Viewpoint

The official journal of the Pensions and Lifetime Savings Association

Issue 1 2021

TESTING A NEW FORMULA

LONG-TERM INVESTMENT CHALLENGES IN A CHANGING WORLD

REACTIONS TO DIVERSITY AND INCLUSION IN PENSIONS

PRIVATE MARKETS: A GOOD FIT WITH INVESTMENT GOALS

SMALL POTS NEED BIG PLANS

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

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PENSIONS AND LIFETIME SAVINGS ASSOCIATION

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CEO'S *Viewpoint*

Julian Mund looks at key priorities for the PLSA in a radically changed working world.

IT IS A PLEASURE TO WELCOME YOU TO THE FIRST *VIEWPOINT* OF 2021.

WHAT A DIFFERENCE A YEAR MAKES. A YEAR AGO, AS I WRITE, WE WERE PACKING OUR BAGS AND CHECKING TRAIN TIMETABLES AHEAD OF OUR ANNUAL TRIP UP TO EDINBURGH FOR THE PLSA INVESTMENT CONFERENCE. IT WAS TO BE OUR LAST IN-PERSON CONFERENCE FOR QUITE A WHILE.

This year, by contrast, our Investment Conference preparations see us online putting the finishing touches to our exciting new event platform, which promises greater accessibility, a smarter programme and networking powered by artificial intelligence. It brings us closer to the networking experience I know you all miss.
This was brand new to us. And since the pandemic hit, we have thrown all our energy into developing the best possible online experience to ensure you, our members, can still access the world-class content you expect.

We have listened to your feedback – what has worked, what hasn't – and evolved. New for 2021 we are launching an ESG Conference in June, we have brought both parts of our popular Trustee Training course online, and we are introducing better and more varied ways to access content.
I fully believe the experts when they say that digital adoption by consumers and business leapt forward five years in the space of eight weeks. I know we certainly did as an organisation, and the continued digitalisation of the PLSA member offering is one of our key priorities for 2021.

LOOKING AHEAD

More than ever in this remote working environment, we need to bring our collective voices together. To create real change in the pensions and investment sector. To raise standards, share best practice and support members. That's our job.

In 2021 our Policy and Advocacy team will continue to look at DC decumulation and how the industry can transform the vision into a reality. Investment and stewardship is under the microscope again, with a particular climate lens. Pensions tax relief, small pots and the Pensions Dashboard remain high on the agenda. And the DB funding code features prominently, with more expected on this from The Pensions Regulator later this year.

THE PLSA IS COMMITTED TO HELPING THE PENSIONS AND INVESTMENT SECTOR SEIZE THE OPPORTUNITIES TO CREATE A MORE INCLUSIVE CULTURE AS WE EMERGE FROM THE PANDEMIC

The Retirement Living Standards (RLS) have also made great headway so far this year, and you can read about the new Friends of RLS in this magazine.

Of course an organisation is only as good as its people, and this includes the boards who help us. Carol Young, PLSA Board member, discusses her role and her career journey in this issue. I was also pleased to welcome some new faces to the PLSA's Policy Board in January – all of whom provide the PLSA with invaluable insight and expertise across the gamut of pensions policy.

MORE WORK TO DO

There are many positives to working from home. I have enjoyed more time to spend with family and try new activities – some of you may have heard about my endeavours with a kayak. This flexibility is something I hope the pensions sector will long embrace.

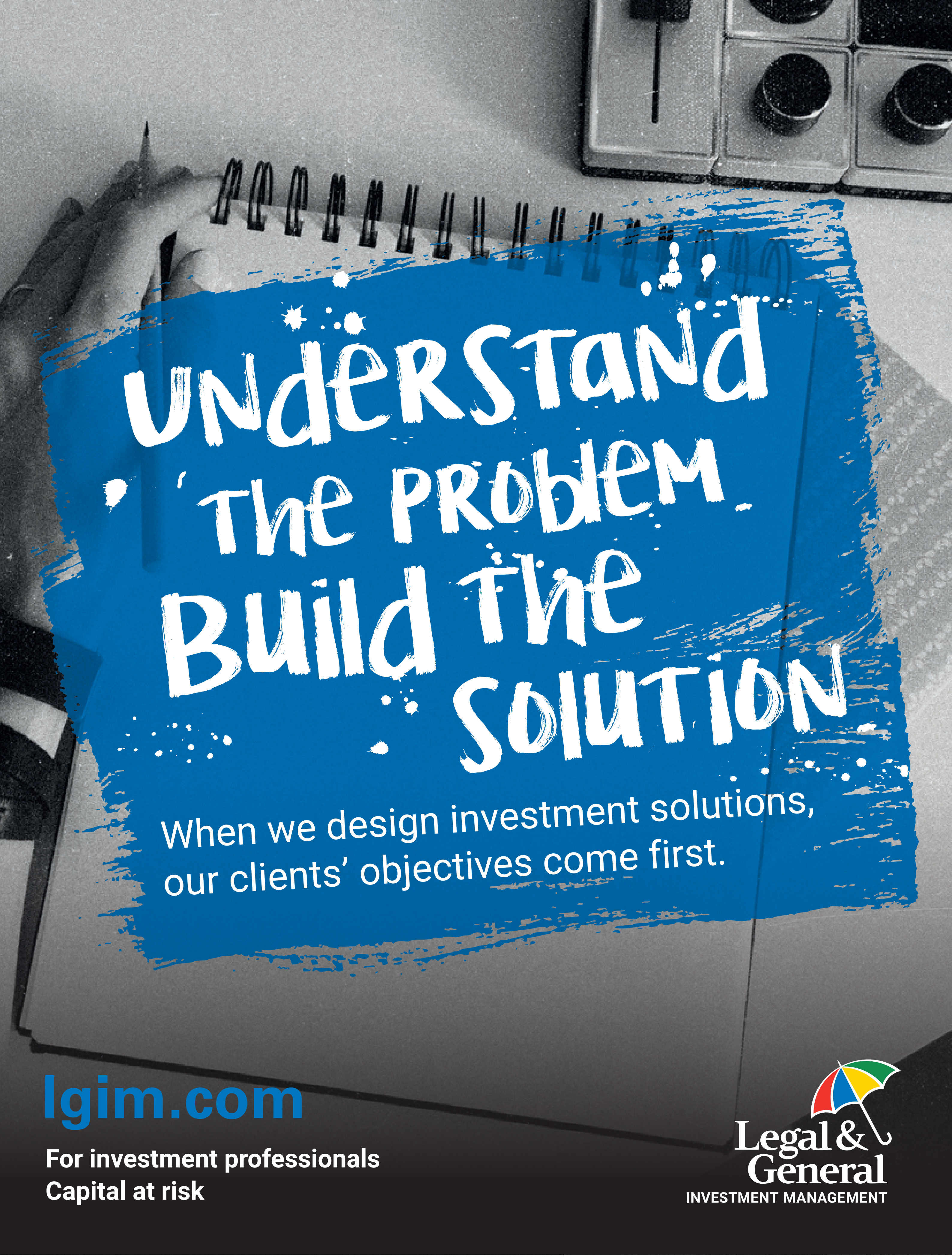
But there are challenges too. I know from my involvement with the Diversity Project that women are being especially negatively impacted in the workplace as a result of Covid-19. The PLSA is committed to helping the pensions and investment sector seize the opportunities to create a more inclusive culture as we emerge from the pandemic. The PLSA's recent Diversity & Inclusion survey offers some interesting insights, which you can read in this issue of *Viewpoint*.

We also know from a practical perspective that the challenges of running a pension scheme, or advising clients, have not gone away. Our purpose as a membership organisation is to assist you, our fund and business members – so if you are facing a particular pensions or business challenge that we can help with, please let us know!

I look forward to hearing from you – and seeing you online – at a conference soon.

Best wishes,

Julian Mund



Understand the problem
Build the solution
When we design investment solutions, our clients' objectives come first.
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INVESTMENT CONFERENCE 2021
GO BEYOND!

Rachel Pine looks forward to this year's Investment Conference – the most ambitious we've ever presented.

INVESTMENT CONFERENCE 2020 TOOK PLACE FROM 11-13 MARCH, AND MANY OF US ARRIVED IN EDINBURGH JUST AS THE SCALE AND IMPORT OF THE PANDEMIC WAS BECOMING TERRIFYINGLY CLEAR. SCOTLAND BEGAN TO CLOSE DOWN AROUND US, AND NONE OF US WOULD HAVE IMAGINED THAT A YEAR WOULD GO BY AND WE WOULDN'T HAVE MET IN PERSON AGAIN.

When we at the PLSA started to think about Investment Conference this past summer, we had been working from home for several months, and many of us had finished the first round of home schooling. Our homes became not just our offices and schools but our gyms and cinemas, too, and we had grown accustomed to not seeing family, friends and colleagues, and to not doing many of the things we enjoy. At the same time, the Brexit deadline edged closer and concerns about our future trading relationships with Europe and other nations were yet another source of worry.

Clearly, we had gone beyond any place, either physical or imagined, that we'd ever dreamed of. We had new ways of working and new ways of interacting with each other. The UK had new borders, in a sense, and our industry might need to work to different regulations, beyond ones that we had established in the past. Beyond any doubt, we were in a place that was – well, just beyond.

But the work of the pensions industry must continue – our members provide retirement income for some 30 million savers, with £1.3 trillion in assets – so we must push forward. And while things looked bleak, the investment community identified bright spots and opportunities in a world that didn't seem to have many.

Those bright spots and opportunities are well represented over the three days of the conference where speakers from our fund and business members – 106 of them – will be discussing and presenting these ideas. We'll be talking about investment in areas like residential property and logistics – who doesn't know someone who bought a house this year, or shopped online a bit more than they'd like to admit?

New ways of considering how DC investment works – from including private markets in DC defaults (once nearly impossible), through assessing how the 'safety' portion of a DC portfolio can still deliver less-volatile returns in our nearly-no-interest world, to managing investment during the decumulation phase – are critical to understand as auto-enrolment matures and the amount of assets under management in DC schemes and master trusts builds.

The climate emergency is given plenty of attention here as well. As regulations around pensions' climate risks tighten, we present several sessions that demonstrate how schemes can look at climate and ESG more broadly, with new research, ideas on responsible investment in equities and fixed

Clockwise from top left: Robert Peston, Baroness Helena Morrissey, Miles Celic, Dr Devi Sridhar

income. We take a closer look at impact investment, with ideas on how pensions investment can assist in easing some of society's historic inequities.

And that's not to mention a good amount of nuts and bolts conversations around issues like buy-ins, longevity risk and the new DB funding code, for example, each of which is covered within the programme.

We're using Investment Conference 2021 to go beyond pensions too, to get views on many subjects that will inform not just financial markets but society and governments around the world in the months and years to come. These views are coming from a wide range of speakers, including ITV's Robert Peston, who will talk about goings-on at Whitehall; Lord Bilimoria, president of the Confederation of British Industry, on the health of UK plc – plan sponsors to us – and how they are evolving with the times; Dr Devi Sridhar, the epidemiologist who advises Nicola Sturgeon will talk to us about how this pandemic is likely to end, and what we can do to guard against other viruses that may be waiting in the wings; Miles Celic of TheCityUk, on how the UK financial services industry's post-Brexit regulatory architecture is evolving; Baroness Helena Morrissey of the Diversity Project on why she has turned her attention to addressing gender inequality within the fund management industry; and Lord Adair Turner on the cooperation and pragmatism necessary to unite global governments to get to net zero by 2050.

All this is to say that we've gone beyond our previous benchmarks to try to present a programme of speakers and subjects that goes beyond anything we've presented before.

WE HOPE YOU'LL JOIN US AT THE CONFERENCE, AS WE STEP INTO THE BEYOND!

The PLSA's Investment Conference 2021 runs from 9 to 11 March

To register, visit **https://www.plsa.co.uk/Events-Investment-Conference**

MORE INCLUSIVE THAN DIVERSE?

TPR's focus on diversity and inclusion chimes with PLSA member attitudes, reports ***Craig Rimmer,*** Policy Lead: Master Trusts

THE PENSIONS REGULATOR HAS STARTED TO FOCUS ON DIVERSITY AND INCLUSION (D&I) IN THE PENSIONS INDUSTRY, AND HOPES TO BE AN AGENT OF CHANGE.

The PLSA recently attended TPR's first meeting aiming to create the working groups to set out standards for D&I. It was well attended by many pension schemes and businesses, and showed the level of commitment people have to improve D&I in pensions.

This positive attitude was also reflected in a survey that we carried out with our members in December 2020, to understand attitudes to D&I. Fifty-seven members from different scheme types and sizes filled out the survey, and the results were extremely interesting.

The pensions industry is seen as more inclusive than diverse. While only 20% of respondents said the industry is diverse, more than twice as many (43%) said that it is inclusive.

Being more inclusive is certainly a positive factor, with people feeling that different voices are welcomed. What's more, being more inclusive can lead to greater diversity. However, it's clear that more needs to be done, with 84% respondents seeing the need for both greater diversity and greater inclusion.

HOW GOOD IS DIVERSITY AND INCLUSION ON YOUR TRUSTEE BOARD?

GOOD **28%**

AVERAGE **35%**

POOR **31%**

Respondents could also see tangible benefits from a greater focus on D&I. Almost all (91%) members felt that D&I can improve decision-making and that it would also help retain talent. A similar number, 89%, thought greater focus on D&I would represent the membership better.

When the microscope was turned on the composition of trustee boards, the views of respondents were mixed. Twenty-eight per cent felt that diversity and inclusion on their own boards was good, 35% thought it was average, and 31% thought it was poor.

Across the pensions industry, we're perceived to be doing better in representing gender, social backgrounds and ages, but doing less well on disability and ethnicity. Most respondents didn't know how well unseen protected characteristics of sexuality and religion/beliefs were represented.

However, although gender fares better than other areas of diversity, 38% still felt it was not very well or not at all represented on their trustee board.

91%

SAY THAT A MORE DIVERSE BOARD WOULD IMPROVE DECISION-MAKING

The survey also showed that respondents believe a more diverse and inclusive approach would bring benefits for their schemes. Two-thirds (65%) felt that their trustee board needed to be more diverse, with 82% saying that it would help them to innovate and 62% saying it would help them represent their members better.

WORK STILL TO DO

While there is clearly an appetite for change, there is still plenty of work to do. Almost half (48%) of those we surveyed have no specific strategic objectives around diversity and/or inclusion, of which only a few (12%) have a plan in place. A quarter have strategic objectives in place, with recruitment and training being the main focus. Among those with no plans, the vast majority do not know when they will start to take action.

65%

BELIEVE THEIR TRUSTEE BOARD NEEDS TO BE MORE DIVERSE

BUT

48%

HAVE NO SPECIFIC OBJECTIVES OR PLANS AROUND DIVERSITY AND/OR INCLUSIVITY

Our findings also show that, as an industry, we need more help to make change happen. Sixty-four per cent of our members wanted more guidance to help them improve D&I. There was also interest in identifying questions that trustees could ask fund managers about their D&I policies and down-streaming on the companies that they invest in.

To help everyone in the pensions industry address the D&I challenges that we face, the PLSA has a Made Simple Guide, produced with Travers Smith, on this subject. We're also actively involved with TPR in joining up diversity initiatives and feeding in the views of our members in improving D&I.

The PLSA knows that our members take D&I seriously, and we continue to be committed to having programme items at our conferences that explore this in more depth. Our 2020 Annual Conference saw Gavin Lewis from #talkaboutblack discuss creating BAME leaders in the pensions industry, and the PLSA's forthcoming Investment Conference 2021 will see Dame Helena Morrissey talk about the 30% Club which is actively campaigning for 30% female board members at FTSE 350 companies.

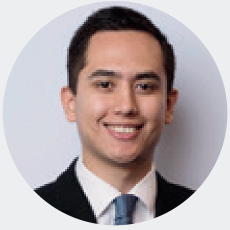
We're also committed to having a diverse range of voices at our conferences and within our policy governance. Like you, we believe that a diverse, inclusive approach to pensions better represents our members and results in better decision-making.

The PLSA's Diversity and Inclusion Made Simple Guide is available to download from the PLSA's website:

www.plsa.co.uk/Policy-and-Research/Document-library/Diversity-Inclusion-Made-Simple

BEING MORE INCLUSIVE IS CERTAINLY A POSITIVE FACTOR, WITH PEOPLE FEELING THAT DIFFERENT VOICES ARE WELCOMED

SUSTAINABLE GOVERNANCE



Scott Foster,
Product Specialist,
UK Pension Funds,
CACEIS.

EFFECTIVELY IMPLEMENTING ESG AND CLIMATE CHANGE POLICIES IS A CRITICAL GOVERNANCE FUNCTION FOR UK ASSET OWNERS. IT PLAYS AN INCREASINGLY IMPORTANT ROLE IN IMPROVING TRANSPARENCY, RISK MANAGEMENT AND, ULTIMATELY, PROTECTING MEMBER OUTCOMES.

Since October 2019, trustees have been required to state their policies relating to 'financially material considerations' in their Statement of Investment Principles (SIP). From October 2020, this expanded to include details of their relationships with asset managers, and the alignment of investment strategy and decisions with the schemes' investment policies. This has increased pressure on asset owners to take action to effectively manage and monitor their polices, including those related to ESG and climate change risks.

Climate change has taken centre stage for UK asset owners, and by 2022 all pension schemes with £1 billion or more in assets will have to disclose climate-related financial risks and opportunities, in line with recommendations by the Task Force on Climate-related Financial Disclosures (TCFD). This will include analysis on the potential impact of different scenarios, and how warmer temperatures and climate risks will impact the underlying companies within a pension scheme's portfolio. This also includes requirements to report on Scope 1 (direct emissions originating from a company), Scope 2 (indirect emissions from energy consumed by a company), and Scope 3 carbon emissions (all other indirect emissions that occur in a company's value chain). This creates a significant data challenge.

Regulation and associated engagement is moving quickly. We have seen a rise in UNPRI signatories and take up of its associated ESG norms (such as the UN Global Compact). From May to December 2020, there was a 9.5% increase in UK asset owner signatories, and a 17.5% increase in UK asset manager signatories, with the trend rising globally. As a result, the need to better understand, monitor, and report on ESG and climate change risks has prompted demand for reliable ESG and carbon data.

CONSISTENT, COMPARABLE REPORTING

Today, over 50% of UK schemes rely on their asset managers to help with ESG assessment and monitoring. However, there is an increasing onus on pension schemes to take more ownership.

Surveys show that 75% of UK schemes need more access to data relating to ESG and climate risks*. A key data challenge is the lack of a harmonised framework that assesses and reports on ESG and climate change factors. ESG data specialists will have their own range of companies covered, with differing processes in collecting data, flagging breaches and reporting.

An overreliance on asset managers for data can also exacerbate these challenges, in that each asset manager will also have its own method of sourcing and interpreting ESG data and carbon metrics into their investment process. This makes it even more difficult for pension schemes to make consistent comparisons across their funds and mandates. Consequently, if a pension scheme invests across ten different asset managers, they'll potentially get ten reports - all with different methodologies.

Having to use disparate ESG data and tools is another governance risk to consider – however this is being looked at. ESMA have identified that a lack of commonality in definitions and ratings can increase the risk of 'greenwashing', capital misallocation and product mis-selling*, and have recently called for legislative action to remedy this.

> TODAY, OVER
> **50%**
> OF UK SCHEMES RELY ON THEIR ASSET MANAGERS TO HELP WITH ESG ASSESSMENT AND

> SURVEYS SHOW THAT
> **75%**
> OF UK SCHEMES NEED MORE ACCESS TO DATA RELATING TO ESG AND CLIMATE RISKS

We anticipate that regulation and consistency in ESG data is on the way, but, until then, how can schemes gain access to harmonised data and reports?

ASSET SERVICERS AS GOVERNANCE PARTNERS

Asset servicers play a key role in strengthening governance, providing 'a single source of the truth' on ESG data across an entire portfolio. This single source helps drive consistent, comparable reporting across all investments, on a look-through basis, within the portfolio.

An independent perspective is key, especially when assessing if your scheme's asset managers are working in line with your ESG and climate change policies. Our focus as an asset servicer is supplying timely, consistent and cost effective ESG data and reports. This independence can further support your scheme's governance, in effectively identifying, monitoring and benchmarking ESG and climate risks.

In August and September 2020, CACEIS, in partnership with the PLSA, surveyed the PLSA's members on the growing importance of ESG and climate change. In total, the survey attracted 93 responses. These were spread across different schemes across the UK.

**Source: Source - https://www.esma.europa.eu/press-news/esma-news/esma-calls-legislative-action-

SHOPPING AROUND IN A CHANGING MARKET

Maggie Williams casts an eye over the fiduciary management sector in light of new rules on retendering.

IT'S JUST OVER A YEAR SINCE THE FIDUCIARY MANAGEMENT SECTOR WAS RESHAPED BY NEW RULES AND PRACTICES AIMED AT IMPROVING TRANSPARENCY AND COMPETITION.

Following a 14-month investigation by the Competitions and Markets Authority (CMA), the Investment Consultancy and Fiduciary Management Market Investigation Order took effect for all schemes in December 2019. Trustees who want to use a fiduciary manager for more than 20% of their assets must now shop around for a provider and can no longer fast-track their incumbent investment consultant into a fiduciary role.

This has driven significant change to the way that investment consultants, fiduciary managers, third-party evaluators and trustees manage fiduciary relationships.

For fiduciary managers, it has meant taking a far more consistent, transparent approach in tenders. They must use a standard template to set out clear information around fees and performance, so that trustees can make meaningful comparisons between providers.

Trustees, too, are expected to play their part in ensuring an even playing field. As well as requiring that all new mandates go through a competitive tender, schemes that already have a fiduciary management contract in place must run a retender exercise, either within five years of the original appointment, or by 9 June 2021.

According to Isio's 2020 *UK Fiduciary Management Survey*, around 19% of UK DB pension schemes now use some form of fiduciary management, totalling £197 billion in either full or partial mandates. But the CMA's report found that, as of June 2019, only 50% of schemes had run a competitive tender.

A COMPETITIVE SECTOR

With the CMA's June 2021 deadline fast approaching, and many trustees' plans to retender during 2020 affected by the Covid-19 pandemic, the first half of this year looks set to be among the busiest on record for fiduciary managers.

"We have seen a real uptick in activity at the start of 2021," says Pieter Steyn, Head of Delegated Investment Services UK at Willis Towers Watson. "Each proposal needs to be tailored to the circumstances of the scheme – fiduciary management is a contextual service and not an asset management product where one size can fit all."

CMA'S REPORT FOUND THAT, AS OF JUNE 2019, ONLY

50%

OF SCHEMES HAD RUN A COMPETITIVE TENDER.

Despite the volume of work for providers, Dan Richards, client director at professional trustee company PTL, believes that the quality of retendering pitches has benefitted from the new requirements. "I have seen a better articulation of what providers can do, and a lot more transparency in the market. In a recent retendering exercise, I was impressed that all the firms presented a good story. That hasn't always been the case in the past."

THE MORE A PENSION FUND CAN DEMONSTRATE THAT IT IS TAKING THE RETENDER EXERCISE SERIOUSLY, THE BETTER CHANCE IT STANDS IN NEGOTIATING ENHANCED TERMS

Peter Daniels, head of fiduciary management evaluation at Barnett Waddingham, says that the value offered by fiduciary management mandates has also improved: "It has undoubtedly led to more competitive commercial terms being offered." However, he adds that trustees also have a role to play in the quality of negotiations: "The more a pension fund can demonstrate that it is taking the retender exercise seriously, the better chance it stands in negotiating enhanced terms."

As a part of that process, Steyn cautions trustees to look beyond basic pricing. "Performance remains a key factor," he says. "For example, trustees will consider whether a very low cost offering also controlled risk well during 2020's market volatility."

While retendering has given both schemes and providers an opportunity to evaluate their options, Isio's 2020 report found that two-thirds of schemes ultimately decided not to switch providers.

Even if trustees retain their incumbent fiduciary manager, retendering is still a beneficial exercise for schemes, says Calum Mackenzie, UK investment team partner at Aon.

"It has given us an additional chance to engage in constructive, open discussions with our clients. Although these are a regular part of our ongoing relationships, the exercise has provided extra focus."

He adds that such conversations have helped Aon "to increase flexibility, align more closely with ultimate objectives and further reduce costs through innovation and aggregation."

But, says Daniels, retendering is just a starting point: "We need more regulatory focus and acknowledgement that selection and ongoing oversight of fiduciary management arrangements must be based on scheme-specific investment decisions."

DIVERSITY AND INNOVATION

Ajeet Manjrekar, co-head, River and Mercantile Solutions, says that fiduciary management services are also becoming more diverse, and this could help to build new business in the future: "There is far greater focus on providing a more complete solution for schemes, incorporating end-game management as well as the drive towards more sustainable solutions."

"Trustees should now be more aware of and better understand the options that are available," concurs Richards. "I hope the whole process has shown that there are all manner of setups available, and that you can have a fiduciary management approach just for a specific mandate, such as LDI. It is no longer a scary subject and trustees should now know enough about it to have an informed conversation.

"There was also a perspective that fiduciary management was only for bigger, richer schemes," he continues. "But it can work for small schemes that need investment care to help them do what they need as simply and as maintenance-free as possible."

With governance burdens increasing for trustees of all scheme types, use of fiduciary managers could well expand in future. And, as assets under management increase, says Manjrekar, "we expect fiduciary managers to use their scale to drive innovation across the industry."

In particular, he pinpoints ESG integration and addressing climate change as key areas to address. With trustees now required to detail their approach to ESG as part of their scheme statement of investment principles, that will be crucial for future mandates. Isio's 2020 report found that almost all (98%) schemes have engaged with their fiduciary manager around ESG to some degree, although this varied from defining general guidelines to setting scheme-specific policies.

The emphasis on scheme-specific design will become more important in future. "Fiduciary management is as far away from a set-and-forget approach as you can imagine," cautions Daniels. He calls on schemes to make sure that they have oversight and can assess whether their fiduciary manager is fulfilling the mandate they've been given and adding value – even after a retendering exercise.

Overall, Manjrekar concludes that retendering has been "a significant improvement for trustees and their stakeholders." After June 2021, there will be a clearer picture of whether the CMA's goals have been achieved from a competitiveness perspective. "This will be reflected in the volume of actual retender activity and governance reviews that trustees have undertaken," says Manjrekar.

He points to improved transparency across the market, including fee disclosure, which should allow trustees to better understand existing arrangements and how those compare to the rest of the market, as well as driving more open competition in the future. Ultimately, that has to be good news for schemes and for their members.

TIMELINE FOR CHANGE

November 2015 – The FCA launches its Asset Management Market Study. In the findings, it recommends a competition review of the fiduciary management sector.

September 2017 – The Competitions and Markets Authority begins its investigation.

December 2018 – The CMA publishes its final report.

June 2019 – Following its investigation, the Competition and Markets Authority (CMA) publishes its Investment Consultancy and Fiduciary Management Market Investigation Order 2019.

December 2019 – The CMA's Order comes into effect. Any scheme outsourcing 20% or more of its assets to a fiduciary manager must carry out a competitive tender process involving at least three bids from different companies.

June 2021 – By this date, schemes that appointed a fiduciary manager more than five years before the CMA's Order must carry out a competitive tender process.

June 2024 – Any scheme that has previously appointed a fiduciary manager without a competitive tender process must carry out a competitive tender process by this date.

GIVING TRUSTEES A VOICE

David Weeks, Co-chair, Association of Member Nominated Trustees, explores current priorities for pension scheme governance.

THE ASSOCIATION OF MEMBER NOMINATED TRUSTEES (AMNT) COMPLEMENTS THE WORK OF THE PLSA AS WE BOTH WORK TOWARDS BETTER OUTCOMES FOR SCHEME MEMBERS.

The AMNT represents pension scheme trustees who are nominated by the members themselves and so bring democracy into governance. We do "what it says on the tin"!

Minister for Pensions Guy Opperman MP has noted that we have been doing this successfully for 10 years:

"The AMNT offers a vital and independent voice in pensions governance. As well as raising standards of trusteeship with independent training and awareness sessions, they have an uncanny knack of identifying both issues and solutions ahead of the pack – on collective DC, ESG, member representation and pooled funding voting. I congratulate them on 10 years of helping the voice of the pension scheme member speak truth to the might of the finance industry and change the relationship."

Every few years we undertake a survey of our members to review who we are and how we make our contribution. So I'll share some key findings from this latest update.

The research shows that AMNT members are assiduous in time spent on their duties and on keeping up to date in the world of pensions. It confirms how our membership is democratic in character, well experienced in service and contains its costs with due economy.

AMNT members treat their role as akin in scale to that of a non-executive director in a quoted limited company. Around one in 10 say that they chair their board. A further one in 10 chair a sub-committee.

A big majority spend over 30 hours a year on formal trustee business (74%), with an additional 30 hours or more on background reading (58%). Key themes in members' answers were the importance that they place on advisers and webinars. Almost all (94%) say that they value training from their advisers at meetings, with 74% adding that training from advisers outside meetings was useful. Webinars were judged a useful part of working life by 84%.

Democracy reigns in pension scheme governance. Two-thirds said that they were elected, as opposed to selected. They are highly experienced, with average service of around 12 years. A little under half – 45% – are remunerated. For one in five of these, this comes as paid time off work in lieu. However, trusteeship is not a great money spinner even for those who receive payment: 10% receive below £10k a year while 14% get between £5k and £5k and 12% receive £10k or more.

AMNT members tend to operate in the better-run part of the occupational pension sector, where funding levels and sponsor covenants are both strong. They do have a bias towards defined benefit schemes, which is a declining share of the market. They respond, however, with robust de-risking plans and represent a good spread in size of funds.

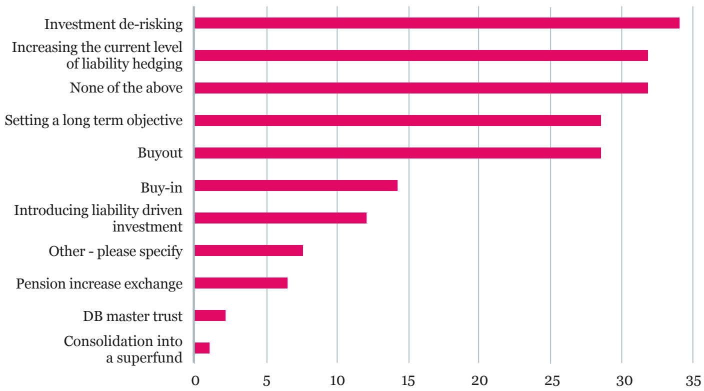
As for fund size by assets under management, 28% of trustees said they managed £1 billion and above; 17% managed between £500 million and £1 billion; 30% managed between £100 million and £500 million; and the remaining 25% said they managed under £100 million.

Respondents reported funding on a technical provisions basis. One in eight said that funding was over 105%; four out of 10 said it was between 95% and 105%; and a further three out of 10 said funding was 85% to 95%. Sponsor covenants were reported prior to the Covid-19 pandemic: in Pensions Regulator terms, 40% were "strong" and 44% were "tending to strong".

OUR MEMBERSHIP IS DEMOCRATIC IN CHARACTER, WELL EXPERIENCED IN SERVICE AND CONTAINS ITS COSTS WITH DUE ECONOMY

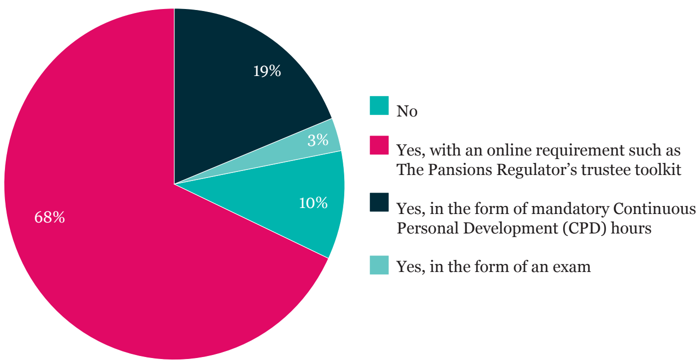
When asked “Is your scheme considering any of the following measures post pandemic?” there was a spread of answers. One-third mentioned investment de-risking and increasing the level of liability hedging; then came buyout, at 29%, and setting a long-term objective at 28%. Buy-in scored 14%, with liability-driven investment (LDI) at 12%. At the bottom end, defined benefit received mentions by only 2% while consolidation into a superfund was mentioned by just 1%.

IS YOUR SCHEME CONSIDERING ANY OF THE FOLLOWING DE-RISKING MEASURES POST PANDEMIC? (TICK ALL THAT APPLY)



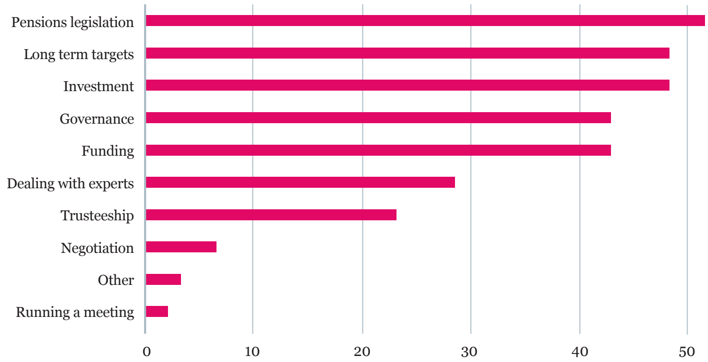
MNTs are serious about the importance of training in trusteeship. We asked: “Should there be a compulsory trustee qualification for all trustees?” Yes, said 90% of respondents. Of these, seven out of 10 said that it should be an online qualification, such as the Pensions Regulator’s trustee toolkit. Two out of 10 favoured mandatory continuous professional development hours (CPD), while a mere 3% favoured an exam.

SHOULD THERE BE A COMPULSORY TRUSTEE QUALIFICATION FOR ALL TRUSTEES?



When asked “What are your priority areas for trustee training?” they gave clear answers. Five topics came at the top of the list, each mentioned by around half of respondents. In descending order these were pensions legislation, investment, long-term targets, scheme funding, and governance.

WHAT ARE YOUR PRIORITY AREAS FOR TRUSTEE TRAINING POST PANDEMIC? (TICK ALL THAT APPLY)



After 10 years, the AMNT and the PLSA have our complementary roles in the occupational pensions sector. The Pensions Minister noted how this can benefit individual scheme members. Our new AMNT survey suggests how we can work together to ensure that this takes place in practice.

RETIREMENT LIVING STANDARDS: WHAT'S NEXT?

Joe Dabrowski, Deputy Director – Policy reports on encouraging developments for our flagship initiative.

SINCE THEIR LAUNCH IN OCTOBER 2019, THE PLSA'S RETIREMENT LIVING STANDARDS (RLS) HAVE BEEN ADOPTED BY A WIDE RANGE OF PENSION PROVIDERS AND PRODUCT DEVELOPERS, AND HAVE WON INDUSTRY AWARDS FOR CREATING A CLEAR PICTURE OF HOW MUCH PEOPLE NEED TO SAVE FOR THEIR RETIREMENT.

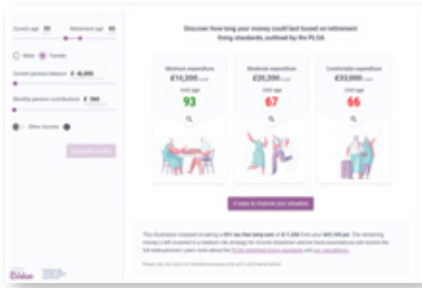
The RLS continue to receive frequent national media coverage, creating a UK-wide conversation about retirement saving. They are also increasingly used by policy bodies, thinktanks and even government when considering pensions adequacy.

The Standards show what life in retirement looks like at three different levels – minimum, moderate and comfortable – and what a range of common goods and services would cost for each level.

In total, some 14.4 million savers – including more than 10 million active savers – have access to the Standards following their adoption by 53 organisations including 30 pension schemes, 17 pension business adopters and six other bodies. The PLSA has set an adoption target of 90% of active savers via scheme adopters by 2025.

Below, we take a look at some examples of how the RLS are being used in practice, and what's next for their future evolution.

	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



EValue provides calculations and modelling software to help people better understand how the actions they take now can impact on their future.

The company has recently upgraded its calculation suite to include the RLS, which it says add an alternative method of communicating realistic retirement expectations.

The Standards help to illustrate what an individual's retirement could start to look like across three different levels, and what a range of common goods and services might cost at each level. By deploying the RLS within the calculations, EValue says it offers a detailed retirement description across each of the three benchmarks to help outline retirement expectations. These Standards can be applied to single individuals or can be scaled up to produce a value for a couple.

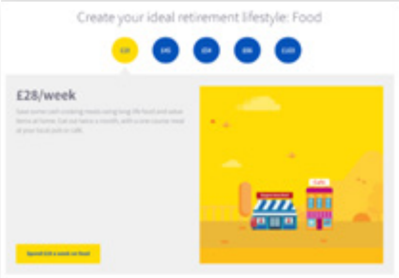
EValue's Retirement Lifestyle Forecaster allows users to input their age, retirement age, pension balance and monthly contributions to discover how long they could expect their retirement income to last with spending associated with each of the RLS.

The tool also suggests ways the saver could improve their situation including increasing contributions, delaying retirement or generating other sources of income.

FRIENDS OF THE RLS

Show your support for the Retirement Living Standards

AVIVA



Aviva has been embedding the RLS into its full customer journey, so that they feature regularly throughout a customer's lifetime, to help them achieve the best retirement outcome possible.

This has included:

- Adding the minimum RLS to its Retirement Forecaster for some pension customers to give them an indication of how likely they are to achieve it. Aviva expects to expand this out to all pension customers and has plans to include all three RLS on the forecaster tool, as well as allowing the customer to create their own personalised Living Standard.
- Including the RLS in its latest member guide.
- Including the RLS in slides for employee financial education sessions on pension savings and retirement.
- Creating a member engagement video based around RLS.
- Introducing the RLS into Aviva's Shaping Futures governance reporting functionality, so that employers can see the proportion of a member's projected retirement income compared against RLS, and measure the impact if contributions are increased.
- Annual statements for 2020/21 will also include RLS.

Standard Life

Standard Life is committed to adopting the RLS right across its retirement proposition.

Currently this includes:

- Referencing the Standards on the "How much should I save for retirement?" section of Standard Life's public website, which was the main focus of a blog issued shortly after they were announced last year.
- Highlighting the RLS in Standard Life's retirement planning tool presented to members seeking advice through the website.

Future plans:

- Standard life has included the RLS in its Annual Benefits Statement since the end of 2020, pointing savers to the RLS website for more help defining how much they might need in retirement.
- Plans to include the standards in education and awareness sessions on pension savings with employees of workplace pension clients.
- Looking at how it may adopt the Standards more holistically throughout its proposition. Customer communications, collateral and digital guidance material and tools will be in the scope of this initiative.

CTC Software

CTC provides a range of digital tools which help customers with their retirement options.

Among these tools CTC has always offered an option to model savings against a given target income. Now CTC has adopted the RLS as the standard option available to customers. A tailored questionnaire also allows them to see a personalised target.

CTC will be rolling out its RLS modeller as part of all digital propositions going forward, and says there has been a lot of positivity around the clarity the RLS provide. Having an industry-standard recognised target is incredibly useful, so all providers can get behind it and start adding some clarity to retirement planning.

Savers in accumulation must be able to personalise their own desired living standard and then be able to set this as a saving goal. Every year they will then be able to see if they are on track and if there is anything additional they need to do.

As the Retirement Living Standards gain momentum in becoming an industry standard in pension scheme communications, the PLSA is asking pension schemes and providers to publicly show their support for the initiative.

For a small financial donation, pension schemes can join the 'Friends of the Retirement Living Standards,' which will fund the necessary further research to ensure the Standards remain up to date and relevant. This includes working with Loughborough University's Centre for Research in Social Policy to update the constituents of the basket of goods and services that reflect the type of lifestyle retirees can enjoy at three different levels.

Friends of the Retirement Living Standards will be recognised on the official website and receive a logo that demonstrates their support for the initiative, which they can use in their communications with members.

Like the 'Five a Day' healthy eating maxim, the PLSA hopes the Standards will one day become a rule of thumb for retirement planning – a common language to help the UK engage with retirement saving.

• For more information about how you can become a supporter through Friends of the Retirement Living Standards, email **Alison.Binks@plsa.co.uk**.

A WATERSHED MOMENT

David Fairs, Executive Director of Regulatory Policy, Analysis and Advice at TPR, surveys the new Pension Schemes Act.

THE PENSION SCHEMES ACT HAS BEEN A LONG TIME COMING AND MARKS A WATERSHED MOMENT IN TPR'S MISSION TO PROTECT SAVERS.

But the landmark is not the end of the road, it is the signal for more work yet to be done.

Some of the Act's provisions won't start straight away, with many also requiring regulations from DWP. TPR will be engaging with the pensions industry and providing guidance in due course to help it navigate the changes brought by the new law.

POWERS

The Act provides a strong package of measures which will make using our powers more efficient, and introduces deterrents against behaviour that risks savers' benefits. The changes in the Act will also help us drive better standards across the schemes we regulate and better equip us to protect savers.

Enhanced information-gathering powers will significantly aid our investigations by giving us more tools to progress them effectively and efficiently, including by being able to compel people to attend interviews and giving us broader powers to conduct inspections.

The Act also strengthens our contribution notice (CN) power. Our casework shows that events that affect an employer can subsequently diminish its ability to support a scheme, for example specific restructuring situations.

The new powers included in the Act will involve updating codes and producing new guidance. We will work with industry to ensure these powers are understood.

DEFINED BENEFIT (DB) FUNDING

The Act builds on the existing approach to DB funding. It sets new requirements which will help trustees focus on long-term planning, and clarifies what is expected of schemes based on their own circumstances.

Regulations will be developed by the government, who will provide further detail.

We are committed to the scheme-specific regime and we are looking at the next steps arising from the legislation, which is to develop a funding code that works for all schemes, including those that are open. These aspects were part of the first consultation on the DB Funding Code.

As the Act's measures were being developed, it was acknowledged many schemes are doing the right thing. But there is increased focus on helping trustees navigate through the end game for their DB schemes.

However, there are a small number of schemes that abuse the flexibilities in the system. We are looking to provide clarity of what is expected of trustees and employers in legislation, such as setting a long-term funding objective, a journey plan of how to get there and how risk should be managed along the way.

Schemes already doing the right thing should find this straightforward to achieve, and the greater clarity should help us take action where we see non-compliance.

Our second funding code consultation will take place in the second half of 2021.

CLIMATE CHANGE

The Act highlights that pension scheme trustees should be considering the effects of climate change, and will require them to engage more fully with the risks and opportunities arising from the response to this global emergency.

We welcome the assumption that all schemes will face some degree of material risk from climate change. A scheme that does not consider climate change is ignoring a major risk to pension savings and missing out on potential investment opportunities.

Previously, schemes only had to consider climate change where trustees said it was financially material. Now these new measures thoroughly bake in that consideration for schemes in scope and trustees are expected to step up and put climate change at the heart of scheme governance.

TPR is one part of the financial system and we will be launching our own climate strategy later in spring. The strategy will set out how we can play our part in the low-carbon transition agenda and help trustees meet the challenges ahead.

A SCHEME THAT DOES NOT CONSIDER CLIMATE CHANGE IS IGNORING A MAJOR RISK TO PENSION SAVINGS AND MISSING OUT ON POTENTIAL INVESTMENT OPPORTUNITIES

THE PRIVATE MARKET UNIVERSE

Charlotte Moore reports on the rise of an increasingly popular set of asset classes.

PRIVATE MARKETS HAVE BECOME A POPULAR OPTION FOR PENSION FUNDS, AS THE RISK-RETURN PROFILE AND TIME HORIZONS OF THESE ASSETS PROVIDE A GOOD FIT FOR MANY SCHEMES' INVESTMENT GOALS.

This broad universe typically encompasses property, private debt and equity as well as infrastructure. It can also include more esoteric investments such as insurance-linked securities, aircraft leasing, regulatory capital relief and healthcare royalties.

The appeal of these assets is they are long-term investments which match the life cycle of pension schemes, says Alyshia Harrington-Clark, Head of DC, Master Trusts and Lifetime Savings at the Pensions and Lifetime Savings Association.

"Both DB and DC schemes can take advantage of the illiquidity premium of these assets," she adds.

In addition, these asset classes typically involve direct investment in buildings, green energy and individual businesses – which can help pension schemes to use their investments to make positive impact on society, says Harrington-Clark.

Jeffrey Malluck, senior investment consultant at Aon, says: "Private markets are a good way for schemes to diversify their portfolios as they have lower correlation to public markets."

Returns are also often better than more traditional asset classes. Katie Sims, senior investment consultant at Willis Towers Watson, says: "Typical annual premiums are around 1% to 3% higher than public market equivalents."

Appetite for both individual asset classes and the type of capital funding structure varies, however, depending on the particular characteristics of a scheme. Closed DB schemes have been at the forefront of the use of private market assets.

Dan Mikulskis, partner at LCP, says: "These schemes have been allocating to these assets since 2015, with private debt and direct infrastructure the most popular." There have also been smaller investments made into direct property.

POPULAR PROFILES

The popularity of private debt has been driven both by supply and demand dynamics. In the aftermath of the global financial crisis banks started lending less so businesses needed another source of funding, such as pension schemes.

As returns on more traditional assets fell, private debt offered a better risk-return profile for schemes which were both closed and maturing. Mikulskis says: "Fees for these products have also fallen in recent years to become more aligned with institutional investor expectations."

There has been a similar trend in infrastructure investments, with fees falling and the structure of these investment vehicles also changing to be a closer match with the requirements of pension schemes, adds Mikulskis.

Not only do these asset classes offer a good risk-return profile for pension schemes at a reasonable fee level, but they can also offer an income profile which matches liability payments.

Malluck says: "These strategies can provide inflation-linked returns, which is a good match to the benefits a scheme has to pay."

Private markets can also be helpful for more mature schemes which need to find cash to meet liability payments, says Sims. "Private debt and secure income assets, such as real estate and infrastructure, can offer pretty stable and attractive yields," she adds.

While the characteristics of private market assets will be a good match for a pension scheme, deciding whether particular assets are the right fit will depend on its particular characteristics.

Malluck says: "The decision to invest in a private market is driven by a pension scheme determining what they want to achieve – is it buy-out or self-sufficiency? Then they need to ascertain how far they are from that goal."

If a scheme is less than a decade from buy-out then allocating assets to certain private markets is not a viable investment option, adds Malluck.

The investment time horizon of different assets is a major factor. Mikulskis says: "Private debt typically has a seven-year investment horizon, making it a possibility for schemes targeting buy-out in a decade."

Malluck says: "These assets tend to pay out coupons and principal back so quickly the duration is often around four years, which makes them a good fit for schemes looking to achieve buy-out within 10 years."

Other private asset classes like private equity and infrastructure are not viable for these schemes because of their time horizons. Malluck says: "Private equity investments typically last 10 to 12 years while infrastructure can last as long as 20 years."

The schemes with the greatest flexibility, however, are those which either have a longer time horizon or are planning to run forever. Mikulskis says: "Open schemes like the LGPS can choose from the full gamut of options."

continued overleaf

CASE STUDY: NEST

LIKE AN OPEN DB SCHEME, MASTER TRUSTS HAVE LONGER-TERM INVESTMENT HORIZONS SO HAVE FEWER RESTRAINTS ON THEIR CHOICE OF PRIVATE MARKET ASSETS. THE RISK-RETURN PROFILE OF THESE ASSETS MAKES THEM PARTICULARLY APPEALING TO A DC MASTER TRUST.

Stephen O'Neill, head of private markets and investment proposition at Nest Corporation, says: "Private market assets such as private equity and debt provide diversification from public markets, while real estate and infrastructure allow us to expand our investment universe."

In particular, infrastructure is defensive and counter-cyclical, which helps to dampen volatility and increase resilience against negative market events, he adds.

O'Neill says: "In theory each private market asset should deliver a premium over their public market equivalent as a compensation for illiquidity, complexity and scarcity."

Nest currently has around 6% of the portfolio in private credit and will be allocating around a further 5% to infrastructure equity later this year. There is also around 4% in real estate, taking the overall allocation to private markets to around 15%.

O'Neill says: "We have not yet apportioned the infrastructure equity over the different phases of the target date fund." But the foundation phase has slightly more private credit than in the growth phase while the consolidation phase has virtually none.

There is – in theory at least – a mismatch between the illiquidity of these assets and the administrative systems of many DC schemes which expect a daily valuation of assets. "Private markets are infrequently valued," says O'Neill.

But large master trusts can overcome this because the number of people trying to take money out of their pension or switch is very small compared with the mass of people who are inert.

O'Neill says: "A more significant challenge for master trusts is the constant need to deploy ongoing contributions and to constantly rebalance the portfolio, which makes it hard to incorporate assets that are infrequently valued."

The predictability of Nest's cash flows and the size of the scheme make it easier for the master trust to overcome these issues, because the proportion of the portfolio invested in these illiquid assets will be much smaller than more liquid assets.

O'Neill says: "DC schemes also need the governance to be able to manage these complex asset classes." That is not an option for small DC schemes and is easier for larger master trusts, he adds.

Scale has also played a vital role in Nest's ability to overcome the most significant hurdle – the high fees associated with many of these asset classes.

O'Neill says: "Unless you have the same scales as a master trust like Nest, it is hard to negotiate fees down to a level which is affordable under the charge cap."

That's achieved by offering initial mandates of hundreds of millions rising to billions over a few years in order to pique the interest of managers sufficiently to reduce their headline fee rate level sufficiently, says O'Neill.

CASE STUDY: BORDER TO COAST

THE BORDER TO COAST POOL PROVIDES INVESTMENT STRATEGIES TO ITS 11 LOCAL AUTHORITY PARTNER FUNDS WITH A TOTAL OF £46 BILLION IN ASSETS UNDER MANAGEMENT. IT HAS HAD PRIVATE MARKET OPTIONS ON ITS ROSTER SINCE POOLING WAS FINALISED IN 2018.

Mark Lyon, head of internal management at Border to Coast, says: "We offer private equity, infrastructure and private credit." Deciding which type of private market funds to launch was the result of in-depth discussions with partner funds about their existing investments.

Lyon says: "We also asked those local authorities which had not invested in these asset classes before what they would want." Pooling made it much easier for these smaller funds to access these asset classes, he adds.

If there is demand in the future for some of the more esoteric asset classes, then Border to Coast will offer these funds, says Lyon.

Unlike closed DB funds, as the LGPS is open it is able to consider a wider option of private market assets, including those with longer investment horizons such as private equity and infrastructure.

The pool is able to offer better options than would have been available to the individual partner funds, as it has a larger internal investment team which gives it greater expertise and broader market access.

For example, the pool not only offers the large well-known institutional buy-out managers in its private equity funds, but also smaller niche UK and US venture companies. Lyon says: "Partner funds would not have the resources to assess the value of these smaller players."

Greater scale also makes it easier for Border to Coast to negotiate better fees than would be possible for individual partner funds. Lyon says: "We are able to generate significant fee savings through committing a certain amount of assets and we are able to remove some of the additional costs."

For example, the pool tends not to use fund of funds, which would have been the only option available to the partner funds before Border to Coast was formed. Lyon says: "This allows us to remove a layer of fees."

In addition, the pool is now able to undertake co-investments with other institutions: this removes a further layer of fees because the pool takes a direct stake rather than investing in a fund, says Lyon.

THE NETWORK BUILDING PENSIONS AND LIFETIME SAVINGS ASSOCIATION

DIGITAL EVENTS & ONLINE TRAINING

PLSA CALENDAR OF EVENTS

- **9 - 11 March** — Investment Conference
- **16 – 17 March** — Trusteeship Part 2
- **31 March** — PLSA Policy Insights Webinar (Local Authorities only)
- **4 – 5 May** — Trusteeship Part 1
- **18 – 19 May** — Local Authority Conference
- **25 – 26 May** — Trusteeship Part 2
- **10 June** — PLSA Policy Insights Webinar (Trustees only)
- **30 June – 2 July** — ESG Conference NEW
- **8 July** — PLSA Policy Insights Webinar (Local Authorities only)
- **14 – 15 Sept** — Trusteeship Part 1
- **22 Sept** — PLSA Policy Insights Webinar (Trustees only)
- **13 – 15 Oct** — Annual Conference
- **19 – 20 Oct** — Trusteeship Part 2
- **24 Nov** — PLSA Policy Insights Webinar (Trustees only)
- **30 Nov – 1 Dec** — Trustee Conference

FREE for PLSA fund members

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

A4S ACCOUNTING FOR SUSTAINABILITY

TURNING UP THE HEAT ON CLIMATE ACTION


Dr. Emiko Caerlewy-Smith and ***Kerry Perkins*** highlight the central role the UK pensions industry has to play in driving our transition to a net zero carbon future.

WITH OVER $3 TRILLION IN ASSETS IN 2019, UK PENSION SCHEMES ARE BOTH HIGHLY EXPOSED TO THE RISKS OF AN UNSUSTAINABLE FUTURE AND IN A STRONG POSITION TO INFLUENCE A MORE SUSTAINABLE OUTCOME.

Two factors in particular mean that 2021 is the year for action. Firstly, regulations are imposing new requirements on schemes to strengthen responses to climate risk, both in terms of reporting and the competence that trustees need to have. These requirements are far-reaching, and there's not long to go until October 2021 when the proposed regulations will apply to the largest schemes and authorised master trusts.

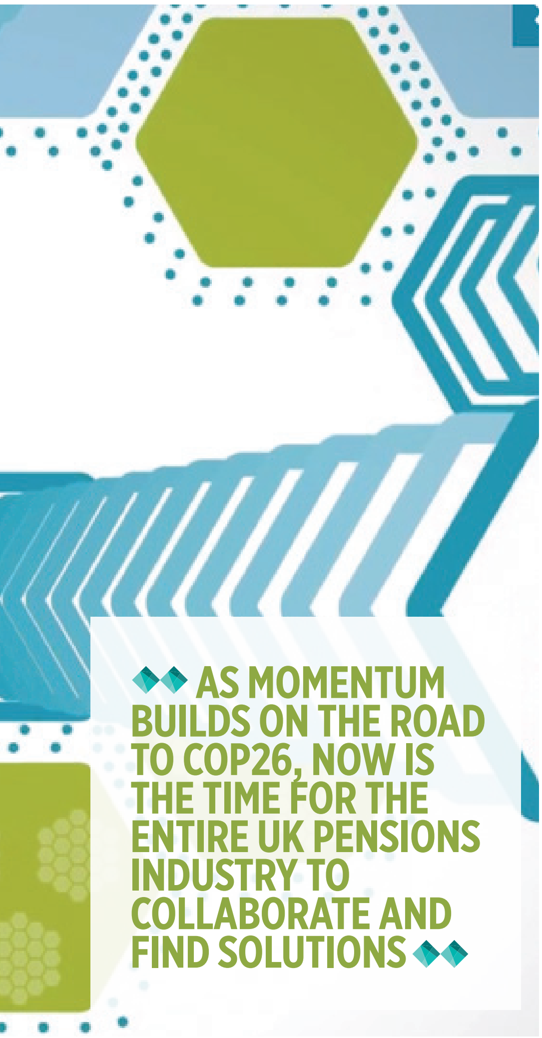
Secondly, and more fundamentally, with the UK hosting the major United Nations climate change conference, COP26, in November, and in the context of the UK government's net zero emissions target, all parts of the UK economy, including pension schemes, will need to consider their role in achieving net zero. They will also have to consider the implications that an economy-wide transition to net zero will have for them.

Further, the physical impacts of climate change are already being felt. Investing in resilience, as well as the transition to a net zero economy, will be key.

For asset owners, embedding environmental, social and governance (ESG) factors into the investment process is essential for risk management, innovation and investment return. It speaks to the heart of fiduciary duty and helps address the diverse demands of beneficiaries, leading to better engagement with their pension and employer. By building decarbonisation objectives into investment decisions and actively stewarding investments, UK pension schemes have enormous potential to influence net zero outcomes. The long-term nature of pension investing provides the long-term finance required for an orderly transition.

The importance of sustainable investing is becoming formalised in the industry. Regulatory policy has acknowledged the financially material impacts of ESG factors on investment decisions, particularly for climate-related risks; DB and DC scheme consolidation is changing the size and shape of asset ownership, with fewer, more influential players to coalesce; and there is some evidence of growing demand from pension scheme members for investments to reflect their values. But challenges remain.

Despite professional guidance that ESG investing is in line with fiduciary duty, some trustees remain concerned it may not be in the best interests of members. Additionally, a lack of consistent terminology, reporting



AS MOMENTUM BUILDS ON THE ROAD TO COP26, NOW IS THE TIME FOR THE ENTIRE UK PENSIONS INDUSTRY TO COLLABORATE AND FIND SOLUTIONS

frameworks and data make it difficult to ensure assets are managed and perform in line with ESG investment objectives. Investment consultants and managers are responding to increasing ESG demand but there is still no consensus on what 'good' looks like and there is often a lack of clarity among trustees on how to get started.

ACTION THROUGH A4S

As momentum builds on the road to COP26, now is the time for the entire UK pensions industry to collaborate and find solutions to these challenges. At The Prince's Accounting for Sustainability Project (A4S), we're working with members of our networks, including pension fund chairs, CFOs and senior representatives across the finance and accounting world, to support action.

As part of the UK government's recently launched guidance – 'Aligning your pension scheme with the TCFD recommendations' from the Pension Climate Risk Industry Group – we worked with pension funds in our network to provide two practical case studies sharing insights into the steps that they had taken. These focused on two areas that trustees might find particularly hard to implement as part of the incoming regulations – firstly how to do scenario analysis, from the BBC Pension Trust; and secondly putting in place TCFD metrics, from HSBC Bank (UK) Pension Scheme.

In addition, our A4S Asset Owners Network – a group of more than 30 public and private sector UK pension scheme chairs (including those of HSBC Bank (UK), Barclays, Tesco, Rolls-Royce, Pennon, Environment Agency and several of the LGPS), who meet five to six times a year to share knowledge and work together to identify solutions – has recently launched a Toolkit for Pension Fund Chairs and Trustees. The toolkit identifies practical steps to help chairs and trustees embed ESG considerations into pension scheme investment decisions, reporting and engagement across the investment chain.

It consists of practical examples from members, an ESG maturity map and additional resources, with more being added in the coming months. Developed by fellow pension fund chairs and trustees, the toolkit is designed to cater to the challenge of often time-poor and resource-stretched trustees, and helps them navigate through the plethora of information to pick out the key practical steps that they should take to integrate ESG considerations into their investment strategy and processes. As a simple starting point, members of the Asset Owners Network are using the maturity map to facilitate a discussion at board level, helping to develop a common viewpoint and identify areas for action.

These outputs complement, and reference, those developed by others. The PLSA and various other industry groups are progressing the debate and taking action. UK pension schemes such as NEST and BT are providing leading examples of net zero ambition, engaging with asset managers to align their investments accordingly.

The UK pensions community has a critical part to play in the UK's climate mobilisation response, and, in turn, protecting its beneficiaries as well as the world that their beneficiaries will be living in. All pension scheme boards need to make sure that 2021 is the year for climate action.

SUSTAINABILITY AT THE PLSA INVESTMENT CONFERENCE 2021

The PLSA's Investment Conference (9-11 March 2021) features a wealth of sessions to help pension schemes navigate sustainable investment. Highlights include:

Navigating our way to a net zero future: Lord Adair Turner
The goal of net zero greenhouse gas emissions globally by 2050 requires decisive, collaborative, immediate action by policymakers, industry and civil society. How do we get there, and what is the role of UK pensions in the transition?

9 March 9.15 to 10.15

Aligning portfolios with the Paris Agreement
Using case studies, we explore ways schemes can adopt to integrate a net zero emissions framework to build resilience and deliver sustainable outcomes for members.

9 March 10.30 to 11.30

Weathering climate change: opportunities and risks in an altered investment landscape
How will climate change disrupt and reshape global markets and the investment landscape? We explore the potential for an actionable climate change investment agenda, encompassing both hidden portfolio vulnerabilities and potential opportunities in the transition to a lower-carbon world.

9 March 2.00 to 2.40

Sustainability: the 'whole portfolio' approach
How can trustees decide if ESG risks are material enough to pose a threat to their fund, and how to properly evaluate the potential upside that ESG may bring.

9 March 3.10 to 3.50

Lose the carbon, fund the transition and keep the returns in fixed income portfolios
How can investors make their fixed income portfolios more climate-aligned, while still balancing risk-return requirements?

9 March 4.05 to 4.20

Understanding climate change risk
All schemes must consider the potential impact of the climate crisis on their investments. But where to start?

10 March 9.45 to 10.25

Decarbonisation: a once in a lifetime opportunity
With an estimated shortfall of $2 trillion annually against requirements to meet the Paris Agreement's 1.5°C ambition, how can environmental markets offer a potential solution to both problems?

10 March 12.05 to 12.45

ESG: legal issues along the investment chain
Trustees are under pressure to consider ESG in their investment activities, while managers and investee companies face waves of business-impacting regulatory changes. How may investors use this to their funds' advantage?

11 March 10.20 to 11.00

CAROL YOUNG – MEET THE BOARD

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

My current role is HR Director – Reward & Employment for NatWest Group. My team and I look after reward, pension, benefits and HR policies for the bank's 60,000 colleagues. This includes corporate strategy for pension schemes – which provide benefits to c. 300,000 current and former colleagues, and hold over £50 billion of assets. My role gives me an insight into how people view pensions as part of their overall employment package – for example, the important role our DC scheme plays in the context of our broader financial wellbeing offering to colleagues. In addition to my hands-on experience running schemes I've been an independent trustee, an investment consultant, and I'm a CFA charterholder.

WHAT ARE YOUR 'PERSONAL PASSIONS' WHEN IT COMES TO PENSIONS AND LIFETIME SAVINGS?

I've got a longstanding interest in helping people improve their financial wellbeing, and I've learned that very few people have the time, interest and resources to achieve this individually. I believe the best way to support them is by having effective, well governed systems that work in their best interests and that they can trust. I'm fascinated by how we promote interactions between government policy, employers and providers to improve outcomes for savers, and promote the financial resilience of society. I believe the work the PLSA does is vital to that.

THE PLSA IS UNIQUE IN WORKING WITH, AND FOR, ALL PARTS OF OUR INDUSTRY

WHAT DO YOU ENJOY MOST ABOUT WORKING WITH THE PLSA?

I really enjoy that the PLSA brings together the whole of our industry – it's the best way for us to deliver on the association's objective of helping everyone achieve a better income in retirement. The PLSA is unique in working with, and for, all parts of our industry, and its policy team is second to none. I've seen first-hand how powerful that can be: the PLSA creates a space for schemes and business members to share perspectives, drive up standards and collaboratively support savers. Even the largest, most well-resourced individual PLSA members can't replicate that alone – and it's why I've always been such an advocate for the benefits of membership.

IF YOU WERE ABLE TO CHANGE ONE THING ABOUT PENSIONS AND LIFETIME SAVINGS OVER THE NEXT FIVE YEARS, WHAT WOULD IT BE?

I'd love to look back in five years and see that we've made lifetime savings simpler to deal with, and more immediately relevant for savers. We've made some good progress in the last five years – savings rates are improving, and the PLSA's Retirement Living Standards are a great example of how we can communicate with increased consistency, simplicity and relevance. But the truth is, trust in our industry is low, and we still spend a chunk of our time dealing with complexity and compliance that our members don't benefit from or value.

My hope is that we continue to make progress despite the headwinds of the pandemic. It would be great to promote increased appreciation of the important part pensions play in people's overall financial wellbeing – and the successful launch of the Pensions Dashboard will be an important step in that.

Investing assets in a sustainable way is likely to have long-term benefits, and might capture members' interest. And it would be a big bonus if in five years' time we have put an end to the annual modification of the pensions taxation system!

IT WOULD BE GREAT TO PROMOTE INCREASED APPRECIATION OF THE IMPORTANT PART PENSIONS PLAY IN PEOPLE'S OVERALL FINANCIAL WELLBEING

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.

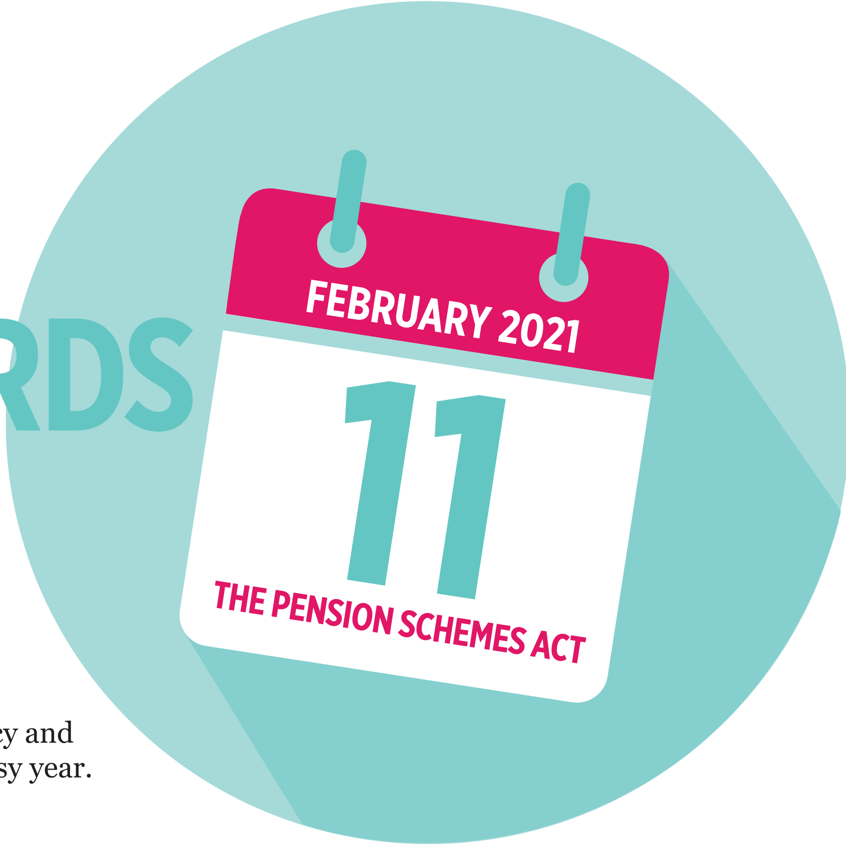
Delivered over 16 million smart metering devices used in electric and water metering, streetlights and smart city solutions.

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.

PENSIONS DASHBOARDS UPDATE



Nigel Peaple, Director of Policy and Advocacy, looks forward to a busy year.

AFTER A LONG WAIT, THE PENSION SCHEMES ACT OFFICIALLY ENTERED INTO LAW ON 11 FEBRUARY 2021.

As well as strengthening the powers of the Pensions Regulator, enabling a stronger funding regime for DB pension schemes and allowing the creation of collective defined contribution pensions, the Bill paves the way for Pensions Dashboards, which, once operational, will empower savers to access all their pensions information online, securely and in one place.

It is an important milestone in the development of Pensions Dashboards, which will enable all pension savers to understand their estimated retirement income more easily than ever before. Importantly, amendments to the Bill mean that consumers will be able to access a dashboard service that is publicly owned, provided by the Money and Pensions Service.

In my role on the Pensions Dashboards Programme Steering Group, the next steps are to help design appropriate protections to ensure that the data presented by Dashboards, and the functionality they offer, do not result in consumer detriment, mis-selling or pension scams. I will also be providing an industry perspective to ensure the data standards are fit for purpose and sufficient time is allowed for pension schemes to on-board.

Dashboards will launch with a simple find-and-view capability; and, later, after careful review and user testing, functionality will be increased to provide an innovative way of safely giving people more effective control of their pension savings.

As the most significant source of retirement income for many savers, it's positive that the government agrees that the state pension should be included on Dashboards from the outset.

We are also advocating for the PLSA's Retirement Living Standards, which help savers understand their saving objective, to feature on the Dashboard.

The passing of the Pension Schemes Act into law will be cause for celebration for everyone associated with the Dashboard initiative, but there is plenty more hard work to be done before savers finally get to enjoy the benefits of seeing all their pension savings in one place.

THE DASHBOARD IN 2021

This year will prove very busy for everyone involved with the Pensions Dashboard. Key highlights of the programme include:

- Start of the procurement for major features of the digital infrastructure, including a delivery partner to build the Dashboard ecosystem, as well as elements such as the consent and authorisation service
- Building the framework for digital identity verification, which will inform the approach used to verify Dashboard users are who they say they are
- Carrying out further research into users' needs and expectation about the Dashboard
- Developing an onboarding strategy, with dates to be confirmed later in the year.

For more information visit **pensionsdashboardsprogramme**

A 3D VISION FOR INVESTMENT COSTS

Samuel Condry, Policy Lead: Standards, brings us up to date with progress on the still-evolving Cost Transparency Initiative.

IT IS NOW OVER A YEAR AND A HALF SINCE THE COST TRANSPARENCY INITIATIVE (CTI) WAS LAUNCHED ONLINE, AND IN THAT RELATIVELY SHORT SPACE OF TIME MANY HAVE NOW COME REGARD THE FRAMEWORK AS THE STANDARD METHOD FOR OBTAINING INFORMATION ABOUT INVESTMENT COSTS.

A survey of schemes by the PLSA at the end of 2020 shows both high levels of awareness and usage of CTI in the pensions industry. But there are still further improvements to be made and new areas of development, to give schemes a truly '3D' picture of all their investment costs.

About 80% of schemes taking part in the survey said they know either a 'fair amount' or a 'great deal' about CTI – with a similar proportion having already made use of the CTI framework. This is very encouraging and a big increase from spring last year, when only just over half of schemes surveyed said they were using CTI.

As schemes – and their asset managers and advisers – increasingly get to grips with the new, granular costs data which CTI is able to provide them, they have also been providing vital feedback to the CTI Board (which coordinates and promotes the CTI framework, on behalf of the pensions and investment industry).

One aspect of this feedback is that schemes need costs reporting to be tailored to the needs of particular investment (and related) services. On the one hand, costs data should be easily retrievable and easy to provide – it has to 'fit the box'. And on the other hand, costs data should say something meaningful about the specific service to which it relates, and how that relates to the overall services provided – what's 'in the box'. An example which the CTI Board is currently looking at developing is around costs reporting for custody services.

Another theme which often comes up is how to give asset owners a full look-through to the costs and charges associated with the underlying funds in which they are invested (fund of funds).

CUSTODY SERVICES

Custody and related services increasingly play an important role in the investment chain, with new solutions which address increased digitalisation in investments being added to existing services ranging from asset servicing and administration to transition management and FX-related services. While it's probably fair to say that custody services in general amount to a relatively small proportion of your overall investment costs, these can still add up to a significant amount. Costs can therefore be an important factor in deciding which custodian you ultimately choose.

While the CTI reporting templates currently provide costs data on custody services for pooled fonds, this functionality is not currently available for segregated investment mandates. But if you're an asset owner, what happens if you want to compare custody costs across both your pooled and segregated mandates?

CUSTODY AND RELATED SERVICES INCREASINGLY PLAY AN IMPORTANT ROLE IN THE INVESTMENT CHAIN

Feedback from schemes has also made it clear that benchmarking, and other comparisons between different investments costs, are an important part of assessing value for money; and the CTI Board is focused on helping to enable this wherever possible. Hence, the CTI Board intends to meet this call and will shortly be developing new reporting templates for segregated mandates, which are likely to cover costs for safekeeping, reporting and other custody costs. Watch this space!

FUND OF FUNDS

But it's not just the breadth of vision – with sightlines to the full gamut of investment services – which asset owners say they want. The depth of field of vision is perhaps equally important. This means being able to see not just the top-level costs of a fund, but to be able to 'look through' at a more granular level to the costs of the underlying funds. Some people have used the metaphor of an onion, where you need to peel back each layer of a fund to find the underlying costs.

In principle, this can be an issue which arises across a range of different investment types, including listed funds. In practice, however, asset owners are perhaps most likely to be interested in private markets. Hand in hand with the increasing interest of institutional investors in private markets – including venture capital, private equity and private debt – there also goes a recognition that the potential for high returns must be justified by the cost of investing. Ongoing debates about the relative attractiveness of private markets can only be settled by a full awareness of net returns – and for that, you need accuracy and depth of vision about the underlying costs.

ABOUT

80%

OF SCHEMES TAKING PART IN THE SURVEY SAID THEY KNOW EITHER A 'FAIR AMOUNT' OR A 'GREAT DEAL' ABOUT CTI

This is not an easy task. Among other practical difficulties, managers do not necessarily have full sightlines themselves into how underlying costs are apportioned. Differences in reporting systems and procedures can lead to incompatibility and difficulties in making comparisons, as well as being potentially very time-consuming for firms. And, of course, private markets are increasingly global, which means managers of underlying funds may be following different cost reporting protocols or regulatory requirements. However, the CTI is as much about trying to make life easier and more streamlined for asset managers as it is about making information clearer for asset owners. The British Private Equity and Venture Capital Association (BVCA) is an invaluable member of the CTI Board and will be helping to advise on how best to solve this challenge.

CTI RESOURCES

The PLSA's website has a growing body of resources to help pension schemes adopt CTI and make the most of the initiative. Here are just a few examples:

MAIN ACCOUNT TEMPLATE

www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2019/CTI-Main-Account-Template-May-2019.pdf

This is a cost disclosure template to be completed by asset managers, covering the majority of assets and product types. The template has been designed to be machine readable, to improve consistency and compatibility across different internal systems. It also incorporates technical guidance and definitions that asset managers can use to help them when completing the template:

FIDUCIARY MANAGEMENT FEE SUMMARY TEMPLATE

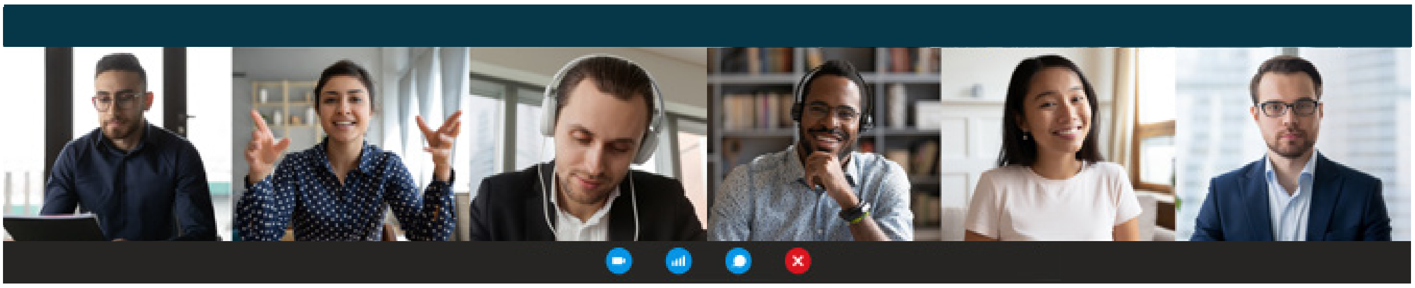
www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2020/CTI-Fiduciary-Management-Template-PDF-June-2020.pdf

The fiduciary management template is a cost disclosure template which may be completed by fiduciary managers.

LIABILITY-DRIVEN INVESTMENTS TEMPLATE (PRELIMINARY)

The PLSA is currently developing a template for reporting costs associated with liability-driven investments (LDI).

It's available for download from www.plsa.co.uk/Policy-and-Research-Investment-Cost-Transparency-Initiative, and we'd welcome your comments on how it could be improved.



DRILLING DOWN INTO OUR MEMBERS' VIEWS

Head of Membership Engagement ***James Walsh*** is embracing the challenges of remote working.

IT WAS WHEN THE PNEUMATIC DRILLING STARTED RIGHT OUTSIDE MY HOUSE THAT I THOUGHT PERHAPS IT WAS TIME TO GET OUT ON THE ROAD AGAIN.

Don't get me wrong; working at home has its plus points. It's been much easier for the PLSA's Membership Engagement team to contact members we'd normally struggle to reach. With geography no longer an issue, we engaged directly with 166 of our members last year – more than double the 2019 total. And by 'engage' I mean a proper structured conversation about their challenges and what more the PLSA can do to help.

A Teams or Zoom call never quite replaces a face-to-face sit-down, but the quality of these discussions is still excellent (our members see to that) and the quantity has been transformed. The downside is that we now have to contend with the kind of interruptions you would never get in the office – like the water company setting about the pavement with a heavy-duty drill outside my house, just as I was calling one of our largest members. It's difficult to talk ESG and small pots when the whole building is shaking – and it turned out there was no leak anyway.

So, what have we been finding out from conversations with members – and also from the many other formats in which we meet them, such as our Local Groups and the 'CEO Breakfasts' we hold with leaders of our largest schemes?

COVID-19

Covid-19 inevitably featured in every conversation, but most members are still reporting that their schemes have weathered the crisis quite well – both in terms of investments and administration. Many say they will 'never go back' to the 'old' ways of working.

A significant minority of schemes have seen their sponsoring employers encounter major problems – for example those in the automotive and aviation sectors. This is bound to have a negative impact on sponsor covenant. A smaller number of schemes report the opposite, such as those in the food and household cleaning products sectors.

TOP OF THE 'TO DO' LIST

DB funding, valuations and reviews of investment strategy top the 'to do' list for a large proportion of PLSA members – not surprising given that many have significant DB schemes. Meanwhile GMPs and associated data challenges remain perennial regulatory concerns.

ESG and climate-related investment have been rising up the pensions agenda, and it has been very impressive to hear how many schemes are driving ahead on this. With the COP26 summit due to be held in Glasgow in November, climate change is going to become even more salient. Some schemes are concerned that multiple reporting requirements could lead to this important work becoming a tick-box exercise; and there is strong demand for simple, practical guidance. The PLSA's own website is a good place to start.

FREQUENT ISSUES

Two issues have been cropping up with increasing frequency in recent weeks. The first is that more schemes are focusing on helping members with their decisions at retirement – perhaps through free or subsidised access to financial advice. The PLSA has been very busy in this area, releasing a comprehensive set of recommendations last year for a new framework for DC decumulation (see page 42).

The second issue is the shift to master trusts. More of our members are telling us that transferring their members (usually DC) to a master trust is a priority project for this year, or that they've already got it under way. It's one more step towards the more consolidated pensions landscape that we can expect in the future.

PEER-TO-PEER

This year we're adding new ways of engaging with our members, including a series of 'Peer-to-Peer' discussions – small meetings where five or six members from similar types of scheme swap notes. The first was a group of scheme managers running closed DB, and they found plenty of meaty issues to discuss (GMPs and past transfers – heavy stuff).

We want to engage with as many members as possible, so please let me know if you'd like to take part in one of these meetings or have a one-to-one update with the PLSA team. Perhaps we'll be able to do so face-to-face again at some point later this year? Until then we'll make the best of Zoom and Teams – and we promise to keep the drilling on mute.

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This year we're working with new Friends of Retirement Living Standards to maintain the research and help more organisations adopt the Standards. For more information contact **livingstandards@plsa.co.uk**

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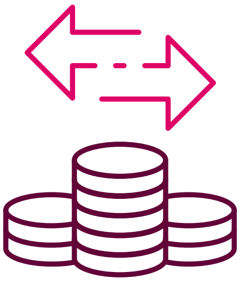

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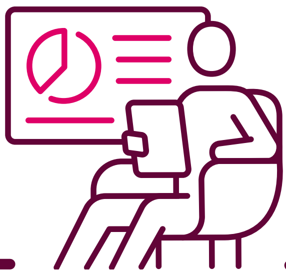

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FINDING THE RIGHT PATHWAYS

Investment pathways can be narrow, says ***Alyshia Harrington-Clark,*** Head of DC, Master Trusts and Lifetime Savings, but they're setting us on track for an important journey.

ON 1 FEBRUARY 2021 NEW RULES, KNOWN AS 'INVESTMENT PATHWAYS', CAME INTO EFFECT. THESE RULES HELP THOSE WHO ACCESS THEIR PENSION THROUGH DRAWDOWN WITHOUT THE HELP OF A FINANCIAL ADVISER TO MAKE BETTER CHOICES. PROVIDERS MUST NOW OFFER SAVERS SOLUTIONS THAT ARE DESIGNED TO MEET ONE OF FOUR OBJECTIVES – RANGING FROM HAVING NO PLANS TO TOUCH THEIR MONEY IN THE NEXT FIVE YEARS, TO HAVING PLANS TO TAKE ALL OF IT.

SOUNDS GOOD, BUT WILL PATHWAYS HELP ALL MEMBERS?

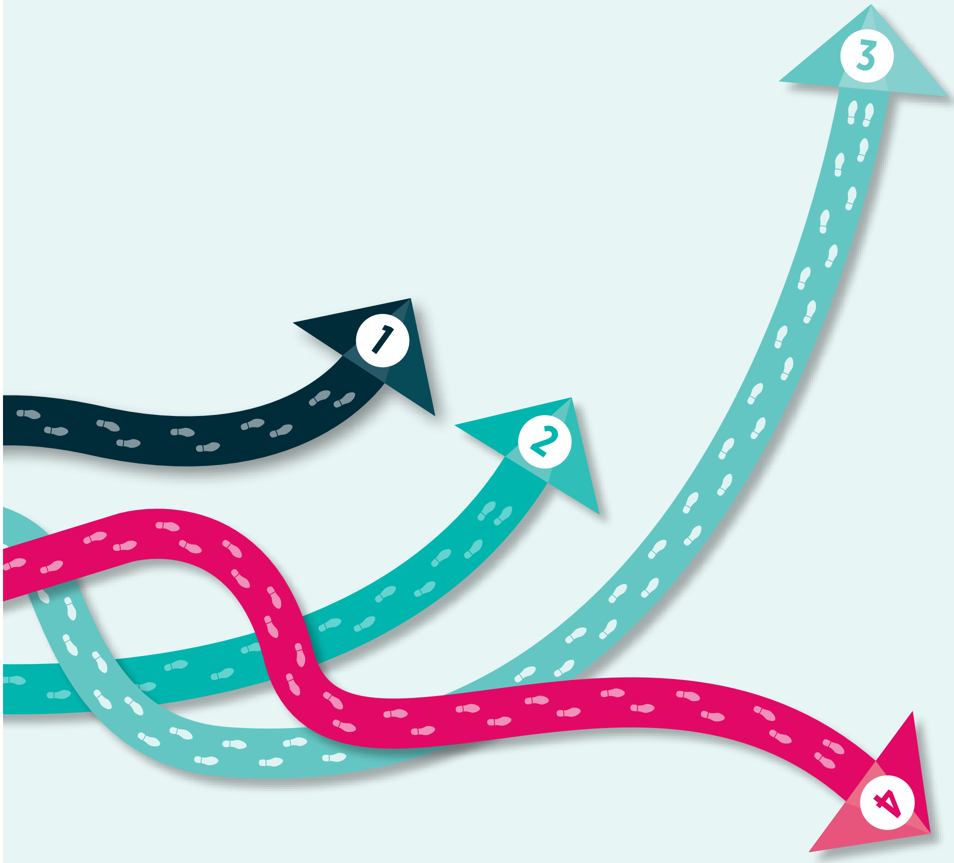
The FCA's investment pathways represent an important first step in improving saver outcomes, and I think we can all agree that people need further support and protection. In particular, the estimated 100,000 customers who enter drawdown without taking advice each year and those who might otherwise have ended up invested in cash unintentionally.

However, pathways may be too narrow for every journey to be completed successfully. Savers' needs, like most of our lives, are messy and not homogenous. Some may want to take the fast or direct route, while others might want to ramble, double-back or flex their choices depending on how they experience retirement. So, what happens to them?

ENHANCING THE SUCCESSES OF AUTOMATIC ENROLMENT AND THE PENSION FREEDOMS

Automatic enrolment and pension freedoms have been a big success, and they benefitted hugely from the power of inertia. However, this presents its own challenges because savers are highly unlikely to transition seamlessly from inert accumulators to become active and informed at retirement. And pension freedoms risk leaving savers bewildered, with an array of longevity, inflation and investment risks to navigate and manage.

This is why we believe more is needed. In October 2020 we set out our vision for the future of retirement income; one that reflects the future of the DC market, rather than near-term or past issues.



Our recommendations would oblige schemes to provide guidance for savers throughout their journey that would help them to plan, prepare and then take better choices for their retirement. We believe that the focus of this guidance should support savers in selecting the most appropriate retirement income for their whole retirement, and this is likely to be through the selection of blended products rather than a single pathway designed for five-year time horizons.

We expect the requirement for schemes to offer a preferred decumulation solution will stimulate demand-side pressure on behalf of savers for much-needed innovation in the retirement market. This was also one of the areas that the FCA was looking to support in the future. We support similar saver experiences across the market, but want also to enable innovation to flourish above and beyond the pathways. It's not yet clear to us that pathways deliver the comprehensive, whole-of-retirement and blended solutions that are more appropriate for a future cohort of retirees. Additionally, the fiduciary duty to the membership in trust-based environments means that solutions designed to meet their needs will be shaped much more by the higher proportion of automatically enrolled savers.

DON'T JUST FILL THE POTHOLES!

For these reasons we want assurance from government that they will not just 'lift and shift' pathways into the occupational pensions environment, as this would be inappropriate. Moreover, without thinking more broadly about good outcomes for savers an opportunity would be missed to deliver wider-ranging reform that would build on the successes of automatic enrolment.

Schemes know they want to take action for their savers. Without a holistic approach to the barriers that schemes face issues may remain. For example, litigation risks can arise where schemes wish to provide additional support to help savers deal with the opportunities, challenges and risks they face. This can inhibit their ability to signpost savers to the best solutions where they may be delivered outside the scheme. We're helping to tackle this problem through our decumulation proposals, but also by looking at the advice/guidance boundary this year.

WHAT'S NEXT?

Our framework is ambitious because schemes are ambitious. You want to address these issues creatively, and innovative solutions should not be held back any longer.

We're working hard to make our vision a reality. It's a long road, but we've had the benefit of a rolling start on the path to the rest of this journey.

ANOTHER 'FIX' FOR AUTOMATIC ENROLMENT – OUR WORK ON SMALL POTS

Small deferred pots are a problem for savers and schemes. They can lead to the erosion of pots due to costs and charges, savers losing track of their pensions, impaired decision making at retirement due to multiple pots, and confusion in cases where savers receive communications from numerous schemes.

The PLSA has been highly engaged with the DWP Small Pots Working Group taking steps to address the growth in the number of small, deferred pension pots. Small pots were a known consequence of the implementation of automatic enrolment, but it is now appropriate to fix this issue so as not to undermine the whole system.

Some proposed solutions rely on member-initiated consolidation – where savers need to engage with their pension savings and make an active choice or decision about consolidation of their deferred pension pots. As part of our decumulation work we found that some schemes were supportive of mandatory prompts for savers to consolidate small pots. Recommendations from the recent DWP Small Pots Working Group are that the pensions industry, government and regulators should continue to explore and enable opportunities for member-initiated consolidation and that these can complement other interventions that will be necessary.

The whole industry will be investigating and addressing administrative challenges, including how to enable low-cost mass transfers within the automatic enrolment workplace pensions market and to test proof-of-concept proposals. A longer-term solution will rely on savers suffering no material detriment from being transferred between schemes, and this is a prerequisite to inform and build consolidation systems that are efficient at scale.

Multiple solutions working in tandem are likely to deliver the best outcomes for scheme savers, and for this reason the PLSA will be fully supporting the next steps of this vital work.

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LEGAL UPDATE

PENSIONS LAW: WHAT TO EXPECT IN 2021

Nick Sargent, Senior Editor, Thomson Reuters' Practical Law Pensions service

THE PENSION SCHEMES BILL 2019-21 IS EXPECTED TO RECEIVE ROYAL ASSENT IMMINENTLY, THOUGH ITS OPERATIVE PROVISIONS WILL NOT COME INTO FORCE UNTIL ONE OR MORE COMMENCEMENT DATES ARE APPOINTED IN REGULATIONS. IN SEVERAL AREAS, THIS MAY BE SOME TIME AWAY.

The new criminal offences (such as the avoidance of an employer debt) may not be brought into force until the autumn, and only after the Pensions Regulator has published guidance on how it will prosecute the new offences, including the basis on which it considers the 'reasonable excuse' defence will be available. Other measures are also unlikely to be brought into effect until further consultations have been conducted. In the case of the prospective changes to the funding regime for defined benefit (DB) schemes, the Department for Work and Pensions (DWP) is due to consult on underlying regulations and the Regulator is expected to finalise its new funding code of practice.

The DWP is already consulting on draft regulations that specify the full details of the new Act's climate-risk governance and reporting duties, with the consultation period closing on 10 March 2021 and the regulations due to come into effect on 1 October 2021. In the meantime, the extended trustee governance and stewardship reporting duties that were introduced in regulations in 2019 continue to take effect as scheduled. By 1 October 2021, trustees of DB and defined contribution (DC) schemes that are required to produce a statement of investment principles (SIP) will be obliged to publish online on a freely accessible website the information contained in their scheme's implementation statement. This must set out key investment information, including whether the SIP has been followed, as well as certain voting information (and, in the case of DC schemes, additional stewardship information).

Among other changes, 2021 will see the automatic repeal of the five-year employer override that allowed rule changes to be made to formerly contracted-out salary-related schemes following the abolition of contracting-out in 2016 (unless the override is extended by statutory instrument).

The ongoing impact of the COVID-19 pandemic on pension schemes and sponsoring employers during 2021 is far from clear. Many of the current government and regulatory interventions are currently due to expire on 31 March 2021, but it is possible some of these measures will be extended for a further time.

Last but no means least, the UK-EU future relationship agreements announced on 24 December 2020 brought some clarity to a vexed area, though there are still uncertainties surrounding data protection issues where personal data is transferred from the EU to the UK, pending completion of the European Commission's adequacy assessment of the UK data protection laws.

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