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Pensions Aspects

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The hard-hitting financial reality

Re-evaluating the path of your retirement goals

IMPACT OF UNEMPLOYMENT ON YOUR RETIREMENT GOALS & MEMBER ENGAGEMENT

NOT AS EASY AS ABC: ASSET-BACKED CONTRIBUTIONS POST-COVID-19

REACHING OUT IN A CHANGING ENVIRONMENT

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Moving pensions forward

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Out with the old and in with the new

By Lesley Carline Immediate Past President, PMI

Firstly, I would like to welcome the new President and congratulate them on their appointment. It is hard work but very rewarding, and there is an amazing team at the PMI to work with, but you will know that already.

My two and a bit years is finally over; time for a bit of reflection. It is safe to say the PMI has been very busy over the last two years, not least in the last seven months responding to the Covid-19 pandemic. The transition to working from home was carried out smoothly and successfully. The team's spirit has been maintained with regular virtual drinks on Fridays and Tim Middleton's famous quiz sessions. It is important our team is not only provided with the tools to continue working, but that we also ensure their mental wellbeing is catered for. One of our strategic goals was to be an employer people want to, and are proud to, work for. Hopefully, how we have looked after the team during this crisis has demonstrated our commitment to this aim.

Our strategic aims included being digital by default and Covid-19 situation certainly expedited this. Our plans had to be accelerated and, with a lot of hard work by all departments, we achieved an awful lot. We have been working for the last 12 months on a new Client Relationship System (CRM), including a more modern, user-friendly portal. We are pleased its launch in May 2020 went smoothly and was linked to our new dynamic website. We also brought our physical events online, ensuring our members did not miss out on technical updates and learning opportunities. We are also grateful to our Insight Partners, sponsors and volunteers who provided high quality content for our webinars. And, then we also went online with exams, aiming to have all exams online by the end of 2020.

The Association Excellence Awards 2019

Stepping away from Covid and the last few months, it would be easy to forget the other achievements the PMI has had. The commercial team surpassed themselves, winning a silver award at the Association Excellence Awards for Pension Aspect Live 2019 for the second year in a row. The newly launched Trustee Workbench which attracted over 300 trustees, also won an award – bronze for a new event. Unfortunately, this year's events were cancelled but we had a 13-week series of webinars followed by the Trustee Fortnight, and soon the autumn series of conferences kicks off with the DC and Master Trust Symposium, followed by our second PensTech event. Back to Covid-19 again, but it has demonstrated the importance of how we use technology in our industry, so I am expecting a very pertinent agenda for that one.

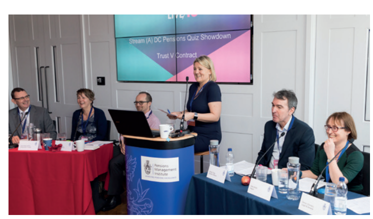
Another of our aims was to increase our trustee membership. We reviewed the offering and adapted it specifically for trustees, providing ample opportunities to increase their knowledge and improve access to learning materials. By making ourselves more attractive to trustees our membership increased to over 1200 trustee members, ranging in age from 25 to over 80. It was only natural that the Professional Trustees Standards Working Group announced the PMI as the body to provide the exams and to run the accreditation process alongside the Association of Professional Pension Trustees' guardianship of the standards. Early this year we launched APTitude, giving the accreditation process and exams their own brand. We also succeeded in awarding the first Professional Trustee Accreditation, an exciting time for the PMI. But, we will not rest on our laurels; we see this as a steppingstone to continually improving standards through learning and we will be looking at higher level qualifications for Professional Trustees going forward.

It would be remiss of me not to highlight the qualifications team and the work undertaken by them. We were committed to reviewing our qualifications, and more importantly, how they were delivered. A review was undertaken and we heard very clear messages from our membership and their employers. PMI qualifications remain key to the PMI delivering on its objectives – to improve the standards of professionalism of those working in pensions. They are also important to our members' careers and progression. The qualifications team and the wider PMI has worked on responding to our members requests i.e. making registering and paying for exams easier, and exams going online. However, one of the fundamental changes has been the refocus from qualifications to lifelong learning. This shift in focus ensures that the PMI is looking to deliver learning opportunities to members throughout their careers, enabling them to keep learning, keep challenging themselves, and to evidence their achievements.

A couple of my favourite initiatives have come from the membership team. The first is the student essay writing competition. We have now run four competitions and its popularity with students has not waned. Open to any student member from those starting their career to those topping up their existing qualifications, the range of members entering is varied and the resultant essays reflect this. We are delighted to see the imaginative and out-of-the-box thinking demonstrated by our students. We see this as an opportunity to let the imagination run almost wild. I urge students to take advantage of this opportunity to get their name in lights; plus to have been published in Pensions Aspects and Professional Pensions would look great on any CV.

PMI mentoring programme launch

The second initiative is the mentoring programme; a good example of how the PMI works with fellow institutes. The mentoring programme is run in conjunction with the Institute of Leadership and Management, has run for a year, and has twenty mentors and twenty mentees. Halfway through, it looks to be very successful and as a mentor myself, I get a lot from being able to help someone, even in a small way. Helping people develop, whether through education or with softer skills, is a part of what the PMI is for.



The marketing team deserve a mention; without their hard work, many of our initiatives would have gone unnoticed. They have worked hard in assisting us to work towards achieving another goal; being the authoritative voice within pensions. We have featured in both the pensions and national press and it is important we represent the views of the members on key topics. The team have quietly rebranded the PMI, with a soft launch that demonstrated the results of our evolution and journey.

So far I have highlighted the work of the PMI teams, however the work of the council and committees must not be forgotten. The council's role is advising the PMI on its strategic direction and in providing sage advice on how to deliver on that strategy. For the first time ever, we used our powers to co-opt a non-PMI person to the council to provide specific skills required for a project. Another of our goals, the regional groups and how the centre can help, is an ongoing project for the PMI. The aim being to bring cohesion and support making use of our customer relationship management capabilities. Earlier this year we were delighted to launch a new regional group in Northern Ireland which is quietly becoming a pensions hotbed of talent. Another tick for delivery on our goals.

The Public & Policy Affairs Committee deserves a mention for the hard work carried out not only in responding to an endless stream of consultations but for becoming more proactive by launching the Pulse Survey. By taking the Pulse of the membership, it enables us to feed into other committees, suggesting areas for research, learning and thought leadership. It has also gained quite a lot of coverage in the pensions press. The Commercial Development committee, alongside its two sub-committees of membership and trustee members, has done a sterling job of ensuring the conferences, seminars, round tables, annual dinner and lectures have been excellent, pertinent, entertaining and more modern. The Lifetime Learning Commitment (LLC) has gone through a change due to OfQual insistence for governance purposes that representatives of employers making use of our qualifications could not sit on it. In order to not lose this valuable connection and input from these representatives, we created an additional advisory forum, to enable them to continue to help shape what they need for their employees. The new LLC will continue to advise the qualifications team on exam developments but will also look to drive forward our plans for increasing our training capability and look to create a training academy.

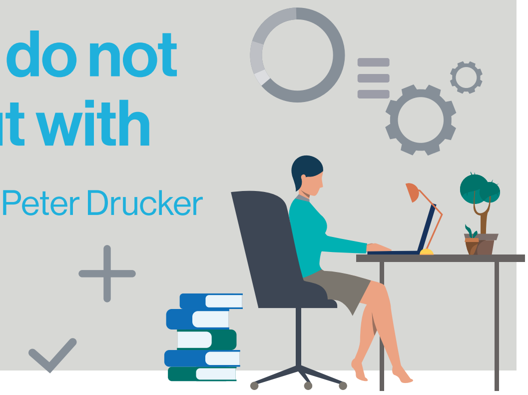
Two final committees, Risk and Assurance, and Regulations, both work hard to keep us honest. Their roles may not appear as glamorous as the others but are no less vital. My thanks go to them for their hard work during the last two years.

And, as I hand over the Presidency, there is still much more in the pipeline for the PMI. The five-year plan is not yet complete and there are areas delayed due to changing priorities and Covid-19. However, these will be achieved in the next year; our societal goal included financial education. We have made a start with the launch of Retirement Matters but we also want to deliver on Diversity & Inclusion. This is a case of watch this space.

Finally, I would like to thank some people. My two Vice Presidents, Lesley Alexander and Tim Phillips, as well as Lorraine Harper who was Vice President when I began; your support has been needed! To the board and council for putting up with my mad ideas. To Gareth Tancred, Fran Schiller and the PMI team, it has been such fun working with you all, getting to know you all and seeing the end results of all your hard work. I would also thank my KGC colleagues who have had to put up with my being 'Queen' for two years.

So, goodbye and good luck to the new President!

“Innovation opportunities do not come with the tempest but with the rustling of the breeze” Peter Drucker



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

Pensions Management Institute

Learning

September 2020 marked the first time the PMI has offered a large scale online exam with its Certificate in Pensions Calculations, traditionally a paper-based exam, moving into the digital world across all of the United Kingdom and Ireland. Approximately 700 learners participated in the series of exams over the month.

We are pleased to share that the administration was a logistical success. In fact, Calibrand, the PMI's exam delivery partner, has reported that the exam was their most successful remote proctoring administration to date, with only approximately 4 percent of candidates experiencing technical difficulties. The PMI has communicated with candidates who experienced technical issues on exam day and have resolved the situation or is working with each of them to reschedule their exam at their earliest convenience.

Forced into a snap transition into online teaching by the coronavirus pandemic, most people in the sector dismissed remote assessment as another unwanted and necessary evil. But the PMI predicts that many will be pleasantly surprised by the results of the shift, while providing the benefits of a more progressive view of assessment methodology.

With this expedited changeover to distance/online examinations it is proposed that all assessment is now conducted remotely, across all of its qualifications. While the capability has helped it manage the coronavirus, the PMI says this has not been the main benefit.

The benefit to the PMI has been the operation and turnaround of processes, with the ability for a 'cleaner and more efficient' delivery model. We have to look holistically at assessments. Will learners learn what they need to learn? And can we gauge their abilities? That's what's important. The situation has forced us to think 'what is learning about?' It is not always about a paper and pencil exam.

In terms of operation, the PMI initially considered high-tech solutions such as close monitoring of learners via live cams, but decided not to go down that route in all cases, as it was not practical. Instead, they opted for a combination of live invigilation, by individual and group, and by recorded invigilation (with an emphasis of more moderation of results).

The PMI's remote exams boast high-tech features including two-factor authentication and tracking. If participants are constantly looking at the ceiling or to the side of the screen, that's telling the examiners that there might be notes plastered there. My suggestion is that the assurance of academic integrity via virtual proctoring, if you consider the use of electronics, and one or maybe two people randomly walking across an examination venue/hall, is better than you would get in an paper-based examination type of situation.

Incidences of 'low-level cheating' such as learners having textbooks/study materials on hand, was likely to rise in online exam settings, but such problems were easily nipped in the bud, as learners were noticed and the remote invigilator just asked them to put it away, rather than have an academic misconduct case later on. This was very rare, and in 99% of cases learners maintained the integrity of the exam. In cases where the outcome was necessary to review, because of suspected assistance or cheating, then this was picked up through moderation.

For its exams-on-demand model, the PMI uses regularly updated question banks to guard against learners informing each other about exam content. Not every examination gets the same questions every time, they're assessed against the same skills, but there are subtle and sometimes dramatic differences.

This seems a more direct and universally accepted method of assessment and we will look at using this more across all examinations . What was a distinct advantage was that learners had a chance to practise with the technology first. This alleviated a lot of the stress of the exam situation. With the value of hindsight we can now see that this had a positive impact on the emotional reactions of learners and their anxieties. The PMI shares the success of this exam administration with all of our Certificate in Pensions Calculations learners, who have remained patient and adaptable through these challenging times.

A big thank you goes to the fantastic team of Vanessa, James, Alim, Kumba and Rapinder, who deserve all of the credit for the outstanding work in producing and delivering these exams, under what can only be described as very challenging, pressurised and sometimes quite difficult times.

We will maintain our focus of finding innovative ways to deliver the examinations we offer, and continually expand our provision to meet the market needs.

Membership

Pensions Management Institute
Membership

Renewal dates:

2020/21 Membership Renewal Subscriptions

If you have not already paid your membership, this was due on the 1 September 2020.

Subscription renewal notices have been sent out to all Student, CertPMI, DipPMI, APMI and FPMI members. To avoid any disruption to your membership services 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 MyPMI membership portal. Alternatively, please contact the Membership team at **membership@pensions-pmi.org.uk** or on **0207 392 7410**.

Affiliate Membership Subscription for 2020/21

Affiliate memberships are due for renewal on the 1 November 2020 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 MyPMI membership portal. Alternatively, please contact the Membership team at **membership@pensions-pmi.org.uk** or on **0207 392 7410.**

Your PMI Membership Record

Please ensure that your personal details are correctly up-to-date on the My PMI member portal to ensure that there is no interruption to your membership service 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 are now entitled to use the designatory initials 'FPMI':

Claire Montgomery

Regional news

Pensions Management Institute
London

We hope our members have had time to take a break over the summer and are heading into autumn relaxed and refreshed.

We'll be hosting a virtual quiz night in November for our annual trophy. Please join the PMI London Group on LinkedIn for more information about our upcoming social events and business meetings.

Pensions Management Institute
Southern

The 2020/21 business meetings start with two planned webinars rather than the usual style of gathering. These will be hosted by PMI using BrightTalk.

Wednesday 14 October | 17:00
Covid-19 - the impact on Defined Contribution pensions provision

Thursday 19 November | 17:00
Defined Benefit transfers - latest update, including GMP

We hope that in the new year we will be able resume face-to-face meetings but will obviously review this in line with guidelines and restrictions nearer the time.

Pensions Management Institute
Events

Flagship events

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

09 Oct
Secretary to the Trustee (Introduction)
9 October - 15 October
Online

16 Oct
Introduction to Pensions (Advanced)
16 October - 21 October
Online

22 Oct
Cybersecurity
Online

04 Nov
PensTech & Admin Summit
Online

05 Nov
Secretary to the Trustee (Advanced)
5 November - 10 November
Online

19 Nov
ESG
Online

10 Feb
NEW DATE
Pensions Aspect Live 2021
The Savoy, Strand, London, WC2R 0EU

10 Feb
NEW DATE
Annual Dinner 2021
The Savoy, Strand, London, WC2R 0EU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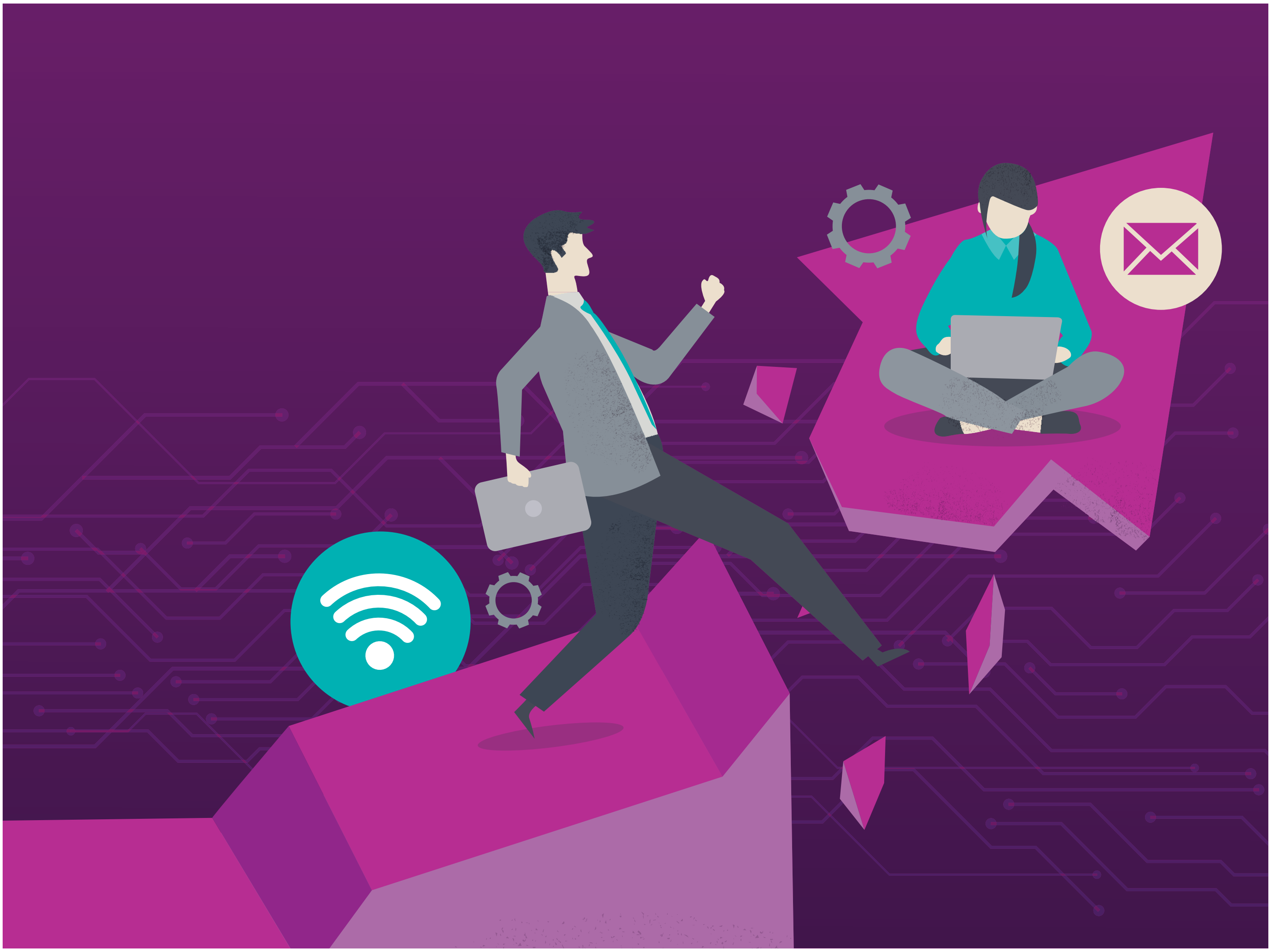


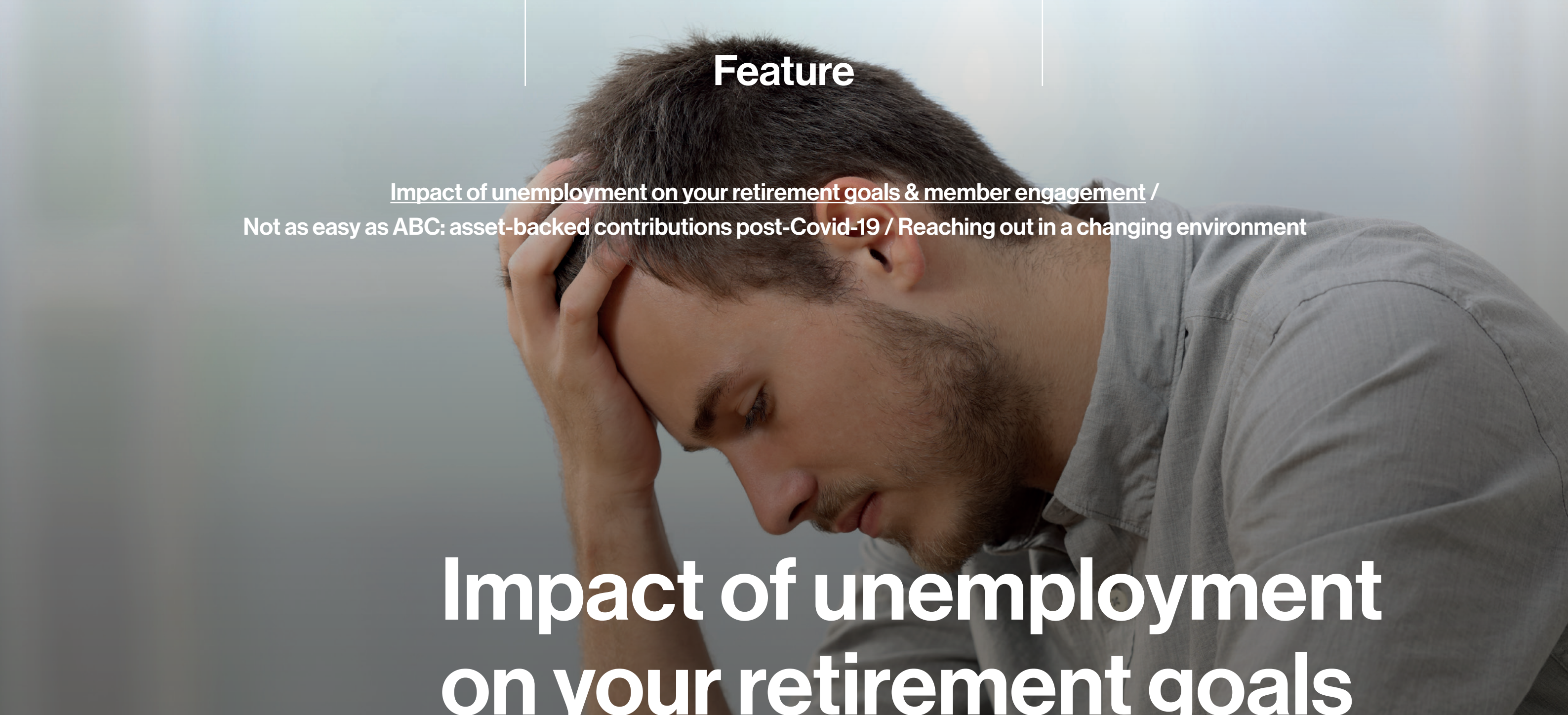
Pension administration, innovation and technology

This month's feature articles include:

12/ Impact of unemployment on your retirement goals & member engagement

15/ Not as easy as ABC: asset-backed contributions post-Covid-19

17/ Reaching out in a changing environment



Impact of unemployment on your retirement goals & member engagement

By Alan Greenlees, Head of DC Investment, XPS Pensions Group, and Sophia Singleton, Head of DC, XPS Pensions Group

Covid-19 has had a devastating impact on the global economy as well as the significant loss of life. We take a look at the employment sector in the UK and how being out of paid work can have a detrimental impact on your retirement goals.

Significant job losses

As we emerge from post-lockdown, we are starting to see the longer term effects on businesses and job losses. Over the last few months the business headlines have made for grim reading;

Marks & Spencer	7,000 job losses
Debenhams	2,500 job losses
Boots	4,000 job losses
Pizza Express	1,100 job losses
Pret a Manager	3,000 job losses
British Airways	12,000 job losses
Rolls Royce	3,000 job losses
EasyJet	4,500 job losses
WH Smith	1,500 job losses
Travis Perkins	2,500 job losses

It is estimated that at least 190,000 people have been made redundant in the UK as a direct result of Covid-19. However, it is anticipated that there could be many more job losses once the furlough scheme ends in October. Some estimates expect the total number of redundancies to be closer to 1 million as companies and the UK economy readjust.

The financial consequences of being unemployed can be severe, not only for the immediate future but also in later life and retirement.

Impact on retirement savings

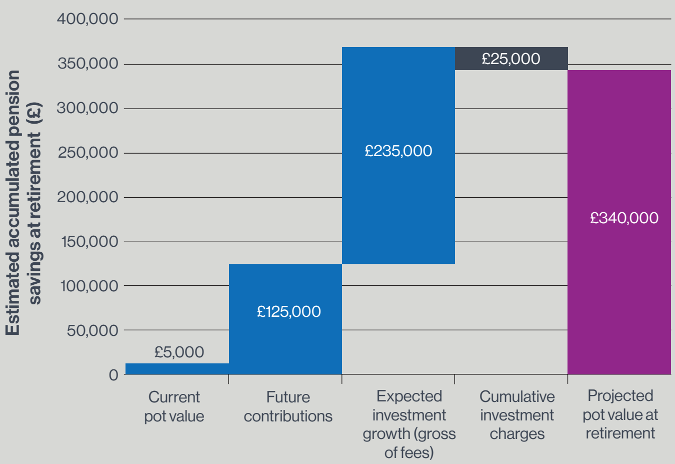
There can be significant implications for an individual's retirement savings as a result of being unemployed for a sustained period of time. An individual being out of employment for, say, 12 months, would:

- Stop contributing into any pension plan for that period
- Miss out on 12 months' worth of investment growth on the missed contribution payments
- Miss out on a salary increase.

The power of compounding means that the cumulative effect of these factors have a detrimental impact on younger members. However, the younger age groups would also tend to have a lower starting salary and be contributing at a lower rate compared to those closer to retirement age. In addition, younger members may expect to pay into a pension arrangement for a further 40 years (if retiring at age 65).

Our analysis suggests that a 25 year old who is out of employment for 12 months could be as much as 5% worse off at retirement. This could see a typical younger member worse off by as much as £510 per annum.

Illustrative pensions projection for individuals currently aged 25 years old



For those individuals who are closer to target retirement age, a period of unemployment may have a greater impact on their retirement pot, seeing as much as a 10% drop in retirement wealth if unemployed for a period of 12 months. These individuals do not have the luxury of time on their side for compounding and are also likely to be contributing a greater proportion of their salary towards their pension savings. However, this peer group are also much more likely to have alternative pension arrangements elsewhere, including Defined Benefit (DB) pensions which may be their main source of retirement savings.

The table below shows the estimated impact of being unemployed for 12 months on a range of individuals of different ages. All individuals are assumed to have a target retirement age of 65 years old for this illustration and have recently joined their employer's Defined Contribution (DC) pension scheme.

Current age	Worst case fall in DC pension pot at target retirement age	Equivalent reduction in annual DC pension at target retirement age
25	5%	£510 pa
35	6%	£430 pa
45	8%	£360 pa
55	10%	£310 pa

The consequences of being unemployed can have a detrimental impact on retirement planning, such as having to:

- Retire at a later age and therefore having to continue working (and contributing) longer than planned
- Accept a lower level of financial security and wellbeing
- Reassess your investment goals and target a greater level of growth
- Change your future retirement options and nature of your benefits.

Each of these areas alone can require a significant amount of thought and pension members still find themselves the target for scam activity.

Greater vulnerability to scams

Are you scam smart?

A change in employment could well be the catalyst for some individuals to review their financial situation. Those individuals could find themselves in the firing line for scam activity. Membership groups with greater levels of digital access, which would typically include younger members, will be more likely to manage their finances online and may be more vulnerable to scams.

Member profiling has also indicated that pension schemes with a higher proportion of members in poor health, who may be more susceptible to Covid-19, are also more vulnerable to scam activity. A vulnerability analysis taking into account age, health, and digital and financial awareness can help to identify these members.

All of this reinforces the importance of remaining engaged with individuals on their pension arrangements and providing them with ongoing support and up-to-date information in a way that works for them.

Member engagement is vital

Keeping members engaged, particularly once they have left employed service, is something that pension schemes often find difficult. It is important to find relevant and cost effective ways to communicate which make the best use of technology. Schemes should also consider the responsibility to protect members' interests, which could include identifying the groups most at risk from scams. Member profiling can provide insights into the membership groups that would benefit most from targeted support and specific campaigns.

It is important that schemes create engaging communications using a 'know, feel, do' approach which focuses on:

- The key message you want members to 'know'
- How do you want them to 'feel' about that message, and
- What do you want them to 'do' after reading the communication?

One important communication method is a scheme-specific member website. These can be a really powerful communication tool and information provided through the site is tailored to members' benefit-types and statuses. This can also be monitored to identify which membership demographics are accessing the information. Online navigation is simple and important scheme documentation, such as change in address forms or retirement illustrations, can be found online if member circumstances do change.

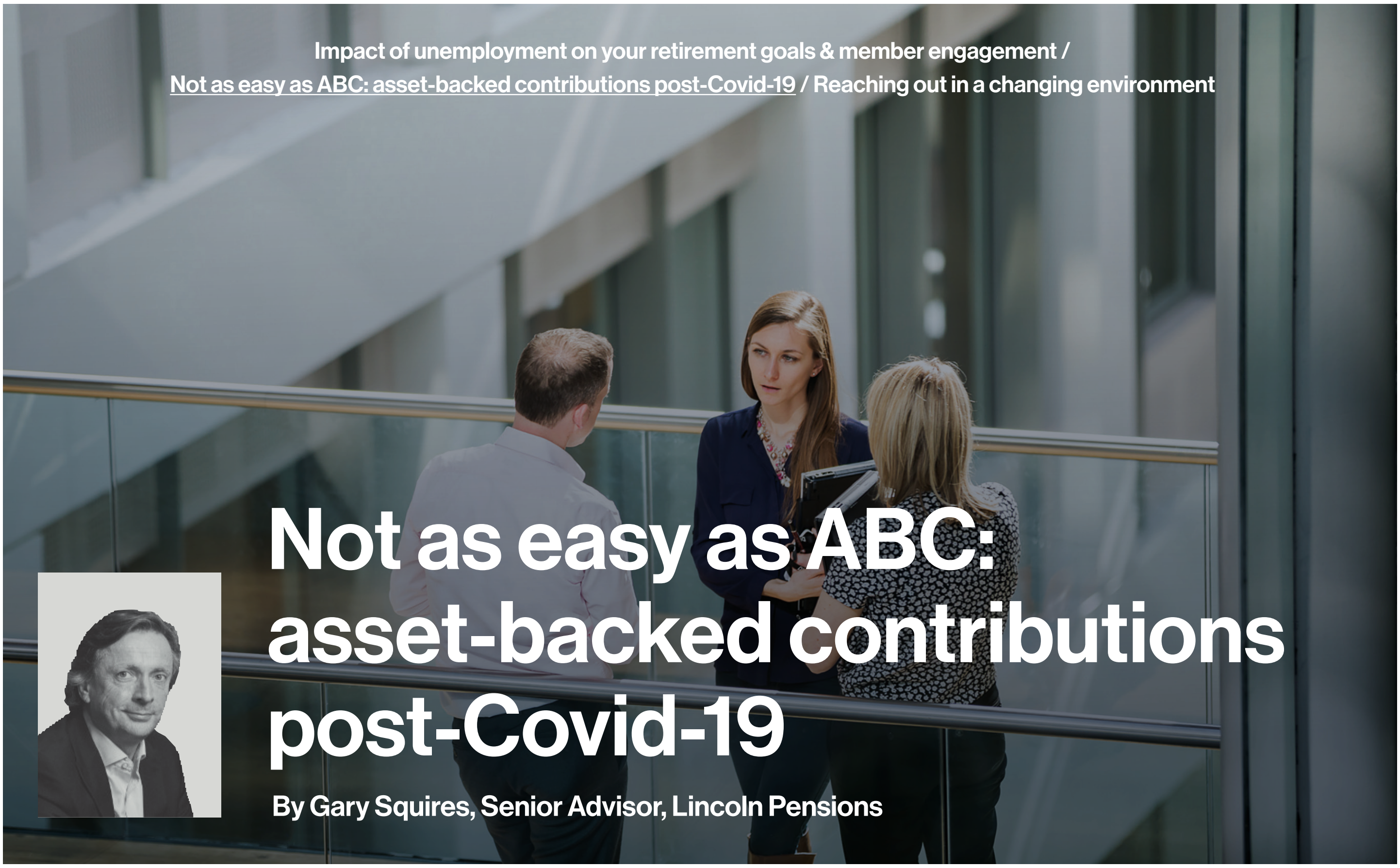
Summary

The significant impact of Covid-19 has been felt across a number of different areas. It is likely that the next, long-lasting phases of Covid-19 will be more economic in nature and in terms of pensions, it is important for employers and pension scheme trustees to:

- **Determine the impact of Covid-19 on their members, particularly those that may be more acutely affected and most at risk from scams**
- **Consider the key variables that determine a member's pension savings – and if changes should be considered, and**
- **Keep their members engaged with pension matters and provide key information and support at this crucial time.**

The views and opinions expressed in this article are those of the authors and do not necessarily reflect those of XPS Pensions Group as a whole. Examples of analysis performed within this article are illustrative only and should not be viewed as regulated investment advice.

Sources used: The Guardian for total estimated job losses, as at 3 September 2020. https://www.theguardian.com/world/2020/jul/31/uk-coronavirus-job-losses-the-latest-data-on-redundancies-and-furloughs



Not as easy as ABC: asset-backed contributions post-Covid-19

By Gary Squires, Senior Advisor, Lincoln Pensions

Asset-backed contribution arrangements (ABCs) are one of the more controversial innovations in Defined Benefit (DB) scheme funding. Under these agreements, typically between trustees and one or more entities within the sponsoring employers' group, a payment stream is derived from an underlying asset and paid to the scheme over a set period, usually via a special purpose vehicle (SPV), in the form of a Scottish Limited Partnership (SLP), intended to avoid employer-related investment (ERI) rules.

Originally developed as tax structures, ABCs are favoured by employer groups because they permit the balance sheet to be put to work in place of cash funding, while also reducing the accounting deficit. They can be equally attractive to trustees, however, ostensibly by enhancing the covenant while providing improved visibility over future funding.

The current economic crisis is putting considerable financial strain on many employer groups which may well prompt a surge in interest in ABCs given their features and potential flexibility. However, it is only a matter of time before new ground will have to be broken in unravelling them during corporate financial restructurings, particularly in the wake of the new Corporate Insolvency and Governance Act (CIGA), which came into law on 26 June 2020. The CIGA has introduced new restructuring tools and presents some general uncertainty for DB schemes, particularly for schemes with ABCs in place or under consideration.

While there is precedent for difficulties in unwinding ABCs, none of these structures have been tested to destruction. As part of broader contingency planning, trustees should consider how ABC value might play out in plausible downside sponsor outcome scenarios and whether there is scope to rectify or reinforce any vulnerabilities.

Trustees must consider the high correlation between the underlying asset value and the employer's fortunes, meaning that the underlying asset may be compromised just at the time when it is needed most. It is, therefore, critical to identify whether the asset generates cash independently or is dependent on the employer group and other assets that have not been transferred into the ABC structure. Similarly, if the asset needs to be sold, is there a real and liquid market for it outside the employer group? Brands and loan notes are prime examples of assets that may be subject to these more nuanced risks.

The structure of ABCs varies widely, but the 'asset' on which the scheme relies tends to be a capitalised payment stream via an interest in an SPV, rather than a direct interest in the income-generating asset. This presents acute risks in the event of insolvency or in a Mergers and Acquisitions (M&A) deal, through which part of the ABC structure may be hived off by the transaction. Without 'step in rights' or a security structure that provides a direct interest, trustees may face problems in preserving the scheme's interests.

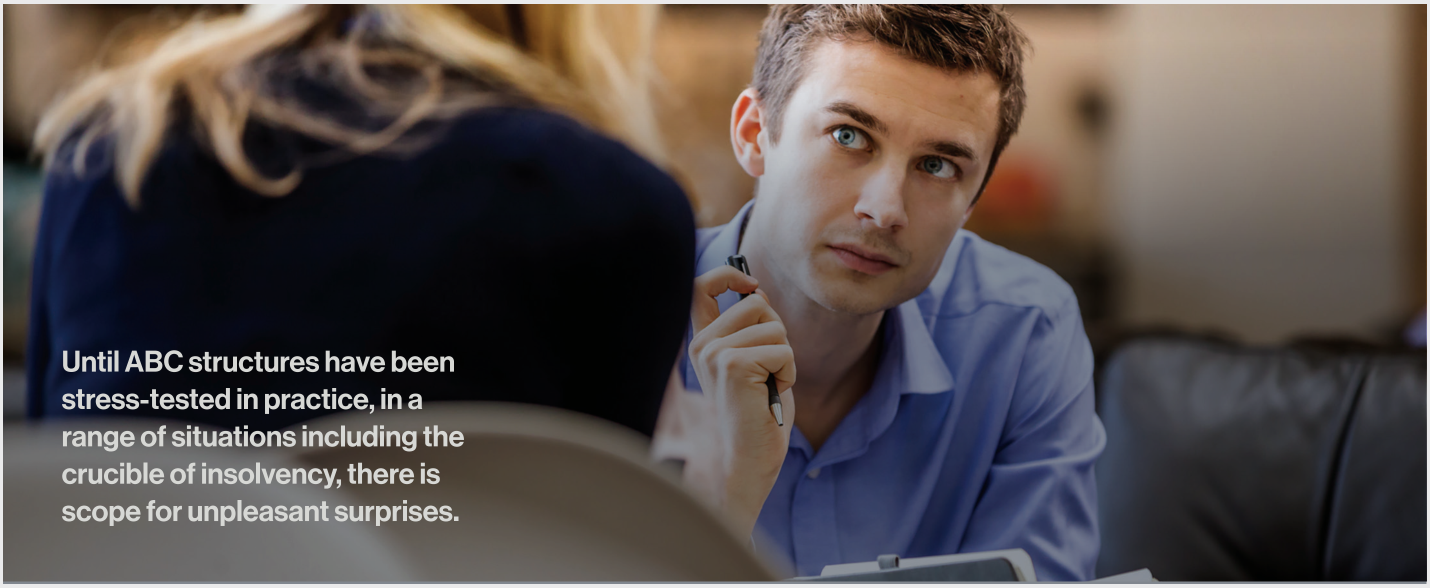
The Pensions Regulator has pointed out that the SLP 'ERI loophole', on which the structures rely to avoid the statutory restrictions on employer related investments, has not been tested in court. Historically there has been no one with an interest in collapsing the structures, but in the 'land grabs' by stakeholders that typically arise in restructurings, that motivation is likely to arise. If the structure is successfully challenged and collapsed due to illegality, future cash flows would not only be terminated, but the trustees could be liable to disgorge payments already received. This would send shockwaves through many boardrooms about the legality of their own ABC structures.

The ABC structure may also contain claims by other stakeholders, either intra-group or external. These may be structurally superior to the trustees' interest and dilute any recoveries. Similarly, restructuring costs could dilute value and are likely to be high given the complexity and novelty of these structures in insolvency situations.

On the bright side, the trustees' interest is generally limited to the remaining payments due under the ABC arrangement, which may be significantly lower than the value of the underlying asset. Depending on the circumstances, such over-collateralisation may improve the prospect of recoveries through the ABC in any group insolvency proceedings.

While most of these issues should have been considered at inception and subsequently for the purposes of any PPF certification, it is likely that the context has changed substantially. First, the stress scenarios that would have been considered for previous valuations might not have been as extreme as the situation we are now facing, which certainly qualifies as a one in a hundred-year event. Furthermore, there are new considerations in the form of the CIG which has introduced a new moratorium and 'restructuring plan' procedure, which is not an 'insolvency event' triggering scheme wind-up or PPF entry. Through this it is now possible for debtors to cram down dissenting creditors in certain circumstances, which could significantly compromise the scheme's influence and negotiating leverage, impacting value. There is also the question of whether trustee 'step in rights' would trigger in a restructuring plan as these are often drafted to arise on the occurrence of an insolvency event.

In better times, insolvency risk is often downplayed during the creation of ABCs and restructuring experts are often not consulted at inception. Until ABC structures have been stress tested in practice, in a range of situations including the crucible of insolvency, there is scope for unpleasant surprises. It is therefore critical for trustees to revisit assumptions about the robustness and value of ABC arrangements in the context of the current challenges. If vulnerabilities are identified, solutions might include bolstering assets or contractual rights and revisiting scheme funding assumptions.



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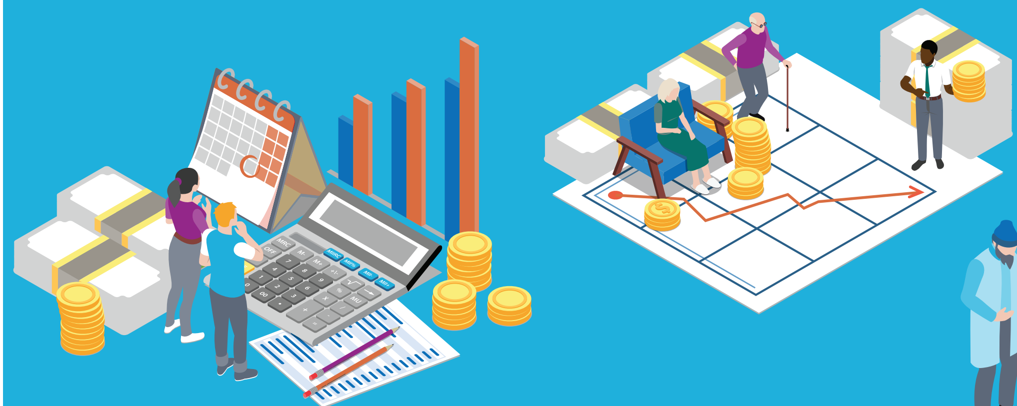
Not as easy as ABC: asset-backed contributions post-Covid-19 / Reaching out in a changing environment



Reaching out in a changing environment

By Jonathan Watts-Lay, Director, WEALTH at work

Around 9.6 million jobs, from 1.2 million different employers, were furloughed in the UK as part of the government's job retention scheme[1]. With much of the workforce financially affected by Covid-19, providing financial education and guidance has never been so important, especially for those considering retirement. Jonathan Watts-Lay, Director, WEALTH at work answers some key questions surrounding this.

Why is financial education and guidance so important right now?

Financial education and guidance are beneficial to the financial wellbeing of employees and pension scheme members regardless of the climate. However, in times like these, when individuals are extremely concerned about their finances, they are perhaps more likely to make knee-jerk decisions which could have a lasting impact on their retirement income.

For example, due to the adverse impact the crisis has had on household income levels, there is the risk that members will see their pension as a way of supplementing their income before actually retiring. The pensions industry has a duty of care to ensure that members have an understanding and awareness of the implications of early withdrawal and the potential risks involved.

Financial education and guidance can help members understand the tax implications of their decisions and explain the other options available to help manage money when household incomes are under severe strain, such as reducing costs through debt repayment deferrals. It can also help members look at alternative savings which may be more appropriate to access than their pension.

Not only this, financial education can also help individuals understand the risks surrounding pension scams. The Financial Conduct Authority's (FCA) latest figures indicate that pension savers have claimed that over £30 million has been lost to scams since 2017. This is particularly concerning at the moment as, unfortunately, fraudsters see turbulent times like this as an opportunity to con savings from pension scheme members. In July, Action Fraud reported that victims of coronavirus-related scams had lost over £11million, with it previously stating that pension scams had been among the most common type of fraud during the crisis.

We know that once an individual has received financial education and/or guidance, they become aware of many of the complex issues they need to understand regarding their pensions, general savings, tax, and so on. In doing so, many realise they need regulated financial advice to make informed decisions.

With the furlough scheme due to end in October, it's an inevitable and unfortunate fact that redundancies will be unavoidable. The National Institute of Economic and Social Research (NIESR) has predicted that 10% of the UK workforce could be unemployed by Christmas. Providing financial education to those affected is crucial as it can help them to understand their benefits when leaving employment and explores the ways in which to support day-to-day finances during what may be a very difficult time. It can also help them to understand how to avoid common tax mistakes and how to make the most of their redundancy pay.

For example, particularly for those nearer retirement, by using some of their redundancy pay to directly boost their pension savings, individuals can reduce the overall tax impact on redundancy payments above the £30,000 tax free limit. Also, many individuals aged 55 and over don't realise that they could be better off looking at other taxable savings and investments as a source of income, rather than the tax-free environment of their pension. This would allow their pension savings to benefit from a longer period untouched in a tax-free environment.

What are some of the best ways to provide financial education and guidance?

Financial education and guidance can be delivered in a number of ways but social distancing rules have meant that many employers have had to adapt to this changing environment.

Although face-to-face seminars are a popular and effective method, especially for those considering retirement, other forms of delivery such as online seminars are proving to be an engaging alternative in this climate. Using a skilled facilitator to work alongside the presenter online is really useful as they can help to manage questions and support rapport-building. Simple things like having a break and running quizzes helps to recreate the classroom experience and encourages group participation. We are finding the results from our online seminars, even those that are more than 2 hours in length, are receiving great engagement scores and feedback. The key is to understand the online process and check-in with delegates throughout.

Additionally, to help those at retirement, virtual one-on-one guidance sessions, which could be delivered via a video call or via the telephone, are particularly useful as it offers the support employees and members need to help them clarify elements of their financial situation and to gain a deeper level of knowledge around their options. Offering a range of delivery methods can also ensure the majority of employees are always supported, whatever their needs.

What can be done to alleviate some financial worry?

For many, the strain that the pandemic is having on household budgets is a time of worry, anxiety, uncertainty and stress. It's well known that financial worries cause increased levels of stress and absenteeism amongst employees, and that it leads to lower productivity.

It is vital that employers take steps to help their workforce take control of their finances during this uncertain period. How companies manage it will have a huge impact on their future reputation and the retention and motivation of remaining employees.

Increasing numbers of employers are putting financial education programmes in place to help their employees understand the various issues surrounding their finances, as well as one-to-one financial guidance or regulated financial advice for those who need more support.

Many employers are unable to offer this support themselves, hence the need for specialist providers. These providers can help employers to develop a strategy that is tailored to their organisation. Not only can this help employees feel financially secure but it can also drive improvements in employee engagement, productivity and retention.

[1] https://www.gov.uk/government/publications/coronavirus-job-retention-scheme-statistics-august-2020/coronavirus-job-retention-scheme-statistics-august-2020

Small pension pots: any solutions?

By Charlotte Bailey, Associate, Sackers

The twin factors of an increasingly mobile UK workforce and automatic enrolment have resulted in an ever-growing number of small deferred or 'dormant' Defined Contribution (DC) pots.

This subject has been raised in numerous Government reviews over the past decade, and with recent calls for evidence from the Department of Work and Pensions (DWP) and the Work and Pensions Committee (WPC) bringing it into focus again, it looks set to be a hot topic over coming months.

Small pot problems

Small pension pots bring with them issues including those of complexity of administration, record keeping (both for schemes and members), and diminution of value with charges.

Small pot solutions

- **Charges –** The DWP's summer Call for Evidence on the default charge cap asked how value for members can be increased, debating a possible decrease in the cap level, and whether the cap should cover transaction costs. Currently, the cap also permits charging on a flat fee basis. These fees have least impact on the largest funds and those who contribute over a number of years; as a fee is levied each month irrespective of whether contributions continue to be paid, savers with small pots can see their balances dwindle to nothing.

  Accepting that flat fees can have a negative effect on small dormant pots, the consultation sought views on limiting their use, and proposed that a sliding scale could be used, restricting their level depending on pot value.

- **Aggregation –** Consolidation has been the subject of considerable interest and discussion within the industry. In its recent report on small pots, the Pensions Policy Institute (PPI) argues that policies aimed at consolidation are likely to provide a better long-term solution than tackling charging structures. The WPC has now asked the industry to propose workable suggestions, noting that consolidation could "form a major part of reducing the total cost of saving to individuals, whilst enabling a sustainable, competitive market for lower paid employees". It will consider this topic further 'early next year'.

  The DWP pledges to "closely monitor the debate and all emerging research", and has said that it will consult on regulations encouraging smaller schemes to consider consolidation amongst themselves (where this would offer better member value).

- **Information –** When Guy Opperman ruled out the implementation of automatic transfers ('pot follows member') in 2018, he noted that members would benefit from the introduction of a pensions dashboard. This is now well on the way.

  Making all an individual's pensions information available on one platform may improve engagement and reduce the number of 'lost' pensions – but is unlikely to prevent the number of pots increasing.

Whatever approach the Government decides to follow to address the proliferation of small pots, there will need to be a careful balance between the interests of members and what is commercially sustainable for providers.

This article was written prior to the Government's response to the consultation on Defined contribution pensions: investments and consolidation, and it's new consultation on Improving outcomes for members of defined contribution pension schemes, both issued on 11 September.

A name not a number

By Graeme Riddoch, Mantle Services

At my regular cafe, the staff not only know me by name but can also remember my mobile number. Not sure if that's a good thing! My cafe logs names and mobile numbers manually for the purpose of Covid-19 tracing. I'm clearly drinking too much coffee.

Most other places I've been recently use QR (Quick Response) codes to gather contact details. These look a bit like melted bar codes. Since Covid-19, they're everywhere. Lots of cafes and restaurants use them to show you the menu.

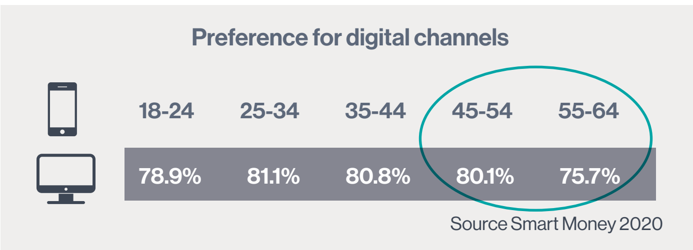
We're using QR codes to take people to a new phone app we've developed for Defined Benefits (DB) pension schemes. Open the phone camera and it grabs the QR code and brings you to the correct app store; no fiddly URL to key in. I showed it to a trustee six months ago. "Nice, but my members won't use that" he said. Fast forward and if one of his members now wants to order a drink, they'll probably be faced with a QR code!

There's no doubt that pensions technology, especially in the DB world, has lagged behind other financial services. There are a number of reasons for this; some valid and some less so.

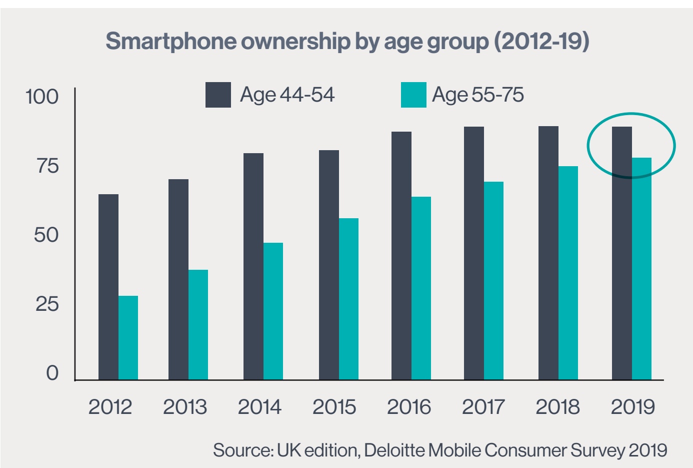
People, not members

Let's start with "my members won't use that". Firstly, a member is actually a consumer of a service. All too often they are viewed in the pensions industry as an accidental by-product of a scheme valuation.

Looking at the 45-64 age group, here's a few facts and figures on technology usage:



Smartphone ownership is around 80% and is the device most commonly used to access the internet. Research by Smart Money shows the preference for digital channels is just about as high in this age group as it is with 20-year olds.



The ONS 2019 Survey on Internet Banking found that 76% of people in the age group 44-54 bank online. This drops off by 10% in the 55-64 age range. It will be interesting to see the impact of Covid-19 on those numbers. I can only envisage an upward trend.

The 45-64 market is a lot more tech savvy and ready to adopt services than many people assume. If you make access to services easier, people will use them.

Making it easy

Recently, I undertook a comparison of leading DB software providers. They all offer a member website, but not a phone app. There was one exception, which was primarily a communication tool lacking any way to manage benefits. A well-designed website will also run on a phone, but it won't have the same advantages as an app in terms of usability.

Let's start with passwords and two factor authentication. I fought a fruitless battle recently trying to access a website I use infrequently. I had to remember my username, password and identify four characters from a 15-digit memorable phrase. It was like a round of Trivial Pursuit. I gave up.

A phone app can use the native security features of the device, such as facial or fingerprint recognition. For a service that's going to be used infrequently like pensions, that's vital for ease of access.

I mentioned QR codes earlier. Our developers have found a way to personalise them so they act as a password on first registration. Simply scan the QR code, enter your NI number and select a four-digit PIN.

The benefits of phones don't stop with ease of access. Research shows that the first thing most people do on waking up is to check their phones. Everywhere you go, every minute of the day, you can see people on their phones. You might even be reading this article on your phone.

This confers a further advantage to phones over PCs or laptops. The phone is almost always on and generally in the member's pocket. When communicating with members that's significant. Research shows that people are more likely to open messages pushed to their phone than they are to open and read an email. That's a distinct advantage in terms of being heard.

Biting the bullet

There are valid reasons why the level of service online doesn't always meet member aspirations. While modern systems are pretty capable, there are many schemes still running on legacy platforms that can't meet today's requirements. That's a problem that can be fixed by migrating, subject to the acceptance that this is not a trivial process to undertake. Guaranteed Minimum Pension (GMP) Equalisation and the Pensions Dashboard may well be additional drivers to accelerate this trend where systems can't be upgraded.

How do you eat an elephant?

The other issue is data quality. Too many member records are incomplete or not reliable enough to expose to a member. It's a bullet that no one really wants to bite; one that's seen as a cost, not a benefit.

Of course, that presupposes you do the cleanse all in one go. The approach we are using is to prioritise members who download and use our app – a process of self-selection. If a member wants to engage online, we prioritise fixing their record. The app serves up a 'working on your benefits' message. When we are happy, we push a notification to the phone to say they are good to go.

So, to sum up, there is no doubt that the demand for DB members to access and manage their benefits online is there. Barriers may exist, but these can be overcome. Tangible benefits include improved member satisfaction and a potential reduction in administration costs of around 30% simply by letting members self-serve. Surely that's a bullet worth biting?

Playing to win: how should DB trustees plan for the endgame?

Daniel Gerring, Partner and Head of Pensions Sector, Travers Smith, Sebastian Reger, Partner, Travers Smith and Charlotte Feld, Consultant, Travers Smith

Soon, Defined Benefit (DB) trustees will be obliged to set an endgame strategy to get to a long-term objective – whether low dependency on the employer covenant, buy-out with an insurer, or consolidation with a DB superfund. The Pensions Regulator (TPR) will expect trustees to aim for low dependency by the time schemes are significantly mature. How should trustees play this daunting game?

Imagine a boardgame, like the Game of Life but for DB pension schemes. This game is so complicated that the board is three-dimensional. A trustee is a player and the playing piece is a DB scheme, representing the retirements of perhaps hundreds or thousands of people – so the stakes are incredibly high.

There are many paths the scheme might take around the board:

- The scheme might be supported by its sponsoring employer to maturity – maybe reaching low dependency
- Perhaps the scheme will end up within the 'schemes without a substantive sponsor' regime for Pension Protection Fund (PPF) levies
- Perhaps the employer or trustee will pursue consolidation with a DB superfund model
- Maybe the scheme will reach buy-out with an insurer
- Possibly the scheme could enter PPF assessment because of employer insolvency (by accident or design)
- Perhaps there will be some combination of the above. For instance, a capital-backed journey plan could lead through low dependency to buy-out, some superfunds aim for buy-out, some schemes (or corresponding phoenix schemes) survive PPF assessment, or a DB superfund might end up in the PPF.

The rules of this game are too lengthy to be written on the back of the box - there's a weighty manual.

Which endgame options are on the table depends upon events that can be hard to predict. But that's how games are played: with an element of chance. The skill is in making sure that with each turn, the best choices are made - choices that permit an optimum outcome while managing risks of the worst-case scenario, not forgetting what other players may do and the strength of their hands.

In short, this is a highly complex game. And describing this as a game isn't about trivialising it - the stakes are incredibly high for members, employers and trustees alike. Trustees are playing this game whether they like (or know) it or not. Opting out of the game is just missing a turn.

Who are the other players?

The regulators:

The Pensions Regulator (TPR) regulates schemes that rely on their original employers as well as schemes without substantive sponsors and DB superfunds. Pending a new legislative framework for DB superfunds, TPR has established new regulatory policies. The Prudential Regulation Authority supervises the insurers that buy out pension scheme liabilities. The statutory safety nets are the Pension Protection Fund (PPF) for eligible schemes and the Financial Services Compensation Scheme (FSCS) for insurance buy-out. The PPF is often also a player in its own right.

The sponsoring employers:

Most endgame strategies require the cooperation of employers, who will normally share the desire for good member outcomes but will be concerned about costs given competing demands.

And employer insolvency can tip a scheme into PPF assessment, potentially derailing any endgame strategy.

Insurers and providers of DB superfunds or capital-backed journey plans:

The market is developing an increasingly diverse array of innovative endgame options for DB schemes. Some share risks with other schemes, some target buy-out, some keep the employer, others sever the link, and each comes with its own weighty rule book that must be examined to understand the implications for members.

What are the rules?

Fiduciary duties

In brief, and paraphrased from the leading textbook on the subject, pension scheme trustees must act in the way they consider, in good faith, would be most likely to provide beneficiaries' stated and accrued benefits. Trustees are also bound by scheme rules, which set the balance of power with employers, and so the strength of their hands.

Statutory funding duties

Trustees have specific duties under the legislative funding framework, which will be augmented by the Pension Schemes Bill, expected regulations and TPR's Code (TPR is consulting on the framework). TPR has various powers to penalise trustees for non-compliance or to impose its own funding measures. TPR also has governance powers, including the ability to replace trustees.

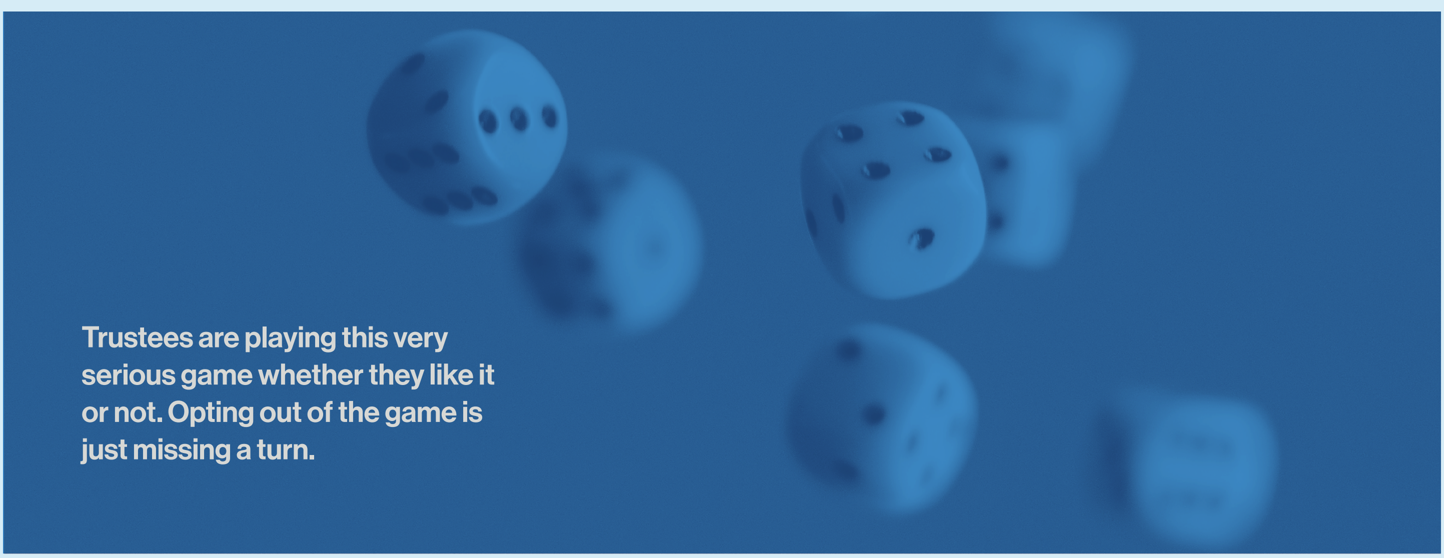
What are the key elements of chance?

Many factors affect which endgame strategies are possible and appropriate for DB schemes. The employer is usually crucial; its attitude, financial strength and legal obligations to the scheme, and its future (including insolvency risk, which may be greater than many trustees imagine – particularly over the medium to longer term). Other factors include the scheme's maturity profile, funding levels and investment strategy.

These shifting elements make setting an endgame strategy a dynamic process - not something that trustees can do once and forget about. The game continues until it's over.

The end of the game

Trustees cannot eliminate chance, but they can plan for it. Outcomes are rarely guaranteed. Nevertheless, when the game is over, TPR, and indeed members, may compare the trustees' stated goal with the actual outcome and ask for an explanation. Trustees will need to have a good story to tell, to justify every turn that they either took or missed.



How pensions administration used technology to rise to the challenge of lockdown

By Robert Wakefield, Head of Pensions Administration, First Actuarial

March 2020. We'd got winter out of the way and we could all start looking forward to the joys of springtime, maybe book a holiday for the summer, when BOOM.

Lockdown

For all we talk about innovation, how well would we cope without face-to-face interactions? And how would our much-vaunted business continuity plans stand up to the sudden closure of offices across the industry?

It was time for firms like First Actuarial to show their mettle but it couldn't have been a worse time for pensions administration. With less than three weeks before annual pension increases for most schemes, and with our administration team suddenly adjusting to home-working, this was a perfect storm.

So, what did we do? Well, we certainly didn't furlough our staff. We were far too busy for that. Instead, we managed to process pension increases across 105 schemes, all ahead of deadlines. That wasn't the only critical issue we faced. Making payments, processing deaths and handling routine work remotely were all challenging. But we forged ahead, and quickly worked out how to run pension schemes in the new normal.

New technology and communications for the pandemic era

Member communication was an urgent issue. Traditionally, most members want us to correspond by post but, in a pandemic, this was laden with risks. Yet many members were worried about their benefits being paid, and as job losses loomed, we anticipated growing demand for early access to pensions.

Firms promoted their online member facilities. Specialist printing services which involved no human contact came into their own. Sanctioned by the Financial Conduct Authority (FCA), members issued instructions using email and photos, rather than original documents, although they did need guidance on encryption. And online verification reduced the number of certification requests.

Some firms already had a remote working infrastructure and had issued all staff with laptops. Others made provision as quickly as possible, buying remote-access solutions and laptops from the ever-decreasing supply.

Firms used telephony software to forward calls from empty offices to mobile phones and, of course, utilised Zoom and Microsoft Teams.

We are the champions

Wimbledon may have been cancelled. The Olympic Games may have been postponed. But for pensions administration, 2020 was as close to business as usual as you can get in a global pandemic.

The month of March was when we put the technology in place to pay members' pensions and give millions of members the security they needed in troubled times.

Rise of the machines (in pensions administration...)

Simon Lightman, Partner, Eversheds Sutherland and Jeremy Goodwin, Partner, Eversheds Sutherland

The events of 2020 have shone a (sometimes unfavourable) light on existing scheme administration arrangements and many trustees will be considering their future options in a climate of market uncertainty and increased scrutiny from the Pensions Regulator.

Those trustees coming to market for the first time in a while may be surprised by the range of technology options touted by both traditional and start-up players. Most administrators now rely on one or more digital platforms as a core component of their offering. While these are commonly developed in-house, some are licensed from a specialist developer: both can offer significant benefits for schemes looking to drive member value.

If you are looking at these new approaches, it's important to know that standard administration contracts need to be amended for technology-led administration services. These are no longer pure 'business process' services, but rather now more akin to procuring cloud-based 'as a service' offerings.

What's useful to think about in relation to these innovative new approaches?

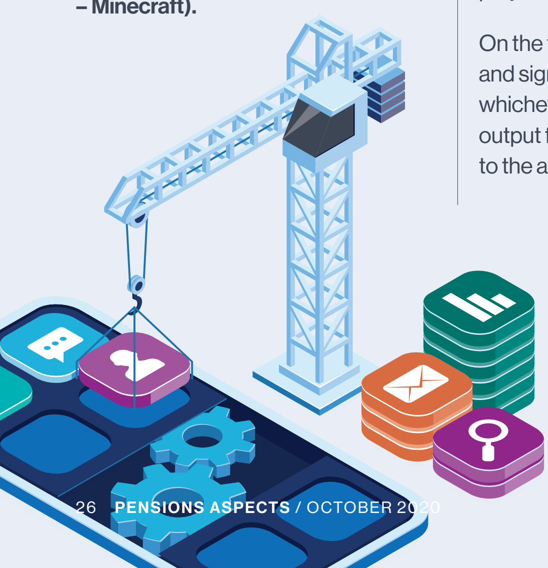
- **Platform selection.** Trustees must consider both (a) the functionality on offer (what are administrator personnel and members able to achieve on the platform? Does the platform work alongside existing systems like payroll?), and (b) the roadmap for future development (is there a commitment to ongoing regulatory compliance? Will the administrator absorb the costs or spread them out across its customer base?).
- **Data and security.** While established providers usually understand trustees' regulatory and data protection obligations, they generally take a robust approach to liability for data loss and cyber security incidents, and the adoption of trustee or employer policies and procedures. This makes it more important than ever to understand the provider's approach to data location (storage and remote support), use of subcontractors, and adherence to key security and data breach standards.
- **Data cleansing.** Will the administrator take responsibility for conducting data cleansing or mapping? This is a particularly important consideration for Defined Contribution (DC) schemes that are thinking about moving to a DC Master Trust.
- **Responsibility for errors and omissions.** Will the administrator accept liability for unavailability or defects in the underlying technology platform?
- **Continued access to the platform.** Finally, will the administrator have continued access to the platform in the event of insolvency or breach by the platform provider? Similarly, what is the position on exit? Can a replacement provider take over the relevant platform licence?

As the market continues to evolve, the key message is that trustees should plan ahead. Whether negotiating with an incumbent or new provider, ensuring the right negotiation team is in place and maintaining some competitive tension in the process can be critical to ensuring the best outcome for members and the scheme.

How innovation in technology can smooth the path through GMP equalisation

By Mark Williams, Principal at Buck and Chair of the Pensions Board at the Institute & Faculty of Actuaries

For those of us that love Guaranteed Minimum Pension (GMP) equalisation it is an enjoyable conundrum; an epic journey with exciting twists and turns along the way. However, for everyone else, it is a horrendous mess involving all manner of stakeholders (trustees, employers, actuaries, administrators, communications experts, scheme members, lawyers, Her Majesty's Revenue and Customs (HMRC), the Pensions Administration Standards Association (PASA), the Department of Work and Pensions (DWP), regulators and – if it all gets too much – therapists), and bits of kit (administration systems, actuarial valuation software, data analysis tools, conversion calculators, mail merges and – if it all gets too much – Minecraft).



Plus, ultimately, this is a project that will add precious little value to anyone – not to the scheme, not to members, not to your cat.

So how do we find a way through this that minimises the pain and puts all this to bed in as efficient a way as possible?

For the stakeholders, clarification of roles and responsibilities is a must to avoid duplication of work or horse-trading over key aspects of the process. A common debate is whether the actuaries or administrators take overall lead for the project. As an actuary it pains me to say this but much of the process is distinctly 'un-actuarial', involving complex interrogation of historical pension amounts. The actuarial bits – in particular conversion (if used) – may be comparatively straightforward. Either way, establishing a GMP working group or trustee subcommittee has proved an effective way to ensure a smooth project and to take key decisions.

On the technology, there is real scope to innovate and significantly streamline the process. Ultimately, whichever equalisation method is used, the key output from this whole process will be updates to the administration system. It follows that ensuring clear links from the administration system to the technology used to complete the data analysis and historical reconciliation (and back out again) will minimise frictional complexities and costs. What's more, this same technical approach should work for both GMP rectification and equalisation, whether or not these projects are completed concurrently.

With historical calculations themselves, this is not the time for precision to the third decimal place – that is neither possible nor necessary. Pragmatic methodologies that roll back and forwards a robust approximation of the relevant pensions such as the 'Delta' or 'Janus' methods may be the way forward here, requiring less data and sweeping away some of the less material technical complexities.

There will, of course, be special cases that need specific attention, but a 'data in, results out' approach may yet be achievable for chunks of a scheme's membership.

So, with the benefit of a slice of innovation and the creative use of technology, it may yet be possible to plot an efficient – and, dare I say it, enjoyable – path through a scheme's GMP journey.

Technology will need to keep up with rapid changes in the pensions world

By Daniela Silcock, Head of Policy Research, PPI

One would be forgiven for not being up-to-date with all the pension changes that have occurred recently, or even over the last decade. State pension age has risen and is continuing to rise; people can now access pension savings freely from age 55 (rising to age 57 from 2028), with only their marginal tax rate to pay; automatic enrolment has brought over 10 million people into workplace pension saving; the Government is applying increasing pressure on schemes to take into account climate change in their investment decisions, and Defined Contribution (DC) schemes have overtaken Defined Benefit (DB) schemes as the main provider of workplace pensions (at least in the sense of active members, though not yet assets under management).

Unpicking the various consequences of these changes for members, employers, pension providers and the Government is a large job, which those of us in the policy world have been working away at. As part of the transition, the Government has brought several guidance bodies together, under the banner of the Money and Pension service (MaPS), in order to provide individuals with holistic lifetime financial guidance in an increasingly complex landscape. And the work that MaPS is doing really gets to the heart of the matter. If industry, the Government and support organisations don't respond in a sophisticated and nuanced way to all of these changes, then the people that will ultimately suffer are the members who are counting on the system to help them to achieve an adequate retirement income.

I wish I had a simple answer to how we do this. Once you drill down into all the factors which need to be considered, for example, behavioural economics, cost to the Government, cost to industry, support from employers etc. it becomes clear that the 'answer' if it exists, is a complex approach, built on consensus which takes into account the (often conflicting) needs of all stakeholders. Clearly, this has and will continue to take some time.

In the future landscape, which, I suspect, will involve a much more sophisticated virtual offering of advice and guidance (supported by the upcoming Pensions Dashboards), and more comprehensive information on the quality and sustainability of investments, technology will provide the infrastructure for each new development. Which brings me to the point of this article.

The design of policy and the development of support will only ever be as good as the underlying technology that provides access. Industry and policy-makers will need to continue to invest in and see technology as an essential enabler for the evolution of the policy world if we are to reach the common goal of developing an affordable system which provides members with sufficient opportunities to achieve adequate retirement incomes.

Aptitude Accredited
Professional Trustee column

Technology supporting governance

By Kim Gubler, Director, KGC Associates Ltd

Administration – such a simple word. Trustees could be forgiven for thinking overseeing administration is the easy part of governance. But times have changed. Whether you're a trustee of a Defined Benefit (DB) or Defined Contribution (DC) scheme – technology underpins how benefits are delivered to your members. Innovations in technology mean that many members can now interact with their schemes online. Even with DB schemes, enriched functionality is allowing people to transact and engage online with their schemes. Administration platforms are now largely cloud-based which helped enormously during lockdown when remote working was forced on the nation. Similarly, biometric identity verification (IDV) means people don't have to post precious certificates in order to receive their benefits; they can prove conclusively who they are simply by using a mobile device.

As a trustee, you're not expected to understand the underlying technology of remote systems, enriched web functionality and biometric IDV, but you are expected to appreciate they need to be overseen differently. Governance is more complex and different questions need to be asked of administrators. Their management information should reflect this in the Stewardship Report. The Standard Lifetime Allowance (SLA) for wholly online transactional processes are practically meaningless, it is better to understand the web experience to see how it can be improved. Trustees can see how different cohorts within their membership are behaving and interpret their needs. They can understand if they have pockets of digitally disadvantaged members and ensure these people are not forgotten in the race for fully automated self-service systems. They can survey their members to appreciate changing attitudes to investments – such as Environmental, Social and Governance (ESG) factors. They can understand where there are bottlenecks in a web-based system which could indicate areas of poor data, or poorly designed processes. Innovations in the technology underpinning administration means that historical peer review and checks should be replaced. After all, it's no good having a high-tech administration system where every calculation is coded correctly but then manually checking each one! But regularly audited benefit specifications and test packs are vital to ensure that systemic error doesn't creep in. Web-based systems must also be cyber secure and trustees should insist that this is independently audited. Whilst technology shouldn't mean cheaper, it should mean better value and trustees need to become adept at measuring this.

People are more vulnerable in economic downturns and no trustee wants their members to become victims. Although not all linked to technology, the Financial Conduct Authority (FCA) reported over £30m has been lost to pension scammers since 2017. The Pensions Regulator (TPR), FCA, and the Pension Scam Industry Group (PSIG) have great collateral to support schemes in combating scams. Administrators are the front line in protecting members through robust processes to spot potential scams. Trustees should engage with their administrators to ensure innovation and technology delivers a high quality service, better member experience, and protects their members.

Being accredited – I believe that being a PMI Accredited trustee is an important step for any trustee and the first in ensuring you do the best job you can when you have responsibility for people's pension money. It is the baseline to test you understand the governance needed for this important role. But, built into accreditation is continuing professional development and this is vital to ensuring you keep knowledge up-to-date.

Aptitude Accredited Professional Trustee column

Getting the message across

By Nigel Waterson, Independent Accredited Professional Trustee, former Chair of NOW: Pensions, and former Shadow Pensions Minister

It is one of the verities of the Covid-19 pandemic that it has accelerated existing trends – in technology, home-working, internet shopping and so on. We have all had to learn new skills, or hone existing ones, to master Zoom meetings etc.

And as we emerge from lockdown, of course trustees will be engaged in urgent discussions about scheme funding and investment. But we should not forget communicating with anxious scheme members. They really want to know the strategies for repairing their Defined Contribution (DC) pots, or securing payment of their Defined Benefit (DB) accounts.

This had me wondering why the pensions sector still lags behind others, especially retail, when it comes to modern communications. Even political parties go in for 'micro-targeting' these days.

There are, of course, some noble exceptions. For example, there are some groundbreaking tech platforms in the master trust sector. But many schemes still struggle with poor data and old-fashioned methods, especially when it comes to the use of technology. By now, it really should be commonplace to have a smartphone app for scheme members. Younger members especially regard this as routine in their banking and shopping. Why not for something as crucial as their pensions?

Environmental, Social and Governance (ESG) factors are rightly near the top of most trustees' agendas. But a key component of responsible investment is member engagement. This is a particular challenge for master trusts, where members have been auto-enrolled and not had to make a conscious decision. Inertia cuts both ways, but even polls of members' views often produce a pathetically small response. People have busy lives, and we trustees need to accommodate that in our approach to member communication.

The traditional solution has been to send members long wordy letters (and I confess as a busy young lawyer in the City at the start of my career, I didn't bother reading this stuff either).

A good start is to segment the membership by age (clearly members have different interests and priorities near the beginning and the end of their careers), and gender – we found in my previous master trust that a high proportion of female members were doing one or more part-time jobs, and, sometimes, women are likely to have career interruptions due to caring responsibilities.

A single common message for all members is not the answer.

And we can tailor messaging to significant life events – marriage, having a baby, divorce, moving jobs, bereavement, and so on. These could all trigger an appropriately tailored communication from the scheme. My fellow professional trustee Michelle Cracknell has recently written eloquently on this subject. Pension scheme data, if (and sometimes it's a big if) it's accurate and up-to-date – is a veritable treasure trove of information about members' lives.

I recently qualified as an Accredited Professional Trustee. Given my years as both a politician and as a trustee; why bother? We can all benefit from updating our skills and knowledge. I found the PMI process rigorous, relevant and I believe it is flexible enough to respond to ever-increasing demands on trustees in the future.

From minor data to Master Trusts

Member engagement in 2030

This is the third essay in a series of six produced by the PMI's Master Trust Innovation Workstream. This essay aims to set out how we can expect member engagement with Master Trusts to evolve in the next five to ten years. This is an abridged version; the full version can be found at: https://www.pensions-pmi.org.uk/knowledge/pensions-aspects-magazine/from-minor-data-to-master-trusts/

Research by Broadridge indicates that by 2027, total accumulated assets within Master Trusts (MTs) will exceed £368bn and MTs will account for 78% of the trust-based market. Due to ongoing consolidation, we can expect there to be around 20-25 MTs in the next five years, and with such anticipated growth and consolidation, one might ask how innovation for member engagement could and should develop through to the next decade?

Big Data, algorithms and AI for better member engagement:

Within the next five years, machine learning combined with behavioral science will revolutionise how members engage with their pensions. And it could look like this: Artificial intelligence (AI) nudging an individual in the right way (for them) when there is an anticipated or actual change. This impending change may not always be recognised by the individual as having a financial impact. AI, big data and behavioral science will enable individuals to (1) recognise that a financial change is required or due, (2) use motivational language and tools specific to them and their behaviours, and (3) make the process of taking action much easier.

Crucially, the language and information used to motivate the individual will be tailored to their personality. For example, if the member is a personality type that likes to keep up with their peers, the message to entice action could be, "9 out of 10 of your school friends are saving x% into their pension and they can anticipate to retire with £X amount".

Pensions Management Institute
MTWG Innovation

The rise of ESG

Demand for transparency of investments and responsible Environmental, Social and Governance (ESG) investing is rightly on the rise and proving to be a key area of differentiation for MTs. Campaigns like Make My Money Matter will have members thinking "I can support causes close to my heart with my money right now while saving for my later life." As a result, members will demand the technology for transparency. The recent Boohoo scandal demonstrates this requirement.

The power of default inertia

Advancements in technology and the role of the 'default' could mean that what was the scheme default moves towards being the member's default. If we accept that a human's innate inertia for pensions engagement is not going to change, how can we use that power of inertia to help automate what is required of their default or, indeed, contributions, and so on. Through technology, life moments are automatically monitored and fed through to a default (managed within a framework), so that smart changes (to contributions for example) can take place without the member having to 'engage' in the traditional sense.

The foundations: Pensions Dashboards

None of the above can happen without the delivery of Pensions Dashboard. That is not to say that the above technology will only be available via a pensions dashboard, but that for such smart technology to work across the board, all schemes and all pensions must be brought up to a recognised and agreed standard for surfacing data that is of value to the individual.

One must surely hope that within the next 5 years, our country will have a valuable Pensions Dashboard. It is this project's founding technology (particularly for finding lost pensions, identity verification, data standards and governance) that will enable smart member engagement of the type mentioned above. Pensions Dashboard will open pensions to 21st century consumer technology.

Known knowns, known unknowns & unknown unknowns

With the information we have and what we know now, I think we can safely predict a positive change in the level of member engagement and that this engagement might not necessarily be in the traditional sense. There is no doubt that digital innovation, big data and smarter investment strategies, at both the accumulation and at-retirement/decumulation stage, will revolutionise member engagement over the next 5 – 10 years, and not just for MTs, but across the entire pension spectrum.

Pensions is more than just investments, at least for me!

By Kam Chang, Partner and Head of Client Advisory, SECOR Asset Management

My first stint with the pensions industry started in the year 1997, when music from Elton John, the Spice Girls and the Backstreet Boys were topping the charts!

At 19, I joined General Motors (GM) global pension group in New York as an intern. My interviewer, Head of the Global Fixed Income team at the time was really impressed by my honesty, eagerness, and willingness to learn even though I did not have a clue about the pensions sector. He decided to take the plunge and put his faith in me. Today I am Head of the London office at SECOR, a boutique advisory firm, and my interviewer- still my boss- is the Founding Partner and CIO of SECOR.

My work in GM, the things I did, and the life experiences I had in the company have moulded me for the rest of my life. As an intern, I did not shy away from doing any task. I was very proactive – did anything and volunteered for everything. From making copies and aggregating performance data (without excel sheets!), to organising company sports events and charity balls; I have done it all. Upon graduating from university, GM's global pension group hired me as the first ever investment analyst who had neither an MBA degree nor work experience to match.

In my 14 years with the organisation, I managed billion dollar portfolios, took the role of investment analyst, and was the business advisory leader. During my role as an investment credit analyst, I began by covering global autos for an internal portfolio manager. I was thrown in at the deep end when the portfolio manager left the position. I had to take responsibility for one of the biggest multi-manager distressed and alternative high yield funds in 2002.

My boss is a former military man and always said, "chaos creates opportunities so always be ready to turn it in your favour". When I joined the board of a former publicly traded company, and a couple of creditor's committees in the year 2004, I got the hands-on experience of what he meant by it. I undertook a project to sell distressed businesses. Not only was the project intellectually stimulating, but I also got an excellent opportunity to learn about different cultures and international finance as we were attempting to sell a British-American textile brand to a Chinese manufacturer.

A significant highlight of my career was when GM wanted to open an office in London to help manage external client pension plans. I could not resist and jumped at the opportunity. Having spent 14 years in an investment-focused role, I moved to London to help GM build out the company's pensions presence in London. Not long after, chaos struck. Following the 2008-2009 global financial crisis, GM filed for bankruptcy and decided to move away from everything to do with financial services to focus on the core operation of making cars.

A challenging time for everyone, but we took this as an opportunity (drawing strength from what my boss said about chaos). Having built a strong relationship and a tremendous amount of trust with our clients, in 2010 we took the chance to 'spin-off' from GM and started SECOR with our largest non-affiliated client. The experience was both exciting and scary, as we branched out into business for ourselves, with all the core team embracing their inner entrepreneur.

Big firms, like GM, provided me with a great foundation in pension management and engrained a strong fiduciary mindset; however, within SECOR I have had the opportunity and the ability to make an impact from day one. Today, as a business leader at this firm, we know that people are our greatest asset, and this has been demonstrated during the Covid-19 pandemic. We aim to provide the same opportunities we were afforded in our careers to our analysts and managers who will be the next generation of 'SECOR-ers'. As I sit today, reflecting upon my 24-year career to date, I am excited to see where this next generation will take our firm.

My advice to youngsters interested in joining this industry:

Summer internships and part-time jobs provide an excellent opportunity for students to use their holidays to explore career opportunities. London is rife with possibilities. Take up autumn and winter internships when most other students are back at university.

The future of DB funding

By David Fairs, Executive Director of Regulatory Policy, Analysis and Advice, The Pensions Regulator

Our first consultation on Defined Benefit (DB) funding closed last month (September). It ran for six months and we wanted the industry's help to shape the foundations of how we regulate DB schemes for years to come. I'm delighted that we received about 150 responses.

My team are now analysing the responses, which will inform the next stage of our consultation process. They will further develop the rules and principles of the draft funding code, and then engage with industry to test our ideas. Once this has been completed, and we have the final legislative package from the Government and the draft regulations, we will launch the second consultation on the draft DB funding code. Pleasingly, it looks like many have taken up the challenge of setting out their view of the balance of costs and security of member benefits, and some of the challenges for open schemes and multi-employer schemes.

In this article, I will reflect on some of our key proposals and how they should provide open and closed schemes with the clarity and flexibility needed to protect member benefits. To do this, I will answer some commonly asked questions.

What is the twin-track approach to valuations?

The current funding framework is working largely as intended. However, there is room for improvement, specifically around providing greater clarity on what we expect from trustees and employers.

That's why we proposed a twin track approach to compliance – Bespoke and Fast Track. Under Fast Track we will set out clear guidelines around what we think is an appropriate scheme funding approach. This will be particularly helpful for small schemes with less access to advice or more limited budgets.

We plan to say more about these benchmarks in our second consultation process next year.

The current regime means that all schemes effectively take a Bespoke approach and are assessed on a case-by-case basis. But, without explaining what 'good looks like', we are not making efficient use of our regulatory resources. We have found, over recent years, that employers and trustees find it helpful when we clearly set out our position in reaching the right balance for setting technical provisions and future contributions.

How does The Pensions Regulator (TPR) propose to regulate the Bespoke option?

Bespoke is a scheme-specific approach, similar to the current regime all schemes are in now. However, our proposals in the first consultation intended to bring clarity for schemes and objectivity to assessing that valuations and recovery plans are compliant with legislation.

Bespoke will offer trustees flexibility if they cannot, or choose not, to meet Fast Track guidelines – although of course trustees will still be expected to follow our core set of principles. Trustees will also need to explain how or why their Bespoke arrangement is appropriate and we will look to see how it deviates from Fast Track and how any additional risk has been managed.

Trustees of schemes in Bespoke may have a closer relationship with us if we want to ensure their valuation meets our compliance expectations. However, we envisage many Bespoke arrangements will be relatively straightforward and may not require further engagement from us.

What will the DB code mean for open schemes?

Our proposals sought to secure a reasonable balance between protection of member benefits, fairness between schemes, and flexibility for schemes to fund and invest as they wish – especially where they have a strong covenant and a long-time horizon.

We know the best support for a DB pension scheme is a strong employer. So, we're keen to ensure the new funding framework doesn't lead to unnecessary scheme closures by unduly increasing scheme running costs. However, for funding purposes, we think it is important to distinguish between past (accrued) and future benefits.

I firmly believe members' accrued benefits should be protected to the same level in open and closed schemes.

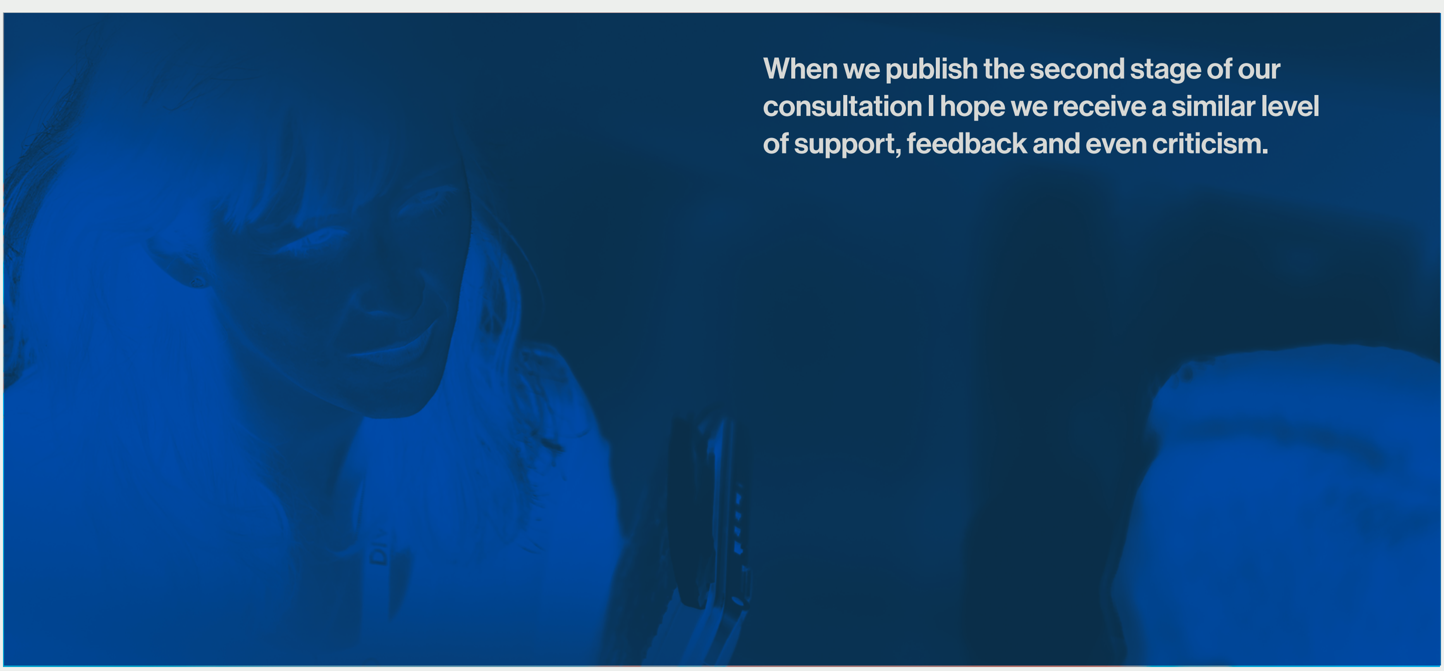
What will this mean for an open scheme's long-term objective?

We propose it should be the same as that of a closed scheme: low dependency funding by the time the scheme has become significantly mature.

However, open schemes tend to be less mature than closed schemes, so it will take them longer to become significantly mature and reach their long-term objective. Truly open schemes with a strong flow of new entrants might never mature. This means more flexibility over their funding and investment strategies in the meantime. Some of the discussions we have had suggest that not everyone has picked up on this within the consultation document.

Looking ahead

We welcomed the challenges and criticism of the approach and views we published back in March. These will help us develop a code that is robust, relevant and flexible enough for the real world. We have had a record number of consultation responses. To do each of those consultation responses justice, we will now take time to read them in detail and think them through carefully against the questions we raised. To all those who have taken the time to respond, could I say a heartfelt thank you, particularly those who have taken the time to set out why they don't think we have got it quite right and proposed alternative approaches.



When we publish the second stage of our consultation I hope we receive a similar level of support, feedback and even criticism.

To advertise your services in Pensions Aspects' Services Directory, please contact adam@insidecareers.co.uk or call 020 8405 6412

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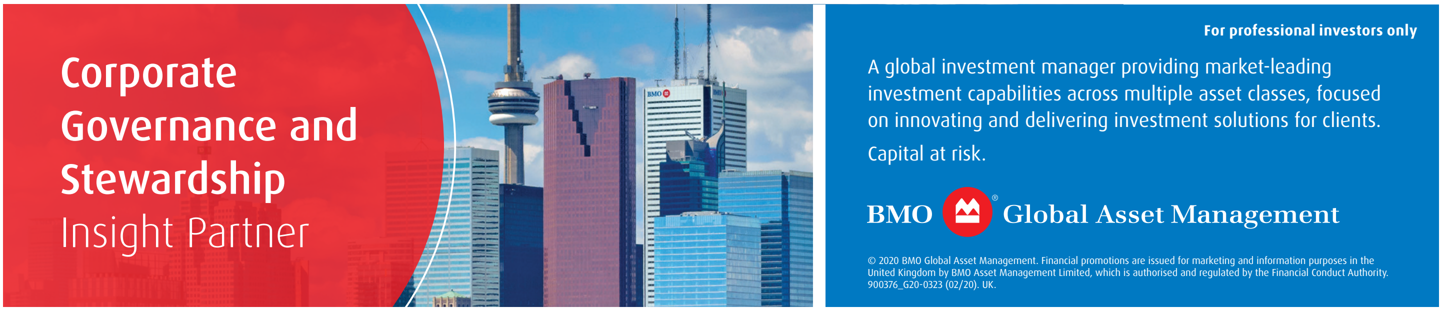

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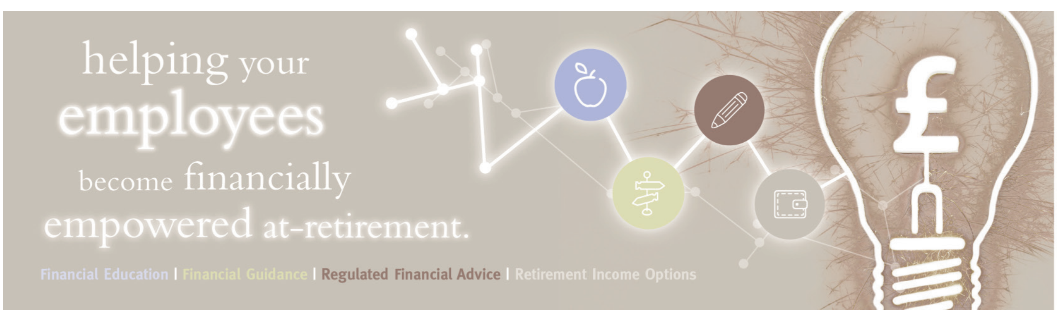

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