Viewpoint

The official journal of the Pensions and Lifetime Savings Association

Issue 2 2021

ESG: INVESTING FOR FUTURE GENERATIONS

HOW CAN SUSTAINABILITY BE QUANTIFIED?

A NEW POLICY APPROACH FOR RETIREMENT OUTCOMES

PENSION DASHBOARDS: CONNECT, COMPARE AND CONVEY

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

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PENSIONS AND LIFETIME SAVINGS ASSOCIATION

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CEO'S *Viewpoint*

Conferences, consultations and campaigns are in full swing, reports ***Julian Mund***

WELCOME TO THE SECOND ISSUE OF VIEWPOINT FOR 2021. WE'RE ACCELERATING THROUGH THE YEAR AT AN ASTONISHING RATE, AND SO FAR IT'S BEEN ONE PACKED FULL OF NEW IDEAS AND INITIATIVES AT THE PLSA.

Later this month the PLSA's first ever ESG Conference (30 June-2 July) takes place – free for PLSA Fund Members. Issues such as climate change, sustainability and diversity are constantly hitting the headlines and we know it's an area many of you are passionate about. At our conference we'll get down to the nuts and bolts of what ESG means for pension funds, looking through the lens of the institutional investor striving to get the best outcomes for scheme beneficiaries. Richard Curtis, Leo Johnson, Maggie Aderin-Pocock and Hugh Fearnley-Whittingstall are just some of the outstanding speakers lined up for the three-day event. You can find out more in the ESG Conference preview.

REACHING MORE MEMBERS

Our ESG Conference will be digital, which most of us have become accustomed to by now. We are able to reach so many more of our members online – both the Investment Conference in March and Local Authority Conference in May saw record numbers of attendees, with at least 60% of attendees at each attending for the first time ever or in at least three years.

While we are of course hugely excited for an eventual return to in-person events, we are especially conscious that we need to look at ways of maintaining this accessibility for this important section of membership. It will be an important focus for the PLSA's continued digital transformation.

PLSA MEMBER SUBSCRIPTIONS CONSULTATION

As I so often find myself saying, change is ever present. In the pensions industry scheme consolidation is happening and it's vital that the PLSA also evolves to keep pace. Doing nothing would leave us with fewer members and less income, and we wouldn't be able to provide the high-quality services you expect from us.

Last month we launched a consultation looking at changes to our subscription model. We propose to align the maximum subscription for Fund Members with that for Business Members and also introduce a new Master Trust membership category. Any changes to fees will be phased in over three years.

The consultation has just closed and we are in the process of working through the submissions. We will publish the outcome in due course, but initial feedback suggests that members understand and support the reasons behind our proposals.

YOUR VOICE

The number of pension schemes may be shrinking, but the challenges our members face certainly aren't, and nor is the PLSA's role in delivering for our members. The PLSA's Policy and Advocacy team are busier than ever unpicking the issues our members face, advising government and regulators, and campaigning for change.

Over the last few months the team has commented on an array of issues, from the government's recent consultation on pension scams, to the need for extra support for savers when accessing the pension freedoms, and the government's intention to extend mandatory climate-related financial disclosures.

At last month's Local Authority Conference we launched a new LGPS research project looking at best practice and future challenges for the scheme, and in this issue Tiffany Tsang, the PLSA's Head of DB, LGPS and Investment, provides some initial insights.

We are delighted to see schemes and savers continue to benefit from initiatives we have played a part in. A recent survey revealed the Cost Transparency Initiative is delivering tangible benefits, with 79% of schemes now making use of the framework's standardised templates and tools. And more than 14 million savers now have access to the Retirement Living Standards.

We look forward to bringing you even more events, content, insight and support as we move through 2021. If there is something you particularly want us to do, please let us know. This is your PLSA.

Julian Mund


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Trustees need a partner to provide bespoke investment solutions for today and tomorrow.
And with us, it's always personal. As a market leader, we use our size to benefit clients by delivering advice with a personal touch – rooted by a thorough knowledge of our clients' individual needs and preferences, we help schemes to build their own portfolios by deconstructing the complexities of pension scheme investment.
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TURN ON, TUNE IN, HANG OUT?

Rachel Pine, Head of Content – Events, PLSA, takes a look at the pros and cons of networking in the digital age.

MUCH CAN BE SAID ABOUT THE ADVANTAGES OF DIGITAL CONFERENCES – THE EASE OF ATTENDING, THE LOWERED CARBON FOOTPRINT, THE ABILITY TO TOGGLE BETWEEN CONFERENCE SESSIONS AND WORK. BUT MUCH IS MISSING AS WELL, NAMELY THE NETWORKING THAT BRINGS PEOPLE AND IDEAS TOGETHER. HOWEVER MUCH FUN IT IS TO SEE COLLEAGUES (AND SOMETIMES THEIR FAMILIES) ON ZOOM CALLS, THE SPONTANEITY OF BUMPING INTO SOMEONE YOU KNOW, CHATTING TO A SPEAKER AFTER AN INTERESTING PANEL, OR JUST ENJOYING A COFFEE OR COCKTAIL WHILE LEARNING ABOUT A NEW PRODUCT OR SERVICE IS SOMETHING THAT WE'RE ALL SORELY MISSING THESE DAYS.

We've worked hard to look for solutions that enable people to meet each other in the online environment, and with the conference platform chosen for our 2021 events we're combining technology and programming in ways that allow attendees, speakers and sponsors to meet and exchange ideas. It may not be the same as chatting to someone in the lift lobby, but with just a few clicks you can meet people and participate in various types of interactive sessions.

WE'VE JUST ADDED A SESSION YOU MIGHT LIKE...

You know how those Netflix emails go – making suggestions for programmes and films that it thinks you'll enjoy, and it's often very accurate. Our platform, Swapcard, is also equipped with an artificial intelligence component. As you register for and attend sessions, the platform will offer you other sessions that match your interests.

YOUR OPINION COUNTS!

We want to hear from you, and there are many different ways that you can offer up your perspective, converse with other attendees, and interact with the conference and speakers more generally. Most sessions give you the ability to ask questions of the speakers, but you can also send a connection request to most speakers, similar to how LinkedIn works. In some cases, you'll be able to book an appointment to speak with someone one-to-one right through the platform.

GET YOUR HOT TOPIC HERE

Hot topic chats are a way to hear what other industry people are thinking about specific issues, and we bring special guests in wherever we can to join these moderated conversations that take place via chat.

We're the first to admit this isn't perfect, but technology and attitudes are evolving quickly, and we are keen to remain at the forefront of digital – and then, before too long, hybrid – conferences. In June of this year at the television BAFTAs, some of the nominees sent their holograms walking down a virtual red carpet. Similar solutions are not far behind in the conference world, and our goal is to bring them to you, and see how we will blend digital and in-person events when face-to-face conferences return.

We look forward to seeing you, or your avatar, at one of our events very soon!

ESG CONFERENCE 2021: USE YOUR POWER

Rachel Pine, Head of Content – Events, PLSA, looks forward to our ground-breaking new conference.

THE PLSA'S FIRST ESG CONFERENCE WAS PROMPTED BY OUR FUND MEMBERS – CORPORATE DB AND DC PENSIONS, MASTER TRUSTS AND PUBLIC SECTOR SCHEMES INCLUDING THE LGPS – TELLING US THAT ESG WAS AT THE VERY TOP OF THEIR PRIORITY LISTS, PUSHED THERE BY NEW, TOUGHER REGULATIONS, STAKEHOLDER PRESSURE AND A GROWING SENSE OF UNEASE ABOUT THE WORLD'S ILLS.

The concerns go beyond climate change, encompassing social inequality, threats to biodiversity and natural capital, the inclusion of diverse groups of people in decision-making, and a need to build back not just better, but fairer, after the Covid pandemic. At the same time our business members – asset managers, consultancies, law firms and others – adjusted their business models when governments around the world took up the sustainability mantle, understanding that cooperation and leadership were critical ingredients for a peaceful and prosperous existence.

Regulation has put paid to the idea that pensions investment and climate change mitigation are divergent activities, and that boards risk betraying their fiduciary duty to scheme members if they invest in a climate-positive way.

THE 'WHAT', 'WHEN' AND 'WHY' ARE DECIDED, THE 'HOW' LOOMS LARGE, AND THE 'WHO' IS ALL OF US

In the wake of all this change, which came rapidly and continues to evolve, is a growing need for clear, unbiased, practical information. The 'what', 'when' and 'why' are decided, the 'how' looms large, and the 'who' is all of us.

The conference programme swelled from two to three days, as fund and business members alike told us about the areas they wanted to learn and teach about, and attendee registration goals were set and reset, as audience numbers continued to climb. We have 645 attendees and 174 schemes registered as we go to press. We received word that HRH The Prince of Wales – an early, passionate voice for sustainability – would provide our attendees with a message on the opening day. As the conference takes place during London Climate Action Week 2021, it coincides with the publication of the government's framework for its green gilt issuance – the UK's first green sovereign bond, planned as the first of many. John Glen MP, Economic Secretary to the Treasury and the Minister responsible for green finance, is a speaker.

Our programme is varied and covers many topics of interest to all of our members, including transitioning investments out of fossil fuels and into renewables, impact investment, the burgeoning market in carbon credits, asset stewardship and responsible ownership, to name just a few. We'll look carefully at the TCFD for pensions regulation that comes into effect for larger schemes in just a few months' time, and at the definitions, terminology and nomenclature that seek to enlighten – but often succeed only in confounding so many of us.

We're very excited about the 'stardust' speakers that are joining us this year. For the foodies among us, chef and food activist Hugh Fearnley-Whittingstall explores the relationship between what we eat and its impact on the climate; noted disruptor Leo Johnson, co-host of the BBC's 'Future Proofing' radio series (and youngest sibling of those Johnsons) leads us on a tour of the society-shaping ideas we're sure to hear more about in the future; and space scientist and broadcaster Maggie Aderin-Pocock turns her lens to the science behind diversity, widening the focus for us all.

We're looking forward not just to ESG21, but to hearing your impressions of it, the topics you'd like us to explore more deeply, and the speakers from whom you'd like to hear in future.

HOW DO WE ENCOURAGE NEW FACES ONTO BOARDS?

ASK!

And then, says ***Dana Day,*** Head of Business Development at 20-20 Trustees, all you have to do is protect them from 'Assimulation Asphyxiation'.

IF WE BROADLY AGREE THAT DECISION-MAKING BOARDS NEED FRESH PERSPECTIVES AND NEW FACES, THEN ALL THEY REALLY NEED TO DO IS ASK. IT'S THAT SIMPLE. ON 11 MAY, I HAD THE OPPORTUNITY TO KICK OFF THE FIRST PMI NEXTGEN CONFERENCE BY HOSTING A PANEL DISCUSSION ON HOW TO ENCOURAGE NEW FACES ON DECISION-MAKING BOARDS.

Session attendees came from different disciplines with varying years of experience, and a large percentage indicated they were interested in joining boards – but just didn't know how. They expressed views that the role is unclear, the process is opaque, and guidance as to how to approach it is scant.

The good news is that the supply of willing candidates is there.

So ask. Set aside time to do some soul-searching as a board, identify what's missing from your melting pot – and go get it. Is there a new face in your network who you think has a set of skills, background knowledge or even tangential experience that would be valuable to have at the board table? Invite them to attend a meeting and observe; see if they are interested in getting involved. Have a chat, explain the role and how you and other board members got started.

That's the easy bit. Identifying gaps and new faces to fill those gaps is a relatively straightforward exercise. The critical next questions are: how do we keep those new faces, and how do we help them contribute and shine? I see this go wrong more often than I care to admit. The answer lies with the Delphic Oracle and the ancient Greeks – know thyself.

It's a really sticky dilemma. The board has diligently identified its gaps and has found just the right new faces to fill them. Sorted? Not so fast. A lot of boards forget to 'look within' and really know themselves first, to honestly assess their tolerance for new ideas, different perspectives, different shapes and sizes of energy, drive and enthusiasm, and different ways of expressing views and ideas. Knowing thyself is hard work and takes a greater degree of honesty than I think many of us are accustomed to. Instead of doing that critical soul-searching and adjusting views and behaviours where necessary, many boards plunge forward with that 'diverse' hire.

On paper, the perfect person has joined the board. They bring things to the table that are lacking, such as digital expertise, member cohort perspectives, or design-thinking experience. But here's the rub. That new perspective which was so valuable too often assimilates to the norm or taps out. To be included they feel the need to check their differences in at the door and fall into line, or leave. Keep in mind, this new face is often the outlier or the diversifier to the existing board – they are often younger and/or industry outsiders – and someone's need to feel they belong is an incredibly strong force. This 'assimilation asphyxiation' ends up defeating the purpose of the entire exercise and nobody benefits.

So how do we overcome this? In every board meeting, at every opportunity, we each need to actively search for, identify and recognise the 'golden nugget' of brilliance in every person around that table. It's there. The make-or-break difference is being able to find it and treasure it. A lot of that responsibility sits with the board's leadership, but not all of it. A board who collectively can identify and value every member's 'golden nugget' will drive forward and achieve things together that they could never have imagined.

The beauty of the pensions industry is that it's both highly specialised and incredibly versatile, where you can do anything you want with whatever skill set you have or develop. What's more, our purpose is fundamentally good as we try our best to help deliver on promises to members. We do attract truly amazing people from many backgrounds and disciplines. To encourage new faces on decision-making boards, the keys lie both with knowing ourselves, and in our ability to celebrate each other's golden nugget.

SET ASIDE TIME TO DO SOME SOUL-SEARCHING AS A BOARD, IDENTIFY WHAT'S MISSING FROM YOUR MELTING POT – AND GO GET IT.

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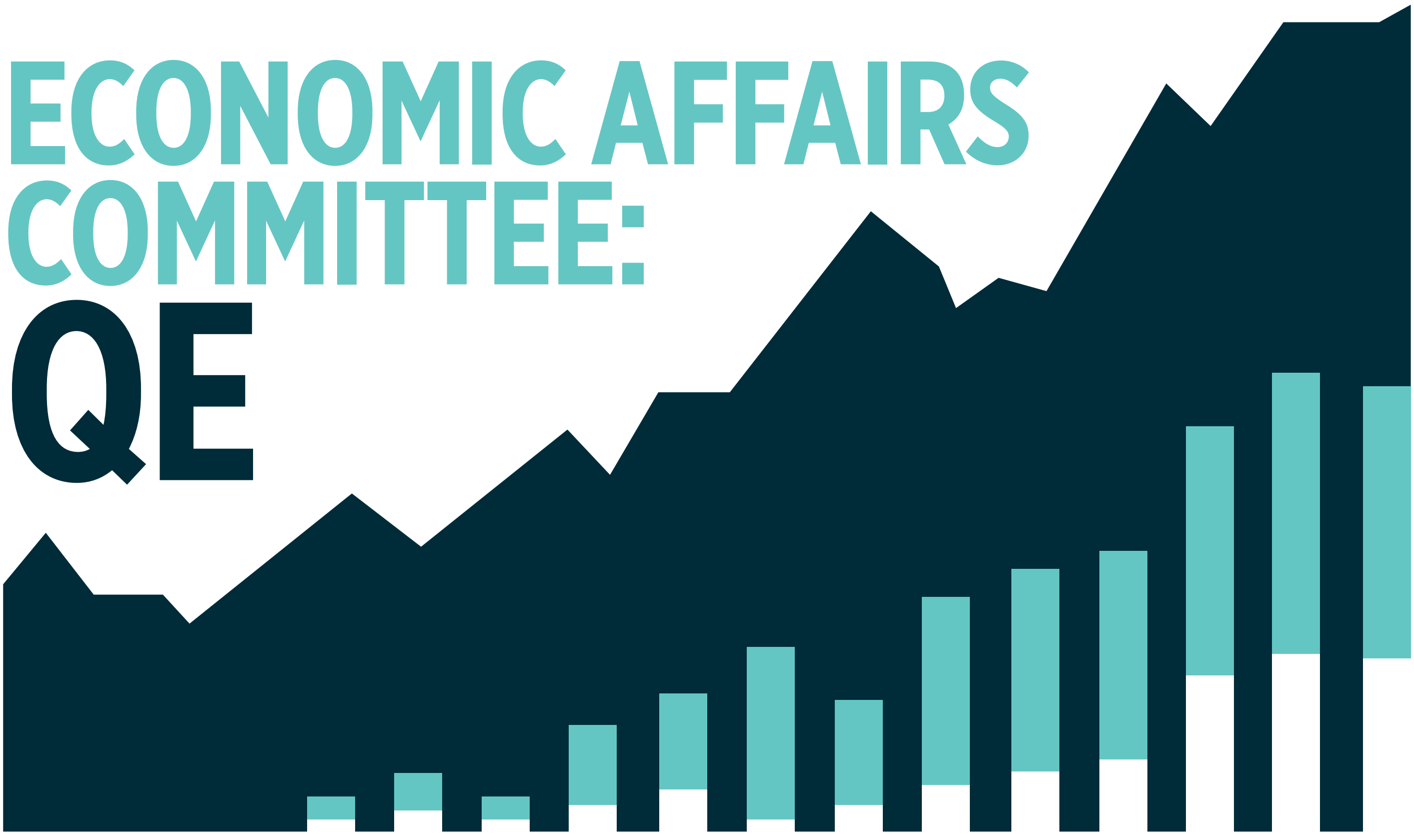
ECONOMIC AFFAIRS COMMITTEE: QE



Pension schemes are still living with the effects of quantitative easing, reports PLSA Chair ***Richard Butcher.***

THE HOUSE OF LORDS ECONOMIC AFFAIRS COMMITTEE ASKED THE PLSA TO GIVE EVIDENCE TO ITS INQUIRY INTO THE IMPACTS OF QUANTITATIVE EASING. HERE WE EXPLAIN HOW PENSIONS SCHEMES ARE STILL EXPERIENCING THE EFFECTS OF THE BANK OF ENGLAND'S UNCONVENTIONAL ASSET PURCHASE PROGRAMME.

There have been three major rounds of quantitative easing (QE) since the 2008 financial crisis, amounting to an overall stimulus package of nearly £900 billion. The intent of the policy response was to prop up lending, but it has also affected DB and DC pension schemes in different ways.

DEFINED BENEFIT SCHEMES

For funded DB schemes the most substantial impact has been on liabilities. Because of the way these are calculated – using a discount rate based on interest rates – it resulted in significant increases in measured deficits. These deficits have had to be addressed either by higher employer contributions, longer recovery plans or greater investment returns.

The 2010 Purple Book estimated that a 0.1% reduction in yields had the effect of increasing DB scheme liabilities by 2% and only increasing scheme assets by 0.4%. Therefore, sponsoring employers of schemes saw their deficit recovery contributions increased as a result of QE.

The PLSA surveyed our membership during the first round of QE (in our previous guise of the NAPF) and found that 75% of DB schemes reported being in deficit prior to QE (2007) and 87% after QE (2011). Those in surplus fell from 25% to 13% in the same time frame.

TPR research in 2012 showed that 75% of schemes had to extend their deficit recovery plans, with 50% extending by as many as three years and increasing contributions by at least 10%. Forty-five per cent were looking at other flexibilities they could adopt to make the plan work on top of extensions and contribution increases.

> **A RISING TIDE TENDS TO LIFT ALL BOATS, AND THE ACTION OF THE CENTRAL BANK CERTAINLY SAVED VIABLE BUSINESSES FROM COLLAPSE**

QE has also affected future funding service rates. Although difficult to accurately quantify, this impact will have led to an acceleration in closure of DB schemes during the period as they have appeared less affordable to employers.

QE, combined with Solvency II regulations, has also impacted sponsoring employers' appetite for buyout as lower interest rates and higher deficits have made this route more expensive.

DEFINED CONTRIBUTION SCHEMES

For DC schemes, the largest impact was on members close to, or at, retirement purchasing annuities at lower rates, which was also more or less mandatory for most savers until the introduction of the Pension Freedoms in 2015.

WITHOUT THE LOWER ANNUITY RATES CAUSED BY QE, WE CAN WONDER WHETHER THE PENSION FREEDOMS WOULD HAVE BEEN INTRODUCED AT ALL

The Pension Freedoms have changed the nature of decumulation and mean that future DC retirees may be affected by QE in different ways to those retiring during the financial crisis.

Without the lower annuity rates caused by QE, we can wonder whether the Pension Freedoms would have been introduced at all. They were certainly a push factor into more people choosing drawdown over annuities, which in turn leaves the individual savers with management of investment risk and decisions about when to convert into an annuity or not.

Flexible access drawdown is now a more popular choice than purchasing an annuity, and – with the ability to take tax-free cash first and then decide on purchasing an annuity later – timing risks associated with AE can also be mitigated for annuity purchase. Flexible access drawdown is also decoupled from the GAD rate and there are no maximum drawdown considerations. Some retirees are still members of income drawdown policies that are attached to the GAD rate, but many can convert easily to the more flexible drawdown policies.

There is also a trend away from life-styling as schemes adjust to savers retiring at different ages and taking different options. Seventy-five per cent gilts and 25% cash was to have some equivalence to the retirement benefits being offered by purchasing an annuity in retirement. With investment pathways there are now four different defaults with different objectives.

For the majority of DC savers who were far from retirement, QE had little direct effect other than indirect upward pressure on equity values – which was a benefit to those savers.

The individual savers closer to retirement were most affected by QE. Many were in lifestyle funds gradually moving out of equities to 75% gilts/bonds 25% cash positions. They may have been selling when equities were low and buying gilts when prices were high. In 2010, pre-Pension Freedoms, 94% of our DC schemes offered lifestyle funds and 80% had it as their default.

ASSET ALLOCATION

Many DB schemes had been on de-risking journey in advance of the financial crisis as the average age of their members grew, so it is hard to say exactly how QE has impacted pension schemes' risk appetites.

What the low yield environment has done, however, is force schemes to work harder to find returns. That may include carrying some investments which have a little more risk, but only for a small allocation of the assets.

This has led to more diversification, in particular for larger schemes looking more at illiquids and alternatives. There was also something of a boom in private equity in the years immediately after the crisis, which has since settled down.

VERDICT

On balance, QE has been a positive development for pensions, especially the first rounds. A rising tide tends to lift all boats, and the action of the central bank certainly saved viable businesses from collapse by increasing their borrowing capability.

Above all else, strong employers are the most desirable factor in ensuring the stability of pension schemes, particularly for DB schemes.

Nonetheless there are specific side-effects that impact pension funds and pension savers.

Fortunately, the Pensions Regulator has allowed flexibility in the application of the funding regime, and this has helped mitigate the impact on schemes.

IN 2010, PRE-PENSION FREEDOMS,

94%

OF OUR DC SCHEMES OFFERED LIFESTYLE FUNDS AND 80% HAD IT AS THEIR DEFAULT.

The eventual exit from QE and the return to more 'normal' interest rates must be negotiated in an orderly fashion by central bankers and clearly signalled in advance so that pension schemes can manage their investment strategies accordingly.

You can watch the Economic Affairs Committee session with PLSA Chair Richard Butcher, or read a transcript of the hearing, via the **Parliament website**.

REVIEW: 2021 INVESTMENT CONFERENCE

Maggie Williams reports on a record-breaking virtual event.

THE PLSA'S 2020 INVESTMENT CONFERENCE WAS AS MEMORABLE FOR ITS TIMING AS FOR ITS STELLAR SPEAKER LINE-UP. WITH LOCKDOWN LOOMING AND EMPLOYERS ALREADY STARTING TO PUT RESTRICTIONS ON BUSINESS TRAVEL, IT WOULD TURN OUT TO BE THE LAST OPPORTUNITY FOR THE PENSIONS AND INVESTMENT INDUSTRY TO COME TOGETHER IN PERSON BEFORE COVID-19 PUT AN END TO ALL SUCH GATHERINGS.

Who would have believed that, a full year later, we would still be waiting for that next in-person opportunity and that the PLSA's 2021 Investment Conference would be virtual?

However, with a record-breaking 237 schemes and more than 1,100 registered attendees signing up online, PLSA members' enthusiasm to 'meet' and keep up to date with the latest investment thinking was clearly undiminished. In fact, 64% of 2021's virtual attendees had never been to a PLSA conference before.

The 2021 programme was as wide-ranging as ever, with speakers including journalist Robert Peston, economist Linda Yueh, global health expert Devi Sridhar, and Lord Adair Turner, chair of the Energy Transitions Commission. Here are just some of the key themes from the three days...

ESG INVESTMENT

With the countdown to new climate reporting regulations for trustees well under way, and the global COP26 conference taking place in Glasgow in November, ESG issues took centre stage at the Investment Conference. Sessions focused on the wealth of opportunities that both the UK government's and industry's net zero ambitions offer for pension schemes, as well as on regulatory duties. From start-up investment in ground-breaking technologies, through to regular income streams from clean energy, the conference showed that trustees can make sustainability part of their whole portfolio.

Baroness Helena Morrissey DBE, Founder of the 30% Club and Chair of the Diversity Project, discussed the importance of diversity and inclusion both for trustees' own decision-making and for the companies in which they invest, as part of the 'S' of ESG.

30%

THE DIVERSITY PROJECT AIM IS FOR THREE IN TEN FUND MANAGERS TO BE FEMALE BY 2030.

ECONOMIC OUTLOOK

After such a complex year, and with significant uncertainty still ahead, UK and global economic outlooks were a recurring theme. Stephanie Flanders, Head of Bloomberg Economics, shared insights into some of the trends and challenges that trustees will face in the year ahead and beyond. John Kay, economist and author, explored the practices of 'radical uncertainty' and the need to treat the 'false precision' of many financial models with care.

> "INVESTORS WILL BE LOOKING FOR WAYS TO DIVERSIFY. ILLIQUIDITY WILL BE SOMETHING THAT PEOPLE WILL TALK ABOUT MORE AND MORE AS IT HASN'T BEEN FULLY PURSUED YET."
>
> **Stephanie Flanders,** Head of Bloomberg Economics.

PORTFOLIO FOCUS

As well as exploring broad economic themes, there was also plenty of focus on day-to-day considerations for pension schemes including investing for buy-in, future directions in DC investment and decumulation, and impact investment. A panel of Chief Investment Officers shared their practical experiences of the key challenges facing master trusts, workplace schemes and local authorities.

REGULATORY ISSUES

The Pensions Regulator's (TPR) proposed DB Funding Code, still very much work-in-progress at the time of the conference, was explored in depth in a hands-on panel session where David Fairs, Executive Director for Regulatory Policy, Analysis and Advice at TPR, along with Peter Flanagan, chair of DHL Trustees, and Jos Vermeulen of Insight Investment. In a separate session, Miles Celic, CEO of TheCityUK, also provided insight into the post-Brexit regulatory architecture.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LGPS LANDSCAPE AND FUTURE

Tiffany Tsang, Head of DB, LGPS and Investment,
introduces a PLSA project on the LGPS of tomorrow.

THE LOCAL GOVERNMENT PENSION SCHEME (LGPS) HAS SHOWN ITS METTLE OVER THE LAST YEAR AND A HALF WITH ITS RESILIENCE IN NAVIGATING THROUGH THE IMPACT OF THE GLOBAL PANDEMIC.

But we can never rest on our laurels for too long. The PLSA was pleased to launch, at its annual Local Authority Conference in May, a research project dedicated to bolstering the LGPS of tomorrow: 'Landscape and Future Challenges'. At its core, the work seeks to find sensible ways to mitigate risks we can see coming down the track, and maybe some that we can't, through futureproofing. So, what do we really mean by this?

WHAT'S THIS RESEARCH PROJECT ABOUT?

The purpose of this project is to draw on qualitative and quantitative evidence provided by our LGPS members in order to:

- Develop a comprehensive understanding of the major issues and challenges facing the operation of the scheme;
- Establish a baseline of data and information to measure against in future years;
- Identify best practices or gaps in effective operations; and
- Identify where additional clarity is needed in guidance from the regulators and the government.

We'll be organising our work around the key themes of People, Frameworks and Tools, and by the end of the project, we should be able to:

- Identify how the scheme may evolve in the future; and
- Begin to evaluate how futureproofed we are as individual funds and as a collective entity.

Areas to be explored include the long-term sustainability of the LGPS, data standards, budgets and resources, administration, LGPS employers, scams, reconciling differing positions on net zero, and talent management.

POLICY CONTEXT OF THE RESEARCH PROJECT

There's been a lot of change, and the LGPS has been under pressure for a long time. In recent years, we've seen pooling in England and Wales, pay freezes, the transition to the (CARE) pension scheme, and an increasing number of employers. The longer-term impacts of these developments are of course compounded by the overlay of new and emerging challenges such as the implementation of the McCloud judgment, expectations for responsible investing, talent management, and evolving administration issues.

There's a third strand to this mad complexity. The developments exist within a changing external context where trends like increasing digitisation, demographic shifts and changes to working practices in response to the pandemic highlight the need for organisations of all kinds to ensure that their People, Frameworks and Tools remain operationally robust and coherent.

METHODOLOGY

We've been working with our Local Authority Committee to ensure that the right issues are being given the proper spotlight in this piece of work. We have in this instance deliberately chosen to steer the focus away from pooling and governance structures, as these issues are too big and complex to look at properly alongside everything else identified, plus they are being picked up elsewhere, like by the Good Governance Project from the Scheme Advisory Board for England and Wales.

The PLSA invites its LGPS members to participate in this piece of work, and we hope very much that as many of you as possible can join in the roundtables in July and in completing the survey in September. The ultimate success of this project depends on our members coming out to contribute their views and best practices.

NEXT STEPS

The LGPS has shown itself to be robust during the COVID-19 crisis, and a key question now is whether funds within the scheme can maintain their resilience. The answer to this will come down to so many factors, such as investment strategy, administrative efficiency, resources, the success of pooling – the challenges will differ for each fund. There won't be a magic silver bullet, but hopefully this piece of work will help to identify what might go wrong, what lessons we can collectively learn from one another, and how we can mitigate risks from the unknown.

For further information, please get in touch with Tiffany.Tsang@plsa.co.uk.

WE'LL BE ORGANISING OUR WORK AROUND THE KEY THEMES OF PEOPLE, FRAMEWORKS AND TOOLS

WHAT'S NEXT FOR THE S IN ESG?

Karen Hurst, Senior Policy Advisor, Investment and Stewardship at the PLSA, reports on the increasingly important social dimension.

WHEN THE DEPARTMENT FOR WORK AND PENSIONS LAUNCHED A SURPRISE CALL FOR EVIDENCE LOOKING AT THE RISKS AND OPPORTUNITIES OF THE S IN ESG EARLIER THIS YEAR, IT WAS A TIMELY REMINDER THAT CLIMATE CHANGE ALONE WON'T – AND SHOULDN'T – DOMINATE THE ESG DEBATE IN 2021.

And it's not just the government that is taking an interest: 2021 has seen the impact of investors on high-profile companies make the mainstream, and not just the financial, headlines. For instance, the recent floatation of Uber showed that investors are as concerned about the treatment of the workforce as they are about generating returns.

In our annual voting guidelines, published in March 2021, the PLSA urged shareholders to consider companies' treatment of their workforces during the lockdown period. Did they prioritise the safety of the workforce above all else? Were they accepting government support for workforce pay while still seeking permission from stakeholders to increase executive pay? However, as we start to look towards what we hope will be a more normal life again, it's almost certainly the case that the events of the past year or so will result in a permanent change in our expectations of the workplace. There continues to be significant debate about returning to the office, with the needs of different groups of staff not necessarily aligned. The end of furloughing is likely to bring with it a range of challenges for companies impacted financially by lockdown. Add into the mix the growing scrutiny of investment in areas that have a poor human rights record, and it's clear that climate is not the only thing investors need to be thinking about in 2021.

Of course, though the circumstances have changed, many of these issues are not new, and certainly not new to pension funds looking to invest responsibly. In the PLSA's 2016 report, *Hidden Talent*, we found that PLSA members overwhelmingly looked at data in annual reports on workforce stability, skills and capabilities, engagement, and composition as evidence of the wider performance of the company. Despite this, we still found that disclosure was lacking – only 43% of companies discussed their workforce as a source of value, for example. Less than half discussed performance in relation to a measurable target.

There are already a number of initiatives to help members encourage companies they're invested in to improve this. Our 'Worth of the Workforce' stewardship toolkit, for example, recommended annual reports should be used to detail corporate culture and working practices in a narrative form, underpinned by consistent, concrete data on metrics such as diversity, staff turnover, and investment in training. We've also supported the Workforce Disclosure Initiative, an investor coalition aiming to collect comprehensive and consistent data to help with analysis.

Given the continued focus, we're pleased to be launching another round of research, this time with the CIPD, High Pay Centre, and RPMI Railpen, which will look at how disclosure has improved. Over the coming months we plan to revisit which metrics our members say they value, and analyse how far FTSE companies actually report against them. We believe this work will be important not only in raising awareness of the need for comprehensive reporting, but also to ensure that the sector is able to demonstrate to policymakers where the gaps are, and how they in turn can support the industry in ensuring that the 'S' in ESG is not forgotten.

We hope to publish an update on this work later in 2021.

THE RECENT FLOATATION OF UBER SHOWED THAT INVESTORS ARE AS CONCERNED ABOUT THE TREATMENT OF THE WORKFORCE AS THEY ARE ABOUT GENERATING RETURNS

ESG INDICES: HOW CAN SUSTAINABILITY BE QUANTIFIED?

As data-driven ESG investing soars, understanding how indices are formed will become increasingly important, reports ***Tom Higgins.***

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) THEMED INVESTING HAS UNDERGONE A RAPID TRANSFORMATION IN RECENT YEARS, RISING TO PROMINENCE ON THE BACK OF INVESTOR DEMAND.

Research from Bloomberg Intelligence suggests that global ESG-linked assets are set to exceed $53 trillion (£37.5 trillion) by 2025 – more than a third of all assets under management.

Behind the scenes, ESG indices – the tools that benchmark companies' ESG credentials and performance – are developing and proliferating rapidly, providing investors with a huge range of options for benchmarking their strategies. Coupled with an abundance of technological improvements, and with plenty more on the horizon, ESG indices have become essential benchmarks for how the ESG and sustainable investing market structure is defined.

Carlo Funk, head of EMEA ESG investment strategy at State Street Global Advisors, wrote in a recent paper on index investing and ESG themes that increasing transparency and improving reporting techniques could mean that investors "transition the core of their portfolios to sustainable index investments".

What will it take for pension schemes to make that transition?

DEALING WITH DATA

For pension scheme trustees, understanding how these indices are constructed and how providers interpret data is imperative to ensuring their effective use. Understanding their shortcomings and limitations can also prepare pension schemes to navigate any future difficulties.

> FOR THE RAPID EXPANSION OF ESG INVESTING TO SUCCEED, ACCURATE AND RELEVANT DATA WILL BE CRUCIAL

"Sustainable investing incorporates an analysis of the opportunities and risks associated with certain ESG issues that may be overlooked in the traditional investment process," says Jessica Robinson, author and adviser on sustainable finance and responsible investing at Moxie Future.

"For ESG indices, companies are scored on both the exposure of the company to the ESG issues and the ability of the company to manage these exposures."

Such indices aim to support institutional investors to identify investment opportunities that can facilitate hitting certain sustainability outcomes. These can include specific benchmarks weighted to companies that are reducing greenhouse gas emissions or attempting to improve diversity on boards or in the workforce. Most indices, however, use a broad set of criteria across each of the three pillars of ESG.

For the rapid expansion of ESG investing to succeed, accurate and relevant data will be crucial. Currently, information relating to environmental impacts or social criteria is far less easily available than traditional financial data. Even data points that are established – such as those relating to carbon emissions – are not always comparable.

The many and varied ways that different providers have sought to address these data issues have led to more than 1,000 different indices coming on to the market, each with a differing methodology, process and end result.

Louisiana Salge, impact specialist at EQ Investors, says that there is no set way to build an ESG index, nor one type of data that is used. The common ground between all benchmarks is how they are constructed around a defined objective – an element that sets the tone for the rest of the framework.

For institutional investors, understanding the rules governing an index's construction will help ensure that it, and any strategies

aligned to it, is a good match for the overall objective. Investors should also scrutinise the data used and the methodology for interpreting it.

"Without that," Salge says, "you cannot seriously claim that you understand the sustainability characteristics that an index is targeting."

HOW IT'S DONE

How can trustees be sure that a particular index or ESG rating approach is right for their investment strategy and aligned with their principles?

There are several different types of players to be aware of when seeking to understand the construction of an ESG benchmark. There are the organisations setting reporting standards, the data processing and analytics houses that attempt to make sense of the reported information, and the benchmark providers themselves.

Standard-setters such as the Global Reporting Initiative and the Sustainability Accounting Standards Board aim to improve the structures in place to facilitate ESG reporting. Their standards outline how to achieve accuracy, completeness and clarity in disclosures, which in turn improves the quality of information being fed into the next stage.

Specialist data firms such as TruValue Labs use unprocessed data to gather further insights, using sophisticated artificial intelligence (AI) technology to sift through large and complex datasets. Other firms scrape data from online sources, such as news websites and social media. Data gathered this way is often specialised and can be used to meet the specific requirement of an index's methodology.

Ratings agencies, including RobecoSAM and MSCI, collate this data to rate companies according to a broad assessment of their ESG credentials. These ratings are used by the index providers – often this can be the same company as the rating agency, such as S&P or MSCI – to construct a universe of companies.

As ESG investing – and associated data analyses and reporting – has become more sophisticated, more variations of benchmarks are emerging. These can be tilted towards highly rated companies, or exclude low-rated companies altogether. Indices can also be specialised in certain fields such as renewable energy, or themes such as climate change.

For those looking to align their portfolios with the United Nations' Sustainable Development Goals (SDGs), there are many specialist indices and associated products. For example, TrackInsight's database of exchange-traded funds (ETFs) lists 316 funds aligned to different SDGs, almost all of which are 'passive' strategies replicating a benchmark. These include ETFs tracking clean energy, gender equality, and clean water benchmarks.

APPLES AND ORANGES

At each stage of the data handling process, different organisations apply their own methodologies and interpretations. This can make ESG ratings – and in turn the indices they power – hard to compare directly. When formulating a score for a company, MSCI's method involves 37 factors across 10 themes. S&P, meanwhile, relies on 23 criteria, while FTSE Russell has 14 themes. Investors often voice frustration that ratings can differ quite dramatically from one provider to the next.

However, this may not necessarily be a bad thing, argues EQ Investors' Salge.

"While it is indeed true that correlations are lower than one would expect, different data providers have developed unique scoring methodologies that differ on purpose," she says. "Sustainability is complex, and naturally there is not just one way to analyse the sustainability of a company, and how this relates to financial risks and opportunities."

Rather than focus on the lack of correlation between disparate indices, Salge says trustees should focus on "digging into the differences in methodology". Schemes should look to align with the data provider and the indices that best match their objectives and principles.

INDEX INNOVATION

The rate of change within the indexing industry is expected to be rapid. Not only do ESG indices sit at the perfect crossroads of booming demand and increased capital flows, but the technology used to drive the systems will continue to develop, with AI and machine learning becoming more widely integrated.

Some providers are already exploring how to bring forward-looking metrics into their analysis and product development, based on the real-world impact of companies and assets. For pension investors, this could help match ESG goals to liabilities.

Salge adds: "Carbon data input and ESG rating methodologies are among the most developed forms of sustainability data sets that can be used for index construction, but the same sophistication does not exist in rating companies on their 'impact' on real-world outcomes."

Moxie Future's Robinson agrees that tailoring will be an "important component" of how ESG indices look in the future.

ESG indices are not just found in the equities space, either. There are many fixed income benchmarks with an ESG focus constructed in a similar way, while GRESB is an international body working on reporting and benchmarking standards for the real estate investment sector.

Relying on ESG ratings and indices involves significant due diligence to ensure that methodologies used to compile the data and benchmarks match the viewpoint of the investor. As regulation drives pension schemes to embed ESG considerations within their investment processes and long-term strategies, understanding the components that make up their sustainable allocations will be increasingly important.

SUSTAINABLE INVESTING INCORPORATES AN ANALYSIS OF THE OPPORTUNITIES AND RISKS ASSOCIATED WITH CERTAIN ESG ISSUES THAT MAY BE OVERLOOKED IN THE TRADITIONAL INVESTMENT PROCESS

A NEW PARLIAMENT

Katy Little, Parliamentary and Stakeholder Manager at the PLSA, looks over the key announcements from the Queen's Speech.

THE STATE OPENING OF PARLIAMENT ON 11 MAY MARKED THE FORMAL START OF A NEW PARLIAMENTARY SESSION, WITH THE QUEEN'S SPEECH SETTING OUT THE GOVERNMENT'S UPCOMING LEGISLATIVE AGENDA. IT WAS A QUIET AFFAIR FROM A PENSIONS PERSPECTIVE. THE MAIN ITEMS INCLUDED A BILL TO DEAL WITH THE MCCLOUD JUDGEMENT IN PUBLIC SERVICE PENSION SCHEMES, AND THE EXTENSION OF THE DORMANT ASSETS REGIME TO COVER UNCLAIMED PENSION ASSETS.

While a more significant push on pensions was absent, we remain hopeful that the government will introduce legislation in due course to build upon the success of automatic enrolment. In the days following the Queen's Speech, the PLSA briefed a substantial number of MPs and Peers, in particular those on the Work and Pensions Select Committee (WPSC), the Treasury Select Committee and the APPG on pensions, on the range of policy and legislative topics announced.

PUBLIC SERVICE PENSIONS AND JUDICIAL OFFICES BILL

Legislative action was needed to address the discrimination found in public service pension schemes following the McCloud and Sargeant cases. Following on from our response to the government's initial consultation in October last year, we know that implementing these changes will present a significant challenge to funds and their administrators given the number of members who could potentially be impacted. This is a particular issue at a time where pension administrators are already stretched due to the impact of Covid-19, and have an increasing workload resulting from GMP rectification as well as projects to improve their data and systems. As this Bill progresses, we will be looking to ensure that administering authorities are given enough time to implement these proposals.

ONLINE SAFETY BILL

The government also committed to bring forward an Online Safety Bill to make the UK the safest place in the world to be online. The PLSA is calling for the Bill to include provision to protect savers against online pension scams and other types of investment fraud, as per the recommendations made in our response to the WPSC inquiry. There has been positive movement from government in this area. The Pensions Schemes Act tightened the statutory right to transfer, and the government is also working on a system of red and amber flags which will enable schemes and providers to help stop transfers to potential scams before they take place. We hope to see the Government make further commitments in this Bill to stop fraudsters from taking advantage of savers online.

MORE PENSIONS LEGISLATION?

Although a second pensions bill would have been ambitious, there is more that could be done to underpin workplace retirement savings and support the evolution of the pensions freedoms to ensure more people achieve an adequate income in retirement.

The WPSC is currently examining this topic in its three-part inquiry into *Protecting pension savers – five years on from the Pension Freedoms*. We recently submitted evidence to the second part of the inquiry, which looks at accessing pension savings. In our response we propose the introduction of a new statutory obligation on schemes to support members in their decumulation decisions. Our recommended Guided Retirement Income Choices call for the establishment of minimum standards for products, member communications and governance. We will be looking to put these recommendations on a statutory footing in the near future.

We also remain hopeful that the government will introduce legislation to follow through on its 2017 recommendations for maintaining the momentum in automatic enrolment by extending it to workers under 22 and removing the lower earnings limit. We would also like to see a commitment to a timeline to take minimum contributions from the current level of 8% of a band of earnings to 12% of total earnings by 2030.

MEET THE MEMBER

Peter Strudwick, pensions and benefits manager at Schroders, talks to Maggie Williams about his life in pensions.

WHAT IS YOUR CURRENT ROLE AND HOW DID YOU START YOUR CAREER IN PENSIONS?

As pensions and benefits manager at Schroders, I'm responsible for everything related to pensions in the UK. I also have oversight of our employee benefits offering, and I'm involved with pensions in other regions of the world across the company. That's certainly plenty to keep me busy!

My ethos is that pensions are the end goal for everyone's finances. We're all targeting a great retirement and that's what we want to help our people achieve at Schroders. But there are so many other pressures on people's finances that linking employee benefits and pensions together makes a lot of sense. As an organisation, we can then join the dots between different areas of personal finances, and hopefully it will help our employees to do the same.

I didn't plan for a career in pensions, but I've been working in the industry for over 20 years now. I started as a trainee administrator at Mercer in 2000, stayed 10 years then worked in different roles at LV= for another 10 years, including pension and benefits manager and a short stint as acting head of reward just before leaving.

I started at Schroders on 23 March 2020 – the day that the first lockdown began. So far, Schroders for me has looked an awful lot like my spare room! But I've enjoyed my first year here and it's a great company to work for. They believe in and care about the importance of pension saving, which was one of the things that attracted me to the role.

WHAT IS THE BIGGEST CHALLENGE FOR YOUR SCHEME?

There are so many consultations at the moment, and a significant amount of change on the horizon. They are all driven by the best intentions, but it's a lot for pension schemes with finite resources to cope with.

> I DON'T BELIEVE THAT WE CAN, OR SHOULD, MAKE EVERYONE A PENSIONS EXPERT – AND THAT'S ONE OF THE REASONS WHY I REALLY LIKE THE RETIREMENT LIVING STANDARDS

Member engagement remains our biggest challenge. I don't believe that we can, or should, make everyone a pensions expert – and that's one of the reasons why I really like the Retirement Living Standards (RLS). I don't want our scheme or others to have to reinvent the wheel when it comes to engagement, so I would like to see third-party providers make RLS part of their drive towards excellence. We need to keep communications simple and standardised to help people.

IF YOU HAD THE CHANCE, WHAT PENSIONS LEGISLATION WOULD YOU INTRODUCE OR REMOVE

If I could rewind time, I would love to revisit pension freedoms. There was no opportunity to think it through properly. It could have been a very powerful force for good, but instead I worry that those coming up to retirement with DC pension savings as their main source of income are quite vulnerable. Going back to my previous theme, the duplication of effort, time and money required by each scheme to support pension freedoms is staggering and not great value for members.

I'd also like to look at tax relief, which is far too complicated. Although the lifetime allowance (LTA) and the annual allowance (AA) seem set at relatively high levels, I'm seeing people on lower and lower incomes becoming affected and being hit with tax bills they weren't expecting. There is also a risk that if you start to exclude key decision-makers in organisations from pensions [because they have reached the LTA or AA], they become less engaged and interested in pensions across the board. I'm lucky enough to work for an organisation where those decision-makers are still engaged, but I'm not sure that will be the case everywhere.

WHAT DO YOU VALUE MOST ABOUT PLSA MEMBERSHIP?

The PLSA really help to clarify what is happening in the industry. The support available in seminars, on the website and at events is invaluable in navigating the current landscape.

It's also important that the pensions industry has a collective voice. The PLSA enables conversation with government and delivers a view formed from a number of different areas.

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INVESTOR SERVICES

THE CLIMATE-IMPACT: WHY ARE GHG'S SO IMPORTANT?

Global climate change is one of the largest challenges for pension schemes today. Why?

THE CARBON EMISSIONS GAP, THE DIFFERENCE BETWEEN "WHERE WE ARE LIKELY TO BE AND WHERE WE NEED TO BE" TO MEET THE 2°C GOAL OF THE PARIS AGREEMENT ON CLIMATE CHANGE IS STILL SIGNIFICANT. BY 2030, GLOBAL GREENHOUSE GAS EMISSIONS WILL NEED TO FALL BY 23% FROM 2019 LEVELS TO PUT THE WORLD ON TRACK TO AVOID A SUB-2°C WARMING ABOVE PRE-INDUSTRIAL TEMPERATURES .

In May 2021, the G7 countries - UK, the US, Canada, Japan, France, Italy and Germany announced more stringent commitments to tackling climate change. They are moving to keep their policies in line with 1.5°C, which implies much faster action to cut carbon emissions by 2030 – placing additional pressure on companies and bond issuers to cut their emissions. For the UK this means, a target of reducing emissions by 78% on 1990 levels by 2035.

As economies and companies transition to low carbon, this creates risks for pension schemes, beyond the physical risks of climate change and extreme weather events.

THERE IS NO ONE SIZE FITS ALL

A key step in understanding climate change risk is to recognise that it is multi-faceted. Rather than applying a standard computation, as might be the case with interest rates or inflation, there are multiple risks related to climate change that fall within physical and transition risks, which can be much more difficult to quantify. Recognising this variability and investigating these challenges should help UK pension schemes better prepare, and understand how significant these risks could be to the funding and performance of their portfolios.

As Governments and companies around the world have committed to reduce their carbon footprint, this will result in more decarbonisation regulation, driving companies to lowering their carbon emissions – as a part of the energy transition. Understanding these transition risks are as important as quantifying the physical risks of climate change on portfolios. The decarbonisation transition poses a significant impact for economies and companies – some more than others, depending on how carbon-intensive they are, and how adaptable their business models are. This is increasingly becoming a key factor that needs to be considered by pension schemes and trustees in how the physical and transition effects might impact performance of portfolios and ultimately member pension pots. Actuarial climate scenario analysis is starting to show that climate change risks exacerbate funding risks, can extend time taken to full funding, and that schemes are systematically underestimating funding risk associated with climate change[2]. Risk management is key.

From October this year, pension schemes over £5bn, and authorised master trusts greater than £500m, will have to publish a Taskforce on Climate-related Financial Disclosures (TCFD) report. Schemes over £1bn will have to comply by October 2022. The government's plan to by October 2022 have captured more than 70% of AuM, and over 80% of members is bold. And it is worth noting that all schemes are exposed to climate risks regardless of their size - plans to implement similar requirements could come follow after a 2023 review.

MEASURING CARBON

Carbon 'footprint' is the process that shows pension schemes the amount of carbon that the companies or issuers within their portfolios produce and therefore how much they contribute to greenhouse gas emissions. To measure and monitor these metrics, so that you can begin to assess the associated risks, you must first be able to identify it, and this requires access to data. The most common way of doing so is to evaluate the 'total carbon emissions, carbon intensity, and carbon footprint of a company, fund and or portfolio.

There are three categories that pension schemes need to report on, which look at the emissions generated by companies. These are defined under the three 'Scopes' illustrated below.

Scope 1 involves the activities of a company or an organisation under its direct control. These might include vehicles, refrigerators and boilers, for example.

Scope 2 involves indirect emissions. These might include the electricity generated by an external company and its heating and cooling.

Scope 3 carbon emissions looks at everything beyond a company's direct scope of operations. This includes emissions across an issuer's supply chain and end-product usage by its customers. As such, scope 3 looks at a range of indirect emissions, such as business travel, employee commuting, purchased goods and services and capital goods. Scope 3 provides a full 360-view of the total emissions that are attributable through the operation of a company.

THINK BIG, START SMALL: BUT START

The UK pensions sector is in a strong position to drive and help influence how climate risks are managed by companies and issuers. As the third largest pensions market in the world, at £2.58[3] trillion, and representing millions of members pension pots, schemes should feel confident that they can play a significant role shaping how investors manage climate risks through the reduction of carbon emissions over the longer term. To do this, requires data.

Data standards are increasing and there are regulatory initiatives to drive consistency and develop reliable standard setting frameworks. The TCFD initiative, Partnership for Carbon Accounting Financials (PCAF), and GHG Protocol are some of those. However, in the meantime, our recommendation is for pension schemes and trustees to get their hands on independent carbon reporting data to get and baseline understanding of their overall carbon exposure and intensity scores. This will enable more effective monitoring and aid the setting of realistic emissions targets across the schemes investments at portfolio, fund, sector and ISIN level.

Our interpretation of the regulatory requirements of the updated SIP guidance, and implementation statements, highlights the importance of independence through the onus of trustees having to first develop a view of their scheme's ESG and Climate approach. And subsequently monitor and assess how their arrangements with their asset managers incentivise the manager to align its investment strategy and decisions with the trustees' investment policies. Implementation statements go even further, asking schemes to describe how polices in the SIP in investment policies, stewardship, voting and engagement activities are being adhered to. Independent reporting would be a key component of demonstration of a best in class governance framework.

SETTING DIRECTION AND STRONG GOVERNANCE STANDARDS

Getting access to data that measures scope 1, 2 and 3 carbon emissions attributable by a pension scheme's investments will be a critical step for trustees. It helps set a baseline to begin establishing a strategy on managing climate risk, and provides a starting point in integrating this data into the governance process, facilitating a framework for strong dialogue with asset managers. Furthermore, establishing a baseline now means the momentum of change in the reduction of a scheme's carbon footprint can be measured. This will help pension schemes and trustees effectively determine their exposure, and investigate how their pooled and segregated mandates, and individual companies or bond issuers within those, are preparing for great decarbonisation transition.

1. Carbonbried.org
2. Climate scenario analysis for pension schemes – A UK case Study
3. Willis Towers Watson, 2021

EMBRACING THE CHANGES TO COME

David Fairs, Executive Director for Regulatory Policy, Analysis and Advice at The Pensions Regulator, sets out TPR's key priorities in a challenging landscape.

WE ARE CONTINUING TO SUPPORT TRUSTEES, EMPLOYERS AND SAVERS THROUGH THE ECONOMIC UNCERTAINTY CAUSED BY THE PANDEMIC, AND OUR RECENTLY PUBLISHED CORPORATE PLAN SETS OUT OUR KEY PRIORITIES FOR THE YEAR AHEAD.

The priorities, which are grounded in putting the saver at the heart of what we do, include implementing the Pension Schemes Act, combatting scams, and developing a framework for measuring value for money.

The plan shows how we will deliver against all five strategic priorities, as outlined in our long-term Corporate Strategy which sets out our blueprint for the future of pension regulation, and build on the work we have done in recent years to be a clear, quick and tough regulator.

The landscape ahead is both exciting and challenging and we are determined to embrace the changes to come. These include the ongoing shift to defined contribution (DC) saving and market consolidation, the emergence of new technologies, and the impact of climate change on trustee and employer decision-making.

The plan also sets out how our work will be measured. For the year ahead, we have set ourselves 15 key performance indicators that are a mixture of quantitative-, milestone- and progress-based measures.

TRUSTEES: BE ALERT AND ACT QUICKLY

We also recently published our Annual Funding Statement (AFS), which calls on pension schemes to remain alert to the risk of weakening employer covenants and act quickly where needed to protect savers.

We know many employers and trustees have worked together to maintain their funding commitments; however, there is still uncertainty in the market due to pressures including the COVID-19 pandemic and Brexit. This means trustees should remain vigilant and take swift action where necessary.

When carrying out actuarial valuation, trustees should review how their covenant may have changed in the past year and then continue to monitor it. We expect trustees to remain engaged with employers who, in many cases, are emerging from a difficult business period.

The AFS, which is particularly useful for schemes with valuation dates between September 2020 and September 2021, shows that this tranche has remained buoyant despite difficult market conditions for sponsoring employers. Many businesses will have benefited from extended government support, and while it is too early to tell if we will see a rise in company insolvencies, uncertainty remains. If there is a prospect of insolvency or a restructure of scheme employers, we want trustees to probe the covenant even further, taking professional advice if needed to gain a fresh view on covenant strength to ensure their scheme is being treated fairly.

IMPROVING THE CONSUMER PENSIONS JOURNEY

This spring also saw TPR, together with the Financial Conduct Authority, launch a new call for input asking the pensions industry how consumers make decisions about their pension at key points throughout their working lives.

Since automatic enrolment started in 2012 there has been a seismic shift in the pensions landscape, with 15 times as many savers in defined contribution schemes than in accumulation within defined benefit schemes.

This shift means savers carry more of the risk in planning for their retirement and have more decisions to make than ever before.

When thinking about a pension, there will be decisions savers make, actively or passively, at different stages of their lives. These include starting a pension, building up funds, approaching retirement, accessing their pension, and finally spending their pension savings.

The newly launched call for input seeks to gather information on what influences consumers across this journey and find out how they can be better supported to achieve improved pensions outcomes.

The views gathered will inform policymaking and will be used to target any future regulatory interventions at areas of greatest benefit to savers.

Those with insights into any of the questions asked should respond by emailing PensionsConsumerJourneyCFI@tpr.gov.uk before 30 June 2021.

The PLSA will be responding to the call for input on behalf of our members.

If you would like to contribute your views to our response, please contact **craig.rimmer@plsa.co.uk**

FIVE PRINCIPLES FOR PENSIONS TAXATION

Kate Boulden, Senior Policy Adviser: DC, Policy & Advocacy, examines possible new approaches to a difficult issue.

THERE HAS BEEN A RAFT OF SPECULATION OVER THE LAST YEAR THAT GOVERNMENT PLANS TO REDUCE THE LEVEL OF FINANCIAL SUPPORT FOR PENSIONS SAVING. IN RESPONSE, WE PUBLISHED A REPORT ASSESSING SEVERAL PENSIONS TAX RELIEF REFORM OPTIONS AGAINST OUR FIVE PRINCIPLES FOR PENSIONS TAXATION. THE PRINCIPLES WERE DEVELOPED WITH A SPECIAL PENSIONS TAX RELIEF STEERING GROUP MADE UP OF MEMBERS, REPRESENTING ALL PARTS OF THE PLSA'S MEMBERSHIP, AND WITH OUR POLICY BOARD.

The current tax treatment for pensions in the UK is described as EET: exempt on contributions, exempt on investment returns and taxed when taken in retirement. Restrictions are placed on the amount of pensions tax relief an individual can receive, in particular through the Annual Allowance and the Lifetime Allowance. In 2017/18, the net annual cost of pensions tax relief was estimated as being £18.9 billion. This accounts for around 2% of total public sector spending.

Pensions tax relief contributes to the 'social good' of pension saving. It helps people live when they can no longer work and helps to reduce the number of pensioners who must rely on welfare payments from the taxpayer. This is important, as many people are currently not saving enough to have an adequate income in retirement. In 2016, Hymans Robertson undertook modelling for the PLSA that examined the likelihood that workers would have a pension equivalent to the Pensions Commission's target replacement rate (TRR).[1] The findings showed that, of the 25.5 million people then in employment, just over 50%, or 13.6 million people, were at high risk of failing to meet their TRR.[2]

Consequently, any changes made to tax relief should work to improve adequacy for individuals rather than worsening the situation. Therefore, the PLSA supports maintaining the core elements of the current approach to pensions tax relief, in particular the EET system, and the level of fiscal support given to pension saving. However, we recognise that the UK is facing a very severe economic and fiscal environment. If the government chooses to undertake a reform of pensions tax relief, we propose that it should be based on the five principles set out below:

1. **Promotes adequacy:** provides financial support and incentivises saving for retirement.

2. **Encourages the right behaviours:** helps savers make the right decisions about retirement saving.

3. **Fair:** helps everyone – the employed, the self-employed, and non-workers – save for retirement.

4. **Simple to adopt and administer:** avoids unreasonable transition and ongoing costs for employers and schemes.

5. **Enduring and sustainable:** designed to avoid repeated change and so builds confidence in long-term saving.

There are many ways in which the fiscal support for pension saving could be altered or reformed. However, in the report, we picked out four that have been frequently discussed by government, the pensions sector, consumer groups and the media over the last five years to assess against the principles. These were TEE, single rate at 20%, and single rate at 25 or 30%, and a reduction in the Annual Allowance and Lifetime Allowance.

Our assessment in the report suggested that neither the current system, nor any of the four options widely discussed for reform, meet all five of our principles for pensions taxation. However, the current system satisfies more of the principles than any other option. Unfortunately, there are no easy solutions and no single reform option will benefit all parties.

We will be publishing an updated version of the report in June looking at a further three reform options: removing NI relief on the employer contribution, splitting DB and DC tax regimes, and capping the tax-free lump sum at £75,000. We will also be publishing further analysis of the impact of a single rate of pensions taxation on individuals at different income levels, using modelling produced by the PPI and interpreted by the PLSA.

1. The TRR for someone with pre-retirement gross earnings of less than £9,500 is 80%, between £9,500 to £17,499 is 70%, between £17,500 to £24,999 is 67%, between £35,000 to £39,999 is 60% and is 50% for those earning £40,000 or more (2005 figures).
2. PLSA, Retirement Income Adequacy: Generation By Generation (2016) https://www.plsa.co.uk/portals/0/Documents/0605-Retirement-income-adequacy-Generation-by-Generation.pdf

SUPPORTING BETTER GUIDANCE

A new policy approach is needed to improve retirement outcomes, says ***Nigel Peaple,*** Director of Policy and Advocacy.

THE PENSION FREEDOMS REVOLUTIONISED THE JOURNEY FOR SAVERS AT RETIREMENT. WHILE THE REFORMS BROUGHT GREATER CHOICE AND NEW OPPORTUNITIES FOR ACCESSING PENSION SAVINGS, THEY ALSO, CRUCIALLY, INTRODUCED THE RISK THAT POOR DECISION-MAKING COULD LEAD TO SAVERS BEING LEFT WORSE OFF.

The PLSA gathered industry experts, policymakers, product providers, journalists and consumer advocates for a roundtable discussion to consider the latest research on the saver decumulation experience and to explore a new policy approach aimed at helping savers get better outcomes at retirement.

Attending the roundtable were the chair of the Work and Pensions Select Committee Stephen Timms MP, Nigel Mills MP, Baroness Jeannie Drake MP, and Financial Services Consumer Panel member Dominic Lindley. Representing the pensions industry were Legal & General Investment Management's Emma Douglas (who is also chair of the PLSA Policy Board), the PLSA's Nigel Peaple, the People's Pension's Phil Brown, NOW: Pension's David Bird, Smart Pension's Michael Watkins, Nest's Gareth Turner, and Janette Weir from researcher Ignition House. Pensions journalists Josephine Cumbo and Jessica Beard, from the Financial Times and the Telegraph respectively, were also around the virtual table.

SAVERS STRUGGLING WITH RETIREMENT DECISIONS

Introducing the primary problem policy experts are seeking to address, Emma Douglas called on her experience within Legal & General Investment Management, saying the most common thing they hear from members approaching retirement is that they don't know where to start with the decisions they face.

DUE TO THE WAY FINANCIAL SERVICES ARE REGULATED, PENSION SCHEMES ARE WARY OF OFFERING INFORMATION THAT MIGHT BE CONSIDERED PERSONALISED FINANCIAL ADVICE

The stark reality of the confusion facing savers at retirement was laid bare by Ignition House's latest research, which revealed, in a series of telling interviews, that it is very rare for people in or approaching retirement to have developed a deep financial plan and many are putting off decision-making, and then taking an ad hoc approach to their retirement income.

Janette Weir, who led the research, says savers are scared of the truth of their financial situation and find it extremely complex. For some, facing retirement makes them feel old and they naturally think about lifestyle choices rather than financial ones.

Aside from these attitudinal and behavioural barriers, savers were concerned they lacked the requisite knowledge to make an effective decision. For instance, people are, on average, out by about five or six years in their expectations of how long they will live and 70% of people with pots worth £30,000 or more are currently withdrawing at more than 4% in retirement – the level generally deemed as a safe annual consumption rate for retirement savings.

For these reasons, the savers interviewed for the research said they would value having regular touchpoints with their pension providers to guide them towards a particular solution and to reassure them that they were on the right path.

The research concludes there is a big difference in the starting assumptions of policymakers and the attitudes and behaviour of members, and attempts to engage savers in their decision-making are limited at best.

In the discussion which followed, pension providers said there was widespread support in the industry to provide much more guidance for savers throughout their savings journey, which would give them the confidence and the knowledge to make better decisions.

However, asked by Stephen Timms about what barriers there were preventing the implementation of improved guidance, providers explained that due to the way financial services are regulated, pension schemes are wary of offering information that might be considered personalised financial advice by the Financial Conduct Authority.

GUIDED RETIREMENT INCOME CHOICES

The research findings and the discussion tally with the evidence examined by the PLSA over many months as it developed its recommendations for a new policy framework for DC decumulation.

There needs to be a bridge between the approach to using inertia to get people into pension saving, and the complex decisions they are required to make at retirement. It is clear that the economic and decision-making risks faced by savers need to be addressed more actively, and it is also clear that schemes are well placed to offer further assistance.

Dubbed Guided Retirement Income Choices (GRIC), the PLSA's approach would give providers reassurance that they could offer more support to savers without crossing the advice/guidance boundary, by creating a new statutory obligation in primary legislation to place a duty on schemes to support members in decumulation. This would be supplemented by minimum standards for communications, products and governance.

It is envisaged that communications standards would need to ensure support begins well before retirement and continues at retirement and beyond. Standards would provide a minimum basis, but schemes and providers would be able to do more on top.

On the product side, the eventual destination is likely to be the creation of blended solutions that combine different types of investments and retirement products to meet the full range of saver needs. Different parts of the blend would address longevity, investment and decision risks. A cash allocation could help people with short-term cashflow needs, income-generating products would provide some certainty over the medium term and then, in the later years, income annuity products would remove the risk of retirees outliving their savings. This blend of products could also mitigate against the risk of decision-making being impacted by cognitive decline.

The entire framework would be underpinned by governance standards to manage conflicts of interest, promote value for money (perhaps underpinned by a charge cap, similar to the one in the defined contribution accumulation phase), ensure assets are held securely, and introduce a requirement to review the product solution on a regular basis.

Not all schemes would be required to offer a GRIC-compliant suite of solutions, but they would be required to signpost to a suitable one, for example in an authorised master trust.

THE PLSA'S APPROACH WOULD GIVE PROVIDERS REASSURANCE THAT THEY COULD OFFER MORE SUPPORT TO SAVERS WITHOUT CROSSING THE ADVICE/ GUIDANCE BOUNDARY

From the extensive work the PLSA has conducted in seeking the views of pension providers and other organisations on this issue, it is believed that if there is a clear obligation to help members, and clear, transparent standards delineating the advice/guidance boundary, then scheme providers will come forward and build products.

WHAT WOULD THE GRIC FRAMEWORK LOOK LIKE TO SAVERS?

Smart Retire is one example of the type of solution pension providers want to build to help their savers. Smart's head of pension proposition, Michael Watkins, demoed the solution to the roundtable.

With a big emphasis on plain English and a highly intuitive and navigable user interface, the platform allows users to enter key information about how much they have saved in different pension and other savings and investment accounts, the age they want to retire, whether they want to take 25% as a tax-free lump sum, and other considerations like rainy day funds, inheritance, etc.

The platform calculates what level of regular income the saver might expect from their pots in retirement and allows them to adjust different parameters, like spending and saving levels, until they find an outcome which is right for them. It then directs savers to products which match those needs.

The step-by-step approach and clear prompts about the impacts of the user's inputs on their retirement outcomes provides a guided journey that helps to remove the complexity for savers.

SUPPORTS EXISTING APPROACHES

The GRIC framework is not intended to replace any existing regulatory regime or undermine the saver's freedom to exercise choice, but it can fit with today's regulatory and market developments. If an individual is engaged and has strong feelings about what they want to do with their retirement savings, then they will still be able to take their own decisions. The framework is also envisaged, in time, to apply to contract, as well as trust-based pensions.

Pension Freedoms revolutionised the way in which people could access their pension savings. However, we believe further change is needed to help evolve the Pension Freedoms. We should enable freedom and choice but provide more support to savers to help them manage their opportunities, challenges and risks. Our recommendations help savers balance the longevity, inflation and investment risks that they face as individuals, while also maximising the positive impact and purchasing power that schemes can have on their behalf. This can help them to make the most of the opportunities they have when taking decisions about their retirement.

The Work and Pensions Select Committee is currently gathering evidence for its inquiry into accessing pension savings five years on from the introduction of the Pension Freedoms. So far that committee has asked all the right questions, and we look forward to taking our recommendations for Guided Retirement Income Choices forward with it this year.

WE SHOULD ENABLE FREEDOM AND CHOICE BUT PROVIDE MORE SUPPORT TO SAVERS TO HELP THEM MANAGE THEIR OPPORTUNITIES, CHALLENGES AND RISKS


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DEMONSTRATING EXCELLENCE

Joe Dabrowski, Deputy Director Policy, PLSA, explains how the Pension Quality Mark shows employees they are in an industry-leading pension scheme.

WHEN A NEW EMPLOYEE JOINS AN ORGANISATION, ONE OF THE THINGS THEY SHOULD CHECK IS HOW MUCH THEY AND THEIR EMPLOYER WILL BE CONTRIBUTING TO THEIR WORKPLACE PENSION.

Simple steps which anyone can take in a few minutes and don't require much understanding of pensions terms or language can very quickly give you an idea about how well the scheme is going to help you achieve a suitable income in retirement. It can also help identify readily available extra benefits, such as your employer matching any extra contributions – in effect 'free' money.

This is important because although automatic enrolment has been a resounding success for helping more than 10 million new people start saving towards their pension, contributions at the minimum rate of 8% of band earnings are unlikely to provide most people with the level of income they expect in retirement. This is one of reasons the PLSA has campaigned for many years for minimum pension contributions to be increased to 12%, with half of the contribution coming from the employer.

It is also why, in 2019, the PLSA launched its Retirement Living Standards, currently used by more than 14 million savers, to help people picture their future retirement at three different annual income levels – minimum (£10k), moderate (£20k) and comfortable (£30k). While the vast majority of people will achieve a minimum level of retirement income – mainly via the State Pension – to achieve a better standard of living in retirement requires a good workplace pension.

That, in part, is where the industry-standard Pension Quality Mark (PQM) comes to the fore. PQM is an accreditation for workplace DC pension schemes that was developed back in 2009 by the PLSA.

The PQM Standards recognise employers – such as BMW, Heineken, Manchester United, Nationwide and UK Power Networks – that are committed to supporting employees to save for retirement by providing pension contributions above the minimum automatic enrolment contributions required by regulation.

To meet the PQM Standards, an employer must commit to offer all employees a contribution of 12% (with at least 6% from the employer). In addition, schemes must be well run, understand their members, and act in the best interests of those members. This includes choosing a suitable default investment strategy, appropriate communications, delivering value for money, and listening to member feedback. Employers offering 15% contributions can also qualify for a PQM Plus accreditation.

The contribution threshold reflects research from the PLSA's 2018 *Hitting the Target* report that a 12% contribution is necessary to reach a good standard of living in retirement.

It is also above the 11.2% annual contributions recently identified by the Resolution Foundation as the amount someone in their 20s – on average earnings of £25,000 per year – needs to save into their workplace scheme.

Around 125 pension schemes currently hold either PQM or PQM Plus, with more than 650,000 employees actively saving in these schemes. Pension schemes which hold PQM are from a wide range of sectors, including financial services, charities, retail, pharmaceuticals and engineering.

THE BEST AND MOST RESPONSIBLE EMPLOYERS RECOGNISE THAT FINANCIALLY SECURE EMPLOYEES ARE HAPPY

The best and most responsible employers recognise that financially secure employees are happy employees. The Pension Quality Mark highlights those schemes that are really pushing to boost contributions and help savers achieve a good level of income in retirement, and encourages others to join them.

Holders of the PQM tell us it is a great way to demonstrate excellence to prospective employees and new joiners, and that the quality of the workplace scheme stands up to external benchmarking and is in line with the changing landscape.

To find out more about how you can apply for the accreditation, and to see a full list of PQM holders, visit the **PQM website**.

TRAVERS SMITH

ESG: from Policies to Practice

ESG regulation for pension schemes has been expanding rapidly. How can trustees comply alongside existing duties and processes? And how do we all avoid losing sight of what really matters?

For a practical look at the issues, join Travers Smith Pensions Partner Andy Lewis, Head of Financial Services & Markets Tim Lewis and Senior Consultant Simon Witney at a Specialist Session.

Location:	PLSA Digital ESG Conference
Date:	Thursday 1st July
Time:	09.50am

Visit https://www.plsa.co.uk/Events/ESG-Conference for further details and registration.

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COMING TO LIFE ACROSS THE INDUSTRY!

Two years after launch, the Retirement Living Standards are going from strength to strength. ***Alyshia Harrington-Clark,*** Head of DC, Master Trusts and Lifetime Savings, reports.

RETIREMENT LIVING STANDARDS ARE A PRACTICAL AND POWERFUL TOOL USED TO EMPOWER SAVERS TO PICTURE THEIR RETIREMENT AND ENGAGE MORE WITH THEIR RETIREMENT PLANNING NEEDS. AFTER LAUNCH IN 2019 RETIREMENT LIVING STANDARDS HAD A FANTASTIC YEAR IN 2020, AND 2021 ALSO HERALDS FURTHER INITIATIVES BUILDING ON THIS SUCCESS.

The Retirement Living Standards seek to **help people to picture their future** by illustrating the cost of living three defined lifestyles: 'minimum', 'moderate' and 'comfortable'. Each of these are based on research gathered from real people about what basket of goods and services they would purchase at each level. This detail is then totalled up to deliver a simplified rule of thumb from which people can begin to understand the different lifestyle options they would like in later life. By making this more tangible we know that the total cost of living in retirement is more easily grasped.

The Standards are free to use for all. We encourage organisations to adopt the Standards in the communications and the tools they provide for their members, clients and savers.

Our vision is for the pensions industry to deliver the Retirement Living Standards to pension savers routinely. This is to encourage savers to engage with their pensions and give savers more confidence about what their savings will buy them in the future.

Adopters of the Retirement Living Standards so far come in many forms, including schemes embedding the Standards as part of communication journeys, personal finance media where the Standards are very frequently quoted and reach an estimated audience of 37 million people and, increasingly, the Standards are used by trade associations, policy bodies, think tanks and government bodies in their own initiatives and research on adequacy and engagement.

By 2022 we are targeting 50% of active savers belonging to pension schemes that make use of the Retirement Living Standards, and by 2025 we want to see that figure at 90%.

We know PLSA members across the UK are making Retirement Living Standards part of their suite of communications with members. **We estimate that less than two years after launch the pension schemes who have adopted the Retirement Living Standards already reach more than 14 million savers.**

It has been fantastic to see the Standards come to life across the industry.

SHOWCASE

Avid readers of *Viewpoint* will notice that we often celebrate the excellence of adopters of the Retirement Living Standards, and we are always looking to share case studies of exciting and innovative uses of the Standards.

Later in the year **watch this space** for a new initiative with which we will be seeking to showcase and recognise the excellent work of our Retirement Living Standards adopters.

FRIENDS OF THE RETIREMENT LIVING STANDARDS

Every year we also undertake work to ensure that the Retirement Living Standards remain helpful for savers, and in 2021 we're undertaking further independent research to refresh the underlying data, which is especially important in the context of the pandemic.

Friends of the Retirement Living Standards are organisations that **help fund the necessary further research** to ensure the Standards remain up to date and relevant. Friends receive a logo that demonstrates their support for the initiative, which they can use in their communications with members.

Legal & General
Standard Life
tpt Retirement Solutions
WELLS FARGO Asset Management
LifeSight Willis Towers Watson
West Midlands Pension Fund

Please contact us to find out more about becoming a Friend of the Retirement Living Standards.

To find out more about how to adopt the Retirement Living Standards and other information – including how to become a Friend – visit **www.retirementlivingstandards.org.uk/supporters**

PENSIONS DASHBOARDS: ARE YOU READY TO CONNECT, COMPARE AND CONVEY?

Richard Smith, Pensions Dashboard Consultant, PLSA

SCHEMES OF EVERY TYPE NEED TO GET READY FOR PENSIONS DASHBOARDS. IN DECEMBER 2020, WE SAW THE DATA STANDARDS FOR HOW YOU SHOULD PREPARE YOUR DATA, AND THESE WILL COME INTO LEGAL FORCE FROM 2023. SO THERE IS PLENTY THAT SCHEMES CAN BE DOING NOW TO MAKE SURE THEY'RE READY TO CONNECT, COMPARE AND CONVEY THEIR DATA.

Connect: Schemes must connect to the central digital architecture of the pensions dashboards ecosystem. You'll need to extend your contract with your administrator (or administration software supplier) so they can do this for you.

Compare: Once connected, your administrator will need to continually compare incoming 'find requests' from the thousands of users of all the different dashboards.

The personal data items you hold for all of your active and deferred members need to be accurate so your administrator can make positive digital matches between dashboard users and their pensions that you hold.

Volumes aren't yet known, but based on international dashboards usage experience, all pension schemes are likely to receive at least 20,000 'find requests' a day, or one every couple of seconds, continually, forever.

Convey: When your administrator makes a positive match, they must digitally convey the right pension information (as defined in the Pensions Dashboards Data Standards) for the user to securely view on their chosen pensions dashboard, alongside all their other found pensions.

WHAT YOU CAN DO NOW:

The PLSA is preparing a response to the government's consultation with input from the PLSA Dashboards Coordination Group and our Policy Board. If you wish to contribute to our response, please send your points to the PLSA team: Richard Smith (Richard.Smith@plsa.co.uk) and Craig Rimmer (Craig.Rimmer@plsa.co.uk). But please hurry, the deadline is 9 July.

1. Get familiar with the Pensions Dashboard Programme Data Standards and other materials on the Data Providers Hub.
2. Keep up to date with the PLSA's support for pensions dashboard preparation, and other sources of guidance, such as the Pensions Administration Standards Association's (PASA) Dashboards Guidance.
3. Talk to your administrator / software provider about their plans to help you comply and how well prepared they are for pensions dashboards. For example, will they be an early adopter of data preparation standards during 2022?
4. Review the accuracy of the personal data items on all your member records.
5. Check the availability of accrued pension amounts on all your member records.

The PLSA is here to help you prepare for pensions dashboards.

- Join us for our PLSA Policy Insights Webinar Data Standards – where we are now on 8 July, designed for the LGPS community.
- The PLSA plays an active role in the Pensions Dashboards Programme (PDP). You can follow all the latest action, information and developments on the PDP website.
- If you have any questions or comments about dashboards, please speak to Richard Smith, Pensions Dashboard Consultant, or Craig Rimmer, Policy Lead, Master Trusts, at the PLSA.

NEW MEMBERS

CUSHON

Cushon is a fintech workplace savings business, using world-leading financial technology and mobile app to help people get comfortable with pensions, saving and investing through the workplace.

Cushon's products are delivered through its app, which uses technology to make pensions a joyful experience for employees.

Financial wellbeing is more important than ever and by partnering with Cushon and our net zero now pension employers can make a big contribution to the financial future of their workforce and a positive impact on climate.

Cushon has over 200,000 customers with £740m of assets under management, over 80,000 employers.

Danny Meehan
Head of Workplace Savings
07774518196


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LEGAL UPDATE

PENSIONS ACT 2021: IMPLEMENTATION PHASE

NOW THAT THE LONG-ANTICIPATED PENSIONS ACT 2021 HAS RECEIVED ROYAL ASSENT, THE NEXT FEW MONTHS WILL BE CRUCIAL TO PROVIDE THE SECONDARY LEGISLATION AND REGULATORY GUIDANCE REQUIRED FOR IMPLEMENTATION.

There are a number of consultations afoot, in most cases to bring the related measures into force by Autumn 2021. Draft new law and regulation we are tracking includes:

- On the **new criminal offences** contained in the Act, the Pensions Regulator is consulting on a written sanctions policy before these come into force in autumn. The legislation is widely drafted around risking accrued scheme benefits and avoidance of employer debt. While the policy is useful in explaining its approach and confirming no intention to change "commercial norms or accepted standards" of corporate behaviour,[1] the Regulator emphasises the courts will ultimately decide the correct interpretation of the law.[2]
- Regulations will implement the Regulator's **extended moral hazard powers**, providing details of additional grounds for contribution notices, written notice for interviews, and financial penalties for non-compliance with information requests (a fixed penalty at £400, and escalating fines up to a £10,000 daily rate for non-individuals).[3]
- Other regulations will confirm the new requirements for **climate change** governance and mandatory disclosures.[4] Accompanied by statutory guidance, the regulations are due to be finalised ahead of COP26, due to take place in November.
- Regulations will also bolster measures for the prevention of **pension scams**, setting out the new conditions for trustees to consider regarding the level of risk associated with member requests for pension transfers, before a transfer can proceed.[5]

Other measures may take longer to implement. The Pensions Regulator's recent new Corporate Strategy confirmed that changes to the **notifiable events** regime will come into force in 2022.[6] This will affect what sponsoring employers need to notify about corporate events.

On **DB scheme funding changes**, the Pensions Minister Guy Opperman has indicated the government will consult on draft regulations "later this year", following ongoing engagement with interested parties. He also aims to consult on pensions dashboards later this year, then lay draft regulations in 2022, with a view to the dashboards becoming operative during 2023.[7]

1. https://www.thepensionsregulator.gov.uk/en/media-hub/press-releases/2021-press-releases/tpr-consults-on-new-criminal-sanctions-policy
2. https://www.thepensionsregulator.gov.uk/en/document-library/consultations/consultation-on-our-approach-to-the-investigation-and-prosecution-of-the-new-criminal-offences/draft-policy-our-approach-to-the-investigation-and-prosecution-of-the-new-criminal-offences
3. https://www.gov.uk/government/consultations/strengthening-the-pensions-regulators-powers-contribution-notice-and-information-gathering-powers-regulations-2021
4. https://www.gov.uk/government/consultations/taking-action-on-climate-risk-improving-governance-and-reporting-by-occupational-pension-schemes-response-and-consultation-on-regulations
5. https://www.gov.uk/government/consultations/pension-scams-empowering-trustees-and-protecting-members
6. https://www.thepensionsregulator.gov.uk/en/media-hub/press-releases/2021-press-releases/new-plan-outlines-how-tpr-will-protect-millions-of-savers-as-uk-recovers-from-pandemic
7. https://questions-statements.parliament.uk/written-statements/detail/2021-03-02/hcws816

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