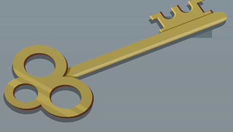
Edition 05
May 2018

Pensions Aspects

WWW.PENSIONS-PMI.ORG.UK

The opening of Pandora's box

How schemes are investing in order to keep up with the demand for transfers



COMBINING PENSIONS AND SOCIAL CARE

Q&A WITH AON INVESTMENT EXPERTS

PENSIONS AND DIVORCE - A GUIDE FOR PENSIONS PRACTITIONERS

Find your next job at www.pensioncareers.co.uk

Time to shine a light on DB transfers

Together we can make a difference

Our White Paper, The Troubles with DB Transfers, was developed with 16 TPAs and EBCs from across the industry. It's a call for industry collaboration and it explores:

- Issues facing administrators and members.
- The member experience.
- Transfer trends as seen by top administrators.
- Potential industry-wide solutions.

About Origo

We are the industry's only not-for-profit fintech company. We work with the industry to build solid, dependable foundations which support industry-wide networks and span markets. Relied upon by thousands of customers and hundreds of organisations, we work with you to explore, create and develop new ideas. With you, we build bridges. Bridges that can take us places…

Get your copy today: www.origo.com/whitepaper

Edition May 2018

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Pensions Aspects Live round up

Pensions Aspects LIVE 18

Thursday 19th April was not only the hottest April day on record but also the day of the hottest pensions events ticket in town - the annual PMI conference, which this year was titled "Pensions Aspects Live".

Delegates kept their cool inside the comfort of the air conditioned County Hall on the Southbank and enjoyed a day of listening to a variety of speakers drawn from across the pensions industry. Topics included institutional investment trends, CDC, a review of the pensions landscape, workshop sessions on DC, DB issues and pension administration and a conversation with Alan Pickering.

The opening session was the keynote speech by Dr. Chris Sier, Chair FCA Institutional Disclosure Working Group

> "I was pleased to be supporting one of the UK's leading pensions conferences at an exciting time for the Institutional Disclosure Working Group. While there is still work to be done, we are making significant progress and I enjoyed sharing further details on this with attendees today", he said.

One of the more livelier discussions on the day was the CDC debate, featuring Kevin Wesbroom (Aon Hewitt) and Tom McPhail (Hargreaves Lansdown), which was moderated by Sandra Wolf (Pensions Expert). The atmosphere was jovial, despite misgivings that an old-fashioned "rumble" would spill out into the street outside.

The afternoon featured three very different breakout sessions - a rowdy DC pensions showdown quiz, and two panel discussions - one on DB and the other on admin & tech.

> **PMI President Robert Branagh commented:** "I hope all delegates found the day to be one of inspiration, thought-provoking ideas, knowledge and insight."

Over 270 pensions professionals descended on the Southbank to enjoy an evening catching up with old friends and colleagues and to listen to the President's annual address.

Chris Parrott, Head of Pensions at Heathrow Airport Holdings accepting his award from Robert Branagh, PMI President.

Guests were welcomed by Lesley Carline, PMI vice president, and addressed by PMI president, Robert Branagh. During the night's proceedings, it was announced that Chris Parrott, Head of Pensions at Heathrow Airport Holdings was awarded the 'Outstanding contribution to the PMI' award for his long and distinguished years of volunteering for the Institute, and supporting pension professionals.

The night was topped off by an excellent and highly entertaining after dinner speech by BBC Radio 2 presenter, Jeremy Vine. And nightcaps at the bar.

Jeremy Vine, BBC Radio 2 presenter.

A very special thank you to our lead sponsor Origo, our reception sponsor CMS, and all the organisations that supported our annual event. We hope to see you next year.

Membership update

Associates, it's time to climb the PMI Ladder and raise your profile!

For a limited time only, until Thursday 31st May, we will waive the election fee of £150 and the upgrade fee of £90 for Associate members who would like to upgrade to Fellow membership.

Upgrade now and pay an administration cost of only £35 and confirm that you have:

Submitted at least 5 years CPD
Been an Associate member for at least 5 years

This covers your membership subscription fees until 31st August 2018.

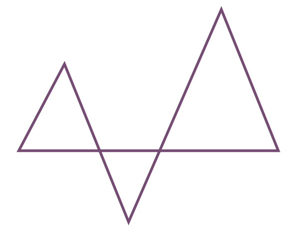
Application forms and payment must be received by Thursday 31st May 2018.

For more information contact the Membership Department at membership@pensions-pmi.org.uk.

PMI Membership Upgrade Waiver

The Board has decided to allow all future qualifiers after each exam to upgrade their membership without the appropriate election fee. The invitation to upgrade letter will be posted, together with your results, indicating a three month period in which to upgrade your membership.

Members wishing to upgrade after the end of the waiver period will be required to undertake the usual process. This requires the payment of the upgrade fee plus the annual subscription at the appropriate rate. For further details contact the Membership Department at membership@pensions-pmi.org.uk or on 020 7392 7410.



Membership Record

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

APPT Renewal

APPT renewals are due on 1st July 2018 and renewal notices will be issued within the first week of May. APPT members are reminded to complete and submit their 2017 CPD to the PMI Membership Department.

Certificate Membership

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

Victoria Blakey
Jim Bradley
Daniel Evans

Continuing Professional Development (CPD)

Your completed 2017 CPD report was due on 31st January 2018. If you have not completed your report, please do so now and submit it to the Membership department.

Fellows and Associates are reminded that meeting the PMI CPD requirement is compulsory (except where retired/non-working). Members are required to record at least 25 hours CPD.

Please log on to the website and update your CPD record.

Members with outstanding CPD for the years 2015 through to 2017 have been notified to complete and submit their outstanding CPD by Friday 18th May, 2018. Failure to comply will result in the withdrawal of their designatory initials FPMI and APMI.

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 website. We are pleased to announce that the following people have been elected to Associate Membership and can now use the designatory initials "APMI":

David Blackford
Joshua Ford
Eilidh Glynn
Gillian Turton
Joy Wyatt

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 website. We are pleased to announce that the following people have been elected to Diploma Membership and can now use the designatory initials "DipPMI":

Nicholas Gough
Jennifer Humphryes
Lisa Stiff
Jeremy Walker

We are pleased to invite our Fellows to the PMI Fellowship Network sessions in Birmingham, Edinburgh, London and Manchester to discuss the two topics below:

1. Guaranteed Minimum Pension (GMP)

- The interaction/dependency with de-risking exercises which often drive timescales
- What does good governance for a rectification exercise look like? What should be in the plan? How can risk to reputation be managed, etc.?
- Do we believe that conversion and equalisation will really simplify as administrator's capabilities are built to deal with GMPs?

2. Collective Defined Contribution (CDC)

- Would CDC deliver tangible benefits to savers compared with other models?
- Does this risk create extra complexity and confusion? Would savers understand and trust the income 'ambition' offered by CDC?

//Edinburgh Fellowship Network Session
Thursday 7th June 2018

4:00 – 6:00pm
Venue: JLT Group, 7 Lochside Avenue, Edinburgh, EH12 9DJ
Hosted by: Dominic Croft, FNA (Profund Solutions Limited), and John Wilson, FNA (JLT Group)
Registration is 4:00 – 4:30pm.

//Harrogate Fellowship Network Session
Monday 21st May 2018

8:00 – 10:00am (*NEW ADDITION***)**
Venue: 3 Windsor Court, Clarence Dr, Harrogate HG1 2PE
Hosted by: Brian Smyth, FNA (Ascot Lloyd) and Robert Wakefield, FNA (First Actuarial LLP)
Registration is 8:00 – 8:30am.

//London Fellowship Network Session
Tuesday 22nd May 2018

4:00 – 6:00pm
Venue: PMI Office, 25 Old Broad Street, London, EC2N 1HQ.
Hosted by: Geraldine Brassett, FNA (Capita), and Robert Wakefield, FNA (First Actuarial LLP)
Registration is 4:00 – 4:30pm.

//Birmingham Fellowship Network Session
Wednesday 13th June 2018

4:00 – 6:00pm
Venue: Punter Southall Offices, 1 Colmore Row, Birmingham
Hosted by: Mandie Bird, FNA (Barnett Waddingham), and Lorna Griffin-Smith, FNA (PS Independent Trustees Limited)
Registration is 4:00 – 4:30pm.

//Annual General Meeting
Wednesday 11th July 2018

(time TBC shortly)
Venue: Tower 42, Floor 20, 25 Old Broad Street, London, EC2N 1HQ. Further details will be available in due course.

//London Fellowship Network Session
Wednesday 13th June 2018

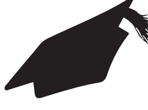
4:00 – 6:00pm
Venue: PMI Office, 25 Old Broad Street, London, EC2N 1HQ
Hosted by: Gillian Graham, FNA (PS Independent Trustees Limited), and Martin Lacey, FNA (Royal Mail) CDC Specialist, Kevin Wesbroom, will also be in attendance
Registration is 4:00 – 4:30pm.

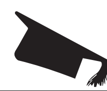
//Manchester Fellowship Network Session
Tuesday 26th June 2018

5:30 – 7:00pm (*NEW ADDITION***)**
Venue: Ernst & Young LLP, 2 St Peter's Square, Manchester M2 3EY
Hosted by: Bob Compton, FNA (ARC Benefits Limited), and Finney Swift, FNA (Bestrustees Plc)
Registration is 5:00 – 5:30pm

ATTENDANCE AT ANY OF THESE EVENTS WILL EARN YOU CPD HOURS

Qualifications





Publication of April 2018 examination results

The marking of the April examination scripts is now under way and will continue throughout the month. Examination results will be posted on Monday 18th June. A copy of the pass list will be available on our website from 9am on Tuesday 19th June.

You are reminded that if you are to receive your examination results promptly, we must be informed of any recent change of address. Anyone who will be away from home when the results are posted, and would like them sent to another address, should contact the Qualifications Team.

Multiple choice examinations

Multiple choice examinations include:

> Award in Pension Trusteeship (APT)
> Certificate in DC Governance (DC Gov)
> Retirement Provision Certificate (RPC)

The results for the March exam were issued in April. The next public exam will be held on Wednesday 12th September from 2.30pm. The closing date for entries is Friday 13th July.

October 2018 examinations

The timetable for the October 2018 Advanced Diploma examinations can be found on our website, where the application form is also located. All candidates entering the examinations must be registered as a registered as members.

The closing date for receipt of October examination entries will be Friday 27th July. You are reminded that the October examinations will be set on the syllabuses detailed on our website and the current 2018 study materials should be used in preparation.

Follow us @PMIPensions
Discuss this month's articles using #PMINews

Are you looking to expand your knowledge in trusteeship and gain formal recognition?

The Award in Pension Trusteeship (APT) is for trustees, or those interested in trusteeship, based on the Pensions Regulator's indicative syllabus. It provides formal recognition of a trustee's knowledge and understanding (TKU) in line with the requirements of the Pensions Act 2004. The syllabus covers trusteeship essentials such as: Investment and Funding Issues, Scheme Management Issues, and Law and Pensions. There are a number of providers that run trustee training courses combined with sittings of the APT examinations, and a full list can be found on our website. We strongly encourage candidates to attend training sessions, as results indicate that those who attend tend to do better than those who do not. For further details contact a member of the Qualifications Team or, alternatively, visit our website.

International 1 - Foundation in Employee Benefits lecture course for October 2018 examination

We are pleased to run this two-day lecture programme again, preparing students for the Core Unit 1B/DipIEB Module 1 examination, to be sat in October. This programme of preparation and revision was launched in response to the growing demand for face-to-face tuition at the start of the study period, and close to the exam itself. The course consists of a mock examination and feedback throughout the study period leading up to the examination, and will take place on Tuesday 26th June and Friday 7th September in Central London. For further information, and to download the booking form, visit our website.

APE (Award in Pensions Essentials)

Ross Bennett
Tracy Flanders
Ruth Flory
Lucy Gibson
Darrell Hearne
Jennifer Hodgson
Susan Lawson
Peter Manthorpe
Peter McGrath
Missie McLean
Daniel Morris
Oliver Nicholls
Daniel Orson
William Rigby
Daniel Ship
Katie Sutton
Gary Symons
Charlie Tutt
Dominic West

DIARY DATES

Thursday 24th May
DB TRANSFERS DEBATE – REDINGTON

The Pension Reforms have opened up an unprecedented number of options and opportunities for retirees from DB and DC schemes, but are they potentially creating the next pensions scandal? Do trustees have greater responsibility for member outcomes and, if so, what should they be doing? Is it appropriate to advertise the transfer option from DB to DC schemes to retirees, and will this be regarded as encouragement?

To answer these questions, PMI has planned a debate on 24th May 2018 at Redington. Spaces are limited so email the Events team **events@pensions-pmi.org.uk**

Thursday 14th June
SACKERS – DB TRANSFERS

Following the interest in the March session, this free-to-attend Insight Partner PMI seminar is being repeated on 14th June in the Sackers office. This session 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.

To register your interest, please email the Events team **events@pensions-pmi.org.uk**

DATES FOR YOUR DIARY

September 2018 - date tbc
SECRETARY TO TRUSTEE SEMINAR

Wednesday 12 September
PMI ANNUAL LECTURE

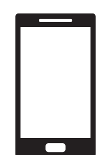
Wednesday 7 November
ADMIN SUMMIT

Tuesday 5th June
PMI TRUSTEE SEMINAR – UNCHARTED WATERS

The Pensions Management Institute is delighted to announce our Summer Trustee Seminar on Tuesday 5th June in London. Join us for an exclusive discussion with some of the most influential leaders in the pension industry. Topics to include:

+ **Role of the professional trustee**
+ **Trustee soft skills**
+ **Valuation methodology**
+ **Risk transfer**
+ **PMI Trustee Group**
+ **ESG vs ethical investment**
+ **White paper summary**
+ **How does fiduciary management work?**
+ **What should trustees be asking about costs?**

To register for this event, please email the Events team **events@pensions-pmi.org.uk**



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

Full details of all our events can be found on our website, along with all our booking forms.

TRUSTEE SPRING SEMINAR

Unchartered waters: what next for pension fund trustees?

Tuesday 5 June 2018 - CMS, Cannon Place, 78 Cannon Street, London EC4N 6AF

9:00 REGISTRATION AND COFFEE

9:25 Chair's introduction
Lorraine Harper

9:30 Role of the Professional Trustee
- Working with the board
- Providing expertise
- Expected standards

MODERATOR
Michaela Rizzo, Consultant, Redington
PANELISTS
Speakers to be confirmed

10:15 Trustee soft skills
- Role of the Chair
- Negotiating with the sponsor
- Managing advisers

Hannah Lewis, Behave London

10:45 Covenant risk: Trustee decision making
- When problems were first identified
- What the board did
- What should trustees have done?
- What alternatives should have been considered?

Speakers to be confirmed

11:15 COFFEE

11:35 Valuation Methodology
- Are traditional assumptions still suitable?
- How much scope for change is there?

Sam Mullock, First Actuarial

12:15 Risk Transfer
- Process leading to derisking
- Context
- Case study

Costas Yiasoumi, L&G

12:15 PMI Trustee Group
- Benefits of membership
- TPR expectations

Lorraine Harper

13:00 LUNCH

13:30 ESG vs Ethical Investment
- Identify differences
- Importance in context of contemporary funding

Simon Howard, UKSIF

14:10 White Paper Summary
- Principal themes
- Importance for trustees

Lynda Whitney

14:40 How does Fiduciary Management work?
- Why might it be suitable?
- What are the benefits?

Matt Simms, P-Solve

15:10 What should trustees be asking about costs? TBC
- Questions for investment managers
- Importance of transparency
- Managing advisers

Speaker to be confirmed

15:40 Chair's summation
Lorraine Harper

FEES

Members	**£255.00 + VAT**
Non Members	**£355.00 + VAT**

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t: 020 7392 7427
e: events@pensions-pmi.org.uk

Cyber response planning for pension schemes

I read a fascinating article[1] on LinkedIn recently about the difference between reacting and responding. The distinction being drawn was that the former is largely unplanned, whereas the latter is planned and rehearsed. It was written by a fighter pilot, where the difference could be life and death. But the implications in many other areas were clear; **preparation is important**.

Dealing with cyber risk is topical for many organisations and pension schemes are no different. But unlike most organisations, many pension schemes do not have an incident response plan for dealing with a cyber attack.

A common reaction from trustees is that they do not know what sort of incident might have an impact on them, so how can they plan for it? It could be loss of data, systems going down, intercepted transfers of scheme funds, a ransomware demand, or something else. But despite that uncertainty, I believe that advance planning is a sensible precaution to protect a scheme and its members.

As a minimum, an incident response plan should contain a list of key contacts, available in a single place, and in all circumstances, even if your IT systems are compromised. It should include not just day-to-day contacts, but those that you would not normally need unless something goes wrong. For example, do you know how to quickly contact a suitable PR agency, the company IT director or your company incident response team?

Reference numbers are also helpful so that you are not looking for them in the middle of a crisis: your trustee indemnity policy number, your data protection registration number, bank account details etc.

A checklist of things not to forget is also helpful. For example, a list of people you might need to notify, timescales for reporting breaches to the information commissioner, some tips on dealing with media, and a reminder to have decisions properly made and documented.

Having a plan not only means that you will be able to act more effectively (i.e. respond rather than react), but that you will be able to do so more quickly.

This is important if the incident is widespread, such as a ransomware attack covering many organisations or countries. High quality cyber experts are in limited supply, and those organisations who are not able to respond quickly to an attack could find themselves at the back of the queue, with the best resources already committed elsewhere. So, if you want to have an expert available to parachute in on day one, then you may want to consider having an expert on retainer, with the terms and conditions agreed in advance.

And of course, testing your plan is important. A lot of schemes are now running table-top exercises to simulate an incident. Whilst there may be limited value in planning in detail for the specific incident you have just tested, such an exercise will inevitably highlight ideas and themes which will lead to the scheme being better prepared for any eventuality. Do not forget to include your sponsor in these exercises, and contribute your needs into their business continuity plans. This is particularly important if you use in-house resources.

In the end, an incident response plan is one of those documents that you hope you will never need. But given the prevalence of cyber risk and the amount that schemes have to lose, we believe it is well worth the investment.

Vanessa Jaeger is a senior consultant at Aon. If you would like to know more about how to tackle your cyber risks, please contact us at talktous@aon.com

By Vanessa Jaeger
Senior Consultant, Aon

Combining pensions and social care: why, when, how?

Everywhere in the public sector seems to be underfunded at the moment. Services are 'collapsing', 'in crisis' and 'cut to the bone'. Reduction of central government funding, notably to local authorities, is often the immediate cause. But there are also underlying societal trends which are more profound and less amenable to short-term correction.

Ian Neale
Director,
Aries Insight

> **In a word, our society is not working, especially not for the old. So we need a strategy, above all a funding strategy, for later life.**

The economically active percentage of the UK population is shrinking. The rising incidence of disabilities and infirmities, fuelled by obesity and manifested in illnesses such as diabetes, is one factor. Another is the growing number of people who survive into extreme old age. More and more people need help with everyday living. Help at the moment still, by and large, requires other people, and people are expensive.

Many retired, elderly or chronically infirm people have to manage on a fixed income, often a quite low income, that cannot stretch to paying someone to help for more than a short time each week. State benefits don't go far, as a rule, and local authorities adult social care budgets, even with the maximum extra 3% council tax precept, fall far short of meeting demand.

Inexorably, as public sector workers are pressed ever harder, standards compressed, and services outsourced on price, the individual needing help is being squeezed as well: to pay more, and often receiving less in return.

So far, so familiar you might say, but where will it all end? Without descending into arguments about allocation of taxes by national governments, I believe we can do better by rethinking the way we plan and manage the final third of our lives: roughly, between age 60-65 and 90-95: not just as individuals, but even more so at the societal level.

How often is some particularly spectacular human disaster attributed to poor communication between authorities? People work in departments which are more like silos; coordination and planning are poor relations, difficult, prone to every human failing.

I suggest we have reached the limits of atomisation in our society; we have gone as far as possible in expecting every individual to be a self-realising, independent, self-sufficient citizen throughout their adult life. Some people will achieve this, but many – indeed most - will not.

In a word, our society is not working; especially not for the old. So we need a strategy, above all a funding strategy, for later life. At the moment there is a developing focus on saving for retirement, stimulated by automatic enrolment; but it is not enough to pick up the slack created by the demise of defined benefit pensions in the private sector. For a transitional period, improvements to the state retirement pension are masking the effect. The likely

picture over the coming decades though is a decline in the value of private pension supplements to state pensions.

What is definitely overdue is a national debate about social care. We are shortly to see a Green Paper on care for older people. This might address some of the key issues, such as the way self-funding residents of care homes increasingly subsidise those funded by local authorities; the emotional factor of the resident's own home and deferred payment agreements with local authorities; inheritance; taxation; post-retirement national insurance contributions; long-term insurance and deferred annuities.

If we can combine the concepts of saving for retirement via a pension with insuring against the risk of requiring significant social care (particularly admission to a care home), and find a way of pooling the longevity risk, we might be onto something. At the individual level it will always be too expensive for the majority to manage successfully. Consider the difference in premiums achieved by group life arrangements compared to individually underwritten policies, or the economies of scale in very large pension schemes compared to self-invested personal pensions.

Innovation in the private sector has a role here. Care homes are not the only channel for provision of social care, of course (though with the extremely fragile present funding arrangements, perhaps the sector most visibly at risk of collapse). It is estimated that around 10% of us will spend the last few years of our lives in a care home. A far higher proportion will require varying levels of support to continue living at home. Assured funding for alarm response systems, to pick us up after a fall for example, could be developed further; likewise mobility support.

If we can combine the concepts of saving for retirement via a pension with insuring against the risk of requiring significant social care (particularly admission to a care home), and find a way of pooling the longevity risk, we might be onto something

For the time being, the foundation of all funding will remain state benefits, in particular state retirement pensions. Clearly this is not adequate now and will be increasingly less so. That's why we need a national consensus and something like the Later Life Commission that I have advocated to develop and steer the strategy. It is simply hopeless to expect politicians elected for five years at most to make an irrevocable commitment beyond that time horizon.

Pay-as-you-go funding is fraught with difficulties though: much better to get later life secured on a sound long-term footing. Ideally we would have built up a substantial sovereign wealth fund to depend upon, like Norway. What we do have though is a significant number of defined benefit pension schemes and a poorly met need for long term fixed-interest investments. New issues of long dated, index-linked gilts are oversubscribed; gilt yields in general are very poor and even negative, and the DMO refuses to issue CPI-linked gilts to match CPI-linked pension liabilities.

So here is an idea. Defined benefit schemes might invest in social care, either directly, or indirectly via Care Bonds, a new long-term asset subcategory. The money could fund construction and operation of high quality care homes, with future redemption from individual retirement savings and insurance payouts, and oversight from the Later Life Commission. Besides fulfilling an unmet need for solid long-term pension scheme investment, this would plug a growing gap in social care provision, and it ticks the S in ESG. It might interest the Pension Protection Fund too.

Protecting DB pension schemes

By Chirag Ghelani
Partner, Sackers

Defined Benefit (DB) schemes have been under pressure for quite some time, and the costs of running such schemes have increased considerably over the last decade. A number of high profile cases (including those of BHS and British Steel), have led some commentators to suggest that there is a fundamental problem with the funding and regulation of DB schemes.

DWP's Green and White papers

With this in mind, the DWP published a Green Paper on DB private sector pensions in February 2017, posing questions for consultation. The DWP stated that it believed that the majority of employers should be able to continue funding their schemes and managing the risk their schemes were running. It found little evidence that scheme deficits were driving companies to insolvency. However, it recognised that the single biggest risk to members was still the possible collapse of a scheme's sponsoring employer, and acknowledged concerns that the current regime was 'not working as well as it could'.

The DWP's long awaited follow-up White Paper, 'Protecting Defined Benefit Pension Schemes', was published on 19th March 2018 and set out its 'approach for the future of the Defined Benefit system'. The Government's proposals are aimed at improving the way the current system works and increasing the protection of members' benefits.

//A stronger Regulator

The Government is looking to give the Pensions Regulator (TPR) new powers, to be used 'proportionately'.

To guard against 'the risk that a small number of people may take action detrimental to a scheme's prospects of paying full benefits', the Government proposes giving TPR enhanced information gathering powers, strengthening the effectiveness and efficiency of TPR's existing anti-avoidance powers, introducing fines, and making it a criminal offence to deliberately or recklessly put their pension scheme at risk.

//Optimising scheme funding

With the aim of 'improving decision making and governance across the sector', the Government plans to implement a new package of measures which are intended to 'optimise' scheme funding and 'ensure [TPR] has the right tools to respond to poor decisions'.

Proposals include a revised DB Funding Code of Practice, focusing on how prudence is demonstrated when assessing scheme liabilities, what factors are appropriate when considering recovery plans, and ensuring a long-term view is considered when setting the statutory funding objective.

Following in the footsteps of DC arrangements, the DWP has also proposed a new requirement for DB schemes to appoint a chair, and to provide a DB Chair's statement (with information on the trustees' key funding decisions), to TPR alongside the scheme's triennial valuation.

// Consolidation of schemes

With more DB schemes approaching maturity, and their sponsoring employers seeking to secure members' benefits or transfer risk, the Government is persuaded that there is "a space that new commercial consolidators could fill". Under this model, a private company could set up a new DB scheme, and take over the responsibility for meeting the liabilities of other pension schemes, in return for a one-off or structured set of payments from the previous sponsoring employer; the covenant being provided by additional capital supplied by external investors. The Government is to consult on a legislative framework and authorisation and accreditation regimes to enable consolidation whilst retaining member protection.

Next steps

There is no proposal for an RPI/CPI "statutory override" for now, and no changes to the employer debt legislation, although these issues are unlikely to be gone forever. In particular, the Government says it will continue to monitor developments in the use of inflation indices.

There will be a "phased delivery" of the White Paper's proposed changes, with consultations on key areas during 2018/2019 to ensure the industry gets a say in the shape of the future.

News from the regions

[Eastern regional news]

Our next event is our AGM/talk on 13th June 2018 at Mills & Reeve in Cambridge. We are going to have a panel of speakers to cover DB to DC transfers, and DC to DC transfers. The panel will include a lawyer (Clare Grice from Mills & Reeve), an independent trustee (to be confirmed), and a local IFA (Andrew Cohen). Lesley Carline is going to chair the panel and it should be an interesting event. Provisional timings are the event starting at 5pm with a networking tea, followed by the short AGM at 5.45pm and then the panel discussion about 6pm.

Full details will be emailed to members in mid-May.

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

[Midlands regional news]

HALF-DAY CONFERENCE

Our annual half-day conference will be held on 13th June at The Studio in Birmingham City Centre. Full conference details will be released shortly; please mark the date in your diary.

STUDENT SUPPORT

If you are a student member who wants to take PMI exams but does not receive financial support from your employer, please note that the committee will consider the provision of financial support for study material and exam entry.

Any student member who wants to take a PMI exam and is not supported by their employer to meet the costs is invited to make contact in the first instance with the committee via the Education Secretary: Richard.bryant@atkin.uk.com.

[London regional news]

PMI LONDON GROUP BUSINESS MEETING
A Focus on defined benefit transfers

Date: **10th May 2018**
Venue: **Aon Hewitt ,The Aon Centre, The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AN**

Defined benefit pension transfer activity has risen since pension freedoms: what are trustees' duties, how has the market reacted and how does the industry protect members from poor outcomes?

Our first speaker, Jamil Merali of Aon, will provide a market update on the member options environment, particularly in light of the introduction of Freedom & Choice and revisions to the Code of Good Practice in 2016.

He will be followed by our second speaker, James Ellison of UK Workplace Solutions Limited, who will provide the financial advice sector perspective on how engagement and advice should be structured, ensuring members make informed decisions. Our final speaker, Jane Higgins of Allen & Overy, will provide a trustee perspective on processing transfers out, and will discuss the question *"should trustees be proactively providing transfer quotes to members"?* Invitations have been issued to members via Eventbrite and we look forward to seeing you on the evening.

PMI LONDON GROUP AT THE FLIGHT CLUB
SAVE THE DATE! On 12th June at 18.30 step up to the oche and test your darts skills at Flight Club, the social darts venue in Shoreditch. We have reserved space for 30-35 people on two darts boards, so get in quick to ensure you have a spot for you and your colleagues. At the start of the evening, you enter your name and take a cheeky selfie and the system guides you through a fun game of darts with the London Group members. Let the competitive spirit run free!

Some food and drink will be provided. Tickets are £10 each, a small price to pay for a great evening. You can purchase tickets for yourself and your colleagues using the link below. Members and non-members are welcome. Invitations have been issued via Eventbrite and you can see full details on our LinkedIn page.

The venue is a short walk from Liverpool Street, Moorgate and Old Street tube stations.

More information about the event is available on the Flight Club website.

PMI LONDON GROUP AGM
Followed by **Networking 9 - 5: What a way to make a living!**
Date: **5th July 2018**
Venue: **RSM UK, 25 Farringdon Street, London, EC4A 4AB**
Time**: 6.00pm**

Many thanks to RSM for hosting our AGM in July. This year our traditional post-AGM talk will address a subject that will be of interest to all members, from students to experienced pension professionals.

Most of us in the pensions industry have to network to a greater or lesser degree to make connections, build relationships or drive business. We go to meetings, conferences and speeches, and spend a lot of time online, all of which are networking opportunities, yet even the most accomplished in networking can improve; whether it's about how to communicate with people from very different backgrounds to our own effective use of social media. Whether you are fresh to the industry, inexperienced or unsure when speaking to new people or a seasoned pro, PMI London Group's summer business meeting is here to help the inexperienced and provide fresh insights to the experienced.

After the talk there will be a light-hearted collective networking session, with drinks and nibbles, to help you put the theory into practice and get the very best from your future networking opportunities to put you in 'schmooze control!'

"It's hard to fight when the fight ain't fair"

By Richard Akroyd, Willis Towers Watson

Taylor Swift may not have had the UK pensions system in mind when penning these lyrics, but some of the funding negotiations seen at various Work and Pensions Committee hearings over the last couple of years seem to have been like that. Of course, the Pensions Regulator has an important role to play in ensuring fairness in funding negotiations, and for a number of years has issued an annual DB funding statement to support its aims.

These statements are intended to be of particular relevance to trustees and sponsors about to discuss their actuarial valuation, but always include useful pointers for all schemes. This year is of added significance in providing the Regulator's first steer since the recent White Paper.

The context of this year's statement is, typically, slightly improved funding levels, but quite varied experience, usually depending on investment strategy. While some sponsors are clearly struggling, the Regulator highlights the increase in the rewards to many shareholders since these recovery plans were last reviewed. The Regulator also highlights some urgency for schemes that are maturing rapidly (where a large proportion of their liabilities represents pensions in payment), which could be compounded with a high volume of transfers. Here cashflow needs to be managed, and where the funding level is low, more urgent action is needed to repair a deficit as there may not be the time for a long recovery plan.

A significant part of the statement is devoted to how schemes should be treated fairly, and to the Regulator's concerns around dividends and other shareholder distributions. The statement emphasises that where distributions to shareholders appear unreasonable relative to deficit contributions, the Regulator expects trustees to negotiate robustly to secure a fair deal for the pension scheme.

Schemes with a 'strong' or 'tending to strong' covenant are expected to consider strengthening technical provisions and reducing the length of recovery plans. Those with a weaker covenant are expected to prioritise the scheme over shareholder distributions and to seek ways to strengthen the covenant through retaining cash in the business or other mechanisms. In all cases, this seems to suggest that the Regulator would normally expect sponsors to be increasing, or at least maintaining, their current funding commitments, even where the funding position has improved.

> **...the Regulator expects trustees to negotiate robustly to secure a fair deal for the pension scheme.**

Integrated risk management (IRM) has been a central part of the Regulator's guidance over recent years and the statement notes that the Regulator considers documented and workable contingency plans to be a necessary part of IRM. Contingency plans may be less developed in many schemes, particularly where the employer is already struggling to meet its funding obligations.

Continuing another recent theme, the Regulator emphasises that when assessing the appropriateness of a scheme's technical provisions and discount rates, it considers the levels of risk in the scheme's funding and investment strategies, and does not focus on a fixed margin over gilts as its yardstick. The Regulator expects trustees to use IRM principles to set discount rates, also taking account of changes in market conditions, and is now expecting Trustees to document the rationale for their chosen discount rate even if the method used has not changed from the previous valuation.

To date the Regulator has preferred to ensure fair and timely negotiations, often by quiet words of encouragement. With the development of some of the themes in the White Paper and reflecting comments in the funding statement, we may see a more active approach in future to ensure a scheme is being treated fairly.

The opening of Pandora's box

How schemes are investing in order to keep up with the demand for transfers

Continue reading on page 20 - 27

Low levels of workplace support are leaving employees at risk of **retirement income shortfall**

The introduction of Freedom and Choice in pensions has redefined how individuals take income in retirement. But are employees and members equipped with the knowledge to create a sufficient retirement income, and what support is available to help with this?

With this is mind, WEALTH at work conducted a survey to investigate what workplace support is available to help employees understand how to make the most of their finances throughout their career in order to optimise income at retirement.

Jonathan Watts-Lay explains the key findings.

Time to wake up to the importance of saving for retirement

Our results show that despite the vast majority **(80%) of employers believing that employees are not saving enough for retirement**, over half **(51%) are still failing to provide any form of financial education in the workplace** during pension accumulation.

Whilst auto-enrolment has come some way in helping employees save for retirement, it's generally accepted that current contribution levels are not enough to create a sufficient retirement income.

Financial education is key in raising the importance of putting something aside for later life in order for employees to have adequate savings to maintain a reasonable standard of living in their retirement.

80%

of employers believe that employees are not saving enough for retirement

51%

are still failing to provide any financial education in the workplace.

Gliding in the wrong direction

It's encouraging that the majority of employers **(69%) now offer employees a choice in glide path in the years leading up to retirement.** However, a third **(33%) of employers will still default employees to an annuity tracked glide path** if no active investment choice is made.

When we consider that there has been a significant fall in annuity purchase since the pension freedoms took effect, defaulting employees on an annuity glide path appears to be an ill-considered strategy.

Lack of support at retirement leaving employees at immense risk

With less than a quarter **(22%) of employers believing that employees are aware of their income options at retirement,** and the majority **(61%) believing that employees are unaware of the risks surrounding accessing their retirement income**, it's hard to see how employees can secure a good outcome.

The survey also found that **71% of employers do not provide a full retirement income service for employees at retirement**. Without the right support many could be at immense risk of making costly mistakes such as paying too much tax, buying inappropriate products or even falling for a scam.

However, it doesn't have to be this way as employers are perfectly placed to tackle this problem. Much can be learnt from forward thinking employers and trustees who are now bringing in specialist retirement providers to deliver the support employees require to achieve financial security in retirement. This includes the provision of financial education, and guidance and advice to ensure employees are fully informed when facing life changing decisions about their pensions and lifetime savings.

I cannot stress enough the importance of employers and trustees doing everything in their power to ensure that the right level of support is provided.

By Jonathan Watts-Lay,
Director, WEALTH at work

All statistics quoted are from WEALTH at work's 2018 survey entitled 'Focus on Retirement Income Matters.'

About the survey

The Focus on Retirement Income Matters survey was carried out by WEALTH at work, a leading provider of financial education, guidance and advice in the workplace. The survey targeted key HR, Rewards & Benefits, and Pension professionals. In total, the research received 85 responses which were completed online and via paper over 6 months from June to December 2017. All figures have been rounded to the nearest whole number.

61%

Employees are unaware of the risks surrounding accessing their retirement income

The dash for cash

By Stephanie Hawthorne

Stephanie Hawthorne, award-winning journalist, interviews Sorca Kelly-Scholte on the need for cash flow investing

The Pensions Regulator estimates more than 80,000 DB transfers were completed in the past year.

For pension schemes with negative cash flow it can be like 'trying to fill up the bath with the plug out, and that is a problem a huge number of trustees and sponsors are facing right now," says Sorca Kelly-Scholte.

An actuary and head of EMEA Pensions Solutions, and advisory at JP Morgan Asset Management with over 20 years' experience, she stresses in particular the 2015 pension freedoms. These have created an immediate cash flow challenge for many firms.

Across the industry, activity has been elevated with The Pensions Regulator estimating more than 80,000 DB transfers were completed in the past year. Some schemes have been scrambling to generate the cash to make these payments.

Kelly-Scholte comments: "They have been doing that in a relative benign period. We haven't had much volatility. When there was a spike in February, the market reminds us that it is not always as orderly as it have been in the past two years."

Transfer pressures

Clearly, the transfer activity is a challenge. Anecdotal evidence suggests this will carry on for a level higher than in the past, but at not quite as high level as in the immediate past. Kelly-Scholte forecasts that "this initial rush to the gates will settle down but at a higher level than we have seen historically. That will further increase the liquidity challenge of pension funds. It may mean that they run off their liabilities more quickly but the other side of the coin is that they will have a shorter time to manage the deficit problems."

Kely-Scholte's solution to this Kafkaesque nightmare is cash driven investing. "Three quarters of pension funds are in negative cash flow. Put simply, that means the amount of contributions being paid in is less that the amounts paid out." This figure is based on JP Morgan's research on firms in the FTSE 350, MSCI Europe and S&P 500. She adds "For some of these firms, they will only be slightly in negative cash flow and that can be dealt

> **Obviously, people focus on sterling assets because pension schemes have sterling liabilities that match inflation.**

with by investment income in a straightforward manner, but half of these schemes are in negative cash flow to the tune of 2% of assets. Once you are past that level, you will have to think more deeply about how you are going to service those cash flows as it won't simply be a case of using the investment income."

She refers to a survey Mercer did two years ago in which only a tiny minority of pension funds (around 4%), had begun to develop strategies specially designed to deal with negative cash flow. The vast majority of these were relying on investment income, or relying on the ability to sell assets in an orderly way, but that exposes the scheme to the risk of volatile markets or being a forced seller in stressed or volatile periods. That has the effect of locking losses and creating more volatility on the balance sheet.

"People say 'what's the big deal when pension funds are designed to pay out benefits? Why is this a surprise? Why is this a problem?' But until now pension funds have have had more coming in than they were paying out. They haven't had to deal with cash flow servicing and also they expected they wouldn't have to until such times as they were full and entered run off." In the past people were preoccupied with deficit repair problems.

To Kelly-Scholte, setting a cash flow driven strategy is of the utmost importance. "I see more and more people equating cash flow investing to just buying a cash flow matched income portfolio. That may be part of how you address the problem but to us that is only appropriate once you are fully funded and very mature. Many schemes are not yet at the final run off. She warns against thinking of cash flow servicing as just an administrative thing that you deal with at the end of the process. You really need to think about it up front. "Once you are underfunded it creates an extra drag on your funding level."

Kelly-Scholte says "I don't think we have seen the emergence of any one solution. Some people are beefing up their allocations of income assets, particularly the mature schemes, building up bespoke fixed income portfolios, but others are grappling with how they are trying to find the right trade offer between the need to deliver return in order to repair the deficit alongside the need to service cash flow and the need to create some duration hedge i.e. the traditional LDI strategy."

"The first thing pension scheme trustees should think about is incorporating cash flow into their overall strategy and thinking explicitly about what cash flows are coming off their assets and the degree of certainty or security there is. It is about thinking where do you want to end up?"

"For most schemes, it means a much larger allocation to credit than they have at the moment and that will be built in a customised manner and run, not against standard benchmarks, but run against a specification of their liability and cash flow. For most schemes it will probably mean an allocation to the cash flow generative but illiquid assets such as private credit, infrastructure debt and real estate."

Go global

What about capacity? Won't everyone want the same assets? "They are in short supply; this is why you need to start with this in mind because that kind of portfolio can take many years to build but you need to be a little but opportunistic." says Kelly Scholte.

Obviously, people focus on sterling assets because pension schemes have sterling liabilities that match inflation. Indeed Kelly-Scholte says the larger schemes are already doing this and are finding it harder and harder to find the right assets. So, she emphasises, "you really need to think globally when you are building these kinds of strategies which takes you into currency management challenges but this is a manageable problem. Diversification is clearly important. The UK market has a low capacity and is also quite small and relatively concentrated. The US, by contrast, is ten times as large and has ten times as many individual issuers to choose from." She says a lot of pension portfolios are dominated by LDI and equity high growth assets but there is a missing middle: credit and real assets which can really help deliver cash flow.

Turn on the tap!

Investment strategies for pension schemes: a focus on returns

Q&A with Aon investment experts

Maximising returns is one of the responsibilities of pension scheme trustees. How can they best achieve this in a risk-controlled way? How can trustees maximise their own effectiveness, and that of their investment portfolio, to deliver the best returns for their scheme?

By Sonia Gogna, Principal and Daniel Peters, Partner – Global Investment Practice, Aon

Here, two members of Aon's investment team, Daniel Peters and Sonia Gogna, answer questions on all aspects of returns.

1. Funding levels are improving due to a combination of mortality improvements, interest rates and pension risk transfer exercises. How much more return do schemes need to achieve their objectives, and where should they be looking for this return?

Daniel Peters:

This is a key question within pension scheme investment at the moment. The actual amount each scheme needs will obviously differ in every case. For all schemes, the most important issue is the need to regularly reassess what their scheme requires. A lot has changed over the last 12 months in terms of the investment landscape; leaving strategic investment decisions for the three-yearly review is no longer sufficient.

Sonia Gogna:

We expect volatility to increase as macro environments change globally and central bank monetary tightening picks up pace. Regardless of whether a scheme's eventual objective is self-sufficiency or buyout, ultimately consistent asset returns above liabilities will be needed to reach its goal.

These returns will be harnessed from asset classes which are genuinely uncorrelated or less correlated to the traditional asset classes like simple equities and LDI bonds. Factor-based equities, customised liquid alternatives, bespoke illiquids, and interesting complements in fixed income will be key to diversified robust portfolio construction.

2. What should schemes be avoiding in their search for returns?

Firstly, trustees should avoid investing in anything where they do not have a sufficient understanding of the key elements of the investment. Trustees also need to make sure they are clear on their beliefs and avoid taking any investment management approach that is not consistent with them. Many schemes are realising that they cannot realistically make all the increasingly complex decisions required of them, so are turning to delegation in order to get expert day-to-day portfolio management.

Schemes cannot expect that current 'buy and hold' strategies will be sufficient to navigate the increased levels of volatility we are likely to see in the future. Active management can reap significant dividends, as can capacity-constrained bespoke real estate deals. However, schemes should be aware; we find that many managers behave like passive managers while charging active fees. This is where a combination of factor-based equities and active managers can help. This can provide the expertise needed to build portfolios that deliver both returns and cost efficiency.

3. How do trustees deal with more complex investments, such as LDI, being introduced?

Firstly, trustees need to work out how much they need to understand; how much they can delegate with oversight; and how much they can rely on advisers. Schemes need to recognise the potential trade-offs and impacts of the choices they make here. For instance, many schemes fear losing some control when they delegate. In fact, respondents to our fiduciary management surveys who have delegated their investment repeatedly say that the loss of control is not a major issue in practice.

When working with schemes, we treat each trustee group as a unique entity, with its own governance budget and skill composition.

We typically work with clients in two ways. The first priority is to establish that the rationale for adding a complex asset class is justified in the context of the total portfolio and the trustees' long-term investment strategy. When it comes to adding the complex asset class, the approach will depend on each individual trustee committee's aims and preferences; we do not push the scheme into taking any particular implementation route.

We can provide a training programme for the board, and work closely with them to select managers, or we can work with the client to introduce a specialist fiduciary manager. The fiduciary manager will take over the day-to-day management of a complex asset class, but regularly check with the trustee body to ensure the portfolio is being managed and is delivering in line with the objectives the trustee has stipulated upfront.

The latter approach is more time-efficient from the trustee's perspective, and the portfolio is likely to be better managed under a full-time portfolio manager's monitoring.

4. Some of these new investment solutions tend to be illiquid. Can schemes tolerate this?

Yes, in general. It requires a lot of visibility on scheme cashflow needs, so it is important to map this out and understand how it may change with the scheme or employer's strategic direction.

As long-term investors, pension funds by definition are long illiquidity. So yes, if they are structured in a sensible way, i.e. in relation to the liabilities, illiquid investments can be a very sensible way of introducing diversification, return and income. We work with a number of clients on stress testing and setting our frameworks for liquidity needs, which duly impact when, and how much, a pension fund should allocate to illiquids. Clearly, if a scheme has certain objectives, such as targeting buyout within five years, this will lower their tolerance for illiquidity.

5. How do trustees decide which way of accessing returns is best for them?

This goes back to the scheme's beliefs. What skill set does the trustee board bring, and what do they want to buy in from outside? The best scheme decisions make use of everyone's expertise and experience alongside the combined diverse opinions of the board members, which creates valid challenge and debate.

There is no single answer here. The governance budget is a large determinant, as is a desire to focus time on key strategic decisions, rather than tasks like manager selection. If schemes want to use complex investments like hedge funds or illiquids, these are prime areas where outsourcing portfolio construction and manager selection to advisors or fiduciary managers can pay dividends.

6. How much risk should a fund manager be allowed to take to access returns?

I believe the risk should be commensurate with the asset class and its role in the scheme portfolio. This question also links to beliefs again, and so the answer will be different for each scheme. Every trustee board should be clear on the amount of risk it is comfortable with.

This very much depends on the scheme's objectives and direction. It is worth remembering that risk can be manifested in a number of ways; it is not just about financial return. Schemes might also want to consider the operational risk in managing an illiquids portfolio, or the risk posed by sub optimal due diligence, when they take on responsibility for ongoing manager monitoring.

7. How much should portfolios be able to adapt to allow for global market changes?

A good process to follow here is: review, check, evolve. While portfolios do not need regular radical change, they do need to evolve in line with market dynamics. Implementation needs to be sensible, with decisions underpinned by an awareness of markets.

Having a nimble and dynamic portfolio that can react immediately to global events or market disruption is crucial. Many periods of good returns can be eroded by one big, dramatic, unexpected

drawdown, and it can take many years to recover the loss back to the initial position. The liabilities, in tandem, may continue increasing.

Schemes need a governance framework which enables investment decisions and implementation to occur in good time. Fiduciary management and flight planning with triggers are two different ways of setting up an intelligent decision making framework; the investment consultant or personal portfolio manager can make quick decisions, while staying in line with the trustees' long term strategy, return hurdle or risk limit.

8. What can schemes do to capitalise on funding level improvement?

Schemes should regularly reassess their position so they know when funding levels have improved enough to make change desirable. Once they have sufficient funding, there is a range of options available: they could consider de-risking, via any of the pension risk transfer options available, or may want to sell out of expensive markets.

Schemes should look at their long term journey plans and, if progress is ahead of schedule, reassess their asset allocation. This may involve a risk settlement exercise or simply cashing in and de-risking the scheme to move into 'maintenance mode'. What is key, is to be able to act quickly before any gains are reversed.

9. How can trustees react quickly enough to changes affecting their portfolio?

This comes back to the need for trustees to understand their skill set and gaps, and the need to engage external expertise where they identify shortfalls. Schemes need to recognise what they can realistically do themselves, and where outside experts can help to make portfolios more agile. The governance of any approach chosen should be in line with the scheme's objectives and beliefs.

As for the earlier question about market changes, a dynamic and agile portfolio is essential here, and drawing on external expertise can definitely help. Schemes need to ensure they are structured to manage the governance and work involved in whatever approach they choose. We work with clients which operate along the full spectrum, from full delegation to a highly dynamic partnership model.

10. How can trustees and their advisers tell if they are doing a good job on returns?

Schemes need to have a clear plan, and be regularly reviewed to make sure it is being followed. Both trustees and advisers should sense-check actions against the plan on a regular basis. Sometimes larger strategic decisions can be a casualty of busy meeting agendas. Make sure your meetings are structured to ensure strategic direction is addressed alongside tactical action points.

Measuring managers is easier than monitoring a trustee board or an advisor because for boards and advisers, the opportunity cost of an alternative route is not easily quantified.

Schemes also need to remember that the returns angle is only one lens; effective risk management is also key.

We work with clients in a number of ways to measure all the relevant metrics, and have noticed that more and more are keen to assess their governance practices. Many trustee chairs and boards are looking for ways to create better governance processes.

11. How can trustees work together effectively?

Again, having an understanding of what everyone brings to the trustee board is crucial. Respecting others and having sufficient diversity on the board for well-rounded decisions is essential.

By understanding each other, and recognising the behavioural tendencies that may hinder good working practices or decisions. Running meetings effectively, and making sure they are chaired well, so that everyone has a share of voice; all of these things can help trustee boards make the most of their diversity and come to informed conclusions.

The uncomfortable truth - we are all at risk of cyber attack

The pensions industry can no longer hide from the uncomfortable truth that all schemes in the UK are at risk of cyber attack and data breach.

By Squire Patton Boggs

For many, it's not a case of 'if' but 'when' they will suffer an attack or a breach; how serious will it be and when will the trustees find out about it. The relentless march of the GDPR, with its threat of multi-million pound fines for the non compliant, has thrown the issue of cyber security into sharp relief. But this may not have come a minute too soon for some.

Why are pensions schemes particularly at risk?

There are a number of reasons.

The industry presents potentially rich pickings for a cyber-attacker. Schemes look after billions of pounds worth of assets, and they hold exactly the type of personal member data that cyber attackers covert for facilitating identity and credit card fraud.

An increasing number of schemes offer online services to members. This improves member experience and helps with administration. But it ups the cyber risk ante.

The day-to-day operation of schemes involves data and money flow between a significant number of organisations with each flow presenting opportunities for malicious interception or data loss.

Some schemes have been slow to respond to the cyber threat. Trustees might think that cyber security is somebody else's problem or that cyber attacks only happen to retail giants. In terms of downward pressure, cyber security has only just become more of a regulatory priority. As others tighten their cyber security, attackers become ever more sophisticated and start to look at softer targets, such as pension schemes.

There have not yet been any cyber attacks on the pension industry that have hit the headlines in the UK. This might change after May 2018 with increased reporting requirements under GDPR. If we look overseas, we can glimpse possible future outcomes for the UK.

In 2015, the Japanese Pension Service suffered a virus attack that led to millions of items of personal data leaking into the public domain. In 2016, a malware attack knocked the Ukrainian Pension Fund off line preventing member payments and destroying data. And, in 2017, the website of the Belgian pension fund Ogeo was hacked leading to a denial of access for several hours.

What can schemes do about cyber risk?

Prevention is always better than cure.

It may not feel so, but the requirements of GDPR do provide schemes with an opportunity as much as a burdensome challenge. Trustees can take stock of where and how members' personal data is held and how safe it is; they can review old supplier agreements and look to address cyber risk issues in a new contract; and they can look at what IT mechanisms are in place to defend against cyber attack and develop crisis response plans.

Trustees must quiz their advisers and administrators on their cyber security arrangements. What do they have to say about their compliance, certifications and what would they do if they suffered a cyber attack?

Trustees should look at whether they have insurance in place to cover the costs of dealing with a cyber attack or data breach (which can be very significant). Trustee liability policies might not always provide insurance against these risks, and trustees may need to think about specialist products.

So, whilst the risk of cyber attack or data breach for schemes cannot be underestimated, there is still plenty that trustees can do to manage and reduce cyber risk. The imminence of GDPR may just have helped the industry to confront the problem.

By Kay Ingram, Director of Public Policy, LEBC

Pensions and Divorce
- A Guide For Pensions Practitioners

Pension providers, trustees and scheme administrators need to be aware of some of the issues which can arise when dealing with requests from those who are undergoing a divorce. PMI members should be aware that it played a key role in establishing the law on pensions and divorce. The Goode Report, produced by a joint working party of PMI and the Law Society, made recommendations which led to the introduction of earmarking in Pensions Act 1995, and pension sharing in the Welfare Reform & Pensions Act 1999.

Statistics and trends

42% of marriages in England & Wales end in divorce*. An increasing number of older couples are divorcing, with over 60s making up 9% of the 107,071 divorces which took place in 2016, a rise of 4.3% on the previous year. Pension freedoms open up new solutions for financial settlements for these "silver splitters." Self representation in court is also growing.

Resolution, the professional membership organisation for family lawyers, trains and assesses financial experts to support their work for couples separating and divorcing. Currently only 42 financial advisers have gained Resolution accreditation.

Where parties to divorce do not also have access to advice from a Resolution accredited pensions expert, mistakes can easily be made. For example, out of date CETVs, or CETVs which represent the present value of the scheme member's pension at normal retirement date, rather than a CETV required for divorce purposes. Requests for multiple projected benefits may be made, even though this is not likely to be required by the court. CETVs may be sought a few days before a hearing. Unrealistic expectations need to be managed and requesting an adjournment, rather than turning up with inadequate information, is recommended.

Trustees, administrators and pension providers can find themselves inundated with requests for information, much of which is irrelevant to the divorce process. They can also be held responsible for delays in implementing the court order and face difficulties in determining what it means.

Expert witness

This role is essential where safeguarded rights are available and where pre-divorce pension inequality between the parties exists. The aim of the Court may be to arrive at equality of future income or equality of pension capital; the expert witness role is to advise the court on how this can be achieved.

It is essential to supply the report to the court in a timely manner. Not doing so can lead to court dates being missed and expense added to the process. This can be treated as a contempt of court.

Dealing with an expert witness gives trustees and administrators the benefit of someone who understands both pensions and divorce law, and will only request pertinent information. They can also assist the parties in drafting appropriately worded consent orders, giving clear guidance on implementation, making it less likely that there will be difficulty in implementing the order.

Law and process

Generally, the Court will seek to achieve equality between the couple, ideally with a clean break, a principle established in White v White (2001).

The courts prefer to arrive at a financial settlement between the couple which has been agreed by them.

This simply requires the court to endorse the agreement, called a consent order. Where agreement cannot be reached the last resort is litigation which means a court hearing will result in a court order being made which is binding on both parties.

The first stage of preparing for divorce is for each party to fully disclose their assets, income and liabilities, including pension benefits. Failure to fully disclose all assets is a contempt of court.

Deliberate deprivation and non disclosure

If approached by a scheme member who is divorcing and has asked to cash in large sums from existing pensions, to transfer pension plans to draw down, or to move funds offshore, for no apparent reason, it is important to warn them that hiding assets in anticipation of divorce, or spending funds outside of usual patterns is inadvisable. Section 37 of the Matrimonial Causes Act enables the court to intervene to stop such actions. While this cannot be used until divorce proceedings have begun, any attempt to hide or deliberately destroy assets, in anticipation of divorce, has consequences. These include:

- Possible contempt proceedings for any professional who assists with this
- The court will look unfavourably upon the party exercising non disclosure or deliberate asset deprivation
- The court can set aside any transactions or transfers of value which are of the nature of deliberate asset deprivation and destruction of value.

Destruction of value can arise as a consequence of such actions:

- Taking large one-off sums from a draw down plan, which exceeds the PCLS, may result in a high tax bill and possible loss of personal allowance if the withdrawal and other income exceeds £100,000
- Imposition of the Money Purchase Annual Allowance, restricting future tax relief on pension contributions to no more than £4,000 per year
- Transferring pensions abroad, with no genuine intention of emigrating to the same jurisdiction, will incur a 25% levy on the fund being transferred, charges and other taxes
- Off-shoring pensions is favoured by many scammers. Better to share the pension with an ex-spouse than lose it all to a stranger

Pensions division

Pensions are often the largest asset of the couple but perhaps the least understood in terms of value . There are 3 ways pension assets can be divided:

- Offsetting. The value of the pension can be offset against the value of other assets and these are split between the couple. Value is assessed in terms of equality of income, not face value.
- Earmarking. Part of the pension can be earmarked to be paid to the ex-spouse once it comes into payment. Before 2000 this was common, but is less so now. It leaves the ex-spouse with no control over when the pension is paid, and doesn't give them say in investment decisions. When the member dies the pension stops. Earmarking is tax inefficient as the member pays tax on the whole pension. It may be used to earmark death-in-service payments or tax free lump sums.
- Sharing. Part of the pension fund is transferred to the ex-spouse and invested in a pension in their name, giving them more control over how the money is invested and when and how it is accessed.
- Some defined benefit schemes offer the ex-spouse membership of the occupational scheme, especially common in unfunded public sector schemes, which do not offer a transfer out alternative. Where this is offered the scheme administrator must provide the expert witness with the projected income, at normal retirement age, created by the share. This must be provided before the court hearing so that the court can determine equality of income.
- Administrators often fail to supply this information, mistakenly believing that a court order is required first. Failure to provide the information in a timely manner is a contempt of court.

> **Following a divorce any will is null and void and both parties need to make a new one.**

Pitfalls in pension sharing/offsetting

// Lifetime allowance (LTA)

When a pension share takes place, the transferred amount is expressed as a percentage of the lifetime allowance. This percentage is added to the recipient's lifetime allowance. For example, a spouse receiving £100,000 when the LTA is £1,000,000 would be awarded 110% of the standard lifetime allowance. At the same time the spouse giving up the pension would have a debit placed against their LTA so that they would have 90% of the standard LTA.

+ Where couples have LTA protection in place, it is essential that thought is given to the order in which pensions are shared and, for over 55s, whether the share will be implemented pre- or post-crystallisation. Sharing and crystallising in the wrong order can significantly affect the amount of recovery charge payable.

// State pension

The basic state pension cannot be shared. It is a common misconception that state pensions can be ignored as "everyone gets the same single tier pension." The State pension changed on 6th April 2016. If an individual's Basic State Pension rights and Additional State Pension rights accrued to April 2016, known as the Foundation Amount, exceeded the maximum Single Tier State Pension as and when divorce proceedings started, before 6th April 2016, or the parties were in receipt of their State Pensions, the full Additional STATE PENSION can still be shared, and values should be obtained with a BR20 application.

After 5th April 2016, the potential excess pension is known as The Protected Payment. The protected payment is shareable and can be valued by submission of form BR20 to the DWP.

Pension freedoms

+ The introduction of flexible drawdown has led some judges to assert that equality of income is no longer to be determined by reference to annuity rates, which take account of the ages of the parties. One judge even referred to pensions as " ATMs from which one can simply withdraw funds." This view ignores the question of suitability of flexible drawdown for all and whether an individual will have the appetite for risk, and the ability to manage the longevity risk. It also ignores the very different taxation consequences of drawdown compared to receiving a guaranteed lifetime annuity or scheme pension.

+ Pension freedoms can help some "silver splitters" access funds from their pension. However, over reliance on funding asset splits from a pension can have unforeseen consequences. Few divorcees are aware of the impact of the money purchase annual allowance (£4,000 pa and no carry forward), on their ability to restore their pension savings, or the immediate tax take on large withdrawals.

Implementing the consent order

+ This may include:
  - arranging suitable pensions to receive a transfer value, or internal transfer
  - implementing earmarking orders on lump sums
  - altering nominees for death benefits post divorce

This aspect is not always followed through in the correct way, or in the right order, and can result in complications. We regularly meet individuals seeking help many years later, having failed to fully implement the court order.

+ Scheme administrators and trustees should note the case of Crabtree v BAE Systems. Mrs Crabtree referred her complaint, about delays in implementation of her share of her ex-husband's pension and the subsequent reduction in the transfer value offered, to the Pensions Ombudsman. While the Pensions Ombudsman did not find in favour of the applicant, the trustees still had the expense of the investigation and paid compensation for the inconvenience and worry she experienced.

The Ombudsman established that trustees carry responsibility for timely implementation of court orders.

// Death benefits and timing the decree absolute

When a divorce is granted by the courts a decree nisi is issued and, unless one party objects, the decree absolute is issued 6 weeks later. Afterwards the couple are no longer married and will not be eligible for any spouse pension payable from a pension scheme. It is advisable that, if there is a sharing or earmarking order, that this is implemented prior to applying for the decree nisi, and is essential before the decree absolute, to avoid loss of benefits on death of the member.

+ Trustees may exercise discretion but are increasingly less inclined to do so.

// New will and new nominations

Following a divorce any will is null and void and both parties need to make a new one. It is as important to review death benefit nominations under death-in-service schemes and pensions.

Where no pensions expert has been appointed, trustees and administrators, receiving CETV requests for divorce purposes, may wish to make members and solicitors aware that this could be beneficial and refer them to the Resolution register.

**Office for National Statistics Divorce in England and Wales 2016*

Legal Aspects

Vanessa Wells / Principal Associate
Eversheds Sutherland LLP

White Paper – Protecting Defined Benefit Pension Schemes

The biggest news this month was the publication of the DWP's highly anticipated and wide-ranging white paper, the follow up to its February 2017 green paper. Many of the proposals are not as thoroughly developed as those in previous pensions white papers, and some have suggested that the white paper has a distinct greenish tinge.

The DWP says the proposals will take "a number of years" to implement and will require a phased delivery approach. During 2018/19, the DWP and the Pensions Regulator will carry out a number of consultations, with primary legislation not likely to be put before Parliament until the 2019/20 session, at the earliest.

Some of the more controversial measures discussed in the green paper, such as mandatory Pensions Regulator clearance for transactions involving DB schemes, and a proposed CPI override for schemes with RPI hardwired into their rules, will not be pursued. Neither is there any mention made of any explicit restrictions on dividend payment.

The Pensions Regulator: some enhanced powers

New punitive fines to punish those *"who deliberately put their pensions scheme at risk"*, which may apply retrospectively from the date of the white paper.

New criminal sanctions *"to punish those found to have committed wilful or grossly reckless behaviour in relation to a DB scheme"*.

A **review of the notifiable events regime**, the Regulator's early warning system, will be undertaken to determine if it covers all relevant transactions and to clarify timing requirements (currently "as soon as reasonably practicable").

Declarations on business transactions will be introduced to require companies to make a "statement of intent", in consultation with trustees, before a "relevant business transaction" takes place. This would state that the company has appropriately considered the effect on any DB scheme and how it proposes to mitigate any detrimental effect.

Stronger information gathering powers will be given to the Regulator, including introducing the ability to inspect records, documents and electronic devices at parties' premises, and to compel people to attend interviews.

Scheme funding: prudent and appropriate

Revised DB funding code and meaning of prudence to focus on how prudence is demonstrated when assessing scheme liabilities, and what factors are appropriate when considering recovery plans.

Status of code and sanctions for failure to comply. The DWP plans to legislate *"to require trustees and sponsoring employers to comply with some or all"* of the new funding standards, and amend primary legislation, to enable the Regulator to take action in the event of non-compliance with the new DB funding code.

Mandatory DB Chair and triennial Chair's statement will be introduced to include a report on key scheme funding decisions, expected to include a description of the strategic plan for reaching the statutory funding objective and describe the scheme's long term financial destination.

Cost and charges, although not borne by members directly in a DB context, will be considered to see what more could be done to promote greater transparency in DB schemes.

Consolidation: bigger is better

The government wishes to offer the pensions industry *"the opportunity to innovate"* by creating a new style of DB commercial consolidator vehicle, set up for the purpose of enabling DB schemes to be brought within larger bodies (other than via a traditional insurance company buy-out) and benefit from shared functions and improved governance.

The DWP says that commercial DB consolidators would not be required to fund buy-out level but that funding requirements would likely have to be higher than is typical of schemes with a continued link to their employer and likely with a capital buffer requirement.

A month in pensions

Benefit simplification: no easy solutions

Possible improvements to regulated apportionment arrangements (RAAs). The current statutory process that allows an employer which is likely to become insolvent in the next twelve months to separate from its DB pension scheme is expensive and complex. The DWP will look at whether it is possible, without increasing risk to scheme members, to make improvements.

GMP conversion. The DWP is currently considering what it describes as "some minor changes" to GMP conversion legislation "for the near future", and working with HMRC to investigate whether changes to tax legislation are needed to address potential annual and lifetime allowance implications of GMP conversion. The DWP reiterates that GMPs must be equalised and says it will consider its position in light of the forthcoming Lloyds Banking Group High Court case, due to be heard this summer.

Defined contribution developments on disclosure, governance and transfers.

The Government also published several sets of regulations which will have an impact on trustees and employers, of pension arrangements that provide DC benefits.

Chair's annual governance statement

For scheme years ending on or after 6th April 2018, additional information will need to be included in the Chair's statement.

+ The level of charges and transaction costs applicable to each default arrangement.
+ The level of charges and transaction costs applicable to each self-select fund in which assets are invested.
+ An illustrative example of the cumulative effect over time of the application of charges and costs on the value of members' pots.

Trustees must have regard to **statutory guidance** which sets out what the illustration should include. The guidance is not intended to be exhaustive and trustees can decide how to present the information.

Annual money purchase illustration

The information that needs to be included in the annual illustration is being updated.

+ From 6th April 2018, a statement that certain information in the Chair's statement is available free of charge on a publicly accessible website. Members will need to be given the web address and told if they can request the information in hard copy form.
+ From 6th April 2019, how members can request information about pooled funds. This is intended to allow engaged members the opportunity to have a better understanding of the funds their money is actually invested in and improve confidence in saving.

DC to DC transfers

From 6th April 2018, it will be possible to transfer pure DC benefits without consent in the following ways:

+ Prior to 1st October 2019 only, on the basis of the current actuarial certification requirement
+ If the transfer is made to an authorised master trust, but only once the authorisation regime for master trusts is up and running
+ If the transferring trustees (or an employer who has sole power to make a bulk transfer), obtain independent advice from someone who is reasonably believed "to be qualified... by reason of that person's ability in, and practical experience and knowledge of, pension scheme management". Independence is determined by taking into account whether they have received a payment from the receiving scheme trustees or employers in the previous year.
+ Where the principal employers of the transferring and receiving scheme are part of the same group and the members being transferred are, or were, employed by an employer within the same group.

Where members are subject to the charge cap before the transfer, they will continue to be subject to the charge cap afterwards. The charge cap may also apply in the receiving scheme where the member made their original investment choice more than 5 years ago.

21st century trusteeship

Welcome to this first dedicated Trustee page in Pensions Aspects.

In this edition, we look at principle 4 of the Pensions Regulator's 21st Century Trusteeship, "Trustee Training and Improving Knowledge."

What the Regulator says

A new trustee needs to have the knowledge and understanding to perform the role within six months of appointment.

The first port of call for any new trustee is to find out about the scheme and its governance structure. Talk with the scheme secretary, pensions manager, your fellow trustees, and principle advisers. Becoming a member of the PMI will offer access to a range of free conferences, meetings and seminars, some of which may be accessed through the PMI's regional groups. Above all, visit the Regulator's web site, read the material specifically aimed at trustees, and have a go at the Toolkit.

A professional trustee must have relevant knowledge and understanding when appointed.

A working group has been set up to look at the standards that should apply to professional trustees; more to come on this in future editions.

Trustees should identify their strengths, weaknesses, and any gaps in knowledge and understanding, by carrying out self-evaluations and board evaluations.

This is far more important than many seem to think. You don't know what you don't know so taking time to evaluate your knowledge, and identify the gaps both as individuals and as a board, will inform a programme of training and help to get you ready for big decisions on the horizon. There is a tool for self-evaluation on tPR's website and a range of free methods from advisory firms. Don't forget to include your scheme secretary, pensions manager and advisers, and to ask them to comment as someone outside looking in; the results may be enlightening.

Link training plans with the scheme's business plan to ensure the training is more effective and meets the demands of the scheme.

Your training plans should get you ready for the decisions you will have to make. Your sponsor and advisers will ask you to approve actions that could have a lasting impact on the health of the scheme and its members. You must be ready to understand what is being asked and the impact on all stakeholders. You need to be able to challenge the rationale put forward with confidence rather than relying on the integrity of others.

Training plans

Training plans should cover each year with specific topics aligned to your plans and scheme events. Keep a personal training log and update it for evidence of good governance. Training can comprise sessions with advisers to the whole board, formal, webinars, reading pensions magazines, attending conferences and seminars. Joining a recognised CPD programme will provide discipline and a means of recording training received.

How the PMI can help trustees

Becoming a member of the PMI offers trustees access to a wide range of free courses, meetings and networking opportunities. We also offer a recognised professional qualification accessible to all trustees no matter their background or experience, and a CPD programme. Recording CPD is easy via our online tool and a certificate is provided every year to prove that you have met the standard.

Upcoming events for trustees include:

DB TO DC TRANSFERS DEBATE / 24th May 2018

TRUSTEE CONFERENCE / 5th June 2018

See our website for details.

By Lorriane Harper
PMI Vice-President
Co-Chair of PMI Trustee Group

The Pensions Regulator

Automatic enrolment: the last of the stagers

This summer will see up to 180,000 employers with a staging date reach their deadline for completing their declaration of compliance with The Pensions Regulator.

Employers with staging dates of 1st January and 1st February will have deadlines to complete their declaration of compliance by the end of May and the end of June respectively, and so by now they should be well underway with their plans.

To meet automatic enrolment (AE) duties, there are a number of steps employers will need to take.

Nominate a contact

Employers can find the information they need about AE at **www.tpr.gov.uk/employers**. TPR writes to, and emails, employers with key information about their AE duties. This means it's essential that TPR holds accurate and up to date details. In particular, it's important TPR has the correct email address for the person undertaking AE tasks so that their alerts hit the right inbox. Employers who nominate a contact and receive TPR's updates are more likely to avoid being non-compliant.

Assessing staff

Employers must check if their staff are eligible to be put into a pension scheme. Currently, eligible staff are those between 22 and state pension age and who are earning more than £10,000 per year.

Tell staff about automatic enrolment

Employers will need to tell all their staff in writing about AE. Even if staff are not eligible they must be given the opportunity to opt in or join a pension scheme.

Identify a suitable pension scheme and payroll provider

Staff who are eligible must be put into an AE pension scheme which employers will have to contribute into. TPR has information on their website on how to choose a scheme, including a list of providers who have master trust assurance. Employers will also need to check their pension scheme is compatible with their payroll software.

Declaration of compliance

Completing the declaration of compliance is a statutory duty and it must be submitted within five months of an employer's staging date, or duties start date. The declaration is an online document that shows TPR the steps an employer has taken to comply with their AE duties.

Employers should leave themselves plenty of time to complete the declaration as failing to meet the deadline could lead to a fine. Most warning notices issued by TPR are because employers have missed their declaration deadline.

Avoid non-compliance

Employers and their business advisers should be clear who is carrying out which task. Some employers have become non-compliant because they wrongly assumed their business adviser, or pension scheme provider, had undertaken a particular task for them (such as completing the declaration of compliance).

New employers with instant duties

Any new employers that set up their business from October last year will not have a staging date; their AE duties will start as soon as they take on their first member of staff. There is an online step-by-step guide which will tell them what to do and by when. Employers with instant duties will also need to complete a declaration of compliance within five months of their duties start date.

Increases to minimum contributions

From 6 April 2018, minimum pension contributions increased from a total of 2% to 5%. This means pension contributions after this date will need to be at the new increased level. More information about pension contributions can be found at **www.tpr.gov.uk/phase**.

More on completing the declaration of compliance:

What you'll need to complete the declaration:

- ☑ Letter code from TPR
- ☑ Employer PAYE
- ☑ Your contact details
- ☑ Your relationship to the employer
- ☑ Name of the employer
- ☑ Employer contact details
- ☑ Employer email address
- ☑ Employer correspondence address
- ☑ Type of pension scheme(s) used for AE (personal or occupational)
- ☑ Employer pension scheme reference (EPSR)

- + Make a note of all logins and passcodes.
- + Start your client's declaration in good time before their deadline; you can save your progress and return to it at a later date.
- + If postponement has been used for any staff, the declaration cannot be submitted until after the postponement period has ended.
- + Save your declaration at regular intervals as the system will timeout after a short period of inactivity.
- + Remember to select 'submit' at the end of the form to complete the process.
- + Employers and advisers should agree who is completing the declaration of compliance and that the information is correct.

Useful links for business advisers

AE guide for business advisers: www.tpr.gov.uk/business-advisers
Completing the declaration of compliance: www.tpr.gov.uk/client-declaration
Declaration of compliance checklist: www.tpr.gov.uk/reg-checklist
Nominating a contact: https://automation.thepensionsregulator.gov.uk/Nomination

Celebrating the good times

It's a lovely evening; everyone is having fun, laughing at each other's jokes, having a few glasses of wine...

Barbara Saunders, Investment Director, P-Solve

So far, you're glad you hosted this soirée and the homemade canapés seem to be a hit. But then, the slow motion feeling;when you see someone knock the glass of red wine and it suspends in mid-air whilst you scramble hopelessly to try and catch it. If missed, the red wine spills in the worst place; down the white blouse/shirt, splashed on the upholstery and finally landing to stain the (usually new) cream carpet. Leaving just the sense of 'if only.' If only we'd been drinking white wine, or if only I'd moved the glass earlier when I saw Stuart's arms flailing around as he told that story....

This suspended slow motion is probably how most Trustees feel about their funding levels right now. Things had been going well, up until late January; markets had been delivering returns for a year or two, perhaps there had recently been a positive surprise from updated mortality assumptions, and lately even interest rates had risen a little, generally making funding positions look much healthier. Then came the more turbulent times of February and March. Maybe not red wine, but red ink, certainly, has been splashed everywhere, recording market losses. And that 'if only' feeling has come right to the fore. Trustees may even be starting to feel as if the whole party has come to a premature and disastrous end.

So do they need to worry? Actually, we think they do. And there are actions that can be taken to avoid that 'if only' feeling. Actions that a mechanistic de-risking plan won't take, but a proactive Trustee board can reasonably achieve with the help of a fiduciary manager, or directly.

Is now the time to be fully on-risk?

With global economic, monetary and fiscal conditions still positive, markets have been bouncing back from each reversal, and the actual market losses so far this year have been limited. There has been no disaster.

However, fundamentally, we do not believe it's a great time to be taking risk. Equities, and particularly corporate bonds, look expensive, economic momentum is slowing, and credit conditions are starting to tighten. And volatility has returned to markets; for the past 18 months, markets ground upwards with hardly a bump in the road, but instability has roared back now and we believe it's here to stay. There has been no disaster, yet. We think the stage is set for a more serious market downturn.

So, given this slightly macabre outlook for markets, you might reasonably ask, what can trustees do to preserve their improved funding level? Or what might a fiduciary manager be doing for them? We see three main options.

Within the growth assets, trustees might sell some of their equities and corporate bonds, and instead consider more alternative investments, and perhaps hold some cash as dry powder. Where we have delegated authority under a fiduciary management arrangement, we have already been doing this for our clients.

They might usefully increase their levels of liability hedging. If markets crash, it is more likely that interest rates will fall as the "flight to safety" trade increases demand for gilts. Again, where we have discretion, these actions have been taken already.

And they might strategically de-risk, reducing their allocation to growth assets. This will lower their target investment return, for the time being. There is nothing to say they cannot re-risk later on.

These three options, of course, are not necessarily mutually exclusive, nor are they necessarily exhaustive; option strategies, for example, may be appropriate for some. But we think these are likely to be useful lines of thought for managing a pension scheme investment strategy. If Trustees don't have the time to do this, a fiduciary arrangement may help.

To de-risk now may mean deviating from an agreed plan for reaching full funding by a certain date. But you may actually be able to achieve full funding earlier

Strategic or tactical?

That third move, though, deserves a few more words, because it can seem a step too far for many trustees. The debate I hear, so often, is whether the de-risk is strategic, or tactical?

I am not sure the difference really matters. It is a proactive approach to growing the assets over time. Reducing risk some time ahead of a likely market downturn seems just sensible; as does reversing that position to take advantage of a likely market upturn.

Trying to time those moves precisely, to the nearest week or even the nearest month, say, would not be sensible for a pension scheme, in our view, and we would neither advocate it nor attempt it on our clients' behalf. But reducing risk now, even if you think markets might generally grind upwards for another six to 12 months, could be rational – responsible, even – depending on your particular funding situation.

To de-risk now may mean deviating from an agreed plan for reaching full funding by a certain date. But you may actually be able to achieve full funding earlier, if you are prepared to be proactive.

De-risking when markets are not providing a very good opportunity to make returns allows you to protect the capital you have, and then re-risking after the market downturn, when assets become cheap to buy and return, expectations increase. Using fiduciary management is one way to be nimble like this.

This way of thinking makes sense for pension scheme trustees because of their long term timeframe. No, their timeframe is not infinite, they probably don't have in hand the decades that might be needed to recover from a serious bear market, so they have to think about protecting their scheme from medium term losses. But for many of them their timeframe is long enough to contemplate, quite reasonably, the possibility of reducing risk now only to put it back on at some later date. Indeed, not to have done so may leave the 'if only' feeling lingering in the aftermath of a more disastrous spill, and with the benefit of hindsight, come to seem questionable.

So it is still a lovely evening. A little red wine may have been spilled, yes, but it's nothing that can't be sorted out. And the party is far from over, in fact it's just becoming interesting. Apart from anything else, we want to hear the punchline to Stuart's amusing story...

Much Ado About Nothing

Greig McGuinness, Dalriada

As I considered the content for this month in pensions piece, my working title edged naturally to "Much Ado About Nothing". As we enter the final six week run in to GDPR and I consider the prevalence of GDPR in seminars I have attended over the past 18 months, the amount of correspondence I'm still receiving every day, the lack of any concrete action from most parties until very recently, and the crazy costs being charged by some firms, I'm still scratching my head a little as to what's the big deal.

The regulations didn't have pension schemes in mind and by their nature pension schemes become a special case. We need the data to pay your pension; I have so many obligations to make sure that data is adequate, up-to-date and accurate and if I already comply with the Data Protection Act I'm pretty much OK. There are a few extra governance steps to confirm, record and communicate compliance, but on the whole not a big deal to a properly run pension scheme.

So with little to write about on GDPR, the timing of the White Paper seems like a windfall, but on the whole its more about nothing for most trustees.

The White Paper is primarily about empowerment of the Regulator, but also of trustees.

In most cases the proposals are for extensions of powers that already exist, codifying best practice and clarification. The major items such as new criminal offences and higher fines will affect a minority of pension schemes with unscrupulous sponsors and inadequate stewardship.

For the majority of trustees many of the proposals should be welcomed, as they help clarify some grey areas and almost feel like an extension to the Regulator's 21st Century Trustee programme.

Updating the funding Code of Practice to more clearly define what is intended by prudent technical provisions and appropriately set recovery plans, should improve understanding and the efficiency of funding discussions. It should not lead to an overly prescriptive regime as the continued need for scheme-specific funding solutions is clearly included.

It is unusual for a well run pension scheme not to have a secondary investment objective; whilst many triennial funding agreements are still broadly affordability based, most schemes have an eye on the end game with some level of buy out or self sufficiency flight plan envisioned. Formalising this should be welcomed to enable proper monitoring, and with modern tools it could be identified as obtainable much sooner, and less expensively than expected provided you can move at the right time. Whilst all trustee meetings need to be chaired, I'm not sure all trustee boards need a permanent chair or that the chair should have any greater responsibility than the other trustees.

However, trustees should already be writing up the process followed to agree their Statement of Funding Principles and Recovery Plan, and therefore a statement of the trustees to confirm this should not be an additional burden.

So, despite lots of excitement, debate and bureaucracy, there's no real change for the well managed, well governed pension scheme.

FCA update

FCA publications which may be of relevance to members include:

26 March 2018 – PS18/6: Advising on Pension Transfers
The FCA published new rules and guidance on how advice should be provided to consumers on pension transfers where consumers are considering giving up safeguarded benefits, primarily for transfers from defined benefit to defined contribution pension schemes.

The new rules and guidance include:

- Personal recommendation: requiring all advice on pension transfers to be a personal recommendation.
- Role of the pension transfer specialist (PTS): clarifying the role of a PTS when checking advice.
- Analysis to support advice: replacing the current transfer value analysis (TVAS) requirement with a requirement to undertake an 'appropriate pension transfer analysis' (APTA) of the client's options; and a prescribed Transfer Value Comparator (TVC) indicating the value of the benefits being given up and the cost of purchasing the same income in a DC environment.
- Opt-outs: applying a consistent approach for pension opt-outs where there are potential safeguarded benefits.

Further details can be found on the website.

Regulatory Matters

We reported previously that the FCA published revised examination standards in PS 17/11 in May 2017. As a result PMI has been reviewing the relevant entry in the table of appropriate qualifications alongside these revised standards. As part of this review it would be very informative to receive feedback from members who undertake any of the following Regulated Activities:

- 15 Overseeing on a day-to-day basis operating a collective investment scheme, or undertaking activities of a trustee or depositary of a collective investment scheme
- 16 Overseeing on a day-to-day basis safeguarding and administering investments or holding client money
- 17 Overseeing on a day-to-day basis administrative functions in relation to managing investment
- 18 Overseeing on a day-to-day basis administrative functions in relation to effecting or carrying out contracts of insurance which are life policies

PMI qualifications and/or membership have only partially covered these activities and consequently any members undertaking these activities are likely to have done so using additional qualifications. In order to assist planning it would be useful to understand the approaches used by members in this area. Please contact Neil Scott at PMI with any feedback: nscott@pensions-pmi.org.uk

CPD and the FCA's Training and Competence Sourcebook Guidance

The FCA's Training and Competence Sourcebook outlines the requirements for CPD. In particular, TC 2.1 Assessing and maintaining competence and TC 2.1.15 which deals with CPD specifically. There is some particularly important guidance that includes an outline of the nature of structured and unstructured CPD activities.

According to the Sourcebook, examples of structured CPD activities include participating in courses, seminars, lectures, conferences, workshops, and web-based seminars or e-learning which require a contribution of thirty minutes or more.

Examples of unstructured CPD activities include:

1/ conducting research relevant to the individual's role
2/ reading industry or other relevant material
3/ participating in professional development coaching or mentoring sessions.

The guidance also requires that all CPD should:

1/ be relevant to the retail investment adviser's current role and any anticipated changes to that role
2/ maintain the retail investment adviser's knowledge by reference to current qualification standards relevant to the retail investment adviser's role
3/ contribute to the retail investment adviser's professional skills and knowledge
4/ address any identified gaps in the retail investment adviser's technical knowledge
5/ have written learning objectives based on learning needs and a documented learning outcome
6/ be measurable and capable of being independently verified by an accredited body.

Diploma in Regulated Retirement Advice

The study materials for this qualification have just been revised to cover the most recent developments and also the changes to the FCA's appropriate examination standards. These study manuals can also be purchased for reference purposes. As well as being fully RDR compliant it is also an appropriate qualification for the regulated activity "acting as a pension transfer specialist".

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

Further details can be found here: http://www.pensions-pmi.org.uk/qualifications-and-learning/diploma-in-regulated-retirement-advice/

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PMI AAP members are reminded that as members of the PMI they must adhere to the PMI Code of Professional Conduct which can be found on the PMI website at http://www.pensionspmi.org.uk/about-us/code-of-conduct/

Can investors really have their cake and eat it?

By Euan Stirling, Head of Stewardship & ESG Investing

In recent years, adoption of environmental, social and governance (ESG) -focussed investing has accelerated. For investors, consideration of ESG factors has gone from a nice-to-have to a need-to-have, over the past decade. This is a positive development. Recent research has shown that factoring in material ESG risks during the investment process can help generate a high quality return stream that is likely to be more stable over the long term.

Evolution of ESG

According to a recent survey of institutional investors by State Street Global Advisors, 80% of institutions now incorporate an ESG component within their investment strategies, with more than two thirds of these institutions stating that the integration of ESG has significantly improved their returns.

What is driving this trend? One reason is the growing awareness of the effects of climate change and other man made environmental change. This is particularly true of millennial investors and women, both of whom hold an increasing share of wealth and are behind the shift to ESG investing. From the perspective of the asset management industry, there is also growing acceptance that incorporating ESG factors is a key element of investment analysis and therefore an integral aspect of investment managers' fiduciary duty to clients.

A major development in the rise of ESG investing was in September 2015, when the United Nations General Assembly adopted the 2030 agenda for Sustainable Development that includes 17 Sustainable Development Goals (SDGs). The new agenda emphasises a holistic approach to achieving sustainable development for all. As investors, it is important that we find a way to support them, and simplify them into our own understandable format within the investment research process. And that is why we have translated the UN goals into eight separate pillars of positive investment and action that we can look for in the companies that we choose to invest in.

For example “Affordable and Clean Energy” and “Climate Action” fit into our “Sustainable Energy” pillar.

It has been estimated that in order to achieve the SDGs it will require between $75-$105 trillion dollars of investment. This requires inspiration and innovation, and idea generation supporting the efficient allocation of capital. This is where new technologies can achieve commercial success, where sunlight can be transformed into electricity, and where plants can become more than simply a salad ingredient.

Investing not philanthropy

By integrating ESG considerations on a holistic, fundamental basis, investment managers can better price the asset they are investing in. Understanding the individual material issues of an asset helps managers determine the most appropriate weighting for a particular asset within a portfolio. Additionally, full integration of ESG into the investment process helps investors better engage with companies on the issues that will have the most significant, long-term impact on their businesses. Finally, ESG integration helps manage the downside risk, or the risk that an asset loses value because it allows investors to focus on the long-term risks to the business.

Impact investing versus return

Impact investing is the practice of investing in companies that are selected not only for their potential for a positive return, but also for their ability to deliver measurable environmental and social impact as part of their long-term business strategy. Asset managers should use their money, resources and expertise to invest in companies that are actively seeking solutions for environmental and social issues.

A key question for investors here is can you generate strong returns and still invest for positive impact? A study conducted by the MSCI shows that the answer is yes. It has been proven that both a static tilt approach and dynamic momentum produce better risk adjusted returns, and a better return than the overall market.

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Investors can make a positive difference to society through the right investment choices. And crucially, this approach does not have to mean sacrificing returns.

Investors really can have their cake and eat it.

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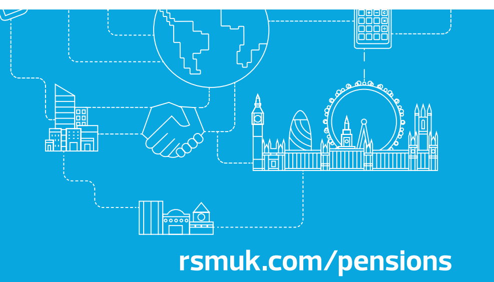

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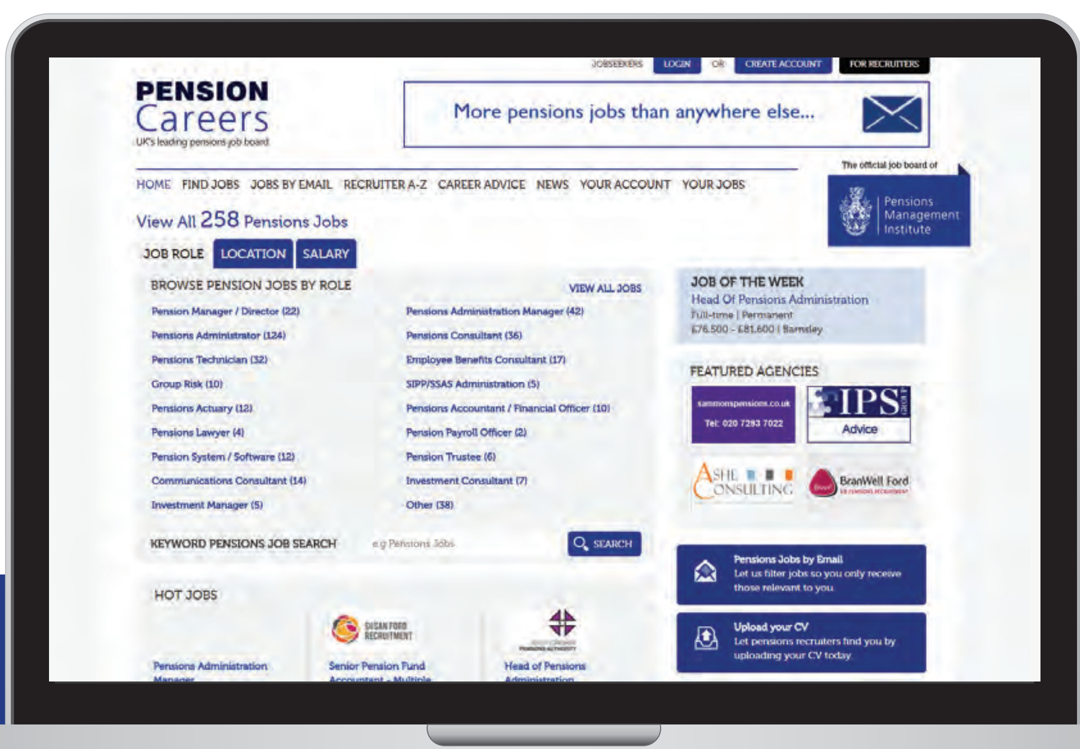

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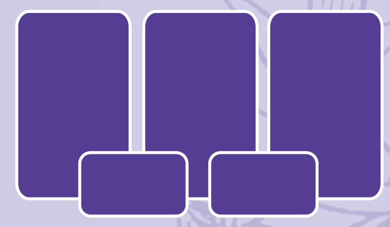

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