# Viewpoint

# LONG ROAD AHEAD:
## RESHAPING PENSIONS GOVERNANCE, MEMBER TRUST AND INVESTMENT STRATEGIES AFTER COVID-19

*The official journal of the Pensions and Lifetime Savings Association*

*Issue 2 2020*

**LA LIVE: HIGHLIGHTS FROM OUR VIRTUAL CONFERENCE**

**HOW SCHEMES ARE COPING IN THE PANDEMIC**

**UNLOCKING THE POTENTIAL OF NEURODIVERSITY**

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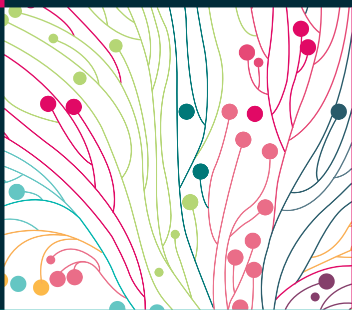

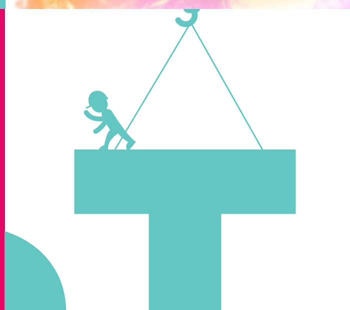


## PENSIONS AND LIFETIME SAVINGS ASSOCIATION

**PLSA Team:**

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

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

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

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

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

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24 Chiswell Street London EC1Y 4TY

# CEO'S *Viewpoint*

Coronavirus notwithstanding, the PLSA remains as busy as ever. ***Julian Mund*** brings us up to date…

## FIRST, I HOPE ALL OF YOU AND YOUR FAMILIES ARE WELL AND MANAGING IN THE CURRENT SITUATION.

I'm writing this just after sending my weekly Friday email to PLSA staff to keep them informed about what I've been doing this week, what's been going on in our Events, Policy & Research, Corporate Services and new Membership Relations & Communications directorates, and how the PLSA senior management team and I continue to plan for the next few months.

Since the coronavirus situation escalated in mid-March just after our Investment Conference, we've focused on delivering value to you our members, working well together so we can do it, and of course on looking after the wellbeing of our team.

## POLICY PRIORITIES IN 2020

As you'll have seen from your fortnightly *Policy Watch*, there has been a huge amount of Covid-19-related engagement for us to undertake on PLSA members' behalf across DWP, HM Treasury, the Pensions Regulator, the Financial Conduct Authority, the Local Government Pension Scheme Advisory Board, the Pension Protection Fund, the Local Government Association, the Ministry of Housing, Communities and Local Government and HM Revenue and Customs. It has been based on what members have told us is most important, through two member surveys in April which, in addition to our committees and direct member engagement – including with our CEO Network – have helped us to understand and prioritise the most pressing issues.

We've been communicating to government and regulators all of the difficult issues you've been facing and the support you need on a range of issues from reporting flexibility to levy increases.

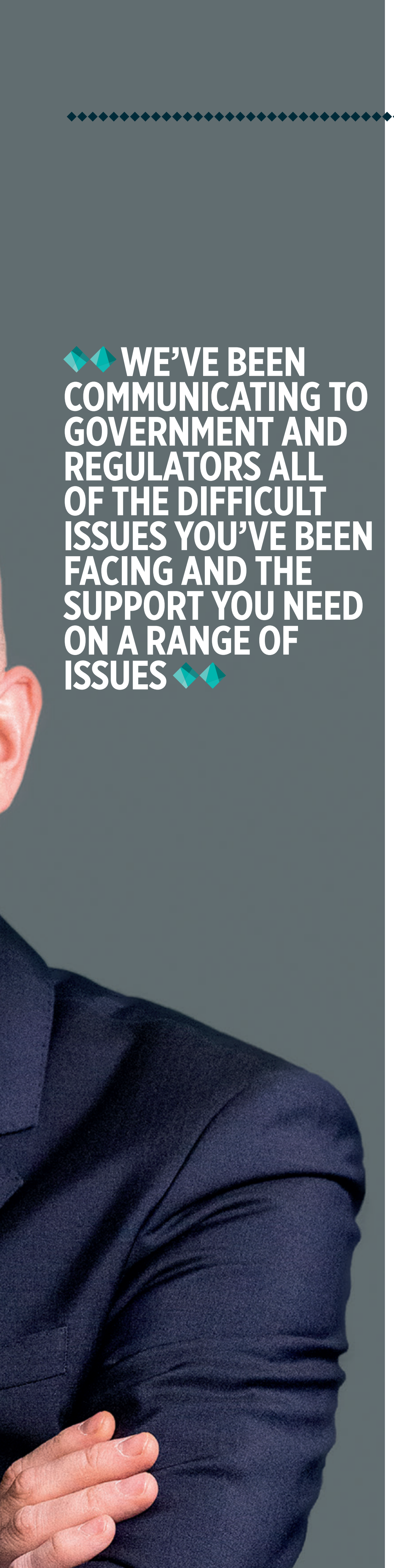
Those bodies have had to make the response to the virus their main policy priority, just as you have, just as the PLSA and the Policy Board have.

Identifying the opportunities and challenges offered by Covid-19 itself in relation to our policy priorities is, of course, a key part of our work for you.

There's a challenge to make sure we don't lose progress of the past. We've been defending the progress made to date on pensions policy – for example, arguing against a pause for automatic enrolment, and if there is one, trying to mitigate the impact – so that this hopefully short-term upheaval doesn't undo the great work our industry has done over the last decade.

There are the numerous operational challenges of the present, in member communications, governance, administration and investment, which we've covered in our expanding series of PLSA member webinars during March and April, and in the tips available on our Covid-19 Resources page – you can read more about this in this edition. We're pleased to see, through two member surveys also in March and April that, organisationally, you're dealing with these issues well.

**IDENTIFYING THE OPPORTUNITIES AND CHALLENGES OFFERED BY COVID-19 ITSELF IN RELATION TO OUR POLICY PRIORITIES IS, OF COURSE, A KEY PART OF OUR WORK FOR YOU**



**WE'VE BEEN COMMUNICATING TO GOVERNMENT AND REGULATORS ALL OF THE DIFFICULT ISSUES YOU'VE BEEN FACING AND THE SUPPORT YOU NEED ON A RANGE OF ISSUES**

There are also the challenges that will shape the retirement options of now and the future in supporting people with signposting and standard products. Those have been longstanding aims of ours, and we're adapting our pursuit of them in the context of the new reality for retirement: financial wellbeing and resilience are key.

So the PLSA and the Policy Board are identifying opportunities to support the emerging UK strategy on financial wellbeing in a way that results in policies that are complementary to helping everyone have a better income in retirement. We want to see what role pensions (or employers) can play in providing lifetime or rainy day savings mechanisms alongside pensions, through side-car initiatives, and in broader approaches used by employers to help individuals be more financially capable.

Meanwhile, other policy priorities continue. Climate risk remains a massive challenge for institutional investors, and our Investing for Good campaign is about how to support pension funds to play their part in reducing climate change. We've put out a call for evidence and we're holding a series of virtual roundtables with members – there are more details on our website. And look out for our new Made Simple Guide on Climate Risk Indexes.

We're also responding to calls from government for pension funds to play a greater role in helping grow the UK economy – which could become stronger than ever when the health risks of coronavirus are lower and it's ready to get fully moving again. And of course there are numerous ongoing or forthcoming policy initiatives such as the move from RPI to CPIH, the review of the DC charge cap and the DB Funding Code. Although we may now have more time to deal with some policy developments, they haven't stopped moving.

## PLSA EVENTS

So our policy work continues as normal, albeit by video and with a shift in priorities. We're also meeting with many of you one-to-one in the same way, and there's a report on key member issues in the pages of this magazine. But what about our events?

Last time *Viewpoint* came out we were in Edinburgh for our Investment Conference. We were lucky to be in a position to go ahead with the conference shortly before lockdown began, and it was a fantastic event with a great atmosphere, despite some delegates understandably being unable to attend through individual choice or company policy.

In the middle of May we decided that the PLSA's office on Chiswell Street in London, which we closed a week after Investment Conference, would stay closed until at least 1 September. We're not going back until we're confident it's much safer than now, and I want us to be able to work on the big issues without PLSA staff worrying about transport and the office environment – neither of which we expect to be particularly straightforward or pleasant with social distancing rules in place.

One of those big issues is events, and our conferences are going to be significantly affected by those physical conditions too. March in Edinburgh was a very different world to the one we're in now, and we're closely watching what other associations and organisations are doing with online and virtual events as we make plans for the rest of the year.

We'll announce our event plans for the remainder of 2020 and 2021 in early July. We know we can bring you the usual fantastic speakers and programme content, and networking and peer-to-peer knowledge sharing, whatever the circumstances. We're welcoming the challenge to deliver differently for our members in an area where we rank among the very best in any industry.

In the meantime I hope that you enjoy this issue of *Viewpoint*, stay healthy over the summer, and perhaps we can see you virtually or in person towards the end of the year.

Best regards,

**Julian**

# MEET THE MEMBER: DAVID CARR

***David Carr,*** Group Pensions Manager at Severn Trent Water, speaks to ***Maggie Williams*** about his role, his scheme, and what he'd like to change about pensions

## Q
### WHAT'S YOUR ROLE IN PENSIONS, AND HOW DID YOU GET INTO THE INDUSTRY?

## A

As Group Pensions Manager at Severn Trent Water, I'm responsible for everything to do with pensions in the company.

In keeping with most large companies we've got a variety of pension schemes, both defined benefit (DB) and defined contribution (DC), so employees across the company have a mix of different benefits. We closed our DB scheme to future accrual in 2015, and that same year we moved all employees to a Group Personal Pension plan.

I've been with Severn Trent over 20 years. I'm an accountant by trade and first started work in the finance department. One day a colleague asked me whether I'd ever thought about going into pensions (does anyone think that without being prompted?!). My predecessor as pensions manager was looking to retire and wanted to find his replacement before he left – it's all worked out from there.

A big part of my role is navigating the space between the trustees and the company – although I'm employed by the company, I'm also an agent of the trustees and need to make sure that everything runs smoothly for them.

Supporting both entities generally functions well. However, sometimes, like at triennial valuation time, you have to be able to work with, and listen carefully to, both sides.

Variety is one of the best things about my work. The financial aspects of the job are very familiar, given my background. Then there's the legal elements, and also the breadth of people that I get to work with. I speak to the CEO and the Financial Director of the company as well as spending time with employees at all levels across the business, discussing their circumstances and the pension scheme.

## Q
### WHAT'S KEEPING YOU AWAKE AT NIGHT PENSIONS-WISE?

## A

I would put engagement at the top of our list of challenges. I give presentations across the company, which are very well received as people enjoy face-to-face communications. I'll go 'on location' for a day to a site in our region, give presentations and host a pensions surgery, so I can meet people and talk about the scheme.

For the most part, the employees who come to see me are close to retirement, so pensions are front of mind. The engagement challenge is with other parts of the workforce, particularly younger people. We need to do more to engage employees who are not yet switched on to retirement saving and understanding what a valuable benefit their pension is. After all, this could be one of the biggest assets that they own by the time they retire, but they're not aware of it.

Another big challenge for us is the Guaranteed Minimum Pension equalisation. This is one of the most difficult issues I've had to deal with in all the time I've been involved with pensions. At a member level there will be relatively little additional benefit, and it's costing the scheme an enormous amount of time and money in adviser and legal fees. It's a challenge and a frustration.

## Q
### IF YOU COULD INFLUENCE ONE PIECE OF PENSIONS LEGISLATION, WHAT WOULD IT BE?

## A

If I can only choose one, it would be a full review of the tax system associated with pensions. We talk about this a lot, and the PLSA has been active in raising issues with government and the minister. The lifetime allowance (LTA), annual allowance (AA), and tax relief all need to be pulled together in a structured and sensible way, rather than be subject to constant change and cherry-picking by government.

Additionally, while the LTA and AA are both quite sizeable amounts of money, they are still a limitation for high earners, and I worry that this has started to switch senior decision-makers off from pensions. If senior staff aren't contributing to a pension and therefore don't have 'skin in the game', they're not as interested any more. That then affects support for pensions across the board.

## Q
### WHAT DO YOU ENJOY MOST ABOUT YOUR MEMBERSHIP OF THE PLSA?

## A

The PLSA provides pension schemes with a voice. It's great to be part of a collective industry that has credibility at government level – it's the feeling that we are all in it together. The PLSA campaigns very hard for its members, both at a company level and as an industry.

MEMBER BACKING
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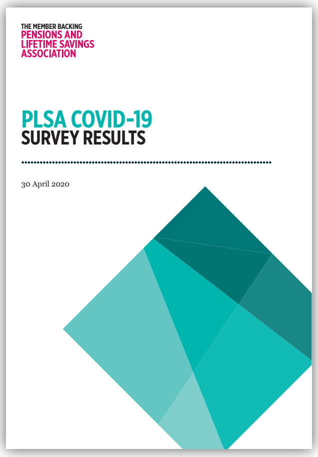
# COVID-19: MEMBER RESOURCES

We're here to support our members during these difficult times. We have put together a number of resources including webinars, blogs and top tips.




## COVID-19 SURVEY RESULTS

Find out how PLSA members are meeting the challenges presented by Covid-19.

DOWNLOAD THE DOCUMENT


## COVID-19 TOP TIPS FOR SAVERS

This guide is designed to explain what happens to your workplace pension under a range of circumstances brought about by the pandemic and provides tips on what to do about your pension.

DOWNLOAD THE DOCUMENT


## COVID-19 TOP TIPS FOR DC SCHEMES


## COVID-19 TOP TIPS FOR DB SCHEMES AND LGPS FUNDS

These documents are designed to support you both on additional near-term issues as well as in your longer-term thinking about what actions you need to take over the coming months.

DOWNLOAD THE DOCUMENT

DOWNLOAD THE DOCUMENT

**Visit www.plsa.co.uk for more resources and further guidance**

# THE COVID CHECKLIST

The initial shock of the Covid-19 pandemic may have passed, but pension schemes of all types will still have a lengthy to-do list as a result of the crisis. ***Maggie Williams*** explores the findings from the PLSA's recent survey, and offers some tips for trustees and sponsors.

**EVEN THE MOST EXPERIENCED PENSION TRUSTEES, MANAGERS AND SCHEME SPONSORS WILL HAVE BEEN FACED WITH NEW AND UNFORESEEN SITUATIONS OVER THE LAST THREE MONTHS, AS A RESULT OF THE COVID-19 CRISIS. TRUSTEE BOARDS AND ADMINISTRATORS HAVE HAD TO RECONFIGURE THEIR WORKING METHODS AT BREAKNECK SPEED, WHILE SIMULTANEOUSLY DEALING WITH VOLATILE MARKETS AND POTENTIALLY HUGE SHIFTS IN THE STRENGTH OF EMPLOYER COVENANTS.**

The PLSA polled its members in both March and April 2020, to find out how they were being affected by the crisis. The first survey was carried out between 20-25 March with 100 PLSA members, and the second between 8-18 April with 114 respondents.

Even though the UK was still in full lockdown in mid-April, we found that schemes were generally coping well with the crisis, and that PLSA members' early worries had started to recede. In April, 62% of respondents said that Covid-19 had had very little impact on their scheme, compared to just 39% in the March survey. Overall, 99% said that their contingency plans were coping well by April.

Almost half (49%) of the schemes polled were confident that any contingency plans they have in place will be sustainable for six months or more.

But while pension schemes have weathered the immediate storm well, uncertainty in markets and society is likely to continue for the rest of 2020 at least. For trustees and their schemes, whether DB or DC, there is still much to be done in terms of reviewing contingency measures, exploring longer-term changes to working practices, and even adopting completely new processes.

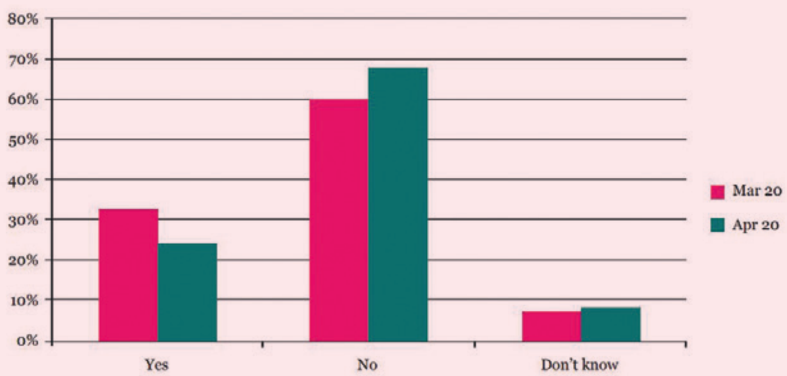
## ADMINISTRATION

According to the PLSA's April survey, most schemes are confident in the ability of their third-party administrators (TPA) to continue to service the needs of their members. More than two-thirds (68%) said that they had no concerns about their TPAs' capacity.

Many also said that they had not seen significant shifts in members' behaviour which might have a knock-on effect for their administrator. In fact, 74% said that they had not seen any changes in savers' behaviour at all. Only 1% had seen members stop contributions, and 3% said members had levelled down.

Among those who had experienced an increase in member contact, most (83%) said member queries had increased by 0-15%, while 17% found that member queries had gone up between 16-25%. General queries prompted by Covid-19 (89%) and questions driven by coverage in the media (25%) were the main reasons for the increase in member queries.

**DO YOU HAVE ANY CONCERNS ABOUT YOUR THIRD PARTY ADMINISTRATOR'S CAPACITY TO SERVICE THE NEEDS OF YOUR MEMBERS OVER THE COMING MONTHS?**



Savers' other questions mainly related to new retirements (36%), wanting to reduce member contributions (16%), or alter investment choices (16%). The same number (16%) asked about changes to employment.

However, communication between schemes and their administrators continues to be critically important, and some key actions for schemes include:

- ✔ Request regular updates from administrators on core financial transactions to make sure that all members continue to be paid on time and supported efficiently.
- ✔ According to the April survey, 81% of DB schemes had made no change to their transfer policy. For schemes that have made a change, this will need to take The Pensions Regulator's (TPR) latest guidance into account.
- ✔ Make sure that any messaging to members given by call centres or other points of contact continues to be up to date and consistent, especially if members are on furlough leave.
- ✔ Discuss the administrator's longer-term strategy for a return to office working, or plans to continue working from home, in 2020 and beyond. Understand the impact these could have on your scheme.
- ✔ Review whether the metrics against which the administrator is measured are realistic and appropriate for the mid- to longer term and renegotiate if necessary. Discuss timescales and processes for unwinding temporary changes to service levels made as a result of the crisis.
- ✔ For DC schemes in particular, discuss with the administrator how to support members who are approaching age 55 or retiring. This could include content of communications, and access to financial guidance or advice.

IN THE PLSA'S MARCH SURVEY, ONLY

29%

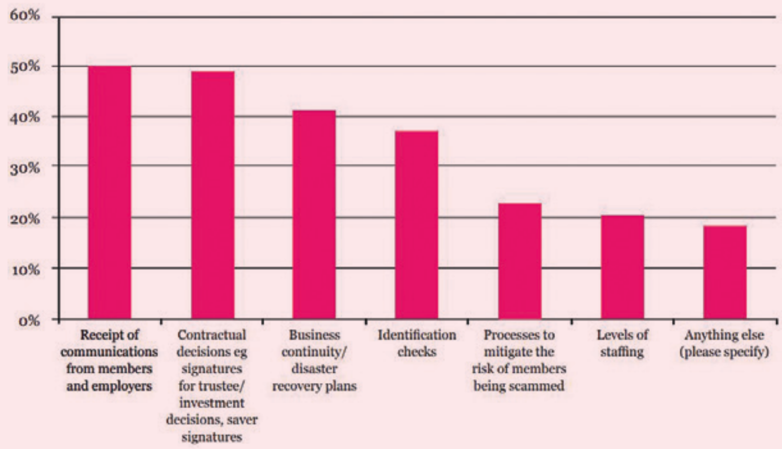
OF MEMBERS SAID THAT THEY WERE NOT CONCERNED ABOUT THE STRENGTH OF THEIR EMPLOYER COVENANT

## DEFINED BENEFIT SCHEMES

The PLSA's April survey found that many DB schemes have had to make operational changes over the last few weeks and months. Nearly half (49%) said that they had changed contractual decision-making processes (such as the need for a 'wet signature' on trustee decisions), and 50% said they had had to change the way they receive communications from members and employers.

- ✔ Clearly document discussions and decisions around treatment of the scheme as a result of the pandemic, particularly in relation to any changes to DRCs. This is important for both trustees and sponsors, as TPR may need to refer to these in future.
- ✔ Trustees at any stage in the process of a buy-in or buy-out should maintain regular dialogue with the insurer, or potential insurers. The economic landscape is

HAVE YOU HAD TO CHANGE ANY OF THE FOLLOWING OPERATIONAL PROCESSES TO TAKE INTO ACCOUNT OF CURRENT CIRCUMSTANCES?




In the PLSA's March survey, only 29% of members said that they were not concerned about the strength of their employer covenant – but that had increased to 49% by April, suggesting that more trustees had been reassured by their scheme sponsor, at least for the short term.

Open, two-way communication with the scheme sponsor will continue to be critical as businesses begin to understand the longer-term impact of Covid-19 on their cashflow and future viability.

TPR has said that it will take a pragmatic approach to certain scheme arrangements due to Covid-19. It has put some temporary easements in place around reporting duties until 30 June 2020, and has also provided guidance on handling situations such as changes to Deficit Repair Contributions (DRCs). These are available at www.thepensionsregulator.co.uk.

Key actions:

- ✔ Hold regular discussions with the sponsor about the ongoing strength of the employer covenant and the affordability of DRCs. Business' recovery path from the crisis may be unpredictable, so close monitoring will be needed over the long term. TPR has provided some suggestions for questions to ask on its website.

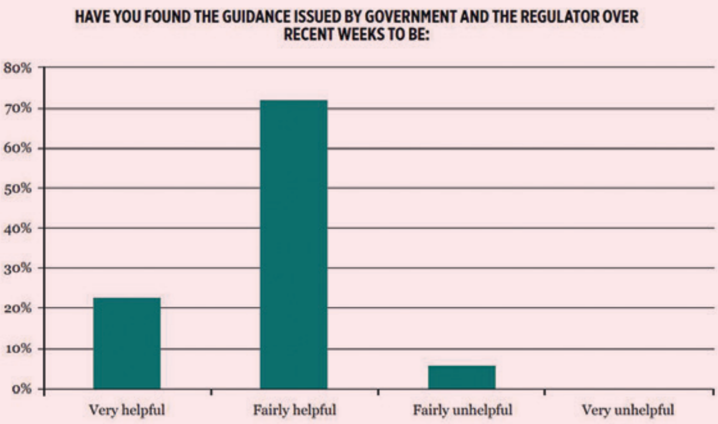
still very uncertain, which could lead to unexpected opportunities to transact.

- ✔ Check that trustee communication processes meet scheme rules. Many boards have had to get to grips with meeting over video conference links, or using electronic rather than paper-based documents in the short term. Some of those processes may remain a part of scheme governance for the long term, but trustees will need to make sure that these adhere to scheme rules and that any new processes are properly documented.
- ✔ Review cyber security policies. The current crisis has yet again highlighted the importance of cyber security and its role in good ongoing governance, particularly in terms of protecting member data. Now is a good time for trustees to review their policies and processes in this area and monitor them regularly.
- ✔ Monitor investments. In the PLSA's survey, 37% of respondents said that their funding level had been affected. Investments will continue to have a bumpy ride, even though some asset classes have started to recover. All DB schemes will need to continue to hold regular discussions with investment advisers, particularly around any major decision-making related to moving funds or asset classes.

## DEFINED CONTRIBUTION SCHEMES

As most employers use a DC scheme for auto-enrolment, TPR has issued detailed guidance for trustees and employers about Covid-19 and DC pensions. In our survey, respondents were overwhelmingly positive about the quality of guidance from both TPR and the government, with 72% finding it fairly helpful and 22% very helpful.

- Review contributions for furloughed workers. Many companies will now have furloughed workers under the Coronavirus Job Retention Scheme, currently operating until October 2020. This will have triggered changes to contribution structures. TPR has introduced some flexibilities around consultation periods for such changes.




Guidance from TPR is being continually updated as circumstances change and new situations emerge. Actions for DC schemes include:

- Make sure that governance structures are effective and can allow decision-making to continue without face-to-face meetings. This is especially relevant in relation to the default fund and the need to monitor risks within the default portfolio.
- Consider whether any changes to self-select options, especially in response to temporary fund closures, could trigger default arrangements. TPR has issued specific guidance on this.
- Review lifestyling arrangements to ensure that these have been effective and protected older members from the worst excesses of stock market falls.
- Maintain stewardship duties. Although many AGMs will happen online, it is as important as ever to ensure that executive remuneration is watched carefully, and plans to scrap dividend payments are noted.

However, trustees will need to make sure certain conditions are met and that any actions are clearly documented.

- Check on work patterns of non-furloughed workers. Some employees may be given temporary pay rises or one-off extra payments to reward them for additional work. These may affect the value of pension contributions, so trustees will need to work closely with HR and payroll.
- Talk to colleagues in payroll and HR regarding salary sacrifice arrangements and any effect this may have on low-paid workers in particular.
- Make sure that any communications both to furloughed and non-furloughed workers are 'joined up' with other messaging from the company, particularly around the company's overall strength and future plans for employees.
- Although only one scheme in the April 2020 survey indicated it was aware of scam activity, this is a risk for all members. Help protect members from scams by communicating clearly and regularly, and making sure they are aware of initiatives such as the FCA's ScamSmart programme.

IN OUR SURVEY, RESPONDENTS WERE OVERWHELMINGLY POSITIVE ABOUT THE QUALITY OF GUIDANCE FROM BOTH TPR AND THE GOVERNMENT, WITH

# 72%

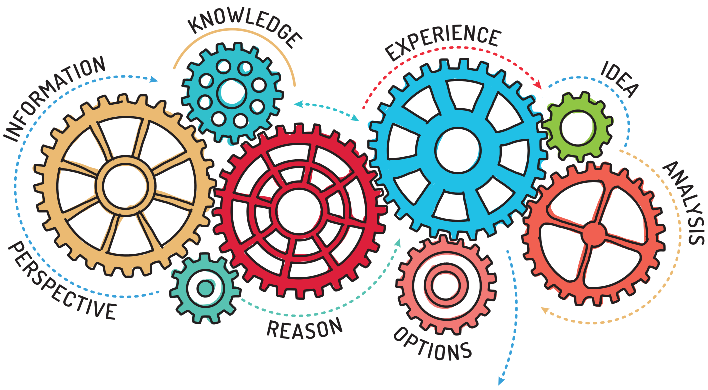
FINDING IT FAIRLY HELPFUL AND

# 22%

VERY HELPFUL.

# EFFECTIVE GOVERNANCE REVIEW

A new PLSA service offers schemes and funds a practical and efficient assessment of their governance standards, the PLSA's ***Claire Simmons*** reports.




**GOVERNANCE IS THE HOT TOPIC OF THE MOMENT. THE PENSIONS REGULATOR (TPR) HAS RECENTLY ISSUED TWO CONSULTATIONS COVERING THE FUTURE OF TRUSTEESHIP AND GOVERNANCE, AND INVESTMENT GOVERNANCE FOLLOWING THE CMA REVIEW. TPR IS ALSO TAKING DIRECT ACTION – ISSUING FINES FOR TRUSTEES FAILING IN THEIR DUTIES AND INTERVENING WHERE SCHEMES DON'T MEET REQUIREMENTS, WITH SEVERAL HIGH-PROFILE CASES IN THE PUBLIC SECTOR RECENTLY MAKING THE HEADLINES.**

So how do you know if your scheme is meeting governance expectations? The PLSA's Effective Governance service, developed in collaboration with isio, helps occupational schemes and LGPS funds of any size to assess their governance and effectiveness against TPR's requirements. The Regulator expects all pension schemes to undertake this type of review at least annually.

Let's take a look at a recent Effective Governance review undertaken by the London Borough of Merton.

## WHY?

Although the fund did not feel it had systemic problems in relation to governance, it wanted to take stock of how it compares to Regulator expectations, and discuss possible actions in order to strive for continual improvement.

## WHAT WAS THE RESULT?

Pleasingly, most operational aspects of governance are in place and the fund is functioning well. However there were a number of tangible steps developed during the workshop which will further improve effectiveness.

These include clarifying the roles and responsibilities of the different groups involved in managing the fund, so that there is understanding in relation to the decision-making processes and where the different areas of responsibility lie.

This will help improve the understanding of responsibilities in relation to governance, and improve awareness, strengthening the fund's governance and providing assurance to all interested stakeholders.

## WHAT DID THE PARTICIPANTS SAY?

"A very informative and useful session. As ever the discussion generated was valuable in understanding different perspectives."

"[The workshop was] very good...and gave an opportunity to identify the actions needed."

"The workshop was an excellent forum for feedback to be shared regarding information in the completed questionnaires."

## DO YOU WANT TO FIND OUT MORE?

The PLSA, together with isio's pensions, audit and assurance experience, has developed a practical and efficient way to help assess and improve operational and behavioural governance. Some benefits of our approach are:

- **Independent and objective:** removes conflict of self-review, and allows all individuals involved to fully participate
- Covers and **consolidates all key areas of TPR guidance** issued
- Encourages openness and honesty through reporting results on a grouped, **anonymous** basis
- **Efficiency:** it takes just 30 minutes to provide the input required prior to the workshop
- **Tried and tested** with a range of schemes
- **Facilitates development:** not just a tick box for the Regulator

For further information or to arrange a review please contact **Claire.Simmons@plsa.co.uk**

# SUSTAINABLE INVESTING: RESILIENCE AMID UNCERTAINTY

**THE TREMENDOUS TOLL OF THE COVID-19 CRISIS – ON HEALTH, ECONOMIC WELL-BEING AND EVERYDAY ACTIVITY – HAS PRECIPITATED A WIDESPREAD REASSESSMENT OF THE WAY WE LIVE OUR LIVES. FOR GOVERNMENTS, BUSINESSES AND INVESTORS, AN ESSENTIAL QUESTION HAS BEEN TO UNDERSTAND THE SOURCES OF RESILIENCE DURING THESE PAST FEW MONTHS AND HOW TO BUILD ON THEM TO PREPARE FOR FUTURE CRISES.**

Global equity markets signalled the severity of the crisis before much of the world had begun its lockdowns. Equities began their steep descent in late February, and in the course of one month, the Dow Jones Industrial Average fell over 10,000 points (34%),[1] demand for cash soared, and economic activity ground to a halt as businesses were forcibly shut down and people directed to stay inside. In this volatile environment, investors have been seeking to understand what characteristics contributed to comparative resilience in portfolios and how to incorporate these characteristics in their own investments.

The concept of sustainable investing can mean different things. BlackRock operates from a simple definition of sustainable investing: combining traditional investing with environmental, social and governance-related (ESG) insights to improve long-term outcomes for our clients. Our view: companies with strong profiles on material sustainability issues have potential to outperform those with poor profiles.

The recent downturn was a key test of this conviction. In the first quarter of 2020, we observed better risk-adjusted performance across sustainable products globally.[2] While this short time period is not determinative, it aligns with the resilience we have seen in sustainable strategies during prior downturns.3

## FOR INVESTORS, THE MOST IMPORTANT QUESTION IS WHY? WHAT EXPLAINS THE RESILIENCE?

Research by BlackRock[4,5] has established a correlation between sustainability and traditional factors such as quality and low volatility, which themselves indicate resilience.

Traditional factors, however, do not describe the full set of attributes that can impact a company's resilience. Analysing the various sustainability characteristics of companies – and how these characteristics contribute to performance – deepens our understanding how sustainability reinforces resilience. Our research indicates that, in the current crisis, with its transformative and devastating impact on daily life, companies with a record of good customer relations or robust corporate culture are demonstrating resilient financial performance.

Casual observers initially attributed the strong performance of ESG funds to their relative underweighting to traditional energy companies, whose prices fell further than the overall market during the downturn. However, our analysis and third party research6 shows that the underperformance of traditional energy explains only a fraction of the outperformance seen in many sustainable funds.

We believe that the outperformance has instead been driven by a range of material sustainability characteristics, including job satisfaction, strength of customer relations, or the effectiveness of the company's board. Overall, this period of market turbulence and economic uncertainty has further reinforced our conviction that ESG characteristics indicate resilience during market downturns.

Another key piece of the resilience story has been investor preference for sustainable assets during the crisis. As investors have sought to rebalance their portfolios during market turmoil, they are increasingly preferring sustainable funds over more traditional ones.

IN THE FIRST QUARTER OF 2020, GLOBAL SUSTAINABLE OPEN-ENDED FUNDS (MUTUAL FUNDS AND ETFS) BROUGHT IN US

**$40.5**

BILLION IN NEW ASSETS, A 41% INCREASE YEAR-OVER-YEAR.[2]

We believe these inflows suggest a persistence in investor preferences toward sustainability. They upend an oft-cited concern pre-Covid crisis that during sharp market downturns, investors will de-prioritise sustainability. And they offer important, though short-term, evidence that the incipient shift in preferences has been accelerated by the crisis and is another key contributor to the resilience of sustainable funds.[7]

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3 BlackRock Investment Institute, "Sustainability: The bond that endures," November 2019.

4 BlackRock Investment Institute, "Sustainable investing: 'a why not' moment" May 2018.

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***Maggie Williams*** heads to the Cloud for a Local Authority Conference with a difference

## WHAT A DIFFERENCE A YEAR MAKES. IN MAY 2019 WE WELCOMED RISHI SUNAK, MINISTER FOR LOCAL GOVERNMENT, AS THE KEYNOTE SPEAKER AT OUR LOCAL AUTHORITY CONFERENCE, WHICH WAS HOSTED IN THE COTSWOLDS.

Fast-forward 12 months. Rishi Sunak is Chancellor of the Exchequer and our Local Authority Conference 2020 replacement, LA Live, was hosted in 'the Cloud'.

The week-long series of webinars focused on the issues facing the PLSA's Local Government Pension Scheme (LGPS) membership and featured high-profile speakers from schemes, government, The Pensions Regulator and many more. Over the course of the week, more than 500 viewers joined us online.

To accompany LA Live, we also produced a special edition of LGPS Policy Update, emailed to the PLSA's LGPS members.

# HERE ARE SOME OF THE HIGHLIGHTS FROM OUR FIVE LA LIVE ONLINE EVENTS...

## COVID-19'S IMPACT ON THE LGPS AND THE REGULATOR'S RESPONSE

**The opening webinar of the week saw the PLSA's Events and Training Content Manager Rachel Pine joined by Tiffany Tsang, Policy Lead LGPS and DB at the PLSA, Nick Gannon, Policy Lead, The Pensions Regulator (TPR), and Lorraine Bennet, Senior Pensions Adviser, Local Government Association (LGA). They provided overviews of recent survey work as well as regulatory updates.**

Lorraine shared what the LGA is hearing from local authorities on the impact of Covid-19, and discussed the LGA's messaging, its co-ordinated response, the resources available, and longer-term impacts.

Tiffany explained that in general the LGPS is faring well during the pandemic and spoke about some of the emerging queries from local authority members, as well as the priorities members want the PLSA to focus on with the Regulator.

Finally, Nick gave his thoughts on whether pension scams have increased in the wake of the crisis. He also explained that while it is important to follow the law, TPR appreciates circumstances are more complicated for LA funds this year and will take a pragmatic approach.

## TAKING AN EMPLOYER HEALTH CHECK – A GUIDE FOR THE LGPS

**Rachel welcomed John Raisin, Independent Adviser and Chair of the University and Colleges Employers Association, and Emelda Nicholroy, Head of Pensions Policy at the same organisation, to talk about managing different types of tier 3 employers (i.e. those which don't benefit from taxpayer backing) during the pandemic.**

John debunked the myths around employer strength and weakness in the LGPS and discussed Regulation 67 (related to employer contributions), stressing the need for funds to do their own legwork on checking employer health.

Emelda talked about the experience of universities and colleges, and the strength of their covenant. "From a higher education perspective, particularly where costs are the highest expenditure...[they] want the ability to have discussions about [the] flexibility to review their pension provision," she said.

A last resort for most, deferrals could be an option for sectors where money comes in at certain times of year (such as universities). But, cautioned John, "Deferring is not a soft option, it is a last resort. Local authorities are not there to bail out employers. Without hard evidence that this [pandemic] is not just a short-term situation, you have to think hard about [the] discretion you apply."

"Communicate, communicate, communicate" was the key takeaway from the discussion. And of course, as with every aspect of the LGPS, good governance and proper resourcing are the key to getting it right.

## SENSE AND SUSTAINABILITY: ESG FOR THE LGPS

**Standardisation of reporting, the impact of climate change on different sectors of the economy and the importance of good stewardship were just some of the issues under discussion in our third webinar.**

Caroline Escott, Policy Lead: Investment and Stewardship, PLSA, and Faith Ward, Chief Responsible Investment Officer, Brunel Pension Partnership, joined Rachel to discuss ESG investment within the LGPS.

Faith and Caroline were encouraged by an online poll during the webinar that showed 58% of participants are getting to grips with the Taskforce on Climate-related Financial Disclosure (TCFD) framework that LA funds must follow by 2022.

"LGPS funds operate in an open and transparent way," said Faith. "The drive for wider disclosure across the investment chain has been driven by them."

Caroline also highlighted the PLSA's commitment to supporting that transparency: "LGPS funds are often at the sharp end of telling the responsible investment story to stakeholders and we want to make sure the PLSA continues to provide the support for you to do that."

Good stewardship is the key to being a responsible investor. Caroline pointed out that this goes beyond just voting; asset-owners should engage with their fixed income managers, as well as those managing their equity mandates, to understand how they are using the Stewardship Code.

Both speakers encouraged PLSA members to look at analysis by the Bank of England and the Transition Pathway Initiative on the differential impact that climate change will have on each sector of the economy.

# LA LIVE

## LGPS ADMINISTRATION – IT'S COMPLICATED!

**Our penultimate webinar focused on whether LGPS administration can be made more efficient and featured Jo Darbyshire, Managing Director, LPPA (Local Pensions Partnership Administration) and Yunus Gajra, Business Development Manager, West Yorkshire Pension Fund.**

Administrating a scheme as complex as the LGPS isn't easy at the best of times for local authority funds dealing with hundreds of thousands of members, thousands of employers and multiple administration clients.

Jo and Yunus took us through their funds' challenges and the impact of external regulatory pressures including the McCloud judgment and GMP reconciliation. Using technology, overcoming jargon, embracing innovation and increasing engagement with members who sometimes don't understand pensions basics, were other key themes.

Covid-19 has had a huge effect on administrators' working practices. "The biggest challenge for LGPS administrators over the next year will be the fallout from Covid-19," said Jo, emphasising that "the financial impact is going to be huge."

However, a silver lining has been the opportunity for administrators to review working practices and explore ways that technology can drive longer-term change. "We're facing up to new ways of working and are giving thought to how flexible working will take place in the future, as we now know our staff can operate from anywhere. We have been slow to embrace new technology but now is the time to turn the screw," said Yunus.

## DEALING WITH COVID-19: LGPS MEMBER SURGERY AND LAUNCH OF SAB ANNUAL REPORT

**Our final webinar of the week saw Rachel chairing a wide-ranging panel featuring Joe Dabrowski, Head of DB, LGPS and Standards at the PLSA, Rachel Brothwood, Director of Pensions, West Midlands Pension Fund and Cllr Roger Phillips, Chair, The LGPS Advisory Board, member of Herefordshire Council and Worcestershire Pensions Committee.**

The session included the launch of the Scheme Advisory Board's (SAB) annual report. It showed steady growth for the LGPS, with membership growing by 37,000 to 5.9 million members in 2019, from 5.8 million in 2018. It provided the income for more than 1.7 million pensioners during the year.

Roger launched valuation results for the scheme, which was 98% funded at 31 March 2019 with many funds in surplus and average deficits down. In any normal year we'd be focussed on this great picture, but of course this isn't any normal year.

In addition to the SAB report, our final webinar of the week also explored the effects of Covid-19 on LA schemes. Rachel Brothwood updated on her work with the practitioners' Covid-19 group and 10 weeks spent looking at operations, the payment of benefits, new benefits, and the day-to-day practicalities of getting and processing information outside of the usual working environment.

As SAB surveys have shown, local authorities have adapted well to the situation and are confident they can pay their pensioners, but long-term administration challenges remain at the top of the inbox for LA funds.

THERE HAS BEEN STEADY GROWTH FOR THE LGPS, WITH MEMBERSHIP GROWING BY 37,000 TO

5.9 MILLION

MEMBERS IN 2019

# FIGHTING FIT FOR A POST-COVID FUTURE

***Tiffany Tsang*** applauds the resilience of the LGPS in the face of the pandemic

**THE YEAR 2020 WILL BE REMEMBERED AS THE ONE IN WHICH COVID-19 STITCHED ITSELF INTO THE FABRIC OF ALL AREAS OF HUMAN EXISTENCE. UNSURPRISINGLY, ITS IMPACT ON THE LGPS WILL DIRECTLY INFORM OUR WORK FOR SOME TIME.**


**THE PLSA WILL CONTINUE TO WORK WITH OUR MEMBERS ON WHAT WE CAN DO TO HELP DURING THIS EXTRAORDINARY TIME**

The effects of the virus will vary for administering authorities across the country, but based on the PLSA's membership engagement thus far, as well as on two PLSA surveys conducted in March and April 2020, the LGPS is faring very positively under such difficult financial circumstances.

Three common themes have surfaced in our discussions with our LGPS membership: all will require careful monitoring in the coming weeks and months, even after the virus crisis begins to abate.

- **Administration:** The LGPS is able to continue paying pension benefits to members, which is the key metric for success at the moment. In fact, 100% of LGPS survey respondents said they are confident in meeting payment obligations to members over the coming months. The same percentage also said that their contingency plans are going well. The Pensions Regulator (TPR) urged for business continuity to be a priority across the LGPS before Covid-19, and those preparatory measures have now paid off. However, challenges remain: 57% of LGPS respondents report pressures with remote working, including difficulty with serving member requests; 40% are experiencing a shortage of staff; and 38% have funding concerns.
- **Cash flow:** For the immediate to medium term, cash flow will not be an issue. However, the full impact of Covid-19 on LGPS employers, and thus cash flow, remains unclear. The April 2020 survey found that 50% of LGPS respondents were only slightly concerned about employer strength. Particular attention will be paid in the coming weeks to the emerging situation facing colleges and universities, charities, leisure centres, housing associations, and other community associations with historical ties to local authorities.
- **Investment strategy:** The LGPS has thus far fared well with Covid-19 impacts. Forty per cent of LGPS respondents have decided not to change their investment strategy, suggesting that many are indeed well positioned for the long term; while 20% have yet to review their investment strategy. As always, the LGPS remains vigilant, with 90% of respondents "very" or "fairly" concerned about Covid-19 impacts on investments – though 40% of respondents do not know yet how their strategy will change. Value for money through transparency of costs will become even more important. If cash flow becomes problematic, a few may consider selling off assets, though this appears to be far from becoming a reality.

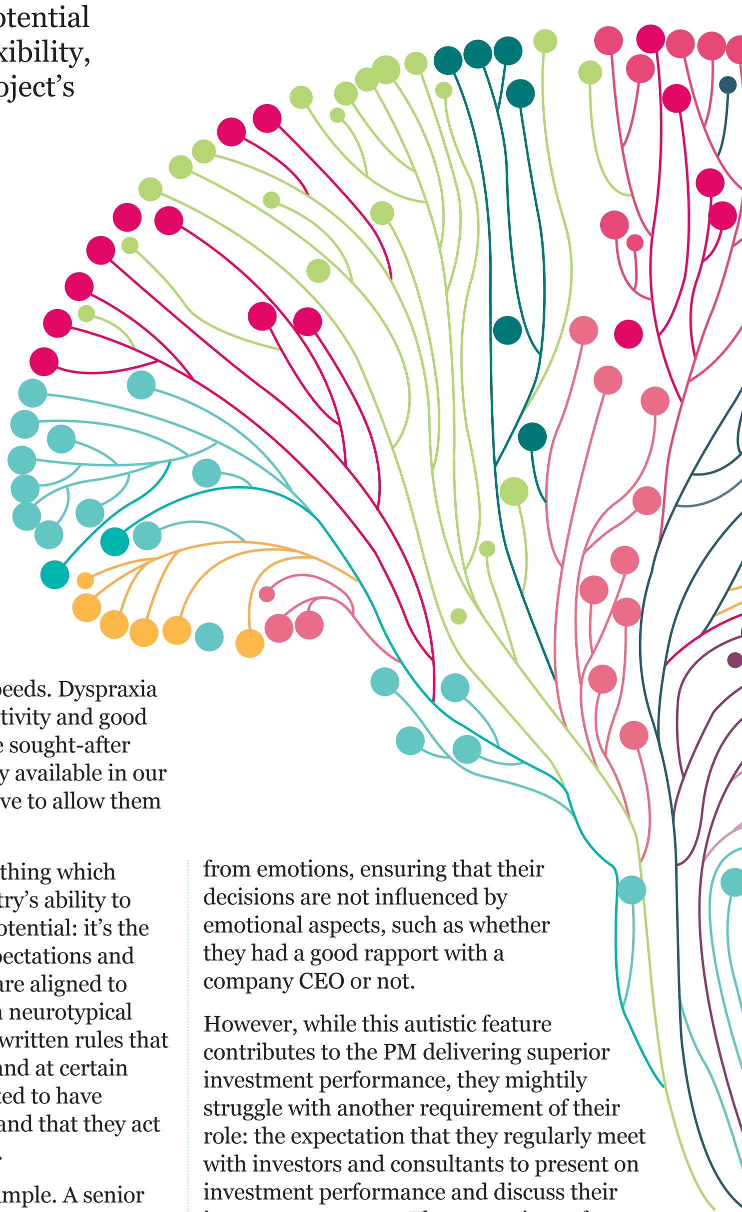
  The PLSA will continue to work with our members on what we can do to help during this extraordinary time, and we'll be following up on a variety of regulatory requests and queries. In the PLSA March 2020 survey, LGPS respondents said that the most important things for the PLSA to ask government and regulators for are:

- Eased LGPS regulatory controls to reflect the short-term market turbulence
- More flexibility on valuations and funding
- Extensions to statutory timescales
- Reduced administrative complexities.

The impacts and aftermath of the virus crisis will need to be reviewed in detail, and it will be an opportunity to make some strategic changes to LGPS processes and strategies where any weaknesses in administration and investment approaches have emerged. But for now, the resilience of the LGPS is something to be celebrated. The disciplined approach the LGPS has adhered to on good governance measures has stood the scheme in good stead.

# EXPLORING NEUROHORIZONS

Neurodiversity can unlock worlds of new potential if it's embraced with understanding and flexibility, says ***Meike Bliebenicht***, UK Diversity Project's neurodiversity workstream lead



**SILICON VALLEY WAS BUILT BY THOSE WHO SEE THE WORLD DIFFERENTLY, DEMONSTRATING HOW NEURODIVERSITY – EMBRACING DIFFERENT NEUROTYPES – CAN OPEN ENTIRELY NEW OPPORTUNITIES AND PERSPECTIVES. HOW CAN THE INVESTMENT INDUSTRY UNLOCK THE AMAZING POTENTIAL OFFERED BY NEURODIVERSITY?**

Neurodiversity describes how diverse we are from a neurological perspective. It refers to the diversity of human brains, and considers differences in how our brains are 'wired' as simply another natural variation in humans. Neurodiversity includes, but is not limited to, autism/Asperger syndrome, dyslexia, dyspraxia and ADHD.

It's estimated that up to 15% of the UK population are neurodivergent, so we'll all have a number of neurodivergent colleagues already among us. Neurodiversity suggests that instead of regarding large parts of the population as suffering from a deficit, disease or dysfunction of mental processing, we should value and celebrate the differences.

## THINKING DIFFERENTLY

There are good reasons for this. Neurodivergent brains literally think differently, and the differences in brain wiring often come with very distinct skills. For example, dyslexic colleagues often have an entrepreneurial mindset and are excellent visual thinkers. Autistic individuals typically excel at problem-solving and have great attention to detail. Against common belief, ADHD brains are able to concentrate deeply on topics that interest them and operate at extremely fast processing speeds. Dyspraxia is often associated with creativity and good people skills. All of these are sought-after attributes and they're readily available in our workforce today. We just have to allow them to shine through.

Unfortunately, there's something which regularly impacts our industry's ability to benefit from this amazing potential: it's the fact that most demands, expectations and processes in the workplace are aligned to what one would expect from neurotypical brains. There seem to be unwritten rules that individuals in certain roles and at certain levels of seniority are expected to have developed a certain skillset and that they act and behave in a certain way.

Let me give you a recent example. A senior portfolio manager of a bottom-up equity fund told me that their autism allows them to base investment decisions purely on facts and data. It enables them to separate facts from emotions, ensuring that their decisions are not influenced by emotional aspects, such as whether they had a good rapport with a company CEO or not.

However, while this autistic feature contributes to the PM delivering superior investment performance, they mightily struggle with another requirement of their role: the expectation that they regularly meet with investors and consultants to present on investment performance and discuss their investment strategy. These meetings often take place at the client's office (assuming non-Covid-19 times...) and are attended by a number of friendly but unfamiliar faces.

**NEURODIVERGENT BRAINS LITERALLY THINK DIFFERENTLY, AND THE DIFFERENCES IN BRAIN WIRING OFTEN COME WITH VERY DISTINCT SKILLS**

Uncertainty can trigger anxiety in people with autism. Ambiguous meeting objectives – but also 'minor' details, such as unknown meeting room layout – can cause distress. This impacts the autistic PM's ability to perform at their best during the client meeting, especially as they will make every effort to cover up their challenges. Luckily, the situation can be easily improved, for example by holding the meeting at the

**FLEXIBILITY IS KEY WHEN IT COMES TO NEURODIVERSITY. THERE CAN NEVER BE A ONE-SIZE-FITS-ALL APPROACH**

investment manager's office or via video conference, and by clearly outlining the meeting details in advance.

## GOING FURTHER

However, to successfully include neurodivergent colleagues, we have to go beyond these basic steps. We have to question our existing assumptions and expectations. Do we really need every PM to attend client meetings? Why is this a requirement, what has been driving it? Could the product specialist or investment strategist be equally well placed to attend?

Flexibility is key when it comes to neurodiversity. There can never be a one-size-fits-all approach, especially not when aiming to access the abilities and skills of brains that think differently. By adjusting our demands and expectations we reduce frustration on both sides.

At the same time, it's important to ensure that neurodivergent colleagues do not stand out. As mentioned earlier, up to 15% of the UK population could be neurodivergent. But this does not mean that 15% will have received a formal diagnosis of autism, dyslexia, ADHD etc. And even if they did, they may choose not to share it. Talking about your brain is something very personal. It's about who you are. And once it's out there, you can't take it back.

We also have to consider that the majority of our neurodivergent colleagues over 30 were not diagnosed as children. However, all will have grown up knowing that there was something different about them. Nobody wants to be different when they grow up, and so most will have trained themselves to be 'normal' and fit in. It's hard to suddenly share openly what you've been covering up for so long, and to verbalise your needs when you've never done so before.

And yet, successful neuro-inclusion can be straightforward. There are many small steps we can all take:

## 1. RECRUITMENT

- It's often assumed that everyone needs to be given the same task to ensure a fair assessment. However, standardised testing doesn't work particularly well for people who think differently. We need to be mindful to not weed out neurodivergent talent right at the beginning.
- Avoid rapid-fire questions. Most neurodivergent candidates struggle with transitioning from one topic to the next. To allow their brains to adjust, try to group your interview questions and announce when you move to a new topic.
- Give a full brief on expectations before the interview.
- Limit distraction in the interview room, e.g. reduce artwork.

## 2. PEOPLE MANAGEMENT

- Focus on the employee's strengths and provide assistance with challenging tasks. Accept that sometimes help is needed for perceived 'easy' tasks, such as managing a to-do list or doing admin. Do not expect any improvement or 'learning success' in these areas.
- Stick to your word. If you said you'd call on Monday at 3pm, do so. Ambiguity can trigger anxiety.
- Give clear instructions. Autistic brains in particular tend to take things literally.
- Allow employees that find commuting in rush hour difficult to work different hours, from home or in the evenings/at weekends.

## 3. WORKPLACE

- Provide options to reduce sensory overload by allowing all employees to wear headphones, to use quiet rooms etc.
- For those easily experiencing sensory overload, 1:1 meetings are easier than group activities.
- Don't judge. Constantly wearing headphones or seldom engaging in small talk does not equal lack of team spirit.

On our way to successful neuro-inclusion, the most significant results can be achieved simply by us valuing the difference, and the potential which comes with it. The most important aspect is to stop imposing normal, and to accept that everyone is different and has different abilities and challenges. To achieve this, we usually only have to make one adjustment. Luckily, it comes for free. It is called understanding.

When we manage to do this, neurodiversity will allow us to access a world of opportunities and new perspectives. This will help us think in different ways and continue to build attractive solutions for our clients. And then maybe we can be the next Silicon Valley? With neurodiversity, the sky's the limit.

# DESIGN FOR LIFESTYLING

***Maggie Williams*** surveys the effects of Covid-19 on DC pension pots, and reports on the choices facing savers

**AS STOCK MARKETS PLUMMETED AROUND THE WORLD DURING MARCH AND APRIL, MANY DEFINED CONTRIBUTION (DC) PENSION SCHEME INVESTORS, ESPECIALLY OLDER SAVERS, WILL HAVE BEEN BRACING THEMSELVES FOR THE WORST.**

"I'm not going to try and dress this up: it was a bad quarter to start 2020, with few places to hide," says Chris Inman, head of DC Investment Advisory at Aon. "Most DC savers in default lifestyle strategies will have incurred a loss in that quarter."

Inevitably, those losses need to be seen in the context of pensions as a long-term savings vehicle. "Even the sharp, severe and indiscriminate market sell-off over the first quarter wasn't enough for those in a typical lifestyle strategy to go backwards over the past three and five years," adds Inman. He also points to the rebound in risk assets towards the end of the first quarter, continuing into June. "If members or trustees had made rash decisions in March, based on headlines, they would have been locking in losses and reducing their projected outcomes at a time when our expectations of future returns for growth assets have increased."

For those closest to retirement, lifestyling has proved its worth. Callum Stewart, DC Investment Consultant at Hymans Robertson, says that based on the consultants' Member Outcomes Tracker, lifestyling has helped to mitigate losses. "Baby Boomers aged 60 and approaching retirement could have seen a fall of only 4% in the value of their fund, with more defensive approaches helping to protect their pot as they near retirement."

However, Stewart adds that, while the youngest savers are the least affected, "the hardest hit will be those in their 40s, who will have seen a fall of about 10 per cent in their longer-term income expectations by the start of May and have fewer options to recoup this, although there are signs of improvement."

## INFORMING DECISIONS

For the close to 1 million people due to reach 55 in 2020, deciding how to respond to the effects of Covid-19 on pension savings will be a much more pressing issue. Some will no doubt decide to delay accessing their pension savings until markets recover and stabilise, however, others will still want or need to access pots now.

This raises the ongoing issue of making sure members make well-informed decisions about using their retirement savings. According to HMRC figures, there was an increase of 19% in the amount of money withdrawn flexibly from pension schemes in Q1 2020, compared to Q1 2019[1]. "We're starting to see the real impact of increased choice and complexity," says Mark Futcher, head of workplace wealth at Barnett Waddingham. "With half of pension pots being accessed without regulated advice or guidance by the plan holder, people are putting their futures at risk."

One casualty of Covid-19 has been the FCA's default investment pathways rules, designed to support members with investment choices if they enter into drawdown without advice. Originally scheduled for implementation in August 2020, the plans have now been delayed by six months, until February 2021. But, cautions Blyth, default pathways are only a part of the answer. "Decisions at retirement are complex and very much dependent on individual circumstances. And, while a default pathway can mean the customer doesn't make the wrong choice, it won't necessarily help them to make the best choice." She adds, "I suspect there will be even greater scrutiny of how providers deliver against investment pathways [in future] and how these are communicated."

1. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/881541/Pension_Flexibility_Statistics_April_2020.pdfto-price-indices-affect-defined-benefit-schemes/

The pandemic's effect on pension pots has been a salient reminder that bull markets are finite – but well-designed lifestyling has proved its worth in protecting older members from even greater losses. However, the challenge of ensuring members use their savings effectively as they approach retirement still remains.

BABY BOOMERS AGED 60 AND APPROACHING RETIREMENT COULD HAVE SEEN A FALL OF ONLY

4%

IN THE VALUE OF THEIR FUND


## GOOD GOVERNANCE FOR LONG-TERM SAVING

***David Fairs***, Executive Director for Regulatory Policy, Analysis and Advice at The Pensions Regulator, looks at some of the key governance issues that all occupational trust-based DC schemes will need to address as a result of Covid-19 – to benefit scheme members of all ages.

Lockdown measures may be easing, but the fallout from Covid-19 is likely to be felt for some considerable time.

It's impossible to predict every long-term risk but there are some key areas that DC trustees should focus on:

- Business continuity plans: Plans should look to the long term and seek to ensure trustees are confident they can meet statutory requirements such as chair's statements, and that core financial transactions continue to be processed promptly and accurately. Trustees should check that employers, administrators and other service providers will be able to perform key functions, and plan contingencies. Trustees should aim to embed some of the efficiencies Covid-19 has created, such as electronic signatures and digital document verification.
- Investments: DC scheme trustees must review their investment strategy every three years or earlier if there are big changes in investment policy. The investment strategy for default arrangements must additionally be changed following significant changes in the demographic profile of the members. Trustees should consider if the underlying asset allocation and exposure to different markets remain suitable. Trustees could also consider stress tests on assets or scenario analysis with a focus on how members would be affected.
- Risks to members: Consider how scheme communications can help protect members from risks, including from pension scammers or rushed decisions. Trustees should use their communications to highlight places to get support.
- Governance: Schemes may have had to move from longer, face-to-face meetings to more regular and shorter virtual ones. If this new way of working has been found to be more efficient or effective, trustees might consider embedding it as good practice. Trustees should consider implications, such as cybersecurity, for any new ways of working.
- Environment, social and governance (ESG) factors: most trustees are now required by law to have a policy on ESG considerations that they consider financially material. Consideration of ESG factors – such as climate risk – in their investment strategy may help trustees build resilience ahead of future disruptions. Hand in hand with this is stewardship, as resilience can derive from strong, long-term relationships between asset owners, asset managers and investee companies.

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

# DC CHAIR'S STATEMENT

**FOR MANY TRUSTEES OF DEFINED CONTRIBUTION SCHEMES, COMPLYING WITH THE REQUIREMENT TO PUBLISH AN ANNUAL CHAIR'S STATEMENT IS A BUSINESS AS USUAL ACTIVITY, BUT IT'S NOT STRAIGHTFORWARD FOR ALL. A NEW PLSA TEMPLATE IS HERE TO HELP.**

Defined Contribution (DC) pension schemes are required by law to produce an annual governance statement in their annual report that illustrates, among other things: the scheme's investment strategy and its governance; the processing of core financial transactions; the disclosure of member-borne transaction costs and charges; the assessment of value for members; and how the trustees have met trustee knowledge and understanding requirements.

But recently some PLSA members have raised concerns with us about how some of the legislative requirements regarding the statement are being applied in practice.

So we partnered with a group of PLSA members to develop a template statement which is designed for a standard occupational DC pension scheme.

As Laura Myers, Chair of the PLSA's DC Committee, said: "This has long been a concern for trustees and that's why I am delighted to have contributed to this template statement. It will hopefully provide a useful starting point and guide for trustees to help simplify the production time and cost on documenting their governance so they can instead focus these costs on the areas that will make tangible improvements to members' outcomes."

The template is based on the requirements of regulation 23 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 as at 1 February 2020 and is designed to be used in conjunction with TPR's **detailed guidance** and **quick guide**.

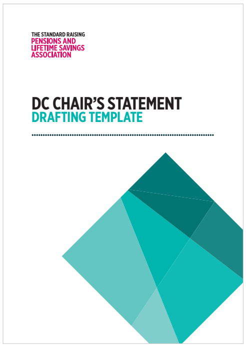
The production of the template has been supported by The Pensions Regulator, which was consulted as part of the process. David Fairs, TPR Executive Director of Regulatory Policy, Analysis and Advice, said: "A chair's statement is a basic requirement of good pensions governance and should be written clearly enough for members to understand and so I welcome any assistance provided to the trustees such as the PLSA's drafting template.

"The template doesn't remove the need for trustees to carry out the fundamental analysis forming the foundation for a chair's statement or consider how the statement requirements apply in the case of their scheme, but it should help in collating the information needed and help to present this clearly to savers."

The template will help trustees complete their statement, though individual schemes will need to give due consideration to their circumstances to meet statutory requirements. Trustees should speak to their own advisers who will be able to help them to tailor the document so that it is suitable for their own needs and complies with their legal obligations.

The PLSA's Lizzy Holliday, Head of DC, Master Trust and Lifetime Saving said "We developed this new template with PLSA members to provide additional guidance for everyone involved in developing DC Chair's Statements.In conjunction with appropriate legal advice it offers and invaluable extra resource for trustees navigating the requirements and compliance processes."

Trustees can download the template available via the **PLSA website**.




**THANK YOU TO THE PLSA MEMBER FIRMS WHO HELPED:**

Arc Pensions Law | Eversheds Sutherland | Hymans Robertson | LCP Insight Clarity Advice | Pinsent Masons | Sackers | Travers Smith

# PENSIONS QUALITY MARK CASE STUDY: LEONARDO

***Mike Nixon***, Head of Pensions at Leonardo, explains how achieving the Pensions Quality Mark has helped demonstrate the quality of the company's DC scheme

**LEONARDO IS A GLOBAL HIGH-TECH COMPANY AND ONE OF THE KEY ACTORS IN THE AEROSPACE, DEFENCE AND SECURITY SECTORS WORLDWIDE. WE HAVE BEEN PQM HOLDERS SINCE 2011 AND HAVE FOUND PQM AN IMPORTANT PART OF HELPING TO DEMONSTRATE TO MEMBERS THE ONGOING QUALITY OF OUR PENSION SCHEMES.**

Leonardo people are loyal to the company and we have a strong pensions culture in support of this. When our DB schemes were closed to new entrants, and a new DC scheme was introduced in 2007, it was important to be able to demonstrate the value of the new scheme.

Applying for PQM meant that we could reassure members that there would be comparability with key elements of the legacy DB offering; for example competitive employer contributions (through our '2 for 1' matching), life cover, income protection and high-quality trustee governance.

We saw PQM as a way to demonstrate excellence to prospective employees and new joiners – much as the traditional '*two-thirds non-contributory pension*' promise used to be seen many years ago as a mark of quality in job adverts under the DB legacy.

For existing members PQM provides reassurance that our quality claim stands up to external benchmarking, in line with the changing landscape in which best practice claims tend to be validated through independent standards.

Lastly, we see PQM as a way to future-proof our quality claims. The standards are kept under continual review by the PLSA, and revised in line with any relevant new policy and regulatory requirements – so members can be reassured that holding PQM means our scheme will continue to evolve in line with market developments.

# TRANSFORMING TRANSFERS

*Matthew Dransfield* of STAR explains to *Maggie Williams* how accreditation is helping to improve the quality of transfers between pension schemes

## Q
### WHY DO TRANSFER PROCESSES NEED TO IMPROVE?
## A

Transfers can help members simplify the way they manage their pensions, keep closer track of their retirement pots,h elp reduce charges and bring pension savings closer to other aspects of their financial lives. However, in the past executing a transfer process has been a slow, complex process, taking anything from 2 to 450 days to complete.

This variation in service clearly isn't acceptable, particularly in a world where customers are becoming used to having access to their money when and where they want it, through initiatives such as Open Banking and the overall evolution of digital finance.

Slow, inefficient transfer processes affect companies' reputations, erode trust in pensions in general, and have direct cost implications for providers. This problem has been recognised both by regulators and government. The industry is trying to improve things voluntarily, not being forced to do so by regulatory intervention.

## Q
### WHAT IS BEING DONE TO ADDRESS THIS?
## A

This isn't a simple fix. Transfers involve many different parties including platforms, insurers, fund managers, re-registration and transfer agents, custodians, third-party administrators and trustees. And, to add further complexity, it falls across multiple regulatory areas with the FCA, The Pensions Regulator and the DWP all overseeing different parts of the process.

To address this, ten trade bodies started working together in 2016 and formed the Transfers and Reregistration Industry Group (TRIG). In consultation with the regulators, TRIG drafted a framework for good practice transfers, based on service standards, performance monitoring and regular reporting. Working groups define processes and standards for specific aspects of transfers, and can also provide transparent measures of what good looks like. Its remit includes occupational pensions, but also covers ISAs, private pensions and others. The FCA has given a very clear message that if the industry cannot deliver on this, it will look to regulate the process. The DWP and The Pensions Regulator are STAR supporters too.

Governance and administration of the standards is now being managed under the brand name STAR. STAR was launched in 2019 with the remit of:

- Defining the end-to-end process required to complete a transfer
- Specifying good practice standards and timings for each process component
- Measuring, recognising and accrediting performance excellence across the financial industry.

## Q
### HOW DOES STAR WORK?
## A

STAR recognises organisations for good performance through its accreditation regime. Any organisation which is involved in any part of the transfer process chain can participate and become accredited. As a not-for-profit organisation, STAR is able to put all the money we received from joining and annual fees back into the initiative.

This isn't about a 'pass or fail' approach, but supporting participants in continuous improvement. That is reflected in the three levels of accreditation offered by STAR: bronze, silver and gold. As consumers, most pension scheme members will already be familiar with other similar rating systems, such as Defaqto, so this is a straightforward way of being able to demonstrate the quality of service on offer.

The need to improve transfer processes is not going away. It is one firmly within the immediate focus of government and the regulators. To address that, our biggest desire is to recognise as many organisations from across the industry as possible. Over 60 organisations have signed up with STAR so far, and we'd like to encourage even more participants to get involved particularly now the initiative is in its implementation phase.

For further information, please contact **matthew.dransfield@criterion.org.uk** or to register: **https://www.joinstar.co.uk/**

# STOPPING THE SCAMMERS

***Lauren Wilkinson***, Senior Policy Researcher at the PPI, asks how pension savers can be better protected

**WHILE A COLD CALLING BAN WAS PUT IN PLACE OVER A YEAR AGO, THERE ARE STILL SERIOUS CONCERNS ABOUT THE NUMBER OF PENSION SAVERS FALLING VICTIM TO SCAMS AND THE SUBSTANTIAL AMOUNTS THAT VICTIMS ARE LOSING. THERE IS GENERAL AGREEMENT ACROSS GOVERNMENT AND INDUSTRY THAT PENSION SCAMS ARE A SERIOUS THREAT TO PENSION SAVINGS, BUT FINDING AN EFFECTIVE WAY TO PROTECT SAVERS IS CHALLENGING, LARGELY AS A RESULT OF THE EVOLVING NATURE OF SCAM ACTIVITY, AS WELL AS THE LACK OF COMPREHENSIVE DATA ON THE LEVEL AND NATURE OF SCAM ACTIVITY THAT IS OCCURRING.**

Scammers are evolving to find new ways of contacting potential targets and, following the introduction of pension freedoms in 2015, they're also perpetrating a broader range of scams, not just the traditional pension liberation scams we're used to seeing. The increasingly broad range of scams and the use of non-traditional channels of contact are making the already difficult task of protecting pension savers even more challenging.

Schemes themselves do not necessarily have the requisite resources or powers to investigate and prevent withdrawals destined for fraudulent schemes and investments. However, requiring all those looking to transfer out to take advice first could be unduly expensive for those with small pots. More could be done to raise awareness of scams through free guidance and engagement campaigns.

Scammers target the pension savings of those approaching or in retirement because, for many, pension pots are the largest asset they will have throughout their life and can represent a significant gain to scammers. Scams targeted at this group can be especially detrimental to victims' wellbeing as they are deprived of income or wealth at a time in their lives when income sources become more limited and they have a lesser chance of financial recovery. Savers in the post-pension freedoms landscape may face a greater risk of being scammed as many will continue to make decisions about how to access their pension savings over the course of later life, not just at the point of retirement.

In 2018 it was estimated that victims of pension scams lost an average of £82,000 each, which is likely to represent a substantial proportion of savings for many victims. However, because not all pension scams are reported by victims and the fact that data is not collected in a comparable and easily aggregated way across the industry, we don't have a comprehensive view of the true scale of the issue, in terms of the number of scams taking place or the amount lost in each scam.

Gaps in data make it difficult to assess the true scale, nature and impact of scams taking place, and in turn this makes it more difficult for regulators and industry to enact improved procedures for protecting savers. Given how much is being lost on average by victims of pension scams, finding a way to better protect savers is vital to improving retirement incomes in later life. A better understanding of the nature of scams and how many people are being affected will help policymakers and industry to improve this process.

The Pension Scams Industry Group (PSIG) has this year carried out a survey with the Police Foundation to establish the scale of scam activity affecting pension scheme members, with data expected to be available in the coming months. PSIG's previous pilot study in 2018 found that the information wasn't readily available at an organisational level, although in some cases it was collected at a scheme level. However, this is a step in the right direction and should hopefully shed more light on the scale of the problem.

**A BETTER UNDERSTANDING OF THE NATURE OF SCAMS AND HOW MANY PEOPLE ARE BEING AFFECTED WILL HELP POLICYMAKERS AND INDUSTRY TO IMPROVE**

**SCAMMERS ARE EVOLVING TO FIND NEW WAYS OF CONTACTING POTENTIAL TARGETS**

# ROLLING UP OUR SLEEVES

The PLSA has been working hard on exploring the new DB Funding Code. *Tiffany Tsang* reports

**THE PENSIONS REGULATOR (TPR) PUBLISHED ITS LONG-AWAITED CONSULTATION ON THE DB FUNDING CODE IN MARCH 2020. THIS NEW FRAMEWORK WILL SHAPE CONVERSATIONS AT BOTH CORPORATE AND TRUSTEE BOARDS FOR SOME TIME, ESPECIALLY WHEN TAKEN TOGETHER WITH THE ECONOMIC IMPACTS OF COVID-19 AND THE FAR-REACHING NEW POWERS PROPOSED IN THE PENSION SCHEMES BILL**

TPR has clearly done a lot of thinking around the eight guiding principles and its regulatory approach as we can see in David Fairs' article on the next page, outlined in the document, but the fine detail will need careful consideration in the coming months. This includes the new funding assumptions, assessments, and proposals to allow schemes to benefit from a strong employer covenant. Schemes will also be asked to concentrate on long-term strategies – and whether to run on, consolidate or buy out – plans that may need re-evaluating after the events of the last few months. Indeed, to reflect the difficulty facing schemes, TPR extended the consultation deadline from June to September 2020. The second scheduled consultation on the code will not be released now until next year, with the finalised code coming into effect in late 2021 at the earliest.

**THE FINE DETAIL WILL NEED CAREFUL CONSIDERATION IN THE COMING MONTHS**

Additional key challenges to consider include the following:

## UNEXPECTED IMPACTS ON SCHEME FUNDING

Analysis from KPMG released in March 2019 estimates that the new funding code could add an additional £100 billion to UK pension deficits – as an aggregate increase across all UK schemes, with the average pension scheme seeing its deficit rise by 50% – and could result in the doubling of pension contributions for a typical employer.[1] This figure will undoubtedly have swelled in recent weeks given the shock caused in global markets in March 2020 by the outbreak of Covid-19.

If the government also decides to move ahead with plans to align RPI to CPIH later this year, there will be further complications to scheme funding. The Pensions Policy Institute[2] estimates that for pension schemes that use RPI-linked gilts, for every £10 million invested, they would see a loss of £1 million in asset value if the changes are made in 2030; this figure doubles if the change is made in 2025. A significant fall in the income received from RPI-linked gilts would lead to a reduction in scheme funding. This funding gap would require higher contributions from employers, which may be difficult to achieve in the current economic climate.

As such, the Code will be coming into force in a much more complicated and potentially challenging period than could have been envisaged.

## MULTI-EMPLOYER SCHEMES

For now, TPR has deferred detailed work on how its principles will apply to atypical employer covenants – which include multi-employer schemes – until the follow-up consultation. However, multi-employer schemes look after hundreds of billions of pounds of assets, so we'd like to see more of TPR's thinking on these more complex structures sooner.

## TPR RESOURCES

If trustees can demonstrate their scheme funding solutions meet TPR's guidelines for a compliant scheme, it can follow the more straightforward but prescriptive fast-track approach. For those who cannot, or choose not to, there will be a bespoke approach offering greater flexibility in compliance. However, questions have been raised about whether TPR has the resources to cope with the demands of the new assessment process if more schemes opt for bespoke treatment than has been projected.

## OPEN SCHEMES

It remains to be seen how many of the new requirements will be applied to open schemes. TPR's consultation states that members of open schemes should have the same level of protection as those in closed schemes. This in principle is correct, but the dynamics and demands are very different and need to be accommodated. With your input and through our committees and Policy Board, we will be investigating how a balance between security and reasonable risk can be achieved.

The DB funding regime is a major priority for the PLSA and its members and we look forward to contributing to the consultation.

1. KPMG (2019) New funding rules could increase DB pension deficits by £100bn. Available from: https://home.kpmg/uk/en/home/media/press-releases/2019/03/new-funding-rules-could-increase-db-pension-deficits.html

2. PPI (2020) How could changes to price indices affect DB Schemes? Available from: https://www.pensionspolicyinstitute.org.uk/research/research-reports/2020/2020-04-01-briefing-note-118-how-could-changes-to-price-indices-affect-defined-benefit-schemes/

# DB FUNDING CODE: IT'S A MATTER OF PRINCIPLE

***David Fairs***, Executive Director of Regulatory Policy, Analysis and Advice, The Pensions Regulator, defends the draft version

**OVER THE LAST FEW WEEKS, THERE HAVE BEEN CALLS FOR US TO RETHINK OR ABANDON THE FIRST CONSULTATION ON OUR DRAFT DB FUNDING CODE. THE ARGUMENTS ARE THAT IT WAS WRITTEN IN DIFFERENT, MORE BENIGN, ECONOMIC CONDITIONS AND IT IS NOW OUT OF PLACE.**

I can understand these sentiments, but I strongly disagree.

At this stage, we are seeking views on what the principles for a sound, resilient funding framework should look like and what they should be seeking to achieve.

These principles build on our past messages on the importance of trustees setting a long-term objective and putting a realistic plan in place for how to get there. This should enable them to manage the bumps along the way and improve the resilience of their scheme to adverse events as it matures.

Many well-run schemes already do this. We are just looking to embed this good practice in our guidance and regulatory approach, taking account of the views from industry on how best to do that.

I also believe the issues the consultation raises are even more important and relevant in the light of Covid-19. There is good evidence that schemes which have managed their risks well, and have built sufficient resilience into their long-term funding strategy, are likely to have fared better as market conditions have worsened. Integrated risk management is needed now more than ever.

## THE IMPORTANCE OF FLEXIBILITY

Of course, what the Covid-19 crisis has also shown is the importance of a flexible funding regime which enables trustees and employers to withstand significant economic fluctuations. We believe our proposals preserve this flexibility. Trustees and employers would have a choice: follow Fast Track guidelines or agree bespoke solutions which take account of their scheme and employer circumstances.

Some have argued that requiring trustees to justify the risks they are taking relative to the Fast Track benchmark undermines flexibility. I don't agree.

The White Paper focused on the need for greater clarity through an agreed standard and the government is looking to require trustees to explain their approach and capacity to bear risk in a statement. It is only right that with greater flexibility comes greater accountability and regulatory scrutiny. Having a benchmark – as we envisage for Fast Track – enables this.

However, it would not, as I have heard some say, force employers to put more money in to the scheme than they can reasonably afford to pay. One of the key principles we have proposed is that recovery plans should be driven by employer affordability. Bespoke would allow schemes longer recovery plans where the employer cannot afford to follow the Fast Track guidelines.

## STRIKING THE RIGHT BALANCE

We think the principles under consultation still stand.

But when we consult on where Fast Track guidelines should be set later next year, it will be essential to have regard to prevailing market conditions and where the majority of the landscape sit at that time. This is to ensure we strike the right balance between risks to members and the PPF and employers' sustainable growth.

We explained in our consultation document that our second consultation would include an impact assessment. We will also consult on our proposed process for setting and reviewing Fast Track guidelines (such as technical provisions and recovery plan lengths) so that they remain relevant and reflect economic conditions.

When it comes to the long-term objective, however, we have been more specific in our first consultation as to what the low dependency funding basis (Gilts + 0.25-0.5%) and timing point for reaching that target (duration 12 to 14 years or equivalent measure) might be. We will review these parameters in light of the change in market conditions since we issued our consultation, informed by further modelling based on a range of economic scenarios. And, of course, we are looking for your views on this.

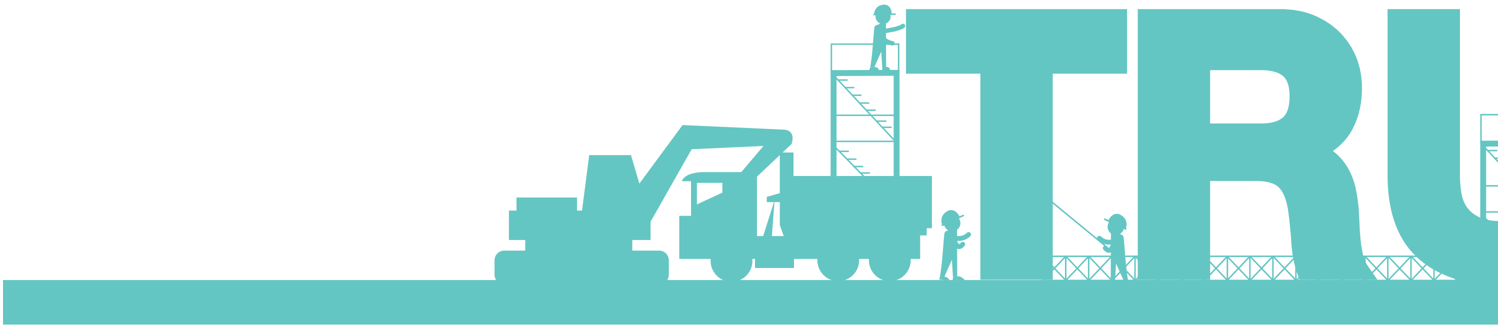
## EXTENDING THE DB CONSULTATION DEADLINE

We are also conscious that many stakeholders, advisers, trustees and employers are busy dealing with the immediate impacts of Covid-19. We decided to extend the deadline for response to 2 September 2020 to make sure that all interested parties are able to give the consultation their full attention. We will continue to review the situation and consider whether a further extension is required.

So, in summary, we believe the principles we have laid out for consultation remain the right ones to focus on. We recognise the challenges the current environment brings and we intend to reflect prevailing conditions in any parameters we set in our second consultation on the DB code later on next year. We are looking forward to a robust and constructive debate and our door remains open for anyone who wants to talk to us about the consultation ahead of it closing.

**SCHEMES WHICH HAVE MANAGED THEIR RISKS WELL, AND HAVE BUILT SUFFICIENT RESILIENCE INTO THEIR LONG-TERM FUNDING STRATEGY, ARE LIKELY TO HAVE FARED BETTER AS MARKET CONDITIONS HAVE WORSENED**

# REBUILDING




Pension schemes must make communications a priority – both now and once the Covid-19 pandemic has passed, writes ***Sara Benwell***

**AMIDST THE CONCERNS ABOUT DECREASED WAGES, RISING PERSONAL DEBT AND ACCESS TO GOVERNMENT HELP, PENSIONS HAVE TAKEN SOMETHING OF A BACK SEAT FOR MANY CONSUMERS DURING THE COVID-19 CRISIS. THIS IS COMPLETELY UNDERSTANDABLE – BUT THE IMPACT FOR THE BRITISH PUBLIC COULD BE SEVERE.**

For many, contributions have dropped due to decreased 'furlough' wages or stopped entirely due to redundancy. It is not inconceivable that previously engaged savers may choose to opt out of auto-enrolment as other financial worries become more pressing.

Kate Smith, head of pensions at Aegon, says: "While [the furlough] arrangement was designed to protect jobs, from a pensions perspective it only covers the employer auto-enrolment minimum contribution. Some employers previously paying more than the auto-enrolment minimum will have been forced to cut back their contributions to reduce costs.

"As a result, pension providers and schemes will need to focus on their engagement strategies more than ever, developing more personalised communications and calls to action. Ultimately, pension savers need to be protected from making hasty decisions that they live to regret."

Looking beyond the pandemic, schemes will need to think carefully about how to re-engage those people who may have opted out or lost focus on retirement savings. In the short term, if members opted out when furloughed, schemes can remind them to consider opting back in rather than waiting for the next triennial AE renewal.

Lynda Whitney, partner at Aon, says: "I challenge DC schemes to think about what they want improved engagement to achieve and then build their plans around that.

"If we start from a pure pensions perspective of 'You should catch up on missed pension contributions' we will not build that important trust. We will still need to set pensions in the wider financial position of an individual.

"For some the step up in pay from a furloughed wage to a full wage will mean they will have scope to save more, for others they will first need help to manage the short-term debt they built up."

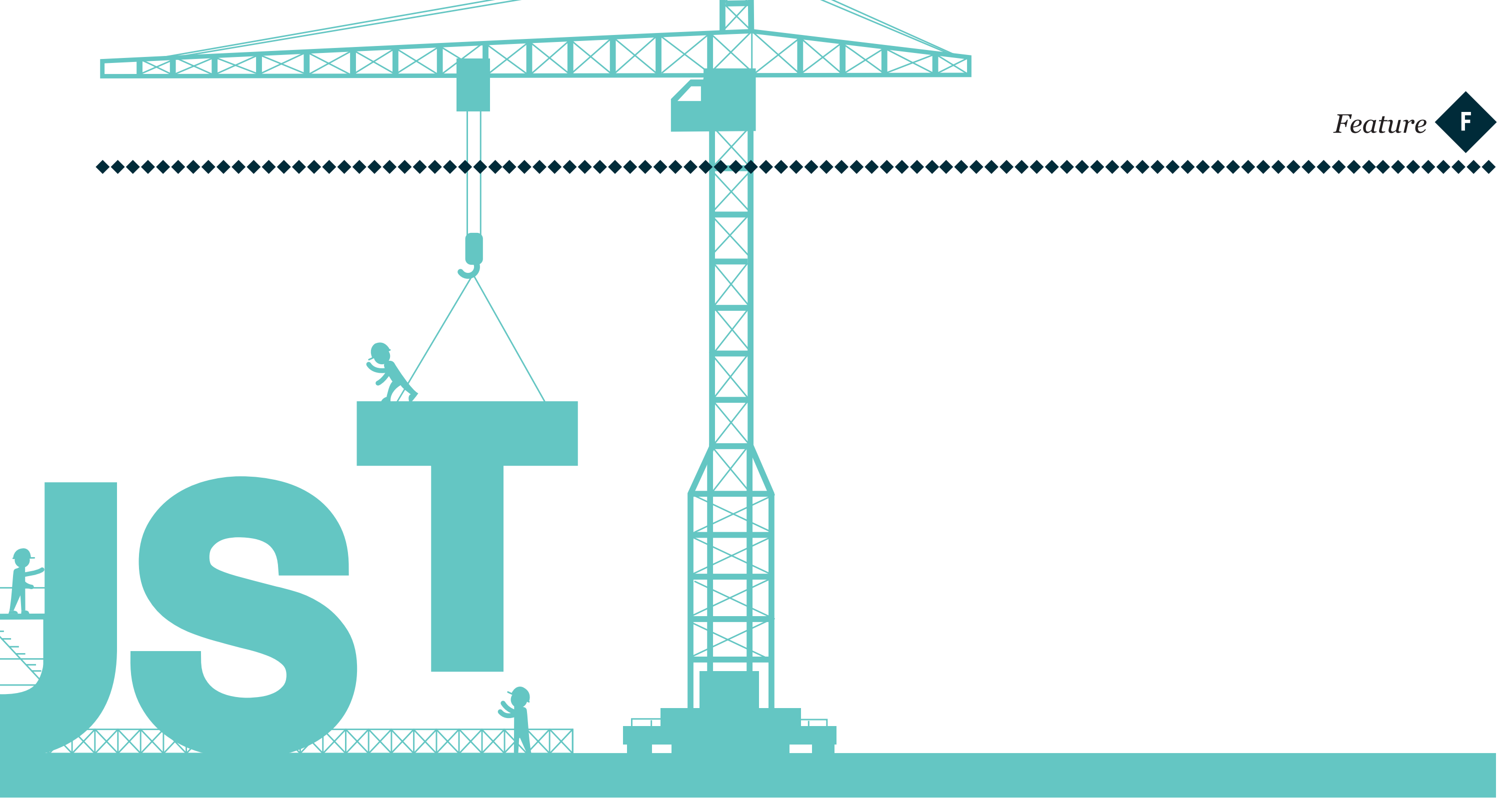
## LIFE IS A ROLLERCOASTER

The first three months of 2020 saw the FTSE 100 suffering its largest fall in 33 years. Trust in the pensions system may be decimated as people see their savings plummeting in volatile stock markets without really understanding why. Research from Scottish Widows found that 70% of members did not even know that their money was invested in the first place.

Pete Glancy, head of pension policy at Scottish Widows, says: "This is a crucial moment to be engaging with savers. First and foremost, there is a need for education around market volatility and the stock market more generally. Short-term ups and downs are to be expected and are a reminder to keep a long-term view on investments where possible."

Aon's Whitney adds: "We will need to take care when the next benefit statement is issued that stock market volatility does not discourage savings. If you normally have a 31 March or 6 April benefit statement date, consider setting those figures in a longer-term context: for example, even with the falls is there more money in their pot than the member contributed?

**ONE MAJOR REPERCUSSION OF THE SPREAD OF THE VIRUS IS THAT PEOPLE ARE SCRUTINISING BIG CORPORATES AND THEIR RESPONSE TO THE CRISIS**



## THE COVID-19 PANDEMIC HAS SHONE A LIGHT ON THE IMPORTANCE OF MODERN, ACCESSIBLE, DIGITAL COMMUNICATION PROGRAMMES

"In the medium term, you can consider what actions you want members to take and where more responsibility can be taken by the scheme. For example, would the trustee selecting a more dynamic investment strategy rather than traditional lifestyling help with the next period of volatility?"

Final or career average pension scheme members are not immune to stock market woes either. Figures in national press headlines are showing the stark realities of defined benefit scheme funding, and people are naturally worried. Since the start of the year, the aggregate deficit figure has surged by over £100 billion. The combined deficit of DB schemes in deficit is now a staggering £254.1 billion. Such figures may well give scheme members the jitters, and some plans will see a rise in pension transfer requests.

While the Pensions Protection Fund should provide reassurance, many people are unaware that it exists or of the protection it offers. There are also unanswered questions about what a dip in salary due to furlough might mean for a career average member's payouts.

James Riley, president of the Society of Pension Professionals, explains: "What is now needed is honesty and education. Schemes need to communicate with members so they understand the position they and their scheme are in. Without knowing the issues members can't make the right decisions and without this you simply can't build trust.

"One of the key issues defined benefit pensions schemes will face is how they balance supporting the sponsor in the short term with the need to fund the pension scheme. This is a delicate judgment and a vital one to get right if we are to maintain trust in the pension system."

Schemes also must think about segmenting communications and focusing on those people who need it most. In particular, this means members who are just about to retire or who have already gone into drawdown. These savers are likely to bear the brunt of stock market jitters, and financial awareness and advice is more important than ever. This is doubly true as regulators warn that criminals are doubling down efforts to relieve people of their hard-earned savings.

Donna Walsh, Head of Proposition Deployment at Standard Life, says: "We focused our support on two distinct categories of scheme members – support for those who have a decade or more to go before retirement, and for those who are only a few years away from retirement or at retirement."

### LET'S GET DIGITAL

It's hard to imagine a trustee or IGC committee that hasn't given some thought to member engagement in recent years, but the Covid-19 pandemic has shone a light on the importance of modern, accessible, digital communication programmes.

Some providers are already on the front foot. Scottish Widows has been letting scheme members who also bank with Halifax, Bank of Scotland and Lloyds see their pensions live for some time now. As a result, the provider has seen member engagement and awareness increase. From this starting point, Scottish Widows has been able to launch specific coronavirus initiatives.

CONTINUED PAGE 31

THE PROFILE BUILDING
PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

# BECOME A PLSA EDUCATION PARTNER!

We have a range of partnership options to showcase your thought leadership and practical expertise to PLSA pension scheme members.

Exclusively align your expertise with an area of pensions policy. Our partners provide content across the year for a series of activities including articles in Viewpoint magazine, online events, sponsorship of our Made Simple Guides and more.

Get in touch to discuss how we could work with you to achieve your objectives.

## Contact our Business Development team

**Adrian Messina**
Business Development Manager
adrian.messina@plsa.co.uk

**Claire Simmons**
Head of Business Development
claire.simmons@plsa.co.uk

**Ben Harwood**
Business Development Manager
ben.harwood@plsa.co.uk

Glancy says: "In response to the Covid crisis, we've promoted video content which helps explain the volatile nature of investments, and that peaks and troughs balance themselves out over time. We have had positive feedback and worked with very low levels of concern expressed by scheme members and very little inappropriate action being taken by scheme members."

Standard Life is another pensions provider that has embraced digitalisation. The provider has added a new Covid-19 section to its Money Plus site where articles cover topics such as 'I'm worried about the current situation – should I sell my investments?'. It is also running a series of webinars with a focus on the impact of the virus.

Walsh says: "We developed a dedicated page on our digital platforms, listened to client and member concerns, and published FAQs with responses to the most burning questions.

"A particularly important example of this support [is] the simple steps we've encouraged members to take in protecting themselves against the potential rise in scams across the market during these times. We've shared these steps and other helpful support through our dedicated Covid-19 online hub."

While providers have been quick off the mark in digitalising their communications, there is some concern that schemes may be lagging behind.

Aegon's Smith says: "Pension providers have led the paperless revolution, by increasingly engaging with pension savers online. Savers can already access their own pension online, carry out transactions online, use online tools, personalised video summaries and webchat. These developments will accelerate and become increasingly personalised.

"Pension schemes should be looking to invest in their members and adopt similar engagement tactics tailored for their membership."

Riley adds: "The pandemic has been a terrible human tragedy, but it has also taught us a few things: almost anything can be done remotely, and people are far more able to engage electronically than we gave them credit for.

"The core of pension scheme communications, particularly for defined benefit pension schemes, has typically remained resolutely paper-based during the digital revolution. The pandemic could be the event that finally convinces pension schemes to move to a more digital engagement strategy."

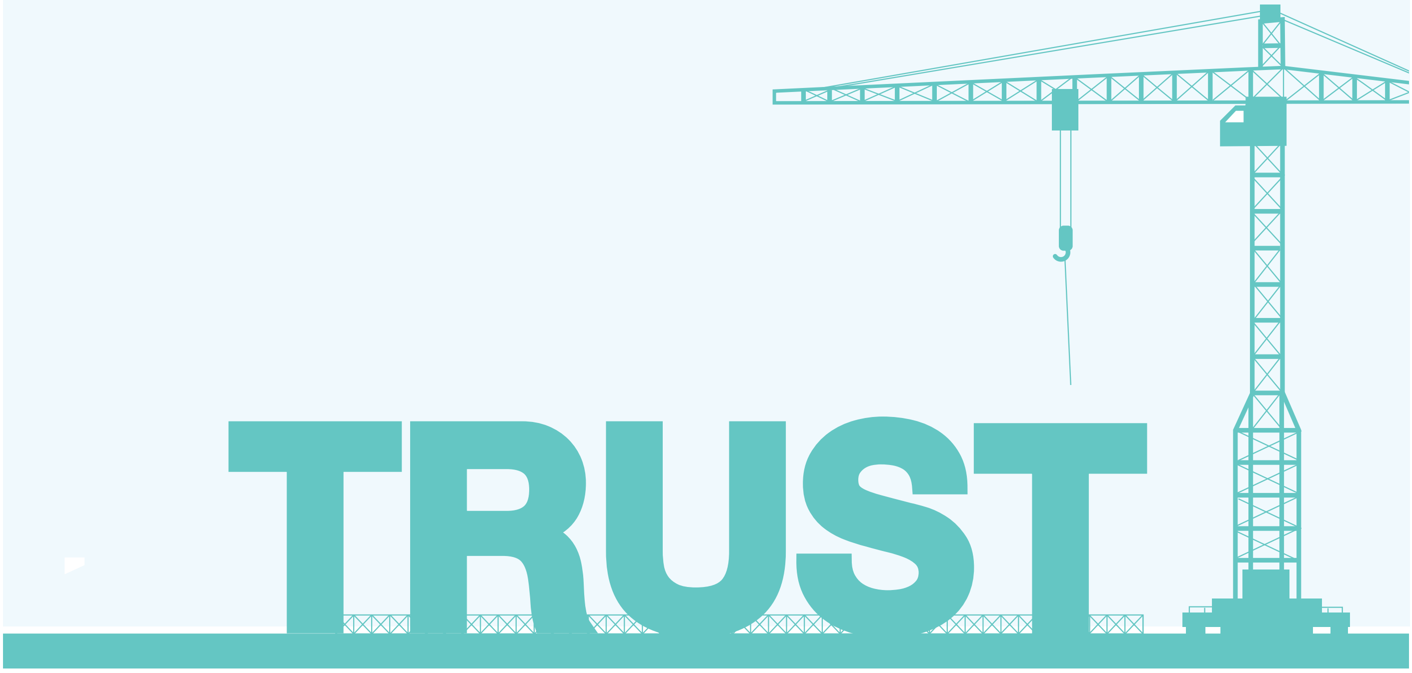
## WHAT A WONDERFUL WORLD

One major repercussion of the spread of the virus is that people are scrutinising big corporates and their response to the crisis. In simple terms, this means distancing themselves from those companies that have treated employees and consumers poorly, and showing loyalty to those that have strived for positive action. From a pensions perspective, this interest in company values may well spread into a renewed focus on ESG.

The SPP's Riley explains: "Making progress on ESG will be important. While schemes are now required to have a policy around ESG, a recent survey of Society of Pension Professionals members showed that little changes have currently been made in practice.

"Eight-five per cent of respondents said that although there is genuine interest in ESG no changes to portfolios have yet been made or that they are seeing most clients treating it as a tick-box exercise. I expect this to change as a result of the pandemic.

"Corporate behaviour… will live long in the collective memory. As consumers, the public is likely to increasingly expect responsible corporate behaviour. As members they will expect better ESG actions from pension schemes too."



# GOVERNANCE, EDUCATION AND SHARED EXPERTISE

caceis
INVESTOR SERVICES

***Pat Sharman***, Managing Director at UK CACEIS, looks back over a second year as a PLSA Educational Partner

**THIS IS OUR SECOND YEAR AS A PLSA EDUCATIONAL PARTNER AND IT'S AN INITIATIVE THAT IS KEY TO THE CORE BELIEFS OF CACEIS. OUR ROLE AS A SERVICE PROVIDER AND SPECIALIST TO THE UK PENSIONS INDUSTRY IS TO EDUCATE AND SHARE INSIGHTS. OUR FOCUS IS COMPLETELY ALIGNED TO THE BROADER PENSIONS INDUSTRY IN WORKING TO CREATE BETTER OUTCOMES FOR PENSION SCHEME MEMBERS. ONE AREA IN PARTICULAR THAT WE ARE VERY FOCUSSED ON IS GOVERNANCE.**

In July 2019, the Pensions Regulator released its industry consultation on the future of trusteeship and governance. This report emphasised the important role that trustee boards play in achieving good outcomes for savers. Indeed, trustee boards have responsibility for a colossal £2.2 trillion* in assets held by 45 million savers.**

The Pensions Regulator went on to highlight that 'effective trusteeship and good governance is the bedrock of any well-run scheme'. It also observed that it was important for boards to have the right structures and processes in place to enable effective and timely decisions in order to manage risk appropriately.


**THE FUTURE DIRECTION OF REGULATORY DEVELOPMENTS WILL CLEARLY INVOLVE GREATER EDUCATION AND GOVERNANCE**

It concluded its report by making three key recommendations on the importance of education and good governance. First, that 'trustees should be able to demonstrate a minimum level of ongoing learning through continuing professional training'. Secondly, that schemes put in place 'robust governance structures that enable effective decision-making'. And finally, as well as achieving value for members, they also need to be able to evaluate and manage the risks to the pension fund. But there is still more work to be done in all three governance areas.

This year, our PLSA Educational programme is looking at data and custody governance, focusing in particular on the importance of good quality data, including cost transparency and ESG.

## LEARNING FROM OTHER MARKETS

The Dutch pension fund market is widely regarded as one of the best in the world in terms of transparency and good governance. Cost transparency has been a feature in the Dutch market since 2015, when all pension schemes were legally required to report on costs under a structured framework to the regulator.

We have been able to transfer much of the experience we gained in the Dutch market and implement it in the UK market. Working alongside UK pension schemes of all shapes and sizes, we have been able to explain what worked – and what didn't – in the Netherlands, and then suggest ways of incorporating these best practices into their own thinking.

If we want to be regarded as a well-governed sector, we need to learn from other countries that are already practising good governance at the highest levels. Consequently, we highly value educational initiatives, such as the PLSA's, where we can share best practice and insights that we are seeing in other pension markets around the important topic of governance.

## INTELLIGENT DATA AND INSIGHT

Good governance is essential in all aspects of the pension fund industry. Indeed, my own passion for governance has been heavily influenced by my work in the pensions industry spanning over 25 years, including six plus years as a trustee for defined benefit and defined contribution pension schemes.

We believe good governance is all about providing timely, accurate data that's flexible enough to adapt to a pension scheme's rapidly changing needs. And despite the longer-term nature of pension schemes, good data is critical in providing insights to help trustee boards in their decision-making and in the interactions they have with asset managers and service providers. This

**IF WE WANT TO BE REGARDED AS A WELL-GOVERNED SECTOR, WE NEED TO LEARN FROM OTHER COUNTRIES THAT ARE ALREADY PRACTISING GOOD GOVERNANCE AT THE HIGHEST LEVELS**

becomes even more apparent when trying to navigate market stress and volatility.

Given that custody and fund administration accounts for around 4.5% of a UK pension scheme's total cost of ownership, we'll be sharing our insights within the PLSA Educational programme into what trustees should expect from a modern-day custodian.

## LOOK THROUGH

Another interesting area of best practice we are seeing in the Dutch pensions industry is the concept of 'look through'. This is an area we'll be sharing more educational insights on through the PLSA Educational Partnership. As pension schemes move to daily administration they can have 'look through' reporting, providing better insights into issues such as illiquidity in pooled funds. As events move quickly, this requires daily fund administration and reporting to provide the transparency that pension schemes require for good governance and decision-making. Having 'look through' also enables trustees to monitor their managers' adherence to the fund's policies, or to ESG factors.

Furthermore, in times of market stress, monthly or quarterly reporting does not provide pension schemes with the visibility they need at the time when they require it most. In the current environment, daily reporting is therefore crucial to good governance in understanding the impact of market volatility and any potential illiquidity issues on the pension scheme's assets.

## ESG MATTERS

One area that we believe will lead to ongoing educational initiatives is sustainability – this involves how pension schemes navigate their reporting requirements on climate change and ESG-related risks. This is a huge topic that involves numerous touch points, and it's not always easy to apply. It can be very difficult, for example, to assess the Environmental, Social & Governance characteristics of a company – and the standards followed by asset managers can differ.

Beyond the regulatory concerns, there's also a generational change taking place as more and more young people focus on social and climate-related issues. Unlike previous generations, they are much more likely to actively avoid companies with shaky ESG credentials. Pension trustees also need to be aware of these dynamics as in coming years their governance processes are likely to come under much greater scrutiny.

## FURTHER EDUCATION

The regulatory, legislative and market environment is rapidly changing and growing in complexity – a fact which has only been amplified by Covid-19. The future direction of regulatory developments, therefore, will clearly involve greater education and governance. We believe that education, in particular, should be very structured in its approach in order to manage this complexity.

Overseeing the hard-earned savings of pension fund members is a tremendous responsibility for everyone in the industry. We believe member expectations will only grow and, as we observed earlier, the younger generation of pension savers will be far more demanding in terms of the levels of transparency and governance they expect.

Given our passion for governance in the UK pensions arena, we view the PLSA Educational Partnership as one of the best ways of passing on our insights into areas such as cost transparency, ESG and custody administration best practice to trustees and pension scheme managers alike. As part of our partnership, we speak at many PSLA events. These include a forthcoming webinar in June, and further events later in the year.

In short, we believe it's our role to educate trustees, working alongside the PSLA in flying the flag for greater scheme governance.

*PLSA

**www.thepensionsregulator.gov.uk/en/document-library/consultations/future-of-trusteeship-and-governance-consultation

# INVESTING FOR GOOD

*Caroline Escott* explains why climate change is still at the top of the responsible investment agenda for the PLSA

**ONLY A FEW MONTHS AGO, WE ALL THOUGHT THAT 2020 WAS GOING TO BE THE YEAR WHERE ANY OTHER GLOBAL ISSUE WOULD STRUGGLE TO COMPETE WITH THE IMPENDING CLIMATE EMERGENCY. LITTLE DID WE KNOW.**

It's clearly right for schemes to be focused on getting to grips with the impact of Covid-19. The PLSA will continue to support our members in doing so. But we'll also continue to help private and public sector schemes in 2020 and beyond to 'Invest for Good'. This will include building upon our previous 'Worth of the Workforce' work[1] to highlight the continued importance of the 'S' in ESG in a Covid-era world; as well as ensuring schemes can make sense of the rapidly evolving regulatory, legislative and product landscape on climate investment.

The PLSA believes that schemes, as long-term investors, have a fiduciary duty to consider climate risk and opportunities. We've worked with DWP, TPR, MHCLG, the FCA and others to ensure that the new regulatory duties on both trust-based and contract-based schemes are proportionate and pragmatic, and to provide practical guidance for those schemes at an early stage of their responsible investment journey.

1. The PLSA has a significant body of research on the materiality of workforce issues – including health and safety practices, use of agency workers, approach to mental health, workforce diversity and engagement – to corporate success. Our resources for investors, including metrics to help them evaluate corporate disclosure on the workforce can be found in our online "Stewardship Central" resource.

## THE PLSA BELIEVES THAT SCHEMES, AS LONG-TERM INVESTORS, HAVE A FIDUCIARY DUTY TO CONSIDER CLIMATE RISK AND OPPORTUNITIES

### THE YEAR AHEAD

Our 2020 work builds on and deepens our policy programme in this area, not least because the changes which came in in 2019 were only the start. The next few years will see schemes required to disclose how they have *implemented* the ESG and stewardship policies they discussed in their SIP; invest in line with new statutory guidance (LGPS funds); document their asset manager arrangements and their voting behaviour; and report using the Taskforce for Climate-Related Financial Disclosure (TFCD) recommendations ("large asset owners"), to name but a few – those are just the things that we know about now. With the UK still committed to hosting the delayed COP26 climate talks, our policymakers will remain keen to demonstrate their global leadership in tackling climate change.

The PLSA is unique in that our membership comprises actors from across the institutional investment sector. We're therefore well placed to see that climate change is a whole-of-investment-chain issue, which needs whole-of-investment-chain solutions. As the end client, schemes and funds are in a privileged position, being able to use their influence to draw good climate investment practices up from the companies through their intermediaries. But they need others – including asset managers, consultants, lawyers, custodians and the investee companies themselves – to work in alignment with their goals, and they need a policy framework which allows this to happen.

Several barriers remain, from poor quality and inconsistent data from many companies and investment service providers, to prevailing confusion around definitions of responsible investment and continued gaps in resource and expertise at every stage of the chain. The PLSA is committed to working with its members, policymakers and other industry bodies to finding practical and policy solutions which overcome these challenges.

This year, we have a significant programme of policy work dedicated to Investing for Good. We continue to provide guidance to 'fill in the gaps' on schemes' understanding on climate. For instance, we beefed up our climate voting guidance in our February *Stewardship Guidance and Voting Guidelines 2020* report, we sat on the Pensions Climate Risk Industry Group (PCRIG) to produce TCFD guidance for schemes, and we're about to publish our guidance for schemes on producing implementation statements on ESG and climate.

### MEMBER INPUT

As with all our work, member input will be vital. Our Chair, Richard Butcher, will be holding virtual roundtables over the summer with both fund and business members to find out more about the challenges they're facing on climate investment. This will then be used to shape our emerging policy and industry solutions in a 'Recommendations for Action' report to be published in the autumn.

We're also asking our members for examples and case studies of how they have approached climate and ESG factors in their portfolios. What influenced the approach? What steps were taken? What challenges were faced and overcome, and with what outcome? Not only will this be an opportunity for PLSA members to showcase their work, but we'll pull the responses together into online resources so our fund members can better learn from each other.

Like Covid-19, climate change has global system-level consequences. How well schemes invest with an eye to mitigating the risk climate poses to their portfolio will have an impact on the value of beneficiaries' savings as well as on the very nature of the world into which savers will retire.

## CLIMATE CHANGE IS A WHOLE-OF-INVESTMENT-CHAIN ISSUE, WHICH NEEDS WHOLE-OF-INVESTMENT-CHAIN SOLUTIONS

We want to hear from you. Please contact **InvestForGood@plsa.co.uk** or get involved in the Twitter conversation using **#PLSAInvestForGood**

# A HELPING INVESTMENT HAND ON ESG

The Pensions Minister calls climate change “the defining point of the 21st century”. ***Elizabeth Pfeuti*** explores what this means for UK investment portfolios

**SINCE THE START OF THE YEAR, FIRES, FLOODS AND FAMINES HAVE SWEPT AROUND THE GLOBE AT AN ALARMING RATE, ONLY BEING PUSHED DOWN THE NEWS AGENDA BY DISEASE.**

But if corporations and governments were scrambling to contain Covid-19 – and its economic impact – as delegates arrived in Edinburgh for the PLSA Investment Conference, a firmer plan was about to be announced to tackle a longer-term issue.

Amid the current gloomy outlook, there is some good news: pension funds have the power to slow climate change. With trillions held in portfolios around the world, pension funds – along with other institutional investors – are well placed to tackle the “defining point of the 21st century,” according to Minister for Pensions and Social Inclusion Guy Opperman.

## “INVESTMENT FOR GOOD”

Across six dedicated sessions, delegates from all around the UK heard why the ‘E’ of ESG has become such a focus for the industry.

PLSA Chair Richard Butcher cited the move as one towards “investment for good,” but clarified that there was more behind it than just being the right thing to do.

“Climate risk is a systemic risk that affects every sector, every business model and, at its extremes, every company,” announced Butcher in his opening address. “And that means, as investors or advisors to investors of over a trillion pounds, it affects us, the members of the PLSA.”

Opperman was one of many speakers to agree that climate change posed a serious, material threat to portfolios as it was the largest risk facing companies whose stock and bonds they hold.

“We simply cannot ignore it. To do so would be a dereliction of our duty,” said Butcher, who urged delegates to “go beyond minimum compliance” and do more to tackle the risk posed by climate change.

However, for many trustees, even if the ‘why?’ question on monitoring and managing climate risk in their portfolios had already been answered, the ‘how?’ remained outstanding.

“Understanding what good looks like is going to be one of the difficulties going forward, but that doesn’t stop you starting the process right now,” said Opperman. “Schemes have clearly got to move away from high-level box-ticking disclosures to make much fuller reporting.”

## CHECK YOURSELF BEFORE YOU WRECK YOURSELF

One of the ways to do this is already being enshrined into law: pension schemes – starting with the largest – and the companies in which they invest will be obliged to fully reveal their carbon footprint. By 2022,

## THE $2 TRILLION GLOBAL SPEND EACH YEAR ON OIL NEEDS TO GO SOMEWHERE ELSE – THIS IS THE LARGEST OPPORTUNITY I HAVE SEEN IN MY LIFETIME

large asset owners and companies will need to complete a report that conforms to the demands from the Task Force on Climate-related Financial Disclosures (TCFD). Schemes will be answerable to The Pensions Regulator (TPR), which can issue fines for non-compliance.

Over time, this measure will be introduced for smaller schemes, many of which have not yet started to address how they will complete the task. Therefore, to help trustees begin to tackle these new requirements, the Pensions Climate Risk Industry Group (PCRIG) has created draft guidance and a "quick start guide", which was launched at the conference.

PCRIG was set up in summer 2019 by the Department of Work & Pensions and TPR, along with policy leads at the PLSA, specialist law firm Sackers and others from the sector.

Using the TFCD guidance, trustees should be able to start thinking about and stress-testing their portfolios regularly, according to Stuart O'Brien, chair of PCRIG and partner at Sackers. And while this will require new information, O'Brien said that being used to setting and implementing risk management and investment strategies would have prepared trustees well for this additional element in their governance processes.

Russell Picot, trustee chair of the HSBC Bank Pension Trust, called the TFCD reports a "weapon to force board rooms to consider climate change". It could be used to make the matter a normal, rather than a niche, conversation to have with company directors, he said.

"Climate change is a growing financial risk," said Picot. "Even if you do nothing about it, it is still there in your portfolio."

### HELPING HANDS

The PLSA, as the representative group of all UK pension schemes, understands that each member scheme – and its trustees – is at a different starting point regarding ESG reporting. To try and help and inform those just beginning to monitor and measure climate change disclosures, the organisation is hosting a series of roadshows to educate, inform and assist on the issue.

The roadshows will highlight the five ways the PLSA is helping its members embrace and tackle climate change reporting: data, guidance, standards and rules, thought leadership and direct contact with schemes.

This roadshow had an unexpected inaugural stop at the Edinburgh conference, as Covid-19 saw sessions altered to fit around missing speakers. In a change to the published panel, Butcher was joined by Caroline Escott, PLSA policy lead for investment and stewardship, and chief investment officer of The Pension Trust (TPT) Cliff Speed to look at the practicalities of implementing TFCD reporting.

"The days of 'Shall we consider this?' are gone," said Speed. "This is no longer a niche conversation. It affects all asset classes."

Butcher reminded delegates that pension funds were being pushed quickly by government into taking on this new responsibility.

Indeed, 50% of delegates said, through a show of hands, that they felt pressure from regulators – and their own members – to step up their pace on climate change measurement and mitigation.

But Speed, whose TPT already implements an ESG strategy across its entire portfolio, urged trustees to avoid a knee-jerk approach to creating their own.

"Look at what is going to make a difference and choose what you think is the most important," he said. "Don't try and do things perfectly. Perfect is the enemy of good."

There are many different methods for monitoring and measuring carbon footprints, so trustees need to figure out which suits them the best, he said, adding that they will probably have to rely on providers to do much of the "heavy lifting". This point had been mentioned earlier in the summit and threw light on how providers, such as fund managers and consultants, played a role.

Some 56% of delegates attending Butcher's opening plenary said there was a lack of good disclosure from fund managers, with 65% demanding better information from providers overall. The message from the summit was clear from pension funds and politicians: demand better data or dump the provider.

"You're going to be asking what holdings do they have, why are they in high-risk firms? And you are going to need to get intelligent, non-greenwashed, verifiable answers from fund managers about what they are doing to manage those risks," Opperman told delegates. "If you're not getting those answers, you should dismiss them and move on to someone else."

For David Hickey, portfolio manager and ESG lead at Lothian Pension Fund, failing to ask these questions could also lead to missed opportunities.

"You'll see changes in the market, and they are going to be quick," said Hickey. "For example, the $2 trillion global spend each year on oil needs to go somewhere else – this is the largest opportunity I have seen in my lifetime."

For Hickey and others, time spent on assessing and monitoring climate change risk is a key element of pension fund governance — and one that can help improve returns.

It's also an opportunity for pension funds to work together, according to Picot at HSBC, and share best practice to improve not just the environment, but performance across the sector.

"We need to make a concerted effort to get finance involved in ESG and make it quantifiable," he said. "Pension funds have influence over which path we follow."

## AMID THE CURRENT GLOOMY OUTLOOK, THERE IS SOME GOOD NEWS: PENSION FUNDS HAVE THE POWER TO SLOW CLIMATE CHANGE

# FINDING OUT WHAT OUR MEMBERS REALLY THINK

Now more than ever the PLSA must stay close to its members, says ***James Walsh***, Head of Membership Engagement

**WHAT DO PLSA MEMBERS REALLY THINK? WHAT ARE THE ISSUES ON THEIR AGENDA? AND WHAT MORE COULD WE BE DOING AT THE PLSA TO HELP THEM?**

My colleagues Cheryl Wilkinson, Helen Lamb and I are the PLSA's Membership Engagement team and it's our job to keep our colleagues supplied with answers to these questions. As our team name suggests, we do this by engaging with our members and channelling the results back to the PLSA's CEO, senior management and Policy team.

In normal times, we do as much of this as possible by face-to-face meetings. We get on trains and on the road and visit our members around the country. If we can't meet face-to-face (and obviously that's been impossible in recent weeks), then there's always the telephone. We write up notes of these meetings, circulate them to colleagues and summarise them in quarterly reports, so there's a constant flow of information from members to staff. Our CEO Julian Mund gets involved as well; knowing our members is a central part of his role.

Despite the Covid-19 crisis, the first three months of 2020 were a record-breaker for the team, with 36 members visited and 26 interviewed by phone. We have masses of up-to-the-minute information 'from the field'.

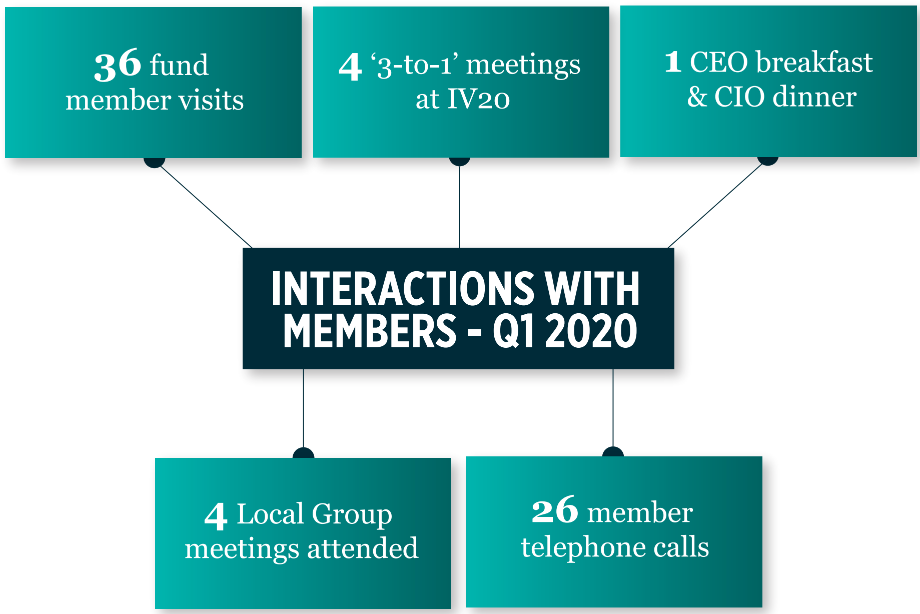
It's amazing how much use we can get from this reservoir of reports. What topics should we highlight in our webinars and events? The answers are in the issues most consistently raised when we talk to members. Speakers for our conferences? How about that scheme manager who did great work on data-cleaning or cyber risk or governance – wouldn't they make a great case study? What should we tell the Pensions Regulator about how schemes are coping with Covid-19? Again, we can draw on what members have told us.

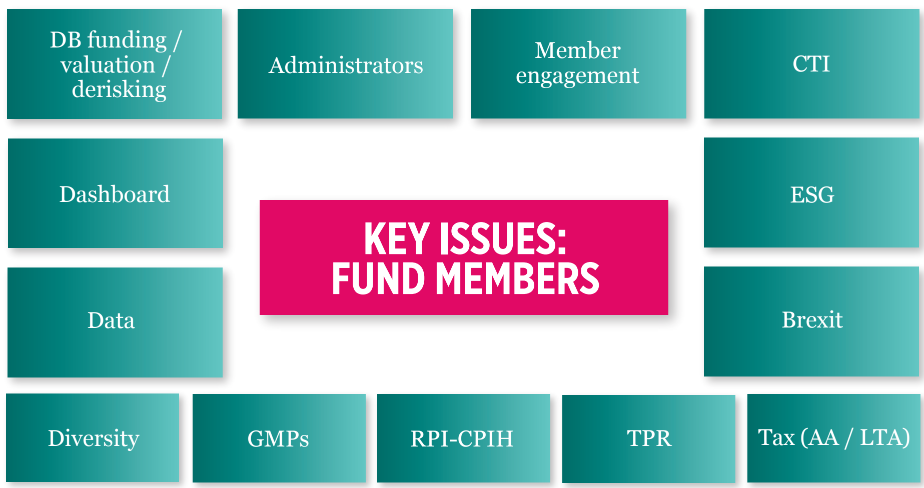
> **I'VE FOUND OUR MEMBERS' SENSE OF CALM COMPETENCE A REFRESHING COUNTERPOINT TO WHAT WE SEE IN THE MEDIA**

Many of the same issues come up time and again when we talk to members:

- The top policy issues raised by members in the first quarter of the year were (in order) Guaranteed Minimum Pensions, DB funding, and the government's proposals to align RPI with CPIH. Taxation issues (Annual Allowance and Lifetime Allowance) and ESG/responsible investment challenges were not far behind. All this helps to influence the priorities we set for our Policy work, events programme and publications.
- Many of these issues featured in our conversations with local authority funds as well, but they also focused on data challenges (set to be exacerbated by the McCloud case) and the mismatch between their under-pressure resources and the increasing number of employers they have to monitor, not least due to the growth of academies.
- There was plenty of positive feedback on the PLSA and our services. Members particularly like our Retirement Living Standards, Made Simple Guides and fortnightly PolicyWatch bulletin, but many of them are also pressing us to deliver more online training and there's an appetite for our staff to present at trustee board meetings – all good challenges for us to meet.

The Covid-19 crisis inevitably became a key topic for meetings in the last few weeks of the quarter, though the overall message was that schemes were coping quite well and were making sure they continue with their highest priority – ie paying pensions. Although there's no room for complacency, I've found our members' sense of calm competence a refreshing counterpoint to what we see in the media. The key characteristics of pension schemes – investment for the long term, diversification, good governance and robust systems – are really proving their worth right now. Let's hope that continues to be the case.




Covid-19 or no Covid-19, the PLSA's member engagement work continues. If you'd like us to set up a meeting with you, then please let me know on ***james.walsh@plsa.co.uk*** Staying close to our members is more important than ever at the moment.

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LEGAL UPDATE

# PENSIONS LAW: LEGISLATION AND CASES – CARRYING ON IN DIFFICULT TIMES

*Loreto Miranda* explores recent legal developments beyond the Covid-19 crisis

**PENSIONS LAWYERS HAVE BEEN WORKING ALONGSIDE THE PENSIONS INDUSTRY TO FACE THE CHALLENGES POSED BY THE COVID-19 PANDEMIC. HOWEVER, OTHER LEGAL DEVELOPMENTS HAVE CONTINUED. HERE WE SELECT A FEW HIGHLIGHTS:**

**The Pension Schemes Bill 2019-20: on pause but not forgotten.** At the time of writing, the Bill remains in parliamentary progress. During earlier stages, questions were raised on the wide scope of the new criminal offences. Next should come the House of Lords' report stage, allowing a further opportunity to examine and make amendments to the Bill. No date is fixed for this; understandably, parliamentary time has focused on emergency health legislation. But with the Pensions Regulator's annual funding statement[1] referring to the Bill, most practitioners expect it to resurface on the parliamentary agenda this year.

**Pensions Regulator: criminal investigatory powers reinstated.** In April, draft statutory regulations[2] were laid before Parliament permitting the Regulator to obtain communications data (on the parties and method, but not the contents) for criminal investigations. These powers had been removed, but the Home Office now considers them necessary given the increasing complexity of crimes, to allow the Regulator to make initial enquiries before police involvement.[3]

**High Court: reminder that changing indexation/ revaluation rates may depend on the specific rules.** Two judgments considering the ability of private pension schemes to switch from RPI to CPI concluded there was little scope to do so under the specific rules; in one, the court found the rules had "hard-coded" RPI as the relevant index,[4] and in the other it was held the rules did not contemplate any form of "functional" replacement of RPI.[5]

**High Court: liability of SIPP providers clarified.** A SIPP provider, operating on an "execution-only" basis, successfully defended itself against claims brought by an investor for losses he allegedly suffered when they accepted his instructions regarding an apparently unsuitable investment. The court also heard submissions from the FCA. It held that the obligations imposed by the FCA's Conduct of Business rules must be construed in light of specific contractual arrangements with customers.[6] The claimant is understood to be considering an appeal.

**Upper Tribunal: pensions tax relief not claimable on in-specie contributions.** HMRC successfully appealed against a lower decision to allow pension tax relief at source on in-specie contributions to a SIPP. It was held that the statutory regime referred only to payments of money. Given the potential inconsistency with HRMC's guidance, a further appeal is possible.

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. *Pensions Regulator: Annual Funding Statement 2020 (30 April 2020)*
2. *Draft Investigatory Powers (Communications Data) (Relevant Public Authorities and Designated Senior Officers) Regulations 2020.*
3. *House of Lords: Secondary Legislation Scrutiny Committee: Thirteenth Report (HL Paper 57) (7 May 2020)*
4. *Carr v Thales Pension Trustees Ltd [2020] EWHC 949 (Ch) (22 April 2020)*
5. *Ove Arup and Partners International Ltd v Trustees of Arup UK Pension Scheme [2020] EWHC 1064 (Ch) (5 May 2020)*
6. *Russell Adams v Options SIPP UK Ltd (formerly Carey Pensions UK LLP), FCA intervening [2020] EWHC 1229 (Ch)*

# SEEKING OUT THE POSITIVES


What lessons can trustees and pension schemes take from Covid-19, asks PMI President ***Lesley Carline***?

**THE PANDEMIC HAS WROUGHT HAVOC UPON NOT ONLY THE UK BUT THE POPULATION OF THE WORLD, WITH VERY FEW COUNTRIES LEFT UNAFFECTED. WHERE COUNTRIES HAVE BEEN LUCKY ENOUGH TO AVOID THE DISEASE AND ITS RESULTING DEATHS, THEY HAVE NOT BEEN UNTOUCHED BY THE TURMOIL AND DISRUPTION TO THEIR ECONOMIES – SOME OF WHICH ARE QUITE FRAGILE.**

Amongst all the tragedy, life has continued, as we try to adopt the very British 'just get on with it' approach. However, we have learnt to live with the new norm and adapted to new ways of working, and pension schemes and trustees have not been immune to the effects of the pandemic. Some may say that this has resulted in positives and allowed good governance at this critical time to be maintained.

One positive has come from the need to react quite quickly, which is very much at odds with the traditional trustee board who generally meet quarterly, with papers submitted well in advance and decisions made and implemented, or delayed for another quarter if further investigation is required. Pressure has been put on trustees to make decisions on valuations, employers have requested easement of deficit repair contributions, investment consultants want direction and a range of other parties continue to demand services from trustees, alongside business-as-usual work.

Trustees have had to review their Trustee Deed and Rules to address several questions. Are they allowed to meet virtually? Do decisions have to be made at a formal trustee meeting or can they be made outside of the meeting via emails? A positive outcome from Covid-19 has been trustees embracing technology and being more willing to work outside the 'norm' of periodical trustee meetings. We know many trustee papers are online using various document-sharing and board management tools, but being unable to meet face to face has forced trustees to move into the 21st century.

Some schemes have been forced to do away with the requirement for wet signatures. Many administration organisations are delighted trustees are finally agreeing to digital signatures. A silent hurrah for increased efficiency. Member communications has been sharply drawn into focus, members' fears of job security and market turmoil have seen trustees sending out comfort messages, and administrators are being asked to watch out for increased scamming.

Trustees themselves have needed to take a deep breath to avoid making hasty decisions, remembering that investment is about the long game and that we will recover from this.

We may recover, but as we do trustees need to keep a watchful eye on how their advisers and providers cope with the return to the old normal. Administration providers during lockdown have prioritised certain types of cases, given others less priority, and some projects have been put on hold. Trustees should monitor how providers plan to get back on track and if delays have had any material impacts. Providers expect to see increased activity in those aged over 55, who may have enjoyed being at home and now look to take early retirement. Those experiencing furlough or being made redundant may seek ways of getting to their money and we may see an increase in transfer requests as a result.

Alongside all this, trustees must continue to work with employers to ensure that member benefits are as secure as they can be. Covenants may have been weakened and valuations may look better or worse, but as trustees are still not set to meet face to face anytime soon, new virtual working skills that allow them to be more responsive should be taken forward to the future.