Edition 18
September 2019

Pensions Aspects

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Defined contribution considerations

Gaining a DC perspective

A GUIDE FOR DEFINED CONTRIBUTION TRUSTEES

REACHING OUT FOR BETTER RETIREMENT OUTCOMES

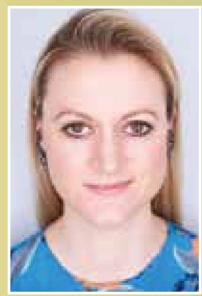
DIVERSITY: ARE TRUSTEES BORN READY?

Pensions Management Institute
ACHIEVING PENSIONS EXCELLENCE

PMI Annual Lecture 2019

THURSDAY 26 SEPTEMBER 2019 / 5.30PM - 8.00PM

GREAT HALL, JP MORGAN, 60 VICTORIA EMBANKMENT, LONDON EC4Y 0JP



Speaker: Sophie Hackford

Sophie is a futurist whose research entails meeting weirdos and troublemakers in off-the-beaten-track labs, makerspaces, garages around the globe - Shenzhen, Seoul, Detroit, Mumbai. As part of her research, she consults for exec teams and boards of large companies on understanding the explosive new technologies defining the new economy. Sophie is also co-founder of a data and AI company, 1715 Labs, spun out of the Astrophysics department at Oxford University with her academic collaborator. This follows a career building businesses for WIRED magazine, for Singularity University at the NASA Research Park in Silicon Valley, and prior to California, the interdisciplinary Oxford Martin School at Oxford University, where Sophie raised more than $120m of research investment. Sophie is a board member of 3 early stage tech companies.

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"Relevant and thought provoking but different from usual."

"Excellent, prestigious event."

"These are fantastic and I look forward to them every year now."

To register: http://tiny.cc/PMIannuallecture19

Edition September 2019

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DC in the public sector

- providing flexibility and choice

By Debra Soper, Chief Operating Officer, Civil Service HR, Cabinet Office

Colleagues in the wider pension industry equate the public sector with defined benefit (DB) schemes and are often surprised when I talk about the work we've recently done on our defined contribution (DC) schemes and the value that those schemes provide for our members through added flexibility and choice. So I'm particularly pleased to be involved in this DC focused edition of Pensions Aspects magazine.

We established a DC Additional Voluntary Contribution scheme in 1988 to help members save more for retirement and added a stakeholder arrangement in 2002. This secondary scheme was intended to help those who for personal reasons, perhaps financial hardship during a divorce, wished to opt-out of their defined benefit scheme. After opting-out they can join Partnership and employers will continue to contribute on their behalf but they do not have to contribute themselves. They can then opt back into the DB scheme when they are in a position to do so.

The DC market has changed markedly since 2002 with the introduction of auto-enrolment, master trusts, pension flexibilities, and digital platforms, so we took the opportunity to review our provision in 2016 and reaffirm our commitment to DC. We chose to go further too, seeking to deliver better value for members, improve access to flexibilities and reduce administration costs by initiating a DC transformation programme. Where we had a mix of statutory and contract schemes delivered by four providers we now have a single master trust arrangement with Legal & General.

This change has allowed us to give our members access to the full range of pension freedoms, which complements their DB provision and provides additional flexibility. Particularly notable are the availability of a flexible or temporary income via income drawdown or the option to take lump sum payments on an ad-hoc basis.

Alongside improving access to pension flexibilities we also considered the support provided to members when they are considering taking benefits to ensure that they understand what the options mean for them, particularly drawdown, which demands continued engagement with investments. I was therefore pleased to see the FCA publish the outcome of the retirement outcome review on 30th July, which confirms their intent to:

- Introduce 'investment pathways' for consumers entering drawdown without taking advice
- Ensure that consumers entering drawdown only invest mainly in cash if they take an active decision to do so
- Require firms to send annual information on all the costs and charges paid over the previous year to consumers who have accessed their pension.

> **I can see this will enhance the value of the flexible benefit options whilst minimising potential pitfalls.**

Historically our DB and DC worlds didn't meet and DC was seen as the second class citizen. Perhaps in a world where jobs were for life and salaries increased progressively with age and experience that was the case but in the modern world any individual is likely to build up a portfolio of pension plans including DB and DC products. We have learnt a great deal during our DC transition, lessons that we are applying across all our schemes.

> **It's time to breakdown the silos and address common issues in making pensions accessible, engaging members, protecting the vulnerable, supporting diversity, ensuring effective governance and providing products that meet the needs of members throughout their lives.**

The featured articles in this edition address many of these points and I hope will help you develop your thinking whatever your scheme type.

DC WORKPLACE SYMPOSIUM19

THURSDAY 10 OCTOBER 2019

LEONARDO ROYAL HOTEL / LONDON CITY

THE DC WORKPLACE SYMPOSIUM is aimed at our 6,500-strong membership, finance directors, corporate strategists, HR professionals, and those working in aligned business areas. This event builds on our expertise in auto enrolment and DC governance best practice, and draws on the current issues and challenges facing employers, trustees, and DC pension fund members.

TOPICS OF DISCUSSION:

- // Regulator's perspective on DC Workplace Pensions
- // The innovation panel
- // Default fund for the mass market
- // Cost transparency
- // Master Trust Authorisation
- // Financial Wellbeing
- // Given the coverage of DC pensions, is it too late for CDC?

MEMBERS: £120 +VAT **NON MEMBERS:** £200 +VAT

3 hours networking

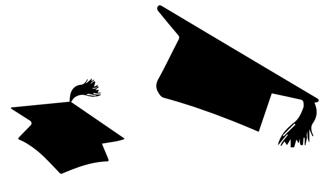
4 hours of CPD

150+ attendees

10+ Exhibitors

20+ Speakers

#DCSYMPOSIUM



New autumn exam sittings announced

As we approach the busy autumn exam period, we wanted to remind you of some important dates for your diary, as well as announce some newly added dates for exams for those of you who were unable to attend the September/October sittings. We would like to take this opportunity to wish you all the best with your revision and good luck in your exams!

Certificate in Pension Calculations	Exam Date	Exam Time
Retirements without Special Circumstances	09/09/2019	13:30 – 16:30
Retirements with Special Circumstances	10/09/2019	09:30 – 12:30
Deaths without Special Circumstances	10/09/2019	14:00 – 16:30
Deaths with Special Circumstances	11/09/2019	09:30 – 12:30
Leavers without Special Circumstances	11/09/2019	14:00 – 16:30
Leavers with Special Circumstances	12/09/2019	09:30 – 12:30

Unit Awards	Exam Date	Exam Time
Retirement Provision Certificate	18/09/2019	14:30 – 16:30
Certificate in DC Governance	18/09/2019	14:30 – 16:00
Award in Pension Trusteeship	18/09/2019	14:30 – 16:00
Certificate in Pension Scheme Member Guidance	18/09/2019	14:30 – 16:30

Advanced Diploma in Retirement Provision	Exam Date	Exam Time
Core Unit 1A – Understanding Retirement Provision	07/10/2019	09:30 – 11:30
Core Unit 1B – Foundation in International Employee Benefits	07/10/2019	09:30 – 11:30
Core Unit 2 – Regulation of Retirement Provision	07/10/2019	14:00 – 16:00
Core Unit 3 – Running a Workplace Pension Scheme	08/10/2019	09:30 – 11:30
Core Unit 4 – Financing and Investing for Retirement Provision	08/10/2019	14:00 – 16:00
Defined Benefit Arrangements	07/10/2019	09:30 – 12:30
Defined Contribution Arrangements	07/10/2019	14.00 – 17.00
Taxation, Retail Investment and Pensions	08/10/2019	14.00 – 17.00
Professionalism and Governance	08/10/2019	14:00 – 17:00

New dates added!
Due to high demand we have added the following exam dates. All sittings will take place at the PMI's offices.

November 4 Retirement Provision Certificate / **November 7** DC Governance / **November 8** Award in Pension Trusteeship

To book any of the above sittings, or for more information, email qualifications@pensions-pmi.org.uk

PENS-TECH

ADMIN SUMMIT

7 NOVEMBER 2019

LEONARDO ROYAL HOTEL LONDON CITY

events@pensions-pmi.org.uk

SPEAKERS INCLUDE

Jo Hill
Executive Director of Strategy
The Pensions Regulator

Giannis Waymouth
Partner
Norton Rose Fulbright

Angela Pober
Implementation Director
Dashboard Delivery Group

TOPICS OF DISCUSSION

/ Administrative challenges during de-risking exercises

/ What are your admin providers doing to source the next generation of administrator?

/ GDPR: Are you inadvertently breaching the rules?

/ Can technology help deal with scams / fraud?

/ A case study: how online portals / technology can help with getting data up to speed for wind-ups and PPF assessments?

/ GMP equalisation – what should you be doing?

/ Serving the Dashboard

/ How can AI, Robotics, blockchain increase admin efficiency & reduce costs?

MEMBERS

	Ticket Price	Expiry Date
Tier 2	£220+VAT	6 Sept 2019
Tier 3	£300+VAT	18 Oct 2019
Last-minute	£350+VAT	7 Nov 2019

NON-MEMBERS

	Ticket Price	Expiry Date
Tier 2	£280+VAT	6 Sept 2019
Tier 3	£400+VAT	18 Oct 2019
Last-minute	£450+VAT	7 Nov 2019

If you are interested in exhibiting at this event, contact Tannaz Rastegar on **trastegar@pensions-pmi.org.uk**

#PENSTECH

Membership update

2019 – 20 Membership Renewal Subscriptions

Your membership renewal was due on 1 September 2019 and subscription renewal notices have been sent out to all members. To avoid any disruption to your membership services please make your payment as per the fees below.

PMI Membership Fees

Membership Category	Fees 2019/20
Student	£145
Certificate	£185
Diploma	£235
Associate	£325
Fellow	£415
Retired/Non-Working	£75

Letter of Good Standing Request

Effective 1 May 2019 the following charges will be applied:

- PMI Members (£50)
- Non-members or previously lapsed members (£60)

Please be informed that the service level for required letters will be a minimum of two working days.

Associate Membership

Associate membership is open to those who have completed the Advanced Diploma in Retirement Provision qualification – for more information please see the PMI's website. We are pleased to announce that the following members have been elected to Associate Membership and can now use the designatory initials 'APMI':

Shehzad Ahmad
Stuart Arnold
Richard Carlisle
Daniel Bescoby
James Hynes
Graeme Maddison
Paul Vogado

Contact Us

For any queries, changes to membership records, or membership enquiries, please contact membership@pensions-pmi.org.uk or 020 7392 7410/7414.

Continuing Professional Development (CPD)

Fellow and Associate members with outstanding CPD have been notified to complete and submit their CPD to the PMI Membership Department. Failure to comply will result in the withdrawal of your designatory initials FPMI and APMI.

Denise Drop-In Sessions: Your Membership Matters

Do you have some questions about your membership or your membership benefits? Is there a membership activity that you think we should be offering? Why not pop in to see Denise at the PMI office and we can work together to take this forward.

In our free one-to-one drop-in sessions, you have an opportunity to talk to Denise who will address your membership enquiries.

Contact Denise on 0207 392 7410 to book your slot now.

Certificate Membership

Certificate membership is open to those who have completed one of our qualifications at the Certificate Level – for more information please see the PMI's website. We are pleased to announce that the following people have been elected to Certificate Membership and can now use the designatory initials 'CertPMI':

Kathleen Bilinski
Rhys Clarke
Clare Davies
Christopher Fields
Jamie Hagin
Susan Hawkins
Joseph Paltnauer
Sarah Rex
Matthew Thurlow
Luke Wilson

Diploma Membership

Diploma membership is open to those who have completed one of our qualifications at the Diploma Level – for more information please see the PMI's website. We are pleased to announce that Paul Bravo has now been elected to Diploma Membership and can now use the designatory initials 'DipPM':

Cheque Payments

Please note that effective 1 June 2019 we will no longer be accepting cheques as payment for all membership subscriptions, renewals or qualifications.

PMI Fellowship Network: The Pensions Dashboard

By Geraldine Brassett, Client Relationship Director, Capita Employee Solutions

Our most recent Fellowship Network sessions focused on the implementation of the pensions dashboard.

To date there has, perhaps, been some scepticism that dashboard will actually happen but that has changed with everything now pointing to dashboard (or dashboards) becoming a reality within the relatively short term.

We explored what dashboard means for our industry and what we should be doing now to get ready. We focused both on the practicalities of implementation and the reason why dashboard is being introduced: to give consumers information which will help them plan their finances for later life and specifically their pensions.

The sessions were very well attended and everyone contributed, which gave rise to some interesting debates. Below are some of the key points we covered.

Getting ready

Much of the discussion related to data quality and the appetite of different stakeholders for cleansing data. We identified that clean data is a prerequisite for dashboard and that schemes should be recognising the need to get ready as it is expected that the data standards will be an early output from the Industry Delivery Group once it is formed. We also considered how the return on investment in data cleansing is wider than just dashboard. The Pension Regulator's expectations on record keeping, de-risking initiatives, member engagement, cost-effective administration and improved member service were just a few of those explored.

Consumer Benefits

At the heart of dashboard are the needs of consumers. The groups debated the benefits to consumers and how the industry might best meet these whilst building consumer confidence. As we are not yet clear on the scope of dashboard or whether there will be a phased approach, we discussed various options from 'find my pension' to 'find and value my pension', through to providing the level of detail that would be needed to support retirement planning. Whilst long term we want to create the best possible consumer experience, it was recognised that, in an auto-enrolment environment where consumers have multiple pension pots there is value in dashboard enabling them to keep track of and manage their pensions. For consumers to benefit it was felt there was a need to increase the level of engagement members have with online solutions, and to provide reassurance that dashboard is not a scam and that it is safe.

Scheme perspectives

Dashboard will only happen with buy in from schemes so understanding why, perhaps, to date there hasn't been the level of engagement needed is important. The groups considered a number of points in this area including how different types and sizes of schemes might respond, the ability for schemes to be able to open up their data to dashboards, and the potential for schemes to benefit for example, if dashboards could be used as a mechanism for collecting email addresses as this would help us stay in touch with members.

Future opportunities and challenges

There was a consensus that over the next two years schemes will have a number of potentially conflicting priorities so planning and identifying dependencies will be important.

Considering the end-to-end process was also seen as key when planning for dashboard. As an example, administrators will need to be able to respond to an increased number of enquiries once dashboard is live in an industry where there is already the potential for resourcing to be a challenge. Our discussions focused more on the practicalities of introducing dashboard and less on the single versus multiple dashboard debate, other than to recognise this may create opportunities for greater engagement and to enable consumers to see more than just pensions savings online e.g. using the open banking concept. There was also a view that getting the launch of dashboard right would be critical, as would coverage on day one so that consumers understand the long term value.

Future plans

All schemes should now be including dashboard as part of their strategy even if, at this stage, it is only a watching brief. The feeling amongst Fellows attending our sessions was that we will not be waiting for very long.

News from the regions

[North East]

Our 'Legal Update: 12 Months of Change in the Pensions World?' seminar took place on 6 June at the offices of Eversheds Sutherland. Thanks go to speaker Kate Payne of ARC Pensions Law.

Our final event of the 2018/2019 programme was the AGM and seminar 'DC Update: Managing Life in a Goldfish Bowl' which took place on 11 July at the offices of Squire Patton Boggs. Thanks go to speaker Nick Clynes of Barnett Waddingham.

The North East Regional Group would like to thank everyone who contributed to the success of the 2018/2019 events programme. Seminars will resume in Q4 and further details will be provided after the summer break.

If you would like to be included on the distribution list for future events, please contact Jane Briggs at jane.briggs@squirepb.com

[South West]

We welcome Lucy Cresswell and Richard Champion of Barnett Waddingham and Jamie Smith of PWC, to our committee. Plans are underway for the Autumn 2019 seminar; the date and details of the speakers will be circulated by email and published in Pensions Aspects shortly. If you wish to be added to our distribution list to receive emailed notifications of future events please contact David Saunders at **david.saunders@willistowerswatson.com**

[Scotland]

After our successful half day seminar in Glasgow, we have two more events planned for 2019.

The next business as usual seminar will be held on Tuesday 17 September at Barnett Waddingham, Glasgow: 8.30am for registration; 9.00am start; and 10.30am finish. The seminar will qualify for 1.5 hours CPD and is free.

The topics for this seminar are:

- MAPS / PensionWise, including a speaker from the Money & Pensions Service
- Contract v Master Trust – financial and practical differences, both real and apparent
- Round up of topical issues, including latest from GMP Equalisation Working Groups

Please register your interest as soon as possible by emailing **ScottishPMI@Barnett-Waddingham.co.uk**.

The subsequent seminar will be in December, with a presentation from 'Scriba' on the future of trusteeship.

[Eastern]

Our next event will be an afternoon seminar on Tuesday 5 November 2019 at Aviva in Norwich, starting with a buffet lunch at about 12pm. Our confirmed speakers / topics are Hymans Robertson talking about the Club Vita mortality experience and Alex Rush from Stephenson Harwood on DC schemes from a legal aspect. There are two more proposed topics, which are master trusts and communications / work-life planning. We will endeavour to provide full details in October.

We hope you enjoyed the summer. If you wish to be added to our distribution list, please contact Susan Eldridge at **susan.eldridge@aviva.com**.

[London]

Following the success of our AGM we wish to thank our speaker Vincent Franklin, co-founder and Creative Partner of Quietroom, for his contribution to the evening. Member engagement is a challenge for all our industry and it is important that we change our traditional methods of communication.

This is also an opportunity to thank our Chair, Girish Menezes, for his contribution to the PMI London Group. Girish is remaining on the committee but standing down as Chair, and this role will now be undertaken by Amanda Burden. Girish has been a major factor in our growth as a group and we are all delighted that he is remaining on the committee. Details of the new roles and full contact details can be found on the PMI London regional site of the main PMI website.

We also wish to thank Laura Macphee for her work on the committee last year and to wish her well for the future.

A guide for Defined Contribution trustees / Practical steps to manage distress / Engaging with members in volatile times

Defined contribution considerations

Gaining a DC perspective

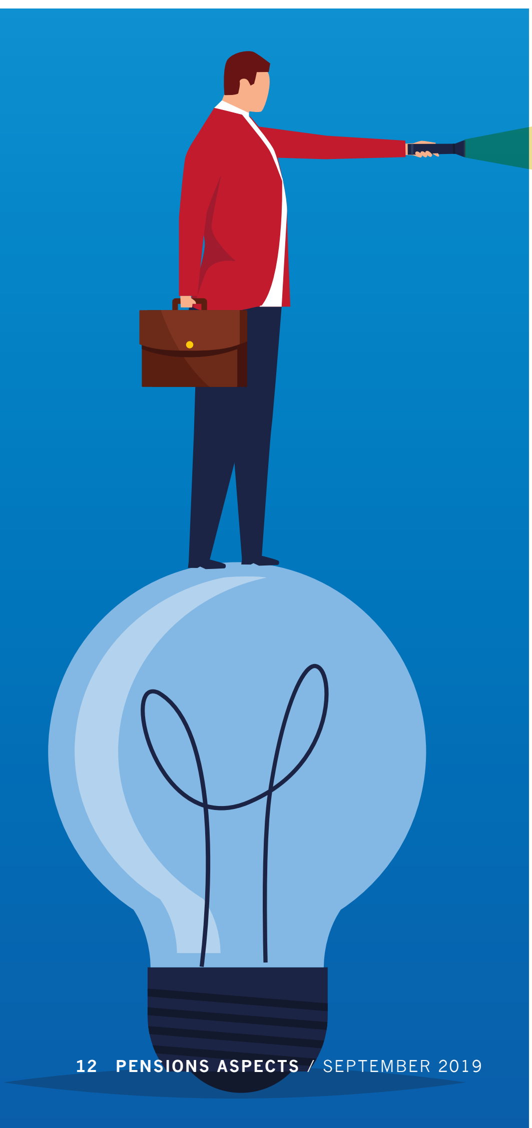
Continue reading on pages 12-17...

Responsible Investment:

A guide for defined contribution trustees

By Raj Shah, Head of DC Investment, Hymans Robertson

Last year, the Government updated the Regulations for pension schemes, requiring both defined contribution (DC) and defined benefit (DB) trustees to reconsider their approach to responsible investment by 1 October this year. This article focuses on the issue from a DC trustee perspective.



What the regulations require

The 2018 Regulations require that, with effect from 1 October 2019, trustees must set out, in their Statement of Investment Principles, their policy on:

- How they take account of 'financially material considerations' which include, but are not limited to, Environmental, Social and Governance (ESG) factors, including climate change.
- Their approach to stewardship activities for the assets held.
- The extent to which any non-financial matters are taken into account.

In addressing these requirements, trustees need to consider and set out how their approach is appropriate for determining both the strategy, which includes the structure of the default arrangement, and its implementation.

Reference is made to an "appropriate time horizon", the intention being that trustees consider longer-term risks within their investment arrangements. Clearly, the time horizon for a DC member will depend on how far they are from their selected retirement age, assuming they are invested in a default arrangement that is structured either as a lifestyle strategy or a target date fund. Stewardship policies should cover voting, engagement and monitoring. This should include how trustees engage with companies and investment managers on matters such as "performance, strategy, risks, social and environmental impact, and corporate governance". It should also include the exercise of any rights that come with particular investments.

Disclosure requirements for DC trustees

Trustees of DC schemes have additional requirements to disclose their approach, being:

- From 1 October 2019, trustees must publish their Statement of Investment Principles on a publicly accessible website. This ties in with the requirement to publish Chair's Statements online.
- From 1 October 2020, trustees must also publish an annual report demonstrating how they have complied with their policies.

Trustees need to understand Responsible Investment across the investment process

The Regulations encourage trustees to take greater ownership and be aware of the consequences of their responsible investment policies, rather than adopting a 'box ticking' approach. Where trustees' approaches have historically been somewhat manager centric, greater emphasis is now being placed on the consideration of financially material factors beyond implementation and there is a broader requirement for trustees to consider Responsible Investment issues at each stage of the investment process.

Trustees should pose themselves a number of questions about their current approach in developing their policy, including:

Objective setting

- To what extent are Responsible Investment (RI) factors relevant given the members' timeframes?
- Has consideration been given to setting investment beliefs or specific RI objectives?
- Are there any views expressed by members that need to be considered?

Strategy development

- Do we need to update our default arrangement to take account of ESG factors?
- Can we demonstrate that any change to our default arrangement will leave members no worse off than at present?
- Does the self-select fund range still meet the needs of members?

Implementation

- How relevant is RI for the mandates in the strategy?
- Are manager RI policies explicitly considered in manager selection?
- How good are managers at integrating the consideration of ESG risks into their approach?
- Should RI be a differentiator in picking managers?
- Can we implement an RI strategy within the charge cap?

Monitoring

- Do the trustees receive any information (e.g. metrics, case studies) relating to the ESG characteristics of their mandates in reporting?
- Do the trustees review manager reporting on ESG issues and challenge manager activity?
- Do the trustees actively question managers on their stewardship activity?
- How frequently is this done?

Consider what sort of Responsible Investor you want to be

Trustees should take time to consider what sort of responsible investor they want to be. By recognising that there is a spectrum of positions that they could take, trustees can determine an approach to RI that is right for them and their scheme members, recognising this should be both proportionate and scheme specific. The factors that inform trustees' approach to RI should include their investment beliefs, the complexity of the investment arrangements and their governance budget. Trustees should not, however, feel constrained in their approach and, where they believe it appropriate, they should strive to demonstrate higher standards of behaviour.

Addressing the default strategy

Many trustees have historically consigned more ESG friendly strategies into self-select fund ranges, both in the belief that 'responsible' and 'ethical' were the same and that investing responsibly would impact on future returns. The revised Regulations mean that trustees need to review how RI considerations are reflected in the default arrangement. DC default arrangements generally make use of pooled funds which may be accessed through a platform structure. Changing the default arrangement may not, therefore, be straightforward, but trustees still need to consider their RI beliefs and policy, and how these are implemented in practice within the default strategy.

What do trustees need to do next?

Trustees need to ensure that their Statement of Investment Principles is updated and published by 1 October 2019. This is just the start. Policies define the behaviours and practices that trustees intend to demonstrate going forward and we suggest that, as a minimum, trustees focus on the following activities:

- Ensure investment beliefs are defined and documented.
- Schedule responsible investment training into the ongoing trustee education programme.
- Review your default arrangement and ensure that it remains fit for purpose.
- Ensure that the self-select fund range offers sufficient alternatives to meet members' needs.
- Confirm that your managers properly integrate the consideration of material ESG factors into their investment processes and if not, understand why not. Your investment consultant could help with this, for example, by providing RI ratings.
- Ask investment managers to include suitable RI information in their updates and ensure that managers are challenged to explain their actions. You may wish to discuss with your investment consultant what information would be useful.
- Plan how you will report on compliance with your policies. Setting out a longer-term journey plan to address RI may help you achieve this.

Practical steps to manage distress

By Alan Collins, Director, Spence & Partners

An insolvency event (or the spectre of one) is clearly distressing for a company and its employees. It can also have implications for many former employees. Here, I look at the practical steps in preparing for this eventuality in trust-based defined contribution and defined benefit schemes.

Defined contribution schemes

A single entity, let's call them Spare Parts Limited, is facing financial distress and possible insolvency.

It is important to ensure that all contributions are received (or recovered in the event of an insolvency). Actively monitoring and managing the contribution payments to a scheme to ensure that, as a minimum, they comply with these timescales, will reduce the risk of unpaid contributions on insolvency and allow the trustees to identify any possible risk of non-payment at an early stage. If contributions are not recovered from the employer, they may be met by the Government – the appointed Insolvency Practitioner would usually look after this in conjunction with the scheme trustees/administrator.

> **It is also important to ensure that data and record keeping is kept up to date and that all members/beneficiaries are identified. This is a much easier task to complete while the employer is still trading.**

If employees (and former employees) are members of a master trust arrangement, it is likely that the master trust itself will be unaffected by the insolvency of Spare Parts Limited.

> **Each member will have their own policy and their own defined contribution pot – this will continue after an insolvency event.**

No further employer contributions will be payable by the employer but it may be possible for the member to make further contributions – this will depend on the rules of the master trust. The same would be true of a contract-based group personal pension plan. The position is less straightforward if the scheme's only sponsoring employer is Spare Parts Limited (the scheme will be called an 'own-trust' scheme in these circumstances). In this case, an insolvency event is likely to lead to the wind-up of the scheme. If no monies can be recovered from the insolvency process to meet the expenses of the wind-up process it is likely that member funds will be used to subsidise the wind-up costs. These costs can be sizeable and if the scheme is small this may be a substantial proportion of the scheme funds. Additional 'one-off' costs of the wind-up process will include the preparation of final accounts, issuance of member statements, implementation of member options and member communications. For 'own-trust' schemes, it is therefore even more important that the scheme's data and records are up to date while the sponsor is still around.

These additional costs and risks are one reason why 'own-trust' defined contribution schemes are diminishing in number and are considered to be less suitable as a pension option than master trusts or the contract-based equivalents such as Group Personal Pensions – particularly for smaller employers. Indeed, in its latest survey of trust-based DC schemes, The Pensions Regulator comments that larger pension schemes such as master trusts "are more likely to be run well and provide good value for members".

The implications of employer distress or insolvency should, I would suggest, have trustees of a reasonable number of the remaining own-trust schemes looking for the 'safe harbour' of a master trust or other form of orderly wind-up at a point where the costs of doing so would not adversely impact member funds.

We hope the worst will never happen, but by planning for such scenarios, scheme trustees can help ensure members get paid the right amount, on the right date and are kept informed throughout what is undoubtedly a challenging and stressful period.

Defined benefit schemes

In the UK, qualifying defined benefit schemes (generally those with two or more members) have the safety net of the Pension Protection Fund (PPF) if their sponsoring employer fails and the scheme is unable to secure a higher level of benefits in the open market than those offered by the PPF.

When preparing for employer distress, the most obvious (but not necessarily the easiest) method is to try and ensure that the scheme is well enough funded that it won't need the PPF. One of the main aims of the funding regime in the UK is to 'protect the PPF'. It is also up to the industry to help manage schemes towards better member outcomes.

In my experience, despite challenging market conditions over many years, the funding of schemes is improving, which will ultimately benefit members in the long term.

The insolvency of a scheme's employer will trigger what is known as a 'PPF Assessment Period' – the result of this is that the scheme will either enter the PPF or secure benefits above PPF level and wind-up. Preparing for wind-up or PPF entry has many parallels, something the PPF has made abundantly clear. Its guide to contingency planning for employer insolvency sets out several steps to help trustees manage the risks of such an event.

Schemes should have an up-to-date and comprehensive set of governing documents, summarised, available and easily accessible. Trustees should understand to what extent the scheme relies on the employer for its effective operation and assess key risks should the employer fail. What if access is not available to the employer's premises where member records are held? Or the employer's bank account is frozen and the scheme payroll is made from that account?

Early engagement with the PPF can help speed up the validation process. The sooner the PPF is able to validate the scheme (using scheme governance documents and detailed employer history), the sooner members can be advised as to whether or not the scheme is eligible for PPF support.

Communication to members is a key priority post-insolvency and post-PPF validation. The administrator and trustees need to be able to deliver consistent and timely messages using all available and appropriate channels (letters, member portals and even social media).

We hope the worst will never happen, but by planning for such scenarios, scheme trustees can help ensure members get paid the right amount, on the right date and are kept informed throughout what is undoubtedly a challenging and stressful period.

Engaging with members in volatile times

By Andy Parker, Partner, Barnett Waddingham

'Member engagement' is one of those phrases we're hearing more and more when it comes to communicating about pensions, because increasingly it's not just about telling members important information we think they should hear, it's about increasing the interaction and gaining feedback from members so they feel involved – it's a two-way process, not a one-way street!

I'm sure we all agree member engagement has never been more important, or more necessary, against the current uncertain social and financial backdrop. Overall, financial wellbeing has become a priority for employers as they look to help their employees navigate the varied and sometimes complex financial landscape they face as they journey through life. Ensuring effective communication, and engaging members in saving for later life, is something we must continue to strive for.

When it comes to pension communications, experience tells us informed members make informed decisions and effective engagement should lead to members taking positive action in relation to their plans for retirement. However, effective engagement doesn't just happen! At the heart of it should be a well-defined strategy – one that has to be engaging, consistent and results driven.

How do we know member engagement is needed now more than ever? Our 2018 Generation WHY? Survey gave us some clear insight into the current situation:

- 42% of respondents said building a pension for retirement was their top financial priority.
- Only 1 in 5 respondents understood their retirement choices (regarding cash, guaranteed income and drawdown etc.).
- 43% aspire to retire before the age of 55, even though the most common age band is 65-74.
- Only 12% of respondents know what funds their pensions are invested in.

The responses focus primarily on the 'one day', which may be some time in the future. We need to implement a cohesive plan to help members prepare for that one day, but start by managing the 'today' and 'tomorrow' first, to help people cope with immediate issues – issues such as uncertain and potentially volatile times. The plan then needs to evolve over time to complete the journey to 'one day'.

So, how can we help to effectively engage members to ensure they're getting the right information at the right time and in the right way, to empower them in their planning for later life?

I would advocate a member engagement philosophy based on Benjamin Franklin's 'tell, teach, involve' philosophy. If we involve, educate and interact with members about their planning for later life, they're less likely to take short-term, knee jerk reactions to events and more likely to make better informed decisions and take positive action towards their retirement goals. When it comes to member engagement, plan sponsors and trustees have these options:

TELL

Reflects a passive, 'one size fits all' approach, with a focus on fulfilling regulatory requirements

TEACH

Is about starting to educate members around their choices and the implications of their actions

INVOLVE

Is about helping members to think about their options and providing tools to empower them to take positive action from an informed position. This leads to active participation and full engagement.

“Tell me and I forget, teach me and I may remember, involve me and I learn.”
Benjamin Franklin

Regulation dictates that more ‘useful’ information is provided to members; the current cost and charges initiative are a good example, but members are ill-prepared to deal with the information given. It’s clear that ‘involve me’ is the ideal strategy for engaging members, with clear communications to support it - but how can we do this?

Understand members

Key to any engagement strategy is analysis; knowing where your scheme is now and the choices members have already made, helping to shape objectives and form the strategy for the future. Gaining a detailed picture of the characteristics of members is vital to any engagement strategy.

What do members want?

Increasingly seen as an imperative piece of the member engagement puzzle, trustees and plan sponsors are encouraged by Regulators to consider obtaining information on the views, attitudes and likely behaviours of their scheme’s members. This could give valuable insight into:

- what members value about the scheme.
- their ability to make investment decisions.
- how they intend to take their retirement benefits.
- their preferred type and style of communications.

Ensuring the engagement strategy fits with the needs of a scheme’s members is key to its success, with the communication materials and messaging being bespoke to members.

Delivery matters

The more involved an individual feels, the more likely they are to engage and take action. A variety of methods should be considered including written materials (generic and personalised), webinars, videos, face-to-face communications and digital solutions, such as email alerts and an online member portal. What works best for one doesn’t work for all though – knowing what members want is crucial to the success of any engagement strategy.

Even though face-to-face communication is favoured, the majority actually now engage with information digitally, with the use of technology extending to all ages.

This trend will continue as access to information is demanded at any time and from anywhere.

Make it personal!

Engagement increases when the message is relevant to the member. We need to target the agreed key messages, to the right members, at the right time.

Messages should be personalised, targeted to individual member’s needs, objectives and priorities. Having an online solution will help – communications can be automatic and delivered to the individual at key times to give the message the best chance of being engaged with and acted on.

Engagement isn’t a one-off exercise

To help ensure the success of the engagement strategy and the best outcome for members, it’s vital that analysis is done, the strategy agreed and planned, delivery carried out, feedback gathered and the strategy checked and measured, and then lessons are learned – effective engagement is an ongoing process not just because of a one-off event.

We want to make sure members are inspired so they can make active choices and decisions around their own savings and later life plans.

The ultimate aim should be to empower members, giving them all the information they need - whether that’s a ‘tell, teach or an involve’ - to enable them to make informed decisions today and tomorrow which will help them be ready for their own ‘one day’.

Reaching out

for better retirement outcomes

By Craig Rimmer, Policy Lead: Master Trusts, Pensions and Lifetime Savings Association

We all know that we should save more, but most of us don't. When it comes to pension contributions, PLSA research shows that 13.6 million people in the UK are at a high risk of not saving enough to reach the Pension Commission's Target Replacement Rate. We have argued since our report, Hitting the Target, that minimum contributions for automatic enrolment should increase to 12%, but this may not happen until the mid-2020s. So how do we get people to start saving more than 8% in the meantime?

Effective engagement is a major part of the answer.

> **We need to talk to savers in a language that they understand and not expect them to just save into a pension as an end in itself.**

We also have to be aware of the present bias that is involved in most decision making, whereby we discount the benefits for our future selves in favour of lesser benefits for our current selves.

To help savers overcome present bias, it is good to paint a picture that they can relate to and allows them to place themselves in the near future, in retirement.

> **This way it is possible to help people see what they need to save into their pension to give them adequacy in retirement.**

After they stop working and the earned income tap is turned off, will they be able to dine out, upgrade their car every 10 years, or take holidays abroad? We have been developing a series of Retirement Living Standards that look at what people are likely to spend in retirement to match the living standards they would like to have. These will be launched at the PLSA conference in October and will give easily translatable goals for people to save towards, using baskets of goods and activities to illustrate the point.

Having goals to aim for is a start, but people still need to know how to get there. If they wish to contribute more into their pension, many employers have matching schemes that allow them to do so, but not all do. Some people may need to also take out a non-workplace pension or top up another pre-existing scheme. Who can help them with these decisions in a professional way? For questions that don't need full recommendations, independent impartial guidance from the newly formed guidance body Money and Pensions Service is the best way for most people. They still have the original Pensions Advisory Service helpline in operation, with the same pensions experts, but also have money guidance experts under the same roof as well. Guidance has a large role to play in helping people on the 'how to' question of saving more for a pension.

There are many good employers out there who are engaging with their staff about issues of financial capability and, in particular, saving more into their pensions.

> **We should help more employers to do the same by sharing good practice and making sure that the boundaries between advice and guidance are such that they can do so with confidence.**

If we want people to save more, we also have to be mindful of when in their lives they are most receptive to the message.

Research has shown that we are likely to make changes to our behaviours at points in our life when change is happening or when we are thinking about the future, and for this reason it is a good idea to be talking to people at different life moments.

If we want people to save more, we also have to be mindful of when in their lives they are most receptive to the message.

The Mid Life MOT is one such initiative, that has been piloted by government and industry, and is likely to become more widely available in the near future. When Jonathan Cridland reviewed the State Pension, he recommend Mid Life MOTs as a means of helping people have the health, career, and money/pensions guidance to work longer and fuller, and felt this should be targeted at those aged 50 years old. There may be other moments when interventions could work, such as when people enter the workforce for the first time or become parents.

We are also waiting on the Pensions Dashboard(s) and this could be another effective engagement tool, as people will be able to see all their pensions in one place, including the State Pension. Having an understanding of the current state of play may help people engage with their pensions savings.

Paper is still very much in use, and such initiatives as the Simpler Annual Statement where everything is communicated over two pages are a good example of what could be achieved in the meantime.

The statement, as well as setting out information in three layers to help people who glance at and those who want to dive deeper into the detail, also nudges people to save more towards their retirement by showing the additional pension they could get if they pay a small amount more per month.

As mentioned right at the top of this article, it would be good to see the default level of contributions move to 12%, but until it does there are still things that can be done in the engagement space to help everyone save more and achieve a better retirement outcome.

Events

DIARY DATES

Introduction to Pensions

London: Wednesday 11 September 2019
Leeds: Wednesday 25 September 2019

Are you working in either a pensions role or an allied business area where pensions knowledge would be advantageous?

Our expert panel will talk through the essentials of the pensions industry, including pensions law, design of trust-based pension schemes, pensions administration, member engagement and pension scheme funding.

Members: £110 + VAT
Non-members: £165 + VAT

Annual Lecture 2019

Thursday 26 September 2019 (5.30-8pm)

Great Hall at JP Morgan's Victoria Embankment offices

PMI will be holding our fifth annual lecture with speaker Sophie Hackford, Futurist.

Free for PMI members and Trustee Group, however places will be filled on a first come, first served basis and must be pre-registered. Non-members £80 + VAT

DC Workplace Pensions Symposium

Thursday 10 October 2019

Leonardo Royal Hotel London City, 8-14 Cooper's Row, London, EC3N 2BQ

A comprehensive look at DC Workplace Pensions

Members: £120.00 + VAT
Non-members: £220.00 + VAT

Trustee roundtable: Do you want to live forever? How to best manage longevity risk

Sponsored by Alternative Risk Management and Barnett Waddingham

Thursday 31 October (4-5.30pm)

PMI, Floor 20, Tower 42, 25 Old Broad Street, London EC2N 1HQ

Chair: Stephanie Hawthorne

Panellists:

Richard Gibson, Partner and Head of Longevity Risk Transactions, Barnett Waddingham

Charles Scott, Managing Director, Alternative Risk Management

Madhu Jain, Partner, Pinsent Masons

Frank Oldham, Client Director, Independent Trustee Services

Free to attend

PensTech & Admin Summit

Thursday 7 November 2019

This is a must attend event for in-house pension scheme professionals, pension trustees and finance directors who want to keep up-to-date with the latest best practices, meet with other professionals in the industry, stay on top of trends and find solutions to some of the industry's most challenging issues.

Topics of discussion include:

- Regulator's perspective on DC Workplace Pensions
- Different investment options including ESG concerns
- Member communication and the dashboard
- TPA's recent innovations
- Default fund for the mass market: striking the balance between managing short-term volatility and achieving long-term growth
- Cost transparency: how can we improve disclosure standards?
- Impact of charges on ultimate fund values
- Master Trust authorisation
- Financial wellbeing: adapting a holistic approach
- Given the coverage of DC pensions, is it too late for CDC?

	Members	Non-members	Expires
Tier 2	£220 +VAT	£280 +VAT	6 Sept 2019
Tier 3	£300 +VAT	£400 +VAT	18 Oct 2019
Last minute	£350 +VAT	£450 +VAT	7 Nov 2019

GMP Equalisation Workshop

Monday 2 December 2019

Half day workshop on GMP Equalisation.

Members: £60 + VAT
Non-members: £90 + VAT

To register or book an event, visit **www.pensions-pmi.org.uk/events/**

Contact us: **events@pensions-pmi.org.uk** or **02073927427** for sponsorships, exhibition enquiries or bookings.

Email address:
your unsung data hero

By Donna McGuire, Head of Benefits and Data Privacy, SAUL Trustee Company

In a world driven by data, digital forms of communication have never been so popular. The Office for National Statistics[1] has recently reported that in 2019, 99% of all adults aged 16 to 44 were recent internet users. Internet use by older consumers is rising sharply too[2]. The pensions industry is responding to this in a number of ways.

Recent guidance from the Pensions Administration Standards Association[3] highlights that members change postal address more than their personal email address, which means email data is more likely to stay current. Introduction of the pensions dashboard is likely to increase consumer demand for the digital delivery of their pension information. Whether schemes offer online access or not, Trustees should collect and use email addresses to support member engagement and education, deliver administration efficiencies and reduce costs.

Benefits of collecting and using email addresses

Email communications support member engagement and education through:

- Delivering information and resources in a way that suits members' preferences.
- Targeting information and segmenting messages so communications are relevant to members' circumstances.
- Referring members directly to online tools or accounts by using hyperlinks – this can be especially useful in improving the outcomes of de-risking exercises, such as bulk trivial commutation or pensions increase exchanges.

Efficiencies and cost savings can be achieved through:

- Exchanging information quickly and efficiently with members, particularly those overseas where time zones and language barriers need consideration.
- Reducing printing and postage costs.
- Providing another way to contact members who have lost touch or changed address, which might reduce the size of tracing exercises and costs for overseas members (which are generally higher than UK based members).
- Maximising uptake of online access (even if this isn't currently offered but might be in the future).

Maintaining the data and making it work for you

Maintaining email address data is relatively simple. Collecting personal, rather than work email addresses reduces the risk of the address becoming invalid when the member leaves employment. By using inexpensive, secure email campaign software, trustees can quickly and easily identify invalid data where auto-responses are received or emails haven't been delivered. Trustees can also measure engagement with communications through the number of emails opened and clicks on links. Where issues with email data are discovered, identification and rectification of errors in the email suffix can be easily automated. This cleansing task can be routinely scheduled or planned in advance of member-facing projects and communications.

Issues to consider

The collection and use of email data should be reflected in a scheme's privacy policy. The content of emails must comply with the privacy policy and should avoid disclosing personal data. Email should not be over-used since members might feel inundated and opt out of receiving such communications or even ask to have their email address deleted.

Summary

Personal email addresses are unsung data heroes for Trustees. It supports efficient administration and lower costs. For members it drives higher levels of engagement and an improved service delivery.

[1] https://www.ons.gov.uk/businessindustryandtrade/itandinternetindustry/bulletins/internetusers/2019
[2] https://www.ofcom.org.uk/about-ofcom/latest/media/media-releases/2017/rise-social-seniors
[3] http://www.pasa-uk.com/publications/data-guidance-february-2019#

To be, or not to be

By Ricky Marsh, Senior Consultant, Aon

The Pensions Regulator (TPR) has launched a consultation on the future of trusteeship and governance, which closes on 24 September. The proposals cover trustee knowledge and understanding, diversity on trustee boards, the role of professional trustees and sole trusteeship. The overarching theme is one of improving governance standards and TPR has a clear message for trustees of underperforming defined contribution (DC) schemes; improve or consolidate.

All my sins

The 21st century trusteeship campaign was an important first step on the road to better governance, but we all know how hard it is to connect with trustees who are not already engaged and motivated. This is particularly true of DC schemes with less than 100 members. TPR's 2019 DC survey showed that less than 5% of these schemes are meeting all TPR's key governance requirements, with over half meeting none of them.

How do you know if your scheme is meeting TPR's governance requirements?
Try asking yourself these questions:

- Have you recently assessed the knowledge and competencies of the trustees?
- How difficult was it to explain the trustees' assessment of value for members in the latest chair's statement?
- Have you assessed the effectiveness of the scheme's internal controls for financial transactions?
- When was the default investment strategy last reviewed?

Outrageous fortune

TPR's research suggests that many trustees of smaller schemes think they are doing a good job, with more value placed on 'the personal touch' than on meeting governance standards. It can be tempting to dismiss this as bureaucratic box-ticking, but TPR's real concern is that poor governance leads to poor member outcomes.

David Fairs, Executive Director of Regulatory Policy, Analysis and Advice at TPR, published a remarkably frank blog alongside the consultation, in which he says: 'Bad governance means [DC] savers will have less money in their pots for retirement. Is that fair? No.' However well a trustee knows their members, it is difficult to argue with that.

Slings and arrows

TPR are setting their sights on schemes that are missing governance targets. They plan to dig deeper into the running of these schemes, asking specific and direct questions to identify which schemes are not being run properly.

TPR are considering ways to help schemes improve their governance, including simplifying the TKU guidance. However, TPR are clearly taking a tougher stance and we should expect to see more trustees being fined where regulations are being breached.

Fly to others

Where schemes are either unable or unwilling to meet the required standards, TPR will encourage the trustees to wind up the scheme and transfer members to either an authorised master trust or another suitable arrangement. TPR's view is that larger arrangements such as these benefit from economies of scale and generally have higher governance standards than the average scheme.

A sea of troubles

The increasing pressure from TPR could leave some trustees with a difficult choice. Find the time and resources needed to bring the scheme's governance up to scratch, or hand over control to a larger arrangement that may deliver better outcomes for members? That, ultimately, is the question.

Ricky Marsh is a senior consultant at Aon. Aon Hewitt Limited is authorised and regulated by the Financial Conduct Authority. Aon Hewitt Limited Registered in England No. 4396810 Registered office: The Aon Centre, 122 Leadenhall Street, London, EC3V 4AN.

No summer break this year!

By Lynn M. Housecroft, Professional Support Lawyer, Squire Patton Boggs (UK) LLP

Summertime is traditionally quiet in terms of legal and regulatory developments, but this year is an exception. Here are a few highlights from July.

An uncertain bill

At the time of writing, the timetable for the next pensions bill is uncertain. It was reported in early July that the DWP needs more time to legislate for new models of defined benefit consolidator schemes. However, we are still expecting a pensions bill (possibly in October) to grant new powers to The Pensions Regulator (TPR), facilitate the pensions dashboard and define collective defined contribution schemes. Frank Field MP has written a letter to Guy Opperman MP, asking for clarity.

Negligent misstatements

On 11 July 2019, the High Court issued a judgment in which it considered a police authority was liable for negligent misstatement. The authority had issued correspondence to retiring police officers referring to 'tax free' pension commencement lump sums, when it ought to have known that the immediate re-employment of the police officers in a civilian role would trigger tax charges. The tax charges would not have been triggered had the officers taken a one-month break in employment, but they did not do so as they were not made aware of this requirement. This is a simple summary of some complex issues, but it serves as a reminder of the care that is required when issuing member communications. The case also illustrates the complicated status of communications between employers, scheme administrators and scheme members.

Consultation and guidance

On 29 July 2019, the DWP issued a consultation to bring into legislation the Competition and Market Authority's (CMA) Order in relation to investment consultancy and fiduciary management services. Following the CMA's recommendation, TPR issued draft guidance for consultation on 31 July 2019 to help trustees comply with the new requirements. TPR's consultation includes how to choose an investment model, objective setting and competitive tendering for fiduciary management services.

Clarity (and good news!)

TPR has issued a statement confirming that it will be consulting later this year on changes to codes of practice to reflect the Occupational Pension Schemes (Governance) (Amendment) Regulations 2018. These regulations, which came into force on 13 Jan 2019 as a result of the IORP II Directive, require schemes to establish an effective system of governance proportionate to the size, nature, scale and complexity of their scheme. The regulations set out what TPR must include in its codes of practice. Trustees will need to be able to demonstrate that they have an effective system of governance within 12 months of the publication of the updated code.

> **Whilst undertaking this review, TPR also plans to combine the content of the current 15 codes of practice into one shorter code which will be "quicker to find, use and update". This will come as very welcome news for those who struggle to find their way through the jungle of TPR's material.**

TAKING THE POWER OF

admin into your own hands

By Taylor Smith, Client Relationship Manager, Trafalgar House

Administrators have spent a long time pleading for a more prominent position at the trustee table. Asking for more time, more consultation and more input into decision making, so that the practicalities of implementing real-world change can be properly considered.

It's not a condition particular to trustee boards, but so often a service only gets a detailed enquiry when something goes wrong. It's a human condition in fact. We're all fundamentally reactionary, and with trustees spending so much of their time reacting to investment and funding issues, administration simply hasn't garnered enough attention.

For good or bad, cyber threats, derisking and GDPR have switched a light on for many trustee boards. Realising that the traditional reactionary approach to problem solving simply isn't good enough when it comes to these issues - and that preemptive strategic planning is now needed - administration has suddenly found its place on everyone's agenda. Administrators have finally got what they want, but they and trustees are not making the most of the opportunity.

Effective administration that addresses the myriad of potential risks, threats and operational issues cannot be explained or condensed into an administration report – it's too big and too complex. And, unless administrators are asked to focus on explaining how they address particular issues, they will revert to type and present the same standard report at each meeting.

> **This is where trustees can seize power and take control of the dialogue.**

The first thing to do is to demote the administration report. Yes, it is important to understand delivery and check adherence to contractual standards, but unless there's a persistent issue with service delivery, administration reports should be noted and not presented. If everything is running fine, move on and don't be dragged into the minutiae. If you are really into the detail, form an admin sub-committee and delegate this task to them; this needn't clog the trustee agenda.

Once you're liberated from the administration report, you can start to take a more strategic view of administration. Identify the top four or five risks and spend time focussing on these. Typical examples for most boards include readiness for a buy-out, staffing and resourcing, cyber resilience, efficiency or the control environment. Presentations can include the results of tests and audits as well as information on how your administrator is making operational plans to ensure service continuity and mitigate risks.

Not all presentations need to take place around the board table, nor should they put an unnecessary burden on your administrator to prepare lots of documentation.

> **One of the best ways to learn more about how well your service is running, and how well positioned it is to deal with unexpected issues, is to meet the service teams.**

Site visits often only happen as part of a selection process, but taking the time to visit your administrator can pay dividends. The key is to ensure each visit is structured so that specific topics are talked about and that you get the time to speak to more people than just your client manager. It can bring the service to life and give you a much more rounded view of how well the complete service is running. It's time to break out of the boardroom and make the most of that newfound interest in administration.

The Pensions Regulator

FUTURE OF TRUSTEESHIP AND GOVERNANCE:

reducing the number of poorly run schemes

By David Fairs, Executive Director of Regulatory Policy, Analysis and Advice, TPR

Poor levels of governance in pension schemes needs to be addressed. We see problems across all schemes, but particularly in small DC arrangements.

That's why we have recently launched The Future of Trusteeship and Governance consultation, a key theme of which considers solutions for reducing the number of poorly run pension schemes.

The evidence is stark. The 2019 annual defined contribution (DC) survey report, shows that just 4% of micro schemes with between two and 11 members, and 1% of small schemes with between 12 and 99 members, are meeting all of the Key Governance Requirements.

The requirements which DC schemes are subject to include trustee boards having the knowledge and understanding which is necessary to run a scheme, process core financial transactions promptly and accurately and provide value for members. Such low numbers of schemes meeting these standards is clearly unacceptable.

We're not against smaller schemes per se. Where we come across well governed schemes that are providing good value to members and providing good investment options then we don't have an issue. It's where we see governance that doesn't meet our standards - and unfortunately that tends to be more the case with smaller schemes - where we have the challenge.

We previously worked to address this challenge with our 21st Century Trusteeship campaign. It set out to those running pension schemes, and their advisers, what good governance looks like. Over 10 months we covered 10 areas which trustees should focus on to run a scheme well, including managing advisers, proving value for members and ensuring a board has the right skills and experience.

The campaign received good engagement from people who were already trying hard to run schemes well and to provide good governance, but less so among trustees running smaller schemes. They tended to remain disengaged. With smaller schemes in particular we have found, when we have challenged them, trustees believe that what we say doesn't apply to them because they're a small scheme, that The Pensions Regulator doesn't have jurisdiction over them or they don't have to comply with the legal requirements. The challenge for us is how to tackle that. How do we get those running schemes to engage with us to understand what the requirements are on them?

The Future of Trusteeship and Governance consultation, which is running until September 2019, sets out our proposals.

One is putting an accredited professional trustee on every board. We would expect a professional trustee to understand the requirements which are applicable to the scheme as well as highlight what resources we have provided to help trustees to run a scheme better. They are also more likely to have knowledge or experience of situations which may arise and know when the board needs support from advisers.

It's clearly not an idea we can implement immediately – there are many schemes and relatively few professional trustees. But as consolidation continues and we look at ways we can both build diversity in pension schemes and encourage more people to become professional trustees, we hope to reach a point in the future where a professional trustee on every board will be achievable. Another suggestion is to implement a minimum standard for trustee knowledge and understanding as well as a requirement for ongoing learning, to ensure they have, and maintain, the knowledge and skills they need to run a scheme.

We have questions about whether sole trustees are able to effectively run a scheme, both in terms of challenging sponsoring employers as well as not having diversity on a board. The consultation invites industry views and we've already had representations from professional trustees about how they manage the risks that we've identified. It is really useful feedback because we're trying to build evidence, both good and bad. We're open to ideas and the paper very much tries to stimulate responses. If other people can think of ways of getting disengaged trustees to engage with us, to improve their levels of governance and ultimately protect savers, then we would like to receive those.

Find our more and respond to the consultation at www.tpr.gov.uk/trusteeship

Are your inflation-linked pensions at risk?

The liabilities of most UK defined benefit pension schemes are linked to inflation. Recent proposals to change the most widely used measure of inflation, the Retail Price Index (RPI), could have a significant impact on many pensioners. If the changes are implemented, the retirement income for many may be cut, and pension schemes may also find their funding level reduced. Given these potential consequences, we believe now is a good time to assess the proposals and consider how to respond.

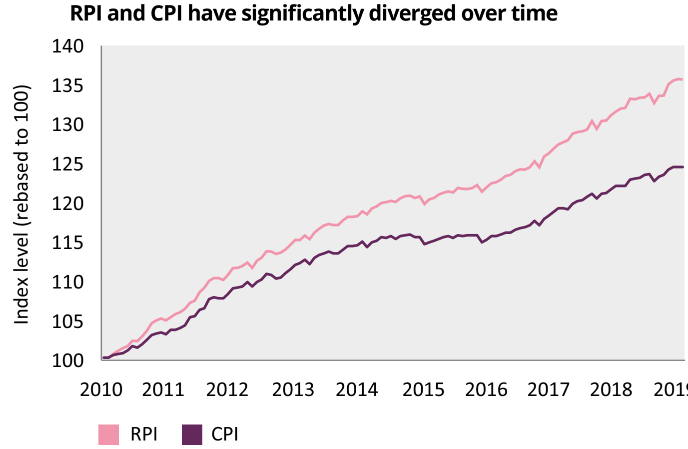
By Jos Vermeulen, Head of Solution Design, Insight Investment

UK pension schemes typically offer inflation-linked pensions, and most are linked to RPI. A minority link their pensions to an alternative inflation measure, the Consumer Price Index (CPI).

> **Flaws in the calculation methodology of RPI have long been recognised. One example is the 'formula effect', whereby using the 'Carli' mathematical formula is estimated to increase the annual growth of RPI by around 0.7 percentage points, relative to comparable inflation measures.**

This effect was exacerbated in 2010, when the range of clothing prices collected to calculate inflation was widened. This led to an expected increase in the margin between RPI and CPI, driven by a divergence in the contribution from clothing prices (see graphic). In total this led to an expected addition of c.0.3 percentage points per year[1].

RPI and CPI have significantly diverged over time



The government now favours CPI, which excludes these flaws and is perceived to reflect inflation more accurately.

[1] https://www.ons.gov.uk/economy/inflationandpriceindices/articles/shortcomingsoftheretailpricesindexasameasureofinflation/2018-03-08

[2] https://www.parliament.uk/business/committees/committees-a-z/lords-select/economic-affairs-committee/inquiries/parliament-2017/the-use-of-rpi/

RPI back in the spotlight

In July 2018, the House of Lords Economic Affairs Committee launched a public consultation on how inflation should be measured, and published the resulting review in January 2019.[2]

The review said the UK Statistics Authority has a statutory duty to fix the flaws within RPI. It also recommended that the government use only one measure of UK inflation – an improved version of RPI would be a potential candidate.

Implications for pension schemes

These changes could reduce many pensioners' future income. Removing the impact of the 2010 changes to clothing calculations would likely lower RPI by 0.3 percentage points each year, or six percentage points over 20 years. This effect would be much larger if RPI was brought fully into line with CPI.

Another likely impact would be a fall in the price of RPI-linked assets, of which the majority is index-linked gilts. All else being equal, this would lead to a fall in the funding level of a scheme using RPI-linked assets to hedge CPI-linked liabilities; this mismatch between hedging assets and CPI-linked liabilities is relatively common due to the lack of CPI-linked assets. The value of RPI-linked assets would decline without a corresponding fall in the value of liabilities, and for the average scheme in this bracket, we estimate a potential negative impact of as much as 10% on its funding level.

Time to take action

Given these implications, we believe both trustees and sponsors would benefit from understanding the full proposals and their impact. Stakeholders may wish to ask their advisers to quantify the effects, and to raise awareness amongst policymakers.

If the negative effects of the proposed changes are fully understood, we would expect the government to consider how to mitigate them if they were implemented. This will likely prove challenging. Also, it may be a good time to discuss with the scheme's investment manager how the inflation hedge might evolve. For example, it may become appropriate to switch from RPI-linked to CPI-linked hedging assets to achieve a more accurate inflation hedge, if the CPI-linked market develops.

It may be years yet before the government presents a clear answer on how it will resolve the questions around the use of RPI. But taking action now could prevent surprises in the future.

THE EVOLVING LEGAL LANDSCAPE

for human rights

Elizabeth Meyer, ESG Investment Analyst, Aberdeen Standard Investments

Companies are increasingly exposed to the financial risks associated with abusing human rights. With mandatory due diligence on the rise, it is time for a robust approach to upholding human rights.

Many global companies have faced allegations of abusing human rights, either directly or indirectly. But even in cases where their role appears obvious, holding companies legally responsible is challenging.

Moving from reactive to proactive

Modern approaches to regional legislation are taking a new perspective on corporate accountability for human rights, with a focus on mandatory due diligence and disclosures for human rights. If rigorously enforced, we believe these laws could be proactive steps in upholding human rights, rather than just focusing on backward-looking assessments of liability. Companies can avoid regulatory action, costs, and reputational damage by establishing a robust approach to human rights in advance of these regulations. They can also enjoy the benefits of more efficient operations (particularly amid increasingly complex environments), higher supply chain productivity and enhanced brand value.

Why do we need change?

Current international laws are largely ineffective in holding large multinational corporations liable for abusing human rights. Some of the main barriers to successful litigation can include:

- **weak regulatory regimes where abuses occur**
- **jurisdictional ambiguity because of increasing globalisation**
- **the separation of legal liability between owners and companies (known as the 'corporate veil')**
- **victims lacking the resources to pursue lengthy legal processes.**

As a result, victims of abuse can ultimately be left with no legal recourse.

In 2011, the United Nations' (UN) Guiding Principles on Business and Human Rights (UNGPs) marked significant progress in clarifying the role of businesses and states in upholding human rights. The subsequent UN Guiding Principles Reporting Framework, which has been incorporated into prominent reporting and management standards, helped the model to work.

However, since the UNGPs and reporting standards are not legally binding, many continue to view them as discretionary. While corporate social responsibility and sustainability reporting have become relatively commonplace (93% of the largest 250 companies globally now publicly report on sustainability issues), the quality of human rights disclosures tends to be inconsistent and non-substantive. This makes it difficult for stakeholders to hold companies accountable. Companies leading the way in this space and demonstrating good reporting practices include H&M, Nestle and Anglo American plc.

Efforts to challenge these barriers and to encourage meaningful disclosures are ongoing. Regulators in the UK, the European Union (EU) and Australia are focusing on more proactive requirements for companies, aimed at stopping abuses from occurring in the first place. This includes mandatory due diligence and disclosure laws.

New legal requirements

The lack of consistent reporting has created demand for mandatory reporting requirements, with a strong focus on demonstrating sufficient due diligence processes. Laws already in place in the UK, US and EU – such as the UK Modern Slavery Act (2015), Section 1502 of the Dodd-Frank Act (2012), the EU Non-Financial Reporting Directive (2014), and the California Transparency in Supply Chains Act (2012) - have inspired some of the thinking in other countries. Some of the new laws and proposals are detailed overleaf.

- Child Labour Due Diligence Law, 2017 (the Netherlands). This would require companies to determine whether child labour exists in their supply chain and to establish an action plan to address it. The law passed in the House of Representatives, but it is still to be approved by the Senate.
- Corporate Duty of Vigilance Law, 2017 (France). From 2018, large companies with operations in France must establish and implement vigilance plans, and include this in their annual report. The plan must address the risks of environmental damage and human rights issues. Austria, Italy, Luxembourg and Germany are considering similar initiatives. And non-governmental organisations (NGOs) in Finland are calling on the government to do the same.
- Responsible Business Initiative, 2018 (Switzerland). Large Swiss companies would be legally obliged to incorporate due diligence across all their business activities (including overseas) to ensure respect for internationally recognised human rights and environmental standards. The bill was adopted in June 2018, but the Council of States is still to vote on it.
- Conflict Minerals Regulation, 2018 (European Union). Largely inspired by Dodd-Frank, EU regulation requires importers of tin, tantalum, tungsten and gold to comply with and report on supply chain due diligence obligations. This covers whether these minerals originate from conflict-affected and high-risk areas. The regulation takes effect on 1 January 2021.
- Modern Slavery Act, 2018 (Australia). Similar to the UK, the Australian Modern Slavery Act requires companies to report annually on the risks of modern slavery in their operations and supply chains. It also includes the actions taken to assess and address those risks. The act took effect on 1 January 2019.

Costs and benefits for companies

For many companies, compliance with the new requirements will necessitate material operational and disclosure changes. This inevitably comes with costs, but the benefits should not be overlooked. A robust approach to ensuring respect for human rights will help companies to avoid potential legal penalties. But it will also offer competitive advantages by smoothing operations in complex environments, increasing supply chain productivity and protecting brand value.

While the laws mentioned in this article are all within developed countries, many of the laws target large multinationals and they have a strong focus on supply chains.

> **As a result, the impact should ripple into other parts of the world – ideally raising standards across regions and facilitating the promotion and enjoyment of human rights globally.**

However, the success of these efforts depends on how rigorously the laws are enforced, and it is still early days for many of them.

> **We are encouraged by the action taken thus far and we are optimistic about further progress.**

We will be closely watching the response of regulators and the companies in which we invest.

Summary

Emerging corporate human rights laws demonstrate a new way of thinking. They are moving away from backward-looking assessments of liability towards demanding proactive approaches that prevent harm. This could result in meaningful change, improving standards globally, while offering competitive advantages to businesses. We are cautiously optimistic as the success of these initiatives depends on rigorous enforcement of the new laws.

Important Information

Investment involves risk. The value of investments, and the income from them, can go down as well as up and an investor may get back less than the amount invested. Past performance is not a guide to future results.

How professional is your professional?

By Christine Kerr, Senior Pension Management Consultant, Barnett Waddingham and Member of The Pensions Management Institute Advisory Council

We are now all familiar with the '21st Century Trusteeship' education campaign the Pensions Regulator (the Regulator) initiated after its research of 2016 which uncovered that many schemes were not being run to the expected standards.

Phase II of this programme will focus on the makeup of trustee boards, competency standards and accreditation for professional trustees. The Regulator published an industry consultation on the future of trusteeship and governance on 2 July 2019. One of the questions asked is whether an accredited professional trustee should be required to sit on every board.

Professional trustees

In 2017 the Regulator defined what a professional trustee is:

"We consider a professional pension scheme trustee to include any person, whether or not incorporated, who acts as a trustee of the scheme in the course of the business of being a trustee."

Points to note:

- Whether you are paid to be a trustee is still a factor in deciding if you are a professional trustee, but not the main one. Many schemes now pay their member nominated trustees when they no longer work for the business and they would not be considered professionals in most circumstances.
- If the Regulator considers a trustee to be a professional in relation to one scheme, it will view them as a professional in relation to all schemes where they are a trustee.
- The Regulator does expect trustee boards to review the value that their paid trustees bring to the scheme, irrespective of their professional status or whether they are company or member-nominated trustees.

Full details of the Regulator's definition can be found here. Many schemes have a professional trustee involved either as Chair, an ordinary member of the board, or as Chair of a specialist sub-committee. A good independent professional trustee can help get the best out of adviser teams.

> **They can draw on first hand experience of the latest regulations and guidance and provide insight into industry best practice in similar scenarios.**

Standards

The Professional Trustee Standards Working Group (PTSWG) was established in 2017 by professional trustee bodies across the industry to establish a set of requirements. These standards were published in March 2019 with additional standards for professionals acting as Chair or sole trustee.

An accreditation system will be run by the Pensions Management Institute (PMI) and to be accepted applicants will be required to:

- comply with a 'fit and proper' requirement modelled closely on that required for trustees of master trusts.
- provide references from two reputable figures within the industry, such as a pensions lawyer or a scheme actuary.
- have successfully completed the latest Trustee Toolkit.
- have passed the PMI Award in Pension Trusteeship.
- complete a soft skills test designed to assess the 'other professional trustee skills and behaviours' associated with professional trusteeship.

Whilst there is no mandatory requirement to hold the accreditation, a recent Professional Pensions poll indicated that four out of five trustees would expect their professional trustee to be accredited. The expectation is that the uptake will be high, driven by market demand.

Sole trustees

The increase in number and size of schemes where sole trustees are appointed is attracting attention from the Regulator. There is some difficulty in getting the benefits of diversity and challenge with a sole trustee. Those operating under professional trustee firms are putting in place processes to counter these risks, for example alternates and peer review of material decisions. Some also have a policy of encouraging rotation of appointments. The Regulator will be looking more closely at cases where there is a sole trustee, particularly if it has questions about valuations submitted. The consultation contains a number of questions about sole trustees to both seek opinions and gather evidence in advance of making proposals in the future.

Questions include whether the governance standards for sole trustees should be strengthened, perhaps by requiring a minimum of two trustees to make decisions. Also, the Regulator asks whether respondents have any real examples of employers appointing a sole trustee in order to negotiate an employer-friendly funding agreement. Professional trustees who are not part of a trustee firm are described as sole traders. The new professional trustee standards prohibit sole traders from becoming sole trustees.

Future professional trustee appointments

The onus is on the professional trustee to demonstrate the standards and gain accreditation, but it's not a legal requirement for them or those appointing them.

> **If you are appointing a professional though, you do need to understand whether that appointee will be a professional in the Regulator's eyes.**

Trustees will be expected to undertake due diligence on their professional counterparts (or impress on the sponsoring employer the need to do the same). Following up on references is essential.

The Regulator believes that "the vast majority of pension schemes would benefit from appointing an accredited professional trustee to their pension board" and is "hopeful that, in time, the accreditation route for professional trustees becomes the norm across the industry". It encourages professional trustees to gain accreditation to show that they meet the standards.

> **The Regulator also notes that there simply aren't enough professional trustees available to require one to sit on every board at the moment.**

The number of schemes are expected to decrease in the future, which may make this more feasible.

It seems likely that many trustees who want to demonstrate good governance and risk management will want to appoint a professional who has the recognised accreditation, ensuring the accreditation is retained for the duration of the appointment.

> **Some will argue this is box ticking but, with no other measure to use, it would seem difficult for trustees and employers to ignore it. Possibly another line in the risk register?**

Costs and charges

what's all the fuss about?

It seems cost transparency has come of age. We have MiFID 2, the FCA's Institutional Disclosure Working Group (IDWG) and the follow-up Cost Transparency Initiative (CTI), and now the just-released House of Commons Work and Pensions Committee 'Pension Costs and Transparency' report. All of these lead to the inescapable conclusion that pension funds need to take cost collection seriously, and asset managers (and other suppliers) must accede to demands by clients for cost data. It really is as simple as that.

But it certainly has taken a long time to get here. I've been pursuing this outcome now for 11 years, but there were others before me. In fact, I first focused on cost transparency as an issue after an enlightening conversation in 2008 with fund manager David Norman who explained that what asset managers incurred as costs and what they charged to clients were two very different things. Up until that time, and as a management consultant, I had worked with asset managers to put together and rationalise operating models. Therefore, I had a very firm idea of the cost-base of an asset manager. But what I really hadn't thought about was how much asset managers and other suppliers actually charge institutional (or retail) investors for their services. David told me how much and something just clicked into place. My decade-long confusion about the pay disparity between financial services and other sectors (such as my former career as a Police Officer) evaporated. It's why the FCA in its Asset Management Market Study (2017) highlighted that the average profitability of asset managers was 36%; an exceptional figure.

The level of suppliers' profitability should be enough to make you ask firm questions about how much you are being charged. But it's not that easy, it seems.

That level of profitability from your suppliers should be enough to make you, the institutional investor, pay attention and ask some firm questions about how much you are being charged. After all, their profitability is derived entirely from your assets. But it's not that easy, it seems.

Firstly, asset managers are somewhat nervous about the issue of data; not only have they never collected it before and their systems are likely to be poorly configured for the job, but who knows what such data will reveal? Think St James' Place and the deluge of complaints recently reported in The Sunday Times and Money Marketing about their charging structures.

Secondly, you the asset owner, probably have reservations too.

Perhaps you believe, or are being told, that the data isn't yours and you cannot demand it. Well, simply put, it is yours and you can. How much you are actually shelling out for a service is possibly the ultimate expression of your relationship with that supplier, so demand away. Certainly, if someone says 'no' to your request then you definitely want the data, if in only on principle.

Perhaps you believe, or are being told, that net performance is all you need. Suddenly, you are instead told that you need more information than just net performance and that the way you are charged is actually incredibly complex, and multi-layered with both explicit and implicit components. The

CTI templates are your guide to collecting and digesting these complex charges, but the templates are brand new and are, to those who have either loosely or never before asked for cost data, very confusing. I can say from experience that the reaction of some institutional investors is to say "Oh my goodness. This is so complex and I have other things I need to do. Let's park this for now. And it's probably going to cost us a fortune to collect and understand anyway. Let's wait until next year". On top of this, who knows what the results will show when the entirety of your third party cost-base is revealed.

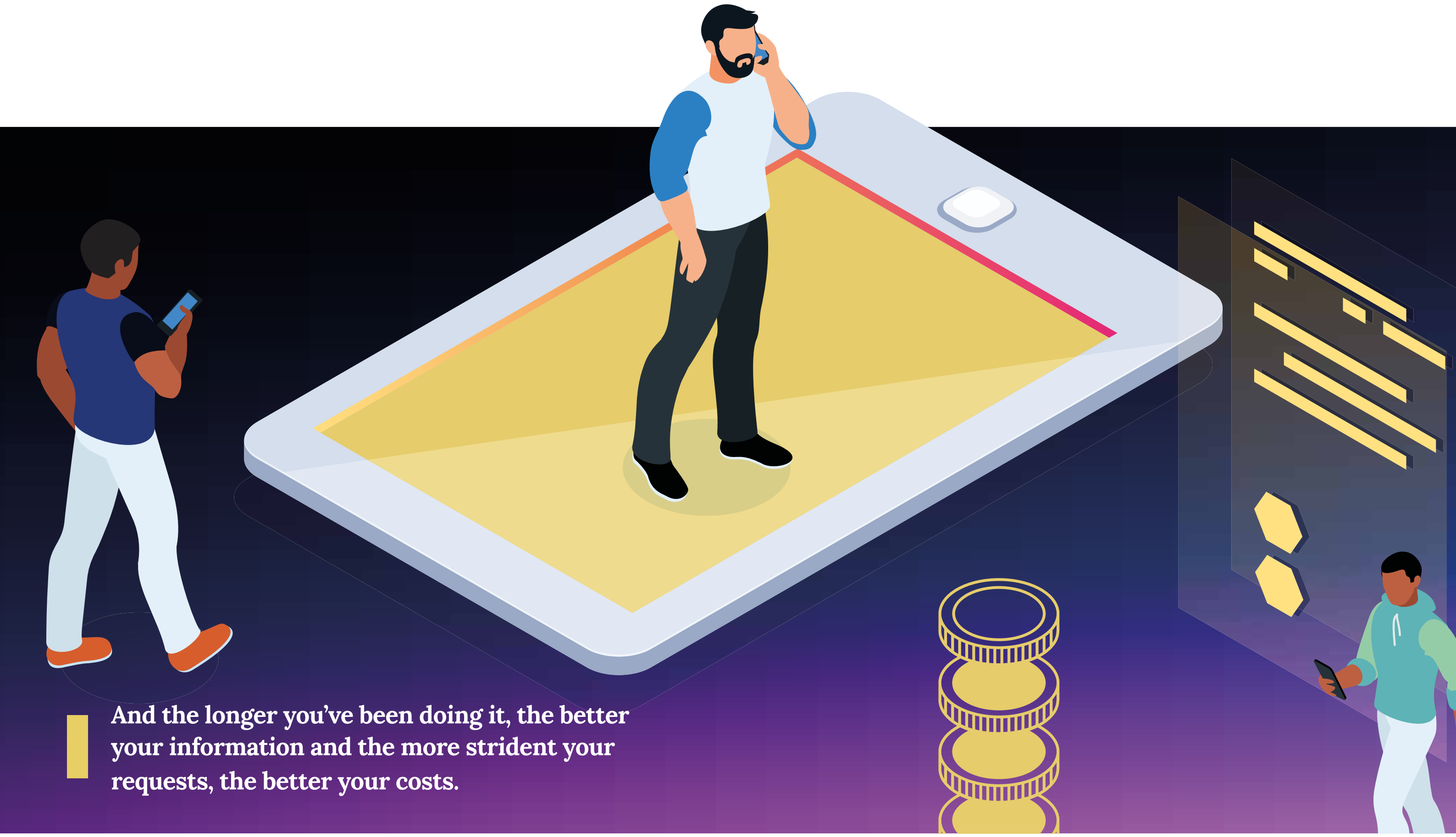
The journey to cost and fee transparency is therefore not simple despite the efforts of the FCA and the CTI.

At least it is currently voluntary. But not, I suspect, for long. One of my regrets in writing the recommendations as Chair of IDWG was that I couldn't mandate cost data collection by institutional investors. The FCA does not govern the institutional investor community (other than in Independent Governance Committee (IGC) world) and so this recommendation was not an option. However, if I read the Work and Pensions Committee report correctly, voluntary cost data collection using the CTI templates is likely to change.

Currently, only IGCs are required to report Value for Money (VfM) in their annual Chair's Reports. Despite this compunction less that 25% of last year's statements contained anything detailed or constructive on costs. Frankly, I, like Henry Tapper who reviews every statement each year on his Pension Playpen blog, am flabbergasted by this. To attempt to discuss VfM without raising the issue of how much you have actually spent is inconceivable; the very essence of VfM is 'value delivered' for 'money spent'. The point is that IGC's are required to report on the 'money' part and soon so will all institutional investors. The key phrases in the Work and Pensions Committee report are "…some trustees are making investment decisions without a clear understanding of how much those decisions cost…", which echoes the original findings of the FCA and alludes to the CTI templates. Couple this with "…we are not convinced that there are sufficient incentives to achieve a high take up through voluntary disclosure alone…" and you have potential compulsory collection of data by institutional investors from asset managers using the CTI templates.

…the longer you've been doing it, the better your information and the more strident your requests, the better your costs.

As if this wasn't enough I can now say that those who are experienced at cost collection in some form or other get the best deals. That there are scale economies in procuring asset management is well known, but there are those pension funds that fall below the cost/size scale curves and these funds are those that have made efforts to collect cost data in the past.



> And the longer you've been doing it, the better your information and the more strident your requests, the better your costs.

Asking and then negotiating, it seems, are the first steps to reducing your costs and improving VfM. This is a finding that echoes what happened in Holland when it introduced its cost collection framework some eight or more years ago.

How do I know this? I know it because I now have data. A *lot* of data. When I finished my time with the FCA I decided that, in the absence of compulsory cost collection, what was needed was something to make cost collection easy and cheap. So I built a cost collection platform to automate the process of collection and data analysis as much as possible. And because I want to complete the transparency journey, think of it as my quest, I have created it as a utility and it is therefore cheap. It's called ClearGlass. And here's the interesting thing: despite the bullish statements by the Work and Pensions Committee, it seems that funds really do want their cost data. Since our launch in January this year we have onboarded or are currently onboarding 175 pension clients with assets ranging from £100million AUM or less, up to £50billion AUM, with a total AUM of almost £250bn. This is in only seven months. These funds are of all types (DB, DC, Master Trust, Fiduciary), and use all types of products including private equity, LDI, hedge funds, credit, insurance-linked, as well as more routine strategies. In fact, we have obtained, or are obtaining, data on over 1250 products from over 180 willing asset managers.

We are also working with all of the large consultants to onboard their clients to the platform and our pipeline is some 2000 funds pending over the next 6-12 months.

> I'm therefore pretty positive about the general direction of travel of cost transparency.

The point is, I have an empirical dataset (and I believe the largest ever assembled), on which to draw my initial conclusions.

Cost collection is, therefore, here to stay, and compulsory collection by institutional investors using the CTI templates is likely to form one of a suite of recommendations by the DWP. But how will you, the institutional investor, actually collect the data? There are several options: you can train your staff and do it yourself; you can ask your consultant to do it for you; or you can go to a third party specialist like ClearGlass. I'll welcome you if you do choose to use us, but won't be upset if you don't. Everyone has a preferred supplier. But please remember this: 'Collecting Costs should not be Costly', so don't pay through the nose. There are too many layers of cost already.

By Dr Chris Sier, Chairman, ClearGlass Analytics, Former Chair of FCA IDWG

Climate Shame

By Dawid Konotey-Ahulu, Co-Founder of mallowstreet

It doesn't matter what journal or newspaper you read, TV program you watch, or social media platform you frequent, the drum beats are deafening: a climate emergency is well and truly upon us. Time is almost up for Planet Earth. We've all been talking about climate change for years, decades even; but it's all been a bit vague and we haven't done very much to alter course. The iceberg still looms large dead ahead and we're busy rearranging the deckchairs.

The *giant iceberg* picture works at one level, but not at another. According to NASA, that record breaking hot weather we experienced here in Europe in late July then moved up over Greenland and is now melting the Greenland Ice Sheet, streaming billions of tons of meltwater into the Atlantic Ocean and causing sea level to rise. Apart from a dwindling band of hardcore climate-deniers, we all now get it. And yet, there are choices still too hard to make. Such as all of us taking fewer flights because of the negative impact on global climate. If that seems a step too far, you probably haven't yet heard of *flygskam* (Swedish for flight-shaming); the idea that we should hang our heads in shame every time we catch a flight, for the damage we are about to cause. It started when Swedish singer Staffan Lindberg wrote an article which was signed by five influential friends. The movement's most famous backer is Greta Thunberg who hasn't flown since 2015 and who is about to sail across the Atlantic in a zero-emissions racing boat. Like *#MeToo*, flygskam is gaining traction faster than anyone would have predicted. A so-called cascading norm.

The pensions industry is about to see something like flygskam; signing a charter under the terms of which the signatories promise to take action which will see investment managers being held to account over their portfolios' carbon impact. A sense of shame and embarrassment for those who refuse to engage.

Here's the charter they've signed:

As Chairs, Investment Committee members, Pension Managers and Trustees, we pledge to recommend to our boards and investment committees:

1. *To ask, "What is the impact on the climate?" for each and every investment that is proposed.*
2. *To demand that the carbon impact of every investment is measured and reported on by our investment managers. We will work actively and collaboratively to develop complete carbon measurement standards.*
3. *To insist that each of our investment managers actively engage with corporate boards underlying our investments, so that every company develops and discloses both a complete measure of their carbon impact and a clear business plan to transition to a low carbon future.*
4. *To review, and ultimately recommend the termination of any investment manager that fails to support and actively engage in stewarding the transition to a low carbon future."*

So far, we have sixty signatories who represent combined pension assets of £276bn. When the industry decides to collectively disinvest from managers who simply will not engage in a meaningful discussion about their own role in a low carbon future, change will come quickly. Here is the link: https://www.mallowstreet.com/Climate-Charter

By Emily Rowley, Associate, Sackers

Diversity: are trustees born ready?

You may have missed the announcement of dance group Diversity's 'Born Ready' anniversary tour, but you will likely have spotted the Pension Regulator's (TPR) July consultation on the 'Future of trusteeship and governance' in pension schemes.

TPR is asking for views on whether legislative change is needed to promote diversity in trustee boards, including requirements for trustees to report publicly on their efforts to do so, for example via the DC chair's statement. It also asks whether more could be provided by way of tools and guidance, sharing best practice across the industry. In a landscape of increased regulatory pressures, what should trustee boards be doing now to make sure they are diverse?

Are trustees 'born ready' to make the necessary changes or are there any issues holding them back from promoting diversity amongst their ranks?

What is diversity?

In theory, the trustee board model should be ideally suited to diversity. However, a lack of range in the composition of pension scheme boards is something that has been recognised for a number of years, with the average ages of members on, and gender ratios of, typical trustee boards not reflecting the member profile of most schemes. And although age, race and gender spring most easily to mind, diversity goes far wider. TPR is clear that trustee boards "need to make every effort to attract and include" trustees "from all backgrounds to work in the industry". Its 21st century trustee campaign highlights the importance of diversity in terms of societal demographics, expertise and skills (including skills such as the ability to negotiate, influence and communicate). Ideally then, boards should be looking to have a range of individuals with diversity of background, skillset, experience, personality attributes and seniority level.

Why does diversity matter?

TPR's view is that pension boards benefit from having access to a range of skills, points of view and expertise, as it helps to prevent significant knowledge gaps or over-reliance on a particular trustee or adviser, and supports robust discussion. It states that there is strong evidence that diverse groups are more effective at decision making.

TPR also points out that research shows that if governance boards reflect the diversity of the people they represent, their 'collective life experiences' will improve their capacity to understand the challenges faced by each member of their scheme.

> **Diversity can help refresh perspectives, and reduce unconscious bias and potential failures to recognise issues that impact on different savers.**

What does diversity mean for trustees?

When looking at the diversity of a trustee board, it is important to consider this in the context of the membership of the relevant schemes, rather than as society as a whole. To truly reflect their views, a trustee board should ideally be as diverse as the membership it represents.

Amongst themselves, trustees should discuss the issue of diversity, and acknowledge that:

- similarities in age and gender need not mean a lack of diversity in terms of societal demographics, skills and experience, for example.
- diversity in race, gender, age, or background is not tokenism, and rather than being mere quota-filling, brings real advantages.

One of the key issues for trustees improving diversity is that of trustee appointment. For example, where the power to appoint trustees sits with the employer, the trustees do not control who becomes a trustee. And in terms of the one-third member-nominated trustees required by legislation, the views of the membership need to be incorporated into the process. Trustees should consider recording that diversity will be an area they assess when interviewing nominees as part of a selection process. In an election, trustees could notify members that they may consider diversity as a factor when making their choices. Ultimately, of course, a candidate's suitability in the round is more important than diversity alone – although diversity is of course a factor in determining that suitability.

What can trustees be doing to improve diversity?

TPR is clear that it does not believe that diversity quotas are desirable, necessary or even workable (for smaller schemes in particular). Furthermore, TPR is clear that its emphasis on diversity is not intended to force schemes to remove good trustees with valuable skills.

What steps a trustee board decides to take will depend on the circumstances of that board.

- A good starting point would be to review the current levels of diversity, asking trustees for views on the composition of the board and their aspirations as to what this could look like in the future. TPR recommends its skills matrix and board evaluation tools to help schemes understand and address gaps. A trustee diversity policy could then be drawn up.
- Trustees should review the usual means, and the style, of communications with members, both generally and in particular in relation to trustee elections. Is the tone too formal or potentially alienating? Consider how the trustees are presented, and explain what diversity means to your board and the benefits the board sees it as having.
- Make the current board more accessible. Give information on the individuals who make up your board, and find opportunities for them to meet with the membership to encourage a greater diversity of strong candidates.
- Consider mentoring applicants for trusteeship who miss the cut but who would make good future candidates.

Will this impact good governance?

Reviewing diversity in the composition of the board should go hand-in-hand with a review of governance more widely.

> **A natural follow on step is to take a look at the effectiveness of the board itself to ensure that all 'diverse' views may be shared, and all directors contribute to the running of the scheme.**

It will be interesting to see the responses to TPR's consultation, any resulting legislative changes and additional regulatory burden on trustees going forwards – and whether the policy has the hoped for effects.

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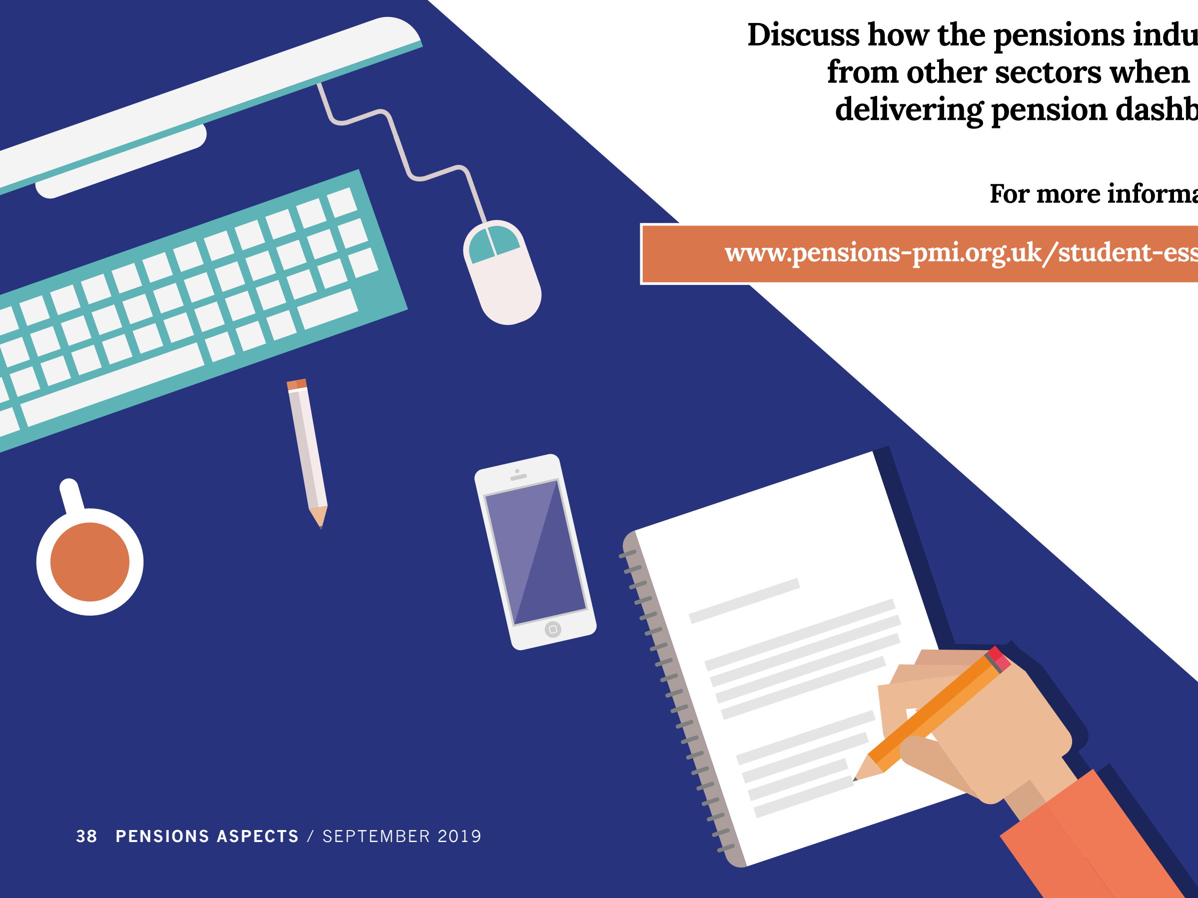

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Contact: Andrew.Gartside@ipsgroup.co.uk - London Ref:G39585

DB Implementation Coordinator

£ Competitive + Benefits – Leeds

- Supporting the implementation of newly won DB schemes
- Supporting the delivery of new business activity
- Strong Final Salary knowledge and project delivery skills required
- Previous scheme implementation experience essential

Contact: Dan.Haynes@ipsgroup.co.uk - Manchester Ref:DH138885

Pension Fund Accountant

£ Competitive + Benefits – East Midlands

- In house pension opportunity
- ACCA/ACMA/CPFA or equivalent essential
- High degree of autonomy
- Blue chip organisation

Contact: Dan.Haynes@ipsgroup.co.uk - Manchester Ref:DH139175

We also have a large selection of interim and contract vacancies available. Please contact Andrew Gartside - London Office Andrew.Gartside@ipsgroup.co.uk

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Surrey or North West England — CE14646

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Pensions Developer — £DOE
London — CE14655

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Data Consultant — £DOE
Multiple UK locations available — TD14606

Responsible for delivering quality Data Solutions services for clients, you will play a leading role in a range of technical projects, taking responsibility for successful delivery and implementation of the work

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Do you have a passion for pensions' data!? Perhaps you are a Pensions Administrator keen to specialise in data projects or maybe you are already working in a Data Team and keen to develop your experience and progress your career? Flexible working hours offered and excellent package.

Contact Craig English (CE)
craig@abenefit2u.com
01243 860 180 / 07884 493 361

Contact Dianne Beer (DB)
dianne@abenefit2u.com
0207 243 3201 / 07747 800 740

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