Edition 07
September 2018

# Pensions Aspects

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## "Hello. I am new around here"

Integrating robotics into the team


USING ROBOTICS TO MAXIMISE THE QUALITY OF ADVICE FOR MEMBERS

HELPING MEMBERS TO KEEP IT...SIMPLES

PENSIONS DASHBOARD: PART 2

Pensions Management Institute
ACHIEVING PENSIONS EXCELLENCE

Edition September 2018


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# Pension administration, innovation & technologies

Technology is a wonderful thing when it works, but when it doesn't it becomes painful. What role does technology have to play in pensions administration? A major part is the obvious answer. Examples put forward by many providers, consultants and communication specialists will sing the praises of technology, however there is a but coming...

**The focus on technology in the pensions media, and on providers' websites, has been on the value adding side of pensions. We have seen Amazon Alexa being used to provide fund values; a nice gimmick. We have augmented reality with images being scanned to reveal videos about your pension. And then there is gamification; people wearing strange looking face masks that take them into a virtual world where they can see what their projected pension will buy them in the future. A change in contribution rate could change the cup of tea to a glass of fizz, or the Mini to a Lamborghini.**

This is the sexy, exciting side of technology and pensions but what about the back office? Pensions administration is about maintaining member records, calculating benefits and paying them out or transferring them somewhere else to be paid out. What role does technology have here? Blockchain has been touted as the future for pensions administration but its adoption has been virtually non-existent. Perhaps it isn't suited to the relatively small number of transactions schemes and providers do in the traditional sense. It may only really take off in much larger scale operations, for insurers, investment houses or when/if we see the consolidator schemes emerge.

**What is happening which is more useful to administration is the use of common standards.**

This is key in data exchange, whether it is for the now possibly defunct pensions dashboard, or, for example, to de-risking modelling tools, or from Auto-Enrolment assessment software. Being able to transmit data between pensions administration platforms and supporting systems is not new, it has been desirable for a long time. But now it is happening under common standards.

**Alongside data transmission, we have seen data analysis and cleanse tools come on in leaps and bounds.**

By firstly having clean and accurate data, we can then make use of the fancier tools the industry is excited about.

Clean data lends itself to technological developments. The use of Artificial Intelligence (AI) or robots, is already creeping into administration. Why have workflow driven administration when you can have robotics doing all the hard bits for you?

The use of tools to understand big data also helps pension administration. Schemes are keen to understand the data to help engage and communicate with members better, i.e. segmenting members and being able to personalise messages to them. For administrators it helps with planning from resource allocation through to meeting training needs of the teams.

**And, because I had a cheap dig at Alexa, I do believe it has a role to play in pensions. We may see its use in administration teams, replacing online scheme bibles as a source of scheme specific knowledge: "Alexa, what are the rules for... scheme from ABC Before 2008, who are now active in the Defined Contribution section?"**

**By Lesley Carline**
**PMI President**

## STOP PRESS

# Lesley Carline elected new PMI President

**We are pleased to announce that Lesley Carline has been elected as the new PMI President.**

Lesley took over from the previous President, Robert Branagh at the Annual General Meeting (AGM) which was recently held on Wednesday 11th July.

On behalf of the Institute, I would like to thank Robert for his help and assistance acting as our figurehead in the industry, media & Government, and for supporting PMI during his presidential tenure.

I am delighted to confirm that Lesley Alexander (Ferrier Pearce) joins Lorraine Harper (JLT) who has been elected as the new Vice President, a role which was previously held by Lesley Carline. This now means all-female honorary Officers, for the first time in the history of PMI.

I am also delighted to welcome back Sara Cook and Chris Parrott, who have been re-elected onto the Council. Sara has served on the Qualifications, Examinations and Assessment Committee, Professional Standards Committee, and the PMI Media Sub-Committee over the years.

Chris has worked in the pensions industry since 1982 and has been actively involved with the PMI, as well as other associations, for a number of years. In the past twelve months, Chris has served on the Development Committee and the Trustee Group. He also won the 'Outstanding Contribution to the PMI' award in 2018.

I would also like to welcome Christine Kerr (Barnett Waddingham), Rosie Lacey (RBS), and Ian Wright (Mayer Brown), who all join the Advisory Council as new members

Christine has been responsible for PMI student support, Rosie is one of our PMI Fellowship Networking Ambassador, and Ian has led the team which works on our DC Governance manual.

I would like to thank all those who stood for the Advisory Council.

**Gareth Tancred**
**CEO, PMI**

# Membership update

## Obituary

We are saddened to hear that **William Whitehead** recently passed away.

## 2018 – 19 Membership Renewal Subscriptions

Your membership renewal was due on 1st September 2018, and subscription renewal notices have been sent out to all members. To avoid any disruption to your membership services please make you payment now. If you have not received your renewal notice contact the Membership Department at **membership@pensions-pmi.org.uk** or on **0207 392 7410**.

**If your payment is not received by 30th September 2018, you will incur a late payment fee of £35**

## APPT Renewal

Your APPT membership renewal was due on 1st July 2018. To avoid any disruption to your APPT membership services please make your payment now. Please ensure that your 2017 CPD reports have been submitted to the PMI Membership Department in preparation for your renewal.

## Continuing Professional Development (CPD)

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

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

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

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

## 4th PMI Fellowship Network Anniversary

SAVE THE DATE

**The PMI Fellowship Network will be celebrating its 4th anniversary on Thursday, 22nd November 2018 from 17:00 – 19:30 in London (venue to be confirmed).**

**The Membership department will be sending out invitations shortly to Fellows. Please hold this date in your diaries.**

## PMI Trustee Group Scheme

The PMI extends a warm welcome to:

**John Lewis Partnership Pension Trust**
**Serco Pension Trustee Ltd**
**BMW (UK) Operations Pensions Scheme**
**Uniper Trustee Limited**
**The British Tourist Board Staff Pension & Life Assurance Scheme**
**St Dunstan's Retirement Benefits Plan (1973)**
**Coats UK Pensions Scheme Trustee Limited**
**The University of York Pension Trust Limited**
**Motorola Pension Scheme**
**Kingfisher Pension Scheme**
**The Railway Pension Trustee Company Limited**
**Deutsche Telekom (UK) Ltd T-Mobile**
**International UK Pension Scheme**
**First UK Bus Pension Scheme Trustees**
**AIB Group UK Pension Scheme**

who all joined the PMI Trustee Group Scheme recently.

## Membership Record

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

## PMI Membership Upgrade Waiver

Following the recent PMI examinations, successful candidates can upgrade membership category by 31 August 2018 without paying the appropriate election fee. The invitation to upgrade letter was posted together with your results indicating a three month window period in which to upgrade your membership.

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

## Diploma Membership

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

**Sylvia Cole**
**Annabelle Hardiman**
**Rosalind Hubbert**
**Kiran Lamb**
**Darren Morrison**
**Steven Robinson**
**Ciona Murray**
**Kevin Stempien**

## Certificate membership

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

**Emma Howard**
**Julia Kingston**
**Kay McDermott**
**Kirsty Robinson**
**Harset Siva**
**Karl Tolman**
**Amit Unjia**

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

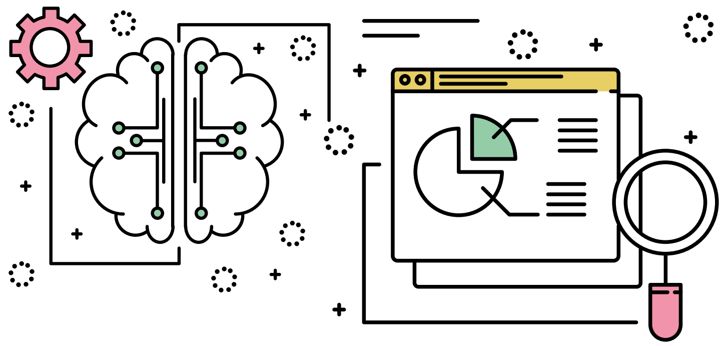
## Fellowship

Congratulations PMI Fellows!

Fellowship is open to Associates with five years membership and five years of 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":

**Kelly Phillips**
**Anne Salzedo**
**Julie Vile**
**Andrew Leslie**
**Andrew Taylor**
**Andrew Turnball**
**Brian Fleetwood**
**Christopher Deeson**
**David Van Der Hoeven**
**Derek Vincent**
**Gary Thomas**
**Helen Willcox**
**Janis Watts**
**Jean Taylor**
**Joanna Udall**
**Jonathan Weaver**
**Keith Wrightson**
**Mark Fox**
**Martin Tilley**
**Matthew Webb**
**Michael Slevin**
**Richard Webb**
**Richard Wilkinson**
**Roger Tonkins**
**Sarah Steel**
**William Taylor**



# Lifelong learning

**One of our featured qualifications for Autumn 2018 onwards is the Certificate in Pension Scheme Member Guidance. This blends three different assessment techniques to ensure that pensions colleagues working with scheme members have the knowledge, skills, and abilities to reliably deal with member enquiries without crossing over into the realms of advice giving, giving you, your team, and your board the confidence that you know it, show it and live it.**

## Knowing it

The first stage to your success in this qualification is knowing the key facts. There is no way around this, it's a question of focus, learn and revise. Once you are confident that you have mastered the information then you are ready to sit a series of multiple choice questions (MCQs). MCQs are an ideal way of checking knowledge and ensuring that you do have a solid base from which to work. You can take the MCQ tests whenever you feel you are ready, bank your success on a unit-by-unit basis, and when you have completed the series you are eligible to proceed to the next stage.

**To discuss how the PMI can introduce this qualification to you and your teams please contact aharper@pensions-pmi.org.uk +44 (0) 207 392 7436**

## Showing it

A chance to hone your skills as you continue to build your confidence. Your challenge is to demonstrate your learning by answering a series of scenario-based tests. For these units you will be given a number of sets of circumstances. You'll need to respond to short, open response questions with a written account of how you would handle the enquiry. This gives you a moment to reflect on how you would respond to a query, what you might need to consider further, and how clearly you can communicate to the scheme member on their distinct circumstances. As you work through these units. Rehearsing what you would do and how you would handle an enquiry, you should be building up a repertoire of responses that you can use on a day-to-day basis, responses that match both your employer's induction and training, and also demonstrate your capability to offer guidance.

## Living it

Having successfully completed the scenario-based tests you can then book your final assessment. This is the moment where all your learning, your knowledge, and your assignments are put to the real test to check that you can perform in the workplace. For the final assessment you will have a telephone assessment with a trained PMI assessor who will really put you through your paces. You will be given a briefing note on what your assessor is likely to be calling you about and then it's over to you to prepare for the call. Your assessor will take on the role of a scheme member and will ask you questions and respond to your answers as a member of the public. Your telephone conversation will be audio recorded and assessed to ensure that you are able to offer scheme members, on a day-to-day basis, clear, helpful, and accurate guidance on their pension.

Challenging for learners, reassuring for employers and boards, the Certificate in Pension Scheme Member Guidance is a shining example of PMI's determination to ensure that our qualifications and assessment methods match as closely as possible the demands of the modern working environment.

DIARY DATES

### Wednesday 12th September 2018
PMI ANNUAL LECTURE

SAVE THE DATE

The 2018 Annual Lecture will be held on the 12th September at:

**JP Morgan, 60 Victoria Embankment, London, EC4Y 0JP**

Our 2018 speaker will be Tim Harford, a world-renowned behavioural economist, an award-winning Financial Times columnist, and BBC broadcaster.

**This event will count as one hour of CPD.**

**This event is free for PMI members to attend.**

### Monday 17th September 2018
SECRETARY TO TRUSTEE

This event will provide the opportunity to share experiences and gain insight into how others carry out the role of the Secretary to the Trustee effectively. Come along to learn more about managing conflicts, trustee effectiveness, preparing and monitoring an effective risk register, and working effectively with the Chair of Trustees.

**Topics include:**

+ The role of Secretary to the Trustees: effective meeting preparation/best practice at and post meeting
+ Preparing and monitoring an effective Risk Register
+ Working effectively with the Chair of Trustees
+ Effective Minute Writing
+ Regular Annual Activities
+ Trustee Effectiveness
+ Effective Complaint Handling
+ Managing Conflicts of Interest
+ Development of Meeting Management

**Members £255.00 Non-members £355.00**
All prices displayed exclude VAT.

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

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

### Wednesday 19th September 2018
INTRODUCTION TO UK PENSIONS, LONDON

### Wednesday 31st October 2018
INTRODUCTION TO UK PENSIONS, LEEDS

This introductory workshop is designed for those with little or no previous pensions knowledge. Our panel will go through the essentials of the pensions industry, touching on core areas that those starting out in the industry need to know, as well as answer any questions that you may have.

**For further details, please contact Events.**

**Members £109.00 Non-members £163.00**
All prices displayed exclude VAT.

### Wednesday 7th November
PMI ADMIN SUMMIT:
THE FUTURE OF PENSIONS ADMINISTRATION

The Future of Pensions Administration is a must attend event for in-house pension schemes, pension trustees, and finance directors who want to keep up to date with the latest best practices and trends, meet industry influencers, advance their careers, and find solutions to some of industry's most challenging concerns. The conference will also provide a great networking opportunity for trustees, administrators and pensions scheme managers.

**Early bird price of £250 for members and £300 for non-members (until 31st August 2018).**

### Thursday 29th November
PMI TRUSTEE SEMINAR

The PMI is delighted to announce our Winter Trustee seminar will be held on the 29th November in London. Join us for a day with some of the top influencers in the pensions industry.

**Topics to include:**

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

**This event is free for PMI Trustee group members to attend.**

# Introduction to UK Pensions

Pensions Management Institute
ACHIEVING PENSIONS EXCELLENCE

## Wednesday 19 September 2018 - London

| | | |
|---|---|---|
| **10:00** | **REGISTRATION AND COFFEE** | |
| **10:30** | **Chairman's Introduction** | **Lesley Carline,** Director, KGC Associates and PMI President |
| **10:40** | **Setting the Scene**<br>• Essential jargon<br>• Parties involved in a pension scheme<br>• Types of Trustee | **Lesley Carline** |
| **11:10** | **Pensions Law**<br>• Role of lawyers – Company v Trustee<br>• Complaints and the Ombudsman<br>• Recent legislation and on the horizon | **Simon James**, Associate Squire Patton Boggs |
| **11:40** | **Design of Trust Based Pension Schemes**<br>• Defined benefit<br>• Defined contribution<br>• Retirement benefits<br>• Early leavers<br>• Ill health benefits<br>• Death benefits | **Julian Mainwood,** Partner, Barnett Waddingham |
| **12:10** | **Pension Administration**<br>• Role of the administrator<br>• Calculating benefits<br>• Communicating benefits<br>• Data | **Paul Couchman,** Managing Director, Premier |
| **12:40** | **LUNCH** | |
| **13:20** | **Member Engagement**<br>• Disclosure<br>• Advice v guidance<br>• New communication channels | **Karen Bolan,** Head of Engagement, AHC |
| **13:55** | **Pension Scheme Funding**<br>• Role of the Actuary and Investment Consultant<br>• Contributions<br>• Investments<br>• Actuarial valuation | **Andy Nichols,** Consultant, Retirement and Investment, Aon Hewitt |
| **14:25** | **CONCLUDING REMARKS AND Q&A** | |

**FEES**

| | |
|---|---|
| Members | **£109.00 + VAT** |
| Non-Members | **£163.00 + VAT** |

Hosted at the PMI
Floor 20, Tower 42, 25 Old Broad Street, London, EC2N 1HQ

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# “Hello. I am new around here”

## Integrating robotics into the team

# Using robotics to maximise the quality of advice for members

By Daniel Taylor
Client Director
Trafalgar House

Ever lied to your doctor? Exaggerate the amount of sunscreen you use and downplay the junk food and units of alcohol consumed? Don't feel too upset, we're all at it. A 2015 survey in the USA conducted by digital health platform Zocdoc found that around a quarter of patients don't tell the whole truth to their doctor. Embarrassment or fear of being judged were the top reasons for not telling doctors the whole story.

Fear of judgment affects every one of us. No matter how experienced or successful people become, nobody wants to show perceived weaknesses or shortcomings in our lifestyle, actions or desires. So, we end up lying or avoiding engaging with people all together on matters fundamental to our wellbeing. We even do this to the people whose job it is to support us.

When it comes to getting financial support the challenges just keep mounting. The Financial Advice Market Review (FAMR), found that people commonly also avoid getting financial advice because of a lack of trust, or the feeling that it's 'not for them'. The FAMR also highlighted concerns about declining adviser numbers and a move in the market towards advisers only targeting high net worth savers. The same report showed that at least a quarter of people who need advice, aren't getting it.

The maths is simple. 25,000 financial advisers and 12.8m people who need financial advice; there simply isn't enough capacity to support good financial wellbeing. This isn't a point lost on the FCA and a well-publicised campaign focusing on affordability, accessibility and engagement is driving much of their focus. Affordability remains a persistent hurdle.

An insightful report published in 2015 by the Citizen's Advice Bureau on the advice gap, points out that 49% of households have net financial wealth of less than £5,000 (46% to June 2014).

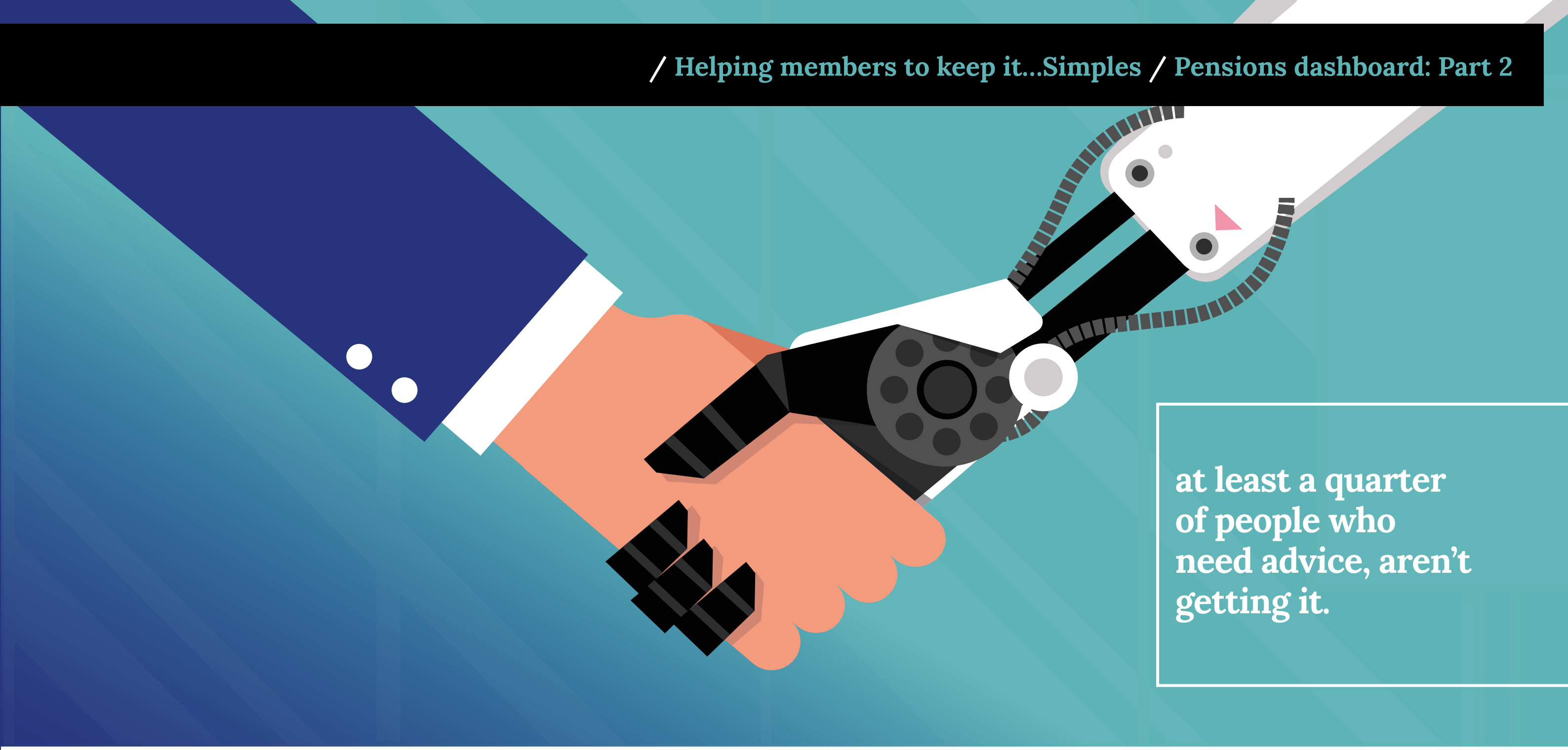
**With an initial financial review averaging £500, it's not surprising that few households would be willing to spend 10% of their savings on adviser charges.**

### So, could robo-advice be the answer?

Working in administration means you're at the front line of most member questions. And, what it highlights, is that the majority of members want to be told what to do.

**Guidance has its place, but advice is what members really want.**

A quick and easy way for them to be told what the most suitable options for them are, and how to access them. Robo-advice could offer access to a mass-market advisory service that liberates savers from the



**at least a quarter of people who need advice, aren't getting it.**

psychological and cost barriers of seeking advice. And, where we see it being most effective is in the early stages of fact-finding and decision making.

Every financial advice journey starts with a fact-finding exercise: a detailed process where your financial adviser will record all your amassed wealth, income, outgoings, attitude to risk, and long-term aspirations. This is the foundation of forming suitable advice. Based on this, most advisers will quickly form a view on the general appropriateness of options and financial products.

This part of the process is seen as a ripe opportunity for 'auto advice services' because it relies on the respondent giving full and frank answers, as well as it being relatively time-consuming, and demanding a lot of paperwork. If the respondent can perform this part of the process themselves, then the potential exists to streamline the advice process and provide an opportunity, without fear of judgment, for a more honest picture of one's financial affairs. And, because the respondent completes much of the legwork themselves, it has the potential to lower the initial advice charge.

Gathering information about the individual is only one half of the equation and advisers also need to understand the value and location of a person's amassed wealth. Research by B&CE shows that you can't rely on someone knowing this either, with three in five workers having no idea how much they have saved for their retirement. Automation can also offer a solution here with the pension dashboards providing a potential shortcut to gathering this data. Some industry experts estimate that this alone could reduce advice costs by up to 25%.

With rapid advances in decision-making platforms, although not yet at the reaches of artificial intelligence, it's no surprise that some early solutions have already been brought to market.

In May, the FCA undertook a review of some solutions providing automated investment services. They determined that "some services lacked adequate fact-finding and 'know your client' focus, instead relying on assumptions about clients". The shortcomings pointed to the solutions lacking rigour in the range of information being asked, and with the recipient being more inclined to disregard the advice provided at the end of the process. A side effect of someone being more inclined to challenge the information provided by an algorithm compared to a seasoned professional. Being on the frontline of member engagement the challenges are clear.

**Whilst dramatic improvements have been made in the quality and range of member guidance, a vast number of people just want pragmatic, simple advice on what they should do.**

78% of the population have net wealth less than £50,000 and need support on a whole range of saving issues from contribution and investment options to decumulation and transfer choices. Guidance is helpful for those that have the time, motivation, and willingness to invest in consuming it, but everyone else is just looking to be told what to do. Technology innovation is the only credible solution to bridging the advice gap, putting lower cost advice in reach of more members.

By Anthony Rafferty, Managing Director, Origo

# Why it's time to do away with our manual transfers processes

**Whilst I have been working in financial services for over 20 years, when I became Managing Director of Origo at the beginning of this year, one of the first things I did was to tour the industry to get a fresh perspective and hear what various stakeholders believe is important for the industry and the UK consumer.**

What was extremely encouraging to see was the focus on customers/members and helping them achieve good outcomes. What I was somewhat surprised to learn, however, was how a number of key processes are still subject to manual processing.

Given the functionality and capabilities that lie within the phones we all carry around in our pockets, and how fast and easy online access to bank accounts are forming consumers' expectations of what is the norm, for pensions administration processes to be carried out using paper-based systems mixed with large, complex spreadsheets seems incongruous to the way we now live our lives and run our businesses. Add to this the fact that pension provider systems and processes are increasingly under greater scrutiny by Government, which is very much focused on the consumer experience, and there is a clear need for change.

> **There are numerous reasons why processes are lagging technology: time, resource and money sum up the key ones.**

All companies, no matter how large, have finite amounts of each, and the considerable amount of legislation and regulation with which the pension industry has had to deal with over the past few years have focused priorities. Add to that mix the legacy systems companies have acquired over the years, along with the need to make a business case for improving back-office administration against more pressing issues, and it is understandable that in some areas industry processes have fallen behind the available technology.

So, how do we address this? Let's take as an example bulk pension transfers; the transferring of a pension scheme's members (in full or part), from one provider or administrator to another.

To carry out a bulk transfer, considerable data and information on payments and entitlements has to be collated, monitored, and passed between the ceding and receiving parties.

**When using manual paper-based transfer processes, they are open to a range of disadvantages:**

+ **Delays in the sending and receiving of data by organisations and the member**
+ **Issues around accuracy of transfer information, as changes continue to occur during the transfer process**
+ **Formatting errors**
+ **Delays and costs of manually updating information**
+ **Keying errors**
+ **Communication breakdowns between scheme and providers**
+ **Contacting and dealing with the 'right' contacts at counterparties to progress the transfer**
+ **Data transfer issues**

+ **Data security issues**
+ **Out-of-market issues.**

Automating bulk transfers enables processes to be better controlled and the majority of the issues listed above to be resolved. Most importantly, it can also lower costs as well as the risks for all parties, particularly the scheme members.

**Automating the bulk transfers process enables faster switching between ceding and receiving parties and can deliver:**

+ **Faster, member-centric service**
+ **Transparent, trackable process**
+ **Secure and reliable transfer and communications between transferring parties**
+ **Consistency and integrity of data (as all transfer parties work from the same data)**
+ **Savings for providers and administrators in terms of time and money**
+ **Common approach across the industry**
+ **Significantly reduced costs per transfer as well as overall costs**
+ **Better member outcomes.**

It also helps employers to save considerable time and resource commitment.

## How it works

Origo has been operating a bulk transfers service since 2015. This is how it works.

First, a trust framework is signed up to by transferring counterparties, with each party aware of its obligations and rights. This framework enables the receiving party (for contract-based schemes), to collect consent from each member on behalf of the ceding party at the point of application.

> **This does away with paperwork inefficiencies which occur between organisations and individuals, ultimately slowing down the transfer.**

This framework is the open Common Declaration Standard now managed by Criterion. The system defines, and all parties agree, ahead of any transfer, the information that is absolutely critical and common to effect the transfer. This removes any uncertainty and confusion, and saves administrator time.

Formatted CSV files are then uploaded to Options Transfers, a secure online service, avoiding data security risks that emailing CSV files can cause, critical under GDPR.

Changes and updates to the information can then be conducted through one secure point by each transferring counterparty. This avoids confusion as to which file, or information about a particular member or even an entire scheme, is the latest and most up-to-date. The changes are recorded for future auditing purposes, as well as being automatically notified to the other transferring party, with any action required in order to progress the transfer quickly flagged. Another advantage of using a secure bulk transfers hub is that contact information of the teams and individuals responsible for administering the transfer can be added, speeding up relevant communications. For example, notes can be sent securely, helping to ensure all transferring parties are kept abreast of any anomalies in an efficient and fully auditable way.

Finally, automation includes secure, automated monitoring and co-ordination, as well as prompting of actions, and full MI and audit trail for review and compliance requirements.

There are some very clear wins here. The scheme member experiences a safer, faster, customer-focused service. The schemes and administrators have a faster, less labour-intensive and therefore less expensive process, with a significantly reduced possibility of error, and which is trackable and auditable.

This means that not only is the process more efficient and cost effective, but providers can better communicate with the member where they are in the process. For the new scheme taking on the business, that level of service and member attention can help cement the member's confidence that the switch is in their best interests.

By providing a better service to members, automating bulk transfers also gives a clear message from the industry to Government around improving the consumer experience, as well as enhancing individual companies' reputations in the industry.

And this is just one of the reasons that I joined Origo – to be at the forefront of positive change in the industry.

> **By automating transfers through Origo's Options Bulk Transfers service, we are able to help the schemes, trustees, and administrators to create greater efficiencies, reduce their costs, and deliver better outcomes for members. I see that as a very positive step in the right direction for all concerned.**

# Helping members to keep it… Simples

By Ruston Smith, Independent Non-Executive Chairman

Go on, be honest, as a seasoned pensions professional have *you* pulled together all your pension statements in the last year and considered whether you are on track to have the retirement you realistically dream about? Probably not, and I'm no different….although I do have a spreadsheet.

But we have an expectation that busy everyday people gather all their statements that they've received over the last year, make sense of them, and make informed choices. Or at least, that's our aspiration.

### Supporting Personal Ownership of Retirement Savings

In the 2017 Automatic Enrolment Review, the DWP proposed an objective to support individuals to have a greater sense of personal ownership of their retirement savings.

But, how easy do we make it for everyone? Well, we provide:

+ a statement of members' estimated annual income from defined benefit schemes if you're lucky enough to continue to contribute towards one, and issue a statement when people leave, and
+ an annual statement of a member's defined contribution savings

But with an expectation that, on average, we'll have 11 employers in our working life, and perhaps as many providers, everything will be all over the place. And then of course, according to Zoopla, over a lifetime we'll move house an average of 8 times, so will we really let our previous providers or employers know that we've moved? Well, maybe at some point.

And not only do people have little time but many find financial information difficult to understand.

> **For example, 1 in 5 UK adults don't understand their bank statements, which just shows 'money in', 'money out' and 'the balance'.**

So, you see the challenge. Not only are our retirement income and savings information in many different places, but when we try to make sense of our statements, they're all very different: different words, a fair bit of jargon, different numbers in different places on different statements, and with numbers based on different assumptions.

### Annual Statements: A Missed Opportunity

So it's tough to make sense of the information we get, even if we're really keen. And that's why, in the Automatic Enrolment Review consultation last year, the Annual Statement was described by many as the 'missed opportunity'.

Working with Vince Franklin and Mark Scantlebury from communication consultants Quietroom, and with Karen Mumgaard from Eversheds Sutherland providing valuable legal direction, we decided to ignore the regulation and produce a short and simple annual statement with only the information that mattered most to members; with no jargon.

An early version of the Simpler Annual Statement, which was further developed to make it legally compliant, was included in the DWP's Automatic Enrolment 2017 Review Report which was published last December. Since then we've further developed it with industry and it's just going through some qualitative and quantitative user testing led by Ignition House. The current version, which will inevitably change, is shown in the illustration, with an explanation of the 'what' but particularly the 'why'.

The output from the user testing will lead to further changes to the Simpler Annual Statement which we hope to launch later this year as a proposed approach for best practice.

### Industry Collaboration: Making the Difference

The real difference that we could make as an industry, without the need for additional regulation, is to adopt the Simpler Annual Statement, but, naturally, with schemes and providers using their individual branding, colour, illustrations and links to further communication.

Gregg McClymont, Director of Policy and External Affairs at The People's Pension, said "whilst a world class pension system should deliver efficient outcomes without demanding individual engagement, for those that do wish to engage, it should be easy and satisfying. The People's Pension believes that it's firmly in members' interests that annual statements, across all pension providers, use the same assumptions and provide the same information so that members have a better chance to understand what savings they have and where."

**Romi Savova of Pension Bee says that "by giving members consistency of the essential information they need, we can help them to make sense of the numbers on their statements".**

That's the clear message coming out of the user testing that Ignition House are conducting. Janette Weir, from Ignition House, said: "Members have consistently given very positive feedback on the new statement, saying it simple, jargon free, and presents the key information they need to know about their pension in a very visually appealing way. At just two pages long, they can read and fully digest the information in less than 5 minutes, which is often a world away from their current experience".

### Future Vision: Future Work

The Simpler Annual Statement is expected to be launched later this year following which, as we look for wider adoption, industry associations will work with schemes and providers to consider its implementation and identify any further improvements that can be made.

Nathan Long from Hargreaves Lansdown says "'there's no doubt that shedding the gobbledygook from annual statements will make them easier for pension savers to understand. We should get behind this initiative of providing a more simple way of explaining pensions consistently as an industry, compared to the current yawn-inducing illustrations. The longer term vision should be online personalised engagement at teachable moments."

With the work by the PLSA on Retirement Income Targets, to help members think about how much they need to save, the Simpler Annual Statement making it easier to understand both how much they've saved and how much they might have at retirement, the proposed Pension Dashboard will ultimately bring all members' information together in one place, in a simple and consistent way.

**So, all this work is complementary to contribute towards supporting individuals to have a greater sense of personal ownership of their retirement savings. One step at a time, we're making life simpler for savers.**

## Proposed Simpler Annual Statement – this draft is currently being tested with consumers

3 May 2018 Statement

### Your F&G Pension Plan Annual Statement

| | |
|---|---|
| Your name: | Jo Bloggs |
| Your membership number: | 0123456789 |
| Your address: | 1 Smith Street, Smithtown, Smithshire, SM1 2SM |
| Statement date: | 3 May 2018 |

Your Annual Statement shows you three things:

1. How much money you already have in your Pension Plan
2. How much money you could have on your 67th birthday (8 March 2040) – when you told us you plan to retire
3. What you could do to give yourself more money

**1. How much money you already have in your Pension Plan**

£14,004 Money you've saved into your Pension Plan since you started + £21,234 Money added by F&G, the Government and from investments + £3,000 Money you've transferred in from other pension schemes = £38,238 Total amount of money in your Pension Plan on 5 April 2018

| | Money out | Money in |
|---|---|---|
| **Last Year** | | |
| Total amount of money in your Pension Plan on 5 April 2017 | | £ 30,595 |
| **This Year** | | |
| You have saved into your Pension Plan | | £ 1,249 |
| F&G has added | | £ 1,561 |
| The Government has added – through tax relief | | £ 312 |
| After charges, the value of the investments in your Plan has increased | | £ 1,701 |
| You've transferred money in from another pension scheme | | £ 3,000 |
| You've paid the cost of managing your Plan – 0.5% of the money in it | -£ 191 | |
| **Total amount of money in your Pension Plan on 5 April 2018** | | **£ 38,227** |
| If you'd asked us to transfer your money to another pension scheme on 5 April 2018, we would have transferred | | £ 38,136 |

Find out how money goes in and out of your Pension Plan at **F&Gpension.co.uk/myaccount**.
While you're there, you can find out:

- How we invest the money in your Pension Plan if you don't choose the investments yourself
- The costs and charges that apply to your Plan, and whether we think they're good value for money. There's also an example of how they might affect the amount of money in your Pension Plan.

1 Colour coded sections make it easy to navigate
- What you have
- What you could have in the future
- How you could get more

2 The most important numbers are in big circles that stand out at a glance. Members can then drill down into each section if they want to.

3 Money in and money out is shown like a credit card or bank statement – something members are already familiar with and understand.

4 Confusing phrases like "at today's prices" and jargon like "inflation" are replaced with friendly, clear explanations.

3 May 2018 Statement

…uch money you could have on your 67th birthday (8 March 2040) – when …l us you plan to retire

…our Pension …lan could be worth …103,360

You can use the money in your Plan in lots of different ways. One way is to turn it into an income that you get for the rest of your life.

That income could be worth **£230** a month

**…bout what your Pension Plan and income could be 'worth'?** The answer is – because …e've shown you what we think the money in your Plan might buy you when you're 67 …ll buy you what £103,360 would buy you today. We think you could turn it into an …ould be like having a monthly income of about £230 today.

**…hese figures out on 5 April 2018. Lots can happen between then and when you use …** So these figures don't come with a guarantee. We can't promise this is the actual …ney you, or anyone else who benefits from your Plan, will get. You could get more or … amount. These figures are a guide to help you plan. When you're planning, remember …n income from other places – for example, most people get the State Pension.

…ed out these figures, we assumed that you and F&G keep putting money into your …very year. We also assumed some other things about your Pension Plan, how your …ted and inflation. Find out about these at **F&Gpension.co.uk/yourincome**

**3. What you could do to give yourself more money**

Before you do anything, it's worth thinking about how much money you're likely to need when you retire. You'll find some information to help you do this at [National Income Targets website].

**Save more money into your Pension Plan** – If an extra **£50** went in every month, your Pension Plan could be worth an extra **£8,950** by the time you're 67.

Your Pension Plan could be worth **£112,310**

You can use the money in your Plan in lots of different ways. One way is to turn it into an income that you get for the rest of your life.

That income could be worth **£250** a month

**Give your money more time to grow** – You don't have to use your money when you're 67. Leaving it to grow a bit longer could mean you have more money when you do use it.

Increase the amount you save or change when you plan to retire at **F&Gpension.co.uk/myaccount**

**Find out more about your Pension Plan and how you can use your money**

If you'd like to know more about what you can do with your Plan, visit F&Gpension.co.uk/retirement. When you're 50, you can also get help from Pension Wise, a free and impartial service provided by the Government. Call them on 0800 138 3944 or visit pensionwise.gov.uk.

This Statement refers you to information on our website. If you visit the website, you'll be shown how to get the information you need. If you can't access the website, or would like some or all of this information in writing, just call us on 01234 567 8901, and we'll post it to you. This is also the number to call if you have any questions about the F&G Pension Plan.

5 Focus in on long term gains – the difference between what you've saved and the amount in your Plan. More motivating and relevant than changes within one year.

6 Small print is turned into short, friendly copy, so members don't feel things are being hidden.

7 Language is positive and friendly – it's about 'saving money, using money, things you could do and what you might get'.

8 Every section ends by showing members how to make changes or find out more.

# Pensions dashboard:Part 2

## Illustrating the technical requirements

**By Richard Smith**

Whatever the Government's view, pensions dashboard services have the opportunity to be really great for UK citizens. In the second of two articles, Richard Smith reviews some of the high level technical complexities of making it happen.

### Part 2 – Technical requirements

Three months ago, in the June edition of Pensions Aspects, I used two case studies to illustrate some of the challenges that a pensions dashboard service will face in terms of content, i.e. "what" needs to be shown. This month, I turn to the technical challenges of actually achieving it, i.e. "how" it might be done.

It's likely that this article could be superceded by DWP's dashboard feasibility report – at the time of writing this is expected "in due course". Much of the content remains valid, however, whatever Government says.

### Picture worth a thousand words

The only feasible way to talk about this is through pictures, so this article centres around the simplified ecosystem diagram on the next page.

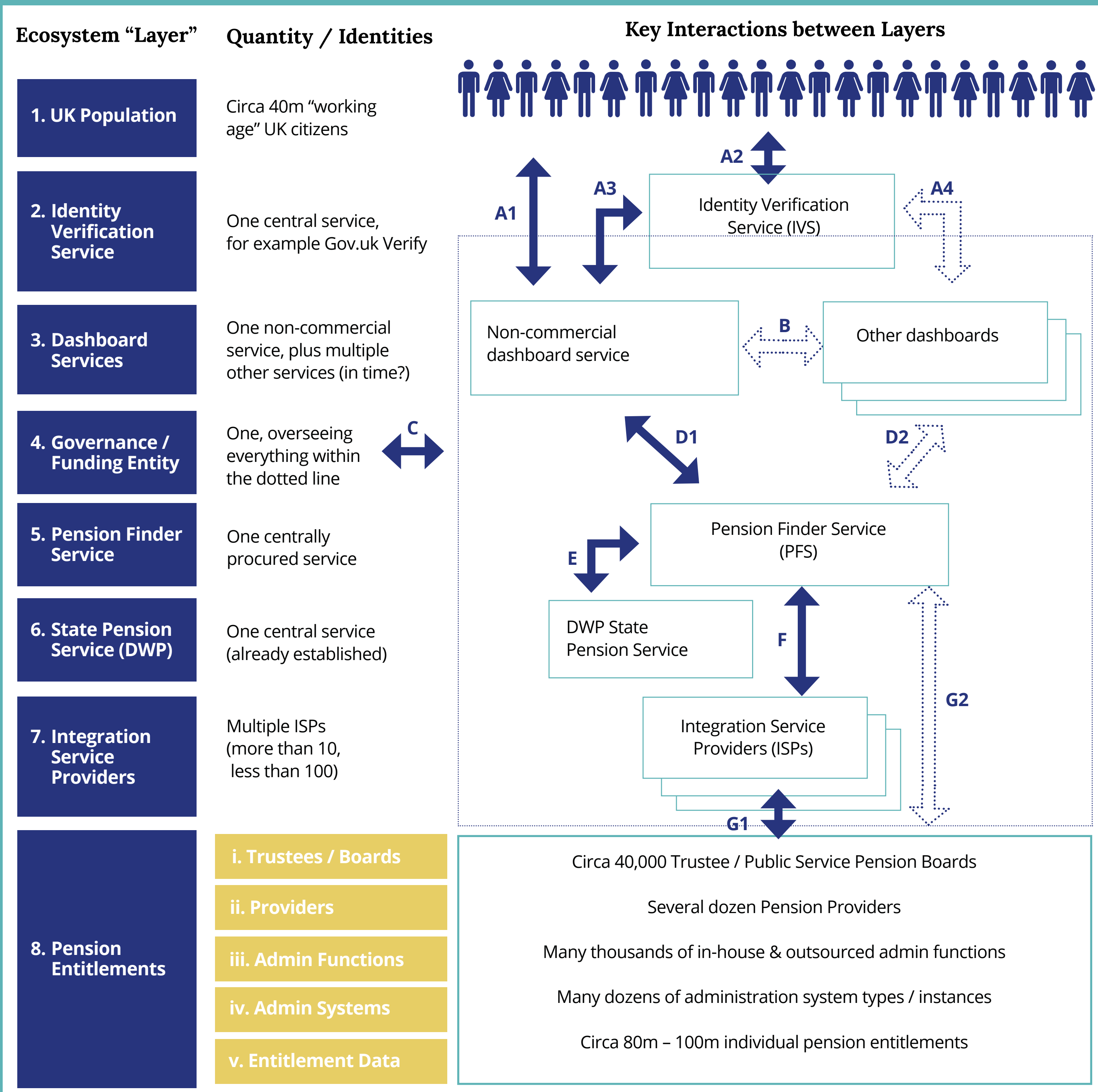
> "Ecosystem" used to refer to a biological system of interacting organisms, but nowadays it's come to mean any complex network or interconnected system.

And behind the dashboard's front-end simplicity for users, there will most definitely need to be a complex, interconnected, and highly sophisticated ecosystem.

The concept's really simple: there are currently about 40 million UK Citizens of working age ("Layer 1" at the top of the diagram) who between them, today, have something like 100 million pension entitlements (or, very roughly, an average of two and a half pensions each) ("Layer 8v" at the bottom of the diagram).

> **Dashboard merely makes online connections between Layer 1 UK Citizens and their Layer 8v Entitlements. What could be simpler? The brief descriptions on page 21, of each layer in the ecosystem, show how it will be far from simple. But it can, and must, be done, as citizens really need greater confidence about their pensions.**

**Highly simplified diagram of the potential ecosystem for UK pensions dashboard services**




**Note:** The brief descriptions on the next page can only give the merest flavour of the different dashboard components. Bringing all the components to fruition at once, in all their necessary detail, will present a truly exciting industry-wide programme, unlike anything the UK pensions world has ever seen before.

**Layer 1 UK Population:** Clearly, UK citizens should expect to be able to use UK pensions dashboard services. But who exactly is in and out of scope? For example, should a retired person expect to be able to use the dashboard? What about if one or more of their pensions aren't yet in payment?

**Layer 2 Identity Verification Service (IVS):** The two hearts of the dashboard ecosystem are the IVS and the PFS, i.e. confirming respectively "who you are" and "what pensions you've got". Citizens may come to dashboard first (interaction A1), or alternatively, have their identity verified before they come to the dashboard (for example by another service such as online banking – interaction A2). The level of identity authentication required, and the associated costs, need to be discussed and agreed across the industry.

**Layer 3 Dashboard Services:** The dashboard service itself is the citizen's window on to the ecosystem. Different segments of the UK population will find different things useful, which is part of the argument for multiple dashboards. A plan for publicising dashboard services to the UK population needs to be devised, as part of a coherent industry-wide approach to launching and operating the ongoing dashboard service.

**Layer 4 Governance / Funding Entity:** As soon as we talk about showing consolidated pensions data to citizens, we need to think about who (or which entity) will govern and control that activity. This entity will have a wide role on data controls in terms of security, matching, transmission, presentation, and so on.

Because of its oversight of the end-to-end ecosystem, this entity will also be well placed to manage the necessary funding of the ecosystem, both on start-up and ongoing. It also seems highly logical for this entity to also be responsible for managing the initial delivery of, and ongoing updates to, the service.

**Layer 5 Pension Finder Service (PFS):** The critical component the Governance entity needs to procure and oversee is the function which finds the pensions belonging to each citizen who uses the dashboard service. Some of the critical complexities surrounding this service are whether, where, and for how long, records of positive and negative finds should persist, as well as the extent of the data that should be recorded.

**Layer 6 State Pension Service:** The DWP's State Pension Service isn't just another pension provider, partly because it's an existing national online service, but also because the UK's National Insurance Number database could well prove helpful in providing additional support for the verification of users' identities.

**Layer 7 Integration Service Providers:** ISPs are the layer between the Pension Finder Service and our familiar pensions world. In order to access data from this world (and transmit it back via the PFS to dashboards), ISPs will need to enter into agreements as appropriate with Trustees / Providers / Admin Functions / Admin System Providers. (In fact, it's likely that several Admin System Providers may bring new ISP services to market to leverage their existing relationships with pension schemes and providers.)

**Layer 8 Pension Entitlements:** This lowest layer represents the circa 100 million pension entitlements currently in existence in the UK. The entitlements "belong" to Citizens but the data relating to them is "owned" by Trustees and Providers. So it is these entities, together with their administration partners, who need to expose their members' / customers' pension data to ISPs (or, potentially, directly to the PFS – interaction G2, although that seems less likely). Being compelled to expose this data, over a staggered introduction period, will greatly simplify schemes' and providers' business cases for the necessary work.

All pension types are in scope: public and private sector defined benefit (DB), trust and contract based defined contribution (group and individual), and, of course, Pension Protection Fund compensation.

**Conclusion:** To a UK citizen, the experience of using a pensions dashboard should be simple, elegant, beautiful even. Like the proverbial graceful white swan gliding across the lake: it appears elegant and effortless, but under the water a huge amount of sophisticated work is going on.

So it will be with dashboard: when all the components in the ecosystem described here are set up and tested thoroughly, they will work together seamlessly, making all the hard work behind the scenes look ridiculously easy; and, crucially, providing a really clear, simple and great service for our fellow UK citizens.

**What next?: The whole UK pensions world now needs to get behind the dashboard initiative, working with technology and other partners as appropriate. We must urgently get on with adapting our industry so that it functions properly for citizens in a world where folk don't just have one 40-year job.**

**Contact us**

**LinkedIn Profile:**
www.linkedin.com/in/richard-smith-b15935/

**Dashboard Blog:**
www.dashboardideas.co.uk/

**Call:** 07739 449064

# The employer covenant is dead; long live the employer covenant

The employer covenant review has continually evolved since the concept was first introduced, and it is time for another iteration. Covenant advisors need to move away from just giving trustees a rating of covenant and instead provide advice to better help trustees consider a level of supportable scheme investment risk, an appropriate time period to target full funding, and the affordability of the scheme's potential current and future cash requirements for the sponsor. The old covenant review is dead, let us now embrace the accession of this new era of covenant.

**By James Berkley**
**Associate Partner EY**

**Employer Covenant reviews still place significant weight on proprietary rating scales, but as trustees aim to project forward their journey plan to full funding, they are now demanding an output that helps them make decisions off the back of the review. That requires another reinvention of the employer covenant.**

The rating is helpful in allowing trustees to assess the likelihood of the member's benefits being paid in full, and therefore in guiding them to the appropriate funding target. However, it is less helpful in then assisting them to make decisions off the back of it.

Firstly, advisors currently talk in different languages, making it hard to translate how one piece of advice should influence actions in another area. For example, covenant advisors require their rating scale to be translated by the actuary and investment advisor.

Instead, Covenant advisors now should be talking the language of risk, longevity, and funding.

**This requires a deconstruction of the covenant review into 3 constituent parts:**

a. Sponsor risk capacity and risk correlation with the scheme – giving the trustees a clear view on how much downside risk the sponsor could support, and the extent to which any correlation between scheme and sponsor increases or mitigates this risk;

b. Longevity of covenant – Can a view be given on the period over which the trustees can place reliance on the covenant? Some sponsors have characteristics that allow for a longer term view to be taken;

c. Affordability of cash now and in a downside scenario – what is the sponsor's capacity to meet a fall in funding levels over the scheme's lifetime? What is the payment profile of the scheme over its life and are there any shortfalls in scheme liquidity that need to be considered? How might the covenant be impacted by increasing funding towards the scheme

**These terms fit better with the 4 key levers that trustees have at their disposal**

1. Changing investment risk;

2. requesting increased cash from the sponsor;

3. changing the time period over which the scheme targets full funding; or, ultimately,

4. accepting that a lower target might be required.

As a result, trustees get better information about the relevant factors impacting the sponsor, leading to greater confidence over the long-term future of the scheme.

By understanding the covenant/investment/funding drivers of a particular strategy this also allows trustees the possibility of creating a genuinely integrated risk management framework (not just one that plays lip service to integration by presenting 3 separate monitoring frameworks in the same document and hoping no one will notice they don't integrate)

As more and more schemes enter run off, there is a need for ever greater integration amongst trustees, sponsors and advisors. Covenant advisors have a responsibility to help this dialogue by focussing on the needs of the trustees, and by helping trustees articulate to management the benefits of greater collaboration between scheme and sponsor.

**Long live the employer covenant – there are exciting times ahead.**

**Wednesday 7 November 2018**

Cavendish Venues, One America Square, London EC3N 2LB

**CPD: This event counts as 7 hours of CPD**

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- Defined Contribution: its easy till it goes wrong
- Defined Benefit: The legacy of contracting out

## CONFIRMED SPEAKERS

**Lesley Titcomb**
CEO, TPR

**Andres Lundström**
CEO, minpension.se

**Mike Broomfield**
Head of Intelligent, TPR

**Vincent Franklin**
Co-founder, Quietroom

**Patrick Heath-Lay**
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If you would like to receive further details, please contact us on events@pensions-pmi.org.uk
or alternatively, you can call us on 0207 392 7427

# News from the regions

## [ North East news ]

Our seminar 'Who wants to be an Investment Consultant?' was held on 7 June at the offices of RSM Restructuring Advisory. Thanks go to presenter Richard Lunt from First Actuarial for his presentation.

Our AGM and seminar 'Legal round-up' was held on 12 July at the offices of Walker Morris. Thanks go to presenter Ruth Bamforth of Walker Morris for her presentation. This was our final event of the 2017/2018 programme.

We would like to thank all of our seminar speakers and everyone who volunteered their time to make our 2017/2018 events a success. The Group will be meeting later in the summer to agree the 2018/2019 event programme. Details will be confirmed here and added to the Group's website page in due course.

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

## [ London regional news ]

**AGM Report**

Many thanks to RSM for hosting our AGM in July. This year our traditional post-AGM talk addressed the subject of networking and we were delighted to be joined by our two speakers, Mike Sullivan (Pension Trustee), and Jonathan Stapleton (Editor of Professional Pensions). A lively debate followed and whilst there was a fair bit of agreement between our two speakers, there was a slight divergence of when to speak to journalists!

The AGM gave us a chance to say thank you to some long serving London Committee members who are standing down this year. Rosalind Connor has supported the London Group for many years including acting as Chair. We also say goodbye to Matthew Demwell who has been the business secretary and delivered an excellent AGM business session as the final part of his role. Finally, Richard Pain, membership secretary, who is also standing down from the committee. Managing the PMI London membership lists and subscriptions has been challenging and his commitment to the role has been much appreciated. The committee will miss all three members for their enthusiasm, experience and commitment.

The AGM wasn't all about goodbyes. Emma Watkins, retiring by rotation, was re-elected, whilst we welcome two new members to the committee with Andrew Riley and Martin Lacey now part of the team.

It was also an opportunity for our Chair, Girish Menezes, to thank all the hosts, sponsors, speakers, tutors and members for their support which helped to make this such a good year for PMI London. Thanks also to our PMI House representatives, Alan Whalley, and in particular, Anne Jones who have supported the committee for many years. Anne is now leaving PMI for pastures new.

**PMI London Group – Updated committee information**

Following on from our recent AGM we are delighted to confirm details of the PMI London Group Committee.

**Chair:** Girish Menezes

**Secretary:** Amanda Burden

**Treasurer:** Nathan Jones

**Membership Secretary:** Mark Jenkins

**Business Committee:** Simon Kew as Business Secretary, supported by Martin Lacey and Emma Watkins

**Social Committee:** Damon Lacey as Social Secretary, supported by Laura MacPhee

**Education Secretary:** Giles Bywater, supported by Andrew Riley

**Communications:** Laura MacPhee

Consideration was given as to whether to co-opt any additional committee members at this time and it was agreed this was not currently required. However, consideration will be given in the future, depending on requirements.

Contact details can be found on the main PMI regional group website and we will be in touch shortly regarding our programme of Business and Social events.

## [ Eastern news ]

We have agreed our Officers / Committee for the coming year as follows:

| | |
|---|---|
| **Chair** | **Ross Wilson** |
| **Vice Chair** | **Laura Sayer** |
| **Treasurer** | **Barry Gostling** |
| **Secretary** | **Andy Yates** |
| **Membership Secretary** | **Laura Sayer** |
| **Communications** | **Susan Eldridge** |
| **Education Secretary** | **Vacant** |
| **Other members** | **Jon Foot, Sue Curryer and Brian Kite** |

**We still have space on our Committee and are hoping to co-opt another couple of members. We plan to have a catch up call in early September.**

Our next afternoon seminar is planned for 30th October in Norwich, starting with a buffet lunch at 12 noon. Topics / speakers should include an update on the CMA investigation from Aon Hewitt, educating and guiding scheme members by Wealth at Work, and a talk by XPS on reducing DB risk by member options, and mitigating DB transfer risk by careful communication. We hope to have a fourth speaker too. Full details will hopefully be contained in October's Regional News and should be emailed to members in late September.

# Goodbye to the regions

### Bryan McDaniel – PMI Southern

The PMI says goodbye and thank you to Bryan McDaniel, who was, until recently the Chair of the PMI Southern Group.

Bryan has been a PMI member almost from the start, joining us in 1978 and gained Member status (now known as APMI), in 1985.

In his 40-plus years in the industry, Bryan has worked across several areas. He started in pensions administration in what is now Aviva, and finished at TPR within the AE Directorate, followed by a short spell as part of the Public Service Pensions team. For good measure, Bryan now works part time as a guider at Pension Wise.

Since around 2000, Bryan has been a member of the PMI Southern Group. Soon after joining he became part of its events organising team, which included a spell as its chair, before becoming the Chair of the Southern Group in 2015.

We send our thanks to Bryan for his tireless dedication and commitment to PMI over the years. Although stepping down, he will still be assisting with the organising of some Group events, and at the same time, supporting us with exam marking and invigilation.

### Sue Curryer – PMI Eastern

The PMI is sad to hear that after many years working as part of our Eastern regional group, the Chair, Sue Curryer, has stood down.

Sue has been a PMI member since 1992 when she initially joined as a Student, gaining what was then known as Member status (MPMI, now known as APMI), in 1995, and then being admitted as a PMI Fellow in September 2003.

Between 2008 - 2014, Sue not only worked on the Advisory Council but also served on our Qualifications Committee. Sue also worked with the Eastern region since 1997, flitting between roles as and where she was required in the Regional Group. We send our thanks to Sue for her dedication and commitment to the PMI over the years.

# How safe are my DC assets?

"How safe are my DC assets?" Thankfully this isn't a question we hear often from UK DC members. That's probably just as well, because from a technical point of view, it's actually a very hard question to answer.

**The Pensions Regulator, in its Code of Practice 13, requires trustees to understand what would happen in the event of a 'problem' with the assets of the scheme, and what compensation would be in place if things did go wrong. Trustees must also tell members about the results of their investigations.**

Four years ago, we established the Working Party on the Security of DC Assets to assist trustees in their investigations. The Working Party is made up of consultants (LCP and Hymans Robertson), trustees (AMNT and Capital Cranfield), platform providers (Fidelity and Aviva), and pension lawyers (ARC Pensions and Sackers). We don't aim to give detailed answers (as these are often not 100% clear), but to equip trustees with the questions they should be asking their managers, providers and investment consultants.

Many trustees believe that all the assets of their DC scheme are covered by the Financial Services Compensation Scheme (FSCS). This is unlikely to be the case. The only direct protection trustees have is in their insurance policy (assuming they have one), with their platform provider. This is a long-term insurance contract and is, at least in theory, covered by the FSCS, although this has never been tested in practice.

> **When you delve deeper into the structure of funds, this is where the fun begins!**

Protections depend on aspects such as the structure of fund used (insurance wrapped, Open Ended Investment Company etc). and whether re-insurance arrangements are in place between the provider and the underlying managers where insured funds are used. It can be a minefield to understand and many trustees end up frustrated that they can't get to a definitive answer for their members.

Trustees also need to bear in mind that protections change over time. During 2017/18, over £50bn of DC pension assets will have changed either the platform they sit on or the fund structure they are invested in. This is a result of significant consolidation in the platform industry (e.g. Standard Life/Phoenix, BlackRock/AEGON, Zurich/Scottish Widows etc.), and the re-structuring of many funds from historic life-wrapped funds to new tax transparent structures.

How can we, as an industry, help trustees? Reviewing the security of assets should be a regular item on trustees' agendas and it's important to involve the scheme's legal advisers together with all the parties noted above in any review. The Working Party has produced three simple guides which are hosted on the Association of Member Nominated Trustees website - **https://amnt.org/policy-and-research/dc-assets** - so feel free to share these with your clients or trustees. The Working Party is continuing to meet with both the main industry bodies and Government departments to seek further clarity on the issues and we will update the guides in due course.

> **Ultimately, the collapse of a platform provider or manager is very unlikely. But the impact could be enormous for DC pension scheme members.**

**By Rona Train Partner, Hymans Robertson LLP and Chair of the Working Party on the Security of DC Assets**

# Clarifying trustees' investment duties

By Tim Middleton, PMI Technical Consultant

**In June, the Department for Work & Pensions (DWP), published a consultation on clarifying trustees' investment duties. This addressed the extent to which Environmental, Social and Governance (ESG) criteria should influence trustees' decision making and also considered the extent to which trustees should consult members about investment policy. This represented something of a sea-change for trustees, and challenged many long-established beliefs about what trustees should take into account when selecting assets for their scheme's portfolio. To understand what is now being proposed, and why it challenges so many long-standing assumptions, it is worth reviewing the orthodoxy that has persisted for the last 35 years.**

In 1985, the Cowan v Scargill judgment ruled that in making investment decisions, trustees were required to consider members' best financial interests. This appeared to place significant constraints on trustees' capacity to consider factors such as the environment or social impact. Although the Pensions Act 1995 (PA 95) required trustees to state in their Statement of Investment Principles (SIP) the extent to which investment policy was influenced by ethical considerations, it remained commonly believed that trustees ultimately had to consider profit over principle.

The current consultation follows a Law Commission review of 2014, and now gives strong guidance on the inclusion of ESG within the process of selecting investments. Members may recall that PMI's Policy & Public Affairs Committee issued a member survey as part of its formal response.

> **The Government proposes that trustees now be required to include a statement within the SIP describing their policy on ESG.**

This seems uncontroversial: it is an extension of the provisions in force since PA 95, and was strongly supported by members.

However, a more contentious proposal was that trustees be required to consult members about investment decisions. Many respondents considered this a step too far. Some argued that overall levels of member engagement would be too low to have any meaningful impact. Others were concerned that such a process would be vulnerable to being hijacked and manipulated by minority activist groups.

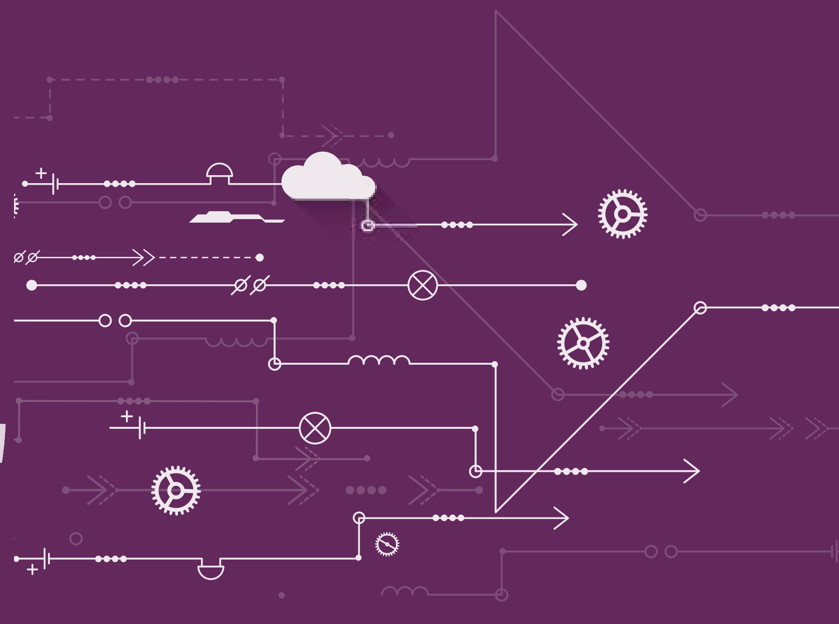
A third proposal was that trustees be required to record their involvement in corporate governance. This was largely supported by PMI members, who took the view that institutional investors have historically performed poorly in their stewardship of publicly quoted companies.

> **The Government's proposals show the extent to which thinking has changed concerning the perceived duties of trustees.**

This perhaps reflects the extent to which views of the public generally have evolved in recent decades. Trustees are now required to behave as responsible citizens, and to balance difficult priorities of financial security on the one hand, and social responsibility on the other.

Whilst the impact on trustees may be to make the role more complex than has been the case in the past, the overall consequence for society, and indeed the planet, is to be welcomed. This represents a major new challenge for trustees, and one which will see PMI work closely with the trustee community in order to achieve successful implementation.

**Follow Tim Middleton on Twitter @Tim_Middleton**



# Unlocking efficiencies with technology

**Technology is the key to our financial futures, whether we offer savings products or services to pensions, or are one of the 14 million pensions savers in the UK. We can all benefit from technology, even if we don't know it yet. But before we can get there, we have two knotty problems to solve. The first is to make it easier for people to save for retirement; the second is to make it possible for providers to operate in the market efficiently and effectively.**

We have considerable financial vulnerability in the UK. 60% of adults have savings of less than £5,000. 30% have no private pension and will rely on the State for income when they retire. In today's terms, that means living on c£8,000 a year, roughly half of what it takes to have a moderate lifestyle. In addition, £400 million pots have 'lost' their rightful owners, and around £1 billion might have been scammed from scheme members.

> **People do not trust the pensions industry and unfortunately, we don't always do our utmost to change that perception.**

It's not obvious, but pension providers are financially vulnerable too. Inefficiency and high operating costs, coupled with a lack of perceived incentive to invest in the industry leads to an unintentional loss of value for everyone. There are estimates that the UK pensions industry is up to 30% more expensive (or less efficient), than elsewhere in Europe. This will be a major concern post Brexit, as it will affect competitiveness. Many administrators still rely on paper files and manual processing for a few really complex individual cases and sometimes for whole schemes. I am always disappointed when I hear administrators say that it is not cost effective to automate some calculations and processes, and decide instead to wait until a calculation is needed and do it manually. In turn they risk getting it wrong or taking a long time.

Poor quality of data and a dependence on legacy systems cost a fortune to maintain and consumes resources that could be used to optimise the way we do things. We also face an increasing squeeze on margins through charge caps and price competition. Sometimes we respond to that by subtly reducing the services, thereby perpetuating a cycle of low expectations, low trust, low savings, and increasing inefficiency.

**We must do things differently and technology will help us get there, but how?**

Some providers have already adopted robotics and biometrics for certain processes. Robotics is using a machine to do exactly the same thing as a human, but faster and more consistently. Robotics can help join the dots between clunky legacy systems, giving them a new lease of life, and avoiding significant replacement costs for now. Meanwhile, biometrics can help with member identification and can reduce member hassle with benefit claims. In other industries, artificial intelligence is already replacing roles that demand routine logical decisions, and in financial services machine learning is already helping people with pension decisions and savings nudges. Open banking has laid the groundwork for sharing data and switching providers. A similar concept of 'open pensions' could revolutionise the way we transfer and aggregate pension funds at the bulk or individual level.

The pensions dashboard is the biggest opportunity we have to kick-start pensions technology, through add-on apps and platforms, chosen by individuals or schemes, that will allow people to model and explore options and ultimately carry out transactions. Technology will help integrate pensions with mainstream saving and expenditure, and will bring pensions into the sunlight. Financial wellbeing isn't just about the state of your bank account but must also include pension saving. People need to be able to see their whole financial world at a glance and be able to make sensible decisions without having to pay for a highly skilled and expensive, as well as rare, financial adviser.

> **People are perfectly capable of making complex decisions and choices if they are able to see clear, unambiguous and focused information at the right time.**

Technology that merely replaces human processing will help reduce some costs, but without a quality sea change, will do little to build public trust in pensions. We must address the poor data issue and consider better processing. Dare I say it, we must simplify pension benefits themselves. Simplifying pension benefit bases is a magic bullet that everyone seems to ignore. We say it is too difficult, but this is not true. We tend to equate simplification with loss of value for members. It needn't be, but the standardisation we see tends to come with PPF entry and this colours our view. We need to think in terms of benefit equivalence and fair value replacement, a concept well practised with incentive exercises, chiefly modifications like PIE 'balanced deals'. We hide behind statutory increases and GMP equalisation as a block to simplification, but we can significantly simplify today even allowing for statutory barriers.

I see a communications revolution coming. Not just because of the pensions dashboard, which since it was mooted has been a catalyst for change, but also because of initiatives like simplified benefit statements and using video to tell stories about how pension saving helps society, and to explain in very simple language the options and choices at the right time for each individual. This will help make pension saving more meaningful, and I take my hat off to those schemes and consultants who are really thinking outside of the box.

Robotics advice has been slow to take off, with some commentators suggesting it might not always give the right answer. However, we need to realise that millions of people need some help and that help, which does not lie or mislead, is vastly superior to no help at all. With the expected growth in modelling apps and with some hope that future financial guidance will be seen as 'help' and not 'advice', technology will be able to dispel the mystery and bring pensions alive for most of the population. Robo-advice or some combination of robot and human guidance is part of the technology landscape.

DC and DB consolidation will also rely on good technology, but many players are focused on the same old systems, processes and data, just relying on assets under management, and volume processing for efficiency. This misses the point and also misses the tremendous opportunity from technology to solve our issues of inefficiency.

Operational inefficiency needs investment in technology, but we must ensure we make changes that help pension systems (internal and external), to talk to one another and not just go for local solutions in isolation.

> **We need common data and transfer protocols, standards-based data assurance, data integrity, and government leadership to make this happen.**

**By Margaret Snowdon OBE, Chair of PASA**

# Trustees' investment duties: more change on the horizon

Trustees' investment duties have been under scrutiny for some time now, in particular, whether, and to what extent, trustees should take account of environmental, social and corporate governance (ESG) factors in their investment strategies. Following the Law Commission's 2017 report on social investment by pension funds, the Government believes that, despite TPR's updated investment guidance, "confusion and misapprehension...still exists", with some trustees still thinking that ESG risks are irrelevant or run counter to their investment responsibilities. It is therefore proposing to make changes to the Investment Regulations.

Under the current Investment Regulations, trustees are required to report in their statement of investment principles (SIP), the extent, if at all, to which "social, environmental and ethical considerations" are taken into account in their investment strategy. This duty falls short of an absolute obligation.

The proposed changes are, amongst other things, intended to make clear that the financially material considerations trustees must take into account when making their investment decisions can include, but are not limited to, those arising from ESG, including climate change. The proposed removal of the current qualification 'if at all' is notable. It suggests that there will be a regulatory expectation that trustees should have considered ESG and climate change factors.

Trustees would also be required to produce a separate statement, which explains whether, and to what extent, the trustees have taken account of the views which, in their "reasonable opinion", scheme members hold on financial and non-financial matters, in preparing the SIP. The consultation makes clear, however, that trustees will not be obliged to act on any member concerns, or invest in line with members' preferences. The consultation closed on 16th July 2018. The Government plans to implement the proposed changes at the earliest opportunity this Autumn and to bring them into force around a year later, to allow trustees time to prepare for the changes. This would mean that the earliest date for the measures to come into effect is 1st October 2019.

## What should trustees be doing now?

1. Trustees should discuss and analyse their beliefs on ESG risks and how those beliefs should apply to the scheme, bearing in mind the scheme's funding position, covenant, and current investment strategy. Taking advice or having training should be considered. They may want to prepare a scheme-specific ESG policy to document their conclusions.

2. Trustees will, in due course, need to revisit their SIPs in light of the expected changes to the Investment Regulations. Employer consultation is required before a SIP is revised, and there may be value in engaging with the employer early on this issue.

3. The SIP is just the beginning. Trustees may also want to engage with their investment and/or fund managers, and consider whether their managers' actions properly reflect the scheme's investment principles and/or ESG policy.

**By Kirsty James, Associate, Sackers**

# Secretary to Trustee Workshop

## Monday 17 September 2018

Pensions Management Institute
ACHIEVING PENSIONS EXCELLENCE

Event Schedule

**9:00 REGISTRATION AND COFFEE**

**9:30 Chairman's introduction**
**Roger Cooper**, Head of Trusteeship, Pi Partnership Group

**9:35 The role of Secretary to the Trustees – best practice approaches**
- Effective pre and post meeting preparation
- Organising the meeting
- Drafting an effective agenda
- Drafting the minutes and dealing with actions
- Managing relationships and handling conflicts

**Angela Sharma**, Lawyer, Taylor Wessing

**10:00 Effective minute writing**
- Accurate recording
- Appropriate degree of detail
- Clear action points
- Timely distribution

**Joanna Smith**, Associate Director, Sackers

**10:30 Development of meeting management**
- Teleconferencing
- Paperless approach to document distribution
- Identifying constraints

**Curtis Mitchell**, Assistant Scheme Manager, PSITL

**10:55 COFFEE**

**11:15 Regular annual activities**
- Annual timetables and reporting
- Managing scheme documentation
- Managing budgets and business plans
- Triennial submission of the declaration of compliance
- New statutory duties concerning DC schemes

**Joel Eytle**, Legal Director, DLA Piper

**11:45 Preparing and monitoring an effective risk register**
- Identifying key risks
- Assessing potential impact on the scheme
- Implementing effective controls
- Ongoing review

**Paul Tinslay**, Principal & Head of Governance Proposition, JLT

**12:10 Effective complaint handling**
- Maintenance of procedure
- Compliance with deadlines
- Relations with TPAS / Ombudsman

**Temi Osho**, Pension Consultant, Barnett Waddingham

**12:35 LUNCH**

**13:20 Managing conflicts of interest**
- Identifying actual and potential conflicts
- Developing procedures
- Maintaining appropriate records

**Manjinder Basi**, Scheme Secretary, Inside Pensions

**13:50 Working effectively with the Chair of Trustees**
- Management information
- Document management
- Monitoring action points

**Beth Brown**, Senior Associate, Mayer Brown International LLP

**14:20 Trustee effectiveness**
- Training needs analysis
- Maintenance of a training log
- Types of training
- PMI CPD scheme

**Alan Pickering**, Chairman, BESTrustees

**14:50 CHAIRMAN'S CLOSING REMARKS**

## FEES

| | |
|---|---|
| Members | £255.00 + VAT |
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# Is it 'frozen' or not?

In the G4S Plc v G4S Trustees Ltd (2018) High Court case, Mr Justice Nugee answers the long-standing question: is a defined benefit scheme which is closed to future benefit accrual but where deferred members have a continuing right to a final salary link a 'frozen' scheme or an 'open' scheme under the Occupational Pension Scheme (Employer Debt) Regulations 2005 (the "Regulations")?

By Freya Stuart Senior Associate Eversheds Sutherland LLP

## Open of frozen: does it matter?

Whether or not a scheme is 'open' or a 'frozen' under the Regulations is an important distinction. This is because where a multi-employer scheme with a funding deficit is 'open' and one participating employer ceases to employ any 'active members' at a time when another employer continues to do so, a statutory debt (which may be a large amount), is triggered on the exiting employer. Whereas, if this happens when the scheme is 'frozen' (i.e. it has no 'active members'), no debt is triggered.

## Facts

The G4S Pension Scheme is a multi-employer scheme with three separate sections, two of which were closed to future benefit accrual in 2011. Under these closed sections, members have a right to a final salary link (as a result of the so-called 'Courage restriction' in the Scheme's amendment power, which prevents any future changes breaking that link). G4S plc (the principal employer), argued that deferred members with a final salary link were not 'active members' in 'pensionable service' for the purposes of the Regulations. A representative member (the second defendant), argued the contrary, while the Trustee (the first defendant), took a neutral position in the court proceedings.

## Judgment

Mr Justice Nugee explained whether or not a person is an 'active member' in turn depends on whether s/he is in 'pensionable service' under the scheme. This question breaks down into two limbs:

**(1)** whether the member is in "service in a description or category of employment to which the relevant scheme relates", and

**(2)** whether that service "qualifies them for pension or other benefits under the scheme".

Mr Justice Nugee explained it is the second limb which is problematic and went on to consider in detail the correct interpretation of 'pensionable service'.

The decision hinged on the definition of 'pensionable service' and whether it applies to deferred members with a final salary link. Mr Justice Nugee concluded the "… normal core meaning of pensionable service is … service which earns the employee pension".

> **He went on to note it is also a well recognised concept amongst pensions practitioners that the final salary link goes to the calculation of the amount of pension, rather than allowing members to earn more pension benefits.**

Mr Justice Nugee concluded that deferred members in a scheme with a final salary link are not to be regarded as being in 'pensionable service' and are therefore not 'active members'. This is because service after closure to future accrual does not qualify them for any further pension. In turn the answer to the specific question asked of the court is: yes, the two closed sections of the G4S Pension Scheme are 'frozen' for the purposes of the Regulations.

## Comment

This case brings helpful clarity to the previously grey area of whether a statutory debt on the exiting employer can be triggered where a scheme is 'frozen' but deferred members retain a final salary link. Note, however, that even where a scheme is 'frozen,' a debt would still be triggered where the scheme winds up or the employer becomes insolvent in circumstances where there is a funding deficit in the scheme.

# TPR **will** take action

## if an employer fails to comply

Nearly 10 million staff have now been enrolled into a workplace pension by more than 1.2 million employers, and more than 1,000 new businesses are meeting their duties each month. Automatic enrolment has been a huge success, however, there are a tiny minority who fail their staff by not meeting their responsibilities.

**The number of times we used our powers between January and March this year made up 20% of all the powers we've used since the start of automatic enrolment. We have now issued more than 43,000 fixed penalties and more than 9,000 escalating penalties. This rise in fines reflects the rise in numbers of employers with workplace pension duties but also demonstrates that take action if an employer falls short and fails to comply.**

Most employers who receive compliance notices receive them because they have failed to submit their declaration of compliance on time. In most cases, this warning is enough to prompt them to act and do the right thing. For employers who continue to fail, there are a number of ways we are alerted. These include analysing information from declarations of compliance and comparing it with other data, pension schemes reporting missing or inadequate contributions, conducting employer spot checks across the country, and reports from whistleblowers.

### Whistleblowers

Whistleblowers are almost always the victims, so have the most to gain from helping us to make their employers compliant.

> **Those at the heart of a business may just have suspicions that something isn't quite right, or they may know about a specific problem.**

Whistleblowers alert us to instances where managers have told their staff that they won't get a pay rise if they join a pension scheme, businesses that mislead their employees by falsely claiming they have been automatically enrolled, and companies that keep quiet about their duties in the hope that their workers won't notice that they haven't been given the pensions they're entitled to.

It was a whistleblower who alerted us to the situation at Birmingham-based Crest Healthcare, whose staff were told that pension contributions were being paid by the employer when, in fact, a scheme hadn't even been set up.

As a result, both the company and its managing director were prosecuted and after pleading guilty have now been ordered to pay a total of more than £20,000 in fines and costs. Both have criminal records, whilst their staff now have the pensions they had been denied.

### Pension scheme alerts

In another recent case, thanks to the vigilance of the pension provider, TPR was able to take action when an employer illegally opted temporary staff out of the Nest pension scheme they had been enrolled into. Staff at national recruitment agency Workchain Ltd impersonated the temporary workers to opt them out of their pension using Nest's online portal.

Company owners and directors had encouraged five senior staff at the company to opt the temporary workers out of the scheme so that the company could avoid making pension payments on their behalf.

Following a joint agency investigation, TPR prosecuted Workchain, the two directors and five senior staff for an offence of unauthorised access to computer data, under the Computer Misuse Act 1990. The defendants pleaded guilty to the offence when they appeared at Derby Magistrates' Court last month, and sentencing will take place later this summer.

**These cases demonstrate that we will take action against employers who fail to enrol their staff into a pension scheme, and deliberately attempt to avoid their responsibilities. Automatic enrolment is the law and, where appropriate, we will take employers to court to ensure staff receive the pensions they are due.**

The Pensions Regulator

# Introducing the Fiduciary Performance Standard: a vision of transparency

By Donny Hay, Director, IC Select

**April 2018 saw the launch of the IC Select Fiduciary Management Performance Standard (FMPS) ,which helps pension schemes compare the skills of fiduciary managers hired by trustees to manage their Scheme assets on their behalf.**

It comes at a time of unprecedented regulatory scrutiny of investment consultants and fiduciary managers by the Financial Conduct Authority (FCA), and Competition and Markets Authority (CMA). Both have argued that **trustees are not receiving the necessary information to allow them to assess performance and judge value for money when selecting fiduciary managers.**

The CMA has called for "the introduction of industry standards for how investment performance is reported to customers."

## Why the Standard is necessary

Full fiduciary management takes place when a pension scheme delegates the investment management of the assets to a single manager, and benchmarks its investment returns, net of all costs, against a liability benchmark. FM continues to grow rapidly in the UK, having increased ten-fold over the past ten years. It is estimated that 13% of pension schemes now use fiduciary management[1].

However, trustees have struggled to compare fiduciary managers. The problems in performance reporting originated from each provider using a different methodology to calculate performance and risk. This was combined with a lack of transparency, standardisation, and consistency in the way fiduciary manager performance was presented to potential clients. This led to accusations that managers were 'cherry picking' their performance record, when responding to invitations to tender.

Many of the problems can be solved by moving to a standard basis for classifying funds, calculating returns, and displaying performance. Consequently, IC Select engaged with the UK's leading fiduciary managers, industry professionals and the CFA Institute to produce a co-ordinated approach. With the support of a steering group, it has agreed a standardised methodology for data calculation, along with a presentation of fiduciary management performance for selection purposes. The UK's fiduciary managers have agreed to comply with the standard[2].

The introduction and adherence to **the FMPS will put trustees in control of the information they receive, avoiding the potential for cherry picking funds by fiduciary managers,** and provide trustees with confidence that the performance data provided has been calculated on a consistent basis, and is being presented in a standardised manner.

## How it works: IC Select Solution

**The formation of composites is at the heart of the FMPS.** They comprise similar funds grouped together, with performance and risk calculated on an average basis for funds in the composite. As a result, it is not possible for a FM to show the performance of its best fund. A composite can be comprised of just one fund if the fiduciary manager has no similar fund.

The FMPS track record utilises the specific liability benchmark of each client and recognises when the trustees have imposed restrictions, over hedging or assets. The illustration to the right shows the IC Select recommended structure for composite construction:

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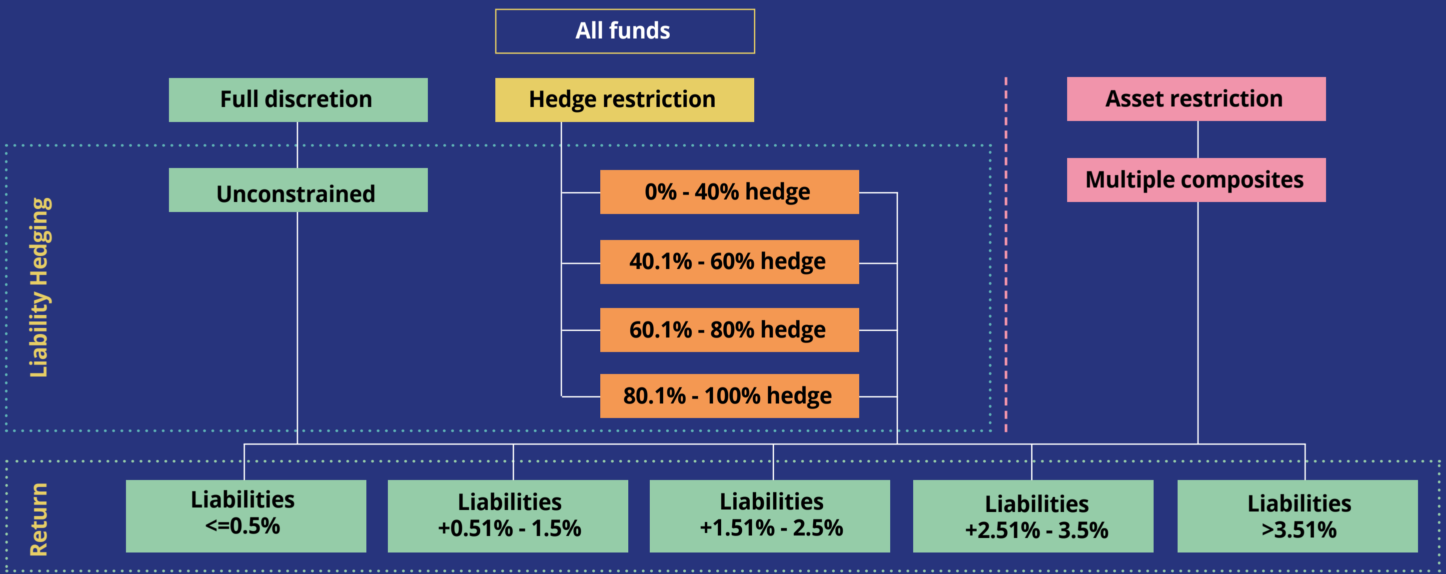
[1] Source: CMA Investment Markets Investigation Provision Decision Report, 18th July 2018

[2] Aon Hewitt, BlackRock, Cardano, Charles Stanley, Goldman Sachs Asset Management, JLT Investment Solutions, Kempen Capital Management, Legal & General Investment Management, Mercer, P-Solve, Russell Investments, Schroders, SEI and Willis Towers Watson.




## Focus for trustees

We would recommend that when trustees are seeking to judge the investment skills of fiduciary managers they focus upon the green areas, be cognisant of the orange variables, and ignore the red areas. This is because the green shaded areas assess the fiduciary manager's ability to add value, on both the asset and liability side, relative to the liability benchmark without any restrictions. We would expect different investment market conditions to affect the asset mix, and the extent to which the interest rate and inflation exposures are hedged at different points during the investment cycle.
The return ranges are IC Select's recommendation, but individual fiduciary management firms are free to define their own composites to, for example, define narrower or wider return targets. The standard also caters for the fact that all pension funds liabilities and therefore objectives are different, so, unlike investment products, a single benchmark is unlikely to be appropriate. Pension schemes will have different return targets and may have hedging and asset type restrictions, where, for example, 30% of its assets are invested in a property that cannot be sold. The FMPS takes the differences into account but allows users to assess the unconstrained full discretion performance of different fiduciary managers which is the best way to assess their skill. In practice, most fiduciary managers have around 10 composites and some are consolidating these into fewer umbrella composites. For example, combining narrow return target client portfolios with wider return target client portfolios, such as liabilities +0.51% to 1.0% and +1.01% - 1.5% become an umbrella composite of liabilities +0.51% - 1.5%.

Each fiduciary manager will have a list of all their composites and trustees should request any composites relevant to their situation knowing they will have been calculated on the same basis by all those fiduciary managers adhering to the standard.

## The benefits for trustees

The FMPS provides trustees with many advantages:

+ any trustee board carrying out a fiduciary management selection exercise can request the performance information in line with the Standard direct from the fiduciary managers at no cost
+ each fiduciary manager will have a list of core performance composites on different risk and return characteristics for the trustees to select from
+ as performance composites are calculated on average performance for a group of clients, it prevents the fiduciary managers from reporting on only their best performing funds
+ when requesting performance information on the Standard, trustees can have confidence that performance has been calculated and verified on an industry standard basis
+ trustees can be confident that the information they are getting will be presented in a standardised format

## Conclusions

The IC Select Fiduciary Performance Standard was frequently referenced by the CMA during its current review of the investment consultant and fiduciary management industry. Responsibility for the standard will transfer to the CFA Institute by 2020, to become part of the Global Investment Performance Standard. Leading third party evaluators of fiduciary managers such as Barnett Waddingham, Hymans Robertson, LCP, KPMG, and XPS Investments, have publicly backed the standard requiring the fiduciary managers to comply with it or explain why not. The FMPS will put the trustees in control of the due diligence of the fiduciary managers they are assessing and removes any chance of 'cherry picking' of performance records by the managers. This is good for trustees, good for the managers, and good for the industry.

# 5 trends

## that will transform the way you communicate with members


**Pensions communications have never been as important as they are now. The decline of final salary schemes and low auto-enrolment contribution rates has created a huge cohort of people who may not have enough money to retire. The pressure is now on to get people saving, against a backdrop of stagnant wages and increases in the cost of living. And that's without even mentioning the thorny issue of how to help people navigate the baffling at-retirement landscape.**

To put it bluntly, the pensions industry has an enormous challenge ahead. Fortunately, there is some good news. Whilst the challenge may be immense, the evolution of communications through new technologies, behavioural economics and financial wellness means it can be overcome. Here are five trends that will transform the way you communicate with members.

### 1. Segmentation and personalisation

Segmentation has been around for a while now, but the pensions industry lags when it comes to using it to better engage members.

In a nutshell, segmentation is when you divide your audience up to deliver key messages that resonate with a specific set of people.

At its most basic, this could mean dividing members up by age, or how far they are from retirement. That way, you can deliver different messages to someone just starting their career than you would to someone nearing retirement.

However, other data can allow you to target people more specifically. For instance, you could use contributions data to target those people still saving the minimum, or get HR to deliver specific pensions messages for women about to go on maternity leave.

### 2. Multi-channel approaches

Far too often we hear about pensions communications being delivered primarily through snail mail. Letters have their place and shouldn't be abandoned entirely, but for a lot of people they just end up in the dustbin.

Back in the day, movie moguls used to have a 'law of seven', which posited a potential punter would have to see a poster seven times before they'd go to the cinema.

A similar approach works well for pensions communications.

> **You need to make sure that you're reaching people in several different ways to make a message stick.**

These can include email, microsites, apps, letters, or even posters by the water cooler. You need to make sure that all your channels are well integrated (you don't want people getting different messages in different places), but using a variety means you're more likely to reach everyone.

Digital is critical here. Look at the make up of your membership and what kind of apps and technologies they're already using. If you can make interacting with pensions as simple as logging onto Facebook, you'll have a far easier job on your hands.

### 3. Gamification and animation

Sometime pensions professionals can be wary of things like animation and gamification, viewing them as far too frivolous for the serious business that is pensions. But to most of your audience, the way we discuss pensions is utterly baffling. The jargon is impenetrable and the issues are complex. So many people think visually, and animations can make complex concepts simple and easy to understand. Gamification is another great way for pension schemes to help members overcome the savings paralysis.
You could consider adding game-like elements to

otherwise tedious tasks to encourage participation, or allowing savers to learn about saving through fun game-like processes. Understanding how employees engage with online tools and getting feedback from members about what they like and don't like will become an integral part of the process of making sure people have a positive savings journey.

## 4. Behavioural psychology

One of the problems with getting people to save for retirement is that there are several behavioural biases getting in the way.

For instance, behavioural psychology shows that it is very hard for people to save for the longterm, because they find it very difficult choosing gratification in the future over gratification now.

Similarly, we really struggle to compare two things that are not alike. So it's very easy for me to choose between buying a coffee and buying a magazine, but really hard for me to equate giving up a coffee every week, with putting those savings towards a comfortable retirement. The lessons learned in this emerging field can help us find new ways to communicate with people. For instance, illustrating retirement with pictures of grey-haired smiling people simply won't resonate with Generation Y or Z.

Tricks such as nudging (as demonstrated by auto-enrolment), offer an obvious solution to driving up contributions, whilst better marketing techniques, such as showing how an employee is doing compared to their peers, can all make pensions savings more real and more relevant.

## 5. Financial wellbeing

Once a relatively uncommon term, financial wellbeing has grown in importance as companies look to help their employees better manage their money. And it's a concept the pensions industry would do well to take on board. After all, it's all well and good telling someone they should save more, but if they're struggling to pay the rent you're just going to seem out of touch and unrealistic.

> **Pensions saving needs to be viewed through the lens of someone's actual financial circumstances.**

HR can play a role here. For instance, imagine if you could add up how much someone has saved through other voluntary benefits and offer to put that into their pension?

The retail world has made great strides in this area. There are easy to use apps that allow you to round up your day-to-day spending (on coffees for instance), and put the change into a stocks and shares ISA. Initiatives like this which make it easy to save without even noticing, overcome lots of the behavioural barriers faced by pensions. At Landscape, we put much of this into action when we helped the Bank of England with their pension communication strategy.

**Case study: How the Bank of England used animation to improve engagement**

### The challenge

The Bank of England offers a Career Average pension provision with flexibility, which provides staff with lots of options. To understand how well the benefit was understood, the Bank conducted a short communications survey which provided the feedback that some staff struggled to understand their pension benefits. This was partly due to most new staff not having a defined benefit pension previously.

### The solution

The first stage was to ascertain what employees liked about the current pensions communications and what they thought needed work. A survey was sent to all employees, with about 25% giving feedback. Many of the comments were similar. The existing communications were too lengthy, too verbose, and entirely text based. Lots of respondents said that the Bank's pensions communications needed to go 'back to basics'.

The internal pensions team decided to proceed with a multi-channel campaign using animations to show what was on offer and how employees could get the most out of it. There were four strands in total.

Two strands focused on pensions more generally; what pensions are and why you should save in one, and the other two strands focused on the Bank's own CARE offering and the different accrual rates available. These were deployed through web and media banners, animated videos, interactive PDFs, and posters. The two Bank specific animations are now also integrated in the induction programme for new joiners. All animations are also available to employees on the Bank's intranet and benefit system.

### The results

The results were fantastic. The site received 3,800 page visits in two weeks with over 800 'liking' the materials. Feedback from the employees was overwhelmingly positive. One said: "The completely new style of communications is engaging and has made pensions so much easier to grasp."

### What's next?

The next challenge for the Bank will be applying this new simplicity to some of its other communication materials, including a new Scheme booklet, Q&As and other topical pension matters on the intranet and benefit system.

**By Ryan Sales, Creative Director and Founder of Landscape**

# Credit where credit is due

By Chris Roberts
Senior Trustee Representative
Dalriada Trustees

The average Trustee board may have some interesting investment decisions at the current time. Their equity portfolio has likely performed extremely well, which may mean funds are available to invest in 'less risky' asset classes. Alternatively, in the past, you may have swapped the equity portfolio with a Diversified Growth Fund (DGF), depending on the manager, you may be looking at underperformance (relative to expectations), and the potential need to find something else for volatility managed returns.

There is a real drive towards credit at the moment, to diversify the portfolio, to de-risk, and/or as an alternative to flagging DGF's. These are described, often confusingly interchangeably, as Diversified Lending, Absolute Return Bonds, Multi Asset Credit, Semi Liquid Credit and likely many more. The premise is normally the same; you are looking to invest into a mixture of credit opportunities which are diversified to provide a smooth return and contractual income (if you want it). However, when you look at the previous descriptions (and actually the funds themselves), the underlying investments can be very different in the risk spectrum. I have a few key points to assist in understanding your investments, which I summarise below.

## Apples and Apples

The first key for Trustees is to ensure they are comparing like with like. The credit world can be just as risky as equities if managed in the wrong way. You must understand where your investments sit in the debt pyramid. If you think mezzanine only refers to the mid level of a theatre, you may need to do more homework. You need to understand your exposure to different countries, in particular in the emerging market. You must understand the credit ratings underlying your 'contractual income'. You need to understand the derivative exposure, if any. Then you need to balance this up and understand the underlying risk and how diversified you actually are. When comparing funds, you must compare these side by side. The better returns almost inevitably mean greater risk. We are living in a low default environment and past returns are not always the best measure of future performance. I have seen example shortlists with funds I wouldn't have in the same universe, let alone as comparable managers in a selection process.

## Hitting supply to meet demand

For any of you who have seen the Big Short, you will be all too aware of what happens when you wrap up a lot of bad credit. There is currently a real push in the credit market at the moment, which does worry me. You must ask yourself the question (or better the manager), how will they cope managing £1 billion, rather than £500 million? How does their quality process operate, and how will they ensure they don't lower the bar to meet the demand? The willingness of people to jump into the credit market does not create a mass of great credit opportunities overnight. Remember that. We are already seeing some of these funds struggle due to low yields and a shortage of opportunities.

## There is no such thing as a free lunch

The majority of DGF investors are probably asking if "equity like returns, with lower volatility" was the right description. In two market cycles, it may be proved right but the jury is firmly out, and may be coming in shortly to pass judgement if things don't improve. The same may be said of these credit opportunities in five years time. You must understand the fund and what it is going to do for you. The investment modelling should be separate to this. A good consultant once said to me "the only certainty with modelling is that it will be wrong".

## Summary

The drive for better funding has meant a number of schemes are funded at a Technical Provisions basis or above. They have clear de-risking plans, which create the opportunity for new investment opportunities down the risk spectrum. My caution to all is understand the investments, understand the risk, and don't lose your improved position. We are in a complex world at the moment and you need a diverse portfolio with the right balance of risks if you are to get through this positively.

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