its new proposal to help improve retirement outcomes.

At the heart of the proposal is a call to establish a new regulatory regime that will require pension schemes to support their members when making decisions about how to access their pensions – including by offering or 'signposting' to products. The

ADIGM SHIFT

SION-MAKING

IN THE FIVE YEARS SINCE THE INTRODUCTION OF THE PENSION FREEDOMS, SEVERAL ATTEMPTS TO IMPROVE SAVERS' KNOWLEDGE, UNDERSTANDING AND LEVEL OF ENGAGEMENT HAVE HAD LIMITED SUCCESS

proposed framework would entail minimum standards for member engagement and communications, products and scheme governance in relation to decumulation. These standards would help protect savers by maintaining the quality of a scheme's offer and providing a safety net to protect savers against the worst consequences of inaction.

The proposed framework is designed to support all savers, and protect people who don't engage with or fully understand the choices they face when they move towards semi- or full retirement.

The PLSA's call for evidence paper places this proposal in the context of the ongoing evolution of the broader pensions landscape: the growth of DC saving and master trusts, the future consolidation of funds and the impending delivery of pensions dashboards. It considers schemes' responses to the pension freedoms, the development of solutions, and how proposed future obligations to provide guidance and 'signposting' to retirement income products might impact their operations. It also examines how greater choice has exacerbated some risks to savers – of making poor decisions, of outliving their savings, of investments not meeting expectations.

THE ROLE OF ADVICE

One recurring theme we've been hearing during our consultation has been about the important role of professional financial advice in securing adequate retirement incomes.

Our proposal to enable, encourage and support pension schemes to signpost certain pathways or develop retirement products is not intended to diminish the vital part an adviser can play in helping savers with at-retirement decisions.

Schemes can only provide so much support to their members. For many savers, advice provides a crucial function in their decision-making.

Advisers know their clients and can make the bewildering range of choices they face comprehensible. Our solution doesn't rely on members taking advice, but it encourages members to seek out further guidance and advice, not just at the start of their retirement journey, but also in the planning phase and, increasingly, during a management phase in retirement.

Many of our pension scheme members tell us that finding ways to introduce or provide access to professional financial advice on behalf of their members demonstrates that they are best in class, particularly so that they can take a holistic view across the multiple pots they may hold across different schemes, or different kinds of benefits (e.g. DB).

Retirement processes should work for all – those who arrive at their decumulation options with little knowledge, or who do not engage, as well as those who are confident and have detailed plans. Together, pension schemes and advice have central roles to play to help people achieve better incomes in retirement.

PLSA DC DECUMULATION CALL FOR EVIDENCE CLOSES

The PLSA DC Decumulation Call for Evidence closed on 4 September. It set out a new framework to support savers and schemes in the member journey towards retirement.

During the Call for Evidence period we had some great discussions with highly engaged participants – including seven roundtables (one of which was a consumer-focused session), covering more than 50 individuals representing more than 40 organisations. We have also received over 20 considered written responses.

Key areas of focus have included the statutory obligation, scheme impact, product mix, the default, signposting, the role of IGCs, and member communications and engagement.

We're very grateful for all the views you've shared with us and contributions made during this time.

We intend to refine our proposals over the course of the next few weeks and publish our final recommendations at the PLSA's virtual Annual Conference.

PLAN FOR THE FUTURE, LIVE FOR TODAY

How can the pensions industry help people with their broader financial wellbeing? ***Maggie Williams*** reports

FINANCIAL WELLBEING HAS BEEN A QUIET REVOLUTION IN WORKPLACE SAVINGS AND EMPLOYEE BENEFITS. ON THE SURFACE IT MIGHT LOOK LIKE A MARKETING BUZZ-PHRASE TO ENCOURAGE EMPLOYEES TO SAVE MORE INTO THEIR PENSION, BUT UNDERNEATH IT REPRESENTS A MUCH DEEPER RECOGNITION ABOUT HOW WE VIEW OUR RELATIONSHIP WITH MONEY, INCLUDING RETIREMENT SAVINGS.

According to the Money and Pensions Service, financial wellbeing is "feeling secure and in control. It is knowing that you can pay the bills today, can deal with the unexpected, and are on track for a healthy financial future."

However, studies have shown that for many there is a lot of work to do to achieve that goal. Recent research from Close Brothers, *Changing Trends in Financial Wellbeing*, showed that 21% of employees worry about their financial health daily, and only 19% of respondents said they never worry about money. The research also showed that one of the greatest causes of concern is how to fund retirement. According to Close Brothers, 31% of respondents cited this as their biggest money worry.

Pensions have an obvious role to play in making sure savers are on track for a healthy financial future. But should the pensions industry have a wider remit when it comes to financial wellbeing?

"I think it depends who you're talking to," says Brian Henderson, Director of Consulting at Mercer. "For example, the trustees of an in-house pension scheme have a fiduciary duty to provide pensions and to focus on their scheme. But if you're looking at bundled pension provision, then I think there's more of an obligation to look at the wider picture. You have to think about an integrated approach to short- and long-term savings, so that different approaches to financial wellbeing don't play off against each other."

"The first thing we can do to help with financial wellbeing is to be an exceptional pensions industry, continuing to innovate and providing good quality pensions at the lowest cost," says Will Sandbrook, Executive Director, Nest Insight.

However, Sandbrook believes schemes can help to create an integrated way of saving that takes account of both short-term accessible savings and long-term retirement pots: Nest has been carrying out a 'sidecar savings' trial to explore this principle.

"As fiduciaries of people's longer-term financial wellbeing, [pension schemes] should make sure individuals are in a good position in the short term. In the US, where there has been more of a focus on short-term emergency savings, the pensions industry has been front and centre. Pension

THE FIRST THING WE CAN DO TO HELP WITH FINANCIAL WELLBEING IS TO BE AN EXCEPTIONAL PENSIONS INDUSTRY

THE BEST WAY TO BE FINANCIALLY WELL FOR THE LONG TERM IS TO BE WELL IN THE SHORT TERM

schemes have good payroll integration and communications, and that can be helpful when working with employers to set up initiatives like sidecar savings."

21%

OF EMPLOYEES WORRY ABOUT THEIR FINANCIAL HEALTH DAILY, AND ONLY 19% OF RESPONDENTS SAID THEY NEVER WORRY ABOUT MONEY.

Could pensions lose out if people become more focused on building up short-term savings? In principle, Craig Rimmer, Policy Lead, Master Trusts at the PLSA doesn't think so. "Auto-enrolment has been such a success because it has enabled people to save more easily for retirement. And, while inertia might have played a part early on, most people know where their money is going and choose not to stop it going into their pension. It's helped them to create a 'jam jar' for their future," says Rimmer. "We can apply that same idea to short-term savings as well, so that there's a jar for emergencies, for example."

Rimmer also says that using techniques such as sidecar savings can help to create a balance between immediate financial needs, and building up retirement adequacy. "The theory is that savers might have zero money in their sidecar pot at retirement. That's positive if it means they haven't built up debt that they still need to pay off after they retire."

However, the ongoing effect of the Covid-19 pandemic could mean some tough financial decisions for individuals as redundancies, cuts in working hours and pay reductions bite. "Before Covid-19, managing day-to-day bills and unexpected costs was already a challenge for many," says Ruston Smith, non-executive chair of the Tesco Pension Scheme and former chair of the PLSA. "With increased unemployment, reduced pay and difficulties through lockdown I expect family households will struggle even more – perhaps forcing a choice between managing today and saving for tomorrow."

Smith suggests that there are ways that schemes, providers and government could help: "We could consider giving people alternatives to simply opting out by allowing them to save less or suspend – not stop – contributions where affordability is a real issue, until they can get back on their feet."

He adds: "People's finances tend to be so fragmented. A further opportunity is to help employees to see all their financial information, simply presented, in one place – and to provide them with accessible help and support."

Henderson says that this 'helicopter view' of an individual's finances can be hugely beneficial. "Sometimes it's not about big steps such as an increase in pension contributions. It's also the small details, such as helping people to save money day to day, which all add up."

Rimmer adds that building good financial habits, such as budgeting, is another key aspect of financial wellbeing. "When you're used to creating a budget and knowing what you can afford and what to cut back on, it gives you a better idea of what you'll need to spend when you give up work to retire."

"The best way to be financially well for the long term is to be well in the short term," concludes Sandbrook.

While the focus for pensions remains long-term, the link between how individuals manage their money today, and how they build up savings for the future, is becoming ever stronger – and ever more important to members.

How ESG can help build resilience in Buy and Maintain credit strategies

Responsible investment has always been about the long term. Equity investors want to know a company isn't vulnerable to global shifts around environmental or social issues and fixed income investors, looking to more distant horizons and might need to ensure a business can be part of a resilient strategy for the next 20 years.

Lionel Pernias,
AXA IM Head of Buy and Maintain, London

For asset managers seeking to build such fixed income strategies, it's all about culture. At AXA IM, we believe our Buy & Maintain business benefits from credit analysis that puts environmental, social and governance (ESG) factors at its heart. It's not for show - the integration of ESG decisively shapes allocations. We believe this can help deliver long-term performance enhancement for institutional investors.

The reason is simple. Companies that can't adapt to new realities have never made for great investments, and as the world responds to climate and social change, this is becoming more important. So how do we make sure our strategies are prepared?

Scores and more

ESG scores are a very useful part of our process, but they are the starting point, not the destination. Our proprietary system[1] uses raw data covering more than 7,200 companies in 100 countries to deliver a simple score from 0-10. This is the first hurdle. We will not buy a bond from a company that scores below a 2, or which falls foul of baseline exclusions.

An ESG score, however, only reveals its true value when combined with a full qualitative assessment. It is, for example, hugely important to track scores through time. Where we see a company heading up or down the scale, the real investment driver is knowing what lies behind the trajectory.

Companies with an ESG score above 2 still face detailed scrutiny from our credit analysts who take care to factor in ESG risks, working closely with our equity analysts. The goal is sustainability and resilience - and the results are tangible, not aspirational.

Exclusions based on ESG quality have allowed us to avoid exposure to ratings downgrades and bankruptcy and we expect the effects of such examples will be seen in performance over time. We believe the impact of ESG can be magnified as downgrades and defaults emerge over the years. We want to lend to companies that will be thriving, and delivering cashflows, 15 years from now.

> "The goal is sustainability and resilience - and the results are tangible, not aspirational"

Changing markets

This isn't only about strategic allocations, it's also about staying relevant in changing fixed income markets. Our view is that asset managers who take ESG seriously have better prospects for allocations when debt comes to market.

At AXA IM we have seen more and more evidence that allocations are affected by responsible investment characteristics. Our experience is that banks will allocate more to what they see as real, active, long-term money – to asset managers who are "seen as green". A reputation as a major player in this space can therefore offer a hard-earned edge and influence the nature of issuance. The market is also moving towards standardisation of how ESG is reflected (most obviously in Green and Social bonds) and those with strong systems have a potential advantage.

> "Our experience is that banks will allocate more... to asset managers who are 'seen as green'"

Transparent

Once we secure an allocation from a company, there is more value to be gained from active engagement with management. In 2019, alongside intense activity in equity markets, we engaged with close to 40 debt-only issuers[2]. A nuanced understanding of a company's ESG progress allows us to build a strategy that is sustainable from all angles.

Our pension fund and insurance clients need to see how we are addressing ESG concerns with companies and so we have enhanced reporting of milestones and results. Clients can receive a line-by-line report, with a timeline of engagement steps and themes where we are seeking improvement. Our team is always on hand to give deeper insights, and our twice-yearly Stewardship report gives details of every engagement we make.

One example has been to push oil companies to make 'net-zero' commitments on emissions as we seek to protect the long-term interests of clients by influencing the future of the energy industry.

AXA IM lends to one oil major on the basis of a 2050 net-zero commitment. Deviation from that path could prompt a refusal to participate in new issuance. Among carmakers, we favour those trying to transition ahead of the regulatory imperative. One global name gained an allocation, not simply because it issued a Green Bond, but because it specifically earmarked funds for sales leasing on hybrids. This kind of verifiable data encourages us to invest.

Growing markets

New markets have amplified the role of responsible investment. We have sought a leading role in the growth of Green and Social[3] bonds – debt designed to directly address ESG issues, and which is often anchored in the UN Sustainable Development Goals (SDGs).

The SDGs give issuers a useful way to pitch debt to responsible investors. But they do not remove the need for scrutiny – in fact, engagement can be more intense to meet technical and disclosure requirements. It is crucial to avoid 'greenwashing', where companies pay lip service to targets, and as a proud active investor our focus is on tracking how money is actually used.

Again, reputation matters. AXA IM's leadership in Green bonds[4] helps shape the sector. This includes membership of the Green Bonds Principles Executive Committee where we have helped provide industry guidelines to improve transparency.

Our role in the development of Transition bonds highlights our thirst for practical innovation. Our own guidelines[5] allowed for a €100m issue of this new type of debt, which allows carbon-intensive companies to finance decarbonisation projects. We are now leading industry efforts to ramp up this asset class[6]. We also have more than £2bn of exposure to social housing where we selectively lend to Housing Associations with clear social development strategies.

When you take ESG seriously in fixed income, opportunities can emerge. As the market adapts to the realities of climate change and other ESG challenges, we believe it pays for asset managers to embed true responsible investment techniques in their allocation process. Just as we seek out companies that stay ahead of the curve, so asset managers have a duty to be at the leading edge as the investment industry evolves.

Footnotes

1 AXA IM: *Our Scoring Methodology*
2 AXA IM *2019 Stewardship report*
3 Rise in Covid-19 bond issuance fans fears over 'social washing' Financial Times, *30 June, 2020*
4 AXA IM: *Our Green Bond framework*
5 IPE, 12 June 2019: *AXA IM calls for 'transition bonds' to help companies go green*
6 *ICMA Working Group on Climate Transition Finance*

SURVEYING THE SUPER FUNDS

Charlotte Moore reports on the latest moves towards DB consolidation

THE PUBLICATION OF THE PENSIONS REGULATOR'S GUIDANCE FOR DEFINED BENEFIT (DB) SUPERFUNDS IN JUNE THIS YEAR WAS A SIGNIFICANT STEP TOWARDS MAKING CONSOLIDATION A VIABLE OPTION FOR PENSION PLANS. THESE CONSOLIDATORS OFFER AN ALTERNATIVE TO PENSION SCHEMES WHICH WOULD LIKE TO TRANSFER THEIR ASSETS TO AN INSURANCE COMPANY BUT ARE UNABLE TO ACHIEVE THIS GOAL OVER THE NEXT THREE YEARS BECAUSE OF INSUFFICIENT FUNDING LEVELS.

The superfunds offer a similar service to an insurance company, but as they fall under a different regulatory regime they are a less expensive option. By pooling the assets of multiple schemes they will benefit from economies of scale, allowing better governance and cheaper investment options than those available to individual schemes.

> "Depending on the scheme, entering a super fund will likely cost a scheme 5% to 15% less than an insurance buy-out."
>
> Gordon Watchorn, partner LCP

While schemes had expressed interest in the consolidators, they had been reluctant to act before the regulator provided more detailed guidance. There is now greater clarity around what will be expected. John Baines, head of bulk annuities at Aon, says: "The regulator said consolidators have to have a 99% chance of being fully funded in five years."

The regulator also stated the superfunds could not extract any profits until the benefits in a consolidator had been bought out in full by an insurance company. Baines says: "This provides a perfect alignment between the trustees, scheme members and the consolidator."

The changes give considerable comfort to trustees that members benefits will be paid in full, says Baines. Watchorn agrees: "This guidance means trustees and companies can feel confident this will be a suitable destination for their scheme members."

THE COVID FACTOR

In addition to TPR's guidance helping to provide comfort to schemes, the impact of Covid-19 on the economy has made the consolidators a more appealing option for many schemes. Watchorn says: "The resultant uncertainty will have undermined the strength of the corporate sponsor in certain industries, making consolidation look more attractive for a larger number of schemes."

Ben Stone, risk transfer partner at Mercer, adds: "Over the next one to two years, we could see a number of employers struggling to keep their business afloat." A reasonably well-funded scheme attached to these types of businesses would then have the option to transfer to one of the consolidators rather than going into the Pension Protection Fund, he added.

In the past there were two options for these schemes when the sponsoring company became insolvent. The scheme could enter the Pension Protection Fund which could result in benefits being reduced by up to 25% over the long term; or it could preserve benefits through a buy-out – but this is usually unaffordable.

Joe Dabrowski, head of governance and investment at the PLSA, says: "A third way will be very helpful for schemes." The majority of schemes which enter the PPF stay there – they don't manage to do a buy-out or get rescued, he adds.

The consolidators offer schemes another way to secure the full benefits when the more secure insurance buyout route is unaffordable, says Watchorn.

Costas Yiasoumi, senior director at WTW's pension de-risking business, thinks there are two types of scheme which are likely to be attracted by the idea of entering a consolidator. "The first is an underfunded scheme with a sponsor which is not strong but which could find capital to enable the transfer to a super fund," he says. For example, there are schemes which are part of overseas groups where there is no contractual obligation to support the scheme but there is a feeling of moral compulsion to support the pension plan. Moving the scheme into a consolidator would be a way to satisfy that moral compulsion without paying full buy-out costs, says Yiasoumi.

Well-funded schemes with weak sponsoring companies could also be attracted to consolidators. The dilemma facing trustees of these types of schemes is they can't rely on the company to provide additional capital if their funding position was to weaken.

"If an employer was to become insolvent, they would be forced to purchase a bulk annuity which would not provide the full benefits to members," Yiasoumi explains. For these trustees it would make more sense to transfer the scheme to a consolidator to ensure the members' benefits could be paid in full. "The trustees would no longer have to worry about what happens to members' benefits if the company becomes insolvent," he concludes.

EARLY MOVERS

Now the guidance has been issued, the two existing consolidators – Clara Pensions and The Pension Superfund – are in the first phase of the approval process.

These two funds have different models. Richard Williams, director of policy and communications at Clara Pensions, says: "We offer a bridge to buy-out so members' benefits will ultimately be provided by an insurer." This means there will be no return on capital until the buy-out occurs, which puts Clara Pensions in close alignment with the guidance issued by the regulator. "That was helpful for our model," says Williams.

In addition, each scheme will remain segregated within Clara which provides reassurance to trustees. "They do not have to worry about the potential impact of other pension plans," says Williams. It also means each plan can enter into buy-out in the time which suits them and does not have to wait for other schemes to be ready.

Clara aims to make the most of economies of scale by using one administrator and one fiduciary manager for all schemes, he adds.

As well as rubber stamping Clara's business model, the guidance issued by the regulator in June also helped to confirm that consolidation of pension schemes can be implemented under existing law. "It also confirmed the superfunds are not insurance companies," says Williams.

CLARA'S AMBITION IS TO GROW SLOWLY AND STEADILY, AIMING TO AMASS

£5 BILLION

IN ASSETS WITHIN FIVE YEARS.

While the capital requirements were at the tougher end of where the regulator could land, Clara is confident it can meet them. Clara's ambition is to grow slowly and steadily, aiming to amass £5 billion in assets within five years. "There should be announcements about transactions by the end of the year," says Williams. Next year will probably be the make-or-break year for superfunds, he adds.

Peter Cazalet, managing director at The Pensions Superfund, says: "The difference between us and Clara is while both consolidate assets and liabilities, we run off the liabilities while Clara is a bridge to buy-out within five to seven years." In other words, The Pensions Superfund is not a stepping stone to an insurance buy-out but an alternative to it.

To be able to take over the responsibility of paying the liabilities, The Pensions Superfund expects schemes to have a 100% funding level and for them to use the gilt curve plus 0.5% to value those benefits. Cazalet says: "We have to value liabilities at a consistent rate." If a scheme is not at this funding level, then it will be incumbent on the company sponsor to make up the shortfall before the scheme can enter The Pensions Superfund.

In addition, the sponsor will contribute up to an extra 10% of the value of the liabilities to the capital buffer. This will be matched by a similar amount from the external investors, so funding the scheme to 120% of conservatively valued liabilities.

Despite this high bar, The Pensions Superfund will be cheaper than a buy-out because the fund is happy to offer this pricing level to schemes with significant proportions of deferred members. Cazalet says: "Insurance companies are likely to charge more than The Pension Superfund for schemes with a larger proportion of deferred members."

Most of the guidance issued by TPR was as anticipated, he continues, "but we are having very constructive discussions with them about certain parts of the guidance, in particular the use of ceding company assets, rather than cash, to fund shortfalls."

As The Pension Superfund's model is to act as an alternative to an insurance company, it plans to share any surplus capital with its schemes. "One-third would be returned to members via The Pensions Superfund trustees. The remaining two-thirds will go to external investors," Cazalet confirms.

But the regulator has said no profits, or surplus capital, can be redistributed for three years unless the schemes are bought out in full. "This will limit our ability to pay distributions to members. This is particularly frustrating for those who have suffered reduced benefits from the failure of a former employer," says Cazalet.

DB Complete

tpt
Retirement Solutions

In turbulent times there's good news ahead

TPT is a market leading DB pension consolidator with the expertise to keep your scheme on course

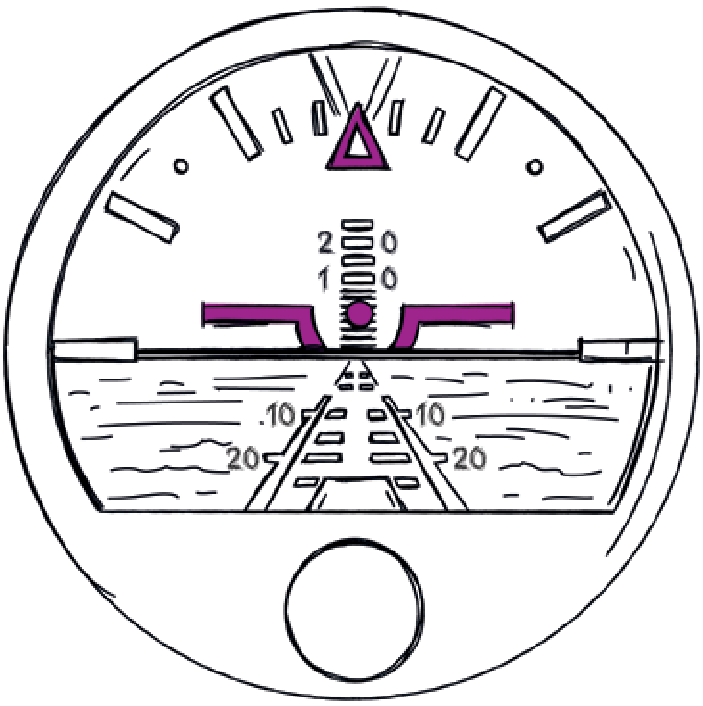
These are turbulent times for Defined Benefit (DB) pensions, with many schemes facing worsening deficits in 2020.

As the UK's leading DB pension scheme consolidator, TPT has the knowledge, experience and strength in numbers to ensure your DB pension scheme's journey plan stays on course.

With £12bn of assets under management and 74 years' of experience, by joining our DB Master Trust solution, your scheme will be ring-fenced with its own funding and risk strategy and you'll gain all the benefits of being part of a larger fund.

You will benefit from economies of scale through lower running costs, improved governance and access to a range of attractive investments not available to stand-alone schemes. By consolidating your scheme with TPT you will also have access to our highly specialised professional services experts.

Partner with us to release yourself from the burden and responsibility of the day-to-day management of your DB pension scheme. We're here to help.



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PROFESSIONAL PENSIONS UK PENSIONS AWARDS 2020 FINALIST

IPE CONFERENCE & AWARDS 2019 HIGHLY COMMENDED PENSIONS GOVERNANCE & ADMINISTRATION

PENSIONS Age AWARDS 2018 WINNER PENSIONS ADMINISTRATION AWARD

MEET THE MEMBER: HEIDI CATHERALL, OPERATIONS MANAGER, CHESHIRE PENSION FUND

Q
WHAT'S YOUR CURRENT ROLE, AND CAN YOU TELL US A BIT ABOUT YOUR CAREER IN PENSIONS SO FAR?

A

Cheshire West and Chester Council is the Administering Authority for the Cheshire Pension Fund, and we administer the Local Government Pension Scheme (LGPS) for the whole of Cheshire.

I joined the Cheshire Pension Fund in 2010 as the Fund Accountant, responsible for producing the Statement of Accounts, reconciling investment assets, contributions and benefits payment, and managing the Finance team.

In 2017 I was appointed to my current role as Operations Manager, leading the team which manages administration of benefits on behalf of our 100,000-plus members and 300-plus employers. The experience gained as Fund Accountant helps me contribute a holistic view in addressing administration issues and their impact.

I am a member of the management team ensuring effective governance and management of the Fund, reporting to the Chief Operating Officer and the Pension Fund Committee and Local Pension Board.

Q
WHAT DO YOU ENJOY MOST ABOUT WORKING IN PENSIONS – AND WHAT WOULD YOU CHANGE?

A

The LGPS is a challenging and diverse scheme – really three schemes in one now. Benefits are increasingly complex to administer at the same time as customer expectations are increasing as is external scrutiny from regulators. I enjoy the variety of tasks which come under the remit of the administration section.

It is a constant challenge to sustain our skilled team and keep pace with the volume of casework the Fund receives each year alongside major projects caused by national developments, most recently GMP reconciliation. Now, of course, we are planning for the changes resulting from the McCloud remedy.

I have also been leading a project to exploit opportunities to streamline and standardise our business processes and administration performance reporting, particularly on casework. Developments in this area in the wider LGPS would allow funds to compare themselves more easily and learn from best practice.

Q
WHAT IS KEEPING YOU AWAKE AT NIGHT PENSIONS-WISE?

A

The biggest concern is around our capacity to manage the day-to-day workload as well as the major change projects mentioned. It's a challenge!

Training of new staff is also a consideration. Given the complexity of the LGPS it can take several years to train a member of staff on all the necessary areas and, given the current pandemic, we are having to find new and innovative ways of providing that training as we can no longer be in the office together.

Q
WHAT, OR WHO, HAS INSPIRED YOU THE MOST IN YOUR ROLE?

A

I am the local lead for support to our Local Pension Board and enjoy the different focus the Board members bring to discussions.

I am also a member of the CIPFA Pensions Network Advisory Group and like many others take part in networking groups with other LGPS administration managers where we discuss common issues and help each other to find solutions to common problems, which I value.

Q
WHAT DO YOU ENJOY MOST ABOUT BEING A MEMBER OF THE PLSA?

A

Having a link to the wider pensions community allows us to learn from developments in other sectors. This is especially true of improvements in how we can engage with our members and how to standardise the collection of data.

The PLSA's development of the retirement living standards is leading the way in encouraging members to consider their pension throughout their lifetime. This clear and easy-to-understand guidance will help us to engage with our members and encourage them to plan for their retirement.

IT IS A CONSTANT CHALLENGE TO SUSTAIN OUR SKILLED TEAM AND KEEP PACE WITH THE VOLUME OF CASEWORK THE FUND RECEIVES EACH YEAR ALONGSIDE MAJOR PROJECTS CAUSED BY NATIONAL DEVELOPMENTS

POLICY GUIDANCE UPDATE: RESPONSIBLE INVESTMENT

Caroline Escott surveys the PLSA's specially produced guides to five key issues.

AT THE PLSA, PROVIDING POLICY SUPPORT TO OUR MEMBERS MEANS A FEW DIFFERENT THINGS. IT OF COURSE INCLUDES THE RESEARCH AND ADVOCACY WHICH SHAPES THE ENVIRONMENT WITHIN WHICH THE INSTITUTIONAL INVESTMENT CHAIN OPERATES. IT ALSO MEANS PROVIDING PROACTIVE, PRACTICAL AND TANGIBLE HELP FOR OUR MEMBERS TO DEMYSTIFY THE RAPIDLY CHANGING PENSION POLICY FRAMEWORK.

Our consistently most popular guides relate to investment and responsible investment. The download statistics alone demonstrate that these resonate with fund and business members alike and, with the plethora of new disclosure requirements placed upon trustee boards, IGCs and LGPS funds, you can see why.

By the time you're reading this, we will have produced five pieces of accessible written guidance in 2020 as part of our 'Investing for Good' programme of work. Each guide is designed to help schemes of all shapes and sizes understand exactly how to become active owners of their assets and undertake effective and meaningful responsible investment approaches on beneficiaries' behalf.

WE KNOW THAT TRUSTEES ARE KEEN TO ACCESS IMPARTIAL AND CREDIBLE SUPPORT TO HELP THEM HOLD THEIR ADVISERS, MANAGERS AND OTHER SERVICE PROVIDERS TO ACCOUNT

OUR 2020 GUIDES CAN BE SPLIT INTO TWO CATEGORIES:

1) Regular PLSA guidance – updated each year

- **AGM Voting Review 2019.** Produced in January each year, this report analyses and highlights the key trends from the previous year's voting across the issues which matter most to investors – such as executive remuneration, climate change, audit and directors' elections.
- **PLSA Stewardship Guidance and Voting Guidelines 2020.** The PLSA has issued Voting Guidelines in early February every year since 2013. The Guidelines build upon the findings of the AGM Review to offer guidance to investors on how they should consider exercising their vote during the following year's AGM season. Consistently one of our most popular pieces of guidance, in 2020 we updated it to include detailed advice on how schemes should build stewardship, engagement and voting policies. We also explained issues such as securities lending, exercising your rights in pooled funds, and how to do your due diligence in deciding whether to support a climate change resolution.

2) One-off policy guidance

- **Engaging the Engagers: a practical toolkit for achieving effective engagement through your managers.** The PLSA recognises that in reality most pension schemes will delegate their stewardship and engagement activities to their asset managers, while the trustee board retains strategic oversight. With increased policymaker scrutiny on how pension schemes act as effective stewards of their assets, the PLSA worked with The Investor Forum to suggest practical tips and questions for scheme investors to hold their managers to account on stewardship and cut through the 'greenwash'. *Published July 2020.*
- **Implementation Statement guidance.** The 2018 and 2019 changes to both the *Investment Regulations* and the *Disclosure Regulations* require trustees to disclose how their investment 'actions' have followed their investment 'intent' as set out in their Statement of Investment Principles (SIP). This is a new discipline for both DC and DB schemes, so the PLSA worked with a group of experts – including regulators, government officials, schemes and their service providers – to offer concrete suggestions for how to produce good practice implementation statements. *Published August 2020.*
- **Vote Reporting Template.** To produce compliant implementation statements, trustees need consistent, comparable and mandate- or fund-level information on the voting (and engagement) activities undertaken by their managers. However, managers are not required by regulation to produce their information in this way. To make gathering this information easier for trustees, the PLSA has produced a 'first version' Vote Reporting Template for asset managers to use. The spreadsheet itself is accompanied by separate guidance for asset owners on how to use the information for their disclosures, as well as for asset managers on how to fill it out. Although the initial template was launched in September 2020, the PLSA will be reevaluate what's needed over the next year as the first reports are produced and in light of the ever-evolving regulatory context.

Policymaker scrutiny of schemes' responsible investment activities is only going to grow as the UK seeks to 'Build Back Better' in the wake of coronavirus and in advance of the UK hosting COP26 in November 2021. We know that trustees are keen to access impartial and credible support to help them hold their advisers, managers and other service providers to account. We hope that our 2020 responsible investment guides will continue to resonate with schemes, and we look forward to continuing to bring regulators, government officials and our members together to support scheme investment in members' best interests.

Tax inefficient fund structures lost UK DB schemes £256m in 2019

What is the solution for the institutional investor?

Nick Horsfall,
Managing Director, AMX

Tax-efficiency has become an important factor for fund performance in recent years – particularly for pension funds that suffer too much withholding tax (WHT) on the dividends of their pooled equity investments.

Recent research conducted for AMX and Northern Trust shows that private sector DB schemes in the UK unnecessarily suffered more than £250 million of withholding tax in 2019. Based on these tax inefficiencies, the projected cumulative 'tax drag' for UK DB schemes for the 10 years from 2019 could total £2.4 billion[*].

Tax efficiency of pooled funds has been neglected

Both large and small institutional investors continue to use pooled funds to implement their portfolio strategies. But not all have considered whether these funds have been built to be withholding tax efficient. A number of trends are driving the need to pay greater attention to the impact of tax drag on performance, including the increasing use of passive funds and the growth of auto-enrolment.

Now, with a backdrop of a potentially prolonged economic downturn, many schemes collectively face the prospect of widening funding gaps, with some scheme sponsors in potential financial difficulty.

Removing withholding tax improves returns

Different European jurisdictions have developed specific structures which can be used to provide a Tax Transparent Fund (TTF). An example of such a TTF is the Irish domiciled Common Contractual Fund (CCF). The fund has no legal personality and therefore allows a 'look through' to the tax status of the underlying investor for the purpose of withholding tax on dividends. The advantages of using a global equity fund which minimises withholding tax can be significant. It can boost the performance of a fund by up to 41bps[**], for tax exempt investors such as pension funds.

Why being tax-efficient makes a difference[*]

Large UK DB pension scheme	Typical UK DB pension scheme
Total book = £2bn	Total book = £200m
Typical % in equities = 24%	Typical % in equities = 24%
Equities AUM = £480m	Equities AUM = £48m
Total potential saving = £2m p.a.	**Total potential saving = £200k p.a.**

Using tax efficient funds to achieving cost and operational efficiency

Significant scope exists for UK private DB pension funds to improve the tax-efficiency of their equity investments. If they have not already done so, now is the time to begin discussions with their advisers and investment managers about where opportunities exist to enhance the tax-efficiency of their investments – and make use of withholding tax reclaims or relief at source to which they are entitled.

By using AMX to access tax transparent CCFs, investors and fund managers no longer have to go through the substantial effort of setting up their own management company and fund. And, as well as ensuring tax reclaims are being correctly administered; the platform provides operational oversight of the tax services provided by the administrator through the use of robust technology and expertise.

[*] Figures based on research conducted between January and April 2020 for AMX and Northern Trust **https://theamx.com/uk-db-pension-schemes-lose-250m-a-year-due-to-use**

[**] Based on MSCI World Index allocation, Q2 2020.

Please contact us if you would like to discuss any of the issues raised in this article:

Email: clients@theAmx.com | **Website:** theAMX.com

SUPPORTING EMPLOYERS, PROTECTING SAVERS

Charles Counsell explains how The Pensions Regulator has scaled back enforcement and ramped up support for employers during the pandemic

COVID-19 CONTINUES TO IMPACT BUSINESSES, JOBS AND LIVELIHOODS.

When it became clear in March that employers would be hit hard immediately by sudden business closures, financial uncertainty and enforced staff absence, we acted swiftly to support them in relation to their pension duties.

While protecting savers is at the heart of what we do as a regulator, it was right to acknowledge the extraordinary scale and impact of the pandemic challenge facing employers in all industries, and be supportive for the longer-term benefit of savers.

In line with the government's approach to supporting businesses, we took a proportionate approach and sought to give employers more time and flexibility to meet their duties. We temporarily scaled back how quickly we enforced against non-compliance, such as missed pension contributions by employers to schemes.

We have continued to both monitor the situation closely and issue compliance notices, opting in some cases not to automatically escalate these to fines as we normally do. Throughout this period, we have been clear that employers must maintain contributions to their workplace pension. That important element of automatic enrolment did not alter.

But fining employers during lockdown would simply not have benefitted savers in the longer term.

We know from experience that even the threat of a fine is often enough to resolve a report of late contributions. Encouragingly, on-time compliance rates for employers declaring that they have implemented automatic enrolment for the first time, as well as those undertaking three-yearly re-enrolment, has held steady, including among those who received compliance notices.

We have given employers more time to report issues to us; more time to resolve late payments with their pension scheme provider. But at the same time we have also investigated late payment reports, dealing directly with employers and taking action to secure contributions for savers, both with and without use of formal powers.

In one example, TPR followed up a report that a major global restaurant operator had not paid across £45,000 in missing staff contributions for its UK business. The payment has now been made and contributions remain ongoing. In another example, TPR investigated a whistleblower report that contributions were not being made by a scaffolding firm amounting to £90k on behalf of 100 savers. As a result of us making contact, the firm has now committed to making up the shortfall with its pension provider.

We have remained focused on minimising the impact of the pandemic on savers so they continue to receive the pensions they are due. Rather than penalising struggling employers, we have focused on helping them to comply.

Reassuring savers about the scale of missed pension contributions is also important. Despite the challenges faced by businesses, we have to date not seen a significant or unusual spike in missed pensions contributions. The vast majority of employers are continuing to meet their automatic enrolment responsibilities – including setting up a pension scheme and enrolling staff into it. Every three years employers must also assess staff and put those who opted out back into a pension, and our information shows again that the vast majority are continuing to do this successfully.

Our latest compliance and enforcement bulletin demonstrates the impact of the temporary flexibilities that we introduced

RATHER THAN PENALISING STRUGGLING EMPLOYERS, WE HAVE FOCUSED ON HELPING THEM TO COMPLY

to support employers during the pandemic. The overall use of our enforcement powers dropped by 55% in the quarter from April to June – the period employers most needed our support. We expected this.

While the use of our powers dropped, we will soon start returning to our normal levels of enforcement as planned, including in relation to missed pension contributions. This is in line with the government's evolving approach to supporting businesses, the changing situation and our risk-based approach.

Where there have been missed contributions, we will continue to work with pension providers to resolve outstanding issues with employers.

Ultimately, if there are any contributions that have been missed, we expect them to be properly paid over to pension schemes on behalf of workplace pension savers, and then invested as promised to help deliver the retirement outcomes people expect. We will take action where we find this is not happening.

Charles Counsell is CEO of The Pensions Regulator

LAST CHANCE TO REGISTER

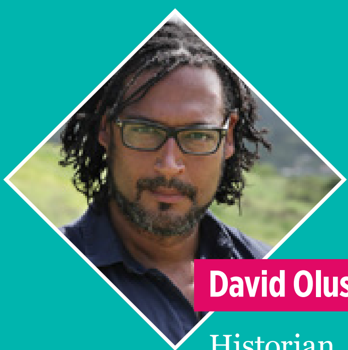
CONFIRMED SPEAKERS INCLUDE:

Martin Lewis

Executive Chair,
The Money Saving Expert

Janet Henry

Global Chief Economist,
HSBC



David Olusoga

Historian, Writer
and Broadcaster

Guy Opperman MP

Minister for Pensions
and Financial Inclusion

Margaret Snowdon OBE

President, Pensions Administration
Standards Association

Charles Counsell

Chief Executive,
The Pensions Regulator

Free for PLSA fund members
For more information and to register visit plsa.co.uk

PLSA CEO NETWORK: 2019 - 2020

Cheryl Wilkinson, Membership Engagement Manager, looks back over an eventful year-and-a-half – and gives some top tips for online trustee meetings

THE PLSA CEO NETWORK WAS LAUNCHED ON 9 APRIL 2019. THE AIM OF THE NETWORK WAS TO PROVIDE A CONFIDENTIAL SPACE FOR OUR LARGEST FUND MEMBERS TO DISCUSS ISSUES OF MOST CONCERN TO THEM WITH THEIR PEERS. THE NETWORK MEETS THREE OR FOUR TIMES A YEAR, NORMALLY IN SPRING, SUMMER AND AUTUMN WITH AN ADDITIONAL LARGER EVENT AT ANNUAL CONFERENCE.

These sessions are led by our Chair, Richard Butcher, with our senior policy leads in attendance to provide a summary and introduction to the discussion topics. Pre-COVID, these were in-person breakfast meetings in London, but due to government restrictions meetings have been held online since April this year.

While the impact of COVID has taken over the current political agenda, back in April 2019 Brexit was the main area of concern. At that time our message to government was the key issue of sponsor covenant and that it was vital to avoid economic disruption as this would weaken the ability of employers to support their pension schemes. We had recently surveyed our membership on this issue and the feedback had revealed the overwhelming view that a negotiated deal was much preferred to a 'hard Brexit'. In response to the survey findings we wrote to ministers with this message.

Following a discussion, the general view around the table was that Brexit was taking up a lot of time and focus but there was little else that schemes could actually do, and sponsoring companies had put plenty of their own preparations in place. Instead schemes were focused on practical and administrative issues and felt confident that pensions payments would not be impacted by Brexit.

While more recent CEO Network discussions have focused on more domestic issues, the PLSA team continues to monitor Brexit developments. Our view is still that a negotiated free trade deal would be preferable to moving to WTO terms at the end of the transition period.

At the following meeting in July as concerns around Brexit began to recede, discussions turned to potential changes to the DB funding regime and The Pensions Regulator (TPR). This was the first stage in the development of a new funding code, and our senior policy lead had been in communication with TPR about the likely contents.

Attendees held a range of views on TPR, but common themes included concern about TPR's relatively short-term focus in its DB funding work (the general view was that TPR tends to focus on just the next five years, rather than long-term funding plans), and the time that schemes have to spend on 'educating' TPR staff.

Moving on to the end of 2019, the impending General Election took centre stage at the November meeting.

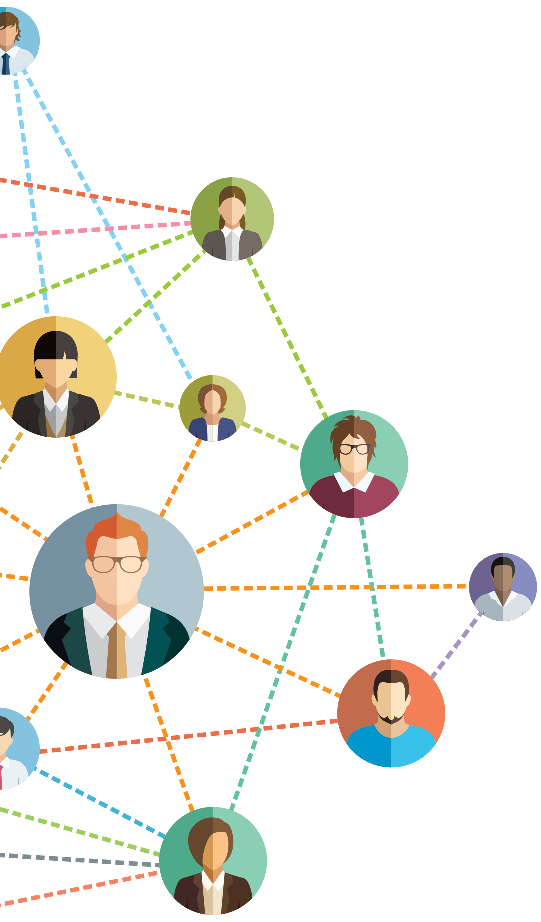
The PLSA had produced its own two-page manifesto, which covered our four policy priorities:

- *Adequate contributions* (e.g. 12% minimum AE contributions)
- *Effective engagement* (Retirement Living Standards, Dashboard)
- *Well-run schemes* (new TPR powers, new DB Funding Code)
- *Scale* (e.g. Superfunds, LA pooling).

This Network meeting was an ideal opportunity for us to get attendees to input on what they would like to see the next government adopt as its pension priorities, and to check whether the PLSA was conveying the right messages to the political parties.

Moving into the New Year the key themes have been DB funding, in particular the Funding Code and the new powers for TPR. The impact of COVID also featured heavily on the agenda for the first part of the year.

It was during one of these sessions on COVID in June that participants discussed strategies for managing online trustee meetings and came up with a best practice guide. Here are their top tips:



TOP TIPS FOR ONLINE TRUSTEE MEETINGS

ONLY MEET WHEN YOU NEED TO

1. While it may be easier to convene (remote) meetings at the moment, try to maintain discipline about what is needed. Trustees needing reassurance is not a reason for a meeting, and ideally shouldn't drive too much additional work.
2. Instead of a meeting, a regular brief email covering some updates (such as funding level, admin service update, upcoming projects etc) could be more effective in keeping trustees informed and highlighting risks early. Clear objectives and project plans make this much easier to do.

BE PREPARED

3. Test the tech before meetings to avoid frustration and spot possible issues early.
4. Suggest practice sessions to help those less used to the format with muting, positioning and setting their speakers at the right volume.
5. Have a nominated deputy to take over if the Chair has technical issues.

ESTABLISH THE GROUND RULES

6. Circulate your meeting protocol to attendees in advance, covering etiquette such as:
   - Using 'raise hand' (Teams) to prevent people talking over each other
   - Keeping microphones on mute most of the time
   - Keeping contributions succinct
   - to being "in the room" – not doing emails or other work.

KEEP IT SHORT...

7. Stick to a maximum of three hours, with a good break in the middle. If necessary, hold two meetings on successive days.

...AND PRODUCTIVE

8. Challenge yourself on what is included on the agenda: keep items for noting in an appendix or at the end of the agenda, leaving more time for the papers requiring a decision.
9. Ensure there is either a cover note pulling out the key discussion/ decision points or an effective executive summary for each paper (this helps to balance the discussion between the executive team, advisors and trustees).
10. Enforce the approach of taking papers as read, with a short introduction from presenters and no regurgitation of papers and slides.

CONSIDER PRE-RECORDING

11. For any complex or training issues try pre-recording presentations, with time at the end for questions. This has the advantage of allowing them to be watched at a later date and can form bite-sized training for future reference.

As the majority of schemes transitioned to working from home and adjusted to the current situation the discussions moved on to focus on other topics such as:

- Pensions Dashboard
- Cost Transparency Initiative (VFM)
- Decumulation
- RPI/CPIH
- Financial wellbeing

At the most recent Network meeting on 9 September, attendees addressed the Autumn Budget and the likelihood of tax changes. However, there was general agreement that with COVID still very much a factor the government had too much on its plate to attempt to tackle such a complex issue in the near future.

The majority of the September discussion concerned the proposed changes to the DB Funding Code and how these changes might impact on schemes and their relationship with the Regulator. In our summary introduction we stressed a number of points:

- While we support the principles of the Code we think more work is needed on the detail.
- There should be more options under the fast-track approach and a genuine bespoke approach (the current one is too tethered to fast-track).
- Schemes with strong covenants should be allowed some extra flexibility to carry some more investment risk.
- Assumptions for recovery plans may need re-considering given the impact of COVID on the economy.
- There should be greater recognition of the differences between (some) open and closed schemes, and there is a risk that the proposals may hasten closure of some schemes.

The other significant concern for attendees was some aspects of the Pension Schemes Bill. These concerns focussed on two key areas – the potential unintended consequences of TPR powers in Clause 107 as well as Clause 123, and the ability for open DB schemes to take a different investment approach to closed schemes. No-one disagreed with the general policy intent of the Bill to clamp down on rogue directors, but it was felt that the wording of the Clause was too loose and could potentially apply to all third parties, criminalising all kinds of ordinary business behaviour.

Back in September we were finalising letters to go to the Minister for Pensions on Clause 107 (one jointly with the Joint Industry Forum with specific alternative amendments, a second with the CBI outlining joint concerns).

The CEO Network will have one more meeting in 2020 in early December. We're looking forward to updating our members on the progress of our representations to the government on the above issues, as well as hearing our members' insights on the hot topics of the day.

Article

THE CHILDREN'S SOCIETY: A CASE STUDY IN THE BENEFITS OF PQM

Mark Smith, Senior PR Manager, PLSA

THE CHILDREN'S SOCIETY IS A CHARITY THAT WORKS WITH YOUNG PEOPLE WHEN THEY FACE A CRISIS, FEEL UNLOVED OR UNABLE TO COPE. ALONGSIDE PHYSICAL HARM, MANY MAY BE SUFFERING FROM MENTAL HEALTH ISSUES, FACING POVERTY OR LIVING IN FEAR FOR THEIR SAFETY. TACKLING COMPLEX PROBLEMS IN THE BELIEF THAT NO CHILD SHOULD FEEL ALONE, THE CHARITY WORKED WITH NEARLY 10,000 CHILDREN AND YOUNG PEOPLE LAST YEAR THROUGH A COMBINATION OF ACTIVE CASE WORK AND ADVICE, AND DELIVERED MORE THAN 621,000 POSITIVE IMPACTS THROUGH POLICY AND CAMPAIGNING WORK.

Around 40% of its staff work in frontline roles supporting children and young people, while another 30% work in the retail division, managing and operating the many charity shops on the nation's high streets. Roughly one in three staff work within the fundraising and corporate services teams.

PQM ACCREDITATION

The charity's workplace pension scheme is relatively small by national standards, with around £138 million of assets in a defined benefit (DB) fund and £3 million in defined contribution (DC) arrangements.

The Children's Society DC pension scheme has been a holder of the PLSA's Pension Quality Mark (PQM) since January 2014.

Gareth Hopkins, Director of GJH Pensions, a specialist consultancy that supports The Children's Society, says employers have a responsibility to ensure their workforce understand the importance of saving for later life – because for most of the population, their workplace pension provision is the only place they actively save for their retirement.

But there are also a number of other benefits to being a PQM holder. Chief among them is so staff can feel reassured that their retirement savings are being managed to the highest standards.

"Employers invest considerable resource, both financial and human, to offer fit-for-purpose workplace pension provision," says Hopkins. "Therefore, it seems logical for organisations to promote their pension offering so that employees recognise the value of, arguably, the most important employee benefit."

The Children's Society recognises the importance of its employees saving for later life by going above and beyond the legislative minimum contribution requirements. The PQM logo, which The Children's Society displays on communications with staff about their pensions, is a sign of this commitment and enables The Children's Society to showcase the quality of its pension provision through formal accreditation.

"For those not familiar with pension provision, the PQM logo offers visual comfort that The Children's Society is committed to supporting employees to save for later life," says Hopkins. "It demonstrates employee recognition, which can have a positive impact on staff morale. A good quality workplace pension arrangement, with PQM accreditation, is a useful tool to help retain and attract employees."

Historically employers have afforded disproportionate resources to their DB pension arrangements but Hopkins says the PQM offering is about so much more than a simple stamp of approval: "We recognise that there are significant financial considerations with DB pension schemes, with large deficits to fund. Our experience is that employers with both DB and DC arrangements often lose sight of their DC offering.

"Employers seeking to improve the quality of their DC provision could refer to PQM literature for guidance. The standards required to meet PQM accreditation serve as a useful tool for employers to understand 'what good looks like'; even if they do not intend to apply in the first instance."

APPLYING FOR PQM RECOGNITION

Hopkins says the PQM application process was very straightforward and the assessment panel quite pragmatic when reviewing the criteria required to award the accreditation.

"The PQM team were very encouraging and flexible during the application process. For example, The Children's Society was able to demonstrate that some criteria would be discussed at future governance meetings – the assessment panel looked favourably on the positive attitude to continually improve and subsequently awarded the PQM."

Find out more about the PQM application process at **www.pensionqualitymark.org.uk.**

GJH Pensions is an independent pensions consultancy offering experienced cross-sector business support. Their focus is on offering advice that is both practical and affordable during a time of increased need for corporate pensions support.

More information, including client testimonials, can be found at www.GJHpensions.com

You can also follow them on Twitter @ ***GJHpensions****.*

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TIME FOR A TECHNOLOGY REVOLUTION?

Big changes are coming as tech starts to penetrate the pensions world. ***Maggie Williams*** reports

OVER THE LAST 10 YEARS, WE'VE SEEN TECHNOLOGY CHANGE EVERYDAY LIFE – FROM THE WAY THAT WE SHOP AND BANK, THROUGH TO THE WAY THAT WE CONSUME BOX SETS OR MAKE NEW FRIENDS.

But until recently, pensions have remained resolutely tech-averse: a world of paper-based annual statements and disparate data silos.

As a consumer-facing, data-heavy industry, pensions is ripe for a technology revolution. There is the potential to reshape the whole experience, from member engagement to trustee governance.

"To date, the focus has been elsewhere in financial services," concedes George Currie, policy lead: lifetime savings at the PLSA. "We've seen significant regulatory changes in banking, for example, but that level of attention has only recently started to shift towards pensions."

Adam Jones, chief technology officer at Redington, agrees that the pensions industry has lagged behind, in terms of data, availability of suitable technology and mindset. "For many schemes and firms, there is a shift in thinking required to move to a technology-first model." He adds: "We found when we were looking around the market for technology tools to solve some of the challenges schemes face, there is a real lack of solutions which combine deep pensions domain knowledge with leading-edge technology solutions."

However there are also trailblazers within pensions who are finding new ways of engaging with members, streamlining scheme governance and shaking up operational processes using technology.

"It's a varied picture. Some players are really well advanced and it's not fair to say that pensions as a whole has fallen behind other areas of financial services," says Currie. He gives the example of video benefit statements as one way that the industry is responding. "These are much more interactive than traditional paper statements, and an interesting way to help engage people. But often the way schemes use technology is a result of the scale of resources that they can deploy."

Darren Philp, director of policy and communications at Smart Pensions, argues that pensions dashboards – based on a host of technology initiatives such as common data standards, online access to pensions information and user-centred design – will make pensions more tangible for members. "Dashboards help bring people's finances into the 21st century. We all expect to have access to information all the time, and yet we know how hard it is to get details about pensions."

Pensions-only dashboards could just be the start, says Philp. A longer-term aim might be to enable consumers to see all of their finances – including pensions – in a single place. Wider industry initiatives such as Open Banking, which enables developers to build innovative apps and interfaces around banking data, are already starting to make this a reality.

However, cautions Philp, consumer technology requires more than simply pulling figures together in a single place: "It's about making things as simple and as easy as possible. How consumers respond is not a given – you have to spend hours on insight and user testing to make sure the nudges and communications you use have the desired effect."

◆◆FOR MANY SCHEMES AND FIRMS, THERE IS A SHIFT IN THINKING REQUIRED TO MOVE TO A TECHNOLOGY-FIRST MODEL◆◆

THE PLSA'S FIRST TECH CONFERENCE WILL BE RUNNING ONLINE ON 25-26 NOVEMBER 2020. VISIT WWW.PLSA.CO.UK/EVENTS TO REGISTER OR FIND OUT MORE.

THE COVID-19 EFFECT

There are also plenty of opportunities for schemes to improve governance through digital means. Jones says that Covid-19 has forced a shift in the way that trustee boards and their providers work. "We are seeing schemes readily adopt remote working as a result of Covid-19, and this has led to a change in the way they are approaching key aspects of scheme management and governance."

For most trustee boards, that's meant replacing traditional quarterly face-to-face meetings with shorter, more frequent video conferences. Jones adds that this is part of a wider trend: "We are seeing a move away from static quarterly reporting towards real-time data and analytics. This is helping schemes make better, more timely decisions."

Covid-19 has also meant that scheme administrators and others have had to re-think how they operate. That, says Jones, has not only proved how technology can support staff working collaboratively from multiple locations, but "also opens opportunities to review and revisit operating models and talent plans."

Members' behaviour has changed too as a result of lockdown. "We've seen more members registering for online access and to use platforms," says Currie. "This could help to develop engagement and understanding over time as members interact more frequently with their pension."

He adds that, as members become comfortable with accessing pensions information digitally, there will be greater opportunities to engage with them. "We are seeing more innovative apps that, for example, help people to see where their pension is invested. Members are increasingly aware of the impact of their actions on the environment and climate. I think being able to see where they are invested can help to facilitate engagement with their pension savings and pensions journey."

There is unlimited potential for technology to revolutionise pensions. Increased regulatory focus, new innovations from providers and greater willingness from members, trustees and the wider industry to embrace its potential could soon change the way we view retirement saving forever.

WE ALL EXPECT TO HAVE ACCESS TO INFORMATION ALL THE TIME, AND YET WE KNOW HOW HARD IT IS TO GET DETAILS ABOUT PENSIONS

10 ways technology is changing pensions

Rethinking trustee meetings – Covid-19 has forced many trustee boards to change they way they operate, replacing quarterly day-long meetings with shorter, more focused video conferencing calls. Digital document management has replaced paper board-packs, and both schemes and providers have had to review whether a 'wet signature' is always necessary as a result of lockdown.

Make pensions meaningful – Pensions dashboards have a great part to play in helping people see all of their savings in one place. And that could evolve further, showing pensions information alongside other financial data, using standards such as Open Banking.

Help savers plan for retirement – Modelling tools can help members better understand how much they need to save for a minimum, moderate or comfortable level of savings. The PLSA's Retirement Living Standards are used as the basis for some modelling tools.

Communicate with members in new ways – From video statements to virtual reality, technology offers far more varied ways of getting messages to members in a format that resonates with them.

Solve the small pots problem – Inactive pension pots are becoming a major headache for master trusts in particular, so much so that Pensions Minister Guy Opperman launched a new Working Group in September to address the problem. Technology and consistent data standards can help members consolidate small, disparate pots together, or transfer them between providers.

Support defined benefit investment strategies – Institutional investment platforms have the potential to make managing investment strategies more straightforward for DB scheme trustees.

Keep members' pensions safe – Savings scams, and the risk of cyber attacks on schemes themselves, have become a part of day-to-day life for the pensions industry. Making sure that schemes' data is kept safe and that members are protected from scams requires a combination of risk management, good technology and effective communications.

Help schemes stay compliant – 'Regtech' – technology that helps pension trustees (and others in financial services) automate compliance procedures – is a growing area.

Nudge members in the right direction – From apps to avatars, there are many innovative ways that technology can be used to provide 'nudges' to savers and encourage them to build up their pension savings over the long term.

Offer education, guidance and advice – Digital access to financial education, guidance and even financial advice could help scheme members to make more informed decisions about retirement.

A FULL SPECTRUM OF TALENT

Jayne Styles argues that now is the perfect time to build back better on inclusion and diversity.

IN THE PRE-LOCKDOWN WORLD, THE PENSIONS REGULATOR ISSUED ITS *FUTURE OF TRUSTEESHIP AND GOVERNANCE*[i] REPORT. IT ALSO ESTABLISHED AND NOW LEADS AN INDUSTRY WORKING GROUP TO FIND WAYS OF SUPPORTING SCHEMES TO TAKE STEPS TO IMPROVE BOTH DIVERSITY AND INCLUSIVITY ON TRUSTEE BOARDS, ADDING THAT THERE IS "ALSO SCOPE FOR US TO LOOK AT THE STEPS TRUSTEES ARE TAKING TO IMPROVE DIVERSITY THROUGH OUR SUPERVISION AND ENFORCEMENT ACTIVITY".

The PLSA also published its *Diversity & Inclusion Made Simple Guide*[ii] in collaboration with Travers Smith, which laid out compelling evidence that inclusion and diversity (I&D) makes good business sense. All those viewpoints apply equally today, but the opportunity and necessity to make great strides to improve I&D have been amplified by the coronavirus.

As I explain in the Diversity Project's recent *Build Back Better*[iii] report, 'this pandemic has forced a change momentum upon us; now is the opportunity to accelerate positive change. With such an uncertain outlook, it is more important than ever to embrace inclusivity and diversity to enable business resilience and building back better. This is true for any industry, but the focus on ESG investing makes it vital for our industry's credibility and legitimacy.'

Resilience across pension scheme/savings value chains has always been a priority for pension trustees, but never more so than in the uncertain and nuanced world of COVID-19. As we start to recover from this crisis, inclusive and diverse organisations, that can harness a full spectrum of talent to create different perspectives, will emerge more innovative and resilient than those that cannot. So, as part of its Build Back Better campaign, the Diversity Project has encouraged its members and other companies in the investment and savings industry to recognise that I&D is a strategic imperative that can be 'an enabler of business performance and organisational health and contribute to the wider effort to revive economies and safeguard social cohesion[iv].'

TIME FOR ACTION

For a long time, participants in the investment and savings industry have directly or indirectly challenged the companies they invest in to improve their diversity because of the business benefits it brings. However, they have so far been unsuccessful in getting their own houses in order, thus muffling the impact of their voice and diminishing their authenticity to influence others to change.

To recap, a diverse group is heterogeneous with many facets: these may be the 'protected characteristics' of the Equality Act 2010, such as age, gender and race, or socioeconomic, neurodiversity, education and work experience. Some aspects of diversity are immediately apparent, and others are not.

Diversity without inclusion can lead to exclusion, segregation and/or integration and is not enough to access that full spectrum of talent which creates different perspectives. An inclusive culture is a 'speak up' culture, in which there is a sense of belonging; where people feel valued and can be their true selves at work. An inclusive leader is compassionate, kind, and curious about their staff. As the PLSA wrote, 'embracing I&D is not: tokenism; compromising on performance; positive discrimination; charity; or box-ticking'.

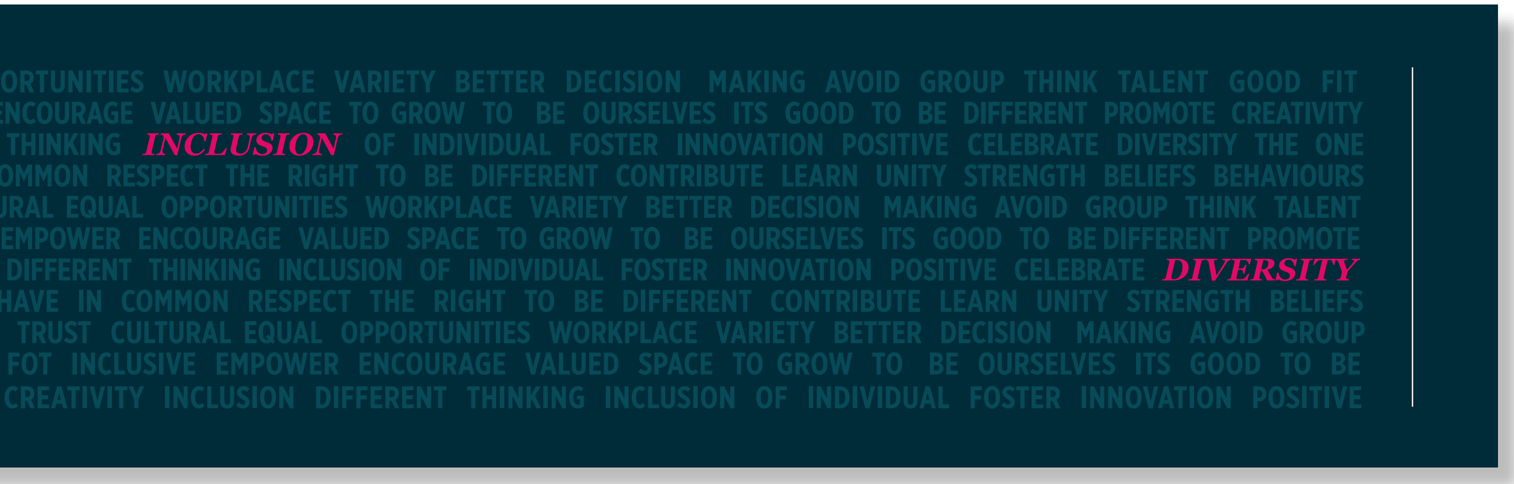
In their 2019 report *Take Action, Gain Traction: Inclusion and Diversity in the UK Workplace*, Bain & Co identified these five key actions to improve I&D:

1. **Focus on facts** – mine data to diagnose key issues and build the case for change.
2. **Lead and cascade** – first engage leadership, then cascade through line managers; celebrate desired behaviours, and track results.
3. **Communicate intentionally and inclusively** – link back to your corporate mission, make it inclusive and fill the void with facts.
4. **Prioritise caregiver support, flexible working and sponsorship** – focus on the three initiatives that matter most to all groups.
5. **Mitigate bias systematically** – bias exists; you cannot train it away, but you can drive behavioural change through structural interventions.

Understandably the focus of the Regulator and the PLSA is I&D within trustee boards. However, pension trustees are both participants in and clients of the investment and savings industry, so they are uniquely placed to both deliver positive I&D changes and influence others in the industry to do the same. As asset owners, trustees can play a vital role in improving I&D across the whole investment and savings industry value chain, by insisting that their third-party asset managers and other service providers have targets for improving their I&D and requiring them to regularly report on their progress.

Where it is felt that insufficient progress is being made, consideration needs to be given to selecting alternative providers who are making more headway.

FOR A LONG TIME, PARTICIPANTS IN THE INVESTMENT AND SAVINGS INDUSTRY HAVE DIRECTLY OR INDIRECTLY CHALLENGED THE COMPANIES THEY INVEST IN TO IMPROVE THEIR DIVERSITY BECAUSE OF THE BUSINESS BENEFITS IT BRINGS



TRUSTEES CAN PLAY A VITAL ROLE IN IMPROVING I&D ACROSS THE WHOLE INVESTMENT AND SAVINGS INDUSTRY VALUE CHAIN

QUESTIONS TO ASK

So how can trustees go about this? Below are some high-level questions that the Diversity Project suggests could be included in requests for proposals (RFPs) and service provider reviews.

TONE FROM THE TOP

1. How is I&D specifically aligned with your corporate mission, values and strategy?
2. Who sponsors I&D within your company? How involved are the board and executive committee?
3. What key I&D issues and blockers have you identified? What is your action plan to remove these? Is this a regular item for the Executive Committee and Board?

DATA AND TARGETS

4. What I&D statistics do you collect and how is this information used?
5. What data-driven, measurable I&D targets have you put in place?
6. What is your latest gender pay gap, the trend and your action plan to close the gap?
7. Are equal pay assessments carried out for a wide range of diverse characteristics? What do you do with the information?
8. How do you gather feedback from your employees on the extent to which they feel they are included? What do you do with the information?

PERFORMANCE MEASUREMENT

9. How is I&D incorporated into individuals' objectives? How is performance measured and linked to compensation for:

   Leaders?
   Managers?

INITIATIVES

10. How is I&D integrated into your people strategy, including recruitment, retention, promotion, project or work allocation, succession planning, training, etc? To what extent are these approaches evidence-based and measurable?
11. What is your internal I&D brand and how well is it funded?
12. What I&D-specific programmes or initiatives do you have?
13. What is your flexible working policy? How normalised is flexible working (that is the extent to which it is taken up by men and women across all levels of seniority)?
14. What mentoring and/or sponsorship programmes do you have, if any?
15. What are your parental and carer support and leave policies? To what extent are these being taken up by men and by women across all levels of seniority?
16. Do you have employee networks for different dimensions of diversity, and how are they supported?

TRAINING

17. What inclusive leadership training do your leaders and managers receive?
18. Please give examples of positive reinforcement that nudge people into feeling the need to be inclusive?

COMPLAINTS

19. Have there been any reported discrimination or harassment cases? What are the reporting lines for such cases?
20. Have you asked the employees to sign discrimination or harassment related NDAs?

CHARTERS

21. Which of the following have you signed up for:

    Armed Forces Covenant?
    Disability Confident?
    LGBT Charter of Rights?
    Race at Work Charter?
    Social Mobility Pledge?
    Women in Finance Charter?

22. Which other diversity-related initiatives, such as the Diversity Project and LGBT Great, are you part of?
23. What are you doing differently as a result of signing and/or joining the above?

OTHER

24. How is positive I&D behaviour celebrated?
25. What I&D role models do you have and how are these publicised internally?
26. What I&D success stories would you like to highlight?
27. What else would you like to say to give us a better picture of I&D within your company?

i Pensions Regulator, 'Future of trusteeship and governance' https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/future-trusteeship-governance-consultation-response-february-2020.ashx

ii Pensions and Lifetime Savings Association, 'Diversity & Inclusion Made Simple' https://diversityproject.com/sites/default/files/resources/PLSA-Diversity-and-Inclusion-Made-Simple.pdf

iii Diversity Project, Build Back Better https://diversityproject.com/sites/default/files/resources/Build%20Back%20Better%20Diversity%20Project.pdf

iv McKinsey, Diversity Still Matters http://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-still-matters

v Bain & Co, 'Take Action, Gain Traction: Inclusion and Diversity in the UK Workplace' https://www.bain.com/insights/take-action-gain-traction-inclusion-and-diversity-in-the-uk-workplace/

THOMSON REUTERS
PRACTICAL LAW™

LEGAL UPDATE

PENSIONS LAW: RECENT AND CONTINUING CASES ROUND-UP

Loreto Miranda Thomson Reuters' Practical Law Pensions service

AFTER A FULL WITNESS HEARING IN *UNIVAR UK LTD V SMITH*[1], THE COURT GRANTED RECTIFICATION[2] OF PAYMENT INCREASE RULES FOR A FINAL SALARY SCHEME.

This deleted "hard-wired" RPI provisions introduced during a consolidation exercise and enabled the scheme to apply CPI instead. Applying rectification principles in a pension scheme context, the court accepted the parties had not intended the amended rules to have the legal effect they did; the absence of the disputed change from the schedule of agreed amendments was key evidence.

In ***Safeway Ltd v Newton***[3], the Court of Appeal concluded this long-running retirement age equalisation case, clarifying when UK domestic law closed the so-called "Barber window". This was on narrowly applicable facts, but the 1990 Barber ECJ decision continues to draw schemes into litigation. A further equalisation judgment is due concerning the ***Lloyds Banking group*** pension schemes, after the court confirmed in 2018 that schemes must equalise benefits for the effect of unequal guaranteed minimum pensions[4].

In ***Revenue and Customs Commissioners v Parry***[5], the Supreme Court held that a transfer from a section 32 buyout policy to a personal pension plan was not a transfer of value for inheritance tax (IHT) purposes. This analysed IHT Act 1984 provisions regarding an omission to exercise a right and dispositions not intended to confer a gratuitous benefit.

The PPF announced in August it was applying for permission to appeal, alongside the DWP, against the High Court's June 2020 decision in ***Hughes v Board of the Pension Protection Fund***[6]. This held that the PPF compensation cap constituted unlawful age discrimination contrary to EU law. At the time of writing, we await news on whether the appeal will proceed.

Another pending appeal concerns the June 2020 judgment in ***Financial Conduct Authority v Avacade Ltd***[7]. The High Court held that companies providing pension services without FCA authorisation or exemption were in breach of the regulatory perimeter under the Financial Services and Markets Act 2000. The introducers are seeking permission to appeal. In the meantime, the court has granted interim restitution orders and injunctions.

Further developments may arise from the ECJ's judgment in ***Schrems***[8] on data protection, which ruled that the EU-US privacy shield was invalid. Pension trustees may be assessing whether their data processing arrangements are affected, after the ICO later confirmed this decision also affected other safeguarding measures for transferring personal data to third countries.

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

1. *[2020] EWHC 1596 (Ch)*
2. *Rectification is an equitable court remedy which may amend a written instrument retrospectively to reflect what the parties intended.*
3. *[2020] EWCA Civ 869*
4. *Lloyds Banking Group Pensions Trustees Limited v Lloyds Bank PLC and others [2018] EWHC 2839 (Ch)*
5. *[2020] UKSC 35*
6. *[2020] EWHC 1598 (Admin)*
7. *[2020] EWHC 1673 (Ch)*
8. *Data Protection Commissioner v Facebook Ireland and Maximillian Schrems (Case C-311/18) EU:C:2020:559*

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

KEY MEMBER BENEFIT: POLICYWATCH

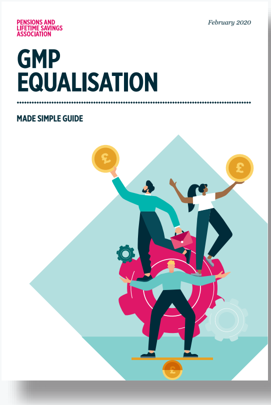
PolicyWatch is an e-bulletin of the latest pensions news, political and regulatory development.

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.

openPLSA@plsa.co.uk

MADE SIMPLE GUIDES 2020



THE PLSA GIVES MEMBERS THE PRACTICAL KNOWLEDGE AND SUPPORT YOU NEED TO EXCEL IN YOUR ROLE. DEVELOP YOUR UNDERSTANDING OF KEY PENSIONS AND INVESTMENT TRENDS WITHOUT THE SALES PITCH WITH OUR IMPARTIAL, JARGON-FREE MADE SIMPLE GUIDES. THEY INCLUDE CHECKLISTS, PRACTICAL EXAMPLES AND QUESTIONS TO ASK WHEN APPROACHING EACH AREA.

CLIMATE INDEXES MADE SIMPLE

Climate change is becoming one of the most important long-term investment risk factors, meaning trustees have an increasing need to measure and manage climate risk and to build climate-resilient investment portfolios. This guide, sponsored by MSCI, will help you understand how climate change indexes work and how they can help mitigate risk and promote good stewardship.

GMP EQUALISATION MADE SIMPLE

GMP equalisation is a complex and long-term project with significant implications for many defined benefit schemes. This guide, sponsored by Equiniti, covers the history, the methods and the roadmap for the future to help trustees prepare for and begin their GMP equalisation project.

DIVERSITY & INCLUSION MADE SIMPLE

There is robust and extensive evidence showing that teams which are more diverse and inclusive make better decisions and achieve better financial outcomes. This guide, sponsored by Travers Smith and a first for the pensions industry, introduces the concepts and good practice associated with diversity and inclusion, including practical steps to help promote greater inclusivity.

GOLD INVESTMENT MADE SIMPLE

This guide aims to help pension fund investors understand the role gold could play in pension scheme investment portfolios, looking at diversification, returns and liquidity, as well as covering the ESG and climate risk perspective.

COMING SOON: INTEGRATED RISK MANAGEMENT

An overview of the risk management tool introduced by The Pensions Regulator in 2014, covering how trustees, sponsors and advisers can work together to address the interrelationships between covenant, investment and funding risk.

LESS TRAVELLING, MORE TALKING

Head of Membership Engagement ***James Walsh*** finds schemes – and his own team – adapting remarkably well in the circumstances…

I USUALLY START THESE ARTICLES ABOUT WHAT WE HAVE BEEN HEARING FROM OUR MEMBERS BY SAYING THE PLSA TEAM HAS BEEN BUSILY CRISS-CROSSING THE COUNTRY TO MEET SCHEME MANAGERS AT THEIR PLACE OF WORK AND GET A FIRST-HAND 'FEEL' FOR THE CHALLENGES THEY'RE FACING.

This time it's different. There hasn't been any criss-crossing at all since Lockdown started. We've swapped the train for Teams and the motorway for Zoom and – perhaps slightly to our surprise – it's worked out pretty well.

In fact, by the end of July we had totted up more than a hundred member 'meetings' since the start of the year – comfortably more than across the whole of 2019. More importantly, we've had some very insightful conversations with our members. And 'we', by the way, is the Membership Engagement team of Cheryl Wilkinson, Helen Lamb and I, plus our CEO Julian Mund. We share this work between the four of us and share our findings with all our PLSA colleagues.

The headline from these conversations is that schemes have adapted remarkably well to the new environment. Most of our members tell us working from home has gone pretty smoothly, administrators have adjusted well and pensions are being paid on time. Some even report shorter and snappier trustee board meetings, with better delegation to committees.

TWO COVID 'BUTS'

This positive narrative comes with two big 'buts'. The first is that the prospect of interest rates staying lower for longer means even more upwards pressure on DB liabilities and funding requirements.

The second 'but' is that a number of our members – I would call it a significant minority – have given us pretty eyewatering accounts of the difficulties faced by their sponsoring employers. It's no great surprise that the starkest examples come from the aviation, energy and transport sectors. Whatever kind of economic recovery we get, these schemes face a major impact on sponsor covenant.

ENGAGEMENT WITH FUND MEMBERS – Q2 2020

THE USUAL SUSPECTS

Covid-19 aside, the topics cropping up most frequently in our conversations are largely unchanged, with DB funding, ESG and a mix of GMP and data challenges topping the list.

Even in this age of DC provision, DB funding and administration remain central tasks for many PLSA members.

ESG almost matched DB as the top issue in our most recent meetings. Many schemes are introducing ESG investment options, and the increasing reporting requirements surrounding ESG are high on the agenda. It was pleasing to hear positive comments about the PLSA's resources for members, such as our *Stewardship* and *Voting Guidelines* and our *Practical Guide to Trustee Duties* on ESG and Stewardship.

MCCLOUD SET TO DOMINATE

More than 40% of our member meetings in the second quarter of the year were with local authority funds – a key section of our membership. They raised many of the issues that I've already mentioned, but one stood out above all the others – the McCloud judgment and correcting the age discrimination that it identified. Just assembling the historic employment data needed is a tough ask. One head of a local authority fund expects it to dominate his to-do list for the next two years – a sobering thought.

WEBINARS WELCOMED

Members were mostly very positive about how the PLSA has adapted its services during the pandemic – especially our webinars. These are a classic example of something that had been 'on the agenda' for months as we looked to connect with more members, regardless of their location. Now we've had to just get on and do it. The full 'back catalogue' is on our website for you to watch at your leisure; it's a great resource for CPD and training.

LET'S TALK

It looks like our membership engagement work will be Teams- and Zoom-based for some while to come, but less time on travelling means more time for talking, so that's not all bad. If you'd like to set up a call with me or my colleagues then please contact me on **james.walsh@plsa.co.uk**. We're always pleased to hear from our members.

MEMBERS WERE MOSTLY VERY POSITIVE ABOUT HOW THE PLSA HAS ADAPTED ITS SERVICES DURING THE PANDEMIC