PMI news
JANUARY 2017

The year ahead

Why we need to teach our children how to budget, save and invest

Pension planning for a real-life Baby Boomer

Portfolio management 2017 – preparing for the road ahead

Pensions Management Institute
ACHIEVING PENSIONS EXCELLENCE

PMI news

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Published in the UK by
The Pensions Management Institute

Available free to PMI members

ISSN 2046-7605

WORLD LAND TRUST™
www.carbonbalancedpaper.com
CROSSPRINT Reg.No.2118

contents

FEATURE ARTICLES

REGULAR ARTICLES

editorial

Gareth Tancred
PMI Chief Executive

During the Summer of 2016, we launched the process to deliver our 2022 vision. The process can be summarised in three words – Listen, Visualise, Deliver

Welcome to 2017

Last year brought so many uncertainties on a national and global scale, some of which are still to be resolved. However, one thing is certain – your Institute is committed to developing and improving. During the Summer of 2016, we launched the process to deliver our 2022 vision. The process can be summarised in three words – Listen, Visualise, Deliver.

Listen

During the Summer we approached our key stakeholders – the Advisory Council, Regional Committees, Expert and Study Support Partners, large employers, key people in the industry, and many other interested parties. Many organisations asked their teams to respond. We also poured over our recent Career Development Survey to glean what you thought about us and what you really need from us. If you were one of the many hundreds that responded, thank you for taking the time to help shape the PMI for the future.

Visualise

During the Autumn we consolidated the results and started to imagine what the PMI should look like over the coming five years. We created the framework for our 2022 vision and tested it against what we had learned during the listening phase. What we saw was a very different PMI, a new, modern organisation, with a strong, relevant voice and with education and insight as core offerings.

Deliver

I am pleased to inform you that your Board has committed to the largest investment ever made in the PMI to deliver what you expect of us. There will be a very significant investment in 2017 but this will continue throughout the five years of our vision through to 2022.

You told us that *education* was key. We will start by reviewing in detail our education platform. You told us that we need to keep our qualifications relevant; to ensure the framework is easy to understand; that our processes are too cumbersome; and that our methods of learning and assessment have not kept pace with technology and modern lifestyles. We have the responsibility to deliver end-point assessments for the Trailblazer Apprenticeship initiative. We also understand that pension issues not only affect those that work in the industry, but also affect wider society too. We have listened. Starting in 2017, we will ensure that we deliver learning, education and career development suitable for the next generation.

We want to help you, your organisation and wider society, develop, grow and achieve goals.

You told us that you want us to have better *research and insight* and that we should have a stronger, more authoritative *voice*. We have listened. We will begin to collaborate on such projects and ultimately generate better quality insight. We want to be the 'go-to' organisation and as one respondent put it – to inspire. Look out for your Institute in the national press and on TV. That's where we aim to be.

You told us that our *website* is cumbersome, old-fashioned, too difficult to navigate, and that it needs to be more interactive. You told us you want to see better, more innovative *communication*, relevant to you as an individual or organisation. We have listened. We have drawn up plans to improve all of the above throughout 2017 and beyond. I look forward to the launch of phase one of our far better, more informative, interactive website in late Spring/early Summer.

Professional bodies like the PMI cannot run without the support from *volunteers* who willingly give time and expertise. You told us that in some cases we do not support you as well as we might; that we are sometimes too London-centric and we don't have a presence in all the places we should. We have listened. In 2017 we will ensure everyone working for the PMI, whether a staff member or volunteer gets proper training and induction. We will ensure everyone shares the vision and knows their role in delivering it. We will ensure we have representation geographically where we need. We will ensure we can better segment ourselves developing insight, events and education specific to those segments. We will also deliver better ways to support our overseas members and organisations.

You told us about our *premises*, that you don't enjoy meeting here, that we don't have facilities good enough to support you. You also told us that our *processes* are outdated and too manual. During the Spring of 2017 we will relocate to a modern, efficient office in order to be more productive and serve you better. We will become far more agile, recruiting and developing the skills we need to deliver our vision. We have already started to overhaul our processes and systems and will continue during 2017, to ensure we make your lives easier when you interact with us.

We have listened, we have visualised what we need to do. Now as 2017 starts, we look forward to delivering the PMI for 2022 and beyond.

notes from pmi house

Affiliate Membership renewals

Affiliate Members are reminded that their subscription fee of £75 for 2016-17 was due on 1 November 2016. To avoid your membership being lapsed, please ensure that your payment is made by **Wednesday 18 January.**

If you have not received your renewal notice, contact the Membership Department at **membership@pensions-pmi.org.uk** or on 020 7392 7410.

PMI Trustee Group

Trustee Group Members are reminded that their subscription fee for 2017-18 was due on 1 January. Members should have received their subscription renewal notice; however, to request a copy contact the Membership Department at the address above.

If you are a Trustee Group Board Scheme Member, please contact the Secretary to the Trustees or the responsible person to ensure that your subscription is paid.

Entire Trustee Boards can join the PMI Trustee Group (at a reduced rate of £70 per trustee) and receive additional benefits including the ability to sign up for collective training to be independently recognised by the PMI. For details of the full range of benefits of joining the PMI Trustee Group, either as an individual or entire trustee board, visit our website.

PMI Fellowship Network

Our latest Fellowship Network sessions were held in November and December to discuss the question 'How can Fellows help create a post Brexit Britain with a Workplace Pensions system that actually delivers real value for retiring employees and become an inspiration for the rest of the world?'.

A summary of the discussion will be available shortly and can be accessed by joining our dedicated Fellowship Network LinkedIn group. For further details contact the Membership Department.

PMI FELLOWSHIP NETWORK

CPD

Fellows and Associates are reminded that meeting the PMI's Continuing Professional Development (CPD) requirement is compulsory (except where retired/non-working). Under our CPD Scheme, members are required to record at least 25 hours during the year. Please log on to the website and update your CPD record.

Members have been notified that the withdrawal of the designatory initials FPMI and APMI is inevitable for those who do not comply with PMI CPD requirements and have not submitted any evidence of CPD for the years 2014 through to 2016.

Keeping your details up-to-date

Please ensure that your personal details are correctly updated on our database to ensure that there is no interruption to your membership service. If you know your details have changed whether this be your employer or contact details, please let the Membership Department know.

Certificate Membership

Certificate Membership is open to those who have completed one of our qualifications at the Certificate Level. We are pleased to announce that the following people have been elected to Certificate Membership and are now entitled to use the designatory initials CertPMI:

Donna Ayrton
Alistair Barry
Lewis Bassett
Mark Booker
Gavin Broomfield
Tamara Cefai
Bethany Elliott
Emily Kennett
Kirsty Mott
Jake Peat
Tracey Smith
Gary Wood

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Discuss this month's articles using #PMINews

Diploma Membership

Diploma Membership is open to those who have completed one of our qualifications at the Diploma Level. We are pleased to announce that **Jennifer Holt** has been elected to Diploma Membership and is now entitled to use the designatory initials DipPMI.

Thank you to our volunteers

Last month we thanked all our volunteers for their ongoing support through the many committees we have in place to oversee the development, delivery and assessment of our membership, qualifications and support services. A few names were omitted from the list and so we would like to take this opportunity to thank all our volunteers again including:

Examiners Committee

Dominic Croft (Chair)
Joanne Andelin
Nicholas Brain
Christopher Holly
Paul Tabrett

The following individuals have acted as VQ Examiners in 2016

Naomi Bates
Patricia Bentley
Carol Bradshaw
Tina Brown
Jo Buchanan
Kevin Burge
Pamela Gay
Claire Gowing
Elizabeth Hadgkiss
Richard Mackey
Keith Marks
Karmila Nor
Christopher North
Ruth Radice
Louise Robbins
Julie Walker
Clare Watton
Douglas Welsh
Ross Wilson

If you would like to volunteer, or would like to find out further information contact our Qualifications Team at **qualifications@pensions-pmi.org.uk**

qualifications

DIPLOMA IN REGULATED RETIREMENT ADVICE

Our Diploma in Regulated Retirement Advice (DRRA) is fully RDR-compliant; covering the Financial Conduct Authority's (FCA) regulated activities 4 and 6, advising on 'retail investment products'. It is also an appropriate qualification for FCA-regulated activity 11 'acting as a pension transfer specialist'. In addition it is appropriate for activity 19, 'overseeing on a day-to-day basis administrative functions in relation to the operation of stakeholder pension schemes'.

The Diploma is a standalone qualification, and it is benchmarked at Level 6 in the national framework. It comprises two units, which are also options for those undertaking the Advanced Diploma in Retirement Provision (formerly the APMI examinations). Associates or Fellows who do need to undertake activities 4 and 6 can also obtain the Diploma and, depending on individual examination histories and CPD records, are likely to obtain a credit for one of the two units.

From 2017 we will be offering both units in April and October to increase flexibility in study plans. Further details can be found on our website.

Those who need to be RDR - compliant can then opt to join the PMI Accredited Adviser Programme to obtain a Statement of Professional Stranding (SPS). Further details on this programme can also be found on our website.

MULTIPLE CHOICE EXAMINATIONS

Multiple choice examinations include:

- Award in Pension Trusteeship (APT)
- Certificate in Pensions Automatic Enrolment (CPAE)
- Certificate in DC Governance (DC Gov)
- Retirement Provision Certificate (RPC)

The next exam sittings will be held on **Wednesday 15 March**. Entry forms are available on our website. Please note that the closing date for entry is **Friday 13 January**. Late entries will not be accepted.

Revision sessions

We will be holding revision sessions at PMI House for the following multiple choice examinations:

- **Tuesday 7 February** – CPAE
- **Wednesday 8 February** – DC Gov
- **Thursday 9 February** – RPC

You can book onto these sessions using the March exam entry form available on our website. There are a limited number of spaces; candidates will be booked on a first come, first served basis on receipt of forms and completed payment.

UPCOMING DEADLINE DATES

- **Friday 13 January**
  March exam entry closing date for the Award in Pension Trusteeship (APT), the Certificate in Pensions Automatic Enrolment (CPAE), the Certificate in DC Governance (DC Gov) and the Retirement Provision Certificate (RPC)

- **Friday 27 January**
  April exam entry closing date for the Advanced Diploma

MEMBERSHIP UPGRADE OFFER

Don't forget that candidates who were successful in the September 2016 exams for DPA, CPA, and CPC, and who have claimed a final certificate, are eligible to apply for Certificate (CertPMI) or Diploma (DipPMI) membership.

There is still time to take advantage of the election fee waiver, which is a saving of £150 should you wish to upgrade. Members who upgrade after **Tuesday 31 January** will be required to pay an election fee of £150 plus the annual subscription. For further details contact the Membership Department at **membership@pensions-pmi.org.uk**

IMPORTANT NOTICE REGARDING 2017 EXAMINATIONS FOR DPA, CPA AND CPC

The VQ Examiners' Committee have agreed that from 2017, the Deaths Part 2 examination will require one letter. This will then be in-line with the Retirements Part 2 and Leavers Part 2 examinations.

ONLINE LEARNING AND ACCESS KEYS FOR DPA, CPA AND CPC

The Retirements, Deaths, Leavers and Transfers programmes were updated in 2016 in line with changes to legislation and practice, and also the updates to the scheme booklets.

These updates include changes to content within both the learning and resource centres, and revised and updated case studies. Case studies based on previous versions of the booklets will also be available as an archive, and these will be clearly labelled. Any keys purchased from May 2016 will have an expiry date of **Sunday 30 April 2017**, thus covering the September 2016 and March 2017 examinations.

VQ FEES 2017

As you may be aware, the fees for DPA, CPA, CPC and Pensions Essentials have not been increased since 2013. Therefore the fees have now been reviewed and revised, and were applicable from **1 January 2017**.

FINAL CERTIFICATES OF ACHIEVEMENTS

Congratulations to the following VQ candidates who have recently achieved their final certificates. Thank you to the assessors, internal verifiers and centre contacts who have supported these candidates.

Certificate in Pension Calculations

Fraser Allen
Marcus Allen
Sudha Anthony
Katy Barrett
Jennifer Blake
Ed Brewer
Hannah Chatt
Jonathan Cowlard
Stephanie D'Costa
Amrit Dhillon
Maureen Dooley
Abbie Elliott
Chelsea Furniss
Simon Heffernan
Amelia Hughes
Emily Kennett
William Kingwill
Emma Lann
Callum Lord
Staci Lynagh
Richard Maslin
Neil Mason
Joanne Nelder
William Panton
Richard Proctor
Katherine Reddish
Lydia Skene
Karl Turner
Megan Varndell
Karl Woosey

Award in Pensions Essentials

Sanjain Bhambra
Ashley Cooper
Nicole Field
Chelsea Furniss
Miriam Gomez-Lopez
Joseph Gregory
Kelly Houlsby
Sharon Hudson
Amelia Hughes
Ayotomide Ibitoye
Eleanor Jenkins
Robyn Pearce
Georgia Pulley
Emma Rippin
Billie-Jo Twigg

Certificate in Pensions Essentials

Nigel Beard
Adam Lynch-Brown
Ashley Cooper
Ayotomide Ibitoye
Josh Legge
Samantha Stevenson
Billie-Jo Twigg
Claire Wilson

PMI Study Support Partners

PMI STUDY SUPPORT PARTNER

Our Study Support Partner (SSP) Programme is an arrangement in which we have joined forces with leading organisations, involved in managing or advising UK pension schemes, to offer enhanced learning and study support services for those undertaking our qualifications or accessing our materials. The purpose of the programme is to help prepare Students for the qualifications, or other individuals for particular roles, by producing the highest quality materials at the appropriate depth. We are pleased to be working with the following organisations, and the enhanced study support service is greatly appreciated by all those studying for the qualifications:

Aon Hewitt, Advanced Diploma Core 'Unit' Understanding Retirement Provision' and the Transfers Programme of the vocational qualifications online learning system

Barnett Waddingham LLP, Retirement Provision Certificate

Capita Employee Benefits, Advanced Diploma Specialist Unit 'Defined Contribution Arrangements'

Ferrier Pearce, Advanced Diploma Communications Manual

First Actuarial, Advanced Diploma Core Unit 'Running a Workplace Pension Scheme'

JLT Benefit Solutions, Advanced Diploma Specialist Unit 'Reward and Retirement Provision', the Leavers Programme of the vocational qualifications online learning system and the Certificate in Pension Scheme Member Guidance

Lane Clark & Peacock, the Retirements Programme of the vocational qualifications online learning system

Mayer Brown LLP, TrustSec and the Certificate in DC Governance

Mercer, Advanced Diploma Specialist Unit 'Defined Benefit Arrangements'

Nabarro LLP, Advanced Diploma Core Unit 'Regulation of Retirement Provision'

Punter Southall, the Deaths Programme of the vocational qualifications online learning system

Pinsent Masons/Trustee Solutions Limited, Advanced Diploma Compulsory Unit 'Professionalism and Governance'

Willis Towers Watson, Certificate in DC Governance

Wednesday 19 April 2017

Barnett Waddingham, Cheapside House
138 Cheapside, London EC2V 6BW

Times: 09:00 - 13:00

Pensions Management Institute
ACHIEVING PENSIONS EXCELLENCE

EVENTS

Protecting members - key steps to cyber security

TOPICS:

- How is cyber security impacting the pensions industry?
- Assessing the legal implications for pension schemes
- Identifying data risks - a check list of initial questions
- Determining priorities in relation to securing cyberspace

For further details please visit **www.pensions-pmi.org.uk/events**

HOSTED BY Barnett Waddingham
a **true partnership** approach

events

ANNUAL DINNER

Our 2017 Annual Dinner will take place on **Wednesday 1 March** at the Dorchester Hotel, Park Lane in London.

The PMI Annual Dinner has been running for over 30 years, and still proves to be one of the most entertaining pensions social events of the year.

With pre and post dinner drinks included in the ticket price, together with **Tony Robinson** as the after dinner speaker, we promise our guests will enjoy a superb evening of great entertainment.

For details of individual and full table ticket prices see enclosed booking form.

ADMINISTRATION SUMMIT

Our Administration Summit will take place on **Monday 20 March** at America Square Conference Centre, London. Topics include:

- What does the future look like for the pensions administrator?
- Introducing the pensions dashboard – a step into the future
- Meeting the expectations of the 21st Century Pension Scheme Member
- Meeting the needs of pensions staff who regularly liaise with members
- Data protection and cybercrime – what do scheme administrators need to know?
- The ongoing challenges of assessing value for money
- Administration transfers – a seamless move?
- 21st Century administration – how will administration services need to change to service new types of members and new long-term saving arrangements?

For further details and to book visit our website.

Supported by:

JLT

INTRODUCTION TO UK PENSIONS

We are pleased to announce that our next 'Introduction to UK Pensions' workshop will take place on **Friday 10 February** at Eversheds LLP, 1 Wood Street, London EC2V 7WS.

As a reminder this session is designed for those new to pensions or who work in an allied area (i.e. HR, Finance). Topics include:

- Setting the scene
- Pensions law
- Design of trust based pensions schemes
- Pensions administration
- Member engagement
- Pension scheme funding

This event will be popular so it is advised to book early to avoid disappointment. See enclosed booking form for further details.

Hosted by:

EVERSHEDS

PMI TECHNICAL SEMINAR

We are pleased to announce that our next technical seminar, 'Protecting members - key steps to cyber security' will take place on **Wednesday 19 April** at Barnett Waddingham, Cheapside House, 138 Cheapside, London EC2V 6BW.

Technology is increasingly at the core of many pension scheme processes leading to an inevitable rise in cyber threats and data protection issues. With the Pensions Regulator warning that trustee boards need to do more to assess their risk of a cyber-attack, this is an area where trustees should be acting quickly to ensure their members are safeguarded from cyber criminals.

This seminar will help delegates understand what exactly cybercrime is, what key issues need to be considered, as well as provide practical steps to take to ensure members remain protected. Topics include:

- How is cyber security impacting the pensions industry?
- Assessing the legal implications for pension schemes
- Identifying data risks - a checklist of initial questions
- Determining priorities in relation to securing cyberspace

Visit our website for further details.

Hosted by:

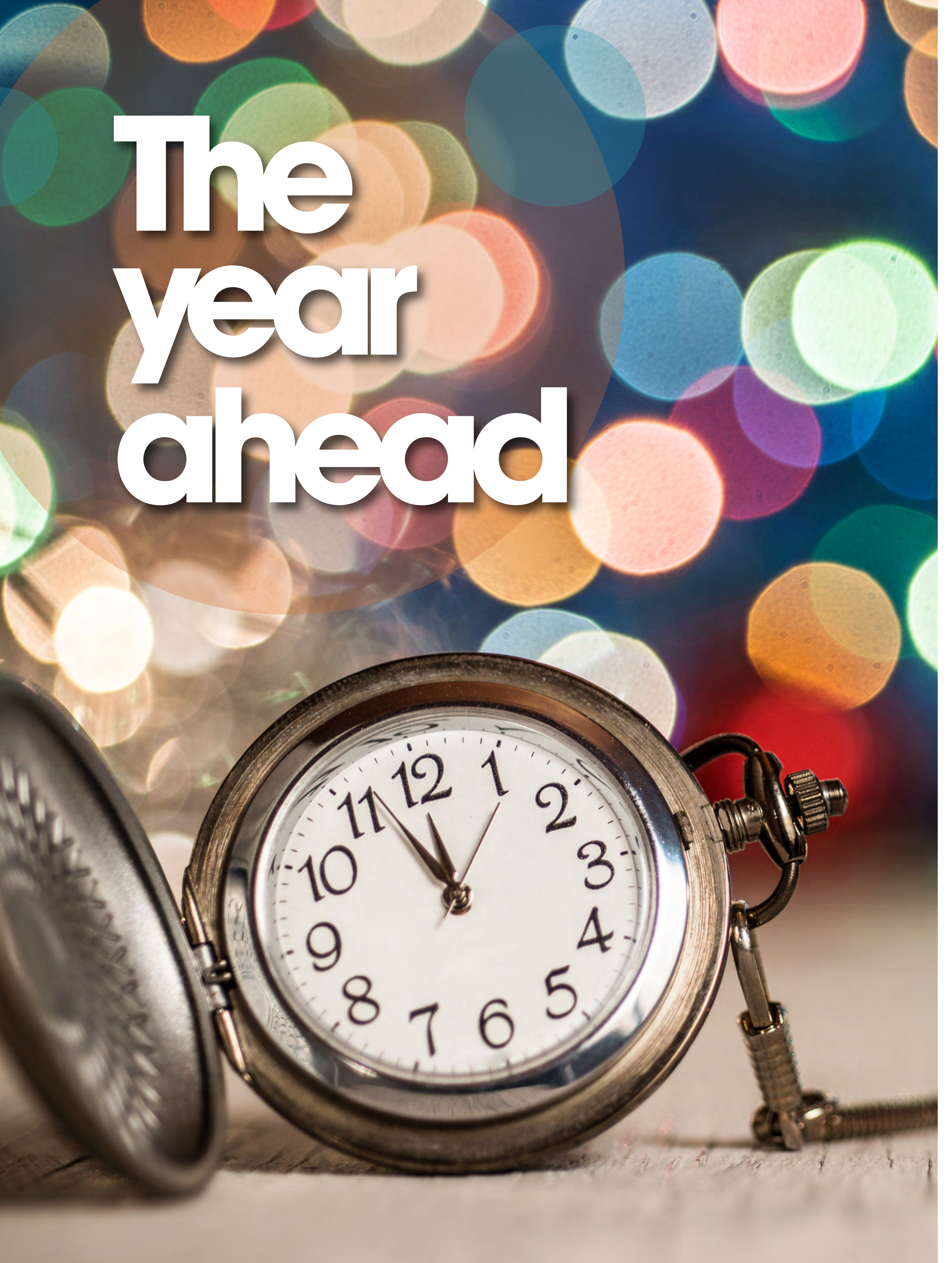
Barnett Waddingham

DIARY DATES

- **26 JANUARY 2017**
  PMI Southern Group – Seminar
- **31 JANUARY 2017**
  PMI London Group – Business Meeting
- **10 FEBRUARY 2017**
  PMI Introduction to UK Pensions Workshop
- **23 FEBRUARY 2017**
  PMI North East Group – Seminar
- **1 MARCH 2017**
  PMI Annual Dinner
- **8 MARCH 2017**
  PMI Eastern Group – Afternoon Seminar
- **20 MARCH 2017**
  PMI Administration Summit
- **19 APRIL 2017**
  PMI Technical Seminar – Protecting members: key steps to cyber security
- **11 MAY 2017**
  PMI Annual Conference

Regional Groups' activities shown in *italics*

The year ahead



2017 is likely to be another year of political change, which makes the pensions world hard to predict. However, the effects of Brexit, the BHS demise and inquiries and the Tata Steel situation suggest potential changes in Pensions Regulator powers, taxation, and that even the rights to accrued benefits may be subject to change.

This is quite a frightening time to be writing predictions. Events of the last year have taught us that professional pollsters and experts may, on occasion, be no better than flipping a coin. No one expected, this time last year, that the tabloid headlines would be dominated by pension schemes, until pushed off the front page by a referendum that appears to have cost both the Prime Minister and the Chancellor their political careers, and that Donald Trump would win the US election without softening his Twitter feed.

So, can anyone predict what 2017 might hold? In some ways, not at all. I am not for a second going to suggest anything about the 2017 political landscape in the UK, Europe or further afield. But the fallout from the excitement of the last year will no doubt continue for some time. The three 'B's of the pensions world – BHS, Brexit and British Steel – are casting something of a shadow on the future.

The first B – what fallout might come from BHS?

There is no question that we will see proposals from the select committee on Work and Pensions, as they continue and conclude their inquiry relating to the Pension Protection Fund and the Pensions Regulator, which has followed on from their inquiry relating to BHS. The inquiry is very detailed, and there is no doubt that our industry, including the powers of its regulators, is under more significant scrutiny than has been seen for a generation.

In the light of the last year's events, I will avoid prejudging the results of the inquiry, but certainly there have been a number of calls for an increase in the Pension Regulator's powers and/or in its resources to tackle an increasing number of roles. What is even less certain, however, is when and whether such proposals may become law. The committee itself does not make law, and its ability to influence the laws that Parliament passes depends on many things, not least the political profile of the issue being discussed, and the other matters being considered by Parliament. It is entirely possible that BHS remains in the headlines, and the proposals of the committee obtain the profile necessary to pass whatever relevant amendments to pensions law they suggest. Of course, if BHS becomes 'old news' and Parliament is overly concerned with other matters (such as Brexit) it may be that the recommendations are no more than an interesting discussion on the regulatory structure of UK pensions.

Rosalind Connor
Partner
ARC Pensions Law

So, can anyone predict what 2017 might hold? In some ways, not at all. I am not for a second going to suggest anything about the 2017 political landscape in the UK, Europe or further afield. But the fallout from the excitement of the last year will no doubt continue for some time

The second B – has Brexit affected us yet?

Meanwhile, the effect of Brexit itself is some way off and difficult to predict. It is clear that the legal framework does not change at all until and unless the UK leaves the European Union (EU), some time after the triggering of Article 50. In addition, most of the law from the EU is incorporated specifically under UK law, so would not change on leaving anyway – the only change being that Parliament can then change the law if it chooses to.

The immediate 'Brexit' impact for pensions might be argued to be the change in resident of 11 Downing Street. George Osborne left a significant legacy for the pensions world, with the secondary annuity market, Lifetime ISAs and 'freedom and choice', alongside steadily falling annual and lifetime allowances. The direction certainly seems to have changed to some extent, with the secondary annuity market falling away in late 2016, leading some to question the likelihood of the Lifetime ISA. It is not, of course, available yet, and it is entirely possible that it is delayed or even shelved entirely if it is not so attractive to Philip Hammond. ▶

It is not yet clear what Mr Hammond thinks of the revolution that was 'freedom and choice' – in the light of obvious (and some may say overdue) concern about liberation scams, there might be a possibility of limits on the effects of the 2014 budget changes. The tension between encouraging individuals to make use of their new freedoms, and protecting them from scams or even unwise decisions, may move the pendulum back some distance.

However, I would not advise the pensions industry to heave too great a sigh of relief. The generosity of pension tax treatment, particularly for the better off, has been thrust into the spotlight by Mr Osborne's work. Whilst the more radical move to an ISA form of tax treatment (the so-called TEE model) looks likely to be off the table, rumours persist that the tax relief for higher rate tax payers will be scrutinised again.

I would not advise the pensions industry to heave too great a sigh of relief. The generosity of pension tax treatment, particularly for the better off, has been thrust into the spotlight by Mr Osborne's work

The third B – will British Steel herald a new view on accrued rights?

The lowest profile of the Bs has probably been Tata Steel and the British Steel Pension Scheme, but it may at least be indicative of a change in approach to that most hallowed of pensions law sections – section 67. Section 67 of the Pensions Act 1995, brought in after the Maxwell scandal and a more general concern about the management of pension schemes, made sacrosanct benefits that have been earned in pension schemes, so that they could never be amended, even under their rules and with the agreement of the trustees, unless, broadly, all members consented, or the change did not reduce value.

Commentators are divided on the section's suitability, with some arguing that it prevents common sense and practical solutions for pension schemes, others pointing to the 'pensions promise' as something that employers should be made to stand behind. Everyone, however, agrees that it has had a very significant impact since it came into force in 1997, and has certainly affected actions and behaviour throughout the pensions world.

For most of that time, section 67 has seemed impervious to amendment, because of the importance of the pensions promise. However, recent years have perhaps seen a softening in this generally accepted position. The issue of the shift from the Retail Price Index (RPI) to the Consumer Price Index (CPI) has brought into sharp relief how pure luck in drafting of old rules allows some schemes to change benefits, and leaves others tied to their provisions. In addition, a slew of recent insolvencies have highlighted the ways in which rescues can be hampered by the cumbersome processes for offering members higher than the Pension Protection Fund (PPF), but lower than scheme benefits.

The consultation on the British Steel Pension Scheme suggested a carve-out from section 67 as a possible route. Whereas that particular consultation seems to have moved in a different direction, it raised the question of section 67, insolvency and benefits, particularly inflation increases. As a result, the impact of section 67 is being discussed outside the world of pension lawyers and actuaries for the first time, and it may be that this most fundamental rule of the last two decades of pensions law could in fact be modified.

Is there anything else (not beginning with B)?

The three Bs are not, of course, the only influence on what might happen next year. There is a new Pension Schemes Bill to deal with master trusts, the appeal of the *IBM v Dalgleish* case, amongst others, and HM Revenue and Custom's reconciliation of guaranteed minimum pensions (GMPs) in the wake of the end of contracting out, to name a few challenges ahead. No doubt defined benefit (DB) schemes will continue to close to accrual, the buy-out market will remain buoyant and, unfortunately, a few more businesses with DB schemes will experience an insolvency event. However, if this year has taught us anything, it is that sometimes the greatest influence on the future is something entirely unexpected.

Long gilt yields in a short squeeze

Nikesh Patel
Senior Investment Strategist
Kempen

Gilt prices have risen dramatically in recent years leading to a number of commentators referring to current gilt prices as a bubble; we believe that the reality is rather more interesting, with important implications for UK pension funds.

The 'bubble' metaphor implies that prices are inflated, fragile and vulnerable to a sudden bursting. But the bubble metaphor is misleading because it inherently implies that demand could evaporate and that the bubble could burst. In reality we think that a better comparison is with a much rarer market event, known as a 'short squeeze'. So what are the characteristics of a 'short squeeze'?

- this is where the price of a heavily shorted stock (where investors bet on the price falling rather than rising) moves higher, investors with short positions may feel that they need to buy stock to mitigate risk (that prices rise even further, exacerbating losses)
- if long investors in the stock (investors who think the price will rise) are unwilling or unable to sell to meet this demand, this pushes the stock higher still. The price can theoretically rise until either the short has been covered or enough supply is generated, which means that the risk of the short seller is unlimited
- it was a short squeeze which briefly caused the share price of Volkswagen stock to rise from €200 to €1000 in a few days, for a while making Volkswagen the world's most valuable listed company, and handing losses of tens of billions to hedge funds and investment banks who had shorted VW stock

Pension funds are big investors in long-dated gilts and related instruments for the purposes of liability hedging of both interest rates and inflation. However, there are still many hundreds of billions of liabilities that are not yet hedged, so pension funds are in effect enormously 'shorting' the long-dated gilt market. Depending on the preferred measure, UK pension funds need anywhere from £400bn to £1tn of additional mainly index linked gilts to hedge their outstanding liabilities.

The gilt market is c£1.7tn in size. Approximately 50% of these are held by investors who do not expect to sell their holdings at any price, most notably the Bank of England as part of its quantitative easing (QE) programmes, insurance companies who are constrained by regulations, and of course the large existing gilt holdings of pension schemes. Of the remaining £850bn of gilts in issuance, a large portion are effectively irrelevant – they are not as long duration or as inflation linked as pension funds need. Even if pension schemes were to find and buy all suitable gilts available for sale, they would still be hundreds of billions 'short' of their target holdings.

This shortfall is so large that whilst some speculative or arbitrage trading is possible by hedge funds and active managers, there is not enough capital or risk tolerance to offset the wall of demand from pension fund hedging when it occurs, effectively setting a ceiling on long-dated gilt yields. In a worst case scenario, we see no floor on how low yields could go. German and Japanese 30 year rates are well below UK rates at present, and whilst negative rates may form an important psychological barrier, they are already in place for shorter durations for trillions of pounds of government bonds globally. Unlimited downside risk implies higher levels of hedging rather than lower from a risk management perspective, despite low yields relative to history. It would take a substantial change in market and scheme funding dynamics to unwind the squeeze for example:

- a change in regulation to discount liabilities without reference to gilt yields
- the Bank of England unwinding QE by selling its long-dated gilts
- massively increased supply of index linked gilts due to fiscal policy; and/or
- very strong global growth reducing or slowing demand for increased hedging

> In a worst case scenario, we see no floor on how low yields could go

Unlike the victims of other short squeezes, pension funds are not speculating – they act more slowly and have higher risk tolerance, and can soften the squeeze periodically by requiring higher levels of recovery contributions from sponsoring employers. Hence the short squeeze in long-dated gilts may not stop any time soon, and given the slow motion nature of this crisis this could be a long time indeed.

As fiduciary managers, we're responding by discussing raising hedge ratios of our clients whilst we see the short squeeze persisting.

KEMPEN CAPITAL MANAGEMENT

Why we need to teach our children how to budget, save and invest

Imagine a world where we don't talk about the problems of pensions. Imagine a world where everyone has embraced the personal accountability that has been passed from government to employer to individual. Imagine a world where we have engaged savers and investors who are confident and in control of their financial future.

Sounds better than the world we live in today, right?

Much has been made of the pension challenges. Much has been made of the fact we are living longer, and for the first time we're seeing a generation become poorer than the previous one. To avoid this becoming a death spiral we need to stop just shouting about the problem. We need to understand where and how the issue stemmed, and take action to resolve it at the root. We know responsibility has shifted from government to individual. That situation looks unlikely to materially change. So let's look at the other reasons, and how we can address them.

The world we live in has changed, from a world of saving for tomorrow to one of consumption today. This is due to two trends.

The first was the introduction of credit cards in the 1950s. This allowed us to buy something today which we couldn't afford upfront. The reality is, it's often people on lower incomes who are using debt. But, lack of financial education means it is easy to find yourself in debt without understanding how interest accumulates and how repayments might spiral.

The second thing is the rise of the 'Mad Men'. The advertisers who tap into our emotions and convince us that if we drink more coffee, if we buy this new shirt, if we have this car, we will feel great, beautiful, and sexy. The advertising industry earn over $500 billion a year to get us to consume more.

Unfortunately, there hasn't been an offsetting engagement piece on why and how we can save and invest for a better, happier future. In fact, the opposite has happened. Saving is seen as grey, dull and a chore; 'you must save because it's good'. It's like a mismatched arms race; the people who want to sell you stuff are hiring the best people to coax our brains into buying things we don't need. Yet almost nothing is being done in terms of engaging people on the importance of saving and investing. The occasional Department for Work and Pensions (DWP) advert is not going to beat the 'Mad Men'.

In the UK, 16 million people have savings of less than £100. As we move to an age of personal responsibility we find our younger generations, millennials and Generation Z most exposed.

The savings ratio for 18-30 year olds is -2%; they are spending more money than they are earning. This is a serious problem. The impact of financial difficulties such as debt on families is as bad as alcoholism. Young children know when their families are having financial difficulty. As our children grow up and become adults they will quickly be able to borrow and get into debt. The sad truth is there are many people in their '50s and '60s today who have to delay retiring by several years due to outstanding debts. Forget not even having enough money to retire, they still owe people money. If there was one thing we could teach young people before they leave school, it is to control their debt. For young university students, student loans are a fact of life, but you'll find credit card companies and banks that offer them credit, making it easy to go hugely overdrawn; that can be costly for the rest of their lives.

Rob Gardner
Co-Founder and Director
Redington

Every year, we run a programme called 'Classroom to Boardroom'. We invite 16 and 17 year olds to come in and we set them a problem: 'how do you get young people to save?' They work on it for two days and come up with business plans. They then come in and pitch their idea.

> The world we live in has changed, from a world of saving for tomorrow to one of consumption today

This is a quote from one of the students back in July: *"We have been neglected. Nobody told us about the need to save and invest...we're 17, we're just about to go to university and then we are going to graduate, how on earth do we not know this?"*

This problem is not going away. The problem is a lack of financial education across all generations. People are not prepared for the financial responsibility that has fallen on their shoulders.

In November 2015, Metro issued a survey: the top 30 skills we wish we'd learnt at school. Four of the top five are directly related to finance:

1. How to budget
2. The importance of insurance
3. How loans work
4. How to take out a pension

The number one skill people wish they had learned at school is how to budget. Which is a key habit needed to avoid getting into debt and to save and build wealth. ▶

So how can we respond?

Remarkably, financial education was only put on the school syllabus in 2014. Only 45% of secondary schools in the UK actually deliver financial education. We know our money savings habits are formed by the age of seven, and yet we haven't put financial education on the syllabus for primary schools. Earlier I mentioned the world has changed in two ways. In response, there are two key things we can do to turn the tide.

1. We need to help people reframe the idea of saving
2. We need tools that help us 'hack' our own behavioural biases to save instead of spend

> Lots of people have credit cards. Credit is what helps us go on holiday, buy shoes, cars and houses, but you'd be hard pushed to find anyone prepared to sign up for a debt card. Debt is scary; it's spending pretend money that isn't yours

A frame is simply a way of thinking about an argument or an idea. In the world of communication, it's a way of presenting an idea to elicit the reaction you want. Behavioural science tells us the way we frame information shapes how people react to it. The same information, presented two different ways, gets two different reactions. For example, most of us would be happy eating 90% fat free yoghurt, but if we were told that same yoghurt was 10% fat, it wouldn't seem so appetising.

Let's bring it back to money. Lots of people have credit cards. Credit is what helps us go on holiday, buy shoes, cars and houses, but you'd be hard pushed to find anyone prepared to sign up for a debt card. Debt is scary; it's spending pretend money that isn't yours. If you don't pay it back, the repo men come to visit your house. Credit and debt are the same thing, it's just the frame that changes. Why, when we talk about saving, do we focus on what people have to give up rather than what they get back? Instead of focusing on what people will have to sacrifice through financial discipline, let's focus on the benefits. For example, how to save £60,000 by the age of 40?

Note to all bloggers/ writers/experts – every time we talk about the pensions crisis we create a frame – we talk about how bad the world is, and we tend not to offer a solution to the problem

A few months ago I wrote a children's book called *Save Your Acorns – How The Bears Saved The Monkeys*. In the story, the monkeys eat up all the bananas they possess. The bears eat most of their berries, and save up those left over. But the squirrels do something different. Before eating any of their acorns, they save 2 out of 10 of them, and learn to live on those that remain. Those saved acorns grow into oak trees, with more acorns. The point is, saving doesn't mean you can't enjoy things in life.

So how does this acorn philosophy work in practice?

1. Budget. Stop buying one cup of takeaway coffee every day
2. Save that £2.50
3. Invest it in the Government's new Lifetime Isa, which is due to launch in April 2017

If you invest it in shares, rather than cash, it could grow by as much as 7% a year. The Government will also add 25% to each annual investment you make. Taking into account the effects of compound interest, if you keep up the savings every day between the ages of 18 and 40, you could end up with as much as £60,000 to buy a home.

For our children, I would suggest four things to learn in an age-appropriate way. This is not a one-off but a continuous education that builds over time.

1. Learn how to budget by delaying gratification
2. Learn how to save by opening a bank account
3. Learn the benefits of investing by using a Junior ISA (JISA) and/or children's pension fund
4. Understand the consequences of debt

What does success look like?

It looks like the world I imagined; a nation of engaged savers and investors who are confident and in control of their financial future. I strongly believe that every single one of us can learn the basic skills of budgeting, saving and investing to take control of their financial future, and live the financial life they aspire to.

EU laws and Brexit – an update

Emma Aylwin
Associate
Taylor Wessing

In my article on Brexit in the December 2016 issue of PMI News ('EU laws and Brexit – what does it all mean for UK pensions'), I queried whether Parliament, post-Brexit, might legislate to exclude guaranteed minimum pensions (GMPs) from equalisation requirements once and for all. I speculated on whether there would be political appetite for this and shortly after the article went to print the Government seemed to provide the answer: "No." (Or at least: "Not for the foreseeable future.")

On 28 November 2016, the Department for Work and Pensions (DWP) issued a public consultation, which includes "A proposed methodology for equalising pensions for the effect of GMPs"[1]. A similar consultation was published on the same day in relation to public service schemes[2]. As well as a new methodology, the consultation suggests associated changes to legislation to facilitate the process and also purports to "clarify the position" in light of the UK's decision to leave the European Union (EU).

In short, this consultation reiterates successive governments' views that schemes are under an obligation to equalise GMP benefits accrued between 17 May 1990 and 5 April 1997. The consultation recognises that the previous calculation method for doing so, proposed by DWP[3], was "not well received by the industry", being administratively expensive and likely to result in a windfall to members, which is contrary to the spirit of equalisation.

The new approach seeks to remedy these faults by proposing a one-off calculation. The calculation compares the value of the future expected cash flows for the member in the period that needs to be adjusted for GMP inequalities (i.e. between 17 May 1990 and 5 April 1997) with that for the opposite sex comparator, allowing for contingent benefits. If the opposite sex comparator has the greater discounted value of expected cash flow, then the greater value is delivered to the member. This is to be done as part of a process converting the GMP into an ordinary scheme benefit.

Associated changes to legislation which are proposed by the consultation include:

- a revised definition of 'GMP conversion', to include 'survivors' as well as 'earners'
- replacing the requirement to consult in advance of any conversion with a requirement to notify members before and after the conversion takes place; and
- the removal of provisions which place restrictions on transfers out of a scheme, post-conversion

DWP is at pains to state that schemes are not under an obligation to use the new method of equalisation and the new methodology does not constitute legal advice as to how schemes should equalise. The Government also remains silent as to the position post-Brexit, but emphasises that, currently, the UK remains a full member of the EU and whilst that is the case (in its view) GMP equalisation must be achieved, one way or another.

It will be interesting to see whether this new proposed method of equalising for the inequalities arising out of GMPs encourages more schemes to 'take the plunge'. With many unconvinced that this has to be done, as a matter of law, there is unlikely to be wholesale 'buy-in' – at least for now. The industry is waiting to see whether the Lloyds Trade Union's High Court claim against Lloyds Bank on this matter does get to court and if so, what the outcome is.

The consultation runs until **Sunday 15 January**.

1 *Department for Work and Pensions, Public consultation, 'Occupational pensions: draft regulations, legislative review and Guaranteed Minimum Pensions equalisation methodology', 28 November 2016.*

2 *Department for Work and Pensions, Public consultation, 'Consultation on indexation and equalisation of GMP in public service pension schemes', 28 November 2016.*

3 *'A possible method for equalising pensions for the effect of the Guaranteed Minimum Pension', 20 January 2012. The previous calculation method involved schemes comparing on a year by year basis the position of a male against a female and paying the better of the two.*

Pension planning for a real-life Baby Boomer

Many of us (and me) find pensions mind-boggling. I am just a commuter on the train with a morning latte. My annual pension statement sits in a pile of filing that never gets a look-in as it competes with many things, and I'm just not up for a depressing read these days. However, if you look at this statement, the figures simply can't be sexed up. Today my pension prognosis is dismal; it offers no comfort in retirement, and plainly doesn't stretch to monthly appointments at my long-standing hairdresser in years to come. As a result, I am reconciled to the Government's ambition to work longer in order to keep my roots in check. This is still all to be played out, since I have no idea whether my stars will align and my health and the proposed ambition will collide favourably.

Experience reminds me I missed a few windows (we all have a story). Mine include various gaps: child-bearing, part-timing a DIY divorce settlement and youth. Who knew? I now see another window – it's called catch up at 53. Ironically I can take my slim-line pension in 18 months at an ageless 55. Maybe not. Funnily enough my hard-working career started at the time-honoured Prudential (not in pensions) during the hedonistic 80s, and I'm just thinking what would I tell my twenty-something self during the Pru reign?

Timing dictates I was programmed by a legacy of reliance on my man's salary and pension pot (as it was for my mother's generation); a mind-set I did shake off early, but failed to take it far enough.

I can't bore you with my diverse CV (only my mother would be interested) but I worked in my last organisation for 11 years, and was 'fortunate' to be enrolled in a defined benefit (DB) pension scheme. Like others, the scheme was unaffordable, unsustainable and ultimately led to significant company-wide redundancies (including me), so maybe I wasn't that lucky. Whilst I attended the annual seminars I didn't relate to what was being said, as it mostly didn't cover 'what does it mean for me?' No, I was not alone, many colleagues sat in the same audience trying not to nod off, and having missed the middle bit, were not about to raise their hand with a very personal question during the Q&A, for fear of looking really dumb in the presence of their line manager. So, my feedback form would read, 'this type of event doesn't work'.

Mid-life redundancy means I have a new job. New job, new pension prospects and a probation period to polish up on. I am automatically enrolled and have no dilemma in staying in; where else can you have your savings matched and some – thank you very much all contributors.

As a result, it is timely for my pension statement to find its way to my person. It's Happy Hour – yay. I'm enjoying my first Cosmo from a glass now half-full (and coincidentally half-priced). Luckily, my new drinking pals know a thing or two about pensions, and are confirming what I probably already know but had chosen to ignore. Johnny-come-lately I am, and I'm not alone.

Unsurprisingly, the lowdown depends on your viewpoint.

In this mix I am too old for a Lifetime ISA, but young enough to have purchased property early and well (no smugness intended). My home-buying (not viewed as a pension investment at the time) included interest rates peaking at 15%, which meant I didn't enjoy the decadent 80s as much as I would have liked, or have any change for savings at long-gone high interest rates. My property ladder journey will just about save my personal pension deficit if I cash in and move down (and I so liked that kitchen worktop). As a result of the 90s and 00s stock market dips, we property magnates, along with TV reality, encouraged every Joe to focus on property investing, which in turn has out-priced our pups from buying their first home as easily as we did.

So, unless my Gen Y kids get to grips with automatic enrolment and stay in, they lose on both fronts. However, we are yet to convince many that automatic enrolment is not an unwelcome, unwanted arranged marriage the Government are palming off on an unsuspecting youth.

Kelly Ashton
Employee Engagement Executive
Barnett Waddingham LLP

We still have a long way to go…

Right now we have equal quantities of nationwide bewilderment mixed with general pension mistrust. This is no tray bake, but a soured concoction that requires all the ingredients to be named and explained in order to advise a diverse workforce with a high content of millennials, who appear to value YOLO ("you only live once") above any long-term pension planning. Added to this, it is universally agreed that the pension landscape will change a number of times before it becomes really relevant and meaningful to our children, and so they can be forgiven for not worrying about something that is sure to shift.

> It is universally agreed that the pension landscape will change a number of times before it becomes really relevant and meaningful to our children, and so they can be forgiven for not worrying about something that is sure to shift

At the moment, they have big fish to fry,and the special doesn't include the big P.

This isn't a tale of woe, or ends with 'the moral of the story is …' but simply a case of I could have done better (isn't hindsight great). 2016 simply ran away, and this Baby Boomer is racing towards retirement (a moveable feast) and is staying in, paying in and living in hope. Realistically there is a difference between the pension I would like and the pension I will be able to afford, but I now know where I am, and it is time to do what I can to bridge the gap.

As for the pups, completely adorable but notoriously difficult to train at times, they have heard this tale, or parts of it, more than a few times. If only they could forget it's their parents who are handing out these words of wisdom, they might sit up and take more notice. Ultimately though, you can only lead a horse to water.

Lastly, maybe only a little knowledge is a good thing, as the marketer in me says 'the pension' is overdue for rebranding and replacing.

expert insight

PMI EXPERT PARTNER

INDEPENDENT TRUSTEE

Words matter

We were discussing improving member outcomes in the office the other day. What, we asked ourselves, were the three things that would make the biggest difference to members in achieving a sustainable retirement income?

I was tempted to say "Firstly, increased contributions, secondly, increased contributions, and thirdly, increased contributions", but that would be easy and glib.

Having said that, for all the great work done on defined contribution (DC) governance, risk management and driving down charges in recent years, the simple fact remains that people still aren't saving enough for their retirement. So for me, the single thing that will make the biggest difference to an individual's retirement is persuading them that they need to save early and save often. We need to improve the UK's saving habits. It doesn't all have to be saved in pensions. There has been a lot of discussion about whether or not the new Lifetime ISA is a good idea or a bad idea. For me, there is a relatively simple test to apply. If the LISA increases the overall savings levels in the economy then it will have been a success. If all it does is re-distribute savings from one tax-advantaged savings product to another then it will have failed.

Secondly, I think trustees and providers need to look at their member communications, and in particular their 'at retirement' **communications**. How we present information to members can influence their behaviour. Consider the following research, which can be found in the snappily titled "Does the framing of retirement income options matter?". As part of a behavioural study, produced for the Financial Conduct Authority (FCA), individuals were presented with a number of options worded in particular ways, for example:

1. The retiree invests £100,000 in an account which earns £500 each month for as long as he lives. He can only withdraw the earnings he receives, not the invested money. When he dies the payments will stop and the investment will not pass to the estate
2. The retiree can spend £500 each month for as long as he lives in addition to the state pension. When he dies there will be no more pension

You will have worked out by now that both of these options serve as a description of an annuity. In the study, Option 1 was described as having an investment framing and Option 2 as having a consumption framing. Individuals were then asked to choose between spreading their pension pot to age 85 or age 100 and the above options (amongst others). 75% preferred the annuity when it was described as in Option 2, but only 32% preferred the annuity when presented with the Option 1 description.

The lesson is that words, and how we present them, matter. Trustees and providers need to ensure that the information they provide to members about their options is not only clear but free of unintentional bias. When was the last time you, as a trustee, reviewed your, or more likely your adviser's, 'at retirement' member communications?

Thirdly, members don't need guidance and they don't need education, they need **advice.** I could fund a very comfortable retirement if I had £1 for every time I have heard someone from our industry complain that the general populace is financially illiterate – if only everyone spent their time boning up on the nature of collateralised debt instruments and the swap yield curve, then the retirement problem would magically go away. Individuals need to be able to access good quality impartial financial advice at the point of retirement. The industry needs to develop an advisory model that is affordable for most individuals – the recent consultation on allowing individuals to access £500 of their DC pot tax-free to be used to obtain advice, may help in this regard.

A look at the open market option – basically this is the right the member of a DC arrangement has to secure their pension with a provider, other than the one they have built their pension pot with – illustrates my point. The industry has run a guidance, information, awareness campaign in recent years aimed at encouraging members to shop around at retirement when buying an annuity, because the difference between the best and worst annuity rate at a given time can be significant.

Statistics from the Association of British Insurers (ABI) show that in 2011 only 45% of individuals took the 'external' option to secure an annuity. By 2013, this had improved to 50%, but by 2015 the number of external annuity purchases had declined to 40%. So education and guidance hasn't served members well in this particular example.

So there you have it – three steps to improving member outcomes. Now let's get on with delivering them.

Neil Copeland
Senior Trustee Representative
Dalriada

The lesson is that words, and how we present them, matter. Trustees and providers need to ensure that the information they provide to members about their options is not only clear but free of unintentional bias

Dalriada. A better way

LEGAL

Tom Milner
Associate
Eversheds LLP

European court finds same-sex partner was not discriminated against

Parris v Trinity College Dublin and others

The Court of Justice of the European Union (CJEU) has ruled that an Irish pension scheme that denied a survivor's pension to a same-sex partner where the civil partnership was entered into after age 60 was not discriminatory on grounds of age, sexual orientation or both.

Mr Parris was a lecturer at Trinity College Dublin, and a member of its defined benefit (DB) scheme (the Scheme). He had lived with his same-sex partner for over 30 years and entered into a civil partnership in the UK in 2009. His civil partnership was formally recognised under Irish law in January 2011 (he was 64 at this time).

The rules of the Scheme provided that – on a member's death – the surviving spouse or civil partner was entitled to receive a two-thirds pension for life except where the marriage or civil partnership had been entered into after the member reached age 60 (the 'Survivor Rule'). Because Mr Parris was over 60 when he entered into his civil partnership, his civil partner was not entitled to the survivor's pension.

Mr Parris argued that it was impossible for him to comply with the Survivor Rule and that he had suffered discrimination. When his claim for a full survivor's pension came before the Irish Labour Court it referred three questions to the CJEU, namely, whether the Survivor Rule was directly or indirectly discriminatory on grounds of (1) sexual orientation; (2) age; or (3) both.

The Advocate General (AG) supported Mr Parris' case and found the Survivor Rule to be directly and indirectly discriminatory. Of potentially wider application were her comments around 'temporal limitation' – she felt that there was no need to restrict the effect of such a judgment in relation to past periods.

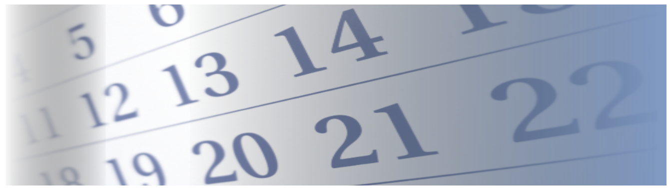
The CJEU judgment did not follow the AG's opinion and found against Mr Parris. In relation to sexual orientation, the CJEU found that the Survivor Rule had been "worded neutrally" and excluded homosexual and heterosexual partners equally. Further, the CJEU noted that the Equal Treatment Directive did not require Ireland or the Scheme "to give retrospective effect to the Civil Partnership Act…nor, as regards the survivor's benefit at issue in the main proceedings, to lay down transitional measures for same-sex couples…". Accordingly, no discrimination had occurred. Mr Parris' age discrimination claim was dismissed on similar grounds and, finally, the CJEU found that no new category of discrimination combining sexual orientation existed.

It is notable that the CJEU declined to follow the AG's opinion here. The fact that the concept of 'combined effect' discrimination did not find any favour with the CJEU will come as a relief to employers and pension scheme trustees, due to the uncertainties associated with dealing with such a principle in practice. It is also helpful that the CJEU did not replicate the AG's comments surrounding 'temporal limitation'.

The CJEU's decision in Parris will be of interest to employers and trustees of UK DB schemes that restrict the survivor benefits payable to civil partners and/or same-sex married spouses. However, the upcoming decision of the Supreme Court in the case of *Walker v Innospec* (Eversheds act for Innospec) is likely to be of more direct relevance. This case looks at scenarios where the spouse's pension payable to a surviving civil partner is restricted so that it reflects only the period of the member's pensionable service since 5 December 2005 (the date on which the Civil Partnership Act 2004 came into force). *Parris* does not address precisely the same sort of scheme rule as Innospec, but there are certainly similarities and Parris appears to provide some support to the argument that such rules are not contrary to discrimination law.

Autumn statement – MPAA reduction

The Government has announced that they plan to reduce the money purchase annual allowance (MPAA) from £10,000 to £4,000 in April 2017. This is to protect against individuals recycling their pension pots for additional tax relief. The treasury anticipates that it will save £70m from this change in 2017-18.



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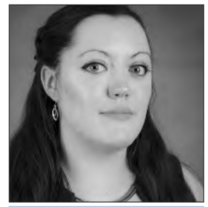


Hannah Neira
Actuarial Consultant
HamishWilson

Commutation factors – fair or flawed?

Commutation factors aren't explicitly required to be actuarially neutral. But trustees must act in the interests of members, and most schemes oblige trustees to take actuarial advice when setting factors. So when the actuary says current factors are far below neutral, should you change them? Let's examine three main rationalisations for low factors:

1) Most members commute anyway

If members are happy, why change? But fairness isn't decided by popularity. It's not an open market; one can't shop around for the best rate. There are plenty of reasons – debt, gifts, Lamborghinis – that members want cash, and if they have to accept a low exchange rate, many will. But surely they would rather be offered fairer rates. Research also shows that people tend to underestimate their life expectancy – so commutation may seem a better deal than it really is. Surely trustees should not be taking advantage of information asymmetry

2) Selection risk

This theory says people who are more likely to die early, and whose pensions therefore cost the least, tend to commute more than others – so the trustees must mitigate against this. But the risk may be overplayed if most members commute anyway. Furthermore, recent changes to flexibility and 'death tax' on defined contribution (DC) benefits may also lead to more members in ill health taking transfer values, which is a greater selection risk. The effect from commutation therefore falls away. Indeed, offering better commutation may reduce transfers out, alleviating adverse selection

3) Scheme funding

Some argue that low commutation rates protect funding for other members. In a severely underfunded scheme with serious risk of failure, this may hold. Usually, however, the trustees' job is to pay benefits and secure funds from the employer – not to reduce liabilities by offering members far less than fair value. Should fair commutation factors be considered a perk to bestow when in surplus – like discretionary increases – or should they be the default?

There are other considerations, and some leeway can be justified. For example, setting factors slightly lower than neutral may guard against knee-jerk reactions to short-term conditions. But it seems many are stuck in a herd mentality left over from the distant past. Start afresh: if you were setting factors for the first time today, what would they be? In this age of 'freedom and choice' and 'value for money', would you be happy explaining to members why lump sums are half the value of pensions? If factors are far from neutral, you may need to reassess the justification.

Portfolio management 2017

– preparing for the road ahead

James Balcombe
Solutions Analyst
Cardano

We live in an uncertain world which is undergoing fast and sometimes unforeseen changes. Being better prepared for the unexpected can help a pension scheme ride out this uncertainty. By constructing a portfolio that focuses on what may happen in the future rather than what has happened in the past, a pension scheme is more likely to stay on the road and reach its final destination.

What's around the next corner?

Like it or not, we live in increasingly uncertain times.

Who would have guessed that Donald Trump would become the next US president? Or that the UK would decide to leave the EU? With political unrest growing across Europe and the Chinese economy facing a sharp slowdown, the road ahead for the global economy has never been so unclear.

Despite this uncertainty, markets have proved surprisingly resilient and remain at record highs. But is there an accident just waiting to happen around the corner?

Since the financial crisis of 2008, supportive global central bank policies have certainly helped fuel asset prices to their current highs. However, with many of these policies close to their limits and others beginning to reverse course, one wonders whether we have reached the top of the mountain.

An unhealthy reliance on the past

In today's uncertain world, one would think that most pension scheme portfolios were diversified enough to ride out any bumps in the road. But, for many, this couldn't be further from the truth.

Over recent years, it's fair to say that many have tried to diversify away from the traditional 60/40 equities/bonds approach by adding other assets such as credit and property. However, while this may look good on paper, this supposed diversity has led many into a false sense of security.

The problem is that – like trying to drive a car forwards whilst looking through the rearview mirror - these asset allocations are typically based on traditional models that rely too much on historical data.

Why is this a problem?

Firstly, these models assume that historical asset class relationships, such as equities and bonds tending to move in opposite directions, remain stable. They don't consider that during times of market stress, when diversification is most needed, these relationships tend to break down and everything falls at once.

The risk of a serious accident is never far away.

In addition, this unhealthy reliance on historical data leads to the assumption that assets that have performed well in the past will continue to perform well in the future. This leads to allocations skewed towards assets that have outperformed in the past – during an environment where economic growth has been robust.

Given that economic growth is one of the fundamental drivers of asset class returns, these allocations effectively represent a significant bet that the global economy will continue to grow at this pace in future.

Taken together, if the world were to enter another downturn, portfolios based on this traditional approach may be exposed to such significant asset price falls that many would struggle to ever recover. See Figure 1 overleaf.

Surely there is a better way to manage a portfolio? One that can help it traverse a variety of terrains and not just a flat race track.

> In today's uncertain world, one would think that most pension scheme portfolios were diversified enough to ride out any bumps in the road. But, for many, this couldn't be further from the truth

An eye on the road ahead

A forward looking scenario-based approach can help better prepare pension funds for the winding road ahead.

At the heart of this approach is the consideration of what will drive asset returns in the future rather than what drove them in the past. It's more about understanding how these assets are driven by underlying economic factors, such as growth and inflation, rather than historical relationships.

Such an approach takes into consideration how different assets perform across various economic scenarios. A focus on what could happen in the most unlikely scenarios is particularly important as these events will typically have the largest impact on the portfolio.

By considering this, many investors begin to see the benefits of holding assets that they may have never once considered.

For instance, assets principally designed to perform well in a stressed market or recessionary environment become more desirable in a portfolio. This could include equity downside protection strategies which only lose small amounts in other scenarios or even gold which typically sees high demand in a downturn as investors seek its perceived safe store of value.

Armed with this new scenario way of thinking, an investor is primed to build a more robust portfolio that is better prepared for the unexpected. ▶

By proactively avoiding large shocks to the portfolio, the scheme is more likely to reach its final destination

For example, by developing a view on the likelihood of how the world will develop in years to come, one can start to think about how to allocate to assets that are expected to outperform in these different scenarios. Figuring out the size of these allocations is not an exact science and the impact of asset price valuations also needs to be taken into consideration. But it does make an investor consider what could happen in the worst possible outcome and what could be done to protect against this.

Over time, this scenario-based approach also encourages pro-active adjustments to the asset holdings as and when the outlook changes. This helps to ensure the portfolio is ideally positioned for those times when you leave the motorway and move onto the winding country lanes.

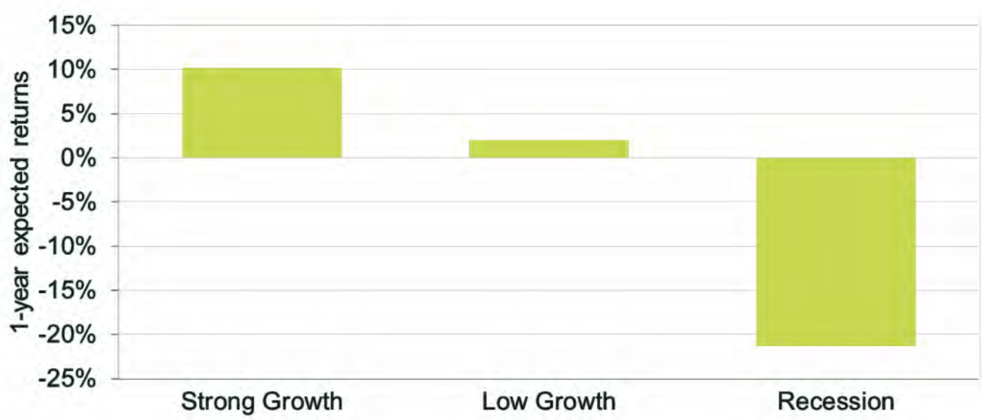
As seen in Figure 2 below, analysing the impact of different allocations under different events can provide a much greater understanding of how the journey will be in the future. Greater clarity can be achieved as to the potential gains and losses, meaning that trade-offs can be made. By proactively avoiding large shocks to the portfolio, the scheme is more likely to reach its final destination.

Better prepared for the journey

The truth is that no one knows for certain what the future may hold. But being prepared for the unexpected can help a pension fund better meet its goals over the longer term.

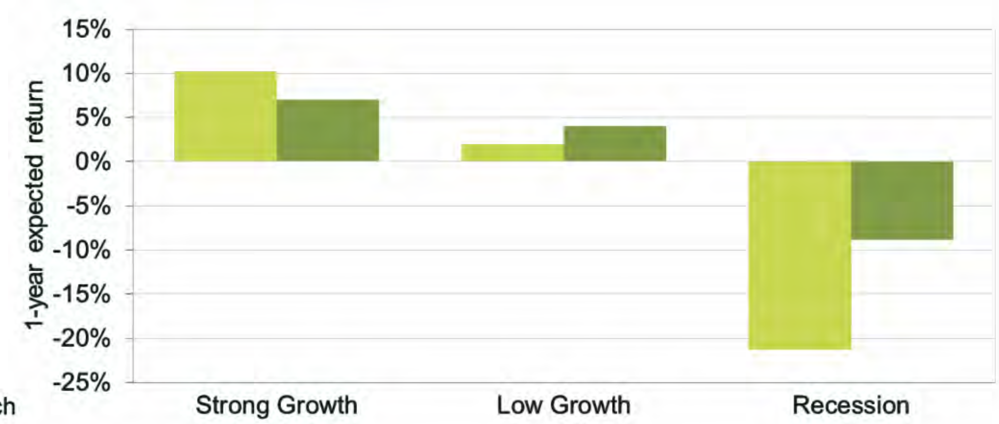
In these more uncertain times, a scenario-based approach to portfolio construction can help you better avoid any accidents along the way. While it doesn't guarantee returns, it can deliver true diversity that can help deliver more predictable results in this increasingly uncertain world.

Figure 1: **Impact of a more traditional approach**



Source: Cardano

Figure 2: **Impact of using a scenario-based approach**



Source: Cardano

expert insight

PMI EXPERT PARTNER

PENSION SYSTEMS

Automation of individual and bulk occupational pension transfers

Paul Pettitt
Managing Director
Origo

Alongside the Government's challenge to the industry to develop a Pensions Dashboard prototype by March 2017 (full Dashboard by 2019), the publication of the 'Improving Pensions and Investment Transfers and Re-registrations' consultation paper in December 2016 will have left the industry in absolutely no doubt that dealing with delays in pensions and investments transfer times is a key Government target in its overall pursuit of improved consumer outcomes.

Responses to the paper must be in by **Sunday 31 January**, giving the industry under two months to gather its thoughts and put them down on paper - another indication that this is an issue the Government wants to resolve as quickly as possible.

The delays experienced from manual pension transfers have of course been highlighted by the introduction of the Pensions Freedoms. The frustration of consumers who are now very familiar with carrying out transactions online, cannot understand how what seems to be a simple process, takes our industry weeks or months to complete. After all, bank payments that used to take days to transact can now take place in hours. Consumer expectations have been raised.

Such delays do not apply in every case; automated transfers typically complete in a matter of days with some transfers being carried out in minutes.

Since Pensions Freedoms, there are issues to consider of proper due diligence and protection of consumers against pension scammers and liberators. Recognising that transfers must be safe and allocating time for safeguarding benefit checks must be taken into consideration.

However, if the industry is to tackle transfer delays, automation of the process is essential. It comes as no surprise, therefore, that electronic processing is a key solution highlighted in the December consultation paper as the means to quickly report performances and help improve the overall process and outcome for the consumer.

Automation of bulk pensions transfers

It follows that attention will turn also to bulk pension transfers, which are still largely based on manual processes. Spreadsheets and other unsecure methods are still being employed to pass data between administrators.

In a digital world, manual systems are not going to be tolerated for very long and both pension scheme providers and third party administrators (TPAs) are likely to encounter criticism and member frustration where unnecessary delays occur.

The crazy thing is that administrators could not only improve their service to members and trustees by automating their bulk pensions transfers processes but could also save themselves considerable sums of money and reduce data security risks too. Automation of member transfers and enabling schemes to conduct the transfer of members' assets in a bulk process, can bring natural efficiencies and savings.

Anyone who wants to find out the kinds of savings that can be made – and we are talking tens to hundreds of thousands of pounds a year, depending on the levels of plans ceded and received – can have access to a proprietary calculator developed for this purpose. As an example, a pension administrator that wins 30 schemes in a year with an average of 1,000 members per scheme could save around £150,000 a year. That figure would increase, of course, for any transfers out that occurred in the year, which often are more expensive and labour intensive to undertake. Smaller scheme transfers can also make significant savings running into tens of thousands of pounds, simply by employing an automated bulk transfer system.

Every scheme is different and the calculator is designed to provide a tailored assessment for individual companies based on their specific business levels. You can access the calculator on our website.

Automation of member transfers and enabling schemes to conduct the transfer of members' assets in a bulk process, can bring natural efficiencies and savings

Game changer

By adopting an automated transfers service, not only can you demonstrate your commitment to ensuring your members receive the service that is expected but one which is also in-line with Government expectations too. A good automated transfers service will also provide monitoring and co-ordination, and prompting of actions, with full start-to-complete MI and audit trail for review and compliance requirements.

Secure and efficient automation of bulk transfers between providers, TPAs and employers is a game changer for the industry. By doing away with manual and risky unsecured data processing, huge efficiencies and cost savings can be achieved while also enabling a 21st century service to members.

ORIGO

PMI Publications Survey 2016 – the results

Every couple of years we carry out a readership survey to find out what you think about the PMI's publications and what, if anything, we could be doing better.

The most recent one, which was released in September 2016, was a good opportunity to get feedback from you regarding the look and layout, together with questions about how relevant you find PMI News features and whether there is anything else you would like to see.

First of all, thank you to those 254 PMI members who completed the survey. We know how busy you all are so we really appreciate you taking the time out to provide your views.

It was great to see that 70% of you either read every issue or most issues of PMI News and 45% of you either read every issue or most issues of PMI Technical News.

"PMI News is both interesting and topical"

"Useful relevant issues – helpful in developing solutions"

"PMI News is one of my most popular sources of updates, because I know it is as comprehensive as I need and always accurate"

"The depth of information helps to keep me updated"

The majority of you rated PMI News and PMI Technical News above all other major pensions publications in terms of keeping you informed about current pensions issues with 88% of you rating PMI News excellent or good and 70% rating PMI Technical News excellent or good. We know how many other pensions publications must land on your desk every month so it's good to know that we continue to capture your attention.

It was great to see that 95% of respondents feel that the PMI News feature articles are very or quite useful, with 81% of you rating the content as just right.

- "The content is varied, topical and relevant"
- "I look forward to receiving PMI News and find the content useful and relevant"

87% of respondents find the Editorial column very or quite useful and 92% find the Ask the Expert/Expert Insight columns either very or quite useful. The PMI's Expert Partnerships give members fast track access to the most up-to-date White Papers, research, articles and news from acknowledged pension's industry leaders in their respective fields and we are pleased that they continue to demonstrate knowledge, understanding and problem solving capabilities in their regular columns.

As well as the editorial team we have to thank our Media Sub Committee for all their hard work. The Committee meets four times a year to help identify trending and hot topics in pensions as well as review numerous articles throughout the year. With that in mind we would like to thank:

- Sara Cook, Barnett Waddingham LLP (Chair)
- Sital Cheema, Russell Investments
- Gillian Graham, PS Independent Trustees
- Kevin Groves
- Louise Harris, Capita Employee Benefits
- Neil Latham, Aon Hewitt
- Catherine Salafia, Eversheds LLP

We would also like to thank those of you who volunteered themselves or a colleague to write an article in a forthcoming issue of PMI News or PMI Technical News. Those of you who didn't put yourself forward and are interested in writing an article for one of our publications, it's not too late so feel free to contact Daisy Goodstien at **dgoodstien@pensions-pmi.org.uk** for further details.

We are constantly thinking of new ways of improving our services to suit our member's needs and it is feedback from surveys such as this that help us move in the right direction. We intend to send further surveys throughout the next 12 months so please keep providing us with your views in order to help shape the PMI going forward.

Thank you to all the 2016 PMI News and PMI Technical News authors

Chris Adolph, Russell Investments
Andy Agathangelou, Transparency Task Force
Richard Akroyd, Willis Towers Watson
Jason Allan, State Street Global Advisors
Joe Anderson, Trafalgar House
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Ross Wilson, Xerox
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The defined benefit taskforce

– the interim report

The UK has a strong history of providing employees with a workplace pension; in fact there are 27.3 million people in the UK who are benefiting, or will benefit, from a defined benefit (DB) scheme[1]. And these pension schemes also play an important role in the UK economy. Together with insurers, pension funds are the largest institutional investors in the Organisation for Economic Co-operation and Development[2] (OECD), with the assets of DB schemes sitting at around £1.5tn[3], and those of the Local Government Pension Scheme at £233bn[4]. To give that some scale, that's almost the equivalent of UK GDP (£1.8tn)[5].

Worryingly, DB schemes are struggling. With low interest rates, volatile investment markets, regulatory burdens, funding gaps and adjusting to the consequences of continued improvements in longevity, they're swimming against the economic and social tide in order to make sure members' benefits are paid.

These factors mean that providing a DB pension scheme has become increasingly expensive. Over the last 10 years employers have paid approximately £367bn to pension schemes[6], around £120bn of which has, for the most part, been in deficit recovery contributions[7].

Brexit has also had an impact. While it's too early to call the medium and long-term ramifications of Brexit, the short-term impact has been further uncertainty, and huge volatility in markets. The pound has fallen sharply and gilt yields remain at historically lows levels, the Bank of England has cut interest rates further and introduced another round of quantitative easing.

The combination of social, political and economic issues has had a significant effect on DB funding levels.

Where next for DB schemes?

In March, the Pensions and Lifetime Savings Association (PLSA) launched its defined benefit taskforce. Made up of industry experts and academics, the taskforce is responsible for seeking views and evidence from schemes of all sizes, as well as sponsors, regulators, government and intermediaries, to get to the heart of the issues affecting DB schemes. The underlying question posed by the taskforce was 'can we do better for the millions of people relying on these schemes, the businesses that support them and the economy at large?'.

DB taskforce interim report

After months of evidence-gathering and analysis, the taskforce published its interim report in October, which identified a number of long-term structural weaknesses in the DB sector including: the diversity of size, scale and governance of schemes, the fragmented value chain, and the broader legislative and regulatory framework.

A fragmented system

Respondents to the taskforce's consultation and research expressed a widely held view that "size is a critical factor. Large schemes have the governance budget, the access to investment media and purchasing power"[8]. Despite this, the UK pensions sector is characterised by a large number of schemes, almost 6,000[9], the majority of which have fewer than 1,000 members. With an uncertain economic climate and the general cost of scheme provision higher, a sector with large numbers of smaller schemes can create problems for sponsors, trustees and regulators. More importantly, it increases the risk of member benefits not being paid.

Ashok Gupta
Chair – Defined Benefit Taskforce
PLSA

The underlying question posed by the taskforce was 'can we do better for the millions of people relying on these schemes, the businesses that support them and the economy at large?'

1 *Occupational Pension Scheme Survey, ONS September 2016. Covers private and all public sector schemes (funded and unfunded).*
2 *Institutional Investors and Long-Term Investment Project Report, OECD, 2014.*
3 *Purple Book – DB Pensions Universe Risk Profile, The Pensions Regulator and Pension Protection Fund, December 2015.*
4 *Figure derived from LGPS England and Wales Annual Report (2015) & Ab Overview of Local Government in Scotland (216).*
5 *United Kingdom National Accounts, the Bluebook: 2015 edition, ONS, 2015*
6 *MQ5: Investment by Insurance Companies, Pension Funds and Trusts, IONS, September 2016. This figure includes both normal and special contributions.*
7 *Purple Book – DB Pensions Universe Risk Profile, The Pensions Regulator and Pension Protection Fund, December 2015.*
8 *Head of Trustee Services, large multi-employer scheme, DB Taskforce Call for Evidence*
9 *5,945 schemes in the PPF7,800 Index, taken here as a proxy for private sector schemes*

The UK system is in stark contrast to other nations with similar sized assets under management

The UK system is in stark contrast to other nations with similar sized assets under management.

In the Netherlands the number of pension schemes was reduced from over 800 in 2005 to 308 today. To achieve this, the Dutch Regulator directed smaller schemes, with limited capacity to amend funding levels and particular demographic profiles, to consolidate. Many individual corporate schemes have joined consolidated industry-wide entities.

In Australia, after recommendations in the Cooper Review[10] in 2010, a requirement was introduced for trustees to assess on an annual basis whether or not their scheme was of the optimum size to achieve best possible outcome for members[11]. Following this, the number of schemes fell from 333 in 2012 to 232 in 2015[12].

Inflexible regulation and excessive governance

The taskforce recognises that the regulatory framework must protect all pension scheme members, while supporting and encouraging trustees to provide and promote good pension provision. However, the current regulatory system is inflexible, and leads to binary outcomes of complete success or complete failure. With such narrow options, schemes have sought to examine alternative ways to structure their benefits only when solvency is inevitable.

Allowing more flexibility could enable sponsors to provide their members with better long-term outcomes before considering insolvency, and before the scheme enters the Pension Protection Fund (PPF).

How pension schemes are governed can have a significant impact on the cost of operating schemes. Due to the highly fragmented nature of the sector, there has been a necessary tendency for government and regulators to regulate to the lowest common denominator. This has resulted in a significant volume of regulation. Since 1995 there have been 850 new pieces of regulation and legislation affecting DB schemes alone; this has added significantly to the cost and complexity of operating schemes. Many schemes do not have the resources and skills to govern to the high standard required in today's challenging environment.

The current system has built up over decades, and is not fit for the future. The system is inflexible and costly.

Tough promises to keep

Having a regulatory approach to benefit design has meant that elements of benefits which were offered on the basis of best endeavour have, through regulation, become definite promises. This approach has created a system that is inflexible, and has significantly increased the cost of providing pensions – the introduction of statutory revaluation and indexation alone has increased scheme liabilities for a typical DB scheme by around 25-30%[13].

The risk of de-risking

Over the last several decades there has been a drive by pension funds to de-risk investments. This has been done by attempting to closely match assets and liabilities, through investment strategies. Modelling undertaken by the taskforce indicates that this strategy may simply just move risk around the system because, in the absence of full funding, greater dependency is placed on the sponsor for higher contributions to compensate for lower investment returns. Such a strategy may actually increase the risk of loss of member benefits, especially in a low-return environment.

Be part of the solution

The findings of the taskforce show it's time to act. We believe we can do better for the millions of people relying on DB schemes, the businesses that support them and the economy at large.

The next phase of the taskforce's work will be to collaborate across the pensions sector to develop solutions and recommendations to support the sustainability of DB. We encourage anyone who has a stake in DB schemes to work with us.

Further information on the taskforce, along with a copy of the interim report, is available on our website.

10 *Final Report, Review of the Governance, Efficiency, Structure and Operation of Australia's Superannuation System, 2010*

11 *Final Report, Review of the Governance, Efficiency, Structure and Operation of Australia's Superannuation System, 2010*

12 *Dutch National Bank (2016) and Australian Prudential Regulatory Authority (2015)*

13 *Spotlight on Pensions: NAPF to the Red Tape Challenge, NAPF (now PLSA), May 2012.*

pmi accredited adviser programme

FCA Update

Financial Conduct Authority (FCA) publications and announcements which may be of relevance to members include:

- **25 November 2016** – Consultation on 'Implementing information prompts in the annuity market': CP16/37
- **16 November 2016** – Rules for the sale of the Lifetime ISA
- **15 November 2016** – PS16/24 Capping early exit pension charges: feedback on CP16/15 and final rules

Terms and conditions of the PMI AAP

All individuals who wish to participate in the PMI AAP must:

- be members of the PMI as set out in the membership regulations (appendix C to the PMI's governance document). This includes the following membership categories: Affiliate, Student, Certificate, Diploma, Associate and Fellow. As such, they must conform to our membership regulations, code of professional conduct (appendix B to the governance document), terms and conditions and any other relevant requirements that may be stipulated from time to time by the PMI
- confirm and provide documentary evidence, if requested, that they hold an appropriate qualification (as defined by the FCA) and have completed any associated gap fill requirements
- confirm compliance with the approved persons' regime on application and annually thereafter in a format defined by the PMI
- maintain membership in good standing including payment of all fees and subscriptions
- complete the CPD required for PMI AAP purposes and any additional CPD requirement for their PMI membership status (defined separately)
- submit an annual declaration confirming completion of CPD requirements and maintain appropriate evidence in accordance with guidelines and submit it along with all other relevant information when required to do so for the purpose of verification
- understand that they are bound by the disciplinary process set out in appendix H of the PMI's governance document
- understand that information regarding the operation of the PMI AAP and the conduct of participants may be shared with the FCA and their firm(s) where it relates to professional standards
- understand that if at any time the PMI is provided with false information by the individual pertaining to any of the above conditions or any of these conditions are otherwise contravened, the PMI will invoke its disciplinary process. Depending upon the nature of the offence and the findings of a disciplinary panel, if required, the PMI reserves the right to expel and exclude any individual from the PMI AAP, withdraw his/her Statement of Professional Standing and expel and exclude the individual from PMI membership

These terms and conditions are reviewed annually by the PMI AAP Committee.

Neil Scott
PMI Head of Professional Standards

Diploma in Regulated Retirement Advice

Our fully RDR compliant qualification, the Diploma in Regulated Retirement Advice (DRRA), has been revised for 2016. It will now comprise two (instead of three) units covering the entire syllabus. The range of content remains unchanged and both of the new study manuals have been updated to cover the most recent developments. These study manuals can also be purchased for reference purposes. As well as being fully RDR compliant it is also an appropriate qualification for the regulated activity 'acting as a pension transfer specialist'.

It is possible to obtain copies of the study manuals for this qualification and a single user licence that covers both study manuals in a PDF version. The cost is £400. For further information contact Neil Scott at **nscott@pensions-pmi.org.uk**

PMI AAP Fees

The fees for 2016-17 will be as follows: there is a fee of £45 for Affiliate Members to renew an SPS. There is no renewal fee for Student Members, Trustee Group Members, Certificate Members, Diploma Members, Associates or Fellows. Membership subscription fees will depend on membership grade, and will be required when they fall due. For Affiliate Members the subscription will be £75.

CPD Workshops

On 7 December 2016 we ran another CPD workshop. It included an update on several important regulatory developments and a summary of the most recent thematic reviews. The workshop also provided an opportunity for PMI AAP members to network and discuss current developments in this area. We are planning to hold another workshop in Spring 2017, to register your interest contact Neil Scott.

Pensions
Management
Institute
ACHIEVING PENSIONS EXCELLENCE

Retirement Provision Certificate

Are you embarking on a career in pensions or just starting out in the industry and looking to sharpen your basic pension's knowledge? Whether you're new to pensions or working in a related field, our Retirement Provision Certificate (RPC) provides a broad introduction to pensions and other related benefits in the UK.

The RPC is unique in the fact that it has been designed to meet the needs of a wide range of people, not just pension professionals – hence why it has become so popular! For instance, the qualification is perfectly suited to those whose work involves one particular aspect of retirement provision, such as investment, legal or accounting or those whose job requires an overview of the principles underpinning retirement provision.

Still not convinced? Those who have completed our qualifications cannot praise us more highly!

"The PMI qualification has helped me to broaden my knowledge beyond my day-to-day role, which has been useful when speaking with clients"

Damon Lacey, Pensions Analyst,
Muse Advisory.

With topics covering every aspect of pension's essentials, from the employment package, to the role of the Government, to trusteeship through to personal savings, you can be rest assured that the RPC will help you gain a sound understanding of the basics of pensions.

Kick start your pension's career today and sign up for the Retirement Provision Certificate.

e: qualifications@pensions-pmi.org.uk

w: www.pensions-pmi.org.uk

news from the regions

EASTERN REGION

Our next afternoon seminar is planned for **Wednesday 8 March** in Ipswich (we are still finalising the exact location) and will be sponsored by First Actuarial. The seminar will start with a buffet lunch at 12 noon. This will include a legal update from Sackers LLP, and there should be plenty to cover. We are still sourcing our other speakers, as our initial enquiries have drawn a blank. Full details will be emailed to members in early February.

We have a provisional date of **Wednesday 14 June** for our late afternoon/early evening AGM Seminar at Wherstead Park, near Ipswich, and we are hoping our speaker will be Steve Webb, former Pensions Minister – so watch this space. We wish all readers a Happy New Year.

If you wish to be added to our distribution list contact Susan Eldridge at **susan.eldridge @aviva.com**

LONDON REGION

Business meeting – everything you always wanted to know about data... but were afraid to ask
Date: Tuesday 31 January
Time: 6.00pm
Venue: Mercer, Tower Place, London EC3R 5BU

Given recent changes in legislation and the importance of keeping the right data safe and secure, our panel of experts will cover a wide range of subjects from data protection legislation, safe harbour, cyber security and passwords, to who owns data, and 3rd party usage. To secure your place at the event, visit the dedicated Eventbrite page and book your free ticket. Full details can be found on our regional page on the PMI's website.

NORTH EAST REGION

Our next seminar 'Accounting Issues' will take place on **Thursday 19 January** at the offices of Barnett Waddingham, with speakers from PWC. This will be followed by the seminar titled 'Cyber Risks in Pension Schemes', which will take place on **Thursday 23 February** at the offices of Walker Morris, with speakers from RSM.

Full details of these events will be advertised via email. Contact Jane Briggs at **jane.briggs@squirepb.com** if you would like to be included on the email distribution list. Further details of our 2017 schedule have been added to our regional page on the PMI's website.

SOUTHERN REGION

We opened our business year at the offices of Equiniti, where Hamish Wilson gave the group some interesting thoughts on how Brexit could impact UK pensions, some of which have already started to materialise. Certainly a subject to be revisited.

For our second meeting we were the welcome guests of Fidelity, where Richard Parkin of Fidelity outlined member responses to pension freedoms, some of which appeared counterintuitive, and brought us up-to-date on how investment solutions are evolving.

We remain grateful both to our speakers and hosts, who so freely provide their services and facilities.

We start 2017 with a meeting at RSM in Guildford on **Thursday 26 January**. The subject for discussion will be Integrated Risk Management.

Members will have received full details, but anyone else interested in attending should contact Clair Hood at **clair.hood@howdens.com**

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Attractive benefits?

Employers are operating in challenging times. Social, economic, technological, political and legal changes are disrupting what we do, why, when, how and where. 2016 has been particularly interesting with the political ramification of Brexit and Trump, legal scrutiny about whether certain individuals in the gig-economy are self-employed or employees, and the concern of society about the plight of the just about managing (known as the JAMs).

While organisations are busy dealing with the consequences of these changes and working out how it may affect their demand for employees, they are also faced by a changing workforce. One that is becoming increasingly diverse, as well as demanding, and spanning more generations.

All this affects how employers attract, develop, retain and motivate their staff, and has repercussions for workplace benefit policies, procedures and practices.

For instance, what have been the consequences for the workplace of the rising costs of defined benefit (DB) schemes caused by low interest rates since 2013? According to a CIPD survey of over 1,000 employers in September 2016, 60% reported being affected. Chart 1 overleaf shows how organisations have been responding in the private sector. Our members say that they have cut back on employee: training and development; staffing levels; hours worked; overtime and bonuses; and salary rises. With interest rates falling further to 0.25% we would expect even more firms to respond similarly.

How firms have been dealing with increasing DB costs

What have been the consequences of automatic enrolment? According to a CIPD survey of around 1,000 employers conducted in December 2015, 70% of employers had so far been affected by automatic enrolment. Within the private sector this was slightly higher at 75%. Chart 2 overleaf lists how companies have been reacting. Members report similar approaches to dealing with the additional defined benefit (DB) costs arising from low interest rates, such as cutting back on overtime and bonuses, restricting salary rises and contributing less to the pension arrangements of new staff.

How firms have been responding to automatic enrolment costs

DB and defined contribution (DC) pensions are a considerable cost for most large and medium-sized employers, but do employees actually value this expenditure? CIPD research finds that members of DC plans are far more likely to be aware of how much they and their employer contributes to their pension than those who belong to DB arrangements. However, members of DC plans may not have appreciated how much money they need to pay into their plans for a liveable retirement income, the choices they face and the potential consequences of these decisions.

On top of pension provision, firms also offer a multitude of benefits to their staff. Table 1 below lists the most common benefits provided to all staff within the private sector.

The most common benefits offered to staff

Table 1

Manufacturing and production	
Paid leave for bereavement	92
Training and career development	85
On-site car parking (free/subsidised)	82
Pension scheme	78
25 days and over of paid leave (excluding bank holidays)	77
Christmas party/lunch	77
Private sector services	
Paid leave for bereavement	86
Tea/coffee/cold drinks – free	84
Christmas party/lunch	83
Training and career development	80
Pension scheme	73
Death in service/life assurance	70

Other common benefits provided to all staff include: eye care vouchers (63%); childcare vouchers (63%); enhanced maternity/paternity leave (58%); employee assistance programme (56%); and dress-down days (54%).

Of course some benefits are dependent on grade and seniority. For instance, while less than 1% of respondents offer a company car to all staff, by ▶

Charles Cotton
Performance and reward adviser
Chartered Institute of Personnel and Development (CIPD)

CIPD research finds that members of DC plans are far more likely to be aware of how much they and their employer contributes to their pension than those who belong to DB arrangements

> More recently, employers have been moving towards an outcome-based approach to reward. The outcome is employee well-being. CIPD research shows that employees with high levels of well-being are more productive than those that are not

contrast 38% offer them subject to grade or seniority. Similarly, while 19% of respondents offer relocation to all staff, 33% of employers restrict this to grade or seniority.

Benefits also vary by size and sector. For instance, smaller companies are more likely to offer staff a Christmas party than larger employers, especially those based in the public and voluntary sectors. By contrast, public and voluntary sector employers are more likely to offer 'family-friendly' benefits, such as enhanced maternity and paternity leave; flexible working and childcare vouchers.

Less common benefits on offer to employees include: workplace chaplain/equivalent (12%); corporate wrapper workplace benefits (9%); dental insurance (8%); Christmas bonus (7%); homeworker allowance (6%); on-site crèche (5%); car allowance (4%); car loan (3%); concierge benefits (2%); and first-time buyer's home deposit assistance (1%).

CIPD research indicates that benefits make up 10% of the total reward spend among 43% of employers, see Chart 3 opposite. However, when asked what proportion they would ideally like to spend on benefits, research shows that employers would like to increase the role that staff benefits play in total reward. For instance, more employers would like to raise the benefit proportion to 20% or 30% of the total reward spend.

Proportion of total spend on employee reward

How do employers organise pay and benefits? Until recently, the emphasis has been on a variety of reward outputs, such as pensions, company cars, bonuses, company cars, share plans, etc, within a flexible and voluntary benefits framework.

Such an approach aims to create a package that integrates all of the various financial and non-financial rewards that people value, and then aligns it to the requirements of the organisation and its employees. A challenging task given that business needs to change so quickly in response to political, economic and technological developments.

More recently, employers have been moving towards an outcome-based approach to reward. The outcome is employee well-being. CIPD research shows that employees with high levels of well-being are more productive than those that are not. We have called on employers to shift from reacting to, and dealing, with issues to a more proactive prevention of problems, and recognising that mental wellness can influence physical well-being.

Our research highlights that a crucial aspect of employee well-being is their financial well-being, and it is important to have an integrated and holistic approach to employee wellness. There's evidence to show that poor financial well-being impacts on health in terms of poor psychological well-being, higher stress and anxiety levels, and lower levels of good health. In turn, this affects productivity in terms of poorer job performance, short-term decision-making, reduced ability to concentrate, lower productivity and absenteeism.

Employers should now be turning their attention to how they can boost their employees' financial well-being. While earnings are important in achieving financial well-being, it is not the only component. As well as the amount of pay, other elements of financial well-being include: being able to save for the future; being rewarded in a fair and consistent manner; being able to comfortably pay off debts; having benefits that offer protection in the case of an emergency (such as illness or redundancy); having opportunities for career development; and being financially savvy.

If employers wish to get a return on the investment on their benefit spend, they should look at how the perks they offer support employee well-being, and whether there are any gaps to fill. Boost employee well-being and we can raise productivity, and employers will be in a position to spend more on their employees' financial well-being.

KEY MESSAGES

- Social, economic, technological, political and legal changes are disrupting what organisations do, why, when, how and where
- These challenges affect labour demand and how firms attract, retain and motivate staff with pay and benefits. For instance, the impact of automatic enrolment on employment practices
- Because of these challenges, employers predict that benefits will play an even greater role in their reward strategy
- To help maximise the return on their benefit spend, the CIPD recommends that employers adopt a financial well-being strategy
- A reward approach that focuses on outcomes instead of outputs can help boost employee financial well-being and their performance

Chart 1: **How have firms dealt with the increased costs of DB plan caused by low interest rates**

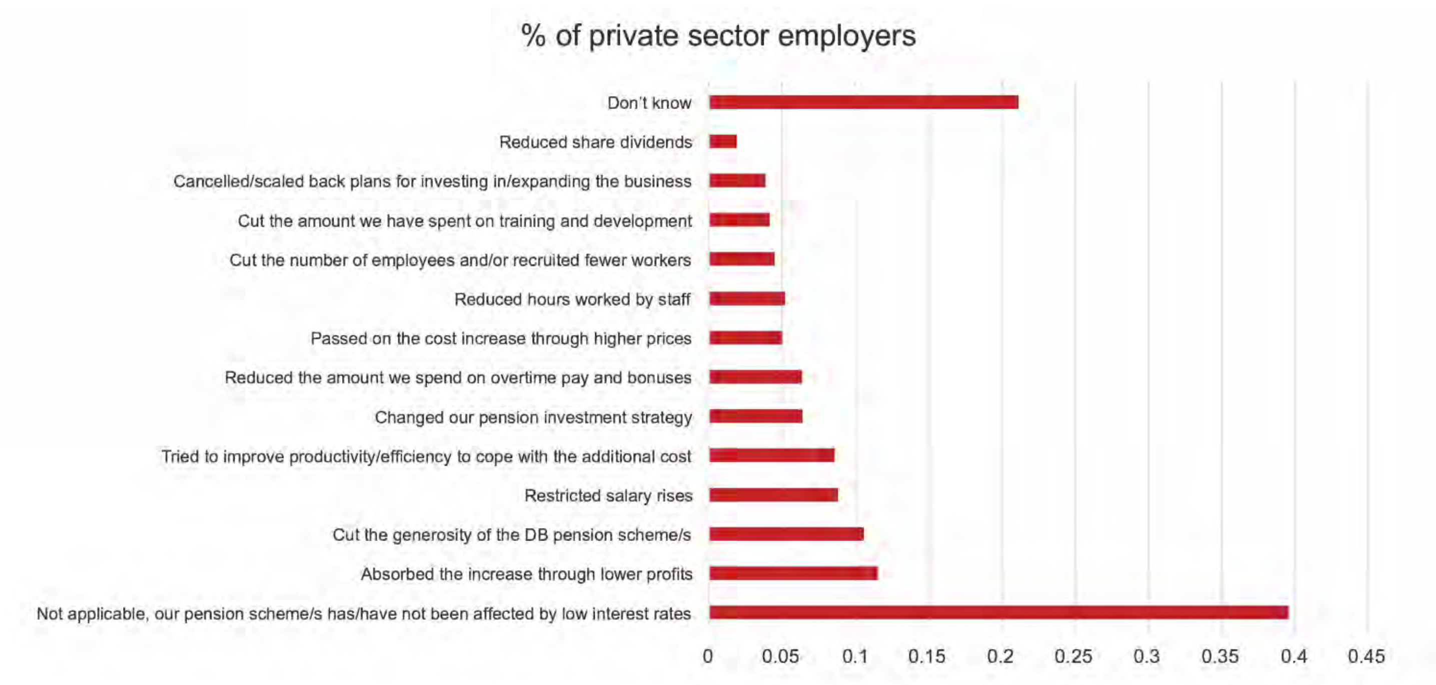


Chart 2: **How firms have been responding to the additional costs caused by automatic enrolement**

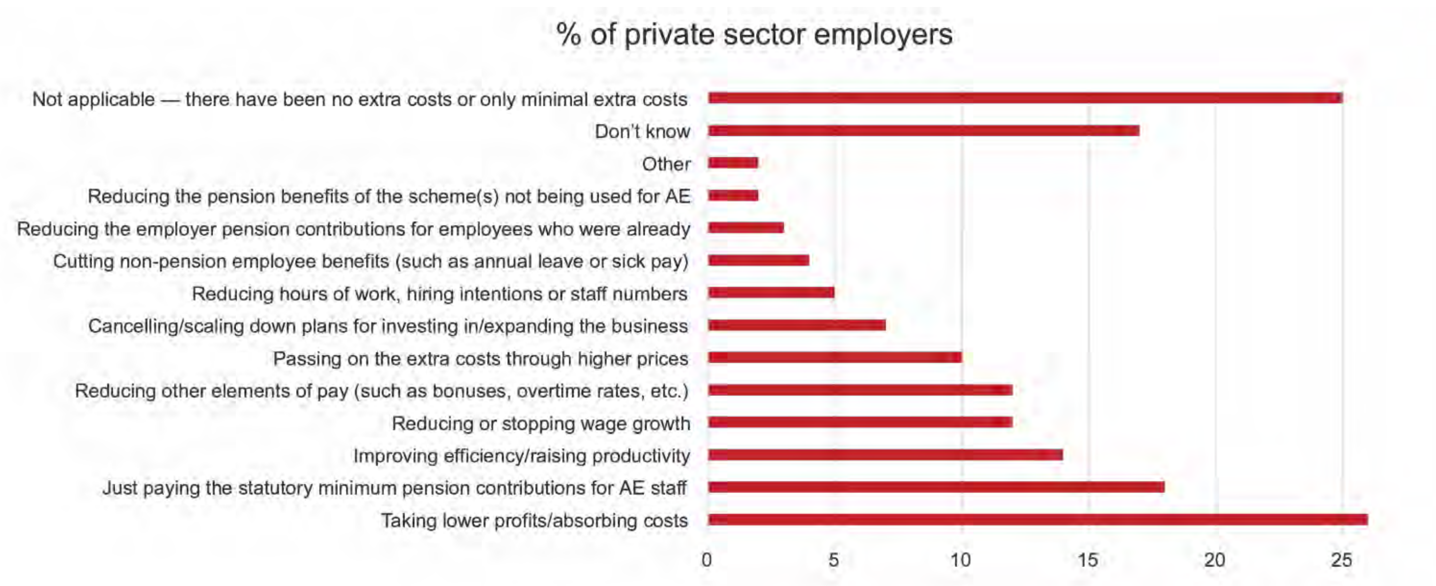
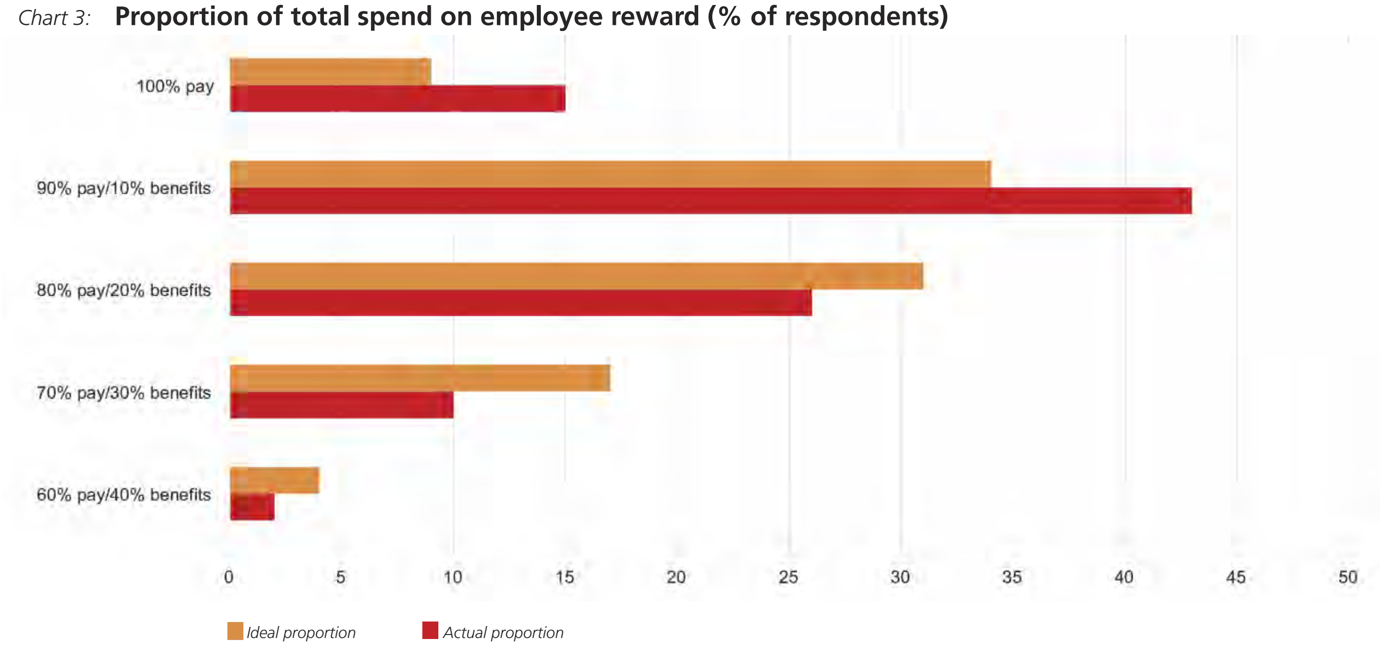


Chart 3: **Proportion of total spend on employee reward (% of respondents)**



NEST
update

2016 IS THE YEAR AUTOMATIC ENROLMENT ACCELERATED BUT STAYED ON COURSE

Helen Dean
Chief Executive
NEST

2017 is set to be a pivotal year for automatic enrolment. The pace of smaller employers meeting their automatic enrolment duties is set to continue increasing but that's just part of the picture

It's fair to say that many people will remember 2016 as a year of the unexpected, both in the UK and globally. By comparison, the steady and effective process of rolling out automatic enrolment perhaps looked like a reliably well-oiled machine. However, as we kick off a new year it's worth pausing to take stock of an achievement that the whole sector can be proud of.

2016 proved smaller employers can do automatic enrolment, and do it well

Smaller employers continued to defy doom-mongers by smoothly implementing automatic enrolment and getting their schemes set up. Tens of thousands signed up to NEST over the year and many did so without any help.

Bringing such large numbers of smaller employers into automatic enrolment is exactly what NEST was set up to do. We were designed for scale from the start and to be open to any employer that wants to use us to meet their duties, regardless of their size.

Of course technology has played a large part in helping us deliver. As staging has moved down employer sizes, we've continued to streamline our processes to fit their different needs and deployed technology to integrate with existing systems.

This includes NEST web services, which integrates pensions with payroll. We're anticipating more and more employers will make use of innovations like this to make automatic enrolment an even more straightforward proposition, even if they've never offered a pension before.

2016 saw us spotting the signs of high quality investment approaches for automatic enrolment

In the world of investments, things were a little more changeable. At NEST, by keeping to our long term investment strategy of maintaining a globally diverse equity portfolio we were well-positioned through the year, despite some ups and downs in the market.

We'll remember 2016 for two important publications. The first was NEST's first responsible investment report that set out how NEST's investment approach incorporates environmental, social and governance (ESG) factors, to both boost and protect members' pots. Responsible investment was a theme that came up repeatedly through the year. The sector focused on responsible investment's importance through events like Good Money week and how it can be a sign of a high quality investment approach. Thinking about making fair comparisons between different approaches brings us to the second important 2016 publication from our perspective. NEST sponsored the financial research group Defaqto to produce an independent report on how to analyse automatic enrolment default funds. Hopefully this will serve as a useful tool for anyone aiming to make accurate and impartial comparisons of default funds through 2017 and beyond.

Looking ahead to 2017 – working together will be vital to helping ensure automatic enrolment's success

2017 is set to be a pivotal year for automatic enrolment. The pace of smaller employers meeting their automatic enrolment duties is set to continue increasing but that's just part of the picture. 2017 will also be an important year for ensuring master trusts are all doing what's needed to look after their members' money well.

We can also pause and take stock of the progress made to date through the Government's 2017 review of automatic enrolment. We all need to think about what we can do to bring even more people into saving and make sure that, over time, they're saving at the right level.

I believe 2017 will present some fantastic opportunities for the pensions industry to come together with government in the interest of savers. No matter what unexpected changes 2017 brings to our journey, I think a spirit of cooperation across the industry will remain tremendously important for the delivery of automatic enrolment.

regulator update

PROTECTING MEMBERS THROUGH BETTER RECORD

We have long made clear to trustees the importance of record keeping to delivering the right outcome for pension savers. To underline our commitment to this, we are now going to ask trustees to report on record-keeping in their scheme return to help improve standards.

In November last year, we published a survey of more than 530 trust-based occupational schemes which revealed little recent improvement in record-keeping.

Our survey showed that:

- 30% of members are in schemes where conditional data (data used to calculate benefits) is not measured
- larger schemes are significantly more likely to have measured their data – 87% of large schemes had measured common data versus 18% of micro schemes
- administrators' understanding of the terms 'common data' and 'conditional data' is not universal
- administrators and trustees perceive conditional data as secondary to common data – two fifths (39%) of administrators felt the measurement of conditional data was not a priority for their scheme
- automatic enrolment schemes were perceived to be more engaged with record-keeping than non-automatic enrolment trustees.

Record-keeping is not always seen as a priority by trustees, and they do not engage with their administrators accordingly – a quarter of administrators (23%) felt that trustees treated record-keeping and administration as a low to middling priority (0 to 6 out of 10). This went up to 32% for micro schemes, while trustees of automatic enrolment schemes were perceived to be more engaged with record-keeping than non-automatic enrolment trustees.

It's disappointing that we are not seeing more schemes taking their duty to keep proper records more seriously. We have set out what our expectations are and many schemes, across all scheme types, are not meeting them.

By adding record-keeping measures to the scheme return, we will be able to target our interventions more specifically at those failing in their duties.

Good record-keeping is essential to the good running of a scheme. The time to engage is now – if you don't, you run the risk of increased costs, not managing funding or risks properly, and you could even put members' benefits at risk.

To help schemes meet their duties, we have launched a quick guide to record-keeping and will be providing further educational products in 2017, including videos and bite-sized learning.

The regulator has made clear that it expects all schemes to measure the presence and accuracy of their data, and put plans in place to resolve issues where they find them. Trustees and managers should be engaging with their administrators to drive this work forward.

New quick IRM guide

In the defined benefit (DB) space, our focus on educating trustees continues.

We have published a new quick guide to integrated risk management (IRM) aimed at trustees of smaller DB schemes that sets out how trustees of smaller schemes, who may have limited resources, can benefit from IRM and how they can get started. IRM enables trustees to better assess, prioritise and manage their employer covenant, investment and funding risks.

It's about more than merely understanding risks. It gives trustees a holistic understanding of their scheme's sensitivity to risk and enables them to agree a sustainable plan with the employer to help deliver promised member benefits. It's also a central feature of our annual funding statement and our DB code of practice which sets out what we expect from trustees.

The new quick guidance on IRM provides an overview of the main points, and is designed to be used in conjunction with the regulator's full IRM guidance.

A commitment to IRM can result in the following benefits:

- better decision making resulting from greater trustee and employer understanding of risks
- better working relationships between trustees and employers because of open and constructive dialogue
- more effective risk assessment, contingency planning and monitoring arrangements resulting from an evidence-based focus on the most important risks
- greater efficiency due to more effective use of trustee, employer and adviser resources

In addition, trustees may find it helpful to use the guide and key considerations as a starting point for board discussions or in meetings between trustees and employers. Trustees have told us that IRM is an area in which they would particularly value further specific guidance and we have responded.

Andrew Warwick-Thompson
Executive Director
The Pensions Regulator

Good record-keeping is essential to the good running of a scheme. The time to engage is now – if you don't, you run the risk of increased costs, not managing funding or risks properly, and you could even put members' benefits at risk

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