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Pensions Aspects

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De-risking for better pensions

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Contacts

HEAD OFFICE
The Pensions Management Institute, Floor 20,
Tower 42, 25 Old Broad Street, London EC2N 1HQ
T: +44 (0)20 7247 1452

MEMBERSHIP T: +44 (0)20 7392 7410
E: membership@pensions-pmi.org.uk

QUALIFICATIONS/TRUSTEES T: +44 (0)20 7392 7400
E: KHoodless@pensions-pmi.org.uk

COMMERCIAL DEVELOPMENT T: +44 (0)20 7392 7425
E: marketing@pensions-pmi.org.uk

FINANCE T: +44 (0)20 7392 7430
E: accounts@pensions-pmi.org.uk

Pensions Aspects team

MEDIA ENQUIRIES T: 0207 392 7425 **E:** media@pensions-pmi.org.uk

EDITORIAL Megan Taylor **T:** +44 (0)20 7392 7428 **E:** MTaylor@pensions-pmi.org.uk

CORPORATE/DISPLAY ADVERTISING T: +44 (0)207 392 7427 **E:** TRastegar@pensions-pmi.org.uk

RECRUITMENT ADVERTISING T: +44 (0)20 8405 6412 **E:** adam@insidecareers.co.uk

SERVICES DIRECTORY T:+44 (0)20 8405 6412 **E:** adam@insidecareers.co.uk

DESIGN sjw **SJW Branding & Communications T:** +44 (0)1732 455555 **E:** welcome@sjwbranding.com

PRINT MPS Marketing Services LTD T: +44 (0)1275 474354 **E:** Enquiries@mpsukltd.com

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Recognising contributions to a positive 2019

By Gareth Tancred, Chief Executive, PMI

Dear Members,

As the year draws to a close, I thought it opportune to let you know the challenges we have faced and successes your Institute has enjoyed during 2019, and some of the exciting plans we have for 2020 as we continue to deliver our Five Year Strategy.

Challenges

Many organisations continue to face uncertainty in the current political climate. For professional bodies, it has been harder to secure discretionary spend on such things as sponsorship, partnerships and education. However, I would like to thank all our sponsors, Insight Partners, exhibitors and student-employers for continuing to invest through these uncertain times.

Successes

Your Institute has enjoyed a number of successes during 2019. Our flagship conference, Pensions Aspects Live, has proved to be more popular than ever, winning a silver Association Excellence award for the second year. We were also shortlisted for an award for this magazine, the Fellowship Network, and achieved a bronze award for our new Trustee Workbench seminar. This seminar has historically attracted around 70 delegates; this year we achieved 260. It is worth noting that we now have the largest trustee membership of any professional body and trade association in this sector. We shall continue to develop our proposition for trustees during 2020.

2020

The new year will see the launch of several new initiatives. We have been working with The Pensions Regulator and the Association of Professional Pension Trustees (APPT) on the launch of an accreditation programme for professional trustees. We have also developed a competency framework for the profession. We appreciate some firms have their own, but as a professional body we should have one upon which to base our own education and membership services. We hope to give this final approval this year for launch in 2020. On the back of that, we have been working on a review of our education and qualification services for some time. We ran a number of pilot programmes during 2018 and 2019, and have learned from these. Following final approval this year, we hope to move on to final consultation and implementation in 2020. Our aim is to further professionalise our education offering, enhance our services to learners and their employers, to stay relevant and provide services throughout members' careers.

2020 will also see the launch of our new website and engagement system. We have listened to the many observations and comments about our website and believe me, it was one of the first things I wanted to change when I arrived. Having tackled many other issues, the time is now right to provide all of our stakeholders with a much better service. We are in the final stages of development, cleaning and migrating data and will enter an intensive testing phase at the end of the year and into next year. Also, as the theme of this issue is de-risking, please reduce the risk of missing next year's Pensions Aspects Live by saving the date – 23rd April 2020.

In closing, your Institute could not achieve everything it does without the dedication of our staff and an army of volunteers, as well as our ever-increasing member body. May I take this opportunity to thank every single one of you and wish you a successful 2020.

DB Transfers: How to avoid poor member outcomes

London: Wednesday 20 November 2019
Birmingham: 27 November 2019

The pension freedoms have led to a significant increase in the number of pension transfers from Defined Benefit (DB) schemes. Not all of these have been in the best interests of members, as highlighted by events concerning some members of the British Steel Pension Scheme.

This seminar, hosted by Eversheds Sutherland and PMI's Insight Partners Sackers and WEALTH at work, aims to give an overview of current developments and experiences, highlighting why DB transfers are on the rise and what schemes can do to help members make good decisions.

The event will count as 2 hours CPD.

Free for PMI Members.

PMI Fellowship Network 5th Anniversary Party (PMI Fellows only)

Thursday, 21 November 2019

Sackers, London (17:00 – 20.00)

The PMI Fellowship Network will be celebrating it's 5th anniversary. All Fellows will have received an invitation, please RSVP as soon as possible to avoid disappointment

GMP Equalisation Workshop

2 December 2019

As we approach the 30th anniversary of the Barber judgement, the legal and technical obstacles to GMP equalisation continue to frustrate efforts to resolve this problem. This seminar will consider the latest thinking about this issue, and will offer some suggestions at how resolution might finally be achieved.

To register for an event visit:
www.pensions-pmi.org.uk/events/
Contact us: **events@pensions-pmi.org.uk** or **02073927427**
for sponsorship, exhibition enquiries or bookings.

The Pensions Management Institute is recruiting for tutors, markers and verifiers

Internal & external verifiers wanted

Are you an associate or fellow PMI member? Recently retired or on a career break? Are you a peripatetic assessor or internal verifier? Or an experienced & D unit-qualified pensions administrator?

Become a PMI tutor or marker

Are you an associate of the PMI? Have you passed the Advanced Diploma? Or do you have more than 3 years experience in pensions?

- **Develop your experience and understanding of a subject**
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- **Increase ability to manage your own learning and personal development**
- **Progress the career of someone in the pensions industry**
- **Earn additional income and CPD**

PMI is recruiting tutors to mark assignments and provide feedback, primarily for the ADRP units, with around 10 learners allocated to each tutor.

If you are interested in becoming a tutor, marker or verifier, please complete the application form **https://tinyurl.com/pmiapplication** or email Vanessa Jackson, Manager of Lifelong Learning **vjackson@pensions-pmi.org.uk** or call Keith Hoodless, Director of Lifelong Learning, on **0207 392 7405.**

BECOME A MEMBER OF THE PMI COMMITTEE

All PMI qualifications are overseen by a dedicated Committee made up of industry professionals who are specialized in each qualification area the Committee looks after.

The PMI Committee serves to:

POOL KNOWLEDGE, SKILLS AND EXPERIENCE
to resolve problems and make critical decisions

ASSIST WITH IMPROVED COMMUNICATION
between the different facets of the organisation

BRING TOGETHER PEOPLE
from different organisations/companies to promote mutual understanding, teamwork and cooperation

IMPROVE MOTIVATION,
allowing members an opportunity to express themselves and provide a sense of belonging to something that is making a real difference in people's academic careers

AID EXECUTIVE DEVELOPMENT:
Participation in committee meetings provides opportunity for learning through experience

SUPPORT DEMOCRATIC MANAGEMENT:
Group authority makes for diffusion of power and democratic leadership.

For more information or if you are interested in joining the PMI committee, please contact Keith Hoodless, Director of Lifelong learning **KHoodless@pensions-pmi.org.uk**.

2019/20 Affiliate Renewals

Affiliate memberships were due for renewal on **1 November 2019.** It costs just £80 to renew for the 2019/20 period.

2020/21 PMI Trustee Group Membership Renewals

Your membership is due for renewal on 1 January 2020.

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.

Continuing Professional Development (CPD)

Congratulations to all Associates and Fellows who completed their 2019 CPD. CPD is due 1 January 2020 and 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. Please log on to the website and update your CPD record.

Failure to submit your CPD will result in the withdrawal of your designatory initials FPMI and APMI.

Fellowship

Fellowship is open to Associates with five years membership and five years' logged CPD. We are pleased to announce that **Sarah McAleer** has been elected to Fellowship and can now use the designatory initials 'FPMI':

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 window 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.

Contact Us

For any queries, changes to membership records, membership enquiries or if you have not received your renewal notice, please contact membership@pensions-pmi.org.uk or 02073927410/7414

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':

Amber Ashby
Mark Lockett
Andrew Mooney
Mark Pattenden
David Slack

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 people have been elected to Diploma Membership and can now use the designatory initials 'DipPMI':

Tina Islam
Jeremy Low
Chido Mwayera

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':

Dominic Del Nevo
Alice Fletcher
Nicole Sullivan
Robin Taha

Get involved

Would you like to play a vital role in shaping the future of the pensions industry? We are calling out to all our PMI members to hear about your journey and experience of working in pensions. We want to share your real-life stories with university students, graduates and existing members. If you are interested in contributing, please contact our membership team.

PMI Extra

As a PMI member don't forget to make the most of the exclusive discounted products and services available to you through PMI extra, e.g. cinema tickets, Apple products, books, insurance, travel, gym memberships and so much more.

Log onto **https://www.pensions-pmi.org.uk/pmi-extra**/ to access these great deals.

News from the regions

[South West]

Our autumn seminar will take place on the morning of Tuesday 26 November at TLT Solicitors in central Bristol. Speakers have been confirmed from Barnett Waddingham, XPS Administration, River & Mercantile, Just and TLT. The agenda includes:

GMP equalisation
Pension scams
Bulk annuity market round-up
CMA and setting investment consultant objectives
Legal overview

The seminar costs £40 to attend, except for PMI students who can attend for free. The seminar counts towards the CPD requirement and a buffet lunch will be provided. The Eventbrite booking details will be circulated shortly; if you aren't on our email distribution list please contact David Saunders at david.saunders@willistowerswatson.com

Calling all CPC, RPC and PMI students in the South West Region

Join us at our inaugural PMI Student Christmas Pub Quiz!

£5 entry per person with a welcome drink and food provided from 6pm on Wednesday 4 December 2019 at The Royal Naval Volunteer (The Volley) on King Street, Bristol, BS1 4EF. Come as a group or on your own and join a team. The winning team will win a bar tab of £25 per person. It's a chance to meet the Committee and other students in the region.

Please contact Katie.Lambert@xpsgroup.com for further information about registration.

[Southern]

The PMI Southern group's year runs from September and we got off to a good start with an excellent presentation from Marek Siwicki, Head of Consultant Relations at Lombard Odier. Marek spoke about the ever-growing importance of Environmental, Social and Governance investing.

This is a very topical issue, given the impending requirements for trustees. Of particular interest was the methodology and analysis being used, to ensure that companies walk the walk rather than just talk the talk.

The next meeting is on Wednesday, 13 November in Guildford, where Samantha Jones, Associate Director of Deloitte LLP, will be talking about the economy and the role of the Bank of England. An update will be included in the next report. Our first meeting of 2020 takes place on 5 February. Details will be circulated nearer the time.

[North East]

We welcome Claire Barnes of Barnett Waddingham, Oliver Holland of Willis Towers Watson, and Paul Scott of Ascot Lloyd to our committee. Our thanks go to Louisa Calvert, Mark Norris, Anna Smithson and James Webster who have all stood down, for their past contributions.

Details of our evening seminars and social events for 2019/20, will be circulated by email. If you would like to be included on the circulation list for future events, please contact Jane Briggs at jane.briggs@squirepb.com

Event details will also be announced here from time to time, and will also be posted on the North East Group's website page: www.pensions-pmi.org.uk/membership/regional-groups/north-east/

[London]

Seasons Greetings from the London Group! Our programme of events, including details of our Business meetings in 2020, will be issued shortly. 2020 membership renewal information will be sent to members in due course, and please visit our LinkedIn page for more on how to join us if you're not already a member. We look forward to continuing to grow our membership and to seeing you all at future events.

[Eastern]

Our next event will be our spring seminar. We have not set the date yet, but it should be in late February or early March at Buck's new offices in Ipswich. We would hope to have our annual legal update from Sackers and some talks particularly suited to those who are newer to the pensions industry. We will provide more information early in the New Year.

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

Finally, a little on the early side, we wish you a Merry Christmas and a happy and healthy 2020!

DB transfers - a framework for best practice / Journey plan return targets / Securing a bulk annuity in a dynamic market - an insurer's perspective

Weighing up risk

De-risking for better pensions

Continue reading on pages 12-17...

Insight partner

DB transfers – a framework for best practice

By Julie Walker, Principal, Pension Administration, Barnett Waddingham

September's come and gone; the nights are drawing in and many trustees are gathered around their meeting tables for the first time since the noisy days of a Brexit - dominated summer that left most other stories struggling to be heard.

The Pensions Administration Standards Association's (PASA) defined benefit (DB) transfer guidance, a serious, aspirational and fairly far-reaching piece of work with some key players on board, is one of those stories that trustees are really only now starting to notice as they come together over their autumn agendas and pumpkin spice lattes to ask 'what does this mean for us?' What indeed?

The story so far…

Pension transfers is one of those areas where the plot constantly thickens:

2013 – The year many felt as if predators were stalking their pension schemes. Pension liberation was everywhere; it was organised, it was global and it was down to trustees and their administrators to pick up the crushing due diligence burden of protecting members from scammers, even if that meant protecting them from themselves.

2014 – That budget – 'the biggest pensions shake-up in a century' – all leading to pension freedoms and the requirement to obtain financial advice on DB to defined contribution (DC) transfers, but accompanied by a super-clear steer from The Pensions Regulator (TPR) that trustees must not second-guess a member's transfer decision. Very significantly, the nature of the advice did not have to be disclosed to the pension scheme, only the fact of its existence. Also significant, members could proceed with transfers against financial advice. Trustees and administrators should continue to police the scammers, but also butt out.

2015 – The almost impossible task of safeguarding members against pension scammers in the overseas transfer market is made approximately 100 times harder by HMRC's sudden withdrawal of Qualifying Recognised Overseas Pension Scheme (QROPS) status, for bona fide qualifying overseas schemes. Since UK schemes look to their advisors, the problem - the great big technical, procedural, legal, operational and commercial problem – dropped straight into the pension administration's lap. Few of us wake up with either a crystal ball or a qualification in the finer points of global pension law. However, collectively, trustees and administrators found themselves on the front line, picking up the costs, the operational burden and the vast majority of the risk. Who wanted to be the administrator deciding how well the re-drafted rules of an obscure Australian pension scheme integrated with UK tax regulations? Who wanted to be the trustee making that call?

2017 – Another spring Budget and the sound of another transfer shoe dropping as the overseas transfer charge, fully effective from day one, left the industry with some major catching up to do. Pension administrators were effectively positioned overnight as de-facto tax collectors for an estimated £65m per year. So far, this is not-so-simple, as the 43 densely detailed pages of guidance issued alongside the policy paper proved.

The Government estimated an operational impact on HMRC of around £0.9m in updating their IT systems to cope with the charge. As administration specialists, strategists, IT experts and educators gathered in their respective businesses to decide how to transform those 43 pages into solid working practices, we could only speculate on the operational impact on the industry.

2018 – Where had all the scammers gone? The boiler rooms had gone quiet. Suddenly we weren't seeing so many of those all too familiar escalating threats and attempts at intimidation, usually delivered in all caps, energetically punctuated, interestingly spelled and arriving at around 90 minute intervals ("DeMANd to speak to YOUr MANAgER!!! OmbUDSMan!!!! ThE PREsS!!!!"). Weeks could go by without anyone threatening our jobs, reputations or businesses. Had the overseas transfer charge driven the overseas scammers into permanent retreat or were they just rapidly googling how to re-register their schemes somewhere within the European Economic Area (EEA) to circumvent the charge? Time will tell but, in the interim, those at the very sharp end of transfer administration enjoy a brief period of relief.

2019 – A Freedom of Information (FOI) request from Royal London to TPR, reveals £60bn of DB transfer activity since the introduction of pension freedoms, with £34bn in 2018/19 alone (close to 250% of the previous year's figure), and more than twice as many individual transfer cases (210,000 compared to 100,000 in 2017/18). As transfer activity ramps up, administrators have seen very steep increases in the administrative burden, and every transfer request seems to come with multiple requests for additional quotes, follow-up queries and clarifications.

Separately, the Financial Conduct Authority (FCA) announces that despite the standing assumption that it will rarely be in a member's best interest to transfer from a DB scheme, 69% of members were advised to do so. The FCA's targeted work in 2018 had previously shown that the transfer advice was suitable in less than 50% of cases. There's widespread unease that transfer advice may be being driven more by the higher fees advice, to transfer will generate for the advisor rather than by the best interests of the member – pensions is a numbers game, but something isn't adding up.

PASA DB transfer guidance

These two separate areas of concern on the TPR and FCA sides of the fence set the scene for where we are now and the background to PASA's DB working group, headed by these two regulatory heavy hitters.

July's 'Guide to Good Practice' focused on less complex transfer cases (so not partial transfers or overseas schemes), aiming to address the balance between member protection and the statutory right to transfer, through three key aims:

- Improve the overall member experience through faster, safer transfers
- Improve efficiency for members
- Improve communications and transparency in the processing of transfers.

Essentially, the guidance set out detailed administrative timescales for DB transfer quotes and settlements and, separately, established a 'transfer template' – a comprehensive schedule of scheme and member information/ enclosures to be issued in all transfer cases.

Which brings us back to the trustee table (and the collectively raised eyebrow) as trustees struggle with what feels like the inherent contradiction in the effort to streamline and speed up administrative processes on the way to what the FCA says are poorly made transfer decisions. Trustees are concerned that they are being asked to fast-track cliff-edge choices. At the same time, from the actuarial and legal teams, the same trustees are hearing how very complex the transfer process is in the light of GMP equalisation, and every person in the room has their own view on how finely tuned the transfer discharges need to be, to take account of the nuances of their particular scheme. On the face of it, these are not uncomplicated questions or unwarranted concerns.

In reality, and looking at the bigger picture, for providers delivering quality administration the actual process changes arising from PASA's guidance are unlikely to be significant. Most of the content of the transfer template should already be part of the existing transfer documentation, so bringing it all together in a relatively standardised format is going to strip out a huge amount of the usual follow-up questions that come from IFAs, while also removing any room for misinterpretation.

This last point feels like a huge aspect of what is informing the overall DB transfers project – although PASA is focused on administration, which is basically TPR's side of the fence. The whole drive for consistency seems designed to both reinforce the FCA's campaign to improve the quality of financial advice given to members, while also reducing costs. From here it's just a short walk to the current FCA consultation on banning contingent charging, where advisors receive higher fees if the member is advised to transfer (surely one of the key barriers to truly impartial advice). The FCA's supervisory work has shown that fees on DB transfers typically vary between £4,800 and £7,250. If the data inputs are standardised, advisor fees, regardless of the advice given, should become more predictable and manageable, with the FCA aiming for a cap of around £3,500.

Heading into winter 2019, we're at a 'watch this space' point in the evolution of pension transfers. From the administrative and trustee point of view, events on the advisor side are likely to be where we see things changing in the transfer market. Potentially, we'll see both a shake-up and a clamp down as the FCA, in this instance working with the administration industry, systematically working through the biggest risks associated with the DB transfer process and outcomes.

Insight partner

Journey plan return targets

By Gerard Francis, Director, River and Mercantile Solutions

With the Pension Regulator's focus now on Long-Term Funding targets, Gerard Francis takes a look at the investment strategies that can help achieve them and considers why maintaining a higher return target over the near-term is likely to be the best option.

As schemes mature many are looking to become self-sufficient; reducing their reliance on a sponsor who may or may not be around in the future. Everyone has their own interpretation of what this means in practice, but it usually centres around reducing investment risk to avoid having to rely on the sponsor in all but the most extreme of circumstances.

The principle is sound enough, but a scheme can still find its liabilities increase independently from its assets. This might be caused by demographic risks, political interference, legal judgements or even trustee decisions, such as around discretionary benefits or actuarial factors. These risks cannot be readily hedged, and once investment risk has been reduced these 'liability risks' become the dominant influence on scheme funding. Trustees' options at this point may be limited, but planning ahead and having the right investment strategy in place can provide greater flexibility should things go wrong in the future.

When deciding on how to achieve a long-term target trustees often prefer to target lower returns, and hence lower risk, in the expectation of a smoother journey (option B set out in the box). Whilst this may be true for assets it may actually make things worse when it comes to dealing with liability risks.

To illustrate why, let's consider a scheme looking to achieve self-sufficiency within 15 years to see how targeting greater returns now can provide a better outcome.

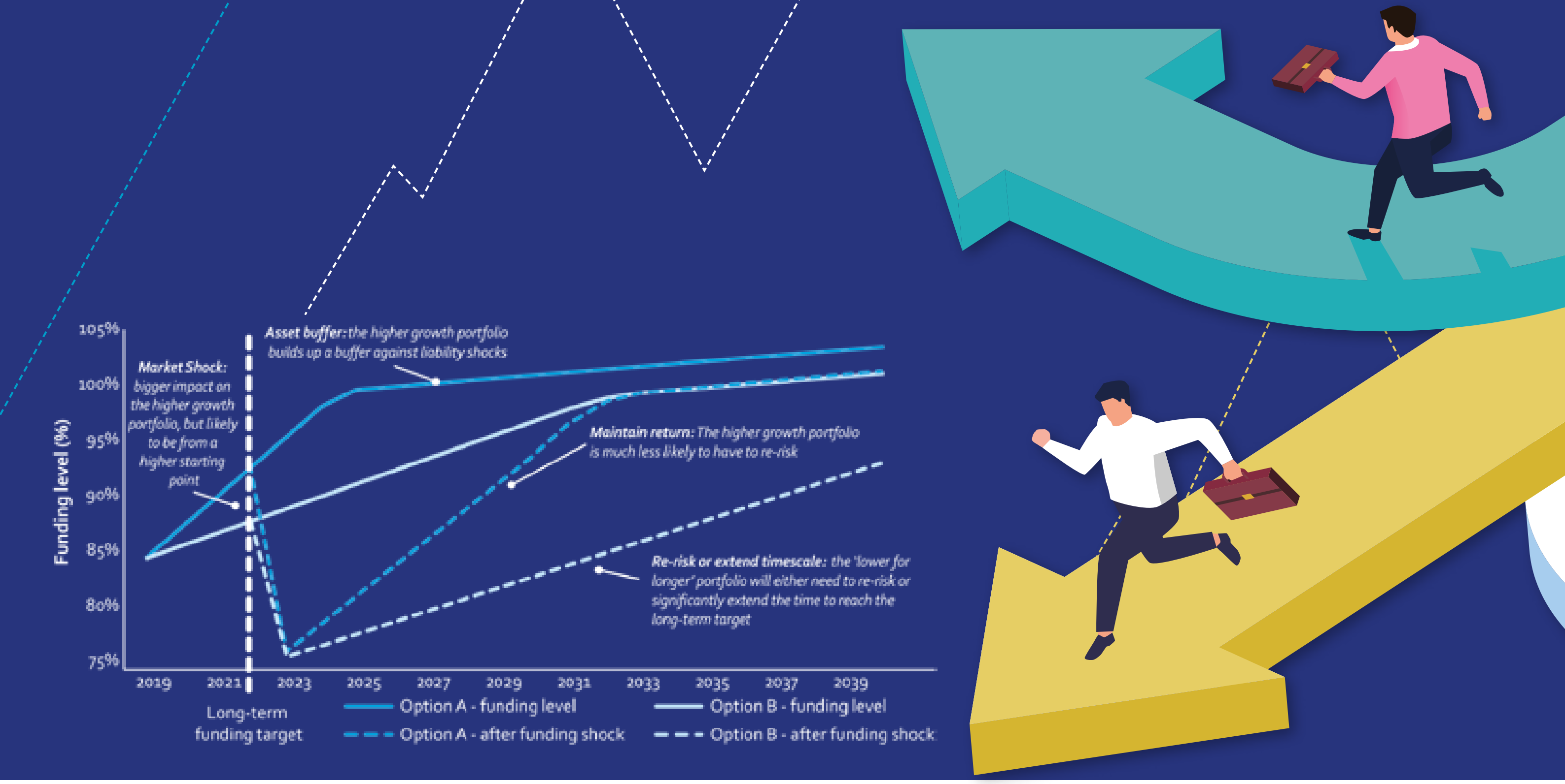
When designing a journey plan, trustees have to make a fundamental decision:

A. Maintain a higher growth allocation in the short-term with the intention of reaching their long-term target in, say, 5 years before switching to a low risk 'self-sufficiency' portfolio, or

B. Have a lower initial allocation to growth assets but maintain this more consistently across the whole 15 year period.

Both are expected to achieve the self-sufficiency objective within 15 years but each takes a very different path to get there.

Option A targets a higher return in the early years of the journey. If things play out as expected then the scheme builds up assets more quickly and reaches its target earlier. This provides greater flexibility in how to secure benefits and gives a buffer against adverse asset and liability shocks. It also allows the scheme to move to its long-term, low risk portfolio sooner. This means lower risk exposure in the second half of the journey plan when there is both less certainty over covenant and less time to recover any losses.



That sounds like the ideal outcome, but of course a higher return target inevitably means accepting higher risk. To consider what this might mean for a scheme, let's look at a few of the key scenarios which may arise:

1. A negative shock may occur early in the journey, before growth has allowed assets to build up a buffer. In this scenario, the funding level is likely to fall below that under option B, all else being equal. Not an ideal outcome, but it occurs when there is the greatest certainty over covenant and the longest period of time to recover before the end of the journey plan.

2. If a negative shock occurs after, say, two or three years of the journey then the situation is more nuanced. The scheme will have built up more assets than under option B before the shock occurs. This means, whilst the fall in funding level may be larger, it is starting from a higher point; so the minimum funding level may still remain above that of option B.

3. If a negative shock occurs later in the journey, say in years seven or eight, then option A gives a much better outcome. Having already achieved full funding against the long-term target the scheme would have already switched into a lower risk, lower volatility, asset portfolio. The potential impact on funding level is both lower in magnitude and, with more assets already built up, far less likely to put the scheme back into a shortfall than under option B. This fits well alongside the much lower certainty surrounding the sponsor covenant that far into the future.

4. After 15 years the scheme would expect to have achieved its long-term target under either option. Despite having de-risked the investment portfolio, liability risk remains and could still reduce funding significantly, potentially by 15% or more in a worst case scenario. For a scheme which thought it was self-sufficient with a low risk investment portfolio, this level of shock could be catastrophic. It may take 20 years or more to recover this level of loss unless the investment portfolio is re-risked – something most trustees are uncomfortable contemplating – and which may be completely impractical given the maturity profile of the scheme.

   Again, option A softens the blow. Having achieved self-sufficiency ten years earlier, the scheme would be better funded – it has an extra ten years of returns from its self-sufficient portfolio in the bank – and will retain this margin indefinitely. This provides a buffer against all future shocks, whether to the assets or liabilities, shortening the period to recover the loss and reducing the chance of having to re-risk the portfolio.

A higher return target over the short-term is not a magic bullet. However, provided the covenant can support the level of risk being considered in the short-term then looking to achieve your long-term target more quickly provides more options should the unexpected happen. It could also bring forward the date when a scheme may ultimately have enough funds to buyout all of its liabilities by several years. It is why River and Mercantile believes this is the better option.

Securing a bulk annuity in a dynamic market – an insurer's perspective

By Mitul Magudia, Head of Business Development, Pension Insurance Corporation

Pension risk transfer, also known as bulk annuities, is the best way of protecting the hard-earned pension benefits of members of defined benefit pension schemes. Here, we examine the market and highlight how insurers such as Pension Insurance Corporation plc (PIC) approach these transactions in an increasingly buoyant market.

The pension risk transfer market has grown rapidly over the last five years, with the market projected to reach £40 billion of new transactions in 2019. This growth has been driven by a number of factors on the liability side.

As defined benefit pension schemes have been closed to new members and / or future accrual, trustees have realised the need for, and benefits of, fully de-risking their liabilities. Many have been on a de-risking journey for up to a decade and are now better prepared than ever to take advantage of attractive opportunities. Those trustees who successfully complete a bulk annuity transaction typically have a clear goal in mind when approaching insurers. They may have been working to a clear long-term de-risking plan and have transacted a series of buy-ins before moving to buyout.

External factors have had a role too, such as the government's introduction of pension freedoms in April 2015. For the first time, members could choose to opt out of their pension, which resulted in many schemes seeing their liabilities decline, and hence an improvement in their overall funding position. Changes in longevity have had a huge role to play with a decline in forecast average life expectancy increases for British men and women, leading to better funding positions. At the same time, there has been increased demand from the global reinsurance market to take on the risks associated with policyholders living longer than expected. The longevity reinsurance market, which has seen interest and activity from global reinsurers, has helped bulk annuity insurers manage their capital requirements, provide better pricing for trustees and has improved capacity for transactions within the market.

On the asset side, insurers themselves have innovated and adapted as the market has evolved. In particular, insurers have developed their ability to privately source suitable and, more importantly, secure long-term assets to back long-term liabilities. This includes investments in areas like social housing, renewable energy, and the university sector.

> **These factors have led to a significant increase in transactions coming to market with PIC already quoting on over 80 transactions so far this year in comparison with around 60 in 2016.**

The size of deals coming to market has also been increasing, with a significant rise in transactions coming at the larger end of the spectrum. Despite this, there hasn't been a significant drop-off in quotations on smaller deals, leading to a need to prioritise.

With the increased supply of large transactions in 2019, there have been situations where two transactions come to market at the same time. This leads to a need for insurers to prioritise and consider factors such as staffing, the availability of advisers, assets held by the scheme, capital requirements, ability to secure reinsurance on longevity risks, deal specifics such as the price, target and whether a joint working group has been set up. Similar exercises are carried out when considering two deals of a small size. The case study (see page opposite) illustrates the decision-making process that is typically undertaken by insurers.

CASE STUDY:

Two large transactions

In this scenario we compare **Scheme A** and **Scheme B**. **Scheme A** has a transaction size of £1.1 billion and is coming to market to secure a buyout. **Scheme A's** assets are split 60% corporate bonds, 35% government bonds and 5% cash. The trustees are looking to transact using the assets of the scheme, which they expect to be funded at 105% of the scheme's liabilities. Pricing, on a rolling basis, will be locked in to the scheme assets. In addition, the trustees have indicated that there will be three pricing rounds and have set up a joint working group consisting of the advisers, the trustees and the sponsoring company, which will ultimately select the final insurer. The scheme consists of 70% pensioner members and 30% deferred members, which has reinsurance implications.

Scheme B, which wants to transact on a buy-in basis, has assets of £1.3 billion. The assets are 100% government bonds and the pricing target is gilts +40bps, with a gilt-based roll forward mechanism for future pricing. The trustees have planned for two pricing rounds and whilst the US parent company is involved, it is unclear when the final sign off will take place. Scheme B comprises 100% pensioner members.

Comparing the two potential transactions:

- **Scheme B** benefits from a two round process, whilst **Scheme A** requires work on assessing the assets and on the surplus
- However, **Scheme A** provides greater deal certainty given it is fully funded to buyout, and better governance that comes with having a joint working group in place
- **Scheme B** has a target above gilts which may be stretching; **Scheme A** has assets that largely move in-line with how PIC's premium moves and corporate bonds that PIC would be buying, whilst the gilt lock required by **Scheme B** would lead to exposure against corporate bond movements for a potentially long period of time as the timing of the deal is unclear
- **Scheme A** has the additional benefit of better mortality experience data on its members and has provided PIC with pricing feedback. This information enables PIC and other insurers to provide reinsurers with improved execution certainty, allowing for more precise quotes on the reinsurance cover for the longevity risk associated with deferred members.

In conclusion, **Scheme A** represents a more convincing case. The question for insurers like PIC, is whether to put resources such as staffing and capital towards the best price possible, or to hedge against the two. Other considerations such as the level of competition and potential for future transactions would also come into play at this stage.

The importance of open communication between trustees and insurers is pertinent for deals of all sizes. Against the backdrop of record deal volumes insurers are likely to get more selective. Trustees that work closely with advisers and present the best prepared schemes with clear decision-making criteria will stand out to attract the most suitable bids.

Learning from the other side: lessons from DB and DC Governance

By Laura Andrikopoulos, Head of DC Governance, Hymans Robertson

The governance of trust-based defined contribution (DC) and defined benefit (DB) arrangements has much in common. All trustees must oversee administration, investment and communications and ensure good governance through a motivated and engaged board, annual effective assessments and robust risk management. But there are of course key differences, not only due to the nature of the different types of pension arrangements, but also due to the differing development of governance regulations and guidance. Such differences (and the learnings that each can take from the other) did not play a significant role in the Regulator's recent consultation discussion paper on the future of governance. I take up that theme here…

DC Governance has exploded into life over the last five years, with the DC Code being a central focus around which trustees can assess the extent to which they are compliant with requirements. Additionally, many medium and larger size schemes have an ongoing DC Governance consultant supporting the trustees with this task, and in particular the legally required 'value for members' assessment and DC Chair Statement.

DB Governance is in a slightly different position. As yet, there is no 'DB Governance Code' (although the Pensions Regulator is currently reviewing and consolidating all its guidance), and as such DB Governance has a different profile. Even key new governance requirements like the DB Chair Statement have so far been trailblazed under a 'funding' umbrella rather than a governance one. Yet a central part of managing DB schemes is the important governance concept of Integrated Risk Management.

What DB can learn from DC

Given that the final details of the DB Chair Statement are yet to emerge, there is still time to hope that lessons can be learned from DC world. It is already clear the DB Chair Statement will not be subject to mandatory fining requirements by the underlying regulations, something that has turned the DC Chair Statement into more of a compliance piece than the original vision of a requirement that inspires good governance and communicates this to scheme members. Taking lessons from this, the DB Chair Statement should be a genuine governance document and not just a supplement to the triennial valuation paperwork. Like its DC counterpart it may benefit from:

- A requirement to consider the value for money provided by the scheme i.e. how member outcomes are ultimately being improved by the good governance and oversight provided by the trustees, and high-quality strategic advice; the current DC requirement which, in law, only requires assessment of services which members pay for ignores many factors which contribute to a high-value scheme for members such as the level of contributions, their ultimate expected outcome and benefits which the sponsor pays for, like great governance
- Meaningful narrative around governance quality such as training policies, approach to risk management and annual effectiveness assessment.

These are in addition to the clear focus on long-term objectives and approach to Integrated Risk Management (IRM) that all anticipate for inclusion. A central DB Governance Code, similar to that for DC, would also help to emphasise the importance of good governance for DB schemes, and draw together key themes such as trustee effectiveness (including diversity) and IRM.

What DC can learn from DB

Whilst DC Governance has in general advanced beyond specific requirements for DB, there is still much that DC can take from standard DB Governance. Two of these are the issues of covenant and triennial valuations. My colleague Rona Train raised the issue of covenant in DC in one of her recent blogs. What is meant by this? Surely, given no promised benefit, the strength of the sponsor in DC isn't so important? But there is a neglected issue here: what happens on sponsor insolvency for a company with a DC scheme that has no provision for wind-up expenses to be paid? The unpalatable truth is that expenses may need to be taken from individual member accounts. To avoid the risk of such an action, DC trustees should have regard for the sponsor strength and any signs that it may not be a going concern. They may also want to consider the matter further, in terms of gaining assurances that money has been put aside to deal with any such eventuality.

So that's covenant; how about valuations? Every DB scheme must undertake a valuation every three years to assess the funding level of the scheme and agree a recovery plan if necessary to repair any deficit. What could a 'valuation' concept mean in DC? When it comes down to it, what really matters in DC is member outcomes, which are extremely variable and critically dependent on members understanding a need to act over contributions, investment and retirement choices. Valuations in DC would therefore be valuations on the extent to which members are likely to obtain good outcomes based on their current scheme (and an appropriate allowance for service and benefits elsewhere). The results of such a valuation would support wider understanding amongst both sponsors and DC members of exactly what they can expect to get if they continue their current pattern of contributions and investment strategy.

The Future of trust-based Governance

The Pension Regulator's consultation on the future of Trusteeship and Governance has focused minds on issues such as trustee board composition (for example whether they are sufficiently diverse, or all require at least one professional), and trustee effectiveness and training. It has not however considered in detail the differences and learnings that the two major models of UK pension provision can take from each other.

> **Overall, we must be serious about the governance of our pension schemes. This requires a culture where both trusteeship and good governance are strongly valued.**

In such a culture, enough trustees will be found and 'hours counting' CPD will be unnecessary, as will constant regulatory intervention. Sponsors of pension schemes should see reputational risk around pension governance as a high priority and support their trustee boards appropriately. Good governance is about great trustees, strong secretarial and adviser support, and a willingness to adapt and learn from our collective experience to date.

Insight partner

Are you **responsible?**

By Jonathan Watts-Lay, Director, WEALTH at work

At a recent Pension Trustee conference, delegates asked a colleague discussing pension transfers questions about responsibility for the consequences of pension scheme member choices.

Specifically, who is responsible if a member transfers benefits and is subsequently found to have been scammed? Also, who is responsible when an adviser has been appointed to provide regulated financial advice to scheme members on retirement matters, but the member is unhappy with the advice?

Both are good questions and are highly relevant given the continued focus on pension scams and pension transfers.

The answers to both questions are similar but not necessarily cut and dried.

Ultimately, pension scheme members bear the bulk of the responsibility for their decision making, but there is no doubt that they need an ever increasing level of support from Trustees; some of which are set out in regulation and others are covered in one of a number of excellent guides and voluntary codes within the pension industry.

The Pension Scams Industry Group (PSIG) code of good practice – 'Combating Pension Scams', is based on 3 key principles;

1/ To raise awareness of pension scams for members and beneficiaries

2/ To have robust processes for assessing whether a scheme may be operating as part of a scam

3/ To be aware of the known current scam strategies.

The Pension Transfer Gold Standard (PTGS), created by the Pension Advice Taskforce, is for consumers, Trustees and advisers in the DB transfer market. It takes the Financial Conduct Authority's (FCA) position as a starting point that a pension transfer is not suitable and sets out practical steps and examples of good practice to deliver better member outcomes. It's expected to become best practice and something Trustees should look for that advisers who offer pension transfer advice, sign up to the PTGS and agree to evidence how they are meeting the standards.

> **Like PSIG, a key principle relates to educating members before they make any missteps at-retirement. Something that as workplace financial education provider, we wholeheartedly agree with.**

Specifically for Trustees, there are regulatory and disclosure responsibilities to discharge when dealing with member requests - whether that is for information about benefits or for a pension transfer request. However, these don't always ensure that a member is protected against the myriad of risks faced when accessing their benefits.

But in general, if we assume Trustees have carried out the required checks about the validity of the receiving scheme, have sent the necessary scam warnings, and where a transfer relates to benefits in excess of £30k have checked the member has taken regulated financial advice from a suitably qualified adviser, then that should be job done. The Trustee should then be able to defend any subsequent complaint regarding a scam.

However, it is important to get the process right, otherwise the above does not stand.

An example of this is the Pension Ombudsman finding for Mr N against the Northumbria Police Authority in 2018. The Ombudsman found the Authority failed to carry out the appropriate checks on the receiving scheme and provide warnings to the member on the risks of a pension transfer scam, despite the member having taken advice from a regulated financial adviser.

In 2018, in the case of Mrs R, the Pension Ombudsman found against the Trustees of a defined benefit (DB) scheme for not providing the relevant information to ensure the maximum amount of widow's benefits from the scheme. This was not a process issue as such, rather an informational one, but the end result was the same; a member made a poor decision that would have had lifelong and detrimental financial consequences because they were not given the right information to make an informed decision.

However, research carried out by WEALTH at work and the PMI earlier in 2019 highlights that Trustees are concerned about members not making the right decisions. In particular, Trustee concerns include worries over members being ill-equipped to deal with a range of issues faced when accessing benefits and that costly mistakes could be made including excess tax being paid, falling prey to scammers, or falling foul of the dangers inherent in DB transfers.

Whilst the regulations don't and can't guarantee a member will always avoid suffering financial loss, there is a duty of care and a regulatory requirement to have processes in place to help members and employees understand how to protect themselves and make informed choices. The voluntary codes I mentioned earlier are a good start but ultimately we need Trustees to facilitate access to financial education and guidance at-retirement, as members are more likely to make informed choices if they do, including being able to decide if they need further support such as regulated financial advice.

If this is done after a thorough due diligence process which includes sourcing a reputable firm and checking their regulatory record, speaking to other schemes or employers using their services, looking at member feedback and carrying out a site visit, Trustees should then feel confident that the responsibility for the guidance and regulated financial advice given to members, and the consequences of that, rest with the chosen provider and not the Trustee.

Insight partner

ESG: From process to product

By Amanda Young, Global Head of Responsible Investment, Aberdeen Standard Investments

Environmental, Social and Governance (ESG) investment is on the increase but many are often confused by what ESG investment means in practice.

World problems creating risk for investment

The world is facing an increasing number of environmental and social challenges. As a consequence, the nature of what makes a good investment has changed. These evolving challenges create a myriad of risks for investors but they also open up the possibility for thinking differently about capital allocation.

There are three major environmental and social forces challenging the investment landscape; climate change, the growth in inequalities and unsustainable consumption patterns.

Climates are changing: we are constantly exposed to rapid changes in weather patterns.

San Francisco, British Columbia and Delhi all reported all-time high record temperatures this year. Other unusual weather occurrences including storms, flooding and giant hailstones across Europe and Asia, and typhoons and hurricanes across the Far East and Americas have been prevalent in the media this year. As the cause is associated with the rise in carbon dioxide in our atmosphere from industrial activities, this poses a risk for any company exposed to heavy carbon industries.

The inequality gap is widening: the gap between the 'haves' and the 'have nots' is growing and is driving social pressures and trends. The pressure on companies to ensure they are not exacerbating this gap, as well as the pressure to demonstrate a 'purpose' and deliver more than just a financial return, needs to be factored into investment considerations.

Consumption is unsustainable: we also continue to consume at unprecedented rates. This year, earth overshoot day (the day we have used more from nature than we can replenish in a year) occurred on 29th July, two days earlier than in 2018. All companies consume natural resources and they need to manage how they do so, as natural resources become scarcer and harder to access.

Companies cannot operate in isolation. What they do, what they make, the services they provide, and how they treat their stakeholders and communities all affect their ability to continue to operate freely, and influence their ability to return cash to shareholders.

ESG Integration is a process

This is where ESG integration plays an important role in investment. ESG integration is not making a moral judgement about an investment but rather thinking about ESG issues in relation to how they would affect a company's ability to generate sustainable returns. ESG matters should form a holistic part of understanding the risk processes, governance mechanisms and operational standards of any company. Corporate scandals from the past demonstrate how material poor risk management, operational control, culture and governance structures can be. Examples include BP's Macondo oil spill, Enron's business ethics, Nike's accusations of child slavery in factories, the Volkswagen emissions scandal and Facebook's data privacy issues.

The rise in legislation relating to single-use plastic, a growing move away from fossil fuel use and providing access to basic services are all examples of ESG trends. Investors need to understand how these themes affect different sectors as well as individual companies. Assurance needs to be sought that investments have well established governance frameworks, strong board composition, risks assessments, policies, audit mechanisms and target setting relating to key ESG factors.

Beyond integration

While ESG integration is about making better informed decisions, there is another aspect about ESG investment worth exploring. Beyond risk management, there is a growing desire to think about capital allocation strategies that support sustainability objectives. While the world faces significant challenges, it is worth remembering that problems often drive innovation, opportunity and encourage the belief that you can make money and make a difference.

More recently, the UN Sustainable Development Goals (SDGs) have been established which identify key problems that the UN wants to address before 2030. These goals can be used to establish investment strategies, and Socially Responsible Investment (SRI) funds, focused on driving investments into those companies that are helping to provide tangible solutions and develop business activities in a way that support the goals.

Over the past 30 years, we have seen a spectrum of capital developing that incorporates environmental and social aspects into investment strategies driven from a set of values and sustainability beliefs. This ranges from the integration of these factors into mainstream investment analysis, through to using ESG factors to develop sustainable investment strategies that focus more on how investments benefit society and contribute to the solutions the world needs, to solve the issues and problems we face today. The Impact Management Project developed a spectrum of capital that considers how investments can fall into three areas: avoid harm (reduce risk), benefit stakeholders and contribute to solutions. The chart below provides examples of how this spectrum can be applied if you were to invest in a specific sector.

Table 1: ESG Investment: A Spectrum of Capital

Investment Approach	**Traditional**	**Responsible** Seek improvement through targeted engagement approach	**Sustainable** Focus on whether companies meet recognised sustainability standards	**Impact-driven** Positive selection of investments that intentionally deliver products or solutions that have a measurable beneficial social or environmental impact
		PROCESS ESG factors integrated to assess risks and opportunities.	PRODUCT OR FUND ESG factors used to avoid investment or allocate capital based on values and/or sustainability principles	
Financial Goals	Deliver competitive risk-adjusted financial returns			Tolerate higher risk / Tolerate below market returns
Impact Goals		Avoid harm and mitigate ESG risks		
			Benefit all stakeholders	
				Contribute to solutions
	Don't consider May have significant negative outcomes for people and the planet	**Avoid harm** Try to prevent significant negative outcomes for people and planet through risk management	**Benefit** Effect important positive outcomes for various people and the planet	**Contribute to solutions** Have a material effect on important positive and measurable outcome(s) for underserved people and/or the planet
Climate change	No view of cost of carbon or implications of climate regulation	Consider investment exposure in context of energy transition, assess potential cost on projects, scenario analysis	Applying screens to investment to tilt away or avoid heavy carbon intensive industries. Seek investment in renewables.	Actively seek investments involved in energy transition, from renewable energy through to suppliers and facilitators of this transition. Investing in new energy transmission systems and renewable infrastructure to ensure greatest access to clean energy.
Inequalities	Operating in areas of poverty, land rights, community relations & issues not considered	Consider local community relations, contributing to local economic development, access to energy as due process	Seeking investment in entities positively contributing to workforce and local communities.	Driving capital into organisations that facilitate access to affordable and stable energy provision. Companies providing education to ensure transferable job skills, from carbon intensive to cleaner energy systems.
Consumption	No consideration of natural resource use, or implications of demand for renewables	Ensuring investments consider water and raw material use, have management systems to reduce this use.	Avoiding companies associated with harm to natural resources through their business activities	Supporting organisations in the circular economy system to ensure precious metals are recycled, in order to remove reliance on conflict minerals. Investment in innovation seeking to replace dependence on raw materials.

EXAMPLES OF INVESTMENT APPLICATION IN THE ENERGY INDUSTRY

Source: Aberdeen Standard Investments, as of August 2019

Two methods to gain from developments in ESG

The awareness of environmental, social and governance issues has risen yet investors can be confused with the terminology and its application. ESG factors can be used in one of two ways – the first is within the investment process; to ensure a better understanding of the ESG issues that impact investments and so to drive change for a better financial return. The second is to create a 'socially responsible' outcome or product where the investment strategy embeds greater considerations of sustainability factors. In conclusion, we see sustainable investment influencing ways that capital is allocated, as well as how sustainable returns can be created.

Insight partner

HOW MUCH LONGEVITY DOES YOUR LONGEVITY SWAP HAVE?

What to consider before entering a swap, and how it can fit into your journey plan

So, you're thinking of doing a longevity swap. Your advisers are probably excited to get underway, and as a trustee board you might be a little nervous about becoming involved in such a large transaction. You may be thinking about how this fits into a longer-term strategy in your scheme's journey plan – and if not, you should be.

One of the issues you ought to be considering (and indeed may discuss with the scheme's sponsor prior to going to market) is whether your scheme needs a right to convert your longevity hedge into a bulk annuity in the future. Once upon a time, this might not have been on your radar, or in the contemplation of your counterparty, and some in the market had suggested in the past that novation of a swap just couldn't work. But recently we've seen a couple of developments in this space, particularly transactions in which BA and Rolls-Royce have converted their longevity swaps into bulk annuities.

So, are longevity transactions just another stepping stone on the way to full buy-out?

By Mike Fallow, Associate, Sackers

Stepping stone, or the bridge to self-sufficiency?

Your longevity swap may just be another milestone on the journey towards full buy-out. It is perfectly reasonable for some schemes to look to the market to hedge longevity risk now whilst accumulating further investment growth in order to buy out the scheme at a later date. If this is the case, then you should think about whether your future bulk annuity opportunities would cover the entirety of the population under the longevity hedge, or whether you will need to tranche that population to seek smaller bulk annuity transactions (and split up the longevity swap in the process). This will impact your approach to setting the framework for this to happen with your counterparty. It may instead be that you and your sponsor think that the scheme has an opportunity to walk like an insurer, talk like an insurer, but remain a pension scheme meeting members' benefit payments well into the future. If this is the case, a longevity hedge is likely a long-term solution for your scheme (albeit that buy-in transactions may be regarded as a good investment opportunity down the line). A more flexible approach to setting the future conditions for conversion to a buy-in could be taken here with your counterparty.

Why conversion might become the norm

It seems reasonable to assume that we will see more conversions to annuity going forward, and we should therefore see more insurers and reinsurers in the market looking to accommodate such conversions. The longevity swap market had its ten-year anniversary this year, and solutions for smaller schemes are starting to sprout. Solvency II rules, noting that they have now been in force for three years, also have an impact on the way insurers and reinsurers deal with their longevity risk and this potentially opens up more opportunities for schemes to convert their longevity transactions to bulk annuities.

All of this means that, going forward, schemes should think clearly about their goals; in turn this will have an impact on how they approach the market and the contractual terms to get there.

A note on structure

It's worth noting that there are several possibilities for transacting a longevity swap: schemes can use the existing infrastructure available through a commercial insurer, or they can use a captive insurance structure, choosing either a commercial provider or putting together a completely bespoke structure (perhaps leveraging off their sponsor's existing business). Generally speaking, using a bespoke route yields more flexibility on the contractual terms as the trustees can negotiate directly with the reinsurer.

Hard-boiled or soft poached?

There are two main contractual areas to consider once you've decided whether conversion to a bulk annuity is the scheme's ultimate goal: restructuring and early termination provisions. Which is more important will depend on whether or not your scheme is consciously looking for a buy-out opportunity later on.

If buy-out is your goal, then consider how you will convert tranches of your longevity swap. Partial restructuring should be discussed with the reinsurer and you may wish to nail down some process around how the reinsurer will react to the scheme's proposal to convert part of the swap to a buy-out. It would be worth planning your exit strategy now. What kind of early termination provisions do you have in place to give some certainty that you can buy out parts of the longevity swap population without disturbing the remainder? Linking these partial termination provisions with the restructuring clause can provide the trustees with greater flexibility: if your reinsurer says no to your proposal to partially novate the swap to a bulk annuity provider, having that link would allow you to use the nuclear option and terminate that portion of the swap.

If, alternatively, you're looking to hold your longevity swap for the long-term, a more flexible approach may be more appropriate for you. An agreement to cooperate and engage with a proposal to restructure in good faith will go some way to pinning down an organisation for the future should the people involved in today's negotiation move on. Setting out a number of conditions for converting the swap could also add certainty and help you understand your counterparty's process for dealing with future proposals to convert the transaction.

Some reinsurers will be more flexible than others in terms of what contractual commitments they will make for future generations of the business. Trustees should remember that negotiating their rights around restructuring and early termination is both about getting clarity in the contract on how your counterparty will deal with particular circumstances, and putting your intentions and aspirations on the table with that organisation to ensure they're aware of and willing to support them.

> **There's lots to think about here, and strategising beforehand and looking for some engagement on the issue in your request for a quotation can be useful.**

Trustees and scheme sponsors should discuss with their advisers what it is they're after: how the swap fits into the journey plan for the scheme, and what the key concerns and requirements are for stakeholders in completing that journey.

By Lorraine Harper, PMI Vice President and Director of JLT Employee Benefits

The end of the road for GMPs

HMRC and closing down GMP Reconciliation and Rectification work.

Background

HMRC has been working with pension scheme administrators across the UK to reconcile scheme and HMRC records regarding contracted-out pension liabilities (GMPs). HMRC has returned all the outstanding queries issued to them and closed the reconciliation window to further queries but it is HMRC's intention to issue one final Scheme Reconciliation Service (SRS) data report to every pension scheme before the end of this year.

> **The SRS data report will present the final membership and GMP position for every Scheme Contracted-Out Number (SCON) and concludes 5 years of reconciliation work between HMRC and the pensions industry. However, this is not the end of the process for pension schemes.**

New Final Data Cut from HMRC

In order to ensure that HMRC has correctly acted upon all the instructions submitted by administrators and to identify whether any additional liabilities have been added to pension schemes by other schemes and providers as part of their reconciliation projects, the SRS report will require a detailed analysis. This means checking it against the final results held by each pension scheme administrator for each GMP Reconciliation exercise carried out. This analysis is a new piece of work above and beyond that already planned and carried out, and may not have been factored into GP projects to date; it was never HMRC's intention to provide a final data report to pensions' administrators.

Provision of the SRS report was only agreed with HMRC a few months ago following pressure from the pensions industry via the HMRC Forum. The pensions industry lobbied for this final report for a number of important reasons, including:

- scheme administrators need to have visibility of any additional liabilities that may have been transferred to their schemes by other firms during the course of their GMP reconciliation exercises; and
- HMRC records may not have been updated with information supplied by the pensions industry or it may not be correct even if confirmation has been received from HMRC. Therefore, a review of the final data report from HMRC is the only way to confirm reliably that the information held by HMRC agrees with the records for each pension scheme.

SRS data analysis

We recommend that for all the pension schemes for which a GMP reconciliation project has been undertaken, the Trustee should:

> complete an analysis of the reconciled GMP data against the final SRS data report

> check that the membership and GMP liability values agree with those on the HMRC database, and

> prepare a final GMP reconciliation summary of all findings and proposed solutions for any new membership, and GMP value discrepancies identified.

It will be necessary to complete this work in tandem with the Phase 4 GMP reconciliation work so that all necessary data are available for GMP equalisation. In addition, if the scheme at some future date moved to buy-out or winds-up, this summary will provide a robust audit trail and evidence what has been done.

To hear more on GMP equalisation, book for the GMP seminar in December (see overleaf for more information).

The changing decumulation landscape

Since Pensions Freedoms were introduced in 2015, the purchase of annuities has seen a rapid decline and the need to help retirees access their retirement savings whilst remaining invested has increased. This is because of the potential to achieve more income than purchasing an annuity at retirement. The demand has led the FCA to develop Investment Pathways, a range of non-advised solutions to consumers in their through-retirement journey.

By Keillian Tai, Investment Consultant, Redington

The four Pathways are :

1. **I have no plans to touch my money in the next 5 years**
2. **I plan to use my money to set up a guaranteed income (annuity) within the next 5 years**
3. **I plan to start taking my money as a long-term income within the next 5 years, and**
4. **I plan to take out all my money within the next 5 years.**

We will explore what these objectives mean from an investment perspective but first we will consider whether setting a default strategy is the right course of action, particularly for a consumer in their later life.

THE FAULT WITH DEFAULTS

The issues with a 'default' investment strategy have been well documented and discussed. They stem from diverse consumer needs, with various life circumstances and a range of risk appetites. Despite the imperfect nature of defaults, the broad objective for consumers during accumulation of DC savings is similar: to maximise their pension pot for use in later life.

Within decumulation, the problem of having diverse objectives is increased because:

1. The amount consumers would like to drawdown on an annual basis differs, and
2. How long they draw upon their savings will greatly affect the optimal investment solution.

PATH DEPENDENCY IN DECUMULATION

Path dependency risk is where even if returns are realised in the long-term, the timing when cash is taken can meaningfully affect outcomes. This could be a positive or negative gain, depending on how the markets are moving and when money is taken out. Being flexible on the amount and frequency of access can be helpful in managing a person's investments. The illustration below shows this to the extreme, with 2 potential paths to achieving 5% annualised returns. In both, £3 is withdrawn every year but for one a 5% return is consistent, and in the other all returns occur in the final year.

Path dependency risk is important in decumulation because savings are depleted regularly, which decreases the pound amount earned in future years. Outcomes can be improved if the level of income drawn is adapted to market conditions. This highlights one of the biggest limitations of using default investment solutions for decumulation– consumers have different cash requirements.

A default solution has more nuances in decumulation than in accumulation, but the use of 4 distinct options provides a better solution in a market where consumer engagement is light, advisory fees may be unaffordable for some and complex solutions could lead to lower long-term retirement income (e.g. transferring fully into a bank account where the consumer may feel more comfortable).

APPROACH TO INVESTMENT STRATEGY
For the purpose of this article, we have looked to simplify the conversation by considering return targets and risk budgets.

Initially, we set the investment objective for the 4 Pathways:

1. **I have no plans to touch my money in the next 5 years**

Investment Objective: maintain a level of growth whilst mitigating significant losses

2. **I plan to use my money to set up a guaranteed income (annuity) within the next 5 years**

Investment Objective: achieve investment returns to match a single person's level annuity value

3. **I plan to start taking my money as a long-term income within the next 5 years**

Investment Objective: sustain an annual income without meaningfully decreasing the starting investment value

4. **I plan to take out all my money within the next 5 years**

Investment Objective: manage the risk/return profile to mitigate significant losses over the next 5 years

We will now consider what the investment strategy might look like for each Pathway.

PATHWAY 1
Designed for consumers who do not want to take money over the next 5 years. An investment objective that mitigates significant losses whilst balancing an element of growth seems sensible.

> **Since the consumer hasn't made any choices around what they are likely to do after 5 years, the end point should allow for flexibility.**

From an asset allocation perspective, the strategy should have a reasonable level of growth-focused assets (around 30-40%), and the remainder in assets that help protect the savings pot from market falls.

One could argue it may be more beneficial to take more risk in this Pathway and further grow the savings. However, with the absence of clear goals, a lower risk strategy that maintains the savings is likely to provide greater flexibility.

PATHWAY 2
Building upon the ideas from Pathway 1, the investment strategy may be a similar starting point together with some annuity - matching assets such as long dated bonds. Those annuity - matching assets should build up over the 5 years, so the final asset mix is likely to be more aligned to annuity prices.

PATHWAY 3
Consumers accessing this pathway are looking to draw income over this period and beyond, it is likely they will need a reasonable level of growth to ensure the asset base is not overly depleted.

A meaningful allocation to growth-focused assets like equities may be required to maintain the value of the savings whilst allowing for access to income.

Flexibility in managing path dependency can be beneficial for this Pathway. Allowing consumers to take income at different points in time may help sustain savings for longer.

PATHWAY 4
In this case the investment strategy will only need to sustain consumer's savings in the short term. A strategy that gradually de-risks towards low risk assets is required for this Pathway. It is worth keeping in mind that consumers' needs change and they may decide to move to a different Pathway within the 5 years, so aiming to beat inflation should be considered.

SUMMARY
The high level investment solution for each pathway can appear simple. However, as always, the devil is in the detail. Asset class selection will be critical to the successful outcome for consumers. Poor investment choices could lead to consumers not having enough money in later life. It is critical that providers get this right and ensure strategies are reviewed regularly, focusing on investment return and value for money.

> **Finally, engagement between provider and consumer will be a key area for Pathways and may well help determine the success of these solutions.**

Trustee update

Reviewing a scheme adviser

By Rob Orr, Head of Technical and Communications, SAUL Trustee Company

Getting the right adviser to support your scheme is vitally important. This means that the process a trustee goes through to appoint an adviser is crucial, especially given the Pensions Regulator's increased focus on governance. Here are some top tips that came out of our trustee's review of the appointment of one adviser. This is not a definitive list – whatever you end up doing, make sure it is both proportionate and reasonable for your scheme.

Starting off

It is worth putting the effort in upfront, before the review process commences. This will help the trustee be clear on what they are looking for and shape the tender documentation. It is worth the trustee thinking about the following:

- What does the trustee want from their adviser? For example, will the adviser be a strategic partner or will they fill a more compliance-type role, helping the trustee to keep everything ticking along nicely whilst the strategy is implemented separately? How might the adviser fit in with the trustee's business plan for coming years?
- The fit the trustee is looking for from their adviser. Does the trustee take a collaborative approach to working with other stakeholders e.g. employers and unions, or are they more direct? What does this working style mean, therefore, in terms of the adviser you might be looking for? The trustee might want to focus more on the individual and teams who might be appointed, and less on the company they work for.
- Might the trustee want to delegate the appointment process to a sub-committee or the executive? The work involved in doing a full market test shouldn't be underestimated for the scheme or short-listed firms. Is there value in getting a third-party evaluator to help?
- How will the various potential advisers, particularly the short-listed firms, be evaluated? Does the trustee want to adopt a more structured and weighted evaluation process where the adviser with the highest score is appointed? Alternatively, will the trustee base its decision on a subjective approach where intuition and subjective-judgement plays more of a role?

As the process moves forward

Once the process commences, some of the things the trustee should think about include:

- Understanding how much of the adviser's time the trustee might see. Are they just the account head with someone else doing all of the work?
- What are the team dynamics like with the adviser? Doing a site visit so the trustee can see the adviser on their 'home turf' will help the trustee understand this e.g. it might be that one person on the adviser team does all the talking!

The end is in sight

As part of the process, have a think about what might be involved in transitioning away from the incumbent. What are the risks and how might these risks be mitigated? The work involved in moving scheme actuary is likely to be involved more than that of scheme auditor so have a good idea what it will entail for all concerned. Also, ensure you build enough time into transition for contract negotiation with the new adviser. Finally, regardless of whether or not the trustee decides to switch advisers, make sure you provide honest, open feedback to each of the firms involved as it costs them significant time, effort and money to tender for appointments in the first place. It will also help them use that experience in the future.

Summary

Reviewing a scheme adviser can be expensive from both a time and money perspective so it is worth putting in the effort upfront. By doing this, the trustee will help ensure they get (or retain) an adviser that fits well with them, understands their needs and can support the trustee as it moves the pension scheme forward.

In association with:

ITM Student Essay Competition 2019

Entries for our second ITM Student Essay Competition closed in September. Student members of the PMI were invited to write an essay of 1,100-1,500 words, answering the question:

Discuss how the pensions industry can learn from other sectors when designing and delivering pension dashboard services.

Essays were scored and reviewed by our expert judging panel, including Lesley Carline, PMI President; Matt Dodds, ITM; Jonathan Stapleton, Professional Pensions; and Tim Middleton, Director of Policy and External affairs, PMI.

We are delighted to announce the winner of the competition was

Ella Purkiss, Associate Consultant, LCP

whose essay you can read on the following page. As well as winning £500, Ella's article will be published in Professional Pensions.

The runners up were Richard Goldring, Pension Communications Manager, Smart Pension, Jed Newton, Pension Administrator, Willis Towers Watson and Peter Laurence, Senior Pensions Associate, Trafalgar House. Congratulations to the runners up who each receive £250.

We will be announcing the topic of our next essay competition at the PensTech and Admin Summit on 7 November and will be releasing details to our wider membership shortly after.

Winning entry

By Ella Purkiss, Associate Consultant, LCP

What did you do with your last pension statement? If I'm honest, I don't quite remember, but it's very likely I looked at it, promised myself I would increase my contributions next year, filed it in a drawer of papers and then moved on.

So how would that change if I could see the information on the pensions dashboard? The intention of the dashboard, according to the Department of Work and Pensions, is that it becomes "a digital interface that will enable people to see all their lifetime pension savings in one place".[1] This is a laudable aim, and particularly useful for those with a mixture of defined benefit (DB) and defined contribution (DC) pensions, but with DB deferred members declining and the possibility of pot follows member, I would argue that the pensions dashboard's true value is not so much the provision of information as the potential to significantly increase people's engagement with their retirement savings. By designing a dashboard that encourages interaction and positive behavioural changes, it could bring pensions to life for this and future generations. Let's look at three industries which have increased engagement with their products by making them interactive: banking, utilities and fitness.

> **Like the pensions dashboard, online banking apps contain individuals' financial details, and so must demonstrate that they operate in a secure environment, and provide accurate information.**

Banks not only achieve this individually, but - since January 2018 - larger banks have also been part of the Open Banking initiative, allowing consumers to view all their accounts in one place. Engagement with this functionality is growing: it was used three million times in July 2018 alone, with an increasing number of firms lining up to join it.[2] Regulated interfaces work behind the scenes to allow consumers to have a holistic view of their finances and switch providers more easily. An ongoing and ambitious project, its successful delivery requires harnessing the expertise of fintech companies to help with the logistics of data sharing, and trusted branding to appeal to consumers.[3] Indeed, the new body responsible for the dashboard, the Money and Pensions Service (MAPS), is already considering what can be learnt from Open Banking.[4]

The success of online only bank Monzo also illustrates how engagement with consumers can translate into increased activity (and business growth).[5] Monzo's app allows consumers to place money in 'pots' - perhaps one for bills, one for holidays, one for nights out.

They can set targets for each pot, receive notifications when they reach their goals or make payments, and easily move money around.

A particular favourite with millennials, Monzo's customers prioritise engagement with their budgeting aims over interest bearing accounts (Monzo do not pay interest on their current accounts). Goals and notifications reinforce positive behaviour and make banking more interesting.

Some DC pension providers already offer some of these features - Pension Bee for example allows users to set retirement goals and transfer money from their bank account to their pension pot as either a one off or a regular contribution. They can see how their pension has performed and use the information to make decisions about their future saving. (Indeed, MAPS will have to consider how the dashboard deals with the provision of advice and guidance.) Although these are features well suited to DC pensions, there's little reason why a DB pension cannot also be treated as a pot, albeit one that cannot be contributed to in the same manner. If an individual could see their projected retirement income (both DB and DC), set goals around that and make payments into their DC plan to improve their income all in one place, it would be incredibly powerful and do much to improve people's enthusiasm towards their retirement saving.

The utilities industry is another sector interested in both the sharing of data and the need to engage consumers.

The midata project - originally intended to be more wide reaching - has been adopted most extensively by the utilities industry. The project aims to standardise the sharing of data (with a focus on data protection) for the benefit of consumers who will be able to make comparisons between providers' various tariffs and analyse their data to "gain insights into their own behaviour".[6]

The logistics of achieving this aim have not been straightforward. Issues such as consumer consent to data sharing and how this consent is verified have slowed the project, and it has taken several years for government to consult on the project and begin to lay down the necessary regulatory framework.[7] The ability to combine data from several sources has proved tricky. MAPS, then, should not underestimate the task ahead as it builds its "digital architecture" for the dashboard, particularly given the relatively poor data prevalent in the pensions industry. *

The midata project may provide it with some valuable lessons as it seeks to gather and combine data into a single dashboard.

Yet the layperson likely knows little about this project and what happens behind the scenes. If they have an online account with a utilities provider they will not only be able to perform basic tasks such as paying a bill, but also log on and see their usage, compare it to previous periods and perhaps even see how it compares to the average consumption of a household of similar size. This kind of benchmarking is engaging and encourages positive behaviour. Consumers can see if they're using less energy, reducing waste - and therefore saving money - over time.

This constant and personal narrative make an otherwise mundane - and necessary - product come to life, and encourages a level of interaction that benefits both the provider (self-serving customers mean reduced costs for companies) and the consumer.

Arguably the most successful industry at engaging consumers via dashboards and taking them on a personal journey is the fitness industry. This is driven entirely by commercial need: if it doesn't enthuse people then there is no business.

Unlike banking and utilities, the use of online fitness apps is much more of a choice. This challenge has not deterred the sector and its success has been exponential, with Fitbit claiming 27.6 million active users in 2018.[8]

A Fitbit dashboard offers users an holistic view of their fitness journey, providing them with a wide range of metrics and allowing them to drag and drop their preferred metrics into their own personal dashboard. This allows the user to avoid the risk of information overload and gives them the opportunity to intuitively create an aesthetically pleasing and useful dashboard. It also allows them to set goals from the outset and have a clear vision of their pre-determined target. The dashboard takes users on a journey and - crucially - helps them reach their required destination. It generates notifications at various intervals to congratulate them on progress and encourage them towards their next mini goal. Again, it is this sense of journey that keeps users actively involved with the product.

So what of this particular example can be transferred to the pensions dashboard? The ability of users to curate their own dashboard and include only information they want to look at is useful. Modelling tools can take users on a journey by helping them identify their destination - ie how much money they might require in retirement - and what they need to contribute further in order to get there. For those contributing to DC pots, an Annual Allowance gauge could also prove a useful nudge to those wishing to make use of the tax relief available to them. [Other DB examples?] There is no denying that these tools require a level of digital sophistication that would need to be phased in over time, but neither should this kind of functionality be dismissed as the pensions dashboard develops.

Indeed, I would argue that it is only by being ambitious that the pensions dashboard will reach its full potential - not just as an information hub, but as a means of reinvigorating and reconnecting people with their retirement savings. The examples discussed above are all industries that recognise the power of engaging consumers with their products, using well designed dashboards which convert user data into user action. The delivery of a truly interactive dashboard will undoubtedly be tough. There is much to get right in terms of the digital architecture and the regulation surrounding it, but there are examples, like midata and Open Banking, to follow and learn from.

Good retirement outcomes require people to be engaged with and take ownership of their retirement savings, even more so since Freedom and Choice.

The pensions dashboard is a fantastic opportunity to do just that, but it will require more than simply the provision of information – even if it is online rather than a series of paper statements. Much like banking, paying your gas bill and getting regular exercise, making retirement saving an interactive product could be the step change the next generation of savers needs.

[1] Money & Pensions Service (2019) moneyandpensionsservice.org.uk, [Online]. Available at www.moneyandpensionsservice.org.uk/pensions-dashboard/. (Accessed 6 September 2019).

[2] Marria, Vishal, 'How Open Banking has changed financial services so far', December 2018. Forbes (2019) [Online]. Available at https://www.forbes.com/sites/vishalmarria/2018/12/10/how-open-banking-has-changed-financial-services-so- far/#639b5a163e07 (Accessed 6 September 2019).

[3] Pinsent Masons, 'The Future of Open Banking, beyond January 2018', 2017.

[4] Department for Work & Pensions, 'Pensions Dashboards: Government response to the consultation', April 2019, p38-39.

[5] 55,000 people open a Monzo bank account every week. Monzo (2019) [Online]. Available at www.monzo.com (Accessed 6 September 2019).

[6] Department for Business, Innovation & Skills, 'The midata vision of consumer empowerment', November 2011. Gov.uk (2019) [Online]. Available at www.gov.uk/government/news/the-midata-vision-of-consumer-empowerment (Accessed 6 September 2019).

[7] Department for Business, Energy & Industrial Strategy, 'Implementing midata in the domestic energy sector – Government response to the Call for Evidence', July 2018.

[8] Fitbit, 'Fitbit reports $571 million Q4 2018 revenue and $1.51 billion FY 2018 revenue', February 2019. Fitbit.com (2019) [Online]. Available at https://s2.q4cdn.com/857130097/files/doc_news/Fitbit-Reports-571-Million-Q418-Revenue-and-151- Billion-FY18-Revenue.pdf (Accessed 6 September 2019).

Engagement + Engagement = Better retirement outcomes

Most UK workers have become significantly more uncertain about the whole notion of retirement over the past two decades or so. The shift from Defined Benefit to Defined Contribution pension schemes means that they're now having to contend with uncertainty about how they can best plan for retirement, how their pensions investment funds will perform, and the age at which they can retire.

The result of this uncertainty is lots of anxiety about pensions and retirement. Many people feel helpless and not in control of their own future, and a lack of understanding about the current pension system compounds these negative emotions. People simply don't have the knowledge and confidence to make informed decisions about their finances, including their pensions.

Encouragingly, our Future Face of Retirement research shows that employers are serious about supporting and empowering their people to approach pensions and retirement planning positively. Many recognise that it's in nobody's interests to have large sections of the workforce feeling anxious and out of control about their prospects for later life, and they're offering workers the information and support they need to feel more in control and aware of their options.

It's critical that both employers and the pensions industry itself reflect on how they can engage and educate people to help them to enjoy better retirement outcomes. Even now, so much communication around pensions is full of jargon and inaccessible, technical language that turns people off and reinforces their belief that pensions are simply too complex and too boring for them. A lot of people have argued that we need to 're-brand' pensions to overcome this negative belief and it certainly has its merits. Getting people to think about lifetime or long-term savings could be an easier task than trying, yet again, to engage them around pensions.

Whatever label we give it, employers need to take a far more realistic, pragmatic approach to communicating about pensions, recognising that many people find themselves with inadequate savings and little room for manoeuvre.

> **Communications need to be simplified to give people the information they need in a way that is easy to understand and act on.**

Technology has a crucial role to play in driving meaningful engagement and education, and organisations are increasingly embracing innovations in Augmented Reality and Artificial Intelligence to deliver more personalised communications, and to allow members to explore and visualise the impact of the choices they make today on their future.

Communications also need to become more relevant and more timely – we're seeing far more sophisticated use of nudge communications, encouraging people to consider pensions at significant events such as getting a pay rise or bonus, getting married or having a child.

A more uniform or standardised way of communicating about pensions would also be beneficial – currently, approaches vary hugely between schemes and this increases confusion and complexity for people with multiple pensions. The government's Pensions Dashboard initiative is to be welcomed and, as an industry, we need to ensure that it meets its objective of providing people with a far clearer view of their overall pension position. Our research shows that there is a real appetite for more peer-to-peer engagement and education, and the pensions industry must start listening to employees and delivering the programmes that they're demanding.

By Fraser Stewart
Business Development Manager, Capita Employee Solutions

High court blocks proposed transfer of annuities

By Pete Coyne, Partner, and Amanda Chamming's, Senior Associate, CMS Cameron McKenna Nabarro Olswang LLP

Background

The legal process under Part VII of the Financial Services and Markets Act 2000, which allows the transfer of insurance policies from one insurer to another, is a longstanding requirement necessitating court approval. There have been many applications over the years which have been blessed by the court. However, Prudential's recent proposed transfer which related to an £11.2bn sale of annuities from Prudential to Rothesay, covering 366,000 policyholders, was not so lucky. The judge declined to approve the transfer despite the independent expert appointed by the court being satisfied that the transfer would have no material adverse effect on the security of policyholders' benefits, and the FCA and PRA being happy for it to proceed.

Reasoning

Around 1,000 policyholder responses to the plans (15% of total responses and 0.4% of the 258,000 policyholders communicated with), could be characterised as objections. The judge accepted that the opposing policyholders had chosen Prudential because of its age and established reputation, that Rothesay lacked those attributes, and that the court should give some weight to their exercise of contractual choice.

Although Prudential had made no contractual promise to policyholders that it would not transfer their policies to another provider, the judge said that there was considerable force in the policyholders' submissions that they reasonably assumed this would not happen. The judge also thought that it was reasonable for policyholders reading statements that they were buying "a lifetime annuity with Prudential" to make the assumption that - unless they agreed otherwise - it would be Prudential that would provide them with the resulting annuity for life.

> **Finally, the court found that it was not a fanciful possibility that either provider might require external financial support over the annuitants' lifetime.**

In such an event, there was a material difference in the potential availability of assistance for the two companies in question.

What are the implications?

Perhaps the key message to take from the decision is that the court will jealously guard its discretionary role in the Part VII procedure. Although the judge accepted that the court's focus in many Part VII cases was on the security of policyholders' benefits, he laid emphasis on the court being obliged to consider "all the circumstances of the case". There is no presumption in favour of transfer and if the agreement of the independent expert and relevant regulators were enough, then there would have been no need for the legislation to give the court a role at all.

The judge did not make any broader assertions about the selection of insurers in other scenarios; however, this judgment will clearly cause concern more widely that policyholder activism might become a new feature of Part VII transfer proposals.

Perhaps unsurprisingly, Rothesay has filed an appeal against the decision, although it's unlikely to be heard for several months.

> **It will be interesting to see how the Court of Appeal deals with the case and whether it treats the judgment as laying down principles of wider application.**

In the meantime, insurers are likely to proceed with caution, and in some cases perhaps not proceed at all, until more clarity is available.

Trail-blazing master trusts: **maintaining high standards through supervision**

Kim Brown, Head of Master Trusts , The Pensions Regulator

As we head towards the end of the year, it's a good opportunity to review how far we've come and to look forward to the challenges ahead.

In the area of master trusts, we've come a long way. This time last year, schemes were busy preparing and submitting their applications for master trust authorisation and TPR had begun to receive applications.

Now, 12 months on, we have almost finished the authorisation of existing schemes and have a market of master trusts that millions of savers can be assured meet high standards.

We don't have a view on what the size of the market should be – our focus is to drive up standards but, as expected, there has been some scheme consolidation.

But our work to ensure master trusts are well governed doesn't stop with authorisation. Through supervision we'll continue to work with authorised schemes to ensure high standards are maintained and schemes continue to focus on delivering positive outcomes for members.

We've learned a great deal about master trusts and the market through authorisation, and we've started to build good one-to-one working relationships with those running schemes. We've learned about the different financial models that schemes operate and how the different relationships in each master trust work. This is valuable information to us as we now enter the supervision phase.

In the first year after authorisation, the intensity of supervision will be driven by the potential impact of each master trust's failure on the market, including the number of members in the scheme and our view on the risk of failure.

We'll be undertaking a range of activities which will involve engaging with trustees, strategists, funders and other relevant people including the scheme administrator.

These will include:

- periodic scheme evaluations
- proactive monitoring of particular concerns across the market
- requesting a supervisory return to be completed annually
- reviewing regular and ad-hoc information such as chair's statements, scheme funder accounts, annual report and accounts, and trustees' business plans to check that schemes continue to meet the authorisation criteria
- reviewing significant and triggering events and identifying the impact on the scheme.

We expect those responsible for master trusts to be open, honest and transparent with us – and they should contact us if they're concerned about any emerging risks which could affect the scheme's ability to continue to meet the authorisation criteria.

Master trusts are trail blazers and through our Future of Trusteeship work to drive up standards, we expect all DC schemes to look at master trusts as exemplars - and think about how they too can improve their governance standards and safeguards, to better protect savers.

Through master trust supervision – we are not here to catch schemes out – we want to work with them to help ensure they stay on track.

Supervision

This approach aligns with our supervision of other schemes we regulate.

Through relationship supervision, we are now engaged with significantly more schemes, targeting them through new initiatives across a broad range of areas.

To date we have been working on a one-to-one basis with more than 30 public service, defined benefit (DB), hybrid, and defined contribution (DC) schemes, and we will be extending this supervision to beyond 100 schemes this financial year.

Relationship supervision is not only focused on schemes of strategic importance. It also involves more direct contact with large numbers of schemes, using data we hold to target them in relation to particular elements of governance and administration. We will give clear direction about the standards that schemes are expected to meet, and what the consequences of failing to meet those standards could be.

Record keeping

An example of this approach is that we're now asking the trustee boards of 400 schemes to examine the data they hold to ensure it is accurate and up to date. We've set a six-month deadline by which trustees will be required to report back to us.

Schemes targeted in this crackdown are all types and sizes which we believe have neglected to review their data in the last three years. We'll also be writing to 1,200 schemes prompting them to carry out data reviews every three years.

Good data is key to good scheme governance – and it is also essential to the Government's dashboard plans; the dashboard will only be as good as the data it holds.

Whether it is poor record-keeping or other practices which put the scheme at risk, where necessary, we will use our powers to prosecute people when they put savers at risk.

But we're not an enforcement-led regulator – we would much rather those we regulate work within the law, within our guidelines and with us.

"A fascinating subject to stretch the mind."

"Really enjoyed Sophie's talk – it pulled everything together about what's happening with internet/ digital technology in a very useful way."

Attendee feedback

How technology is **turbocharging** everything

Our fifth Annual Lecture took the audience on a fast paced tour of the technologies shaping our world.

Now in its fifth year, the PMI annual lecture has become a must-attend event for those looking for something a little different to the usual pensions events. This year's speaker, futurist Sophie Hackford, certainly didn't disappoint. Speaking to an audience of 150 PMI members and non-members on 26 September, Sophie, a futurist whose research entails meeting 'weirdos and troublemakers' in off-the-beaten-track labs, makerspaces, and garages around the globe, gave us a fast-paced overview of the explosive technologies that are shaping our future. Covering ground such as 'new data', privacy, artificial intelligence, robotics, digital immortality and more, Sophie gave us a lot to think about, both in application to our roles as pensions professionals and in our daily lives.

And there's good news if you missed the lecture - for the first time ever we will be able to share a video of Sophie's talk with all our members.

Head to our BrightTalk channel to view Sophie's full talk here: **https://www.pensions-pmi.org.uk/news-and-publications/annual-lecture-video/**

"Keep finding these amazing people to entertain us with their knowledge, attitude and foresight."

Investing for the end game

Report from a recent PMI Fellowship Network event sponsored by Insight Investment

Panel Speakers

Ren Lin, Head of Client Strategy, Insight Investment
Richard Wellard, Partner, Hymans Robertson
Jos Vermeulen, Head of Solution Design, Insight Investment
Reena Thakkar, Executive Investment Consultant, Momentum
Richard Butcher, Chair of the Pensions and Lifetime Savings Association (PLSA)

As funding levels improve and pension schemes mature, trustees are sharpening their focus on how to achieve their endgame objectives. With buy-ins accounting for a significant portion of risk-transfer activity, many trustees are asking whether buy-ins can help their schemes achieve their ultimate goal with greater certainty.

These issues were the focus of a PMI Fellowship Network event in October, where an expert panel considered the de-risking options available to pension schemes.

Richard Butcher and Ren Lin introduced the event.

> **"Schemes face two questions: what outcome are they trying to achieve – typically, buy-out or run-off – and what is the best way to get there," said Lin.**

"In trying to achieve your endgame, the industry is currently focused on whether buy-ins are the most effective means of doing so. Buy-ins can offer reliable cashflows to cover some pension payments, thereby potentially reducing risk, including longevity risk."

But there are potential downsides, Lin added. Buy-ins are effectively an asset that cannot be sold, meaning they reduce a scheme's flexibility. Also, they typically focus on helping to cover pensioner payments, rather than deferred or active members – so after conducting a buy-in, a scheme will likely have to focus on investing to meet the longest-dated (and therefore most uncertain) liabilities.

"Given these different dynamics, you will often hear either very pro or very anti views on buy-ins," he said.

> **We believe there is a place for them, but there is a debate to be had on the specific role they play. A more holistic view may help you decide whether a buy-in makes sense for your scheme. It may make your ultimate objective harder to achieve."**

Identifying your objective

Setting clear investment objectives is crucial, said Reena Thakkar.

"It is surprising how many schemes we come across where there is no clear objective. It can be difficult given the various stakeholders in the room, but it's crucial to land somewhere to make progress," she said.

One dynamic to be aware of is that the endgame objective may change over time, according to Richard Wellard.

"Most trustees would feel that if they have enough funds to insure all members' benefits, then that's what you should do. So, while you may have a self-sufficiency target in mind, if over time you find your funding position getting close to the cost of insurance, you may decide to shift to buy-out the remaining liabilities," he said.

> **The panel agreed that regular strategy reviews could enable schemes to adapt quickly to market conditions.**

"You can't predict the future, so it's important to review your strategy regularly," said Jos

Vermeulen. "One recent example is the announcement of proposed changes to the calculation of Retail Prices Index (RPI). This could have a material impact and prompt a review of your investment strategy."

The role of a buy-in

Discussing how schemes might respond to changing circumstances led the panel to consider the wider impact of a buy-in.

Vermeulen said "it helps to keep your powder dry. We have seen schemes doing a buy-in too early, which removes their flexibility in the future. To use a rugby analogy, it's like using all your reserves at the start of the game – if you have an injury, you have none left to carry you through."

The discussion turned to how a buy-in might make sense for a pension scheme.

"A buy-in helps reduce the uncertainty around future buy-out pricing. However, if you are a long way from buy-out, the hedging provided by a buy-in needs to be considered in context and alongside other actions," said Wellard. "If you are seeking to hedge longevity risk as part of a long-term strategy, you could use longevity swaps to do so, and convert to a buy-in later on."

Another factor was the impact on the wider portfolio. According to Thakkar

"You could inadvertently increase risk by conducting a buy-in. It secures some cashflows but you might need to invest in higher-risk assets like equities to ensure the overall portfolio achieves the returns necessary to achieve your target."

An alternative would be to increase the timeframe to the endgame objective, Vermeulen said – though this would shift the focus to the longer-term strength of the sponsor covenant.

Achieving your endgame

This left the panel facing a key question: how exactly might a scheme achieve its endgame objective with greater certainty? Vermeulen referred to a framework used by Insight to discuss these issues with clients.

"We believe you need to first lock down the outcome by hedging liability risks, which clarifies your return target," he said. "Then you build a portfolio using assets that can help you meet that target with greater certainty.

Finally, you need to manage liquidity risks so that you can afford your cashflow obligations without being forced to sell assets – this can help prevent you being thrown off course.

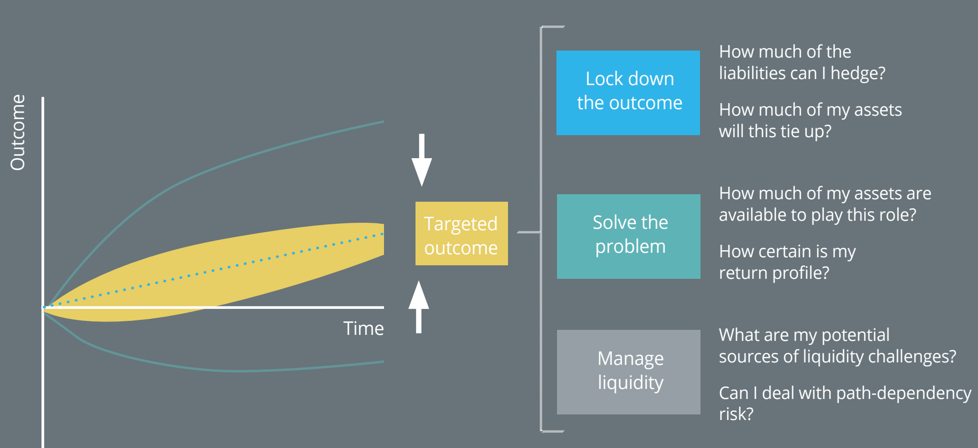
Thakkar agreed. "I would add a focus on measuring and monitoring the strategy against the objective along the line," she said.

Wellard said looking ahead was key. "Think about your chosen objective and timeframe. Clearly understand why you have set those targets, and what the world might look like when you approach that point. Then you have a choice over the combination of risks you run to get there – there is no single answer."

RISK DISCLOSURES

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

How can schemes best achieve their targeted endgame outcome?



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Pensions Manager, in-house
London **£six figure package**
Superb in-house career move for a technically-astute pensions professional, spanning governance and projects for a £multi-billion DB pension fund. Ref: 1374601 SBM

Trustee Secretary, £multi-billion pension In-House fund
London **£in line with experience**
Superb in-house career move for a skilled Pension Scheme Secretary. Ref: 1375729 SB

In-House Pensions Manager, Administration Strategy
London **£superb package**
Progressive first step into scheme management. Work on a £multi-billion scheme, support strategic project delivery. Ref: 1368340 SB

Pensions & Benefits Manager
London **£attractive package**
Potential step into Reward with the in-house team of this industry-leader, as you manage DB/DC plans and wider benefits. Ref: 1372468 SB

Pensions Specialist, in-house
London **£competitive**
Great opportunity to join the in-house team for one of the largest pension schemes in the UK. Ref: 1363393 SB

contactus@abenefit2u.com
Call us on 0207 243 3201
www.abenefit2u.com

Abenefit2u
Recruitment Specialist
CELEBRATING 10 Years

In-hse Secretary to Trustees — V. Competitive!
West London (Outer) — DB14687

Optional 2 days work from home, 3 on site. Acting as Secretary to the Trustees for this in-house scheme, you will manage the third party admin provider and be involved in various challenging & rewarding areas. Sole agency.

In-hse Pension Manager/STTT — c£55k+bens
London — DB14671

As Secretary to the Trustees (STTT) the board will rely on you for technical and legal guidance, as Pensions Manager, you will be the go to person for pensions! Outsourced admin. Closed DB, open DC scheme. Sole agency.

In-hse Assist. Pensions Manager — c£40k+bens
Midlands — DB14689

You will manage down and deputise upwards in this super role with responsibility for managing the outsourced pension administration provider for a DB scheme and your team and work collaboratively with the rest of your friendly team.

In-hse Pension Fund Accountant — c£50k+bens
London — DB14684

As the Pension fund accounting expert you will ensure Pension Schemes comply with statutory reporting, and Trustee Report & Accounts are signed off plus a host of related duties for this large company pension department.

Pensions Administrators — £DOE
Leeds — TD14692

We are seeking experienced pensions administrators with good DB or DC knowledge (ideally both). Excellent career development potential and professional study support. A wonderful opportunity to join this leading global consultancy in state of the art offices in a very central location.

DB/DC Consultant — £DOE
Surrey or North West England — CE14646

If you possess good experience of working with Trustees, preparing packs, attending meetings and preparing minutes, as well as a good knowledge of Master Trusts, this could be the role for you!

Pensions Operations Manager — £DOE
North East — CE14682

In this broad and challenging role you will be actively involved in the management and delivery of pension administration services across the whole business. Strong DB and DC background is required.

Pensions Developer — £DOE
London — CE14655

Experience of one or all of SQL, VBA or VB.net together with data analysis and data profiling skills? If so, this award-winning Pensions Provider is keen to talk to you about this new vacancy.

Pensions PR Account Manager — £DOE
London — TD14660

Seeking a proactive and creative thinker with excellent communication skills. You will have experience in a wide range of PR and marketing communications activities, including social media. Knowledge of the UK Pensions market would be ideal.

Governance & Secretarial Consultant — £DOE
Hertfordshire — TD14605

We have a fantastic opportunity for an experienced pensions' professional with excellent governance and secretarial experience. You will take responsibility for the successful delivery of a range of strategic client governance projects and initiatives.

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

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

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

We can assist with 'one-off' recruitment needs or ongoing staff requirements; on a permanent, contract or temporary basis.

Abenefit2u recruits from trainee administration level upward through to executive management, providing both contingency and executive search services.

Working in partnership with employer and employee