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Pensions Aspects

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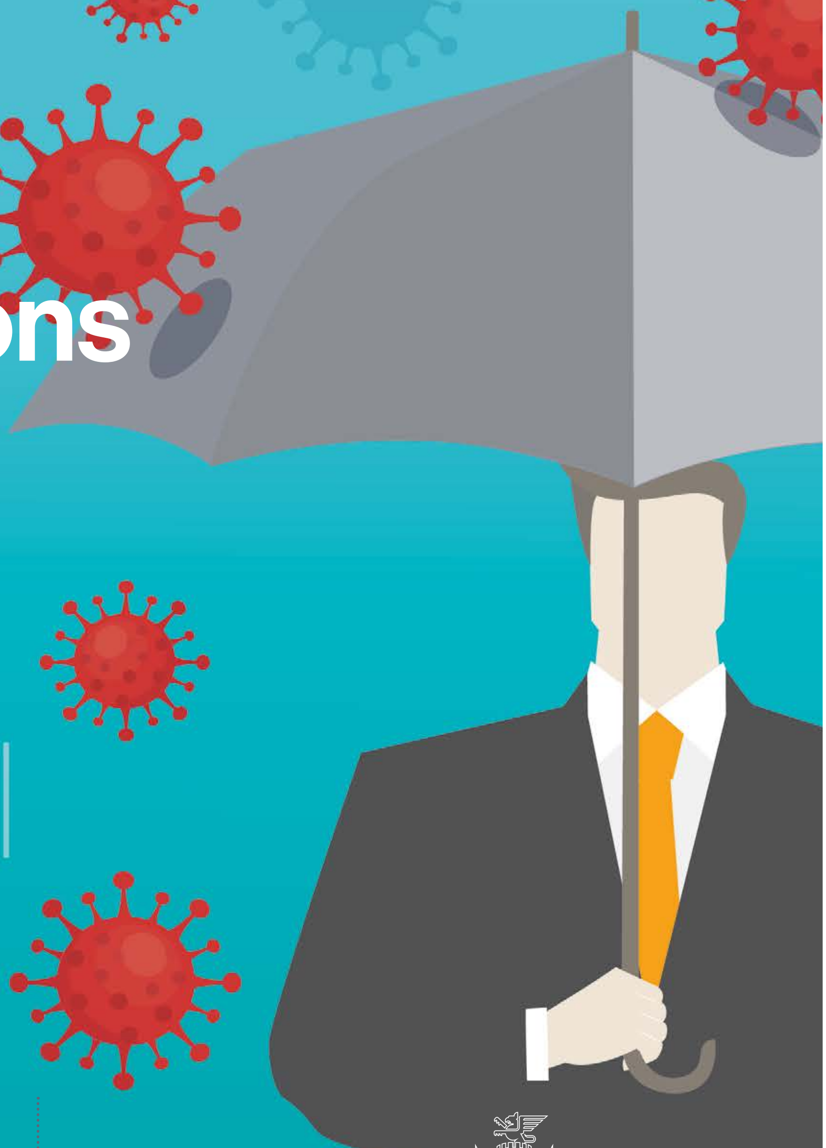
Defined Contribution Considerations

Maintaining composure in a state of flux



DEPARTMENT OF WORK AND PENSIONS (DWP) – THE WHAT, THE HOW, THE MYTHS

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Pensions Management Institute
Moving pensions forward

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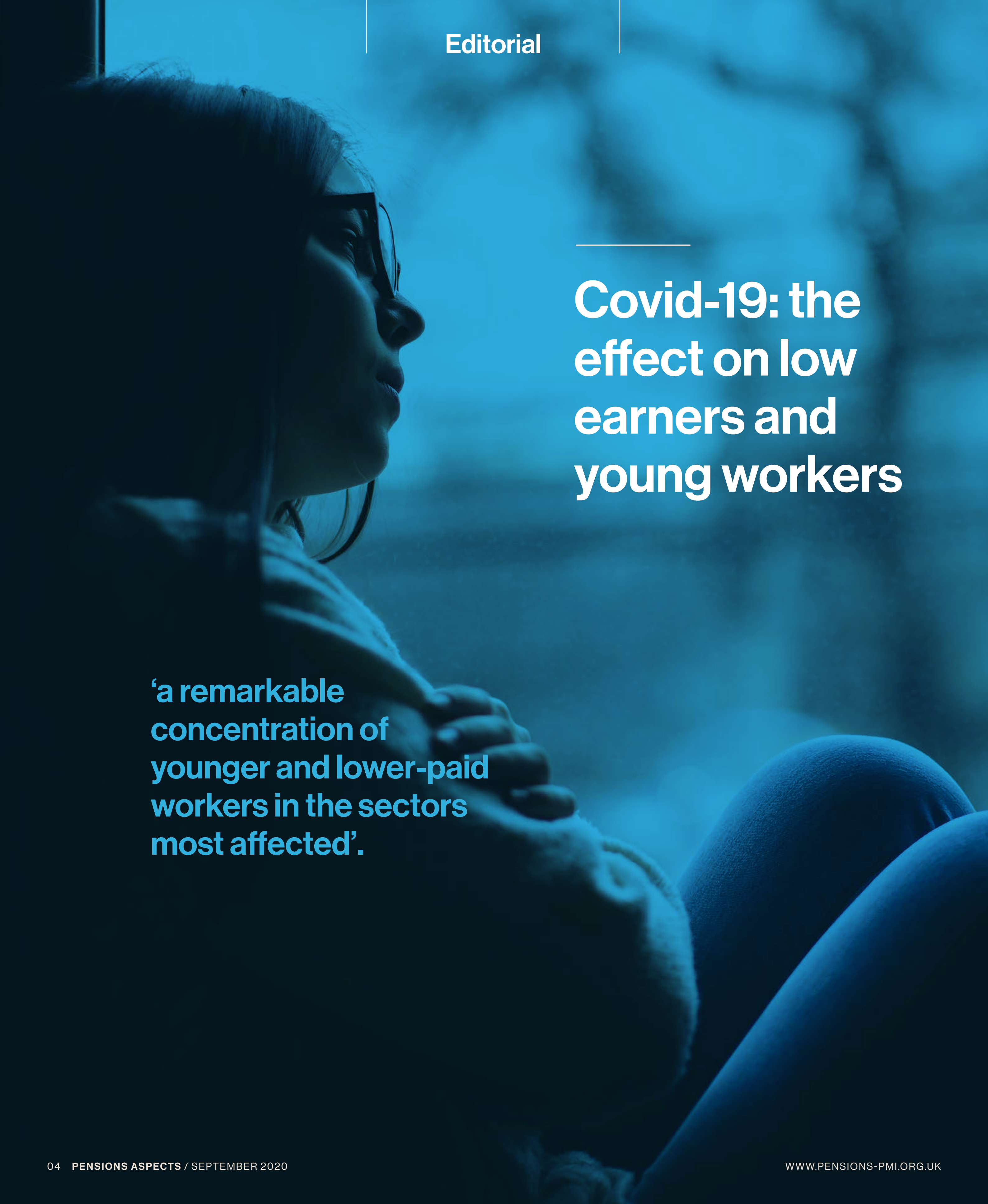


Covid-19: the effect on low earners and young workers

'a remarkable concentration of younger and lower-paid workers in the sectors most affected'.

By Tim Phillips, Vice President, PMI

As data continues to be released relating to the economic impact of Covid-19 there is a clear indication that there has been a significant impact on lower earners.

The Institute for Fiscal Studies, in its analysis of the current impact of Covid-19 on job losses, has reported that there is 'a remarkable concentration of younger and lower-paid workers in the sectors most affected'. The think tank, the Resolution Foundation, analysed data relating to workers who either lost their job or were furloughed. They found that in the lowest fifth of earners 30% had been impacted in this way. By contrast, in the top fifth of earners, the figure was only 8%.

There are concerns that this is more than a short-term blip, and is the beginning of a wider structural adjustment to the economy which will make some types of business models less viable. High street retail and restaurant chains rely on physical footfall at their sites and employ a proportionately larger amount of lower earners than many other sectors.

Lower earners represent a range of different demographics. There are those who will work in lower earning roles for a long period of time, those working in this capacity temporarily whilst they study, people working reduced hours as they care for young families, and many other types as well.

Where income has been hit, then pensions - as essentially deferred income - are necessarily hit too. As an industry we have become used to extolling the virtues of building a savings habit. But in these extraordinary times there are many people for whom that will have to take a pause. What we can do is use this opportunity to make the changes that are necessary to take down barriers and inequalities for lower earners.

One example of this is the current system of tax incentives for contributions. The Budget 2020 announced a consultation on this, and there is currently a 'call for evidence' from the Treasury. Tax incentives are needlessly complicated to the point at which they are not understood. When auto enrolment was first being introduced it was often articulated as being a simple 4% + 3% + 1% model - with 4% coming from the employee, 3% from the employer and 1% from the taxman. This has not proven accurate for large cohorts of people. Lower earners are treated differently depending on the type of tax relief that is operated by the scheme they use. There isn't a level playing field for low earners when it comes to schemes that operate on 'relief at source' and those that operate on a 'net pay' basis. The tax incentive should be a silent component of the build up of savings, but instead becomes uneven and muddled.

Those who have worked a succession of several lower paid jobs will soon find themselves holding a number of small pots as a result of being auto-enrolled for each period of employment. Where flat rate charges are applied to more than one pot then this can be overly punitive to the member. It will be difficult to keep track of all of these accounts, made all the more difficult as providers inevitably merge, sell books of business to one another, or rebrand. Frankly, where a pot is small then it will be difficult for many people to find the motivation to actively manage this. As an industry we need a way to make this much easier for people.

The Work and Pensions Committee has turned its attention to this issue. In an open letter to the industry written in July, resolving the issue of small pots was said to be important in 'enabling a sustainable, competitive market for lower paid employees'.

An interesting comparison can be seen in Hong Kong, which has had an automatic enrolment system now for over 20 years through its Mandatory Provident Fund (MPF) system. The regulator - the MPF Authority - is now in the process of introducing a new centralised digital platform. This will enable savers to log into a single account and see the pots that they have accrued over the past 20+ years of employment across all their MPF providers. This will go beyond the UK's 'Pensions Dashboard' concept, by allowing members to instruct tasks such as switching funds and transferring from one pot to another within a single digital platform. This progressive change will no doubt make it easier to track and manage small pots. The UK could learn a lesson here. For a lower earner, contributions in each payslip may seem small, but by having the amassed accounts visible in one place the ordinary worker can see 'how far that little candle throws his beams'.

For those who have taken a career break, for example to provide childcare, then even the process of making up missing National Insurance contributions can be complex. NI credits are given to non-working parents who are claiming Child Benefit. Yet not all parents are eligible for Child Benefit. This leads to a muddled process in which non-working parents that are not eligible for Child Benefit should make a claim for Child Benefit in order to get the recognition of NI contributions for State Pension purposes, and then later pay back the Child Benefit they have received through additional tax. If a process was being designed with a blank sheet of paper, then it would not look like this!

It is encouraging to see some focus turning towards addressing the intricacies of our pensions system that currently work against lower earners. Members actively choosing to save will remain the best way to solve a future pension crisis, but this has to be within a framework that is clear and equitable for all.

The benefits of online learning with the PMI during lockdown

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

Pensions Management Institute

Learning

With the nation working from home, it has been a big change for most. Adapting to a new environment is never easy and adapting in a time like this feels even stranger.

One thing that the Qualifications team at the PMI have been doing to take advantage of this quieter time is to focus on transitioning our offer to be 'digital by default'. We did not want Covid-19 to affect your long term career plans and have come up with innovative ways and methods to reinvent our learning offer. All of our exams which were deferred from spring, at the start of the lockdown, are now online for the autumn series.

Thinking of doing some online learning?

Here are four reasons why you should make the most of lockdown and do it now!

Professional development

Now more than ever, this is the perfect time to improve a skill you may have previously struggled with, or to learn more about something that you can use to better yourself in your current role. You never know the opportunities learning can bring - it may be that now you can finally get the time to revise and get a qualification that can enhance your career prospects.

Learning more about your team

If you can't find a course from the PMI that will help you develop in your own career at this time, why not take the opportunity to learn more about your team mates and what they do? You might not realise it but there may be some correlations between what you do and another team within the business and from this, you may be able to work closer together in harmony to produce some fantastic results.

Flexibility

Our online learning offer allows the flexibility to fit around your everyday workload, so make the most of being in your own environment too as now you don't have to pop into a meeting or be away from your desk. You can simply dedicate an hour of your time after lunch to learning with no distractions and pass a few exams along the way.

Keeps up motivation

What's going on in the world right now is very strange; there has never been anything like it before. If your current workload is a bit thin on the ground, or you've been furloughed, then don't let yourself get into a rut of thinking negatively about your job. Simply use this time to up-skill and motivate yourself for when you return!

Please review the PMI website to see what courses are available: if you are quick, you may be able to book onto the Retirement Provision Certificate (redeveloped for this year) which will be examined for the first time in December 2020. https://www.pensions-pmi.org.uk/learning

Pensions Management Institute
London

It's been a busy time for the PMI London Group. We've been able to carry on our programme of events virtually, and it's been great to see our members during these unusual times.

Our garden-themed quiz was a big success and we were very happy to be able to support Horatio's Garden, a national charity creating and nurturing beautiful gardens in NHS spinal injury centres. Please visit https://www.horatiosgarden.org.uk if you're interested in finding out more about the amazing work they do.

We also held our AGM on 29 July, and we're pleased to welcome Jonathan Gilmour and Sarah Miller to the Committee. The PMI London Group Committee for the 2020/21 year will be:

Chair: Amanda Burden

Secretary: Giles Bywater

Treasurer: Nathan Jones supported by Jonathan Gilmour

Membership: Mark Jenkins

Business: Niamh Hamlyn supported by Emma Watkins, Nathan Jones and Sarah Miller

Social: Andrew Riley supported by Damon Lacey

Education: Damon Lacey

Communications: Martin Lacey

The Committee also wishes to take this opportunity to thank Girish Menezes for his valued input to the Committee and his time as Secretary and latterly as Chair. The Committee will miss his drive and enthusiasm and hopes to continue to benefit from his support for the PMI regional groups.

Please join the PMI London Group on LinkedIn for information about our upcoming events. We hope our members have had time to take a break over the summer and are heading into autumn relaxed and refreshed.

Pensions Management Institute
Southern

The Southern Group held our AGM via Zoom on 23 June, a medium we are all getting used to using. The program for 2020/21 is currently being prepared and we anticipate running sessions via Webinar in October and November. We are hoping to resume 'normal' face to face meetings in 2021 but obviously this is subject to restrictions and guidelines at this time. Further details will be provided to members in due course.

Pensions Management Institute
Scotland

Our most recent virtual seminar took place on 6 August with over 40 attendees. Topics covered were wellbeing and Covid-19, and the latest developments around GMP equalisation and actions for schemes.Our next seminar is planned for the second half of September and a key topic will be pensions and cyber crime.

Pensions Management Institute
Eastern

Our virtual AGM took place on 3 June without our usual session for guest speakers. The AGM saw Susan Eldridge and Jonathan Foot standing down from the committee. We want to thank them for their invaluable help and support for the Eastern region over a number of years.

The committee members with specific responsibilities are now: Ross Wilson (Buck) - Chair; Andrew Yates (First Actuarial) - Secretary; Zoe McLaughlin (Ensors) - Treasurer; Laura Sayers (Mills & Reeve) - Membership; Brenda Kite (Hymans Robertson) - Communication. Our next seminar in Norwich, but quite possibly virtual, will be on 4 November.

Pensions Management Institute

Membership

Membership

Obituaries

We are saddened to hear that **Joyce Wyatt** APMI and **Gerald Gilbert** ACII FPMI have recently passed away.

Renewal dates:

2020 – 21 Membership Renewal Subscriptions

Your membership renewal was due on **1 September 2020** and subscription renewal notices have been sent out to all members by email. To avoid any disruption to your membership services please make your payment now. If you have not received your renewal notice, a copy of this can be located in the My Transaction area of your member portal. Alternatively, please contact the Membership team at **membership@pensions-pmi.org.uk** or on **0207 392 7410.**

PMI Membership fees

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

Membership record

Please ensure that your personal details are correct and up-to-date on the My PMI member portal to ensure that there is no interruption to your membership service at **https://my.pensions-pmi.org.uk**

If you require a reminder of your username to log in and check your details please contact the membership team.

Continuing Professional Development (CPD)

Fellows and Associates are reminded that meeting the PMI CPD requirement is compulsory (except where retired/non-working). Under our CPD Scheme, PMI members are required to record at least 25 hours during the year. Please log on to the website and update your CPD record. **Please note that the requirement for 2020 has been reduced to 15 hours.**

Fellowship upgrades

Fellowship is open to Associates with five years' membership and five years' logged CPD.

We are pleased to announce that the following eligible Associates have been elected to Fellowship and are now entitled to use the designatory initials "FPMI"

Alistair Strachan FPMI

John Currid FPMI

All Associate members of the PMI with five years' continuous Associate membership and five years' continuous CPD who can demonstrate their contribution and achievement within the pensions industry are eligible to upgrade to Fellow membership. There is no longer an election fee so eligible associate members are welcome to apply to upgrade at any point. To apply please visit our website and fellow membership page at **https://my.pensions-pmi.org.uk**

Pensions Management Institute
Membership

Regional group webinars for all PMI members via our BrightTalk webinar platform

The Membership team has been working with various PMI regional groups to hold regional webinars for our members through our BrightTalk channel.

Our next regional group webinar will be held on Wednesday 23 September 2020 run by the North West regional group led by the group chair Nathan Robinson. Please register on our BrightTalk channel at **www.brighttalk.com/webcast/17145/423330**

Look out for more regional group webinars led by the regional group chairs over the coming months.

PMI regional webinars are available to all our PMI members regardless of which regional group you are a member of. Our regional chairs are always looking for opportunities to collaborate in providing technical content to our members. If you or your organisation would be interested in working with any of our regional group chairs, please get in touch with the membership team.

For more information on our regional groups and committee members involved please visit our regional group webpage at **https://www.pensions-pmi.org.uk/about/regional-groups**

Northern Ireland regional group – volunteers needed!

The PMI has recently launched a regional group in Northern Ireland. The group, supported by the London head office, will provide opportunities for members to expand their professional and personal network.

Benefits include:

- CPD opportunities for members in the region (discussions focused on published industry news, articles, case studies, speakers and panels, educational presentations by members)
- Better opportunities for student support in the region
- Representation of the Northern Ireland Regional Group on the PMI board.

We are still looking for volunteers to get involved in setting up the regional committee. If you are interested in joining the committee, or want to discuss getting involved in another way, please contact our membership team.

Fellowship Network – sessions to take place remotely for 2020

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

All PMI Fellow members have been notified of the revised arrangements and we hope you can join us for these exclusive, interactive virtual sessions via our BrightTalk platform.

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

4th Student Essay Competition 2020

We would like to thank all those who entered the PMI student essay competition sponsored by ITM. We encourage all student members to look out for further information later this year regarding our 5th student essay competition in 2021. Our judges have provided detailed feedback and we will update our student essay competition page **https://www.pensions-pmi.org.uk/knowledge/member-initiatives/student-essay-competition**

Students who take part in next year's competition we advise you have a read of these very useful tips and hints, so you know what the judges are looking for before submitting your essay.

Congratulations to our winner Jennifer Harrison from Willis Towers Watson who has won a whopping £1000 cash prize and our two runners up Jed Netwon also from Willis Towers Watson and Ben Picknett from Muse Advisory who each receive our runner prize of £250.

Virtual drop-in with the Membership team

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

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

Pensions Management Institute
Events

Flagship events

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

21 Sep

Annual Lecture
Online

29 Sep

Introduction to Pensions (Basics)
29 September - 7 October

Online

08 Oct

DC and Master Trust Symposium
8 October - 9 October

Online

09 Oct

Secretary to the Trustee (Introduction)
9 October - 15 October

Online

16 Oct

Introduction to Pensions (Advanced)
16 October - 21 October

Online

04 Nov

PensTech & Admin Summit
America Square Conference Centre 17, One Crosswall, London EC3N 2LB

05 Nov

Secretary to the Trustee (Advanced)
5 November - 10 November

Online

03 Dec

GMP Equalisation Seminar
Details to be confirmed

10 Feb

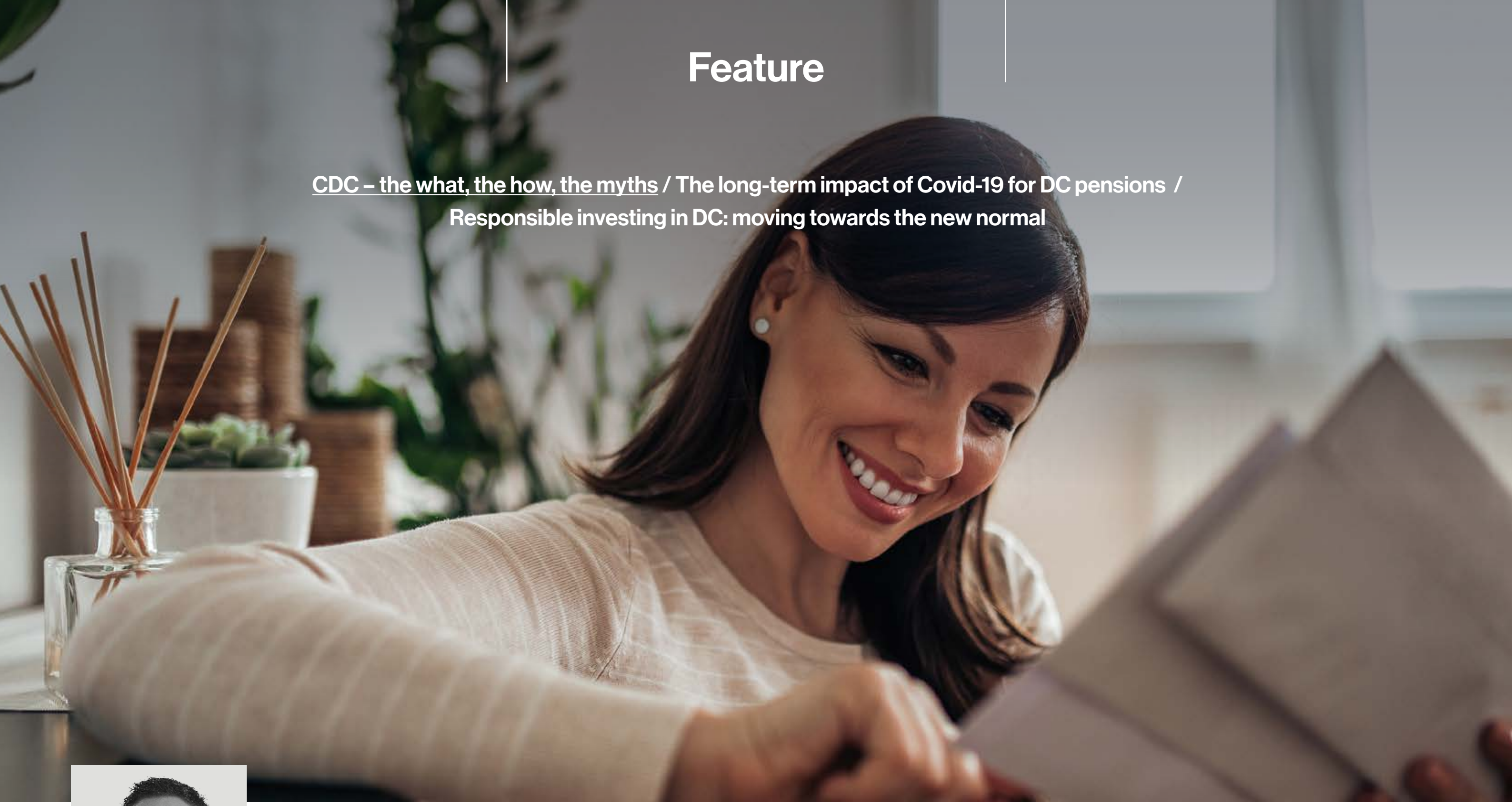
NEW DATE
Pensions Aspect Live 2021
The Savoy, Strand, London, WC2R 0EU

10 Feb

NEW DATE
Annual Dinner 2021
The Savoy, Strand, London, WC2R 0EU

Defined Contribution Considerations

This month's feature articles include:



CDC – the what, the how, the myths

By Chintan Gandhi, Principal Consultant & Actuary at Aon, and Association of Consulting Actuaries' Main Committee representative

With Royal Assent of the Pension Schemes Bill expected by the end of 2020, Collective Money Purchase – commonly known as Collective Defined Contribution (CDC) – schemes will become a reality.

And about time too. The case for CDC could not be stronger as UK plc, and society more widely, look to build a more resilient future in the wake of Covid-19

"CDC provides savers with an income for life in retirement, from fixed-cost Defined Contribution (DC) savings, without having to make complex financial decisions along the way", and can offer a better route forward for member and employer outcomes as they move on from the current crisis.

For employees, CDC delivers a target, inflation-linked income, payable for life - what the majority want in their retirement.

For employers, CDC looks no different to DC – fixed contributions, with no reliance on a sponsor or balance sheet risk.

This article gives a brief overview of what CDC is, how a typical CDC scheme might behave, and clears up some misconceptions surrounding CDC.

What is CDC?

CDC schemes offer a new way of building up pension benefits for UK employees.

Employer and employee contributions are fixed, with benefits taking the form of a **target** pension. Benefits are subject to **conditional adjustments** depending on the funding level of the scheme each year.

The key concept here is that benefits are **not guaranteed** – they can go **up or down** each year, although the terms are set so that increases are more likely than reductions. However, in extreme circumstances pensions can be cut, notably if an annual valuation reveals assets are insufficient to cover existing benefits at face value.

The benefits of CDC arise from a scheme design which aims to eliminate known biases (intended or otherwise) in outcomes between different generations of savers. In particular:

- All contributions are pooled together, in a single fund, with members collectively sharing investment and longevity risk
- CDC schemes are funded on a central (or best) estimate basis, with no deliberate margins for prudence.

Market movements and outcomes – in either direction – are shared, or smoothed over time, across the membership. This means that market timing and proximity to retirement – key drivers of outcomes and a source of risk in DC – have much less of a bearing on outcomes in CDC.

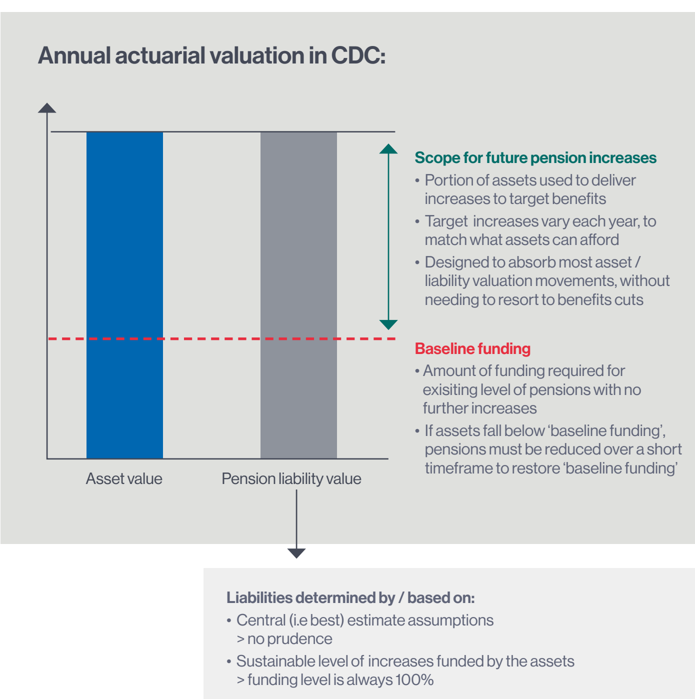
Multiple sets of research show that members of a CDC scheme can, on average, expect higher target pensions compared to conventional DC with an annuity providing the lifetime income. The time horizon of a typical CDC scheme will be longer than the lifespan of a conventional DC member, allowing a less conservative investment strategy.

Key to the success of CDC is clear and regular communication to members on the nature of benefits being built up: target benefits, with conditional adjustments. Members should be in no doubt that their benefits are not guaranteed, nor are they guaranteed to increase.

How does CDC work in practice?

The market falls of up to 25% seen early in the COVID-19 crisis provide a useful case study to help understand how a typical CDC scheme might have operated.

Chart 1: CDC valuations



The requirement of a CDC scheme at each annual valuation is to be fully funded. Each year a typical scheme will adjust the value of its liabilities by varying – up or down – its target level of annual benefit adjustment (or, target pension increase), to match its asset value.

Increases will only be targeted and awarded if there is sufficient scope to do so. In this example, let's say that a 3% increase this year and expected 3% per annum increases in the future will balance the books.

No additional contributions are sought from the employer if assets fall, because liabilities are adjusted (in either direction) to match assets each year.

Clear communications will help realign members' expectations on the benefit adjustment the scheme can provide in the coming year and will be targeting in future years.

Chart 2: CDC valuation following a 25% fall in assets

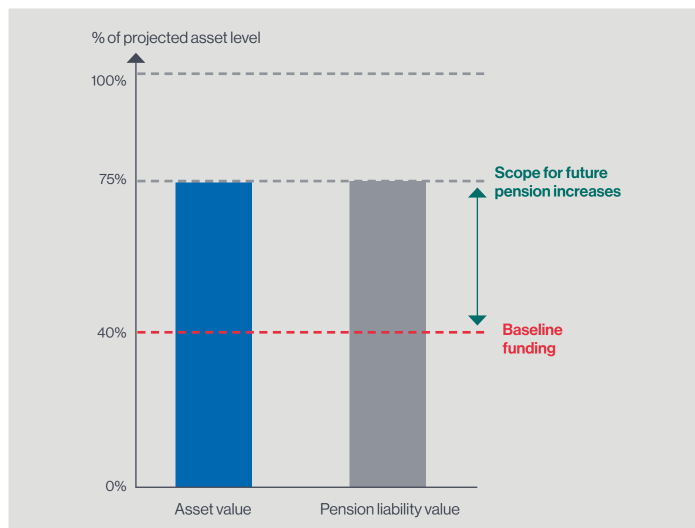


Chart 2 shows that if an annual CDC valuation reveals assets have fallen by 25%, the scope for funding for future increases to target pensions will have reduced. However, where assets remain sufficient to cover baseline funding, benefits would not need to be cut.

Target pensions will still increase in the coming year, and be expected to in future years – i.e. benefit adjustments remain positive. However, these increases will be **lower** than previously expected.

For example, if 3% per annum increases were previously expected, this might now be 2% per annum both in the coming year and as a target in all future years.

CDC – the what, the how, the myths / The long-term impact of Covid-19 for DC pensions / Responsible investing in DC: moving towards the new normal

From a member's perspective a smaller increase to their target pension each year, compared with what they were previously expecting, helps to smooth out the impact of this market shock, and may be an easier pill to swallow than seeing their DC pot plummet 25%.

Compare this with the well-publicised risks member outcomes face in both Defined Benefit (DB) and DC schemes, which are heightened at present, and resilience in member outcomes arising from pooling risk across generations comes to the fore.

Common CDC myths

"If you paid that much into DC, you'd get a decent pension too."

For employers wanting to offer CDC, this does not mean having to pay higher contributions than their existing DC arrangements. The benefits arise from collective sharing of investment and longevity risk, and smoothing outcomes over time.

"CDC is incompatible with pension freedoms."

CDC is completely compatible with the pension freedoms. Any member who wishes to transfer out before retirement will be able to do so, just like DC and DB schemes. The amount they transfer will be their share of the fund in order to be equitable between those who transfer and those who do not.

"CDC can't be good – Dutch plans had to cut benefits."

Benefit cuts in the Netherlands (for example those in 2012, and those which we may see in 2020) are highlighted as a failure of the system. However, a fairer assessment of 'terrible' cuts in extreme times is that members may face a temporary reduction in their pension in comparison with typical DC savers, who face a significant cut, e.g. 25%, and have a limited time frame to repair it.

The Dutch Regulator showed that for schemes that cut benefits in 2012, the average cut was around 1.9%. These cuts were largely restored in Dutch CDC plans as markets improved in the following years.

"It's just with-profits."

CDC does share some features of with-profits: investments are undertaken collectively without member choice or intervention, and underlying returns are smoothed over time.

However, CDC differs given its features below – if these applied in the with-profits era, many issues and 'outliers' may have been easier to call out.

- **Transparency and openness:** alongside The Pensions Regulator's oversight, all relevant financial information (including how benefit adjustment decisions are reached) are made public and subject to external scrutiny.
- **Governance structure:** a trustee board's sole objective is to support members' interests, with no potential undue commercial influences e.g. arising from the management of investments.
- **Communications:** it is vitally important to set members' expectations – both at outset, and through ongoing communications – on the nature of their benefits. Terms like 'target' and 'adjustment' help to emphasise the key concepts, as should reminders that benefits can be cut in extreme circumstances.

"Won't employers be forced to make good CDC deficits if schemes are in distress?"

No. Legislation defines CDC as Money Purchase. There is no recourse to employers for past accumulations, and CDC carries no balance sheet risk.

The long-term impact of Covid-19 for DC pensions

By Laura Andrikopoulos, Partner and Head of Governance Consulting, Hymans Robertson

What does the future hold for Defined Contribution (DC) pensions in a Covid-19 world?

Nimble governance here to stay

It seems unlikely that our world will simply go back to how it was before. Whilst many of us are craving more face-to-face contact and tiring of endless video calls, it seems inconceivable that even in the long-term we will fully revert to rigid quarterly meeting cycles of all-day face-to-face meetings. The long-term picture is likely to be a mixture of face-to-face and online meetings of shorter duration with more nimble, diverse boards who are recruited on a new set of criteria which include resilience and the right mix of skills for being effective in both face-to-face and online meetings.

Member outcomes in even sharper focus

In the short to medium term, economic conditions may depress member and sponsor contributions. Combined with subdued investment returns, member outcomes will be of more concern than ever. We already have a big problem in the UK in terms of the adequacy of DC pensions to provide a reasonable standard of living in retirement and as the DB generation gives way to those with DC-only provision, the stark reality of DC member outcomes will be revealed. As the economy recovers, this may lead to a longer-term focus on increased contributions and clever drawdown strategies that maximise an individual's pension pot over their post-retirement period.

Consolidation to continue with greater scrutiny on value

In the short to medium term it is debatable whether the pace of consolidation will speed up. Whilst some employers will be keen to accelerate cost reduction exercises others will be 'standing still' and deferring any project spend. This is a natural reaction to a crisis as we all wait to see how the dust settles and what the impact is on the economy and on the Master Trust market itself, particularly those Master Trusts who have many participating employers in badly hit sectors like retail and tourism. In the longer-term however, it seems likely that Covid-19 will exacerbate trends in market consolidation although this will also bring greater scrutiny on the value provided both within a particular Master Trust and across the wider market.

Member confidence restored

The turmoil in investment markets and increase in pension scams during the Covid-19 crisis may have shaken member confidence in pensions. Yet Covid-19 has also increased our awareness of our vulnerability as we get older and caused many to re-evaluate life and what is really important. Planning for a sufficiently long retirement with plenty of time to spend with friends and family may be up the agenda and in the long-term help to restore confidence in long-term saving.

Responsible investing in DC: moving towards the new normal

By Kevin Milne, Head of Investment Proposition Strategy, Aberdeen Standard Investments

It cannot have escaped anyone's attention that, in the last few years, how to consider Environmental, Social and Governance (ESG) factors and invest responsibly has become one of the talked about challenges facing Defined Contribution (DC) pension schemes.

Pressure on schemes to consider the impact of Environmental, Social and Governance (ESG) risks on long term returns is coming as a result of changes to policy and regulation as the government seeks commitment around key ESG issues. This is particularly related to issues around climate change, to help them meet their obligations to a variety of international accords such as the Paris Climate Agreement and the United Nations Sustainable Development Goals. Crucially, there is also increasing evidence that UK DC pension scheme members now expect more from their pension assets than just financial returns, with over 70% of people saying that they 'want their investments to avoid harm and to do good for people and planet'.

While some have already made changes, there has been a degree of caution with many schemes yet to make any changes to portfolios. There may be many reasons for this, from concerns over fiduciary risk, to uncertainty in some quarters as to the benefits to member outcomes. However, as pressure from all sides grows and the long term risks become ever clearer, it seems increasingly likely that taking no action will not be an option.

So what approaches could DC schemes be looking at in order to better integrate ESG considerations into their default and member-selected investment offerings?

Bottom-up

Many strategies already used in scheme defaults have long taken into account ESG factors alongside financial risk and return prospects within their investment processes (mainly those which adopt an active approach), and, when done well, this may be sufficient to meet obligations. However, some schemes, Master Trusts and pension providers are beginning to move further by incorporating ESG-focused strategies to sit alongside their existing core holdings while others have adopted exclusionary policies (e.g. removing exposure to tobacco or controversial weapons) that apply across their entire portfolios. These are all positive steps forward but we are at the beginning of a journey.

As approaches evolve and the universe of strategies suitable for DC investors expands, we think that employing a combination of strategies within a consistent ESG policy framework may help schemes achieve the right balance between meeting regulatory requirements, their member demands for action, and fiduciary responsibilities. Options here might include the following:

- Sustainable strategies that can be utilised across core asset classes. These are likely to be designed to be relatively mainstream (i.e. they seek to do less harm and do more good while maintaining similar risk and return characteristics to traditional market cap strategies). This type of strategy is likely to primarily make use of ESG risk-based (as opposed to ethical or moral) exclusions as well as portfolio tilts that aim to reduce risk and deliver targeted ESG outcomes (e.g. improvement in ESG scores, reduction in carbon intensity and/or increased exposure to green technologies). As a result, they may help fiduciaries to address ESG requirements on the majority of their portfolios without exposing themselves and their members to unintended risk and to create a consistent baseline from which to build.

- Thematic or impact strategies may not be right for all schemes and they are unlikely to be suitable as core investment holdings. But as complimentary satellite holdings that may further enhance ESG outcomes, improve risk and return characteristics and /or address member requirements, they may be attractive for some. For example, thematic climate strategies may be helpful where:

    - regulation requires schemes to take further action on climate change

    - there is reasonable evidence that climate is a particular concern for a significant proportion of the member population and campaigns such as 'Make My Money Matter' (which aim to increase awareness and engagement among members on ESG matters) will only make this more likely in future

    - particular themes, or combinations of themes, offer attractive long term investment opportunities to enhance return.

- Alternative (ESG tilted) asset classes. While there are not yet as wide a range of options available in this space and some characteristics (such as illiquidity) may be problematic for some, we expect to see growth in this area with more DC friendly solutions being developed in areas such as private debt, infrastructure and real estate.

Top down

Replacing existing or adding new strategies to portfolios will potentially be a big step forward and we believe will help improve outcomes. But truly incorporating ESG factors within the strategic asset allocation (SAA) approach employed as a default, may have as big, if not bigger, impact. Our work to develop Paris Agreement-aligned and climate-aware multi-asset portfolios for clients suggests that by evolving SAA policies to capture more of the opportunities and reduce long term risks it may be possible to not only deliver good retirement outcomes for members, but also improve outcomes for the planet.

Our analysis suggests that improvements can be achieved through an evolution of the portfolio optimisation approach to incorporate ESG risk and climate opportunity factors into the development of strategic asset allocations and broadening the universe of asset classes utilised within the SAA.

Responsible investing is at the core of what we do

The picture continues to evolve but we believe that it is becoming increasingly clear that the integration of ESG within defaults will be the new normal as growing member awareness of issues, along with changing regulatory demands, continues to drive fiduciaries to deliver defaults that improve outcomes for their members and the wider world. To this end, ESG solutions are very much at the heart of of Aberdeen Standard Investment's development plans over the coming year as we continue on our journey to provide solutions that meet the expectations of DC members.

Divestment or engagement – is it really either/or?

By Vicki Bakhshi, Director, Responsible Investment, BMO Global Asset Management

Screening is a widely used form of ethical investment but it's not immune to pitfalls. Company engagement can also be used to help align investment with investor values. Here we take a closer look at each of these approaches and consider how they can work together to build portfolios that not only mitigate risks and generate good financial performance, but also, ultimately, have a positive impact on society and the world around us.

Ethical funds that screen out sectors or companies that breach defined environmental or social standards have been available in the marketplace for many years. With a history rooted in upholding religious values, today ethical screening is more commonplace, serving the needs of a growing number of investors who are aware of the possibilities of aligning their savings and pensions with their beliefs.

Screening is used as a tool to assess companies on Environmental, Social and Governance (ESG) factors, thereby enabling investors to take a responsible approach to portfolio construction and management. However, they are not the only option for investors looking to reflect their values in their investments. Approaches incorporating active, committed company engagement offer the opportunity to put assets to work to create real-world positive impact.

Divestment decision-making

Historically, the most common sectors subject to divestment on ethical grounds have been those involved in the production of tobacco and weapons. A significant shift in recent years has been towards divestment related to fossil fuels as investors have become increasingly more conscious of how their investment decisions might be putting the future of our planet in danger. This movement has been spurred on further by the ambitious Paris climate agreement goals of keeping the global temperature rise to well below 2°C and better still to 1.5°C, while recent climate activism shaped by Greta Thunberg's 'School Strike for Climate' has brought these issues to the forefront of media attention like never before. Divesting from energy and fossil fuels has, therefore, become an increasingly common method for ensuring pension funds are aligned to the rising importance investors are placing on protecting the planet.

However, screens can create pitfalls because of their very nature of offering binary outcomes – permitting or excluding investment. This can ignore potentially important nuances in the underlying strategy of a company, which can obscure opportunities and therefore be counterintuitive to building responsible portfolios. This is best highlighted through an example:

In a huge strategic shift, energy company Ørsted evolved from an oil and gas extractives firm to becoming the world's largest producer of offshore wind energy.[1] But in 2019, within its power generation business, coal still accounted for 9% of the generation, which could see it excluded under a simple screen. However, beyond its structural shift so far, the company has also committed to carbon neutrality in its energy generation and operations by 2025, and carbon neutrality in its total carbon footprint by 2040.[2] This highlights how a screen can potentially miss important, forward-looking data that could influence an investor's decision that the company offers an opportunity to invest in a company committed to ensuring a sustainable future.

To be credible, screening also needs to be sophisticated enough to pick up issues that may not be

immediately apparent from a company's public profile. One recent example is fashion giant Boohoo. This was a company with favourable ratings from ESG data providers, and was a holding in many ethical funds. However, look a little closer and the red flags were there – particularly the company's lack of disclosure on its supply chain labour management, including its approach to modern slavery risks. BMO's own funds did not hold the company as our analysts had identified these weaknesses, and judged that it failed to meet the standards for our funds.

Why engagement matters too

One disadvantage of divestment is the loss of opportunity to engage directly with a company.

Engagement allows investors to evaluate how seriously a company is considering ESG issues by assessing how their actions match up to their policies, which are often what a company discloses and reports on to achieve a certain ESG rating. Investors can determine whether a company has set itself realistic targets for achieving ambitious ESG goals, and gather evidence of these being acted upon within the business strategy. Returning to the Ørsted example, engagement around the company's emissions goals would help an investor to decide whether the company offers genuine solutions to the energy problem, rather than just an impressive policy without much evidential action.

Moreover, investors can take engagement further and ultimately encourage a more sustainable future for us all by using their influence as stewards of capital to motivate positive change at the companies they invest in through constructive dialogue. Collaboration with other investors and initiatives, as well as proxy voting, can be used to press for change more urgently if required.

Concluding remarks

Screening is a widely used form of ethical investment but it's not the only option, and choosing not to screen a fund no longer automatically makes it unethical. Company engagement can also be used to help align investment with investor values, and can be applied across many different fund types, screened or not.

It is also important to emphasise that there is not necessarily an either/or choice between divestment and engagement. The two can work very well together in aligning values with investment decisions. Screening offers an effective starting point for investors to avoid the companies which most obviously breach values, but no company is perfect, so engagement can be used on portfolio holdings to build momentum for positive change. Through the considered use of these tools, investors can build portfolios that not only mitigate risks and generate good financial performance, but also ultimately create positive impacts on society and the world around us.

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[1] https://www.mckinsey.com/business-functions/sustainability/our-insights/orsteds-renewable-energy-transformation

[2] https://orsted.com/-/media/annual2019/Orsted_Sustainability_report_2019_online.pdf

How do you get people to save for a pension?

By Chris Connelly, Propositions & Solutions Director, Equiniti

People are not engaged with pensions and saving has become something of a dirty word in the 'lower for longer' environment that followed the financial crash of 2008.

Even those inclined to save are easily discouraged. People worry about having saved only to have to fund long term care. Volatility scares people off all on its own. People simply cannot accept that the value of their savings could go down as well as up.

Too much focus has been placed on investing, given the level of understanding among the general population. For most, it is an abstract term, something that other – richer – people do and simply isn't relevant to their lives.

It has been said before, but we must challenge and revise, the very terms pension and savings, particularly in the current environment.

Stories, not sales packs

Time and again, we worry whether it is sensible to inform people of how much they have in their pension. But, without context, it is meaningless and promotes the kind of knee jerk behaviour we – as professionals – don't consider 'sensible' or 'rational'. But people can seem 'irrational' because they don't understand facts and figures. The adage that half the population doesn't understand what 50% means is grounded in more than a grain of truth.

Bombarding people with statistics doesn't work. If you want to get people to understand a subject – even something quite complex – you need to make use of stories and pictures.

Great work has been done in the industry to improve our story telling, particularly recently with where money is invested and what good it does. This helps to make members feel more engaged, but it isn't enough on its own. We don't need a single narrative, but many different stories to engage with everyone who either doesn't yet save, or doesn't save enough.

Buying the future, not saving for it

Saving for the future is a commonly used phrase but is generally unappealing. It fails to engage because it sounds like we are doing it for someone else.

Everybody has a dream of having enough time and money to indulge their pastimes, be it something sporting, travel, or creative in nature. A pension secures not only an income, but buys time; time for you to do whatever you wish: 'time banking', if you like. That is a concept most people would endorse. We need people to see what we do is help them 'buy' their future.

People may not understand investments but everyone is a consumer and understands a purchase. These days people tend to do research online before buying an item, and will often listen to their peers and family members before making a choice. This network influences these decisions, so if all these groups get a strong narrative from the industry on how buying the future is worthwhile and rewards the customer with greater freedom over their time, it can only reinforce the saving habit.

This narrative still hinges on long term saving, but focuses on their story, not the spreadsheet or line graph that they cannot apply to their circumstances.

The journey they make in that story involves buying their future. Making use of this structure allows them to amplify their own cash, with free money from their employer and an additional top up from the government.

Consumers will still need to be warned that the value of their purchases could go up as well as down. But having bought a car, a house, or even just currency for a holiday, most people would understand this. And we must not only warn about volatility, but caution against snap decisions, too. The use of automatic triggers that only highlight when things are changing fast – and probably heading south – may tick regulatory boxes, but equally may encourage dangerous behaviour. Experience shows us that markets recover and we know that disinvesting will crystallise any losses and is a very expensive way of investing.

Finding the right message

It is not the only cost to watch out for. In the 'lower for longer' environment, costs being taken out have a proportionately bigger effect. At the moment, we can't tell if that will get worse after the coronavirus pandemic.

While 95% of people will never make an investment decision, most understand that if they buy something, it costs something to keep it maintained. So let us avoid the race to the bottom if we can show those maintenance costs are not only reasonable, but add value and buy them more time.

This industry has developed powerful segmentation for selling products to consumers that we should turn inwards to influence our communications. This will help us to understand which stories are working and with which groups of members.

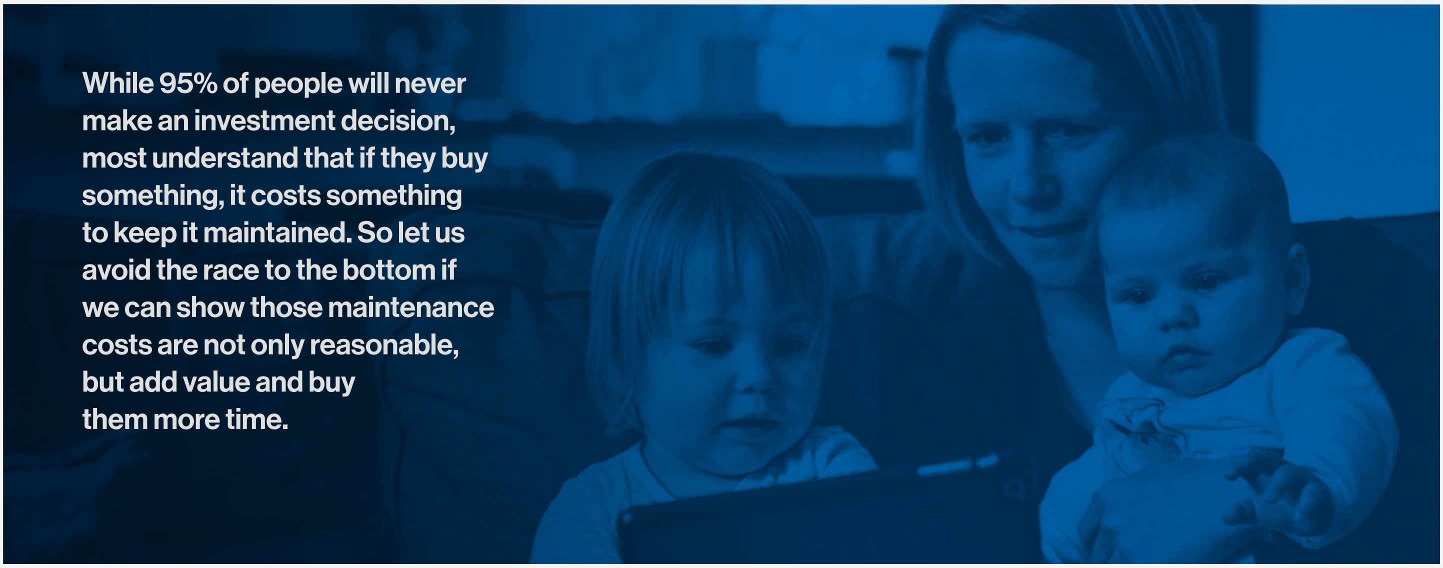
Our industry's communications must be meaningful and focus on security for the future, not products or investment.

Putting the punter first

As part of that we must also accept that it has to be acceptable for them to think that they can't afford to buy more of the future now.

We face a difficult time in the coming years and while dashboards may improve engagement and reconnect members with long lost pots, in the short term, they may be focused on the basics.

We should encourage them to step back, not to lose sleep over not saving, but to check back regularly and prioritise it once the crisis is past. If we make people feel guilty for focusing on the here and now we are likely to lose them forever.



Clear measurable objectives are needed in the fight for better DC outcomes

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

Pensions adequacy for Defined Contribution (DC) members saving for retirement continues to be a major issue despite industry developments in recent years. A Master Trust is often seen as a simple, all-in-one solution to DC pension provision, with scale and independent governance seen as key to delivering a better outcome for members. However, choosing the right Master Trust is hard, not only due to subtle differences between them, but largely as delayed gratification makes it unclear whether the 'right' choice has been made until members retire.

We believe more transparency is needed around objectives, making it clearer and easier for members to understand whether their pension arrangements are working towards the right outcome for them.

The inadequacy of DC pensions

As the UK's first generation of members wholly reliant on DC pension savings is approaching retirement, financial security will now be more in the spotlight. Recent Pensions and Lifetime Savings Association (PLSA) research showed 51% of savers are unlikely to meet the Pension Commission's Target Replacement Rate (£19,162 p.a. for a median earner in 2017).[1]

Put simply, half of the population are not likely to have a sufficient DC pot to maintain their standard of living in retirement.

This places a greater importance on a Master Trust's ability to solve the pensions inadequacy challenge; they have emerged as the DC vehicle of choice, growing in popularity, gaining ground over the last five years across FTSE 350 companies.[2]

Choosing the right Master Trust

Several key elements form the decision on which Master Trust is the most appropriate. These include factors such as engagement tools, administration capability, member flexibility, charges, and investment strategy.

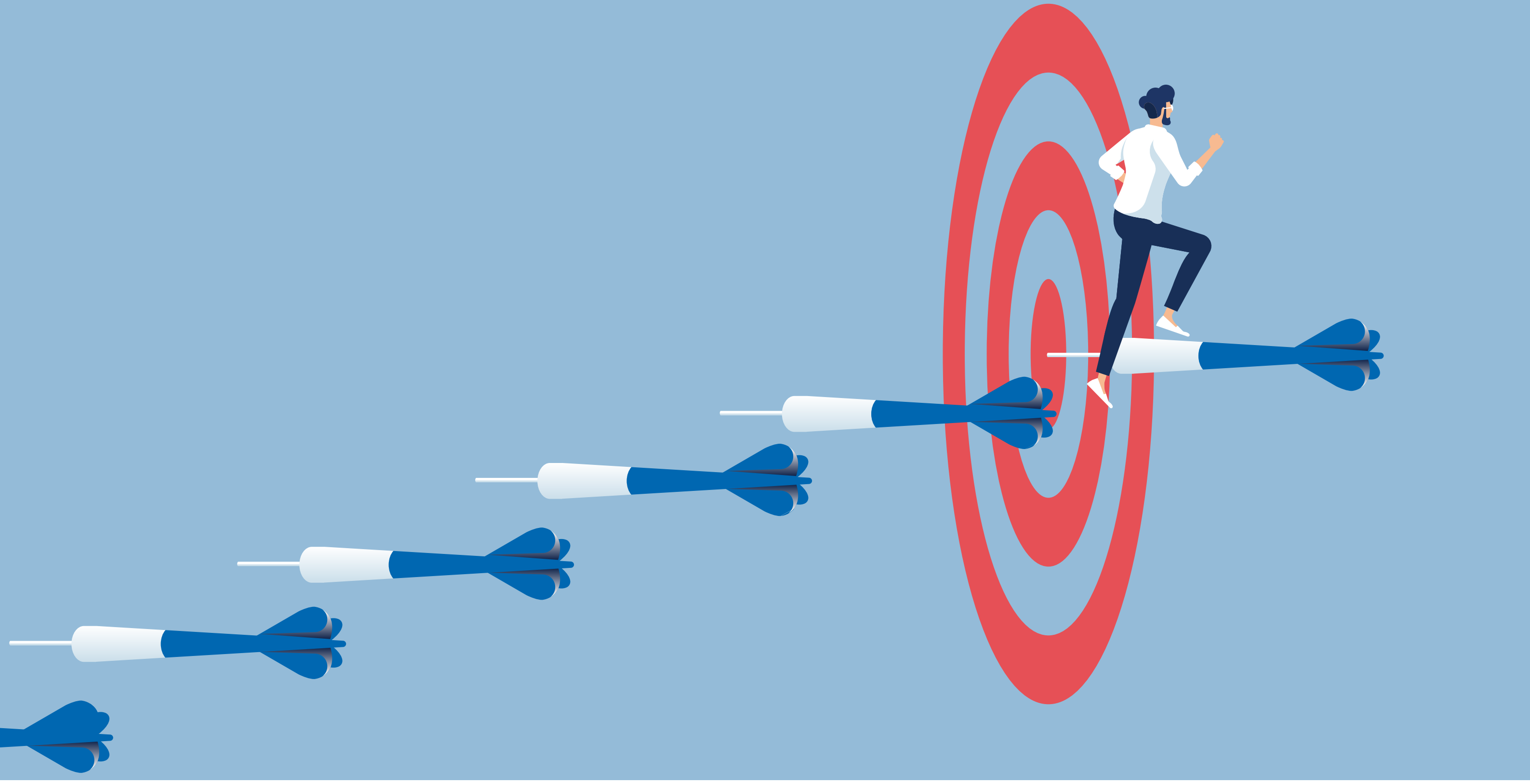
We have long argued that fundamental to DC is investment strategy: a key driver in whether people retire rich or poor.

The difference between the best and worst performing Master Trusts is 5.5% p.a. over 5 years to the year ending 31 March 2020.[3] This is the difference between a pot of £115k at retirement and £350k (assuming this gap persisted over a 40 year career).

The difficulty in determining whether the right investment strategy has been chosen is exacerbated by delayed gratification; people are unlikely to know whether their employers have made the right choice of Master Trust for them until retirement – which is too late.

Master Trust objectives

At present each Master Trust states high-level investment objectives. But these objectives are largely the same: 'aim to achieve better member outcomes'. Whilst this aspiration is perfectly reasonable, it lacks detail – how many Master Trusts would state they are not aiming to achieve member outcomes?



A small number of Master Trusts provide the required detail around their investment objectives and their Trustees work to deliver these objectives. But the majority don't, meaning there is no accountability for the pension people receive at retirement.

A better way... learn from cost transparency

Through value-for-members exercises and transaction cost disclosures, there is now a vast amount of information available to members to better understand what costs they are exposed to.

Inevitably cost disclosures have continued to see a push to the bottom in terms of fees, with almost all of the Master Trust providers offering largely static passive investment solutions. In fact, the range of default charges across Master Trusts has fallen in recent years with the average sitting at 0.48%.[4]

A greater emphasis on objectives could therefore have the same impact on the industry; more clarity, and measurement of what the objectives are looking to achieve at a member level. A simple example is the projected pot requirements for the DC Chair's Statement.

At present the projected pots just illustrate the impact of fees. There is no requirement to comment on whether pot sizes look reasonable or are in line with the objectives of the default provider, and subjective assumptions underlying the projections make it hard to compare projected pots among providers.

This is because the end goal is rarely the starting point for DC schemes.

Using a measurable target income level as a starting point can enable DC investment strategy objectives to be defined more clearly.

This will allow members and employers to determine and understand the success or failure of their pension arrangement in providing a good standard of living. The PLSA living standards, the Living Wage or The Pension Commission's replacement ratios are all ways to help define the income needs of members and we believe that these should be explicitly embedded in Master Trust objectives.

Pension schemes exist to provide an income in retirement but that endgame is in danger of being lost. A greater emphasis should be placed on the income members need at retirement and how Master Trust default objectives help members to get there. Whilst the realised gratification for members may be delayed, this approach will help ensure there are no nasty surprises come retirement.

[1] "Hitting the target: A vision for retirement income adequacy" July 2018 - Pensions and Lifetime Savings Association.

[2] "FTSE 350 DC Pension Survey 2020: June 2020 – Willis Towers Watson.

[3] Source: Capadata (performance as at 31 March 2020), R&M Solutions (calculations as at July 2020). Assumes 25 year old with starting salary £25,000 invested for 40 years with a contribution rate of 8%. **Past performance is not a guide to future returns.**

[4] "Charges, returns and transparency in DC: what we can learn from other countries?" December 2018, Pensions Policy Institute

DC investment in infrastructure: the virtues of patient capital

By Tasmin Patel, Associate, CMS
Johanna Clarke, Partner, CMS

For some time now there has been a drive to encourage the investment of defined contribution funds in long-term, illiquid asset classes.

Why?

For savers, it has the potential to generate higher investment returns over the longer-term; vital for members of Defined Contribution (DC) schemes, particularly those further from retirement looking for a sustained period of growth for their pension pots.

For the UK economy it unlocks significant pools of capital which can be used to provide investment in infrastructure projects and financial support to high-growth companies.

In November 2016, the Government announced that HM Treasury would lead a 'Patient Capital Review', to consider all aspects of the financial system affecting the provision of long-term finance. A Pensions Investment Taskforce was set up – made up of institutional investors, asset managers and regulators – to look at how to tackle existing barriers to DC investment in illiquid asset classes.

So, almost four years on, where are we now? And will the increasing focus on 'responsible' investment be a driving force for further change in this area?

What progress has been made since 2016?

Since the Government's announcement in 2016, there have been several developments to encourage investment in illiquid assets, and remove the existing obstacles.

In February 2019, the Department for Work and Pensions published a consultation on DC investment innovation and consolidation which focused, in part, on ways to facilitate the patient capital agenda. It proposed that trustees of DC schemes above a certain size should have to include a statement in their Statement of Investment Principles, setting out the extent to which they had considered illiquid investments in the scheme's investment strategy.

In mid-2019, the Investment Association announced initial details of a 'Long-Term Asset Fund', which would help to widen access to illiquid assets. This new fund would be specifically structured to facilitate long-term investment and its target market would be DC pension schemes, professional investors and private wealth/discretionary portfolio managers.

And in February this year, the Financial Conduct Authority (FCA) published a feedback statement summarising the responses received to its 2018 Discussion Paper on Patient Capital and Authorised Funds, and setting out further detail about the Long-Term Asset Fund.

But there's still more to be done. Whilst there has clearly been progress in this area in recent times, several existing obstacles to DC investment in illiquid assets still need to be addressed.

What barriers remain?

One of the trickier issues that is yet to be sufficiently dealt with relates to the DC charges cap.

The existence of the charges cap means that DC trustees can be wary of the higher fees that are typically charged, when investing in long-term assets. And it doesn't help that funds offering access to certain types of illiquid investment – such as venture capital and infrastructure – usually levy a performance-related fee, which is paid on top of the ordinary management fee.

There has been some speculation that the legislation in this area may change to mitigate this. However, in September last year the DWP told the Financial Times that it had no compelling evidence that any additional changes to the charges cap were needed to allow investment in venture capital or growth equity.

Another difficult area for contract-based DC schemes relates to the FCA's 'Permitted Links' regime, which has been viewed by some as another barrier to investment in illiquid assets.

The FCA's rules are designed to ensure that investments underlying unit-linked life policies are suitable for retail investors, by specifying the types of investment that they are permitted to invest in. Crucially, they imposed a limit of 20% on the proportion of a unit-linked fund which could be invested in a Qualified Investor Scheme (QIS); a type of authorised investment fund that is often used to access illiquid assets. As DC schemes typically invest in financial markets via unit-linked funds, this clearly presented a barrier to investment in illiquids.

There have, though, been some positive developments in this area recently. In December 2018, the FCA consulted on amendments to the permitted links rules, and one of its proposals was to remove the 20% limit on holding assets through a QIS. The finalised rules were published in March this year, although whether these will generate real change in this area remains to be seen.

Is there an appetite for change?

As noted above, at the end of last year, the DWP rejected calls to reform the DC charges cap to facilitate investment in infrastructure.

However, over the last couple of months, the tide seems to have turned.

In a speech at the Pensions & Lifetime Savings Association investment conference earlier this year, Guy Opperman emphasised that the industry should "not be under any illusion that investment in infrastructure and illiquids is something the government is passionate about".

Is this a response to the impact of the Covid-19 pandemic on the UK economy? There appears to be a growing sense amongst policymakers that the relationship between the government and institutional investors must become stronger, to allow those investors to support the UK's post-Covid-19 recovery.

So, watch this space...

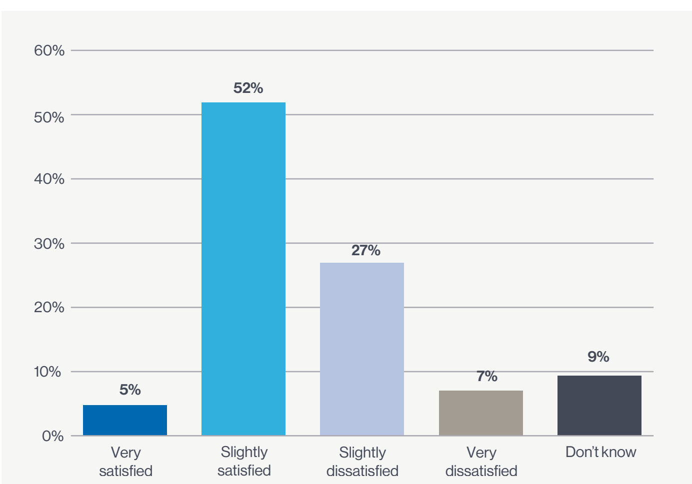
Taking the Pulse of pensions: PMI's 4th survey results

Lesley Carline, Chair, PMI Policy and Public Affairs Committee

As we review the outputs from our 4th Pulse survey, we felt it may be worthwhile looking to see if any trends were emerging. The aim was to not only find out what the industry felt on key hot topics but also to ascertain if opinions regarding policy and The Pensions Regulator (TPR) were showing any movement. For the first time we feel we can look at trends developing and move forward with our Pensions Tracker.

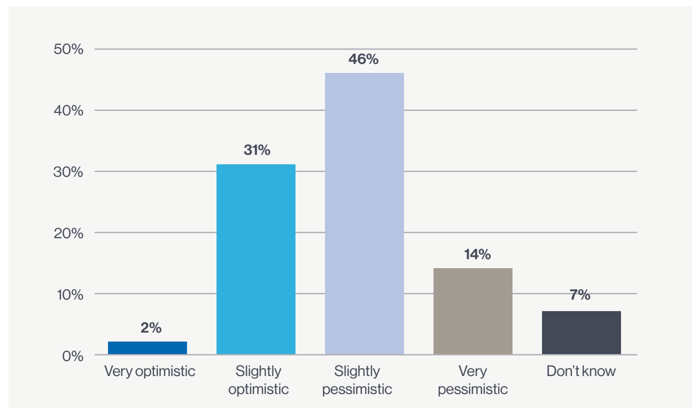
The first four questions of each survey have asked how satisfied we are with pensions policy and TPR.

Q1: How satisfied have you been with the direction of pensions policy over the last six months?



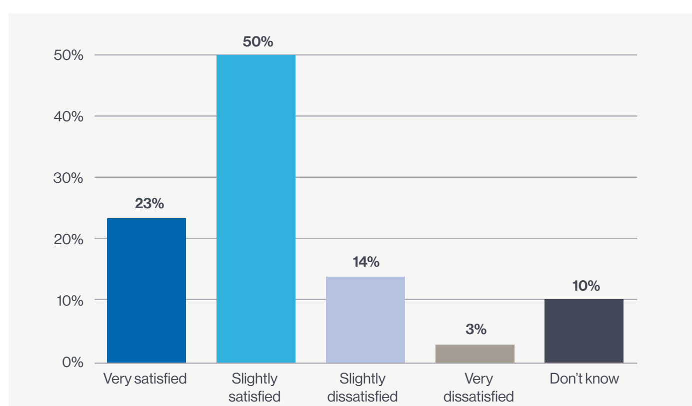
From the graph we can see more than half were satisfied of which less than 5% were very satisfied. Just over a third were dissatisfied with the rest being don't knows.

Q2: How optimistic are you about the direction of pensions policy over the next six months?



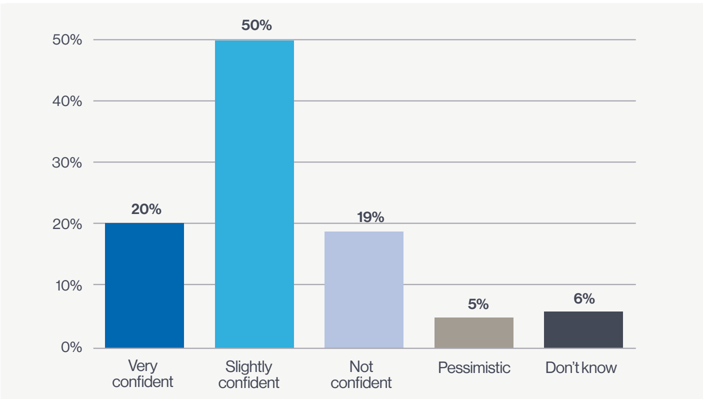
Nearly 60% of respondents are slightly or very pessimistic over the direction of travel of pensions policy. This look forward question echoes the feeling from the industry that government is preoccupied with other matters and pensions will be given a lower priority for now.

Q3: How satisfied have you been with the activity of The Pensions Regulator over the last six months?



Over 70% of respondents are very or slightly satisfied with TPR over the last six months. Comments from respondents were very supportive of TPR's approach to the Covid-19 crisis.

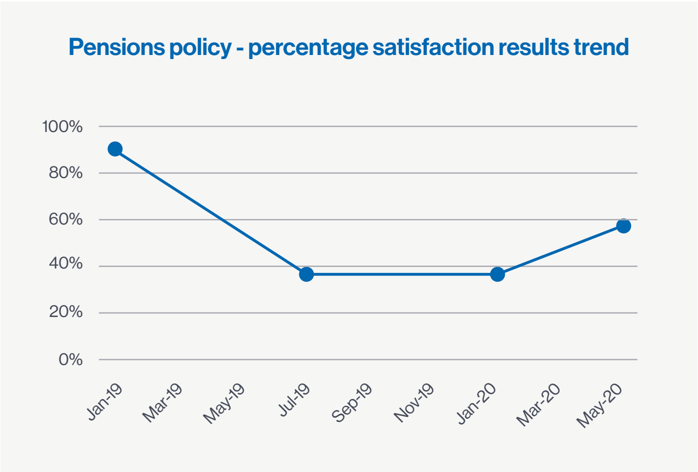
Q4: How confident are you that The Pensions Regulator will focus on the right areas in the next six months?



70% of respondents were very or slightly confident in TPR's focus in the next six months. Although there were some cautionary comments from members regarding workloads that will arise from the fallout of Covid-19.

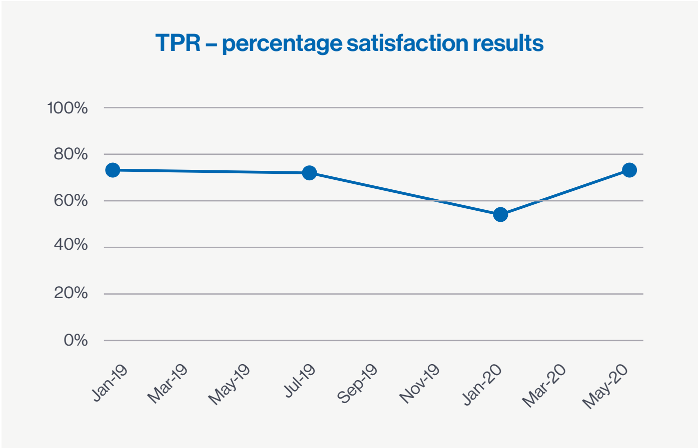
Pensions Tracker

Taking the results of the four surveys, we were keen to see whether sentiment towards pensions policy and TPR had changed and, if so, could we understand how or why?



By looking at the overall results we can see the satisfaction dipped but has moved upwards again. From responses we have received we believe the drop in satisfaction has been due to delays in government actions as the Pensions Schemes Bill, for example, has been delayed. The recent surge in satisfaction is a response to how TPR has handled the Covid-19 crisis, signalling the industry's approval.

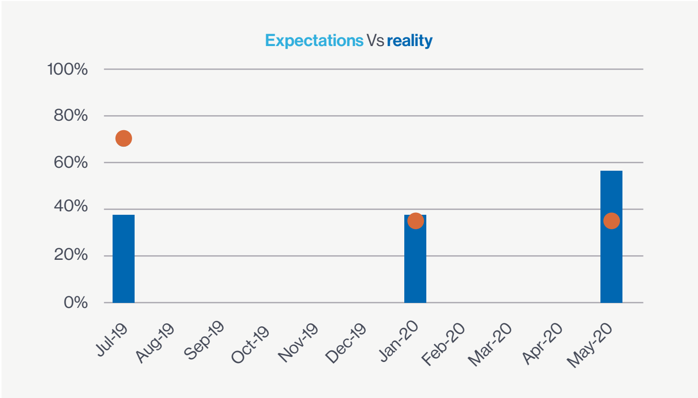
This is reflected in the results for how respondents have felt towards to TPR.



We can see the overall support for the areas TPR is focusing on taking a dip in the January survey, whilst the comments from participants did not express any real reasons as to why this happened, we can see approval bouncing back in the last survey, and, as mentioned above, its reaction to Covid-19 is the main reason.

Our Pensions Tracker allows us to compare the forward-looking optimism on pensions policy with reality.

How forward-looking optimism on pensions policy has compared with reality

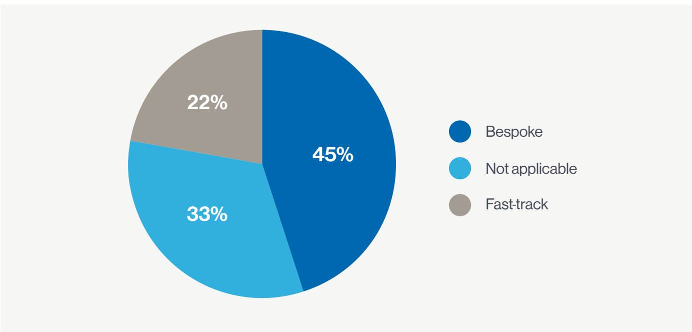


This chart shows the percentage of participants who were optimistic about future pensions policy over the next six months (orange dots) compared to the backward looking assessment of satisfaction, taken in the following survey (blue bars). We can see that optimism for the next six months is not significantly different from the reality i.e. satisfaction over that last six months. Throughout the surveys the general theme is pessimism caused by continuous delays to the pensions bills and other areas of government business taking priority over pensions.

As we continue to undertake the Pulse survey it will be interesting to follow the developments in pensions policy and TPR's focus through the feeling of the membership. Given the torrid time the economy, industry and people are having because of Covid-19, the next 12-18 months will result in movements in both. How these are accepted will be reflected in the Pension Tracker and Pulse survey.

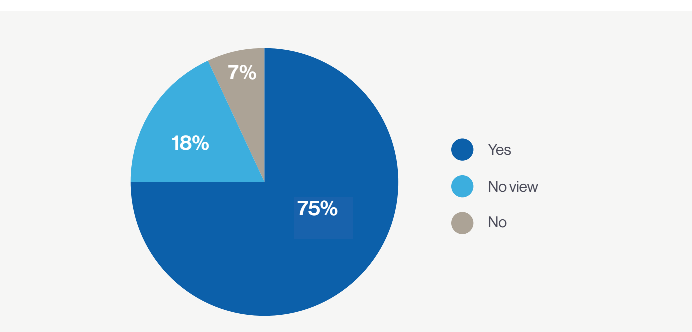
Moving onto the topical questions:

Q5: With reference to TPR's proposed twin-track regime for Defined Benefit (DB) valuations, do you currently expect your scheme (or majority of schemes if you are dealing with more than one) will adopt an approach that is:



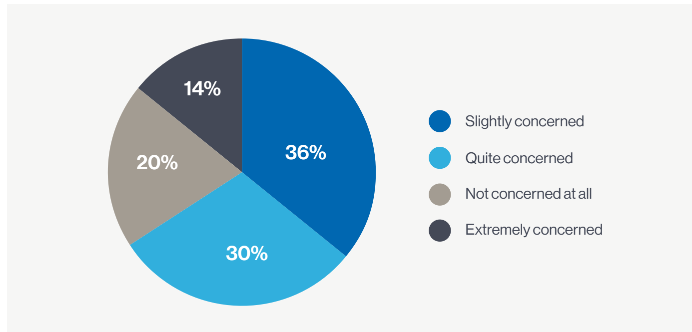
45% of respondents felt their schemes or most schemes they dealt with would take the bespoke option compared to only 22% taking the fast-track route for valuations. This contrasts with TPR's expectations, only large complex schemes would need to use the bespoke route. From the comments it is clear this is a divisive question with some concerned the prescriptive nature will overwhelm schemes, whilst others have embraced it, but overall there is a 'wait and see' approach to what the detail will be.

Q6: Has the Regulators advice to scheme's during Covid-19 emergency been helpful?



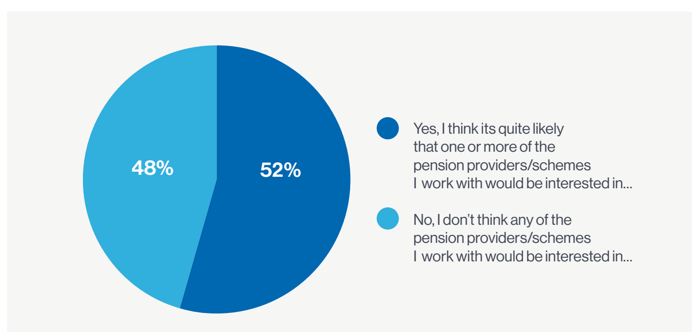
As you can see there is overwhelming approval for TPR's support during this difficult time. Although, as to be expected, the comments are quite telling with one respondent believing their approach was scattergun, another helpful but laborious, and one wishing it could have been more concise.

Q7: Clause 107 of the Pension Schemes Bill is intended to make it a criminal offence to 'recklessly endanger' a Defined Benefit scheme. However, many within the industry are concerned the Clause, as worded, is far too broad in scope and would potentially criminalise a range of ordinary activities concerned with management of, or services to, a scheme. How concerned are you that Clause 107 of the Pension Schemes Bill will criminalise normal DB scheme management and consultancy services?



Only 20% of respondents felt no concern. From the comments received we believe that many within the industry are still unaware of the implications of Clause 107 which is why in July's edition of Pensions Aspect we featured an article from the PMI's Policy and Public Affairs committee in conjunction with Burges Salmon, explaining just how, as written, it could affect trustees, their advisers and other consultants within the industry. One comment felt the concerns were scaremongering but still felt it would be better to 'get it sorted out'.

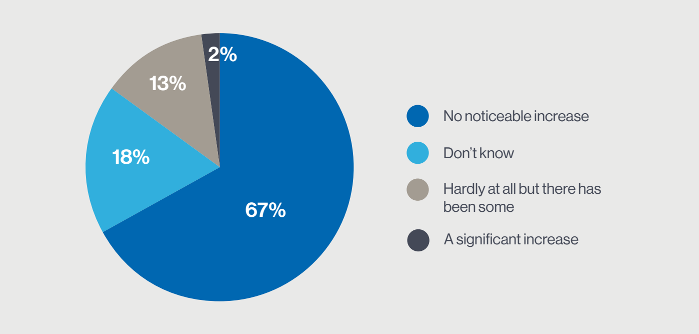
Q8: To settle the data standards for pensions dashboard (before industry-wide compulsion comes into force), a number of volunteer pensions providers and schemes need to put themselves forward. They will work very closely with the Government to test/refine the proposed data standards, applying real pensions data to the digital architecture, in turn benefiting the whole industry. Do you think our industry will bring forward the necessary volunteer pension providers and schemes?



It is disappointing to see the results, in that only 52% believe the industry will volunteer. Perhaps the comments will help explain the surprisingly pessimistic view from the industry. There were several comments suggesting due to Covid-19, providers would be too busy to help at this juncture. Concerns were raised over whether the Government was trustworthy and another was concerned that the larger schemes and providers would volunteer leaving the smaller schemes struggling to play catch-up.

Comments did express support for the pensions dashboard even if they felt there was a lack of resource at present.

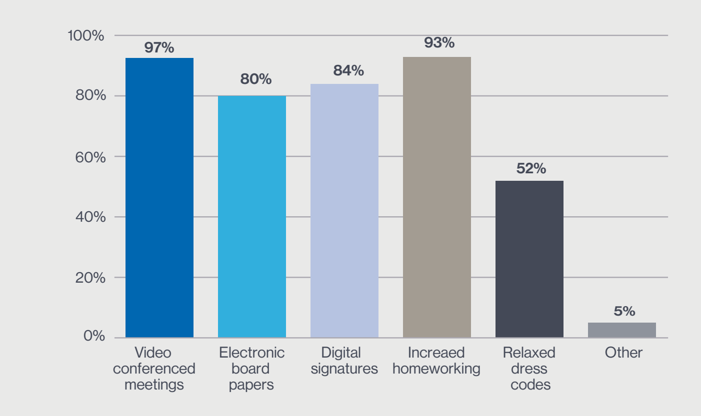
Q9: We have been advised during lockdown the risk of pension fraud has increased greatly. What evidence have you seen of an increased fraudulent activity?



The results from this question were perhaps the most surprising with two thirds seeing no evidence of increased fraudulent activities, compared to 15% who had seen a slight or significant increase. The results go against all the headlines we have seen over the last four months.

Within the comments section, concern is voiced more with regards to the increase in Defined Benefit to Defined Contribution transfer requests during what is possibly a difficult time for members. Whilst in itself it is not fraudulent, depending upon the advice given and pressure on members, it may be as bad as.

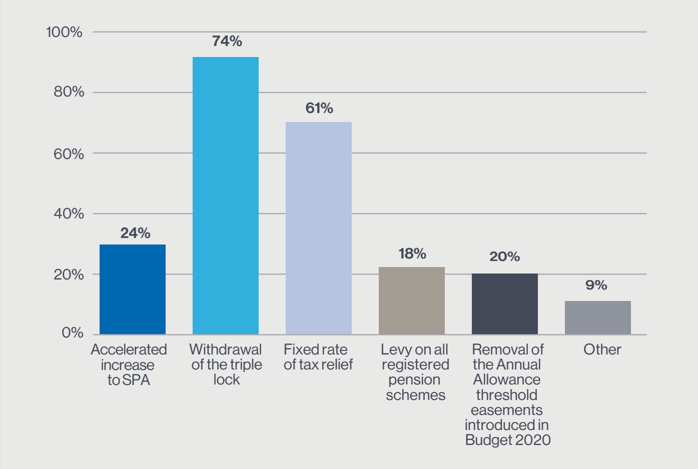
Q10: Will we see permanent changes to working practices arising from Covid-19 emergency? What is likely to continue?



The results are self-explanatory with video conferencing, and increased frequency of shorter more targeted meetings being popular. Concerns were raised over the lack of social interaction and digital fraud. Many commented the options were already available but would be used more so in future.

And finally, question 11...

Q11: If after lockdown the Government were to see fiscal savings via the pension system, which of the following do you believe will be applied?



Many expect the Chancellor to announce the removal of the triple lock and whilst it was an election promise and politically sensitive, many feel it has done what it needed to do and can no longer be justified. Fixed rate tax relief was the second option respondents felt would be revisited. Since the survey was undertaken the pensions tax regime has come under close scrutiny with the tax relief coming under the microscope. The Government is looking for evidence the £38bn tax relief works and at long last is looking at the solution to the net pay issue.

The current pensions tax regime is definitely under the microscope and we will watch it closely.

Another Pulse under our belts and we are already looking forward to creating the next one to be released for completion in December. If there are any areas you feel we should be looking at, or a burning question you would like us to ask, please feel free to send in your suggestions to **marketing@pensions-pmi.org.uk**

To go the extra mile?

Facilitating financial advice for DB scheme members seeking to transfer out


By Charlotte Cartwright, Legal Director, Eversheds Sutherland and Catherine Salafia, Principal Associate, Eversheds Sutherland

"Despite our previous interventions, both with individual firms and across the sector, we think the risk of harm from unsuitable advice remains unacceptably high."

FCA, Policy statement on pension transfer advice (June 2020)

A perfect storm

We don't have a crystal ball, but we strongly suspect the next few months will bring a rise in requests for Defined Benefit (DB) transfers.

As the government's furlough scheme winds down and the seemingly inevitable wave of redundancies hits, more DB members are likely to consider transferring to a Defined Contribution (DC) scheme to unlock cash.

In June 2020, the Financial Conduct Authority (FCA) confirmed its plans to, among other measures, ban contingent charging for financial advice on DB transfers from 1 October 2020 (except in certain, limited, situations). While this has been welcomed by many, and may well lead to improvement in the general quality of advice, it may also result in further contraction in the numbers of advisers offering DB transfer advice and potentially an increase in cost for members.

Reports suggest that there has been a material upturn in scammers trying to take advantage of members' vulnerability during the coronavirus crisis.

Against that background, this seems an important time for trustees and employers to think about supporting members with what could be one of the most complex and important financial decisions they ever make.

There are a range of options here - from doing nothing or just offering generic pensions education to, at the other end of the spectrum, vetting and selecting a panel of Independent Financial Advisors (IFAs) and appointing a third party to monitor the quality of advice. We have worked on projects for our clients who have embraced the idea of facilitating financial advice for their members within a well governed framework – and we are seeing interest in this area increase.

Pros and cons

When deciding whether to help members access IFA advice and, if so, how, it's important that trustees weigh up the pros and cons of doing so, and involve scheme sponsors in this decision.

Some trustees and employers may hesitate to get involved in recommending, paying for, or otherwise facilitating financial advice because they are not legally obliged to do so. They may worry about whether they are extending their duty of care as trustees. Trustees and sponsors are also likely to want to consider the cost/benefit analysis.

It is important to remember that there is no risk-free option here. Even if the member doesn't meet the requirements to have to get IFA advice, under legislation trustees still have to recommend that the member gets financial advice before transferring their DB benefits. Doing this without supporting the member to find a decent IFA, involves a degree of risk for schemes. This issue came into particularly sharp focus following the British Steel Pension Scheme restructuring exercise in 2017/18. The ensuing Work and Pensions Select Committee enquiry and Rookes report both expressed grave concerns over the inadequate support received by members in deciding whether or not to transfer out their benefits. In our view, recommending IFAs within a proper governance arrangement, on balance, is likely to be lower risk for trustees than the alternatives.

Trustees and sponsors may also consider it the right thing to do to help members with what could be a life-changing decision in the context of what the former Chief Executive of the FSCS, Mark Neale, recently described as an industry "characterised by a bewildering array of products, by complexity ... and by profound information asymmetry". Ultimately, members are likely to get better quality advice from IFAs identified by trustees who have carried out proper due diligence. The advice itself may also be less expensive due to economies of scale.

Points to note

Our team has worked on various projects for trustees who have decided to proactively help members access financial advice. Here are some of the points we have learned to watch out for:

- Make sure trustees are not inadvertently carrying out an FCA regulated activity – a criminal offence where you don't have FCA authorisation (which trustees generally don't). This hurdle can be navigated but it needs to be done very carefully and with legal advice.
- If payments are to be made from the scheme rather than by the employer (to fund advice or perhaps due diligence), ensure the payments are permitted under the scheme rules and 'authorised' payments for tax purposes, and that the trustees are comfortable they are acting for a proper purpose.
- Carry out (and be able to demonstrate) appropriate initial due diligence and ongoing monitoring on the IFAs involved.
- Communicate carefully with the membership – it should be very clear that the trustees and employer are just facilitating advice, not recommending a course of action, and not responsible for the IFA's advice.
- Contracts with the IFAs and any third party monitor will need to be put in place and data protection issues addressed.

That is not to say that all DB scheme trustees should go beyond their legal minimum duties and proactively help members with IFA advice. However, in our view, particularly given there's no risk-free option, they should certainly be putting it on the trustee meeting agenda to consider.

What to do after that will be a call for each trustee board to make.

Charge cap review commences

By Joseph Wood,
Associate, Sackers

The Department of Work and Pensions (DWP) has issued a Call for Evidence seeking views on the effectiveness of costs, charges and transparency measures in protecting pension member outcomes. In particular, the DWP wants input on the 'level and scope' of the charge cap that applies to Defined Contribution (DC) default arrangements used for auto-enrolment. This could mean a squeeze on providers to bring charges down – although this doesn't automatically guarantee better value...

The results of this Call for Evidence will, in conjunction with a Pension Charges Survey, inform the Government's review of the default fund charge cap.

History of the cap

The charge cap was initially introduced in 2015, with the aim of protecting automatically enrolled members from 'excessive and unfair' charges, and is currently set at 0.75%. In 2017, the Government carried out a review of the measures and, while it chose not to make changes to its operation at that time, it committed to reviewing the cap again in 2020.

Level of cap

The upcoming Charges Survey will seek evidence from providers on costs, and their underlying drivers, in order to inform the future level of the cap. There are, of course, arguments to be made on both sides here, with low cost not always equating to better value. For example, while a decrease in charges might be welcome, it could also limit schemes' abilities to maintain diversified portfolios, and may stifle innovation.

Scope of cap

Amongst other things, the Call for Evidence seeks views on whether transaction costs should be brought within the scope of the cap. This was considered in 2015, but they were ultimately excluded owing to transparency concerns, as well as fears that including such charges could restrict the ability of asset managers to trade. In 2017, the Government decided again to delay bringing transaction costs within scope, to allow time for the Financial Conduct Authority's (FCA) then new transparency rules to bed in.

While some challenges remain, steps have been taken since 2017 to improve issues around cost calculation and disclosure. As a result, the Government is asking again whether transaction costs should be brought within the cap's scope. As an alternative, it notes the possibility of a separate cap for transaction costs.

Cost disclosure

Following studies, including by the FCA, concluding that institutional investors find it difficult to obtain the necessary information to accurately compare costs, the Government also asks how best to achieve full take-up of the Cost Transparency Initiative (CTI) disclosure templates (requiring standardised cost and charges information from asset managers).

While early indicators of voluntary use have been positive, industry-wide adoption is not expected for some time. Compulsion remains under consideration by the DWP, although it notes that this would not be its preference.

Implications for schemes

Guy Opperman has called the review "an important step towards ensuring charging structures are fair, transparent and effective for the long term, delivering value for money". Any changes will have implications for schemes in terms of administration, investment decisions and funding strategies. However, whether 'value' for members will be measurably impacted remains to be seen.

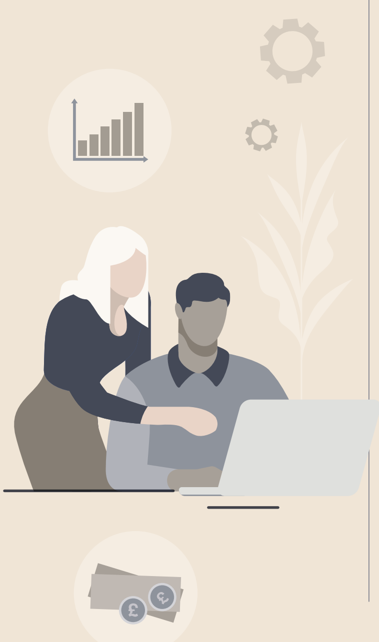
What next?

The Call for Evidence ran until 20 August, with the DWP aiming to publish its eventual proposals later this year.

When the going gets tough, the tough get going

By Girish Menezes, Head of Administration, Premier Pensions

Pensions Administration has to be one of the most exciting jobs in the world. With the drift towards Defined Contribution (DC), the importance of administration, automation, Artificial Intelligence and member communication makes it even more so. While everyone gets excited about FANGS (Facebook, Amazon, Netflix, Google and Spotify), I can quite happily get my kicks right here, right now.



Operational analytics

My typical week starts and ends with internal meetings, reports and analytics. Work inflow, transaction completion levels, Service Level Agreement (SLA) attainment, resourcing levels and more. We start the week ensuring load balancing between teams, identifying spikes in work, critical projects and holiday schedules. Are there any efficiencies we could gain, could automation help, or do resources need to be moved around? We end the week with an operational review, lessons learned and key deliverables for the following week, month, quarter or even year.

Technical & regulatory

The next priority is always legislation, as any misstep in this area can land the business in serious regulatory and legislative trouble. The Government and regulators keep us on our toes. We might need to add some anti-scam literature into member communication, catch up with Her Majesty's Revenue and Customs (HMRC) and other administrators to review where we are on the on the Guaranteed Minimum Pension (GMP) reconciliation process or review the Pension Administration Standards Association's (PASA) latest guidance on transfers. Every change in legislation can have a huge impact on pension administration operations and it is therefore important to keep close to new legislation to ensure that it is created whilst keeping in mind .

Client communication and stakeholder management

On one side, pension administration is all about communication to scheme members. At the other end, at the core of our business, it is all about managing clients. With a large client base there will always be significant projects running on a quarter of them at any one time. A data cleanse, acquisition, buy-in or de-risking exercise. Managing client expectations and delivering the very best service every single time is always a challenge, but that is the joy of high quality customer service.

Solution development

The best part of pension administration for me is definitely evolving new solutions. Investigating Artificial Intelligence to provide DC guidance to members, biometrics to tighten up member ID verification or rolling out a new interactive website to help members manage their pensions from wherever they may be in the world. My current project is creating an integrated administration-advice solution to protect members as they make choices around retirement options.

Yes, there are downsides to the job. I have three hours of compliance training to look forward to this week, invoices to check and pay, suppliers to be negotiated with and new business pitches to attend. However, the breadth of experience available within pension administration means that there are always multiple challenges to be juggled at any given time.



DC considerations: communicating with people in challenging times


By Steph Gold, Senior Communication and Engagement Consultant, Barnett Waddingham

“My parents are in a high risk category”, “my partner’s been furloughed”, “I’m burning through cash” and “the market has dropped 30%” – in unsettling times people need clear, reassuring information. Otherwise there’s a danger they might be tempted to make knee-jerk decisions and derail their retirement plans.

The Pensions Regulator says, “trustees are the first line of defence in protecting savers and have a key role to play in ensuring savers make informed choices”. So, what can trustees do to help educate and inform people in difficult times?

Give some reassurance

Important messages delivered in the right way can help reassure individuals:

- A pension is a long-term savings vehicle and there will inevitably be periods of significant short-term market volatility. There’s no guarantee but historically markets have recovered and gone on to provide positive returns over the longer-term.
- As the price of equities falls, contributions will buy more fund ‘units’ and be beneficial – assuming of course, markets rise again in the future.
- Many people will be invested in a scheme’s default option, holding a variety of investments. By spreading investment across different types of assets and markets, it can help reduce any negative impact resulting from market volatility.
- The ‘life styling’ approach of most default strategies can help smooth some of the more extreme market fluctuations for members getting close to retirement. It’s key to remind individuals that under pension flexibilities, they don’t have to take their pension savings all at once and might want to keep some or all invested.

Make it personal

Tailoring the message to different age groups where possible is best – a person 20 years from retirement will have very different priorities for today, tomorrow and ‘one day’ to those nearing retirement. Targeted messages ensure people receive the most relevant information to them, at the right time and in the right way.

Make the most of all the communication channels and delivery methods available – webinars, member websites, (personalised) annual benefit statements and newsletters for example.

Help minimise the risks

Disappointingly, there’s been a rise in pension scams as a result of Covid-19. It’s vital to urge individuals to be more vigilant and exercise extreme caution - signposting trusted sources of information wherever possible. Individuals might be more vulnerable to scams if their financial position has worsened during the pandemic, so a more holistic approach to financial wellbeing, with practical help on where to go for advice, is best practice.

Trustees are in an ideal position to provide clear, reassuring and simple communications to their scheme members. They can highlight the importance of taking appropriate advice if an individual is thinking about making any financial transaction or investment decision, the timing of which could be potentially devastating during a worrying time for all.

Evolving ESG regulation and its impact on DC

By Neil Bowden, Partner, Allen & Overy LLP

You've updated your statement of investment principles; you're preparing to write an implementation statement... surely it's time for a lull in regulatory changes for Defined Contribution (DC) investments? Actually, no – there's a range of developments on the horizon that DC trustees need to consider and plan for. Here's an overview of key points to watch.

Climate change disclosures

Currently, pension schemes may voluntarily make disclosures in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD), but this is expected to become mandatory for large asset owners by 2022. The Pension Schemes Bill includes powers to set a range of disclosure and governance requirements relating to a scheme's exposure to key risks – but the government's view is that schemes should already be actively working towards the TCFD recommendations and reporting on their progress. Industry guidance will provide a starting point for schemes to project plan towards compliance.

IORP 2 and a new Code of Practice

The (delayed) Code setting out The Pensions Regulator's (TPR's) expectations on governance and internal controls will provide further guidance on Environmental, Social and Governance (ESG) issues, including:

- how scheme governance should include consideration of ESG factors in investment decisions, and
- in relation to a scheme's own risk assessment, how trustees assess new or emerging risks, social risks and stranded/depreciating asset risks.

EU Sustainability regulation (aka the Disclosure regulation)

A new angle under this regulation is the requirement to publish information on how schemes consider the principal adverse impacts of their investment decisions on sustainability factors (or reasons why they do not). 'Sustainability factors' has a different and wider definition than ESG: it will require disclosure of whether schemes consider the impact of investment decisions on, for example, respect for human rights.

Illiquid investments

The government also has other plans for DC, including requiring larger schemes to publish their policy on illiquid investments (assets that are traded off, exchange or are less readily tradeable) and report on compliance annually. Scheme size thresholds could be as low as either GBP250 million in DC assets or 5,000 members.

What to expect next:

- Publication of non-statutory industry guidance on TCFD disclosures (due Autumn 2020)
- Regulations to mandate TCFD disclosures – a phased approach is expected, starting with larger schemes, with transitional easements where data is not available. A consultation is expected shortly
- A TPR consultation on a new Code of Practice implementing aspects of IORP2 and including further ESG guidance
- Draft regulatory technical standards under the Sustainability Regulation have been published; guidance for pension schemes is awaited
- Draft regulations are expected on DC investment in illiquid assets/infrastructure investing

Investment innovation in Master Trusts by 2025

The second essay in a series of six produced by the PMI's Master Trust Innovation Workstream looks at what we can expect Master Trust investment propositions to look like in five years' time. This is an abridged version; the full version can be found at: https://www.pensions-pmi.org.uk/knowledge/pensions-aspects-magazine/investment-innovation-in-master-trusts-by-2025

Pensions Management Institute
MTWG Innovation

This fact is undeniable: with the current trajectory of exponential growth, Master Trusts will be one of the dominant forms of pension provision within the next five years. It is safe to say that the Master Trust market in 2025 will not resemble its current state. There will be fewer players with bigger clout. As these Master Trusts are rapidly gaining scale, so their approach to investments is becoming more sophisticated. So, what will the near future look like?

Private markets

Private markets, in the shape of private equity, private debt and real assets such as infrastructure and property, will form a larger part of a Master Trust's investment strategy. Their increased scale will allow them to manage the complexity, illiquidity and cost of investing in private markets. In the next five years, a growing number of Master Trusts will allocate to illiquid investments in their default strategies. This trend will be supported by their growing Assets Under Management (AUM), which makes private investments more accessible by giving them leverage when it comes to fees; by the growing expertise of Master Trusts' in-house teams; by relatively bleaker prospects of public markets and last but not least, by the growing push from the Government in this area.

Responsible investment

What we can say with strong certainty is that Environmental, Social and Governance (ESG) factors will be fully incorporated into how Master Trusts think about investing and how they work with external managers. We believe all Master Trusts will need to have a very strong ESG approach or they will not stand up to the scrutiny of

regulators, customers, evaluators and the press. We predict that the minimum acceptable level, that still allows for safeguarding the value of members' investments, will be strong stewardship and a responsible investment approach.

Personalisation

The dogma of financial advice is that it works at its best when it is fully tailored to a person's circumstances, wishes and needs. By that measure, Master Trust defaults are at the other end of the spectrum. While single employer schemes attempt to analyse their membership to be able to tailor their investment strategies to a degree, when it comes to Master Trusts with millions of members, this approach is not feasible. With technological advances making their way into pensions, we believe we are not far from being able to offer individuals a much better degree of tailoring of defaults. Cohort-based defaults could group members into sections based on shared characteristics using the data that is already easily accessible to Master Trusts. Towards the end of the next five years, we will very likely go further. 'Open finance' will give Master Trust savers a single view of all their finances in one place, enabling them to make better decisions.

Transparency

Transparency is a crucial foundation of trust in the pensions industry and we, as an industry, have not covered ourselves in glory in the past. We may be overcompensating now by putting exorbitant demands on trustees and Investment Governance Committees with pages and pages of DC disclosures, requiring them to publish information that is of minimal use to members or employers. We hope that things will look different in five years' time and that we will instead concentrate on transparency where it leads to real insights and supports decision making. Moving forward, in the next five years, we hope Master Trusts are better equipped to provide members with information that can empower them to take ownership of their pension savings, as part of their wider financial wellbeing. Whilst the overall goal for members is to know what outcome they can expect, with day-to-day transparency members want to know three simple things: how is my pension performing? What am I investing in? How much am I paying for it? We are getting better on the third but we still have work to do on the first two.

Post-retirement

Within the next few months we will see 'retirement pathways' going live across a variety of platforms. This is a good first step in ensuring better outcomes for people post-retirement. However, a lot more work needs to be done to meaningfully support those who will not be able to benefit from the luxury of personal financial advice. The industry should come together with the government and regulators to ensure we offer these savers a post-retirement default strategy that works with minimal or even no intervention on their part. After all, one of the best parts of being in a Defined Benefit (DB) scheme was that you didn't have to engage with it at all before or after retiring. Surely, we should be able to do this for Defined Contribution (DC) savers who do not want the choice and do not know what to do with the choice, but just want to get the best they can. Whilst this is an area where innovation has been slow to date, in five years we expect all of the Master Trusts to have drawdown solutions that aim to provide fluidity between pre- and post-retirement.

As we are becoming a DC nation, the industry's innovation efforts will need to move faster, be implemented for the mass market on a bigger scale and focus on areas where improvements can be meaningful. Investment is one such area where even small improvements could markedly impact people's lives by giving them more money or more tailored answers to their needs.

Trustees must remain ready for Covid-19 balancing act

By Charles Counsell, Chief Executive, The Pensions Regulator

When lockdown began in March the long-term economic impact of the coronavirus was far from clear.

We quickly released guidance helping trustees, employers, scheme managers and savers navigate immediate challenges. But, six months on, it's clear we'll be dealing with the economic fallout for some time.

The pandemic will be challenging all scheme types, but here we'll be focusing on the emerging issues facing Defined Benefit (DB) schemes.

We are committed to protecting savers and driving up governance standards. This is still at the heart of our work. But an altered environment needs an altered response. To help schemes weather the storm, our supervision teams have been busy engaging with DB trustees, sponsoring employers and administrators to address key risks.

Evolved response

We contacted schemes already subject to our Relationship Supervision to build a picture of their Covid-19 response. Initial conversations focused on ensuring core work – such as paying benefits – continued and we found business continuity plans had worked well.

We refocused our Relationship Supervision approach to meet emerging challenges. Where we would have reviewed every part of a scheme, we moved to concentrating on the areas at highest risk – such as the increased risk of an insolvent employer or a weakening covenant. This is temporary, and we will revert to our original approach when circumstances allow.

We have also increased our Rapid Response and Events Engagement teams, who manage situations of crystallising risk, including the impact of corporate distress or transactions on DB schemes. To do this, we temporarily paused our regulatory initiatives - targeted engagements on specific risks, for example equitable treatment of DB schemes against dividend payments, or investment governance. By targeting individual risks, we have been able to cover many schemes, regardless of size.

Despite the very positive results from these initiatives, we did not want to overburden trustees during the pandemic and wanted to free resources to support those schemes particularly hit by rising levels of corporate distress. This approach remains under review and we will return to these initiatives as soon as appropriate.

Approaching storm

Since March, we have received 108 revised recovery plans. Of these, almost 86% [92] have seen schemes agree to defer their employer's Deficit Repair Contributions (DRC) allowing some room for manoeuvre. The majority were from small schemes and relate to sectors under increased strain from the impact of Covid, including manufacturing, retail and airline industries.

With the government's Coronavirus Job Retention scheme ending in October, and other support being unwound, employers will continue to experience significant financial challenges and some, sadly, will fail. Despite figures showing that corporate insolvencies declined between April and May, insolvency and restructuring trade body R3 argue

this is the "calm before the storm". TPR expects more Covid-linked insolvencies in the autumn and during 2021, and more companies to be looking at restructuring. In these situations, trustees continue to be the first line of defence for savers.

With approximately 5,500 DB schemes, TPR cannot get involved in every situation which is why it's so important trustees engage with employers early and effectively. This will help trustees understand the flexibilities that could be offered to distressed employers where appropriate and how to structure support so it doesn't disproportionately weaken their scheme.

Empowering trustees through our guidance to have the right conversations at the right time means TPR can concentrate on areas of greatest risk and reduce any potential extra burden on trustees from a regulatory intervention. Employers should, by this stage, be able to provide necessary financial information to inform trustees' approaches.

Fair treatment in tough times

We know, long term, the best protection for a DB pension scheme is a strong, solvent employer who works with trustees to put the needs of the pension scheme on an equal footing to other business considerations.

As DB pension schemes are often a businesses' largest unsecured creditor, trustees may be asked to support restructuring plans for struggling businesses. Trustees should be open to reasonable requests from an employer in distress but must make an informed decision if it's in members' best interests to agree..

If it is judged necessary and appropriate to suspend or reduce contributions from an employer experiencing financial distress, trustees should seek appropriate mitigations in line with our guidance.[1]

In restructuring situations, our supervision teams will expect trustees to have a robust plan, which may include bolstering the expertise of the trustee board and seeking professional advice. Trustees may need to look beyond their usual advisers and not be limited to just covenant advice but also on understanding their scheme's position and options during restructuring and insolvency.

Trustees may be conflicted about their duty to members and desire to support a distressed sponsor. If this becomes difficult to manage, trustees should consider conflict management advice or bringing in independent trustees with restructuring experience.

Asking an employer to pay for advice at a time of financial distress may feel uncomfortable, but trustees will need a good understanding of their options if they are to support the business effectively without disproportionately disadvantaging their scheme.

Keeping clear records on decision making will also be important so they can demonstrate they obtained all the relevant information possible, took appropriate advice and made decisions in good faith and in accordance with scheme rules.

Keeping a struggling employer afloat should not come at any cost. For those DB schemes with an insolvent sponsor, savers will be protected the Pensions Protection Fund (PPF). However, TPR also has a statutory obligation to protect PPF. While the PPF plays a vital role in compensating pensioners where employers do fail, we need to minimise financial claims as they put a further burden on PPF levy payers – those companies (with DB schemes) that have not failed.

Armed with robust financial information, good advice and guidance, trustees can manage the risks from a struggling sponsor and continue to act as the first line of defence. While TPR cannot solve all scheme problems and must focus resources in a strategic and risk-based manner, we stand ready to give trustees the tools needed to protect their members and, where appropriate, for the trustees to support a sponsoring employer without disproportionately weakening their scheme.

[1] https://www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider/db-scheme-funding-covid-19-guidance-for-employers

Understanding yourself in pensions

By Hazel Holland,
Associate Consultant, Aon

I started working in pensions back in 2014 at only 19 years old and with a background of A Levels in Maths, Psychology and Spanish, and then a year working in retail. I was part of Aon's first intake of pension consulting apprentices and so it was a new experience for those working with me, as well as for me having never had an office-based job before. I had no previous knowledge in pensions and started with the more straightforward tasks such as updating trustee training logs and pulling together meeting packs. Fortunately for me, my colleagues were encouraging and as my knowledge and capability improved, I was delegated more complex work.

I now provide pensions management and scheme secretarial services to both Defined Benefit (DB) and Defined Contribution (DC) pension. Tasks I am now regularly involved in include producing meeting agendas and minutes as well as helping to solve individual members' problems and tackling tricky member death cases. The latest challenge has been to ensure effective 'virtual' trustee meetings, often by making them more frequent but shorter and more focused.

If I was going to provide advice to colleagues on how to progress their careers, it would be to always ask for the background. Having a wider understanding of how a task fits into a bigger picture is really helpful and means I learn through my work. Also, by understanding a task better, you are more likely to be able to take a more advanced role or ownership next time.

I would also encourage colleagues to take the PMI exams. They are hard work, but I surprised myself and colleagues by winning five top marks in these. I qualified as an Associate Member of the Pension Management Institute at the end of 2018 and have experienced first-hand how the material I learnt as part of the exams helps in my everyday role.

The final bit of advice I would give to colleagues, is to take opportunities you are given, even if you find these daunting. These will develop you and help you progress in your career. It is by doing new things that we learn.

For me, now that I have a deeper understanding of pensions and have seen a variety of work over the five and a half years I have worked in the industry, my next goal is to become the overall client manager with responsibility for everyone, from the Scheme Actuary to the administration team and Aon's overall relationship with the client. I also enjoy developing more junior colleagues and helping apprentices and graduates as they enter the pensions profession.

ITM Student Essay Competition 2020

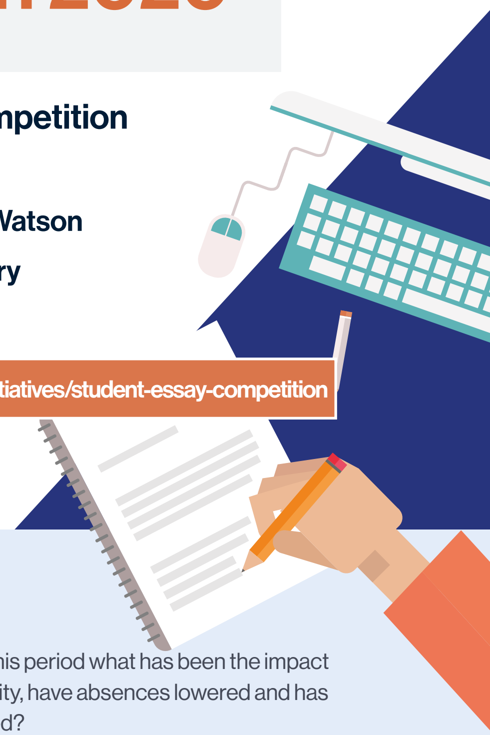
Congratulations to the winners of the 4th student essay competition

1st Place: Jennifer Harrison, Analyst, Willis Towers Watson

2nd Runner up: Jed Newton, Pension Administrator, Willis Towers Watson

3rd Runner up: Ben Picknett, Senior Consultant, Muse Advisory

For more information please visit: www.pensions-pmi.org.uk/knowledge/member-initiatives/student-essay-competition



Covid-19 has changed the way people and companies in the pensions industry are working. Will these become permanent changes in working practice, operational delivery and communication, or will old habits and methods return? What can we learn from current practices and what does the speed of change since restrictions were imposed tell us?

Covid-19 has affected every area of the economy, every business and every household. More specifically, the pandemic has led to unprecedented disruption and uncertainty for companies, schemes and service providers in the pensions industry. The speed that events have evolved left most in a state of crisis management, with traditional contingency plans ill-prepared to deal with the consequences of an extended period in lockdown. In response, workarounds have been introduced to address immediate needs, resulting in more agile working practices. Many of these practices have no doubt cut waste and layers of bureaucracy but may also have introduced additional risk. When the crisis subsides, companies will have an opportunity to assess lessons learned and identify those practices that should be incorporated into any future business models and operating plans. The collecting of data is critical throughout this period to gain key insights for assessing the impact these flexible work arrangements have had on performance, risk etc... For instance, during this period what has been the impact on performance and productivity, have absences lowered and has employee satisfaction improved?

There has been some discussion concerning the demise of the office working environment. Technological advancements in recent years, including the wider availability of high-speed internet and more powerful laptops, have allowed office-based businesses to enable staff to work from home and continue operating at close to normal levels. The sudden shift in working practice has been portrayed by some as a game-changer, however, the reality may prove otherwise. There is a difficulty in fully replicating the many benefits working in an office provides. These benefits can be observed in many areas that include the ability to (most) effectively build relationships and trust, feed-off each other to problem solve and innovate, and be supported with integrated IT infrastructure. That said, the more flexible and agile working practices that have emerged do suggest an opportunity to review how businesses could operate in the future. These could see a broader scope in how businesses communicate and share data. It could also provide previously unconsidered options to raise employee satisfaction and sense of well-being, and facilitate greater inclusion within the workforce.

One of the major challenges of the Covid-19 pandemic for businesses has been around communication at both a work and personal level, following the overnight introduction of working from home. This includes the exchange of large volumes of physical data between parties and the general transmission of information. A number of different elements require approaches that differ from the traditional office-based work environment/style such as:

- The equipment being used: the switch to laptops rather than desktops in some companies, with laptops being traditionally less powerful. An example of a workaround for this has been the introduction of 'remote desktops', which can be accessed remotely to analyse and work on large data sets.
- Methods of collaboration: for example, in an office-based environment, face to face working around a collective screen was a common and sometimes key component to collaborative problem solving. This can no longer happen, so teams have had to adapt to using video conferencing software and screen sharing.
- Virtual meetings: A commonly held belief is that face-to-face meetings provide for better discussion and collaboration. Covid-19 has challenged this norm. Therefore, the meetings that were, and still are essential to the functioning and maintenance of pension schemes have continued, albeit virtually. This has been achieved by alternative methods such as video conferencing, including the novelty for many of showing work/files via screen-sharing.

Another interesting element of this crisis has been the increased importance of issues at an employee level, as opposed to the wider business. In recent years, boardrooms and investors have seen a rise in prominence of Environmental, Social and Governance (ESG) factors. The Covid-19 pandemic has thrown the spotlight onto the least discussed area of ESG, namely 'Social', and provided an opportunity to begin to address problematic issues concerning areas such as employee satisfaction and inclusion/diversity policies.

- Employee satisfaction: During the crisis, parents have been able to spend more time with their children — due to no longer commuting and also the inevitable interactions that come from working from home. An added bonus may be the benefit of no longer paying for childcare. This has been facilitated further by companies allowing and even encouraging in some cases more flexible working hours, to ease challenges surrounding childcare.
- Focus on Social engagement: to compensate for the lack of social interaction that working in an office provides. Companies/managers have been keen to encourage, through the use of video-conferencing software, calls for social activities in order to engage with and support others. This includes virtual social gatherings and fundraising events for charity.
- Focus on Wellbeing and Mental Health: Early experience suggests people managers have also been more proactive in communicating with their staff, showing a genuine interest in the wellbeing and mental health of their staff during this difficult period of time.

Given the apparent success of these actions, the principles behind these have the potential to become permanent changes in working practice.

Inclusion and Diversity Policy (I&D) - 'Inclusion' within companies I&D policies is perhaps more challenging to address in a traditional office environment. By nature, office environments will not be the most inclusive for some disabilities and conditions, hence the crisis has opened up opportunities to rethink how businesses may operate in the future to better accommodate a wider range of individuals. For example:

- Some people who have conditions such as autism, ADHD etc.: these individuals can experience challenges with commuting to and working in an office environment, one example being those that experience sensory overload. These challenges can be difficult to overcome as offices and transport have limited capacity to cater to an individual's needs. Working from home alleviates this as the home environment is one that is familiar and can be adapted more easily
- Disabilities that can induce fatigue: Working from home can also have a positive impact on those who work with fatigue inducing/centred disabilities, such as chronic fatigue syndrome (also known as ME). Neutralising the challenge of commuting and the rigidity of office working (e.g. working hours and office dynamics) means these individuals have greater energy levels, with the potential to work longer and also more effectively.

When the crisis recedes there is a risk that businesses will drift back to their old ways and miss a unique event-driven opportunity to transform their working practices. Following several months in lockdown a degree of operational stability has arguably emerged around staff working remotely. Team collaboration is stronger than ever, when we have never been further apart. Communication lines have been constantly open and video conferencing has never had a greater role to play. However, businesses now face new challenges as they shift focus on how to bring staff back to the office, whilst maintaining safety and flexibility. During this period however, the need to review and adapt traditional work practices will be critical, as will the ability to demonstrate agility in what will remain a fluid situation. A well planned return to the office will do much to consolidate any social gains derived since lockdown.

Covid-19 has placed the pensions industry's capability to run operations remotely into an unprecedented stress test. The continued impact of the pandemic elevates the importance of having robust processes, systems and controls to maintain service quality and productivity whilst mitigating the potential for operational losses. During this period, operational processes may have been simplified to enable working from home.

In addition, industry participants have been known to make use of the outsourcing opportunities for administration services in countries like India. This has exposed some challenges in operational delivery. For example, some offshore employees and offices/companies:

- were subject to curfews at the outset of the pandemic,
- were not fully set-up for remote working due to reasons such as poor internet connectivity

- had unsuitable accommodation or work space
- experienced a shortage in the availability of laptops and
- may also be subject to a greater level of security concerns relating to working remotely.

This has led industry participants to incur unplanned expenses, with the task of having to equip employees homes with high speed broadband in order to support operational delivery, protect revenue and maintain client relationships.

Given the extreme event, contingency plans arguably fell short. However, despite all the challenges, the pensions industry has proven to be adaptable both at a company and individual level. Albeit this may have come at a great expenditure for some companies, such as requiring the purchase of equipment to enable remote working e.g. laptops replacing desktops, or with the time spent dealing with this crisis. People have had to become dedicated to the implementation and enablement of home working. There has been an opportunity cost to this activity, with valuable time taken away from other projects these people and whole teams may have otherwise been working on. As a result, in future there will need to be more evolved contingency plans with dedicated disaster response and planning teams, both in an operational sense and in a financial sense to research and formulate hedging strategies against such events.

Pension schemes will also need to re-evaluate their preparedness for such events. Covid-19 catapulted the country into lockdown, overnight. This was disastrous for whole industries such as hospitality and aviation. Sponsoring employers who fall into these industries have therefore been negatively affected, with mass redundancies and a catastrophic fall in profits, the likes of which even the most prudent of forecasts in the "Pre-Covid" times couldn't have predicted. To support affected companies The Pensions Regulator has published guidance relating to the deferral of Deficit Reduction Contributions (DRC's). Many companies are now considering, or have even deferred their DRC's. The speed of this change tells us that trustees and their corresponding actuarial advisors need to be better prepared for this in the future. This means extra forecasting or planning ahead for more such extreme events.

In conclusion the opportunities that emerge from the crisis are perhaps more evolution than revolution. Whilst working from home has proven a viable option for many it is questionable whether it can truly be a replacement for the office environment. Working in close proximity to others is generally viewed as optimal for stimulating ideas and innovation. The pensions industry in particular has evolved and blossomed on this basis by bringing together highly skilled and educated people in one place. Without compromising these benefits, if changes adopted by industry to address the recent challenges are largely retained and integrated with traditional office-based working it could lead to a subtle shift in company culture. It would elevate "social" factors such as employee satisfaction and well-being, provide for greater inclusion in the workforce and recognise flexibility to working made possible by technology. Ultimately this crisis may have been a catalyst for companies to place a greater emphasis on the employee, rather than the stakeholder.

PMI Mentoring and Development Programme: **mentor update**

By Eve Keith, Pensions Manager, Unison

I have worked in the Pensions Industry since 1997. I worked in pensions administration for ten years (albeit three years of that was part-time while I did my degree), and I have supported Trustee Boards for the past thirteen years. I am currently Pensions Manager of a mid-size open Defined Benefit (DB) scheme. I have been fortunate enough to work alongside some fantastic people during that time. When I read the PMI was running a new mentoring programme I applied as a mentor in the hope I could pass on some of the things I have learnt in the past two decades.

I had envisaged meeting my mentee face-to-face for coffee but unfortunately, shortly after the programme was launched, we found ourselves in lockdown. What that has meant for my mentee and I is that we have had to adapt our meeting structure and hold our meetings remotely. We have had one phone call and two Zoom calls during this period which seem to have worked well. We have found areas of common interest, for example, Environmental, Social and Governance (ESG) which have led to good discussions. Hopefully it is useful to have an insight into the slightly different approach taken by each scheme/ trustee board.

My mentee is a trustee, therefore, unlike me, pensions are not the day job. Whilst she is very enthusiastic, she has to balance the time commitment of trusteeship with her substantive role. Having worked with many trustees over the years I appreciate how difficult that can be at times.

I think the breadth of the role of a trustee has increased significantly over the last decade or so. I have a lot of admiration for the dedication of lay trustees.

I try to signpost areas which might be useful to my mentee. For example, I try to forward reports or invitations which might be of interest and I hope this compliments the support which she receives internally.

I hope to develop our discussions into short/ medium term goal setting with action points. This is slightly different with a mentee who is a trustee rather than a pensions professional as terms of office are, by their nature, limited.

I have enjoyed the programme so far and I would encourage others to consider it in future years. I hope to meet up with my mentee in real life before the programme ends.

The PMI Mentoring and Development Programme is sponsored by The People's Pension and delivered in conjunction with the Institute of Leadership & Management. If you would like to find out more about the program structure, visit: **https://www.pensions-pmi.org.uk/knowledge/member-initiatives/mentoring-and-development-programme**

PMI Mentoring and Development Programme: **mentee update**

By Lorraine Barry, Technical Author & Approval Specialist, B&CE

Starting the Pension Management Institution's mentoring scheme during a pandemic has been an interesting experience. When I first found out I had the opportunity to become a mentee, I was really pleased and raring to go. But then coronavirus hit, and in the rush to adapt to this new way of working, things didn't begin as soon as I would've liked.

Whilst It took us a while to get going, I can already see how valuable the mentoring scheme is and will be over the coming months. Face-to-face meet-ups have been replaced by Skype calls and regular emails instead – but this is working for us and we've begun to build a great relationship.

For someone like me who is still relatively junior in my career, having access to my mentor's skill, years of experience and knowledge has been invaluable.

She can share with me some of the challenges in her career and how she has overcome them – many of which I'm sure I'll also face in the future. Or, sometimes, my mentor will simply listen in a completely impartial way to whatever I'm sharing and offer her observations in a way I haven't considered.

We've started exploring some of the topics I'd like to be mentored on, and I've been able to put into action some of the suggestions my mentor has put forward. Not only has that helped my personal development, but I also feel it is a positive for the business I work for.

Becoming a mentee also means I've gained access to the Institute of Leadership and Management's (ILM) MyLeadership Programme; an e-learning scheme with a focus on what makes great leadership.

Being a working mother and trying to juggle home and work during a pandemic has been a real challenge. But the flexibility of the scheme is one of its great assets. There's lots of information packed into the MyLeadership Programme, all readily available at a time that suits me.

The programme begins with a leadership profile questionnaire and every mentor receives a personalised report assessing their skills in each area. This was a great starting point, revealing my strengths and weaknesses, and allowed me to focus on developing in areas that need it the most.

I'm excited to see where the coming months take us. If you have the opportunity in the future to join the scheme – either as a mentor or mentee, then I would encourage you to take a leap and go for it.

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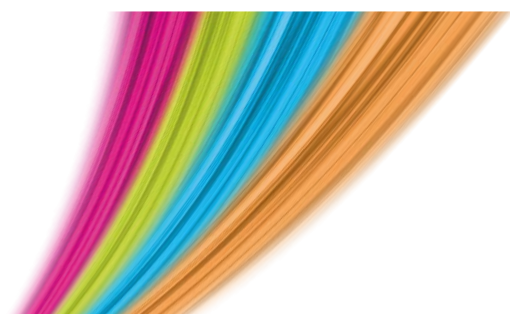

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