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Pensions Aspects

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Assessing your flightpath

De-risk the investment journey

COVENANT-LED DE-RISKING: WHY COVENANT MUST BE AT THE HEART OF ALL DE-RISKING PLANS

DOES DC NEED DE-RISKING?

THE WORK AND PENSIONS COMMITTEE'S PENSIONS INQUIRY

Knowledge & Integrity

Pensions Management Institute
Moving pensions forward

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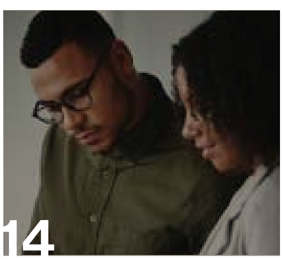
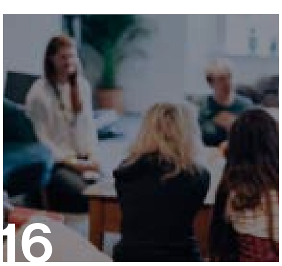
Does DC need de-risking?



The Work and Pensions Committee's pensions inquiry



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A springboard for change

Congratulations to Lesley Alexander for becoming PMI's 24th President and 4th female President!

By Lesley Alexander, PMI, President

I'm taking over the presidency of the PMI against the backdrop of a global pandemic and the potential for further restrictions to our personal freedoms as we face a second wave of the virus. I wouldn't have imagined this a year ago, when I chaired our annual DC Symposium in a room full of people keen to improve the outcomes for people in workplace pension schemes.

In the last Pensions Aspects, Lesley Carline shared her perspective on the two years of her presidency and everything that's been achieved during that time. I'd like to add my thanks to Lesley for her leadership. To say she's a hard act to follow would be an understatement and I will do my best to continue all the great work that's underway. In Lesley's 'end of term' video report she wished the new president good luck. I don't know whether I need good luck or just another day in the week!

Congratulations to Sara Cook on her appointment to Vice President as she joins me and Tim Phillips for this coming year. I'm very much looking forward to working closely with both of them and I'm sure that they'll keep me on track although possibly not out of trouble.

I'm also looking forward to chairing our Advisory Council and offer a warm welcome to Raymonde Nathan and Robert Wakefield as they get their feet under that proverbial table. I would also like to thank our regional groups who play a vital part in linking Central PMI with our members outside London. Their close contact with members locally provides real value to our members and we need their input to deliver the right programmes to our members.

As we get towards the final year of the PMI's current five-year strategic plan we will focus on our vision for the next five years. I know that I can rely on our Council's combined knowledge, experience and foresight to bring that into being. Quite how we do this remains to be seen, although I expect we will continue to transact all our business and relationships online for the foreseeable future.

I don't want to say much about myself or how I found myself here today. Suffice to say I've been a PMI member for my entire career and have greatly valued the organisation and what it stands for. I think this can be exemplified by the way in which the PMI executive team, under Gareth's leadership, have responded to the Covid-19 pandemic. In a climate of fear and uncertainty, they have met the challenge head-on and have successfully adapted the qualifications, the events and member services to the online environment. At the same time, each has been well aware of the challenges of remote

working and shown great concern for the wellbeing of the whole team. I want to thank them sincerely for all their work, particularly in the last six months. It won't surprise you to hear that I did join in with one of the Friday night tipples where I gave my extensive gin collection an airing!

Thinking about the next twelve months, I'm sure there will still be plenty to do. On the Policy and Public Affairs Committee we've been responding to an inordinate number of consultations with, it has to be said, some ludicrously short timelines, from government departments and regulators alike. It would be reasonable to assume that these are a precursor to further regulation and so we'll be looking to help shape that regulation and provide the necessary support and education to our members when it comes to implementation. It would be prudent to expect more changes when it comes to Environmental, Social and Governance (ESG), particularly in pension schemes' response to the existential threat of climate change. This is an issue close to my heart. I previously chaired UKSIF – the UK Sustainable Investment and Finance Association – and encouraged UKSIF to lobby government for real action and better reporting by pension schemes on ESG. For several years I felt there had been a lot of tick-boxing and 'greenwashing' within our industry, and that has to change.

Some of you will know that I have embarked upon an RHS gardening qualification. Never have I been so grateful for a few years of learning Latin at school, given the plant lists I have to study. This year I took some exams for the first time in 35 years. It was a labour of love and I had to use all sorts of devices to memorise crop rotation order! Lifelong learning is critical for us all in whatever form it takes. That's why we will be reviewing the PMI's suite of qualifications as well. With such dramatic changes to workplace pensions in recent years, particularly in respect of Master Trusts, defined benefit (DB) consolidation and buy outs, and with more to come, we want to make sure that our qualifications are relevant and coherent. Tim Phillips is leading this project with the Lifelong Learning Committee and the Qualifications Team and I'm really excited about our future suite of qualifications. For those who want to make a career in pensions, our role is to provide continuous learning and development, whatever form it takes. I'm equally excited about our fully accredited professional trustee qualification, APTitude, and I'm keen to extend accreditation to all trustees, lay and professional. We all know how vital accreditation is to the raising of governance standards. As my own experience with the RHS demonstrates, it doesn't matter how many years I've spent gardening, it's essential to acquire the right knowledge and have it tested.

I hold hard to Spiderman Philosophy – 'with great power comes great responsibility' and I have always believed that pension funds have great power, and therefore, great responsibility. Sometimes, as individuals, we can feel powerless in the face of pandemics, climate change, a struggling global economy and our own day-to-day challenges, however small. We can, and we must, act collectively for the common good to make people's lives better. We wonder why savers are disaffected and disengaged from pensions. I suggest it's because we've failed to capture their imagination and help them connect their own pension savings to the vital stake that they have in creating the society they want to live in. And it's a society that requires a radical re-think in which we can play our part.

And unlike some other presidents, this one will be wearing a mask.

Moving pensions forward with the competency framework

Pensions Management Institute
Learning

As the sector leading body for the development and awarding of pension qualifications, the PMI have, over a number of years, developed a competency framework that is ready for publication.

In creating a competency framework we are providing an effective method to assess, maintain, and monitor the knowledge, skills, and attributes of people within the sector It allows measurement of current competency levels to make sure there is the expertise needed to add value to the business.

A competency framework is a model that broadly defines the blueprint for 'excellent' performance within an organisation or sector. The framework consists of a number of competencies which can be generically applied to a broad number of roles within the organisation or sector.

In the case of the PMI, these are then broken down into **Functional Competencies** and **Technical Competencies,** discussed and agreed with the Sector. These are as follows:

Each functional area's descriptor explains the purpose, key features and activities of those involved in that functional area. Throughout the technical competencies, users need to demonstrate the effectiveness of their communication with all stakeholders at all levels. The functional areas and technical competencies then relate to PMI qualifications that demonstrate these abilities at various points of your pensions career.

Move your career forward

with the help of our new framework – now available online. Visit the PMI website to find out more: **www.pensions-pmi.org.uk/learning/competency-framework**

	Functional Area	Technical Competencies
01	THE ROLE OF THE PENSIONS PROFESSION	• Sector knowledge • Information and knowledge management
02	STRATEGY AND POLICY DEVELOPMENT	• Pensions strategy • Pensions policy
03	LEADERSHIP AND MANAGEMENT	• People management • Change management
04	OPERATIONAL MANAGEMENT	• Product and service innovation • Managing product and service delivery • Benefit calculation and delivery • Regulated retirement advice • Investment portfolio management
05	QUALITY AND CLIENT RELATIONSHIP MANAGEMENT (CRM)	• Quality management • Client relationship management (CRM)
06	COMPLIANCE, ETHICS AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)	• Governance and compliance • Risk management • Corporate social responsibility • Ethics • Sustainability in pensions
07	TRUSTEESHIP	• Trusteeship

Membership

Pensions Management Institute
Membership

Affiliate members

The affiliate membership renewal fee was due on **1 November 2020**. The subscription fee for 2020/21 is £85 and subscription renewal notices have been sent out to all Affiliate members. If you have not received your renewal notice, a copy of this can be located in the My Transaction area of your membership portal. Alternatively, please contact the Membership team at **membership@pensions-pmi.org.uk** or on **0207 392 7410.**

Student, CertPMI, DipPMI, APMI members

Subscription renewal notices have been sent out to all Student, CertPMI, DipPMI, APMI and FPMI members. If you have not already paid your membership, this was due on **1 September 2020**. If you do not wish your membership to lapse please make your payment now. If you have not received your renewal notice, a copy of this can be found in the My Transaction area of your membership portal. Alternatively, please contact the Membership team at **membership@pensions-pmi.org.uk** or on **0207 392 7410.**

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 person has been elected to Certificate Membership and can now use the designatory initials 'CertPMI':

Abbie Haskins

Obituaries

We are saddened to hear that

Christopher Chadwick FPMI, MA MPHIL, FIA

Barry Hunton FPMI, FCA

Peter Basten FPMI, FIA

have recently passed away.

Your membership records

Please ensure that your personal details are correct and up-to-date on the My PMI member portal to ensure that there is no interruption to your membership portal. The portal can be found at **https://my.pensions-pmi.org.uk**

If you require a reminder of your username to log in and check your details, please contact the Membership team.

Continuing Professional Development (CPD)

Fellows and Associates are reminded that meeting the PMI CPD requirement is compulsory (except where retired/non-working). Under our CPD Scheme, PMI members are required to record at least **15 hours** during the year for 2020. Please log on to the website and update your CPD record.

Fellowship upgrades

Fellowship is open to Associates with five years' membership and five years' logged CPD.

We are pleased to announce that the following eligible Associate has been elected to Fellowship and is now entitled to use the designatory initials 'FPMI':

Patrick Fitzsimons

Pensions Management Institute
London

The PMI London Regional Group has an exciting programme of business meetings planned for the year ahead, and details of our current plans are noted below. As ever, we are grateful to our speakers for giving up their time and look forward to seeing as many of you joining in as possible. Further details of individual sessions will follow once confirmed.

	Discussion topic	Date*
1	Pensions technology: using technology to ensure positive member outcomes	November 2020
2	ESG: easy as 123?	January 2021
3	The future of Master Trusts	March 2021
4	GMP equalisation – where are we now?	May 2021
5	AGM	July 2021

* all dates are subject to confirmation and speaker availability.

Our popular annual quiz night will be held online on Wednesday 18 November 18:00-19:30pm. Not even Covid-19 can stop our battle of the pensions quiz titans!

More information regarding our events will be circulated directly to London Group members and via our PMI London Group LinkedIn Group, so please sign up if you haven't already.

Pensions Management Institute
Scotland

The PMI Scotland Regional Group held a webinar on 30 September with two excellent and very timely presentations.

Pensions and Cyber Risk was covered by Jim Gee - Partner and National Head of Forensic Services at Crowe UK LLP and Visiting Professor and Chair of the Centre for Counter Fraud Studies at University of Portsmouth.

Callum Stewart - DC Investment Consultant and Responsible Investment Specialist at Hymans Robertson then took attendees through the latest issue for DC schemes.

The event was well attended with over 30 people dialling in for the live presentations (which were recorded and can be viewed online).

Our next seminar is planned for December, where we hope to provide an update on GMP equalisation, if the latest Lloyds Bank judgment is published by then, and the state of play with the Pension Schemes Bill, which is expected to become an Act before the end of the year.

Pensions Management Institute
Eastern

We are planning a virtual seminar for an afternoon in November/December, which will have a DC focus.

Nearer the time, information will be sent round to those on our email list. If you would like to be added to our e-mail distribution list, or join the Eastern Region Group, please contact **Laura.Sayer@mills-reeve.com**

Pensions Management Institute
Events

Flagship events

All events are subject to change; please visit pensions-pmi.org.uk/events for latest updates.

19 Nov
ESG seminar
Online

24 Nov
Bulk annuities in the current climate: a live case study
Online

2021 Date to be announced
Pensions Aspects Live
The Savoy, Strand, London, WC2R 0EU

2021 Date to be announced
Annual Dinner
The Savoy, Strand, London, WC2R 0EU

De-risking

De-risk the investment journey

This month's feature articles include:

12/ Covenant-led de-risking: why covenant must be at the heart of all de-risking plans

14/ Does DC need de-risking?

16/ The Work and Pensions Committee's pensions inquiry

Covenant-led de-risking: why covenant must be at the heart of all de-risking plans / Does DC need de-risking? / The Work and Pensions Committee's pensions inquiry

Covenant-led de-risking: why covenant must be at the heart of all de-risking plans

By Michael Bushnell, Managing Director, Lincoln Pensions

To say defined benefit (DB) schemes have been on a journey over the last decade is an understatement. Most private sector schemes have closed and become a legacy liability, while falls in market-expected returns have caused many deficits to spiral.

High-profile corporate failures have put the focus firmly on the risks contained within DB schemes, not just for members, but also for the corporates left to pick up the pieces if investment or funding risks crystallise. It is not surprising that the core theme underlying The Pension Regulator's (TPR) recent consultation on a new DB funding code of practice is low-covenant-dependency end games - and how to get there.

The need for covenant-led de-risking

Ultimately schemes need to reach a position of zero (or low) reliance on their sponsor. The best example of this is an insurance buyout (where risks are passed to the insurer), but other options exist, such as low risk 'run-off' investment portfolios or solutions now being put forward by pension fund consolidators.

By the time schemes reach their end games, they should have limited investment risk relative to their liabilities; be fully funded even if assuming accordingly limited investment returns; and have contingencies to cover future expenses and residual demographic and other risks (e.g. data quality issues or regulatory changes).

Few schemes will be able to reach this position in one go. Instead, most will need to gradually transition towards their target. Key to getting this right will be understanding three key aspects of the employer covenant.

1. Covenant affordability: funding and near-term risk capacity
Good covenant practitioners typically focus on understanding sponsor affordability based on cash flows and liquidity. This reflects that schemes look to sponsors to provide ongoing cash funding, both for current deficits but also for deficit increases in the future. Therefore, the key question for trustees is: what can their sponsor afford to contribute to the scheme in addition to existing funding commitments?

This affordability for additional funding is the risk capacity of the sponsor and should determine the maximum level of investment risk that the scheme should be taking over the near term.

2. Covenant visibility: de-risking time horizon
Each sponsor's covenant will change over time depending on a wide range of factors (including industry, leverage and product diversification amongst many others). In its consultation, The Pensions Regulator suggested that trustees may only have visibility over their covenant, for perhaps, three to five years.

As a result, trustees need to think about how stable they expect covenant affordability to be and for how long (scenario testing can be a helpful tool here). After this time frame, as covenant risk is assumed to increase, trustees should be planning to reduce investment risk. The pace of de-risking is likely to be a balanced judgement based on the level of covenant concern, but also the resulting contributions that would be required from the sponsor.

The reality is that many schemes will need to place material reliance on their sponsor for many years, even though there is insufficient covenant visibility over this timeframe. This is where contingent support (either assets or funding structures) can help by providing schemes with additional support, independent of the sponsor, should their covenant weaken sooner than hoped.

None of this is to say that all covenants will weaken – many won't - and it may become reasonable in the future to change plans to take more investment risk for longer.

3. Covenant reliability: longer-term end game planning
Over the long-term, covenant support can be unreliable. Whilst some sponsors and industries provide greater comfort than others, nearly all schemes will be exposed to material long-term covenant risks.

Trustees should remember this when setting their end game. Where they are planning to retain any reliance on their sponsor (e.g. by not seeking an insurance buyout) they need to recognise the risks that remain and ensure that contingency plans are in place to cover a correlated deterioration in covenant and funding at that point in time.

Covenant, scheme maturity and de-risking

There is no one 'right' way to transition the investment strategy – some schemes may choose to de-risk sooner and increase sponsor contributions to replace foregone investment returns, while others may rely on investment returns for longer (supported by the covenant on a contingent basis, as above) and then reduce risk when desired funding levels are met.

In most cases, the most pressing concern for a scheme (and the most pressing reason to de-risk) is likely to be the employer covenant. The maturity of a scheme's liability profile is a significant factor in understanding a scheme's risk – but de-risking plans based solely on increasing scheme maturity are liable to miss either a more pressing covenant risk, or the fact that increased maturity can be supported by a strong sponsor covenant. For most schemes, maturity is an issue that will likely become more relevant over the next ten years but for now, remains a far less pressing issue relative to covenant.

The role of good governance

It's important to recognise that there are inherent limits when setting a journey plan. The future is highly uncertain and no analysis can remove the risk that a scheme's journey doesn't go to plan.

Managing risk well is as much about good governance as it is about setting funding and investment strategies. The most important action for trustees looking to de-risk is to adopt sound governance practices, monitor the covenant and their investments, and be ready to change plans quickly if circumstances require.

Covenant-led de-risking: why covenant must be at the heart of all de-risking plans / Does DC need de-risking? / The Work and Pensions Committee's pensions inquiry

Does DC need de-risking?

By Anish Rav, Head of Client Strategy,
Atlas Master Trust

When pension de-risking is mentioned, our minds immediately think of defined benefit (DB) schemes. This, of course, is a big issue and needs significant attention. However, we shouldn't forget about defined contribution (DC) when de-risking. In fact, undertaking a DC de-risking review could provide substantial rewards for both Trustees and Employers, including freeing up valuable resource, and saving money.

DC schemes are not risk-free; they involve risk transfer. With Master Trusts becoming mainstream, there is now a much greater choice of DC arrangements to consider and innovation has come on in leaps and bounds. So, as part of a de-risking strategy, the question that should be asked is who is best placed to take the risk, how can it be minimised and, most importantly, how can the best member outcome be achieved.

What are the risks in DC?

Benefit Adequacy – this is the headline risk in DC schemes and rests with the individual member. It is a feature of all DC schemes but it can be minimised by effective management of all other risks:

Investment Risk - where a fund is invested has perhaps the greatest impact on outcomes. The options and strategies made available to members, and how they are monitored, updated and changed, has huge ramifications.

Costs – DC scheme members pay at least some, if not all the charges associated with being a scheme member. Single employer schemes will typically pick up the costs of running the scheme and members the investment charges. The risk here is that member charges are too high and/or the scheme becomes unaffordable for the employer.

Administration - the risk of administration going wrong has huge implications for DC schemes, more so than DB schemes. For example, contributions must be invested on time, fund switches made promptly, and benefits paid in accordance with members instructions.

Governance and legislative risk – the risk of falling foul of the increasing governance and legislative requirements that DC Schemes face can be time consuming, costly and cause reputational damage. Increasingly the workload and skills required to be a trustee means that professional trustees are becoming the norm.

Member understanding - member understanding in DC schemes is crucial. Lack of understanding will have significant consequences on member outcomes and the risk to trustees and sponsors is substantial.

How can the risks be mitigated?

The starting point for risk mitigation is to consider it from the different viewpoints of the member, employer and trustee. All will have different objectives, but the goal of ensuring best outcomes is the same. In many cases the risk mitigation will be the same and 'win win' for all parties. Considerations include:

1. Whether the risk is in the right place?
2. Is the level of risk being undertaken acceptable?
3. What are the mitigations?

To help answer these, stakeholders should review:

- If the scheme is well run and meeting all legislative requirements?
- If it has the expertise to run it?
- The opportunity cost of running the scheme – could resources be better used in other areas?
- Are the costs of running the scheme acceptable?
- Does the scheme have sufficient scale to benefit from latest investment thinking and expertise?
- Is there access to the latest communication ideas and technologies?
- What needs to be done to remove/mitigate risk – i.e. increased budget, training, investment in technology etc.?
- What will achieve the best member outcome?

Are Master Trusts the answer?

In many cases, employers and trustees are finding that the risks and costs associated with running schemes are simply too much and are, therefore, moving to a Master Trust. This route can help de-risk DC and achieve better outcomes for members. Indeed, this is what Master Trusts have been designed for. The key features are:

Scale – the Master Trust model is built on scale. This allows Master Trusts to drive down cost and allows them to offer innovative default strategies and investment options, with access to the best investment ideas, for example Environmental, Social and Governance (ESG).

Governance – Master trusts have very strong governance mechanisms in place and are run by experienced, professional Trustees for whom running pension schemes is their full-time job.

Proposition development – Master trusts scale and long-term nature mean they can invest heavily in the proposition; this means better communication tools for members and the use of the latest technology.

Pensions regulator authorisation. Master Trusts must meet strict conditions for authorisation to operate. This provides confidence that they have the systems, processes, knowledge, skills and longevity in place to achieve strong member outcomes.

De-risking DC by using a Master Trust is certainly an attractive option and has many advantages. For any employers or trustees considering this, it is important that any review is done jointly. Unlike DB schemes, there is very little conflict in the aims of both parties and by working together to review and consider de-risking options, the optimum solution can be found, whether that is keeping the status quo, additional investment/resource or changing arrangements.

Summary

Too often DC schemes tend to be forgotten when looking at a pension de-risking strategy. However, if pensions de-risking is expanded to look at all aspects of pension provision, then the result is likely to be better outcomes for members, employers and trustees.

Covenant-led de-risking: why covenant must be at the heart of all de-risking plans / Does DC need de-risking? / The Work and Pensions Committee's pensions inquiry

The Work and Pensions Committee's **pensions inquiry**

By Rt Hon Stephen Timms MP, Chair, Work and Pensions Select Committee

The pensions freedoms were introduced five years ago. They relaxed rules on how pensions can be taken, and gave those in later life new choices on what to do with their savings. With new freedoms, however, have come new challenges for consumers and for the industry. Savers who left to navigate a complex market have sometimes paid a very high price.

In the summer, the cross-party House of Commons Work and Pensions Committee launched a three strand inquiry to examine the effects of the 2015 shake-up, and how it is working for savers.

Pensions scams

The first and perhaps most pressing strand is examining the devastating impact of pensions scams. How can people who have worked hard for a comfortable retirement be protected from fraud?

The Financial Conduct Authority (FCA) and The Pensions Regulator (TPR) say that 180 people reported being a victim of a pension scam to Action Fraud in 2018, losing on average £82,000 each. In August, the FCA said it had received reports of scams totalling £31 million over the previous three years.

The problem is likely to be far bigger than official figures suggest. Only a minority of pension scams are ever reported. Research by the Pension Scams Industry Group estimated that between 0.5% and 12% of all pensions transfers are scams. If the true figure is 5%, scams will have added up to £10 bn over the last five years.

Scams come in many forms: false promises of early tax-free access; unrealistic offers of high returns on overseas investments; 'free advice' to con savers. The coronavirus pandemic has provided an added opportunity for tricksters to prey on people looking to use their pension savings for support.

Our inquiry will examine whether the numerous regulatory bodies work properly together. We have heard examples of regulators being slow to act on warning signs. The Pension Scams Industry Group has described Action Fraud as "not currently fit for purpose". The regulators will have a chance later in our inquiry to tell their side of the story.

We are also keen to look at the industry's role in preventing scams. This month we took evidence from investment firms and asset managers, as well as organisations representing trustees.

Our inquiry will run at least until the end of this year. Our recommendations to the Government will be published early in 2021. We have, however, an early opportunity in the Pensions Schemes Bill, currently making its way through Parliament.

With cross-party support from members of the Work and Pensions Committee, I plan to table an amendment to strengthen protection for savers by giving pension scheme trustees the ability to refuse or pause transfers when scam fears have been identified. The Pensions Scams Industry Group believe this will be 'pivotal' in combating the problem. Pensions Minister, Guy Opperman, has engaged very constructively with us on this.

Accessing pension savings

Good quality and timely information is key for both savers and those accessing their pension pots. Availability of guidance and advice will be the focus of the second part of our inquiry.

For five years, people with defined contribution pensions have been free to make withdrawals subject to their marginal rate of income tax. Our predecessor Committee in 2018 found little evidence that savers 'were frivolously squandering their life savings', as some had feared. The coalition Government set up Pension Wise to guide people through the options. For those who use it, Pension Wise has largely been a success. But too many are not taking it up.

The problem of proliferating small pension pots fit neatly into the Committee's work in this area. The combination of lots of pots— generated when people move jobs— and the flat fee charging structure can make saving very expensive, and even erode small pots entirely. I wrote an open letter to the industry about this issue over the summer, and I welcome the Working Group on it, recently set up by the Minister. I would encourage the pensions industry to play an active part in that work.

Saving for later life

The last part of our inquiry, likely towards the end of next year, will look at whether households have enough savings for retirement, and barriers to building up the savings that they need.

We will examine the Government's approach to automatic enrolment, three years after the Department for Work and Pensions set out to increase the amount saved through it.

Measures which Ministers hoped to implement by the middle of the decade included lowering the age for automatic enrolment from 22 to 18 and removing the lower earnings limit so that contributions are calculated from the first pound of earnings. Currently only those earning more than £10,000 a year are auto-enrolled, and only for their earnings over £6,240.

We already have a gender pension gap, much wider than the gender pay gap. A greater proportion of low earners are women, and excluding them from auto-enrolment exacerbates the problem. The self-employed, and the growing number of people who make their living in the gig economy, are missed by auto-enrolment.

As we emerge after the pandemic into a new financial landscape for many, I hope the Committee, working with the industry and others, can play its part in protecting savers from scams, and ensuring everyone has the chance to plan for a secure future.

Seeking new sources of **repo liquidity**

By Paul Richmond, Deputy Head of Solution Design, Insight Investment

Many UK pension schemes use gilt repurchase transactions, or repos, at the heart of their investment strategies. Market and regulatory developments have challenged the traditional bank-intermediated repo market, leading pension schemes to seek new ways to access gilt repos. These are leading to clear benefits.

Repos are widely used by pension schemes to increase their flexibility. They can generate additional cash to allow a scheme to target its growth objectives or meet near-term cash payments, while still ensuring liabilities are hedged.

Their use has grown in parallel with the growth in liability hedging by UK pension schemes (see Figure 1), which has coincided with a shift towards using mostly gilts to hedge, rather than a blend of gilts and swaps.

For the most part, repo contracts have been conducted on a bilateral basis with banks as counterparties. However, bank-intermediated gilt repos have faced challenges, meaning alternative sources of repos are coming to the fore to help pension schemes maintain flexibility as they pursue their goals.

How bank-intermediated repos work

In a traditional repo, the pension scheme sells a gilt to a bank and agrees to buy back an equivalent gilt at a fixed price on an agreed date.

As the value of the underlying gilt changes over time, collateral payments are passed between the scheme and the bank daily. On the agreed date, the scheme receives back the gilt and pays the agreed cash value, plus an agreed interest cost (the 'repo rate'). These repos are typically for less than 12 months and need to be replaced as they mature to maintain exposure.

Challenges faced by traditional bank-intermediated repos

Over the last decade, the growth in hedging, as well as regulatory and market developments, have driven material increases in demand.

The introduction of mandatory clearing of certain derivatives, and the trend for investors to sacrifice the ability to post gilts as collateral for bilateral swap contracts, have led to the potential for significant increases in demand for repos leading to a sharp rise in prices.

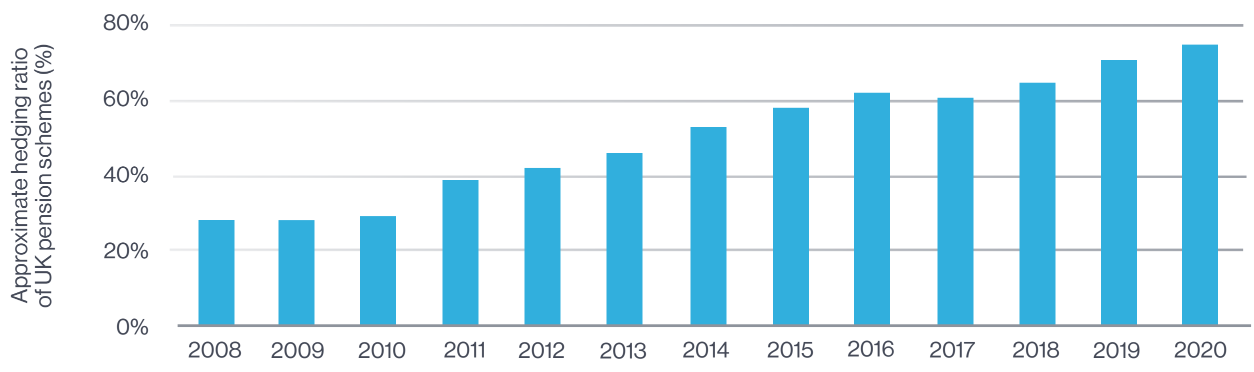

Figure 1: Liability hedging has grown substantially in the UK, leading to an increase in demand for gilts and gilt repos [1]

Market conditions in March 2020 were a stark illustration of this in action. The International Capital Market Association (ICMA) market report on repo market functioning during Covid-19 noted that "while the demand to access the repo market increased during the height of the crisis, banks' capacity to intermediate that access did not. Buy-side participants report an increased reliance on the repo market as fund outflows drove the need to generate cash against holdings, as well as to meet margin calls against derivatives' positions as volatility increased"[2] .

Bank regulations have also had an impact. Banks are required to hold capital against their repo book, making repos more costly for banks. This cost has been passed on to counterparties.

Such developments have led to UK pension schemes seeking access to other sources of gilt repos.

Additional sources of repos

To offer some examples, Insight has developed several alternative sources of repos for our UK pension scheme clients.

- **Matching up the needs of UK pension schemes with those of money market investors:** money market funds use repos to generate a return with high-quality securities as collateral. Building on this concept, Insight launched a strategy that pairs the cash of money-market investors with the repo needs of pension schemes.
- **Cleared repos:** Insight developed market infrastructure with RepoClear and other key partners to allow non-bank entities, including pension schemes, to access RepoClear, a market-leading repo clearing service in Europe.
- **Institutions, clearing houses and corporates:** Insight has identified new types of counterparties, with appropriate credit quality, looking to manage cash balances in a secure and liquid way. Insight has established a panel of high-profile partners who undertake repo transactions with our clients.

In establishing significant new sources of repo liquidity, we have helped to maintain flexibility and generated substantial savings for our clients. We believe this means they are able to meet their objectives in a cost-effective and low-risk way.

We also believe our efforts will support the wider industry, and encourage schemes to consider such alternative approaches, which have the potential to make a meaningful difference to their finances.

Important information - risk disclosures

Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.

Portfolios which enter into repurchase and reverse repurchase agreements may be exposed to losses if the counterparty does not fulfil its obligations to the portfolio.

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[1] Source: Insight Investment analysis, including historical data from KPMG and XPS LDI surveys. As at 30 September 2020.

[2] Page 5 of 'The European repo market and the COVID-19 crisis: An ICMA European Repo and Collateral Council (ERCC) market report', published April 2020.

Integrating ESG risks: looking beyond the headline number

By Ajeet Manjrekar, Co-Head, River and Mercantile Solutions

Covid-19 pushed Environmental, Social and Governance (ESG) risks to the backburner for many trustee boards. However, recent regulatory changes have put ESG firmly back on the agenda. This is a positive step forward for the industry as it raises the bar for all participants. But there's so much more we can do.

Integrating ESG needs to go much further than statements of compliance with policies and mission statements. Ultimately it requires a holistic approach across a scheme's portfolio, prefaced in two key aspects: looking deeper and looking forward.

Looking deeper

Despite the industry clamour, most UK pension schemes are still only at the early stages of their ESG journey. So far, most trustees have focused on setting policies, understanding how their investment managers are taking account of ESG factors and exercising stewardship. Some will be drafting their first implementation statement as you read this article.

Many consultants and fiduciary managers assist trustees by providing an ESG risk assessment for their investment managers alongside the usual buy/hold/sell recommendation.

But a highly rated manager with a poor ESG rating surely presents a governance dilemma for trustees?

The circumstances underpinning the poor ESG rating may directly impact the overall performance and rating of the manager or strategy in the future. And I'm not just talking about performance of the underlying assets here. Weak ESG credentials at the level of the investment manager shouldn't be ignored. Perhaps if the industry had been more ESG aware some twenty years ago fraudsters like Bernie Madoff wouldn't have enjoyed such a good run.

ESG risk assessment shouldn't be a separate assessment or result in an independent 'rating.' For our fiduciary clients we apply an integrated approach combining both qualitative and quantitative assessment at a portfolio level. Using detailed portfolio analytics and ESG metrics we can look deeper than the face value of manager reports.

Viewing the ESG risks for ourselves allows us to effectively interrogate manager decision making. This forms a crucial part of our engagement process with managers both at the outset and during ongoing due diligence. Where inconsistencies between their policies and portfolio positioning are identified, our researchers will engage in challenge. This is the best way to affect positive change and will ultimately influence their behaviour, and our rating. This does not stop at investment due diligence. We ensure ESG risks are considered operationally as well. This represents an area of continued engagement, particularly in firm and fund level governance to ensure best practice.

To deliver better outcomes for schemes, looking deeper is key. Not only at a manager research level, but also at a governance level. They say, 'information is power', but in the case of governance, 'information empowers'. Deeper analysis of portfolio ESG and climate risks can be translated to clear, transparent reporting: boiling up the detail into the metrics which really matter to trustees. As schemes develop their implementation statements, this will provide invaluable disclosure to support their ongoing governance.

Looking forward

As part of our partnership with clients we evaluate the key risks that may blow them off course or present challenges further down the line. ESG risks are very real and should not be ignored. The next phase of the ESG journey for the pensions industry is quantifying climate risk, and the impact of global temperature increases on assets and liabilities.

In some respects, we can liken climate risk to progressive improvements in mortality on pension scheme funding. In effect, it may create a funding hole further down the line which requires action today.

So what is a pension scheme to do? One could purchase the best rated ESG companies today (and potentially pay a good ESG premium), but who is to say these companies won't deteriorate in the future? Alternatively, one could screen out the weakest ESG companies today, but these may actually be on a positive ESG trajectory. Whilst these techniques may paint a favourable picture today, they are backward-looking by design and they rely on available data and subjective interpretations. The resulting portfolio can depend heavily on your screening criteria and data vendor, given the industry still struggles with consistent ESG definitions.

We have conducted significant research into the virtue of 'ESG momentum' as a forward-looking portfolio construction technique. ESG momentum seeks to favour those sectors and companies on a positive ESG trajectory. In doing so, such companies may have a weaker ESG assessment today, but are moving in the right direction, this could unleash positive financial benefit alongside a more favourable ESG score. When implementing this approach for our fiduciary clients we also steer away from those on a negative trajectory whose ESG scores are deteriorating. Rather than looking backward, ESG momentum is forever looking forward, steering away from risk and into opportunity.

Increasing ESG obligations could feel an unwelcome burden for trustees given their already overloaded plate and adjustment to a mid-COVID world. Using a fiduciary manager can significantly ease the reporting and governance strain but also add real value through integrating ESG into everything they do. Adapting to changing requirements requires innovation. In 2019 we used our scale to create a single investment vehicle for all our equity index-tracking exposure in our fiduciary client growth portfolios. In doing so, we can directly implement our ESG views for all clients irrespective of size. To our mind, this aptly shows how fiduciary managers should take a more integrated approach to ESG, driving funding success for clients whilst effecting positive change.

The future of investor engagement

Discover what BMO Global Asset Management believe will shape investor engagement this decade

Investor engagement on Environmental, Social and Governance (ESG) issues has evolved from a niche practice carried out by mission and faith-based investors to a mainstream investor activity. This year, BMO Global Asset Management are celebrating 20 years of engagement, having engaged more than 5,500 companies across 87 countries during this time period.

By Vicki Bakhshi, Director, Responsible Investment, BMO Global Asset Management

While we are proud of our impact so far, we are well aware that there is still much to do if we want a chance of securing a sustainable future for us all. This decade is critical for achieving the United Nations Sustainable Development Goals (SDGs), as well as the Paris Agreement goal of limiting global warming to well below 2°C. Here are some of the key shifts we expect to see in terms of investor engagement as investors strive towards these goals.

Measuring impact

In the coming decade, we believe engagement will increasingly focus on both financial returns and sustainability outcomes. But while we know what financial returns look like, how can we measure sustainability returns?

The SDGs are a key reference point for measuring the impact of engagement. They are 17 goals and 169 associated targets, providing a useful tool for companies and investors to be able to contribute to achieving a more sustainable future by 2030. The framework has created a common language between stakeholders, and we are seeing that have a positive impact within our engagement.

Working together for systemic change

A fundamental shift in perspective that we are already starting to see, and expect to accelerate in the coming decade, is from viewing stewardship as about the relationship between investors and individual companies, to looking more holistically at our responsibilities for shaping the market and economy as a whole – such as climate change, ocean health, biodiversity and public health.

Implementing this practice means a sharper focus on public policy than there was in the past, but also widening our perspective to build relationships with other stakeholders including non-governmental organisations (NGOs) and academic experts. A collaborative approach between investors is key to making this a success, both to muster the resources necessary to make these changes and to present a unified voice which improves the chances of successful influence.

Investors across the world step up

Over the past decade, engagement has been almost exclusively led by developed-market investors, primarily in Europe and the US. Given the increasing introduction of responsible investment regulations, guidelines and practices, we expect to see active ownership become a much stronger feature of the local investor agenda in other markets this decade.

Decade of climate action

This decade is vital to achieving the Paris Agreement goal of limiting global warming to well below 2°C, and engagement here is evolving. Collaboration is taking place on an unprecedented scale through the Climate Action 100+ initiative, while investors are increasingly expressing their dissatisfaction with companies failing to address climate issues by voting against management resolutions.

The 'S' factor

The 'S' – social – of ESG has been historically difficult to define and quantify. But the COVID-19 pandemic has profoundly impacted society and shaken our assumptions about the way we live. It has also painfully exposed social and economic inequalities.

Against this backdrop, social issues are now among the most pressing issues for companies globally. It has also become clear that all elements of ESG are fundamentally linked and of equal importance.

This decade, we expect investors and data providers to overcome the challenges that have prevented the analysis and integration of social factors to step up their engagement, while carefully balancing interconnections with environmental and governance issues.

To conclude

The debate on ESG has moved beyond risk and opportunity. The more fundamental question now being asked is what is the role of the financial sector in creating a fairer and more sustainable society?

As stewards of our clients' capital, we strive to build portfolios that not only mitigate risks and generate good financial performance, but also ultimately create positive impacts on society and the world around us.

“Great things never came from comfort zones”

By Susan Phillips,
Head of Projects and Change, Go Pensions

The devil you know

Fear of moving pensions administration to another third party administrator (TPA) is enough to put anyone off carrying out a market review in the first place. This can happen even when there is evidence of poor service from an incumbent administrator. It often takes time to get used to the idea of change and the forthcoming disruption.

This article aims to provide some insight and tips on how to alleviate the pain of moving administrator (or first time outsource). It is not possible to cover all aspects in this article which is deliberately focused on project oversight, data and calculations.

Dedication and subject matter expertise

A good quality implementation is vital because the incoming administrator's service relies on the foundations being in place to deliver a great service to members.

Both the ceding and new administrator will allocate dedicated project managers and specialist resources to manage the transfer of the trustee's data as well as setting up processes and systems. They are ideally placed to focus on their respective roles on the project.

However, they will not have authority over each other. Vested interests can lead to lack of robustness in the implementation.

The first thing to recognise for most sponsors is that overseeing this kind of project in-house is not a small task that can be squeezed into the pension manager's or trustee secretary's day job. A dedicated representative of the trustee / sponsor is best placed to oversee and manage on their behalf. This resource can manage the day-to-day project work and provide managers, trustees and stakeholders with a single point of contact for day-to-day matters and reporting. This is not abdicating the project. It is good delegation to have a dedicated person being the trustee's eyes, ears and spare pair of hands.

Stakeholders and steering group framework

Many parties will be interested in the success of the project. A dedicated project manager can liaise with stakeholders, draft the terms of reference, set up the steering group and organise all the steering meetings. The first meeting can be used to initiate the project, review the project brief and obtain buy-in for the business and project objectives.

Who does all the work?

The project working group forms the core of the delivery resource and is made up of individuals with the skills and knowledge to plan and deliver all the work streams. Collectively, they come together to achieve the project goals.

An initiation workshop is a great opportunity for the new group to gather for the first time. The group will discuss both business and project objectives and agree how best to deliver them.

Focus on resolving the knotty stuff every day

Every project needs an owner and subject matter expert with a keen eye to get to the bottom of issues and resolve them. Different things come up on different projects. A dedicated person overseeing and driving the project can pick up any anomalies and investigate them in a timely manner. This allows the rest of the working group to continue work on their own deliverables.

What does success look like?

For a project of this importance, there should be a quality plan which sets out the key success criteria and evidence required for sign off. The trustee's oversight project manager should be equipped to draft the quality plan. Everyone involved will need to provide feedback and sign off that it is achievable and represents all stakeholders' quality expectations. The success criteria in the quality plan should be SMART (specific, measurable, achievable, realistic and time bound) so that it is possible to know when success has been achieved.

Outputs are evidenced by the working group, reviewed by the oversight project manager and reported (with any exceptions) to the steering board.

Data mapping

The new TPA will have a standard process for mapping the data from the ceding administrator's system to their own. They will require an initial data cut and a dictionary to commence their analysis and produce a data map. Even if they have previously imported data from the same TPA or system, it is likely that there will be some fields that have been customised for your pension scheme. The data map is a key item of evidence included in the quality plan for review and sign off.

Mapping the data is critical to making sure the right fields are imported to the incoming administrator's system. There should be a fully documented trail with a reasonable explanation as to why any unmapped fields are not required. It may be necessary to determine where any unmapped fields are stored. Always, of course, considering privacy and data retention policies.

Data mapping may throw up questions for the ceding administrator to answer. If sufficient volume, a data workshop may be the best approach to discuss and resolve detailed queries. Issues with data can also impact upon calculation automation.

Data and calculations go hand-in-hand

The incoming TPA may require certain fields for their calculation and automated processes. If anything is missing, analysis will determine the feasibility of bulk population as part of the project or whether a data project is required. Automation is key to member self-service being ready for 'go live'. However, it may not be possible to populate the items required within the timeframe. These are conundrums that the working group will raise and discuss as early as possible. The oversight project manager will gather all the information and will put a recommendation to the steering group for approval if an issue affects the timeframe, quality, scope or budget.

Document the test methodology

The migration project presents a unique opportunity to validate the calculation basis for all the benefit categories. Documenting the test methodology for defined benefit calculations at the outset will help to avoid a mismatch in expectations later.

Calculations are usually specified by the incoming administrator using the benefit entitlements set out in the trust documentation. This methodology is often referred to as 'first principles'. These specifications are reviewed as part of the quality plan before being passed to the programmer. Once the programmer has set up the calculations, the outputs can be tested. Comparing the results to actual calculations already on file will identify whether there are any differences between the trust documentation and the calculations previously carried out. This approach deliberately uncovers any issues while the project governance structure is in place.

Discrepancies are documented with the options and a recommendation for the steering group to approve. A fixing phase may be required after the project Go Live before the project team disbands.

Timely review checkpoints

A Go Live readiness check should be completed by the oversight project manager with the working group in plenty of time. This will identify whether any adjustments are needed before members engage with the new TPA.

Nothing worth having comes easy

Having a dedicated resource to act as oversight project manager is well worth considering. This person can focus on leading the working group and managing the day-to-day knotty bits ensuring that nothing is missed. It is not going to be easy to change TPA, but it will absolutely be worthwhile.

Looking for the silver lining

By Paul McGlone, Partner, Aon

A question that we see regularly in the pensions press is what pensions policy or legislation the industry would like to see over the coming 12 months? The answers are always varied – we all have our own shopping lists – but there are always more 'wants' than parliament or regulators have the time or inclination to deliver on.

Reflecting on the current environment, the next few years are likely to be even more challenging. The clear message from politicians, civil servants and regulators is that, more than ever, there is a pecking order in what gets attention. And pensions is not at the top.

- Priority 1 is clearly Covid-19. With implications the likes of which the world has never seen outside of world wars, it is the defining challenge for a generation.
- Priority 2 is Brexit. It was the highest priority for the country before the pandemic, and we were already seeing other issues taking a back seat.
- Priority 3 has to be critical legislation. A Finance Act to implement a Budget is an obvious example, perhaps legislation covering health, policing or defence.
- Where does pensions fit into this? At Priority 4 or below.

If the industry's requests need to be moderated even more than normal, what should we be calling for and why? In my view, it's things which make a material difference to member outcomes, which don't need an enormous effort, which have broad support (in industry and parliament) and which play well to the public. So, what might they be? My list includes four items:

- Final regime for defined benefit (DB) consolidators. Consolidation could be a game-changer, but only if the arrangements are right. Time is running out for many schemes and members
- Collective defined contribution (CDC) for Master Trusts. The Pension Scheme Bill opens the door, but regulations are needed to make this come alive. As an alternative to defined contribution (DC), it could be of huge benefit to savers
- Auto-enrolment (AE) review. AE has been an unequivocal success, but 8% is not enough and the practicalities are a nightmare. An upward nudge and simplification is what is needed next
- Dashboard-enabling regulations. The dashboard is important and, if carrots don't work, need to be used.

Of course, I have a longer list and each of you will have your own favourites. But if we all ask for different things the risk is that we get none. Whatever the final shortlist, beyond that I suspect we will be faced with a 'make do and mend' approach, where the industry lives within its means and existing legislation.

Of course, that also comes with a positive. If there's one thing the pensions industry loves to complain about it's dealing with very long-term savings within a legislative environment that is constantly shifting. If we get that stability, at least for a few years, then perhaps that's a silver lining.

Another step towards improving DC member outcomes

By Sarah Clay, Associate, Sackers

With small pots and small schemes hot topics once again, the Department of Work and Pensions (DWP) has published a response to its February 2019 consultation on 'Investment Innovation and Future Consolidation'.

In it, the Government proposes changes intended to accelerate the pace of defined contribution (DC) consolidation. It also sets out a new consultation aimed at improving governance, promoting investment diversification and signalling its commitment to transparent disclosure to members.

Moving towards consolidation

We are beginning to see a move towards consolidation of the DC market, with the Government noting a 12% fall in DC scheme numbers in the past year. However, the trend amongst smaller schemes is slower.

In its consultation response, the Government stated that it believes DC consolidation is "the most effective way to ensure that all savers are receiving the best value from well governed schemes that can achieve economies of scale". It sees consolidation as offering greater opportunities to access a diverse range of investment products and investment strategies to the benefit of both pension savers and the UK economy.

The Government acknowledges that "many trustees of smaller schemes work diligently to protect the interests of scheme members" but that smaller schemes can "struggle to achieve the economies of scale or to access the services and investment strategies offered" to larger ones. It is these 'smaller schemes' that are the focus of the Government's proposals.

New annual value assessment

Subject to certain exceptions, trustees of DC or hybrid schemes with less than £100 million in DC assets will be required to undertake a new 'more holistic' annual value assessment and report on it in their chair's statement and scheme return.

When assessing their scheme, the proposed factors trustees will need to consider are:

- costs and charges (assessed in comparison to other large schemes)
- net investment returns
- measures of administration and governance.

Where schemes cannot demonstrate value for members, the Government will expect them to wind-up and consolidate into a larger, better value scheme. Only in exceptional circumstances - where trustees are realistically confident that improvements can be made rapidly and cost-effectively, where it may be more expensive to wind-up or where valuable guarantees would be lost on consolidation - could a scheme seek to improve first.

Other changes to note

The response sets out further proposed changes that trustees should keep an eye on. Amongst other things, these include requirements for 'Relevant Schemes' to publish in their chair's statements net returns for their default and self-select funds and the level of charges and transaction costs for all funds in which members are invested, including those no longer offered.

Looking ahead

The new consultation closes at the end of October and the DWP intends the requirements to come into force on 5 October 2021.

Trustees should take note that if, once in force, the changes do not drive consolidation at a 'sufficient pace', the Government intends to legislate to mandate it where necessary.

Procrastination – not the endgame's friend

By Steve Ellul, Associate and Senior Pension Management Consultant, Barnett Waddingham

If I was setting a pensions-related quiz for this publication, I would expect a number of you to identify the 1670s as the decade in which pensions originated. Within a generation (1732 to be precise), a saying that has recently been thrust back into the national consciousness was reportedly used for the first time.

As industry professionals, we are being asked to assist trustees in a number of areas where prior assessment of data is crucial to determine the extent of the job ahead and identify areas of focus to drive its delivery; a prime example is endgame preparation. It is a significant piece of work that requires plenty of prior dialogue and planning.

Enable clients and insurers to see the bigger picture

Whilst the Pensions Regulator (TPR) data measurement scores provide an indicator as to the robustness of data for its needs on a 'business as usual' basis, this will only provide partial guidance for an insurer seeking significant comfort that your trustees' data is transaction-ready.

Therefore, a proactive approach in engaging with clients (trustees and sponsors) is required when considering data analysis for endgame purposes:

- **Discuss with your clients:** the areas of data that insurers would seek their opinion and could potentially require review and cleansing. Any proposal should concentrate on such data items (contingent spouse's information, for example)
- **Act decisively:** assess data at the earliest opportunity and conduct a series of robust tests on data items needed to achieve your client's endgame goals
- **Provide clients with a comprehensive report and identify the areas to focus remedial work:** create a data cleanse plan and identify how you may resolve those data anomalies; honing in on those data fields critical from an insurer perspective should allow you to build up an order of priority for cleansing work
- **Catalogue known issues in the data:** use the knowledge of experienced administrators, advisers and trustees to set out the limitations of such data. Risk areas to flag could include changes of administrator and/or administration system and implementation of historic changes in benefits
- **Be flexible:** could such reports encompass other future work streams such as a guaranteed minimum pension (GMP) equalisation data analysis?

This is a relatively low-cost exercise that will assist in the planning process and the benefits should more than pay for itself in allowing clients to focus on what areas of data need cleansing. Such reporting will also help in the planning and implementation of any interim exercises such as member options.

An environment of partnership and co-operation is essential. Clients have differing timelines and levels of financial resource so listen to them and expect to be challenged on any of your proposals. That said, such reporting should always enable clients to understand what is required and put them in a position to take advantage of opportunities in the marketplace.

After all, as we have recently been told, a stitch in time saves nine.

The great risk transfer

By Catherine Burtle, Policy Manager, Institute and Faculty of Actuaries

How risky does your life feel? In the middle of a pandemic, probably more risky than usual. We're living through a time where even society's adrenaline junkies, those most comfortable with taking risks, are probably spending a little time every day weighing up the risk of popping out for a loaf of bread, catching the bus, or hugging their parents.

Skydivers may fully understand the risks they face when they jump head first out of a plane. But it may surprise them to learn that, on top of all the risks associated with their white-knuckle pastime, and those associated with life in a global pandemic, they're also carrying around a mounting weight of financial risk, perhaps without even noticing it…

Often considered to be at the opposite end of the risk tolerance spectrum are actuaries. So it may not surprise you to learn that the actuarial profession is currently completing a deep dive (wearing all the requisite safety equipment) into financial risk, in particular how a range of these risks have been transferred in recent decades from institutions to individuals.

The Institute and Faculty of Actuaries' (IFoA) Great Risk Transfer project is looking at how megatrends, economics, cultural changes and public and regulatory policy have affected this transfer of risk in pensions, health, insurance and employment.

Anyone working in the world of pensions will no doubt see how the Great Risk Transfer fits with their experience of the industry and the changes it has undergone in recent decades.

Our interim report on the Great Risk Transfer identified three key areas of risk transfer that have occurred as the move from defined benefit (DB) to defined contribution (DC) provision has accelerated, and the Freedom and Choice reforms have been implemented:

- Savings adequacy – the risk that people do not save enough to adequately fund their retirement
- Investment risk – whilst building up their pension pots, and after entering drawdown
- Longevity risk – the concern (albeit not yet fully tested) that people will run out of money before they die.

Compared to, say, the 1990s, our modern day skydiver is now responsible for building her own pension pot, investing it appropriately, and making what she has at the end of her working life last until she dies (hopefully not in a tragic parachute-related accident).

This change, particularly when coupled with risks transferred in a range of other areas, could amount to a profound change in the way that she and other individuals organise their life and finances.

As an industry, and as a profession, we have a good understanding of what this problem looks like. The next phase of the Great Risk Transfer campaign will be to explore the regulatory and public policy interventions that could help to reverse this trend, or at least help equip people to better deal with the new risks they face. Auto enrolment, collective defined contribution (CDC) and pensions dashboards will all, no doubt, feature heavily in this next phase, as the IFoA explores how to equip people for a safe landing in retirement.

Aptitude Accredited
Professional Trustee column

De-risking from a trustee perspective: can there ever be too much?

By Phil Howden, FPMI, PTPMI, Pensions Rapport Ltd

"Stay at home. Protect the NHS. Save lives." A familiar refrain from not so long ago. You may, quite reasonably, wonder what this has to do with pension scheme de-risking. But 'lockdown' was clearly a form of de-risking. Similarly, trustee boards have been exhorted to 'De-risk. Protect the PPF. Save pensions.'

How quickly things change and, in pandemic terms, the longer term impact on the economy, on education, on early intervention screening and cancer treatments by the NHS, to name but a few, soon rose to the fore. A real short term/long term dichotomy, with life and death implications, requiring fine judgement and balance. So, is there a similar parallel to be drawn with pension scheme de-risking for those schemes with a long time horizon?

This thought piece, constrained as it is, considers two common examples in brief: pensioner buy-ins and a flight to bonds. In my analogy the former equates to full lock down (notionally for pensioners), providing, in theory, peace of mind for a proportion of the liabilities, but diluting the growth asset base in the process. This means the remaining assets have to work harder and generally for longer which increases the covenant risk. It can be perceived as mitigating the short-term funding risk but could damage the long-term outcome for the pension scheme in some cases. Say goodbye to herd immunity, in pandemic speak.

A flight to bonds might equate to partial lockdown of varying hues, depending on the bonds used - and there are many hues of both lockdown and bonds - but the principle of risk mitigation holds true. Leveraged liability-driven investment (LDI), in particular, may currently seem like the Holy Grail - and certainly no trustee adopting it in the last 10 years will have regretted doing so - but its pedestal position has undoubtedly been enhanced by events. I can hear the railing now: "it's because of the uncertainty and unrewarded risks that leveraged LDI was put in place!" Quite so, but had that acknowledged uncertainty turned out differently, and whilst still fulfilling its objective, LDI's status would not be so exalted. Even before the recent turbulence in investment markets there were some voices calling for a re-risking of scheme assets for those schemes with a long time horizon.

Just like with pandemics, short-term intervention may be crucial, and long-term outcomes may be uncertain and the true costs unknown. As with covid, we need to consider and balance both. Ignore any short-term protection and we risk cataclysmic failures; de-risk too assiduously without understanding the consequences and we may simply defer failure for another generation.

De-risking is an invaluable tool in the armoury and, like shades of lockdown, needs wielding with consideration and judgement on a case-by-case basis. The bad news? I see no vaccine on the horizon that protects vulnerable pension schemes.

Achieving accreditation is a statement of my intent; to the Trustee boards on which I sit, to scheme members, to sponsoring employers, to my fellow professionals in the pension community, to TPR and PPF. To myself. A strong advocate of good governance and lifelong learning, I see accreditation not as a finish line, but a welcome milepost on a campaign with livelihoods at stake.

How can trustees make an informed decision when looking to de-risk

By Mark Stocker, Accredited Professional Trustee, Pensions Actuary Services Limited

De-risking a pension scheme is a multi-faceted and complex task. The list of factors to consider includes:

- The wide range of techniques and solutions to de-risk
- The maturity of scheme including cash-flow requirements
- Size of scheme and access to investment options
- Quality of the membership data
- Current funding position
- Level of deficit reduction contributions
- Level of engagement from the sponsor
- The knowledge and understanding of the trustees.

In particular, the techniques and solutions include buy-ins, partial buy-ins, top-slicing, medical underwritten solutions, longevity hedging, liability management exercises and pension consolidators, to name a few.

How can trustees make informed decisions when de-risking their pension scheme?

1. **Work in collaboration** with your advisers to develop a journey plan – it is often worth considering getting specialist help from those who are adept in this area and they can often work alongside your current advisers.

2. Alongside the journey plan it is just as important to develop a **training plan** for the trustees which encompasses the key elements of a de-risking journey plan. Before embarking on such an important exercise it is critical that the trustees have a good knowledge and understanding of the consequences of their decisions for the members and the sponsor.

3. Consider working with the sponsor to appoint an **accredited professional trustee**. In particular look to appoint someone who not only understands the issues but is able to explain them to the other trustees (as and when needed), and to the sponsor.

4. Seek **engagement with all key stakeholders**, not only with the sponsor but also with the insurers, asset managers and consolidators (to the extent that they play a role in your plan) . There are often competing demands on their time and if you are able to share a well-thought out plan you will maximise engagement and be more likely to achieve your objectives.

5. Ensure the journey plan for de-risking is **flexible** to cope with unexpected shocks to the plan. As we have seen with Covid-19 many things are unpredictable so do not be afraid to revisit the plan as things change.

6. Do not focus just on investment risk but keep in mind the bigger picture where, for many schemes, the biggest risk is **employer covenant** deteriorating. It is important to understand the employer's business risks and what correlations there might be between these and the scheme's own risks.

7. Finally, the need to move quickly at times means that you should not be constrained by a quarterly meeting schedule. Be prepared to convene meetings as and when necessary but ensure that the **governance** around these meetings is rigorous.

What does it mean to be an accredited professional trustee?

For me the key attributes that a professional trustee can bring to a trustee board are two-fold:

Firstly, they should seek to improve the overall quality of decision making by helping the trustee board, as a whole, understand the issues they are facing and the consequences of their decisions, and

Secondly, they can maximise the engagement with the sponsor in order to help them understand why the trustees are taking certain actions.

Pensions Management Institute

MTWG Innovation

Service Innovation in DC Master Trusts

The PMI's DC Master Trust Group was established to help overcome barriers to offering a good service to members. As part of bringing the group together, the decision was made to include not just Master Trust providers but representatives to the supply chain. The delivery of good services requires many different components to work together in harmony. Without bringing together the component parts, we would not be able to work towards overcoming the barriers.

Delivery of good service is at the core of Master Trust Authorisation (MAT) and we can see how it has thus far sorted the wheat from the chaff, as some providers exited the market and others have gone from strength to strength. MAT sets the baseline for delivery of core services such as transaction processing and, in theory, every provider should currently be operating above a regulatory baseline. As we are not expecting much change to MAT any time soon, what else do we think will drive improvements and change to service delivery?

Savers will drive change for improvements. We are nearing the generation of defined contribution (DC) only savers coming toward retirement. What they need will be different from those with the safety net of defined benefit (DB) pensions. Services will move from administration only to incorporate education, financial wellbeing and holistic planning tools. Currently, elements of these are provided but not in totality. Administrators will not be the only ones delivering services to savers in Master Trusts.

The relationship between regulatory pressure and service improvement isn't always straightforward. We believe that we will see further pressure being directed at Master Trusts. What is good is usually defined by Trustees and Investment Governance Committees (IGCs). The direction of travel looks to be a more prescriptive definition of what good looks like and Master Trusts will have to evidence compliance with this. There are often unintended consequences of these initiatives, but we do expect it will create

greater competition between Master Trusts as they sell their ability to deliver more features and being better than just 'good'.

Take the STAR initiative, using technology and a legal framework to reduce transfer times, the process had been available for some time with transfers between insurance companies but it took regulator pressure for it to get real traction in the Trust world, and now everyone wants to join the transfer club. Another example is the Financial Conduct Authority's (FCA) introduction of Investment Pathways. This was a limited intervention to address the harm in the non-advised drawdown market, however, not many clients expect Master Trusts to offer them.

Future service will be defined by market pressures. At present there is intense pressure on price, with 30 basis points being expected for large clients with high value savers. At the other end of the market 50 basis points is competitive for micro-employers and low paid savers. Should the downward trend on fees continue, it could affect the delivery of services and what is delivered. There will be a divergence of the market with some providing a proposition with many added value services whilst others offer the bare minimum focusing mainly on the accumulation of funds. There will be some who are able to serve the middle ground.

We cannot ignore the effects the pandemic will have on service delivery models. Working from home (WFH) became the norm for eight months and many expect it to continue into 2021. How this will affect the long-term service delivery model, is not yet clear. Technology has proven WFH can deliver what is needed to keep things ticking over, contributions collected, invested and benefits paid out. Whilst many working in the sector have expressed a desire to continue WFH, we must not forget some are struggling. Going forward there will be more flexibility, enabling a mixture of WFH and office time. Research by Harvard University[1] has shown productivity in financial services has not dropped because of WFH and, in fact, workers are delivering an extra 47 minutes of work as day.

Individually these different pressures would influence service in terms of delivery models and what is provided by Master Trusts. However, bringing them together we will see an expansion of service away from purely maintaining member records and investments. Services will not be the same as markets segment and what is affordable becomes key. Regulation has set bare minimum standards, but competition pressures will see continued innovation in service delivery.

[1]www.hks.harvard.edu/centres/mrcbg/programs/growthpolicy/collaboration-during-coronavirus-impact-covid-19-nature-work

Balancing support for employers with protecting savers

By Mel Charles, Director of Automatic Enrolment, The Pensions Regulator

We have all been affected as individuals, and as organisations, by the pandemic and many of us have been called on to make unexpected decisions.

For the Pensions Regulator (TPR), this has been no different. Our focus remains on protecting savers by ensuring pension schemes are well run. However, we do not operate in a bubble and to be an effective regulator it is necessary to take action and make balanced decisions in light of changing environments.

While the events of the last seven months are unprecedented, TPR's clear, quick and tough approach is proving vital in helping us to respond to the challenges as they have unfolded.

In the early days of the lockdown in March, we took swift and decisive action to support employers and pension schemes through the crisis. In line with the government's response, we recognised the enormous pressure employers found themselves under. The best way to protect savers in that sudden and wholly extraordinary period was to support their employers.

We recognised both employers and pension schemes needed the space to focus on their immediate risks and priorities.

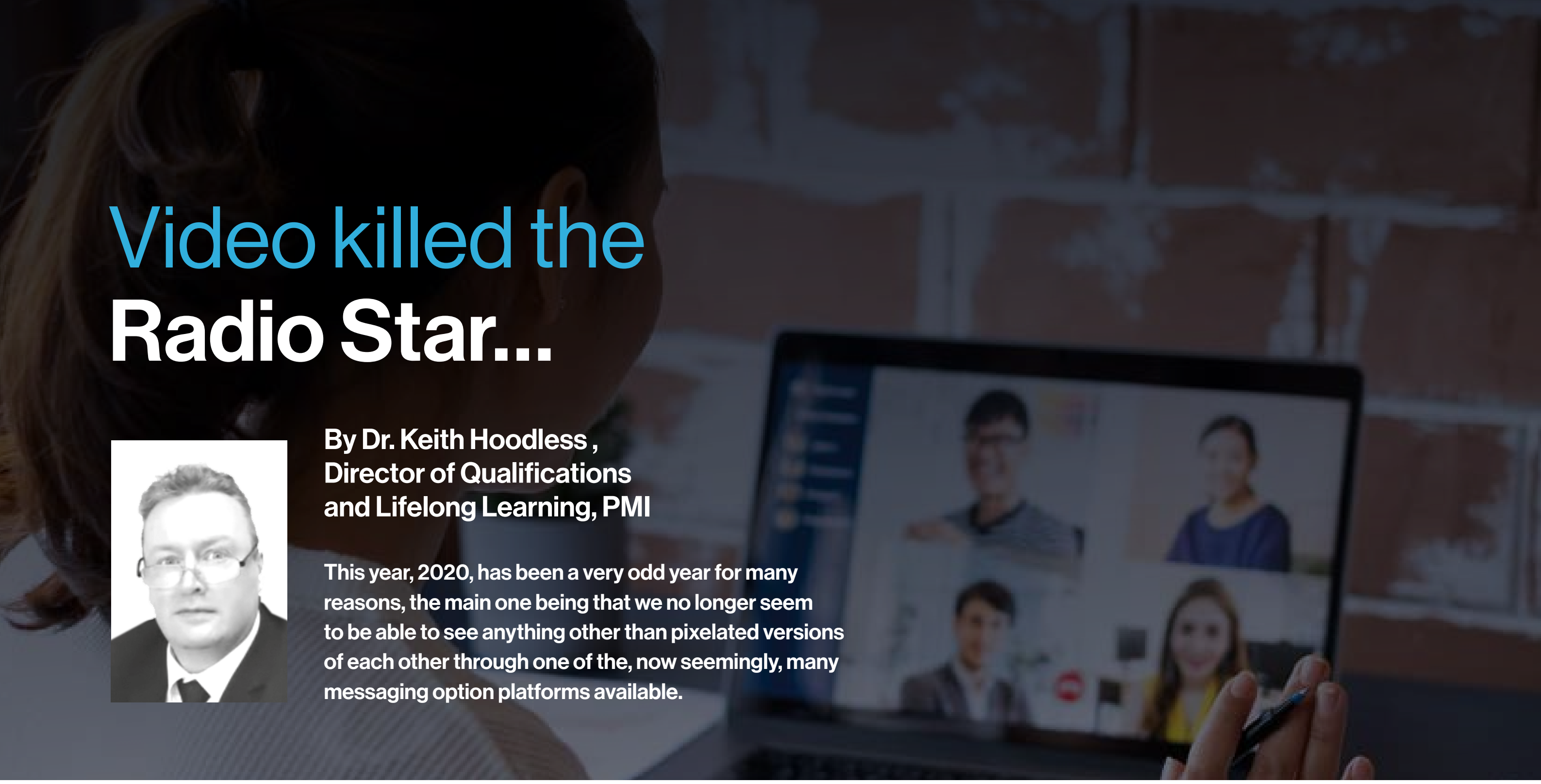
In respect of employers, we did not want to make an extremely challenging and unforeseen situation worse for them. The decision to introduce measures to support employers balanced the need to recognise pressures on employers (and, therefore, not increase the risk of job losses) with the need to ensure employers meet their pension duties so staff receive the contributions they are due.

The successful roll out of automatic enrolment has changed the savings culture and our research shows most employers want to do the right thing for their staff. Automatic enrolment is the norm for employers and it is only necessary to use our powers in a minority of cases. We have seen those themes and behaviours have largely endured over recent months. Employers are continuing to meet their automatic enrolment and re-enrolment responsibilities on time. Compliance levels for new and existing employers remain steady with the vast majority of employers successfully assessing staff and putting those who opted out back into a pension.

Where we do encounter non-compliance, our experience tells us that where a warning notice is issued, this is enough to bring the majority of employers back on track. So, while we took a risk-based approach to issuing some financial penalties, we have continued to issue compliance notices warning employers to take action to rectify breaches.

That said, we have remained clear throughout the pandemic that employers continue to have workplace pensions duties. While we will make pragmatic enforcement decisions in light of the pressure they are under, we have continued to vigorously pursue the small number of employers who commit serious or prolonged breaches.

Consistent with the government's plans and support for businesses, we are returning to normal enforcement approaches so that savers continue to be protected and that employers fulfil their automatic enrolment duties on time and in full, including paying workplace pensions contributions for their staff.



Video killed the Radio Star...

By Dr. Keith Hoodless , Director of Qualifications and Lifelong Learning, PMI

This year, 2020, has been a very odd year for many reasons, the main one being that we no longer seem to be able to see anything other than pixelated versions of each other through one of the, now seemingly, many messaging option platforms available.

It has had its positives though, and for us within the PMI qualifications team it has allowed us to advance the ideas we set in place in autumn last year.

We are currently re-evaluating our qualification portfolio, reworking materials and streamlining existing qualifications to provide you with a more focused offering.

This follows a number of activities aimed at ensuring our qualifications contain up-to-date content that meets the demands of employers and enables learners to progress. As a result, we're proposing to reduce and rework the number of qualifications available to learners over the coming months.

The qualifications we're planning to review fall into three groups:

1. Qualifications where a replacement is already available

2. Qualifications where a replacement is currently in development

3. Qualifications where we do not intend to develop a replacement.

It also allows us to redevelop existing qualifications that look a little 'tired'.

The first major redevelopment outcome is on the Retirement Provision Certificate.

We started working on the new materials in January, not expecting to be where we are now, but now that these are completed, we have a modern, entry-level qualification that has been designed to meet the needs of a wide range of people and not just pension professionals. They are suitable not just for those who are starting out on a career in pensions but those whose work involves one particular aspect of retirement provision, such as investment, legal or accounting; those whose job requires an overview of the principles underpinning retirement provision. The Retirement Provision Certificate (RPC) is examined in six areas via an 80-question multiple choice exam.

The areas are:

1. **The pensions industry (overall)**
2. **The role of Government**
3. **Workplace pension schemes**
4. **Trusteeship**
5. **Individual pension provision**
6. **Investment**

It is an excellent way for anyone to get an overview of the pensions sector, and to introduce them to a career in the pensions industry.

If you require any further information then please visit the website https://www.pensions-pmi.org.uk/learning/retirement-provision-certificate or contact the RPC Coordinator, James Cumine at JCumine@pensions-pmi.org.uk

To help you understand how our plans may affect you and your learners, please contact the Director of Lifelong Learning, Dr Keith Hoodless at KHoodless@pensions-pmi.org.uk

A major development for us this year was the digitalisation of our exams and moving into online provision. This has had its hiccups in that individual internet providers do not all want to seemingly play the same game at the same time, and our understanding of how to ensure the security and integrity of the exam itself.

In over 95% of the cases this went very well . The comments below suggest the same:

"The exam portal was easy to use. Having access to the test site put everyone at ease but some more notice and a longer window to look at it would be appreciated."

"The box to enter the answers and workings out were easy to use. The functions to make text bold and include tables as part of the answer made it easy to show workings-out clearly. "

"The extra time provided was needed by the majority of our candidates due to having to type out the answers and calculations and this would probably be the case for the next sitting also. "

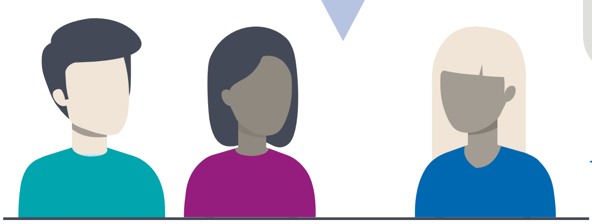
"Thank you for organising the CPC online exams; overall it seemed to go well - our candidates as a whole were really happy. Also a big thanks for being on hand when things weren't working; it was greatly appreciated by us and the candidates."

"Thanks. I think this is a great accommodation to make a bad situation (Covid-19) better and I can be productive during the time away. "

"This is a quick message to thank you for the help you have given me during the past few months leading up to the exams. I realise that I have sent many emails, sometimes asking for obvious things, and you always took the time to respond and not just refer me to a page. The process was probably as stressful on your side as it was for me. So, thank you for your support."

"The online system was very easy to use."

"The setup process for our learners was comprehensive and the nstructions given enabled them to start the assessment with no roblem and to complete it within the given time frame. Thank you. (You and the Team made everything seem quite straightforward). Well done!"



"Just to say the technology worked well for the exam and to thank you and the team for making it all work online."

When using a new service and getting exams rolled out there are inevitably some teething problems at the start, as there are with all things, so to hear that the setup process, on the whole, received a positive reception is great feedback; to hear the learners enjoyed their experience is even better feedback. The setup was the most important part for us in the Qualifications Team and demanded the most attention to the learner's needs and queries. We were always on high alert to make sure any potential issues were dealt with, so I have to also thank the team massively for all the help they provided to learners and centres, and the resilience and dedication they provided to make this the success it was.

Finally, a quick word on exams for next year. We have finalised the dates so that you can make the necessary plans for you individually, or for your learners, and these are:

- **CPC exams**
  – Tuesday 9 March 2021
  – Friday 12 March 2021

- **MCQ exams (APT and RPC only)**
  – Wednesday 24 March 2021

- **ADRP exams**
  – Monday 12 April 2021 - Tuesday 13 April 2021

CPT Part 2 (soft skills) will still be offered 'on demand' basis, and this is likely to be once every two months, with the option of 4 sittings on the day.

If you have any questions in regards of these times, or bookings, then please contact the manager of the Qualifications Team, Vanessa Jackson, at vjackson@pensions-pmi.org.uk She will be able to assist with any issues.

Thirty years within the Pensions Management Institute

By Martin Tilley, Pension Director, Hurley Partners

I suspect many of you reading this, like me, fell into the pension's profession by accident.

I've never come across anyone whose career goal while at school was to be a Pensions Consultant. If I think back to 1982, having left school because I hated the 'examination process', the job at Sun Alliance in their executive pensions department was meant to be a temporary arrangement for a year while I decided what I wanted to do with my life. As it turns out, that one year turned into 38 years! While I still don't know what I'm intending to do with my life, a career in pensions has served me well to date.

This came about because of three influential things.

The first was my father who, using a lot of old sayings to demonstrate his guidance, told me that 'if a job's worth doing, it's worth doing well'. Having demonstrated this to my employer, the second influential factor was the willingness of an employer to invest in their employees. This has become a key factor in assessing potential employers and, generally, it is now a well-understood requirement but was less so back in the early 1980s. I was soon enrolled onto a part-time BTEC course in Business and Finance, the prequel to my professional exams.

I passed the course and having flirted briefly with the Chartered Insurance Institute, it was following a change of employment to a consultancy firm that the third influential event occurred. This was to be the introduction to my mentor who, being an associate of the Pensions Management Institute (PMI) and examiner at the time, told me that if I was serious about converting my clerical occupation into a profession, the Pensions Management Institute was the route for me. I recall him saying that to progress in pensions you must first understand the building blocks. Thus my first two subjects were Scheme Constitution and Design, and Law and Taxation. The syllabus and structure of the PMI qualifications has changed significant over the last 30 years and I would thoroughly recommend a visit to the learning page on the PMI website for anyone starting out in the examination process to assess and determine the best learning route for them.

The Institute was enormously helpful in the four-year period during which I studied for my Associateship, with many members offering support and guidance. Following my qualification, over the next 26 years, the support has continued through both the Institute and several regional groups.

It is only fair that having benefited from the knowledge of others that those qualified should repay the debt and I hope that I have done that, having held several training and educational roles as well as writing for both trade journals and national titles. I have also campaigned to preserve the good name of pensions through the recent dark days, where scams and mis-selling have taken the headlines on what has been, and always will be, a key element of every individual's financial portfolio.

Ironically, my youthful exam phobia led me on to a path which through both qualifications and on-going learning, have delivered a long and rewarding pensions profession, an enjoyable career, a good living, excellent colleagues and many friends.

I work in pensions...still!

By Andrew Pearson, Managing Director, KBPR

My passionate love of maths and problem-solving is why I work in pensions. And my desire to be different and tireless pursuit of my passion is why I work in PR. I'm an extrovert in an introvert's skin, after all!

Life insurance

At both school and university, I was told anyone who loves maths should be an accountant, so wanting to be different, I trained to be an actuary instead; at 21 I wasn't confident enough to look people in the eye anyway!

In 1990, when Sinéad O'Connor's Nothing Compares to You dominated the radio, I joined General Portfolio as a trainee actuary in the Harlow office in Essex. I enthusiastically worked on anything that was thrown at me and developed a huge interest in computers. During the three years I was there most of my time was spent creating a program to project policyholder's fund values to maturity. When it was launched I was incredibly proud to have developed something that would help policyholders better understand their savings.

After a change of job and a few years diligently pricing life policies and valuing the annuity book, I got itchy feet and craved something different.

Pensions

My plunge into the world of pensions started with Tim Evans, of Jardine Reeves Brown, who at my interview said that despite my lack of pensions knowledge, he could see potential. I will be forever grateful for the trust he placed in me. And for his guidance and wise words of encouragement, which helped me grow as both a person and pension consultant. He also taught me what it meant to celebrate success, but that's not for this article!

Fifteen years into my career, I discovered my true passion at KPMG – carefully and patiently helping people understand the complexities of pensions and, hopefully helping them to make the right choices. Helping employers to engage with their employees to help them better understand their benefits .

At this stage in my career, I had qualified as an actuary but as employee communications are not part of the actuarial syllabus, I took myself off to learn again. After that I dived in, taking on successively larger, more complex, projects. The larger the better as far as I was concerned.

Pause

In 2014 my life changed forever when my wife died. I was devastated, and the next two years were, without doubt, the hardest of my life. During this time I learnt a lot about me, about what's truly important in my life and perhaps most importantly how to be a 'proper dad' to my two children. I also gained the confidence to push even further beyond my lovely cosy comfort zone.

Today

After a fantastic year, jumping in to teach GCSE maths to a group of year 11 students I now find myself, a little unexpectedly, back in the world of pensions. At the ripe old age of 52, I have 'retired' from the actuarial profession and started a new career, building on the foundations that helped me get here. And I love it.

Just over a year ago, I jumped again. But this time into the world of PR & marketing, working with the brilliant Kate Boyle and a wonderful team of seven colleagues at the award-winning PR and marketing agency, KBPR. It's been a fantastic, exciting, and - at times - crazy year with a few curveballs thrown our way. I didn't foresee failing my home-schooling exams, learning how to bake a quadruple chocolate cake or or entering the virtual world as an avatar! I can not begin to imagine what the next few years will bring...

My advice to anyone starting out in pensions

First and foremost, make the most of every day – laugh at least once, if not a lot more. And after you've laughed, seize every opportunity that comes your way and jump out of your comfort zone. And jump as far as you can because only by doing this can you truly discover the amazing things that you can achieve.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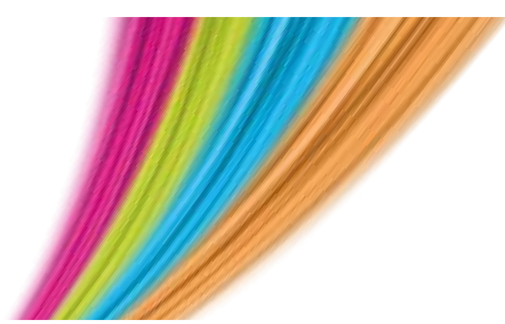

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Given the nature of the role, the ability to motivate, develop and lead your team is essential, as is having well-developed communication, project management and client relationship skills.

You will need to have gained proven people management experience covering key areas like performance management, appraisals, and recruitment. Ideally you will be progressing or have completed a relevant pensions qualification, but paramount is a strong UK Pensions knowledge across DB schemes and the experience of dealing with the complexities of working in a third-party environment.

In return you can expect:

- A strong commitment to personal and professional development, with the longer-term ability to pursue diverse career paths for those that want to develop their particular specialist areas.
- Personal involvement to actively contribute to the ongoing growth, innovation and development of services provided to clients.
- Well-defined corporate values; encouraging employee engagement in initiatives that underpin their corporate values and diversity commitment.
- Client engagement and active participation in client and trustee meetings.
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To apply please forward your cv to Jacqueline Weller, Associate Director by emailing her at jweller@ignata.com

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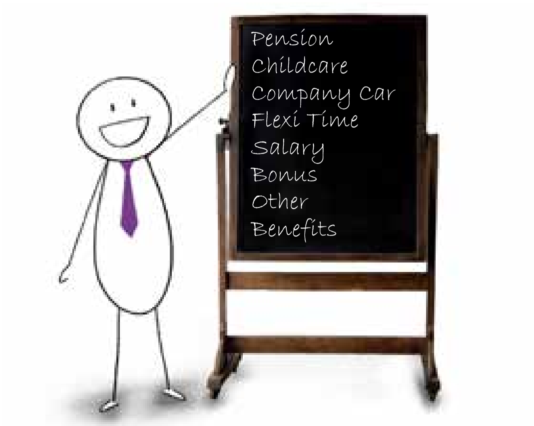

Sammons Pensions Annual Salary Survey, 2020 – we need your help

Visit www.sammonspensions.co.uk to access the survey or contact us for more information/to discuss previous years' findings.

Team Leader - Inhouse
Bedfordshire **up to £40,000 + 15% bonus**
Due to an internal promotion, an excellent opportunity has arisen for a Team Leader to join this large in-house pension team. Ref: 1376304 JW

Pensions Analyst/Part qual Actuary
London – flexible working **up to £40,000 per annum**
Fantastic opportunity for a recent graduate to join this leading insurance company in their actuarial development programme. Ref: 1376302 JW

Assistant Trustee Secretary/Governance
London – flexible working **£competitive**
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Trainee/Pensions Administrators
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Senior Consultant
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London – flexible working **£excellent**
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May our final issue of the year,
give you strength to persevere.
As we close the end-of-the-year books,
thinking, how 2021 might look.
But if there is one thing we are sure about,
it is us being here for you, throughout.

Happy Holidays from the PMI

Pensions
Management
Institute

Knowledge & Integrity