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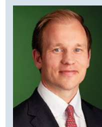
# DC/master trusts roundtable

MODERATOR

**Chair for the event: Andy Cheseldine, Professional Trustee, CCTL**
Andy joined Capital Cranfield in 2017 after a career as an adviser to trustees and employers at Watson Wyatt, Hewitt Bacon & Woodrow and LCP. Using his experience of over 30 years in consulting on both DC and DB, and liaising with regulators throughout the pension and financial services industry, he is able to use his wide knowledge and understanding for the practical benfit of trustee boards. He has served on the PLSA DC Council since 2013 and has a successful record of advising on regulatory, governance, change management, investment issues and more.

PANEL

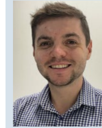
**Sharon Bellingham, Master Trust and IGC Lead, Scottish Widows**
Sharon has more than 30 years of DC pensions experience across a wide range of disciplines. She joined Scottish Widows in 2020 and is a member of the master trust scheme strategist committee, which has responsibility for driving forward the strategy and development of the Scottish Widows master trust. She also works closely with the master trust trustee board. Sharon is an accredited professional pension trustee, a member of the PLSA master trust committee and she also chairs the ABI master trust working group.



**James Fouracre, Director – Head of DC, Ruffer**
James joined Ruffer in 2022 as head of DC, leading on strategy and distribution across DC pension schemes in the UK and Ireland. Previous roles include a range of senior distribution and strategy appointments at HSBC Global Asset Management, across the wholesale and institutional businesses at regional and global level. James read politics with business at Loughborough University. He is a regular contributor to the investment and pensions press and highly regarded spokesperson on DC pensions and investment.

**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, 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 (AXA IM)**
Vivek is a senior manager in the AXA IM global consultant relations team, responsible for strategic business development, partnerships and thought leadership. Before joining AXA IM, Vivek worked at Willis Towers Watson (now WTW) managing investments for some of the UK's largest pension funds and helped set up WTW's initial fiduciary client base. Vivek also worked for UBS Investment Bank and is involved with the DC Investment Forum.



**Jordi Skilbeck, Senior Policy Adviser, PLSA**
Jordi is a policy lead at the Pensions and Lifetime Savings Association (PLSA). Having joined in 2022 as a senior policy advisor, he is responsible for a range of policy areas, including tax, pension adequacy and automatic enrolment, small pots and the state pension. He is one of the authors of the PLSA's *Five Steps to Better Pensions* series. Jordi has previously worked in public affairs and communications for a trade federation within the automotive sector. He holds a degree in international relations.

**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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# Full steam ahead

**Our panel of experts reflects on a busy period for DC and master trusts, with pension reform, private assets and adequacy just a few of the hot topics of conversation**

**Chair:** In her Mansion House speech, Chancellor, Rachel Reeves announced plans to create Australian/ Canadian style pension 'megafunds'. The government's proposals will involve the consolidation of DC pension schemes. The intention is that schemes will be able to invest on a much larger scale and, in particular, in UK productive assets. What are the panel's thoughts? Positive?

**James Fouracre:** I interpret the broad direction of travel to be a positive one, particularly with respect to the market consolidating and moving towards fewer, better-run schemes. There will remain a live debate over how those better-run schemes may or may not be mandated to invest in the UK, but a concerted effort to consolidate what is currently a fragmented market would seem logical given that there are significant benefits to all stakeholders in trying to manufacture a more streamline model.

**Sharon Bellingham:** I agree that the intention and the direction is positive, but it's the journey that we need to be considerate of and some of the challenges lie in how we get there.

**Jordi Skilbeck:** The PLSA generally welcomes the Chancellor's suggestions, but I agree it is about making sure the journey is correct rather than seeing it just as a step in the right direction.

**Vivek Roy:** Thinking about the journey to date, we had auto-enrolment (AE), which was about the member, about more members getting enrolled, more people having a pension. We had freedom and choice which was, more or less, about the members (even if Treasury benefits from some people taking their entire pension pot by virtue of getting some tax), but it was about the members. Then there was master trust consolidation, which leads to better governance and potentially the ability to use a wider breadth of asset classes – all positive for the members. And now there is this, which is ever so slightly moving away from what might be directly good for the members. Ultimately, it will be positive for the members, if we get the journey right, but it feels like the target is changing – it seems to be more about increasing investments in UK infrastructure/productive assets, rather than being about the members.

So, the narrative doesn't feel directly linked to what it should be.

In general, having megafunds as opposed to lots of smaller funds has worked well in some countries, but we shouldn't lose the member in all of that.

**Matthew Swynnerton:** How it will pan out remains to be seen – scale doesn't necessarily deliver better retirement outcomes. The Canadian and Australian models do point to there needing to be a certain critical mass reached before it becomes easier to invest in illiquid assets and those better outcomes are available.

Then, in terms of the government's intentions for pension funds to invest in UK productive assets, the Local Government Pension Scheme (LGPS) already invests 4 per cent in UK infrastructure whereas, in the Canadian model, only 7 per cent or so of their assets are invested domestically.

So, arguably, we're not a million miles away from that already and, even if we create these megafunds, will schemes necessarily then invest in UK assets? Currently that will only happen if trustees are advised that it will deliver the best outcome for members. That then leads to the next question of whether minimum levels of investment in UK infrastructure will be mandated or not.

**Jit Parekh:** I agree that the direction of travel is broadly positive, but it needs to be member outcome-driven rather than simply looking at DC schemes as a way of driving greater investment into the UK market. It needs to be considered; it needs to be thought about in the appropriate way.

Also, within the DC market, we have observed that consolidation is already happening naturally, for example looking at the growth of DC master trusts over the past couple of years; so, to what

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degree is pushing more consolidation going to be productive? My worry is the potential unintended consequences of more consolidation. There are lots of well-run schemes out there and, while scale can be great, choice and differentiation are also important.

**Fouracre:** I found it to be particularly interesting that the Chancellor took the opportunity to highlight the progressive work of the Cushon master trust in driving UK growth, and yet the reality is, relative to their current AUM and growth rate, they will likely fall below the £25 billion threshold that Reeves has set out in her visions of the new DC regime. Are those the sorts of well-run master trusts that we want to see fall away from the competitive landscape?

**Bellingham:** Also, given the ambition of this all happening by 2030, the impact on the commercial market is important to consider. The critical importance of meeting scale thresholds for some providers could influence commercial behaviours and potentially shift the focus back to the lowest price. As an industry, we're really trying to prioritise value, but any scale requirements may pressure some to lower pricing in order to secure assets during the bidding process, which could revert the focus to price over value.

In the consultation, there's also a question about differential pricing, which is quite common in the market, so that's another considerable consideration.

So, while there's a lot to think about from an investment perspective, there are market behaviours to consider too and the potential impact on members.

**Parekh:** The key phrase here is 'unintended consequences'. That pricing point is a big one because that's what we've seen over the past couple of years – a race to the bottom in terms of fees. To a degree, there's a reason why innovation has been stifled – because it's difficult to try and invest in some of these alternative asset classes. Now that providers are getting some scale and that's happening – even if it's happening slowly – could this, for certain providers, create another stumbling block?

The other unintended consequence here is that, if this all means you're having to drive assets into a particular default, one that might not be the right default for a member or for a particular organisation, is that going to produce better member outcomes?

That brings the investment piece back in, which is that having a bit of choice is a good thing. Looking at the Australian system, and looking at other systems where there's big scale, in some of those systems there has been a big focus on returns and almost peer group benchmarking, so then you have this other unintended consequence which is everybody hugging the benchmark. The outcome of that is you're basically reducing choice and stifling innovation.

**Bellingham:** It's intrinsically linked also to the Value For Money (VFM) framework and what we're going to be hearing this year. There's so much potential change and it's all linked.

**Fouracre:** Before we get to 2030, as well, there is a chance we may have a new government and, as we've seen with the lifetime allowance for example, pensions can become a political football. One would hope that there's broad cross-party support for the direction of travel here, but it's still a possibility that some of this ongoing work is put into reverse.

**Skilbeck:** Ahead of the Mansion House speech, there were concerns around what these announcements would mean for fiduciary duty and whether mandation might come in. That hasn't occurred, so it shows the government is listening to industry, so via these consultations we really do think the government can get to the right place.

**Chair:** There was some inference that there'd be a review in a year, where mandation might be possible?

**Skilbeck:** As it is an important lever of change, it would be illogical for the government to discount the idea of mandation, but it is positive they haven't chosen to make an active decision on that at the moment.

**Swynnerton:** The other interesting point is the concept of 'without consent transfers', which is something we're very familiar with in the trust-based world, but doesn't really exist for providers of contract-based DC schemes and so will need legislative change, possibly aligned with the planned introduction of default consolidation under the upcoming Pension Schemes Bill. There'll be a question then about what level of due diligence providers need to undertake, whether that will be similar to what trustees and employers currently do when they're considering moving from a trust-based environment to a master trust.

**Bellingham:** The potential to make it easier to move members in contract based arrangements without consent will be music to a lot of ears because it's typically very difficult to make changes.

It's interesting to also consider that, in an earlier consultation, there were questions around the operation of two DC pension regimes.

If you're a trustee authorising a bulk transfer without consent into a master trust, you should be considering the receiving master trust's commitment to

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market. If there's a possibility that the master trust might not exist in five or six years' time, then are you able to assure that the transfer should go ahead? These are the sorts of unintended consequences that might not be immediately obvious.

**Default funds**

**Chair:** The government has proposed to legislate for a minimum size and maximum number of DC pension scheme default funds. Will this deliver better outcomes for savers?

**Roy:** As an asset manager, one responds to the requirements of what consultants are telling us and what providers need, and so we end up being more a component to the default.

On the bigger question of whether minimum size matters, I think these are semantics. Yes, it's true that focus does help so, from that perspective, having a limited number probably does help. But what we do with it and how the entire infrastructure around it and the governance around it is used for the benefit of the member is absolutely key. Hopefully, from that point of view, if there is size then there are significant decisions that are being made and so therefore that might mean that ultimately it leads to better outcomes.

**Skilbeck:** I'd echo that. We don't feel as if we've seen any concrete evidence showing a correlation between scheme size and gross return. There are obvious benefits – governance for example, and administrative elements – but we're yet to see clear evidence that there is a real correlation between the two.

**Swynnerton:** Trustees will always want to prioritise member outcomes. A wider concern is that the more concentrated the market becomes, the less competition there'll be, and the less innovation there'll be. Also, from a legal perspective, there's quite a lot missing in terms of the regulatory and compliance framework – what constitutes a default fund and how you ensure that providers comply with the new rules.

Also, what happens during the transition period? There are concerns being raised about whether members will be negatively affected in the period between implementation and 2030 or whenever we see this coming in.

**Parekh:** Again, consolidation to a degree has already been happening and, more generally, the view here is there's more to be seen in terms of where that minimum and maximum size is set and what the implications are, but my overarching view is it needs to be in the context of the member.

There are schemes out there that are smaller and that are run really well, and there are schemes out there that are larger and not run as well. So, there's a governance angle to this as well.

**Chair:** If it's not size, what are the metric measures we need to think about?

**Parekh:** From my perspective, the size is there, and the access is there. It's then being able to make the right decisions. We will talk later about the investment toolkit, but this then points back to the consolidation piece, this points back to trying to get as many assets as possible into certain defaults. If the unintended consequence of that is lower fees, meaning less innovation, that can't be right.

Of course, lower fees can sometimes be a good thing, but it can't be a good thing if it means providers aren't able to invest in the alternative asset classes that might be able to deliver stronger returns for members. So, the sentiment of size isn't incorrect, and trying to accelerate doesn't feel like the right thing to do.

**Roy:** Also, 5 per cent of a big number will be a significant allocation, so it will make a bigger impact. But 5 per cent

into what? That's where the breadth of the asset classes and the other wider investment considerations come in.

**Bellingham:** On the point of default funds, I'm supportive of there being fewer.

In terms of drivers for consolidation, there is consolidation happening within the medium-large single employer trust space. The smaller schemes, however, need more attention and support – it might be that they don't realise their roles or are difficult to locate. We need to make it easier and cost effective for schemes to consolidate if they believe it's in their members' best interests.

Introducing an authorisation-like regime, including financial reserving requirements, for single employer trusts would provide parity and support consumer protection and is likely to drive consolidation.

**Skilbeck:** On that point around helping smaller schemes, as part of the work we are doing at the PLSA, we're speaking to a lot of our smaller members and, one of the issues that they're encountering in terms of consolidation – so these are generally hybrid ones – is that their active DC element will be with a master trust, but their DC legacy ones won't be.

One of the reasons why they've kept that arrangement is because of their relationship with with-profits, for example. The contracts that they've got with that means that they essentially are going to have to wait for those contracts to come to an end in order to consolidate. So, while all these things are happening,

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basically it's not really speaking to the smaller schemes.

Part of the issue is obviously scale – at that end there's less of an incentive for the government to focus on those schemes, but then also the schemes themselves aren't necessarily making the most noise about the problem that it's causing them.

**Bellingham:** Guaranteed annuity rates are another challenge, much like with-profits or any product guarantees or underpins, as they can be costly to buy out or fulfil. This adds another layer of complexity, and there's no straightforward solution.

**Private markets**

**Chair:** DC is trying to go all the way into infrastructure and potentially private markets. What are your thoughts?

**Swynnerton:** For investment into infrastructure and private markets to work, there needs to be a robust governance framework to manage the risks and to reconcile the risks of investing in illiquids with long-term member interests.

The other interesting point from a legal perspective is the need for transparency and communication to members in relation to investment strategy, which is challenging. The trustees need to communicate, in a very clear way, what the potential returns are but, more importantly, what the potential risks are of investing in less liquid assets.

**Parekh:** Investing in private markets has been a debate and a topic that's been going on for some time. The industry is further forward now than it has been in the past – look at the master trust market for example and the investments that are happening there. Most master trusts are making announcements by the day with 5-10 per cent allocations to private markets, which is great to see. Ultimately, now that structures have been put in place, like the new Long-Term Asset Fund (LTAF) structures, this is making it easier from an operational perspective to give access to these types of investments.

From an investment perspective, everybody understands broadly the diversification, the illiquidity premium and the potential opportunity set – it's a massive market. So, my view here is it's great to see that the DC market is gaining access to these alternative asset classes, to the benefit, hopefully, of members as the key beneficiaries.

We are seeing more and more products come to the market, which is good; a lot of what we're seeing is multi-asset driven, so a variety of projects are being made available, which in a way is good because it does help give access to the asset class as a whole.

But ultimately, my slight scepticism is in the default – for example, one way it's talked about is that it can give you equity-like returns with an illiquidity premium and it's diversified. Actually, because of the slight illiquidity, if it's equity-like returns, well, equity is giving equity-like returns! So, what you want is equity-plus returns, in the growth stage, or when people with a longer time period are investing. As people get close to retirement that's when you basically want the diversification benefits.

**Fouracre:** There's clear, sound logic to wanting to invest in private markets solely on the basis that private markets represent 80 per cent of the investable universe. However, let's remind ourselves of the investment regime we find ourselves in.

Might private market allocations offer some portfolio diversification? Possibly. Might they deliver high single-digit returns when the investment regime's supportive? Yes. But are we in one of those regimes now? I think that presents an interesting debate.

Ultimately, the boom in private markets was built on ultra-loose monetary policy. It's a debt fuelled industry. The cost of borrowing has gone up immensely, which means that exit multiples are down. Financing costs are up and so payouts to investors are at significant lows. The industry is sat on a record $3.9 trillion of cash because it is increasingly difficult to find a home that will deliver returns to investors.

So, the industry's model that has been previously celebrated, of paying high prices for companies, using cheap debt, before selling at a higher price, just doesn't work in this regime. Therefore, there needs to be a robust challenge around what the fruitful corners of the market are, and what the return expectations are. Opportunities exist, but in the current market environment they require increased specialism, expertise and resource.

**Bellingham:** I see the diversification and the opportunity that private markets can bring, but if we think about less liquid assets, there are considerations for consolidating schemes that we need to be aware of now. It's also important when we're considering secondary market activity and how to manage liquid assets, making sure that all members are considered.

**Roy:** Trustees have so many hoops to jump – passive to active, liquid to illiquid, cost and value. If we as asset managers now mention infrastructure, venture capital and private equity, somehow that's all right to mention, but if you in that

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same conversation mention asset-backed securities (ABS), collateralised loan obligations (CLOs) and high yield, it feels like a step too far, which is alright if that's what's best for the members, but investing in infrastructure and private assets feels like a bigger first step to me. However, the government has in a sense made that conversation easier to have than the one about ABS, CLOs and high yield.

My point is that it's good to take some steer from the government, in terms of what asset classes should be up for consideration, and diversifying of course is good, but there's also diversification possible within the asset classes that the trustees already know.

**Skilbeck:** On the positive side, some really good work has happened here between industry and government; and from the government side in terms of creating the right regulatory regime for investments – LTAFs have already been mentioned, for example. But we have to come back to the fundamental point of what pensions are for at the end of the day and that's member outcomes.

If you artificially accelerate the amount of capital going into private markets, that will have a distortive effect. Then the consequence of that is poorer member outcomes. If opportunities are created for private market investment, then fantastic, it makes much more sense to put the money into that. But if that opportunity isn't being created, government needs to recognise that there are potentially significant implications on member outcomes if too much money is put in too quickly. So, with money going into private markets, it needs to happen at a natural pace rather than any sort of artificial acceleration.

## Fixed income

**Chair:** Are we/can we effectively use fixed income as a return-generating tool in DC/master trust schemes?

**Parekh:** We can and we are. If you go back 10-15 years, in DC strategies you maybe had a UK bias in equities, and a UK bias in fixed income. Today we're in a place where equities are much more diversified and in the fixed income space that diversification is happening as well.

One of the key reasons perhaps it hasn't happened as quickly has been the lack of assets in DC, pre-auto-enrolment. Now what you're seeing are much bigger asset pools, so more inflows into different strategies.

An interesting point here is that, when Liz Truss' mini-Budget happened, the headlines were full of what the implications were from a DB perspective, but actually, from a DC perspective, the implications were potentially worse. What you had were people invested in defaults, in loan-based gilts, close to retirement that basically saw a 30-40 per cent drop in their asset values. For those that will have crystalised, they won't have recovered that. Whereas, from a DB perspective, depending on how you were hedged, some people were suddenly in surplus. That wouldn't have been the case for DC, but there was nothing in the press. There was nowhere near as much noise around the implications of that.

So ultimately, from a fixed income perspective, particularly as members are close to retirement, there's not just the growth aspect but also the diversification aspect to be considered; and protecting members from the interest rate risk is important.

As an industry, we've got better at diversifying away from traditional UK gilts and inflation-linked gilts, but nowhere near where we are compared to equities. So, there is still work to be done from an asset class perspective, but it's moving.

**Bellingham:** I agree with that point around the mini-Budget – the focus at that point in time was very much on DB, but the impact was broader.

**Roy:** There's been a step change in the target, also, which is from annuities to something else; and there's been a step change in global rates. So, with any step change, there needs to be a new conversation coming in.

**Fouracre:** Thinking about fixed income in the context of a wider portfolio and also in the context of the current investment regime, there are two things in particular that have evolved recently that have grabbed investors' attention. One is the appointment of Scott Bessent as US Treasury Secretary. He has a bold vision of issuing long-dated bonds, out to 50 and 100 years. The rationale seems straightforward in that if he believed interest rates were coming down, he would've put the debt at the short end. He doesn't, he believes that interest rates are going to remain where they are, or indeed they're going to rise.

Then you reflect, secondly, on Trump's policies, the rhetoric pre coming to power, whether it be tariffs, deportation, infrastructure spending – they're all very inflationary. At best, they're going to be inflationary impulses. At worst, it's going to see us move into a world whereby 2 per cent now becomes the floor and not the ceiling for inflation moving forwards.

If we're of a view that we're moving into a world in which inflation is going to be higher on average, and more volatile than what we've experienced in

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the decades before, that not only has a clear impact on the purchasing power of bonds and their return profile but, just as importantly, it has an impact on their offsetting abilities against equities.

The data tells us that when CPI prints are above 2.5 per cent, bonds and equities perform in a positively correlated fashion. Therefore, if you're of the view that we're more likely to be in that world than not, you'd be required to think differently about the construction of DC portfolios, particularly in pre-retirement and decumulation because, if bonds aren't going to provide the off-set to equities, then what is?

**Skilbeck:** There is a role for fixed income in pensions, but equally there is a trade-off that comes with that in terms of returns, and it's important for industry to explain this to members. Members might be upset that they haven't got high rates of return at certain points in their journey, but it needs to be explained that they are perhaps in the stage of the default that comes with lower risk.

**Engagement and artificial intelligence (AI)**

**Chair:** Is there enough action being taken to improve engagement and could AI be a game-changer here?

**Swynnerton:** Is there enough action being taken? There seems to be a lot going on, but is it having the desired outcome? We have regulatory initiatives from The Pensions Regulator (TPR) and the Financial Conduct Authority (FCA), like the VFM framework; we have the FCA and Treasury's review of financial

advice and governance; the use of mobile apps and online portals has increased; and we have dashboards coming. All of that is designed to improve member engagement.

The AI aspect though is interesting. It seems to have huge potential in lots of different areas from what we do as lawyers through to driving member engagement in pension schemes and through to trustee decision-making in relation to pension schemes, which is, I imagine, where it will end up.

Even judicial decisions and Pensions Ombudsman decisions could be taken by AI at some point in the future. But all of that carries a lot of legal risk and needs some form of regulation for it to work properly.

Data privacy and security will be a key legal area. In order to work, AI needs huge amounts of data and therefore where that includes personal data, how do you ensure compliance with GDPR? Is it going to be a case of getting member consent? How is data effectively stored when it's being used by AI?

Another key area will be transparency. We need to understand how AI makes decisions and then that needs to be clearly documented and explained to members. If it's not done properly, it may generate a huge amount of distrust in relation to the use of AI that could result in legal challenge.

From a trustee and provider perspective, accountability is also a big issue. Who is ultimately responsible for decisions that are taken by AI? There needs to be appropriate governance in place. Linked to that, there are ethical considerations in relation to using AI and there's probably some tension between that and ESG – the environmental impact of using AI is huge and isn't well understood.

Also, AI isn't infallible. It works by learning and, as a result, its initial answers may not be correct. It learns sometimes through making mistakes, which is obviously a big risk for schemes and providers.

Then, if there is a risk of legal challenge, will there be PI cover that extends to AI decisions? There's a lot of potential but there's a lot of potential risk as well.

**Parekh:** There's passive engagement and there's active engagement. What do we want to encourage? In a way, it depends where people are but, generally, increasing passive engagement is a good thing. So, people understanding they've got a pension, they've got a saving, this is what it does, and so on.

But do we really want active engagement to increase? People going in and making changes? People reacting to markets, for example? In reality, no, because this is about them trying to save for their retirement. So, great work has been done to increase passive engagement, and that's where the focus should be.

The role of AI is interesting. It is early days in terms of the power of AI, but it's fundamentally going to be ingrained into what a lot of providers do, in terms of how people will engage with not just their pension scheme but with their bank account, with open finance, with everything they do.

But it's the misinformation or the unintended consequences of taking decisions off the back of what they think is the right thing to do, off AI, which is where you open a massive can of worms. Whether that then results in having to control the system and ensure there's only certain things people can do, I don't know.

**Fouracre:** We've seen a positive shift over the course of the past few years towards business to consumer

engagement. Master trusts have clearly taken a lead in this space – they're full of individuals who not only understand pensions but understand engagement. It would seem absolutely right that they go straight to the member rather than there being the intermediary of the employer there.

Effective engagement relies on personalisation. Everyone's got a unique set of circumstances and that should be reflected in the way that the pension schemes communicate with their members. Therefore, by virtue of that, therein lies the possible role of AI and tech to be able to deliver that personalised experience that will ultimately drive up engagement levels over the medium to long term.

**Bellingham:** In terms of engagement, the structure of AE means that the end user doesn't have to make decisions initially; members are auto-enrolled into a pension arrangement, with a default contribution, fund and retirement age. But as they reach their retirement, they're expected to make significant decisions.

Members typically want to learn about three things –how much do they have, how much do they need and what can they do with it; it's as simple as that. We need to be better at keeping our feet on the ground, in terms of what members actually want to understand and how they want to connect. Personalisation is key to this also.

We've got a brilliant opportunity with AI. Those ethical guardrails that have already been referenced are important, and we're still in discovery mode in terms of what AI can do and how it can help us from a broader pension perspective, but also from a communication perspective. At Scottish Widows, we are looking at things differently and exploring opportunities around gamification – the Pension Mirror is a great example and there's a direct correlation between the Pension Mirror and members registering for our app, where they then go on to see their pension information, can access tools and help.

Social media, Instagram, Facebook, TikTok etc and engaging through influencers all provide opportunities to connect more with the younger generation. We see open finance as another engagement tool.

**Roy:** I think AI in itself is not actually going to help that much – one can start talking about AI and how it'll help almost everything and how we can harness it. But when it comes to pensions engagement, I think it's more basic than that. For example, mortgages are part of conversations with friends and family; pensions are not. It has to become socially or culturally more normal to as frequently talk about pensions as we do about a mortgage, and that will help engagement. Maybe that brings us back to financial education.

Also, if we can make pensions a bit more fun, that's how they will catch people's attention and then they will engage with them. AI can be used to that end.

So, we need to make it culturally or socially more normal to talk about pensions. Perhaps that's not happened so far because DB has taken care of a lot of people's pensions, but with the development of DC, one needs to be more active here. Then there's the other question of whether you actually want active engagement or not – if we get to passive engagement, that is probably good enough. But we haven't managed that yet.

**Bellingham:** Do we think dashboards are going to change things from an engagement perspective?

**Fouracre:** It may well be a helpful tool to those already engaged, but probably

doesn't become a distinguishing factor or reason to generate engagement from those who are not otherwise engaged.

**Skilbeck:** We have our Pay Your Pension Some Attention campaign and, by having Gemma Collins on the latest season of that, we've completely smashed all the campaign targets.

On the active side, at PLSA we do feel that when it comes to decumulation, AI has the potential to revolutionise how people access financial advice. At the moment, there is a real issue with financial advice for those who aren't able to afford it and there is a role for AI in that.

That comes with significant risks of course and there will have to be some stringent regulation around that, but then also it does come with some real benefits. Those benefits probably won't be felt for at least 15 to 20 years, the real tangible mass market ones of those. Some schemes will be able to get a bit ahead of that time horizon but generally, for the market, 15 to 20 years is where we believe that you'll feel the main decumulation benefits of AI.

**Bellingham:** We use avatars and chatbots as well, because we have a lot of members for whom English isn't their first language. So, there are lots of great things that you can do with it.

Also, we have a huge customer member base, and we have translation services. So, if somebody contacts our call centre we can, in the moment, dial someone in to help translate and help with that discussion. As an organisation, though, we're only able to do that (as

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# DC/master trusts roundtable

well as a lot of the vulnerable customer support we do), because we have that scale. Things like that are quite difficult for single employer trust arrangements. If you think about all the vulnerable customer activity that providers have to support as well, consumer duty and all of that good stuff, we are lucky because we are a large provider and we have got that scale so we can put our hands in our pockets to support that as well.

**Chair:** If you've encouraged members to engage, then something goes wrong, is there a risk to you? Could they sue you?

**Swynnerton:** It depends on how you frame that communication. If it is truly a member decision and you've flagged up the risks of the decision, and you've included a recommendation that they consider taking independent financial advice, then you should be OK. But that's a risk that exists currently for trustees communicating any kind of financial information with members, and those who are well advised would include all of those health warnings.

If we, as an industry or as trustees or providers, take steps to drive engagement, we also have to bear in mind the risks that come with that and make sure that whatever we are doing, we are flagging potential risks and the need for members to take informed decisions based on, ideally, independent financial advice.

**Adequacy**

**Chair:** What can those in the DC/master trust space be doing to address the continual theme of DC pensions inadequacy? Could collective defined contribution (CDC) schemes be instrumental here?

**Fouracre:** I think we would all accept that there are three levers you can pull here – contribution levels/saving more; maximising returns; and making better retirement choices. If you unpack the three of those, there's large agreement that we should be moving in the direction of 12 per cent contributions and we're somewhat below that at this point in time.

Interestingly, 86 per cent of pension schemes that have a variable offering from a contributions perspective offer the lowest available contribution level. That's a clear indication of where the market's currently at. Then, when you overlay that with the recent decision of the Labour government to increase National Insurance (NI) contributions, it becomes a real challenge to convince those organisations into upping their contributions levels.

When it comes to maximising returns, I think the conversation needs to continue on private markets, it needs to continue on the role of diversifiers, as we've discussed today.

Then thirdly, with respect to making better retirement choices, it's about improving engagement supported by the role of AI and technology.

**Chair:** Also, we need to be managing expectations of what a retirement age should be, because there are still an awful lot of people who think they should be able to retire at 50 on a two-thirds pension, or even a 100 per cent pension, and that's just not realistic.

**Bellingham:** There are some simple levers that can be pulled, which are outside the scope of a provider. For example, auto-enrolling members onto the highest company match but allowing them to scale back down can help, and there's the 'pay more tomorrow' approach that's common in the US.

It goes back to those three questions I referenced earlier and helping members to answer them – how much have I got, how much do I need and what can I do with it? Scottish Widows has an active member engagement programme of webinars and other initiatives but it's important to keep things simple as possible.

**Roy:** At a system level, things are certainly better in terms of adequacy than they were 10-15 years ago, given AE; but, at an individual level, once again it's about raising the awareness around pensions. If we can increase that, it might help with the savings rates, which might in turn help with the second phase of returns as well, because of the larger amounts that will hopefully be saved. It's not an easy dance to do, certainly in the early part of someone's career, how much you can save is difficult, but increasing awareness around how it could really help a lot later on could make a difference.

**Skilbeck:** The recommendations in the recent Scottish Widows' *Women and Retirement Report* are mostly aligned with the PLSA's thoughts – the only one where our position isn't quite aligned is lowering the £10,000 trigger for AE. We've done some research on that and, by reducing it to zero, 91 per cent would benefit, but 9 per cent would suffer detriment by saving at such a low level.

What is positive, though, is that DWP has kept it frozen for a while now and the fiscal drag effect of that is more people get brought in as wages increase, then more people are automatically enrolled without them necessarily suffering detriment at the lower level. So that's a real positive.

On contributions, we have a seven-year plan for that, which takes into

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account employer concerns. It wouldn't just be employers being hit in one go; it would be incremental in 0.5 per cent increases. There could be further protections built in to any such plan, for example a brake mechanism. So, if between two planned increases of employer contributions, there's an uptick in unemployment, then that could enable the Secretary of State to put a brake on that, to review.

So, the pensions industry isn't necessarily just saying that employers have to increase it regardless of what's happening in the wider economic picture, because we are sensitive to that, but it isn't a good enough excuse to say that it simply isn't possible and that we just have to accept a situation where millions and millions of people will retire with an inadequate income.

That's not the government's objective of the pension system, it's not what the industry would like to see and it's also not what the public would like to see. People don't want to retire with inadequate incomes.

There is a financial literacy issue too, and in terms of people's expectations around what they're actually going to get at retirement. Dashboards and education pieces should help with that, but it will not solve the fundamental issue of low contribution rates.

One other small tweak to the system that could have a positive impact for those on low incomes is potentially removing the three-month deferral period, called postponement, when you're automatically enrolled.

I understand that causes issues in regard to small pots, but especially in a world post-forthcoming small pot solutions being rolled out, that could essentially mean that people could benefit from additional months of enrolment where they previously weren't entitled to.

If you're a transient worker or you work in the hospitality sector and shift jobs relatively regularly, that can mean that for potentially years of your employment you're not automatically enrolled. That could be done away with. Of course this would need to happen in partnership with employers.

Also, something that could be done within this parliament, right now, is the Secretary of State could take the decision to enact the Gullis Bill policies that were put forward in 2023, which expand AE to 18-year-olds and also reduce the lower earnings limit.

**Swynnerton:** There's probably relatively little that those in the master trust space can do currently to improve adequacy. It does go to the things we've already talked about – using technology, trying to improve engagement, trying to improve financial literacy through, for example, dashboards or AI-driven tools.

I think the recent Budget was disappointing given the impact of increased NI contributions on employer finances and what effect that will have on contributions, and at a time when employers seem to be acknowledging that retirement outcomes are not optimal for their workforces, combined with the silence on lowering the AE threshold and increasing employee contributions.

In relation to what Jordi *[Skilbeck]* was saying about removing that three-month period, that could be quite interesting but would result in a lot of complications for employers that would need to be worked through. That postponement period is used a lot particularly by employers setting up AE schemes for the first time, possibly following a transaction, or by a gig-economy employer that's having to enrol its workers. So, you'd need to think that through as well.

**Parekh:** In terms of adequacy in general, things are moving in the right direction, which is great, but inadequacy's going to be a theme that will continue for a long time.

What are the alternatives? CDC, implemented in the correct way, could help. There are certain large employers that may have looked at the three levers which have been mentioned. It's not them that we worry about; it's some of the smaller employers. It's where there's people at risk, it's where people have been out of work, it's where even the state pension is not going to be enough. So, to what degree does something like a CDC arrangement help to plug that gap or solve that?

From my perspective, it's another way of looking at offering a pension at retirement and, if done right, with the right level of risk sharing, there's value to it. There's a logic behind why it could work. Royal Mail have done it, for example.

I think, personally, where it would work more effectively is in a master trust environment rather than in the single trust because you need big scale.

**Fouracre:** The obvious challenge with pensions adequacy is that we're in a cost-of-living crisis, we've got food inflation, we've got house price inflation. It's a difficult dance and it's more difficult probably than ever at this point in time.

**Bellingham:** Also, adequacy is not something that the pension community can solve single handedly. There are so many different components – we're one part of a broad and complex challenge.