Viewpoint

TURN, TWIST, REPEAT:

HOW TO RESTORE ORDER, BUILD NEW PATTERNS AND RESHAPE PENSION SAVINGS IN 2021

The official journal of the Pensions and Lifetime Savings Association

Issue 4 2020

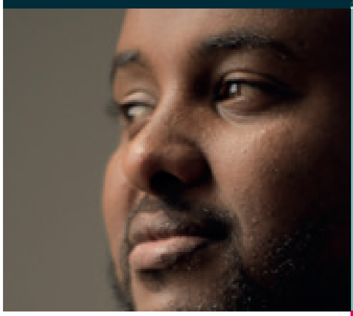
EMERGENCY SAVINGS AND RETIREMENT SECURITY: A VITAL DOUBLE-ACT

SUSTAINABLE INVESTMENT: GILTS TURN GREEN

FREEDOM AND RISK: FUTURE DIRECTIONS FOR DC DECUMULATION

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

CONTENTS



PENSIONS AND LIFETIME SAVINGS ASSOCIATION

PLSA Team:

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

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

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

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

Claire Simmons
Tel: +44 (0)20 7601 1735
Email: claire.simmons@plsa.co.uk

ISSN 2398-7626

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

24 Chiswell Street London EC1Y 4TY

CEO'S *Viewpoint*

Julian Mund looks back on a year like no other.

WELCOME TO THE FINAL ISSUE OF *VIEWPOINT* OF A VERY STRANGE YEAR. IT'S BEEN A DIFFICULT YEAR TOO, BUT ONE FULL OF OPPORTUNITIES TO LEARN AND IMPROVE. AS IT DRAWS TO A CLOSE, I KNOW MANY OF YOU FACE DIFFICULT CHOICES ABOUT YOUR RESOURCES AND YOUR ORGANISATIONAL GOALS. IN 2021, WE'LL BE HERE TO DRIVE POLICY THAT WORKS FOR YOUR SCHEME OR YOUR CLIENTS, TO BRING THE INDUSTRY TOGETHER – WHEREVER WE ALL ARE – SO YOU CAN BUILD YOUR NETWORK, TO LEARN AND SHARE YOUR KNOWLEDGE, AND TO GIVE YOU PRACTICAL SUPPORT IN MEETING THE CHALLENGES AHEAD.

It's what we do, and what we've done this year too.

When I look back over 2020 I find it quite hard to take it all in. A year that began in our usual routine of getting to work on our big policy projects while preparing for Investment Conference was becoming very unusual by the time we arrived in Edinburgh in early March. The atmosphere was fantastic though – perhaps because all of you who joined us knew it would be the last conference for a while.

TAKING POLICY DEVELOPMENT ONLINE

We've all adjusted to the new challenges and opportunities of online working this year. You can see the benefits in policy work like our Investing for Good campaign, which involved 80 members joining a series of virtual roundtables that led to our report *A Changing Climate*. We launched that at Annual Conference alongside final recommendations on a new approach for DC decumulation signposting and standards, and research into your views on key trends for the future of pensions. All three are covered in this issue.

But, reflecting your need for practical support – perhaps more than ever this year – the most downloaded pieces of policy work were our guidance and templates on DC Chair's Statements and Implementation Statements. Made Simple Guides on GMP Equalisation, ESG-related areas and Diversity & Inclusion have been very popular too.

Going into 2021 with the expectation that large live events will continue to be difficult or impossible, continuing to deliver for you on policy will be a crucial focus.

WHITEHALL, ON ZOOM

Online working hasn't affected our ability to lobby and advocate on your behalf, either. Early in the pandemic we defended automatic enrolment contributions and won flexibility from regulators. We used our parliamentary network to successfully amend the Corporate Insolvency Bill to prevent pension funds being pushed down the list of creditors. And turning to the Pension Schemes Bill, we've been making the industry's case on Clause 107 on criminal sanctions, the pensions dashboard, and climate change.

A NEW WORLD OF EVENTS

Annual Conference was one of four online events this autumn. We've also put on more than 25 webinars including our LA Live series in May. Digital conferences have presented an interesting journey. Finding the right programme structure and mix for a digital event hasn't been easy but we've been able to secure some of our strongest speaker line-ups. Networking opportunities and event atmosphere were always going to be harder to create with a remote audience but we've been able to welcome hundreds of members who wouldn't normally be able to attend events, and engagement with the sessions has been excellent.

I've always felt that we can't rely on our reputation for real-life events in an online world, and therefore we have to do more than simply try to recreate what we usually do for a WFH audience. I'm pleased with progress, but going into next year's Investment Conference, we'll be improving on everything we've done over the past 10 weeks.

TIME TO RENEW AND RECHARGE

But of course, before we make those final preparations for early March, and get to work on next year's policy priorities, we have Christmas. While the strangeness will continue, I expect there will be plenty of good cheer – in limited numbers. I wish you all a very happy festive period, and I look forward to seeing you next year.

Best wishes,
Julian Mund


For professional clients only
AXA Investment Managers
Cashflows: built to see you through
Enjoy the benefits of a well-crafted portfolio
Paying members' benefits as they arise can be a major challenge for pension trustees. With our 20-year heritage of investing to meet complex cashflow requirements, we work with you to build and maintain a portfolio that aims to provide the certainty you need to deliver on your scheme's long-term objectives.
Investments involve risks, including loss of capital.
Find out more about AXA IM's sustainable cashflow strategies:
INSTITUTIONAL.AXA-IM.CO.UK/EN/CASH-FLOW-DRIVEN-INVESTING

INVESTING FOR GOOD

Climate change has made ESG into a critical investment issue. The PLSA is stepping up on behalf of its members, reports ***Joe Dabrowski***.

WHEN THE SUMMER 2019 EDITION OF *VIEWPOINT* COVERED THE RISE OF ESG – ENVIRONMENTAL, SOCIAL AND GOVERNANCE – FACTORS IN ITS ARTICLE *'IS THIS THE YEAR ESG WENT MAINSTREAM?'*, I'M SURE NO-ONE COULD HAVE PREDICTED JUST WHERE THAT STORYLINE WAS ABOUT TO GO. IN JUST A YEAR WE HAVE SEEN AN END TO TRAVEL AS WE KNEW IT, A FUNDAMENTAL CHANGE IN THE EXPECTATIONS OF BUSINESSES IN RELATION TO THEIR STAFF, AND A SIGNIFICANT WAKEUP CALL IN THE FORM OF THE BLACK LIVES MATTER PROTESTS.

It goes without saying that these societal issues have influenced the world of pensions and investments. The past few months has seen film director Richard Curtis launch a campaign to persuade individuals to engage with their pensions on ethical issues (promising that "Sexy, fun, life-changing, world-changing pensions" are on their way in 2021).

It's clear from reading any financial publication that ESG – and in particular climate change – is now not just mainstream, but something of a hot topic. A recent Aviva survey found that more than half (55%) of individuals with investments felt that the pandemic had had an impact on the likelihood of them taking ESG into account when deciding where their money should go. And transaction network Calastone found that the amount of new money invested in ESG equity funds between April and July 2020 exceeded the combined sum for the previous five years.

It's now clear that, by the time the much-discussed COP 26 happens in Glasgow in November 2021, it will be to a very different backdrop to the one it expected to have in its original slot in 2020.

So when the PLSA launched a Call for Evidence, and a series of roundtable discussions, on the issue of climate in the early days of lockdown, it came as no surprise to us that participants were strongly of the view that the risk posed by climate change was both real and something they felt would and could be addressed. Indeed, despite recognition of a number of practical challenges, it was notable that all corners of our membership – funds, asset managers, advisors – had both the will and the desire to act to ensure that pension schemes manage the financial risks of climate change and the transition to a greener economy.

ESG – AND IN PARTICULAR CLIMATE CHANGE – IS NOW NOT JUST MAINSTREAM, BUT SOMETHING OF A HOT TOPIC

A CHANGING CLIMATE

The subsequent report, *A Changing Climate*, was launched at our Annual Conference in October. In it we set out seven issues that our members told us stand in the way of investing in a climate-aware way, as well as the solutions that the pensions sector, wider financial services and government should prioritise.

- **A lack of clarity in definitions:** Members told us it was not always clear what 'climate-aware investing' actually means, and that the wide range of definitions and language is confusing. The PLSA is therefore recommending a joint government/industry taskforce to look at this.
- **Poor-quality data:** It was clear that the lack of consistent data and reporting is hindering pension funds' ability to invest intelligently for a carbon-constrained future. As a result the PLSA will be lobbying for the widespread adoption of the TCFD reporting framework, and more measures to increase climate reporting throughout the investment chain.
- **Lack of expertise in climate issues:** We heard from members that they felt there was a lack of expertise in trustee boards and in the investment industry on the matter. The PLSA will therefore work to encourage more industry-led training and guidance.

- **The need to set out requirements more clearly:** If pension schemes are to deliver on an intention to invest in a climate-aware fashion they need to articulate that intention clearly enough that it will be delivered by their agents, including in investment mandates, RFPs, DDQs and service level agreements – and they need to hold their agents to account for delivery against those intentions.
- **Better climate stewardship:** Our discussions confirmed that stewardship remains a key element of effectively influencing companies on climate change. The PLSA has therefore committed to working to promote and enable this in a number of ways, including finding solutions to the challenges of voting in pooled funds.
- **The need for a better supply of climate products:** Pensions funds told us they felt frustration at the lack of investment products that meet their needs. The PLSA committed to continuing its lobbying work for a Green Gilt.
- **The challenges of communication:** We heard from the discussions that funds found it difficult to speak to beneficiaries and stakeholders about the work they're doing on climate issues. As a result, the PLSA will be exploring an ESG Quality Mark, and building on existing work to support members in this area.

CHANGE IN ACTION

Such is the pace of change in this policy area, we're already seeing a number of these recommendations moving forward. In his November statement on the future of financial services, Chancellor Rishi Sunak not only set out a roadmap for full TCFD adoption – an important step in enabling pension funds to get better information from elsewhere in the chain – but he also confirmed that the government will launch a taxonomy to enable consistency on green definitions, another of the PLSA's recommendations.

It was also announced that the government plans to launch the first Green Gilt in 2021, another lobbying priority for us this year. At the time of writing there has been very little detail on these announcements, but see page 34 for an update.

It's not just in government that we're seeing these issues unfold. We've been pleased that the International Financial Reporting Council seems to be moving forward with plans for Sustainability Reporting Standards, another positive step to help funds access better information on their investments, and one which the PLSA has long supported.

However, the increased interest in these topics over the past few months brings both advances and challenges. The PLSA shared the concerns of many funds that the recent drive for an amendment to the Pension Schemes Bill – that would require pension schemes to achieve net zero in their assets by 2050 – not only failed to take into account the challenges highlighted in our report, but didn't address the potential conflict with the existing fiduciary duties of trustees.

Having raised our concerns at the highest levels, we're pleased that the government has agreed with us. However, it shows the need for the pensions sector to be front and centre of discussions, demonstrating the changes it's making through active stewardship, adapting investment strategies and sharing with members and wider stakeholders the positive difference they're making to address the climate emergency – which will, alongside the economic crisis, dominate the agenda for some time to come.

TRUSTEE CONFERENCE PREVIEW

Rachel Pine looks ahead to what's virtually a must-attend event...

TRUSTEE CONFERENCE IS THE MOST PRACTICAL EVENT ON THE PLSA'S CONFERENCE AGENDA. OUR GOAL IS TO PROVIDE UP-TO-THE-MINUTE IDEAS AND INFORMATION WHICH SCHEME TRUSTEES CAN IMPLEMENT IMMEDIATELY.

We know that the current situation has been exceptionally challenging for trustees, dealing with the pandemic's effect on their schemes and of course on their own lives. We're buoyed by the remarkable resilience shown in the trustee community – getting up to speed quickly, making necessary decisions and needing to react to all that's going on.

We spent a lot of time thinking about topics to include in the next Trustee Conference, whose theme is 'Leading with integrity'. We wanted to ensure that the conference combined critical and practical information for trustees while understanding that priorities may have changed, and the world looks very different to how it did during Trustee Conference in previous years.

The conference highlights subjects that are most important for trustees right now, including assessing sponsor health and covenant, the role of schemes in savers' financial wellbeing, and a trustee guide to our Investing for the Future work, in which many of you participated. This work examines how trustees can find clarity as the UK aspires to a net-zero future. We're looking at how schemes can promote diversity in the asset managers and consultants they hire, and we also have a session focused solely on the Pension Schemes Bill's legal implications for trustees.

We even have our first completely non-pension topic on the agenda: a talented team of communications experts will demonstrate how to run an online meeting to ensure that all agenda items are completed, and all participants are heard. The Pensions Regulator is along to reveal its 15-year strategy plan, and to ask each of you to contribute to a live-chat consultation about it.

Our sponsors are also providing highly relevant content, including an update on the Cost Transparency Initiative, a session on how fiduciary managers have performed through the pandemic and a Christmas carol- themed look at the potential benefits of investment-only platforms.

While for the past few years we've held the conference at Allen & Overy's head office, this year Trustee Conference takes place digitally and many of you may be participating from home.

There are still many ways to participate. You can ask questions in sessions, chat to sponsors on their stands in the virtual exhibition hall and download a wealth of information. You can use the chatbox in sessions to share your perspective with the speakers and other attendees, and join our Hot Topic Chats that take place near the close of each day. There's the ability to rate each session, and we'll send every attendee a survey as well. In addition, you're welcome to contact your membership representative to pass on any thoughts. We really do want to hear from you.

We hope that the information and ideas presented here over these two days will serve to inform, resonate and inspire.

At the time of writing, it's being reported that the vaccine will start rolling out just around the time of our conference. In a metaphorical sense, we hope that what trustees learn at this conference will serve as an injection of pride in the work that they perform and a clear-eyed look ahead to coming challenges.

THE WORLD LOOKS VERY DIFFERENT TO HOW IT DID DURING TRUSTEE CONFERENCE IN PREVIOUS YEARS

THE WORLD WENT DIGITAL

No one had predicted how vital technology would turn out to be at this year's Technology Conference, reports ***Rachel Pine***.

SINCE LAST MARCH, OUR INDUSTRY HAS HAD TO MAKE QUICK CHANGES AND RAMP UP TECHNOLOGIES THAT LET US DO OUR MOST IMPORTANT WORK – DELIVERING PENSIONS TO SAVERS – WITHOUT INTERRUPTION. COVID BE DAMNED! WE'VE MOVED AHEAD, ADOPTING WHAT WOULD HAVE LIKELY BEEN YEARS OF CHANGES OVER JUST A FEW MONTHS.

And while we at the PLSA had been planning our first Technology Conference for November for some time (really folks, we were), we found ourselves suddenly living the technology we were originally planning to discuss. The entire world went digital! Zoom meetings replaced in-person ones, and our bedrooms became boardrooms. It reminded me of the scene in the original Mary Poppins film when the carousel horses leap off the merry-go-round and take to the sky with Mary, Jim and the Banks children aboard, heading for an amazing adventure.

All of a sudden, our Tech Conference, which was meant to be equal parts science fair, expo and discussion of what was to come, was in fashion – on-trend, even. An unusual place to find ourselves, for sure.

What became clear as we were building the programme is that while we had been thrust into our tech future sooner than we thought, our industry, for the most part, was ready. The shift to homeworking went well for most people. For many boards, moving to digital meetings from in-person ones was relatively uncomplicated, with a good number of trustees telling us that they were speaking to each other more frequently than they would have in normal circumstances.

The topics we discussed at Tech Conference became urgent in the light of the pandemic. Cybercrime has nearly tripled, we learned, with organised crime gangs finding that the work-from-home environment works better for cybercrime than for more traditional criminal acts. The Open Finance revolution is coming, made possible by tech, providing savers with the ability to see their entire financial lives in one place, leading to better-informed decisions and, we hope, better incomes in retirement.

We learned about pensions technologies used in other large economies around the world, and the link between technology, regulation and legislation became crystal clear. We saw new technologies that can help engage savers with their pensions, in one case even letting their asset managers know their opinions on shareholder proposals. While trustee boards are being asked to do more with their data, potentially with less resource, we demonstrated that tech can bring tremendous savings of cost and effort to pensions data, ensuring that the next thing thrown at pensions administrators ¬– after GMPs, consolidation, McCloud and the Pensions Dashboards – can, with good planning, become the next link in a strong data chain. We were surprised when a majority of attendees in one session said they would be willing to trade access to their own personal data in exchange for a better retirement income. We are ready and willing to accept and enjoy the changes that technology will bring.

The glimpses of the future shared at Tech Conference make it easier to see where we're heading. Pensions technology is an area that we will be continuing to investigate, discuss and include in our conference programmes and webinars. We look forward to watching as it develops and matures, and to bringing this information to you in the coming months and years. And most of all, we hope to see technology bring better saver engagement and understanding, and improve everyone's life in retirement.

• All of the sessions from Technology Conference 20 will be available online through 21 December.

WHILE WE HAD BEEN THRUST INTO OUR TECH FUTURE SOONER THAN WE THOUGHT, OUR INDUSTRY, FOR THE MOST PART, WAS READY

ACT FAST TO SECURE SCHEMES WHEN SPONSORS SEE DISTRESS

The economic road ahead looks bumpy. ***Mike Birch,*** The Pensions Regulator's Director of Supervision, tells DB trustees how they can prepare and what to expect from the regulator.

YOU FACE A CHALLENGING JOURNEY. RAIN LASHES DOWN. THE ROAD IS SLIPPERY. YOU WORRY YOUR PRECIOUS CARGO WON'T SURVIVE THE TRIP.

You don't call road recovery services before setting off: you use the tools you have to prepare, from checking the route for accidents to packing a first-aid kit. Preparation makes it more likely you'll reach your destination without needing help.

In October, the International Monetary Fund warned that the world economy faces a long, slow recovery from COVID-19. It seems likely some UK employers will start to struggle. Employers in many sectors will also need to ensure they're properly prepared to minimise any adverse impacts from the changes arising from Brexit.

We've published guidance on how trustees can protect schemes from corporate distress so trustees know what to look for and the options they have available. It empowers trustees to be aware of risks and tackle challenges themselves, allowing TPR to concentrate resources where they're needed most.

EARLY WARNING SIGNS

In the same way we'd check the weather before leaving, there are early signs of potential distress for which trustees must be vigilant. These include:

- Impending debt maturities
- Debt covenant breaches or waivers
- High leverage
- Requests for deficit repair contribution deferrals
- Key management changes
- Credit rating downgrades
- Information gathering.

Trustees need robust financial information from an employer. If this is not forthcoming, they must be clear about their expectations and the employer's responsibilities to the scheme, as a major creditor. It may feel difficult or awkward to probe a struggling employer, but trustees' most important role is to protect members: they should not support an employer blindly.

Employers must understand that trustees can't offer support without securing protections in return. This means they must have as complete a financial picture as possible.

In restructuring negotiations, other creditors will seek protections which are often detrimental to the employer's ability to support the scheme. Trustees must have a seat at the table during restructuring conversations. They must be treated on an equal footing as any other financial stakeholders.

GOOD GOVERNANCE

To prepare for a potentially difficult ride, trustees should consider a governance MoT, filling up on quality financial information and upping their skills before setting out. This will give schemes the best chance of being able to offer reasonable, justifiable support to an employer while still protecting their members.

Financial distress isn't unique to today's uncertain economic situation. Our supervision teams have long supported trustees grappling with such issues. Usually, it's those schemes with good governance that are best prepared to face the challenges caused by a distressed employer.

Now's the right time to ensure the right standards are followed and that trustees are confident they have the knowledge, skills and understanding to manage the challenges – even if that means paying for professional advice.

Conflicts of interest are a familiar area of concern for TPR's supervision teams. In a downturn, significant conflicts are more likely. Trustees may be unwilling to challenge an employer who pays their wages. Some may worry about being a 'problem' when redundancies are possible. Conflicts can stop trustees focusing on their chief role as members' first line of defence. Trustees should explore whether they need extra training and advice so that emerging conflicts can be dealt with effectively.

Restructuring and insolvency are complicated areas. Both may lead to a weakening of covenant. Trustees should explore whether they feel more training or advice in assessing covenant strength would be helpful.

CLEAR EXPECTATIONS

TPR can't get involved with every scheme. Where we do get involved we'll be clear about our expectations, consistent in our risk-based approach, and will work to support the trustee in ensuring the scheme is treated equitably. Being ready now will mean trustees will be less likely to need help in the first place.

Trustees must understand that the sooner they act in the face of a distressed sponsor the more options they'll have to protect members and the more time they'll have to do it. They'll also be able to ensure employers can take account of their concerns before all other stakeholders have finalised their positions. Don't wait until the warning signs appear – use our guidance to get effective risk management processes in place now.

Invest for more

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

At the start of 2020, sustainable investing was fast becoming the new normal with broad investor adoption of environmental and social outcome-oriented portfolios. Spurred on by the global pandemic, we believe now, more than ever, is the time to invest with impact. The below offers a glimpse into the innovative exposures, pulled from a BlackRock fund. This conveys how impact companies in public equities are helping solve world issues, including those that have arisen or been magnified by the current environment.

Supplied over 5,300 units of affordable housing in Japan, helping to revive rural communities faced with declining population and migration to major cities.

Provided over 850,000 students with access to higher education, primarily in emerging markets.

Provided 22.6 million adults in Kenya with mobile financial services.

Supported over 500,000 clinicians in 10,000 global health organisations with time-saving technologies.

Protected over 9,000 customers from cyber security risks, including underserved, at-risk communities, like non-profits and hospitals.

Delivered over 16 million smart metering devices used in electric and water metering, streetlights and smart city solutions.

Connected over 55 million individuals in Latin America with internet access.

Provided 530.1 million client transactions and loans specifically for micro, small and medium enterprises (MSME) and rural communities in Indonesia.

Source: BlackRock. Most recent company reports released during 2020. Based on exposures pulled from a BlackRock fund as at 30 June 2020. For illustrative purposes only. Subject to change.

ESG BY EXAMPLE

At the PLSA's Annual Conference, four pension funds gave their account of how they approach stewardship and environmental, social and governance investing. ***Maggie Williams*** reports.

ADAM MATTHEWS

Director of Ethics and Engagement, Church of England Pensions Board

The Church of England Pensions Board has a heavy focus on stewardship. We've developed policies on how we embed our ethics in our investment strategy and act as an ethical pension fund. Business done well is a force for good, and we want companies to succeed.

We have a stewardship and engagement team and set out a clear expectation with our asset managers that, for us to invest in them, they have to share the objectives of the fund. That doesn't mean seeking perfection – we want to work with people to develop.

As a pension fund we have framed ethical considerations, from identifying areas where we have issues and won't invest, through to climate change where we want to take an active role and shape the future. So, we have approaches that we prioritise and two areas where we seek impact: climate change and impact industries.

However, no pension fund or investment manager, whatever their size, will drive change at the scale that is required on their own, so we have to collaborate and help to build good stewardship practice more broadly. One example is Climate Action 100+ and the stewardship work we have done with Royal Dutch Shell on its commitment to reducing emissions. We're working with them in depth to put in place a transition plan to a business that is aligned with the Paris agreement.

Almost everything we use in our daily lives is grown or mined, so we also need to engage with the extractive industries and change practices across the sector. We've been able to set a new, independent industry standard in partnership with others and we want the whole sector to address issues.

When it comes to working with fund managers, you've got to understand what you want first, then devise an appropriate strategy – you are giving your manager money and want to make sure that it's invested in line with your fund. If you're a smaller fund that can be a challenge, but it doesn't prevent any scheme from having the dialogue and consistently asking about it.

WE HAVE TO COLLABORATE AND HELP TO BUILD GOOD STEWARDSHIP PRACTICE MORE BROADLY

SEAN COLLINS

Head of Pension Fund, Oxfordshire County Council

For many years, we have had climate protesters outside our pension meetings. They would talk at the committees; we would listen, respond and produce statistics, but no side felt that they were really listening to each other. It was 'us and them' from both sides. We had many years of this, and it felt uncomfortable.

About a year and a half ago, we decided to hold a roundtable and invite local lobby group Fossil Free Oxfordshire to join us. For the first time we all spent time listening to each other and found out that we had many things in common, but different approaches. Fossil Free Oxfordshire wanted disinvestment, whereas we wanted engagement. So, we ran a workshop where we included as many stakeholders as possible, including several introduced to us by Fossil Free Oxfordshire. By holding debates between different contributors, we talked about what we had in common, rather than differences. We developed consensus through collaboration and moved away from 'us and them' to 'us', with a common set of objectives.

Fossil Free Oxfordshire introduced us to research and resources through their connections. We've been able to start to talk about evidencing statements we're making: we've said we believe engagement is the right way forward, but it's good to be challenged about proof and how we can see if it's working. It's been a really productive relationship in a way that we couldn't have imagined two years ago.

I'd add that it's important not to be frightened of communicating about ESG with your members. They're interested, and creating a two-way conversation can only improve things for everyone.

ENGAGEMENT IS THE RIGHT WAY FORWARD, BUT IT'S GOOD TO BE CHALLENGED ABOUT PROOF AND HOW WE CAN SEE IF IT'S WORKING

DIANDRA SOOBIA

Head of Responsible Investment, Nest

At Nest, ESG is at the heart of our investment approach. We've started engaging with our members and asking them about the issues that are most important to them. Climate change and workforce/human capital issues resonate directly, as our members are UK workers themselves.

Nest has a prioritisation framework for how we think about ESG. We know we can't do everything to perfection, but we can focus on the most impactful issues that will affect long-term outcomes.

Climate change is one such example. The research we've done shows that transition to a low-carbon economy will have an impact on markets and our portfolios. But we also have a social responsibility – there's no point in helping our members build up pots to retire in a world ravaged by climate change. We've developed a climate change policy that includes stewardship and guidelines on voting, as well as how our managers ought to think about issues including climate change and executive pay at board level. Where we don't see these coming to fruition, we will vote against companies.

Collaboration with other investors and working closely with our fund managers has been instrumental in our approach. If we try to do everything ourselves, we lose the conversation at the broader level.

We expect managers to do their own research and we don't tell them how to vote, but it's about long-term influence and we work hard to make sure there are strong stewardship practices in place.

Even when Nest was still relatively new, we told one of our fund managers, UBS, that we felt strongly about issues such as climate change and the living wage, for example, and asked UBS how they were going to vote on companies prior to their AGMs. We created a voting subset with about 200 stocks, and now all of our fund managers give us voting intentions on those stocks, so we can engage with them.

Nest has now moved to segregated mandates, but we're leaving the voting rights with UBS, as we don't want to lose the opportunity to influence and engage with the market. We want to continue to have conversations about voting policies and challenge them if they're not looking at concerns such as modern slavery in the supply chain.

WE KNOW WE CAN'T DO EVERYTHING TO PERFECTION, BUT WE CAN FOCUS ON THE MOST IMPACTFUL ISSUES

FAITH WARD

Chief Responsible Investment Officer, Brunel Pension Partnership

At Brunel, climate change has been one of our priorities, and we've focused on the TCFD (Taskforce for Climate-related Financial Disclosures) requirements, needing to understand what a pension fund will look like if it's going to achieve net zero or be aligned with the Paris agreement.

However, 'E' 'S' and 'G' are all interconnected, although 'S' and 'G' have sometimes been seen as the poor cousins to 'E'. The current pandemic has shown that 'S' and 'G' cover so much, from workers' mental health, through to considerations such as modern slavery.

There's also an important social dimension as well: even before Covid-19, one in five jobs were likely to be affected by climate transition.

It's important that pension funds get practical support with doing what's required of them. Transparency is important, and we've just seen the FCA close its consultation on disclosures. We've said that we want mandatory climate disclosures from businesses, as we feel that comply-or-explain is not good enough – this is too important for that.

All commentaries are transcribed from presentations given at the PLSA's virtual Annual Conference 2020.

WE WANT MANDATORY CLIMATE DISCLOSURES FROM BUSINESSES, AS WE FEEL THAT COMPLY-OR-EXPLAIN IS NOT GOOD ENOUGH

A BETTER BILL?

Government must ensure the Pension Schemes Bill is fit for purpose, says ***Nigel Peaple***, Director Policy & Research, PLSA.

THE PENSION SCHEMES BILL DOES MANY USEFUL THINGS. IT STRENGTHENS THE POWERS OF THE PENSIONS REGULATOR (TPR) TO PROTECT MEMBERS AND HELPS CREATE THE PENSION DASHBOARDS, WHILE ALSO ENHANCING THE TRANSFER REGIME TO PROTECT SAVERS AGAINST PENSION SCAMS. THESE ARE ALL MEASURES THAT WILL GO A LONG WAY TO ENSURING MORE PEOPLE HAVE A BETTER INCOME IN RETIREMENT; ONE OF THE PLSA'S KEY GOALS.

However, while all of those moves are being celebrated – and rightly so – there are a number of areas in the current wording of the legislation that we believe should be improved and others that are, put frankly, missing.

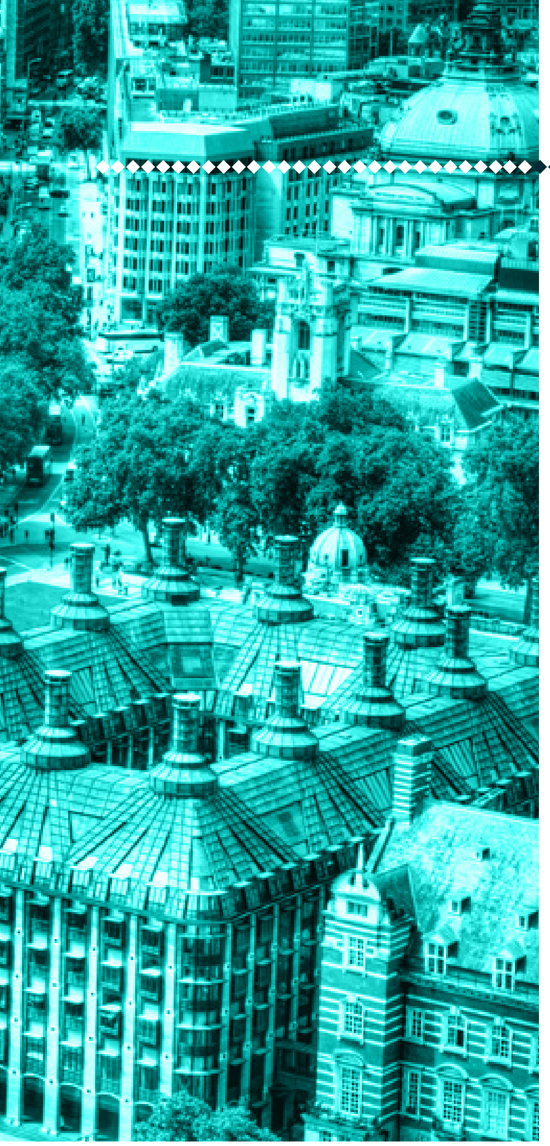
At the time of writing, the Bill is due to go to its Report Stage, where the whole of the House of Commons will have the opportunity to discuss and amend it.

THE PENSION SCHEMES BILL IS AS IMPORTANT A PIECE OF LEGISLATION AS ANY AFFECTING OUR INDUSTRY

Back in October, the PLSA submitted written evidence to the Public Bill Committee ahead of the committee stage. Our submission provided our views on the Bill and encompassed a wide range of changes we believe would strengthen the legislation.

The first change we suggested concerned TPR's powers and Section 107. It's fair to say that the provision of enhanced powers to TPR to tackle incidents of reckless behaviour by employers is something the PLSA supports. However, under the current wording, Section 107 would unintentionally criminalise ordinary business activities and could have unintended negative consequences for pension schemes and pension savers.

The PLSA believes these measures could prevent legitimate actions to make pension benefits more secure and discourage trustees, who include workforce representatives, from taking part in pension scheme governance. Instead of focusing on employers and high-level associates of pension schemes, these new criminal offences could apply to anyone involved with schemes such as trustees, banks that lend to employers, insurers and investment counterparties. Put simply, Section 107 needs more work to clarify the circumstances in which the new powers are



OUR SUBMISSION PROVIDED OUR VIEWS ON THE BILL AND ENCOMPASSED A WIDE RANGE OF CHANGES WE BELIEVE WOULD STRENGTHEN THE LEGISLATION

intended to be used, as well as narrowing down the people whom they could and should affect.

Our next point regarded pension scams. Pension scams continue to be a blight on the industry, and in the wake of Covid-19 more and more are popping up to deny people the money that's rightfully theirs to enjoy come retirement. To help with this fight, the PLSA has given its support to the Bill's inclusion of measures that re-establish an employment link as an important protection for savers against scams. However, we'd also like the government to further allow trustees to stop the transfer of a saver's pension benefits where it identifies known red flags.

Our third point was on the creation of pensions dashboards. The Bill is a huge step forward, as it provides the legislation that will pave the way for them, allowing savers to access their pensions information online, securely and all in one place. We've argued that the government should ensure the first pensions dashboard will be a single, non-commercial product hosted by the Money and Pensions Service (MAPS), and that no other dashboard should go live until a full consumer protection regime is in place.

However, new amendments tabled by the government would allow dashboards to be used to provide transactional services and remove a one-year bedding in period. We believe that these new amendments place people at risk of losing their life savings if they fall prey to pension scammers or mis-selling; and we strongly believe that these amendments should be withdrawn.

The fourth area on which we commented was automatic enrolment (AE). It's fair to say that we were disappointed that the government has failed to take the opportunity to fulfil its 2017 commitment to extend the scope of AE in respect of age and earnings, by changing the threshold from age 22 to age 18 and by removing the lower earnings limit. This Bill should include the necessary changes to primary legislation, with commencement in the mid-2020s.

While it's clear that right now – as the country faces the economic fallout from Covid-19 – is not the right time to increase AE contributions, it's reasonable to introduce such modest changes to come into effect around five years or more from now.

Our final comment concerned the decumulation of DC schemes. As we've said before, many savers are facing very complex decisions as they approach retirement and some may be losing out. In October, we published recommendations for a new regulatory framework to enable schemes to support members as they approach and make their retirement decisions. We'd like to see legislation brought forward in this, or the next Pension Schemes Bill, to help savers to get a better income in retirement.

The Pension Schemes Bill is as important a piece of legislation as any affecting our industry. Workplace pensions provide an essential retirement income for millions of people, and it's vitally important the £2 trillion pensions sector has legislative clarity. So while we've warmly welcomed some of the measures identified in it, we're also disappointed at other areas.

It's our hope that our views won't fall on deaf ears, and that the government will seek to resolve these issues in the near future – or it will miss the opportunity to help millions of savers.

The Minister's view

At the PLSA's Annual Conference 2020, 600 delegates tuned in to watch Guy Opperman, Minister for Pensions and Financial Inclusion, deliver his views on a wide range of pensions issues.

The Pension Schemes Bill: "My key priority" and "a bill that will make pensions safer, better and greener" through "individual measures [that] are long called for".

Clause 107 of the Bill: "The purpose is very much to target individuals who intentionally or knowingly mishandle a pension scheme" and not to "frustrate legitimate business activity".

Covid-19: "I'm very encouraged by the way in which the pandemic has been dealt with by the pensions industry" including "pragmatic and proportional measures" from regulators.

Automatic enrolment contributions: "It is clearly the case that 8% is not sufficient," but "now would not be the right time" to review.

Consolidation: "A positive sign that the DC pension market is also maturing".

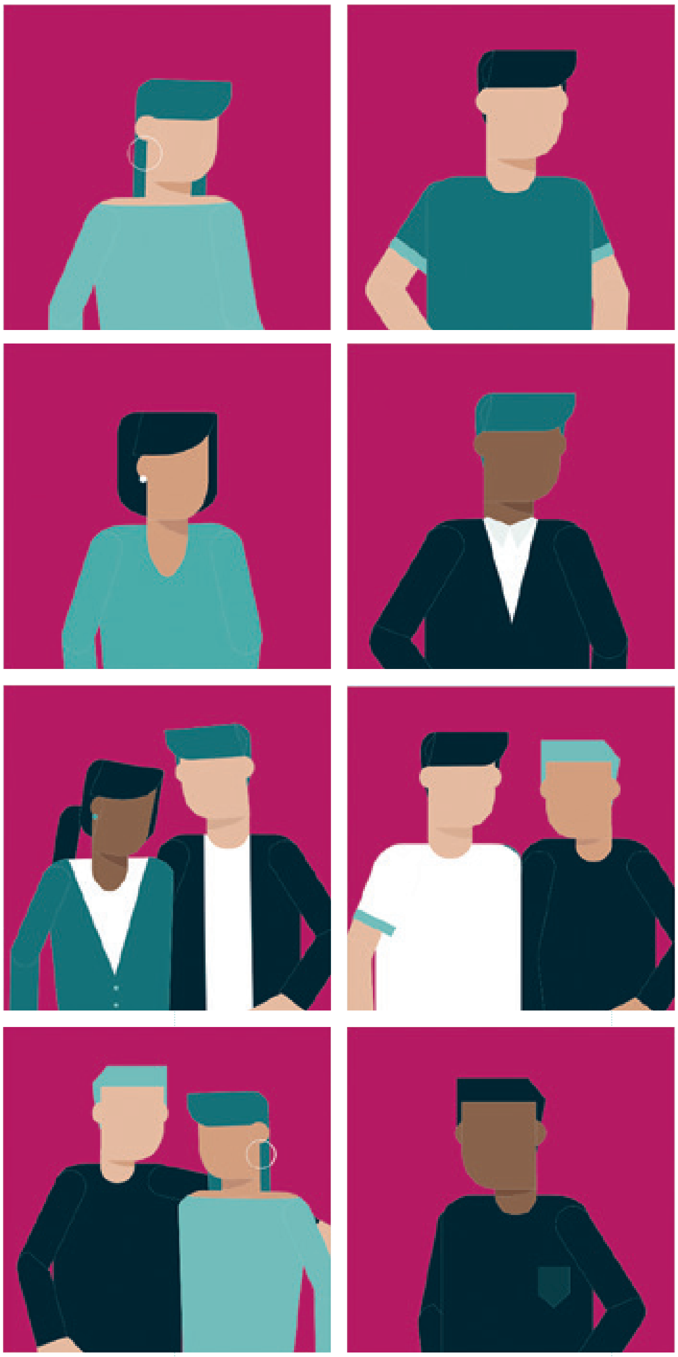
Climate change: "Could render some pension savings valueless" and "wipe out swathes of the economy" if not addressed.

Dashboards: "Fundamental to bringing pensions into the 21st century."

And future legislation: "I remain of the view that there will be a further pensions bill in this parliament" of which "one significant element" would be superfunds legislation.

You can view Guy Opperman's speech at our Annual Conference 2020, along with the rest of the event session, on the PLSA website.

RETIREMENT LIVING STANDARDS: 2020 UPDATE



George Currie, Policy Lead: DC & Lifetime Savings, surveys the rapid progress of one of the PLSA's most successful initiatives.

IT'S BEEN A BIG YEAR FOR THE PLSA'S RETIREMENT LIVING STANDARDS. FROM A STANDING START IN 2019, THEY'VE REALLY HIT THEIR STRIDE IN 2020.

WHAT ARE THE RETIREMENT LIVING STANDARDS?

The PLSA's Retirement Living Standards were one of the flagship recommendations in our *Hitting The Target* report (2018), which found that only 23% of people knew what they were aiming for as a retirement income. To ensure the Standards were robust, we commissioned independent researchers at the Centre for Research in Social Policy (CRSP) – part of Loughborough University – to build them. The CRSP has a distinguished track record of building such standards, having been behind the widely respected Minimum Income Standard used by the Joseph Rowntree Foundation.

Our Retirement Living Standards seek to help people picture their future by illustrating the cost of living three defined lifestyles: 'minimum', 'moderate', and 'comfortable' (see table, opposite). Each of these levels is based on a basket of goods and services, the total cost of which is reflected in the headline Standard levels. The Standards are a simple, tangible, intelligible starting point to help individuals understand what lifestyle they would like in later life.

WE'RE PLANNING FURTHER INDEPENDENT RESEARCH TO KEEP THE STANDARDS FRESH AND RELEVANT TO AN EVER-CHANGING WORLD

	SINGLE	COUPLE
MINIMUM Covers all your needs, with some left over for fun	£10,200 LONDON £12,400	£15,700 LONDON £19,800
MODERATE More financial security and flexibility	£20,200 LONDON £24,100	£29,100 LONDON £33,300
COMFORTABLE More financial freedom and some luxuries	£33,000 LONDON £36,300	£47,500 LONDON £49,300

FIRMS FROM ALL SIDES OF THE INDUSTRY – BIG AND SMALL, ESTABLISHED AND CHALLENGER, MULTINATIONAL AND START-UP – HAVE ADOPTED THE STANDARDS

HOW HAVE THE STANDARDS BEEN ROLLED OUT?

We knew when we launched the Standards that there was a demand among schemes for more effective ways to engage the savers they serve. All our research suggested the Standards would hit the mark in this regard. Since launch, we have seen a huge appetite from pension schemes and other organisations across the industry to use the Standards within their member, client, or broader stakeholder communications.

Just over a year after their launch in October 2019, more than 50 organisations across the industry have adopted them and over 14 million savers now have access to them. This is a real success story for savers, and we're working hard to continue the adoption journey so that more savers can picture their future.

WHAT ABOUT CONCRETE EXAMPLES OF STANDARDS ADOPTION?

The scale of adoption is unrivalled by any recent pensions industry initiative, short of regulatory requirements. Firms from all sides of the industry – big and small, established and challenger, multinational and start-up – have adopted the Standards.

Aviva, to take one example, has embedded the Standards into its full customer journey to provide savers with multiple touch points throughout their lifetime. The Standards feature in its latest member guide, in employee financial education sessions, and will soon (2020/21) appear on annual benefits statements. Aviva also plans to enable customers to create their own personalised target informed by the Standards. This innovative customer engagement is supported by effective client reporting. Aviva is in the process of incorporating the Standards into its Shaping Futures governance reporting functionality, so that employers can see the proportion of a member's projected retirement income relative to the Standards and what impact increasing contributions could achieve.

EValue, to take a second example, provides calculations and modelling software to help people better understand how the actions they take now can change their future. To provide a more tangible consumer experience, EValue has upgraded its calculator and budgeting tool suite to include the Retirement Living Standards. Its Retirement Lifestyle Forecaster allows users to input their age, chosen retirement age, pension balance and monthly contributions to discover how long they could expect their retirement income to last – with the Retirement Living Standards as benchmarks. The tool also suggests ways the saver could improve their situation, namely by increasing their contributions, delaying their retirement, or using other sources of income.

SO, IS THE PLSA'S WORK DONE HERE?

Certainly not. It has been great to see the Standards come to life in different ways across the industry. The work that has taken place has not gone unnoticed elsewhere. During 2020, the Retirement Living Standards received two industry awards – the Headline Money Thought Leadership Initiative of the Year and Pension and Investment Providers Innovation of the Year awards.

WHAT CAN WE LOOK FORWARD TO NEXT YEAR?

The last year has been a great success, but there is still work to be done. We want the Standards to reach 90% of active savers via scheme adopters by 2025.

We're planning further independent research to keep the Standards fresh and relevant to an ever-changing world, including considering the longer-term implications of Covid-19 on the baskets of goods, and updating the figures. We'll also be looking at other rules of thumb the Standards can be the basis for.

To provide maximum benefit to savers, it's crucial the Standards are embedded in pensions dashboards when they appear, as well as in the Simpler Annual Benefit Statement. Having the Standards available as part of those key communications will mean all savers can benefit from a greater understanding of what those 'savings' figures might mean for their retirement lifestyle. Wherever they are used, we believe the Standards play an important role in helping people to picture and understand what sort of lifestyle their current pension savings are likely to deliver.

To find out more about the Retirement Living Standards, visit ***www.retirementlivingstandards.org.uk.***

RETIREMENT LIVING STANDARDS | PENSIONS AND LIFETIME SAVINGS ASSOCIATION

RETIREMENT LIVING STANDARDS

SUPPORTING SAVERS' RETIREMENT PLANS: PICTURE YOUR FUTURE

Retirement Living Standards are a practical and powerful tool used to empower savers to picture their retirement and engage more with their retirement planning needs.

THE STANDARDS

SINGLE

30K
COMFORTABLE

20K
MODERATE

10K
MINIMUM

COUPLES

45K
COMFORTABLE

30K
MODERATE

15K
MINIMUM

51%

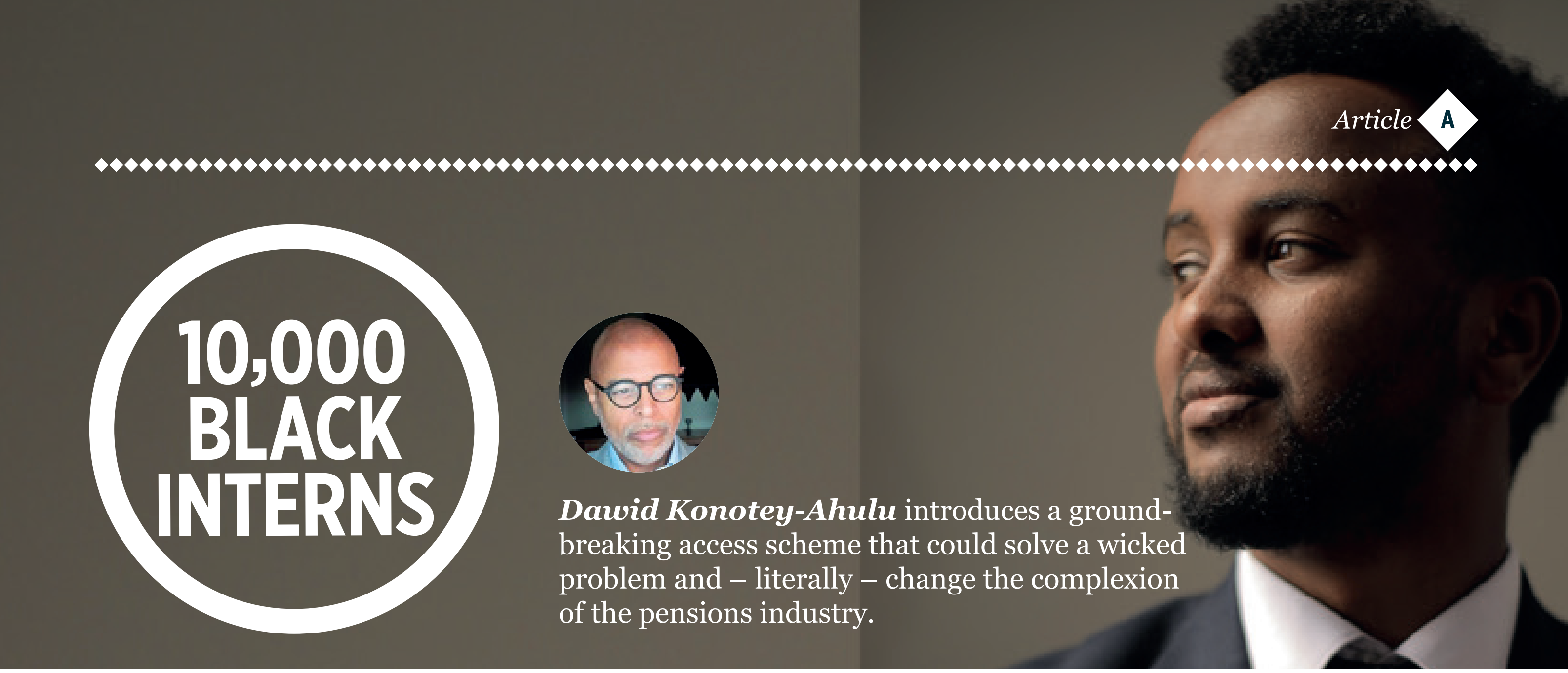
of people focus on their current needs and wants at the expense of providing for the future.

23%

of people are confident they know how much they need to save.

Visit **www.retirementlivingstandards.org.uk**

Disclaimer: These figures provide a helpful rule of thumb based on research findings - they do not constitute financial advice, and users will want to consider how this applies to their own situation.



10,000 BLACK INTERNS

Dawid Konotey-Ahulu introduces a ground-breaking access scheme that could solve a wicked problem and – literally – change the complexion of the pensions industry.

A "WICKED PROBLEM" IS A SOCIAL OR CULTURAL ISSUE OR CONCERN THAT'S DIFFICULT TO EXPLAIN AND INHERENTLY IMPOSSIBLE TO SOLVE, LIKE CLIMATE CHANGE OR POVERTY OR TERRORISM OR PANDEMICS.

We learn to live with such problems, but we never really solve them. And, often, we tell ourselves that since they're unsolvable, there's no point trying. One such problem is racial inequality. Or, to be specific, the systemic underrepresentation of Black people across the higher echelons of Western society. It doesn't matter where you look: asset management, the legal profession, the government, UK PLC, investment banking, executive search, education, long-term savings – the story is the same. There are virtually no Black people at the top.

Take asset management, for example. There are currently about 14 Black portfolio managers out of a universe of around 3,000. We can quibble over the precise numbers, but the basic stat remains and it's shocking. For years, that has been the number. There has been plenty of platitudinal hand-wringing, but no change. It's systemic.

In my own experience, there are seven cards that senior management play when asked the question: *"Why are there no senior Black people in your organisation?"*

1. There aren't any to hire or promote. I'd love to hire some, but there aren't any.
2. What are you talking about? My BAME stats are amazing. (They usually mean "Asian".)
3. Why does it matter what colour people are? I don't notice.
4. Race is a minefield – it's just too hard to talk about. Let's not go there.
5. Our firm doesn't have any data on race so I can't measure or manage this.
6. There isn't a problem. It's all part of a liberal/left agenda gone crazy.
7. We're on the case. It's taking time, but we're getting there.

The Seven Card Game gets played daily in institutions up and down the land. Sometimes it's the CEO who's the expert cardplayer. Other times, it's HR. Often it's everyone in the organisation. The question is what to do about the status quo which, until recently, has shown no sign of changing? How do we fix this wicked problem? How do we at least try?

DISRUPTING THE SYSTEM

Back in June, four of us (old hands in the industry) decided to test a hypothesis: *"If 100 asset managers each offer a six-week portfolio management internship to a Black heritage candidate in Summer 2021, that should be enough to disrupt the system"*. Yes, we were asking for an offer of internships with no assumption of jobs being offered, but, surely to goodness, we reasoned, out of 100 internships you would hope that, maybe, 15 would convert into actual job offers. Which would double the current number of Black people managing money within asset management firms.

We had a massive response as 100 asset managers replied saying they would offer the internships. Then a further 100 firms said they would also sign up to the programme and, suddenly, we were 100% over-subscribed. Which, when you think about it, is incredible. For decades, Black graduates have struggled to get into the City. Suddenly, in the space of a month, 200 asset managers eagerly agreed to offer them an internship.

It's worth spelling out that we made the ask as simple as it possibly could be. So simple, it would be very hard to say no. A six-week paid internship for a Black heritage candidate. That's it. You don't even have to offer them a job at the end of it. The only thing you do have to do is give them an extraordinary six weeks they won't forget. Most of these applicants are unaware that the asset management industry exists. It simply isn't on their radar, either because no-one has ever told them about it or because they believe there's no point applying. Your mission, we said, is to change that by showcasing the asset management industry and by transforming their dreams and aspirations.

AN OVERWHELMING RESPONSE

A few days after 100 Black Interns went live, we were approached by another sector – the lawyers – who asked if they could borrow the playbook and apply it in their own space. After the fifth sector asked the same thing we huddled and asked ourselves whether we could roll this programme out across 20 sectors – essentially, everywhere. The maths was simple: if 20 sectors each offered 100 internships every year for five years, that would add up to 10,000 internships for Black candidates. So, in late October 2020 we launched the 10,000 Black Interns programme. The response has been overwhelming. We've already had offers of more than 1,000 internships from 500 firms in 26 sectors.

The long-term savings industry faces the same challenges as every other sector. People of Black heritage are not to any great extent involved in the day-to-day decision-making process of pension funds or insurance companies, despite the fact that this demographic represents a growing proportion of the industries' customer base. But what if every organisation in those industries signed up to the programme and agreed to tackle this systemic issue? That change we have all talked about for so long would become a reality. You can sign up here.

www.10000blackinterns.com

Dawid Konotey Ahulu is co-founder of 10,000 Black Interns and co-founder of Redington

BUILDING THE BRIDGE TO A BETTER RETIREMENT

Alyshia Harrington-Clark, Policy Lead: DC, explains the thinking behind the PLSA's DC decumulation recommendations.

FREEDOM IS AN ATTRACTIVE CONCEPT. WE'VE COME TO EXPECT FREEDOM IN ALMOST ALL ASPECTS OF OUR DAILY LIVES AND, RIGHTLY, QUESTION ANY RESTRICTIONS THAT DON'T SEEM LEGITIMATE, FAIR AND REASONABLE.

In 2015 savers were 'freed' as, suddenly, they had a multitude of new retirement options to choose from. For some, this felt like a liberation from the constraints of the previous regime, but for many others it made their retirement choices far more complicated than they had ever imagined.

We firmly believe that the pension system should work for those who don't know much about pensions, and don't know where to go to seek help, as well as for those who have detailed plans and are confident about the decisions they take. Our recommendations seek to bridge the gap between using inertia to get people into pension saving, and the complex decisions they are required to make at retirement – in order for everyone to achieve a better income in retirement.

FREEDOM!

As you'll no doubt remember, prior to the introduction of the pensions freedoms, regulation required most DC savers to purchase an annuity with their accumulated pension savings. This was intended, in combination with the State Pension, to provide them with an income for life. The liberalised regime introduced in 2015 allows people to access their savings in a variety of ways, namely by purchasing an annuity; by getting an adjustable income (flexi-access drawdown); by taking cash in chunks (uncrystallised funds pension lump sum); by cashing in the whole pot in one go; or by mixing two or more of these options. Before pension freedoms, 90% of pension pots moved into annuities in the decumulation phase.

Intuitively, it seems fair and reasonable to give savers maximum flexibility to decide how to access their hard-earned pension savings. This can enable savers to make choices about their short- and long-term aims, and also provide them with the level of income they need in retirement.

Evidence suggests that the freedoms have had a dramatic effect on the retirement market. Savers have moved away from annuity products and now tend to favour flexi-access drawdown. By June 2018, the FCA reported that twice as many pots were moving into drawdown than annuities,[1] and 2019 figures suggest that the downward trend in annuity purchases has continued. The total value of flexible withdrawals has risen steadily, and now exceeds £35 billion.

However, in practice this means that the reforms have served to accelerate the trend of transferring risk from institutions to individuals. It's becoming clearer that the

WE FIRMLY BELIEVE THAT THE PENSION SYSTEM SHOULD WORK FOR THOSE WHO DON'T KNOW MUCH ABOUT PENSIONS

excitement generated by the freedoms has, in many cases, not so far been matched by good outcomes for savers. We've spotted an opportunity to act now to address these risks, and shape the landscape for a better future.

TOO MUCH OF A GOOD THING?

The current retirement market requires individuals to make decisions about complex products that entail different levels of longevity and market risk. Of course, the best informed and most motivated savers will, at the very least, seek guidance from Pension Wise and, perhaps, regulated financial advice. However, evidence suggests that there is a significant guidance/advice gap. For example, the Money and Pensions Service estimates that there are currently around 75,000 to 100,000 people accessing DC pension pots worth £10,000 or more, without regulated advice or guidance, each year.[2]

As a result of these trends, risks that were previously borne by insurance companies are now increasingly borne by individuals. No regulatory regime can protect people from all the risks inherent in retirement. However, the freedoms opened the possibility of people running out of money in later life, of their income being severely affected by market volatility, and of scammers taking advantage of them as they continue to make decisions long into their retirement. Clearly these risks are serious, and we believe that more needs to be done to mitigate them. This is especially important before people come to rely exclusively on DC savings to fund their retirement.

THE INERTIA GAP

One of the major challenges to achieving good outcomes for savers at retirement after the freedoms is their low level of engagement with pensions. The most successful pensions policy initiative in a generation, automatic enrolment, relies on the power of inertia. Savers are highly unlikely to transition seamlessly from being inert accumulators to becoming active and informed at retirement. There needs to be a bridge for savers to safely traverse this gap.

Improving DC savers' retirement outcomes is at the centre of the PLSA's policy thinking. In *Hitting the Target*, the 2018 report which set out the PLSA's vision for achieving retirement income adequacy for all, we recommended that the government should reform the freedoms to deliver what we called 'guided at-retirement decisions'.

Earlier this year, we deepened and refined our thinking in this area via a three-month Call for Evidence on DC decumulation. We engaged with stakeholders from across the industry to refine its proposals and take account of emerging evidence in the sector. We'd like to take this opportunity to thank our members for such a great response – we received a superb set of written responses from across the sector, and had many excellent thought-provoking roundtable discussions.

We launched our final recommendations on DC decumulation at the Annual Conference in mid-October. In essence, our proposals would require schemes to signpost savers to a preferred decumulation solution, be it in-house or via a third party. This is in line with what we know about consumer needs. For example, recent research by the Defined Contribution Investment Forum found that 77% of people want their pension provider to offer them a ready-made solution.[3] Our proposals would help to satisfy this demand.

We believe our new approach reflects the level of engagement savers actually display rather than the level we would like them to, and mitigates the risks they face. To get the most out of the freedoms, we need to help build the bridge for savers between the inertia at the beginning of their journey that helps them on the path to success, and the complex choices they are required to make at retirement as they continue their journey into their future.

LAYING A SOLID FOUNDATION

To deliver this solution across the pensions market, we believe the government should bring forward legislation to introduce a new statutory obligation for schemes to support their savers with their decumulation decisions. This is important for savers, even if it is ambitious, especially in the times we live in. The new statutory obligation would consist of three key elements – member engagement and communication, signposting to products, and governance – each of which would have key minimum standards for the industry.

We believe that introducing new legislation would manage the risks for both savers and schemes in delivering the best support throughout the journey to retirement. It would address some significant barriers preventing schemes from taking action, including litigation, that can arise when providing additional support such as signposting. In practice, schemes' selection and review of a preferred decumulation solution would harness the duties and responsibilities of trustees and bring them to bear to demand products and solutions which accord with a set of minimum product and governance standards.

Our solution leaves room for people to choose alternative options should they wish to do so, and member consent would be required before any action took place. To facilitate this, as part of the appropriate communications to savers in the run up to and during retirement, schemes would provide members with key information and prompts to seek guidance and advice. This would dovetail with the new DWP policy initiative to develop a stronger nudge to pensions guidance.

We believe this proposed legislative framework would protect savers' freedoms and enhance them, by providing more support coupled with more innovative solutions. We expect the requirement for schemes to offer a preferred decumulation solution to stimulate demand-side pressure on behalf of savers for much-needed innovation in the retirement market. Crucially, this innovation would benefit from the institutional experience and buying power of trustees and schemes, which would go a long way to delivering sustainable solutions for many more savers in the future.

We're working now to make our recommendations a reality. I believe we should, in all aspects of our lives, fight for the right kinds of freedoms. But we must also do what we can to protect those that otherwise risk facing the worst outcomes. Sometimes bridging the gap to a better future is not quite as daunting if we all play our part.

1. FCA, Retirement Outcomes Review: Final Report (2018).
2. T. Shanmugarasa et al, Pension Wise Service Evaluation: Experiences and Outcomes of Customers Using Pension Wise in 2018/19) (2020).
3. DCIF, Five Years of Freedom (2019).

PQM: THE STANDARD OF EXCELLENCE FOR DC SCHEMES

Jackie Shoard has an update on the latest news and a reminder of what's required for schemes to achieve the Pension Quality Mark.

THE PLSA'S MISSION IS TO HELP EVERYONE ACHIEVE A BETTER INCOME IN RETIREMENT. SCHEMES WHICH MEET PENSION QUALITY MARK (PQM) STANDARDS ARE CONTRIBUTING TO THIS AIM. THE PQM STANDARDS GO BEYOND THE MINIMUM REQUIREMENTS REQUIRED BY REGULATION AND RECOGNISE HIGH-QUALITY PENSION SCHEMES WHICH HAVE GOOD CONTRIBUTION LEVELS, GOOD GOVERNANCE, AND WHICH ENCOURAGE EMPLOYEES TO SAVE FOR THEIR FUTURE.

The PQM Standards were completely revised and updated in 2019, reflecting changes in regulation and practice over the last 10 years. To meet the PQM Standards, an employer must commit to offer all employees a minimum pension contribution of 12% (with at least 6% from the employer), or 15% for PQM Plus. Schemes must be well run, and the pensions board or committee must understand the members and act in their best interests. This includes choosing a suitable default investment strategy, appropriate communications, value for money, and listening to member feedback.

If you run a scheme that you believe would comply with the Standards, do get in touch for an informal chat and we can discuss further and help you through the application process.

WHY APPLY FOR PQM?

Holding the PQM demonstrates that a pension scheme is of good quality and that the employer is committed to encourage and support employees to save for retirement. Around 150 pension schemes currently hold either PQM or PQM PLUS, with more than 650,000 employees actively saving in these schemes. Pension schemes which hold PQM are from a wide range of sectors, including financial services, charities, retail, pharmaceuticals and engineering.

LATEST NEWS

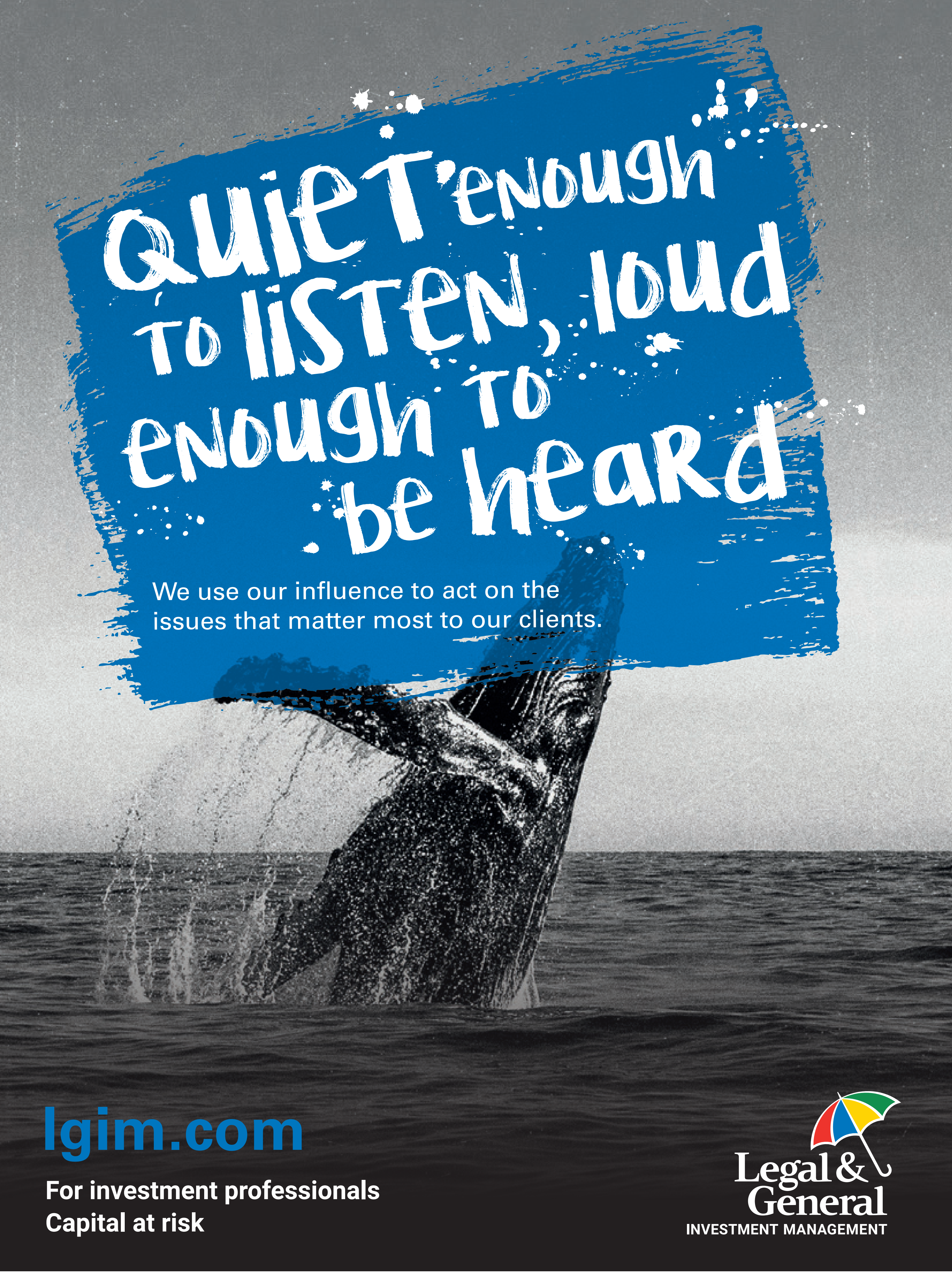
In November **Andy Cheseldine** was appointed Chair of the PQM Standards Committee. He has been a member of the Committee since its formation in early 2019, and was previously on the PLSA DC Council. He is Chair of Trustees for a number of pension schemes and has experience of regulatory frameworks, governance, change management, investment (particularly asset security), provider selection and communications.

We'd also like to thank outgoing Chair **Lesley Williams** for her contribution over the last two years and prior to that as part of the PQM board, in particular for helping to develop the new PQM Standards.

RENEWALS

The winter is a busy time for the team as a number of renewals are due in December and January. This time there's a new application form to fit in with the new PQM Standards launched last year. If you're an existing PQM holder and have any queries about your renewal, or just want to talk it over, the PQM team are available to help. Please email info@pensionqualitymark.org.uk and we'll get back to you promptly.

AROUND
150
PENSION SCHEMES CURRENTLY HOLD EITHER PQM OR PQM PLUS


Quiet enough to listen, loud enough to be heard
We use our influence to act on the issues that matter most to our clients.
lgim.com
For investment professionals
Capital at risk
Legal & General
INVESTMENT MANAGEMENT

2020 INTERESTING TIMES

Tiffany Tsang, Senior Policy Lead (LGPS & DB), reviews an eventful year for the LGPS.

AS WE NEAR THE END OF 2020, IT'S IMPORTANT TO REFLECT ON THE SUCCESSES OF THE LGPS AND ON HOW WELL IT HAS COPED IN THIS LAST YEAR WITH SUCH SEISMIC SHIFTS IN GLOBAL ECONOMIC STABILITY– AS WELL AS TO STEEL OURSELVES FOR THE NEW SUITE OF CHALLENGES AND CHANGES STILL TO COME.

> **THE LGPS WILL NEED ITS BEST AND BRIGHTEST LEADING THE CHARGE, WITH PROPERLY RESOURCED TEAMS BEHIND THEM**

COVID-19 AND THE LGPS

While the effects of the virus will vary for administering authorities across the country, the overall financial and operational picture on how the LGPS is faring under such difficult global and domestic financial circumstances is encouraging and to be celebrated. Pensions benefits have continued to be paid without a hitch, and the England and Wales Scheme Advisory Board's (SAB's) annual report confirmed that the LGPS entered the global pandemic on a strong financial footing. The LGPS remarkably trimmed its funding deficit by over £31 billion in just three years and total assets also increased 6% from the previous year, reaching £291 billion.

The global pandemic has also – among other things – wreaked havoc on employers across all industries. Managing risks from the continuing uncertainty around the impact of Covid-19 on fund employers should hopefully be helped by the new regulatory amendments that the government put in place in September 2020 for England and Wales, to allow for greater flexibilities in employer contribution rates and employer exit payments. Whether this works, however, remains to be seen; and there will be implementation hurdles to overcome.

THE IMPORTANCE OF ADMINISTRATION

In the economic downturn, difficult decisions will likely have to be made about cuts to public services. The PLSA would urge that pensions teams within all administrating authorities be given the resources needed to continue to effectively deliver members' benefits. Having the right resources and expertise to fulfil statutory duties is a critical element of the Good Governance project, and has been a running theme for several years, as set out in our 2018 report on Talent Management in the LGPS. These issues are especially important now with major administrative changes happening in the scheme, including implementing the McCloud judgment, GMP equalisation, and preparing for the dashboard. These policy areas will affect millions of savers and there are billions in benefits at stake. As such, the LGPS will need its best and brightest leading the charge, with properly resourced teams behind them.

THE £95K CAP

While most of us anticipated the administrative difficulties involved in implementing the McCloud judgment, as well as potential challenges from Covid-19's impact on fund employers, the legal complexities of the £95K cap on exit payments is this year's LGPS dark horse.

The HM Treasury cap regulations came into force in early November 2020, long before amendments of LGPS reductions to provide for partially reduced pensions are due (MHCLG's own consultation on this matter only closed on 9 November). This timing issue is causing big legal complications with the £95K cap and is ringing alarm bells in the pensions administration world, making calculating pensions benefits a near impossible task.

RESPONSIBLE INVESTING

The LGPS has a strong history of leading the charge on responsible investment – and climate-aware investing, in particular, continues to be a major area of focus amid wider stakeholder and societal interest which is only likely to increase ahead of COP-26. With the Chancellor's recent announcement of a TCFD roadmap for financial services, we can also expect a consultation on expectations for the LGPS in 2021, with implementation sketched out for 2023. How the LGPS approaches these issues will no doubt be part of the work of the new Responsible Investment Working Group, and we look forward to contributing to it.

NEXT YEAR

The LGPS has never been a static region of the pensions landscape, and the PLSA will continue to work with our members in the coming year to champion the scheme's needs and concerns. Ensuring that the right guidance for administering authorities is issued from government and the England and Wales SAB will be key, especially on how to implement the McCloud judgment.

EMERGENCY SAVINGS HELP TO BUILD RETIREMENT SECURITY

David John, Senior Policy Advisor at American Association of Retired Persons (AARP) and Non-Resident Senior Fellow at the Brookings Institution, reports on interesting new findings from the US.

TOO MANY PENSION PROVIDERS REGARD EMERGENCY SAVINGS AS BEYOND THEIR CONCERN. THEY BELIEVE THEY DEAL WITH LONG-TERM SAVINGS ONLY. BUT TWO NEW AMERICAN STUDIES SUGGEST THAT HAVING LIQUID SAVINGS – AND USING THEM – MAKES HOUSEHOLDS FINANCIALLY STRONGER, AND THUS ABLE TO SAVE MORE FOR RETIREMENT.

Intuitively, the two types of savings are connected. People with financial problems are much more likely to either stop saving for retirement or never start in the first place. In the US, the problem takes on a new dimension since retirement savings can be withdrawn at any time regardless of how old the saver is. There are usually tax penalties and often tax withholding, but these seldom discourage withdrawals. Thus, a US household's financial emergency not only affects the ability to save, it often reduces existing retirement savings.

Pretty much everyone recognises that liquid emergency savings help families across income and demographic factors to protect themselves from life's inevitable financial shocks. But relatively little research has examined how having liquid assets affects financial wellbeing over time. There is also the question of how much emergency savings is optimal.

In part, this is a data problem. To effectively study the effects of savings, researchers need to follow the same group of people over time, and very few surveys do so. But in the US, there are a few public datasets that ask financial questions of the same people over a few years and plan to continue asking them in the future.

PEOPLE WITH FINANCIAL PROBLEMS ARE MUCH MORE LIKELY TO EITHER STOP SAVING FOR RETIREMENT OR NEVER START IN THE FIRST PLACE

REVEALING RESEARCH

In a new AARP paper,[1] academics Jorge Sabat and Emily Gallagher used the US Census Bureau's Survey of Income and Program Participation to follow more than 21,000 low-to-moderate income households over four years ending in 2016. An earlier paper by the same authors found that liquid savings of at least $2,452 (a little over £1,900), roughly one month's income, can meaningfully buffer low- to moderate-income households against short-term financial hardship. Not surprisingly, the effect for households with higher incomes was more linear and less dramatic since they are more likely to have access to credit or other resources, but it was still significant.

In this study, Sabat and Gallagher found that households that had total savings of roughly $2,500 at any point during the study period between 2013 and 2016 were significantly less likely to experience financial hardship up to three years later. Controlling for other financial and demographic factors, achieving this savings buffer is associated with a 9.5 percentage point decrease in the likelihood that a household will experience hardship three years later. Further, high-hardship households that achieved the savings goal at any point in time during that time period had nearly twice the likelihood of improving their financial wellbeing to low-hardship compared to households that did not achieve the savings goal.

A key factor is that the savings were not just sitting in an account but used. This is the message from the second paper,[2] which notes that while many researchers and others focus on the total amount saved, "savings totals alone are not a useful indicator of measuring savings success." Instead, the Aspen Institute's Financial Security Program found that the continuing process of building and then using savings is far more important. In short, the value of having a savings balance available goes beyond the ability to cover an emergency expense. The ongoing process of building, using, and then replenishing savings helps to protect families from immediate problems while staying on track for their long-term goals.

LESSONS FOR THE INDUSTRY

The implications of this research for the pensions industry are as important as they are for individual savers. Pensions providers that sponsor payroll deduction emergency savings accounts, either themselves or through a partner, make it much more likely that their savers will feel financially secure enough to save more for retirement and to continue to save during periods of hardship. And employers benefit because workers who have emergency savings are more productive when they aren't distracted by financial worries.

However, how the accounts are structured matters. A separate emergency account is more likely to be preserved for that purpose than just adding more to an existing savings account. The money is less likely to be spent on a vacation or something similar. In the US, it is possible to add an emergency account onto a retirement platform, but that appears not to be the case in the UK. For that reason, Nest trial uses a separate account. In both countries, there are regulatory obstacles that need to be cleared before emergency accounts can reach their potential.

And just as automatic enrolment was essential to increasing participation in retirement accounts, it is also essential for emergency savings. A 2018 national survey[3] by AARP showed that about 70% of US employees said they would likely participate in an emergency savings programme, but only about 5% actually sign up. Regulators are expected to allow a trial of automatic enrolment next year.

Emergency savings accounts are more than just a good idea. They can help savers, but they can also help pension providers to build larger and more consistent balances.

1. Sabat, Jorge. Emily A. Gallagher. *Does short-term emergency savings translate into longer-term financial wellness?* Washington, DC: AARP Public Policy Institute. November 2020. https://doi.org/10.26419/ppi.00117.001
2. Sheida Isabel Elmi, 'The Cycle of Savings: What we Gain when We Understand Savings as a Dynamic Process', Aspen Institute Financial Security Program, https://www.aspeninstitute.org/publications/the-cycle-of-savings/
3. 'Saving at Work for a Rainy Day: Results from a National Survey of Employees', *https://www.aarp.org/content/dam/aarp/ppi/2018/09/rainy-day-national-survey.pdf*

SHORT-TERM SAVINGS ARE A KEY PART OF OVERALL FINANCIAL WELLBEING

By ***Craig Rimmer***, Policy Lead: Master Trusts

The lessons from the US in David John's article translate well across the Atlantic. *In Hitting the Target*, the PLSA looked at the concept of a savings sidecar and Nest Insight have a two-year trial, with interim results likely to be out by the time you read this article.

With the Nest sidecar, once the ceiling is met, extra contributions are added to the continuing pension contributions. Like in America, the goal of the sidecar is to make pension saving more sustainable by accepting that some people will dip into their sidecars and then keep replenishing their savings. If sidecars mean more people have a good pension and little household debt at retirement that would be a good outcome.

The PLSA will publish a PLSA narrative and suite of guidance on financial wellbeing for pension schemes and employers early in 2021.

We'll be looking to progress our ideas of Mid-Life MOTS, look at household debts and access to advice and guidance. We'll also be talking about short-term savings that interact with each of these areas of financial wellbeing and help achieve ultimately better retirement outcomes for all.

THE GREAT RISK TRANSFER CAMPAIGN

John Taylor, Immediate Past President of the Institute and Faculty of Actuaries, explains why the organisation has risk transfer in its sights.

THE INSTITUTE AND FACULTY OF ACTUARIES (IFOA) LAUNCHED ITS GREAT RISK TRANSFER CAMPAIGN IN JANUARY 2020. THE CAMPAIGN SEEKS TO HIGHLIGHT – AND PROMOTE SOLUTIONS TO – AN IMPORTANT SOCIAL AND FINANCIAL TREND.

Institutions such as employers, insurers and the state, that once offered guarantees protecting individuals from longevity, investment and other financial risks, are increasingly withdrawing from managing such risks, resulting in a large-scale transfer of financial risk from institutions to individuals. Many of these risks are much more difficult to manage effectively at an individual level than an institutional level.

At our launch event keynote speakers from the Money and Pensions Service (MaPS) and National Numeracy highlighted some of the impacts of this trend. Increasing numbers of consumers are having to make complex decisions about how to invest their pension savings, how to manage their pensions and other assets through an unpredictable retirement, and how to protect themselves against the many financial risks inherent in life's unpredictable ups and downs.

Almost a year later, armed with a wealth of information from surveys, roundtables and discussions with expert organisations, our campaign is now focusing on recommendations. While we applaud the efforts of organisations like MaPS and National Numeracy who work directly with consumers, the IFoA's role is different. We are highlighting systemic problems in the current financial system affecting areas like pensions and retirement, insurance and employment. We are working to identify and promote solutions that have potential to improve outcomes for consumers, our society and our economy.

The readers of *Viewpoint* may be most interested in our thoughts on pensions, an area of significant risk transfer in recent decades. The closure of DB schemes in favour of DC has left individuals with almost sole responsibility for saving for their retirement and then withdrawing income in retirement, and all the risks that go along with that.

WE ARE HIGHLIGHTING SYSTEMIC PROBLEMS IN THE CURRENT FINANCIAL SYSTEM AFFECTING AREAS LIKE PENSIONS AND RETIREMENT

Not only has the nature of the retirement benefit changed but, as employers seek to contain the spiralling cost of pension provision, the DC replacement is often materially less generous than its DB predecessor. Thus, employees typically have lower and riskier pension provision. As one respondent to our call for evidencein the spring put it,

"Ideally, one might hope that this might involve employers increasing their contributions to compensate for the transfer of risk involved, but the opposite has normally been the case, inflicting a double whammy on the members".

This is also one of the ways that risk-sharing between employers and employees has been eroded in recent times. Another aspect of this is the growth of insecure employment in recent years, such as low-paid self-employed, agency, casual and seasonal workers, or those on zero-hours contracts. This broader change in employment practices was not a theme actuaries had explored in detail in the past, but is one that has come up repeatedly in our call for evidence as a key risk transfer with serious societal consequences. We're currently seeing a powerful counter-example as governments subsidise workers' wages during the pandemic. This demonstrates the impact that institutions can have in mitigating employment risk, reinforcing the need to examine the long-term transfer of employment risk.

Returning to pensions, 'freedom and choice' represents a further shift of risk and responsibility to consumers in deciding how to use their pension savings to manage financially through what is typically many years of retirement, and increasingly a period of life requiring care support for infirmity or ill health. Reforms have asked retirees to make an active choice about how to use their pension pot. But this is not always a well-informed choice. Individuals are responsible for making their pot last a lifetime, without the lifetime income guarantee provided by an annuity. This has exposed many more retirees to investment and longevity risk. While longevity protection is still available in the market, in the current low-interest-rate environment a much higher savings rate would be required to purchase this sort of product on retirement. For some, the risk will be opposite as the fear of running out of money will mean they underspend in retirement.

The long-term transition towards DC undoubtedly has some advantages for certain individuals, enabling a more flexible retirement. The widespread concern is that it is only those with higher incomes and wealth, good financial knowledge and confidence, and access to personalised financial advice, who really benefit from this more flexible system.

During the autumn, we have been focusing on developing policy recommendations for a final report, by talking to a wide range of stakeholders including government, parliamentarians, regulators, policy influencers and, of course, our own members across the actuarial profession. We plan to launch our recommendations report early in 2021. In the months to follow we will continue to engage with decision-makers and key stakeholders, such as the PLSA, and to build momentum for action on solutions to address the damaging impacts of the risk transfer trend.

THE GREEN FUTURE OF FIXED INCOME

Nick Reeve surveys the rapid rise of sustainable investment bonds, which could have a transformative role to play in the global recovery.

AS THE UK LOOKS TO REBUILD FROM THE ECONOMIC EFFECTS OF THE COVID-19 PANDEMIC, MANY INVESTORS AND CAMPAIGN GROUPS HAVE SOUGHT TO ENCOURAGE A 'GREEN' RECOVERY.

With wildfires, flash floods and other extreme weather events on the rise globally, there has never been a more important time to embrace environmental, social and governance (ESG) conscious investing.

On 9 November, Chancellor Rishi Sunak announced plans for the UK to issue its first sovereign green bond in 2021, with plans for "a series of further issuances to meet growing investor demand for these instruments".

Sunak told parliament that he wanted to "build out a green curve" of government bonds in the coming years.

Demand has certainly increased substantially this year. In the UK, more than £7 billion was invested in sustainable funds in the first three quarters of 2020, according to the Investment Association, compared to £1.9 billion for the same period in 2019.

In the fixed income world, demand for bonds linked to sustainable causes – known as green bonds – has exploded in recent years. According to the Climate Bonds Initiative, cumulative issuance of green bonds had reached $900 billion by the end of August 2020. Last year was a record year for issuance with $257.5 billion raised, while $194.5 billion was added over the course of 2020 to the beginning of November.

THE ‘GREEN+ GILT’

In the Chancellor’s announcement, the Treasury said the green gilt was designed to “help the UK meet its 2050 net zero target and other environmental objectives”, as well as “extend the UK’s global leadership in green finance” ahead of hosting the COP 26 international climate conference next year.

It will bring the UK into a select group of countries to have tapped the green bond market for finance for sustainability projects, following the likes of France, the Netherlands and Poland.

According to data collated by Nordea, since Poland issued the first green sovereign bond in December 2016, 15 countries have raised approximately £56.4 billion this way, as of the end of June. Since then, Sweden has raised SEK20 billion (£1.8 billion) and Germany €6.5 billion (£5.9 billion).

The Chancellor’s announcement follows a campaign launched in October by a collaboration of sustainable investing groups proposing the introduction of a “Green+ Gilt”.

Commenting at the launch of the campaign, Rhian-Mari Thomas, chief executive of the Green Finance Institute, said: “This is the time for the UK to showcase our ambition in green and sustainable finance. Issuing a Green+ Gilt will provide finance for green infrastructure, create green jobs and catalyse the sterling green and social bond market.”

GOVERNMENTS ARE INCREASINGLY PLACING A PRIORITY ON ENVIRONMENTAL PROTECTION AND GREEN INFRASTRUCTURE, AND CAPITAL MARKETS ARE READY TO FUND SUCH PROJECTS

The UK green bond plans also follow pledges made by Prime Minister Boris Johnson at the most recent Conservative Party conference to invest £160 million in ports and factories specifically to finance the construction of wind turbines, in an effort to achieve the production of 40 gigawatts a year of renewable energy by 2030.

“Together with social bonds, we think the green bond market will play a major role in the economic recovery,” said Noelle Cazalis, co-manager of the Rathbones Ethical Bond fund, in a recent market commentary. “Governments are increasingly placing a priority on environmental protection and green infrastructure, and capital markets are ready to fund such projects.”

The UK government’s ambitions are positive, she added, but “the big challenge is turning words into action” – and this is where the private sector, and pension funds, will come in.

“Initiatives like [the turbine investment] tell us that further private investment in sustainability and green infrastructure is likely, which means more capital will be needed to finance these projects,” Cazalis said. “This is where green bonds come in, and our expectation is that this market will only continue to grow from here.”

THE INTERNATIONAL ANGLE

Nordea’s Ebba Ramel, a sustainable bond analyst, and Jacob Michaelsen, head of sustainable finance advisory, said in a recent commentary that raising money for publicly-funded green projects was only part of the appeal of government involvement.

“In our view, the true value-add of sovereigns going green lies in the further validation that it brings to the market and the potential to spur local green bond supply in the respective markets,” they wrote.

If the Chancellor is able to keep his promise and establish a developed green bond market with varying maturity dates, this could prompt companies and other organisations to do the same and take advantage of the clear demand from investors.

Corporates have been even more active in this space. The International Capital Market Association (ICMA) lists more than 400 corporations that have launched green bonds in the past six years, including Apple, HSBC, Visa, Royal Bank of Scotland, Anglian Water and National Grid.

Many other organisations and entities – including cities, regional governments, international organisations, education and healthcare establishments, and central banks – have also all issued green bonds, providing the asset class with significant diversification in terms of covenant and geography.

GREENWASHING

While equity market investors have long been the leaders in incorporating environmental considerations into their strategies, fixed income has been a relative laggard. However, bond managers have been placing much more importance on non-financial matters in the past few years, in particular climate change.

Russell Investments’ 2019 Annual ESG Manager Survey found that 71% of groups with bond-only products said they “often or always” discussed sustainability issues with the companies in which they invested.

But as the green and sustainable bond sectors grow, so does the importance of monitoring that the proceeds of these securities are used as promised. ‘Greenwashing’ is as big an issue for fixed income as it is for equity markets.

RECOVERY PACKAGES THAT SEEK SYNERGIES BETWEEN CLIMATE AND ECONOMIC GOALS HAVE BETTER PROSPECTS FOR INCREASING NATIONAL WEALTH, ENHANCING PRODUCTIVE HUMAN, SOCIAL, PHYSICAL, INTANGIBLE, AND NATURAL CAPITAL

In a recent paper on ESG in fixed income, BMO Global Asset Management advocated a proactive approach to engagement – not something traditionally seen with bond investors – as an important aspect of a successful sustainability strategy.

BMO's paper also highlighted improving data standards as key to combating greenwashing.

"ESG data is constantly improving and we expect investors, ESG research providers and traditional credit rating agencies to continue to invest in this area and develop new, innovative tools designed to improve the identification and management of ESG issues relevant to fixed income investors," the company said.

"Supportive of this development are improvements in company reporting, with an increasing number of issuers producing sustainability reports and using international reference frameworks... to increasingly streamline ESG reporting."

The size of the global bond market and its popularity as a fundraising source for all kinds of organisations means it has a huge part to play in sustainable investing – and this could go far beyond the green bonds subsector.

"For most companies, raising funds in the debt market is more efficient and effective than giving up equity," according to Stephen Thariyan, co-head of developed markets at BlueBay Asset Management. "Hence the size of the asset class is significantly larger than the equity market. In this respect, we have noted that companies are beginning to understand the increasing relevance and importance of good ESG practices to attract bond investors."

Organisations such as the Climate Bonds Institute and the CMA have published their own definitions for the asset class, in some cases describing different kinds of green bonds as being different "shades" depending on how specific the terms are.

BUILDING BACK BETTER

As governments around the world have turned from addressing the immediate impact of the Covid-19 pandemic towards a longer-term recovery, the opportunity to "build back better" has come to the fore.

US President-elect Joe Biden put this phrase at the heart of his recent campaign, while the UK's Build Back Better campaign has been backed by campaign groups such as Greenpeace, Green New Deal UK, and Friends of the Earth.

A working paper from a team of renowned economists, first published in May, made the case for "long-term, climate-friendly stimulus policies", which they argued were "often superior in overall economic impact – not just in slowing global warming".

The authors – which included Nobel prize winner Joseph Stiglitz, Cameron Hepburn, Brian O'Callaghan, Nicholas Stern and Dimitri Zenghelis – argued that policymakers had an opportunity to "invest in productive assets for the long-term" – and by extension investors should have this opportunity too.

"Recovery packages that seek synergies between climate and economic goals have better prospects for increasing national wealth, enhancing productive human, social, physical, intangible, and natural capital," they concluded.

BACKING AN EMERGING ASSET

While green bonds are very much still an emerging asset class with limited liquidity in some areas, investors can take comfort in the growing support for issuance from governments, regulators and international bodies.

Angel Gurría, secretary-general of the Organisation for Economic Co-operation and Development, wrote in a 2015 report on the emerging green bond market: "Government policies can play a central role in influencing how private capital is mobilised and shifted. It will only be green if the investment landscape is supportive. Coherent climate policies and good framework conditions for investment are essential.

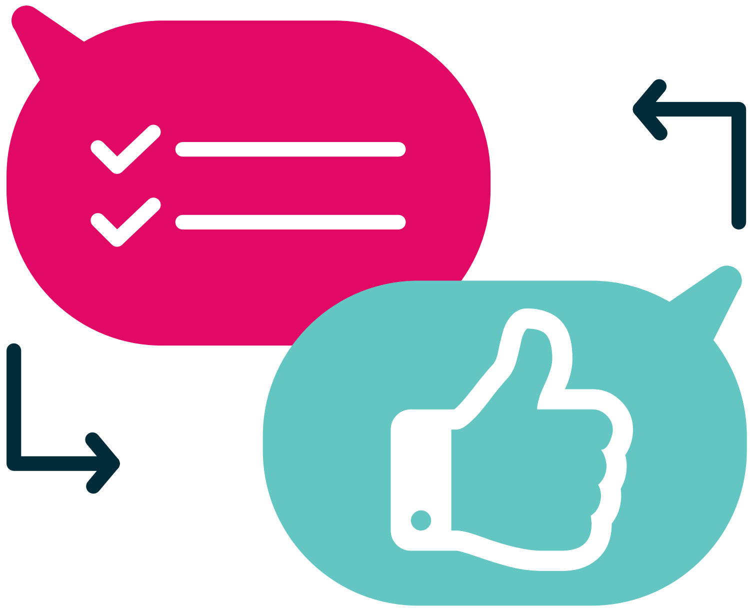
"We need to move from a world where green bonds are a novelty to one in which the entire bond market begins to reflect the transition towards a low-carbon transformation."

By marrying the UK pension sector's high demand for government bonds and its growing interest in sustainable investment, next year's inaugural green gilt could be the start of something big.


Standard Life

TELLING IT LIKE IT IS

James Walsh, Head of Membership Engagement, is all in favour of constructive criticism.



ONE OF THE MANY GREAT THINGS ABOUT OUR MEMBERS IS THAT THEY TELL IT LIKE IT IS. 'I WANT TO GIVE A BIG PLUG FOR THE PLSA', ONE TRUSTEE TOLD ME RECENTLY. 'YOUR STEWARDSHIP GUIDANCE AND VOTING REPORTING TEMPLATES MAKE SO MUCH SENSE – KUDOS TO YOU GUYS,' BEFORE ADDING, 'IT'S THE FIRST TIME FOR 12 YEARS YOU'VE PROVIDED SOMETHING PRACTICAL!'

My colleagues in the Membership Engagement team and I are on the front line for this kind of feedback, and it can be a pretty bracing place to be. It can be encouraging as well, and since I last wrote for *Viewpoint* a few months ago we've had plenty of positive conversations about the PLSA's services and – yes – some constructive criticism. It's our job to summarise all that feedback and share it with our colleagues – warts and all.

At the moment we're having these member discussions via Zoom or Teams, and one of the positive aspects of the Covid-19 crisis is that we've 'met' far more of you than in previous years, partly because a Zoom call doesn't require travel time (although we are *definitely* looking forward to visiting members at your places of work again).

POSITIVE ON EVENTS

One of the standout features of my most recent report to colleagues was the positive feedback we'd heard on our webinars and online conferences. The Annual Conference, run online for the first time, was very well received and I think I can say the same about our LA Update event for LGPS members.

THE INFORMAL BIT

The big caveat, however, is that many members are missing the opportunity to swap notes informally with industry colleagues over lunch or in the coffee breaks (or in the bar). We have a plan to address that next year – albeit without the drinking bit.

We're working on what we'll probably call 'peer-to-peer' meetings – getting four or five members from similar types of scheme (closed DB, trust-based DC, medium-sized local authority funds etc) together online to compare notes on how you're tackling common challenges. It's a simple proposition, but I know from talking to members that the PLSA's ability to bring them together is one of the things they value most highly about this organisation, so that's what we're going to do.

POLICY AND ALL THAT

Aside from the feedback we get on our services, we also look for members' input on the policy and regulatory issues on which we – as your trade association – should be lobbying the government and policymakers. Top of the list in the last quarter, as so often, were DB funding issues. Devising a long-term funding objective and charting a path towards it is the top priority for many schemes.

The administrative and data challenges wrapped up in GMP equalisation, improving member communications and ESG were other issues high on the agenda for the vast majority of schemes. Our LGPS members added the ramifications of the McCloud case as the top issue, followed – once again – by GMPs and data.

COVID PLUSES AND MINUSES

Covid-19 always crops up in our member conversations, of course, but generally with more positive spin. The headline is that schemes have coped well, asset values are roughly back to pre-crisis levels and trustee boards have got used to meeting online. Many, particularly those with trustees widely dispersed across the country, say they'll never go back to the 'old' ways of working.

On the negative side, some schemes have sponsoring employers very badly affected by the crisis (e.g. in the aviation and energy sectors), and the prospect of interest rates staying lower for longer and further increasing DB liabilities has made managing DB even more difficult.

THE CHALLENGE FOR NEXT YEAR

The PLSA is very much a member organisation, so listening to our members and responding to what they tell us is a vital part of our operations. Another member told me a few weeks ago that we were doing a 'good job' and our 'events are great – they inspire me'. Now that's the kind of member feedback I like! We just need to get all our members' satisfaction ratings up to that level – a good challenge for the PLSA next year.

THOMSON REUTERS
PRACTICAL LAW™

LEGAL UPDATE

PENSIONS LAW: LEGISLATION AND CASES ROUND-UP

Loreto Miranda, Thomson Reuters' Practical Law Pensions service.

THE PENSION SCHEMES BILL 2019-21 UNDERWENT ITS HOUSE OF COMMONS COMMITTEE STAGE IN EARLY NOVEMBER 2020. SOME AMENDMENTS WERE MADE BUT, AT THE TIME OF WRITING, NO CHANGES HAVE BEEN MADE TO THE SCOPE OF THE NEW CRIMINAL OFFENCES IN CLAUSE 107. DURING THE DEBATE, PENSIONS MINISTER GUY OPPERMAN REITERATED IT WAS *"NOT THE INTENTION TO FRUSTRATE LEGITIMATE BUSINESS ACTIVITIES WHERE THEY ARE CONDUCTED IN GOOD FAITH" BUT ADDED "WHERE THE ELEMENTS OF OFFENCES ARE MET, NO MATTER WHO HAS COMMITTED IT, THE PENSIONS REGULATOR SHOULD BE ABLE TO RESPOND APPROPRIATELY".*[1]

The Bill is expected to be in law by the end of the year. Other legislative developments in the pipeline include implementation of member-guidance requirements for pensions flexibility,[2] and a further Pensions Bill in this 2019-21 Parliament which may provide the framework for DB superfunds.[3]

In the courts and tribunals, key decisions included:

- The High Court granted rectification of three successive unilateral scheme documents, confirming it may be implied there was no intention to make a change, where it had not been discussed in any form.[4]
- The High Court also determined issues concerning the operation of the Fraud Compensation Fund in the context of compensation claims by occupational pension schemes which had been used as a vehicle for pensions scams.[5]
- The Pensions Ombudsman recalculated a member's compensation, after the High Court held it had erred initially when deciding the investment loss for a delayed transfer had not been measurable or foreseeable.[6]
- The ECJ held that supplies of pension fund management services to trustees of a pension scheme could not benefit from the exemption from VAT for insurance services.[7]

Future cases to watch include the next judgment concerning the Lloyds Banking group pension schemes, dealing with potentially significant transfer-out and trustee-liability discharge issues arising after the court confirmed in 2018 that schemes must equalise benefits for the effect of unequal guaranteed minimum pensions.[8]

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. Col 29, Official Report of House of Commons Public Bill Committee, First sitting, 3 November 2020.
2. Section 19 of the Financial Guidance and Claims Act 2018 to come into force, as per the ministerial answer to parliamentary written question: UIN 106522 (27 October 2020).
3. *Guy Opperman,* Pensions Minister, speaking at the annual PLSA conference (15 October 2020)
4. *SPS Technologies Ltd v* Moitt [2020] EWHC 2421 (Ch) (11 September 2020)
5. *Board of the Pension Protection Fund v Dalriada Trustees Ltd* [2020] EWHC 2960 (Ch)
6. Determination in a complaint by Mr T, 12 August 2020 (CAS-38354-V5L8).
7. *United Biscuits (Pension Trustees) Limited v HMRC* (C-235/19) EU:C:2020:801 (08 October 2020).
8. *Lloyds Banking Group Pensions Trustees Limited v Lloyds Bank PLC and others [*2018] EWHC

ESG & CLIMATE CHANGE – SO FAR, SO GOOD, BUT MORE WORK NEEDED

CACEIS INVESTOR SERVICES

"It's critical that data on climate change risk becomes easier to access in order to assess and manage climate change risk."
Pat Sharman, Managing Director UK CACEIS

THE INTEGRATION OF ENVIRONMENTAL SOCIAL & GOVERNANCE (ESG) PRINCIPLES IN PENSION PORTFOLIOS HAS GAINED MOMENTUM THIS YEAR. THIS WAS PARTLY THANKS TO NEW RULES INTRODUCED IN OCTOBER 2019, REQUIRING SCHEMES TO DISCLOSE THEIR POLICY ON ESG AND CLIMATE CHANGE RELATING TO INVESTMENTS IN THEIR STATEMENT OF INVESTMENT PRINCIPLES (SIPS).

Since this October, therefore, trustees have been required to include further details in their SIPs about their policies and arrangements with managers. This includes how asset managers are incentivised to align investment strategy and decisions with the trustees' investment policies, including ESG. Trustees also need to produce an implementation statement for inclusion in their first annual report and accounts produced after 1 October 2020. At the same time, The Pensions Bill and the Department for Work and Pensions are also proposing that larger schemes should provide climate risk disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

Against this backdrop, pension schemes are increasingly looking to focus their policy on ESG integration criteria rather than allocating to standalone sustainable funds, and they are also considering how to factor in and measure climate change risks.

THE STATE OF PLAY

To further develop our understanding of UK pension scheme concerns, CACEIS partnered with the Pensions and Lifetime Savings Association (PLSA) to ask PLSA members representing pension schemes of all shapes and sizes about their attitudes towards ESG and climate change. More broadly, CACEIS also wanted to gauge PLSA members' current thinking and find out how their pension schemes are looking to the future in relation to their governance considerations on ESG and climate change. The survey also aimed to understand the areas that participants believe will be the most pertinent for pension schemes and identify areas where trustees may need further support or training.

Our survey revealed that 42% of respondents highlighted 'improving member outcomes' as a driver for increased focus on ESG. This is really positive, because it highlights the link between ESG governance and member outcomes.

Our survey also revealed that allocations to distinct ESG-based themes within pension portfolios are on the rise. For example, 54% of respondents highlighted that they intend to increase their exposure to ESG funds over the next year, and a majority (82%) of respondents stated that they are focused on selecting managers that can fully integrate ESG criteria into their investment process. This latter point is really crucial for good ESG governance.

"Many pension schemes don't have the resource to conduct in-depth ESG analysis."
Pat Sharman, Managing Director UK CACEIS

BEWARE OF HEADWINDS

Some of the key drivers cited by our survey respondents confirm that ESG is no longer a peripheral exercise thanks to investor demand (43%), regulation (45%) and greater certainty about the link between ESG risks and financial performance (43%). Our survey also highlighted a number of challenges to ESG integration and addressing climate change, with a lack of consistency (80%) around ESG focused standards being the biggest. Additional headwinds included having more access to data on climate change (73%) and consequently more knowledge, with 70% of respondents saying they need more understanding of how asset managers are implementing their own ESG policies.

What's clear from the survey is that more work needs to be done to show pension funds how they can be supported on ESG issues, whether through training, resources, access to data, or industry collaboration. Overall, however, our findings paint an encouraging picture of pension schemes and trustees stepping up to the new demands on their time. Indeed, the journey towards greater integration of ESG and climate change looks set to continue. However, pension schemes and trustees require structured support to reach their own destination.

THE CLIMATE GAP

Interestingly, only 17% of respondents cited climate change as having a high impact on their scheme's investments. Some 49% felt it would be a moderate impact and 22% said that climate change would have a low impact on their scheme. In fact, climate change risks – both physical and transitional – can potentially have a significant impact on companies, depending on their industry and where their operations are based.

Understanding these risks will be a big part of a scheme's governance framework. However, given the uncertainties around whether governments will take the necessary action to meet the Paris Agreement that aims to keep global warming well below 2°C above pre-industrial levels, this is easy to understand.

GOVERNANCE: OVERSIGHT AND IMPLEMENTATION

Implementing ESG and climate change policies to take into account the risks they pose is going to be a critical governance function for pension schemes in future. It also has an important role to play in protecting member outcomes.

Trustees will therefore need to find solutions so they can form an independent viewpoint of ESG and Climate Risk factors, and then document their policies on these material financial considerations. Larger pension schemes will also be expected to disclose their climate-related risks in line with the recommendations of the TCFD by 2022. Over time this will likely set the tone for climate change reporting across the pensions sector for schemes of all shapes and sizes.

PUTTING ESG GOVERNANCE INTO PRACTICE

As a trustee myself for a small DC scheme, my focus was to oversee the development of the scheme's SIP in line with the new rules on ESG risks. My starting point was to create a level of independence in how the scheme's ESG risks were assessed by leveraging an off-the-shelf 'look through' solution that helped identify ESG risks and breaches by the underlying companies in pooled funds. I had a full 360-degree view on the scheme's ESG risks, which resulted in a more robust dialogue with the scheme's asset manager – and challenging them on the main ESG breaches we had independently identified.

In closing, whatever the size of a pension fund – be it large or small – most trustees require training and support, particularly as it relates to accessing data. As new solutions come to the market, trustees therefore need to widen their net beyond asset managers and consultants in order to implement truly independent governance solutions.

FACING THE FUTURE 2020

The latest research from the PLSA is a snapshot of evolving attitudes in the pensions sector, says ***Nicky Day***.

OVER THE LAST YEAR, THE RESEARCH TEAM AT THE PLSA HAVE BEEN SURVEYING MEMBERS ON A RANGE OF SUBJECTS TO HELP INFORM OUR RESPONSES TO CONSULTATIONS AND FEED INTO OUR POLICY VIEWS, AS WELL AS TO UNDERSTAND MEMBER VIEWS ON THE CURRENT AND FUTURE SITUATION.

Research to inform our responses to consultations has covered a range of topics including the DB Funding Code, McCloud, TCFD, ESG and the pensions dashboard among others.

Recently we carried out research among more than 120 senior staff working in workplace pensions across the UK, from a range of sectors and sizes. The survey provides us with insight into the workplace pensions sector.

Key findings from this survey are as follows:

ECONOMIC OUTLOOK

- **Growth prospects:** 76% of PLSA members said they weren't expecting to see economic growth in the UK over the next 12 months. More than half (53%) of survey respondents expected the economy to grow again in the next three years. This proportion rises to three-quarters (74%) over five years.

DESIGN OF THE PENSION SYSTEM

- **State Pension:** Most pension funds (63%) believe that the level of the State Pension (with the triple lock annual increases) is currently about right.
- **Automatic enrolment contributions:** AE has been a huge success in getting most employed people saving for retirement. More than three-quarters (76%) of PLSA members surveyed said that the current contribution level of 8% under AE is too low.
- **Drawing money out – the Pensions Freedoms:** Two-fifths (43%) of members said that the Pensions Freedoms should be reformed, most often through the provision of better guidance and advice (30%), being better regulated (20%), and through controls on how much can be withdrawn (11%).

KEY CHALLENGES

- **Covid-19:** A third of survey respondents (33%) said they were concerned the coronavirus would lead to a drop in pension contributions as companies fail and employment becomes less secure. This could see a substantial rise in the number of workplace pension schemes moving to the Pension Protection Fund.
- **Regulation:** The majority of PLSA members (71%) considered current regulation of the UK pensions system to be too burdensome, while a quarter (26%) felt that current regulation was about right. Over the last 12 months, TPR's new supervisory approach was considered to be the most impactful regulatory change for pension schemes (36%).

FUTURE TRENDS FOR WORKPLACE PENSIONS: THE NEXT FIVE YEARS

- **Consolidation:** The most significant trend in the pensions industry over the next five years would be consolidation, said 48% of members.
- **The role of technology:** 50% of members we surveyed were currently investing in technology for pension schemes or planning to do so over the next 12 months. Improving saver engagement (42%) was the most anticipated impact of technology on the sector over the next five years, while improving understanding of pensions was the second most anticipated impact.
- **Addressing climate change:** Over a third (36%) of survey respondents identified climate change and ESG investments as another major trend. The most common reasons given were because it was felt to be an important cause for society (particularly climate change) and because such investments can offer high returns.
- **Pension saver engagement:** One of the biggest issues facing the UK is how to better engage individuals to save for and plan their future. Over half (53%) of respondents identified the pensions dashboard as the initiative most likely to be effective in improving member engagement. The midlife MOT (26%) and the PLSA's Retirement Living Standards (24%) were identified as other effective initiatives that could increase pension saver engagement.

SUMMARY

Despite the uncertainties created by Covid-19, pension schemes are facing the challenges of the future: engaging with the trend towards consolidation; seeking ways of harnessing new technology to help savers understand retirement income; and taking steps to deal with climate change.

ABOUT THE RESEARCH

The research was commissioned by the PLSA and conducted independently by IFF Research. It was conducted in August 2020 and comprised 129 interviews with PLSA members who represent a wide range of scheme types and sizes. More than half came from schemes with AUM greater than £1 billion.
The full report can be found here.

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

COST TRANSPARENCY INITIATIVE

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

TEMPLATES INCLUDE:

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

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

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

NEW MEMBERS

BARON CAPITAL

Baron Capital is a premier asset management firm focused on delivering growth equity investment solutions. Founded in 1982, we started managing assets in 1983, and have become known for our long-term, fundamental, active approach to growth investing. We are headquartered in New York City.

We started as an equity research firm, and research has remained at the core of our asset management business, with close to one in four employees dedicated to equity research and analysis.

We offer 16 strategies, available as SICAVs, separate accounts, sub-advisory services, collective investment trusts, private funds, and mutual funds.

Stephen Millar,
Vice President, Head of EMEA
E: smillar@baronfunds.com
T: +44 (0)20 3941 5961
M: +44 (0)7769 958822
Baron Capital Management UK Limited
4th Floor, 30 Broadwick Street
London, United Kingdom W1F 8LX

EBURY PARTNERS

Ebury helps Pension Fund Administrators, Local Government S151 Officers and Payroll Teams deliver a Best In Class Payment Service to Global Scheme Members, resolving the challenges of processing Domestic and Global payments and consistently delivering time-critical payments to 200+ countries while maximising value to scheme members.

Ebury is an FCA regulated, international financial services company and subsidiary of Santander bank. We have vast experience in delivering global payment solutions to the pension & payroll industry – delivering over $25 billion in currency payments via our global payments network in the last 12 months.

Andy Valentine
E: andy.valentine@ebury.com
M: +44 (0)7857 356805
W: https://ebury.com/

SANLAM INVESTMENTS

Sanlam Investments UK is a boutique asset management business with a distinctive range of high conviction active strategies encompassing equities, fixed income and alternative asset classes. All its offerings are run by highly experienced award winning teams. It was established in 2006 and is wholly owned by its parent, Sanlam Life Insurance Ltd – founded in 1918, who is the largest non-banking financial services business in Africa headquartered in South Africa. It falls under the banner of Sanlam UK which also includes a private wealth/advisory business and a life company.

Bruce Simpson
E: bruce.simpson@sanlam.co.uk
W: https://www.sanlam.co.uk/

SCOTTISH WIDOWS

As one of the largest pension providers in the UK, Scottish Widows manages over 41,000 schemes for companies of all sizes, across all sectors, and manage over £64 billion in retirement savings assets. We offer a flexible range of contract and trust-based pensions, including our Scottish Widows Master Trust, with simple, ready-made investment options or wider bespoke solutions. These are supported by our award winning, tailored engagement, and insight from our industry leading research and reports.

As part of Lloyds Banking Group, we have the investment and backing of one of the UK's leading financial services providers, and customers can benefit from our wider Group services and capabilities.

Sian Marshall
E: sian.marshall@scottishwidows.co.uk
M : 07385 033 142
W: adviser.scottishwidows.co.uk

TUMELO

Tumelo is an impact-focused financial technology firm. Our mission is to enable pension members to benefit from a more sustainable investment system. We do this by partnering with pension providers, enabling them to provide their schemes and underlying members with transparency over the companies inside their pension and a shareholder voice on issues they care about, such as gender equality or climate change. Our solution is white-label software delivered via a user dashboard. It integrates with members' existing platforms to improve engagement and contribution levels. We're working with providers now and rolling out to schemes across the UK.

Kerra Pringle
E: kerra@tumelo.com
M: +44 (0)7710892997
W: www.tumelo.com

A commitment shared

As far as we're concerned, your challenges are ours too.

We will share the breadth of our specialist investment expertise with you, helping you explore the potential, plan the strategy, and make the right decisions around both delegation and investments.

Institutional.Enquiries@bmogam.com

Capital is at risk.

BMO Global Asset Management

bmogam.com