DC roundtable: The continuing evolution of DC

The latest DC panel discusses life post-authorisation, adequacy and the new retirement living standards

The DC landscape post-authorisation

Chair: What has been the fallout from The Pensions Regulator's (TPR) master trust authorisation process, and where do we go from here?

Dowsey: We believe there is going to be further consolidation in the master trust arena over the next five to 10 years. Clearly Nest has critical mass, so we will be one of the survivors and we're government backed as well, but it's confusing for the members when they've been with a master trust that they regard as a safe house to then have to move.

It's also tough on the employers, because they're the ones who must make a decision. Ultimately, they'll be defaulted into a non-master trust, but they still need to decide for themselves whether that's appropriate for them and their employees or whether they want to undertake some further market research to decide whether to then choose another master trust provider.

So, further consolidation is inevitable but, overall, it's not particularly good news for the customers.

Gosling: From TPP's perspective, we're beginning to consider what authorisation under supervision is going to feel like. What is the regulator expecting from authorised schemes? How often are they going to want to see us? How will the authorisation system develop? There's been a focus in the sector on simply getting authorised, but this is not the end of the process, so what's it going to feel like going forward?

Chair: From a legal perspective, are there any problems ahead?

Swynnerton: Problems in relation to member satisfaction in the long-term could potentially generate legal problems and/or complaints. From our clients' perspective, we can see that consolidation is going on and there's also the trend towards transfers to master trusts from traditional company-sponsored DC arrangements. That is also continuing apace and what seems to be driving that is the ever-increasing governance requirements from the regulator.

Gosling: Certainly, the increased interest in transfers is something we're experiencing at the moment and there is no shortage of competition for the schemes that are looking to consolidate into a master trust.

I wonder if DWP and TPR see the authorisation process as a success and therefore potentially as a model for the regulation of other aspects of the pension system in the future. For example, we might see the extension of the fitness and proprietary requirements more generally.

So, I think we're going to be seeing more of it in different spaces. If we ever, for instance, get to see regulation of DB consolidators, I would anticipate those arrangements looking to some degree similar.

Chair: What is the employer's perspective on master trust consolidation?

Taylor: It's positive that there has been this consolidation as it clears up what was a plethora of providers. From an employer point of view, it's a very attractive proposition, because the majority of master trusts will now offer what you can get in an own trust but without the governance burdens associated with own trusts which, for a lot of schemes, cost them a significant amount of money.

As an employer working with trustees, you want to get the best for your members so why wouldn't you look at something where you can use that spend

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CHAIR

Andy Cheseldine, Client Director, CCTL
Andy joined Capital Cranfield in 2017. Before joining Capital Cranfield, Andy acted as an adviser to trustees and employers at Watson Wyatt, Hewitt Bacon & Woodrow and latterly as a partner at LCP. Using his experience of over 30 years in consulting on both DC and DB pension arrangements and liaising with regulators throughout the pension and financial services industry, he is able to use his wide knowledge and understanding for the practical benefit of trustee boards. He has served on the PLSA DC Council since 2013.

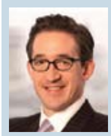
PANEL

Michael Clark, Owner, CBC Pension Services
Michael is the founder and owner of CBC Pension Services, an independent company specialising in providing professional trusteeship and secretariat roles since 2012. Since then, Michael has sat on trustee boards of many schemes, including three master trusts. Prior to this, Michael was a MNT and member of an independent governance committee. With a background in administration and management gained with specialist TPAs and actuarial consultancies, Michael is an FPMI and fellowship ambassador.

Helen Dowsey, Director of Employer and Intermediary Experience, Nest
Helen has been at Nest for three years and she leads the employer and intermediary experience team. The team has responsibility for managing the end-to-end proposition for employers and their third parties (pension advisers, accountants and payroll professionals). Helen has worked in the pensions industry for more than 30 years, mostly in client facing roles in pensions consulting and relationship management.

Steven Leigh, Senior Consultant, Aon
Steve has over 20 years' experience working with schemes on all aspects of DC pension provision and wider benefi ts strategy. Steve works with many of Aon's key DC clients, advising corporates and trustee boards to ensure they effectively manage their pension strategy, maximise value, implement effective governance, meet regulatory duties and ultimately improve outcomes for members. Steve leads Aon's DC research into member behaviours and how schemes and sponsoring employers are adapting to the changing pensions landscape.

Tim Gosling, Head of Pensions Policy, The People's Pension (TPP)
Tim is head of pensions policy at B&CE, provider of The People's Pension (TPP). Before joining B&CE he was policy lead for DC Pensions at the Pensions and Lifetime Savings Association (PLSA) and also held a variety of roles in policy, research and strategy at Nest Corporation. The People's Pension is a not-for-profit master trust (multi-employer pension scheme). Tim is a regular speaker at industry events.



Matthew Swynnerton, Partner, DLA Piper
Matthew is a partner at global law firm DLA Piper and heads the London pensions team. He advises on all aspects of pensions law, including corporate and bulk annuity transactions, reorganisations, benefit redesign and liability management projects, reviewing and updating scheme documentation and advising trustees and employers on their legislative and trust law duties. Matthew drafted key legal sections of the *Combatting Pension Scams Code of Practice,* which received widespread praise from TPR, the Pensions Ombudsman and Pensions Minister.

Richard Taylor, Pension Administration Manager, Schneider Electric
Richard took on the role as the pension administration manager at Schneider Electric in 2016, moving in-house from the TPA arena to be more directly involved in supporting the corporate and trustees to raise the profile of the value of the pension offer and to help members achieve a better pension outcome. Richard's focus is to continually remind members of the value of the pensions offer, advocating the 'free money' the employer offers, and encouraging them to engage with their pension pots as it grows.

more effectively? It's not necessarily about saving money; it's about using the money more effectively to help all your employees.

Clark: There is inevitably going to be further consolidation because there are master trusts that have made it through the authorisation process that are sub £250 million. I'm struggling to see how they're going to survive with the increase in costs and heavy burden of running an operation of that size.

I also think that a lack of choice in the future is potentially going to be a problem because big is not always beautiful. I do worry that the direction of travel is that big is the only solution, whether that's firms of trustees, master trusts, or single employer schemes. Driving everybody towards these big organisations and big schemes however will one day come back to bite us. You need choice in the market and I'm not sure we're developing that.

Leigh: I agree the whole authorisation process itself was a good thing. It brought lots of improvements in quality and standards and general rigour to the master trust market. Going forwards, yes there may be too many to remain viable, but if we are now down to about 33 with separate providers, and maybe around a dozen commercial master trusts open to all (excluding industry specific etc) then that doesn't sound too bad.

Having said that, in the contract-based space we've seen massive consolidation over the past 20 years. We've gone from probably 30 plus providers to literally half a dozen firms – admittedly there are some new players in that market as well.

So, I imagine there will be some further consolidation for reasons of scale, for reasons of governance. I'm not sure that all single-trust schemes are going to move to master trust. I can see the rationale, and certainly some of the schemes I work with are asking the question – and trustees wouldn't be doing their job properly if they weren't asking the question – are we delivering value to our members or could we do it better in a master trust?

There are cases where the single trust model works well. I've seen examples where the trustees have gone to the employer to look at ways they can improve, for example, the contribution design to improve the outcomes for their members. I don't think you can do that necessarily with a master trust because you don't have that connection.

Chair: There is arguably room for further consolidation overall, but I'm not convinced about the 33 reducing by much. Also, there aren't that many that are genuinely open to the whole market. Is there even room for more competition in some areas?

Clark: Master trusts have different client bases and the differentiators going forward are going to be around who their target markets are and what they are trying to achieve. Then it will be around their administration capability, their investment performance and the member experiences. At the moment, master trusts haven't been going long enough for us to be able to compare one with another but over time that will change.

Chair: Do we think this is the end of standalone DC?

Leigh: I don't think it's the end. There are circumstances where a standalone DC trust works well. We carry out regular research in this area. Our latest research shows a continuing trend for own trust schemes to move to master trust for lots of the reasons we've talked about. But it also shows there are a substantial number of own trust schemes which are not considering moving. These could very large or complex schemes, or where there is a highly paternal employer. As long as the trustees are exploring whether their current model, their own trust model, offers the better option for members and the better outcomes for members – because that's what their job is – then they can justify retaining that model.

There are some barriers as well to consolidating to master trusts – things like guarantees or with-profits policies, GMP underpins – which are causing headaches. Some single trust schemes want to move but can't because of some of these barriers.

Taylor: I agree there is still a place for own trusts for those employers that want it. We still have our own trust. Also, it's important to note that, even if you do move to a master trust, that doesn't mean that the member outcomes are off the employer's table. As an employer you want to help your staff either reduce work or stop working, when they want to. Without good outcomes you're not going to get that.

The biggest hurdle for a lot of schemes is the ongoing governance which is getting more and more onerous with the regulator asking trustees to do more and more. We found it difficult to get employees who wanted to be trustees because of the hoops they would have to go through. So, while I do believe there is a place for own trusts, for a lot of employers, it could be a good thing to look at the master trust option – but as I said, it's not the case that they will just be

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handing over the scheme to the master trust provider and completely ignoring it; it's still very much an employer issue.

Retirement Living Standards

Chair: New PLSA Retirement Living Standards were recently launched to help individuals better understand how much income they might need to retire, using 'rules of thumb' based on quality of lifestyle in retirement (Minimum, Moderate, Comfortable). What are the panel's views on how the new rules compare to the previously widely used 'replacement ratio'?

Gosling: We were already using something very similar to the retirement targets in that we were using the Joseph Rowntree Foundation Minimum Income Standard on our calculator. Having worked on adequacy issues in the past, I looked a lot at the origin of the replacement rates used by the Pension Commission. If you look at the research they did, they basically said 66 per cent of pre-retirement income for a median earner is (a) within the range shown by our market research; and (b) is roughly similar to what you got from DB.

The empirics are no stronger than that. So, there's no reason not to use a budget-based approach, which is, I would argue, empirically stronger and also easier to communicate.

The issue we have with the retirement income targets is less for I think the millennial cohort and more for generation X, as PLSA's adequacy research and the recent PPI piece showed that for members of generation X without DB there is an adequacy hole. It's going to be very difficult for many of those people to, irrespective of income, hit the moderate standard in my view.

So, how do you communicate that without turning people off? Does it make the mountain too high? That's a problem we have to work around. It's always better to tell people the truth rather than obscure it, but nevertheless it's a serious communications issue that the standards just make more visible.

Chair: What is Nest's view?

Dowsey: We are supportive of the standards. There are some caveats around that. We believe they should be focused on the individual needs rather than having a blanket approach. We like the way they have been calculated in as much as they are based on the Joseph Rowntree Foundation Minimum Income Standard.

But you have to bear in mind that the average wage of a Nest member is about £18,000/£19,000 a year. So, these standards don't fit quite as comfortably, particularly when the assumption is that they'll be homeowners, which many Nest members aren't, and they don't take into account state benefits, etc. For a chunk of our membership, some of their replacement will be from the state pension – up to half or two thirds. But we like the principle of the new standards and we do feel that something needs to be done.

Chair: Will you try to build your own version?

Dowsey: We probably will do something similar, but it must be on an individual basis. We're aiming to personalise our communications on a one-to-one basis, but we can only do that through segmenting our membership. So, for the lowest earners, something else is probably more appropriate. It could be that they look at what they get from the state first and then what they get from Nest is very much a top-up to that. Because we have other cohorts who are higher earners, we can deliver different messages to those members as well. We're segmenting our membership and looking at it in a very different way.

Leigh: Generally, I like the PLSA Retirement Living Standards. One of the things I like better than the previous methods used, which are very opaque to members, is that it involves rules of thumb. It doesn't have to be right for everybody, but it gives people a starting point to think about how much they might need whether that comes from their DC plan, state pension or wherever. The fact that you have three different options is also helpful so, again, it's not going to be perfect but it's going to be better than what we have today.

Chair: Matthew *[Swynnerton]*, are you supportive?

Swynnerton: I am supportive. In principle it seems a positive move. The replacement ratio concept is hard to grasp, and this seems easier, although there's still a long way to go in terms of industry acceptance and understanding. So, whether it will get the traction that they're hoping for and become as easy to understand as they think remains to be seen. I haven't seen a huge amount about this in terms of schemes adopting it amongst our clients yet, but something that is ultimately more tangible, easier to understand and more visual has to be beneficial.

Chair: Are there risks attached in that the forecasts might be wrong?

Swynnerton: I guess there is a risk of too much reliance on these figures. Whether that risk could materialise into claims will be dependent on how they're used, how they're promoted and how schemes come at it – but the extent to which claims might arise will depend on how they're used.

Chair: In the real world, do we think our members will rely on these?

Clark: Firstly, I'd like to say that replacement ratios are a cracking bit of pensions jargon that very few people even in this room fully understand and certainly nobody out there does. So, I like this new concept but there has to be a degree of individuality around it.

Separately, this brings to mind where we were with DB schemes post freedoms. When freedoms first came through, the majority of trustees said: "We are not going to give members any advice; not going to give members any information about taking a transfer value. If they want something, we're going to point them towards *unbiased.com* and that will be the end of it."

Chair: Do we think that has changed?

Clark: Yes. Most DB schemes have moved on from that. Now they will support trust members by having a nominated IFA firm that they've built a relationship with, either through an ETV or something of that nature. I think it's the same here. As a trustee, I'm not comfortable in just saying to members: "You're on working land here and you need to get to retirement land over there. There's a big river in between so you have to swim, and there are a few sharks in there too so just be careful."

That's not good enough. I'm not comfortable doing that, because I don't think I'm looking after my members by doing that. So, I'm strongly in favour of providing them with some guidance and some helpful information – but this of course where we stray into FCA world about financial advice.

Swynnerton: A common theme at previous roundtables has been the consensus that retirement outcomes are improved through education and communication. Whilst there always has to be a balance between that and avoiding giving financial advice, if you go completely one way and say "we're too afraid of potential future claims so we'll err on the side of caution by either not providing any information or providing something that's so opaque that it's unintelligible," then that can't be positive. We have to find the right balance.

Taylor: I dislike using the word education when it comes to talking to people about their savings. I also dislike using the word pension when it comes to DC. I guess this is where our employees are quite lucky because they have an employer who is happy for me to go around and do roadshows with them; to have conversations with them and nudge them into thinking about what they need.

The targets are a good start, but I also agree that they need to be more personalised in order to really get the message across.

But it's not about educating; it's about having a conversation. If you set out to educate your employees, you're going to fail.

Chair: I suspect one of the other issues is that, with any mature DC scheme – by which I mean a DC scheme that has been around for five years or more – half of its members are likely to be deferred members and in master trusts it is going to grow much quicker. The targets that we set, or that the PLSA sets or anyone sets, are usually in relation to ongoing employees who have a continuous stream of contributions. What about those that don't?

Dowsey: We're doing some research to look at how members cycle in and out of different employers within the same sector or different employers within the same geographical location. Having been up and running now for seven years, we're starting to get some understanding of that. Because it's one pot for life, that actually helps the member longer term.

An average pot size, obviously with phasing, has gone up significantly. We're trying to project that forward to someone's retirement to see what that actually means on an individual basis. Watch this space. We don't have it yet but that will be fascinating.

Also, interestingly, post-phasing, some employers are starting to look at their contribution structure. The majority of employers who are with Nest use the minimum requirement on the band earnings, but we've noticed that some employers are starting to think that probably isn't enough for a lot of their membership. So, they're starting to consider a matching contribution structure.

Taylor: Surely this is where the dashboard is going to help with the deferred members – being able to see all of your savings in one place will help people plan more fully.

Gosling: Two things about the future of the targets. One is whether PLSA is successful in persuading MAPs to adopt these more generally. There are reasons why a government body might want to do that; there are reasons why they might not want to do that. Governments are historically reluctant to adopt standards by which its own policies might be measured.

The second is that someone has to own them. I don't know where the PLSA is at the moment with ongoing governance, but you just need to look at the work that the ONS has to do around CPI and how definitions of what's a

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minimum change over time - 20 years ago we thought of a mobile phone as a luxury, we thought of broadband as a luxury; now you need to have internet access in order to interact with the state, including applying for benefits, in any meaningful way. There are all sorts of things that need to be done over the long term to ensure that those are kept current. That's a big job for somebody.

Leigh: My understanding from what the PLSA has said is that every two years they're going to uprate by inflation and every five years they're going to review the basket to see if that remains appropriate.

Separately, I agree that the pension dashboard would be a massive help for individuals. Having a living standard to aim for and a number is great, but that doesn't tell you how much you need in your pension pot or how much you have in your pension pot. It's a case of trying to bring all that information together along with state benefits and anything else to reach this income level regardless of whether it's current employment or past employment. Bringing all that together is the challenge.

Meeting the needs of the self-employed

Chair: There are about five million self-employed people out there. Is there anything we can do for them?

Dowsey: Nest Insight have produced a paper on the self-employed and looked at their behaviours, needs and wants. What's interesting about the self-employed market is, although it's predominantly male, there are significant numbers of women now setting up. They tend to have lower incomes as well.

So, the self-employment market is changing and the sectors in the self-employed market are changing as well. Traditionally it used to be the trades – builders, plasterers, etc, but now it's across all sectors of the UK working population. It's actually quite difficult to engage with them. Initially, we felt we could engage with the self-employed through their accountant, but because everything is online now people don't necessarily have an accountant.

So, we're looking at ways of engaging. Going through what we call our Nest connectors, through the accountancies, is one channel to get out to the self employed. But there almost needs to be some sort of legislation around getting them to save. Like the working population, if they didn't get automatically enrolled into a pension, they wouldn't do it. We need some sort of mechanism for the self-employed too, but we're struggling at the moment with what that mechanism is.

Gosling: Two points I would like to make. In respect of the diversity of the self-employed population, we need to think about whether there are people in that population who are genuinely self-employed, or whether they could be redefined as workers and thereby dragged into automatic enrolment. That is something the Taylor Review of the modern economy looked at extensively.

The second point I would like to make is around product – whether the pension, given its inability to access capital, is the right one. That's one of the areas where Nest Insight and sidecar are potentially interesting.

But it does feel like we're a bit at the informed choice stage of the debate. We may go through a cycle where we see that informed-choice-based measures for the self-employed don't really work and then we're back to looking at how we can connect with people through the tax system, seeing whether there is a bridge there in order to replicate automatic enrolment in the self-employed space.

Clark: The growth in self-employment and small businesses has been phenomenal and because everything is so digitalised now, one way to get to the self-employed is through firms like Xero and QuickBooks, with whom they file their digital accounts.

Also, a lot of the self-employed today haven't always been self-employed. An awful lot of the new self-employed are women who are returning to the workplace, who are juggling life, kids and all other things. They're working on a self-employed basis that fits better around their lifestyles.

Adequacy

Chair: Recent research from Aon revealed that people with DC pensions are expecting to retire later than ever before and a third are expecting a fall in their standard of living in retirement based on income needs. Are sponsoring employers waking up to this?

Leigh: We do see more and more employers waking up to the fact that perhaps people can't afford to retire when they want to, and that it's going to become a problem. It's a small problem for most at the moment but it's going to become a bigger problem.

Our research shows that over half of DC members now expect to retire after age 67, whereas before it was around 65, with some aiming to retire before then. So, individuals themselves are also waking up to the fact they're going to need to work for longer.

Chair: You say half the people are expecting to retire aged 67. Are those the younger people who probably will retire

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after 67?

Leigh: No. We looked at the age splits on that and it was roughly the same across the board, so this included a lot of people who are over 55 now – the employer is most likely thinking they're going to retire in the next five to 10 years but actually the individuals have a completely different idea.

The other interesting point that came out of the research was around people changing the way they retire. People aren't expecting to just stop working – only about a third of people thought that was going to be the case. The rest thought they were going to phase to part time. There was also an alarming number who said they thought they'd never retire because they won't be able to afford to and they're going to have to work until they drop.

So, adequacy is becoming a problem for companies. Some companies are looking at this and are asking: "Are we doing enough? What can we do differently? Can we afford to increase contribution rates? Or if not, can we make sure we're telling members when they're younger, so people have time to save more and pay in a bit more?" There's no single right answer to how to sort the problem.

Chair: When they assume they won't be able to retire at 67, is that because they assume there won't be a state pension?

Leigh: A lot of younger people are quite sceptical about the future of the state pension – what it's going to look like, whether it's still going to be around in a similar form and when it is going to be paid. We've seen the state pension age increasing and the equalisation with women's and men's ages and the challenges that has caused in terms of communicating to people and making sure everyone is ready for that. At the moment, the legislation is that it will be reviewed in line with life expectancy and it will keep increasing as life expectancy goes up.

Chair: In Schneider's experience, do you think your members have a reasonable expectation of adequacy?

Taylor: Yes and no. We have a lot of conversations with our employees to help them plan, however there are some people who don't want to engage, won't engage, and still have their heads in the sand. There always will be. But the younger population generally are more engaged than we think they are. For example, I did a webinar for our graduates and because of my subconscious bias I had expected a very low turnout, however all the graduates who were invited turned up, and it took me two days to respond personally to all their queries! So, the people I thought wouldn't be that engaged kept me busy for two days. But then you have some people who are closer to retirement who really don't want to think about it or talk about it.

A key question I would ask, however, is should we think about retirement as taking place at age 65 or 67? We're living healthier lives. We are living longer. We're more likely to hit 100 than we've ever been before. So, do we need to start thinking about working life being a little bit longer and start telling people that, yes, while your parents and your grandparents were able to retire at 65, you can work for longer. Perhaps you can reduce your hours. You can do something part time. You can do something worthwhile. You don't necessarily have to carry on working at the same company.

But this is not just about pensions. It's about looking at finances holistically. We're quite lucky in that we're a relatively large company that can help our employees think about things in a wider sense and help them plan a better financial outcome than just their pension.

Chair: You speak from the perspective of a larger and paternalistic employer. What about the master trusts? What can they do to help members make these decisions?

Gosling: It's much more limited for us. Our employer base is much more transactional. People are doing what they need to do in order to comply with the law, and we can ask no more of them than that.

Saying that, we're beginning to see an uptick in call centre volumes following April, albeit from a very low base. That's people who are not looking to opt out but they've noticed us and they're curious about us. They want to know more about who we are. We're beginning to get to a place where we can start having a conversation with people about what their future might be, but realistically we're quite a long way from that being a developed conversation.

We're also aware that somewhere around 16-18 per cent of our members are not aware that they've been automatically enrolled into a pension. That's similar for the other large AE master trusts. So there's that bridge to cross as well.

In the interim, from the adequacy perspective, it has got to be about policy levers and not necessarily directly about engagement. That may be difficult for those who would need to contribute much more in order to achieve a traditional adequate retirement as it were,

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but at the moment it's extremely difficult to have conversations with people who have been automatically enrolled and are just beginning to wake up to that fact.

Clark: I agree. A lot of the smaller employers have ticked a box. The members have joined by osmosis. Quite a few of them staggeringly had no idea they were members of a pension scheme in the first place. That's a common picture. Therefore, it's very difficult to get people to engage when they weren't conscious of what they were a member of in the first place.

I also take the point that educating people with a capital E, standing there with a pointed stick saying, "you must save for your retirement or else the world will fall in", isn't helpful.

Dowsey: We have 8.5 million members. About half of those at any one time are active, making contributions. We've been doing some test and learn over the last year to try to engage with those members. We started off with fairly small tranches, about 50,000 members. We've segmented it by age group, and by those members for whom we have an email address, but who haven't been into their account. So, they may or may not be aware that they're a member, but they certainly haven't engaged with us by looking at how much is being paid in or how much their account is worth.

We tried three different routes – email, video and a control group that we didn't do anything with. With the email and the video, interestingly there was not much difference in the open rates, which was about 50 per cent, so amazingly high. We tried it with different age groups, 22-35 and 45-55 to start with. Then we're going to be doing the pre-retirement age, so 55-65. We're also doing targeted communications for people coming up to retirement starting at the age of 50 once every three years to remind them that they are approaching retirement.

Although 50,000 members in one tranche sounds like quite a high number, from a Nest perspective it is quite small. We didn't want to do anything that was bigger than that because we didn't want to trigger the wrong behaviours. We've been delighted in fact by the behaviours that we've had from our members.

Roughly a third of our members are under the age of 35. Interestingly you'd expect engagement to be better with the younger members than with the older members and that's not necessarily the case. It's that mid-range of those in their 40s, sometimes because they have a lot of pressure on them – they have children, they're probably working flat out trying to keep their jobs or find the next job, perhaps, in the case of a Nest member who is cycling in and out of different employers.

I think it is generation X perhaps that we have a bit of a problem with there.

But we are going to continue doing that, and the messages will be different. We're also trialling personalised videos and personalised emails, because we expect that will have more resonance with the member.

Swynnerton: The fact that people are talking about adequacy is good news. There is a problem on the employer side in that the employer has traditionally been a trusted source of information for its employees but concerns around the risks associated with giving advice are driving things in the other direction. That's a shame and is, in itself, a risk. Whilst it may not be a legal risk, the risk is that people aren't saving enough, the balance between pay and pension isn't right, and that will ultimately lead to people leaving employment and going elsewhere.

So, it's perhaps not a legal risk so much as a commercial risk for employers if they don't engage with these issues. There's a perception in the market that since the decline of DB there's been a corresponding decline in paternalism. That, in part, has contributed to the move away from employer-sponsored DC towards master trusts, even from the well-run and well-managed employer-run DC trusts that aren't the ones that are the focus of the regulator's heightened governance requirements.

The regulator is very clearly targeting smaller and less well managed schemes, but the increased governance burdens apply across the board and seem to be driving a trend for even the well-managed large company pension schemes to move towards master trust provision. All of that is generating a feeling that it's not necessarily the employer's job anymore. The more that can change, the better.

Gender pensions gap

Chair: Why does the gender pensions gap exist and what can the industry do to help deal with it?

Dowsey: This is a fascinating area. There is a pay gap and there is a pensions gap and that is partly because women are taking career breaks.

But what is also interesting is that the rate of growth of women's pay, even before they take breaks to become mothers, is slower than it is for men. Then, when they come back to work, it's slower still. If they're working part time then they don't get upskilled and they don't get those opportunities for career growth. So, it continues right the way through the working lives of many women.

The gender pay gap accounts for 19 per cent of the gender pension gap, whilst differing working patterns between men and women account for 31 per cent of the gender pension gap (*NOW: Pensions, Oct 2019*). There are 50 per cent more women than men heading towards retirement without any pension savings at all *[PPI Understanding the gender pensions gap, July 2019]*. Financial decisions are made as a household, but pensions are taken into account in just 36 per cent of divorces leaving women vulnerable to financial hardship *[Government Equalities Office, the case for change July 2019]*. Many women are out of scope of workplace pension saving because they earn below £10,000, which is the threshold. Of those who earn at or below the earnings trigger in any single employment but have an aggregate income from multiple jobs of more than £10,000 – of course they're not automatically enrolled – 78 per cent of them are women [*DWP, Automatic Enrolment Review, December 2017*].

Those who are eligible for automatic enrolment, contributions on the first £6,000 or so of earnings are disregarded, which hits the financially weakest who are again more likely to be women. So, there are myriad angles to this that just compound the problem.

Leigh: Women also live longer on average, so need a bigger pension pot.

Gosling: We did some research on this and it was a real eye-opener. I draw out two things. One is the impact of first child. We did some YouGov polling around what women had done and what they wanted to do around the birth of their first child. One of the most striking things was how many wanted to take time off to spend time with the children, and then the difficulty they had returning to work. What they didn't realise was the impact of their choice – their justifiable choice – in choosing to take time off to parent; them not realising exactly how much this would slow future earnings growth, and indeed earnings growth for women in real terms effectively stalls after they exit the labour market to have children.

For us, there's a lot that can be done around childcare. Forty per cent of mothers say they would work more after the birth of their children if they had better access to affordable childcare, but it's not just the childcare. It's also about job sharing and employers thinking more creatively about how they can bring working parents back into the workforce.

It's difficult for us as a pension scheme to say those kinds of things, because we start getting a very long way from the traditional concerns of a workplace pension scheme – quality of governance, trusteeship, investment returns and so on. Yet I think, for schemes, taking a different view is going to become increasingly important as we put together policy positions. It's not just about contribution levels; it's also got to be about the quality of the workplace.

Taylor: But it's a lot easier for someone to work remotely or flexibly if it's an office-based role. If you're a factory worker, you can't do that. That's where you say, each party has to take their part in bringing up the child.

Swynnerton: Employer attitudes and societal attitudes could change in relation to how men and women behave in relation to childcare, for example. But it's hard to know what could be done. The proposed changes to auto-enrolment criteria ought to benefit lower-paid women and younger women, which should hopefully have some small improvement.

Also, trying to address the different ways in which people work – be that part-time, flexible working or working from home – would also potentially help. But otherwise it really does require either the employer or society, the spouses of women who are affected, to seek to bring change themselves.

Leigh: It is also about bringing it to people's attention. That may be as much as you can do from a pensions industry perspective. People are becoming more aware of the gender pay gap because larger companies have had to publish details about it, but not very many people have necessarily thought about it before in terms of pension. That's where, as advisors and pension schemes, we can bring it to companies' attention.

While master trusts might not be able to make benefit changes to address the gender pensions gap for employees, it is certainly something we can all make people aware of, including making employers aware.

Dowsey: We can't easily change legislation or culture, but what we can do is try to give women more tools to improve their financial literacy and their financial resilience. There is evidence to show that when they are engaged, when they are automatically enrolled, they do understand the need to make pension provision. So, it's about trying to make sure we capitalise on that and get them to engage even more so they are more individually financially resilient.