The dozen of the decade

As the 2010s draw to a close, *Pensions Age* asks: What were the biggest developments to occur for the pensions industry over the past 10 years?

Development: Open Banking

Why significant: Open Banking represents one of the biggest shake ups that the financial world has seen in recent years, bringing a wealth of opportunities for the entire financial services industry. It can act as a catalyst for significant improvements in financial education, prompt better saving habits, and enable 'live life planning' using real-time data to deliver a rigorous and hyper-personalised decision-making process.

Moneyhub CEO, Samantha Seaton

Development: The rise of DC and master trusts

Why significant: There are around 15 million DC members in the UK, which is a remarkable increase relative to a decade ago. Concurrently, we have seen forward thinking across regulation and legislation, the development (and regulation) of master trusts and an ever greater focus on the design of sophisticated default investment offerings to help maximise the effectiveness of retirement savings pots.

Fulcrum Asset Management director, global consultants and pensions, Chris Gower

Development: Low interest rates

Why significant: It has made securing guaranteed pension income harder for both trustees of occupational defined benefit schemes and for individual's with money purchase pots. This has resulted in significant liabilities for sponsoring employers, the final demise of final salary accrual in the private sector.

LEBC Group director of public policy, Kay Ingram

Low risk-free rates mean low expected returns on all asset classes, and increased liability values as these low returns get reflected in funding assumptions. This has created a polarised pensions landscape, with schemes who hedged interest rate and inflation risks early having seen funding levels protected, whilst those who did not having seen large deficits emerge despite the longest equity bull-market run in history.

Irrespective of the decision on hedging, the fall in real yields has seen once-affordable DB schemes rapidly become unaffordable as accrual costs have rocketed.

River and Mercantile Solutions director, Gerard Francis

The ongoing low-yield environment and market volatility means schemes have shifted their focus from traditional growth and matching strategies to a more outcome-driven approach, hunting for contracted cashflow investments that generate the income they can use to pay pensions. In turn, the long-dated, inflation-linked alternatives that became available to non-bank lenders post-crisis have taken centre stage as useful building blocks to help schemes meet their funding requirements via cashflow driven investing mandates.

M&G Investments director, fixed income, Annabel Gillard

Development: DB de-risking

Why significant: Risks such as sustainability-led investing, which previously were a box-ticking exercise for a few, is now rising up the agenda, creating both enhanced risk management and perhaps, an opportunity to improve return potential.

For the DB market, where a number of schemes are approaching end-game investing, increased scrutiny can only help as trustees will need to be even more vigilant to ensure member benefits are truly secured.

Lombard Odier Investment Managers head of UK institutional clients and solutions, Ritesh Bamania

The scale of the buyout market was inconceivable 10 years ago but over the past few years we have seen a growing number of multi-billion pound deals removing liability from UK plc, and this is only set to continue.

Society of Pension Professionals president, Paul McGlone

Development: Delegation

Why significant: Trustees being able to delegate decision making to those that have the expertise has made a huge difference to the solvency of both pension schemes and their sponsors where trustees have needed guidance on investment decisions.

Pension schemes that delegated

to those with investment expertise have shown stronger, more robust improvements in their funding levels. Schemes were helped in matching their new liabilities, and diversified across growth assets as opportunities arose. Whilst fiduciary management isn't the catchiest of names, it's been the biggest development to help the large proportion of the thousands of schemes and millions of members that needed help adapting to the new pensions world.
SEI Institutional Group client strategy director, Alistair Jones

Development: Pension freedoms
Why significant: In a shock announcement in the 2014 Budget, George Osborne fundamentally changed the way we look at taking our pensions. Gone was the requirement to take a lifetime annuity with your DC pot, and in came the freedom and choice to do what you like with it, as long as you are 55 or over. For the first time, from April 2015, members could take their pension as a cash lump sum.

This has changed the pensions landscape forever. Over £30 billion has been accessed flexibly since 2015 – a significantly large number.

And it's not just for members of DC schemes. DB schemes have seen a massive increase in requests for transfer value quotations from people exploring transferring to a DC arrangement in order to access the freedoms.
DLA Piper partner, Tamara Calvert

Development: Auto-enrolment (AE)
Why significant: According to The Pensions Regulator, with over 10 million savers now auto enrolled, an impressive total of 18.7 million people, or 87 per cent of eligible UK workers, now participate in a workplace pension. This figure stood at a mere 55 per cent (10.7 million workers) when AE was introduced in 2012. Most strikingly, private sector participation in workplace pensions has, over the same period, risen by a whopping 43 per cent to 85 per cent of private sector eligible employees. Moreover, over £90 billion was saved by auto-enrolees in 2018 compared to £16.8 billion in 2012.
Columbia Threadneedle Investments head of pensions and investment education, Chris Wagstaff

Thanks to auto-enrolment, millions more workers are contributing towards their retirement, reversing years of decline in pension saving. Auto-enrolment is playing a critical role in helping low to moderate earners save for their retirement – many of whom may be saving into a pension for the first time.

As investments increase, so does the power of schemes, as significant shareholders, to positively influence the way companies behave.
Nest director of business delivery, Eve Read

Development: Tax allowances
Why significant: A-Day (6 April 2006) introduced much-needed clarity into the pensions tax system, with one set of rules covering all types of registered pension scheme saving. But so-called 'tax simplification' was still in its relative infancy when the first set of reductions in the annual allowance (AA) and lifetime allowance (LTA) were made in 2011 and 2012 respectively. Further decreases to both allowances followed.

But there is no longer a single AA. The standard AA, as it is now known, currently stands at £40,000 (having once reached the heady heights of £255,000). In addition, a money purchase AA (currently £4,000) applies where an individual flexibly accesses their DC savings, and a tapered AA applies to higher earners. Under the taper, for every £2 of adjusted income over £150,000 an individual earns, that individual's AA is reduced by £1, subject to a maximum reduction of £30,000. This means that anyone with adjusted income of £210,000 or more has an AA of just £10,000. More significantly, depending on their earnings, there are 30,000 possible places an individual's pension savings might ultimately land under the taper.
Sackers partner, Pauline Sibbit

Development: Scams
Why significant: Billions of pounds of pension savings will have been lost to ordinary people over the decade and we won't really know the scale for another 10 years or so.
PSIG chair, Margaret Snowdon

Development: The gulf between public and private sector provision
Why significant: There has remained the widening difference between pension provision in the public and private sectors. How can it be that the two sectors have reached completely different conclusions on the affordability of DB pensions in the same circumstances? There is no obvious likelihood of change at present and the end result is very unhelpful because it creates clear differences in the way employees in either area can fund their retirement and a dislocation in the labour market between the two sectors.
Aon partner, Matthew Arends

Development: The annual management charge
Why significant: Do you remember when the government stipulated that stakeholder schemes could not charge more than 1 per cent annual management charge? Much of the pensions industry was in uproar, but subsequent technological developments have meant that we are now able to run schemes at a fraction of this rate.
Salvus Master Trust head of sales, Bill Finch

Development: Consolidation
Why significant: This is set to continue over the next few years and started with the pooling of the 89 Local Government Pension Schemes (LGPS) into eight pools. The government is encouraging the private sector to follow this lead.
Janus Henderson Investors head of UK institutional, Anil Shenoy