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July/August 2020

Pensions Aspects

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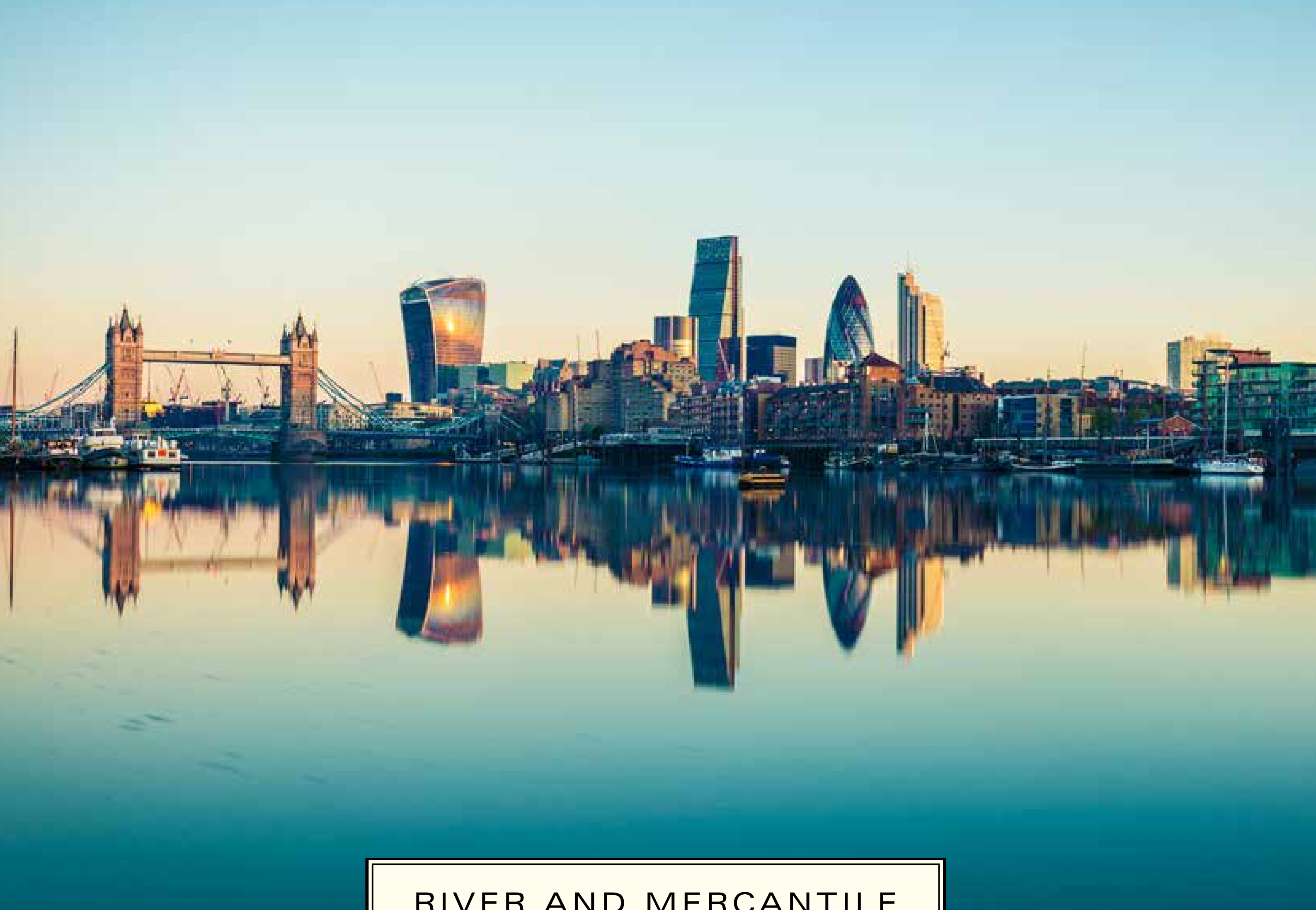

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Features Section

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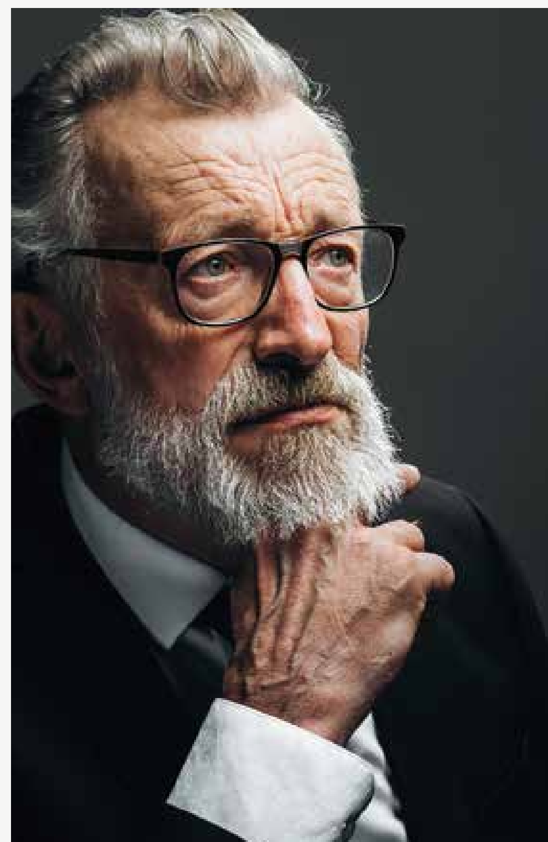

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COVID-19: good, bad or a flash in the pan? What does this mean for DC members?

Rosie Lacey, Group Pensions Manager, De La Rue

An unusual title for an article based on the impact of a pandemic on the pensions landscape. There has been a lot of coverage on the impact of COVID-19 in respect of Defined Benefit (DB) schemes in terms of employers being forced to defer their deficit recovery contributions coupled with the sharp increase in deficits as a result of the fall in investments. But for me the bigger crisis is the long term impact this pandemic will have on the Defined Contribution (DC) pots. We have known for years that members of DC arrangements bear all the risk and this is the time to help them through this minefield.

Many investment advisers say the worst is over and stock markets have bounced back. If you look at the statistics that is true but what long term impact has this had on member pots?

For members in lifestyle arrangements , quite often the default fund, the impact as you might imagine, has seen those in the growth phase of the strategy bear the most significant loses with a 25-30% drop in the value of the funds, primarily due to the focus on growth assets. Those at or near retirement have seen the smallest impact of around a 10% drop in assets due to the move out of growth assets. And those that are in the decumulation phase have seen drops of around 15%.

So what does this actually mean and what can we learn from this?

For members in the growth stage it is an opportunity to buy, buy, buy. Assets are cheap now so one gets 'more bang for your buck' and time is on their side . This is the good.

Those in the decumulation phase, 50 onwards depending on how far out from retirement switching starts, are likely never to recover from this pandemic. Their funds will be switching from growth funds whilst the market recovers and it is likely that their retirement funds will remain 10% lower than they were pre-COVID-19. That is a sobering thought for me as I am smack bang in the middle of that group. If I find this scary, I suspect there is a whole cohort of members who have no idea that their retirement plans might be in jeopardy.

Pandemics are, we hope, a once in a lifetime event but it will have long reaching effects, particularly for those who are retiring, whether this was planned or unplanned. Fund values have dropped overnight; can members afford to retire now? If not, will their employer allow them to stay on? Is the retirement unplanned but necessary as their employer has been forced to make them redundant or reduce their hours because they can no longer keep them on?

I am not sure we have ever had to consider these situations before where markets have dropped coupled with wholescale redundancies. Neither scenario can be planned for or necessarily be within our scope to manage.

Is this crisis more about communications than it is about investment? The Pensions Regulator's (TPR's) guidance is clear that it should be business as normal; DC to DC transfers should still be processed. I have also read a lot and heard about scammers cashing in on this situation. Speaking to one of the larger workplace pension providers in respect of my scheme members they have not seen any uptick in transfer activity. In my view, and this is my view and not that of the PMI, I feel the Regulator has missed the mark on how to deal with this pandemic in terms of how schemes can support their members through these times. It is less about scams but more about how we, as an industry, deal with those members who were on the verge of retirement or those members who are over 55 and need to boost their income due to redundancy or enforced reduction in hours. Does the Regulator's guidance go far enough?

> **Guidance is needed on how providers, trustees and employers support members and employees through these uncertain times.**

Does the default fund as we know it need reviewing? Has the charge cap caused some default fund strategies to move away from some of the absolute return funds which have potentially seen the smallest drops in values? Have we been forced to shape investment funds structure on cost rather than ensuring that our default options are more resilient? I am sure if I asked my scheme members what is more important to you, having a cheap fund that may or may not protect your money in adverse circumstances, or pay slightly more for a fund that is more likely to provide greater resilience in times of adverse circumstances we may get a different answer from where we are currently.

I have not touched on how we protect members who are in self-select funds. This cohort tends to be more engaged but again, it comes down to how we communicate with them: remind them to review their funds regularly.

Communications are key but are we looking at this the right way? Are we telling people what we think they want to know or what they actually want to know? Are we listening?

I feel I am left with more questions than answers, or is that just me?

Qualifications in unprecedented times

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

When we look at strategic investment in a pensions setting, then this will obviously guide us down the avenue of product rather than person. However, education is fundamental to development and growth. Education is also a strategic investment in its own right. Simply put, investments in quality education lead to more rapid and sustainable economic growth, and development for both the individual organisation and the economy as a whole. I make no apology for the insistence that education in this form is 'strategic investment' but without this as a holistic back note then none of the normal organisational processes would matter or run efficiently.

Strategic investment in education as a function therefore involves ensuring that an organisation has the right people who have the right skills at the right time.

This is exaggerated further as we find ourselves in the most operationally difficult situation we have been in as long as many current leaders, and some before that, can remember. COVID-19 uncertainties mean that organisations who entered the storm will not come out of it the same when it is over, and not all will see it through. Even if this were the only problem, then the 'long forgotten' issue of Brexit is still looming on the horizon.

Never before have we had to dramatically develop a systematic approach to a sustainable future, and we need to start looking more seriously at a strategic investment approach to learning and development, and as to what skills we will need and who we will need to manage in the 'new normal'.

It's no longer a case of weathering the storm, and more about learning how to dance in the rain. Strategic investment now will reap dividends for the future; it is a time to look inwardly and develop outwards.

It's no longer a case of weathering the storm, and more about learning how to dance in the rain

COVID-19: what have we learned so far?

Well we know that:

- Social distancing is the new norm. If people come within the 1m, 2m (or however many metres this ends up as) 'bubble' then this is seen as offensive and dangerous.
- International travel, even local travel, is falling apart at the seams as people turn to greener methods and online conferencing.
- Buying online is the easiest way to shop. Demand for online services in every sector is exponentially increasing and a greater efficiency in the operating of these companies is required to meet the demand.
- Data is the new oil. There is a rush towards 5G to facilitate home offices and enable and empower organisations to operate remotely. The rise in demand for new powerful PCs, servers and home connectivity devices like we have never seen before.
- Employees worldwide are experiencing enormous change during this unprecedented time. Workdays have been restructured, offices have closed their doors, and colleagues been made redundant. As a result of 'shielding' we don't go to the office as much; working from home is quickly becoming, and being accepted as, a new way of working.

A Gartner Inc. survey of 317 CFOs and finance leaders on March 30 2020 revealed that 74% of them will move at least 5% of their previously on-site workforce to permanently remote positions post-COVID-19[1].

Learning as a function of importance for companies' success has increased exponentially due to the pandemic, primarily because of this working from home phenomena. Almost no area of business has been unaffected, and although the future of the world, both inside and outside of business, is uncertain, one thing has become clear: organisations must provide employees with the tools to help with managing this unprecedented level of change.

The ability to learn and develop skills at home, whilst working, adds a sense of normality, purpose and structure to the lives of our/your employees, who, like us all, feel as though their world has been turned upside down.

Organisations must provide employees with the tools to help with managing this unprecedented level of change.

This is where the PMI has stepped in and is able to prepare your organisation to have, and demonstrate, qualified staff at every level. Over the last 18 months we have developed a Competency Framework, along the lines of professional development within the sector, for use with its qualification offer. The PMI Competency Framework allows your teams to examine educational gaps, or in fact actual gaps, in your present personnel. It also helps to determine organisational needs in the future. It provides a pathway and a direction of travel.

Pensions Management Institute

Learning

This type of framework is not new in any sense: much like Henry Ford and the First Model T Car in 1908, the technology wasn't new, but how he utilised it was groundbreaking. The PMI Competency Framework provides the route through our qualifications that has not been seen before in the context of qualification delivery for our sector.

We have also transformed our delivery approach to allow **every** learner to be able to sit any exam we offer in their own home by digitalising all of our examinations.

These changes have been necessary for some time and are now the reality of how we will approach learning and development. They will become our 'new normal'.

This is the level of investment the PMI has put in to satisfy the future needs of organisations working in the pensions sector. It is now up to those organisations to invest in the development of their workforce, work better and smarter, and make the most of the challenges moving forward by becoming more responsive.

[1] https://www.gartner.com/en/newsroom/press-releases/2020-04-03-gartner-cfo-surey-reveals-74-percent-of-organizations-to-shift-some-employees-to-remote-work-permanently2

Autumn exam dates

8 - 11 September 2020 – Certificate in Pensions Calculations. Bookings are now open, deadline to apply 3 August 5pm.

15 September 2020 – Award in Pension Trusteeship, Retirement Provision Certificate and the DC Governance exams. Bookings are now open, deadline to apply 14 August 5pm.

5 - 6 October 2020 – Advanced Diploma in Retirement Provision exams. Bookings are now open, deadline to apply 28 August 5pm.

Revision Course	Dates	Time From	Time To
DC Gov	18-Aug	09:45	12:45
RPC	19-Aug	09:45	12:45
Reward and Retirement Provision	01-Sep	09:45	12:45
CU1 A	02-Sep	09:45	12:45
DC arrangements	03-Sep	09:45	12:45
CU2	04-Sep	09:45	12:45
CU3	07-Sep	09:45	12:45
CU4	08-Sep	09:45	12:45
Professionalism and Governance	09-Sep	09:45	12:45
DB Arrangements	10-Sep	09:45	12:45
Managing International Employee Benefits (IEB 2)	No revision course, revision materials will be sent via email	N/A	N/A
Foundation in International Employee Benefits (Core unit 1B)	No revision course, revision materials will be sent via email	N/A	N/A

The fee for each online revision course is £55 per person. To find out more and to register, visit **https://www.pensions-pmi.org.uk/learning**

The Pensions Regulator

TPR continues to support trustees as they navigate the challenges ahead

We are continuing to listen and talk to trustees as they navigate these unprecedented times.

We are focused on the protection of savers however, it is right that we maintain our pragmatic approach so that trustees and employers are supported as they meet the challenges ahead.

Our updated guidance continues to provide provision for Defined Benefit (DB) scheme trustees to agree to suspend or reduce deficit repair contributions (DRCs), to help employers come through the challenges of COVID-19.

While our data shows that around 10% of DB schemes have sought to defer DRCs, with discussions ongoing for others, we recognise there is a continuing need to support trustees and employers in this way.

Trustees remain the first line of defence in protecting savers and our guidance also clarifies what we expect from them. From 1 July, trustees should resume reporting information to us. This will help us to look ahead, identify risks and take action where we need to, to protect savers.

Trustees should continue to be open to requests from employers to delay DRCs but we expect due diligence to be carried out. We want to gain greater insight into the employers' short-term liquidity developed since the COVID-19 lockdown began and we expect trustees to report on:

- Suspended or reduced contributions – we will expect a revised recovery plan or a report of missed contributions.
- Late valuations and a recovery plan not agreed.
- Delays in Cash Equivalent Transfer Value (CETV) quotations and payments.

From 30 June, we also expect Master Trusts to return to issuing a formal report to notify TPR for all triggering and significant events.

Transfers

The continuing economic uncertainty means that savers are vulnerable to making rushed decisions about their money and this leaves them at risk of pension scammers.

Our guidance continues to remind trustees that they should continue to issue a letter template to all members requesting a CETV quote. The letter is jointly prepared by TPR, the Financial Conduct Authority and The Money and Pensions Service, and it contains important information about what members should consider before making a decision, and where to go for additional information and advice.

Other key guidance updates

Our guidance also reminds trustees that we are continuing to take a pragmatic approach to annual benefits statements. We know the impact of COVID-19 means schemes need additional time to issue these statements to members. These easements will continue until 30 September – along with easements around trustees reporting failures to provide audited accounts – we will not take enforcement action in this respect.

The legislation around chair's statements does not allow discretion in relation to enforcement, so we will continue to impose fines if schemes don't comply with this requirement. However, this is only in relation to breaches before 31 March and we do not expect to be reviewing statements before the autumn.

And, in respect of automatic enrolment, we are continuing to support employers by maintaining the increased period of late payment reporting by providers from 90 to 150 days. The increased reporting period means employers have more time to work with their scheme to bring late or missing payments up-to-date so staff receive the pensions they are due. Information about this is included in our updated guidance for employers in respect of the Coronavirus Job Retention Scheme, which is in line with government guidance.

We will continue to review and update our COVID-19 guidance and trustees and employers should regularly refer to it to ensure they are aware of the support available, and what we expect of them, as we work together to continue to protect savers through these unprecedented challenges.

Membership

2020-21 Membership Renewal Subscriptions

Your membership renewal is due on 1 September 2020 and subscription renewal notices have been sent by email to all student, certificate, diploma, associate and fellow members. If you have not received your renewal notice contact the Membership team at membership@pensions-pmi.org.uk or on 0207 392 7410.

PMI Membership Fees

Membership Category	2020-21
Student	£150
Certificate	£190
Diploma	£245
Associate	£335
Fellow	£430
Retired/Non-Working	£75

Direct Debit

To help members spread the cost of annual subscriptions, for the 2020-21 membership fee due on 1 September, for all members except Affiliate and Trustee members, you can pay your subscription over three months (1 Sept, 1 Oct, 1 Nov). Alternatively, you can pay your subscription as a single annual payment.

Please ensure your completed Direct Debit form is sent by **Friday 31 July 2020** to the Membership Department.

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 - **https://www.pensions-pmi.org.uk/membership/new-members/become-a-member/certificate/**

We are pleased to announce that **Azmal Ali** has been elected to Certificate Membership and can now use the designatory initials 'CertPMI'.

Membership Record

Please ensure that your personal details are correctly updated on the PMI member portal to ensure that there is no interruption to your membership service. If you require a reminder of your login details, please contact the Membership team at membership@pensions-pmi.org.uk or on 020 7392 7410.

PMI Membership Upgrade Waiver

The Board has decided to allow all future qualifiers after each exam to upgrade their membership without the appropriate election fee. The invitation to upgrade letter will be sent after your results have been confirmed.

The Early History of Pensions

Join author and actuary Chris Lewin for an exposition on the early history of pensions on Tuesday 8 September at 2pm. This event is organised by The Pensions Archive Trust and London Metropolitan Archives.
Find out more https://bit.ly/31xkrM6

Fellowship

Fellowship is open to Associates with five years membership and records of CPD.

We are pleased to announce that the following people have been elected to Fellowship and can now use the designatory initials 'FPMI':

Kenneth Mark Woodhouse
Ian Murray

Fellowship Network – sessions to take place remotely for 2020

The March sessions, chaired by our Fellow Network Ambassadors (FNAs), that were scheduled to take place around the country were unfortunately cancelled due to the COVID-19 lockdown. However, the two planned sessions for this year will now take place remotely.

All PMI Fellow members will be notified of the revised arrangements and we hope you can join us for these exclusive virtual sessions via our webinar platform.

If you would like to find out more about how you can become an FNA please visit the Fellowship Network page on our website **https://www.pensions-pmi.org.uk/membership/existing-members/fellowship-network/become-an-fna**

Student Essay Competition

Thank you to all those who entered our fourth student essay competition. Winners will be announced on Monday 20 July. Good luck to all those who submitted their essay and please remember if you were not successful this time, look out for further information on our 2021 competitions.

This competition is available to all PMI members who are studying for a PMI qualification.

The winning prize is £1000 and two lucky runners up will each receive £250. The winner's essay will be published in the September edition of Pensions Aspects magazine and the two runners up will each have their essays published on the PMI website.

Virtual drop-in session with the Membership team

Do you have any ideas, feedback, or suggestions on how we can improve our membership offering? We would be happy to set up a call to hear your views. Get in touch with us so we can organise an informal discussion.

For further details contact the Membership department at membership@pensions-pmi.org.uk or on 020 7392 7410.

Our new website is now **live!**

Visit
www.pensions-pmi.org.uk

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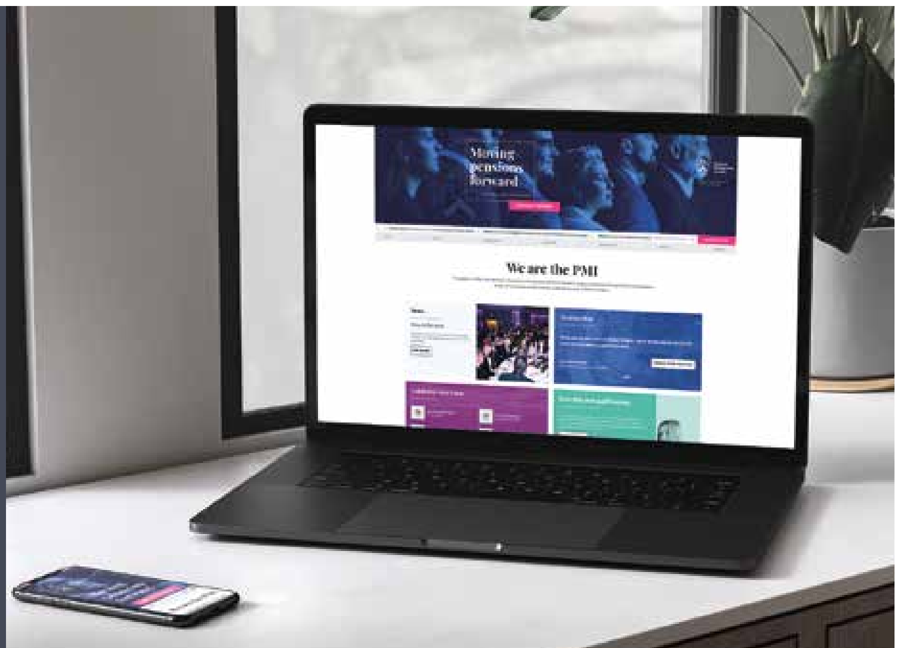

Our business webinar on employer covenant challenges held on 20 May was a great success! 76 members logged in to listen to a panel of experts while (hopefully) enjoying the sunshine. The webinar was very well received and was very engaging. The Committee would like to thank Tom Austin, Paul F Brice and Matt Harrison for sharing their covenant expertise as well as Amanda Burden for chairing the event. Thanks also to Emma Watkins and Nisha Harley for their help with planning the webinar.

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

The Committee sends best wishes to our members during these challenging times and we're looking forward to meeting again in person when government guidelines allow us to do so!

It is with regret that the PMI South West Committee have decided to cancel the 2020 Annual Dinner which had been postponed from May to September. A new date has been agreed for 2021 and we will liaise directly with those that have booked a table to arrange a transfer of their booking or a refund.

An aptitude for **trust.**

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Flagship events

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

21 Sep
Annual lecture 2020
Online

29 Sep
Introduction to Pensions (The Basics): Virtual event
29 September - 7 October
Online

08 Oct
DC and Master Trust Symposium
America Square Conference Centre 17, One Crosswall, London EC3N 2LB

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

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

04 Nov
Penstech & Admin Summit 2020
America Square Conference Centre 17, One Crosswall, London EC3N 2LB

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

03 Dec
GMP Equalisation Seminar
Mercer, The St Botolph Building, 138 Houndsditch, London, EC3A 7AW

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

Investment Strategies

This month's feature articles include:

14/ Employee wellbeing in a shaken population

16/ Effective stewardship across asset classes

18/ The changing shape of the global equity market cap index: Implications for DC schemes

Employee wellbeing in a shaken population

By Julie Walker, Principal and Senior Pensions Manager, Barnett Waddingham

Pension schemes don't exist in isolation - the pension strategy always has to be looked at in the joint contexts of the wider employee benefit and engagement strategies. 'Better outcomes for pension scheme members' takes joined-up thinking that incorporates the evolving employee experience. The COVID-19 pandemic is the biggest crisis that the UK has had to deal with since World War II, resulting in a seismic impact on the public, government, economy, employment and education. For large sections of the UK workforce, financial confidence has been shaken to its core. As we transition towards the very gradual return to whatever shape and form the new 'normal' takes, we should be realistic about the unique challenges, uncertainty, fears and concerns affecting the UK workforce.

Employee wellbeing

In our own work with employers, Barnett Waddingham approach employee wellbeing based on six key pillars - job security, financial security, health, support, protection and work/life balance – designed to help employers identify their own workforce's specific issues and priorities. In the current crisis, job security and financial health are coming into lasar sharp focus, and our research shows that the relationship between employers and employees has never been more important.

Our April 2020 survey looked at a representative selection of over 2,000 UK employees to understand their situations, how they are feeling and coping, and how well they feel supported by their employer.

Meet the people

- **79%** of the employees in the group we surveyed normally work full-time and **21%** work part-time.
- Among full-time employees, **22%** are currently furloughed, compared to **36%** of part-time workers.
- Furloughing has been used more among employees who are aged 18-24 (**30%** furloughed) and those with the lowest household incomes, where more people work part-time.
- Furloughing has been used more in the Consumer & Industrial Goods, and Services sectors (**36%** and **34%** of employees we surveyed have been furloughed), than in sectors where employees can work from home such as IT, Financial Services and Communications.
- Perhaps surprisingly, **23%** of employees in Professional Services have been furloughed.

- Regionally, the proportion of furloughed employees is reasonably consistent in a range between **23%** & **27%**, although Northern Ireland (**38%**) and the South East (**30%**) are higher, and the North West lower at **19%**.

Two thirds feel unconfident about the health of their finances
UK employees have experienced a sharp drop in confidence in their financial health in light of the COVID-19 pandemic. Comparing how they felt before and after the pandemic, three-fifths (59%) of employees were confident in their finances then, but now that figure has dropped to just over a third (35%).

Headline numbers

- Workers who have been furloughed have seen the most significant drop in confidence, falling from two thirds (65%) to under a quarter (23%).
- Yet big firms are failing to adequately communicate with their employees on financial health, with four in ten employees (42%) getting radio silence from their employer.
- Less than half (46%) of the UK workforce say that they are satisfied with the communication from their employer during the COVID-19 pandemic.

Furloughed workers have been hit the hardest by the pandemic. They have experienced the greatest drop in their financial confidence from three-fifths (60%) to under a quarter (24%.) The Government's job retention scheme has enabled employees to retain their jobs, but with many living on 80% of their normal salary and with increased anxiety about their job security, it has impacted their sense of financial health. Moreover, a fifth (18%) of employees currently on furlough ultimately expect to be made redundant.

Younger workers, aged 18-24, are the most insecure about their finances at just under a third (32%) now reporting financial confidence, compared to a half (52%) before COVID-19. **Men feel more confident than women** in their financial health both before and after the pandemic. Men's financial confidence has dropped from 60% to 36%, versus women's from 58% to a third (33%) now.

Communications and engagement strategies

Communication from employers is key to maintaining confidence and wellbeing, and this is a critical time to be engaging with employees to help reduce their worries about their financial and mental health. **Yet a third (34%) of employees** say they have received no communication, and a **quarter (27%)** only a little communication from their employer about financial health.

For furloughed workers, who are more likely to be struggling at this time, almost a third (31%) have heard nothing from their employer to support their financial health, 28% have had a little communication, and almost half (46%) have had no communication regarding their mental health.

Perhaps surprisingly, the biggest firms are falling furthest behind when it comes to communicating with their employees about financial health. **Two-fifths (42%) of employees at firms with over 5,000 staff say that they have received no communication from their employer**. This compares to just over a quarter (27%) of employees at mid-sized firms with 50-200 staff, and the group who are also most likely to receive 'too much' communication.

What employees are saying about employer communications

Effective and engaging communication is about the balance between quality and quantity, and, ironically, there is a very strong correlation in the results between the two:

- Captial - Less than half (46%) of the UK workforce say that they are satisfied with the communication they've had from their employer to support both their mental and financial health during the COVID-19 pandemic.
- Younger employees are the most satisfied with financial health communications but the least satisfied with mental health communications.
- The larger companies have delivered more effective mental health communications, but the trend is the opposite for financial health communications.

Moving forward - investing in engagement

Our research reveals a concerning lack of satisfaction with employer/employee communication. Even as employers face the significant challenge on business operating models, radio silence is not okay and can only serve to make the task of maintaining pension scheme engagement all the more difficult.

UK employees are obviously deeply concerned about the future and their financial survival. It is essential for them to feel that their current situation is understood.

Effective stewardship across asset classes

By Paul Myles, Director, BMO Global Asset Management and James Edwards, Director, UK Institutional Business, BMO Global Asset Management

Responsible investment means more than avoiding harmful sectors and seeking out sustainable opportunities elsewhere. Active managers should use their influence as stewards of capital to encourage positive change through engagement and voting. With this in mind, we consider what effective stewardship means across the asset classes most appropriate to pension fund trustees.

The growing demand for financial decisions to reflect environmental, social and governance (ESG) considerations is no longer a trend driven by personal values alone. There is now widespread awareness that aligning investment decisions with ESG considerations can enhance financial performance. Momentum is increasing from a regulatory perspective too[1], while the updated UK Stewardship Code, which came into effect on 1 January this year, has set high expectations of those investing money on behalf of UK savers and pensioners[2].

But responsible investment is more than avoiding certain sectors and seeking out sustainable opportunities elsewhere; its core purpose of 'doing good' must prevail. Active managers should use their influence as stewards of capital to encourage positive change through constructive dialogue and voting, ultimately driving a more responsible world. We consider what effective stewardship means across the asset classes most appropriate to pension fund trustees.

Engagement and COVID-19

Stewardship efforts are being impacted by the coronavirus pandemic, with longer-term sustainability issues harder to focus on as many companies concentrate on the immediate fallout from the virus. Overall, however, this crisis reminds us of our responsibilities to society. Dealing with the pandemic requires all of us – whether individuals or businesses – to consider the wider implications of our actions, a concept which is at the heart of responsible investment.

And whilst the immediate aftermath of the crisis saw some disruptions to the ESG agenda, such as postponed company meetings, we have continued to pursue our wider stewardship priorities, cognisant of the fact that this crisis will take many months to resolve, and that sustainability cannot just be put on hold. At BMO Global Asset Management, we chose climate change as our engagement priority in 2020. After careful consideration, we decided to maintain our focus, while of course remaining sensitive to the

current situation. The fact that May 2020 was the sunniest month ever in the UK is a reminder of just how much our climate is already changing. With the rescheduling of the critical COP26 meeting to 2021, we will work to build momentum towards a successful outcome.

Equity

Stewardship delivers the best outcomes when it focuses on the right issue for the right company at the right time. Engagement should therefore vary by company and the ESG issues at hand, ranging from ongoing dialogue with boards and senior executives to dedicated site visits. Meanwhile, collaborative investor engagements and initiatives can be key to improving ESG standards at a larger scale.

In 2019, we had 1,509 engagements with 765 companies across both equities and fixed income. 30% of our engagement linked to environmental issues, with highlights including a significant number of companies improving their climate-related disclosures and/or committing to ambitious emissions targets, including Amazon.com, Duke Energy and Volkswagen announcing net zero pledges. Approximately 47% of our total engagements were held with board directors and senior executives, with the remaining interactions held with company representatives, including investor relations professionals, company secretaries or sustainability specialists. 51 of our engagements were collaborative engagements with other investors and stakeholders.

Fixed income

Bondholder engagement is a concept that has only recently gained widespread acceptance. A major hurdle for early adoption was the question of whether investor stewardship should span beyond equities to include asset classes that don't grant the investor formal ownership rights. It was also unclear how issuers would respond to creditors requesting engagement meetings to discuss the management of ESG issues.

Our experience in engaging fixed income issuers contradicts this, and we have had little difficulty in securing meetings. A key factor is the need for continuous refinancing. Whereas companies only very rarely come to the market to issue additional equity, bond issues are much more frequent. The desire for these issues to be successful, we have found, is a strong reason for bond issuers to accept engagement meetings and to discuss ESG issues. Moreover, the impressive growth of the Green, Social and Sustainability bond issuances has further improved investor access to traditional bond-only issuers and, as a result, they have added ESG to their agenda.

Metals and mining company Glencore is an example of an issuer to which we assigned a negative ESG Credit Score on both a current and a forward-looking basis. This reflected increased legal risk linked to activities in markets in which it operates, as well as the impact of environmentally damaging mining practices. We developed an engagement programme and have engaged the company 36 times since 2011. While progress has been made with the publication of various ESG policies on human rights, climate change and water management, we believe that more needs to be done to fully restore investor trust in the company's ESG practices.

Liability-Driven Investment

Liability-Driven Investment (LDI) has not historically been seen as an asset class where stewardship activities have high relevance. We worked with our LDI team and identified that engagement with counterparty banks is a matter of long-term business viability, and comes with a special responsibility for the relationship. Over the past two years, we have engaged LDI counterparties approximately 90 times on ESG issues, including corporate governance (including board accountability and effectiveness, as well as executive remuneration), risk & compliance systems (including anti-money laundering procedures) and business ethics & culture. In 2019, we explored the environmental and social risk management policies and practices of counterparty banks.

Concluding thoughts

Effective stewardship across all asset classes should now be considered as front and centre within pension fund management, whereas in the past it may have been perceived that responsible investment applied to equities only. The variety of investment vehicles available to funds to choose how they want to invest now helps even the smallest funds exercise their fiduciary duty and adhere to the new UK Stewardship Code.

[1] Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector, 9 December 2019; Updated version of the Occupational Pension Scheme (Investment) Regulations 2005, October 2019.

[2] UK Stewardship Code, Financial Reporting Council https://www.frc.org.uk/investors/uk-stewardship-code.

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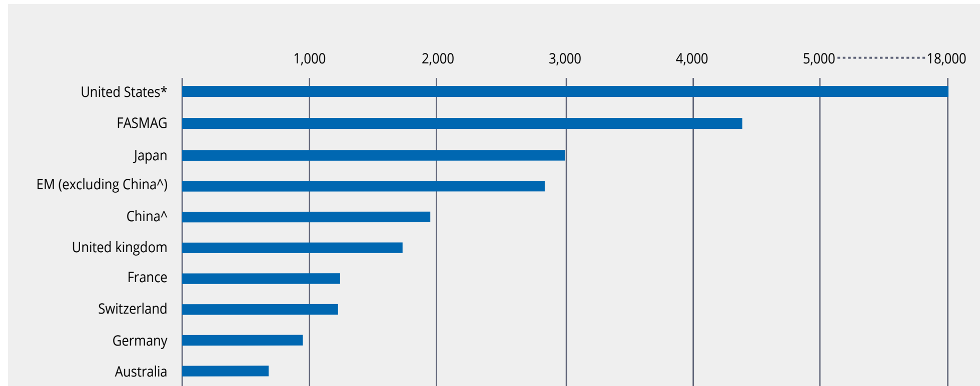
The changing shape of the global equity market cap index: implications for DC schemes

By William Chan, Head of DC Investment, Hymans Robertson LLP

The 'Internet of Things' is a term used to describe the connectivity and interaction between people, everyday products and services, and computers. We have been tracking the market capitalisation (in USD) of six stocks (Facebook, Amazon, Samsung, Microsoft, Apple and Google) over the past year, which are connected to the Internet of Things. The chart below shows that the combined market capitalisation of these six stocks is greater than the entire size of certain equity markets like Japan, the UK, and individual European countries.



Source: MSCI, Hymans (March 2020)

* The ~£18 trillion in the US excludes the market cap of the following five US stocks: Facebook, Amazon, Microsoft, Apple and Google.

^ Based on the MSCI China Index. The MSCI China Index captures large and mid-cap representation but currently excludes a large proportion of China A shares. The EM (excluding China) index also excludes Samsung.

The six stocks' market capitalisations are free-float adjusted in USD.

Prior to the COVID-19 crisis, the US equity market cap, excluding the five US stocks highlighted above, was closer to $30 trillion. The chart above shows that at the low of March 2020, this figure fell below $20 trillion (although at the time of writing, there has been a significant bounce back across the entire US market). These five companies have done extremely well because they have allowed people to maintain virtual connectivity, distribute content and maintain a global marketplace in the absence of physical connectivity or physical marketplaces.

Implications for DC schemes

- The majority of Defined Contribution (DC) schemes access equity markets using market cap-weighted index tracker funds. Therefore, assets flow proportionately into companies based on how large they are and not based on any other fundamentals.

- Trustees and governance committees should be aware of the increased single stock concentration risk in investing in a passive global equity index. Traditionally, concentration risk has been one of the main issues with the UK equity market with its significant exposure to the Financials and Energy sectors.

- What can go wrong with the Internet of Things? We have seen entire sectors change overnight due to a health-related virus. Could there be a cyber virus disrupting the companies mentioned above and stopping search engines, social media, software and online retail platforms?

- We believe that sustainability and long-term responsible investment will become significant issues across all companies. In particular, there will be increased scrutiny on labour conditions, an increased focus on operational risk and data privacy, and the implications of the use of technology over people going forward. Naturally, the larger the company, the greater the scrutiny.

- Trustees and governance committees should also be aware of the alternatives to a passive market cap-weighted tracker fund approach. This typically includes the use of active management (making a choice to invest in a stock other than just because they happen to be large), and a factor-based approach (tracking an index that has been designed based on fundamentals other than the size of a company in the index).

Community Investing:
Can Master Trusts lead the way?

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

The scale of Master Trusts means that they lead the way in innovation and improving member outcomes.

Master Trusts invest significantly in their proposition and the benefits of this should rightly be felt by both members and employers. Investment diversity is one such area, but how should Master Trusts approach this and what will future investments look like?

Laying the foundation

There has been much talk and excitement about alternative and esoteric investments (which I'll call 'exotic' for the purposes of this article), but before this is considered, the foundation must be laid by way of suitable 'governance budget'. This is more than a monetary consideration – a governance budget includes:

Skills, Knowledge & Experience

It's vital that the Trustee Board/Investment Sub-Committee have the skills, knowledge and experience as well as the time to be able to make informed decisions about 'exotic' investments. This ensures appropriate challenge is provided and means trustees continue to act in members' best interests. Trustee boards should carefully consider what the gaps are and look to address these – either by training or by bringing in the necessary expertise.

Resource

Another important factor is the ongoing resource required to monitor, review and make decisions – often in a swift and decisive fashion. Trustees are unlikely to be able to do this on a day-to-day basis, so Master Trusts will need to plan for this, perhaps by having a Chief Investment Officer (CIO).

Without an appropriate governance budget, Master Trusts really should not invest in exotics.

Think global, invest local?

Environmental, Social and Governance (ESG) issues have, rightly so, come to the forefront of thinking, and investment strategies should automatically and fundamentally incorporate this, rather than simply being an overlay or just an option. Investments should be made not only in companies that are best in the world, but also best for the world. However, is this enough?

In my opinion, recent events will lead to a greater sense of community and we will see members demanding that **investments are put into local projects, be that in infrastructure or local businesses that help the community – leading to ESG becoming ESG+C (Environmental, Social, Governance and Community).** Master Trusts should be considering how they can incorporate this potential demand.

A suitable balance must be struck with the traditional asset classes. They still have a major role to play, but there must be a tilt to this, and increasingly savvy members will want their pension to do good within the communities in which they live.

The challenge

I recognise that there are several challenges to investing in exotics including liquidity, charges, and balancing risk and return. I don't have all the answers, but I'm certain these are not insurmountable, and the Master Trust industry must find a way – after all, Master Trusts, more than any other type of scheme are well positioned to do this. I look forward to continuing the debate!

Insight Partner

Helping members avoid falling prey to investment scams

By Jonathan Watts-Lay, Director, WEALTH at work

Scams have been on the rise for many years and increased significantly following the introduction of freedom and choice. Although the changes brought much more flexibility for pension scheme members, the downside is that without sufficient knowledge, it can be easy for them to make poor decisions, such as falling for a scam which can create a permanent dent in their retirement income.

While the cold calling ban introduced early last year has helped to eliminate one way for scammers to contact potential victims, new methods have been developing with an increasing number of victims being targeted online. The Financial Conduct Authority (FCA) reported that over £27million was lost to online investment scams in 2018/19, with victims losing on average £14,600.

Although these figures are high and would undoubtedly be distressing for the individuals affected, the results from scams specifically targeting pensions are even more devastating. The most recent FCA figures show that victims of pension fraud lost on average £82,000, which for many savers takes decades to achieve. This leaves victims of pension scams approaching retirement with a significantly reduced income and, in some cases, victims have lost their entire life savings.

Unfortunately, the reality is that the situation is now getting worse due to the impact COVID-19 has had on global market volatility and the fact that many household incomes are under extreme pressure. Scammers are now using this situation to their advantage and pension savers are at greater risk of losing their pension to scams. Recent figures from Action Fraud show that over £5.3m has been lost to coronavirus-related scams since February 2020, with pension scams being among the most common type of fraud.

While the regulators and the industry are increasingly aware of scams and are putting measures in place to reduce the amount of pension savers falling victim to scams, there is still a long way to go.

Trustees are the first line of defence in protecting retirement funds and the industry is expecting them to step up to the task. The FCA and The Pensions Regulator (TPR) have issued comprehensive guidance on what employers and Trustees should be doing such as:

> signposting members to guidance from Pension Wise.

> identifying increased risks in how a member has decided to access their pension funds and give appropriate warnings of the risks and implications of their chosen option.

> sending all Defined Benefit (DB) members requesting a cash equivalent transfer value (CETV) a template letter signed by TPR, the FCA and The Pensions Advisory Service.

> monitoring CETV requests and inform the FCA of unusual or concerning patterns, such as spikes or the same adviser across a multitude of requests.

> sending a warning letter to Defined Benefit (DB) members looking to transfer funds to highlight the risks and urge them to consider the decision carefully.

Providing financial education and guidance to members at retirement can help to ensure members understand their options and the risks involved. Arming members with the facts on what they can and cannot do with their pension and the potential risks involved, will help them to make informed decisions and avoid making costly mistakes.

Financial education and guidance can also help members decide if they need further support such as regulated financial advice. This is also being encouraged by the Regulator, as they are calling on Trustees to promote taking regulated advice to its members.

Some schemes offer basic information on how their members can find an adviser but do not provide support in assessing the suitability of any given adviser. The downside of this became very clear in the British Steel fiasco when members were left to their own devices to find an adviser with many being ill-advised, at best, or scammed at worst.

While it is well-known that many Trustees have concerns over helping members gain access to advice, believing that they will be blamed for any bad advice given, simply referring members to a list of advisers to choose from, can lead to significantly poor member outcomes.

If done correctly, facilitating access to regulated financial advice does not carry the risk many presume. Having access to an adviser that has been vetted by the Trustee provides security for members and the adviser will be more familiar with the structure of the scheme, therefore providing better quality advice.

Introducing an adviser to a scheme after a thorough due diligence process can ensure that the responsibility for the regulated financial advice given to members, and the consequences of that, rest with the chosen provider and not the Trustee.

When searching for an advice firm, Trustees should:

> check whether the firm is regulated with the FCA and is authorised to provide specific advice, such as pension transfers

> research their experience with other pension schemes

> speak to other schemes using their services for an independent view of the firm and look at member feedback to help measure the quality of the service provided

> check whether the firm has a robust compliance process e.g. 100% compliance-checking of all transactions in place to help ensure the quality of advice given to its members

> check to ensure they have a robust regulatory record

> request a breakdown of costs for the types of advice available to help ensure the costs are competitive for its members.

Hedging longevity: the implications for your investment strategy

By Howard Kearns, Longevity Pricing Director, Insight Investment

Many pension schemes have managed their liability risks by hedging interest rate and inflation risks through a liability-driven investment (LDI) approach. As a result, longevity risk has grown in significance for many schemes.

This has led trustees to consider how to hedge longevity risk. The coronavirus pandemic has led to significant uncertainty over longevity expectations and how they might affect schemes' liabilities – but from a strategic perspective, many schemes are still considering their options. This has led to increasing interest in longevity swaps, which can be an effective and efficient way of hedging longevity risks.

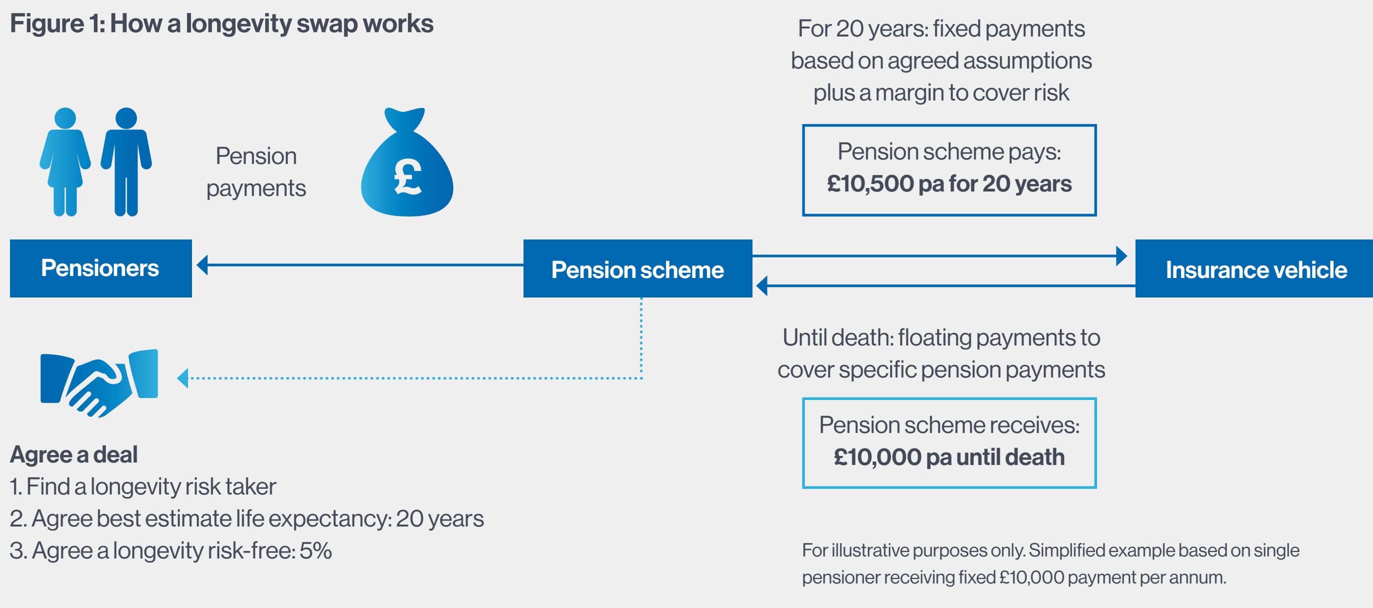
Hedging longevity risk using a longevity swap can have a direct impact on a pension scheme's investment strategy, including its overall return requirements and its collateral pool. However, it is likely to be more efficient overall than a buy-in, which can have more wide-ranging implications that make it more difficult for a scheme to achieve its goals.

How longevity swaps work

Under the terms of a longevity swap, a scheme agrees to make pre-defined monthly or quarterly payments to a reinsurer, via an insurer, in return for regular payments that cover the pensions due to a defined set of pensioners (see Figure 1).

The pre-defined payments paid by the scheme will reflect the reinsurer's best estimate as to the pension payments that will be required, along with an additional 'risk fee' to reflect the risk that the pensioners' longevity will increase.

The net effect is to transform the scheme's obligation to pay pensions – which may vary depending on the longevity of the underlying pensioners – into an obligation to make a series of pre-defined payments. As such, the scheme is no longer exposed to the longevity of the pensioners.



Return requirements may increase

Entering a longevity swap means a scheme must generate additional returns to cover the risk fee applied to the pre-defined payments made to the reinsurer.

For example, a 4% risk fee might equate to an additional annualised return of 0.25%. In terms of a corporate bond portfolio, this would be broadly equivalent to moving from a AA-rated portfolio to a 50% AA-rated and 50% A-rated portfolio.

A scheme would need to make a judgement as to whether hedging the longevity risk more than compensates for the additional investment risk that might be taken on to achieve the additional return.

Collateral assets may not be affected as you expect

To manage counterparty risk, longevity swaps are collateralised: assets reflecting the outstanding risk fee, and the changing value of the swap, are posted by the pension scheme and the reinsurer to minimise the economic impact if either party defaults on their obligations.

For most swap instruments pension schemes typically use, such as interest rate and inflation swaps, only allowed cash or gilts are accepted as collateral. In the case of a longevity swap, however, the list of eligible assets often extends beyond cash and gilts to include high-quality corporate bonds.

This can be beneficial for the scheme as it means assets that could not otherwise be used as collateral can be used to collateralise the longevity swap, easing the burden on the cash and gilt portfolio that may be used to collateralise other swap contracts.

For example, if a longevity swap hedges £1bn of pensioner liabilities, a scheme may be required to pledge £50m of assets as collateral on day one. If the eligible assets were limited to cash and gilts, this would materially reduce the pool of assets available to collateralise other swap contracts, increasing the amount of leverage associated with those contracts. By posting high quality corporate bonds as fee collateral, however, the pool of cash and gilts is left unchanged.

What about a buy-in?

Schemes might opt to address longevity risk via a pensioner buy-in, under which a portion of the scheme's assets are passed to an insurer, who in return promises to meet the pensions due to a defined group of pensioners.

A buy-in immunises against all the risks associated with a group of scheme members. However, buy-ins can consume a disproportionate amount of scheme assets versus the amount of risk they remove, which in turn places additional strain on residual scheme assets, potentially creating significant future risks for a scheme.

By allocating assets to the buy-in, and retaining assets to back its low-risk LDI portfolio (to hedge the non-pensioner liability-related risks), the residual assets must be invested in high-return/high-risk assets to achieve a full buy-out within the set timeframe.

By comparison, a longevity swap removes the same amount of longevity risk as a pensioner buy-in, but it has the advantage of leaving all of schemes assets available for investment. This means the scheme can dedicate all its assets towards the goal of reaching its endgame, unlike a buy-in under which a portion of the assets have been passed to the insurer.

Longevity swaps: an effective and efficient option for hedging longevity risk

Pension schemes are maturing, and their priorities are shifting: managing their liability risks effectively and efficiently are key if they are to achieve their target within a sustainable timeframe. Taking into account their potential implications for a pension scheme's investment strategy, longevity swaps can play an important role in hedging a key liability risk, ultimately supporting a pension scheme's journey to its ultimate objective.

Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.

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Cashflows, investment return, and risk management: how to juggle your needs without dropping the ball

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

The impact of COVID-19 means pension scheme funding levels have fallen, covenants have deteriorated, and liquidity requirements have increased. So, schemes need return, risk management and cash more than ever. Some investment strategies force trustees to choose between these competing needs. But meeting cashflow, return and risk objectives needn't be a juggling act. In fact, combining segregated LDI with CDI is available today, irrespective of client size, simply as a smarter investment solution.

UK PLC is under significant financial stress because of lockdown restrictions. It is estimated that 1 in 5 sponsors could suspend deficit reduction payments[1]. Future contribution affordability is a lot shakier with the biggest recession since the Great Depression looming. A wave of dividend cuts, higher bond defaults and weaker tenants mean asset income is also at risk.

It is, therefore, a crucial time for trustees to take a step back and revisit their cashflow management policy. Trustees should consider where to source their cashflow needs. Schemes with liquid and flexible investment strategies are well set to adapt. But some may find themselves in a cash-22 (!) situation, with less viable options.

Cashflow-driven investment (CDI) strategies have become increasingly popular in recent years. They provide a potential way for schemes to meet their liquidity requirements by investing in high-quality income-producing assets, such as corporate bonds.

Having looked comparatively expensive until recently, market turmoil has provided a more attractive entry point into CDI. Credit spreads, the return available on corporate bonds above government bonds, have increased significantly. Yes, the current landscape means the risk of default is higher. But in our view, with careful asset class and manager selection, the level of spread available compensates investors for this risk.

Even if we take the worst annual default rate over the last 40 years, current spread levels provide enough cushion to still provide a reasonable return above government bonds[2]. Bond-buying programs announced by the US Federal Reserve and the UK Bank of England this year mean unprecedented support exists for the US and UK bond markets.

But investors should still take caution, as some companies and sectors will be much worse affected than others. CDI portfolios are often more concentrated than traditional credit funds. So, any default within a CDI portfolio can have a greater impact on return and income relative to investing in the broad market. This highlights the importance of choosing a top quality and experienced CDI manager. Though whilst it might be the best CDI opportunity in half a decade, allocating to such a strategy can sometimes present a difficult choice for trustees.

- Do you fund a CDI allocation from growth assets? This will reduce the expected return from scheme assets at a time when funding levels may have been blown off track.
- Do you fund a CDI allocation from liability-driven assets (LDI)? This may reduce the level of liability hedging in place leading to high risk of deficits rising from here, particularly if you are using pooled LDI solutions.

> "Using the full toolkit available today means trustees can address all their risk management needs without compromise. So, no choosing, no juggling, and definitely no dropping the ball."

Segregated LDI provides an optimal risk management solution to manage liability and cashflow risk. A segregated liability hedge can be neatly built around specialist CDI assets. This represents a more efficient use of capital, freeing up assets to invest on risk and drive return.

This means that trustees don't have to make a choice. The liability hedge level can be maintained whilst improving the level of cashflow matching and leaving the growth assets to get you back on track

The juggling act of cashflow management, return generation and risk management can lead to a bigger deficit than expected in the future. But trustees don't have to risk dropping the figurative ball. Using the full toolkit available today means trustees can address all their risk management needs without compromise. So, no choosing, no juggling, and definitely no dropping the ball.

[1] Source: https://www.isio.com/news-opinion/opinion-suspending-deficit-contributions/

[2] Source: Moodys. Maximum annualised 10-year cumulative default rate for the investment grade credit market over the period: 1970-2017

Insight Partner

A recap on RPI reform

By James Geer, Senior Associate, Sackers

Earlier this year, the Government and the UK Statistics Authority (the UKSA) launched a consultation on proposals to address the 'shortcomings' in the Retail Prices Index (RPI). Responses to the consultation can be submitted until 21 August 2020, following an extension in light of COVID-19.

Any changes to RPI are likely to have a material effect on Defined Benefit (DB) schemes. So, what are the issues for those thinking of responding?

Why is there a consultation on RPI?

RPI was first introduced in 1947, and made official in 1956. But although it is still widely used, there has been growing dissatisfaction with the way in which RPI is calculated. In 2013, RPI lost its status as a National Statistic (partly due to its lack of statistical rigour), and it is charged with being a poor measure of inflation.

However, in order for any change to be made before 2030, existing legislation requires the Government's consent.

What are the proposals?

The current proposal is that RPI will continue to be published, but that its methodology will be amended to adopt that used to calculate CPIH (the Consumer Prices Index (CPI) including owner-occupier's housing costs), effectively aligning the two.

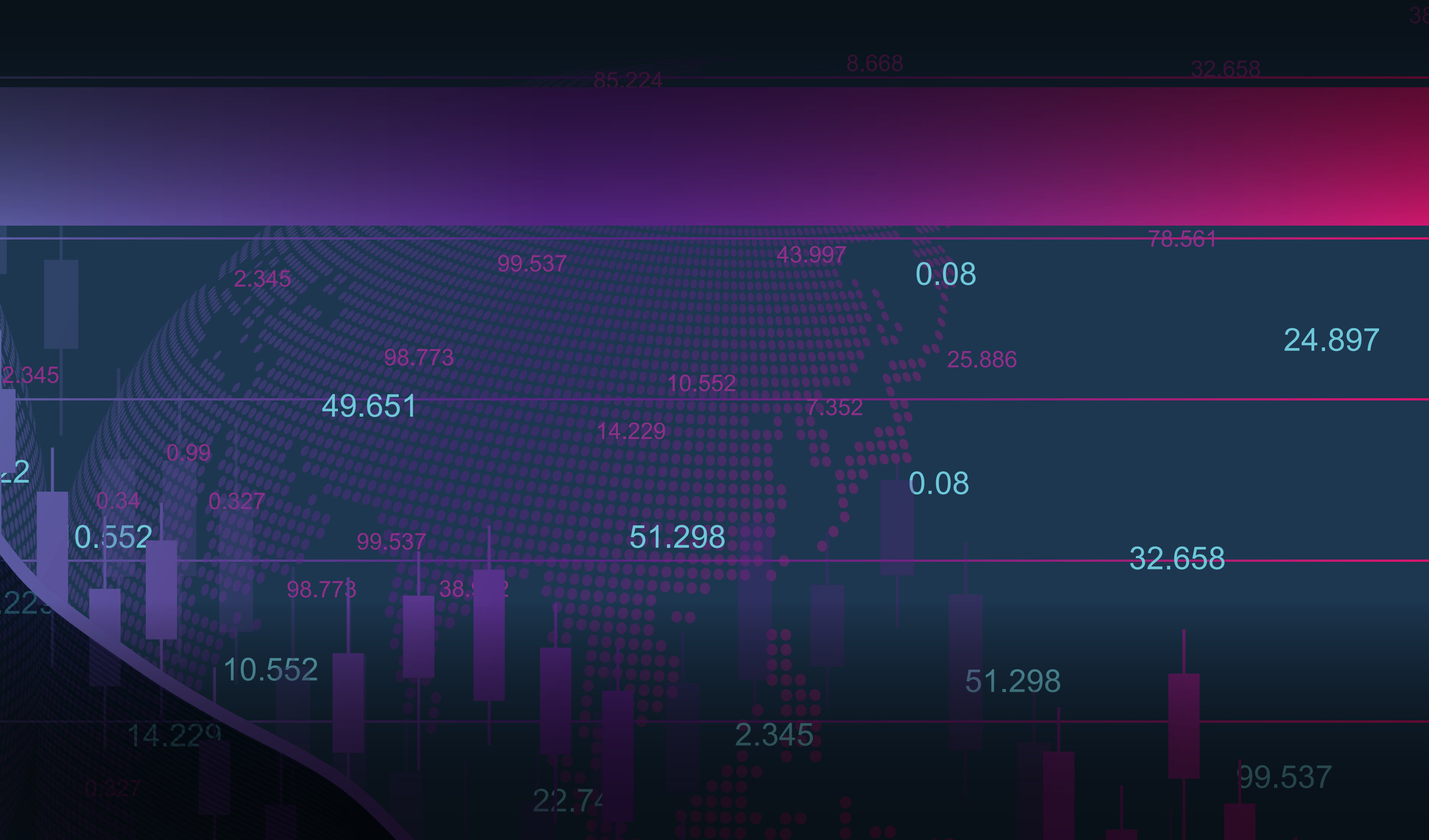
What is being consulted on?

The Government's position is that the change to RPI should not be made prior to 2025 but, absent further legislation, its ability to reject the proposals of the UKSA expires in 2030. As a result, the consultation is focused on when the Government should consent to the UKSA's proposed changes between 2025 and 2030, with the timing to be informed by the responses it receives.

The consultation is clear that the government's consent is constrained by narrow factors, such as the impact on holders of RPI-linked gilts and on public finances. That said, the consultation does ask for feedback on the implications of the changes more generally.

Hedging with gilts and funding position impact for DB schemes

Investment in RPI-linked gilts has long been a major source of funding for the Government as there is substantial demand from DB schemes. RPI-linked gilts are the primary tool used by such schemes to hedge inflation risk, as often there is not sufficient capacity available in the market for inflation swaps (and investments such as inflation-linked infrastructure bonds) to meet schemes' requirements. RPI-linked gilts are used as a hedging tool even by schemes whose benefits are linked to CPI or LPI (Limited Price Indexation), as currently there is very little on offer to hedge those directly.



If the past is a reliable indicator, the effects of the proposed change on the returns of those gilts can be expected to be significant: since 2010, RPI has been, on average, one percent higher than CPIH each year. The extent of the problem for any particular scheme will depend on the extent to which it uses gilts to hedge its inflation risk.

Impact on schemes with RPI-linked gilts

The precise effect on a scheme will depend on its particular investments and what is required by the scheme's rules. Focusing on what might happen in respect of gilt holdings:

> if a scheme's benefits track RPI exactly, then a lower RPI rate being paid on its gilt investments may not have a pronounced impact. For instance, if the liabilities are perfectly hedged, the lower return would match the lower amount of benefits payable, with the members bearing the effect of the reduced return on the gilts.

> for schemes with benefits linked to CPI and LPI, the expected return on the RPI-linked gilts over the level of benefits payable will be viewed as an investment. Any reduction in the expected return on its investments will affect the scheme's funding position and possibly also the scheme's ability to achieve its funding or de-risking goals in a given timeframe. This may result in the employer absorbing some of the cost.

In terms of timing, we are aware that schemes have invested in RPI-linked gilts which mature much later than 2030 (given the long-term nature of pension schemes' liabilities), and so, even if the change only takes place in 2030, this would still present an issue for them.

Is there any other redress available?

It is arguable that the effect of the proposed changes on RPI-linked gilts would be 'materially adverse' to their holders. If this is the case, the terms of gilts may permit early redemption, with the principal amount of investment increased for inflation. However, that would likely still not match the higher return reasonably expected by the scheme at the time the gilts were purchased.

Some may wish to argue in their responses to the consultation that compensation should be paid if RPI changes in the manner contemplated, based on the expected return that would be lost by the scheme. But whether this will now be feasible, particularly in light of Brexit and the economic impact of COVID-19, is a difficult question.

10 Questions

By Ian Pittaway, Senior Partner, Sackers

1. What keeps you awake at night as one of the thought leaders in the pensions industry?

I worry that the Defined Benefit (DB) journey to secure members' benefits has been put back by some years through the COVID-19 crisis. Funding levels have often worsened and many covenants will be weaker. We were doing well with many schemes on track to buy-out but I'm not so sure now.

2. What is the first word that comes to mind when you think of the pensions industry?

Complicated. So many different types of pension provision and hideously complex rules built up gradually over time. Poor members. I would love to be given a superpower to start again with a clean sheet of paper. My system would be quite different.

3. What motivates you?

I started off as a tax partner which was intellectually stimulating but I was just making rich people richer. Pensions brings all of that mental challenge but in a setting where ultimately you are helping people enjoy a better retirement. That still gets me going as much as it did when I started.

4. What have been the enablers of your success?

Realising that being a technically sound lawyer was just the start. It is all about the communication to clients and good commercial judgement. Clients want answers and positive direction not section numbers. The same principles have helped me build a successful career as a professional trustee as well.

5. What is the best piece of advice you have been given?

Don't worry about things outside your control. And if you are worried about something, reconcile yourself to the worst happening and then work – in a more relaxed and natural way – to stop it happening. It often doesn't happen.

6. What is an interesting trend you have observed and how could it be applied in the pensions industry?

The COVID-19 crisis has made us think long and hard about doing things in a different way, often through necessity. The NHS advanced changes in procedure in just a few weeks which otherwise might not have happened in decades - or at all. We need to capture some of that 'can do' thinking in pensions to improve the offering to members e.g. much more use of virtual guidance to help people make key decisions.

7. What lesson have you learned in the last year?

Never take anything for granted – but we are an ingenious race and it has been inspiring to see the invention being applied despite the sad circumstances. I hope we will have inspired a whole generation of innovators in every field to move us forward.

8. What challenge/s do you think the next generation will face and how it will affect the pensions industry?

At present, their emerging pension pots are not going to be enough to sustain their expectations of a prosperous retirement. They will need to save more – or generate wealth independently – or adjust their expectations, hopefully ahead of their actual retirement date.

9. What rules should we be breaking?

Throw them all on the compost heap and start again.

10. Where to next in your career journey?

I will stop being a lawyer at the end of the next calendar year but I intend to carry on with my portfolio of trusteeships , perhaps adding to them a little. I still love it as much as as when I started out as a callow youth!

Don't de-risk for the sake of it: the role of covenant in setting journey plans

By Felix Mantz
FIA CERA,
Associate Director,
Lincoln Pensions

High profile pension scandals and insolvencies, increasing select committee focus, and years of guidance from the Pensions Regulator (TPR) all point towards a regime of increased prudence in Defined Benefit (DB) pensions strategies. This new regulatory paradigm was meant to become reality in 2020 with a new funding Code of Practice from TPR backed up by increased powers from the Pension Schemes Bill. But the COVID-19 pandemic is now putting the industry in a difficult position.

Pensions managers, in particular, are often caught between a rock and a hard place. On the one hand, COVID-19 has significantly reduced the affordability of many sponsors, often forcing them to cut back on essential investments, furlough staff and/or reduce salaries, cut dividends, and defer pension contributions.

On the other hand, the consultation on the new Code of Practice is making it clear that DB schemes will need a journey plan towards a low-risk funding target, over a short period of time, and often with reduced reliance on investment returns. All of which points to even higher cash funding requirements.

Furthermore, the Pension Schemes Bill currently moving through the House of Lords introduces the threat of criminal penalties for anyone (pension scheme trustees, directors and advisors) risking accrued scheme benefits without a reasonable excuse.

Taking scheme risk appropriately

At the heart of these conflicting pressures is the strength of the employer covenant and, specifically, its ability to afford recovery plan contributions and underwrite any investment and demographic risks of the scheme on top. This concept of sponsor risk capacity is crucial to navigating the new DB code of funding, yet few sponsors evidence it to trustees in a robust manner.

Sponsor risk capacity can be seen as having three fundamental components: current financial resources, ongoing cash generation after key expenditures (typically referred to as affordability), and extraordinary management actions. Typically sponsors focus on the former and are conscious to present a strong, but not too strong, picture, to avoid being asked to funnel all of their expected cash generation towards the scheme. This can have the side effect of suggesting that the capacity to underwrite the scheme's risks is limited.

However, if we take one lesson from the COVID-19 pandemic, then it is that the level of management actions available should not be understated – from reducing payments to other stakeholders, dialling back investments, or even selling assets and operations; the number of levers in a worst-case scenario is large.

It is also important to consider how sponsor risk capacity is likely to change over time, especially when setting the scheme's investment strategy over the course of its journey plan. Firstly, as long as any investment risk taken (and noting that scheme risk dynamics may deteriorate as a scheme becomes more mature) is supportable by the covenant strength at the time, near-term de-risking of investments implied by the Code of Practice consultation may not be necessary. In fact, there are many situations where sponsor risk capacity could reasonably increase in future, be it after the repayment of amortising debt or other contractual obligations frees up cash flow, or even the post-COVID-19 economic recovery now expected by some commentators.

Taking business risk appropriately

A company exists to take risks which, overall, are expected to lead to a profitable undertaking for the benefit of all its stakeholders. However, the unlimited fines and up to seven years imprisonment for anyone risking accrued benefits being introduced by the Pension Schemes Bill, may cause directors and managers to start questioning their decisions. 'Risking accrued benefits' is a potentially wide-ranging definition, which could include many aspects of normal corporate activity that arguably weakens the legal entity that is the scheme's employer (e.g. standard corporate treasury functions).

But this should not stop corporates from taking important business decisions or neglecting their obligations to other stakeholders – corporates just need to ensure that no action is taken without considering the impact on the scheme. While the current form of the Bill offers little explanation as to what this entails, this should include (i) weighing up the decision from a covenant perspective, (ii) taking appropriate advice, and (iii) engaging with the pension scheme trustee.

As part of this, sponsors should illustrate the expected consequence for the scheme's covenant including sponsor risk capacity. For most strategic changes, this will involve balancing short-term risks with long-term gains. This is a trade-off which needs to be communicated clearly to make sure the trustee remains comfortable that any risks taken are ultimately in the interest of members. Formal upside sharing can help align the trustee's views with those of management and can be useful in unblocking strategic impasses and helping to mitigate individual risks from the Pension Schemes Bill.

Ultimately, the regulatory direction of travel towards a low-risk funding target is both in the interest of members (through increased security) and sponsors (through reduced balance sheet volatility and future funding needs). The challenge is how to get there without putting further strain on the sponsor.

A mutual understanding of covenant strength and sponsor risk capacity will be key to achieving this through supportable investment risk, and without constraining the sponsor's long-term growth. The same level of understanding – and evidencing – will also help corporates continue to take appropriate business decisions, while making sure to reflect on what these may mean for the scheme.

The Pension Schemes Bill 2020: clause 107 are we right to be concerned?

By Clive Pugh, PMI Policy & Public Affairs committee member and Partner, Burges Salmon and Harrison Packer, Solicitor, Burges Salmon

A survey of our members revealed that 80% are concerned about the proposed criminal offences contained in section 107 of the Pension Schemes Bill. The survey also identified a small number of members who expressed a degree of unfamiliarity as to what Section 107 will mean in practice and this note includes a high level summary of the offences.

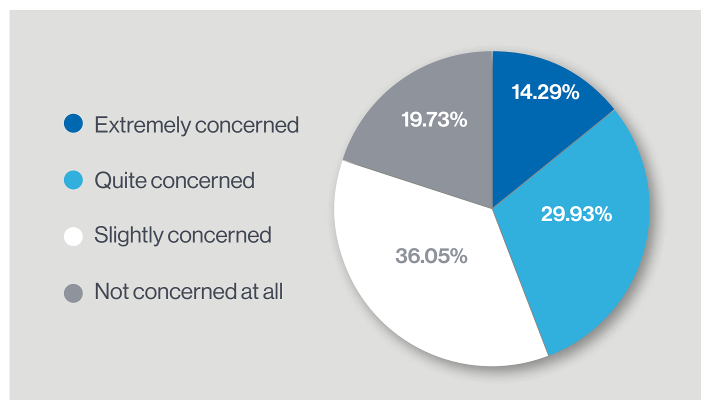
The Pension Schemes Bill was introduced to Parliament last year, following the Government's 2018 White Paper on Protecting Defined Benefit Pension Schemes. As many reading this article will be aware, the Bill contains several significant changes to the pensions landscape, including a number of new criminal offences.

After a period in which the Bill's progression has been delayed by a General Election and now the COVID-19 pandemic, the report stage of the Bill will begin in the House of Lords on 30 June; another opportunity for line-by-line examination of its provisions. A number of those provisions merit further scrutiny given their significance, but one provision in particular is the cause of much industry concern.

Section 107 of the Bill sets out two new criminal offences relating primarily to Defined Benefit (DB) schemes. To summarise them briefly, the offences will criminalise actions (or inactions) that result in the avoidance of an employer debt (i.e. a debt payable under Section 75 of the Pensions Act 1995), or that materially affect the likelihood of accrued scheme benefits being received by members.

Concern about these offences (and the second in particular) was such that in late 2019, a Joint Industry Forum of pensions industry bodies, including the PMI, wrote to the Department of Work and Pensions (DWP) including a number of examples to illustrate the potential scope of the proposed legislation. Six months on from that letter, the results of our survey reveal these industry concerns have not fallen away.

When we asked our members in a recent survey whether they were concerned about section 107, circa 80% of respondents said they were concerned. As can be seen from the chart below, almost 50% of respondents categorised themselves as at least "quite" concerned, while close to 15% described themselves as "extremely" concerned.



Clause 107 of the Pension Schemes Bill is intended to make it a criminal offence to 'recklessly endanger' a DB pension scheme. How concerned are you that Clause 107 of the Pension Schemes Bill will criminalise normal DB scheme management and consultancy services?

To explain the concern around these offences, we need to look a little more closely at how the offences are worded, and at the second offence in particular. For that second offence, the Bill says that a person will commit the offence if they do something that "affects in a material way the likelihood of accrued scheme benefits being received". To be guilty of the offence, the person must have known (or ought to have known) that what they were doing would have that effect, and they must not have had a reasonable excuse.

The first point of concern is the wide number of people that could be caught by the offence. Both this offence and the first offence are expressed as applying to any person. This means they could be committed by anybody involved in activities that affect a pension scheme (company directors, scheme trustees, investment managers, professional advisers, etc.), not least because those who knowingly assist in the act are also caught by the offences. This is a significant departure from the Government's White Paper, which suggested these offences would apply only to company directors and connected parties, and it is easy to see why this has led to industry concern.

A further concern is that the second offence could criminalise a wide variety of very ordinary activities. For example, if a sponsoring employer of a scheme pays a dividend to its shareholders, it will have knowingly reduced the likelihood of scheme benefits being received, because the employer now has fewer assets. Similarly, if a scheme's trustees were to grant an augmentation or increase to members without requesting additional employer contributions, the trustees will have knowingly reduced the likelihood of scheme benefits being received, because this would leave fewer assets in the scheme.

While it could be argued that in these examples, depending on the size of the dividend or augmentation, there would not have been a 'material' effect on the likelihood of benefits being received, there is currently no guidance on what 'material' means in this context. If 'material' means anything that is not immaterial, then a very significant range of activities could be caught by the offence, as it is often difficult to say – given the high-stakes nature of pensions – that acts are truly 'immaterial' to the likelihood of paying benefits.

This means that directors, trustees, or any of the many other people that could be caught by these provisions could face criminal prosecution for their involvement in what would otherwise be very ordinary decisions. While the Bill does provide a 'reasonable excuse' defence, there is currently no guidance on what might constitute a 'reasonable excuse' and this uncertainty is another clear point of concern. As drafted, the Bill is likely to cause hesitancy and fear in decision-making where decisions relate to pension schemes, and could, in the worst cases, result in criminal prosecution for decisions that were made in an attempt to do the right thing.

Taken together, these concerns and the results of our survey illustrate that section 107 has the potential to profoundly affect the way decisions are taken in relation to pension schemes.

We support the work being done by the Pensions Regulator and others in demanding high standards of governance and conduct relating to pension schemes. However, in the case of section 107, we echo our members' concerns that as drafted, the offences have the potential to have wider application than intended, which could have a significant, detrimental effect on the conduct of business in and around the industry.

PMI Pulse latest results now available on the PMI's website **www.pensions-pmi.org.uk/knowledge/policy-and-public-affairs/pmi-pulse-june-2020**

Is the balance of power over scheme investment changing?

By Keith Webster, Partner, CMS and Alexandra Bradley, Pensions Associate, CMS

Trustees control investment strategy. That has always been a key factor in trustee-employer negotiations. Whilst trustees have to consult the employer about the contents of the Statement of Investment Principles (SIP), they do not have to agree investment matters with the employer. In fact, legislation currently states that investment powers cannot be restricted by requiring employer consent. But is that all about to change?

The Pension Schemes Bill, which is just starting to move through Parliament again, will require trustees of Defined Benefit (DB) schemes to set a 'funding and investment strategy'. This strategy, which must be recorded in a new statement, will set out the funding level the trustees expect to reach at a given future date, and the investments they intend to hold at that date. It will therefore set out the future investment strategy and de-risking plans of the scheme. However, unlike the investment principles set out in the SIP, for most schemes this new strategy needs to be agreed with the employer.

This new strategy is expected to be broadly the same as the Long Term Objective, which is the focus of the Regulator's new draft of the DB Funding Code of Practice. Once a scheme reaches this Long Term Objective it should be fully funded on a basis consistent with a low level of dependency on its employer, and with an investment strategy that is highly resilient to risk. This target, and how the funding and investment strategy says the scheme will get there, is going to be crucial to the future operation of the scheme.

So, how does this new strategy, and the need for it to be agreed with the employer, sit with the Statement of Investment Principles and the trustees' current control over investment matters? The Government has said that it is not its intention to require employers to agree investment decisions, but this view appears to be based on an unrealistic belief that there is a clear distinction between investment strategy and investment decisions. How does this distinction work in practice? Will trustees now need to agree with the employer how much risk they are going to run in their investments? Will the trustees no longer have the unilateral power to de-risk their investments? Will employer consent be required for a buy-in or a longevity swap?

We need to wait for the final Bill and related regulations before we know the answer to these questions, but it seems quite possible that the answer to each one will be 'yes'. Whilst trustees will probably keep control over things like asset class allocation, investment manager selection and investor activism, it seems that employers are going to get a bigger say in the really important, strategic investment decisions.

Investment, administration and COVID-19

By Lorraine Harper, Administration Proposition Leader, Mercer

A sea change in the world of investments and pension administration.

The world of pension administration has risen robustly to the challenge of COVID-19 and continued to deliver services to pension schemes without interruption. Amid the general storm there lurk less obvious consequences of the pandemic that are equally important. We have seen large daily swings in global equity markets equivalent to a dinghy going around Cape Horn and this, inevitably, impacts the administration of pensions in a number of ways.

Most directly affected are those members who have benefits in Defined Contribution (DC) arrangements including Defined Benefit (DB) members with Additional Voluntary Contributions (AVCs) invested in this way. Members coming up to retirement will be directly affected and need to be alerted to the risks. Equally, members in self-select DC investment strategies might also need to consider their choices, particularly if they are within sight of their target pension age or are approaching age 55.

Whilst administrators cannot advise members, they can point out issues of which members should be aware and point them towards guidance and advice. As a minimum, transfer and retirement quotations should carry new warnings for members that values can change quickly and move in the wrong direction. They should also remind members that given the current uncertainties, they could seek advice on what to do from qualified advisers; administrators can legitimately add **https://www.unbiased.co.uk** to their communications.

Websites have come into their own during the crisis as an efficient way of getting messages to members quickly, and telephone helplines can give key messages instantly to highlight risks and direct them to further helpful information.

Changing tides

Members themselves may be asking to reduce contributions or defer retirement as a means of protecting their income or trying to recoup some of the investment losses. Administrators need a fast track to the trustee or sponsor to raise these queries and inform them of changing trends so that clients can react quickly and effectively. This means generating relevant data regularly and swiftly rather than months later when it may no longer be of help. Agility has been a key word for administrators throughout this crisis and the ability to adapt quickly to change is paramount.

Keeping the flow

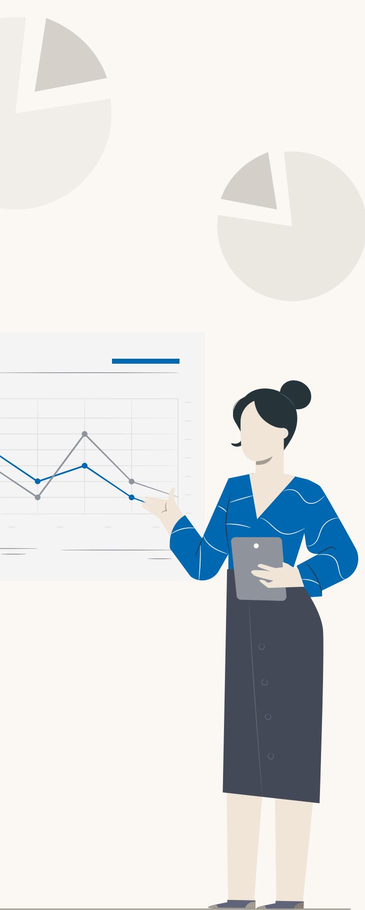
DB schemes are also impacted by the investment turmoil. We have seen a material increase in bereavement settlements and retirements during the crisis. When higher than average settlement volumes condense into shorter periods, they can have a material effect on cash flows. The management of cash flows, both in an actual and predictive way, are vital to ensure timely payments to members and beneficiaries. This is particularly important to mature DB schemes that have to disinvest to meet cash-flow requirements. In turn, this can directly impact investment strategy.

The pandemic, hopefully, is subsiding but the work in its wake is ramping up.

Pension Scheme Reporting in the context of COVID-19

By John Wilson, Head of Technical, Research and Policy, Dalriada Trustees

ICAS, ICAEW and PRAG have published new joint guidance on pension scheme reports and financial statements, and related matters in the context of the COVID-19 pandemic.



The guidance highlights that consideration of 'going concern' in the preparation of pension scheme financial statements requires greater focus due to COVID-19.

Also, auditors should be considering the impact of the COVID-19 pandemic on all aspects of the audit and communicating with pension scheme trustees about these as appropriate.

Some key points for trustees from the guidance are:

> The guide (which does not form part of the Pensions Statement of Recommended Practice), is relevant to occupational pension schemes, both Defined Benefit (DB) and Defined Contribution (DC).

> In relation to the duties of trustees and scheme advisers to report matters of material significance to The Pensions Regulator (TPR), these should be viewed taking into account TPR easements on COVID-19. [Section 4 of the Guide]

> The extent of the impact of the COVID-19 pandemic on the 'control environment' of a scheme will depend on its reporting period end date. [Section 8]

> In relation to the trustees' report and Chair's Statement, trustees should reflect on the impact of COVID-19 from a governance perspective. [Section 9]

> Consideration of going concern in the preparation of pension scheme financial statements requires greater focus due to COVID-19. The trustees remain responsible for undertaking the going concern assessment. Based on Dalriada's experience of accounts that were due for sign off earlier this year, the scheme auditor will ask trustees to provide evidence to support the trustees' going concern assessment immediately prior to the signing of the financial statements and auditor's report. [Section 10]

> Accounting for scheme investments may be more challenging. Consideration of this and, if necessary, discussions between trustees and the auditor, should begin early in the accounts production process. [Section 11]

> For pension schemes with accounting periods ending on 31 December 2019, the COVID-19 pandemic in 2020 is likely to be a non-adjusting event. For subsequent reporting dates, schemes will need to judge how much of the impact of the COVID-19 pandemic should be considered to arise from non-adjusting events. [Section 11]

> In undertaking work in relation to the auditor's statement about contributions, the auditor will need to know whether contributions to the scheme have been impacted by the reduction or suspension of deficit recovery contributions or future contributions; changes in pensionable earnings; and the furloughing of employees. [Section 13]

Comment

Annual reports and accounts for pension schemes still need to be produced within seven months of the scheme year end.

Reporting in the context of COVID-19 introduces additional complexities and allowance should be made for this in the usual production process for reports, financial statements and chair statement.

The guidance should also serve as a reminder a reminder to consider the impact of COVID-19 on member communications. For example, additional messaging in annual benefit statements.

Testing times

By Karen Heaven, Managing Director in Investment Consulting, Redington Ltd

The COVID-19 driven crash across return-seeking assets and subsequent bounce (at least at the time of writing), have provided a serious test of pension schemes' investment strategies. The investment performance across Defined Benefit (DB) schemes has been mixed. As with any crisis – albeit we may still be in the early stages of this one – we can take away some useful lessons.

Lesson 1: **Right-size your risks:**

(i) Diversify. Schemes with long-only exposures to markets such as equities or credit tended to suffer the most. Funds that can run market-neutral exposures, or invest in a broad range of asset classes, or take active risk-off positions tend to provide better diversification in an economy-wide crisis when correlations between other asset classes often increase.

(ii) Ensure liability-side risks are appropriately sized. Despite the falls in return-seeking assets, low levels of hedging will have been equally as damaging to the funding levels of many schemes.

(iii) Ensure your overall level of investment risk is appropriate in the context of your sponsor's financial strength. Despite being an imperfect tool, we found a reasonable degree of correlation between the pre-crisis 'value at risk' of schemes and their actual performance, meaning that quantifying and monitoring investment risk has proved valuable for many schemes. It's worthwhile noting that if your sponsor has been negatively affected by the crisis, you may wish to rethink whether your level of investment risk remains appropriate and also whether you should be targeting full funding sooner.

Lesson 2: **Don't panic!**

(i) De-risking after the crisis struck would have meant missing out on the sudden, sharp market rebound.

(ii) Positioning your scheme to capture excess returns following the depth of the crisis would have meant moving very quickly (and boldly). To do this effectively requires a decision-making framework aligned to long-term goals, and a governance set-up that enables rapid decision-making...

(iii) ...but noting that we are potentially still in the early days of this pandemic and do not know where markets will go from here.

(iv) Be open to new opportunities. Some new capital raisings, related to crisis opportunities, have already closed but longer-term, there may be a greater opportunity set in asset classes such as direct lending and distressed debt.

Lesson 3: **Better habits?**

We now have the experience under our belts of an entire meeting cycle played out in the virtual world. Ask your committee what is working well and what could work better.

Many trustee boards have found that shorter, more frequent meetings are easier and more efficient for everyone concerned.

It's good practice to ask whether the current environment can show us a better way of doing things.

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The Changing Landscape of Pensions and Master Trusts

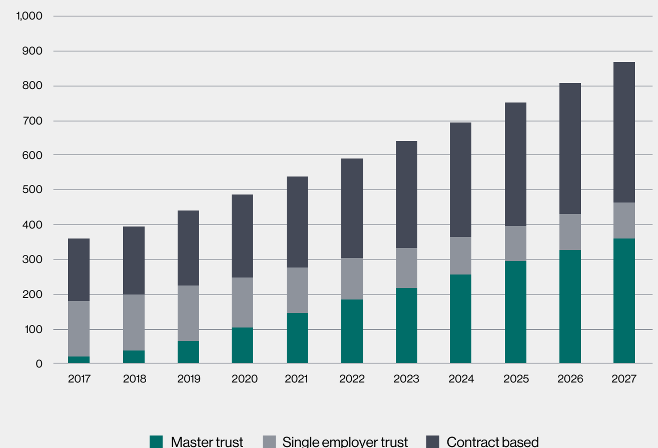
The first essay in a series of six produced by the PMI's Master Trust Innovation Workstream provides the background to the subsequent essays by setting out how we expect the market to look in five to ten years' time. This is an abridged version; the full version can be found at: https://www.pensions-pmi.org.uk/knowledge/pensions-aspects-magazine/the-changing-landscape-of-pensions-and-master-trusts

The next five years will see a significant shift in how pensions are provided and how people save for their later years. Defined Contribution (DC) Master Trusts (MTs) will lead the way, playing a significant role in providing good value-high quality pension schemes to millions of people, as well as support to their members and employers. MTs are the favoured approach for employers to comply with their auto-enrolment (AE) responsibilities and as of October 2019[1] there were over 16 million MT members. This seismic change is altering the market, with a shift in the balance of purchasing power, back and forth between providers, employers, and members.

The numbers

AE has driven the growth in assets under management and membership numbers and this is expected to continue. By 2027, research by Broadridge estimates the total market assets accumulated in DC will reach £867bn; MTs will account for £368bn of this. They will also account for 78% of the trust-based market.

DC asset growth by structure – 2017-2027 £bn



Market Competition

Consolidation will continue as regulatory and commercial pressures kick in. By 2025, we expect the numbers to reduce from 38 to between 20 and 25. This will be a mixture of commercial, not for profit and specialist MTs such as industry-specific arrangements like the Railways Pension Scheme. Sustainability in the market will be driven by scale.

New entrants to the market are not expected as barriers to entry such as regulation, financial reserves, technology, and administration costs will be significant deterrents. The conversion of single trust to MTs will slow down leading to development of a secondary market. Some employers will move from one MT to another, looking for a better service proposition for their employees but most will be happy with the existing provider. MTs will also acquire business from MTs looking to exit the market as the market consolidates.

MTs will chase business from employers unhappy with their existing MTs and look to take business from the contract based products, e.g. Group Personal Pensions (GPPs). Concerns over the costs of transition will be partially addressed by the improvements in technology, and the adoption of open standards. However, organic growth will still be healthy with continued inflows of contributions.

Continued innovation

Despite fewer providers, innovation will not be stifled. We believe there will be competition between providers and from other savings products. Whilst unclear what and when pension tax changes will occur, the certainty is there will be some. A mixed economy approach to savings through various vehicles will develop to meet the needs of employers and savers. New products may be attractive due to portability, flexibility and accessibility as part of an employer's wellbeing remuneration package. MTs will become increasingly engaged with employers to retain members, and improve engagement to increase or maintain their contribution inflows. They will also develop their own version of new savings products to sit alongside MTs.

The Pensions Dashboards will be established and continue to develop to include these new savings vehicles alongside pensions. There will come a time when members can switch between savings products at the switch of a button. MTs will need to continue to innovate to retain their members' savings or risk losing them to other providers or products.

Summary

In five to ten years' time, we expect to see a market of 20-25 MTs, continually innovating to retain members and employers, and to fend off competition not only from each other, but also from new savings products. Regulatory focus will remain high and act as a barrier to entry but a more holistic flexible approach to savings, not just retirement savings, will emerge.

[1] https://www.thepensionsregulator.gov.uk/en/media-hub/press-releases/safer-pensions-for-16-million-savers

PMI Webinar:

grasp the nettle

Speakers:
Simon Borhan, Managing Associate, Linklaters
Donna Dickie, Pensions Actuary, Hymans Robertson
John Wilson, Head of Technical, Research and Policy, Dalriada Trustees
Stewart Winter, Operations Director, Data Solutions, Equiniti
Chaired by Stephanie Hawthorne, Freelance Editor and Journalist

Here are the key takeaways from a PMI webinar on the prickly subject of GMP equalisation. Report by Stephanie Hawthorne

Thousands of Defined Benefit (DB) schemes have to change their rules, if they haven't already done so, to equalise guaranteed minimum pensions (GMPs) all the way back to 1990. The latest catalyst was a landmark Lloyds Banking Group case in 2018.

A GMP is the pension amount paid by pensions schemes roughly equivalent to the amount an employee would have received if they had not been contracted out of the state additional pension or SERPS.

Stewart Winter It has been quite a while since the Lloyds Bank case. Things are starting to hot up again. HMRC has published newsletters and more are expected. PASA has also provided guidance.

Simon Borhan on 17 May 1990, the European Court of Justice (ECJ) ruled in the Barber case that it is unlawful to discriminate between men and women in occupational pension schemes. Though that judgment applied from 17 May 1990, it has since been unclear whether that principle also applies to GMPs. That came to a head in the Lloyds Bank case in October 2018 in which the High Court decided that trustees are under a duty to equalise for GMPs and considered methods for doing so which were lawful in principle. The court further decided that trustees were obliged to make back payments to members, potentially right back to 17 May 1990, but that is subject to scheme rules, and that simple interest should be applied at 1% above base rate.

John Wilson Trustees are looking for clarity from service providers. They are very conscious that they have been paying incorrect payments for a year and half now to thousands of members.

Donna Dickie At the outset people were keen to understand the liability impact. We estimated that the expected uplift across our clients using C2, was a median uplift of about 0.5%

Stephanie Hawthorne: Business as usual or chaos central?

Stewart Winter Chaos central. Our job is to mitigate the chaos.

Stephanie Hawthorne: Are clients ready to equalise GMPs now?

Stewart Winter There are data and communication issues. There is a need to choose which method to use and how to implement it.

Donna Dickie Most are sitting tight, waiting for more guidance from PASA and HMRC but there is quite a lot you can do on data now, e.g. draft a data specification with respect to the minimum amount of data you need and test whether that data is available.

Stewart Winter If we are too pedantic on data the cost can be astronomical.

Simon Borhan In an ideal world, you would have correct data for all members, but this will not be the reality for many schemes . It is about being reasonable and proportionate to mitigate this, and noting the risks.

Stephanie Hawthorne: Communications have been haphazard

Donna Dickie Rectification can cause a benefit go up or down while equalisation can cause a benefit to go up so you could have a scenario where you tell members pensions are going down and six months later pensions are going back. If it is feasible and time frames permitting, aligning both could make communications easier.

John Wilson For schemes that completed GMP reconciliation, there is a fundamental decision: do you do equalisation and rectification concurrently?

Stewart Winter Half the industry doesn't understand the nuance of GMPs. Try getting that across to the layperson.

John Wilson I am aware of schemes that have taken the first step towards equalisation by equalising transfer values so they will have had to have communication then. For schemes that have really not started to get going on GMP I have seen a mixed bag on member communications.

Stephanie Hawthorne: What is the best GMP equalisation method?

Donna Dickie Different approaches will suit scheme circumstances. The B method is expected to be the most expensive and is not expected to be widely adopted. It is really a choice for our clients between the C2 dual record approach and conversion, and D2 conversion with the majority currently preferring D2. Most of our clients prefer the conversion route as that is currently the insurance market's preference in buy-outs and buy-ins although I hear there is a little bit of softening on that. Other benefits of conversion include that it is a one-off calculation versus the ongoing costs of dual records, plus conversion could allow for some benefit simplification, although there are a number of tax complications which also need to be considered.

Simon Borhan Conversion is more complex from a legal perspective. This is because conversion involves trustees (and potentially statutory employers) running a statutory consultation process. Substantial reshaping of benefits potentially complicates matters further and trustees should consider members' expectations, the scope of their power to convert under statute and their rules and tax issues for members.

John Wilson Conversion is not the panacea we thought it would be as there are tax consequences. When you do conversion, people who have fixed protection can lose that protection and people who don't use up any annual allowance because they might be paid up deferred members, might suddenly have an annual allowance pensions input in the year of conversion, and possibly in subsequent years, so pension conversion has to come with a real health warning. For now, there are work arounds.

Stewart Winter it's going to be very messy. We need good communication which doesn't dumb it down.

Simon Borhan There is no hard deadline when schemes need to do this. But there will come a point when it becomes increasingly difficult to say trustees are acting reasonably by not equalising.

John Wilson Trustees should be getting a little bit nervous that they have knowingly and deliberately been paying incorrect entitlements for in excess of a year and half. And they should be directing their minds on how they are going to respond. For me, the way forward with this is to move ahead on a principle of minimal interference, C2; this does not stop them moving to D2 if things change.

Simon Borhan One of the unanswered questions is where the obligation to equalise historic transfers sits - is it the transferring scheme or the receiving scheme? We expect the judgment in the latest Lloyds Bank hearing to answer this.

Stephanie Hawthorne: Will GMPs be a thing of the past in five years' time?

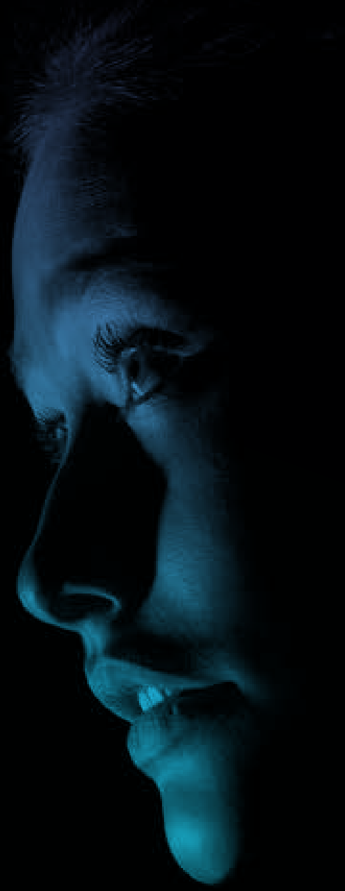
Stewart Winter I doubt it. We are looking at 22 million contracted-out members. Thousands of schemes that need to equalise. one is looking at each other to see who is going first.

John Wilson We cannot go on like this forever. Trustees have a fundamental duty to pay the right benefits.

Stewart Winter In conclusion, my parting shot of advice is to be proportionate. And work collaboratively.

To view the webinar in full visit:

https://bit.ly/2BsY4wE



For the *dependables*,
always showing up,
but *never quite*
shining through.

For the *secret servants,*
raging to excel,
but suppressed by
limiting beliefs.

For the *humble* and the *insecure.*
The *under-pressure,*
the *underrepresented* and...
the **underestimated.**

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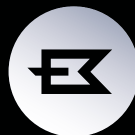

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Contact:

Martin Kellaway
Executive Director

Address: OPDU Ltd,
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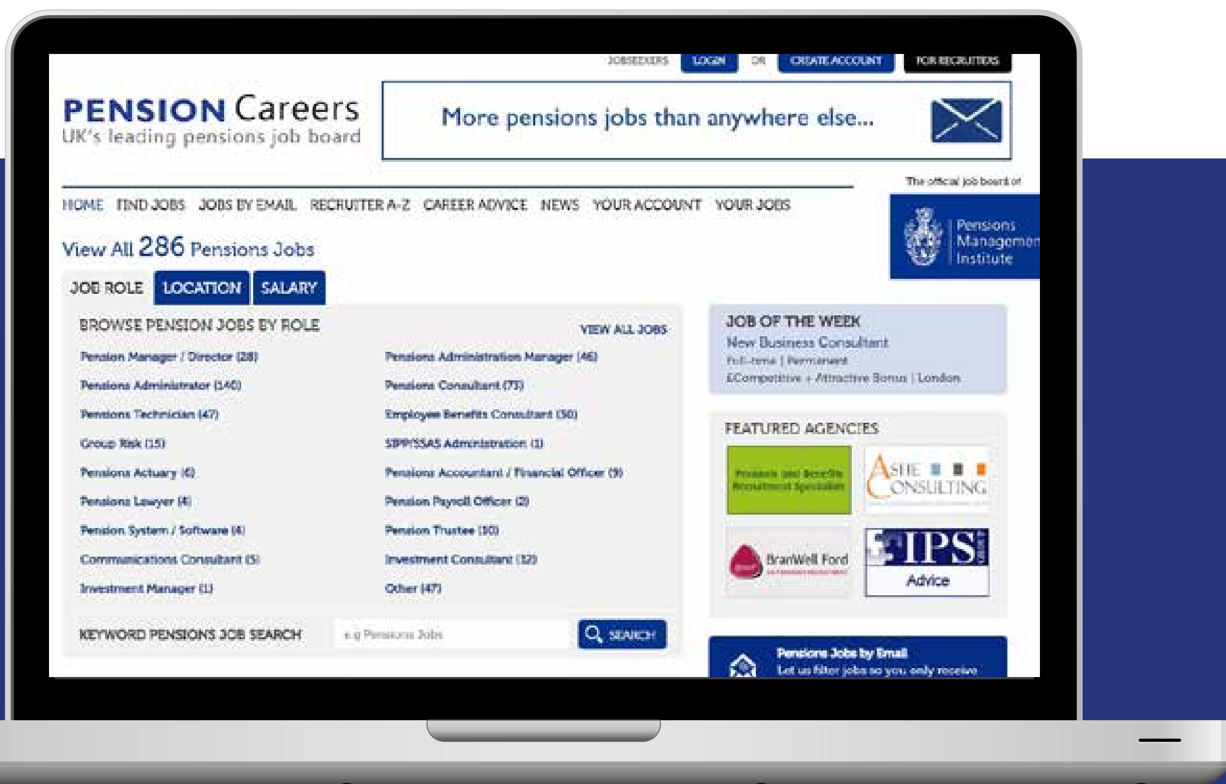

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Communications Consultant
Ref: PR17616 London/Bristol £40,000 - £60,000 pa
You will be experienced in member engagement projects for DB/DC clients. Working with impressive clients you will be involved with co-ordinating all services, liaison with copywriters and designers in both print and digital. Key skill corporate pensions required. Good benefits.

Pension Consultant (DB)
Ref: PR17506 Bristol/B'ham/Berks £35,000 - £55,000 pa
Managing a portfolio of DB Trust Schemes, you will co-ordinate and act as secretary to the Trustees, be involved with scheme design, costs and legislative changes. We are seeking a Consultant with PMI qualifications and good communication skills. Bonus and good benefits.

christine@branwellford.co.uk

DC/DB Senior Pensions Administrator
Ref: CB17666 Berks/Surrey £27,500 - £35,000 pa
Market leading pension's team is seeking a Senior Administrator to be responsible for a portfolio of DC schemes. You will work on more complex cases, annual projects, GMP reconciliations and the production of admin reports. DC experience is essential.

Senior Pensions Administrator
Ref: CB17672 North West £30,000 - £35,000 pa
Putting people and solutions at the heart of their pensions business, you will be joining a team responsible for a full pensions administration service for DB and DC schemes. Opportunity to liaise with Clients and Trustees and build upon your supervisory skills.

Senior Projects Analyst
Ref: CB17675 London £35,000 - £50,000 pa
After stellar growth over recent years this firm is continuing to grow. You will be responsible for the delivery of client projects, allocating project work in the team and supporting junior members. Strong technical/analytical knowledge and experience in pension projects is essential.

hayley@branwellford.co.uk

Governance Manager
Ref: HB17642 South London £negotiable
Act as a secretary to sub-committee meetings, strategically develop the governance framework and lead on projects. You will have significant experience of scheme management providing guidance to Trustees.

Trustee Services
Ref: HB17567 London/Herts/B'ham £35,000 - £55,000 pa
Working with a variety of clients, you will provide secretarial support, draft and distribute Trustee Board agenda packs & minutes. You will attend Trustee & sub-committee meetings, ensure governance and following up on action points. PMI preferred but not essential.

Pensions Fund Accountant
Ref: HB17533 Kent £45,000 - £55,000 pa
A rare opportunity has become available for a part AAT/ACCA or fully qualified professional to join this global company as a Pensions Fund Accountant. This position requires a methodical hardworking individual who has DB/DC experience in a similar role.

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Senior Pensions Administrator - Reading
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Actuarial Analyst(s) – UK Wide
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Investment Consultant – Leeds
Competitive salary
Investment Consultant opportunity with a leading Pensions and Actuarial consultancy. opportunity to take the lead on several key clients, mainly Defined Benefit schemes. You will be accountable for your own portfolio of schemes and will provide investment advice to trustees and clients.

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Senior Projects Administrator
Croydon **£in line with experience**
Varied DB and DC project driven role. DB experience required. Scope to do 2-3 days at home. Ref: 1368126 FR

Assistant Trustee Secretary/Governance
London **£competitive**
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Previous experience in DC pensions is essential, advanced legislative/ governance knowledge and team management experience is also key. Ref: 1374602 BC

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Employee Benefits Administrator £DOE
South London CE14795

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Head of Pensions Data Management £DOE
Derbyshire CE14830

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Pensions Investment Consultant £DOE
Leeds / Manchester TD14710

We are looking for an experienced Investment Consultant who will thrive in a role across both advisory and asset transitions. Direct experience of providing investment consultancy to UK pension schemes is essential.

Senior Pensions Analyst £DOE
London TD14815

You will work closely with the Projects Team Manager providing expertise on the processes and systems around which a project is focused ensuring appropriate communication is undertaken with developers, end users and the project manager throughout. Strong DB and DC Admin knowledge required.

Administration Team vacancies £DOE
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We have several vacancies within Administration teams, we are seeking Senior Administrators, Deputy Managers and Administration Managers due to exciting business growth. DB and or DC experience is required.

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

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

Contact Tasha Davidson (TD)
tasha@abenefit2u.com
0208 274 2842 / 07958 958 626

Being your recruiter of choice is about being able to provide help & advice to our clients & candidates when they need it most. We understand your desire to change career or your need to recruit vital new resource has not changed from four months ago, but in 2020 the world has, and as we settle back into the 'new normal' we know you are nervous about moving employer, or taking on new staff if they may need to start work at home. Please don't feel afraid to reach out and call to chat, we are on the frontline watching the changing world of employment. We are observing what companies are doing and how employees are coping with new ways of working. If you need to recruit but would like advice as to how to adapt your processes or if you are contemplating moving jobs but are concerned about job security we are just a call away, or email us.

We do not have a Crystal Ball or the ability to bring back Wimbledon this July but we can offer free guidance & advice on all your recruitment / job hunting needs.

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Events

14 July - 28 July 2020

Trustee Fortnight

Online event series designed for professional and member nominated trustees

20 July | 10:00 – 11:00

The investment landscape post COVID-19/Brexit

21 July | 14:00 – 15:00

Does your scheme require a professional trustee?

22 July | 10:00 – 11:00

Impact on the markets of different COVID-19 exit strategies

24 July | 10:00 – 11:00

Make (insolvency) law in haste, repent at leisure?

27 July | 10:00 – 11:00

Financial Wellbeing

1 hour of CPD per session • Free for members and non-members

For the full agenda and to book your space visit
www.pensions-pmi.org.uk/events/trustee-fortnight