VIEWPOINT

The official journal of the Pensions and Lifetime Savings Association | *Issue 3 2023*

STREAMLINING PENSIONS FOR BETTER RETIREMENTS

MEET THE ROLLS-ROYCE SCHEME

PENSIONS ADEQUACY IN FOCUS

A SOLID FUTURE FOR THE LGPS

IN DETAIL: THE MANSION HOUSE REFORMS

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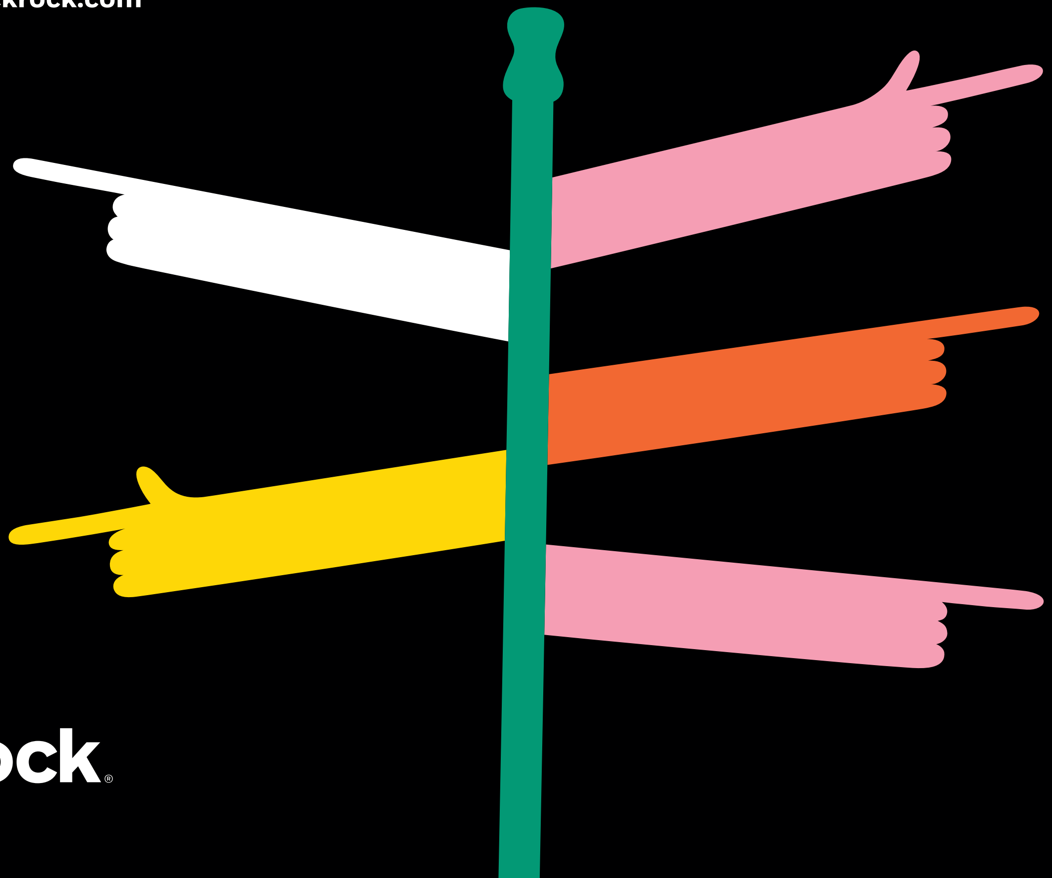

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Looking back on today's PLSA

As we continue our centenary year, ***Julian Mund*** muses on the immediate present and the distant future.

Welcome to the autumn edition of *Viewpoint* magazine.

This year the PLSA turns 100, and we've been looking back through the archives and taking stock of how the pensions sector has grown and evolved over this time. Our thoughts naturally turn to the next 100 years and what the landscape might look like for schemes and savers.

Did you know that one in five (20%) women and 15% of men born in 2023 will still be alive to celebrate the PLSA's 200th anniversary? The future really is closer than we think. And the prospect of maintaining an adequate income in retirement for a possible 30+ years requires conversations today about contribution rates, the use of technology, and creative new ways to allow savers to manage their money through retirement.

So, what will our colleagues sifting through the PLSA archives in 2123 discover about today's association?

PLSA TODAY

In the summer we published our latest Annual Report and Accounts, which reveals a strong 2022 characterised by recovery following the Covid-19 pandemic.

AS THE SAYING GOES, THE BEST WAY TO PREDICT THE FUTURE IS TO CREATE IT.

We've also recently moved to a new office in London, better suited to the needs of a modern PLSA – and with a 2023 'resimercial' design.

Our conferences are some of the biggest and best in the UK pensions industry, with our flagship Annual Conference taking place in Manchester on 17-19 October. We'll be delving deeper into the latest insights, developments and thinking on pensions, and also casting an eye to the future with updates from government and the policymakers, technology and economics. The dates for the PLSA's 2024 conferences are available on the PLSA website.

FUTURE-FACING POLICY AGENDA

Our policy focus this year is on improving pensions adequacy, so perhaps the archives will include a copy of the major PLSA/PPI research report launched in August on whether people on low incomes (less than £10,000 per year) should be automatically enrolled into workplace pensions.

At Annual Conference we'll provide an update on the latest assessment of pensions adequacy, along with a review of the major policy initiatives, and we'll discuss what steps the industry should take to improve retirement outcomes for members.

Another priority topic is the government's pensions and growth agenda. The Chancellor's Mansion House speech in July set out areas of reform for government policy on pensions across DC, DB, CDC and the LGPS, and the Minister for Pensions launched a series of consultations and calls for evidence – which our Policy & Advocacy team have been busily working on and responding to.

ESG CONFERENCE RETURNS

Anyone with an interest in the future – and an eye on the weather this summer – will be keenly aware of the climate issues facing the planet right now. In November our ESG Conference is returning, this time in person. We're looking forward to plenty of thought-provoking debate and insight. We'll ask how schemes can be a force for positive change while delivering what's needed from them on behalf of savers and beneficiaries. Let's hope our 2123 colleagues think we've done a good job!

EMPOWERING MEMBERS WITH PRACTICAL SUPPORT

2023 may also be remembered for the rising cost of living in the UK. Many people are currently seeking additional help to understand the possible actions they can take to support their financial wellbeing, and we've published guidance to help schemes support savers through these difficult times.

Our local authority members are also facing unique challenges in the LGPS. Earlier this year, we produced some practical guides and research as part of our continued drive to support our local authority members.

SHAPING THE FUTURE

It's impossible to tell exactly what the future will look like 100 years from now, but as the saying goes, the best way to predict the future is to create it. Our mission is to help everyone achieve a better income in retirement, and we'll continue developing and shaping the blueprints to ensure a sustainable pensions system for generations to come.

I look forward to engaging with many of you on this and many topics at our events over the coming months. The future starts here.

Best wishes,

Julian Mund

THE MEMBER BACKING PENSIONS AND LIFETIME SAVINGS ASSOCIATION

EVERY ANGLE OF ESG FOR THE PENSIONS SECTOR

The PLSA ESG Conference returns this year as a face-to-face event featuring expert speakers discussing the latest developments in this quickly evolving landscape. Expect to take away valuable insights on pensions and sustainable investing.

The conference also offers the opportunity to network with other professionals in the industry. Meet pension schemes and advisers at this essential event for anyone with an interest in responsible investment.

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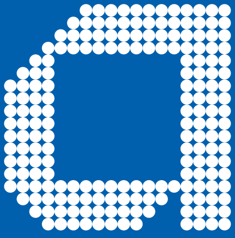
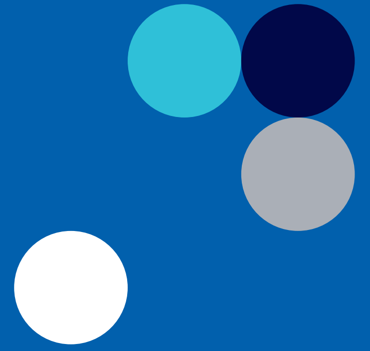
Find out more and book your place at
www.plsa.co.uk/ESG-Conference

Is a defined benefit master trust the solution for you?

The cost of running a small defined benefit pension scheme can be disproportionately high, and tightening regulations are forcing many companies to spend significant time and money managing legacy schemes. By offering improved governance, outsourced investment management and cost efficiencies, together with reduced running expenses, an efficient path to buyout, and enhanced member experience, the abrdn pensions master trust could provide a solution to these problems.

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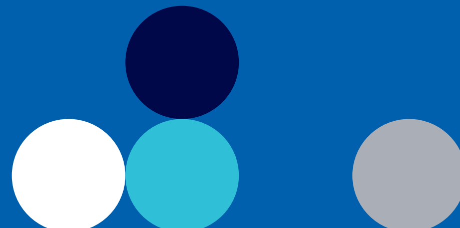

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100 years of shaping pensions policy

(left to right) A trio of chairs: John Chilman, chair of the PLSA Policy Board; Emma Douglas, PLSA chair; and Sir Stephen Timms MP, chair of the Work and Pensions Select Committee

John Chilman spoke about our pension priorities and calls to action

Sir Stephen Timms MP, our guest speaker, gave insights into the Work and Pensions Committee

Emma Douglas, PLSA chair, set the scene for our celebrations

The Houses of Parliament have been a familiar place of debate for the PLSA over the last 100 years

Political debate and lobbying have always been a fundamental part of life at the PLSA. That goes right back to our beginnings, when the PLSA (then known as the Association of Superannuation and Pension Funds) successfully campaigned for income tax relief on pension contributions over a century ago.

Holding a reception at the Houses of Parliament on 6 September as part of our 100th anniversary celebrations seemed only fitting. Members, colleagues and peers from the pensions industry joined us for the evening.

Sir Stephen Timms MP, chair of the Work and Pensions Select Committee, was our guest speaker, and he was joined on stage by John Chilman, Chief Executive of Railpen and chair of the PLSA Policy Board.

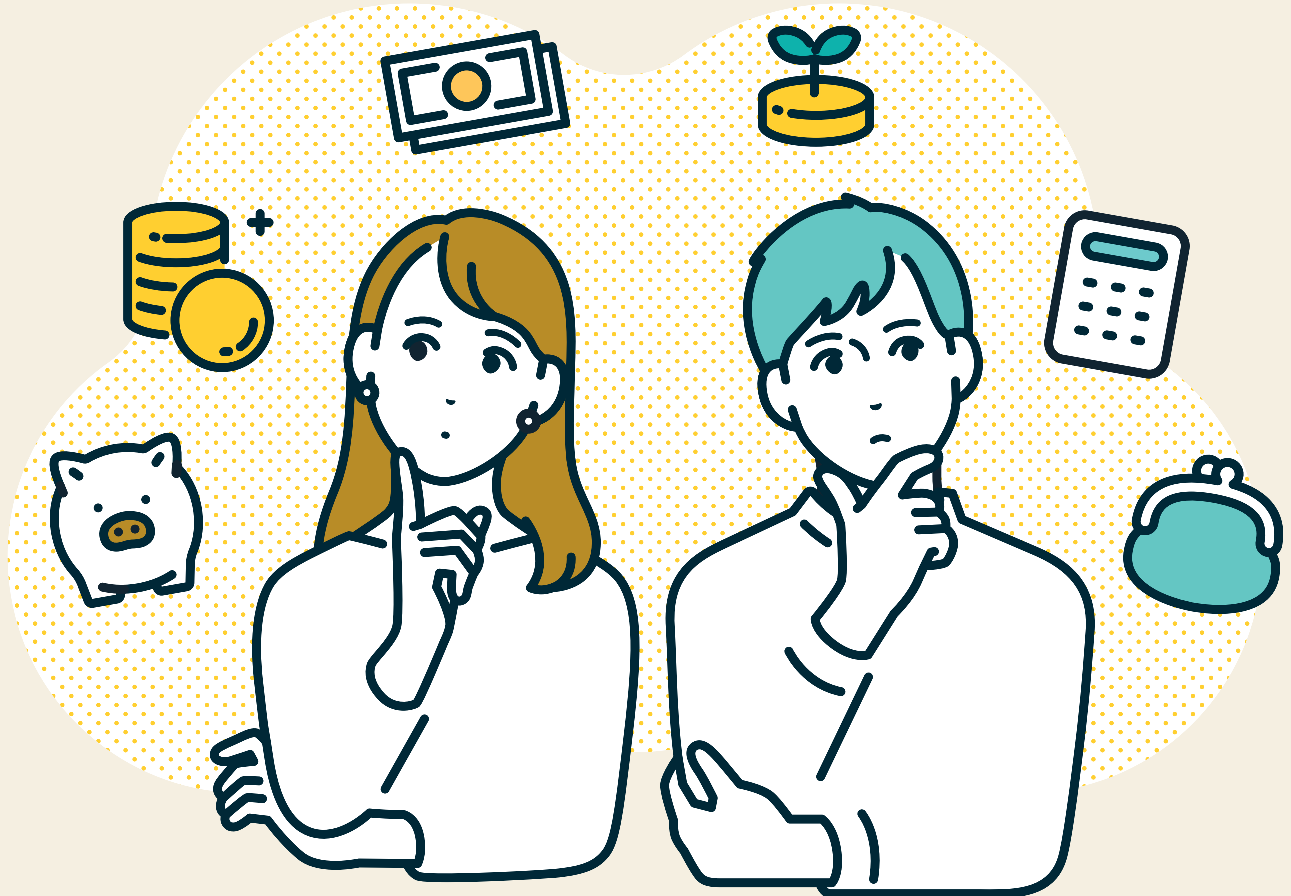
We celebrated our centenary year and set out our 'Pensions Priorities', which includes a series of calls for action on five key topics within the pensions industry:

- Supporting adequate pension saving
- Helping people with their choices at retirement
- Supporting pensions to deliver on growth
- Protecting well-run DB schemes
- Enhancing effective saver engagement

We'd like to thank Sir Stephen and all of our guests for helping us to celebrate 100 years of helping savers achieve a better income in retirement. We continue to meet with key parliamentarians – most recently Andrew Griffith, economic secretary to the Treasury, and Pensions Minister Laura Trott – as well as responding to consultations, giving evidence to select committees, and acting as the voice of our members in Parliament.

Helping low earners

An important and diverse group are in the frame for greater inclusion. ***Nigel Peaple,*** Director of Policy & Advocacy, reports.



One of the biggest problems for pensions is that current policy settings do not encourage people to save what they need to enjoy a decent retirement. This is a policy challenge for the PLSA and the pensions industry today.

The PLSA has dedicated a large amount of effort and attention both to raising the profile of the problem, and pushing for reform. The PLSA has published two consultations on this topic: first was the *Hitting the Target* report in 2018, and the second was the *Five Steps to Better Pensions* report in 2022.

Our next stride forward in campaigning for reform is a report, to be published at our Annual Conference in October, that builds upon and solidifies the consensus established so far.

The publication will contain updated recommendations, including those based on research carried out by the PPI on behalf of the PLSA. This research on low earners was launched at an event in August which was attended by industry experts, including chair of the Work and Pensions Select Committee, Sir Stephen Timms MP.

LOW EARNERS RESEARCH FINDINGS

At present, automatic enrolment only applies if you're earning above £10,000 annually – referred to as trigger earnings – from a single job (or each job you have). Trigger earnings are intended to protect those who are at risk of poverty as, for the most vulnerable low-earning individuals, every penny of earnings counts. Their standard of living is either already inadequate by most definitions, or at risk of becoming inadequate. Traditionally it has been thought that diverting some of their income towards pensions could worsen their current

circumstances, and that future retirement income inadequacy may be better addressed in other ways, such as through employer contributions, or state support and the state pension.

However, not all current low earners are at risk of poverty either now or in the future. PPI modelling has identified profiles within the low earning population which demonstrate that earning a small salary doesn't always mean you're experiencing lower than adequate living standards. Many low earners, for example, are young people working part-time, who rely on their parents for money or housing. Others are parents, particularly mothers, who juggle caring and working, but whose partners bring much higher earnings into the household. Others are people nearing retirement, who have built up significant savings, and are gradually reducing their working hours before retiring fully.

These differences between low earners highlight the problem with blanket policies, such as the earnings threshold, which intend to protect a whole group of people from poverty. Blanket policies may not be sufficiently nuanced, but those at risk of poverty need some mechanism to protect them. Just as higher earners tend not to opt out or make any other change to their default arrangements after being automatically enrolled, neither should we assume that people who should not be pension saving would proactively opt out.

On the other hand, those low earners who do not need protecting are being given less access to a system that could bring a real increase to their standard of living in retirement. Even if their contributions are small, and even after factoring in the retirement income of higher-earning partners, PPI modelling shows that extra contributions could still give a significant boost to their retirement income. Higher earners are currently benefiting from automatic enrolment, through increased pension savings, and it could be a missed opportunity to exclude other people who would also benefit from it because they earn less.

GOOD NEWS FOR LOW EARNERS

On Monday 18 September, the Pensions (Extension of Automatic Enrolment) (No.2) Bill completed its path through parliament and received Royal Assent.

The Bill, which began as a Private Members Bill in the Commons by Jonathan Gullis MP, seeks to amend the Pensions Act 2008 to enable the Secretary of State to:

- Make regulations to reduce the lower age limit for automatic enrolment from 22 to 18
- Make regulations to remove the Lower Earnings Limit for qualifying earnings. This would mean auto-enrolment contributions are made from the first pound of earnings.

The Bill supports some of the key recommendations from our Five Steps to Better Pensions report.

PPI analysis demonstrates that a large majority (90.5%) of low earners have some mitigating circumstance that would mean that, if they were to be automatically enrolled by eliminating the £10k trigger, their in-work income is unlikely to be reduced below an adequate level. Mitigating circumstances considered include, for example, living in a household with a high overall income, expecting higher earnings after graduating university, already pension saving (and therefore presumably budgeting for this), or being ineligible for automatic enrolment for other reasons.

The most recent PPI research has also found that those low earners that have no identified mitigating circumstance are a highly diverse group which fit into no neat single profile. There are only a few things that are common across the group, such as tending to be paid by the hour. This group, however, is most likely to need some kind of protection; this could be trigger earnings, state support, or ensuring the right to opt out – and when to exercise that right – is well understood by everyone.

As automatic enrolment policy is further developed, it's worth considering whether levers can be introduced which ensure greater involvement of low earners who will not be disadvantaged by saving. With low earners being such a complex group, this is a challenge. However, automatic enrolment has been one of the greatest success stories of pensions policy in recent history, and to include more of the right people would be worthwhile.

2023 REPORT

Significant progress has been made on building consensus so far. Our upcoming *Five Steps to Better Pensions: the Final Report* will continue to recognise the impacts of the ongoing cost-of-living crisis and will recommend an appropriate roadmap for change. The need for this work remains, demonstrated by our research finding that despite the successes of automatic enrolment, without further reform more than 50% of savers will fail to meet the retirement income targets set by the 2005 Pensions Commission.

Destination 2035

We asked some of our Annual Conference 2023 speakers to gaze into the future of pensions policy.

OUR PANELLISTS

CHRIS CURRY
Director, Pensions Policy Institute

GREGG MCCLYMONT
Executive Director, Public Affairs, IFM

STEVE WEBB
Partner, LCP

CAROL YOUNG
Group Chief Executive, USS

Q.

WHAT DO YOU THINK WILL BE THE TWO BIGGEST CHANGES TO THE PENSIONS LANDSCAPE BY 2035?

A.

STEVE WEBB: There's no doubt that artificial intelligence (AI) will transform pensions, but it's hard to forecast at this stage exactly how! One possibility is that 'robo advice,' which has been talked about for years but never really delivered, will finally turn into reality. This could be transformative in a defined contribution (DC) world where people now have to make choices about how to exercise their 'pension freedoms'.

I also expect that by 2035 we'll have seen massive consolidation both at scheme level and individual level. In the DC space, I suspect most employees will be with one of a small number of master trusts, and individuals will be using dashboards and other tools to consolidate their own individual pots.

CAROL YOUNG: Firstly, we'll see many more people relying substantially on DC savings in retirement. This will influence the kinds of decisions people have to make. We need to help give savers the best chance of understanding and planning their spending needs in retirement. I hope we'll see continued innovation in how people are supported to target their preferred living standards and access their savings.

The second major change will be more consolidation. This has the potential to achieve economies of scale that can unlock new investment opportunities, give schemes greater influence in ESG and responsible investment decision-making, and deliver better value for money – all of which should lead to better outcomes for members.

CHRIS CURRY: There are many issues that are likely to change the pensions landscape between now and 2035, including continued demographic, economic and labour market change. But I believe the biggest drivers of change will be technology and climate.

The pensions industry is already behind many other industries when it comes to the use of technology, and the pace of change is only likely to increase once initiatives such as pensions dashboards become part of the landscape for savers. Climate and the environment are likely to affect all aspects of life, which will provide challenges for the pensions industry both as providers and also as employers.

GREGG MCCLYMONT: We'll be living in a DC world – the whole debate will be about DC income in retirement.

We'll see a much larger master trusts sector because of compounding of asset values and default retirement income products which create pensions rather than savings products.

Increased employer contributions rising in a staged process towards 8% as part of 12% total contributions from the first pound of earnings will also have a significant impact by then.

Q.

WHAT ROLE WILL PENSIONS POLICY PLAY IN THOSE CHANGES?

A.

CY: It is critically important to have policies that make it easier for members to act in ways that support their long-term best interests. We need policy interventions that enable trustees and providers to focus the majority of their time on providing support to members.

ANNUAL CONFERENCE 2023

This includes designing processes for key points of interaction – joining, midlife check-ins, retiring – from a member's perspective, so that they are well-supported through their retirement savings journey. Ideally, that would be via the kind of slick, digital experiences they've grown used to in many other parts of their lives.

We also need to recognise that while most people will be building up DC pots, there are still defined benefit (DB) schemes like USS that are open to new members and they need to be given every chance to thrive.

SW: Government policy is likely to drive consolidation at the scheme level, with tougher regulation forcing the smallest schemes to merge. For individuals, the successful delivery of a pensions dashboard plus improvements in technology should make it easier (if not automatic) for scattered pension pots to be consolidated.

In the DB space, the market will be much more mature in a decade. The steady decline in the number of DB schemes is likely to accelerate, and an enhanced role for the PPF could well be a part of that.

GM: Pensions policy will have a large role in future change, mainly by evolving automatic enrolment mandatory contributions, thresholds and default retirement products.

CC: Pensions policy will need to continue to evolve in order to meet the needs created by the changing landscape. It will need to become more holistic, ensuring that it can balance the trade-offs between adequacy, sustainability and fairness, and is likely to change gradually over time rather than a big-bang change that leads to a new direction.

Key areas include the challenge of building on the success of automatic enrolment and continuing to harness the power of inertia while still encouraging and enabling better outcomes for those who can do more. We also need to fully understand and account for both inter- and intragenerational issues.

Q.

WHAT ONE ACTION SHOULD PENSION EXECUTIVES DO NOW TO PREPARE FOR THE FUTURE?

A.

CC: As the needs and demands of savers change, it's vital that the industry also changes to meet these needs and demands. So as well as trying to understand the savers of today and what they need now, it's vital that industry players already start to consider how wider economic and social change will impact not just on them as an organisation, but what that will mean for their future savers. That is not necessarily about products, as customer service and the way in which services are delivered and consumed will become increasingly important as people look for something that will fit in with the way they live the rest of their lives.

CY: Invest in really understanding your members' priorities. Identify the key points in their lives, and their interactions with your scheme, where they most need your support. Use this to figure out how best to engage with them in making their pension savings – and their plans for retirement – matter to them today. This is not just about communications – it's about designing end-to-end experiences that make it easier for them to make informed choices, or rely on well-designed defaults, that best support their long-term aims.

SW: Get your data sorted! Whether it's a DB scheme preparing for buyout, a DC scheme trying to design optimal pathways for its members, or any scheme providing information to a dashboard, good data is essential. And good data is not simply a regulatory chore but, in an era of machine learning and AI, those who have good data will be much better placed to use it and learn from it.

GM: Plan for the reality that in pensions policy, the only constant is change.

HEAR MORE AT THE ANNUAL CONFERENCE

Steve, Carol, Chris and **Gregg** will be further debating the future of pensions at our Annual Conference on 17 October at 4.30 pm.

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A solid future for the LGPS

Senior Policy Advisor ***Maria Espadinha*** checks in on the PLSA's engagement with the UK's unique DB scheme.

The Local Government Pension Scheme (LGPS) is unique in many ways. It's one of the largest funded defined benefit (DB) schemes in the world, with assets totalling over £425 billion. At the same time, it's comprised of 98 individual local funds and has more than 15,500 employers.

The distinctive profile of the LGPS also means it has challenges which are unseen in other parts of the UK pensions system. These issues are addressed in the PLSA report *LGPS: Today's Challenges, Tomorrow's Opportunities*, published in 2022, which also contains a series of recommendations that are being discussed and implemented with our LGPS Fund members.

THE LGPS REGULATORY MAP

One of the conclusions of the research is that the LGPS has one of the most complex governance structures in UK pensions – an intertwined web made up of local democracy, central government and many different stakeholders. In a recent PLSA survey of LGPS professionals, two-thirds (66%) said they believe that the main legislation or regulatory requirements that govern their work are overlapping between different organisations/regulators, with a similar proportion (63%) finding this causes them confusion.

To help external stakeholders understand and navigate the complexities in which the LGPS operates, the PLSA produced a strategic 'regulatory map', which was published in June at the Local Authority Conference 2023.

The map, which was one of the recommendations of the 2022 report, is aimed at helping ensure the existing framework operates in a more joined-up and coherent way. It is also designed to show the benefits of having a more centralised approach, which could involve creating a new oversight body or giving an existing body greater powers. The map is divided into three sections according to the geographic distribution of the LGPS – England and Wales, Scotland, and Northern Ireland – and also contains a heat map of some of the most pertinent issues funds are facing, matching these topics with the entities responsible for these areas, showcasing the complexity of the development of consistent, coherent and clear LGPS policy and regulation.

GUIDE FOR LGPS EMPLOYERS

When it comes to employers, who are crucial LGPS stakeholders, public sector reforms over the years led to the outsourcing of local authority services, with more and more companies becoming involved with the scheme. As a result, their understanding of how the scheme operates and their responsibilities have become somewhat disjointed in recent years.

The survey results show that most LGPS professionals (85%) believe their fund has a good relationship with their employers. However, more than two in five (45%) say they have had Tier 3 employers express a desire to leave. Following a recommendation from the 2022 report for funds to be proactive in providing information and assistance to existing and prospective employers, and to communicate the benefits of staying within the LGPS, the PLSA recently launched a revamped edition of its LGPS employer guide.

(Continued on page 15).

PENSION POLICIES FOR THE NEW WORLD OF DB SURPLUSES

Rash Bhabra,
UK Head of Retirement

For me, the highlight of the pensions policy papers published in July was the Government showing an interest in rules around distribution of DB surpluses. Crucially, Laura Trott, the pensions minister, recognises that this is not primarily about divvying up the surpluses which already exist; her foreword to the DWP's call for evidence talks about schemes investing to "generate further surpluses".

This had been the key theme of WTW's paper ***Six changes to seize the DB pension surplus opportunity***. Our argument was that, while improved funding positions will inevitably accelerate the journey to buyout for many schemes, others would run on and take some investment risk for longer if employers and trustees had incentives for doing so. That means providing clear routes for surpluses to benefit DB members, employers, and employees in DC schemes, and to do so while the scheme is ongoing.

Surpluses are often used to pay for DB accrual, but it can be harder to use them to pay DC contributions, especially when DC provision is outsourced. We therefore proposed that the Government should create a straightforward legal path for transferring assets to another pension scheme used by the employer, subject to trustees' agreement and to the transfer not taking the DB scheme below 100% 'low dependency' funding. We floated the idea of only allowing contributions above statutory minimum levels to be financed this way – something on which DWP is now seeking views.

This would provide a frictionless way for employers to benefit from surpluses they helped create. But it may not always provide resources quickly enough – for example, if the employer is undertaking a large capital investment. So the second and third changes we proposed were lowering the funding hurdle for trustees to sanction a refund (from full funding on a buyout basis to full funding on a low dependency basis) and reducing the 35% tax on refunds.

Fourth, it should be easier for trustees to use surplus to benefit DB members in ways that employers can sign up to. Employers are understandably reluctant to sanction increases to annual pensions, which introduce uncertain extra liabilities stretching decades into the future. One-off sums might be easier to negotiate, but – unlike lump sums from DC schemes – these are currently "unauthorised payments" which trigger tax penalties for pensioners. That should change.

Fifth, while The Pensions Regulator says significantly mature schemes might be able to hold 20-30% in growth assets, trustees' legal advisers may query this if regulations say funding levels must be "highly resilient" to adverse changes in market conditions. At the time of writing, there have been welcome hints that the draft regulations published in July 2022 will change.

Finally, we think DWP should widen their review of the legislative landscape to cover the Regulator's objectives – for example, should these include something about members' wider interests (rather than just protecting accrued pensions), or about the adequacy of workplace pensions?

Others have made more radical proposals, but it would also be unrealistic to expect closed schemes to go back to the days of investing primarily in growth assets, even if the Government were not worried about how this would affect the gilt market; there is now much less time until pensions need to be paid.

With £1.4 trillion in DB schemes, even modest and deliverable changes to investment strategies can have meaningful effects when it comes to the Government's productive finance agenda. Making it easier, and acceptable, for more schemes to target further surplus, rather than buying out asap, could affect how tens of billions of pounds are invested.

For further information, please contact
Rash.Bhabra@wtwco.com

Best Practice: A Guide for Employers Participating in the LGPS, also published in June, includes a number of additions and amendments since it was last published in 2017, aiming to help employers participating in the LGPS to understand and fulfil the significant financial commitments, administrative responsibilities and regulatory requirements associated with the scheme.

The guide includes chapters dedicated to engaging with administering authorities and how to manage data, as well as practical information about actuarial valuations, risk management, internal dispute resolution procedures (IDRPs) and automatic enrolment.

These two important publications build on a growing body of work the PLSA is conducting in response to the 2022 report's original recommendations. Since its publication, the PLSA has conducted webinars and conference sessions on topics such as cost of living, talent management, and operational sustainability. The PLSA will continue to engage with member funds to ensure a strong and robust future for the LGPS.

2023 LGPS RESEARCH HIGHLIGHTS – VIEWS FROM WITHIN THE SCHEME

The PLSA's survey of our LGPS members is designed to capture a snapshot of views from inside the scheme, including the issues that significantly impact local authority pension funds.

Last year, it formed part of the evidence base for the PLSA's *The Local Government Pension Scheme: Today's Challenges, Tomorrow's Opportunities* report, identifying areas where existing good practice can be fortified and where action can be taken to address the ever-increasing regulatory and environmental challenges facing the scheme.

The 2023 edition of the survey results was published in July, and includes responses from 92 LGPS representatives.

HEADLINE FINDINGS

Encouragingly, the survey results show the vast majority of respondents (85%) remain positive about working within the scheme, with over half (53%) continuing to enjoy working with their colleagues, while around three in ten continue to enjoy the learning opportunities (39%) and the work/life balance (31%) provided by the scheme.

The aspects that many say they dislike include the remuneration or benefits (42%), lack of opportunities for progression (22%), and lack of support (16%).

RESOURCING ISSUES

Our survey revealed that concerns about resourcing persist, with nearly a quarter (23%) not feeling they have the right staff in place. The main reasons for this are the difficulty in recruiting staff (78%), and low pay and rewards (67%, up from 47% in 2021) – possibly reflecting the ongoing cost-of-living crisis.

EMPLOYERS, MEMBERS, STAKEHOLDERS

Most survey respondents (85%) continue to say their fund has a good relationship with their employers. However, almost half the respondents (45%) noted that Tier 3 employers have expressed a desire to leave the LGPS, although fewer respondents this year said they have had Tier 2 employers saying they wish to leave (5%, compared to 16% in 2021). When questioned about the topics government and regulators should be focusing on, three-quarters identified good governance as a priority. Responsible investment and stewardship, alongside pensions dashboards, were also high on the list, while only 18% feel they should focus on pooling.

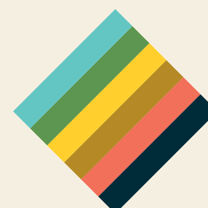
More than half (54%, up 6% since 2021) now feel that the legislative/regulatory requirements are too complex to execute, while two in five (43%) feel legislative/regulatory requirements are hindering them from doing their job effectively.

VIEWS ON FUTURE CHANGES

Following the March 2023 Budget announcement that government is looking into speeding up the consolidation of assets in pools, we asked members what they thought. Opinions were divided, with almost half of LGPS representatives (49%) disagreeing with such a move, while 47% were undecided.

Reasons why funds feel that there's no need for pools to be consolidated include feelings that it's early days for the current pools, concerns over a loss of control and the pool not being specific enough for their fund, fears that governance will be difficult, and suspicions that it's a politically motivated move.

More than half (57%) were concerned about the potential for further mandatory consolidation of pools, with fewer than one in five (17%) saying this did not worry them. Looking to the future, we asked LGPS representatives what they would like to see change in the scheme – and, out of a range of suggestions, the top choice was simpler and clearer regulations.



born to be better.

DB consolidation is about more than superfunds

DB operational consolidation solutions are growing in size and number and deserve more attention according to Andrew Goddard, Partner at Isio.

Everyone is talking about defined benefit (DB) consolidation again: the Chancellor in his summer Mansion House speech, the Tony Blair Institute for Global Change in their thought-piece on using the Pension Protection Fund as a national consolidator and updated guidance from the Pension Regulator on how superfunds should be run.

A lot of this chatter focuses on one particular type of consolidation, where a DB scheme is subsumed into a so called superfund. But this is a narrow view; consolidation comes in more than one flavour.

When you use the term "consolidator" most people think of these so-called "superfunds" (perhaps a misnomer given their slow start). These are new organisations set up to hoover up schemes and run them collectively. Importantly, in return for an upfront premium, they allow employers to walk away from their commitments to the scheme, effectively offering a buy-out-like solution but without the gold-standard financial security of the insurance market.

This type of consolidation has had all the attention, but hasn't actually consolidated an awful lot to date. It has also been pushed as a way to get DB schemes to become large-scale investors in UK equities again but, surely, that ship has sailed?

The industry and Government are overlooking a more straightforward approach to consolidation, which could provide a solution that helps thousands of smaller DB schemes improve their governance and reduce costs.

"Operational consolidators" run schemes collectively, generating economies of scale through fully bundled service offerings and bulk-buying of investments. They normally leave each scheme firewalled from others and employers stay on the hook for their liabilities. But costs and sponsor time commitments can be significantly reduced whilst improving service standards for all stakeholders. Ultimately this could mean many more schemes achieving their end-game goals more quickly, and members' benefits being more secure.

Despite all the focus on superfunds, a number of operational vehicles are already up and running in the form of master trusts or pension platforms, and have been quietly getting on with actual consolidation away from the limelight of their more excitingly-named cousins. But "operational consolidation" hasn't made it yet as part of the pensions vernacular, particularly within the sponsor community.

We need to do more as an industry to build on some of the highly effective consolidation solutions we already have and make schemes and sponsors more aware that there are practical, ready-made options out there to help schemes run more efficiently. The advantages are clear: better run schemes, lower costs, more efficient access to investment markets and improved member security to name just a few. We don't need to wait on more Government guidance, great solutions already exist.

At Isio, we have approaching £3bn of assets within the award winning operational consolidation solutions that we have been running for over 5 years.

To learn more about how Isio is delivering excellence in consolidation for DB schemes, visit isio.com or email andrew.goddard@isio.com

Mansion House reforms: how can government encourage pension fund investment in UK growth?

Nigel Peaple, Director of Policy and Advocacy at the PLSA, reports.

After much speculation in the run up to the Mansion House announcements, and much engagement with the pension industry, it is very welcome that the government has not taken away pension schemes' ability to direct their own investment strategies in the best interests of their members. Now the question is what can government do to entice pension funds to invest in the UK?

PIPELINE OF INVESTMENTS SUITABLE FOR PENSION FUNDS

As is widely recognised, pension funds already support domestic growth via investments totalling around £1 trillion in UK assets, and are a major source of long-term investment in the UK economy.

The Mansion House reforms (and the package of proposals announced by Pensions Minister Laura Trott a day later) include many elements which are aimed at extracting additional value from our £2.5 trillion pension savings system through a combination of increasing potential investment opportunities, encouraging schemes to achieve greater scale, and using the regulatory framework to make the system more efficient.

With the right policy and regulatory initiatives, and support from the right type of fiscal incentives, there is a potential for a win, win, win – for pension savers, schemes and the UK economy. However, this is a complex area, and it is easy to get the wrong outcomes, so the government was right to propose undertaking a public consultation on all the key issues over the summer.

The government's announcement of a bigger role for the British Business Bank (BBB) in establishing suitable investment vehicles is especially positive, and is something we called for in the P*ensions and Growth* paper we published in June. We would like the BBB to help provide a pipeline of suitable UK growth assets for pension fund investment – and we look to the private sector to also develop suitable 'Growth Funds'.

Schemes will always be interested in exploring investments which have a strong likelihood of generating good returns net of fees, within their risk tolerances, and in the interests of their individual members.

CONSOLIDATION ALREADY UNDERWAY

Many of the proposals are focused on bringing about a pensions market with larger, but fewer, schemes. In many respects, there is already a great deal of consolidation happening in the UK landscape.

In the world of DC funds, consolidation is happening naturally: under regulatory pressure, hastened by the government's existing policy of applying value-for-money tests, and through market forces; the 30+ DC Master Trusts are busy competing for automatic enrolment contributions. Barely a month goes by without news of another merger.

In the Local Government Pension Scheme assets held by the almost 90 pension funds in England and Wales are already being transferred to eight large asset pools. We have called for guidance and support to help the LGPS operate effectively.

Morgan Stanley

INVESTMENT MANAGEMENT

FINANCING THE BROWN TO GREEN TRANSITION IN REAL ESTATE

CLAUS VINGE SKRUMSAGER
Managing Director,

Head of Morgan Stanley Investment Management Secured Private Credit team

Real estate plays a central role in our daily lives and underpins the communities in which we live and work, hence its usefulness as collateral in protecting loan principal. However, the built environment is also a major contributor to global Green House Gas emissions. Building operations and construction account for approximately 40% of global energy related CO2 emissions[1] with an estimated 75% of the European building stock being energy inefficient[2]. In order to meet the stated political commitment of reaching zero net greenhouse emissions by no later than 2050, the annual renovation rate[3] of the European building stock will have to double, requiring an estimated €275bn of additional energy related building renovations by 2030[4]. Non-bank capital will play a central role in the financing of this transition.

Commercial real estate ("CRE") backed loans benefit from security over a property, or portfolio of property assets, that in the context of supporting the brown-to-green transition will undergo renovation works that improve the asset quality and liquidity. The stabilised CRE asset will typically have an income stream linked to inflation and the loan benefiting from an equity cushion, paying a floating rate coupon, mitigating volatility in inflation and market rates, with a maturity of typically 3-5 years. Furthermore, the loan structure will typically include characteristics such as cash trap or default covenants that seek to provide further credit stability and principal preservation.

Solid ESG credentials of the underlying collateral are not only important from an environmental perspective but also to the liquidity and valuation of the property, hence a critical part of any property risk assessment.

Implementing sustainability targets into real estate lending documentation has some practical challenges as the borrower will typically be a special purpose vehicle with no trading history and might not have direct control over the day-to-day usage of the real estate, which it leases to tenants. Also, comprehensive data collection across the ESG categories such as energy usage and renewable energy sourcing, green-house gas emissions, waste disposal and recycling, water consumption, community and social engagement is not widely available.

However, real estate investors are increasingly implementing comprehensive data collection, and although no European wide market standard has yet evolved, including sustainability targets into CRE loan facility agreements, is quickly becoming norm. In particular, we believe implementing specific sustainability targets will become market standard when financing value-add (e.g. comprehensive refurbishment of an office or residential building), transitional (e.g. converting a hotel into a multifamily scheme) or development projects. These inclusions range from ongoing commitments to satisfy laws and regulations related to e.g. energy efficiency, to more comprehensive targeting and reporting schedules.

The loan documentation will typically have various mechanisms and features that mitigates project risks such as cost overruns, project delays or contractor risks, but experience in managing renovation projects is essential when assessing the risks associated with financing the brown to green transition in European real estate. Obviously, the underlying micro and macro drivers of the asset performance are always fundamental. Finally, a robust ESG evaluation and reporting framework that is consistent with any regulatory labelling such as the upcoming UK Sustainability Disclosure Requirements, is critical.

Financing the brown-to-green transition in real estate is not only critical to combat climate change, but also has the potential to provide attractive risk adjusted returns. Senior CRE lending in this space can provide 150-200bps yield premium to publicly listed credit of similar rating while providing for lower expected 'model' loss (given the security) and better Solvency II treatment, to the extent the latter is relevant.

1 World Economic Forum, United Nations Environment Program.
2 Energy Efficiency in Buildings, European Commission.
3 Renovation defined as 1) renovation of the building envelope in excess of 25% of its surface area or 2) where renovation is in excess of 25% of the value of the building
4 EU Commission.

And over time consolidation is also going to happen among closed DB schemes as they seek to buy out. In this respect, the proposals for a legislative regime for DB Super Funds, and a consultation seeking views on a wider role for the Pension Protection Fund (PPF), could give more endgame options for DB schemes. However, if the PPF is used for this purpose, it is important that its existing fund is wholly ring-fenced from any new role and that it does not compete with existing private sector offerings, unless there is some form of market failure.

PENSION FUNDS WANT THE GOVERNMENT TO SUPPORT THE ECONOMY THROUGH A STRATEGIC AND LONG-TERM APPROACH TO INDUSTRY, FOR EXAMPLE BY SETTING OUT A CLEAR APPROACH TO THE NECESSARY GREEN TRANSITION.

INCENTIVISING FURTHER INVESTMENT IN UK GROWTH

It is important to remember that there are things other than consolidation that the government can do to facilitate investment in the UK; for example, amending the rules applying to the AE market, introducing more flexibility in the TPR DB funding code for open DB schemes, and supporting the good governance of the LGPS scheme. Fiscal incentives, such as LIFTS, are also helpful. Importantly, pension funds want the government to support the economy through a strategic and long-term approach to industry, for example by setting out a clear approach to the necessary Green Transition.

Greater scale can be achieved, not only at the level of the pension fund, but also at the level of the investment fund. Smaller pension funds could benefit from large – but low-cost – growth funds specifically designed for them, especially if they blend a small quantity of higher-risk assets with a larger amount of lower-risk assets.

Above all else, we hope very much that the government will continue to do all it can to ensure that increasing automatic enrolment pension saving becomes a reality, now that the Private Member's Bill on extending automatic enrolment (by introducing pension saving from the first pound of earnings and extending it to include 18 to 22-year-olds) has successfully passed through parliament and received Royal Assent.

Read more about the PLSA's submissions on our website and join us at Annual Conference where the debate will continue.

WHAT ARE THE GOVERNMENT'S PROPOSALS?

Mansion House Compact: Nine of the largest DC pension providers have signed up to a voluntary agreement to allocate 5% of the assets in their default funds to unlisted equities by 2030. They are Aegon, Aviva, L&G, M&G, Mercer, Nest, Phoenix, Scottish Widows and Smart Pensions. Together they represent over £400 billion in assets and the majority of the UK's DC workplace pensions market. The Chancellor says the compact has the potential to 'unlock' up to £50 billion of investment in high-growth companies by 2030 if all UK DC pension schemes follow suit.

- The **British Business Bank** will explore the case for government to play a greater role in establishing investment vehicles to complement the £250 million made available through its Long-term Investment for Technology and Science (LIFTS) initiative.
- **Value for Money Framework:** The government's latest proposals put more emphasis on investment decisions being based on overall long-term returns and not simply costs. The latest consultation proposes simpler metrics than previously put forward. Schemes not achieving the best possible outcome for members will be wound up into larger, better-performing ones.
- **Collective Defined Contribution funds:** CDC requires significant scale in order to gain the benefits of investment and longevity pooling, so the number of employers large enough to establish their own scheme will always be limited. Therefore, multi-employer and master trust CDCs are a logical structure through which a greater proportion of UK workers could benefit from the enhanced outcomes CDC has the potential to deliver.
- **The Local Government Pension Scheme (LGPS):** The government is proposing LGPS funds transfer all of their assets into the pools by 2025 and each fund double its existing investments in private equity to 10%. Pooling in the LGPS has allowed funds to achieve economies of scale on some of their investments, while cutting costs.
- The government will introduce a permanent **'superfund' regulatory regime** to provide employers and trustees with a new way of managing DB pension liabilities. Superfunds were a recommendation of the 2017 PLSA-led DB Taskforce.
- The **Pension Protection Fund (PPF):** There is also a consultation on what role the UK's 5,000 DB schemes and the PPF can play in "productive investment", while protecting savers' interests and the "sound functioning and effectiveness" of the UK government bond market.

Local knowledge

Maggie Williams meets *Liz Graham,* Partner at Walker Morris and chair of the PLSA's Yorkshire Local Group.

Q.

HOW DID YOU BECOME INVOLVED WITH THE PLSA'S YORKSHIRE LOCAL GROUP?

A.

I've been a pensions lawyer for 30 years, and right from an early stage in my career I was encouraged to get involved with local groups, both in Yorkshire where I started my pensions work and during a period working in London. When I returned to work in Leeds, I became secretary of the Yorkshire Group, and I've been its chair since 2020.

We cover a wide area, including Bradford, Hull, Leeds, Sheffield and York. Pre-Covid, all of our meetings were in-person events, and we inevitably had to move online during the pandemic. Since then, we've gradually moved back to live meetings. We're also keen to explore hybrid events, combining in-person meetings with the option to join online, which means we can reach a larger audience.

IT'S A GREAT WAY OF NETWORKING WITH PENSIONS COLLEAGUES IN YOUR LOCAL AREA – AND TO SHARE A REALLY GOOD BREAKFAST!

Our current membership is typically between 100 and 150 people, mainly advisers such as lawyers, actuaries and consultants, as well as representatives from private and public sector schemes.

Q.

HOW IS THE YORKSHIRE LOCAL GROUP RUN?

A.

We aim to hold six sessions a year, which means we hold regular committee meetings to plan the programme and keep it on track. Although we like to be flexible so that we can make sure our sessions are topical, we aim to share the majority of the following year's programme when we renew subscriptions each summer or talk to new members.

We have a committee of between 9 and 12 people. That includes a chair, a treasurer and a shared secretary role. During lockdown, the secretary role became too much for one person, so we split it and have retained the two-person structure since then, which makes it easier to manage.

In terms of meeting planning, we have two named people who are responsible for each event. That means each committee member takes responsibility for one or two meetings per year, which works well.

Q.

WHAT GOES ON AT A LOCAL GROUP MEETING?

A.

The majority of our meetings are breakfasts – we've experimented with other times of day, but breakfasts seem to work best for our members. Our events generally include an update from the PLSA's central office, at least one technical session, and then a Q&A.

The topics we cover were historically focused on defined benefit, but we're now putting more focus on defined contribution as well. In the last year we've included subjects such as cybersecurity risks (which we covered at our AGM) and The Pension Regulator's forthcoming DB Funding Code.

Q.

WHAT WOULD YOU SAY TO SOMEONE THINKING OF JOINING YORKSHIRE LOCAL GROUP?

A.

It's a great way of networking with pensions colleagues in your local area – and to share a really good breakfast! We try to make our discussion topics timely and relevant and are always keen to hear ideas and suggestions.

Yorkshire Local Group really encourages people to join in and we want to spread the word both to advisers and pension schemes. Membership is currently free, so if you're in the Yorkshire area, we'd love to welcome you along to our meetings.

To contact Yorkshire Local Group, email: **plsa.yorkshire@mercer.com**

FIND YOUR PLSA LOCAL GROUP

There are 11 PLSA Local Groups across the UK.

Find a Local Group near you: **https://www.plsa.co.uk/About-us/Local-Groups**

AON

The Risk Prioritisation Challenge

Our Global Pension Risk Survey UK Results

UK private sector defined benefit (DB) pensions continue to evolve and so do the regulations governing them.

Aon's Global Pension Risk Survey provides unique insight to the management of UK DB pension risk.

Uniquely, this survey examines the full range of risks affecting scheme assets, liabilities and governance.

Learn more and download the survey: **aon.com/GPRS2023**

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Training experienced trustees

Earlier this year, we explored Part 1 of the PLSA's Trustee Training course, aimed at new and prospective trustees. Here, ***Maggie Williams*** talks to ***Carolyn Saunders,*** Pensions Partner, Dentons and leader of the PLSA's training about Parts 2 and 3, for more experienced trustees.

Q. WHO WOULD BENEFIT FROM PARTS 2 AND 3 OF THE PLSA'S TRUSTEE TRAINING?

A.

Part 2 of the training is a practical course about putting theory into practice. Ideally, trustees would have around 12 months' worth of trustee meetings to draw on. Part 3 is also a very practical course, run as a fictional trustee meeting, and is aimed at people with two to three years of board experience.

We aim for consistent levels of expertise to make sure that everyone gets the maximum benefit from attending. The courses are very collaborative and interactive so all delegates will be sharing their experience and knowledge with others, as you would on a trustee board. This is done in a safe, confidential space.

Q. WHAT CAN DELEGATES EXPECT FROM THE COURSES?

A.

Both Parts 2 and 3 are based around case studies and are run by Philippa Connaughton [Partner, Sackers] and me. Participants work through the case studies in groups, then we discuss them together in an open forum. There is some minimal use of PowerPoint presentations, just to introduce topics that are relevant to the case studies and draw out conclusions – but it's only about 15% of the content.

In the fictional trustee meeting scenario for Part 3, we draw out various issues that are then used as the basis for workshop-style discussions and problem-solving.

In both courses, we want to develop delegates' confidence and good instincts, as well as giving them a full understanding of the trustee role. We are not aiming to develop technical skills, as trustees can and should call on their professional advisers for technical advice. The role of trustees is to steer the ship and be able to see the bigger picture.

Q. HOW DO YOU BALANCE CORE SKILLS AND TOPICAL CHALLENGES IN THE TRAINING MATERIALS?

A.

There will always be unexpected or unusual things to address as a trustee. The main focus of the courses is to help trustees become more confident and feel equipped to deal with whatever new challenges come along.

When we devise the syllabus for Part 2, we focus on topics that trustees will need to be confident in handling, as they are likely to encounter them regularly. Those could include exercising discretions, communicating with members and identifying when and what advice the scheme needs. We also regularly review and update materials as needed to make sure they remain relevant.

For Part 3, we focus on building trustees' confidence with more complex issues. These relate to current challenges wherever possible.

Q. WHY SHOULD TRUSTEES CHOOSE TO TRAIN WITH THE PLSA – AND WHAT VALUE DO YOU ADD OVER IN-SCHEME TRAINING?

A.

It's human nature that any trustee board will run its meetings in a certain way, and there will be expectations of how others around the table will operate. Those preconceptions and expectations also carry over into a board's training environment. That might mean that trustees get used to not questioning certain things, or that they naturally fall into a particular way of thinking and acting.

Our courses are structured so that delegates can learn from other trustees outside their own scheme, bringing diversity of thought, approach and experience. By moving outside their usual environment, trustees have an opportunity to think about different ways of working.

The courses are deliberately informal and we are very happy to answer whatever questions we are asked about. We can discuss current challenges to illustrate points in our discussion, or talk about how trustees might respond.

One of the reasons why Philippa and I enjoy running this training is because no two courses are ever the same. It is very much the delegates' day and we want to make sure everyone can get what they want and need from the training.

FUTURE TRAINING DATES

Trustee Training – Part 2:
The Practice, 31 October 2023

Trustee Training – Part 3:
Expert, 22 November 2023

Trustee Training will also take place throughout 2024, and some 2024 dates for Trustee Training have been announced.

Register for a 2024 trusteeship course before 31 December 2023 and pay this year's prices.

Discover more at
www.plsa.co.uk/Trustee-Training

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CHOOSE US FOR YOUR TRUSTEE TRAINING JOURNEY

Our trusteeship courses have been expertly crafted to support trustees of all levels through high quality pensions education and training. Enhance your trustee skills and gain the knowledge you need with dates available throughout 2024.

TRUSTEESHIP - PART 1: THE THEORY

14 MARCH | 4 JUNE | 12 SEPTEMBER

Gain a comprehensive understanding of your role, what is expected of you and how to apply good scheme governance.

TRUSTEESHIP - PART 2: THE PRACTICE

DATES COMING SOON

Apply your knowledge and skills in boardroom simulations and gain first-hand experience on how to approach the issues you will face in your role.

TRUSTEESHIP - PART 3: THE EXPERT

DATE COMING SOON

Further enhance and refine your skills to become an expert in your role.

PRICE FREEZE ALERT!

**REGISTER FOR OUR TRUSTEESHIP COURSES BY 31 DECEMBER 2023 AND PAY THIS YEAR'S PRICES.
DISCOVER MORE AT WWW.PLSA.CO.UK/TRUSTEE-TRAINING**

Supporting savers through the cost of living crisis

Senior Policy Advisor ***Krista D'Alessandro*** introduces a PLSA resource geared to help savers navigate these financially difficult times.

Many of us have been feeling the strain of the cost-of-living crisis in our own daily lives. The increased price of groceries, energy, gas and other everyday expenses has many of us cutting back on spending or looking for ways to make our money go further.

WHAT SHOULD SCHEMES SAY TO PEOPLE WHO WANT TO OPT OUT OF AUTO-ENROLMENT?

Given the heightened economic pressures, people across the country may be seeking additional support to help bolster their financial wellbeing. As pension schemes play an important role in securing each individual's financial future, they are uniquely positioned to help.

WHERE CAN SAVERS FIND HELP WITH THEIR MENTAL HEALTH?

To aid schemes as they work to support savers during these economically challenging times, the PLSA released a paper earlier this year specifically designed to help schemes to do just that – support savers.

WHAT CAN SAVERS DO TO REDUCE HOUSEHOLD COSTS?

A RESOURCE FOR SCHEMES

Supporting Savers in Financially Difficult Times: A Resource for Schemes looks at how schemes can support savers' fiscal health – including decision-making as it relates to retirement savings – as well as their overall wellbeing.

WHAT GOVERNMENT BENEFITS EXIST FOR SAVERS STRUGGLING WITH THE COST OF LIVING?

Structured in an easy-to-read question-and-answer format, the resource consolidates relevant information for savers, outlining the major questions they may be asking with digestible answers that signpost to key resources. Broadly, the topics covered are:

1. How schemes can support savers' **overall wellbeing**, signposting them to mental health resources, basic budgeting support, government benefits and information on protecting themselves from scams.
2. How schemes can support savers' **fiscal health in retirement**, including information on saving for retirement, accessing pension money early (for over-55s), and what schemes might say to savers looking to opt out or opt down.

HOW MUCH DO SAVERS NEED FOR RETIREMENT?

Since releasing the resource, the PLSA has encouraged schemes to publish this information on their websites and to notify members of these – or other similar – materials. We've also encouraged schemes to actively partner with employers in order to directly connect savers with this information.

WHAT OTHER RESOURCES ARE AVAILABLE TO HELP SAVERS?

The financial decisions that savers make now, both in relation to their pension and otherwise, could have a significant impact on their long-term financial resilience and retirement income. Recognising this, the PLSA encourages schemes to continue to lean on this resource as they help savers navigate the ongoing crisis.

WHAT CAN SCHEMES SAY TO OVER-55S WHO WANT TO TAKE MONEY NOW?

WHAT CAN SCHEMES DO FOR PEOPLE WHO WANT TO OPT-DOWN THEIR CONTRIBUTIONS?

STRUCTURED IN AN EASY-TO-READ QUESTION-AND-ANSWER FORMAT, THE RESOURCE CONSOLIDATES RELEVANT INFORMATION FOR SAVERS

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THE MEMBER BACKING PENSIONS AND LIFETIME SAVINGS ASSOCIATION

LOCAL GROUP NETWORK

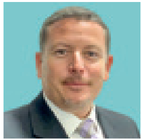
YOUR REGIONAL NETWORKS FOR SHARING KNOWLEDGE

JOIN A PLSA LOCAL GROUP to keep up to date with the latest developments in pensions, share your experience and network with pension professionals in your local region. Each Group welcomes members from all sections of the pension industry.

Local Groups are run by volunteer PLSA members who hold regular meetings, from panel discussions to debates, and specialist updates by industry experts and the PLSA Policy & Advocacy team. Some groups also hold annual one-day seminars and social activities.

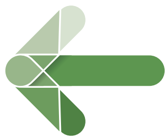
To find out more, visit ***www.plsa.co.uk/localgroups*** or contact Cheryl Wilkinson, Senior Membership Engagement Manager at ***Cheryl.Wilkinson@plsa.co.uk***

Where is the private DB sector heading?



Jon Echevarria, Policy Lead: DB, looks to the future of a sector of critical importance to the UK.

For some time now there has been growing interest in the future of defined benefit (DB) schemes – from government, regulators, insurers, investment managers, consultants, and other interested parties.



CURRENT PRIVATE SECTOR DB LANDSCAPE

Before we consider where the DB sector is heading, it's important to understand the current private sector DB landscape. At present there are around 5,300 funded DB trust-based private sector schemes, with signs of a slow but steady decline in terms of scheme numbers. They cater for about 10 million members (down from 14 million in 2006) and their assets amount to around £1.4 trillion.

Of the roughly 5,300 private sector DB schemes, 505 schemes (around 10%) remain open to new members and around half remain open to future accrual, representing £321 billion in total assets and 2.06 million members in open DB schemes.

The overall funding position of private sector DB schemes has improved significantly in recent years. The aggregate surplus (total assets less total s.179 liabilities) of the schemes is estimated at £437 billion at the end of June 2023. The position has improved significantly from December 2021, when a deficit of £129.3 billion was recorded.

As noted in the Work and Pensions Committee's *Saving for Later Life* report released last year, DB schemes remain of critical importance in the provision of pensions in the UK. According to the report, people with access to a DB pension are more likely to be on track for an adequate income in retirement. But the reality is that DB schemes are unlikely to return as the predominant pension offering in the private sector.

BUY-IN/BUY-OUT VOLUMES SET TO INCREASE

There can be no doubt that the 'endgame' market is evolving, and it's likely that the number of schemes considering their options will continue to grow. With the continuing improvements in funding positions, the number of DB schemes in surplus is expected to rise in the coming years, allowing schemes greater opportunity for buy-in or buy-out.

Indeed, buy-in and buy-out volumes are expected to reach a record high in 2023. Estimates from a number of consultancy firms predict that buy-in and buy-out volumes will this year break the £44 billion record set back in 2019. According to one estimate, the DB de-risking market is on track to hit record volumes of £45–£60 billion in 2023, with as many as 15 £1 billion+ transactions expected.

The number of DB schemes that will be in a position over the next 10 years to enter an endgame scenario is anticipated to grow as funding levels improve, whether that be through an insurance solution (buy-in/buy-out), or investment or administration mergers or consolidations.

IMPACT OF INCREASED BUY-IN/BUY-OUT ACTIVITY

In terms of insurance solutions, following on from the funding improvements seen in 2022, pricing will likely continue to be attractive for schemes that are properly prepared. However, schemes will have to work much harder than in the past to secure active insurer participation given the capacity constraints in the buy-in/buy-out market resulting from increased demand. With more DB schemes approaching the insurance market than ever before, insurers are finding it difficult to quote on all transactions, prioritising those that give them the best chance of securing a deal. Those schemes that have laid the groundwork will be best equipped to gain insurer engagement. More complex and smaller transactions may well be de-prioritised.

We may be on the verge of a lack of insurer capacity becoming an issue. However, this is not due to a lack of capital or appetite, but to limited human resources. The way the market currently operates means that, if a significant number of smaller (sub-£100 million) schemes start looking at buy-in/buy-out solutions at the same time, many schemes will not be able to secure deals. And it will likely be the smaller schemes, whose members would arguably most benefit from an insurance solution, that will unfortunately tend to miss out.

THERE IS AN ARGUMENT THAT DB SCHEMES SHOULD BE ENCOURAGED TO READJUST THEIR FOCUS AND ADOPT A MINDSET OF AMBITION AND OPPORTUNITY.

Insurers are aware that this increase in demand is likely to continue for some time and many are strengthening their front- and back-office staffing to be able to increase capacity.

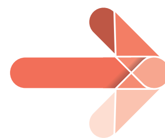
These capacity constraints are real, but they are not permanent. It is likely that actions will continue to be taken by various participants in the industry (including some of those already mentioned) that will eventually overcome the current capacity constraints.

ALTERNATIVES TO BUY-IN/ BUY-OUT

There are of course alternatives to buy-in/buy-out. And with many DB schemes now exceeding their funding targets, this is prompting many sponsors and trustees to review their DB endgame plans.

The alternatives to insurance solutions include schemes continuing to run on (although arguably not indefinitely), or perhaps consolidating in different vehicles – for example, DB Master Trusts which can give trustees greater control over the journey to endgame where the scheme is not in a position to achieve a full insurance buy-out and help set a clear path to a low-risk target, ultimately reducing the sponsor's contribution burden. DB Master Trusts can help sponsors to move to a low-risk target over time, which then gives them the option of either running the scheme off within the DB Master Trust, or bridging to a full insurance buy-out when this becomes achievable.

There is also the developing Superfund market that might provide a different but potentially desirable home for some schemes. Although currently untested, Superfunds could potentially provide an affordable option for employers, creating an incentive and an achievable goal for them to make a one-off payment to reach self-sufficiency funding levels, without having to pay for the more expensive insured buy-out option. The government recently confirmed that it is looking to finalise the Superfunds legislation "as soon as parliamentary time allows" and establish a permanent regulatory regime to authorise and supervise them.



POTENTIAL CHANGES TO THE DB LANDSCAPE

As announced by the Chancellor in his Mansion House speech in July, the government is exploring various ways to incentivise private sector DB schemes to invest more in productive assets. These include:

- Exploring alternative ways in which DB surpluses can potentially be used – for example, to encourage trustees to take on greater investment risks or perhaps allowing employer-sponsors to use DB surpluses to provide additional contributions (over and above statutory minimum contributions for auto-enrolment) for defined contribution members.
- Considering whether a public consolidator should be established to operate alongside commercial consolidators such as DB Master Trusts and Superfunds.
- Exploring whether the role of the Pension Protection Fund could be expanded to take on the role of a public consolidator.

As consolidation in the industry continues over the next few years, the government is hopeful that more private sector DB schemes will achieve greater scale and be able to invest in a wider range of asset classes (at lower cost), with potentially more being invested in UK growth assets.

But to achieve this objective, a change in regulatory focus is needed, particularly for open DB schemes and closed schemes with long time horizons. With many DB schemes in a position of strength and funding reaching record levels, the current regulatory focus on 'slowing down' DB schemes through reducing investment risk could represent a missed opportunity to better invest the £1.4 trillion of private sector DB pension scheme assets.

There is an argument that DB schemes (particularly those which are not targeting endgame in the next 12-18 months) should be encouraged to readjust their focus and adopt a mindset of ambition and opportunity. By allowing certain DB schemes to turn up the risk dial, they can be 'unlocked' to invest for moderate growth, potentially generating billions of pounds to benefit savers, schemes and the UK economy.

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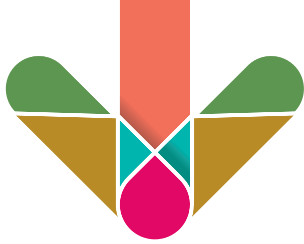

DB Forum: what schemes are thinking

Marcin Stepan, Events Content Manager, reports on the main topics from our latest DB Forum gathering.

At our DB Forum in May, trustees gathered to hear about the impact of journey planning on asset allocation, the new Code of Practice, and communication challenges and opportunities.

On the first panel a trustee, a sponsoring employer and an asset manager discussed the importance of sponsors and trustees working closely together when preparing to move towards buy-in. The sponsor's covenant is important in these transactions and their role can make a huge contribution to a transaction completing.

The sponsor said close partnering with trustees was an advantage for attractive insurers when moving to buy-in.

The panel also discussed how pension schemes need to start thinking like insurers and looking at things like interest rate management. There are a range of experiences with investment choice in the run-up to buyout. Investment choice has a big impact, with the asset manager pointing out that cashflow management is increasingly important.

The asset manager said that since the LDI crisis there has been a question over whether gilts plus is the optimal way to align asset risk with liability risk. Some schemes have been left with a higher proportion of illiquid assets since they had to meet their collateral requirements with cash. The challenge for schemes is that having too many illiquid assets can make them less attractive to insurers.

Several schemes are now in a better funding position since the rise of gilt yields, which has increased demand for insurance buyouts. The panel warned they may have to wait longer to get to buyout now there is more demand for insurance buyouts and the buyers' market has become a sellers' market.

That has implications for pension schemes' investments, and there is also a question over the right level of liquidity since last year's LDI crisis. The sponsor pointed out that unexpected opportunities arise, and therefore it's important to have your house in order.

NEW CODE OF PRACTICE

During the next session we heard about the forthcoming Code of Practice, which although not yet published, aims to consolidate The Pensions Regulator's 10 existing codes of practice and guidance and is designed to be modular to enable users to navigate easily between the different sections.

Two years after the Regulator's consultation, the new Code of Practice – now commonly known as the General Code – is expected to be published soon.

We heard how the Code is supposed to be useful for pension schemes, and not generate unnecessary extra work. The ambition is to help build effective governance by pulling 10 codes into one – but much of its content will be things that schemes should already be doing in terms of governance.

However, it was pointed out that it may lead to challenges for some schemes that are lagging behind others in governance, particularly smaller schemes. We also heard how the new Code will be used as a regulatory stick for measuring governance.

The speaker said this is an opportunity to look at the fundamentals of good governance but also to help trustees ask more questions, suggesting that perhaps some have in the past relied too much on their advisors.

COMMUNICATION AND ENGAGEMENT

During the third session, three pension schemes discussed the steps they have taken to improve communication with the aim of driving engagement among members.

Member satisfaction has been improved through refreshed brands and websites, as well as digital portals and personalised and segmented member communications, which help members make retirement and pensions decisions.

Pre-retirement courses, nudging and webinars also help – and a strong core service team is needed to provide them.

A challenge shared by all schemes is how to relay information to members and in what format. Keeping things simple is important, especially for complex funds. And the next big challenge for some is how to communicate with members who are vulnerable, such as the elderly and those who have dementia or Alzheimer's.

The next DB Forum is on 15 November.

KEEPING THINGS SIMPLE IS IMPORTANT, ESPECIALLY FOR COMPLEX FUNDS.

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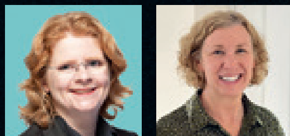
A new vintage



Maggie Williams talks to ***Fiona Brown,*** Group Head of Pensions and Benefits at Rolls-Royce, about their UK DC scheme's innovative new default strategy.

In June this year, Rolls-Royce's UK defined contribution (DC) pension scheme made a major change to its default investment strategy. It introduced a bespoke target date fund (TDF) structure, in partnership with BlackRock, with the aim of improving member outcomes and giving members a simple and seamless approach to investing.

The decision to change the default strategy was part of a wider investment review. "We had brought former members of the DB scheme into our DC arrangement, so the membership had increased and our assets under management were also growing very quickly," says Fiona Brown, Group Head of Pensions and Benefits at Rolls-Royce.

"This was a good point to pause, understand what else had changed and carry out a wholesale review of our default strategy. We wanted to make sure our investment approach was appropriate for all our members, and make some changes such as targeting state pension age as the default retirement age – unless members tell us otherwise."

Other goals, says Brown, included simplifying reporting for members to make it more transparent, as well as thinking carefully about post-retirement processes.

Before the review, Rolls-Royce used a traditional lifestyling approach for its default fund, with a blend of different investment managers. "Although the trustees were easily able to govern and monitor our funds at a scheme level, it was less easy to identify performance for an individual member as this was dependent on the blend of funds, the member's age and the stage each member was at in our de-risking process."

A NEW DEFAULT STRATEGY

Brown's team and the Rolls-Royce trustees wanted to explore other approaches that would be simple and more transparent for members. "We talked to quite a few investment managers, but right from the start we found BlackRock very flexible and open to discussion about what we could achieve. We didn't immediately settle on using TDFs for the default fund, but knew we wanted to explore this approach."

Brown says that one of the potentially attractive features of TDFs in general is the ability to group members into three- or five-year vintages close to their state pension age, or allow them to choose a vintage for themselves if they have selected a different retirement age.

"However, we felt that five-year vintages were too broad and we started discussing the possibility of creating TDFs with one-year vintages. To achieve that, we worked with BlackRock to use some of the building blocks of their existing TDF funds and rebuild them for one-year vintages. We're not aware of any other one-year vintage TDFs in the market, so this was a unique approach."

Brown says that creating the new funds has been very much a joint effort with BlackRock, Mercer, the scheme's investment consultant, the Rolls-Royce trustees, Brown's pensions team and Aviva, Rolls-Royce's bundled DC provider, all playing an important part. "Aviva were very flexible and willing to work closely with BlackRock to deliver this. Ultimately Aviva has to administer the scheme and will support members' information needs about fund performance, so it was important to involve them closely."

Value for money has also been a key focus. "We have negotiated a very competitive charging structure with BlackRock and Aviva and are confident that we are getting very good value for money for members."

INSIDE THE TDFS

Offering one-year vintages should help members better understand and track their investment performance, says Brown. "This approach also makes us more nimble. With one investment manager for the default fund, trustees' governance is more straightforward. At the front end, members can focus on the vintage that applies to them, while in the background, BlackRock manages the funds and carries out investment decision-making."

Members' investments are dynamically managed within the TDF, gradually moving from higher to lower risk investments as they get closer to retirement.

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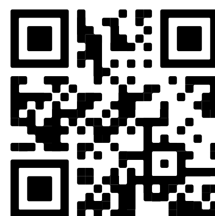


While BlackRock and Rolls-Royce have provided the impetus and setup work required to create one-year vintage TDFs, they are keen for other schemes to benefit from their partnership work. "These TDFs are not exclusive to us and we don't want to keep them to ourselves. The building blocks we've used are open to the market, so another scheme could mirror what we've done."

MEMBER OUTCOMES ARE THE PRIMARY FOCUS

The innovation and collaboration involved in creating one-year vintage TDFs is a powerful achievement from an investment standpoint, but ultimately the main reason for the change is to benefit members. "This is all about members' retirement outcomes, and that's front-and-centre for us," says Brown.

"Right back at the start of this process we wanted to look at how our members' retirement savings perform against the Retirement Living Standards [the PLSA's rule-of-thumb figures for a minimum, moderate and comfortable standard of living in retirement]. We looked at our risk budget to make sure that as far as we could, we were taking the optimum amount of risk to give members the best possible outcomes."

COMMUNICATION IS KEY

The scheme has also been focused on building up its communications, working closely both with Aviva and BlackRock. It issued a special newsletter and hosted a series of online webinars in May and June specifically about the new default strategy. "They were very well attended, and we had lots of positive feedback. Over the longer term, the key will be building up materials as performance reporting comes in from BlackRock. It's an exciting journey, and we're just at the start right now."

As with other aspects of the change, Aviva has been closely involved in communications. "We've done a lot of work with Aviva to make sure the default fund looks simple on their website," Brown reveals. Members can also use Aviva's retirement planning tools linked to the Retirement Living Standards to model their savings and understand their predicted outcomes.

Despite the intensity of change this year, Brown is keen that the DC scheme doesn't rest on its laurels. The post-retirement journey for DC members is one of the next elements in her sights. "Building up funds is only half the story in helping members plan for a long and happy retirement," she concludes. "There is also the in-retirement part, which is very topical at the moment and a future focus for us."

THIS WAS A GOOD POINT TO PAUSE, UNDERSTAND WHAT ELSE HAD CHANGED AND CARRY OUT A WHOLESALE REVIEW OF OUR DEFAULT STRATEGY

ABOUT THE SCHEME

- UK Rolls-Royce set up its DC scheme in 2007 when its DB scheme closed to new joiners.
- Around 35,000 member accounts, of which just under 20,000 are active contributing employees. The scheme is open to all UK Rolls-Royce employees.
- £1.1 billion assets under management.
- Bundled arrangement with Aviva.

HEAR MORE AT OUR ANNUAL CONFERENCE

Fiona Brown will be taking part in two panels at our Annual Conference:

- Navigating future retirement: maximising impact through partnership: 18 October, 3.10pm
- The next steps for better pensions: 18 October, 4.40pm

ROLLS-ROYCE AND PQM PLUS

UK Rolls-Royce's DC scheme has held the PLSA's PQM Plus award since 2020. Brown says: "We think it's great to have an independent kitemark that shows members what a high-quality scheme we have.

"Generally in the UK people are still getting used to DC schemes, so I think that having PQM Plus reinforces the importance of our scheme infrastructure, as well as the effort and thought that goes into bringing together everything that the scheme offers."

PQM and PQM Plus recognise high quality pension schemes which meet minimum contribution levels of 12% of pensionable pay with at least 6% from the employer for PQM and 15% for PQM Plus, with at least 10% from the employer.

In addition, the scheme must demonstrate good governance, good member experience and encourage employees to save for their future. The Standards set out what we consider to be good practice, and the type of evidence that a scheme can provide to demonstrate that it meets them.

The core principles of PQM and PQM Plus are that a scheme should have:

- Commitment from the sponsoring employer to enrol all employees at minimum contribution levels
- An effective board
- A good-quality default investment strategy
- An understanding of its members with an inclusive engagement strategy
- Support for members at retirement.

PATRIZIA

Inflation fear: where to ride the tide? Forecasting total returns with data intelligence

Data intelligence can decipher the complex tides of inflation, providing insights to foresee market shifts and tailor your investment strategies for optimised returns in both turbulent and calm financial waters.

By
Marcelo Cajias,
Head of Data Intelligence at PATRIZIA

and
Georg Kläger,
Senior Associate at PATRIZIA

It can be difficult at a glance to tell if an ocean tide is ebbing or flooding. It takes time to read the signs – is the sand wet above the waterline, which way is the flow, are there waves, or is the water flat?

As with tides, so too with inflation. In context of the last two decades, we recently experienced an inflation king tide, an exceptionally high rise in waters. This resulted from a deterioration in global financial stability due to a perfect storm of conditions, including the massive stimulus and easing during the COVID-19 pandemic and Russia's invasion of Ukraine, which caused a spike in commodity and energy prices.

Inflation seems to be ebbing, but the course and consequences of the Russia-Ukraine war, in particular, are hard to predict: inflation could be a lot stickier than expected. However, the fluctuation in inflation and interest rates hikes have impacted market fundamentals in general and the pricing of real estate in particular.

Using data intelligence to assess the impact of inflation

At PATRIZIA, we use data intelligence to forecast total returns. In our recent analysis, we can see that during the last two decades economic cycles of solid growth have been accompanied by moderate inflation & vice versa. However, far less is known about recessionary phases with strong inflation. Using our technology, we cast light on the role of inflation on market fundamentals and real estate pricing.

The analysis of the yearly development of real estate prices and economic growth across nine European countries reveals that most economic activity during the last four decades took place inside a confidence ellipse (see chart 1).

Chart 1: Magnitude of change in fundamentals

The second quarter of 2022 highlights how extraordinary the times are through which we are living. The quarter is an extreme outlier. Despite economic growth already impacted by rising interest rates, core inflation remains sticky despite an overall downwards trend, indicating that the eurozone has not yet fully recovered.

History shows that the return path from high inflationary levels often involves drastic negative shift in prices and growth. For example, inflation in the UK adjusted by ca. 330 bps from 7.5% in 1991 to 4.2% in 1992 and was accompanied by a drop in GDP growth by ca. 190 bps from 5.5% in 1991 to 3.6% in 1992.

How corrosive is inflation to real estate values?

The resilience of real estate is linked to the ability to react to changes in inflation. From the capital return perspective, assets with inflation-linked rental contracts provide higher protection due to more resilient real capital values.

In an inflationary environment, it is likely that central banks will intervene by tightening interest rate policy, impacting real estate valuations due to a higher bond-yield environment and a less attractive leverage effect. Further, this also results in rising debt costs that harm developers' margins. These two forces might slow construction output, possibly leading to higher competition for existing assets in the longer term. This is likely to also decrease homeownership rates in favour of renting for residential real estate due to the increased cost of debt and living.

To assess the impact of inflation and interest rate hikes on the performance components of institutional real estate, we merged three decades of MSCI performance data with macroeconomic fundamentals from Oxford Economics. The results show residential assets are less vulnerable to a value decline in high inflation, while the capital returns on retail assets can be strongly impacted. For offices, high inflation is associated with low real total returns.

Furthermore, deflated income returns of residential and retail assets show strong resilience in high inflationary regimes, while inflation regimes of 3% to 4% and more than 4% lead to negative deflated average residential and retail capital returns, respectively.

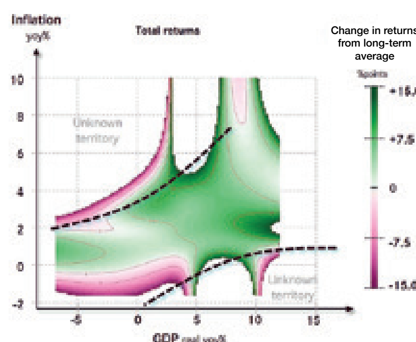
Finally, a stagnating economy does not lead to a fall in the long-term average of total returns as long as inflation remains between 0-3.8%. Higher inflation levels lead to significantly lower total returns.

Simulating office returns

In our research, we undertook extensive simulations of office returns and implications. Summarising, our simulation showed that:

- In an environment with +8% inflation, an economic growth of at least 2.5% is required for income and capital returns not to fall below long-term averages.
- Income returns remain stable in a recessionary environment whenever inflation is below 4%, while income erosion is expected in an inflationary regime of 6% with low economic growth.
- The impact on capital returns by a recession and inflation below 3% is negative but somewhat limited. However, capital returns decline sharply during recession with high inflation rates.

Chart 2: Response of office total returns to economic scenarios



Where the inflation tide is running

Generally, average office total returns are achieved in an economic environment with an inflation rate between 3-4% and 1-3% GDP growth. An economic recession of -2% with inflation close to 4% can lead to negative total returns of -2% (5% income and -7% capital growth).

An increase in average European office yields from 3.5% in the third quarter of 2022 could reach a peak of 5.3% in Q2 2024, but much will depend on which way the inflationary tide turns and how high or low it runs. With interest rates and debt costs set to remain higher for longer, investors will need to work harder and drive operating income to maintain the returns they have been used to. This underlines the increasing importance of managing and growing income through astute asset management.

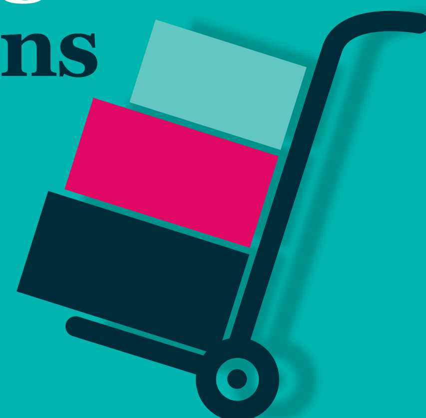
At PATRIZIA, our experience shows that successful investments depend on a combination of well researched high conviction plays backed by the experience of local specialists and innovative data intelligence. This is why we continuously develop cycle-tested machine learning methods that support us in underwriting investments and optimising the value of the real estate portfolios we manage.

For example, PATRIZIA spotted the urban logistics market early and assembled a significant portfolio for our value-added programs. Another example is the PATRIZIA Amenities Magnet, which pulls in data intelligence to benchmark to which degree a residential or commercial property location will supply tenants with basic urban needs, such as commuting and education, within its immediate catchment. This allows us to have a thoughtful approach for finding good risk-adjusted opportunities within the key themes supported by our house view.

Download the Research Brief on Inflation fear at **https://bit.ly/3LqhSS4**

Downsizing, exploring – and more consultations

James Walsh's Membership Engagement team is as busy as ever in the PLSA's new home.



One of the pleasures of exploring the area around the PLSA's new office lies in the wonderfully historic and descriptive City of London street names. Fish Street Hill, Lime Street, Seething Lane and Pudding Lane (of Great Fire of London notoriety) are all on our doorstep. I sometimes wonder what names they would get if we were to start all over again. Derivatives Street? Asset Management Alley? LDI Lane? OK, perhaps not.

Our reason for moving to a new, smaller home is simple – with more flexible working, we didn't need all the space we had, and downsizing means we can spend more of our members' subscriptions on member services, rather than rent and other office costs.

WADING THROUGH CONSULTATIONS

There is certainly plenty to do for our members. As I write, my Policy colleagues are wading through the mass of consultations published as part of the 'pensions and growth' initiative that was at the centre of the Chancellor's Mansion House Speech. By the time this article is published, I imagine we'll be quite close to the Autumn Statement, which is where we expect the final direction of these various projects to be confirmed.

The good news – for my colleagues and for our members – is that we haven't been starting from scratch on any of this. We have well-established positions on many of these issues, developed through previous consultation rounds, in the private briefings we've put together for Whitehall officials and in our *Five Steps to Better Pensions* report, which we'll be updating at this October's Annual Conference.

LGPS EMPLOYER GUIDE

The future of LGPS pooling is the focus of one of these consultations, where our response will reflect what a member was saying to me recently – essentially that pooling is still in the 'bedding in' phase.

Our LA members are a very important part of the PLSA's membership, accounting for around half of our largest 80 members, so I'm always pleased to hear positive feedback from them – and we've been getting plenty of that recently for our new *LGPS Employer Guide*.

This best practice guide gives a great overview of the role and responsibilities of participating employers, and I know at least one of our largest LA members has sent it to all of theirs. Why not do the same for yours?

TRUSTEE MEETINGS AT OUR CONFERENCES?

I have one other ask for all our members: I'd like you to pick up your diary (or fire up Outlook) and plug in the dates of next year's major PLSA Conferences – 27-29 February for the Investment Conference in Edinburgh, and 15-17 October for the Annual Conference in Liverpool.

We know that many of you plan your trustee meeting calendars at least 12 months ahead, and you'd be surprised how many members tell me they would have loved to attend our Annual or Investment Conference, if only it wasn't clashing with a trustee board meeting. And if you want the dates for future years, then just let me know – we have some of our conference venues booked until 2029!

Even better, why not take up the latest idea that I've persuaded my colleagues to trial and hold your trustee meeting at our Investment or Annual Conference? My suggestion – which I hope will prove popular – is that we would provide meeting rooms in the conference centre (plus tea and coffee) at nil charge, and you could have your meeting on the Tuesday morning before the Conference kicks off at lunchtime. Even better, one of our Policy experts could drop in to update you on ESG/dashboards/small pots or whatever is your most salient issue. Please let me know if you want to pursue this.

'SEETHING' – NOT WHAT I THOUGHT IT MEANT

And in case you've been wondering since the opening paragraph, Wikipedia tells me that 'seething' is an Old English word meaning 'full of chaff,' and the 'Seething Lane' name marks the grain threshing that used to take place there. So, I've learnt something in drafting this article. Every day's a school day at the PLSA!

james.walsh@plsa.co.uk

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Help savers stop feeling "bleurgh" about pensions

Joe Dabrowski, Deputy Director – Policy, PLSA explains how '90s nostalgia is at the heart of this year's Pensions Attention campaign.

Pensions are one of the most important financial assets a person owns. But despite nearly 90% of people saving into a workplace scheme, engagement remains low.

As an industry, we have an important role in lifting savers' understanding and confidence in their pensions. That's why we teamed up with the Association of British Insurers (ABI) last year to take a bold new approach to help people understand their savings journey, asking them to "Pay Your Pension Some Attention".

By coming together under a single, brand-agnostic umbrella, to promote simple and memorable messages, we aim to increase saver engagement in pensions.

Last year, 91% of those who recalled seeing our campaign with grime artist and TV personality Big Zuu said they took some sort of action in relation to their pension afterwards.

We managed this terrific result by being brave and doing something novel and unexpected. In Big Zuu we found an authentic, vibrant voice. He bridged generations and, with the enormous amount of energy he brought, created a track that grabbed attention and got people talking.

THE POWER OF NOSTALGIA

This year, we're once again bringing something unexpected. But this time we're tapping into the emotional power of nostalgia, with TV presenter and childhood favourite Timmy Mallett.

The 1990s are everywhere right now. On our screens we've seen the return of the Addams Family, the Little Mermaid and, of course, Barbie. On our high streets, combat trousers, double denim, cycle shorts and slip dresses are back in vogue.

Even the England cricket team has embraced the bucket hat.

While Gen-Z is enjoying digging up these trends, we're specifically targeting the 30-to-50-somethings like me who enjoyed it the first time around.

The creative content featured in the campaign centres around Timmy Mallett rebooting his anarchic gameshow format, complete with sidekick Pinky Punky and Mallett's Mallet bopping people on the head to jog their memories about past jobs and where their pension contributions might have ended up.

This content appears on the campaign website. It's also been edited into 15- and 30-second clips to reach people on Instagram, Facebook, TikTok and YouTube.

Over the next couple of months, look out for Pension Attention ads wrapped around some of your favourite websites – and, like last year, digital ads will be cropping up at major rail hubs across the country. This year we've also added radio advertisements on the nostalgia stations Absolute 90s, Heart 90s and Kisstory.

I remember playing Timmy's word association game with my brother when we were kids, and enthusiastically whacking each other on the head with pillows. We hope by stirring up these sorts of memories people will reflect on how time has flown, how quickly retirement could creep up, and why now is the time to engage with pension saving.

DO THE 'PENSIONS PLAYBACK'

With our three-step Pensions Playback call to action, we're asking savers to:

1. **Look back to yesterday** – to think back to previous jobs and track down forgotten pots
2. **Lean into what you've got today** – to log in, work out how much you have and how it all works
3. **Move forward to your future** – to think about what kind of Retirement Living Standard you might want and to engage with your pension to help you get there.

There is acute pressure on people's finances right now. We want to stress the purpose of this campaign is not to ask people to put more money in, but to pay your pension some attention. That could mean finding a forgotten pot, letting a provider know where you live, logging in to online portals to keep track of things, or simply understanding what you have.

The real success of the Pension Attention campaign hinges on a collaborative effort from across the industry to raise the volume and make some noise about the power of pensions.

You can support us by sharing and supporting communications coming from the campaign itself – especially on social media – and aligning behind the central messages in your own marketing, events, commentary and education activity.

Our combined efforts behind a single campaign slogan offer a fantastic chance to turn the tide on pension engagement. Thank you for all your support.

Together, building better futures

7 million people rely on the LGPS for a secure and comfortable retirement. But, with big numbers come big risks. We work in partnership with our clients to provide fresh, innovative thinking to help manage that risk effectively.

Our dedicated LGPS team is the largest and most knowledgeable in the marketplace, providing investment, actuarial, governance, administration and project consulting to more than half of the funds in the UK.

www.hymans.co.uk

Transforming pensions tax relief

Carolyn Parmeter, Director of HMRC's Pensions Programme, introduces a modernised service.

HM Revenue and Customs (HMRC) is modernising the administration of pensions tax relief by replacing the Pensions Scheme Online Service with the Managing Pension Schemes (MPS) service. This means our users – pension scheme administrators and practitioners – will use a different digital service, with new and improved functionality, to report information to HMRC and fulfil their pensions tax obligations.

The MPS service will reduce manual processes and make it quicker and easier for users to self-serve and make pensions tax claims. It's a big step forward in HMRC's digital transformation, which aims to help our users get things right the first time – and ultimately save them time and money.

We're building this service in an iterative and agile way, constantly taking on feedback from our users to make sure it meets their needs. This means some functionality is available now, with more to come in the future.

ACT NOW

Administrators need to take action now and move their pension scheme data to the MPS service. Accounting for tax returns for any quarter from 1 April 2020 onwards and Event Reports for 2023/24, including in-year wind-ups of schemes, must be submitted on the MPS service.

To migrate your schemes to MPS, you'll need to complete **two steps:**

STEP 1: ENROL ON MPS

- You can enrol online on the Managing Pension Schemes service (MPS).
- You'll need the user ID and password you use on the Pension Schemes Online Service. If you don't know your credentials, check guidance to reset them.

Once you've enrolled, you'll be able to complete Step 2.

STEP 2: MIGRATE YOUR SCHEME(S) TO MPS

- You'll need to go to the MPS service, log in and select your pension scheme(s) from a list. You'll need to provide up-to-date information for your scheme(s).

Guidance and support on how to migrate your pension scheme(s) to the MPS service is available on Gov.uk.

TOP TIPS FOR MIGRATING YOUR SCHEMES

1. You'll need to be enrolled on the MPS service using your existing 'A0' ID before being able to view any pension schemes with a Pension Scheme Tax Reference (PTSR) beginning with '0'. If you have multiple administrator IDs you'll need to be enrolled on the service using your 'Master' ID and have completed the 'Ancillary' ID mapping process. You can find more details on how to complete the mapping process on Gov.uk.
2. If you've received an 'A2' reference, this is because you haven't logged into the Government Gateway account with the credentials linked to your 'A0' reference. You'll need to log back into the service using your 'A2' credentials and de-enrol. To do, this you'll need to click on 'Stop being a scheme administrator'. After 24 hours, you can then log into your Government Gateway account using the credentials linked to your 'A0' reference and re-enrol.
3. When migrating your schemes, the MPS service requires some extra information from you. Having the right data to hand when you enrol and migrate your schemes will make the task quicker and easier.

Once you've migrated your schemes onto MPS, you can compile, save and submit accounting for tax returns and event reports. You can also view detailed information about your charges and payments.

WHAT'S COMING IN FUTURE

2024: Pension Scheme Returns (PSR)

In 2024, HMRC will introduce a new function that allows you to submit a Pension Scheme Return (PSR) on the MPS service. When you receive a notice to file a PSR for the tax year ending 5 April 2024, you'll therefore need to submit the return on the MPS service.

For schemes migrated or registered using the MPS service, you (or a practitioner acting on your behalf) will need to compile and submit the PSR on the MPS service by the relevant due date.

Once you've submitted the return through the MPS service, you'll be able to amend the return, if necessary.

The questions on the PSR will change and you'll need to provide more details. In some cases, this will include details of your members and certain transactions that have taken place during the period of the return.

2025: Relief at Source (RAS)

From 2025-26, HMRC will require all RAS claims to include individual level data, allowing HMRC to accurately calculate the tax relief due. We're working with the industry on developing the new service that will modernise RAS claims for schemes and deliver improvements for you, your members, employers and HMRC.

Biological diversity is rapidly declining — and becoming a material risk to investors.

That means they need advanced tools to measure impact and manage risk.

At MSCI, we have spent decades developing metrics and data for global institutional investors to evaluate sustainability risks and opportunities. We have applied that experience and expertise to the biodiversity space, building tools that overlay our ESG data onto geospatial data to isolate risks and identify opportunities resulting from this erosion.

Learn more at **msci.com/our-solutions/climate-investing/biodiversity-sustainable-finance**

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achieve SUSTAINABILITY goals

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THOMSON REUTERS
PRACTICAL LAW™

LEGAL UPDATE

Summer 2023: Pensions law round-up

Loreto Miranda, Thomson Reuters' Practical Law Pensions service.

KEY RECENT CASES

- **Absence of actuarial confirmation rendered rule amendments in contracted-out pension scheme void.** The High Court ruled[1] that failure to follow statutory requirements concerning alterations to the rules of a contracted-out salary-related pension scheme rendered void an amendment to the rules which was introduced without actuarial confirmation required by section 37 of the Pension Schemes Act 1993 and related regulations. This decision marks the first occasion when the High Court has ruled on the proper interpretation and effect of these provisions. We understand the decision is being appealed.

- **Derivative claims not a viable route for USS pension scheme member complaints.** The Court of Appeal dismissed[2] an appeal brought by two pension scheme members to continue several multiple derivative claims, on behalf of the pension trustee company, against certain directors and former directors for allegedly breaching their general duties by failing to plan adequately for divesting from fossil fuels. The court stressed that the derivative claim procedure is available only in exceptional circumstances

- **Sum specified in contribution notice does not need to reflect loss to the scheme.** Dismissing a reference by a target of a contribution notice issued on the material detriment test basis, the Upper Tribunal held[3] that there was nothing in the wording of the relevant legislation which suggested that the quantum of the contribution notice should be based on the loss to the scheme as a result of the act or failure to act.

KEY RECENT LEGISLATIVE AND REGULATORY NEWS

- **Draft Finance Bill 2024: pensions tax measures.** The draft legislation published on 18 July included two pensions-related measures. These concerned the abolition of the lifetime allowance following removal of the lifetime allowance charge from the start of the 2023/24 tax year and amendments to enable modernisation of the relief at source system from 6 April 2025. There was provision for a new 'lump sum allowance' of £268,275 in relation to tax-free pension commencement lump sums and a new 'lump sum and death benefit allowance' of £1,073,100 (the current level of the lifetime allowance) in relation to authorised lump sums and authorised lump sum death benefits[4].

- **Pensions dashboards: single connection deadline.** Regulations[5] made in July replace the various original staging timelines, by introducing a single 'connection deadline' of 31 October 2026 for all relevant occupational pension schemes. The House of Commons has published a useful briefing[6] on the state of play.

1. Virgin Media Ltd v NTL Pension Trustees II Ltd and others [2023] EWHC 1441 (Ch).
2. McGaughey v Universities Superannuation Scheme Ltd [2023] EWCA Civ 873.
3. Shah v Pensions Regulator [2023] UKUT 183 (TCC).
4. HM Treasury and HMRC: Finance Bill 2023/24 (18 July 2023).
5. The Pensions Dashboards (Amendment) Regulations 2023 (SI 2023/858).
6. House of Commons Library: Pensions dashboards (CBP-8407) (21 July 2023).

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**.

Xtrackers offers one of the broadest ranges of fixed income investments in the ETF space with exposures that span from Corporate Green Bonds to India Government Bonds. In times where fixed income investors can re-think their fixed income exposure, total costs of ownership but also quality and granularity of the range are important factors to observe when selecting a fixed income ETF. **Think ETF. Think X.**

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New members

PLUTO FINANCE

Pluto Finance is dedicated to responsibly addressing the housing crisis. Catering to a wide range of developers and investors, we have lent over £3 billion across bridging, development, and investment finance since 2011, facilitating the construction of 10,000 new homes in the UK. Our experienced team offers tailored solutions, optimising leverage, and pricing with prompt precision. As a principal alternative lender backed by pension funds and insurers, we focus on nurturing borrower relationships and cultivating enduring partnerships.

Contact:
www.pluto-finance.com
L: https://www.linkedin.com/company/pluto-finance/

BURGISS

Burgiss is a global, market-leading provider of portfolio analytics solutions for investors. With over 30 years of expertise, we offer unrivalled data, analytics, and transparency that enable asset owners, asset managers, and financial intermediaries to evaluate and manage complex portfolios. Burgiss' solutions serve 1,500+ clients in more than 35 countries, delivering data that represents over $18 trillion in assets. UK pension funds are using the service to monitor the performance, composition, behaviour, and even the carbon footprint of their portfolios, across all asset classes and investment vehicles.

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MOODY'S ANALYTICS

Moody's Analytics offers tools for pension plans, consultants, and OCIO firms. PFaroe DB is one such tool, providing financial intelligence and analytics to help leaders make better, faster decisions. PFaroe DB has been built by and for quants and actuaries, but with an intuitive workflow supporting broader use within an organization. PFaroe DB offers comprehensive analytics and monitoring tools including daily risk analytics, sophisticated projection capabilities, and flexible online reporting. Used to model 3,500 pension plans globally, PFaroe DB is a rich decision support tool which improves governance practices through its tools to validate numbers, advice, and scenarios with confidence.

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STATE STREET

With $39.6 trillion globally in assets under custody and/or administration, State Street are an essential partner to institutional investors and our purpose is to help create better outcomes for the world's investors and the people they serve. For more than two centuries, our clients have relied on us for the technology, tools and expertise they need to deliver solutions that support their goals. We offer a robust and fulsome servicing model, bringing together a full range of custody, accounting and fund administration services for traditional and alternative assets, as well as multi-asset class investments for our Pension Fund clients.

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SUPPLIER VISION

SupplierVision is an award-winning vendor management solution developed to ensure UK Pension Funds, Asset Owners and Investment Managers meet their supplier oversight obligations.

SupplierVision is easy to use with comprehensive functionality supporting vendor on-boarding, contract management, vendor due diligence, oversight monitoring, service delivery management and risk management.

Workflow and automated alerts ensure vendor governance frameworks are followed and all vendor oversight activities can be easily accessed and reported to Boards, Trustees and Management Committees.

We are happy to provide a demonstration of the system and discuss how our existing clients deploy SupplierVision to gain efficiencies and minimise vendor risk.

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SUPERCHOICE

SuperChoice is a leading Fintech specialising in innovative employer-centric solutions for pension administration, engagement, and contribution payments. We are trusted to support 9 million employees across Australia and the UK. Our commitment to the UK commenced in 2013 where we provide digital solutions to simplify pension payment obligations for employers, providers, administrators, and schemes. By leveraging our workplace pensions cloud-based technology expertise, we consistently deliver exceptional results for initiatives such as Auto Enrolment, Consumer Duty, Small Pots consolidation, and Value for Money. At SuperChoice, we focus on driving positive member retirement outcomes through our cutting-edge solutions.

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www.superchoiceservices.co.uk

GET READY FOR

A campaign led by

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

ABI

The Pension Attention campaign is a co-ordinated industry campaign led by the Association of British Insurers (ABI) and the Pensions and Lifetime Savings Association (PLSA) to boost people's understanding and engagement with their pension.

SUPPORT THE CAMPAIGN ON ALL SOCIAL PLATFORMS

Make sure you follow us and use **#PensionAttention**

What are we aiming for?

Season two of the campaign has launched and is moving beyond just awareness: it's aiming to prompt action and inspire behaviour change among hard to reach 30–55-year-olds using another unexpected approach. Keep an eye on our socials for more updates.

#PensionAttention

We're proud to pay Ken's pension every month...

...and to have secured the pensions of 302,199 more people like him.

At PIC, we have a simple purpose: 'to pay the pensions of our current and future policyholders'.

Ken is one of those policyholders. When he retired, he still had plenty of wind in his sails, so he volunteered to help the next generation of British sailors to grow and thrive. He can do that thanks to the pension he receives on time, every time. Ken's just one of the 302,200 reasons we're proud to pay our policyholders pensions.

If you would like to find out how PIC can help your defined benefit pension scheme members enjoy the retirement they've worked so hard for, visit:

pensioncorporation.com

Scan here to watch Ken's story

PROUD TO PAY OUR POLICYHOLDERS

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