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DC roundtable

CHAIR

Jack Gray, Deputy Editor, Pensions Age
Jack has been with *Pensions Age* for nearly six years, working his way up from junior reporter to deputy editor. During that time, he has become well versed in a wide range of pension topics, from the defined benefit pension space to public pensions, as well as defined contribution pensions and master trusts. Alongside his award-winning writing on pensions, Jack has spoken at events and conducted interviews with some of the biggest names in the industry, and is a regular at pensions and investment conferences and roundtables.

ATTENDEES

Laura Blows, Editor, Pensions Age
Laura has been editor of *Pensions Age* for 13 years, during which time the title has cemented its place as the leading resource for those working in the institutional retirement sector. She is passionate about the pensions industry, gaining her PMI Retirement Provision Certificate in 2011. Laura is an award-winning journalist, specialising in writing in-depth features that shine a light on under-reported industry issues. She has also been a Headline Money Awards judge for many years and regularly hosts awards, conferences and roundtables.

Graeme Bold, Director of Workplace Pensions, Scottish Widows
Graeme has over 25 years' experience in financial services and was appointed workplace pensions director at Scottish Widows in 2019. He is responsible for leading the workplace business, developing strategy, distribution and propositions to market and delivering digital solutions to customers. Graeme is a member of the Scottish Widows independent governance committee and chair of the master trust strategist committee. He is also board trustee and chair of the finance committee at Sight Scotland.

Sam Burden, Client Director, Zedra
Sam is a client director at Zedra and acts as an independent trustee across a wide range of defined benefit and defined contribution (DC) schemes. With over 26 years' experience in the pension industry, gained across several large consultancies, his clients have included companies in the FTSE100, multi-nationals and the not for profit. Sam has a special interest in all things DC and has worked with some of the largest DC pension schemes in the UK. He is a highly regarded contributor to the pensions press.

James Chemirmir, Pensions Director, Kingfisher Plc
James is pensions director at Kingfisher Plc, where he heads up the executive team that supports the trustee. His career spans over 25 years in pensions and benefits working in both consulting and in-house roles across several countries. An experienced pensions professional, James has a particularly keen interest in financial wellbeing and effective communication, and is well respected in the pensions space.

Andrew Warwick-Thompson, Professional Trustee, Capital Cranfield
Andrew is a board-level financial services sector leader with experience in both the private and public sectors. He has a broad range of technical expertise and experience in the sphere of trust and contract-based workplace pensions, pension investment strategies, benefits administration, board governance, and regulatory compliance. Amongst his current roles, he chairs the Scottish Widows Master Trust and is the independent chair of the MyCSP Limited board.

Jit Parekh, Partner, Aon
Jit joined Aon as an investment partner in the DC team in 2023. He advises on all aspects of DC investment strategy. Prior to joining Aon, Jit led the DC investment team at Schroders Solutions, where he was responsible for a number of key advisory and fiduciary clients. His role also involved wider proposition development across DB and DC, focusing on developing solutions in consolidating markets. He is a keen advocate of improving financial literacy in the UK market, and looking at wider innovative solutions to solve the DC retirement savings and advice gap.

Vivek Roy, Senior Manager, Global Consultant Relations, AXA Investment Managers
Vivek is a senior manager in AXA IM's global consultant relations team, responsible for strategic business development, partnerships and thought leadership. He joined AXA IM in 2015. Before joining AXA IM, Vivek worked at Willis Towers Watson (now WTW) for seven years, managing investments for some of UK's largest pension funds and helped set up WTW's initial fiduciary client base. Vivek also previously worked for UBS Investment Bank (M&A) and has been involved with the DC Investment Forum since 2015.

Matthew Swynnerton, Partner, DLA Piper
Matthew is a partner at DLA Piper where he heads the London employment and pensions team. He advises on all aspects of pensions law, including the pensions aspects of corporate transactions, The Pensions Regulator risk issues and moral hazard powers, reorganisations and restructuring. Recent notable work includes, as a member of the Pension Scams Industry Group, drafting key legal sections of the Combatting Pension Scams Code of Practice. Matthew has been described by a leading pensions QC as having "an extensive knowledge of pensions law".

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DC roundtable

DC: Opportunities versus shortfalls

Our panel of experts reflects on the opportunities a booming DC market can offer, particularly given advances in technology, while recognising the importance of addressing its shortfalls, pitfalls and dangers

General sentiment

Chair: Defined contribution (DC) pensions are becoming ever-more important with consolidation into master trusts and more people retiring with DC benefits, as well as millions of people being auto-enrolled, so there's lots to tackle. I'd like us to go around the table and give our initial thoughts on the current state of the DC and master trust market.

Graeme Bold: I think it's an extremely exciting time to be in DC pensions and particularly in master trusts. There is more money flowing into DC pension schemes than ever before, people are building larger pots and DC is becoming a more important part of shaping people's personal futures.

We're also in the middle of a decade of digital change, which gives us a chance to engage people in ways we've never been able to do before.

So, from my perspective, now is probably the most exciting time to be involved in DC pensions.

Jit Parekh: I echo those views in terms of the progress we've made around DC. There is approximately £600 billion of DC assets today and, by the turn of 2030, that will be close to £800 billion. It's not inconceivable that it will be close to £1 trillion within the next 10 years, so assets are growing.

The slightly pessimistic take on that is, whilst pots are growing, there is an engagement issue, although lots of work has been done to try and address that. There is also an adequacy issue, which means people retiring today might need to be dependent on other forms of income to get them through retirement. Do we think that will change in the next five or six years? Hopefully.

So, whilst it's great that such progress has been made, I'm keen for the industry to rally together to make sure that it continues to move in a positive direction.

Matthew Swynnerton: I echo the point about inadequacy, but one of the challenges is the plethora of potential solutions that are at various stages, a lot of which overlap and are trying to fix the same or similar problems – dashboards, the value for money (VFM) initiative, the work around lost pots and now talk of lifetime providers and pots for life. A lot of those initiatives are focusing on similar or identical issues and are at different stages. There's a real risk that the combination of them acts as a massive distraction from the job of just focusing on fixing the actual problem, which is making sure people have enough money for retirement.

Sam Burden: I am also very positive on the current state of the DC market. For years, DC has been the poor relation, and it feels as though we're not quite as poor anymore. There's been a growing focus on DC from government who are starting to look hard at DC and its significance, both in terms of the scale of assets and significance.

But there are huge challenges to overcome. The recent deferral of the step-up in auto-enrolment was disappointing – that was urgently needed. There are also huge challenges. The expectation that you would have your own home at

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retirement, for a lot of people, won't be the case and there's a lot of thinking that needs to be done there. So, whilst it's an exciting time, it feels like we almost need a new roadmap as to where we are going, because it all feels a bit disjointed.

James Chemirmir: I look after pensions at Kingfisher and I've got to be honest, I'm quite concerned about the current state of the DC market. From our members' standpoint, they're just not saving enough. That's the stark reality and we can engage in endless discussions, but until we address this core issue, everything else seems secondary. My worry is that I can envision us, 15 years in the future, having talked a lot but with little to show for it. People will still be retiring with savings that are inadequate for their needs.

Andrew Warwick-Thompson: I echo a lot of what's already been said. There have been many government initiatives, interference, meddling, messing about and actually missing the key point, which is that we need more input in terms of contributions. It's all very well playing around with the governance structure, trying to play around with the assets that we invest in, how we report on all of our assets, but this is all fiddling while Rome burns.

If there's not sufficient input, then we're going to get an inadequate output. So, I share the concerns that we're heading for a cohort of pensioners in the future who have no defined benefit (DB) underpin, only have DC, and it's going to be completely inadequate for them.

There's a lot of talk about Australia and how they have built up their pensions so well, but the one key thing we should take from Australia is that they mandated a series of increases in their contribution rates. Once that train had left the station, you couldn't stop it.

The way we've done it, which is to say we'll have a review periodically, is a mistake. The deferral of the increase is wrong. We don't need further consultation on this. We know what the numbers should be to get a sensible result, so we should get on and do it. Otherwise, DC pensioners are heading for a very bleak future.

Vivek Roy: I must say to start with, compared to when I started working in the industry, what we've seen in terms of the effect of regulation and the infrastructure that is now in place for DC, with the master trusts and their size, it is a positive development. Maybe not enough progress but certainly a lot of progress and all in a positive direction.

I absolutely agree that there are issues around adequacy and engagement. One question is, how much can regulation and systems take care of when it comes to such things, and how much of it is down to financial education (and perhaps even culture) so that there are more conversations about the act of saving and investing? Clearly there's more required to be done on both sides (systems and culture) to address the future challenges with DC.

Member engagement

Chair: Can we talk about engagement in more detail? What do we feel could be done in the realm of member engagement and communication to help close the savings gap?

Parekh: We want people to be more engaged, because ultimately if people are more engaged, they'll make more informed choices. But at the same time, there's a balance needed around engagement because this is about people trying to save for their pot through retirement. If people are super-engaged and they're making knee-jerk decisions off the back of bad investment performance, for example, that can lead to people making bad financial decisions.

So it's really about ensuring engagement is targeted based on members' circumstances as this will lead to better choices and better outcomes. We know that, if people contribute earlier for longer, this leads to a better retirement outcome. But when people are younger, they're not focused on wanting to save towards their pension. We talk about the cost-of-living crisis, we talk about people wanting to get on the housing ladder – all these social issues mean people in their earlier years are less focused on saving for retirement.

So how you can engage people to say, 'here's how the benefit structure works, what are you trying to achieve in the next five, 10, 20 years?' Educating members alongside engagement at the right points can help people make better choices.

Warwick-Thompson: We also need to get people away from this idea that they should be accessing their pots just because the government says they can at a particular age. They need to have a better understanding about lifetime savings and pensions and that needs to be joined-up, more holistic. A government recognition of that and a national pensions and savings strategy would be immensely helpful in that context.

Sadly, data shows that a lot of

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members are simply emptying out their pots at 55 – it may be because the cost-of-living crisis has hit them and they need the money for something else, but others may be doing it just because they can, and they haven't really thought about what they're going to do.

That's partly down to a lack of engagement, a lack of understanding.

Also, we have put people in a situation where they are part of an enormously complex savings and pensions environment. One of the reasons they don't engage with it is it's too difficult. If we don't think about simplifying it – a tax, regulatory and policy level simplification – it's going to be difficult just for providers and trustees to bridge that engagement gap.

Swynnerton: Part of the reason, and I don't know how you overcome it, is that the success of auto-enrolment is founded on principles of inertia so people, over time, have become used to things happening without them needing to make active decisions or take advice. This baked-in principle of inertia is the hurdle that needs to be overcome – getting people to see the value of the advice. Then there's ensuring the type of advice is appropriate and affordable, but doing it in a way that doesn't expose savers to pension scams.

Warwick-Thompson: This is not a new problem. I've spent most of my career doing DC pensions, and we have been talking about this problem throughout my working lifetime, about how we get members to engage with their pensions. We talk an awful lot about it, but we haven't got any effective solutions.

Bold: I personally think all engagement is good, but I do get the point about it needing to be the right engagement. But it's got to be fun, it's got to be accessible, and it's got to be easy. It's got to be there where people need it and that's why digital is the massive game changer here. Yes, a lot of us have spent years in this industry talking about engagement, but we've got tools and capabilities in front of us that never existed before.

Picture going back to when people got an annual benefit statement as a piece of paper once a year. Now, we're getting millions of pensions users on our apps every single year. We're getting hundreds of millions accessing the Lloyds banking app, so people are getting more engaged than ever before.

Also, we've been through several investment cycles recently, over Covid-19 for example, where the markets dipped, and we were able to track activity. Did people go in and wildly change their funds? No – they didn't go in and do irrational things like fund switching and stuff like that.

So, there's an opportunity in front of us right now to make it fun, to use games, use AI, to do things in a way that makes people feel like they're learning about their money, without it being too pensions-focused. We've got to take that opportunity now.

Warwick-Thompson: The definition of what you mean by engagement is also important. One of the biggest engagements we have had at Scottish Widows in the past 12 months was with the Pension Mirror. People then went on to look at the other resources, particularly around the pensions gap, which I think was enormously helpful.

Roy: I would add that, in addition to things being fun, easy and accessible, being focused will be important. For example, buying a house is also not an easy decision but people understand what it means to work towards saving to purchase a house – they understand

that outcome of living in a home they own. Looking ahead to retirement, that outcome is more challenging to visualise, so we need to help people understand and visualise what they may want as their retirement outcome, be focused on that outcome, and then help them bridge that gap with savings.

Burden: One of the things we're missing though is around the complexity point. For example, those running a master trust will only be seeing one pot that an individual has. As we know, most people have half a dozen they've built up throughout their lives. So, while you do get a portion who engage with their provider's app, most people don't know who their pension is with, and they've got a lot of them.

As an industry, one of the first things we need to crack is making the pension savings a lot easier. I don't support the policy, but I understand the reason for the government putting forward the idea of a 'pot for life'. It is based on the concept that everybody knows who they bank with, but nobody knows who their pension is with, yet most people will have far more money in their pension once they get to retirement than they will in their bank account.

Pensions dashboards could help here because you want people to have that holistic view of the pension assets they've got. When they recognise and

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understand the value of their pensions in aggregate, that will start to bring engagement. The point around having engaging apps is key, because that's what draws people in. So, it's about bringing it together in a way that people engage with in order to help them understand the value of their pensions in aggregate.

Bold: I agree – the first half of this decade has been about developing digital apps and capabilities that are easy for people to go in and see a pension, with a particular provider or a particular pension scheme. Now, heading into the second half of the decade, is where open finance and dashboards kick in and start to bring things together in a holistic way.

That's what excites me about the second half of the decade – we've got a chance to transform the conversation. I agree 'pot for life' won't necessarily be the route to doing that. But technology and dashboards will at least give people the chance to see one picture of their finances.

Chemirmir: Just touching on the engagement aspect, I'm currently touring the country, having conversations about pensions with my colleagues. I can't emphasise enough the importance of the human element in these discussions. The Pensions Mirror you mentioned is a fantastic tool for sparking initial engagement. I would introduce it, encourage people to use it, and then ask them to think about their current savings and whether they were on track. I explained how joining the pension scheme could help them get back on track quicker. This makes it actionable, and some people would make changes to their contributions right there in the meeting.

However, it requires a real person to explain this – someone they feel they can trust. That makes a world of difference. I'm trying to figure out now how I can clone myself! It's amazing how people reach out to you on various channels afterwards, asking questions. Many initially think it's too complex, and I reassure them that it's not. I ask them to consider contributing enough to get the maximum matching employer contribution, that's all they need to do. There's nothing complex about it.

For now, the message is simple: Don't sweat the details, just contribute as much as you can, and increase it gradually over the next few years if you can't get there immediately. Once technology advances and members gain more exposure and education, we can engage them more.

Of course, I'm concerned that once people see their pension pots growing to £100,000, they might get carried away. So, to some extent, the invisibility of pensions, if you're contributing the right amount, has been beneficial for some. It prevents you from, say, day trading. So, engagement is a delicate balance. I don't want excessive engagement, but I want the right kind of engagement.

Value for money

Chair: One of the big topics we're covering at *Pensions Age* is value for money. How, in the DC and master trust context, can we ensure value for money going forward?

Parekh: Whilst great progress has been made around assessing value for money, from a member's perspective or more notably an employer's perspective, the most tangible measure is cost. If you look at how the DC market has evolved, price has played a big part in the strategies provided today. There are people in the room here today that are running master trusts, they will have seen a bit of a race to the bottom in terms of fees.

That stifles innovation, and this race to the bottom is further compounded by the fact we are in a consolidating market. Assets are moving and, commercially, the master trusts want to grow their assets. But that massive lens on cost is an issue.

Saying that, it's difficult to avoid because, if you are having a conversation with an employer, it's the only tangible you have – the cost reduction or the fee you're paying. It also gives employers a positive message to share with members, e.g. new arrangement at lower costs.

The other areas, such as investment performance and ability to engage members, areas that have a much greater impact on member outcomes, are areas that could be delivered to members but are not guaranteed. So for that reason, it will still come back to cost unfortunately. I'd be keen for value for money to evolve such that fees play an increasingly smaller role, and instead it should be about what's being delivered to members. There are things that aren't tangible there, that can't be measured but do add real value to people. That's around the engagement and people feeling like they can trust where their money is sat. Those things aren't measured in the same way.

Warwick-Thompson: I'm very conscious that there is a huge mismatch between the way that I look at VFM

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with my trustee board, and the plethora of different measures that we have to determine whether we're getting value for money. Cost is just one, investment is just one, there's a whole load of other stuff about service levels and goodness knows what else that we've looked at. It's a complex matrix.

I'm also very conscious of the fact that, on the commercial side of the business, when we're out in the market and we're tendering, cost drives the decision-making by the sponsor far more than it should. So, when we talk about VFM, and if the VFM initiative is going to be successful, it can't just put the onus on the trustees to do this more scientific VFM measure.

It needs to be about educating employers about how they should be looking at pension schemes. It may also need to educate members about it, but then we're back to that engagement issue. We also need to educate the distribution channel in this, the employee benefits consultants (EBCs) and corporate advisers because, all too often, they again tend to focus too much on cost rather than on the other aspects of VFM.

So, VFM is one of the most worthwhile initiatives that we've got underway in terms of moving the dial on getting genuine value for money, not just cost. But just putting pressure on trustees to produce those value for money statements is not going to do the trick.

Burden: That buying process is actually the critical part, because when you first select your master trust, that sets you in train and you wont see much change thereafter. But the people who are making those decisions aren't always pensions people. You'll often have a broader committee involved, often you'll get an accountant or finance-type person in the mix too who doesn't really know pensions.

I don't think the EBCs want to be focused on charges but, the challenge is, it's so much easier to compare charges than anything else, particularly if you've got finance people involved.

How do you compare different propositions in a meaningful way that you can really measure? That's a difficult process so, often the final decision does end up being a charges-based decision because you perhaps struggle to differentiate in other areas.

Bold: My view is that there's a fairly balanced conversation being had in the market between engagement, digital offerings, service, administration, investments and price. I don't see that price is the driving force – maybe it was several years ago, but right now I think it is quite a balanced conversation, whether that's with EBCs in a selection process or with employers.

I've had many employers say to me they don't want to nail this down at a level that means we can't continually invest in the proposition going forward. Lots of providers in the market and master trusts will have heard that. So, I do think it's quite a balanced conversation.

The way for me to keep going at this though is to make sure that we've got transparency. It's difficult, I agree, to get the reporting done, but we should make sure that the transparency that the VFM regime delivers continues.

Driving for consistency is the second thing that is difficult to do, but how do you compare these things?

Then, lastly, the difference in this market, relative to others, is that we do have trustees. Trustees are an independent check and challenge on providers and administrators and so on, to make sure that value for money is being delivered.

So, all in all, I think the conversation has balanced up. Long may that continue because it's a highly competitive market. When it comes to value, I think this market is offering great value in many areas. But there's more for us to do.

Chair: Part of the work on addressing value for money is also around taking action on those schemes that aren't delivering value. Matthew *[Swynnerton]*, what is your legal take here?

Swynnerton: I know The Pensions Regulator (TPR) has issued fines and has powers to enforce wind-up and consolidation of schemes who don't deliver VFM and, since the Spring Budget, the Financial Conduct Authority (FCA) can also close schemes to new members and wind up under-performing schemes that are delivering poor value. That's helpful in terms of promoting VFM. I wonder though whether concerns around those powers will increase consolidation, which isn't necessarily a positive from a VFM perspective, because consolidation doesn't necessarily lead to better value for money.

Obviously, while some big schemes can deliver big efficiencies when things go wrong, the impact can be exponential. When administration, for example, goes

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wrong in a very large master trust, the impact on value can be dramatic. So, the march towards consolidation is beneficial in some respects, but isn't necessarily beneficial from a VFM perspective.

Warwick-Thompson: Going back to the example of Australia, what struck me upon analysis of the superfunds there was that they're way more expensive than master trusts in the UK. The focus there has tended to be on the investment performance, so you have this idea that if you underperform over a period of time, you can't take on any more business.

That's had a negative effect on innovation because everybody is too worried about performance. We, on the other hand, in the UK have tended to focus on cost and that's had a bad outcome because we've driven the cost down so it's as cheap as chips, it's the lowest possible price. Somehow you need to take these things together, you need to look at what will drive better member outcomes more holistically.

Roy: Here is a thought experiment: If for a moment the decision-makers after a pitch were requested not to focus on price (or said another way – no pitch was allowed to cover fees), what is it that would get discussed most by the key decision makers and what factors would the decision to award a mandate be based on if they had no idea of price?

Bold: It depends on the employer and their views. For some people, it will be about digital and engagement because they recognise that, if people don't put enough in, quite frankly whether you achieve 6 per cent or 8 per cent per annum in investment returns, you're still not going to have enough. Others will focus in on investments and say, actually that's where you can deliver differential returns and so on, so it depends.

Burden: The difficult thing about investment at the moment is that almost every DC master trust is investing passively.

Until there is a greater proportion of alternative assets, comparing investment performance is really only about how much risk you've got on the table. Yes, you can be the top performing default over a set period, but it's often because you're 100 per cent in global equities, as opposed to having perhaps a slightly more cautious risk profile. It feels to me as though it's something that will come but, at the moment, comparing investment performance doesn't get you that far.

Bold: Tying all that together, as private markets build as a potential investment strategy within master trusts and trust-based schemes, that will force the conversation about what are your beliefs on investment returns and what are your beliefs on price. Because they can't be afforded within passive investment prices. So, if people believe in private markets, whether it's for diversification or additional return reasons, they will need to be willing to pay more for them. That will be an interesting dynamic in the VFM debate.

Default strategies

Chair: We know how important default strategies are for DC members. What improvements need to be made in that area?

Roy: As an asset manager, we are one part of the solution, and we are going to be most useful when we respond to what the market is asking for. With that in mind, the biggest themes we have seen in the past three to five years are around responsible investment (RI)/environmental, social and governance (ESG). That is something that has come into the conversations and therefore into 'request for proposal' responses and then into DC default strategies.

That links up with members and engagement and what some surveys suggest members want. Other surveys suggest members may not be aware of RI/ESG concepts but largely speaking these themes have come into the conversation when it comes to talking about improving defaults.

Also, equities have done very well over the past decade. Protected equity themes are therefore coming into conversations – the idea is how do you protect the performance that has been achieved. Protected equities could also help take advantage of the flexibility that's been provided by the pensions freedom regulation especially when members get closer to retirement, how you protect the pot to stay at the value that it should be.

Finally, using fixed income much more than we have seen before is another key theme. In the past five years, I've seen a move away from passive fixed income index based conversations and a focus more on the fixed income allocation as a return driver.

So, in summary, I would say, RI/ESG, fixed income as a return driver in DC and protected equities are the themes when it comes to improving default

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strategies for DC.

Chair: James *[Chemirmir]*, what's the pension fund view here on defaults?

Chemirmir: From a pension perspective, our objective is simple. To have our members accumulate the largest possible savings pot, with this invested in a responsible way considering ESG factors as well as capital preservation.

Then there's the communication around making sure the individual understands what the default strategy means for them. Our default strategy, for example, targets cash at retirement. This might be fine if your pot is going to be relatively small. However, we are writing to individuals who have larger pot sizes at the start of the glidepath – we're asking them if that's their plan at retirement. And, if not, then they need to take action.

Finally, even with some of the drawdown glidepaths, I think there's some residual risk there around the fact that some glidepaths significantly reduce the exposure to growth assets but people will need to continue investing into retirement so still need some exposure to these assets.

Warwick-Thompson: From a trustee perspective, I want to see a broader range of assets in the defaults. We have tended to have fairly simplistic strategies based on equities, bonds and cash. There's other stuff out there and Mansion House has shone a light on that.

The other thing is that we want to see more active management. There's been an awful lot of passive, because it's cheap. It doesn't necessarily mean moving away from a passive base, but what you actually put in your index can be actively managed and the most important value-add is more active asset allocation decision-making.

Also, as a trustee, I am very concerned about members clearing their pots out at 55 and taking the cash. I'm also quite concerned that they then get to a 65-scheme default or employer default age and do something that leads them to be ripped off. Neither of those are good member outcomes, so I would rather have them remain in the scheme and help them to manage all the way through the accumulation and the decumulation period.

Parekh: I completely agree with all of that, particularly around the dynamism. If we look at it from a sponsor's perspective, someone looking to put in place a master trust, for example, they will be considering how they can drive the best outcomes for members, get the best returns and what they are doing to achieve that. Yes, diversification is going to be a big theme. ESG integration, yes, from an investment perspective, but also from an engagement perspective, that's important.

Then the decumulation piece is going to be big.

The bit for me that's missing still is almost the outcome – to what degree are people thinking about what it is they're trying to achieve for members? What is the strategy trying to do? Transparency around what it's trying to do and then enabling or providing that transparency to sponsors, or to consultants or to members to say you're on track based on the way your strategy is invested, is important.

Burden: Essentially what do members want? They want a secure income in retirement, that's what they want. What are members doing? They're cashing out their accounts at 55 and so that is the element that we need to address. Most people who've got a large account at the moment are taking some form of income drawdown. If you cast your minds back years and years when drawdown was originally around, the government prescribed the level of income you could take under the old GAD limit. I think there's a need to relook at that because this isn't just an individual issue, this is a societal problem.

We will come to a point when there'll be lots of people who will run out of income in retirement, and they will fall back on the state. As the demographic increases and we get more people who are dependent upon the state pension and benefit, that is just not sustainable. There is a need to relook at that and the level that individuals take out.

There's a view that annuities are poor value, but that's partly because people don't understand quite how much it costs to provide them with an income in retirement, because they don't appreciate how long they're actually going to live.

This is an area where government needs to get involved again and it needs to be part of the future roadmap.

Bold: The annuity market has picked up again. People are looking at it within the current interest rate environment and seeing that they can get a fixed income for life for a much better price now, so there's been a massive uptick.

The only things I would add, is

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that there'll be a continued focus on asset allocation, because getting the right allocation is critical. We'll see the evolution of ESG strategies, they're important, as well as access to private markets. That'll be the core evolution within the default.

The other big area of debate and design is in and around retirement. That has got to be addressed by both a set of investment solutions but also communication strategies, because none of us know what's going on in an individual's life and we can't solve this in the average. You've got to have a communication strategy that, as best as possible, says to somebody, what is happening in your life, what do you think you will do? Then help them get a strategy that works for them.

As pot sizes rise, people will be able to use their DC pot as an income in retirement. But the average pot size is still relatively low, so the idea that someone with £20,000, £30,000 or even £50,000 can sustain themselves for 30 years in retirement is flawed, unless it's part of a broader DB income or they have other DC pots.

The way we're starting to think about it is you could easily see someone with a pot of £100,000 or £200,000 having a higher equity content at retirement, because they're more likely to use their pot there. But if someone only has a pot of £30,000, they're less likely to use it for income in retirement and therefore a lower equity content is probably more applicable, so actually they've got a more protective asset mix.

Scams

Chair: Picking up on the education point, without financial education, members are also more vulnerable to scams. How is the industry doing in terms of combatting scams?

Burden: A lot of progress has been made because of the checks that we now go through on pension transfers out.

The one caveat I'm concerned about are the risks of an AI overlay in the future. We cannot afford to be complacent on this, because the cost to individuals were AI to bring scams to another level, could be significant. So, it feels like it's moving in the right direction, but there is a need to carry on and stay focused.

Warwick-Thompson: I sit on the board of a pensions administration company, and they have observed an uptick in fake documentation being used to say 'I'm the member, pay my pension here'. They've invested quite a lot of money in new software to try to identify a council tax bill, bank statement or even a passport that's been AI-generated. That's definitely an increased risk that we need to manage.

Swynnerton: Progress has been made, but I don't think we can be complacent. As The Pensions Ombudsman cases have shown, pension scams can take a long time to reach the stage of a determined complaint. First, it takes a long time for people to realise they've been scammed. Then a lot of people who've been scammed are embarrassed about the fact, and they don't raise any kind of complaint about it. The ones that do have to go through internal dispute resolution procedures, normally two stages, before it gets to the Ombudsman. That whole process can take at least two years.

So, most of the transfer cases that we're seeing come through now are ones that predate the Conditions for Transfer Regulations. Rightly, in my view, the Ombudsman is judging the level of due diligence that was completed based on the norm and TPR guidance at the time that the transfers took place. You can't retrospectively apply the standards that TPR and the regulations expect you to do now to transfers that took place historically.

We're only now starting to see post Conditions for Transfer Regulations complaints. For example, the Western Power Ombudsman determination was interesting in that it was to do with some of the problems with the Conditions for Transfer Regulations in relation to the overseas investments issue. It focuses on the point that, where there's overseas investments involved in the receiving scheme – which will be the case for almost all transfers – an amber flag is raised, so the member should be referred to MoneyHelper guidance.

In that case, the member was referred to MoneyHelper, there was a delay, the member's transfer value went down, the member complained, and the complaint wasn't upheld because there were overseas investments in the receiving scheme and, in the Ombudsman's view, the trustees' literal interpretation of the regulations was "not unreasonable" so they did not cause unreasonable delay by referring the case to MoneyHelper and so were not responsible for the loss.

There's probably an equal number of trustees who are not making

In association with

MoneyHelper referrals where there are overseas investments in the receiving scheme, because they are concerned about the delays that a MoneyHelper referral could caused in relation to a transfer to a vehicle that is clearly not a scam vehicle; and the wording in that determination seems to have been chosen very carefully to leave it open for the Ombudsman to also find that that approach could also be "not unreasonable", assuming that appropriate due diligence was undertaken and legal advice obtained.

Chair: So, it seems they're allowing trustees to use their common sense here.

Swynnerton: The Ombudsman determination shows that it's important that they follow a process and document it and take legal advice.

Incentives is another big area and that raises a red rather than an amber flag. Incentives, per se, are not necessarily problematic, and we know there are lots of reputable providers that are clearly not scam-related that are offering small incentives. However where a red flag is raised, the transfer cannot proceed on a statutory basis.

But those are two areas where hopefully this year we will see some change. The DWP is due to consult on the changes to the regulations. I'm a member of the Pension Scams Industry Group and we've been liaising with the DWP on this.

Bold: I agree with the earlier point that we have got to remain hyper-vigilant, because this is going to be a consistent theme as the industry digitises. People will use AI in multiple ways to try to imitate and we will have to unfortunately have a mindset of assuming someone is trying to scam. Therefore, put in all the protection measures you can.

Roy: Also, it is possible that as the user interface becomes easier, accessing information will become easier and one hopes that will not make scams easier.

The future

Chair: Picking up on the positives then, rather than the potential negatives, of technology and AI, how do you see the DC/master trust market evolving over the next five to 10 years?

Bold: A few things will happen. As we mentioned earlier, the market could reach £1 trillion by the end of the decade. That scale is going to become important in terms of how people are choosing investment strategies and what asset classes they can get access to. It's going to be important for delivering service and administration at scale and to continually invest in digital and engagement. So, the market itself is going to scale.

For individuals, the average pension pot is also going to go up. Therefore, that is going to change the dynamic of how we engage with people and make the whole thing much more interesting.

To my point at the start of our discussion about being excited, it will normalise pensions within the UK and make it a much more mainstream conversation. That's what I'd like to see going forward anyway.

There will inevitably be further market consolidation and there will be fewer players by the end of the decade. But again, how we get there is yet to be seen.

Roy: Following on from that, active management is not just important, but a necessary part of the evolution, especially when it comes to sustainability becoming part of the default strategies. The level of it can be different, can be small-scale all the way up to much more active and impactful, but that's certainly one thing that I believe should form part of it.

We can see it not just from the equity side, but the fixed income side too. Then it's about using the full breadth of capital markets especially when it comes to fixed income being used as part of the return driver (something we have not seen much of over the last decade) and, where appropriate, illiquid assets. Not just because they are illiquid, but where and if it is appropriate from a diversification perspective and characteristics of the asset class in question.

Chair: What are people's thoughts on the proposed lifetime provider model?

Burden: I like the concept that everybody has one pension provider, and they actually know who they are. But the problem is it undermines so much of what is good in the current landscape. I can see it even getting to a point where you'll get providers cherry-picking customers. So, it's got some things to commend it, but it's going to cause too much collateral damage.

Bold: What I like about the current system is that most employers have quite an active role in engaging their employees. It would be a shame to lose that connection you get within a workplace pension scheme. Whatever route we go down though, ultimately the role of technology and the dashboard and its ability to help people to consolidate their pots will be key.