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January 2019

Pensions Aspects

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Welcome to the tour

The outlook for DB pensions as we enter 2019

MAGICAL MYSTERY TOUR

YOUR PENSION SCHEME AND ESG

THE MYTH OF SELF SUFFICIENCY

Pensions Management Institute
ACHIEVING PENSIONS EXCELLENCE

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Regulars

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New Years' Resolutions

The excesses of Christmas are now behind us and promises of abstinence and good intentions lie ahead. As 2019 begins, we enter the year in which the UK begins to leave the EU and venture into the unknown. What then for pensions? Guy Opperman, Minister for Pensions and Financial Inclusion, has promised a major Pensions Bill in 2019 and one that should be the pensions bill to end all pensions bills. Announcing it last October, it now appears it was the reason for all the consultations that have kept us more than busy during 2018. By having the consultations completed before Christmas gives time for legalisation to be drafted.

What can we expect from the Pensions Bill?

It would come as no surprise that most bets would be on Defined Benefit (DB) consolidation; an area the government and industry bodies have been keen to see develop. The governance and financial burden on many small and medium sized schemes being difficult for employers, and concerns over the governance and longevity of these schemes tends to concentrate the mind. There are already different ways and means of consolidating schemes, whether it is through merging schemes employers have picked up along the way and moved to one provider to save costs and time, through to offloading the schemes to DB Master Trusts. However, with the advent of the new DB commercial consolidators, current legislation may not provide sufficient comfort or encourage the move to consolidation; consultations focussed on governance but also a potential special funding measure, which is somewhere between the technical provision and buy out measures. Perhaps legislation in the bill will clear this up?

Another area where expectations are high, is the increase in The Pensions Regulators' (TPR) powers. Much has been made of dividends being paid out by failing companies with large deficits and long deficit recovery plans.

Carillion may be the straw that broke the camel's back. This is a contentious area as many feel that TPR has sufficient powers but has not used them effectively. Latterly in 2018, we have seen high profile cases of TPR getting tough.

As 2019 begins, we enter the year in which the UK begins to leave the EU and venture into the unknown.

Collective Defined Contribution (CDC), is the topic that just will not go away. With the advent of Royal Mail choosing to introduce CDC, it has raised its head again. Whilst much of the industry feels it is a case of too little too late as most DB schemes have already been replaced with Defined Contribution (DC) arrangements, others feel there is still a role for CDC to play, particularly in the public sector.

April 2019, will see Master Trusts emerge from the new authorisation regime; some will fall by the wayside whilst others will continue to go from strength to strength. The desire to enforce higher degrees of governance on single trust DC is well known, and we could see further developments and requirements in this area.

And finally, dare I mention the Pensions Dashboard? I'm writing this just as we expect to receive an announcement from DWP and hopefully the publication of the pensions dashboard feasibility study. Actually I think I'll stop there...

Lesley Carline
PMI President

Qualifications

Dr Keith Hoodless writes that "since joining the department in November, I have spent a lot of time with Anne Harper, Director of Lifelong Learning, reading, emailing, attending meetings and getting to know people, shaping the organisation as a learner focussed, socially responsible, and sustainable place to be. First thoughts? We have much to be proud of, and much to build on".

2019 will bring changes and challenges.
The immediate challenge is
"making learning lean in 2019." Why?

Our learners want change:

- They asked for us to update our examinations to better reflect professionalism in the work place. Our learners don't go to work and fill in endless sheets of paper, they wanted us to put the exams on line – we have started this process – and in 2019 we will be offering our examinations either online or paper based in bespoke assessment centres across the UK;
- They asked for the learning materials to be improved. From January we will be reviewing all learning materials in their form, structure and content.
- Lastly, they asked for quicker turnaround times from exam to certification: the online provision of our exams is making this happen now!
- The immediate change will also involve our consultation, refinement and publication of our professional standards.

The purpose of the PMI is to *"To set and promote standards of excellence and lifelong learning for employee benefits and retirement savings professionals, and trustees through qualifications, membership and on-going support services."*

We already have a final draft of the PMI's Professional Standards, which have been created following a series of structured interviews with leading pension professionals, and are part of us conducting a complete root and branch review. We will be consulting further on these across our membership, stakeholders, and the wider pensions and financial sector in 2019.

- Finally, our major project of promoting our qualifications will feature:

1. The Certificate in Pension Scheme Member Guidance
2. The Retirement Provision Certificate
3. The Certificate in DC Governance
4. The Award in Pension Trusteeship
5. The Diploma in International Employee Benefits

We will continue to deliver our tried, tested and trusted qualifications from CPC to ADRP and look creatively at how to advance excellence in apprenticeships and assessment.

This will be a time of change, but changes that will benefit everyone by putting the learners at the centre of everything we do.

VQ Examination: Fantastic success rates: congratulations to all our learners

Retirements Part 1 74%

Retirements Part 2 55%

Transfers 60%

Deaths Part 1 84%

Deaths Part 2 76%

Leavers Part 1 80%

Leavers Part 2 80%

Standalone qualifications: Excellent pass rates

Award in Pension Trusteeship 58.3%

Certificate in DC Governance 81.8%

Retirement Provision Certificate 52.5%

PMI Trustee Group reaches 1000 members!

This is an exciting time for Trustees to join the PMI Trustee Group family. Our recruitment campaign this year has seen our Trustee numbers increase from 600 to over 1000 Trustees, including over 100 Trustee Boards, which include:

- **BMA Pensions Trustee Ltd**
- **Church & Co Ltd Staff Pension Scheme**
- **Corporate Pensions Administration Ltd (CORPAD)**
- **Ensign Pensions Limited**
- **Howden Joinery Corporate Services**
- **ITV DC Trustee Ltd**
- **ITV Plc**
- **Kingfisher Pension Trustee Limited**
- **Muntons**
- **Thames Water Utilities Limited**
- **T-Mobile International UK Pensions Trustees**
- **University of Exeter Retirement Benefits Scheme**
- **UTV Pension and Assurance Scheme**

Our aim is to educate and support individual Trustees and Boards in maintaining the high standards that are required of them.

PMI Trustee Group members have enjoyed a wide range of benefits including:

- **The Pensions Aspects Monthly Magazine**
- **The Pensions Technical News**
- **Free attendance at all the Trustee events to name a few**

This year we launched a series of roundtable sessions where PMI Trustees discussed topical issues such as de-risking and ESG. We also explored retirement and the challenges this presents for employers and pension schemes when people stop working completely. In January, we will be adding quarterly dedicated webinars and some of the roundtables will be recorded and run as webinars. PMI will also be launching our first ever 'PMI Trustee Editorial Newsletter' in January where Trustees can enjoy complex topics summarised, which will help them to appreciate and understand the issue better. So, why wait? Come and join the PMI Trustee Group Family today!

Continuing Professional Development (CPD)

Members are required to complete and submit their 2018 CPD by **31st January 2019.**

Obituary

We are saddened to hear that **Ralph Hart FPMI, Alistair Neill FPMI** and **Leila Tucker APMI** have recently passed away.

Trustee Autumn Seminar

Our Trustee Autumn Seminar, 'Navigating change: addressing future challenges' was held on Thursday 29th November at Squire Patton Boggs.

Industry experts from EY, Legal & General, Clara Pensions, and more, spoke to a full house on a range of topics important to trustees, including risk management, DB consolidation and DC strategies and decision making. The seminar was followed with a drinks reception to celebrate reaching 1000 Trustee and 100 Trustee board members.

Our newly rebranded flagship trustee conference, 'Trustee Workbench', will be held next year on 6th July at the Grange City Hotel.

Trustee Group Membership

PMI Trustee Group members should have received their 2019 subscription renewal notice. If you have not received your notice, please contact the Membership Department on 020 7392 7410/7414 or membership@pensions-pmi.org.uk. Your payment was due on **1st January 2019.**

In February 2019 we have our Trustee roundtable event, 'What Next for 21st Century Trustees'. Full details for this will be published shortly. Only members who have renewed their Trustee Group membership will be able to attend this free event.

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 to renew your membership.

Don't forget, entire Trustee Boards can also join the PMI Trustee Group (at a reduced rate of £84 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, see our website.

PMI Trustee Group Board Certificate

Congratulations to the following Trustee Group Board Pension Schemes: the first to claim their 2018 PMI CPD Certificates!

UK Power Networks Group of the ESPS
UK Power Networks Pension Scheme (UKPNPS)

If your Board is a member of the PMI Trustee Group and each member has achieved 15 hours CPD, then you are eligible for PMI Certificate of Achievement. Please contact Denise at membership@pensions-pmi.org.uk for more information.

Membership update

Incomplete CPD records

Fellows and Associates are reminded that meeting the PMI CPD requirement is compulsory (except where retired/non-working). Under our CPD Scheme, PMI members are required to record at least 25 hours during the year.

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

PMI Membership Upgrade Waiver

The Board has decided to allow all future qualifiers after each exam to upgrade their membership without the appropriate election fee. The invitation to upgrade letter will be posted together with your results indicating a three-month period in which to upgrade your membership. Members wishing to upgrade after the end of the waiver period will be required to undertake the usual process which requires the upgrade fee plus the annual subscription at the appropriate rate. For further details contact the Membership Department at **membership@pensions-pmi.org.uk or on 020 7392 7410/ 020 7392 7414.**

Membership Record

Please ensure that your personal details are correctly updated on the PMI database to ensure that there is no interruption to your membership service. If you require a reminder of your username/password to log in and check your details, please contact the Membership Department at **membership@pensions-pmi.org.uk** or on **020 7392 7410/020 7392 7414**.

Associate Membership

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

Alasdair Hood
Anne Lynch

Fellowship

Fellowship is open to Associates with five years' membership and five years' logged CPD. We are pleased to announce that the following members have been elected to Fellowship and are now entitled to use the designatory initials "FPMI":

Michael Jones
Katie Cooke

2018 – 19 Affiliate Renewal Subscriptions

Affiliate memberships were due for renewal on the 1st November 2018 and subscription renewal notices have been sent out to all Affiliate members. It costs just £75 to renew for the 2018/19 period. If you have not received your renewal notice please contact the Membership Department at **membership@pensions-pmi.org.uk or on 0207 392 7410 or 020 7392 7414.**

PMI Fellowship Network 4th Anniversary Party

The PMI Fellowship Network 4th Anniversary Party was held at Sackers on 22nd November. We were pleased to welcome Debra Soper, Director of civil service and Royal Mail pensions, Cabinet Office, who discussed her journey from a pensions administrator in the private sector to being at the centre of government, managing 2 of the 4 largest pension schemes.

Guests were also treated to something a little different this year, in the form of Chris Turner, a comedian and freestyle rapper, who wowed the audience with his quick thinking and witty wordplay.

Thank you to Sackers for hosting the evening, to Smart Pensions for sponsoring the entertainment, and to all of our Fellows who attended.

All Fellows who have registered for the PMI Fellowship Network LinkedIn Group can log in and to see the video.

Certificate Membership

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

Alex Nettrass
Hannah Nichols
Georgina Noutch
Deborah Hope
Samantha Purvis

Diploma Membership

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

Paul Mwanza
Christina Seifert

Events

DIARY DATES

3rd April 2019
Pensions Aspects Live 2019 & Annual Dinner

6th June 2019
Trustee Workbench

10th October 2019
DC Symposium

7th November 2019
Pensions Administration conference

Contact us

Register your interest in any of our listed events by emailing events@pensions-pmi.org.uk

Full details of all our events can be found on our website, along with all of our booking forms. If you would like to speak to one of our events team email **events@pensions-pmi.org.uk** or alternatively call **020 7392 7425**.

News from the regions

[Southern news]

The PMI Southern Group has held its final two meetings for 2018 kindly hosted by Equiniti in October ,and RSM in November. At the October meeting Paul Budgen from Smart Pensions updated members on the forthcoming changes for Master Trusts ,and in November Richard Ackroyd from WTW tackled the tricky topic of GMP Equalisation. Both were well attended events.

In October I was delighted to present Sophie Pogson with her Southern Group prize. Congratulations to Sophie and best of luck with the rest of your exams.

Our next business meeting is on **Wednesday 6th February 2019** at the offices of B&CE in Crawley. Our speaker will be Kevin Le Grand from ARC discussing DB consolidation. Details will be issued to members in the new year or can be obtained from **Mark Hodson (mhodson@omniumbenefits.com).**

News from the regions

[North East news]

Our first event of the 2018/2019 programme will be the 'Managing Climate Risk: Key issues for trustees and investment professionals' seminar which will be held on 23rd January 2019 at the offices of Pinsent Masons, with speaker **Carolyn Saunders.**

Details of our other events are currently being confirmed and you can find out more by going to: **www.pensions-pmi.org.uk/membership/regional-groups/north-east/**

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

[South West news]

We welcome Katie Lambert of XPS Administration to our Committee.

2018 was a busy year in the region: there were two well attended seminars in Spring and Autumn, speakers from Burges Salmon, Aon, LCP, XPS Administration, TLT, Dalriada and Nationwide Building Society, covered a diverse range of topics and current issues. The 2018 Gala Dinner featured guest speaker Paul Lewis of Money Box from BBC Radio 4, who gave an interesting insight into broadcast journalism. £5 from each ticket to the Gala Dinner that was sold was donated to Age UK and this enabled a total donation of £1,000.

Please save the date for 2019's Gala Dinner which will take place on **Thursday 16th May 2019** at the Harbour Hotel, Corn Street, Bristol, including a drinks reception and fabulous three course dinner with wine. Further details regarding booking will be sent to members in due course and will be published in 'Pensions Aspects'.

Plans are underway for the Spring 2019 seminar. Details will be emailed to members in late January. If you wish to be added to our distribution list to receive email notifications of future events please contact **David Saunders at david.saunders@willistowerswatson.com**

[Eastern news]

Our next afternoon seminar will be on Tuesday 26th February 2019 in Ipswich at our usual venue of Isaacs on the Quay, and we are grateful to First Actuarial for again sponsoring it. It should include our usual annual legal update, a session on employer covenant, and some sessions of greater interest to our younger members and colleagues (such as technology in pensions and around qualifications). Details will be emailed to members in late January. Our AGM Seminar will be held on 12th June 2019 at Mills & Reeve's Cambridge office: those who attended last year will agree that it is a lovely venue. We are hoping to have a panel discussion on the topical subject of consolidation.

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

[London news]

It has been another action packed year of learning, networking and socialising for the PMI London Group. We have debated DB consolidation; supported students preparing for exams, and let our hair down with darts and quiz nights.

2019 Membership Renewal

The 2019 renewal process for the PMI London Group is underway. Hopefully current members will have received an email from the membership secretary, but if you are looking to renew your membership, or are interested in joining the London Group, you can join by going to the following link: https://bit.ly/2Ekr7T5. Membership is just £10 for the year (and free for student members). We look forward to welcoming you to the group.

Revision support

Studying for PMI exams can be challenging and may seem a little daunting. We run question and answer sessions which are open to PMI students across the countries, to help you practise and boost your confidence. If you would be interested in this support, you can get in touch with our education secretary, Giles Bywater at gbywater@mayerbrown.com

Socialising

We hosted our annual pub quiz in November, which was kindly sponsored by Go Pension and once again was wildly popular and indeed over subscribed. It was an excellent and hotly contested evening. Two teams scored full marks, but ITM went on to take the crown. The winner of the Best Team Name competition is too rude to publish, but a personal favourite was "GMP E-quiz-isation".

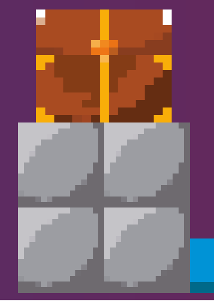
Welcome to the tour

A look ahead to 2019

Continue reading on page 12...

By Ricky Marsh, Senior Consultant, Aon

Magical Mystery Tour



The key areas of focus for the Government in 2019 will almost certainly be the same as they were last year: Brexit, Brexit and Brexit. But the Pensions Minister insists that the Government still has time for pensions, so what could be on the cards for defined benefit (DB) schemes in the coming year?

// Fixing A Hole

The regulation of DB schemes has been getting a lot of attention recently. Insolvencies of high profile companies with underfunded schemes have caused the pendulum of power to swing back in the direction of trustees, with pressure on the Pensions Regulator to reduce the risk of similar cases in the future.

The Regulator's response is well documented. 'Clearer, quicker, tougher' is close to earning a place in the Catchphrase Hall of Fame, and TPR has promised a further 'radical shake-up' of its approach. All schemes can expect an increase in the volume and frequency of their interactions with the Regulator; having advised on over 30 proactive engagement cases in recent years, Aon has seen first hand evidence of this change. The changes so far all sit within the existing legislative framework. However, the DWP has already issued a consultation on strengthening the Regulator's powers, so there is more to come.

// Dear Prudence

The March 2018 DWP White Paper set out several proposals on funding including:

- all schemes to set a long term objective
- all schemes to publish a Chair's DB Statement every three years
- adoption of clear definitions for terms such as 'prudent' and 'appropriate'
- strengthening some elements of the Funding Code of Practice, with penalties for non-compliance

Aon's latest Global Pension Risk Survey showed that around 80% of UK DB schemes already had a long term objective of either buyout or self sufficiency. But it is rare for these to be directly reflected in the technical provisions and any requirement to do this could be detrimental.

The idea of defining prudence is particularly eye catching. The concept has been around for a long time, but if it was an easy thing to define then surely industry would have already reached its own consensus?

The Government and the Regulator will need to walk a fine line here. A vague definition may be worse than no definition at all, but anything too precise could end up removing flexibility from a system that was designed at its core to be scheme specific.

// Here, There and Everywhere

The 2016 Budget seems like a lifetime ago (politically speaking), but that was when the Government committed to creating a Pensions Dashboard by April 2019.

> **The Dashboard is intended to be an online portal that would allow individuals to view all their retirement savings in one place.**

A feasibility study originally due to be published in March 2018 has been substantially delayed, and there had been some speculation that the project was being abandoned altogether. However, the study was finally published on 3rd December, alongside a consultation proposing a gradual rollout over a period of 3-4 years starting in 2019.

> **A lot of work has already been done but there are still some complex issues to overcome.**

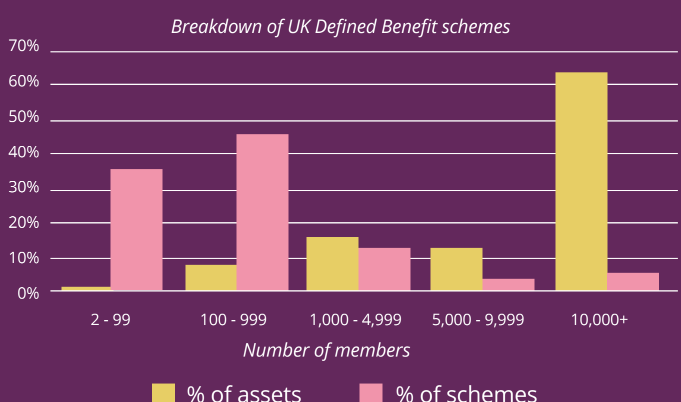
To work properly, the Dashboard will need multiple pension providers, trustees, and public bodies to share personal data relating to huge swathes of the UK population, so data security will be a significant concern. What happens if some providers or trustees decide the potential benefits of the Dashboard are not enough to justify the risks? Is compulsion really the right answer? And once the scope has been determined, how do you ensure people understand the limitations?

The sheer scale of this undertaking, and the number of hurdles to be cleared, give some clues as to why this is taking longer than expected.

// Come Together

Consolidation has been a theme in the Government's recent policy announcements, and can be viewed in shades of grey rather than black or white. Almost all schemes will be utilising consolidation to some degree, from delegating administration or investment functions to a full buyout with an insurance company. But the new consolidation goes further.

The DB pensions market in the UK is very fragmented. As shown by the chart below, most of the assets are concentrated in a few very large schemes, but the remainder is spread across many much smaller schemes.



Source: PPF Purple Book 2018

These smaller schemes tend to suffer relative to large schemes: they have smaller budgets for governance, they experience higher admin costs per member, and they have access to a narrower range of investment opportunities.

The continuing trend for DB schemes closing to future accrual also means there is a growing disconnect between these schemes and their sponsoring employers. Against this backdrop, it makes sense to explore the options for further consolidation.

// Revolution

The Government is soon to issue a consultation on the legislative framework and authorisation regime for commercial DB consolidation vehicles. The aim is for these to take over the responsibility for meeting the liabilities of other schemes, at a price which is more affordable than a traditional buyout. If the Government gets this right, it could have a big impact on the future of DB pensions in the UK.

One of the main challenges here will be deciding how restrictive the framework for consolidators should be. To quote the White Paper: "If the legislative framework is too restrictive, then the consolidator vehicles may not be commercially viable but if the vehicle is under protective of members, then the risks to members' benefits will be unacceptable".

Creating a level playing field will also be difficult. Insurance companies clearly have the scale and expertise to provide consolidation vehicles. However, under the current set up, they would need to comply with the Solvency II reserving requirements. This may prevent them from offering more attractive pricing, arguably handing an unfair advantage to consolidators operating outside the insurance framework. It would not be surprising if this all results in an untidy compromise that satisfies nobody in full.

// Here Comes The Sun

The Pensions Minister has recently stated his belief that a 'substantial' Pensions Bill would be delivered in Summer 2019, leading to a new Pensions Act in 2020. This would cover some of the DB issues discussed here as well as wider issues such as Collective Defined Contribution schemes and DC consolidation.

The Minister also claimed that this Pensions Act would make pensions legislation "by and large, complete for some considerable period of time" and be followed by a 'significant period of calm.' Even in a more stable political climate, that would be a pretty ambitious goal.

FOR PROFESSIONAL INVESTORS ONLY – NOT FOR PUBLIC DISTRIBUTION

Your pension scheme and ESG: new research

By Amanda Young, Head of Global ESG Investment Research, Aberdeen Standard Investments

How is the growing interest in ESG issues shaping pension scheme investment decisions?

Is the difference between ESG integration and values driven investment sufficiently well understood? To what extent do pension scheme members care about these issues and how are pension schemes responding?

New research by Aberdeen Standard Investments canvassed the views of almost 9,000 savers and investors, and 120 pension schemes and pension consultants on these and other ESG related issues. This article summarises the findings and highlights how ESG considerations have moved to centre stage.

ESG analysis as distinct from ESG policy; clarifying the difference

The research amongst pension professionals explored two main lines of inquiry:

- The perceived value of integrating ESG factors into the investment process
- Attitudes to values driven approaches, for example, ethical, sustainable, socially responsible and impact investment.

The distinction between the two is not universally understood; one in three (32%) of pension professionals did not feel sufficiently well informed about how or why investment managers integrate ESG into the investment process. As one pension consultant said, "There are still quite a few misconceptions and confusion about the extent to which you're talking about ESG issues for financial reasons, confusing it with moral and ethical judgements; and definitely some confusion about the type of investment products we're talking about. There are a lot of different techniques you can use to incorporate ESG issues into investment processes, but people tend to fixate on negative screening as the primary method, and these days that is no longer the case".

Regulatory requirements are likely to increase engagement

The Department for Work and Pensions' (DWP) directive requiring pension trustees to update their statement of investment principles to reflect how they take account of financially material considerations, including ESG and climate change (by October 2019), is likely to raise awareness and promote engagement, or as another consultant put it, "the tone from the regulator has changed and we expect that the new regulations will start conversations both ways on the art of the possible".

The influence of the United Nations Sustainable Development Goals (SDGs)

With an increasing number of asset managers aligning investment goals to the UN SDGs, the research asked to what extent this was understood. 57% of pensions professionals surveyed did not feel sufficiently well informed about how the SDGs can influence investor choices. Overall, these were considered to be 'high level goals' and as one respondent said in relation to his pension scheme, "translating them into the investment process will take time". Consultants said that they would remain focused on the risk management intention of ESG integration, leaving matters of policy, such as adherence to the SDGs, to their clients.

Understanding saver perspectives

The theme of this year's Pension and Lifetime Saving Association's conference was "understanding saver perspectives" : a timely topic in light of the consumer phase of the research. It found that one in four women and one in five men surveyed like the idea that their investment choices could make a positive difference in the world. Whilst only 20% of respondents had heard of the UN SDGs before taking the survey, talking about ESG issues and the UN SDGs prompted them to want to know more about how and where money is invested. Awareness of the UN SDGs was highest amongst ethical investors and 18-24 year olds, who spoke passionately about their motives for investing responsibly, in ways 'which are morally, sustainably acceptable'. They did not want their investments or pension contributions "earning money at someone else's peril... to harm anybody else, or to harm the environment".

ESG as a means of encouraging member engagement

73% of pension professionals surveyed agreed that ESG issues could be a new way of engaging the next generation of members. One member-nominated trustee emphasised the importance of listening to the next generation. 'In terms of investment strategy, you've got to look at generation K and millennials and make sure they get a decent outcome. If those generations have a different social outlook from those people who are forty years older than them, surely we should be listening to their views, to make sure that their best interests are served?"

73% of pension professionals surveyed agreed that ESG issues could be a new way of engaging the next generation of members.

Consultants agreed: "there is a lot of potential for member engagement with their pensions through general concepts like sustainable, responsible business practices, things that people can readily relate to. Climate change is clearly very topical and a significant concern for many members. Then there are other specific issues such as plastics and gender diversity".

Performance perceptions: does ESG integration result in positive outcomes?

42% of pension professionals agreed that ESG integration results in positive outcomes in terms of performance; 14% disagreed but the majority (44%) were uncertain. The three biggest barriers to incorporating responsible and sustainable investments were reported as 'insufficient risk and return data' (38%), 'insufficient knowledge and understanding' (35%), and 'no recommendation from our pension consultants (33%). "A lack of evidence is not a barrier to entry you fundamentally can't do anything about", said one consultant. "A lot of these strategies haven't been around for long enough to be able to provide that evidence but over time, they will."

Ratings, measures and metrics

Another potential barrier is the lack of standardised measures and metrics for assessing the effectiveness of ESG integration and for measuring impact outcomes. Half (50%) of pension professionals surveyed were dissatisfied with the way in which values driven products are described and explained, for example, the difference between an ethical fund and an impact fund; and the majority (55%) were dissatisfied (compared to 11% who were satisfied), with the way in which values driven investments are rated and can be compared on a 'like for like' basis.

Making ESG 'your own'

Some larger schemes have introduced their own frameworks and systems of measurement, and emphasised the importance of an approach that suits the individual scheme; "screening or scoring ESG factors does not necessarily mean that you get to a desirable outcome. What we have focused on is discussing with our trustees what ESG really means to our scheme, to pursue that philosophy point, and then try to develop from there instead of merely screening out some stocks. From a wider perspective that will provide benefits to the performance, as well to the community".

The future: 'more appetite for responsible investment'

55% of pension professionals surveyed currently offer funds to DC members that enable them to invest according to their values;12% do not currently, but plan to in future. 47% said they are likely to increase allocations to investments that deliver returns for the benefit of members and society as a whole. This trend was also identified by consultants: "our practice is seeing more appetite for responsible investment amongst DC schemes where there are longer time horizons, and it's clear that ESG issues are likely to be material within their time frame. In terms of how DC schemes communicate that to members, that's still at a very early stage".

47% are likely to increase allocations to investments that deliver returns for the benefit of members and society as a whole.

Amanda Young, Head of Global ESG Investment Research, Aberdeen Standard Investments, said, "the introduction of auto-enrolment has created a new generation of investors whose views on how and where their money is invested are not necessarily the same as those of generations before them. The findings highlight an appetite for sustainability in the widest sense of the word. At Aberdeen Standard Investments, ESG considerations are integrated in our investment process and have been for many years. We are long term investors and that means knowing and understanding the ESG factors affecting the prospects of the investments that we make on behalf of clients. We are working closely with pension schemes and their advisers to ensure that today's and tomorrow's generations of investors benefit from the positive outcomes needed to sustain them and the world we share".

For a full understanding of Aberdeen Standard Investments' ESG expertise and global reach, please visit aberdeenstandard.co.uk/esg

GMP Equalisation

5 things schemes should be doing

The High Court handed down its decision in Lloyds Banking Group Pensions Trustees Ltd v Lloyds Bank plc and others at the end of October. This has given us the long awaited clarification that schemes are required to equalise for the effect of guaranteed minimum pensions (GMPs), and approved certain methods by which this can be done. But the key question for trustees and pension scheme managers is "what should I be doing now?"

What is a GMP?

From 6th April 1978 until 6th April 1997, individuals could accrue an entitlement to an earnings-related addition to their basic state pension, called the State Earnings Related Pension Scheme (SERPS). An employer could contract its scheme out of SERPS if it was designed to provide a pension at least as good as a statutory minimum, known as the GMP. The GMP is therefore a component of a member's total scheme pension. The method for calculating GMPs is set out in legislation and can, for a variety of reasons, result in inequality between men and women.

Equalisation

The Barber case in 1990 confirmed that occupational pensions were deferred pay, and therefore that schemes were required to treat men and women equally. As a result, schemes 'equalised' their retirement ages, often at age 65, and adjusted their benefits accordingly. However, the position on GMPs remained uncertain, despite two government consultations aimed at addressing the problem in 2012 and 2016, and resolution of the issue was put on hold pending the outcome of Lloyds.

So, what do we now know?

It's now clear that schemes must equalise benefits for men and women for the effect of GMPs. However, this only applies to GMPs accrued post-Barber, i.e. accrued on or after 17th May 1990.

The case looked at various methods of effecting equalisation and approved a number of them. In determining the appropriate method of equalising benefits on the facts, the judge applied the 'principle of minimum interference'. This requires the court to 'compare possible options and to consider, in relation to any particular option, where the obligation to provide equal benefits can be complied with in some other way involving less interference with the rights of any party'. As a result, it found that the Bank could require the trustee to adopt 'method C2', as it was less costly than some of the others and did not interfere with members' rights. Broadly, this method provides the better of male or female comparator pensions each year, subject to accumulated offsetting, and allows for interest 'when comparing accumulated gains and losses in the case of a switch in calculation from one sex to the other'.

In addition, the judge confirmed that the period for which scheme members are entitled to receive arrears of payments is governed by the scheme rules. There is no relevant statutory limitation period.

And what don't we know?

The case has left some unanswered questions, as it didn't explicitly deal with:

+ how transfers out should be addressed;
+ whether a de minimis threshold could apply, e.g. where the estimated cost of calculating and implementing equalisation is greater than the additional benefits the member would be entitled to;
+ how to deal with previous buy outs; or
+ how to deal with DC benefits with GMP underpins (as legislation doesn't allow the conversion of a GMP into DC benefits).

As of the start of December, we know that the High Court has rejected an appeal, but an approach to the Court of Appeal remains possible. The High Court has also clarified, by an order issued on 6th December, the GMP conversion approach. The Government has yet to officially declare whether it will be legislating to assist trustees and employers with implementing the decision, but we expect the DWP to produce guidance by mid-2019.

5 key actions:

By Sarah Clay, Associate, Sackers

1

Carry on as usual

You should carry on dealing with day to day transactions, e.g. putting pensions into payment, as usual, subject to providing appropriate communications (see below).

2

Inform members

The decision has been widely publicised so you should be ready to answer questions from members. You may also consider sending out a short update explaining the decision and that you are considering its implications for your scheme.

3

Review your member communications

You may need to revise your retirement communications for affected members to explain that their benefits may need to be adjusted in the future. Other communications to affected members, e.g. on transfer values, may also need to be revised to advise members that their benefits may change as a result of the decision.

You should consider giving members the option of postponing a decision to transfer until their true benefits can be calculated. Otherwise, you will need to consider amending your discharge form to deal with transfers on an unadjusted basis.

4

Ensure member data is complete and accurate

Current reconciliation exercises should ensure schemes have correctly calculated members' GMPs. You should identify any gaps in records and take reasonable steps to address them.

5

Speak to your advisors

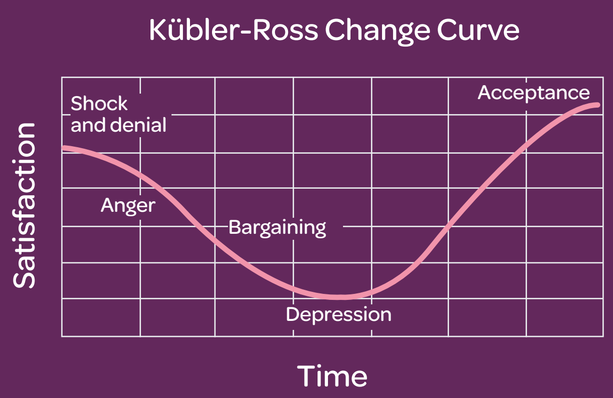
The impact of the judgment on your scheme, e.g. in relation to paying arrears of payments or making partial transfers, will depend on your scheme's governing documentation. You should ask your lawyers to check your scheme's rules and consider the specific impact of the judgment on your scheme. You may wish to ask your scheme's actuary to advise on the likely cost of equalising benefits for the effect of GMPs using one or more of the approved methods. If you haven't already done so, you should also ensure that appropriate provision is made for equalisation in your next valuation. Schemes should react practically and prudently until the position becomes clearer.

Shock, denial, anger or depression:

what are Trustees feeling as markets wobble?

By Niall Alexander, Head of DC, River and Mercantile Solutions

The Kübler-Ross Change Curve shows the various emotions experienced by someone who is going through a major life change. First coined by Swiss psychiatrist and humanitarian Elisabeth Kübler-Ross, it can also be applied to DC pension investment strategies.



Shock and Denial

The time since the introduction of auto-enrolment has coincided with strong investment markets. We have seen double digit annual returns from passive global equities[1]. Members invested in riskier investments and, reading their annual benefit statements, are likely to be happy with the rate of growth of their pension pot.

Unfortunately, things might get a little bit more difficult from here. Backed by geopolitical instability and slowing rates of growth, there is evidence building that we are entering a downturn.

Over the last year, we've been telling our clients that we feel conditions are turning and we were indeed met by the first stage in the curve: shock and denial. After all, this change comes after the majority of quarterly Trustee meetings in recent memory have been spent discussing how much funds have risen by, with Trustees keen to maintain the high returns their investment strategies have earned them in recent years.

At a recent Trustee meeting, when discussing markets since the start of the year, one of my Trustee clients said, "oh yeah, markets can go down as well". Whilst he was being humorous, there's a serious point in there: we've gotten used to the long bull run we've been in until recently (even forgetting falls in the summer of 2015).

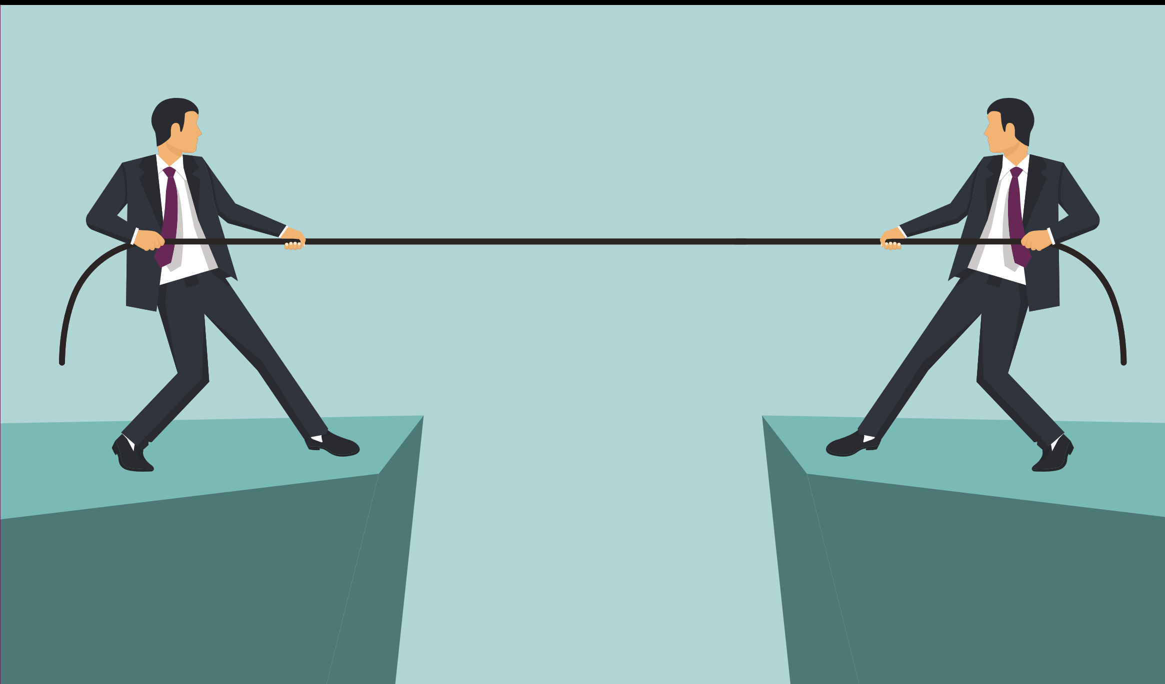
Negative investment returns pose a challenge for DC schemes. Recently auto-enrolled members could start to see a fall in their savings. This would likely have the biggest impact on the main target of auto-enrolment; younger investors, who tend to be more invested in riskier assets.

Anger

Whilst not entirely surprising, studies show members react badly to any reduction in their pot size[2]. Members feel angry, cheated or robbed by the evil bankers who stole their money. By contrast, an absolute gain but real loss (e.g. investment return of 1% when inflation is 5%), is shrugged off as a low, but acceptable return.

Trustees also get angry, fuming over the latest move by Donald Trump, or a lack of progress in Brexit negotiations.

1. Source: MSCI All Country World Daily Total Return Net Local currency from 31/10/2012 to 06/11/2018.
2. Source: NEST Corporation: Understanding reactions to volatility and loss (link).



Bargaining

Anger gives way to bargaining as Trustees and members consider what they can do now to reduce the impact of losses after they have occurred.

But schemes don't need to bargain. A member needs focused investment strategy means systems are in place to mitigate investment losses. Once member needs are met (first and foremost), we can ensure schemes are well prepared for tomorrow's markets in terms of any upcoming falls.

Depression

As a result of this, depression hasn't happened this time around, but what could we expect if we fail to protect? Depression might be a strong word, but the idea is right. Members might reduce or stop contributions, or sell riskier funds after a loss, because further losses are just too depressing.

Acceptance

Instead we go straight to the final stage of the curve: acceptance. It is the point at which members and Trustees begin to embrace the reality of the situation and consider opportunities for the future.

Whilst downside protection is great, ultimately the aim is to achieve good member outcomes, which means we must also generate enough investment return.

Defensive assets are relatively easy to identify, but finding the right means to best capture a bounce can be more difficult. Different equity regions, styles or other opportunistic investments can all work, but timing is key.

The ability to react quickly to changing investment markets is crucial, as well as having a sufficiently large toolkit to get access to the actual drivers of investment return.

Conclusion

As part of the investment process, schemes shouldn't only be concerned with the total pot size at retirement. The journey along the way is also important.

With members becoming more exposed to the world of pensions and seeing regular benefit statements, returns over the shorter term are important and may be used to make financial decisions.

Schemes should closely monitor investment strategies, aim to minimise the risk of large falls in value, and create as smooth a journey as possible for members, whilst also leaving open the upside to achieve good member outcomes.

Elisabeth Kübler-Ross once said "should you shield the valleys from the windstorms, you would never see the beauty of their canyons". Rather greedily, we will do both.

Key messages

+ Auto-enrolment came at a time of strong investment returns, but as we experience a likely downturn, members may disengage.
+ Therefore, we need investment strategies to protect on the downside.
+ However, we also need to generate enough return to provide good member outcomes first and foremost.
+ The ability to react quickly to changing investment markets is crucial, as well as having a sufficiently large toolkit to get access to the actual drivers of investment return.

ESG roundtable writeup

This month has seen diplomats converge on Poland for the latest in the round of UN global climate change summits. The meeting has been billed as the most important gathering of its type since the 2015 Paris conference. It is meant to come up with measures to implement the wide ranging Paris agreement to curb emissions in line with preventing global temperatures from rising 1.5-2 degrees higher than pre-Industrial Revolution levels. But it's not just governments which are under pressure to show how they are tackling emissions: investors are in the spotlight too.

By David Blackman

Environmental, social and governance (ESG) issues were the focus of a recent roundtable debate organised by the Pensions Management Institute. "Members care about these issues", says Simon Howard, chief executive of UK Sustainable Investment and Finance Association (UKSIF).

His body has carried out an annual opinion poll for nearly a decade to gauge attitudes towards what savers want from their investments. For the first eight years in the poll's history, the most popular answer had been 'it's all about returns', which peaked at 59% in 2013. However, this year, for the first time, Howard told the event that the most popular option was 'it's about money and making a positive difference.' He said this finding reflects a growing recognition of wider factors among the public at large about their savings. And the shift in sentiment is even stronger amongst female members: 't's all about the money' remains the favoured option of 30% and 15% of men and women respectively

But the less self-interested 'it's about money and making a positive difference' was embraced by 29% women and only 21% of men, he said. This greater interest in women's investment preferences is important because it connects into a wider issue about female engagement with the pensions system. He said: "Female savers are less engaged, they have less money, and trust the pension system less. If the aim is to get more people saving, there is an issue with women."

So far though pension funds have been behind the curve on addressing the climate change aspect of ESG issues, said Honor Fell, vice-president of Redington, which hosted the event.

She pointed to recently published research showing that fewer than ten per cent of the 100 largest global pension funds have made a commitment to achieve the goals of the Paris agreement, and of those big pensions funds just over 65% do not even have a policy that refers to climate change, whilst less than 20% said they consider the issue when making investment decisions. Fell said: "there's quite a lot of work to do before October next year when statements of investment principles (SIPs) need to be updated". She was referring to new regulations, published in September by the Department for Work and Pensions (DWP), on how pension fund trustees should deal with ESG issues. The new regulations, which follow a DWP consultation on clarifying and strengthening trustees' investment duties, say trustees must have policies on ESG and climate change in their SIPs.

By October next year, schemes' SIPs will have to be updated to include policies on how they take account of ESG and climate change considerations.

He said "Particular pension schemes will have to have risk management processes in place and carry out own risk assessments which include ESG factors.

"This will make trustees go further and spell out how they take into account risks, and assess them right: that might be more of a game changer."

Trustees of defined contribution schemes will have an added requirement to publish a report from October next year showing how they have implemented their ESG policies. The other big change in the regulations is that trustees will have to have policies on engagement and stewardship, including how their asset managers vote, and working with the underlying companies which they are invested in.

Stuart O'Brien, partner at law firm Sackers, said: "this is the big game changer in the regulations. Before, the requirements for SIPs was to just have a statement on the extent to which you took account of environmental, ethical and social factors, if at all." He said the wording of the regulations allowed trustees of different schemes to set an 'appropriate' time frame for considering these issues.

This enables a distinction to be drawn between very mature schemes and open ones with a much longer investment time horizon. The regulations say schemes can take non-financial matters into account, such as members' views on ethical matters, but does not oblige them to do so. O'Brien stressed that the new regulations would make no difference to trustees' investment duties.

"This doesn't make one iota of difference to trustees' fiduciary duties: they remain the same. It doesn't change the underlying duty of trustees."

Following hot on the heels of the new DWP investment regulations, a new set of occupational pension scheme governance arrangement regulations have been published. O'Brien said these are designed to implement the European Union's revision of its IORP directive for occupational pension schemes, which comes into effect in January next year, prior to Brexit. These new regulations stipulate that schemes should have risk management processes in place and that they should be able to carry out their own risk assessment, including of their own system of governance.

O'Brien said the revised IORP is 'littered' with references to ESG, including how investment decisions relate to climate change and use of resources. It also nods to depreciation resulting from regulatory change, which he described as a 'tangential reference' to the risks arising from how certain assets risk becoming stranded as a result of policies to tackle climate change.

UKSIF's Howard highlighted two other new documents, published jointly by the Financial Conduct Authority and The Pensions Regulator. ESG features in these documents, which address how the two watchdogs will approach pensions regulation going forward. "The good news is that regulators are now on the case," said Howard.

Andy Mason, responsible investment analyst at asset manager Aberdeen Standard Investment, told the event that the focus of ethical investment had initially been on developing segregated mandates but such factors are now being integrated into wider investment decision making. He said that trustees often expressed uncertainty about whether considering ESG would be a breach of fiduciary duty, but the impact of ESG policies on returns depended on the investment time horizon of the individual scheme. Mason said: "over the short term it might not look like the best decision but typically over the long term is where it plays out".

The idea that trustees should seek to maximise returns is a 'false one', said O'Brien: "it's not about shooting the lights out, it's about having a balanced portfolio.

"The duty of trustees is to exercise schemes' investment power for its proper purpose i.e. paying pensions. In exercising that purpose, they do so as prudent people looking after the schemes' assets." And taking climate change issues into consideration is consistent with a broader view of fiduciary duty, he said: "to align to a 1.5 degree warming is part of the fiduciary duty not from an altruistic point of view but as stewards of a portfolio".

Some funds are already aligning their strategies to what needs to be achieved in order to deliver this trajectory, which could limit the biggest economic and social downsides of global warming.

Fell said: "Trustees should be focusing on what the financial risks of this big systemic change are likely to be".

Latest Policy News

Attention in the UK might understandably be directed towards Brussels and Westminster in the early months of 2019.

But those in the pensions industry should cast at least one eye towards Canberra. February will see the long awaited publication of the final report of an Australian Royal Commission probing misconduct in the banking, superannuation and financial services industry. This could well lead to measures to direct savers' funds towards the country's well run non-profit industry superannuation schemes.

By Tim Sharp
Policy Officer,
Trades Union
Congress (TUC)

And at the very least, it should prompt pensions professionals and policymakers to ask whether savers' interests are being served in the UK, before we make many of the same mistakes.

The report to be published by Kenneth Hayne is the final stage of a process that has destroyed the reputation of the Australian for-profit pensions industry, and seriously damaged their business models.

> **It is relevant to the UK because Australia is in many ways a model for the UK system of automatic enrolment.**

Following campaigns led by the Australian Council of Trade Unions (ACTU), in 1992 it became compulsory for employers to contribute 3.5 per cent into the pensions of all but the lowest paid employees. This has since grown to 9.5 per cent and will rise further in 2021.

In Australia, every pension fund is established in trust with trustees legally required to put members' interests first. But it has become evident that trust governance is not sufficient to guard against distortions, or simply unethical behaviour, caused by the profit motive.

Take the admission by National Australia Bank that its superannuation trustee company continued to levy fees on the accounts of dead people.

Or the discovery that a number of banks, including the Commonwealth Bank, National Australia Bank, Westpac, ANZ Bank, and AMP were failing to provide personal advice to customers despite charging ongoing advice fees.

It is not as if the for-profit schemes are delivering better performance.

A separate review by the Productivity Commission has also found that industry not-for-profit funds have performed significantly better than retail. In the five years to 2016-17, retail super funds averaged a return each year of 8.1%, compared to an average of 10.2% per cent for industry funds.

Some savers have cottoned on and shifted their savings. Earlier this year industry funds assets exceeded retail funds for the first time. Ironically, these revelations came after a period in which for-profit retail super funds lobbied the government to change the process by which default super funds are chosen to provide them with greater commercial opportunities. They complained that the existing system tends to favour industry funds with an historical link to trade unions.

The Australian situation should prompt some deep thinking in the UK where the introduction of automatic enrolment, driven by support from the trade union movement, has led to a surge in contributions.

Much of these are directed towards the two leading master trusts, NEST and People's Pension, which are both run on a not-for-profit basis. Other smaller non-profit operators such as Bluesky also exist.

But millions are also heading towards for-profit master trusts.

And money is also flowing towards insurance companies where consumer protection is even thinner, resting largely on Independent Governance Committees which have little independence from the firms that appoint them, and few powers that would amount to an ability to govern.

Trade unions are strong supporters of moves to improve provision for workers' old age. But we believe it is vital that this money works as hard as possible to provide members with a secure old age and not creamed off, passing through multiple hands in the Square Mile.

We shouldn't pretend that efforts to encourage people to engage with their pensions is any sort of substitute for structural reform.

For instance, the much mooted pensions dashboard which would bring together a lot of people's savings in one place might encourage them to engage with their savings.

But given the countervailing pressures of complexity, opacity and inertia (why engage with a decision when you won't know the results for the next 40 years?), weigh against the consumer securing good value. And, crucially, most savers have their pension provider chosen for them, by their employer.

Likewise the various initiatives designed to bring down costs and charges are undoubtedly positive. These include the charge cap on default funds under automatic enrolment; requirements for defined contribution schemes to publish their costs; and the Cost Transparency Initiative, now under the auspices of the Pensions and Lifetime Savings Association, which seems likely to force better cost disclosure across both defined benefit and defined contribution schemes over time.

It is positive that the majority of the UK's 10 million new auto-enrolled savers are in not-for-profit pension funds.

This is not to say that the non-profit model in the UK is perfect. A far better job could be done in bringing those with a member perspective (such as trade unionists) within the decision making structures, notably at trustee level.

One possible conclusion of the Royal Commission in Australia is that members should be enrolled in a small number of 'best in show' schemes, most likely non-profit ones, to safeguard their interests.

This could serve as a strong signal to the UK that, just as we are asking savers to put more money into their pensions, policy here should be directed to ensuring as many savers as possible are given the protection of the not-for-profit sector.

We don't want to be holding our own Royal Commission in 20 years' time having squandered savers' money over the intervening period.

An interview with Michael Jones

our newest "Youngest Fellow"

What is your role at BUPA?

I'm the Pensions Technical Team Leader. I manage a small technical team that look after the governance of Bupa's UK pension schemes and help the in house administration team keep up with the latest developments in the industry.

What made you choose to take PMI qualifications?

It was actually my first employer that signed me up to the PMI qualifications when I started with them, and I'm very grateful that they did. I decided to continue with the qualifications because I was learning so much about the industry and different aspects of pensions management. It was a huge boost to my own professional development and meant I could speak with confidence on a wide variety of subjects with my colleagues, my clients, and my managers.

How has gaining APMI, and now FPMI, status helped your career to date?

By qualifying for the Advanced Diploma in Retirement Provision and gaining APMI so early in my career, it certainly helped me make the career moves I wanted early on. Employers really respect these qualifications and it helped show that I not only had the required knowledge for the role, but that I was committed to my own professional development.

By Michael Jones
Pensions Technical Team Leader
Bupa

What made you decide to upgrade to Fellowship?

I suppose the simplest answer is that I decided to upgrade to be able to use the initials FPMI. Ever since I started taking the PMI exams my goal was to achieve Fellowship. Fellows are well respected in the industry so it helps me to stand out from the crowd.

How do you feel being the youngest ever FPMI?

I am very proud to achieve this and will certainly be bragging about it for a while. I'm sure my colleagues will be able to attest to that!

I also consider myself very lucky to have worked with employers and colleagues who have encouraged and supported me throughout the qualifications.

Do you have any words of wisdom, tips or suggestions that might help current students to succeed?

My advice would be to start taking the exams as soon you can and make sure you keep up momentum. It is so much easier to study and take exams when you are in the habit. Remember that the study material is not just to help you pass the exams, but to help you develop your own knowledge as a professional.

How should the PMI be engaging with younger members in future?

I think the key message is that PMI qualifications are an excellent way to boost your career and get you where you want to go. You need to be prepared to work hard for the exams but the knowledge you gain will set you in good stead for a successful career.

I work in Pensions

By Brian Kinlan / Pensions Consultant Apprentice / Aon

I am currently a Pensions Consultant Apprentice in Aon's Scotland retirement team. I work alongside my colleagues in our client teams to provide support and advice to several trustee boards over a wide range of schemes. This role, therefore, involves a number of different jobs such as scheme secretarial services, establishing and maintaining effective governance frameworks, liaising with members/other advisers, and attending trustee meetings.

What made you choose to take PMI qualifications?

After joining Aon in September 2017 as part of the Pensions Consultancy intake, my knowledge of the pensions industry and retirement provision in general was limited. Given that I had joined such a huge firm, I knew that I would be expected to build my knowledge through professional qualifications. The PMI's programme for students is ideal for my role at Aon as it covers a whole host of different topics and specialisms which will allow me to become a well rounded pensions professional. The Advanced Diploma is also a recognised qualification throughout the UK, which will help me demonstrate to colleagues and clients that I am educated to a recognised standard, thus aiding my quality of service.

How have PMI qualifications helped your career to date?

By passing Core Unit 1a, I have boosted my knowledge of workplace pensions which has had a very positive impact on the work I carry out day to day for Aon. This unit has also helped me to understand the structure of the PMI's Core Units, meaning I have been able to replicate a similar study plan for future units. I have done this for Core Unit 2 (Regulation), and I am currently awaiting the results from the October sitting of this exam. I look forward to expanding my knowledge through further core and specialist units which will allow me to continue delivering a high quality of work for Aon.

What was your first impression of pensions when you started? Has this changed?

I was initially overwhelmed at the sheer scale of the industry and the variety of tasks that I was going to be involved in. This feeling quickly changed as I became more comfortable with both the content of my PMI qualification and my work at Aon. Looking to the future, I am now looking forward to advancing my career in this industry.

Do you have any words of wisdom, tips or suggestions that might help current students to succeed?

In terms of the exams, I believe starting with studying early was the key to my success. This is particularly true for individuals with limited experience or knowledge in the pensions industry. By beginning early, it allows you time to truly grasp the content in front of you rather than being in a rush to cram in something you may not be entirely comfortable with. Although a cliché, I think the most important piece of advice I received upon joining the industry was not to be scared to ask loads of questions. At Aon there is a real culture of development and my colleagues are always willing to help. Make sure you make the most of their time.

How should the PMI be engaging with younger members in future?

The PMI hosts a number of events and seminars each year which are incredibly beneficial for members, trustees and other experienced professionals. To supplement these events, the PMI may want to consider an event geared towards younger professionals and potential members. This would hopefully raise the profile of the Institute across a younger demographic and lead to more young people beginning a career in pensions.

I work in Pensions

By Louisa Lawton, Deputy Administration Manager, XPS Administration

I am Deputy Administration Manager at XPS Administration, and have worked within the pensions industry for just over 6 years. I have spent most of this time studying, and I still have a way to go before I will get to where I want to be in terms of my professional qualifications. I often question myself, whether it is worth the effort, but I can honestly say that if it wasn't then I wouldn't be writing this article.

I started my pensions qualifications with the CPC exams. I passed these without too much trouble, and quickly went on to pass the RPC too. With all these under my belt, the next step was to move onto the Advanced Diploma in Retirement Provision. I don't think I appreciated at that time just how much more of my time would need to be committed. I quickly realised that the jump to these exams was more than I'd expected!

I learned that I would need to work out the best study technique for me as there is a lot to learn in a relatively short space of time. For me, note taking didn't work as I ended up re writing most of the book. The same could be said for highlighting as I ended up with more words highlighted than not. I found that I needed to keep going over and over the information and then try to recall the main points from each chapter. Setting a study timetable is also a good idea, although I would be lying if I said I managed to stick to this all the time.

I passed my first exam, so decided that I would try and sit two in the next sitting as I was heading towards maternity leave and wanted to get as far as I could before my spare time disappeared. In hindsight, my focus was already split, and I didn't pass either of these. I have since re-taken and passed one, and am working on the other now.

> **This is an important lesson I learnt and in order to get through these qualifications successfully then you need to be in a good position with your work life balance to make the commitment.**

I am now working full time, alongside having a 21 month old and studying as well, so believe me it can be done!

A few people have said there will be one nemesis with these exams, for me that is Finance and Investing for Retirement Provision. Personally I find subjects where I have a working understanding much easier to grasp, so this one for me is a challenge.

I am fortunate that XPS Administration provide not only funding for the qualifications, but also a support network within the business. Whether that is at my monthly catch ups with my mentor or just ad hoc help when I need, there is always someone available to keep me focused and ultimately help me to pass this qualification. Personally I feel that completing this will be a great asset to my career progression, and that is luckily an opinion that is shared by my employer.

So, in summary, studying at this level can be hard work; it can take a lot of your time, but ultimately I am always learning things which help me do a better job day to day.

> **Personally, for me, having a recognised qualification is an important part of me achieving what I want in my career and I am looking forward to the time when I can say I have reached that goal.**

The myth of self-sufficiency

By Matt Harrison, Managing Director, Lincoln Pensions

Trustees are increasingly realising that technical provisions are just a staging post on their scheme's journey, rather than the ultimate destination. Instead, thinking is turning to defining a longer term objective for schemes, typically expressed in terms of buyout, self-sufficiency, or, more recently, consolidation.

Although the buyout process is a well trodden and highly regulated path, many trustees and sponsors do not regard it as a viable option, viewing the costs and premium paid to the insurance provider as prohibitive. Alternative options within the nascent consolidation industry are still being refined, and initial regulatory guidance has yet to be published (but is expected soon).

> **As a result, many schemes are adopting a strategy based around reaching self-sufficiency.**

Although inconsistently defined across the pensions landscape, in its 2018 Annual Funding Statement the Pensions Regulator (TPR) set out its view that self-sufficiency represents a funding level and investment approach which keeps ongoing covenant reliance at a minimal level. However, this does not mean that once self-sufficiency funding has been reached, that there will be no ongoing reliance on the covenant. Even schemes which have reached their self-sufficiency target still contain some levels of investment risk, and these 'self-sufficiency' funding targets do not always capture demographic and other risks (e.g. the cost of GMP equalisation).

The term self-sufficiency is therefore misleading and has become confused with meaning that a scheme can operate without its sponsor. This misconception is problematic as, although funding to self-sufficiency may be sensible whilst the trustees are comfortable that the sponsor is viable, it means that many trustees overlook residual covenant risks. This means that their schemes run the risk of not delivering full benefits even though they are funded to a self-sufficient level. This problem arises for several reasons.

Firstly, pension scheme rules determining what happens when a scheme loses its last solvent employer can vary. Some schemes require that the scheme is wound up and bought out with an insurance provider.

> **If the scheme is not fully funded on a buyout basis at that time, this is likely to result in a reduction in benefits for members.**

Therefore, a strategy based on self-sufficiency is not likely to be a sensible long term objective for these schemes.

Secondly, too much focus has been placed on how self-sufficiency can be defined in terms of actuarial assumptions or investment returns, which misses a core consideration. Pension schemes cannot exist without a sponsoring entity. Even if a pension scheme was funded above PPF benefit levels it would still require regulatory approval to transfer an insolvent employer's obligations to a new, non substantive sponsor in order to continue to operate and provide full benefits to members. This approval has only been granted a few times in the past, so to assume that it would be given, even if a scheme was self sufficient, is a big assumption by trustees.

Where regulatory approval to transfer to a non substantive sponsor is given, the PPF has stated that it will require a power to wind up the scheme if funding falls below an agreed level. The PPF's new rule on the PPF levy for schemes without a substantive sponsor (SWOSS) provides some clues on where this trigger might be set.

> **To be clear, this is not a simple levy rule which, if met, means that schemes are allowed to 'run on'.**

Instead, the factors which affect the size of the annual levy provide guidance on the funding and investment requirements for schemes to be able to operate without a substantive sponsor.

Whilst the specific requirements will vary for each scheme, unless schemes have a material surplus on a PPF basis and a low risk investment strategy, the annual levy could become a 'drag' on future funding level improvements. This could lead to a gradual deterioration in the scheme's funding level, and ultimately require the trustees to wind up the scheme to prevent a further reduction in the benefits which could otherwise be secured with an insurer.

Although many schemes may have large PPF surpluses today, these remain vulnerable to gradual erosion as the benefits underwritten by the PPF increase over time; this is known as PPF drift. Schemes must be able to maintain a material PPF surplus by generating investment returns which exceed PPF drift. In addition, this surplus must be sufficient to withstand an adverse investment or funding event otherwise a future one off shock could result in an increase in the levy which causes downward pressure on the funding level.

If these criteria cannot be met over the life of the scheme, it should not be considered to be self-sufficient. This means that many schemes will rely on their sponsor remaining solvent for a long time, which may come as a sobering thought for many trustees given that 5% of companies with BBB (investment grade) credit ratings are expected to default on their obligations over a 15 year period (based on historical figures from Moody's and S&P).

> **Ultimately, if members receive lower benefits in the future following a failure of their sponsor, trustees should be comfortable that they could not reasonably have done more to protect their scheme's members. This is a question which will ultimately be judged with the benefit of hindsight.**

So what should trustees be doing now?

Decide on an end game for their scheme, and develop a strategy to reach it based on the covenant's ability to support investment, demographic, and other risks (e.g. GMP);

Working to understand the rules of their scheme, including whether it has to wind up following insolvency. If so, a strategy based on reaching self-sufficiency may not be appropriate, and may require legal advice;

Where trustees are relying solely on investment returns to increase their scheme's funding level to a buyout, they should ensure that they understand how this journey could be accelerated if the outlook for the sponsor deteriorated, or put in place sufficient security to help bridge the gap to buyout; and

Continue to monitor the covenant, and put in place actionable contingency plans if the covenant deteriorates

The long sprint to Freedom!

By Mark Adamson, Director, JLT

"Mr Deputy Speaker, what I am proposing is the most far reaching reform to the taxation of pensions since the regime was introduced in 1921..."

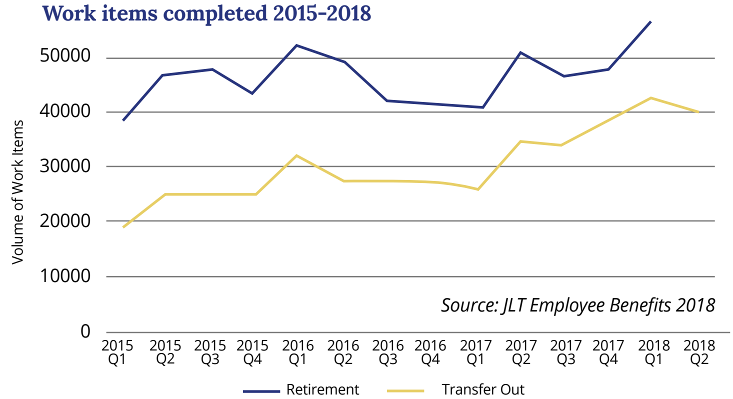
- **Scheme members were empowered to use a whole new range of options for retirement**
- **Scammers came up with innovative ideas to relieve members of their funds**
- **Administrators (third-party and in-house), had to find ways to deal with both these challenges**

Pension Freedom, as it came to be known, gave members real choice; a good thing. So, why was it such a big challenge? Well, administrators that thought about it could see a huge amount of work coming their way as members in their millions moved towards the age when they could exercise their liberties.

Member behaviour entered a new paradigm. Members started to engage in pensions, and reaching age 55 was proving to be a critical and pivotal moment. Many wanted both retirement quotes and transfer values. With society in a digital age, they expected that information now; but the industry wasn't ready for that. Okay, so why did administrators need to worry about scammers?

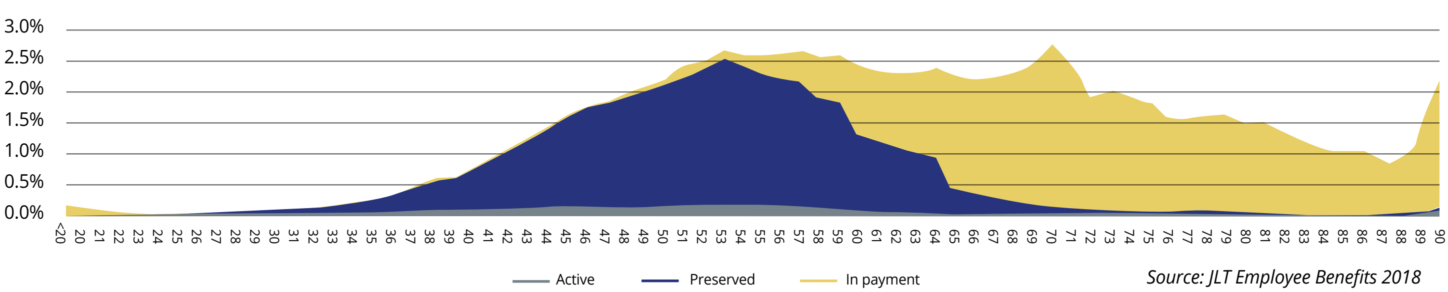
Simply because administrators are the last line of defence for members, who often know a little but not enough. No one else is in a position to play that role of guide and guardian.

Work items completed 2015-2018



Source: JLT Employee Benefits 2018

DB member demographics



Source: JLT Employee Benefits 2018

Make no mistake, members have used their power. For example, as these statistics demonstrate, the number of retirement quotes requested has increased by half and, perhaps to scammers' delight, transfer quotes have doubled.

Administrators needed to find ways of dealing with these demands accurately and speedily.

For those tuned in administrators, the solution has come from technology and people in equal measure. Technology first:

+ Getting data in to a position where for the vast majority of members data is complete and accurate; we all know the data realities for some members
+ Investing in high levels of automation so that retirement quotes and transfer values are constantly recalculated, then
+ Deploying web services, for too long maligned in the DB world, to play back those calculation results to members so they can see current values at any time.

That all sounds very straightforward, but of course huge amounts of work were needed to get data in shape before automated processes could be deployed. But it has been worth it.

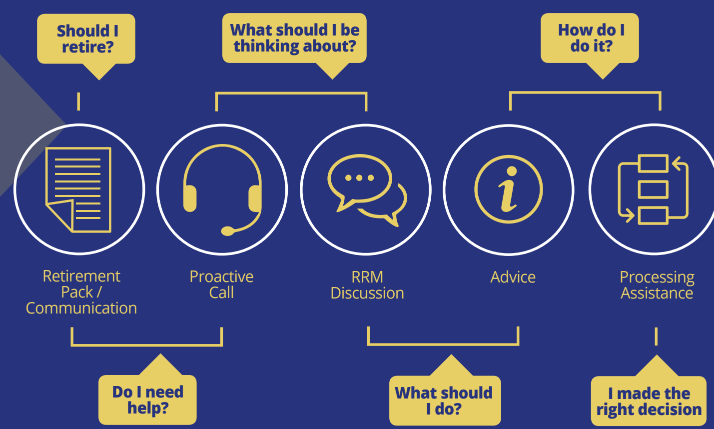
DC members have been able to look at their funds and transact online for a while. Freedom has seen developments for online DC capabilities too, with genuine straight through processing to the fore, but it is in DB where the real breakthrough has taken place. At last, after many years of under deployment, the web is playing a major role in educating and informing DB members.

What better way to reduce the increased demand on administrators than by giving members simple tools to do the work for themselves? This approach:

+ Deals with the extra demand
+ Frees up administrators to work on the cases that really need their attention, and, most importantly
+ Enables the member to see their quotes whenever they want to, just by logging on.

The web goes well beyond that too, giving the member the power to run their own calculations online. Just by tapping in a different retirement date, for example, they can see how their options change, and they can do that as many times as they like, whenever they like. They can save those calculations and print them off for their records and they can request a formal quote by pressing a button which kicks off a workflow process back at the administration ranch.

Of course, not all members want to use the web, and this is where people come in. The member can phone in and, having used online data verification to confirm that the caller is who they say they are, the administrator can use the same web technology to provide the member with results over the phone.



The administrator can then produce a formal quote if the member wants it.

Well, that's how to provide the member with the information they want, but how do we ensure they understand it and don't fall foul of scammers? By offering the member a guidance call with an experienced Retirement Relationship Manager (RRM).

On this call, the RRM helps the member to understand their options and consider their financial needs in retirement. The objective is to help the member to come to their own conclusion as to what options are right for them and if they need help in completing the relevant forms, the retirement relationship manager can support them there too. Naturally, some members could benefit from regulated financial advice, so it is explained how they can source this, be it their own IFA, unbiased.co.uk or if they so wish, we can put them in touch with advisers in our Wealth Management Division

For the typical member who doesn't really understand pensions, this guidance process is a huge help.

So, Freedom has brought challenges as well as opportunities, and administrators have responded in different ways to these challenges. Some have been innovative and handled them well; others haven't. Ultimately, all administration providers, whether in house teams or third party providers, are here for just one thing: to make sure members get the service they want, when they want it.

Simple? Simple!

Collective Defined Contribution in the UK

Learning but not copying

Now that the festive season is over, our attention can turn to a different form of giving and receiving through retirement savings. It is fitting that, at one of the most fiscally challenging times of year, attention is being drawn to a new system of retirement saving, but is it really the 'best of both worlds' between the Defined Contribution (DC) and Defined Benefit (DB) arrangements we know so well?

What is CDC?

A Collective Defined Contribution (CDC) arrangement would be money purchase in nature, as the contributions that the employer and employee pay are fixed. However, rather than members having individually attributable accounts, investments would be held collectively to provide a target level of income in retirement. The aim is that members could plan for a more certain, regular income in retirement, similar to that provided by DB arrangements, albeit that this would not be guaranteed.

Why now?

Until recently, CDC has struggled to gain momentum in the UK market. However, Royal Mail are now leading the charge following discussions with their workers' union, CWU, over the future of retirement savings, which concluded that CDC is the most appropriate answer. As a result of this interest, the DWP has opened consultation on how best to implement Royal Mail's proposed arrangement.

What's the big deal?

Over a member's working lifetime, it's difficult to see how CDC will result in better returns than traditional DC arrangements.

> **Yes, the risk return profile may differ at different ages but, at the aggregate level, overall returns can only be enhanced by taking greater investment risk and accepting the associated volatility.**

We've all seen how volatile the funding of DB arrangements can be and how difficult this can be to understand. One big challenge with CDC will be helping members understand the potential volatility in the target benefits, and explaining why benefits have to be adjusted from time to time.

It's possible that the volatility could be mitigated by some form of smoothing of returns or a 'corridor' of funding within which target benefits could remain unchanged. This is a topic raised in the consultation but we should heed the lessons from traditional with-profits systems of smoothing returns, which has proved challenging for many insurers, leading to conservative investment strategies.

Economies of scale have been cited as a benefit of CDC through lower investment charges, but this is achievable in traditional DC arrangements via the growing trend towards Master Trusts. Perhaps these economies would be greatest in the post retirement phase where, currently, most DC members have to make individual arrangements with relatively high charges.

Continuing the post retirement considerations, current DC arrangements require individuals to make guesses about their own life expectancy. Although life expectancy improvements have been slowing, many people underestimate their own longevity leading to them running out of money in retirement. CDC schemes would have the benefit that, although the target benefit level may vary, something would continue to be paid to members for life. Currently, this certainty can only be achieved by the purchase of an annuity which can appear an expensive option for members.

This sharing of longevity risk brings another source of volatility. If members die more quickly than expected, the remaining members' benefits would be increased (and vice versa). To reduce this volatility,

CDC would require very large numbers of members. The government's intention is for the option of CDC schemes to be limited to employers of a sufficient scale, but it is not yet known what they consider this scale to be. An interesting option might be for Master Trust type arrangements to be set up on a CDC basis purely for retired members. This would make pooling of longevity risk available to employees of smaller companies.

> **Another point that must be considered carefully is how CDC arrangements will interact with the pension freedoms introduced in 2015.**

Pension scheme members have been enjoying far more choice and flexibility in retirement since the changes were introduced, and it would likely not be appreciated if CDC arrangements were to restrict this level of choice which has been embraced by many.

However, choice creates the opportunity for selection by individuals, watering down the benefits of pooling longevity risk, but this could be mitigated in a post retirement only CDC arrangement through appropriate pricing of longevity risk at a more granular level, akin to Club Vita.

Lessons from afar

Although CDC arrangements may be new for UK retirement savings, they're well established in other countries where CDC has been accused of intergenerational unfairness. For example, in the wake of poor investment returns, the target benefits may need to be reduced. This would have an immediate impact on someone already drawing their benefits whereas a mid career member has time for markets to recover so might never actually suffer the reduction. Are the older generations paying to support the savings of younger generations? It all averages out for long serving members who remain in the same CDC arrangement throughout their working and retired lives, but is this likely to be reality for the majority? This is something where the consultation is looking for feedback.

Affordable retirement

Whilst older generations have enjoyed secure, guaranteed benefits in retirement from DB arrangements, as these arrangements have closed down, the contributions paid by employers have generally also decreased to the more 'commercially viable' contribution rates typically paid into the pots of DC members. It has been widely stated that the retirement incomes likely to be received by these individuals will not be sufficient for their needs. CDC arrangements are a positive step towards companies being able to support their employees and allowing them to enjoy the retirement that they deserve in comfort, but only if the general levels of contributions paid starts to increase again. Given the current economic headwinds around the world, it will be interesting to see how many other employers have the desire to introduce CDC in place of existing DC arrangements. Any meaningful level of target benefit would surely require higher rates of contributions from both employers and members.

The best of both worlds?

+ Cost certainty
+ Income for life
+ Risk sharing
+ Cost effective

CDC seems to tick many boxes but also comes with its own challenges. It's likely to appeal to only a small number of employers but perhaps has a wider role to play in the past retirement environment where cost effective pooling of longevity risk meets a clear market need.

Rob Harper
Partner
Hymans Robertson

Looking ahead to 2019…

Pension provision in the UK has suffered over the last two decades. The decline has been dramatic; a generation ago the UK had a system of Defined Benefit (DB) occupational schemes which was one of the best in the world. It was common for employees to retire during their fifties and to do so with comfortable pensions.

However, over a bewilderingly short period of time, a combination of over regulation, economics and improved longevity has seen this system collapse. Today, continued DB provision has all but disappeared from the workplace, and its legacy is an army of underfunded closed schemes which have proved to be an onerous financial burden on overstretched scheme sponsors.

Ideally, employers would long to be free of their legacy schemes and be able to direct resources elsewhere. However, for many, this is simply not a realistic prospect: many schemes are seriously in deficit, and the cost of achieving funding levels that would permit buy out and the final Nirvana of wind up is unaffordable. In a famous paper from a couple of years ago, the Pensions Institute suggested that as many as 1,000 DB schemes will never achieve full funding.

By Tim Middleton
Technical Consultant, The Pensions Management Institute

However, over the course of 2018, a new option has emerged, and this has generated extensive interest throughout the industry. DB consolidation was proposed in a DWP consultation as a means of improving funding levels and thus reducing the risk of calls on the Pension Protection Fund. Initially, many in the industry were very sceptical. It was argued that schemes would simply be too different to facilitate effective consolidation: there would be differences in funding level and styles of governance as well as logistical problems posed by different locations, administrators and advisers. In spite of this, the idea has persisted, and different models have emerged.

> **Firstly, it should be remembered that TPT Solutions has for many years offered a form of Master Trust which can absorb smaller DB schemes.**

This remains an option for schemes with fewer than 1,000 members. In addition, two completely new companies have emerged with different business models. The Superfunds approach aims to combine closed schemes with a view to running them off. Clara Pensions has adopted a different approach by seeking to facilitate wind up. Clara will accept schemes that are at least 90% funded on a technical provisions basis, achieve full funding through its investment strategy, and then arrange buy out.

> **Whilst it is still very much early days for DB consolidation, there are grounds for optimism.**

The excitement generated by the first arrivals in the market will inevitably see others follow, and the apparent stagnation affecting legacy DB schemes will at last come to an end. We should be grateful that there is creativity in the industry that will not be deterred by seemingly impossible challenges. Perhaps, at last, the UK's employers will be free to direct precious financial resources in ways that better serve their business interests, and new models may emerge for the provision of workplace pensions.

The Pensions Regulator

Automatic Enrolment update

Nearly 10 million people are now saving for their retirement thanks to the success of automatic enrolment, and contributing into a workplace pension has now become the norm.

Staff now expect a pension as part and parcel of their employment, and The Pensions Regulator and DWP's advertising campaign encourages staff to get to know their pension and appreciate the benefits.

Research published recently by TPR **https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis** showed that the vast majority of staff are continuing to save more into their pension following the increases in minimum contributions in April.

The ongoing duties survey showed less than 2% of staff in medium, small and micro businesses asked to leave their workplace pension as a result of the increase.

More than 80% of employers said that they wrote to their staff to tell them about the contributions increases. Medium sized and small employers did this via email or letter, whilst small employers tended to inform their staff face to face.

Employers surveyed also said they were confident they could provide accurate responses to requests for information from their staff about automatic enrolment. The survey showed the larger the employer, the more likely they are to be asked for advice on workplace pensions by their staff, with 25% of micro, 45% of small, and 73% medium sized employers being asked.

The vast majority of employers surveyed said that they find their ongoing duties quick and straight forward to complete, spending less than two hours a month on them. To comply with the law, employers have a number of tasks to complete which includes maintaining the correct contributions, keeping accurate records, and re-enrolling eligible staff who have opted out of their pension, back in.

The vast majority of employers are compliant with their automatic enrolment duties but TPR will take action if an employer is non compliant. Automatic Enrolment is a continuing process and does not end when staff have been put into a pension.

TPR's most recent compliance and enforcement bulletin **https://www.thepensionsregulator.gov.uk/en/document-library/enforcement-activity/enforcement-bulletins** published in the autumn, included a case study of an employer which automatically enrolled its eligible staff into a master trust pension scheme in 2013.

The scheme was 'self certified' by the employer. Employers using certification to calculate contributions must reassess their workforce every 18 months to ensure that it still meets the relevant criteria.

In 2016, the company assessed the workforce and realised that the circumstances had changed and the contributions should have been calculated another way (in this case, the company had originally based calculations for pensionable earnings on 85% of total earnings). The changes meant that the calculations for pensionable earnings would be based on 100% of their total earnings. However, the company failed to amend its payroll, or update the pension scheme rules, meaning that the pension contributions paid fell below the minimum required by law.

The employer wrote to their staff to explain they would meet the full costs of the underpaid employer contributions (over £350,000), plus an additional allowance to compensate for lost investment returns. The company got in touch with TPR in 2017 and said that there had been an oversight and they had failed to make required changes because the business was very busy.

TPR was not satisfied with their explanation or proposed rectification plan and, in April 2018, issued the company with a notice requiring them to pay the shortfall of both employer and employee contributions, adding up to a total of over £700,000. The employer confirmed that it had paid the outstanding amount in July 2018 and is now compliant with its automatic enrolment responsibilities.

The message to employers is that it's important they keep track of their ongoing automatic enrolment responsibilities and be aware of any changes which might affect pension contributions. Even if automatic enrolment is outsourced to an adviser, it is the employer that is legally responsible.

Longer term Cash flow Driven Investing (CDI) strategies: a free lunch?

Over the past decade, many pension schemes have experienced significant improvement in their Technical Provisions funding basis, as a result of strong asset returns (despite historically low gilt yields). This positive experience has resulted in schemes looking towards a longer term, more prudent funding objective.

The new funding objective for schemes may take the form of targeting full funding on a 'Buy-out' basis (where an investment strategy holds very little investment risk with the intention of the trustees securing a 'buy-in' with an insurance company). Longer term CDI strategies may hold the answer, as schemes look towards more conservative returns, with greater certainty of the outcome therefore lowering the chance of not meeting these more prudent longer term objectives.

What is longer term CDI?

Longer term CDI aims to offer more certain returns with a smaller range of possible outcomes and can include investments in:

+ Gilts and Liability Driven Investments (LDI) to hedge interest rates and inflation; and
+ Return seeking (income generative) assets.

For pension schemes, a longer term CDI strategy can provide an alternative to traditional investment strategies, offering predictable, secure long term cash flow, whilst continuing to hedge both interest rate and inflation risk across a scheme's expected cash flow profile.

In fact, CDI strategies are not a new concept and have been used by insurance companies for many years, helping to manage their cash flow risks.

This is an evolving market, with the underlying strategies taking many forms. Strategies can be blended to form a portfolio tailored to suit a scheme's characteristics and objectives.

LDI

LDI offer a better match for scheme cash flows and are more capital efficient when compared to traditional hedging i.e. purchasing government bonds. Historically, capital efficiency has been gained through gearing, allowing schemes to fully manage their interest rate and inflation risk, whilst maintaining a sufficient level of growth assets to target returns and make good any funding deficits. Now, more modest return targets allow schemes to potentially reduce the level of gearing required in the scheme, and the risks that come with it. The reduction in gearing may be considered an opportunity cost, however, given a more modest return target, the scheme is unlikely to need the additional upside, and therefore risk. Gearing is typically reduced through a combination of holding physical gilts and cash alongside the LDI.

A drawback of a pure LDI approach is the lack of income offered. These derivative strategies do not typically offer a yield or income and can therefore only form part of the longer term CDI approach.

Credit

CDI credit strategies typically invest in UK corporate debt. Investments in credit can provide a scheme with enhanced returns as compensation for taking on the additional default risk of corporations, when compared to gilts. Companies tend to issue debt at short-to-medium maturities, typically less than 20 years, allowing schemes to hedge the more predictable, short-to-medium term segment of their cash flow profile at a lower cost versus gilts.

Whilst credit markets do not typically offer gearing (unlike LDI), and are typically less liquid, schemes in a strong funding position may no longer need to seek geared exposure. Furthermore, to mitigate such issues, schemes can combine credit with other CDI strategies to enhance liquidity across the cash flow profile.

The advantage of credit strategies is clearly the secured income stream, offering yields above gilts. However, the shorter duration profile means a combination of credit with LDI and other longer term investments may be required to meet the needs of the scheme.

Real assets

Real assets such as property, ground rents and infrastructure can offer both interest rate and inflation protection for a scheme. Secured income from these assets can be tailored to the specific needs of a scheme, offering linkage to Consumer Price Index (CPI) or Retail Price Index (RPI). Over the longer-term, the capital value of these assets is also expected to grow at levels equal to, or greater than, domestic inflation, providing an expected return in excess of gilts.

Real assets can offer schemes stable longer dated cash flows with good inflation linkage, but the illiquid nature of the investments should be considered. Trading costs on entry and exit from the investments can be high and gates could be imposed, effectively delaying the sale of assets in future, a potential issue if the scheme is seeking to purchase a buy-in policy.

Is longer term CDI a free lunch?

The ability to hedge a scheme's interest rate and inflation risk whilst only needing to target a moderate investment return (and therefore moderate investment risk) in excess of gilts can be an attractive proposition for trustees and the sponsoring employer. However, less well funded pension schemes may not be in a position to consider a full CDI strategy. Instead, a partial approach with the view of adopting a CDI strategy over the longer term may be appropriate, potentially maintaining a higher allocation to return, seeking assets to help eliminate its deficit.

By adopting a longer-term CDI strategy, a scheme gives away upside potential for increased certainty. By definition, a strategy which solely invests in growth assets has no upside limit, whereas investing in a bond is expected to provide a fixed return.

For a scheme looking towards its end game, increased certainty is extremely valuable, especially when the lost upside may not be required and may result in a trapped surplus, incurring a potential tax liability.

There is certainly no 'one size fits all' approach when it comes to CDI. Adoption of a CDI strategy depends on affordability, risk appetite, and engagement from both the scheme's trustees and sponsoring employer. Whether it be a partial or full adoption, the use of a CDI strategy can help a scheme achieve its 'end game' whilst mitigating risk.

By Jordan Griffiths, Investment Consultant at Quantum Advisory

By Marcos Abreu, Consulting Actuary, Hamish Wilson

What will 2019 bring to DB schemes?

This year promises to be a busy one for those involved with private and public defined benefit (DB) schemes. We take a look at some topics likely to keep sponsors and trustees occupied.

Private sector

There are around 5,450 DB schemes in the UK. How well funded these schemes are is a matter for debate. We think on a best estimate measure schemes have a healthy combined surplus. However, every scheme faces different circumstances so the health of individual schemes differs from the average. Take actions appropriate to your needs and don't follow the herd.

Retail therapy

Retailers with bumper Christmas sales may be breathing a sigh of relief. Pressure on the retail sector remains and January normally brings a casualty or two. Monitor the position carefully and be prepared to act.

Investment volatility

Volatility is a natural phenomenon in investment markets. Sometimes it can be subdued but there is plenty of scope for it to be prominent in 2019, not least the continued uncertainties of Brexit and an unorthodox US president. Whether or not you take action to limit its impact on your scheme depends on your investment goal. Just remember that volatility can be a good thing and reducing it comes at a cost.

Remember Barber?

As a result of the Lloyds Banking Group judgment in late 2018, schemes were left in no doubt Guaranteed Minimum Pensions (GMPs) will have to be equalised for men and women to remove the last traces of sex inequality since the Barber judgment in 1990.

Equalising GMPs is likely to be a costly exercise for sponsors (with the majority of members seeing little benefit), but the message is not to panic. Those going through or close to year ends should take advice on the changes needed. In terms of rectification sponsors and trustees should work together remembering there is still uncertainty to be cleared up.

Consolidation

Two consolidators have entered the market and their ability to attract clients will be tested this year. Consider the pros and cons before taking the leap.

Clearer, quicker and tougher

We have been promised a more visible and proactive regulator. Some sponsors and trustees will start to see evidence of the new approach in action. Don't be afraid. Do get your house in order.

Public sector

There are more than 5 million active members in public service pensions schemes. Sponsors participating in these schemes will see substantial increases in contributions from April this year. For example, those participating in the Teachers' Pension Scheme will see contributions increase from 16.5% to 23.6%. The picture is unclear with some sponsors receiving additional funds from central government to meet unexpected costs for 2019-20 (with future years being considered as part of the Spending Review), and others having to fund additional costs.

Some of the same sponsors will also be affected by the LGPS valuation which is due this year.

Sponsors need to consider their objectives and strategies across all their pension schemes.

Some of the same sponsors will also be affected by the LGPS valuation which is due this year. Sponsors need to consider their objectives and strategies across all their pension schemes.

Congratulations! Your commitment to your own learning and development through working towards a professional qualification marks you out as a serious pensions professional. At present we are working hard at PMI to tell pensions employers and employees about our sector based qualifications and the value of investing time and effort into achieving recognition through the PMI.

We are now attracting more interest than ever and therefore need to increase our pool of examiners, assessors, verifiers and moderators for our qualifications. These include: the Award in Pensions Essentials for newcomers to the pensions sector; the Advanced Diploma in Retirement Provision; and our apprenticeships offer where we need end-point assessors, along with question writers for multiple choice based examinations, and tutors for our online learning programmes.

All of these roles:

+ **attract a fee** comparable to those offered by other commercial awarding organisations;
+ **require you to be able to give of your time**, some during the working day. Typically assessors and others can be conducted outside of your 9-5 commitments;
+ **will be supported by a continuing professional development programme** which will embrace both pensions expertise and the technical aspects of assessment.

For more information please email **qualifications@pensions-pmi.org.uk** using the subject title PMI support opportunities.

Thank you!

Anne Harper
Director of Lifelong Learning

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3RD APRIL 2019
IET

2019
SAVE THE DATES

After a successful launch of our newly branded **Pensions Aspects Live in 2018**, we are pleased to announce that we will be holding the 2019 conference on 3rd April at The IET (Institution of Engineering and Technology) – followed by the annual dinner on the same evening.

Contact us at
events@pensions-pmi.org.uk
to find out more.

PMI
ANNUAL DINNER /19

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Trustee workbench.
2019

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DC WORKPLACE SYMPOSIUM 19

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PENS TECH
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7TH NOVEMBER 2019
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