Viewpoint

The official journal of the Pensions and Lifetime Savings Association

Issue 4 2021

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PENSIONS AND LIFETIME SAVINGS ASSOCIATION

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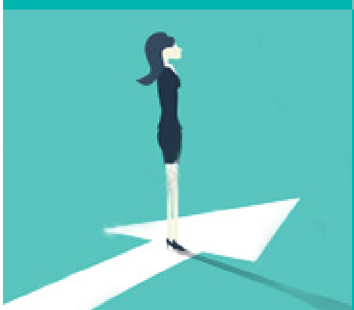

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

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CEO'S *Viewpoint*

Here at the PLSA it's been a hard year but a successful one, says ***Julian Mund***.

THANK YOU FOR READING THIS WINTER EDITION OF *VIEWPOINT*.

I know for many it's been a long year. I wanted to reassure you that we're aware how hard you are working to keep up with the relentless regulations. We're also working hard behind the scenes speaking to regulators, policymakers and ministers to extend deadlines to give you more time and to put your needs first.

You, our members, are at the heart of everything we do – from the policies we seek to improve, to the guidance we produce and the services we deliver. It all comes about following your feedback – because it matters to your scheme and will make a difference to savers.

THE BUDGET

In the recent Autumn Budget, we were pleased to hear government outline plans to tackle the net pay/RAS anomaly – something we've been calling on them to fix for years. We'll work with government to help publicise how people on low earnings can make a claim when the measures come into force.

We also welcomed the government's decision not to make any further changes to the current system of pensions tax relief, a subject we'd been busy meeting Treasury officials and MPs to discuss over recent months.

COP26

Another topic currently high on members' agendas is ESG, and this year we were excited to bring you the first-ever PLSA ESG Conference, which explored these environmental, social and governance issues from the point of view of the pension scheme.

I'm sure few of you will have missed COP26 in the news a few weeks ago. We were lucky to have the PLSA's Katy Little in Glasgow for 'Finance Day', and you can read her commentary in this edition.

CONVERSATION STARTER

Then there's the Retirement Living Standards (RLS). When we launched the RLS two years ago our ambition was to create a national conversation about saving for retirement. Well, I think we can safely say 'mission accomplished'.

Following the RLS update at the PLSA Annual Conference this news was reported on the BBC news website, in the *Daily Mail*, *The Sun*, the *Times* and the *Telegraph* to name just a few. The *Times'* Money Editor James Coney even remarked on Twitter that the Standards were one of the most effective things any trade body has ever done to get normal people interested in money!

WHAT TO EXPECT IN 2022

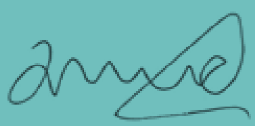
For the team at the PLSA it has been a busy end to the year. This past month alone has seen a host of webinars, including our new Policy in Practice week. We've taken a cautious approach to returning to live events because we wanted to be confident about what we can do and where there is demand. But the move back towards live events has given us the perfect opportunity to try a new events calendar for 2022.

Our first event of the year will be a digital ESG Conference in March. Falling not long after COP26, and ahead of the newly scheduled Investment Conference, we can look at this important area at the right time, and sustainably. And following member feedback the Local Authority Conference will now take place in June, to accommodate local authorities' other commitments. But it's not just about policy work and events. We're continually introducing new ways to support our members, from our ever-popular Made Simple Guides, to expanding our networks and Local Groups, to improving our digital service.

THANK YOU

The support we receive from our members is phenomenal. It allows us to continue being the voice of the pensions industry, working towards our mission of ensuring a better income in retirement for everyone. So, thank you for being part of the PLSA. I look forward to writing to you early next year with even more exciting developments!

Julian Mund



THE SUPPORT WE RECEIVE FROM OUR MEMBERS IS PHENOMENAL

READ OUR NEW MADE SIMPLE GUIDES

The PLSA's Made Simple Guide series gives our members the practical knowledge and support they need to excel in their roles.

Develop your understanding of pensions investment trends without the sales pitch with these impartial, jargon-free guides.

OUR LATEST GUIDES ARE:

INTEGRATED RISK MANAGEMENT MADE SIMPLE

Integrated risk management (IRM) is a risk management tool that helps trustees identify and manage the factors that affect the prospects of meeting the scheme objective. The concept of IRM has been used by the pensions industry for a number of years now, but examples of practical applications remain rare.

This guide, produced in partnership with Cardano, brings the theory of IRM to life and explains, with examples, how it can be used in the context of trustee decision-making along the journey to an appropriate endgame

LONG TERM ASSET FUNDS MADE SIMPLE

Long term asset funds (LTAFs) are a new investment structure designed to provide easier, simpler access for DC investors to long-term private markets investments such as infrastructure and private equity. These investments have been offering portfolio diversification and attractive long-term net returns to DB pension funds for decades. Could DC schemes now also benefit from private markets investments?

The PLSA's *Long Term Asset Funds Made Simple Guide*, produced in partnership with Partners Group, explores the LTAF structure and demystifies private markets investing. It will provide trustees with a useful tool to aid discussions with managers and members alike.

Visit the Made Simple Guides home page to see the whole range of guides on key topics including Climate Indexes, GMP Equalisation, Diversity & Inclusion, and Gold Investment.

www.plsa.co.uk/Resources/Made-Simple-guides

Coming soon...

Look out for future Made Simple Guides on Environmental, Social and Governance (ESG) investment, and the Cost Transparency Initiative (CTI).

NEW MEMBER

MONEYHUB

Moneyhub is the leading Open Banking and Open Finance platform that uses the power of data, intelligence, and payments to enhance lifetime financial wellness for people, their communities, and businesses. Moneyhub's APIs and white label solutions are used by leading product providers, master trusts, and benefit consultants to drive member engagement strategies.

Leading the way in Open Finance since 2014, Moneyhub is authorised as AISP and PISP by the FCA, ISO-27001 certified, co-founder of FDATA and works on the Pension Dashboard and TISA's Open Savings, Investment and Pension steering committees to help consumers have unhindered access to their financial data and businesses to develop customer-centric propositions.

Paul Goodwin
Key Account Director, Moneyhub
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MISSING OUT ON

Come and be in the room where it happens, says ***Rachel Pine***, Head of Content – Conferences, PLSA.

WHAT IS IT THAT WE ALL LOVE ABOUT CONFERENCES? WELL, THERE'S THE CONTENT – DOZENS OF SESSIONS DESIGNED SPECIFICALLY WITH THE NEEDS OF OUR MEMBERS IN MIND. WE WANT TO HELP YOU DO YOUR JOB BETTER, MAKING IT EASIER TO DELIVER ON PENSION PROMISES AND PROVIDE THE BEST POSSIBLE RETIREMENT FOR THE SAVERS WHO DEPEND ON YOU.

Then of course there's the networking, which happens in lots of ways, both planned and unplanned. Whether it's in the Exhibition Hall talking to other delegates along with speakers and sponsors, during one of our roundtables, at a drinks reception or just chatting to the person next to you in one of the sessions – there's nothing online that compares to meeting with and learning from industry peers within the conference environment.

And that's not to mention a welcome change of scenery, plentiful top-notch food and drink and an exchange of ideas that will see you return you to your desk thoroughly refreshed and reinvigorated.

We've heard from lots of you, and the sentiment is clear – PLSA members want to attend conferences face-to-face, in person in 2022!

That's why all of us at the PLSA are absolutely thrilled that our 'Big Three' conferences in 2022 – Investment Conference, Local Authority Conference and Annual Conference – will be held face to face in Edinburgh, Gloucestershire and Liverpool respectively.

We could not be more excited to see our fund and business members in person. While it has been wonderful to 'see' thousands and thousands of you – trustees, scheme managers, local authority officers, investment managers, consultants and others in the business of delivering the UK's pensions – via our various digital offerings these past months, we know that what everyone really wants, to borrow from the musical *Hamilton*, is 'To be in the room where it happens.'

Our last in-person conference was Investment Conference 2020, which took place from 13-15 March of that year. The country had begun to shut down around us, and while most attendees were able to join us in person, it was clear that something previously inconceivable was afoot. None of us imagined how long it would be before we were able to bring everyone back together. We've been cautious, not wanting to abandon our fledgling plans due to a virus wave, and the new conference calendar reflects that. Investment Conference is moving from mid-March to late May, keeping clear of any potential Covid winter uptick, and also allowing for our (digital) ESG Conference to take place between COP26 and IV21 – exactly where it belongs thematically.

We'll also be taking whatever precautions and measures are necessary at the time of each conference, and we'll be communicating these clearly to everyone ahead of time. We want to ensure everyone is able to participate safely and know that they are being well looked after.

We can't wait to see you in 2022, so come and join us in the room where it happens!

WE'VE HEARD FROM LOTS OF YOU, AND THE SENTIMENT IS CLEAR – PLSA MEMBERS WANT TO ATTEND CONFERENCES FACE-TO-FACE, IN PERSON IN 2022!

EMpower PENSIONS

CROWN AGENTS BANK, THE UK REGULATED FINANCIAL SERVICE PARTNER OF CHOICE FOR GOVERNMENTS, INTERNATIONAL DEVELOPMENT ORGANISATIONS, BANKS AND PENSION ADMINISTRATORS, HAS REVOLUTIONISED OVERSEAS MEMBER PROOF OF LIFE AND INTERNATIONAL PENSION PAYROLL WITH EMPOWER PENSIONS.

EMpower Pensions offers effective, end-to-end pensions management from an intuitive platform, with key features including international pension payroll bolstered by digital Proof of Life technology, comprehensive reporting and convenient administration functions for pension administrators and their members.

In international markets where centralised national registries or databases are opaque or don't exist, it can be challenging to ensure pension payments are being delivered to the intended recipients. Digital Proof of Life solutions greatly assist pension administrators by more efficiently and effectively verifying that payments are being delivered to entitled beneficiaries whilst mitigating against fraud and overpayments.

Recent global events have shown that traditional methods for undertaking proof of life (e.g. Life Certificates requiring attestation) are less capable of meeting society's needs. For pensioners that may struggle with mobility during 'normal' times, the Covid-19 pandemic has only exacerbated movement hardship and safety. EMpower Pensions vastly improves the pensioner's Proof of Life checking experience because the process is quick, convenient, and secure; all they need to do is log on to the online portal, upload an image of their identification and take a live facial photo selfie – all from the comfort of their own home.

Once this has been completed, Artificial Intelligence (AI) technology is applied to compare facial biometrics to the photo on the ID document, generating scores for validity and facial similarity. This score provides a confidence level that the two images are of the same person, which is reviewed by a dedicated, specialist team of people before being promptly reported to the pension administrator.

These enhanced proof of life solutions serve as a complementary service when processing international pension payroll. Pension administrators can simply instruct payment requirements within EMpower Pensions and Crown Agents Bank will leverage its extensive global network to deliver payments punctually, to verified and entitled beneficiaries whilst ensuring the most competitive foreign exchange currency conversions.

Crown Agents Bank's global banking infrastructure also enables transactions to be tracked in real-time, within the EMpower Pensions portal, providing certainty via reliable reporting capabilities. Foreign currency coverage extends far beyond the traditional retiree hotspots, with the ability to reliably deliver pension payments to a broad range of emerging and frontier markets across Asia, Africa, and Latin America. Furthermore, an intelligent, automated payment management process enables pension administrators to better manage historical and current payments, as well as having the flexibility to upload future dated transactions in advance, making planning and control more efficient.

Colin Digby, Head of Non-Bank Financial Institutions at Crown Agents Bank explains, "the introduction of EMpower Pensions offers efficient and secure pensions processing with a much higher level of convenience for pensioners and scheme administrators alike – something that is hard to find in the pensions market, which is dominated by expensive, manual, paper-based solutions. The launch marks the latest milestone in our exciting digital transformation strategy, led by CEO Bhairav Trivedi. With EMpower Pensions we are harnessing cutting edge technology, including biometric facial authentication for Proof of Life services. We are creating more innovative ways of automating financial services to reduce processing costs and time – benefits that we are delighted can be passed on to our pension customers."

Crown Agents Bank has leveraged its rich 180+ year heritage and global network with the cutting edge, innovative pensions management technology to better serve pension administrators and their members alike, creating a convenient and user-friendly, dependable pension service.

For more information please visit **crownagentsbank.com**, or email **sales@crownagentsbank.com**

ESG22: PENSIONS, PEOPLE, PLANET

Rachel Pine, Head of content – conferences, PLSA, takes a look ahead...

ESG22 WILL TAKE PLACE ON 9 AND 10 MARCH 2022, SLOTTING NEATLY BETWEEN THE RECENTLY-COMPLETED COP26 AND OUR INVESTMENT CONFERENCE 2022. THEMATICALLY IT'S A PERFECT FIT, AS WE'LL USE THE OPPORTUNITY TO INVESTIGATE HOW UK PENSIONS FIT INTO THE PLANNED GLOBAL ACCELERATION OF CLIMATE GOALS MADE AT COP26. WHILE THERE WILL BE A GOOD AMOUNT OF ATTENTION PAID TO THE 'E' OF ESG, THROUGH CLIMATE-POSITIVE INVESTMENT, WE'LL ALSO BE LOOKING AT THE 'S' AND 'G' AREAS – THE SOCIAL AND GOVERNANCE CONCERNS THAT COMPRISE THE OTHER TWO-THIRDS OF 'ESG'.

We're also planning plenty of content on the Task Force on Climate-related Financial Disclosures (TCFD) for pensions regulation, as the first group of schemes which fall under the directive will be just finishing their first round of reporting. We'll hear from some of them about how the reporting worked, the kind of resource required to do it, and how to keep on top of this area as the requirements continue to be expanded.

The programme is coming together quickly. Early highlights include:

- Faith Ward – the Chief Responsible Investment Officer at Brunel Pension Partnership, the £35 billion LGPS pool, and also the chair of the Institutional Investors Group on Climate Change – speaking about what she saw at COP26, what it means for pensions, and how UK pensions climate regulation and investment stacks up against those of other national pension systems.
- David Craig, co-chair of the newly-formed Taskforce on Nature-Related Financial Disclosures, on the development of a framework that will allow investors to report on how nature-related risks and opportunities are being considered within their portfolios.
- Information on a new steering group which will strengthen the owner/manager relationship, embedding stewardship seamlessly into the investment process.
- An update on the Workforce Disclosure Initiative, whose work will enable investors to have a clear view of how companies value their workforce, encompassing metrics such as diversity, staff turnover and investment in employee training.

ESG21, held in June 2021, was our inaugural ESG Conference and was a smashing success. More than 800 delegates joined us over three days to learn and exchange ideas about how pensions can create the world of tomorrow.

We're looking forward to seeing at least as many attendees for next year's conference – check the website for updates on new speakers and new sessions!

Scan the QR code here to find out more.

VALUE FOR MONEY IN DC PENSIONS

Ruari Grant, Policy Lead, DC, examines the regulators' proposals for a common DC framework.

WHAT REALLY IS VALUE? WHOEVER YOU ARE, AND WHATEVER INDUSTRY OR WALK OF LIFE YOU COME FROM IT'S SOMETHING YOU PROBABLY WANT AND STRIVE FOR. BUT IT'S A NEBULOUS CONCEPT AND MEANS DIFFERENT THINGS TO DIFFERENT PEOPLE. THE PENSIONS REGULATOR AND FINANCIAL CONDUCT AUTHORITY HAVE ATTEMPTED TO ADDRESS THIS – IN RELATION TO PENSIONS AT LEAST – IN THEIR RECENT JOINT DISCUSSION PAPER, *DRIVING VALUE FOR MONEY IN DEFINED CONTRIBUTION PENSIONS*, WHICH PROPOSES A COMMON FRAMEWORK TO COMPARE VALUE ACROSS ALL DC SCHEMES IN ACCUMULATION.

As this is a discussion paper, these proposals are not yet at formal consultation stage, and are – as such – still fairly loose ideas. In essence though, the regulators explore the suggestion that value in pensions is made up of three elements: investment performance, costs and charges, and scheme administration, governance and communication, all areas which the PLSA has previously discussed as part of any value-for-money framework.

Their key premise is that providers will disclose defined metrics for each element, and that those overseeing schemes – trustees, IGCs, employers – will then be able to compare their scheme against benchmarks in each category.

Few would argue with the three key elements described above. Ultimately a pension is a savings vehicle intended to grow, so investment performance, combined with any costs that have a negative effect on a pot, must be front and centre in any discussion. And then a final element encompassing how the scheme is run, including on the all-important ESG front, and how the scheme interacts with and services its members, is of course valuable.

So far so simple, then? The devil, however, will be in the detail, and the regulators' thinking seems a lot more developed in some areas than in others.

Data is already available for investment returns and costs, and given the industry has been clamouring for years about the equal importance of each of these (rather than a focus on cost alone), their equal emphasis in the paper should make for pleasant reading. Investment disclosures **net of costs** will be widely welcomed for simliar reasons.

That said, the regulators appear less clear about how all three 'value' elements interact with one another. For example, you might reasonably argue that the quality of investment governance, for instance, is inherently reflected in performance; so do you 'count' these components twice or once in a total 'score'? It is not clear whether the regulators envisage that the three elements should be assessed together or in isolation – and if the latter, how much each should be weighted.

The paper is also undecided on what constitutes the right level of detail for the right audience. Trustees appear to be the central recipient for the disclosures (though others, such as employers, are mentioned), but how they will be expected to utilise this information is left open to interpretation. Moreover, trustee knowledge itself varies greatly, so in this sense a one-size-fits-all approach would be – while an attractive idea – incredibly complex to implement.

Then there's the question of benchmarks, and where they should come from. The paper suggests various possibilities, from industry averages and naturally emerging market benchmarks, to existing indices and even comparisons with NEST. Consensus on what constitutes the 'right' benchmark would be very hard to reach, but perhaps this reflects the wide-ranging market we have, one which cannot therefore be shoehorned into a series of generic benchmarks.

All this leads you to wonder what the real agenda is here. The DWP has been pushing for greater consolidation in the DC market for some time, and it's hard to see an outcome from these value-for-money assessments that doesn't conclude that some smaller schemes should be considering their options, when they may struggle to 'compete' in some areas – I'm thinking customer service – with the large mastertrusts. The regulators do unfortunately overlook typical areas of strength of smaller schemes, such as higher employer contributions and other support, so these will need further consideration regarding their contribution to value.

Where does all this leave us? Comparison to improve value is of course a laudable aim, and it is encouraging that the regulators are working together to address it. But it may be that their attention is better spent addressing the small number of very poorly performing schemes, without increasing the already considerable regulatory burden on the whole market. DC scheme trustees are – for the most part – already doing their best to ensure their members achieve good value in accumulation.

THE DWP HAS BEEN PUSHING FOR GREATER CONSOLIDATION IN THE DC MARKET FOR SOME TIME

DB CONSOLIDATION: MASTER TRUSTS VERSUS SUPERFUNDS

Superfunds and DB master trusts have the potential to provide better choices and outcomes for members than the traditional buyout route, but how can trustees decide? By ***Stephanie Baxter***.

THE DEFINED BENEFIT (DB) PENSION CONSOLIDATION MARKET IS BECOMING INCREASINGLY SOPHISTICATED, WITH THE RISE OF ALTERNATIVE WAYS TO BRING SCHEMES TO AN END JOINING MORE ESTABLISHED OPTIONS SUCH AS BUYOUTS.

Consolidation can take several different forms, each with different features and characteristics. While DB master trusts have been around for some time, there have been new entrants to the market in recent years. Meanwhile, superfunds – also known as commercial consolidators – could offer a new route once the regulatory framework is finalised.

> **THERE HAS BEEN A LOT OF INTEREST AROUND SUPERFUNDS, BUT NO TRANSACTIONS HAVE YET BEEN APPROVED**

Steve Hitchiner, partner at Barnett Waddingham, says one of the key determinants for trustees is whether the objective is to improve efficiency and effectiveness, or to provide a vehicle to secure liabilities and remove the link to the sponsoring employer. "Within these broad categories, there are a spectrum of options that can be considered," he says.

HOW DO SUPERFUNDS WORK?

Superfunds allow the sponsor to settle its liabilities, with no further obligations, but this requires a prescribed funding level. "A high level of funding is required and, in some cases, this will mean a one-off contribution from the sponsor," says Hitchiner. "This funding, along with capital

PROJECTIONS FOR THE BUYOUT MARKET OVER THE NEXT 10-15 YEARS SUGGEST RECORD HIGH LEVELS OF ACTIVITY – BUT COULD THIS BE DAMPENED BY THE RISE OF SUPERFUNDS?

provided by investors, replaces the support previously provided by the sponsor."

There are two main providers with differing models. The Pensions SuperFund (TPS) model involves full settlement of schemes and running them to their natural end, similar to a full buyout, whereas Clara Pensions has built its business on providing a path only to the point of buyout.

Akash Rooprai, director at Independent Trustee Services, says that as superfunds are a regulation-light option compared to buyouts, benefits for members would be expected to be higher. If PPF-plus schemes are looking to settle benefits, a superfund would result in higher benefits for members.

He explains: "Schemes looking to settle on full benefits should be able to get into a superfund sooner than into an insurer [solution]. If we understand the covenant of the employer sufficiently for the next few years, and there's no more uncertainty beyond that, we might think it's better to go to a superfund."

SUPERFUND REGULATION

There has been a lot of interest around superfunds, but no transactions have yet been approved, although Clara Pension has now been cleared to accept transfers. The industry is still waiting for legislation that provides a regulatory framework; it can only rely on The Pensions Regulator's (TPR) interim guidance.

Hitchiner notes that TPS and Clara have stated that they have strong pipelines of schemes waiting to transact subject to regulatory clearance.

Graham Jones, scheme actuary and consultant at Hymans Robertson, says the lack of clarity has slowed down the pace of conversations about superfunds: "People are very nervous about the precise dates of when we'll be able to put schemes for clearance for a consolidated transaction."

Various stages of assessment and guidance are still in progress. Jones says: "For superfunds to move forward, it is necessary for TPR to complete the first stage of that process. This has been ongoing for a period of time and has left some schemes and corporates in limbo."

However, according to Joe Dabrowski, deputy director of the PLSA, it seems as if TPR is getting to the point when it can start doing "some of the soft authorisation for the superfunds that they have held discussions with for a long time". TPR's announcement about Clara Pensions is evidence that this is now starting to happen.

MASTER TRUSTS CHARACTERISTICS

Unlike superfunds, DB master trusts are not a settlement vehicle so the employer is still on the hook for future funding. New entrants such as Citrus and long-established consolidators such as The Pensions Trust (TPT) offer access to capital-efficient solutions for DB schemes, particularly towards the smaller end of the spectrum.

For Lindsay Davies, trustee secretary of Citrus Trustees, the advantage of DB master trusts is economies of scale, by bringing actuarial, investment, advisory, governance and trusteeship together in one package.

"They offer service cost savings but even greater value through economies of scale enabling access to solutions that are often only available to larger schemes or that would be unaffordable for schemes of a size that consider DB master trusts," he says.

Master trusts can help schemes achieve their goal of getting to buyout through a funding and investment plan, while reducing the costs of the buyout process. "If you can improve the outcomes and investment opportunities, you can improve the funding position and then shorten the funding journey to buyout," says Davies.

However, the downside is that the sponsor would no longer have any control over the pace of this journey. Hitchiner explains this lack of flexibility is one of the main reasons for some sponsors' reluctance to move to DB master trusts: "Sponsors will typically have limited control over the investment and funding strategy and may feel that they will be unable to collaborate successfully with the DB master trust trustees."

Master trusts and superfunds are clearly very different solutions; the reasons for using them are different and therefore so are the decision processes. If a transfer is proposed, trustees would need to consider their responsibilities and whether they are comfortable that they would be met.

MASTER TRUSTS CAN HELP SCHEMES ACHIEVE THEIR GOAL OF GETTING TO BUYOUT THROUGH A FUNDING AND INVESTMENT PLAN, WHILE REDUCING THE COSTS OF THE BUYOUT PROCESS

PENSION
QUALITY
MARK

PENSION QUALITY MARK (PQM) STANDARDS

Designed to raise the quality of defined contribution (DC) pension schemes, and help savers get better outcomes in retirement.

Revised in 2019, the standards recognise the changes to governance and standards in DC pensions since 2009 and focus on five key areas: The Employer Commitment, Understanding the Member, Board Responsibilities, Investment Strategy and Member Experience.

Find out more, visit
www.pensionqualitymark.org.uk

PQM STANDARDS

PENSIONS AND
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MASTER TRUSTS AND SUPERFUNDS ARE CLEARLY VERY DIFFERENT SOLUTIONS; THE REASONS FOR USING THEM ARE DIFFERENT AND THEREFORE SO ARE THE DECISION PROCESSES

While DB master trusts are an established solution, it is still very early days for superfunds. Rooprai says the industry needs superfunds to get approval and an agreed regulatory regime that is sufficiently different from insurance, so there is a genuinely different solution with different pricing that provides trustees with greater choice.

IMPACT ON BUYOUT MARKET

Projections for the buyout market over the next 10-15 years suggest record high levels of activity – but could this be dampened by the rise of superfunds over the coming years?

Rooprai does not think future demand for superfunds will affect the buyout market that much because they are different solutions targeting different sectors. Given that Clara's model would become a pipeline for insurance buyout, it is very unlikely to negatively affect the buyout market.

Rooprai thinks the TPS model, which offers full settlement, is also unlikely to have a big impact. "TPS could possibly affect the buyout market, but if you take the whole universe of schemes, some will buy out, some of them will end up in the PPF, and there's a group in the middle that might not ever get to buy out and therefore the superfunds could very well be a natural home for them.

"Having additional solutions in the market won't have a material effect on the insurers, but it will allow schemes to find an end game that's suitable for them."

Navigating this much more complex web of options for DB consolidation will undoubtedly make the role of trustees more difficult. But the rise of alternative routes such as DB master trusts and superfunds will ultimately provide better choices and outcomes for members.

WILL DB MASTER TRUSTS BECOME A MORE VIABLE OPTION?

DB master trusts have gained some ground in recent years as a consolidation option for schemes – but they have not yet grown to a significant scale. However, this is expected to change as schemes consider more options available to them.

Dabrowski from the PLSA says discussions about consolidation via superfunds have prompted the DB market to think about some of the other options available. "The level of interest in DB master trusts is growing and people have become a little more aware of some of the options available to them. This has been partly driven by the increase in regulatory burdens that schemes are facing. I suspect that interest will continue to grow."

In October 2021, DB Master Trust Self-Certificates, a concept that stems from the DB White Paper in 2018, were launched by an industry working group led by the Department for Work and Pensions.

The initiative, which will result in the PLSA hosting those providers' self-certification information in future, provides a shop window to view every DB master trust.

"These certifications help to identify some of the key things that people might look for when they're thinking about whether to consolidate into a DB master trust, because sometimes there isn't a huge amount of knowledge. They can get a better sense of what's available in the market and what their options are."

REFLECTIONS FROM COP 26

Karen Hurst and ***Katy Little*** report on the international community's latest attempt to solve the world's environmental problems – and what it means for pensions.

AT TIME OF WRITING, WE'RE ALL REFLECTING ON THE COMMITMENTS THAT CAME OUT OF THE RECENT COP26 CONFERENCE IN GLASGOW. THOUGH IT'S CLEAR THAT PROGRESS HAS BEEN MADE IN MANY AREAS, IT'S DIFFICULT NOT TO FEEL DISAPPOINTMENT THAT WORLD LEADERS WERE NOT ABLE TO REACH A MORE AMBITIOUS AGREEMENT ON HOW WE CAN MEET THE PARIS-SET TARGETS THAT WILL DETERMINE THE FUTURE OF OUR PLANET.

However, the event itself certainly brought with it a huge amount of discussion and reflection, and the PLSA has been focused on engaging with developments and considering what this all means for pension investors.

During the first week in November, the PLSA headed to Glasgow to tune in to the latest developments impacting the pensions and investment sectors on finance day of the conference. It was a busy day full of announcements, including:

- Chancellor Rishi Sunak set out plans for the UK to become the world's first net-zero aligned financial centre. This includes a new requirement for financial institutions, including regulated asset owners, to publish net-zero transition plans that detail how they will adapt and decarbonise as the UK moves towards a net-zero economy. This will not extend to mandatory net zero commitments.
- The IFRS announced plans to proceed with a sustainability standard and board, something the PLSA had previously called for in our report *A Changing Climate*.
- The FCA published a discussion paper exploring some of the issues around the introduction of a sustainability disclosure requirement.

- Mark Carney gave a speech in which he spoke of the impact of the Glasgow Financial Alliance for Net Zero, which now has agreed to align $130 trillion with the climate goals set out in the Paris Agreement.
- Larry Fink, CEO of Blackrock, called for private companies to be mandated to declare climate impact, as public companies will be.

GREEN ZONE HIGHLIGHTS

At the COP26 Green Zone, youth groups, civil society, academia, artists and business gathered to host events, exhibitions, cultural performances, workshops and talks. With more than 100 exhibitors and 200 events taking over the space, it was an amazing opportunity for the PLSA to listen, learn and celebrate climate action.

There were a number of events that were relevant to the PLSA's responsible investment work, including one hosted by the Impact Investing Institute which looked at adopting a transitional mindset for a better future. The event examined how investors have the power to drive solutions to climate change and support the transition to a net-zero carbon world. There was particular focus on how the shift to a net-zero carbon economy will have practical consequences on people and communities, highlighting the importance of a just transition and considering the wider social impacts of tackling climate change.

The event also featured a range of voices from the pensions industry, who shared their investment case studies on adopting a just transition investing approach. It was particularly good to see that this complemented the PLSA's Towards a Greener Future case studies report, that we launched prior to the COP26 summit, and which showcased how our members are responding to climate change.

Later in the day there was also a session from Make My Money Matter, Count Us In and WWF-UK on "*How your wallet could save the world*." There was a keynote appearance from Richard Curtis, who also spoke at our ESG Conference earlier this year. The session looked at examples of how people's savings, banks and pensions are impacting the world – and, most importantly, what savers can do to ensure it's having a positive impact. The session closed with a cinematic screening of Our Planet: Too Big To Fail, featuring Sir David Attenborough.

IT'S DIFFICULT NOT TO FEEL DISAPPOINTMENT THAT WORLD LEADERS WERE NOT ABLE TO REACH A MORE AMBITIOUS AGREEMENT

All of the sessions throughout the conference were available to watch live and are now available on demand via the COP26 YouTube channel.

INDUSTRY DEBATES

Back in London we were delighted to welcome guests to the PLSA's office, where we hosted a range of industry representatives to discuss whether, in light of the growing awareness of the extent of the climate emergency, pension schemes are doing enough. We were joined by representatives from the Investment Association, the Association of British Insurers, The Society of Professional Pensions, Association of Consulting Actuaries, The Pensions Climate Risk Industry Group and Minerva Analytics. There followed an extremely thoughtful discussion about the extent to which the sector can – and should – act in response.

Some of the highlights included:

- There was general agreement that most of the regulatory demands on schemes are reasonable in light of the scale of the challenge of climate change. However, there were some differing views on whether they are all going to be effective.
- Participants recognised the growing expectations on trustees meant that they were not necessarily always equipped to be asking the right questions, and knowledge will need to deepen across the whole sector.
- There was a good debate on how the sector can influence members on this, and the extent to which external influencers were a positive or a negative.

These debates will no doubt continue for a long time, and we hope that members will join us in March for our second ESG conference, where we'll be continuing these debates.

TAKING STOCK

As COP26 drew to a close, it was time to look at what had been achieved, and what it means for our pensions.

The headline from the closing stages of COP26 seems to be the lack of new targets – only India made a new emissions commitment during the conference, and there has been a great deal of disappointment at the failure to get some nations to make a firm commitment to phase out coal use. As global investors, it's disappointing that the uncertainty remains – as we navigate these challenging issues, it is clearly preferable that nation states set the expectations on their transition.

However, we also learnt more about how world leaders plan to finance the adaption, with a great deal of discussion of the role of developed nations in providing financial assistance to those in the developing world, which are both the most exposed to the physical threat of climate change and the least well resourced to address it. A promise was made that more funding will flow to them in the coming years and, crucially, that more cash will be focused on adaption, rather than emissions cuts – double the proportion of funding will now go to this. As investors, we of course recognise the importance of protecting countries most at risk from the physical impact of climate change, and we welcome this clarity.

And, of course, world leaders will meet again in 2022, in Egypt, to have another go at securing agreements that will ensure that we keep 1.5°C within reach. While Glasgow didn't bring the certainty and reassurance that we were all hoping for, it's clear that the pressure on governments and investors alike is here to stay.

INVESTORS HAVE THE POWER TO DRIVE SOLUTIONS TO CLIMATE CHANGE AND SUPPORT THE TRANSITION TO A NET-ZERO CARBON WORLD

RETIREMENT LIVING STAN AWARDS: THE WINNERS

Maggie Williams salutes three of the best at our inaugural ceremony.

THE PLSA'S RETIREMENT LIVING STANDARDS ARE NOW ACCESSIBLE TO MORE THAN 14 MILLION SAVERS THROUGH MORE THAN 50 DIFFERENT ORGANISATIONS.

Our first Retirement Living Standards Awards, announced at our Annual Conference in October, celebrated best practice by schemes, providers and innovators. The winners demonstrated how the Standards can be embedded throughout DC pensions practice, to help members better understand what they need to save for retirement, and how they can achieve those goals. There were two main categories:

- **Saver engagement**, separately judged for schemes and providers – for entries judged to have communicated the Standards most effectively through aspects such as ease of use, simplicity of message, visual representation, personalisation and demonstrated comprehension.
- **FinTech/Innovation** – for the entry which most impressed the judges for its use of technology to integrate the Standards into tools, calculators or personalised income targets.

THE WINNERS

WINNER 1

SAVER ENGAGEMENT: SCHEME

RAILPEN

As one of the UK's largest pension schemes, making sure that members have the best possible retirement outcomes is one of Railpen's top priorities.

Railpen integrated the Retirement Living Standards into member-friendly engagement campaigns across many different communication channels. Using both text and visuals, along with an easy-to-use online budget calculator, the scheme supports members by providing them with a personalised, tangible target that they can use to assess whether their savings are on track.

Our judges also praised the extent to which Railpen made information as understandable and accessible as possible for members. Rob Hughes, head of customer experience at Railpen, says: "Being able to help members plan earlier and more effectively has been the most significant impact from adopting the Standards. We have seen a huge increase in digital engagement over the last 12 months, with over 62,000 members now registered for online services. The Retirement Living Standards have helped us articulate the type of income members may need in retirement, and through our other tools help them understand whether they are on track."

WINNER 2

SAVER ENGAGEMENT: PROVIDER

STANDARD LIFE

Retirement Living Standards are now a design principle at Standard Life and are embedded in many aspects of its pensions offering, including annual benefit statements and its Retirement Income Tool. That means that by next year more than 3.5 million people will be using the Standards.

Standard Life has also introduced a Client Analytics service that will help employers and their advisers understand what living standard their employees are on track to achieve. "They can get a view across scheme members to see how many are on track for a minimum, moderate and comfortable outcome," says Customer Savings and Investments Director Jenny Holt. "It will then allow employers to identify what engagement strategies they can apply to improve outcomes in specific parts of the scheme."

Donna Walsh, head of workplace deployment and bid management at Standard Life, says that making the Standards an integral part of their pensions offering will be a continuing focus: "We'll keep looking at opportunities and customer touchpoints to incorporate these."

Judges were impressed by Standard Life's simple messaging for savers and the outstanding evidence of the benefits of using the Standards. In particular, the Client Analytics tool attracted judges' attention as a powerful feature for the future.

DARDS

WINNER 3

FINTECH / INNOVATION

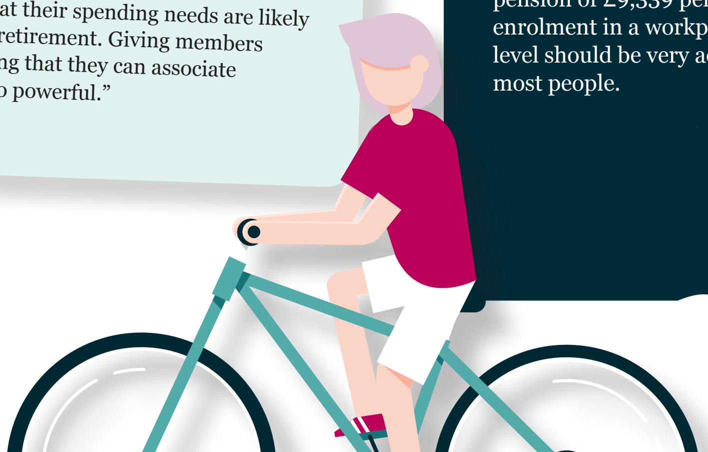
LEGAL AND GENERAL

From personalised video pension statements and virtual reality to a retirement planner and smartphone app, Legal and General have pushed the boundaries of innovation for pensions engagement. The Retirement Living Standards have been incorporated in many of these new ideas.

The PLSA's judges were impressed with this broad use of fintech to help DC members work out their retirement needs. They also praised the way in which Legal and General aligned information about the Standards across multiple tools, and had started to extend their use into other features such as personalisation.

Stuart Murphy, Co-Head of DC at Legal and General, says: "This is a great recognition of the hard work by our DC teams to integrate the Retirement Living Standards throughout our members' savings and retirement journey. This includes designing a simple-to-use online calculator that incorporates the standards to help DC members more easily work out their retirement needs, and the launch of our virtual reality experience.

"We've been able to make real the planning and visualisation for members as to what their spending needs are likely to be in retirement. Giving members something that they can associate with is so powerful."



RETIREMENT LIVING STANDARDS: 2021 REFRESH

The Retirement Living Standards are regularly reviewed to ensure they continue to accurately reflect shifts in spending habits as well as prices on the shelves.

More money for eating out, a higher personal grooming budget and a Netflix subscription are all included in the latest update to the Standards, announced at our Annual Conference in October. This is the first update since they were established two years ago.

The Centre for Research in Social Policy at Loughborough University independently develops and maintains the Standards. To identify changes, researchers held 13 discussion groups across the UK with retirees and those approaching retirement (55+).

Researchers used the findings to update the different baskets of goods and services that the Standards describe, and the Retirement Living Standards levels – minimum, moderate and comfortable.

MINIMUM

The Minimum Retirement Living Standard is based on the Joseph Rowntree Foundation's Minimum Income Standard and covers all a retiree's needs plus enough for some fun.

The annual budget for the minimum standard has risen since 2019 by £700 to £10,900 for a single person and by £1,000 to £16,700 for a couple in 2021. An average 10% rise in transport costs (by road and railway, but not in a private vehicle) accounted for much of the increase. The minimum basket also now includes an increase in the budget for hairdressing, and includes Netflix.

Through a combination of the full state pension of £9,339 per year, and auto-enrolment in a workplace pension, this level should be very achievable for most people.

MODERATE

The Moderate Retirement Living Standard provides more financial security and more flexibility, in addition to the minimum lifestyle. For example, you could have a two-week holiday in Europe and eat out a few times a month.

The annual budget for the moderate standard has risen since 2019 by £600 to £20,800 for a single person and by £1,500 to £30,600 for a couple. Changes to eating out budgets, social activities, council tax and price inflation across leisure services and goods accounted for most of the increase.

According to PLSA analysis, around half of all single employees are on track to expect a lifestyle between minimum and moderate, and people in a couple who are able to share costs will be higher in this range.

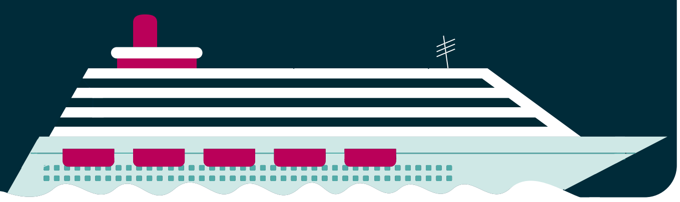
COMFORTABLE

With the Comfortable Retirement Living Standard, retirees can expect to enjoy some luxuries like regular beauty treatments, theatre trips and three weeks' holiday in Europe a year.

The annual comfortable standard budget has increased since 2019 by £600 to £33,600 for one person and £2,200 to £49,700 for a couple. This included a rise in the amount for additional food and drink for celebrations throughout the year, as well as higher personal grooming costs. The cost of annual maintenance and servicing of a burglar alarm was included in the comfortable standard for the first time.

About one in six single employees are projected to have an income between moderate and comfortable. Again, many more will achieve this level where they are in a couple and so able to share costs.

To find out more about the findings, see the Centre for Research in Social Policy's report *Retirement living standards in the UK* in 2021. **(www.retirementlivingstandards.org.uk/Retirement-living-standards-in-the-UK-in-2021.pdf)**



PENSION SCAMS AND GLOBAL HEATING

Executive Director of Frontline Regulation ***Nicola Parish*** updates us on two key issues for The Pensions Regulator.

MORE POWER FOR TRUSTEES TO STOP SCAMMERS

WORKING WITH GOVERNMENT AND OTHER REGULATORS, WE ARE DETERMINED TO STOP THE SCOURGE OF PENSION SCAMMERS. AS PART OF THIS, WE RECENTLY PUBLISHED NEW GUIDANCE TO HELP TRUSTEES UNDERSTAND THEIR NEW POWERS TO HALT SUSPICIOUS TRANSFERS.

New regulations, arising from the Pension Schemes Act 2021, introduce a system of red and amber flags, giving trustees the power to refuse a transfer where there's a heightened risk it may be part of a scam.

The new rules, which further empower trustees in their role as the first line of defence against scammers, enshrine in legislation two of the key parts of our pledge to combat pension scams, namely due diligence measures and warning members of high-risk transfers.

The regulations will require checks to be undertaken before a transfer is made. Transfers can proceed with no further checks to authorised master trusts, authorised collective defined contribution schemes and public service schemes.

Trustees and providers can also maintain a 'clean list' of personal pension schemes they have reason to believe are not being used for scams. For other transfers, trustees will have to assess evidence of employment links to receiving occupational pension schemes (and residency when overseas).

Trustees may identify amber flags requiring a member to get guidance from MoneyHelper – provided by MaPS – or red flags which enable the governing body to stop the transfer.

While most pension transfers are legitimate and can proceed with minimum intervention, the Pension Scams Industry Group (PSIG) estimates 5% of all transfer requests give trustees and scheme managers cause for concern.

We are calling on all trustees and pension providers to take note of the new rules and continue to play their part in stopping scams – including reporting all suspected scams to Action Fraud, or by calling 101 in Scotland.

ADAPTING TO CLIMATE CHANGE

A RAPIDLY WARMING WORLD BRINGS THE RISK OF MORE FREQUENT FIRES, FLOODS AND EXTREME WEATHER – POTENTIALLY CAUSING THE LOSS OF PHYSICAL ASSETS AND SUPPLY CHAIN DISRUPTION. UNLESS PROPERLY MANAGED, THESE RISKS HAVE THE POTENTIAL TO IMPACT SCHEME FUNDING AND THE EMPLOYER COVENANT, AND LEAVE SOME SAVERS FACING A POORER RETIREMENT.

We recently published a report showing pension schemes in the UK still have more to do if they are to adapt to the challenges of climate change. Our climate adaptation report highlights the fact that too few schemes give enough consideration to climate-related risks and opportunities, which means investment performance and saver outcomes could suffer.

The report shows that while schemes are more engaged, less than half of all defined contribution schemes (43%) took account of climate change when formulating their investment strategies and approaches when asked in 2020.

A survey of defined benefit schemes in the same year showed that more than half (51%) had not allocated time or resources to assessing any financial risks and opportunities associated with climate change.

We are calling on schemes to act now to start incorporating climate-related risks and opportunities in their investment strategies. This means allocating sufficient time and resources to assessing them and ensuring processes used to manage them are robust.

We want to see trustees embrace the potential for positive impact from considering climate change in investment and scheme governance, including on expected returns and the capacity to reduce risk. For example, there may be opportunities to access new markets and new technologies related to the transition to a low-carbon economy.

As highlighted by the report, we know a lack of climate-related data could be a barrier for schemes adapting to climate change. According to feedback from our supervision teams, industry has warned that availability of climate-related data can be a significant issue for trustees and this may be a barrier to developing plans to make schemes more resilient.

However, we expect to see improvements in data quality and modelling capabilities as the financial system as a whole moves towards mandatory reporting of climate-related risks and opportunities.

We can't know now if global efforts will avoid the starkest climate change predictions. But by seizing on the progress, albeit small, seen in our adaptation report, we remain convinced that a landscape of resilient pension schemes, where climate risk is effectively managed and trustees take advantage of opportunities for savers from the move to a net zero economy, is still achievable.

THE MEMBER BACKING PENSIONS AND LIFETIME SAVINGS ASSOCIATION

TRUSTEE TRAINING PROGRAMME

Various dates | London

We support our members through high-quality pensions education and training that provides the skills and knowledge you need across the complex world of pensions. In 2022 we are delighted to be returning to face-to-face training in our office.

PART 1

Learn how pension schemes work, how to be a trustee, and good scheme governance

- 17 February
- 10 May
- 13 September

PART 2

Put the theory into practice and learn how to be an effective pension scheme trustee

- 29 March
- 16 June
- 27 September

PART 3

Hone your skills and improve your effectiveness as a trustee

- 20 October
- 29 November

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

ANNUAL CONFERENCE 2021 IN NUMBERS

Here are just some of the highlights – and vital statistics – from the digital PLSA Annual Conference 2021.

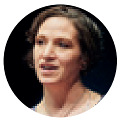
1,194

REGISTERED DELEGATES FOR THE PLSA'S ANNUAL CONFERENCE 2021

This year our Annual Conference attracted delegates representing more than 235 pension schemes. Of those that signed up, 91% accessed the event. That's the highest attendee numbers for any of the PLSA's digital conferences so far – and 86% rated the programme as excellent or good.

30 YEARS?!

HOW MUCH TRUSTEE EXPERIENCE DO YOU REALLY NEED?



Sarah Smart
Chair, The Pensions Regulator

"I remember sitting on a panel once where I was told that you couldn't be a good professional trustee unless you had 30 years' experience. Clearly I was being told indirectly that I wasn't a good professional trustee, because I would have had to start when I was five years old!

"We need to be a lot more active...and ask how do we find the people who might have [skills] we need that aren't in the traditional areas. For trustee and governance boards we need equality, diversity and inclusion, all three of them. We can't have diversity without equality, and we can't get the benefits of diversity without inclusion. I've seen and sat on boards where there's diversity but not inclusion, and it delivers no benefits at all."

80%

THE PERCENTAGE OF US THAT WILL NEED SOCIAL CARE

Sir Andrew Dilnot
Warden, Nuffield College, and social care reformer

"The median person might need perhaps six months in a residential care home or maybe a couple of years in their own home... that's facing 80% of us. It's not likely to be a large amount [of care], but at the tail it can be very large indeed. It's perfectly plausible that someone could need 10 years in a residential care facility – and then we could be talking about half a million pounds.

"There's scope here for the [pensions] industry to get involved. Nothing like as much has been done as could have been. There's still too much of a sense that the appropriate income stream in retirement is essentially a flat one. Now that retirement is so long, and there are possibilities of significant bumps in the road, moving to a model where the income stream can match those bumps in the road more effectively seems wise."

OVER £2 TRILLION

THE AMOUNT OF MONEY THAT THE PENSIONS INDUSTRY MANAGES

Emma Douglas
Chair, PLSA

"We are an industry that manages a lot of money – over £2 trillion – and an important part of the UK economy. So we will always see a lot of regulation, proposed changes and consultations. It's vital that we make our views heard. You snooze, you lose in the face of the very long pipeline of consultations.

"There are some big changes being proposed. So we need to respond on dashboards, consolidation, statement season, small pots, ESG, and private market investment to name but a few. Also, where it makes sense, I believe we need to join our voice with other pension industry bodies on the key issues…it is easier for the government to hear our message when it's one loud voice.

"But of course, to fully encompass our role as the voice of the pensions industry, we also need to be proactive. What do we want and need to happen to help everyone achieve a better standard of living in retirement?"

67%

CALLS TO MONEYHELPER ABOUT ACCESSING PENSION SAVINGS

Caroline Siarkiewicz
Chief Executive, Money and Pensions Service (MaPS)

In an online poll, 67% of the PLSA's conference audience believed accessing pension savings would be the top reason for calls to MoneyHelper.

"Five topics [accessing pension savings, bereavement, paying contributions, specific information requests, and transfers] cover by far the biggest number of calls that MaPS' MoneyHelper service has received in the last 12 months.

"Others in our top 10 include pension tracing and auto-enrolment, as well as injury and ill health. We also get complex calls around topics such as pensions and divorce, and how to recover money lost through scams.

"In helping people it is often important to go beyond their presenting enquiry. When you start the conversation and dig a little deeper you realise that they need guidance, help and support with other areas [of finance] as well. That gives us an opportunity to talk about debt advice, different forms of savings, different forms of borrowing and to give a holistic service. We help not just with the presenting enquiry, but by making sure that we are looking at the whole needs that a person will have."

£550 BILLION

TOTAL ASSETS COVERED BY THE OCCUPATIONAL PENSIONS STEWARDSHIP COUNCIL

Guy Opperman MP
Secretary of State for Pensions and Financial Inclusion

"The UK has become the first country in which trustees must consider, assess and report on the financial risks of climate change within their portfolios. By 2022, these requirements will be mandatory for all occupational pension schemes with £1 billion or more assets.

"These measures are utterly transformational. Never before has a trustee been required to show how climate change will affect their portfolio. They have been publicly held to account for those decisions. The DWP is also in my view regularly leading on stewardship. Schemes can have a voice if they remain invested through equity mandates, but they can also choose to stop lending money to companies not addressing climate risks.

"I cannot overstate how important I believe that stewardship will be in this industry's response to the climate crisis. I'm pleased with the new Occupational Pensions Stewardship Council and their work to promote higher standards. The Council brings together schemes with assets of over £550 billion pounds and will be the perfect forum for working through the recent recommendations."

PATRIZIA

WHY A CITY-FOCUSED APPROACH IS VITAL FOR INVESTING IN THE EUROPEAN RESIDENTIAL SECTOR

CO-AUTHORS:

Dr. Mahdi Mokrane
Head of Investment Strategy & Research

Dr. Marcelo Cajias
Head of Data Intelligence

Dr. Marcus Cieleback
Managing Director
Chief Urban Economist

AT PATRIZIA, WE ARE STRONG BELIEVERS IN THE POTENTIAL OF RESIDENTIAL REAL ESTATE IN EUROPE TO DELIVER OUTSTANDING RETURNS FOR INVESTORS. HOWEVER, IN ORDER FOR THOSE RETURNS TO BE MAXIMISED, CAPITAL NEEDS TO BE DEPLOYED IN A STRATEGIC MANNER BASED ON SOUND MARKET RESEARCH. AS A RESULT, WE HAVE DEVELOPED WHAT WE BELIEVE TO BE A MARKET LEADING APPROACH.

Firstly, our focus on European residential is tightly urban – and with good reason. After all, Europe has been on the path towards ever greater urbanisation since the 1960s. Of course, that manifests itself in different ways in different countries. At one end of the scale, around 35% of people in Poland lived in cities in 1960, a figure that is expected to reach just shy of 80% by 2050. At the other, Belgium started from a position of more than 90% urbanisation in 1960 and is likely to be nearing 100% by 2050. However, the line on the graph is only going in one direction no matter which European state is considered.

It also has to be said that cities routinely outperform their national economies, sometimes by a quite staggering extent. Between 2005 and 2019, for instance, Oslo saw more than twice the GDP growth than Norway as a whole. Amsterdam performed similarly compared to the Netherlands. Brussels and Lisbon saw significantly lower growth than Belgium and Portugal, but they are the exceptions. Quite simply, cities are increasingly the engine rooms of European economies.

What's more, even Covid-19 does not appear to have had a material impact on Europeans' desire to live in cities. During the pandemic – and especially when people were largely confined to their homes – it was common to read newspaper headlines predicting the death of the city as many people realised that they could do their jobs perfectly well remotely.

However, according to the latest Google workplace mobility data, it appears that Europeans are slowly but surely returning to the office. Again, there are differences between countries – the UK lags significantly behind Germany, for instance – but overall, the trend is clear. It should also be noted that real estate fund performance has already recovered well from the pandemic: there is simply no comparison with the impact of the global financial crisis (GFC).

The centrality of cities to European economies is reflected in the real estate data. In France, for instance, around 77% of real estate transactions take place in either Paris or Lyon. In Spain, the equivalent figure for Madrid and Barcelona is 72%. In short, liquidity is generally far higher in Europe's biggest cities when compared to their home nations. In addition, it appears that the bigger the city, the higher the liquidity: the likes of Berlin, Paris and London dominate the upper echelons of Real Capital Analytics' European cities liquidity ranking.

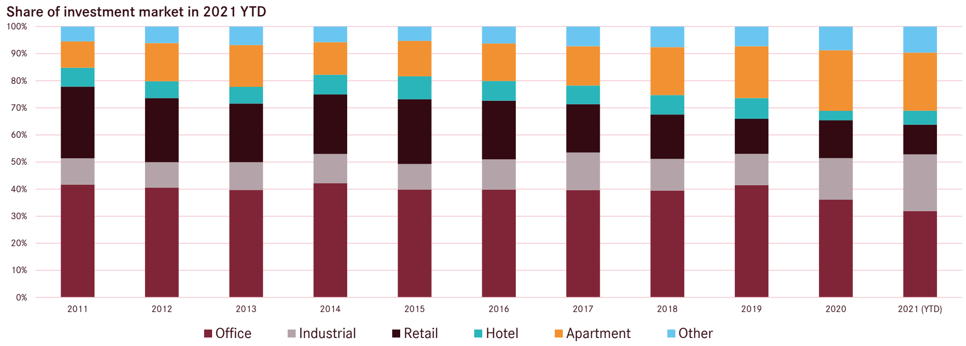
It is also clear that residential is now the most popular real estate sector among investors, a situation that has developed remarkably quickly over the last decade [insert resi chart graphic]. In 2011, a time when the market was still recovering from the GFC, the overwhelming majority of investment was directed towards the office and retail sectors. So far in 2021 – and we see no reason why this would change as we approach the end of the year – those sectors represent significantly less than 50% of investments, with both residential and industrial emerging as the clear winners. Currently, around a third of European real estate capital is invested in living sectors, although transaction activity is currently dragged down by a fall in investment in hotels.

Gross initial yields for multi-family housing in particular are also highly attractive, especially so when compared to the returns available on government bonds. At the lower end of the spectrum, yields in Sweden range from 2% to 4%. At the opposite end, yields in Poland come in at between 4% and 6%. A similarly positive story can be told when it comes to capital values in the European living sectors, with most countries recording a strong growth trajectory since the nadir of 2008.

Of course, it has to be acknowledged that regulations on rental properties are reasonably common in Europe. Broadly speaking countries can be grouped into three categories: free markets such as the UK and Italy; countries that regulate both initial rents and rent increases, such as France and the Netherlands; and those that

PATRIZIA

Europe: Living sectors and industrial reaching a record high share of the investment market in 2021 YTD … and "Other" (alternatives) growing too!



Source: PATRIZIA, RCA | September 2021

just regulate rent increases, like Germany and Spain. It is also likely that governments will increasingly bow to public pressure in cities where a lack of affordability is seen is a major issue. However, provided that such regulations are transparent and not forced through overly quickly, they do not need to be a major issue for investors. It should also be remembered that European rents have consistently outperformed inflation since the GFC.

However, it is still important that investors fully understand city dynamics in order to match locations to investment strategies. To that end, PATRIZIA has developed its Living Cities (LiCi) Index, in order to understand emerging issues and challenges [insert PAT index graphic]. The index, which is regularly updated, takes in a wide range of demographic and economic factors, as well as the innovative capacity and connectivity of each city, in order to build a rich picture of individual places and how they sit relative to other cities.

All of these factors are used to rate a city's attractiveness, which the index plots on a horizontal axis. However, this is only part of the picture. The index also provides intelligence on the vertical axis on how liquid the residential market is in any of the 119 cities examined. This is critical as liquidity dictates how quickly capital can be deployed and how active portfolio management activities can enhance property value while the fund matures.

The index then allows us to place cities into one of four quadrants: powerful, affordable, liquid and innovative. All four sections are seen as investable as they provide different opportunities depending on fund strategy and, crucially, desired levels of risk and return. Inevitably, some are categorised as neither attractive nor liquid and are therefore placed in a fifth section, which we view as un-investable. However, it should be said that cities to move between segments with each iteration of the index. For instance, in the latest iteration Luxembourg moved from innovative to powerful owing to an increase in liquidity.

By building a powerful picture of individual city dynamics and how they compare to other locations we are also able to target investments towards residential sub-sectors as appropriate. When it comes to multi-family housing, for instance, we have identified Dublin and Paris as leading locations for investment.

The former is currently benefiting from the fallout from Brexit, with both the financial and technology sectors continuing to attract well paid, relatively young people, thereby creating a growing demand for high quality rental accommodation. In Paris, meanwhile, new opportunities are opening up as a result of the transport improvements delivered by the Grand Paris infrastructure project.

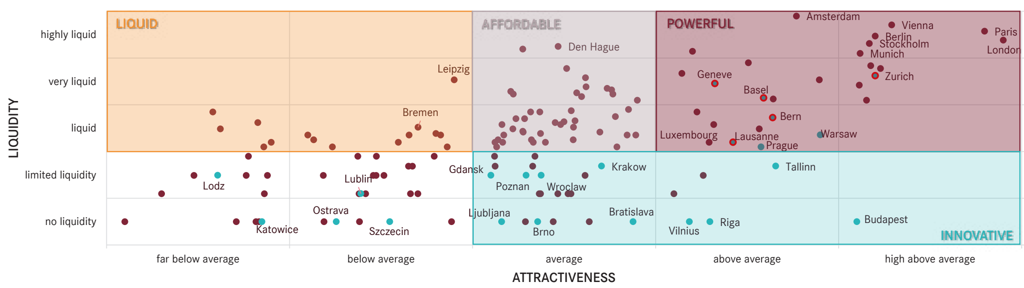
Similarly, a robust analysis of the data reveals those cities that are currently underserved by purpose-built student accommodation. In the UK, for instance, the market is reasonably mature, both in the capital and regional cities. The same is true in Poland. Elsewhere, however, the PBSA market is characterised by under supply or outdated stock. A thorough understanding of a city's demographics also allows for investment into later living developments to be targeted intelligently.

So, our view is that opportunities abound across all living sectors in Europe. However, investors need to be armed with the best market intelligence in order to deploy capital as profitably as possible. PATRIZIA's in depth research – as well as our team's on the ground insight – allows them to do just that.

PATRIZIA

Enlarged and updated PATRIZIA LiCi Index points to new locations

Living Cities' Index update confirms the maturing of the European residential markets



- In this update CEE and Swiss cities were added, although the latter are not investable for non-swiss institutional investors due to legal restrictions (Lex Koller).
- Some of the "Innovative cities" of the last ranking have seen an increase in liquidity moving them to the Powerful (e.g., Luxembourg) and Affordable (e.g., Regensburg and Lille) cluster.
- Given the attractiveness of many of the new CEE cities a deeper dive into these markets is justified.

ARE PENSIONS BIASED?

The statistics show a sharp gender divide: ***Maggie Williams*** reports.

WOMEN ARE MORE THAN TWICE AS LIKELY AS MEN TO BE DEPENDENT ON THE STATE PENSION ALONE

IN HER BOOK *INVISIBLE WOMEN*, CAMPAIGNER AND JOURNALIST CAROLINE CRIADO PEREZ EXPOSED A WEALTH OF PRODUCT DESIGNS, DATA SETS AND MEDICAL ASSUMPTIONS THAT OVERLOOK WOMEN. FROM CRASH TEST DUMMIES TO HEART ATTACK DIAGNOSTICS, MANY EVERYDAY ITEMS AND SERVICES ARE BUILT, QUITE LITERALLY, WITH MEN IN MIND.

What about pensions? Are they also biased by design towards men? Given that much of pensions history has been aimed at rewarding a breadwinner (typically male) with a DB scheme that recognised long service with a company, perhaps there are still more than a few vestiges of bias in the system, even if we are now firmly in a DC world.

There is no shortage of evidence of the gaps between men's and women's pension pots at retirement. One of the most recent statistics comes from Scottish Widows' *2021 Women and Retirement* report, which showed that disparities between gender savings levels are already apparent by the age of 20. At that age, it calculated, a woman could be expected to have saved around £250,000 by retirement. In contrast, a man would have £350,000.

And, according to the Pensions Policy Institute's 2019 *The Gender Pensions Gap: Can it be Closed?*, women in their late 50s have around 50% less savings than men.

DIFFERENT WORKING PATTERNS

Ultimately, a lot of the difference between men's and women's pension savings is caused by working patterns. Women are more likely to take career breaks for children, or other caring roles, for example. According to Carers UK's *State of Caring* 2021 report, 79% of carers are female, and 69% are aged between 35 and 64 – potentially key years of earnings.

While the percentage of women in work has increased exponentially over the last 50 years, that doesn't always equate to having access to a pension. Significantly more women than men work part-time (38% of women and 13% of men). Women are more likely than men to earn less than £10,000 in a single job, putting them beneath the threshold for auto-enrolment.

The UK's gender pay gap – the difference between average hourly earnings of men and women in the UK – also inevitably plays a part. In April 2021, the Office for National Statistics' gender pay gap figure was 7.9% among full-time employees, in favour of men. For those over 40, the gap is bigger at around 12%.

If pay is lower, it follows that pension contributions will also be lower. However, closing the gender pay gap alone won't solve women's pensions shortfalls. For example, the gender pay gap figures show that there is a lower rate of women moving into higher-paid managerial roles after the age of 39. Addressing structural imbalances such as this in the workplace is key to enabling women to earn more, and therefore to save more for retirement. The same is true of balancing up caring commitments. Just 131,000 men took up shared parental leave in 2019/20. How many workplaces have explored why men are still loth to take it up?

LONGER LIVES

In the UK, women live, on average, for almost three years more than men (although there are significant variations). They are also estimated to spend an average of 460 days in care homes towards the end of their life, compared to just 100 days for men. According to Scottish Widows' report, that could cost women an additional £50,000 in longer life expectancy, and £35,000 in care home costs. That's in addition to trying to balance out the £100,000 disparity the pension provider found between men's and women's pensions at retirement.

In heterosexual couples, given women's longer life spans and lower pension savings, they may become dependent on a survivor's pension. However, Now:Pensions and the PPI's 2019 *Facing an Unequal Future* report found that around 70% of annuities are single-life, with no benefit for a surviving partner. Women are more than twice as likely as men to be dependent on the state pension alone, at 43% versus 26%, according to the FCA.

MAKING TIME FOR PENSIONS

Poor engagement with pensions is hardly headline news, but the FCA's Financial Lives 2020 survey revealed the full extent of the gap between men and women's engagement rates. It found that only 12% of women report being 'very engaged' with their pension, compared to 26% of men. Nearly two-thirds (65%) of women reported low or very low engagement (for men the figure was 48%).

Just over half (54%) of women said they had received and read their pension statement (61% of men). Of those that had read it, only 13% of women said they understood it very well (34% of men). The FCA found that women are less likely to know the value of their pension pot, the charges they are paying, or their contribution rates.

A better understanding of the reasons behind these disparities is crucial: the FCA also found that there was a correlation between respondents who had read and understood their pensions statements, and those who went on to increase their contributions.

There could be many reasons why pensions communications are failing to engage, including whether language is easy to understand, if the visuals are inclusive, and whether women feel the information is relevant to them. The PLSA's 'rule of thumb' Retirement Living Standards, plus a move to simpler annual statements, mean schemes now have a great opportunity to reset their communications and make them more accessible to everyone. Different types of communication, such as videos and apps, can also open up new ways of sharing information with an audience that might not have time to read a traditional benefits statement.

IF YOU WANT IT, BUILD IT

Perhaps the best way to make pensions better suited to women is for women to become more involved in developing and running them. According to PWC's Trustee Pay Survey 2020, less than a quarter (24%) of trustees are women and only 17% of chairs of trustees are female. How will pension schemes and providers develop products and options that are better suited to women's lifestyles if they are not involved in their development?

Organisations such as NextGen and The Diversity Project are improving inclusivity across the whole savings and asset management industry, and driving new thinking in this area. We need them to sustain the pressure. The solutions to women's pension shortfalls are not in simply adding a woman to a board or passively offering access to financial education (although both of those can form part of the solution). They are in the willingness to ask women what would help them, collect data, change practices, and tear up traditional models of pension savings. Like Criado Perez's crash test dummies, we need to find new approaches to retirement savings that fit the way that women live, not penalise them for being different from men.

THERE IS NO SHORTAGE OF EVIDENCE OF THE GAPS BETWEEN MEN'S AND WOMEN'S PENSION POTS AT RETIREMENT

COST TRANSPARENCY INITIATIVE: THREE YEARS ON

Craig Rimmer, Policy Lead: Master Trusts and Standards, takes stock of a strong beginning.

THE COST TRANSPARENCY INITIATIVE (CTI) IS THREE YEARS OLD THIS NOVEMBER. THE CTI WAS FOUNDED BY THE PLSA, THE INVESTMENT ASSOCIATION (IA) AND THE LOCAL GOVERNMENT PENSION SCHEME ADVISORY BOARD (SAB) TO SHINE A LIGHT ON THE FEES AND CHARGES THAT SCHEMES ARE PAYING TO THEIR ASSET MANAGERS.

It has a board made up of the founders and other professionals representing pension schemes and is ably chaired by Mel Duffield. The DWP, the TUC and the regulators attend the meetings as observers. The CTI is also assisted by its Technical Expert Panel, helping with the creation of the templates and giving advice on issues as they arise. Thanks to them we have a Main Account template and User Summary template as well as templates and guidance on Fiduciary Management, Private Markets, LDI and Custody.

Three years on, the CTI has extremely good coverage of the occupational pension schemes market, with most major schemes and consultancy firms using its templates. This has resulted in a wide coverage of pension members who benefit from lower costs and better performance. We'd like to see even wider adoption, especially among smaller schemes, to give greater cost transparency overall in occupational pensions.

Before the CTI, schemes were using their own cost templates, which meant a lot of time spent by asset managers getting to grips with myriad different questions. The CTI has standardised cost templates, and as a result asset managers find them easier to fill in and the cost data returned to schemes has become more consistent and comparable. As an initiative it has really got under the skin of costs and given trustees the ammunition to challenge managers.

For some schemes the conversations have evolved to benchmarking themselves against others and aiming to have top quartile low costs across each of their mandates. One third-party information provider that offers a benchmarking tool found that all of their clients had at least one mandate that benefited from fee negotiation and that the average cost saving was 15 basis points.

The CTI framework is even being examined by European firms based in the European Economic Area that want to get ahead of the curve on cost transparency.

With ESG investments being at the forefront of every trustee's mind, it's worth noting that cost transparency is a key component of the S of ESG. This has led to some not just benchmarking on costs but also benchmarking asset managers on transparency.

Elsewhere in this issue of *Viewpoint*, my colleague Ruari Grant has written about the value-for-money framework being considered by TPR and the FCA. The CTI is a major step in how we get to the framework by understanding the financial part of the equation. Of immediate help, the CTI can also assist schemes with their own value assessments.

After three years of creating a framework and templates and implementing an adoption strategy, the CTI has entered a steady state phase. We have now moved on to communicating its benefits and giving more guidance on the filling-in of templates.

In a world where pension schemes are facing more cost challenges through regulations to trustee insurance, an initiative that can sometimes help reduce costs between 20 and 50 basis points has to be applauded. Consultants have played a major part in helping trustees analyse and understand the CTI data. It is worth having a similar conversation with your consultants to see if cost savings can be made for your scheme.

If you need to find out more about the CTI and what the next years have in store for transparency, please don't hesitate to get in contact with me.

WE'D LIKE TO SEE EVEN WIDER ADOPTION, ESPECIALLY AMONG SMALLER SCHEMES, TO GIVE GREATER COST TRANSPARENCY OVERALL IN OCCUPATIONAL PENSIONS

THERE'S NO ESCAPING PENSIONS!

James Walsh, Head of Membership Engagement, finds his job follows him everywhere...

ANYONE WHO WORKS IN PENSIONS (AND I GUESS THAT COVERS MOST OF THE PEOPLE READING THIS) WILL KNOW THAT THE DAY JOB FOLLOWS YOU EVERYWHERE.

There I was on my annual birdwatching holiday on the Isles of Scilly, enjoying a day on the beautiful island of St Martin's (the Editor really should publish my holiday snaps – it's a stunning place), when I bumped into a fellow bird aficionado who also happens to be an actuary. Inevitably, the conversation quickly turned to our day jobs and some of the pensions personalities we both know – all positive, of course (well, mostly....).

Then the next day, with heavy rain confining everyone to barracks, another birding pal invited himself round for coffee and arrived clutching his latest annual benefit statement, which he had packed alongside his binoculars in the hope that I would take a look and explain it to him. I won't say which scheme he belongs to (it's one of the PLSA's largest members) and I actually thought the statement was pretty well designed, but the conversation reminded me that for non-pensions people – even highly-educated professionals – language and concepts that are second-nature to us might not be so easy for them.

SOMEONE YOU CAN TRUST

I am sure you have all had similar experiences of pensions cropping up at all sorts of unexpected moments. People actually quite like to talk pensions when they get the chance to ask someone they trust.

So it's been good to hear, in the PLSA's latest rounds of conversations with our members, just how much priority many schemes are giving to improving member engagement. We know that people trust their employer more than almost anyone else when it comes to getting reliable information about pension saving.

RETIREMENT LIVING STANDARDS

Even better, schemes are increasingly using the PLSA's main contribution to this effort – our Retirement Living Standards – as the industry-wide tool to help people understand what kind of income they will need to fund the lifestyle they want in retirement.

Our members are incorporating the RLS into their websites, highlighting them in their newsletters and even integrating them in online calculators – exactly what we hoped they would do when we launched the Standards two years ago.

Pitched at three different levels – minimum, moderate and comfortable – the Retirement Living Standards help people to picture the lifestyle they want when they retire and understand what it will cost.

At our most recent Annual Conference, we announced updates to the Standards to ensure they keep up with changes in spending habits as well as changes to prices on the shelves to remain relevant to real-world retirement spending. You can find more information on page 18.

DB, ESG AND MORE

Of course, our members are busy on plenty of other fronts as well, and the two topics that continue to crop up almost every time I ask 'what's on your to-do list?' are DB funding and ESG. That doesn't mean these issues are problematic – some of these schemes reported good funding levels and strong sponsor covenants, and for several the issue is how to chart a path towards the DB 'end-game', but the 'league table' of issues that I circulate to colleagues does show what is taking trustees' time.

Member after member tells me that investing more sustainably and adopting ESG principles are right at the top of their agenda, but they are frustrated by the burden and complexity of TCFD reporting requirements.

I channel this feedback straight to our Policy team and it forms a key strand of our dialogue with policymakers.

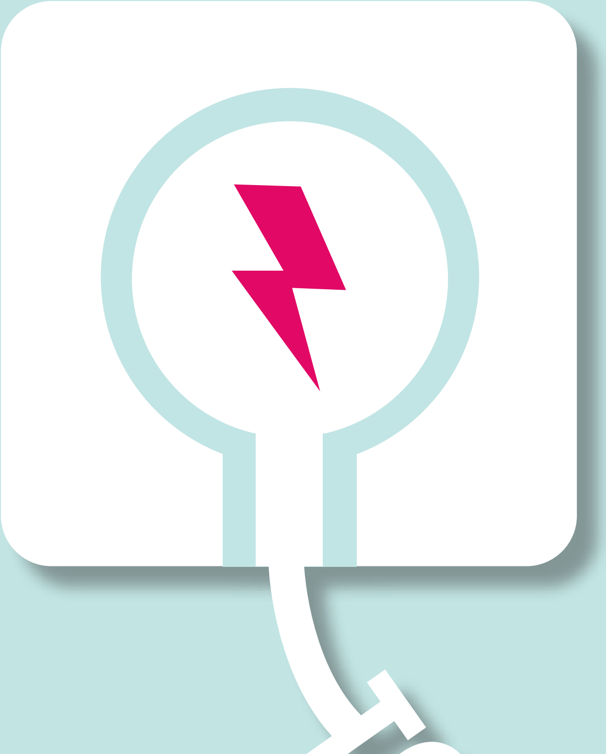
In the meantime, I think the volume of ESG case studies that we also published at the Conference – practical examples from a dozen PLSA member schemes showing how they are tackling the ESG challenge – puts a really useful resource into our members' hands. You can find it on our website (www.plsa.co.uk/Policy-and-Research/Document-library/Towards-a-Greener-Future) – or just ask me to send it straight to you.

A POSITION OF TRUST

Everything I hear about in my discussions with PLSA members– whether it's improving their communications or reviewing funding or getting better at ESG – is ultimately about serving their members. In my experience, pensions people really do care about that.

So, next time you get collared for one of those off-duty pensions chats, remember it's only because people trust you to help them. I guess that's quite a privileged position to have.

FOR NON-PENSIONS PEOPLE – EVEN HIGHLY-EDUCATED PROFESSIONALS – LANGUAGE AND CONCEPTS THAT ARE SECOND-NATURE TO US MIGHT NOT BE SO EASY



TOGETHER IN ELECT

Maggie Williams talks to ***Stephen Duffy***, HR Director UK at RWE Generation UK Plc about the energy giant's approach to pensions.

LIKE MANY COMPANIES BORNE OUT OF THE 1980S PRIVATISATION OF NATIONALISED INDUSTRIES, ENERGY PROVIDER RWE GENERATION UK HAS A SIZEABLE DEFINED BENEFIT (DB) ARRANGEMENT, UNDER THE REMIT OF STEPHEN DUFFY, HR DIRECTOR UK.

Although it closed to new members in 2009, the c£6 billion, c27,000-member DB scheme is still very much a part of RWE's pensions governance. When we speak, Duffy is in the midst of streamlining the scheme's structure. "We've got three different sections as a result of historical acquisitions, which we are reducing to two. The section we are reallocating is relatively small, with less than 100 members and c£63 million assets under management.

"Our funding levels have improved over the last 12 months, so we're fortunate that we are in a position to streamline the structure of the scheme without causing major financial implications for the business."

With less than 900 active members in the DB scheme, Duffy's future focus is on how to run the scheme off over time. "I think a lot about the risks that might impact how we do that. Longevity is certainly one of those: we believe the scheme will take around 70 years to run off."

Scarcity of DB expertise is also an issue. "I certainly won't be here in 70 years! DB knowledge in the market as a whole is diminishing and we have to ask whether the employer and others involved with the scheme will have the skills needed to manage it through future decades."

Of course, there are other options available to DB schemes, including DB master trusts, consolidators and buyout. "I don't think consolidation or a master trust would be right for us – as part of a former nationalised industry, we have a number of protected persons and are required to maintain a consistent benefits structure for those individuals. Buyout may become a consideration for us in years to come mainly from a risk mitigation perspective."

I'M NOT SURE THAT PENSION SCHEMES SHOULD BE EXPECTED TO INVEST TO THE GOVERNMENT'S INTERESTS. WE ARE HERE TO PROTECT MEMBERS' BENEFITS

TRIC SCHEMES

RWE's DB scheme members have often enjoyed lengthy careers with the company. "We've always had good engagement from staff and as an employer we have very low attrition rates. For employees over the age of 50, that is partly to do with the pension scheme."

The history of members with long-service mean that transfers out of the scheme are relatively low. "There's been an increase in transfer value requests over the last few years, but very few members have actually transferred out. I think that's partly because they know the income from the pension will be there for them month after month, but also because the sums of money involved are so large that it would be difficult to manage on their own. I suspect that if people were able to take partial transfers out, we would see more people taking up that option."

Like most other DB schemes, GMP equalisation has been high on Duffy's list of recent challenges. "It's been a very long-term problem for DB schemes. Everyone knew it needed to be fixed, so in a sense we've all perpetuated it – and now we've got to solve it.

"I recognise that we might be in a different position from other large pension schemes, but it feels like we are spending a lot of time and resource on something that will ultimately make little difference to the majority of members."

Stephen Duffy, HR Director UK at RWE npower.

Increased focus on ESG investment, as well as the current political enthusiasm for pension schemes to invest in assets such as infrastructure, elicits a mixed reaction from Duffy. "We need to understand what that really means for us as our main aim is to protect members' benefits. Potentially there are other approaches – for example, if the government issued green bonds where there is a guaranteed return, that could be a more attractive approach."

Until recently, the scheme was also responsible for its c2,500-member DC population. However, the company recently transferred the scheme to a master trust arrangement, a move that had the backing of the trustee board, Duffy and the sponsor.

"It has been a weight off my mind knowing that the administration, investment and increasing governance demands of DC are being taken care of and we can focus on the DB scheme."

The outsourced DC scheme now occupies a slightly different role within the company's reward structure. "I now see the DC scheme as integrated into our wider reward and benefits package, rather than a separate department. Psychologically it's quite different for us going forward."

However, Duffy and his colleagues still want to make sure that employees have a good quality DC pension in the future. "I've been discussing how we can make sure that we monitor the DC scheme, understand how it's performing in terms of value for money for the members and how we keep track of evolving trends in DC provision."

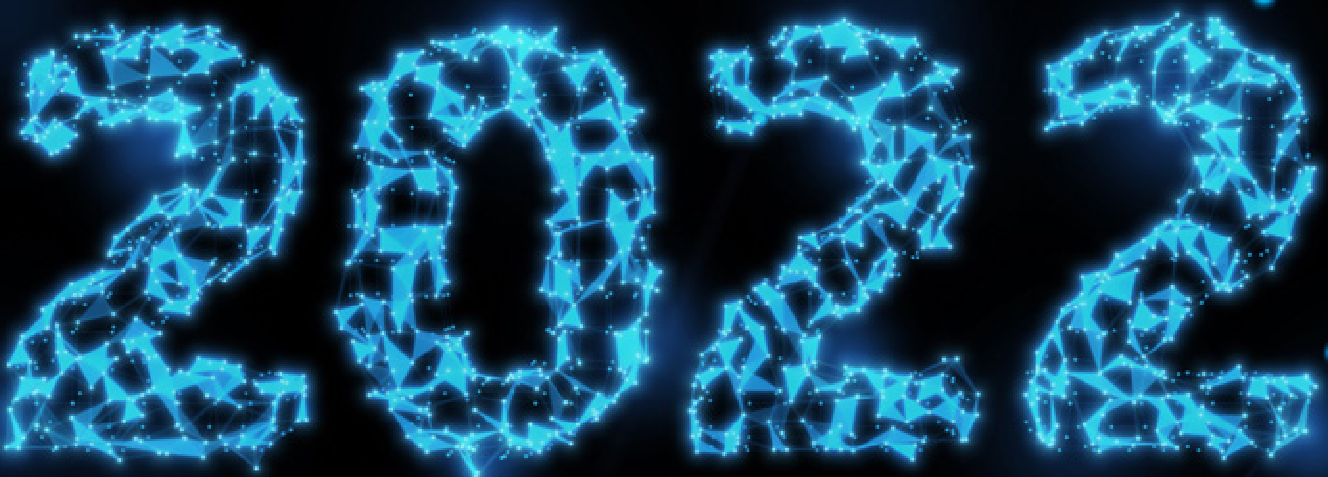
ONE OF THE BEST THINGS ANYONE DID FOR ME WAS TO ENCOURAGE ME TO SIGN UP FOR MY COMPANY PENSION SCHEME WHEN I FIRST STARTED WORK

The PLSA's wider focus on retirement savings, rather than just pensions, also resonates with changes that Duffy is seeing within the workplace. "Getting the message out that saving is important throughout your life is really crucial for employers and individuals. In essence, pensions are another savings vehicle, albeit a very important one."

While RWE's pensions might be in good shape, the broader pensions landscape could still be improved, Duffy believes. And he is enthusiastic about the PLSA's involvement in lobbying government and driving change for the industry as a whole. Given free rein, he says tax incentives for pension saving would be top of his list of changes. "The way they are calculated is just far too complex. The annual allowance and lifetime allowance, especially in DB, is difficult to understand. Everything needs to be simplified from an individual's perspective."

"As a society, we also really struggle with engagement with pensions," he adds. "If you mention the 'p' word in conversation, almost everyone switches off. There's still a perception that it's something to think about when you get into your 60s. In fact, one of the best things anyone did for me was to encourage me to sign up for my company pension scheme when I first started work."

Duffy has thought carefully about the long-term future of pensions at RWE . By outsourcing the governance challenges of DC, streamlining the structure of the DB scheme and giving careful thought to the company's long-term pensions strategy, the retirement prospects of its employees will continue to shine brightly.



THE BIG TRENDS FOR 2022

NEXT YEAR WILL BE AN INTENSE YEAR FOR DEFINED BENEFIT, DEFINED CONTRIBUTION AND LOCAL GOVERNMENT PENSION SCHEMES, WITH NO LET-UP IN NEW LEGISLATION OR EXPECTATIONS FOR IMPROVED GOVERNANCE. WE ASKED MEMBERS OF THE PLSA'S POLICY TEAM FOR THEIR VIEWS ON WHAT NEXT YEAR HAS TO OFFER...

PLUGGING THE PENSION SAVINGS GAP

Emma Douglas
Chair, PLSA

The pension savings gap is a big societal problem. The current amount of money going into long-term savings, even with auto-enrolment at 8%, is inadequate for most and we're walking into a pension crisis. For DC pensions, auto-enrolment has been the real game changer. With more than 10 million people saving and the opt-out rate low despite a gradual increase in contributions, it's an undoubted policy success. But I see it as a great start rather than job done.

The 2017 review came up with some important recommendations for broadening and deepening auto-enrolment. A lot of workers, in particular part-time workers, many of whom are women, still aren't covered by the auto-enrolment regime. It's not yet fully inclusive, and we need it to be. The PLSA supports removing the lower earnings limit, so that contributions are paid from the first pound of earnings, and reducing the auto-enrolment minimum age to 18. We also need to resolve the net pay anomaly to ensure that some low earners don't end up paying more for the same benefit.

These reforms will help us to address the gender pensions gap. It's a terrifying statistic that 50% more women than men are heading towards retirement without any savings at all.

The government are talking about implementing the 2017 reforms in the mid 2020s. They will need to be introduced in a staged and measured way rather than a big bang – but we must make sure they happen.

This piece is an extract from Emma Douglas's speech at the PLSA Annual Conference 2021.

DEFINED BENEFIT

Joe Dabrowski
Deputy Director, Policy

There are a great many things for schemes to be thinking about in the year ahead. Whether it's the spectre of rising inflation, employer covenants, a recovering economy, or the long list of regulatory 'must dos' such as TCFD reporting, Pensions Dashboard preparation or GMP equalisation, schemes will have plenty to occupy their time in 2022.

For DB schemes the item that's probably looming largest in mind is The Pensions Regulator's new Funding Code. Where the new Code ends up will likely determine the next – and critical for many – five to 10 years of scheme management. It will also shape many schemes' discussions with their employer and sponsor. The first consultation generated a lot of commentary on the balance between fast track and bespoke approaches, as well as the treatment of open schemes.

Recent research from the Association of Consulting Actuaries found that 96% of its members were adamant that the bespoke option really does need to be flexible, and 72% do not want to benchmark that bespoke option against fast track.

The consultation process for the new Funding Code was also launched at the beginning of the pandemic, and it's likely to be operational towards the end of 2022. It feels like much has changed for employers and schemes over this unprecedented period.

The government's appetite for pension funds to invest much more in productive finance also adds a fresh dynamic to it all. Getting the right outcome will be key for all those with an interest in DB.

DEFINED CONTRIBUTION

Alyshia Harrington-Clark
Head of DC, Master Trusts and Lifetime Savings

With defined contribution now firmly in the driving seat of workplace pension saving, 2022's priorities will include strong governance, investment innovation and good outcomes for members. Access to illiquid assets, value for money and small pot consolidation are three trends that are of personal interest and will be high on our watch list at the PLSA.

To date, the bulk of DC default fund investment has been focused on liquid, daily-traded assets. There are many historical reasons for that – but given the long-term focus of pensions, investing in a wider range of asset classes could deliver real benefits for DC. In particular, access to illiquid, private market investments such as real estate, infrastructure and private credit offer diversification, higher returns and inflation protection. As ever, schemes will have to think carefully about balance between risk and return, the profile of their membership and more – but greater diversity in DC investment is an important trend for the future.

The FCA and The Pension Regulator's September 2021 joint discussion paper *Driving Value for Money in DC Schemes* outlines a framework for consistent reporting on core components of value for money such as investment performance, scheme oversight (including data quality and communications), and also costs and charges. It's positive to see both regulators working together on this crucial topic. We'll expect to hear more on the next steps in 2022 and will be playing in our views as their thinking develops.

Auto-enrolment is now nearly 10 years old and part of the fabric of UK pensions. One of the side-effects of the highly effective policy initiative over time has been the increasing volume of 'small pots'. These are difficult for individuals to track and manage, and have cost attached for providers that affects value for members, both past and present.

By 2035 there could be as many as 27 million pots with less than £2,000 in them, unless we make changes to the way that small pots are managed. We're pleased to be part of the Small Pots Cross-Industry Co-ordination Group which is working to find solutions to this challenge that will benefit both savers and providers.

THE LGPS

Tiffany Tsang
Head of DB, LGPS and Investment

The PLSA is keeping its ears close to the ground on how some important policy areas are developing for our LGPS members, and will continue to engage and intervene with stakeholders where appropriate.

We're carefully monitoring the progress of the Public Service Pensions and Judicial Offices Bill, relating to equal treatment of all members of public service pension schemes. The bill is set to receive its third reading in the House of Lords in December. We sent a briefing note to Peers for its second reading in September, highlighting the requests from our membership on implementing the McCloud judgment.

TPR's Single Code of Practice is another priority. Clarity is still urgently needed around various issues, including how the term 'governing body' will be applied to the LGPS, as it could refer to multiple entities.

Given the prominence of responsible investment within the overall pensions landscape, it will be interesting to see how the Department for Levelling Up Housing and Communities proposes that the Taskforce on Climate-Related Financial Disclosures (TFCD) be applied to the LGPS. The expected consultation on asset pooling guidance will also have important implications for LGPS pooling governance arrangements.

As the regulatory landscape becomes ever more complex, achieving clear communications with both current and deferred members of the LGPS will also continue to be a priority. Additionally, the reality of pension dashboards continues to drift closer, with implications both for schemes and members.

Lastly, LGPS funds have received an increasing number of difficult and unreasonable audit requests, to very difficult timescales, in the last few years. Much of the frustration from our members stems from a very basic misunderstanding by auditors of how the LGPS operates. We will continue our work with the ICAEW to try and improve processes within audit requests, to ease burdens.

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

PLSA LOCAL GROUPS: YOUR REGIONAL NETWORKS FOR SHARING KNOWLEDGE.

Did you know that the PLSA operates Local Groups throughout the UK from Scotland to South East England?

Local Groups are the place to build your network in your region, share your share experience, gain new insight and enhance your CPD hours.

Meetings usually happen in early morning or late afternoon/evening sessions. They can include panel discussions, debates, seminars and specialist updates by industry experts. Some groups host annual one-day seminars and social events. Local Groups are currently held online only but hope to resume in-person meetings in 2022.

Make the most of your membership. To find your nearest Local Group and sign up for meeting invitations please email:

Cheryl Wilkinson
Membership Engagement Manager at
Cheryl.wilkinson@plsa.co.uk.

WHAT DOES THE BUDGET MEAN FOR PENSIONS?

Nigel Peaple, Director Policy & Advocacy, PLSA, broadly welcomes a Budget that maintains tax support for pensions.

HELPED IN NO SMALL PART BY THE UK ECONOMY PERFORMING BETTER THAN EXPECTED, THE PENSIONS INDUSTRY BREATHED A COLLECTIVE SIGH OF RELIEF AFTER THE BUDGET AT WHAT MIGHT HAVE BEEN.

It was widely rumoured that the Treasury, with an eye on repairing public finances in the wake of stimulus measures introduced to combat a once-in-a-century public health crisis, had been weighing up reforms to pensions tax relief that would reduce the fiscal support that encourages pension contributions.

It is very positive that the government has listened to the PLSA and the wider pensions industry in recognising that more not less pension saving is needed, and decided not to make any fundamental changes to the current system of pensions taxation.

Following extensive examination of the implications of major changes, we have explained to the government in many forums that mooted reforms to pensions tax relief – such as adopting a single rate of tax relief at 20%, 25% or 30% – would not have a materially positive impact on pension adequacy for the vast majority of savers, but would result in substantially higher tax bills for 3 to 4 million savers – and increase cost and complexity for pension schemes and employers.

Perhaps most importantly in the context of the rumoured motivation for possible reforms, changes would not raise as much money for the Exchequer as many had previously thought. An objective analysis of the most likely reforms suggests that the gains from major reforms would be in the low billions of pounds and that much of this would be eaten up by increased costs to the government in compensating for the reduced incomes of public sector workers.

Tax relief provides crucial support for savers by boosting their savings over the long term. The significance of it being maintained should not be understated.

NET PAY FIX POSES NEW CHALLENGE

After extensive campaigning from all corners of the pensions industry, the PLSA is pleased the government outlined in the Budget a solution to address the pensions tax administration anomaly that results in approximately 1.2 million lower earners – mostly women – in net pay schemes missing out on pensions tax relief.

IT IS VERY POSITIVE THAT THE GOVERNMENT HAS LISTENED TO THE PLSA AND THE WIDER PENSIONS INDUSTRY

On average, low earners are missing out on over £50 each per year, equating to nearly £65 million in lost pension contributions annually. However, the Treasury has only anticipated an impact of £10 million for the first year, rising to £15 million in the second.

The PLSA has been calling on government to fix this problem for some years. Indeed, it is something we highlighted in our submission to the Treasury in advance of the Budget.

Those impacted will be offered a 20% top-up to their contributions from the 2024/25 tax year, to be paid the following tax year.

While this is not the P800 solution preferred by the pensions industry, which would have resulted in fully automatic tax top-ups, the Treasury's approach can work provided individuals make their one-off claim for the payment.

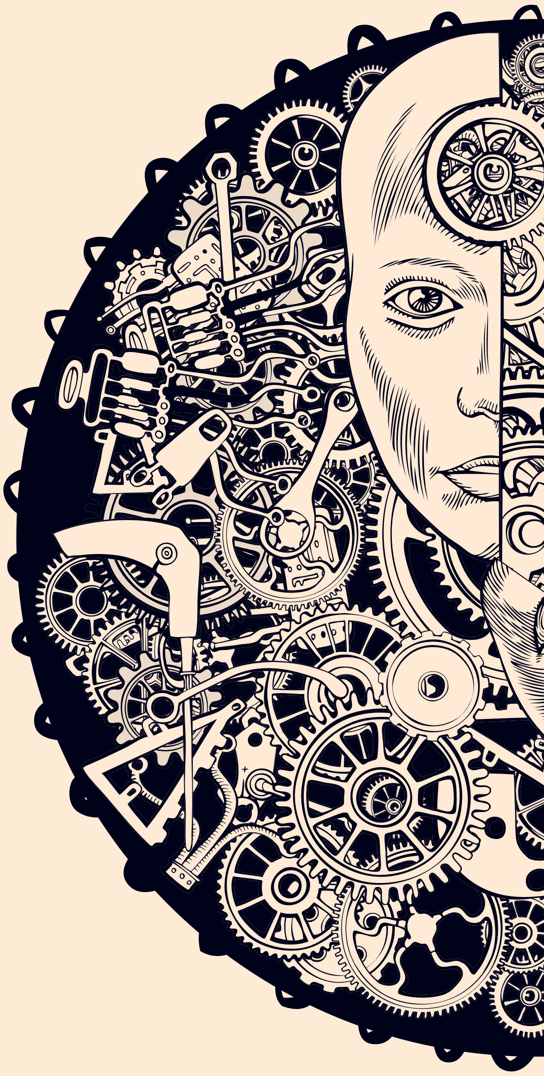
The major challenge the new fix poses is that uptake of the top-up payments is likely to be low without an effective awareness campaign.

In fact, as *Professional Pensions* first reported on Budget day, the government's own estimates show it expects only 15% of those eligible to take up the free cash on offer.

With three years to go before people are able to claim, the PLSA commits to working with government, pension schemes and other stakeholders in positions to provide guidance to those affected, to publicise how people can make a claim and beat the unambitious estimate for take-up laid out in the Treasury Red Book.

PENSIONS TAX POLICY– WHERE FROM AND WHERE NEXT?

Jane Marshall, Director Pensions Archive Trust, looks at 100 years of pensions tax relief – and considers its future.



LIFE USED TO BE SIMPLER. ONE HUNDRED YEARS AGO, A GROUND-BREAKING PIECE OF LEGISLATION – THE FINANCE ACT 1921 – ENACTED THE FRAMEWORK FOR PENSIONS TAX RELIEF WHICH REMAINED BROADLY INTACT FOR MOST OF THE 20TH CENTURY. PENSIONS POLICY WAS ADMIRABLY CLEAR. SAVING FOR RETIREMENT WAS TO BE ENCOURAGED SO THAT LEVELS OF POVERTY WHICH HAD BLIGHTED PREVIOUS GENERATIONS OF WORKING PEOPLE COULD BE ERADICATED.

Employers were to play a key part in that. Indeed, they were expected to do the heavy lifting needed to ensure that meaningful levels of retirement security could be achieved. It therefore made sense to allow employers to set pension contributions against their taxable profits, for employees to get tax relief on any contributions they made, and for the fund in which those contributions were invested to accumulate free of tax – provided the fund was approved by the Inland Revenue.

Of course, that policy had taken time to achieve. The archives of the PLSA (formerly the National Association of Pension Funds), now held by the Pensions Archive Trust, document the struggle to convince politicians and the Inland Revenue. That it succeeded against the backdrop of the First World War and the social, economic and political upheaval which went with it, is a tribute to the vision and persistence of those early employers who wished to build on the charitable impulses which had already led to the formation of funds such as those of Reuters in 1893 and WH Smith in 1894.

Other familiar names across a variety of sectors had established pension arrangements before 1921 – Boots, Cunard, The Times newspaper, Bournville and Royal Mail along with a host of others – but the new tax regime encouraged many more. Employers continued voluntarily to set up and improve new schemes throughout the inter-war years and for much of the 20th century.

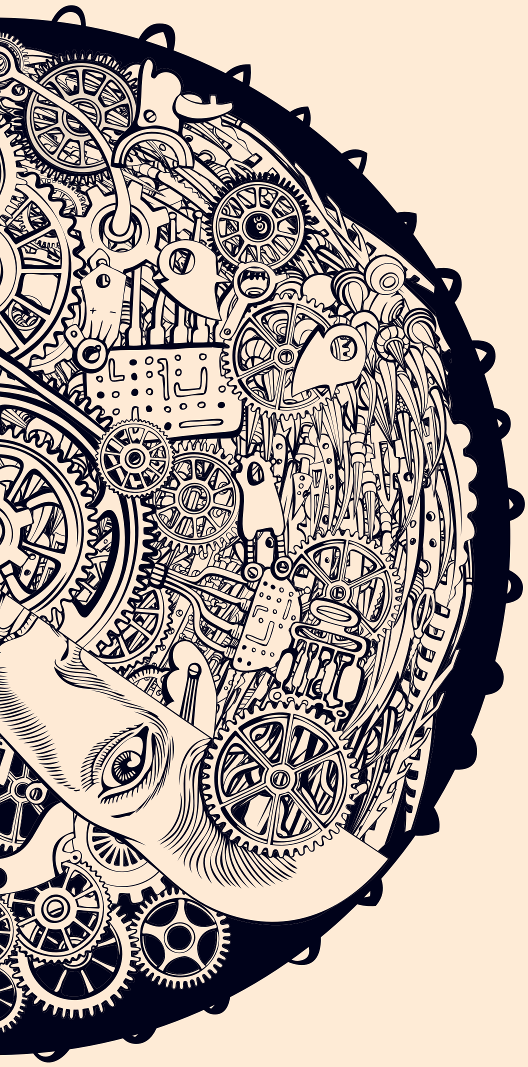
As Revenue approval was necessary to secure tax relief, the requirements of the Revenue dictated the structure of the pension funds which were set up. Almost all occupational schemes set up at this time were established under trust. The advantages of separating pension assets from the employer's resources and placing the funds under the stewardship of trustees may seem obvious – but it was the Revenue requirement that schemes be set up under irrevocable trust which shaped the pensions landscape until comparatively recently.

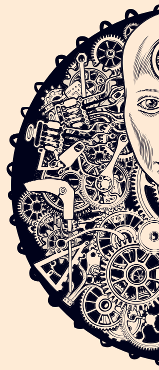
IT HAS BEEN ESTIMATED THAT THE WITHDRAWAL OF ACT TAX RELIEF COST PENSION FUNDS £117.9 BILLION BETWEEN 1997 AND 2014

For the self-employed, tax relief on pension contributions was also available. Specific percentages of tax-allowable contributions were set out, broadly increasing with age.

EMERGING THEMES

Tax policy remained stable for most of the century with one or two exceptions. Two particular changes however highlighted themes with which we are increasingly familiar. The first is Treasury concern at the cost of pensions tax relief; the second is the ability – from a practical and political viewpoint – to remove or modify those reliefs.





The 1980s were a decade in which many final salary occupational schemes were in surplus. Keen to ensure that employers were not using excessive pension contributions to shelter corporate profits, the Finance Act 1986 required surplus beyond specified levels to be reduced by contribution holidays, benefit improvements or, exceptionally, by the return of excess funds to the sponsor in whose hands it could be taxed. Many of the arguments about the part that contribution holidays played in the under-funding of final salary schemes, which emerged as the economic wheel turned, have their roots in this change of tax policy.

PENSION TAX RELIEF IN ONE FORM OR ANOTHER COMES UP AS A TOPIC FOR DEBATE AT ALMOST EVERY BUDGET

To the general public listening to the 1997 Budget, the change in advance corporation tax (ACT) relief must have been a technical and little-understood measure that was of less interest than the cost of petrol or beer. Finance directors and pensions professionals understood the implications better. It has been estimated that the withdrawal of ACT tax relief cost pension funds £117.9 billion between 1997 and 2014. Many professionals working at the time were conscious of an almost immediate change in how some corporate managements were regarding their pension schemes. If a long-established framework could be changed in this way without consultation, might other changes be on the way? Could there be a further material increase in pensions cost and risk as a result? And what about savers in money purchase schemes whose returns were directly affected? No wonder this measure is regarded by some as the ultimate stealth tax, little regarded by the public at the time but having major consequences.

A DAY

Further significant changes to pensions tax were announced in the 2004 Budget. These took effect on 6 April 2006, the so-called tax simplification or A Day. A single universal tax regime was created for both occupational and personal pensions, with limits on tax relievable retirement savings controlled by an Annual Allowance and a Lifetime Allowance. The level of both Allowances has been gradually reduced in the years since 2006 as the cost of tax relief continues to be a live issue. The Annual Allowance in particular has been subjected to rapid and substantial change.

Pension tax relief in one form or another comes up as a topic for debate at almost every Budget as rumours of possible changes invariably surface. Discussions on this topic now routinely include a consideration of fairness in the distribution of tax relief. Is it fair that most tax relief goes to higher rate taxpayers? Is there a case for a rebalancing, perhaps by only allowing relief to be claimed at the basic rate? But if pension saving is to be encouraged why penalise higher rate taxpayers? And fairness means different things to different people. A universal limit on tax-relievable pension benefits applying to everyone – surely that's fair? Not according to some public sector workers, enraged that their final salary benefits are subject to the same tax constraints as other people's. Just ask a medical consultant. Fairness truly is in the eye of the beholder.

THE FUTURE

A number of valiant attempts have been made to try and bring some clarity into future policy-making in this area. In February 2021 the PLSA published a discussion paper entitled Five Principles of Pension Taxation. It proposed that if any reform of pensions tax relief was to be attempted, it should be based on the following principles:

- Any new system should provide financial support and incentives for saving.
- It should help savers make the right decisions about retirement saving.
- It should help everyone – whether employed, self-employed and non-workers (their terminology) – save for retirement.
- It should be simple and minimise cost.
- It should be designed to avoid repeated change and help to build confidence in long-term saving.

It is difficult to quarrel with any of these as general principles. Perhaps, though, the most important is the fifth and final principle. We have seen that pensions tax policy can change the way employers and others behave. One of the resounding achievements of the 1921 Finance Act was to establish a framework which gave stability and confidence over many years, leading to a huge advance in meaningful pension provision for more people. Times change – but not the need to set clear long-term policy objectives and an implementing framework to support them.

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LEGAL UPDATE

AUTUMN PENSIONS LAW LANDSCAPE

Loreto Miranda, Thomson Reuters' Practical Law Pensions service.

AUTUMN PENSIONS LAW DEVELOPMENTS INCLUDED THE BUDGET, LONG-AWAITED CONFIRMATION OF THE STATUTORY PENSION TRANSFER REGIME, AND THE OUTCOME OF THE *MITCHELLS & BUTLER* PENSION DISPUTE.

- **Statutory pension transfers.** Provisions[1] restricting the right to a statutory transfer in certain cases come into force on 30 November 2021. They provide conditions that must be met in order for a member to exercise their statutory right to transfer, raising potential due diligence considerations for trustees dealing with transfers. Schemes will also have to take into account the Pensions Regulator's new guidance. The Pension Scams Industry Group is working on a revised version of its Scams Code to reflect the new rules, expected later this year.
- **Autumn Budget and Finance Bill: pensions.** The Bill included provisions increasing normal minimum pension age to 57 with effect from 6 April 2028. Responding to concerns about scams, a protected pension age will be restricted to individuals who became members of a scheme before 4 November 2021 (or who had requested a transfer before that date) and had an unqualified right to a benefit from an age of less than 57 that was written into the scheme rules on 11 February 2021.[2] Other points to note: a consultation before the end of the year to further reform the charge cap in DC schemes used for auto-enrolment to "better accommodate well-designed performance fees", a new system of top-up payments to tackle the net pay issue, and further changes to pensions tax to accommodate the McCloud remedy in public sector pension schemes.
- **Pension Schemes Act 2021** (PSA 2021). Various follow-up measures include **further climate risk reporting requirements** under consultation[3] (until 6 January 2022) to require trustees of occupational pension schemes with relevant assets of at least £1 billion to adopt a new portfolio alignment metric in line with the TCFD recommendations and PSA 2021 provisions.
- **Rectification of scheme rules.** *In Mitchells & Butlers Pensions Limited v Mitchells & Butlers PLC*[4], the High Court granted the trustee's claim for rectification of scheme rules that purported to give the company the power to change pension increase rates. The lengthy and complex judgment considers the principles applicable to rectification of scheme documents, invalid exercise of amendment powers due to failure to consult the scheme actuary or statutory restrictions, and the bona fide purchaser defence.

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

1. Occupational and Personal Pension Schemes (Conditions for Transfers) Regulations 2021 (SI 2021/1237), Pension Schemes Act 2021 (Commencement No 4) Regulations 2021 (SI 2021/1236),
   DWP: Consultation response, Pension scams: empowering trustees and protecting members (8 November 2021).
2. UK Parliament: Treasury update: Statement made on 4 November 2021 (UIN HCWS373).
3. DWP: Open consultation: Climate and investment reporting: setting expectations and empowering savers (21 October 2021)
4. [2021] EWHC 3017 (Ch)