VIEWPOINT

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100 PENSIONS AND LIFETIME SAVINGS ASSOCIATION

PLSA AT 100: PAST, PRESENT AND FUTURE





PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

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PENSIONS AND LIFETIME SAVINGS ASSOCIATION

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Celebrating our centenary

PLSA CEO ***Julian Mund*** introduces the spring issue of *Viewpoint*, in which we celebrate turning 100 and look ahead to a busy year.

I wonder what John Mitchell of the Omnibus, Railway and Equipment Companies' Staff Superannuation Fund – and our association's first elected Chair – would have thought if he'd known that his small group's lobbying campaign would lead to the formation of a membership association that 100 years on is still dedicated to helping everyone achieve a better income in retirement?

This year, as we celebrate our centenary, the Pensions and Lifetime Savings Association represents over 1,300 pension schemes that together provide a retirement income to more than 30 million savers in the UK, including DB and DC schemes, master trusts and local authority funds. I'm incredibly proud of everything the association has achieved over its 100 years and continues to achieve today.

In this issue of our exclusive membership magazine, we explore the past, present and future of our change-making association, and we hear from Alan Pickering, who many of you will remember as Chair of the association from 1999 to 2001 and who continues to support us to this day.

Later this year we'll publish more extracts from PLSA/NAPF alumni and delve a little deeper into the archives, sharing more about the fascinating evolution of our association and the dedicated people behind it.

BE PART OF THE DEBATE

Looking more closely at plans for this year and we're busier than ever running a successful programme of events including the Policy Insight Webinars, roundtables and Trustee Training. Read the interview in this issue with Carolyn Saunders, the leader of our Trusteeship Part 1 course, who talks about why new and prospective trustees should take the training and reveals the hot topics that will be included in the courses in 2023.

This year we're delighted to launch the PLSA Forums, taking place in London – an interactive format offering members the opportunity to be part of the discussion and help drive policy. Covering trusteeship, DB, local authority pensions and master trusts, the forums are focused on peer-to-peer networking, sharing ideas and debating strategy.

Members can also look forward to our ever-popular Investment and Local Authority Conferences and of course our Annual Conference, this year taking place in Manchester. It will be at the Annual Conference dinner where we'll be celebrating our centenary with members. And in November we're looking forward to the PLSA's new in-person Responsible Investment Conference, building on the success of the digital ESG Conference.

Our events calendar has something for all members, and the PLSA's Marcin Stepan provides a taster of what's on at Investment Conference.

SHAPING THE PENSIONS OF TOMORROW

Today the PLSA's mission to help everyone achieve a better income in retirement is clearer than ever through our policy-driving campaigns.

Our Five steps to better pensions: Time for a new consensus campaign calls for a path to increased automatic enrolment coverage and contributions by the 2030s. We've been consulting on our recommendations and you can find out more about the webinar we ran for members in this issue. Plus, we tell you about the fantastic market-leading work that our member Jaguar Land Rover is doing to help its savers.

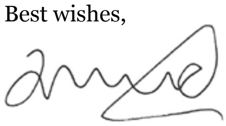
Reading back over the history of the association, and pensions generally over the past 100 years, it's remarkable to see how much has changed and improved for schemes and savers. But there's so much more to do. The cost-of-living crisis squeezing the finances of the UK's savers is not looking like it will dissipate any time soon. Together with our members and others in the industry we're looking at ways to support people in these tough times, while continuing to work on a pensions roadmap to avoid sleepwalking into a pensions adequacy crisis.

This is why improving pensions adequacy remains top of the bill in our policy priorities for 2023. In this issue of *Viewpoint*, the PLSA's Nigel Peaple tells you a bit more about this and our six other regulatory policy areas of focus: Pensions Dashboards, DB Funding Code, responsible investment and stewardship, the Local Government Pension Scheme, DC decumulation and DC value for money; and we bring you the latest on some of our newly launched initiatives, such as recent research on pension funds' progress towards net zero.

As Chief Executive of the PLSA at our centenary, I feel confident that together with you, our members, we have the strength and power to drive the changes needed. We'll continue to be the voice of pensions, bringing the pensions industry together, and sparking debate. And we'll be meeting with as many of you as possible to find out what we can do to help your scheme, your business, your savers.

Here's to the next 100 years!

Best wishes,



Julian Mund

THE MEMBER BACKING PENSIONS AND LIFETIME SAVINGS ASSOCIATION

TRUSTEE TRAINING PROGRAMME

Our trusteeship courses help trustees of all levels to understand the role and responsibilities and the issues you will face. We'll improve attendees' knowledge and impact and make you the best trustees you can be.

PART 1: THE THEORY

17 May | 14 Sept

Our expert trainers take trustees with less than 12 months' experience, including no experience at all, through how pension schemes work, what is expected of them and how to apply good scheme governance.

PART 2: THE PRACTICE

20 Jun | 31 Oct

With support and guidance from independent experts, trustees with some experience will take part in boardroom simulations to learn how to approach the issues you will face in your role.

PART 3: THE EXPERT

22 Nov

This course is aimed at those who have been in their trustee role for two to three years, who are familiar with the basic principles of trusteeship and accustomed to attending trustee meetings - but who are keen to hone their skills and improve their effectiveness as a trustee.

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

Taking training to the next level

The PLSA's Trustee Training courses bring industry experts together with trustees at different stages in their careers. ***Maggie Williams*** caught up with ***Carolyn Saunders,*** leader of our 'Part 1: The Theory' introduction to trusteeship and co-developer of and trainer on our Part 2 and 3 courses.

Q

WHAT ARE SOME OF THE HIGHLIGHTS OF THE PART 1 TRUSTEE TRAINING? WHAT CAN DELEGATES EXPECT ON THE COURSE?

The Part 1 course is an introduction for new trustees with less than 12 months' experience, and for prospective trustees with no experience in trusteeship at all.

It covers basics such as trustee powers and duties, decision-making, how schemes are financed including the basics of scheme funding for DB schemes, investment, and how to ensure good standards of governance. Everyone should leave the course with a much better understanding of their role and feeling that it has put trusteeship into context for them.

One of the biggest strengths of our course is the practical way in which it's delivered. It's not a dry session that simply pumps delegates full of information – although, of course, we do provide a lot of detail. We want to help trustees put their new knowledge into context, understand how they fit within their scheme, and explore ways they can work effectively with advisers. We make the course as interactive and accessible as possible, to encourage plenty of questions.

That means no two courses are ever the same because, alongside the core materials that we deliver, the sessions are shaped by the questions that we're asked by delegates. There's usually between 12 and 20 people on the course, which allows everyone an opportunity to participate and get answers to the questions that are important to them. We are as flexible as possible and really want to accommodate individual trustee needs.

Q

WHY IS IT IMPORTANT TO DO TRUSTEE TRAINING WITH AN ORGANISATION LIKE THE PLSA?

It's important to train in a live environment like the one the PLSA offers because it facilitates questions and interaction between trustees, both in the sessions and also during breaks. Delegates who haven't had a chance to ask their question, or who feel a bit inhibited about asking in front of a group, can chat to the presenters during breaks, giving them a further opportunity to explore their questions and concerns.

MEETING WITH TRUSTEES FROM OTHER SCHEMES HELPS PROVIDE WIDER PERSPECTIVES, ESPECIALLY FOR NEW RECRUITS

Another important aspect of live training which it's difficult to replicate online is the opportunity to swap experiences with and learn from other trustees outside your own scheme. Many trustee boards will have live training sessions with their advisers, and that is also very valuable. But meeting with trustees from other schemes helps provide wider perspectives, especially for new recruits.

All of the presenters on the PLSA's courses are also practitioners, so that adds real-world experience to the content. We can help trustees to see how ideas and knowledge work in practice, which gives a different flavour to the training.

The courses also give trustees the opportunity to network and build connections with their peers, which is invaluable. They will meet other trustees who are at a similar stage to themselves, which they won't necessarily get from their own board. Participants can swap experiences on the day and continue those networks after the training course has finished.

Q

WHAT ARE THE CURRENT HOT TOPICS THAT YOU'LL BE INCLUDING IN 2023'S TRAINING COURSES?

There is a lot of change coming. The next few years will be very busy for trustees and their advisers. Many of the trustees we see are responsible for DB schemes, so The Pensions Regulator's (TPR) DB Funding Code will be very significant, and we're anticipating that will be operational from October 2023. TPR's new Code of Practice is also imminent, which is more than a simple consolidation of existing codes. It will require trustees to prove that they have an effective system of governance, and to carry out annual assessments of that governance.

Environmental, social and governance (ESG) investment is ever-present and fast evolving, although trustees' commitments will depend on the size and complexity of their scheme. However, diversity will become more of a focus for all schemes this year. TPR has published its action plan for equality, diversity and inclusion, and I think we'll see more about this in the finalised code of practice as well.

Pensions Dashboards are another important area, especially for larger schemes that will need to comply sooner.

Beyond specific topics, the biggest ongoing priority for trustees is understanding what types of questions they should be asking and how to challenge their advisers. Trustees don't have to understand the technicalities of something to be able to ask good questions; quite often it's enough to say, 'I don't understand'. A scheme's advisers should be able to explain anything that's unclear, and it's important to help trustees understand how to question advisers and consultants. Having practitioner experience on the course is invaluable in this respect.

Q

WHAT DO YOU PERSONALLY LOOK FORWARD TO ABOUT THE COURSES?

I've been teaching on the PLSA's courses for over 14 years now. During that time the courses and the way in which they're delivered has evolved significantly. I enjoy doing what is needed to make the courses as engaging as possible, and I enjoy the fact that every group of delegates is different. They have different questions, which keeps everything fresh and interesting for me and the other presenters. It keeps us on our toes – and it keeps me in touch with those issues that are at the top of trustees' minds.

You'll often get asked questions in training that trustees feel they can't ask in their own board environment, because they feel they should know the answers already. We hope that through this course we give trustees competence and confidence, demystify key topics, and say that it's okay to ask questions and fill knowledge gaps. And if you don't understand what your adviser is telling you, it's important to ask them to explain it.

Q

HOW DOES PART 1 OF THE TRAINING LINK TO PART 2 AND PART 3?

Part 1 is very much the foundation. As we're working with new trustees, we need to make sure that everyone receives a good grounding in the basics of trusteeship, in a practical way. As we move onto Parts 2 and 3, these are more case-study based and focused on putting skills into practice.

In Part 2 and Part 3, we divide trustees up into groups and encourage them to think through real-life situations such as how they might handle a death-in-service benefit, or how to deal with corporate events such as a takeover. It's about making sure that trustees don't feel intimidated by what might appear to be a very complicated situation, that they know how to drill down into detail if they don't understand something, and have some commonsense questions that they can ask.

TRUSTEE TRAINING DATES 2023

Find out more about our training dates and details from the website.

PART 1: THE THEORY

17 May

14 September

PART 2: THE PRACTICE

20 June

31 October

PART 3: THE EXPERT

22 November

Investment Conference preview

There are lots of reasons to come to Edinburgh in June, says ***Marcin Stepan,*** PLSA Events Content Manager.

What's not to love about Edinburgh at the start of June? Long days filled with sun and (typically) limited rain allow for those stunning panoramic vistas, even when you're in the middle of Old Town. There's the cobblestone Royal Mile, the route for kings and queens for the last 500 years, with Edinburgh Castle at its head and the Palace of Holyrood at the bottom with plenty of historic buildings in between. There is Arthur's Seat or Carlton Hill if you want to stretch your legs. And, of course, there's a fine selection of watering holes and eateries to sample the numerous cuisines around.

But this year there's another reason to be in Edinburgh in early June, particularly for those involved in pension investments – and that's the three-day PLSA Investment Conference. It's the largest UK event focused on pension fund investment and offers an opportunity to speak to more than 800 pension funds, consultants, investment managers and financial advisers. Coming together to meet face-to-face to share ideas, exchange views and learn from each other's experiences has never been more important, particularly as we grapple with the big-picture challenges and sector-specific issues facing the industry in these turbulent times. There are a number of big questions facing us, and we'll attempt to get to grips with some of them.

The macroeconomic outlook for the UK and beyond is fragile and investors are cautious. Geopolitical concerns, inflation risk, recession worries, energy spikes and climate emergency are top of the agenda. What does this mean for the economy and the pensions industry, and how are policymakers tackling these challenges? You can expect an astute and punchy analysis from Robert Peston, ITV's Political Editor, as he puts into perspective the UK political scene and the looming General Election.

Come June, it will be nine months since the gilt market crisis and by then we'll have seen several reviews and changes that have followed in its wake. What has the impact been and what lessons have been taken on board? Taking a broader view, statistician and Fellow of Churchill College Cambridge David Spiegelhalter will help us better understand risk and the misconceptions around it, as well as the strategies and tools that are at our disposal.

Given the challenging investment climate, the search for growth opportunities is paramount. From equities to fixed income and alternatives, how do we rethink our investment strategies and asset allocations in this new paradigm? How do we continue to balance risks to make sustainable returns?

Pension funds wield considerable power and influence with the size and scale of the assets on the balance sheet. As we know, with great power comes great responsibility, so what role do schemes play in supporting society and the economy? How best can pension funds serve the public good and deliver on member outcomes? And how to factor in the decarbonisation agenda and the just transition while simultaneously avoiding unintended consequences?

These are just some of the questions we'll be seeking answers to.

Over three days you'll experience plenary sessions with insights from industry thought leaders and perspectives from experts on economics, geopolitics, digital development and risk management. Stream sessions, masterclasses, fireside chats and roundtables will get into the detail of the funding, asset allocation, stewardship and net-zero challenges facing pension schemes in 2023. Defined contribution defaults, defined benefit funding, CDC, illiquids and private markets will all be on the programme

Looking beyond the investment focus, Rahaf Harfoush, a digital anthropologist, academic and consultant on technology and leadership, will share the latest developments and trends in tech and digitalisation and how it impacts business, work, and society. Rory Stewart, the former Tory minister and current co-host of the hugely successful podcast *The Rest is Politics*, is our after-dinner speaker. He'll share some anecdotes, and possibly even behind-the-scenes secrets of the inner workings of Parliament and the Conservative Party.

These are just some of the reasons to be in Edinburgh in early June.

WITH GREAT POWER COMES GREAT RESPONSIBILITY, SO WHAT ROLE DO SCHEMES PLAY IN SUPPORTING SOCIETY AND THE ECONOMY?

Five steps to better pensions


Simon Sarker and ***Alyshia Harrington-Clark*** explain why we need a new approach to pension savings, and how the PLSA is supporting it.

Part of the PLSA's purpose is to help everyone achieve a better income in retirement – or at the very least an adequate one. The current cost-of-living crisis has provided a stark reminder of the impact on individuals and families when their income becomes unable to keep pace with the cost pressures on their household budgets. Too many in the UK also risk future financial shocks from inadequate pensions income.

But how can we determine whether a person or household has enough for an adequate income in retirement? There are two key ways of conceptualising this:

Proportional income targets. This is the approach that the Pensions Commission used to address adequacy in 2005. The target works on the basis that an individual's retirement income should achieve a proportion of their working income immediately preceding retirement. The target replacement rates reduce according to the levels of earnings, so those with the lowest earnings prior to retirement need to maintain almost all of their income into retirement – for example, someone earning £15,000 will need to replace around 80% of their income. Someone on a higher income may not need such a high replacement rate, as in theory they face lower costs, such as low or no mortgage payments and reduced discretionary spending. However, there is research to show that most people want to try to maintain their living standards when they retire, not reduce them. So, we may need a different approach to calculating adequacy.

Fixed income targets. Another way of looking at adequacy is to use an income target that delivers a defined living standard. The PLSA's Retirement Living Standards are an example of this. They convey what expenditure is required to achieve the three different living standards of minimum, moderate and comfortable. You can find more information about the Retirement Living Standards on page 12.

ARE PEOPLE ON TRACK FOR AN ADEQUATE RETIREMENT?

To assess the UK's current level of pensions adequacy, we commissioned the Pensions Policy Institute to update modelling work it carried out last year for The People's Partnership, based on the Office for National Statistics Wealth and Assets Survey. The latest update reflects our latest Retirement Living Standards and the increase in the State Pension announced at the end of last year.

Using the Pensions Commission's target replacement rate, just over half of all households are on track to achieve their replacement rate, but only around two-fifths of households where at least one member is saving into a DC pension are on track to do so.

In terms of meeting the expenditure requirements of the different Retirement Living Standards, around 7 out of 10 among the whole population are on track to meet the minimum standard and almost 8 out of 10 of those in households where there's someone currently saving into a DC pension. However, this drops to 35% for DC savers who are currently projected to meet the moderate standard, and less than 1 in 10 who are likely to achieve a comfortable standard of living.

FIVE STEPS TO BETTER PENSIONS

The PLSA believe more people should be able to enjoy a moderate or comfortable income in retirement. We published our *Five Steps to Better Pensions* report last year at our Annual Conference. It outlines the positive story so far on automatic enrolment and sets out reforms that we believe are needed to ensure that the largest number of people possible retire with an adequate pension.

01

SET CLEAR NATIONAL OBJECTIVES

There are huge opportunities to change the current pensions framework and improve pensions adequacy in the UK.

One of the key issues is a lack of clear objectives and goals for the pension system as a whole, which means that there is also insufficient monitoring of its performance. It's therefore no surprise that so many people fall short of the retirement income goals set by the Pensions Commission.

We need to go back to basics and question what pensions are for in the UK and create an up-to-date common definition of what an income in retirement should achieve. Without that it's hard to build the right system or check whether it's delivering.

The Pension Commission's targets were set back in 2005, so we need to review them and set objectives to define what is adequate, affordable and fair. The government's Work and Pensions Select Committee also agrees that clearer objectives are needed, so there is strong consensus on this.

02

INCREASE STATE PENSION TO AVOID POVERTY IN LATER LIFE

The State Pension is far below some UK measures of poverty, such as the Joseph Rowntree Foundation's Minimum Living Standard, and we believe it needs to increase to be more in line with that of other countries. There could be affordable ways of doing that, such as looking at means-tested benefits. For comparison, our minimum Retirement Living Standard is currently about 15% higher than the State Pension.

03

INCREASE AUTOMATIC ENROLMENT CONTRIBUTION LEVELS

The UK needs to build on the initial successes of auto-enrolment, to make it accessible to more people and increase contributions. We believe we need to plan for total contributions to reach 12% by the early 2030s.

This is the single most effective reform that will help to get people back on track for an adequate retirement – but in the middle of a cost-of-living crisis, now is not the time to make this change. It will be more appropriate to address this from the mid-2020s onwards, or when the cost-of-living crisis hopefully eases a little.

We would like the government to implement its own recommendations on automatic enrolment, which were the result of a review in 2017. That recommended reducing the qualifying age for automatic enrolment, as well as removing the low earnings limit gradually so that everyone will benefit from pension saving from the first pound of earnings.

04

SUPPORT UNDER-PENSIONED GROUPS

Increasing contributions, reducing the minimum age of retirement, and supporting low earners all give people more time and a larger salary base on which to build their savings. But other reforms are needed for certain groups. For example, women in their 60s have just a third of the pension wealth that men have. Women are also more likely to belong to the 1.2 million people in the UK with multiple jobs who don't meet the £10,000 earnings threshold in any one of their jobs, so miss out on pension savings from all of their work.

We need to explore how to calibrate auto-enrolment to work best for those that are currently under-pensioned, as well as very low earners. This could include proposals such as pause mechanisms or being able to temporarily opt-down to help people save more.

05

INDUSTRY INITIATIVES TO ACHIEVE BETTER PENSIONS

Finally, we need industry initiatives to support and encourage individual savers, as well as to help make the most out of the money being saved into pensions. The PLSA and its members are already delivering some of these, such as the Pensions Quality Mark which demonstrates quality and enhanced contributions in DC schemes, as well as our Retirement Living Standards. The wider industry is also engaged in delivering applications of the Retirement Living Standards as well as many other initiatives, such as digital tools to support savers.

We're also engaged with creating solutions for small pots, enhancing understanding of the potential of Pensions Dashboards, working towards simpler annual statements, and propelling policy change like the introduction of collective DC and retirement income choices.

OUR TIMELINE

We're in the midst of difficult economic times, so the timing of our proposals is sensitive. We're not calling for any material policy changes before 2024, and there would be no change to employer contributions before 2027 or employee contributions before around 2031.

We're recommending that employer contributions are increased to 5% so that they match those of employees and achieve a 10% contribution overall by 2030, then in the early 2030s both should increase gradually by a further 1% to reach the total of 12%.

It's important that we continue to make progress on adequacy, but in the context of the pressures the current crisis is putting on both employers and employees.

We know that government is listening, which will eventually help us to build consensus around the issues that we are raising here.

WHAT DOES 'ADEQUATE, AFFORDABLE AND FAIR' MEAN?

What does a national pensions framework that is adequate, affordable and fair mean?

- **Adequate** means that nobody lives their later life in poverty, and many can maintain a fair proportion of their pre-retirement income.
- **Affordable** means that both workers and employers can afford to save and we protect those on lower earnings from over-saving.
- **Fair** means that we help all workers balance the cost between them and their employers.

Keeping up our standards

Head of Research ***Simon Sarkar*** delves down into the research behind the PLSA's Retirement Living Standards.

The development of the PLSA's Retirement Living Standards (RLS) in 2019 marked a turning point in the provision of relatable information about life in retirement for tens of millions of savers. The RLS have captured the media's attention with widespread coverage since launch across broadcast and print channels, all reinforcing the understanding of the costs and composition of the different standards. Widespread adoption of the standards across the industry and the development by schemes and organisations of innovative tools have further aided the journey to better understanding and resulted in action to improve saver outcomes. Many schemes are using the RLS not only as a way to fulfil their wish to educate and engage savers, but also to provide key metrics on saver outcomes for employers and trustees.

RLS - THE THREE STANDARDS

SECURITY CHOICE
OPPORTUNITY

COMFORTABLE... a broad range of opportunities and choices, peace of mind and the flexibility to do a lot of the things that you would like to do.

MODERATE... between the minimum and comfortable - access a range of opportunites and choices, having a sense of security and the option to do some of the things that you would like to do.

MINIMUM... a minimum standard of living... more than just, food, clothes and shelter... having what you need in order to have the opportunities and choices necessary to participate in society.

WE ARE FORTUNATE TO HAVE THE SUPPORT OF MANY PLSA MEMBERS WHO ENGAGE WITH THE DEVELOPMENT OF THE STANDARDS THROUGH THE RLS USER GROUP

In order to remain a trusted source of information it is vital that the standards are regularly reviewed so that they remain relevant to the changing circumstances and needs of the population. The standards use a methodology pioneered by the Centre for Research in Social Policy (CRSP) at Loughborough University in 2008 for the development of the Minimum Income Standard and applied to establish the RLS in 2019.

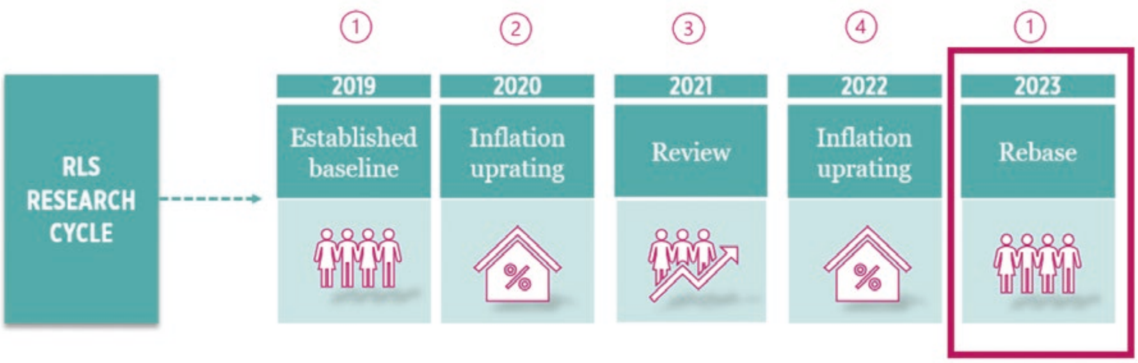
The four-year cycle of annual research behind the RLS is designed to produce regular updates to the budgets, reflecting changes in their composition and costs. In the first year of the cycle the standards were established by extensive research with members of the public across the country, each group deliberating on and discussing the baskets of goods and services required to achieve a given living standard. By doing so, detailed budgets were built up from scratch with a comprehensive list of the goods and services that were costed and aggregated to produce each standard. To further refine the standards, separate groups were held in London to determine whether there were differences in the consumption and costs of goods and services in London compared to the rest of the country.

In the second year the RLS budgets were uprated in line with inflation using the Consumer Price Index at a category level, meaning that prices within the budgets were changed to reflect the real changes in an expenditure category rather than just at the overall headline rate of inflation. In year three a hybrid approach was undertaken. This comprised research with members of the public to determine whether any changes needed to be made to the existing budgets, followed by an inflation uprating of existing goods and services and the costing of any items newly added to the budgets. The research cycle concluded its fourth and final year in 2022 when the budgets were again adjusted by CPI. This year marks the return to the start of the cycle again.

Over the past few years we have seen significant changes in the consumption and expenditure patterns within households. The pandemic brought about a dramatic shift in the way the nation shopped and socialised, with spending on out-of-home food and leisure activities curtailed due to lockdowns and an increased focus instead on in-home entertainment and meeting increased costs of goods due to supply chain pressures. The cost-of-living crisis has brought double-digit food inflation and unprecedented energy price rises, which has meant that many more households are facing pressures on their finances and decisions on how they should best use their resources.

The impact of the energy market changes has been substantial. Higher standing charges and per-kilowatt-hour prices combined with a shrinking provider market has restricted price competition for many, with many more customers now on the higher energy price cap instead of being able to shop around for cheaper tariffs. Between 2021 and 2022 the weekly cost of domestic fuel for a retiree increased by around 130% and accounts for between 30-40% of the increases in overall budgets for all three living standards between 2021 and 2022.

Another area of significant change beyond the headline rate of inflation is within food expenditure. Office for National Statistics analysis of the lowest price of 30 everyday groceries shows sharp price movements for some basic food items, which has particularly impacted those on lower incomes. From September 2021 to September 2022 the cost of milk rose by 29%, bread by 38%, tea by 46%, pasta by 60% and vegetable oil by 65%.



RETIREMENT LIVING STANDARDS 2022

		ONE PERSON	COUPLE
COMFORTABLE	2021	£33,600 £37,300 ▲ £3,700	£49,700 £54,500 ▲ £4,800
MODERATE	2021	£20,800 £23,300 ▲ £2,500	£30,600 £34,000 ▲ £3,400
MINIMUM	2021	£10,900 £12,800 ▲ £1,900	£16,700 £19,900 ▲ £3,200

Our research in 2022 revealed that the Minimum standard has increased at the fastest rate of all the standards, with increases in expenditure across multiple categories driving up costs by around 19%. The cost of a Minimum lifestyle increased around 18% from £10,900 to £12,800 for a single person and from £16,700 to £19,900 for a couple. The Moderate level increased by around 11% from £20,800 to £23,300 for a single retiree and from £30,600 to £34,000 for a couple. The Comfortable level also increased around 11% from £33,600 to £37,300 for one person and from £49,700 to £54,500 for a two-person household.

Changes that households have made to their expenditure may be a sign of temporary changes in priorities or may be indicators of longer-term shifts in behaviour and preferences. The work we are undertaking in 2023 takes us back to the first year of the research cycle and crucially allows us to investigate whether the cost-of-living crisis has had an impact on public views and expectations of what is needed in retirement.

THE COST-OF-LIVING CRISIS HAS BROUGHT DOUBLE-DIGIT FOOD INFLATION AND UNPRECEDENTED ENERGY PRICE RISES

Have expectations of what is reasonable to expect for a given standard been affected by the prolonged cost-of-living pressures, or have expectations remained similar despite the challenging economic environment? The team of researchers from Loughborough University kicked off the research with the first session in Nottingham at the end of January exploring the definitions and assumptions around the standards. The research then moves on around the country to discuss in detail the budgets required to achieve the standards.

Once the budgets have been compiled and defined additional groups will be held to further review and refine the content in order that a consensus view from the public is arrived at. In total 17 groups will be convened, each one lasting between 3 and 6 hours depending on the group's tasks. The detailed budgets will be costed with current prices according to the specifications arrived at by the research, and the work will be launched by the PLSA in Q4 this year.

The Retirement Living Standards Awards were launched two years ago at the PLSA's Annual Conference to recognise excellence in adopting the RLS as part of member communications, presenting an opportunity for users to showcase their work with members and share best practice within the industry. Award categories cover saver engagement as well as the use of technology and innovation in using the standards, offering sources of inspiration for others to consider in their own work with members.

We are fortunate to have the support of many PLSA members who engage with the development of the standards through the RLS user group, and we are very grateful to the Friends of the Retirement Living Standards who help fund the vital research behind the standards, keeping them current and relevant to savers and schemes. If you would like more information about participating in either group please speak to your usual PLSA contact or email *livingstandards@plsa.co.uk*. Further information on the PLSA's research can be found on our dedicated microsite at *retirementlivingstandards.org.uk*.

THE RETIREMENT LIVING STANDARDS AWARDS

We presented the PLSA's second Retirement Living Standards Awards at our 2022 Annual Conference.

Our judges selected Standard Life as the winner from a shortlist of pension companies, for its work in ensuring the standards are accessible to as many savers as possible. Donna Walsh, Head of Master Trust, Standard Life described the RLS as "an excellent way to help people understand what their life in retirement could look like."

WHO'S USING THE STANDARDS?

The Retirement Living Standards have been adopted by 28 schemes and companies within financial services, including schemes such as USS, M&S and Tesco; consultants and advisers like Aon, LCP and Mercer; providers including Aviva, Legal & General and Standard Life; master trusts such as LifeSight, Now:Pensions and The People's Partnership; and wider financial services providers such as WealthWizards, the Hub Group and the Money and Pensions Services.

Membership update

James Walsh is pleased to see how very central the PLSA has become in the world of pensions.

Sometimes it's not what's actually said at an event but just the simple fact that it's happening that seems the most salient point.

That's how I felt as I sat on the back row of the PLSA's main meeting room recently, watching the new Minister for Pensions, Laura Trott MP, announce a series of policies and consultations on DC issues covering everything from small pots to value for money to investment in illiquids and Collective DC.

The substance of the Minister's announcements was significant, of course – all these issues connect in one way or another to the PLSA's strategic policy objective of tackling pensions inadequacy. You'll remember we set these out in the *Five Steps to Better Pensions* paper that we published at last October's Annual Conference (see page 10 for more information).

But what really struck me was the event itself – specifically that the Minister saw the PLSA as the place to go to engage with the industry. In fact, it was her first public outing in the new role, so it was even better to see her choosing the PLSA as the venue for that.

It wasn't just the Minister whom we welcomed; the incoming CEO of the Pensions Regulator, Nausicaa Delfas, was there as well, plus senior officials from DWP and TPR. It was great to see these key policymakers and regulators gathered under the PLSA roof alongside our Policy staff and members of our Policy Board, including its Chair, Railpen CEO John Chilman, who hosted the event for us.

Those of you who have visited the PLSA offices will understand that it was all a bit of a squeeze, but we just about managed to accommodate everyone on a 'standing room only' basis!

Our Policy team is now busily engaged in responding to these consultations and I know they will welcome input from our members, so do contact them if you have comments. And, of course, we'll continue engaging on your behalf with the Minister and her team.

WEBINARS IN DEMAND

The other thing that's really struck me since the start of the year has been the demand for our webinars. The number of members dialling into these has risen significantly. I don't know whether that's because we're providing better content, or a better choice of topics, or just because of the convenience factor, but it's been good to see these going well.

Top of the Pops, if I dare put it like that, was our Policy Insights Webinar on the new DB Funding Code (yet another item currently out to consultation), which obviously affects huge numbers of PLSA members. It was great to hear my colleague Tiffany Tsang talking this through with the key officials from TPR and then all of them answering questions from our members.

AE PRIVATE MEMBERS BILL

Here at the PLSA we are also very pleased to support Jonathan Gullis MP's private member's bill on automatic enrolment reform, which includes some of the key recommendations from the Five Steps to Better Pensions report that we published last October, namely: automatic enrolment extended to people under 22 and abolishing the Lower Earning Limit.

It's great news for the PLSA that Pensions Minister, Laura Trott MP has pushed them right up the DWP's agenda, but even better news for the millions of people who will get better pensions as a result.

THE MINISTER SAW THE PLSA AS *THE* PLACE TO GO TO ENGAGE WITH THE INDUSTRY

Q&A: Value for Money in DC consultation

Alyshia Harrington-Clark, Head of DC, Master Trusts and Lifetime Savings, asked ***Sarah Smart,*** Chair of The Pensions Regulator (TPR) at a recent PLSA webinar for her views on the current Value for Money joint consultation between TPR, the Financial Conduct Authority (FCA) and the Department for Work and Pensions (DWP).

Q

ALYSHIA HARRINGTON-CLARK: WHY DOES TPR WANT TO FURTHER EXPLORE VALUE FOR MONEY IN DC PENSIONS? ISN'T THIS ALREADY A PRIORITY?

Sarah Smart: Alongside its role as a regulator in protecting consumers, TPR's remit is also to enable a properly functioning competitive market.

For defined contribution pensions, the concept of value for money is not as easily accessible as it is in other consumer markets, such as telecoms for example. Often, consumers don't understand the final outcome of a lifetime of savings until 30 years down the line. By then it's too late to discover that the product that you've been using hasn't been delivering what you expected of it.

We've seen a savings revolution over the last decade, as millions more people are now saving into DC pensions thanks to the success of automatic enrolment, supported by a pensions industry that has helped to lay the foundations to build a nation of savers. But there are still challenges: people are still not saving enough, and we need to be certain that all savers receive value for money. That's why, together with our partners at DWP and at the FCA, we've launched this consultation to deliver a consistent and coherent framework for value for money across DC pensions.

Q

WHAT ROLE DO SAVERS PLAY IN DETERMINING VALUE FOR MONEY?

DC savers rely on the pension system working as best it can over the lifetime of their savings. We know, however, that most savers don't actively choose to be in a pension scheme and don't engage with it. The system is built and driven by inertia, which has so far played a key part in keeping employees saving.

However, it's then incumbent on those who are governing the system or the products to ensure that savers receive value for money by default.

Workplace default arrangements for automatic enrolment are in scope at the moment, but we will also look at retail pensions later. The intention is for a phased approach so that once we've established a framework for workplace default arrangements, we can then look at workplace self-select options, non-workplace pensions, and also pensions decumulation.

Q

WHAT WILL THAT MEAN FOR SCHEMES' DATA?

We want to define the data that DC schemes will have to disclose to demonstrate that good outcomes are being achieved. Currently, we have information asymmetries. Some schemes have access to data to enable them to see how they measure up to other schemes, but many don't, and there is little consistency or comparability. The outcome is a real risk to savers that their money could be invested in poorly performing schemes.

In a properly functioning market, those who are making decisions on behalf of savers and those who are responsible for driving value – primarily trustees – need to have the tools available to them, to enable close focus on delivering good pensions outcomes.

We want this framework to provide trustees, advisors and employers with data that allows increased comparability, transparency, and competition across DC pension schemes. Our proposals would require DC schemes to provide standard metrics across three areas: investment performance, costs and charges, and services. That would bring a consistent approach to measurement and make sure there's comparability across providers and across schemes.

Q

WHAT HAPPENS IF SCHEMES ARE UNDERPERFORMING ACCORDING TO THOSE METRICS?

Underperforming schemes would be required to take action to improve the value they provide to savers or consolidate where this is in savers' best interests. And if not, then they'll face regulatory action.

Our responsibility is to straddle the line between the theory of what looks good on paper and the practical considerations of what we and the industry can achieve that enables real change in the market. We're working with our partners at DWP and FCA to get this right across all parts of the pensions market. We can then deliver the consistent regulation and outcomes that the public expect.

Value for Money: a framework on metrics, standards and disclosures, a joint consultation between The Pensions Regulator, the Financial Conduct Authority and the Department for Work and Pensions, is open for responses until 27 March 2023.

PLSA AT 100: PAST, PRESENT AND FUTURE

100 PENSIONS AND LIFETIME SAVINGS ASSOCIATION

PAST

The PLSA at 100: A century of change

To celebrate our 100th anniversary, ***Edward Bogira*** shares a three-part series on the past, present and future of the PLSA.

What do Interflora, London and North-Eastern Railway (LNER), and the PLSA have in common?

They were all launched into a fast-changing world 100 years ago, in 1923. The rise of telegraphy and telephony helped two green-fingered entrepreneurs set up their UK-wide network of florists. LNER was one of the 'big four' railway companies created to streamline the chaos of the Victorian railway boom. But why did the UK need an Association of Superannuation and Pension Funds (ASPF) – our original name?

EARLY BEGINNINGS

The PLSA's history really began in July 1917, with 11 people in a meeting room at the Conference of Representatives of Superannuation Funds. They had the common aim of lobbying government to make pension and superannuation funds exempt from income tax.

Heading up the meeting and that mission was John Mitchell of the Omnibus, Railway and Equipment Companies' Staff Superannuation Fund, who would become the ASPF's first elected Chair when the organisation was formally established in 1923.

THE PLSA'S HISTORY STARTED WITH THE AIM OF LOBBYING GOVERNMENT TO MAKE PENSION FUNDS TAX-EXEMPT

Mitchell and his colleagues led a successful opening campaign: the 1921 Finance Act made pension contributions and investment returns tax-exempt, as they still are today. It seems political lobbying, conference networking and contentious debates about tax relief have been part of our fabric right from the start!

MAJOR MILESTONES

From those early beginnings, the ASPF quickly evolved in tandem with the pensions industry. A 1918 Register of Pensions and Widows Funds (another output from that landmark 1917 conference) listed 41 funds, with a total of almost £5 million in assets under management (AUM).

In 1957, ASPF members' AUM hit £1 billion for the first time, and by 1970 the association represented 2,282 funds. Between the 1950s and 1980s the organisation added more staff, wider Council memberships, extra committees, and in 1967 it changed its name to the National Association of Pension Funds. Our current offices in Chiswell Street are a far cry from the ASPF's first formal premises in 1947, a single room above an ironmonger's shop in Earl's Court Road, London.

Annual Conferences (1934), local groups (1950s), newsletters (1950) and pensions workshops (1971) will all be familiar to current PLSA members. But they've evolved over time: our Conference to-do list no longer features a separate social

THE AFTERMATH OF THE 2008 FINANCIAL CRISIS PROVED BUSY FOR THE PLSA

programme for members' partners, or TADs – The Accompanying Delegates – as they were known.

PENSIONS IN INTERESTING TIMES

Some recent pensions challenges would have been familiar to Mitchell and his colleagues (financial crashes, pandemics); others would not (DC dominance, ESG investing). There are also a few that might well have delighted him (auto-enrolment and record numbers of pension savers). For our former Chairs, dealing with shocks to the pensions and investment industry has made for interesting tenures.

Ron Amy, chair from 1993 to 1995 recalls one of the biggest criminal acts in pensions history: "Robert Maxwell's Mirror Group pension scheme fraud in 1991 cast a long shadow across my time as Vice Chair, Chair and Vice President of the NAPF. We were closely involved in lobbying for appropriate legislation to improve pensions governance in the aftermath of the scandal, as well as tackling the challenge and opportunity of rebuilding public confidence in occupational pensions." You can also read our interview with Alan Pickering (chair from 1999 to 2001) to find out more about the long-term impact of Robert Maxwell on UK pension funds.

The aftermath of the 2008 financial crisis proved busy for Lindsay Tomlinson, chair from 2009 to 2011: "To save the financial system, the authorities crushed long-term interest rates. This exacerbated existing DB deficits and contributed to the pressures to close DB plans. We argued that the objectives of both The Pensions Regulator and the Pensions Protection Fund should include responsibilities to preserve high-quality DB provision as well as safeguarding accrued benefits."

Perhaps the biggest shift in pensions provision this century has been the introduction of auto-enrolment, further establishing DC provision as the future of workplace pensions.

Mark Hyde-Harrison chaired the NAPF during its introduction: "DC pensions, which had been treated as somewhat of an add-on, needed to change dramatically and become much more professional. We saw new entrants to the DC auto-enrolment market such as NEST, and The Pensions Regulator started to consider how to regulate DC pensions more effectively."

In tandem, the NAPF updated its own committee structure to put a clearer focus on DC pensions, then further embraced the future of retirement saving by changing its name to the Pensions and Lifetime Savings Association (PLSA) in October 2015. "The relatively simple age of a DB pension or an annuity with a single decision to retire is vanishing fast," explained former CEO Joanne Segars as she unveiled the new identity.

There is one more 1923 landmark which underlined the start of wider social change. In that year, Dorothy Spiers became the first woman in the UK to qualify as an actuary. Since then, women have become part of a transformed work and retirement landscape with shifting pension savings needs.

We'll continue to evolve to support our industry and future retirees who'll have very different financial lives from the members represented by the 11 schemes who filed into that conference room over 100 years ago. Read on to find out more about the PLSA's current and future priorities in the next two sections.

Guests at the PLSA's Annual Conferences have ranged from politicians such as Prime Minister Margaret Thatcher and former Pensions Minister Steve Webb, to jousters, and former monarchs.

The PLSA at 100: Present priorities

We're proud that today's PLSA is a thriving organisation that builds on the past and is ready for the challenges of the future.

Although we've gone through three name changes and numerous office moves over the last century, our core purpose of helping everyone to achieve a better income in retirement remains a constant. From welcoming new Pensions Minister Laura Trott at our offices to announce plans to make defined contribution (DC) pensions "fairer, more predictable and better-run", to unleashing Big Zuu's pensions-themed rap on an unsuspecting world, we continue to innovate and help shape pensions policy, lobby on behalf of our pension scheme members, and collaborate with other industry bodies to achieve our purpose.

Recent years have seen pensions and the PLSA weather the impact of several global crises, including the Covid-19 pandemic, the cost-of-living crisis, and the financial turmoil following the September 2022 mini-Budget that hit defined benefit (DB) schemes' LDI strategies particularly hard.

THE PLSA IS A SOURCE OF SOME OF THE MOST INFLUENTIAL RESEARCH AND THINKING IN THE PENSIONS WORLD

***Steve Webb**, former pensions minister*

WORKING TOGETHER

The financial fallout from the 2022 mini-Budget was a great example of how the PLSA brings together its skills and expertise to help our members and the wider financial services community. We supported our members and engaged with regulators through the crisis, as the Bank of England intervened in gilt markets and schemes responded to spiralling collateral calls from LDI managers. Our policy and PR teams worked together to provide expert commentary to mainstream media and trade press, as DB pension schemes made headlines in daily newspapers. Now, in the wake of the market turmoil, we'll continue to work with industry bodies, asset managers, advisers and schemes themselves to make sure that future changes to LDI rules are pragmatic and fit for purpose.

A WIDER REMIT

In a DC-driven pensions world, members now have more responsibility for their own retirement planning than ever before. Our name change to the Pensions and Lifetime Savings Association in 2015 was partly driven by that shift, recognising that saving for retirement is about pensions, plus other sources of wealth and wider financial wellbeing.

Helping members understand how much they need to contribute to achieve an

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

PLSA Chair and past Chairs photo From left to right:
Robin Ellison, Peter Thompson, Emma Douglas, Alan Pickering,
Chris Hitchen, Richard Butcher

adequate standard of living in retirement, and being confident that their employer's pension scheme can support them in achieving it, are important parts of our current policy work.

The Retirement Living Standards, which show members what they need to save for a minimum, moderate or comfortable standard of living in retirement, are now used by 28 major pension providers, employers and financial services organisations and are helping people to take more control over their retirement savings. Our Pension Quality Mark celebrates schemes and employers that go beyond the basics in terms of contribution rates, governance and member engagement.

We're also heavily involved in wider industry DC initiatives such as Pensions Dashboards and the future of auto-enrolment, as well as our own policy priorities on pensions adequacy, all of which will provide much-needed support for members as well as their schemes.

EVERY TYPE OF PENSION

While DC pensions are now the dominant force in private-sector workplace pensions, DB schemes and the Local Government Pension Scheme (LGPS) continue to be major forces in the pensions landscape and PLSA policy.

We helped to create and drive forward the Cost Transparency Initiative which aims to standardise costs and charges for DB pension schemes, raise standards of governance with our annual voting and stewardship guidelines, collaborate with industry leaders on Made Simple Guides, and provide market-leading training courses for trustees to help make sure that schemes are well run.

Enabling our members to learn and network at events has been one of the cornerstones of the PLSA over the last 100 years, and this year is no different. We've expanded our opportunities to bring the pensions world together with our first in-person Responsible Investment Conference (following two successful years online), new DB, Trustee, LA and Master Trust Forums, as well as our regular Investment, Annual and Local Authority Conferences.

CONTINUOUSLY LEARNING FROM OUR MEMBERSHIP IS A PRIVILEGE AND A JOY

***Tiffany Tsang**, Head of DB, LGPS & Investment*

But there's still so much to do if pension saving is to avoid a crisis of its own. As our *Five Steps to Better Pensions* report shows, more than 50% of the population won't meet the retirement income targets set in the 2005 Pensions Commission – increasing to 62% of households with DC savings. Addressing that requires collaboration from politicians, regulators, financial services providers and schemes themselves. We believe that we're ideally placed to enable that collaboration to happen, and to help build new ways of working that make it easier for members to feel confident in their retirement prospects.

As we take on those challenges and prepare for the future of pension saving, the PLSA is evolving too. Read on to explore what the future could look like.

FUTURE

The PLSA at 100: Future-proofing pensions

If John Mitchell and his colleagues at the Association of Superannuation and Pension Funds in 1923 had been asked what pensions would look like in a century's time, they might have said that they'd struggle to see beyond the end of the decade, let alone predict the next 100 years.

Fast-forward to today, and it's equally difficult now to look so far ahead. Legislative pressure, societal changes in how we work and retire, environmental factors and shifts in the macroeconomic environment are all reshaping how and what we save.

But today's young savers could still be engaged with their pensions in 70 years' time. It is incumbent on us as an industry to build robust policies today that are both fit for the long-term nature of pension savings and flexible enough to respond to the changing world in which we live.

THE PENSION SAVERS OF THE FUTURE

More than one in five (20%) women and 15% of men born in 2023 will still be alive to celebrate the PLSA's 200th birthday. If the State Pension age remained the same as it is now (68), that would mean a potential 32 years in retirement – assuming that people waited until they reached State Pension age to retire. While not everyone will live until such a great age, we will no doubt see further reforms in the State Pension age.

The prospect of maintaining an adequate income in retirement for a potential 30-plus years requires robust conversations now about contribution rates, technology to help people plan for the future, and innovative ways to enable savers to manage their money throughout their retirement.

That's why our current focus on pensions adequacy is so important. Automatic enrolment has been a huge success. We're delighted that the government will support Jonathan Gullis MP's Private Member's Bill on auto-enrolment reform, which supports some of the key recommendations from our Five Steps to Better Pensions. For the future, we also need clear objectives and goals for the whole of the future pensions system and monitoring of performance.

OUR CURRENT STATE PENSION DOESN'T PROTECT PEOPLE FROM POVERTY IN RETIREMENT, AND THE WIDER PENSIONS FRAMEWORK STILL LETS DOWN SOME GROUPS OF PEOPLE

Our current State Pension doesn't protect people from poverty in retirement, and the wider pensions framework still lets down some groups of people. Current contribution levels are also too low to provide a reasonable standard of living in retirement.

The PLSA is committed to changing that, both for today's scheme members and for those who will begin their retirement savings journey in the future.

AN ADEQUATE, AFFORDABLE AND FAIR FUTURE

To create that adequate, affordable and fair future for pension savers, legislators, schemes, industry, employers and organisations such as the PLSA must all work closely together.

Government consultations on the future shape of DC schemes show that this co-operation is already starting to happen.

In her recent speech at the PLSA's offices, Pensions Minister Laura Trott echoed the PLSA's calls for future pension reform: "With more choice comes increased variability in terms of the retirement outcomes that schemes are delivering for savers. There is more that we can do to help."

Better assessment of value for money in DC schemes is a key example of how schemes and regulators can help improve outcomes for members in future. Sarah Smart, Chair of The Pensions Regulator, says: "DC pensions are all about outcomes, but we don't know the outcome from DC pensions until the end of the process. By then it's 30 years or more too late... In five years, I'd like to see competition between schemes based on value for money, advisers talking about value for money, not just cost, and using that as an integral part of their advice."

THE BIGGEST PRIORITY FOR PENSIONS IN THE FUTURE REMAINS THE SAME AS IT IS TODAY: TO SUPPORT EVERYONE IN MAKING APPROPRIATE CONTRIBUTIONS DURING THEIR WORKING LIVES

For those closer to retirement, helping savers make sense of the pensions they already have, how these relate to their expected standard of living in retirement, and how they can address any gaps between those two will be particularly important.

The Retirement Living Standards have a fundamental role to play in that planning. As former Pensions Minister Steve Webb explains: "The Retirement Living Standards could have become just another report gathering dust on shelves but have instead become the go-to benchmark for the adequacy of the nation's pension saving, which is no small achievement."

MAKING PENSIONS CLEARER

While the extended timelines for Pensions Dashboards mean delivery will be a little later than originally planned, they will also become a crucial tool in the future of pension savings.

Dashboards are just one example of how technology and data can revolutionise pensions and lifetime savings, making information more accessible and easier to understand, and helping scheme members throughout their careers assess their savings against their retirement expectations. One of the next steps for the industry is to help people take action based on those insights, whether that's increasing contributions, working for longer, or taking a more flexible approach to their retirement planning. Technology is helping in other ways too. We're already seeing schemes and providers using standards such as Open Banking to bring pensions closer to other forms of savings and make them part of people's wider financial wellbeing. There is also a wealth of innovation in our market that is driving exciting new ways of helping individual savers and schemes to better manage money and make better-quality decisions about their retirement planning.

But ultimately the biggest priority for pensions in the future remains the same as it is today: to support everyone in making appropriate contributions during their working lives that will deliver the standard and duration of retirement that they want.

The PLSA will continue to work with everyone associated with pensions to meet that priority, whatever the future brings.

Eight tips for better communication with LGPS members

A recent PLSA survey with our LGPS members found that 79% feel there's scope for more communication with their scheme members. ***Tiffany Tsang*** asked three experts for their top tips.

1

Work closely with employers. Jo Quarterman, Head of Governance, Norfolk Pension Fund, says: "Our employers have a close relationship with their employees and our scheme members. Quite often they are able to help get pensions messages across to them through internal work arrangements." Charlotte Jackson, Head of Guidance Services and Consumer Protection Strategy, Money and Pensions Service (MaPS), adds that many of the questions MaPS receives relate to wider employment: "Those include the implications of early partial retirement, and consolidating different pension pots, especially when people change jobs. We are also seeing queries around paid leave and ill health, understanding the implications of working irregular hours, and also making additional contributions."

2

Help people reduce rather than stop contributions where possible. "Once someone stops contributing, it's very difficult to get them to commit to when they'll start again," says Jackson. "Help people think about reducing rather than cancelling contributions, or if someone can't afford to contribute at all, perhaps consider pausing rather than stopping completely." "Although we haven't seen a significant number of opt-outs or use of the 50/50 fund, that may still be to come," says Quarterman. "The 50/50 fund means that members pay 50% less into their pension, but importantly they still have access to life cover and ill health cover. It is a good option for members to keep making some provision while dealing with difficult current challenges and decisions."

3

Support vulnerable members. "In our membership, 68% are part-time workers and of those 86% are female," says Quarterman. "That includes many people with below-average income who are particularly vulnerable in this cost-of-living crisis. Our average pension in payment is around £5,000, which again makes many of our retired members financially vulnerable. We are very mindful of that."

4

Help members keep their pensions safe. "Fraud is on the rise, in pensions and more widely," says Jenny Wright, Regional Partnership Manager, MaPS. "Help members educate themselves. Financial services organisations have a duty of care under law to make sure that people are protected as far as possible. But it's equally as important that individual consumers engage with understanding fraud."

5

Show the full value of scheme membership. "If members opt out of the scheme, we need to make sure that their expectations are clear," says Quarterman. "When they give up a pound of pension contribution, they may not get an extra pound in their pay packet – it may be reduced by tax – and they are giving up more than just their own contribution. There may be three or four pounds from the employer for each pound someone contributes, which are then index-linked. The tax-free lump sum could be very valuable, as are the other safeguards, such as a pension for their dependents if they die, and access to ill health early retirement."

6

Educate members: "Employers are realising that their staff are dependent on them for financial education – 70% of employees feel that it is the responsibility of their employer to give them financial information as well as the right tools and resources to make decisions," says Wright. Quarterman adds:

"The LGPS website has some great resources and we are also signposting services such as MaPS Moneyhelper. It's about helping people build an understanding of what they need in retirement, and helping retired members with topics like pensions credit."

7

Be flexible: "Be clear on key messages, but also keep listening. If we're not getting communications right, we have to think and do differently. And we need to keep repeating messages so that people have information when they need it. That includes using different communication channels and being mindful of the great diversity of our members," says Quarterman.

8

Pensions may be just the starting point. "Often the question that someone first asks is not the one that they actually want an answer to," says Jackson. Wright agrees: "We need to be mindful and aware that what's going on in people's homes around money is not always what they're showing on their faces. In conversations at MaPS, we'll try and bring out the real issue without being patronizing, and as we're doing it, explain what that means and confirm what someone is really intending to ask."

Macroeconomic outlook

Commentators share their views on key trends shaping investment in 2023.

VIVEK PAUL

Head of Portfolio Research and UK Chief Investment Strategist, Blackrock Investment Institute (BII)

THE DAMAGE OF A POTENTIAL RECESSION

We believe we're in a new macro regime with harsher trade-offs for policymakers. Over the last 30 to 40 years central bankers could prioritise growth and inflation at the same time. They can't do that now.

Markets are second-guessing where the Federal Reserve or Bank of England will pause or pivot with interest rates, and that causes gyrations up and down in terms of equity markets.

This means it will be harder to prioritise and stabilise growth and inflation at the same time. We're going to go from the politics of inflation being dominant, to the politics of interest rates, recession and growth. The dynamic of that transition is what makes this environment particularly volatile and difficult to navigate.

Supply pressures are dominating – and that's a reason why we think inflation dynamics will persist. They'll come down from their current high levels, but they'll stay persistent because we're in an environment where longer-term trends are manifesting, which means that supply will be the dominant driver of inflation.

To make sense of 2023 globally and in the UK, we need to think about pricing the damage right in an environment where markets move a lot and where there are competing narratives.

In the UK we've seen material moves in large cap earnings and the FTSE 100 in the vicinity of all-time highs, but the worry is that there is more damage yet to come that isn't currently in the price both in the UK and globally.

We remain cautious in the near run because of recession risk. The lagged effects of rate hikes have not fully been seen in market pricing to date and although many are still thinking about the potential of a soft landing, it makes us cautious.

RETHINKING THE ROLE OF BONDS

We think that fixed income might well play a large role for many, maybe even a larger role than it did in the past. But the mix of fixed income might be a little bit different.

Rethinking bonds goes back to the challenging events of late last year following the mini-Budget. Although that is thankfully now in the rearview mirror, the credibility of UK institutions has been hit and that has a potential impact on term premia. This issue could again come into the picture as we get closer to the next General Election, if the government wants to make this an election issue.

We think there's room for UK government bond yields to rise further, and that has implications for DB scheme de-risking.

LIVING WITH INFLATION

We're in an environment where inflation is going to be a little bit higher structurally, and the UK perhaps faces more challenges than other regions because of demographic problems. We have similar labour supply issues to the US. We have an element of the energy reliance issues that Europe is experiencing. But we also have this dynamic where our political landscape is not in favour of more immigration. We think, unless that changes, supply issues are likely to persist and cause upward pressure on UK inflation.

What does this mean for portfolios?
We will be building portfolios with a bias towards inflation-linked assets. Opportunities particularly in the US inflationary market are attractive right here and right now, and we'd have more investment grade credit than we would have done in the past.

We think UK gilt yields could rise from here, but the impact on de-risking is much more about where a pension fund is in terms of its journey.

THE CREDIBILITY OF UK INSTITUTIONS HAS BEEN HIT AND THAT HAS A POTENTIAL IMPACT ON TERM PREMIA

KIM CATECHIS

Investment Strategist, Franklin Templeton Institute

ECONOMIC REGIME CHANGE

The global economic growth that we've seen over the last 25-30 years has been pretty good. Looking forward, I'd say there's a lot of challenges to getting anywhere near that in the future. Some of these are short-term, and probably likely to fall away, but others are structural.

One of the structural issues is demographics. The developed world countries that have generally powered economic growth over the last 25 years – namely the US, European Union, and China since 2008 – are ageing fast.

Another complicating factor is the return of geopolitics. This is important for investors as it influences government policy, which in turn impacts investment return expectations.

That is going to impact a lot of commodities, including oil, which are affected by geopolitical tensions and national security interests and will lead to more intervention by governments. One intervention is currently helping to support people financially through the pandemic, but intervention could also be an obstacle to investment in some parts of the world. And in turn this will have an influence on investment return expectations.

While this all seems like a very negative outlook, it will also yield new opportunities. For example, the political tensions surrounding oil have supercharged timelines for green energy transitions, especially in Europe. We expect to see a lot of investment channeled in that direction into sectors such as civil engineering. There's also great opportunity where companies are investing in new plant and machinery to enable more efficient energy use.

After some tumultuous years in investment markets, many of us would probably prefer a calmer 2023.

But inflation worries, expectations of lower economic growth, looming recessions and ongoing fundamental shifts in how we integrate climate change risk, address social factors and stay alert to emerging global political crises, mean this year will be as challenging as ever.

As a result, it's vital that pension funds monitor the macroeconomic landscape to balance their risks and returns. The PLSA brought together three leading investment experts to explore key themes and what they mean for pension scheme portfolios.

Vivek Paul, Kim Catechis and John Chilman were speaking at a recent PLSA webinar.

Less happily, we'll also see big increases in defence spending – and this will also be a source of short-term inflationary pressure, as there's little spare capacity to meet any increase in orders.

We'll also see some countries that will be beneficiaries of the recalibration of global supply chains away from dependence on one particular country – for example, we'd expect countries such as Mexico and Indonesia to benefit on many levels.

QUANTIFICATION OF RISK PREMIUMS

We have to be alert to the implications that all of these changes are having in terms of quantification of risk premiums in different countries. It's going to be much more important to think beyond sovereign financials such as debt to GDP ratios and Standard and Poor's ratings.

We expect to see a lot of debt issuance coming from many different governments and from companies as well. This will increase the polarisation between those countries that can finance and refinance and those that cannot. Credibility will be hugely important here and we'll see a more marked split between those that are perceived as credible, good operators who'll find it easier to finance at reasonable prices, and those that are not.

As an asset owner or as an investor, it's a really good place to be because there's a lot of moving parts, and new opportunities that we haven't seen before.

THE POLITICAL TENSIONS SURROUNDING OIL HAVE SUPERCHARGED TIMELINES FOR GREEN ENERGY TRANSITIONS, ESPECIALLY IN EUROPE

JOHN CHILMAN

Chair, PLSA Policy Board; Chief Executive Officer, Railpen

TRENDS IN DEFINED BENEFIT

A lot of DB pension schemes have benefited enormously from the LDI dislocation and rise in gilt yields last year, which has seen those that were fully funded and hedged adjust their assets and liabilities in ways that are massively more attractive for the sponsor and has potentially moved them closer towards buyout. Even those that were not fully hedged and those that are still open will have seen their funding level improve markedly. As a result of this, we might see more fixed income in some portfolios. It's an investable asset at the sort of yields we are seeing currently, and potentially there are further enhancements.

The fallout from the LDI dislocation could mean increased regulation, legislation and reporting. That could mean schemes consider more physical assets, which raises a different set of challenges. Open DB schemes, including local government schemes, can take a longer-term view on this. In the UK as well as globally we are seeing the threat of recession.

But central banks and others were not particularly good at forecasting the way into the current inflation – will they be better at forecasting the way out? Most of us are expecting inflation to fall from current levels but still remain higher than before the pandemic, and that continues to be a risk. The home bias that some pension plans still have looks significantly less attractive should the UK have a longer, deeper recession than other countries.

This needs flexibility – we need to make sure that we don't fall into knee-jerk reactions, and that we are alert to opportunities that might emerge.

TRENDS IN DEFINED CONTRIBUTION

The vast majority of DC schemes will be focused on the investment base and growth phase, which is still equities-based, and then consolidate into bonds as people get closer to retirement and de-risk.

Fixed income looks more attractive at present as we've discussed, and equities potentially look a bit more negative. It could be a bumpy ride for equities investment, particularly in the next few years. But we have to think long term and explore what will create the overall pensions adequacy that savers need over the course of their savings journey.

MOST OF US ARE EXPECTING INFLATION TO FALL FROM CURRENT LEVELS BUT STILL REMAIN HIGHER THAN BEFORE THE PANDEMIC

Policy priorities

Pension adequacy remains the PLSA's top focus, reports ***Nigel Peaple,*** Director of Policy and Advocacy.

Our policy priorities are reviewed annually by the PLSA Policy Board. Comprising experts from a broad cross-section of the PLSA's membership, it has responsibility for setting a policy agenda and work programme that covers the issues that matter most to all of you.

As we celebrate our 100th anniversary, expanding the scope and level of automatic enrolment is the top strategic policy objective for the PLSA in 2023, just as it was in 2022.

In fact, improving pension adequacy has been a key plank of our policy work for several years now, with the PLSA consistently calling on the government to introduce targeted policy interventions to boost the level of income people will receive in retirement.

In 2022, the Association built on its 2018 report, *Hitting the Target*, by conducting extensive research into how a range of policy proposals would improve outcomes for different cohorts of pension savers. This work culminated in *Five Steps to Better Pensions: Time for a New Consensus*, a consultation published in October 2022, which set out clear proposals for reform to prevent pensioner poverty and help more savers achieve their retirement goals.

2023 WORK PROGRAMME

Building on the comprehensive research from last year, 2023 will see us publish our response to the Five Steps consultation along with additional evidence of the need for reform.

The influential Retirement Living Standards will also be significantly updated to ensure they accurately reflect the public's expectations of what retired households need as well as to remain relevant to real-world retirement spending. The update is much more involved than the inflation increases and rebase of the Minimum Retirement Living Standard we published in January. This year, we will conduct in-depth research with members of the public across the UK to ensure the Moderate and Comfortable Standards still represent real-world impressions of retirement living at different levels of spending.

FIVE RECOMMENDATIONS FOR REFORM:

- **National objectives:** The creation of clear national objectives for the UK pension system – 'adequate, affordable and fair' – combined with regular formal monitoring of whether it is on track to achieve these goals.
- **State pension:** Reform of the state pension so everyone achieves the Minimum Retirement Living Standard, to prevent pensioner poverty.
- **AE reform:** Reform of AE so more people are included, such as younger people, multiple job holders and gig economy workers, and at a higher level so people on median earnings are likely to achieve the Pensions Commission's Target Replacement Rates. These measures include saving from the first pound of earnings, and gradually increasing contributions from 8% to 12% from the mid-2020s to the early 2030s – with contributions split evenly between employers and employees.
- **Under-pensioned groups:** Additional policy interventions to help under-pensioned groups, including women, gig economy workers, self-employed people, and others.
- **Industry initiatives to achieve better pensions:** Actions to help people engage with pensions, receive higher contributions, or get better pension outcomes.

TOP SIX REGULATORY POLICY AREAS:

- **Pensions Dashboards –** The PLSA will help the industry prepare for its obligations to provide data to Pensions Dashboards and ensure that the consumer protection regime is appropriate. The PLSA will also articulate industry needs to regulatory bodies, related government-sponsored organisations and other stakeholders.
- **DB Funding Code –** The PLSA will continue to represent the pensions industry in responding to TPR's proposals for the funding regime for DB pensions, seeking to ensure the regime adopts a flexible approach to DB schemes that are not maturing.
- **Responsible Investment & Stewardship –** The PLSA will play its part in removing barriers and supporting pension schemes to invest responsibly. The PLSA plans to continue to produce guidance and support to schemes on responsible investment and stewardship issues, including its annual Stewardship and Voting Guidelines.
- **Local Government Pension Scheme (LGPS) –** The PLSA will spearhead policy and research initiatives to help mitigate the major issues and challenges facing the short-term operation and long-term sustainability of the LGPS as identified in its 2022 report, *LGPS: Today's Challenges, Tomorrow's Opportunities*.
- **DC Decumulation –** The PLSA will be campaigning for the adoption of our Guided Retirement Income Choices (GRIC) proposals which aim to help members of DC schemes when they draw their pension. The proposals include introducing a statutory obligation on schemes to support members via signposting to suitable products, with appropriate and stringent standards for governance and effective communications.
- **DC Value for Money –** It is vital that the UK pension system is delivered efficiently to maximise the value it provides to savers. The PLSA will advocate for regulatory definitions of 'Value for Money' that are well designed so as to be of practical use to both schemes and savers, without involving excessive cost or complexity.

ABOUT THE PLSA'S POLICY GOVERNANCE

The Policy Board guides and decides on our public policy positions. Its remit stretches across all aspects of our policy work on pensions and lifetime savings and its goal is to shape the policy agenda for all aspects of retirement income.

It is supported by four Policy Committees which focus on specific policy issues for Defined Contribution, Defined Benefit, Local Authority and Master Trust pensions. They advise the Policy Board, take forward delegated policy work, and give representation to PLSA members from these sectors in PLSA policy development.

Four Reference Groups, covering the same sectors, provide opportunities for members to comment on key issues related to the policy programme. They bring the number of PLSA members involved in the foundation of our lobbying and influencing work close to 400.

The Policy Board, Policy Committees and Reference Groups provide a voice for our members and work to make sure that our policy adds value for our membership, the pensions industry and society.

In addition to the strategic priority of pension adequacy, the PLSA Policy Board has also targeted six additional regulatory policy areas of focus. Five of the topics remain unchanged from last year – although the policy debates have moved on significantly since then – and we have also added a sixth: value for money.

Beyond these targeted priorities, the PLSA will also undertake a wide range of other policy work, including responding to a large number of government consultations or statements. One such example is the package of consultations announced by government at the PLSA's 24 Chiswell Street headquarters in January, on value-for-money metrics, CDC, illiquids and small pots. There is also the State Pension age review and the usual speculation about the future of pensions tax relief to respond to.

The year ahead is already shaping up to be as busy as the last, and as ever the PLSA has both a proactive and reactive agenda. On the former, we will continue to make the case for our reform of the UK pension system, 'Five Steps to Better Pensions', to update the Retirement Living Standards, and to lobby for the adoption of our decumulation proposals 'Guided Retirement Income Choices'.

As for reactive work, we are already busy with our review of the DB funding code and the implementation of Pensions Dashboards – albeit delayed – and expect to respond to at least a further dozen initiatives during the year.

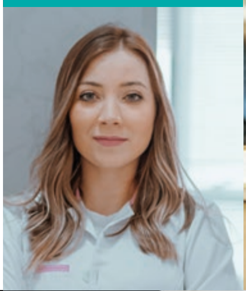
The PLSA will also undertake various existing initiatives such as the promotion of the Retirement Living Standards, the maintenance of the Pension Quality Mark, and – with the Investment Association and the LGPS Scheme Advisory Board – the Cost Transparency Initiative.

And we're looking forward to working closely with our friends at the Association of British Insurers and our industry partners to deliver the second iteration of the highly successful 'Pay Your Pension Some Attention' campaign to increase awareness and understanding of pensions among savers.

"It's vital the PLSA continues to fulfil the policy role it has played for the industry since its formation in 1923: all our members – whether they are a defined benefit or defined contribution fund, a Local Government Pension Scheme fund, or a Master Trust – are passionate about ensuring the UK pension savings system gives people the best possible chance of saving what they need to enjoy the retirement they want.

The PLSA Policy Board will continue to champion a policy framework that means people will have an adequate income in retirement and aim to ensure the regulatory and operating environment is appropriate for our members."

John Chilman,
PLSA Policy Board Chair



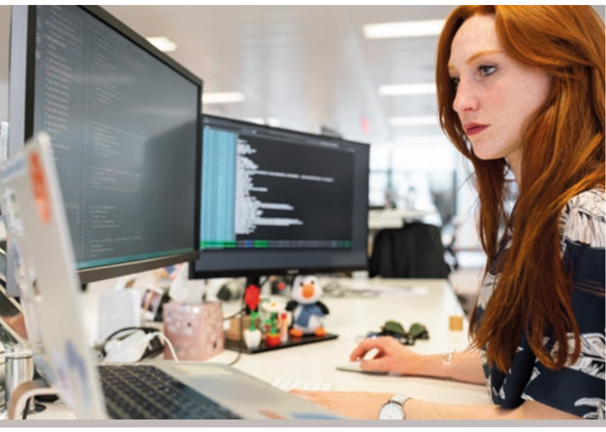
Raising retirement standards

PQM accreditation is good for companies and savers alike, says ***Joe Dabrowski,*** Deputy Director Policy, PLSA.

Against a backdrop of high inflation driven by spiralling energy, food and petrol prices, worker shortages, strikes, increased working from home and 'the great resignation', how we work – and how we reward people for their work – has not been so keenly in the spotlight since the 1980s.

While adjustments to the living wage, universal credit, pay and working conditions – and even moving to a four-day week – have all been part of the debate, one area that is being sorely overlooked is employer pension contributions. When a new employee joins an organisation, one of the things they should check is how much they, and their employer, will be contributing to their workplace pension.

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



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

It is also why, in 2019, the PLSA launched its Retirement Living Standards, currently reaching up to 35 million savers, to help people picture their future retirement at three different annual income levels – minimum (£10,900), moderate (£20,800) and comfortable (£33,600). See page 12 for more information on the latest updates to the Retirement Living Standards.

While the vast majority of people will achieve a minimum level of retirement income, mainly via the State Pension, to achieve a better standard of living in retirement requires a good workplace pension. That, in part, is where the industry-leading Pension Quality Mark (PQM) comes to the fore.

ABOUT THE PENSION QUALITY MARK

PQM and PQM Plus are accreditations for workplace DC pension schemes. PQM was introduced in 2009 by the PLSA and has continued to evolve as DC schemes have become more sophisticated and an increasingly important part of occupational pension saving.

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

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

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

The contribution threshold reflects research from the PLSA's 2018 *Hitting the Target* report that a 12% contribution is necessary to reach a better standard of living in retirement. It's also above the 11.2% annual contributions identified by the Resolution Foundation as the amount someone in their 20s on average earnings of £25,000 per year needs to save into their workplace scheme.

CREATING FINANCIAL SECURITY FOR EMPLOYEES

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

Holders of the PQM tell us it's a great way to demonstrate excellence to prospective employees and new joiners, and that the quality of the workplace scheme stands up to external benchmarking.

For companies, in a world of full employment and increased demands for better pay and conditions, offering a world-class pension might be the difference between attracting the best talent to your organisation and not.

For savers, there's never been a better time to check what level of contributions employers offer, and whether they'll match any additional contributions. If you're not getting the best deal, challenge them to explore the PQM accreditation.

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

THE PENSION QUALITY MARK DISTINCTION AWARD

The PQM Distinction Award is the PLSA's special recognition for schemes that are exemplary in a particular area covered by the PQM Standards, judged by members of the PQM Standards Committee. Our 2022 winner, announced at the PLSA's Annual Conference in October, was **Lubrizol Group Personal Pension Plan.**

Six schemes were shortlisted for the Award:

- The Electricity North West Group of the ESPS: DC Section
- Kellogg Company of Great Britain, Ltd (Defined Contribution)
- Lubrizol Group Personal Pension Plan
- United Utilities Pension Plan
- HSBC Bank (UK) Pension Scheme – DC Section
- Michelin Pension and Life Assurance Plan

50 years at the coalface

As the PLSA chalks up its first century, former Chair ***Alan Pickering*** looks back over his own long career.

President Kennedy once said "Ask not what your country can do for you, ask what you can do for your country". And the PLSA has done far more for me than I ever did for it. I'm still actively involved in a 50-year career at the interface of pensions and politics, but if I hadn't had close involvement with the PLSA, I would never have been able to enjoy the career that I have.

My route into pensions was unconventional. In 1974, when I was working at the head office of a trade union, I went to a pensions meeting with Hawker Siddeley. Having been to one pensions meeting, I'd been to more than any of my colleagues.

That led the way to a 40-year tenure as a trustee of the plumbing industry pension scheme. To make sure that I could punch my weight in pensions, I also became involved with the PLSA. It was a very inclusive organisation, providing me with so much support and training. I soon joined the trade union liaison committee, which gave me the opportunity to meet some of the PLSA leaders of the time.

POLITICIANS ALL SEE THE PLSA AS AUTHORITATIVE, INDEPENDENT AND INFORMED

The PLSA's current network of local groups has a long history, and I became Secretary of the West London Local Group in the 1970s, bringing me into contact with people who were working at the pensions coalface. On the back of my West London group exposure, I got elected to the council of the governing body of the PLSA.

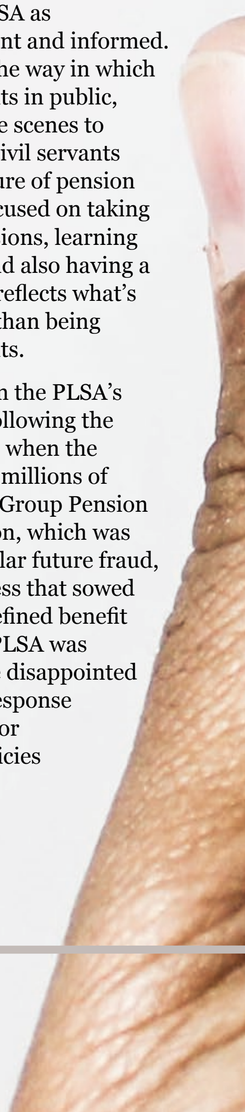
I subsequently chaired the international committee, became Vice Chair and then Chair of the PLSA between 1999 to 2001. That proved to be a very active time for pensions and politics.

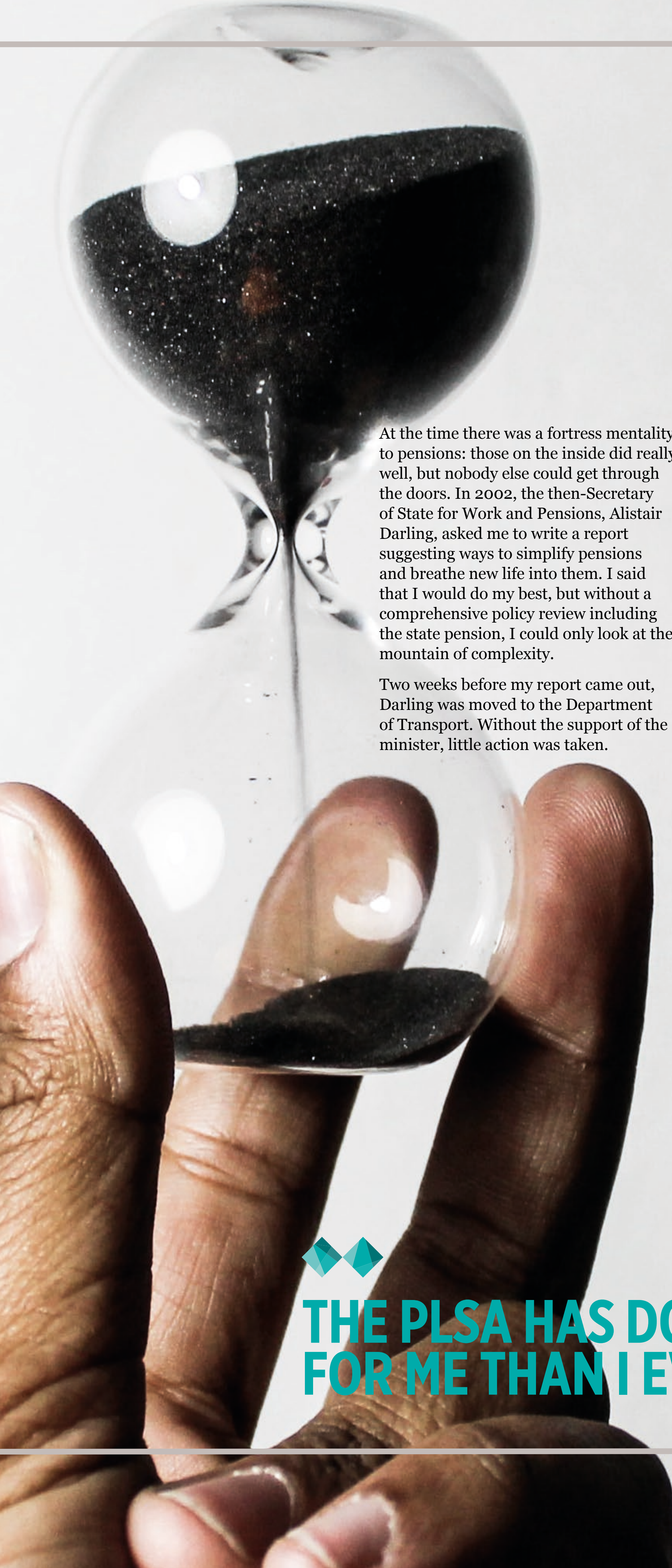
A DECADE IN PENSIONS IS A SHORT TIME

There has often been a lack of calibration between pension timescales and political ambitions, and the PLSA has always worked hard to bridge that gap. The former Labour prime minister Harold Wilson once said that a week is a long time in politics – but pensions are about decades.

Politicians all see the PLSA as authoritative, independent and informed. I've got high regard for the way in which it makes policy statements in public, while working behind the scenes to educate politicians and civil servants about the long-term nature of pension savings. It has always focused on taking party politics out of pensions, learning lessons from the past, and also having a vision of the future that reflects what's going to happen, rather than being constrained by past events.

In 1995, I was involved in the PLSA's response to legislation following the Robert Maxwell scandal, when the businessman embezzled millions of pounds from the Mirror Group Pension Fund. The final legislation, which was intended to prevent similar future fraud, created a pensions fortress that sowed the seeds of decline of defined benefit pension provision. The PLSA was evenhanded but we were disappointed with the government's response and heavily criticised it for creating prescriptive policies in the rearview mirror.





At the time there was a fortress mentality to pensions: those on the inside did really well, but nobody else could get through the doors. In 2002, the then-Secretary of State for Work and Pensions, Alistair Darling, asked me to write a report suggesting ways to simplify pensions and breathe new life into them. I said that I would do my best, but without a comprehensive policy review including the state pension, I could only look at the mountain of complexity.

Two weeks before my report came out, Darling was moved to the Department of Transport. Without the support of the minister, little action was taken.

It took several more years before the government focused again on pension policies, eventually leading to auto-enrolment and opening up a simpler form of pension saving to many more people.

After my tenure as PLSA Chair ended, I chaired the European Federation for Retirement Provision (EFRP), the European equivalent of the PLSA. There had been an uneasy relationship between European pensions practitioners and the UK's pensions establishment, so it was a privilege to build bridges and acknowledge that we each had something to learn from the other.

FUTURE DIRECTIONS

I'm very pleased that the PLSA now also looks at lifetime savings in the round. Pensions can't do everything, so people need other savings, financial wellness, training and inclusion to help put pensions in a proper family finance setting.

The Retirement Living Standards is one example of that, giving everybody an objective assessment of the link between today's savings and tomorrow's living standards. It now has a pedigree as a benchmark for pensions in the same way that the Living Wage is used for adequacy in employment.

The Standards help society, employers and savers understand how much we need to set aside to deliver the financial status we want in later life. That is an essential future focus for the pensions industry.

THE PLSA HAS DONE FAR MORE FOR ME THAN I EVER DID FOR IT

Reimagining retirement

Roy Brown, UK Pensions Manager at Jaguar Land Rover, explains how his scheme is helping members improve their standard of living in retirement

Like many large employers, we have a combination of a legacy defined benefit (DB) scheme and a defined contribution (DC) arrangement for our current and future employees.

Our DB scheme closed to new entrants back in 2010 and there are still about 8,000 active employees in that scheme. Since then, all our new starters have gone into our DC scheme, which is run by Scottish Widows. As we operate contractual enrolments (i.e. employees agree to join the pension scheme as part of their terms and conditions of employment), everybody goes in on the first day of the month following their start date with the company. We now have around 23,000 employees in our DC scheme.

AUTO-ESCALATION

We have three tiers of contributions in the DC scheme. The lower tier offers 4% from the employee and 8% from the employer; the middle level is 5% from the employee and 9% from the employer, and then our upper tier comprises 6% from the employee and 10% from the employer. Employees can, of course, pay in more than 6% if they want, but the employer contribution is capped at 10%.

We found that we had a fairly even split between the lower and upper tiers, with a handful of members in the middle tier. However, when we applied the PLSA's Retirement Living Standards, we realised that the 12% total contribution that employees receive in the lower tier wasn't enough to meet the standard of living in retirement that we wanted for our employees.

We agreed that we would auto-escalate everybody who was in the lower tier into the middle tier, so that contributions between employee and employer would total 14%. All new starters would also be brought into the scheme with 14% total contributions as well.

Just as we did this, the current cost-of-living crisis started to affect employees. We have had to be very mindful of that. Even though we were auto-escalating, we gave everybody the option to go back down to the lower tier if they wanted to.

Auto-escalation started in March 2022. Pleasingly, we had very low opt-out rates among the 9,500 or so employees who we had auto-escalated from the lower tier, with only around 50 people opting to return to the lower contribution rate.

We now have about a 50/50 split between the middle and upper contributions tier. Over the last year or so since we introduced auto-escalation, the cost-of-living crisis has got worse and worse. We've had a trickle of people taking their contributions down to the lower tier, but it's still only around 1% of scheme members – in fact, more people have moved from the middle tier to the upper tier than have dropped down to the lower tier.

HELPING MEMBERS ENGAGE

Over the past year, we've also worked hard to help members engage more with pensions. In the past, our communications have been based around traditional methods such as regular newsletters. Although we had some members who were highly engaged, many others weren't.

Last year, we started to establish a pension contacts network, which includes around 30 employees across the various sites in the company who will act as pension contacts for colleagues. People can go to get a little guidance or help to point them in the right direction. Since then, we've been running training sessions with those contacts and we're just about to roll out their names across the business in the newsletter that we're sending out next month.

Now that it's easier to see members face-to-face, we're planning to take a roadshow to a number of our largest sites, which will be a combination of presentations and simply an accessible place where people can come and talk to representatives from Scottish Widows about their retirement savings plans.

Roy Brown was speaking at the PLSA's Five Steps to Better Retirement webinar on 26 January 2023

Pensions and the climate crisis: playing our part

Pension funds continue progress towards net zero, reports ***Mark Smith,*** but more input is needed from government.

The pensions sector has an important role to play in ensuring the world meets its commitment to minimise global temperature increases to 1.5°C, and in leading the rest of the financial sector to this goal.

A recent survey of PLSA members showed 6 in 10 pension funds already have net-zero alignment in place (60%). But while we expect many more will choose to do the same in the near future, a majority believe there are still obstacles the government should help to remove in order to assist their work to address climate risk.

More than half (56%) of the survey respondents said the government should be doing more to help investors go further to address climate risk. Over half (53%) also believe the government could do more to remove obstacles to assist pension funds, although 1 in 10 (11%) disagreed.

Having a coherent strategy on sustainable energy security and contributing to international bodies to define and standardise ESG measurement and reporting standards are some examples of the steps respondents said they'd like to see the government take. The PLSA will continue to lobby on your behalf for these actions to be prioritised.

Schemes that did not yet have a net-zero commitment said this was largely to do with the difficulties of comparing like-for-like data received from investee companies and wanting to ensure their commitment is robust.

"[We are] fully committed to net zero but wish to work with our managers to make sure any commitment is meaningful and not arbitrary or box ticking," said one respondent.

"We would welcome clear guidance to promote a standard approach," said another.

Tellingly, most respondents (59%) are not confident the UK will meet its climate target, and three-quarters (74%) are concerned by recent updates which suggest there is no sustainable pathway to achieving warming of less than 2°C .

Most of those surveyed (70%) told us they have made significant progress in playing their part in the transition to a net-zero society, especially LGPS schemes (100%). However, 1 in 10 (12%) said their focus on ESG has been reduced as a result of recent economic developments, such as the cost-of-living crisis and market volatility.

HOW THE PLSA CAN HELP

As the main representative for UK pension funds, we are committed to working with members to help them achieve their net-zero goals, by seeking policy change where needed, encouraging collaboration across the sector, and being at the forefront of the considerations on how the finance sector can respond to the climate emergency.

The PLSA has focussed for several years on supporting schemes in their endeavours to implement responsible investment principles and practices. Initiatives include the following:

- **Carbon Emissions Template:** We released the second iteration of the Carbon Emissions Template in January this year, published in partnership between the PLSA, the Association of British Insurers and the Investment Association. The template provides a standardised set of data that pension schemes need to calculate their emissions and enable them to better understand the environmental impact of their investments.
- **Towards a Greener Future:** We have also spoken to those who are advanced on their journey to integrating a climate-aware investment strategy to share their experience of the issues they encountered and how they resolved them. We published these case studies in a guide, *Towards a Greener Future*. It includes advice on producing a Taskforce on Climate-Related Financial Disclosures (TCFD) report and the important role engagement plays in protecting investments.
- **Stewardship and Voting Guidelines:** AGM season is an opportunity for pension scheme trustees and their asset managers to engage with company directors, revisit environmental, social and governance policies and seize the chance to build back better than before. In our Stewardship and Voting Guidelines we emphasise the importance of institutional investors scrutinising companies to ensure they are properly disclosing their footprint on the environment in light of the ongoing climate emergency. The guide also advises schemes to look for evidence that companies are taking their TCFD obligations seriously.

The pensions sector is united in its desire to tackle climate change, and the PLSA will continue to provide you with tools and guidance to make the job easier.

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LEGAL UPDATE

Spring Budget 2023: Pensions law implications

Loreto Miranda, Thomson Reuters' Practical Law Pensions service.

There was significant pensions-related news in the Spring 2023 Budget: here is the detail from a legal perspective.

- Most notably, the government announced the abolition of the lifetime allowance (LTA) and increases to the various annual allowances (AAs) applying to registered pension schemes. To be implemented by the Finance (No 2) Bill 2023, the measures will:
- Abolish the LTA. This will be achieved by disapplying the lifetime allowance charge from the start of the 2023/24 tax year. Ultimately, the LTA will be removed entirely from pensions tax legislation.
- Introduce a new monetary cap on the maximum tax-free pension commencement lump sum (PCLS) of £268,275 (25% of the current LTA). This will not apply to individuals who already have a protected right to take a higher PCLS under one of the existing forms of LTA protection.
- Change the taxation of certain authorised lump sums currently taxed at 55% above the LTA so they are taxed at an individual's marginal rate.
- Increase the AA from £40,000 to £60,000 and the MPAA from £4,000 to £10,000. In addition, the maximum tapered AA will rise from £4,000 to £10,000 and the adjusted income level from which the taper applies will rise from £240,000 to £260,000.
- Consult on legislation that will treat different public service pension schemes as one arrangement for the purposes of calculating pension input amounts and associated AA charges.
- These measures will have effect from 6 April 2023, though provisions removing the LTA from pensions tax legislation altogether will be contained in a future Finance Bill (albeit noting that this may be a contentious issue politically in future).

Other announcements included confirmation of amendments to the Finance Act 2004:[1]

- Clarifying that payments of periodic income from a collective money purchase scheme in winding-up are authorised payments.
- Addressing circumstances where an individual has identified a pension that has been transferred into the Dormant Assets Scheme (DAS). In particular, for income tax purposes, the amount paid out of the DAS will be treated the same as the rights held against the original pension institution, with the same characteristics for tax purposes.
- Extending pensions tax relief to individuals saving into an occupational pension scheme under net pay arrangements, but whose total taxable income is below the personal allowance for the relevant tax year (with effect for contributions made in the 2024/25 tax year).

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 To be implemented by the Finance (No 2) Bill 2023.

New members

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17Capital generates low volatility returns with high downside protection based on a combination of factors, including diversified portfolios backing each individual investment and strong alignment with best-in-class private equity managers.

17Capital operates from London and New York and has maintained a dedicated focus on NAV finance since being founded in 2008.

Contact:
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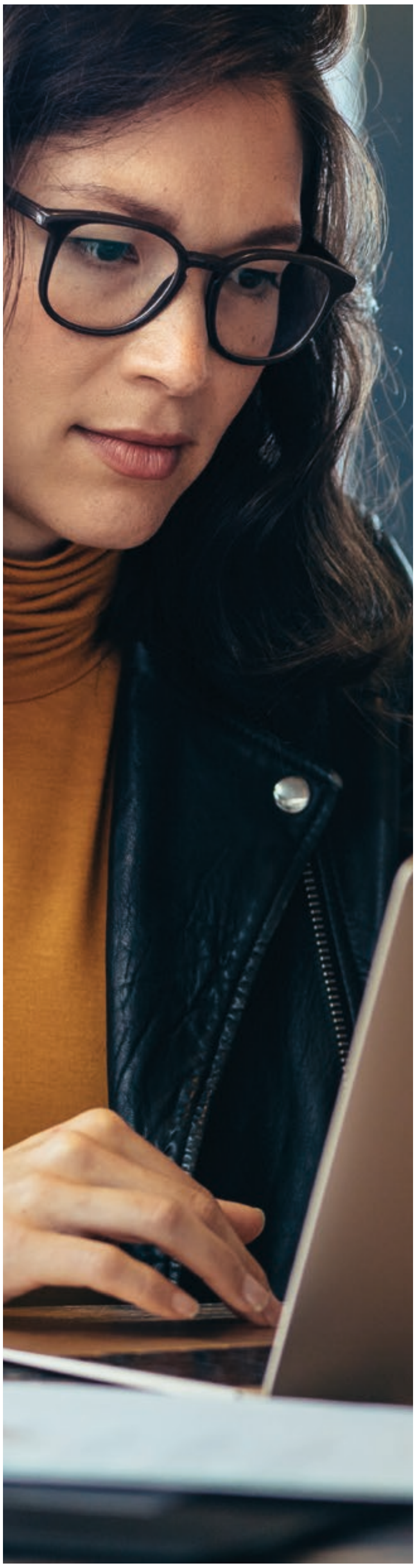

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