UK investment
Why do UK pension funds continue to shift away from domestic investments? How can the government address this trend?

Value for money
Following the FCA VFM consultation for contract-based DC, how else can member outcomes be improved?

Cryptocurrency
The arguments for and against cryptocurrency investment and the opportunities that may develop

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October 2024

PENSIONS Age

The leading pensions magazine

Interview: *The PPI discusses the industry progress made over the past decade, and the challenges still to come*

AI: *Is artificial intelligence a help or hindrance when trying to improve diversity in the pensions sector?*

Can the UK LGPS emulate Canada's 'Maple Eight'?

Case study: The Charities Aid Foundation's recent full scheme buy-in

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Editorial Comment

2nd Floor, 5 Maidstone Buildings Mews, London. SE1 1GN

I fear the UK pensions sector is having a bit of a mid-life crisis.

As someone who has recently turned 40, I have every sympathy.

For many, this time of life is a crossroads, as you take stock of what you have achieved so far and where you want to head.

For UK pensions, it is coming to terms that it is no longer that hot, gold-plated DB pension it used to be (unless you have a very good employer/trade union) and is having to navigate life as a DC vehicle; one that can still be an attractive offering, even if it requires a little more enticement (member comms) and a bit more effort (increased contribution levels) to achieve similiar results.

But what does it want its future to look like? For inspiration, it first turned its head towards Australia's superannuation system *[see our July/August Pensions Age cover story for more information]* as a potential model to emulate.

And more recently, the government has craned its neck to view the Canadian pension system.

As this 'looking ahead' themed issue of *Pensions Age* explores in our cover story *[see p39]*, the UK government is interested in the structure of Canada's eight large public sector pension schemes, and how this could be replicated for the Local Government Pension Scheme (LGPS).

As well as trying to shape their future path, those experiencing a mid-life existential crisis can be prone to fits of nostalgia. True to form, this government, and the last, has been pushing UK pensions to go back to its 'glory days' when it invested heavily in the UK *[see our feature on p54]*.

Recently, Pensions Minister, Emma Reynolds, said there is "no really good reason" why UK pension funds should not be investing in the UK economy, when there are lots of pension funds from other countries that are doing so.

"We can't be that unattractive in terms of our investment projects as we have lots of other pension schemes investing in all sorts of things in the UK," she stated *[read more on p10]*.

The use of the word 'unattractive' sounds a bit like mid-life insecurity to me. Little wonder then that when considering its second-act reincarnation, UK pensions has clearly decided that bigger is better.

The latest example of this appears in the Department for Work and Pensions' (DWP) current pension investment review, which, among other things, is exploring scale and consolidation for DC schemes and the LGPS.

This attitude is unsurprising. After all, being big and strong in middle age minimises the risk of being seen as 'past it'. It 'proves' that you still have a vital role to play in society and can adapt to changing times.

As the pensions system's greatest strength is in providing a decent retirement income for life, looking ahead, it must work on growing saving levels to achieve optimal pension pots.

But bulking up is a gradual process; one that requires an action plan.

"Pensions run the risk of becoming the financial equivalent of a middle-aged bore at a party"

Therefore, in the run up to the Budget at the end of this month – the first from this Labour government – I urge it to outline a path to increase auto-enrolment (AE) contributions. We all know that 12 per cent of contributions – at least – is needed to give people a fighting chance of having a pension pot that is fit for purpose.

Everything is ready if the government did decide for this to be its next area of focus. The AE Extension Bill passed in 2023 with cross-party support, which can pave the way for the 2017 AE reform proposals to be implemented. So, hopefully, this can be the DWP's next project (especially as those in middle age do so love to take up hobbies!).

Otherwise, pensions run the risk of becoming the financial equivalent of a middle-aged bore at a party, telling everyone how great they were in their day, while people's eyes are diverted to the younger, more 'attractive' guests/savings products.

Laura Blows

Member communication *matters*

To help members get the most out of their pension, they need to understand how it works and what it can do for them. Yet, a surprising 29% of DC members don't even know their pension is invested!*

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*WEALTH at Work research, 2024

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Theme: Looking ahead

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Can the UK LGPS emulate Canada's 'Maple Eight'? Alex Janiaud finds out

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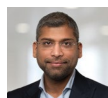

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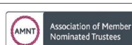

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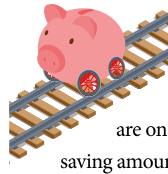

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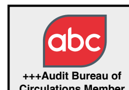
A common query from pension savers is that they do not know whether they are on track to achieve their desired retirement saving amount throughout the accumulation stage (or even what that final amount should ideally be). Therefore, what guidance can the industry provide to help savers monitor and understand if they have the 'correct' amount of savings for them, for their age, throughout their working lives?



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Dateline – September 2024

Rounding up the major pensions-related news from the past two months

2 September The **Dashboard Operators Coalition** announced that three more providers joined the group, bringing the total number of members to 10.

5 September The **Department for Work and Pensions** (DWP) launched a call for evidence to help inform the first phase of its pension investment review, which will aim to boost investment, increase pension pots and tackle waste in the pensions system *[read more on page 10].*

5 September The **Institutional Investors Group on Climate Change** published guidance to help investors looking to address scope 3 emissions from investments in their portfolios.

6 September The Pensions and Lifetime Savings Association (PLSA) and **Association of British Insurers** (ABI) launched year three of the Pension Attention campaign, with a new parody beauty advert fronted by reality TV star, Gemma Collins. She was joined by money expert, Iona Bain, as part of the cross-industry campaign to raise pensions awareness, which was based around a parody beauty advert.

6 September The UK's pension risk transfer (PRT) market is on track for one of its largest years ever, **Legal & General** said, after its analysis found that full-year volumes across the UK market are likely to exceed £40bn in 2024.

9 September The **Financial Conduct Authority** (FCA) published its decision to ban two financial advisers and two partners from St Martin's Partners LLP (SMP) from working in financial services, and fine them a collective £590,544.

10 September The **government** confirmed that the state pension is set to rise by £460 a year from next April, after the latest labour market data revealed that average wages, including bonuses, rose by 4 per cent over the past year.

11 September Retirement security in the UK improved over the past year and reached a record-high position of 14th place on the **Natixis Investment Managers Global Retirement Index.**

11 September The Pensions Regulator (TPR) argued that greater transparency around performance and costs is needed for there to be 'meaningful' positive changes in investment strategies, as it announced plans to step up its focus on investment governance.

11 September The **Pensions Dashboards Programme** (PDP) published the updated versions of the dashboards technical standards and the code of connection, to be used by pension schemes and providers when preparing for connection *[read more on page 14].*

For more information on these stories, and daily breaking news from the pensions industry, visit **pensionsage.com**

12 September The **Pension Protection Fund** (PPF) proposed a £100m levy estimate for 2025/26, equalling its lowest ever levy, prompting renewed calls for legislation to be reformed to allow the PPF to propose even lower levies *[read more on page 16].*

12 September Labour MP for Oldham East and Saddleworth, Debbie Abrahams, was elected as the chair of the **Work and Pensions Committee** *[read more about the latest industry appointments on pages 20-21].*

13 September Research from the **FCA** revealed that driving initial engagement with pension schemes can be particularly challenging when relying solely on traditional channels like email.

13 September TPR announced plans to increase its engagement with administrators to drive better outcomes for savers, with plans to engage with a further 10 to 15 administrators as part of this.

17 September The **government** confirmed that further regulations around the abolition of the lifetime allowance (LTA) will be introduced "as soon as parliamentary time allows".

18 September The **PDP** confirmed that Gov.UK One Login will be the identity service provider for anyone using the dashboards service *[read more on page 14].*

19 September The **Pensions Age Autumn Conference** was held in London, covering key issues such as pensions dashboards user testing, industry consolidation and more *[read more on pages 42-45].*

19 September The **PLSA,** in partnership with LCP and Eversheds Sutherland, published guidance to help DC occupational pension scheme trustees and employers to provide increased support and options for savers over how they access their pensions.

22 September Trustees were urged to get up to speed as **TPR's** new DB Funding Code came into force, with triennial valuations with effective dates from now required to be carried out under the new regime *[read more on page 12].*

24 September Research from **TPR** revealed that nearly half (47 per cent) of DB schemes reported a surplus position in tranche 17, up from 32 per cent in tranche 14.

25 September Industry experts stressed the need to put member security at the forefront of any changes to the pension market, cautioning the **government** against legislating for particular investment allocations. Despite the focus on scale, industry organisations have also warned that consolidation is not a 'silver bullet' for stronger returns *[read more on page 10].*

News focus

Industry weighs in as pension investment review gets underway

The government held a call for evidence to help inform the first phase of its pension investment review, with industry experts cautioning against relying on scale alone

The Department for Work and Pensions (DWP) recently held a call for evidence to help inform the first phase of its pension investment review, which will aim to boost investment, increase pension pots and tackle waste in the pensions system.

The government previously announced plans for the pensions review in July, later confirming that the review would focus on DC workplace schemes and the Local Government Pension Scheme (LGPS).

The call for evidence, which closed on 25 September, aimed to inform this work, outlining a number of specific queries in relation to proposals on scale and consolidation, cost versus value and investing in the UK.

In particular, the call for evidence was asking for industry views on the potential advantages, and risks, of a more consolidated future DC market, as well as what the role of master trusts and group personal pensions (GPPs) should be in the future pensions landscape.

In addition to this, it asked whether there is a case for government interventions, aimed at employers or other participants, to encourage schemes to increase their investment budgets in order to seek higher investment returns from a wider range of asset classes.

The potential for incentives was also raised, as the call for evidence asked whether there is a case for establishing additional incentives or requirements aimed at raising the portfolio allocations of DC and LGPS funds to UK assets or particular UK asset classes.

However, industry experts stressed the need to put member security at the forefront of any changes to the pension market, cautioning the government against legislating for particular investment allocations.

In its response to the consultation, the Society of Pension Professionals agreed that scale can deliver improved investment, although it warned that there are risks, which must be guarded against.

This was echoed by Aegon, which said that while both GPPs and master trusts have a major role to play in delivering scale and value for money, 'requiring' governing bodies to invest more in UK productive assets poses major risks.

"It would be highly risky to legislate for particular investment allocations," Aegon pensions director, Steven Cameron, said.

"Trustees and Independent Governance Committees (IGCs) will be very much against being forced to invest their schemes' assets in a particular way if they believe this is not in the member's best interests. The government could set an overriding requirement that a minimum percentage of assets had to be invested in UK productive assets. But this has the potential to backfire on the government, if it is viewed as people's pensions propping up the UK economy, or in future if such asset classes underperform.

"In addition, the value for money (VFM) framework currently being consulted on, with its strong focus on comparisons with peers, could ironically create a herd mentality and discourage governing bodies to take 'outlier' positions

with such investments."

The Investing and Saving Alliance head of retirement, Renny Biggins, also stressed the need to retain the flexibility to make investment decisions that serve their members best, and not be forced to invest in underperforming UK assets.

"A one-size-fits-all approach would undermine the core objective of providing VFM," he said. "While global equities have outperformed UK stocks in recent years, the solution lies in incentivising investment in UK productive finance through measures like reinstating the dividend tax credit or scrapping stamp duty – not through compulsion.

"In the absence of strong UK stock performance, there's an urgent need for targeted incentives to help stimulate economic growth by increasing both the number of UK investment opportunities and the capital directed towards them."

And despite the focus on consolidation, Biggins argued that although larger schemes may offer governance advantages, smaller schemes, such as single employer trusts, can bring 'critical' benefits.

"Their closer ties with employers and employees can foster more personalised services and greater engagement, often exceeding what master trusts and GPPs can offer," he continued.

"At the heart of every pension scheme is the duty to safeguard members' financial futures. If we want to see more investment directed into UK opportunities, we need smart, targeted policies that balance risk and reward, while ensuring members always receive the outcomes they deserve."

PensionBee also emphasised that while consolidation in the DC market may offer advantages, it does not guarantee higher returns for savers.

"While consolidation offers potential benefits like reduced costs and regulatory simplicity, it is not a silver bullet for stronger returns, but it can facilitate the expertise needed to drive an expansion into more complex asset classes," PensionBee director of public affairs, Becky O'Connor, explained.

Instead, PensionBee said the focus should be on creating conditions that enable diversified investment strategies, rather than relying solely on size.

It also argued that greater regulatory simplfication is needed, suggesting that, if all schemes should operate under a single regulator, this could help steer schemes towards new, diversified investment strategies with exposure to UK productive assets, provided there are clear incentives or requirements in place.

The government was also encouraged to avoid introducing 'unachievable' short-term deadlines for the completion of asset transfers for the LGPS, ahead of its pensions investment review.

In its response, the Pensions and Lifetime Savings Association (PLSA) said the introduction of asset pooling in the LGPS has been delivered successfully in line with the original policy.

However, the PLSA clarified that whilst completing the transfer of remaining assets to pools is important, this needs to be done in a pragmatic way that is not destructive of value or incurs unnecessary investment losses or costs.

Given this, it warned the government against the introduction of unachievable short-term deadlines for the completion of asset transfers, arguing that an orderly transition of assets is needed instead.

The PLSA also said that, whilst it supports the continued development of the LGPS pool model, more critical to success than a particular design of the pooling model is the clarity of roles and responsibilities of funds and pools.

Written by Sophie Smith and Francesca Fabrizi

'No good reason not to'

Pensions Minister, Emma Reynolds, has said there is "no really good reason" why UK pension funds should not be investing in the UK economy when there are pension funds from other countries doing so.

Speaking at the launch of Phoenix Insights' latest report, *A roadmap to adequate retirement incomes for all,* Reynolds stated that the two main issues the government is looking at are retirement adequacy and "making sure that we drive the investment from our pension funds into UK growth".

"We know that there are lots of other pension funds that are invested in our economy," she added, "so there is no really good reason not to be doing so".

The minister also called on the industry for its ideas on how to help government meet these objectives: "Why is it that there is such a low percentage of UK pension investment going into both listed and unlisted equities in the UK, whereas other countries manage to get their pension funds to invest in their economy?

"We can't be that unattractive in terms of our investment projects as we have lots of other pension schemes investing in all sorts of things in the UK. We want your ideas and want to know how we can change things. This is a substantial opportunity for reform, we are after some big ideas, but we have got to change the way things work and there is a real opportunity here to do that."

‘Milestone moment’ as new DB Funding Code comes into force

The Pensions Regulator shared the final DB statement of strategy requirements ahead of the introduction of the new DB funding regime in late September

The Pensions Regulator’s (TPR) new DB Funding Code came into use in September, in what was highlighted as a ‘milestone moment’ for the pensions industry.

Replacing the existing DB Funding Code, introduced in 2014, DB scheme triennial valuations with effective dates from 22 September are now required to be carried out under the new DB Funding Code, which is expected to come into force in late November.

Ahead of the introduction of the new regime, TPR also published an interim response to its consultation on the DB statement of strategy, confirming that it has reduced the data ask in certain situations following industry feedback.

TPR said that it had shared an interim response to its consultation on the statement of strategy in order to give trustees and employers the information they need as early as possible, with a fuller response expected in the winter.

The interim response confirmed that TPR had made a number of changes following industry feedback, as many respondents raised the issue of proportionality of the information requested, with some suggesting information beyond the legal requirements was requested.

According to TPR, respondents also considered there to be a lack of flexibility in capturing schemes’ long-term objectives and other information addressing the schemes’ particular circumstances.

As a result of this, TPR revised the templates to remove much of the narrative explaining the legal requirements, as well as adjusting the templates to accommodate open schemes and for schemes such as guaranteed minimum pension (GMP) underpin schemes and cash balance schemes.

TPR also confirmed its definition of small schemes, suggesting that the updated definition should mean that around 50 per cent of schemes will be eligible for the small scheme easements regarding the information to be provided in the statement of strategy.

In addition to this, the regulator removed the requirement to submit detailed covenant information for certain schemes, and removed the requirement to submit cashflow information for all fast-track schemes, as well as for small schemes, whether they follow a bespoke or fast-track approach.

The legislation requires trustees and scheme managers to submit their statement of strategy to TPR ‘as soon as reasonably practicable’ after preparing their funding and investment strategy.

However, TPR confirmed that it is not expecting to launch the new digital service enabling DB trustees to submit a scheme valuation until spring 2025.

As a result, it said that whilst it does not expect trustees to delay the completion of their valuation, it does not expect valuation information, including the statement of strategy, to be submitted until its new digital platform for receiving valuations and related materials is up and running in the spring.

Alongside its interim response, the regulator shared four statement of strategy illustrative templates, covering: Fast track before the relevant date, fast track on or after the relevant date, bespoke before the relevant date, and bespoke on or after the relevant date.

TPR executive director of market oversight, Neil Bull, highlighted this as a “milestone moment for DB trustees”, as after years of development, schemes with relevant valuation dates should now be referring to the new funding code, with the rest to follow on in the next two years.

He continued: “We have engaged extensively with industry in the development on our new DB Funding Code.

“Our expectations are now clear, and I hope trustees find the funding code guidance helpful as they navigate their way through either their first fast track or bespoke valuation.

“We’ve listened to feedback and reduced the data ask of schemes in certain situations such as for well-funded and small schemes.

“Now, ahead of the launch of a new digital submission platform in the spring, we’re giving schemes information to help them prepare in advance.”

Written by Sophie Smith

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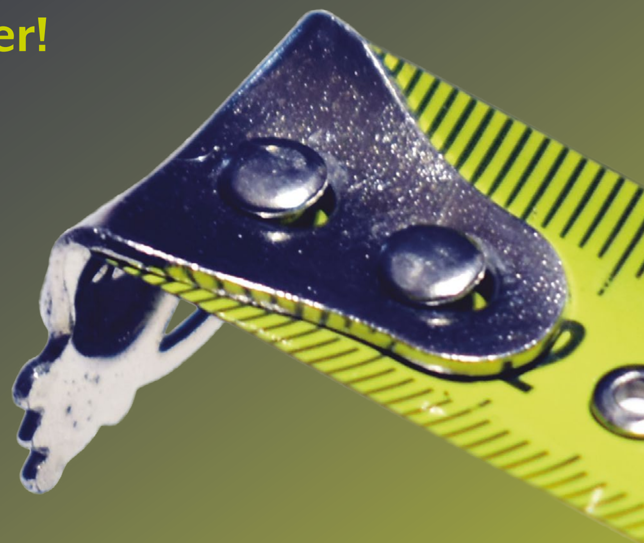

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Investment involves risk.

Pensions dashboards preparations ramp up

Work on pensions dashboards has been continuing at pace in recent months, with key updates shared by both the Pensions Dashboards Programme and The Pensions Regulator

Work on pensions dashboards has continued to ramp up, with The Pensions Regulator (TPR) sharing its new pensions dashboards compliance and enforcement policy, urging pension trustees to plan ahead or face regulatory action.

In a blog post shared alongside the new policy, TPR interim executive director of strategy, policy and analysis, Nina Blackett, outlined the regulator's expectation for trustees and scheme managers to comply with their pensions dashboards duties, and the action it will take if they don't.

"Our goal is to help schemes take the right steps now, so they are ready with the right data, ready for the dashboards switch on, ready to help make a significant impact on the saving outcomes of millions of people," she stressed. "If schemes prepare properly then we are less likely to use enforcement action to ensure they do the right thing. Act now, so we don't have to."

However, Blackett argued that while many schemes are getting ready to connect in the right way, there are still some schemes not measuring their data or trying hard to improve it.

Given this, she encouraged schemes to ensure their data is "robust and accurate", emphasising the need for trustees to review and improve the quality of their member data, as well as reviewing and adjusting the controls in place.

As part of this work, she also confirmed that TPR will be engaging with "hundreds" of schemes this autumn, asking them to account for how they are measuring and improving their data, with the potential for regulatory action where trustees or scheme managers are failing to meet expectations.

Blackett said: "Timely action is essential. Trustees and scheme managers must grip their obligations diligently and work closely with their providers to avoid the pitfalls of last-minute risks. We expect third parties to support schemes with these tasks."

The Pensions Dashboards Programme (PDP) also published updated versions of the dashboards technical standards and the code of connection, to be used by pension schemes and providers when preparing for connection.

PDP encouraged pension schemes and providers to align with the latest version of the standards while preparing for connection to pensions dashboards, confirming that it will be working with industry organisations ahead of the first connection date in April 2025.

The technical standards outline how data and dashboard providers will interface with the central digital architecture and each other.

The updated draft code of connection, meanwhile, sets out the mandatory requirements for pension providers and schemes, and dashboard providers, to connect and remain connected.

The code of connection document also includes operational, security and service standards.

Money and Pensions Service CEO, Oliver Morley, highlighted the update as the latest sign of PDP's progress towards industry connection.

"Our 20-plus volunteer participants, as well as feedback from other pension providers and schemes, have helped us ensure that we get these complex documents right," he said. "The commitment to deliver dashboards that will help transform retirement planning is gaining momentum. We'll keep industry informed as the remaining standards are updated ahead of connection in line with the timetable in guidance from the DWP."

PDP also confirmed that Gov.UK One Login will be the identity service provider for anyone using the dashboards service.

The platform will provide a secure and easy way for people to be able to prove their identity for pensions dashboards when they become publicly available.

Provided by the UK government, Gov.UK One Login ensures users only have to prove their identity once and can use this proof to access other services they use, saving time and effort.

This means users who have already registered to use government services through Gov.UK One Login will not have to prove their identity again when registering to use the dashboards service.

Written by Sophie Smith

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PPF proposes £100m levy estimate

Pension Protection Fund

The latest levy estimate prompted renewed calls for legislation to be reformed to allow the PPF to propose even lower levies, with experts warning that the current situation is "ludicrous"

The Pension Protection Fund (PPF) has proposed a £100m levy estimate for 2025/26, equalling its lowest ever levy, with industry experts calling for legislation to be reformed to allow the PPF to propose even lower levies.

The PPF's consultation is seeking views on the levy estimate and proposed approach to levy collection.

Maintaining the levy at the £100m level – equivalent to less than 0.007 per cent of total DB scheme assets – is consistent with the approach the PPF consulted on last year.

The pensions lifeboat said it was engaging with government on legislative change that would allow the levy to be reduced further, possibly to zero.

LCP partner, Steve Webb, called for this legislative reform to be enacted, describing the current situation with the PPF levy as "ludicrous".

"The PPF levy has been cut substantially in recent years as the organisation's financial position has improved. But now we have reached the ludicrous situation, driven by inflexible legislation, where PPF would like to cut the levy further but feels it would be irresponsible to do so," Webb stated.

"A simple change to the law would allow the PPF to scrap its £100m levy for next year confident that if things deteriorated sharply, it could always be reintroduced.

"With a Pensions Bill set to go through parliament in the current session, it would be straightforward for the government to amend the law so that the levy could be further cut next year without undermining the financial stability of the PPF."

Society of Pension Professionals DB Committee chair, Chris Ramsey, agreed, saying there was a "strong argument" for the PPF to further reduce the levy.

"Unfortunately, the PPF is reluctant to do this as existing legislation prevents any annual increase beyond 25 per cent, which might be needed if the PPF's finances were to deteriorate," he said.

"Given the government has already confirmed its intention to pass a Pension Bill next spring, it would make sense for this restriction on the levy to be lifted in that legislation.

"This would enable a more sensible levy policy going forward, that doesn't result in such an unnecessary collection of pension scheme money."

The PPF said that stakeholder feedback last year underscored the importance of ensuring the risk-based levy continued to be paid by a broad range of levy payers, and ensuring that the levy continued to be distributed in the most risk-reflective way possible.

Its proposed changes will alter the distribution of the levy, but the PPF said that impacts will be limited.

The pensions lifeboat expected that schemes will pay broadly the same scheme-based levy as in 2024/25 and, of the schemes that pay the risk-based levy, 63 per cent would see a decrease, while 5 per cent would see an increase of more than 0.01 per cent of liabilities.

The PPF's consultation also included proposals that aim to make it simpler for schemes to get levy credit for deficit reduction contributions.

"We're proposing to charge a levy of £100m, as we did for 2024/25 – this is our lowest ever levy," commented PPF executive director and general counsel, David Taylor.

"Meanwhile, we will continue to engage with the government on legislative changes to enable us to reduce the levy further and even to zero. We will keep progress on this under review and not charge for longer than we need.

"The proposed changes to our methodology will help to maintain the pool of risk-based levy payers, thereby spreading the levy more reasonably. More than half of those who pay a risk-based levy will see it decrease and there will be a marginal impact on those schemes who will see an increase.

"We've also acted on valuable stakeholder feedback to make it simpler for schemes to certify deficit reduction payments. I encourage stakeholders to respond, and we look forward to hearing views on our proposals."

Written by Jack Gray

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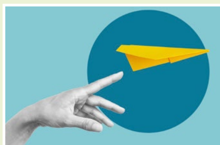
NEWS IN BRIEF

Pensions Age **summarises some of the latest news in the pensions industry, including the latest product launches, climate commitments and best practice guidance...**

A burst of innovation



The past month brought more than a few product and platform launches in the pensions industry:

• Standard Life introduced a new guaranteed fixed-income product for those approaching or in retirement.

• Legal & General announced the launch of a new Islamic investment proposition, designed to address a recognised need for Muslim members to have a wider choice of Shariah-compliant investment options.

• A new membership body, The Platforms Association, was launched to represent and provide a voice for the investment platforms sector.

• The Money and Pensions Service launched a new digital appointment offering, Pension Wise Digital, to expand the Pension Wise service to more people and help meet customer needs in modern and digital ways. The new service, which allows people to go through the process of a Pension Wise appointment in their own time, will sit alongside the existing telephone and face-to-face appointments.

• Aptia launched an all-colleague share plan (ACSP), meaning that all staff across its global workforce, no matter grade, location, or length of service, will own a share in the group.

• Legal & General Investment Management launched two new strategies offering professional UK DB pension schemes a range of options for investing in US asset-backed securities.

• Wealth at Work launched a new financial wellbeing platform, money&me, to help staff build their knowledge.

Private markets focus on the rise

Pension schemes and providers have been upping their focus on private markets and investments in UK growth:

• People's Partnership, provider of The People's Pension, said that it is moving towards investing in private markets, including UK-based assets, after growing its scale and in-house capabilities.

• Nest shared information on its UK-based investments for the first time, after its research found that 70 per cent of members wanted more information about how it invests in the UK. The provider also agreed a partnership with Legal & General (L&G) and PGGM, collectively investing up to £1bn into build-to-rent schemes across the UK.

• TPT Investment Management launched a £650m Private Credit Fund for UK pension schemes, seeded with capital from TPT's DB Master Trust.

• Schroders Capital received permission to launch its third Long-Term Asset Fund, the first dedicated to UK venture capital.

• Research from the Society of Pension Professionals found that 74 per cent of pension professionals think tax relief would be the best way to achieve the government's aim of greater UK investment.

What gets measured, gets managed

Industry organisations shared research highlighting the key challenges and flaws in the current pension system:

• Research from the Institute for Fiscal Studies (IFS) found that five to seven million people are on track for inadequate retirement incomes, prompting renewed calls for the government to make a number of auto-enrolment reforms. Further research from the IFS also raised concerns around the pension provision for the self-employed, warning that the current environment is "not fit for purpose".

• LCP's annual survey suggested that professional trustees are quickly becoming the new normal, after revealing that just over half (51 per cent) of pension schemes have a professional trustee, of which a quarter have appointed a sole trustee.

• Analysis from TPT Retirement Solutions showed that DB scheme running costs increased by an average of 37 per cent over the past year, while nearly a third (32 per cent) of DB schemes saw their costs rise by over 50 per cent.

• Research from Trafalgar House found the industry still has a "long way to go" to engage members digitally, as 37.8 per cent of members have a preference for hard copy papers over other communications.

Renewable infrastructure: A diversified approach

AlphaReal explores the benefits of a diversified approach to renewable infrastructure

Renewable infrastructure assets continue to be deployed at pace across the UK as the country races to achieve net zero by 2050[1] and decarbonise the electricity system by 2035[2]. Consequently, renewable electricity generation has increased fivefold since 2010[3].

A survey[4] of UK pension funds and insurers commissioned by AlphaReal, the specialist manager of secure income real assets, found a strong preference for diversification across renewable energy assets.

This article discusses why a diversified approach that focuses on onshore wind, ground-mount solar and battery storage could be an optimal way to invest in UK renewables in today's economic climate.

Why are solar and wind assets an attractive investment opportunity?

These technologies are large and growing markets that are well understood and have manageable risk profiles. Both have been deployed at scale globally[5] and in the UK, with a mature ecosystem of related service providers. This improves investors' ability to forecast the operating lives of projects, project operational costs and predict key technical parameters such as availability of the site to generate electricity, and degradation of the asset (i.e. its reduction in performance over time.) The maturity of the UK market means suppliers are more willing to offer fixed price contracts and guarantees for key elements of projects such as construction costs, further reducing risk.

The improved cost competitiveness relative to fossil fuels[6] is supporting installation of more sites in the UK. Wind and solar farms can be constructed within reasonable timelines, sometimes in under twelve months, compared with other low carbon technologies that can take years to build[7].

Onshore wind and solar deployment in a combined scenario are expected to grow from approximately 31GW in 2023[8] to 72GW by 2035. This provides ample opportunity and scale for capital deployment.

A diversified approach benefits investors by broadening the pool of suitable projects and enabling investors to identify the best opportunities from multiple technologies with attractive growth and risk profiles.

Solar and wind technologies exhibit a different mix of technical, supply chain and weather dependency risks, thereby diversifying total risk within the portfolio. Research and experience in the sector suggest that solar and wind in the UK have complementary energy generation profiles. Typically, solar generates higher output in summer when daylight hours are elevated, and wind more in winter when there are above average wind speeds. A combination creates a smoother annual revenue profile than either would achieve independently.

What is the role of battery storage in a diversified portfolio?

Battery Energy Storage Systems (BESS) are increasingly being used to help balance supply and demand. During periods of high renewable generation when power prices are often lower, the BESS system can charge up. It can then export at times when power prices are elevated. BESS benefiting from lower priced periods also makes it a good hedge against wind and solar at a portfolio level.

BESS can be co-located alongside wind and solar generation, creating a project with better economies of scale.

What are the benefits for investors?

- A wider selection of opportunities increases the scale and speed of capital deployment.
- Diversification enables asset managers to select the best opportunities within and between technologies achieving better risk adjusted returns.
- Combining onshore wind and ground-mount solar helps to achieve a smoother annual electricity generation and return profile for the portfolio.
- Adding BESS further enhances diversification and returns at the total portfolio level.

This approach is open to investors of all shapes and sizes and can be accessed via a bespoke route or via pooled funds.

In association with

[1] https://www.gov.uk/government/news/uk-becomes-first-major-economy-to-pass-net-zero-emissions-law
[2] https://www.gov.uk/government/news/plans-unveiled-to-decarbonise-uk-power-system-by-2035
[3] https://assets.publishing.service.gov.uk/media/64f1fcba9ee0f2000db7bdd8/DUKES_2023_Chapters_1-7.pdf
[4] AlphaReal commissioned the survey of 100 UK pension fund and insurance senior investment professionals who collectively manage £359.82bn in AUM.
[5] https://www.iea.org/reports/renewables-2023/executive-summary
[6] https://www.irena.org/News/pressreleases/2023/Aug/Renewables-Competitiveness-Accelerates-Despite-Cost-Inflation
[7] https://ember-climate.org/insights/in-brief/why-wind-and-solar-are-key-solutions-to-combat-climate-change/
[8] https://assets.publishing.service.gov.uk/media/66043060f9ab410011eea3e2/ET_6.1_MAR_24.xlsx

Appointments, moves and mandates

Anthea Whitton

Capital Cranfield has announced two professional trustee appointments, with the hires of Anthea Whitton and Kate Grant.
Whitton joins from Eversheds, where she was a partner leading their pensions team in Leeds. She has 25 years' experience advising pension schemes and their sponsors with earlier career roles at Squire Patton Boggs and Pinsent Masons.
Grant, who is based in the South East, brings strong all-round leadership and operational experience from her background in pensions management, benefits and reward. She joins from Vodafone, where she was head of pensions & benefits and previously worked at Rexam, Britvic Soft Drinks and AECOM.

Law Debenture has appointed Helen Tabiner as a pensions trustee. It has also appointed Lauren Haworth as a pensions executive within Pegasus, its pensions executive services team.
Tabiner has spent 10 years at Eversheds Sutherland, most recently as a principal associate, following seven years at DLA Piper. She has worked with corporate and trustee clients of all sizes, ranging from multi-billion pound funds to sub-£20m funds; advising on all aspects of law and strategy throughout the full lifecycle of schemes across both DB and DC.
Haworth joins the team with vast knowledge of pensions from her previous experience at Rothschild & Co and Mercer. She has been responsible for the day-to-day running of DB and DC pension funds, including updating trustee policies and overseeing MND nomination and selection processes.

The trustee for the National Grid UK Pension Scheme (NGUKPS) has outsourced its provision of executive, governance and risk management services to LCP.
The move means that the services previously provided by the NGUKPS Trustee Executive Limited (TEL) will now be delivered by a team from LCP's pension management consulting department, led by LCP partners, Jonathan Camfield and Rachika Cooray.
TEL employees will also transfer to LCP under Tupe, and form part of the ongoing team, ensuring a seamless continuation of service.
NGUKPS chair, Chris Martin, commented: "We are delighted to have chosen *[LCP]* as our partner to support us in this next phase of the scheme's journey. We're very grateful to our in-house team for the excellent support they have provided."

Bill Jangra

Apex Group has announced the appointment of Bill Jangra as a pensions trustee.
Jangra brings over 25 years of extensive experience in professional trusteeship, pension management, administration, and governance, both in-house and outsourced, as well as a deep understanding of broader employee benefits. He is accredited as a trustee in both the UK and Ireland.
Before joining Apex Group, Jangra held prominent roles as a professional trustee at Law Debenture and served as head of pensions for Nuffield Health, overseeing and managing pension scheme fiduciary obligations and stewardship.

Moneyhub has appointed RSM UK as its statutory auditor of compliance with the Pensions Dashboards Programme (PDP) standards, ahead of launching its commercial pensions dashboard.
This appointment was made following a review of the audit market and a procurement exercise in late 2023, as Moneyhub intends to be among the first Qualifying Pensions Dashboard Service (QPDS) operators.
The firms will work together for the rest of the year, with Moneyhub preparing all the necessary documentary evidence to support the pre-connection audit of the Moneyhub QPDS.
Therefore, this will enable RSM to conduct the pre-connection audit as "early and quickly as possible", once all PDP standards are finalised.
The PDP standards are currently being finalised, with the first iteration of design standards expected to be published in Q4 2024, around the same time as the Financial Conduct Authority publishes its final Conduct of Business Sourcebook Rules for QPDS operators.
Commenting on the appointment, Moneyhub chief commercial officer, Dan Scholey, said: "Due to the technical breadth of the PDP standards, Moneyhub wanted to appoint an expert auditor with experience across the full range of relevant fields, including pensions data, consumer-facing app operations, application programming interfaces, and so on. We found that in RSM, along with consistent professionalism, and enthusiasm for collaboration."

Debbie Abrahams

Labour MP for Oldham East and Saddleworth, Debbie Abrahams, has been elected as the chair of the Work and Pensions Committee (WPC).

Abrahams has been MP for Oldham East and Saddleworth since 2011 and served as Shadow Secretary of State for Work and Pensions from 27 June 2016 to 11 March 2018 in former Labour leader, Jeremy Corbyn's, Shadow Cabinet. She was also a Shadow Minister within the Department for Work and Pensions (DWP) from 18 September 2015 to 27 June 2016. Her election as WPC chair was announced in parliament by the Speaker of the House. Commenting on her appointment, Abrahams said: "I am profoundly grateful for the support from colleagues across the House.

"The work of the DWP is critical to the lives of those it touches in a way few others are.

"When formed, we'll robustly examine the DWP's work, engaging stakeholders and will report with a cross-party consensus to make the system work fairly for people and for the nation."

Hymans Robertson head of pensions policy innovation, Calum Cooper, added: "We welcome the appointment of Debbie Abrahams to this role and look forward to working with her as part of her new remit.

"With the highly anticipated Pensions Review in progress, there will be a big focus for the WPC to watch the government's work in this area. Its focus should be to help improve pensions for all savers."

Sonia Gogna

The Pension Protection Fund (PPF) has announced the appointment of Simon Gadd and Sonia Gogna to its board as non-executive directors.

Gadd brings over 35 years of executive and non-executive financial services experience gained through a variety of leadership roles at L&G, with a particular focus on risk management.

Meanwhile, Gogna's extensive financial, actuarial, pensions and investment experience from her executive career at abrdn and Aon, amongst other organisations.

PPF chair, Kate Jones, said: "We welcome their extensive financial services, investment and risk expertise."

Josef Pilger

Smart has hired Josef Pilger as senior adviser.

The position was created in response to demand for Smart's technology platform, Keystone.

He brings over 30 years of experience in the global retirement and pensions industry, with his most recent role as EY's global pension and retirement leader.

Pilger has worked with governments and financial institutions across 30 countries, advising on pension reform and retirement system strategies. Prior to EY, Pilger held senior roles, including COO Retirement at a pension fund master trust and pension trustee director, adding to his extensive expertise in governance and pension management.

Haseltine Lake Staff Pension Scheme has appointed HS Trustees to its trustee board.

Bobby Riddaway will join the trustee board as chair and professional trustee and represent HS Trustees.

Riddaway was recently announced as managing director of HS Trustees. He brings 30 years of experience in the industry to the role and has relaunched HS Trustees to provide accredited professional trustees as either co-trustees or as a professional corporate sole trustee.

Commenting on the appointment, Haseltine Lake Staff Pension Scheme trustees said: "We're delighted to have engaged HS Trustees to provide Bobby Riddaway as the professional trustee for our pension scheme. We value Bobby's commercial and practical approach and look forward to working with him."

Shehzad Ahmad

Dalriada Trustees has appointed Shehzad Ahmad, Adrian Kennett and Charles Ward to the role of managing director.

Following the appointments, Ahmad, as MD for sole trusteeship, will lead Dalriada's proposition and client portfolio for sole trustee appointments, while Kennett will assume the role of managing director for the pensions management outsourcing business, restructuring and scheme terminations, and regulatory appointments.

Ward will lead both Dalriada Together, and Dalriada's non-executive trustee portfolio. Previous MD Chris Roberts has resigned from his MD role.

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GMP equalisation – a potential hurdle in the PRT fast lane?

Kelvin Wilson discusses how GMP equalisation can be efficiently automated into the pension risk transfer process

Improved funding levels are enabling a growing number of schemes to consider and complete bulk purchase annuities (BPA), propelling the pension risk transfer (PRT) market towards another record year in 2024, both in terms of number of transactions and combined value.

While schemes and insurers continue to ride the wave swelled by improved scheme funding levels, it presents a new challenge for Guaranteed Minimum Pension equalisation (GMPe) assessment.

Previously, schemes might have been willing to tackle GMP as part of the overall risk transfer process. However, with the allure of faster buy-in deals, many are, understandably, prioritising speed and bypassing the GMPe hurdle.

Shifting priorities in PRT transactions

However, conducting GMPe work during the buy-in stage of BPA transactions can present backlog risk that could delay schemes completing buyouts in their desired timeframe – particularly if they are also undertaking important data cleansing work. Buyout, the issuing of individual annuity policies to members and scheme wind-up are all contingent on GMPe work having completed.

Tackling a GMPe bottleneck

GMPe by its very nature involves intricate calculations, multiple stages and data interrogation and analysis to ensure entitlements are accurately reflected in the buyout price. It's typically a time-consuming and laborious exercise and, in some cases, can take well over a year to finalise. For schemes ready and eager to secure full buyout and individual policies today, a lengthy delay to complete GMPe is far from ideal.

By addressing GMPe early in the de-risking journey, pension schemes can avoid costly delays and complications later. Early preparation ensures that all data and calculations are thoroughly validated before engaging with insurers, which not only streamlines the buy-in or buyout process but also enhances the scheme's attractiveness to insurers. Additionally, taking a proactive approach to GMPe work fosters better collaboration with insurers, leading to more favourable premium negotiations and ultimately a more secure financial future for scheme members.

From an insurers point of view too, they are understandably hesitant to take on the added workload associated with GMPe due to the potential scale of the task and associated cost implications. In an ironic twist, this creates a situation where the very process designed to protect pensioners' benefits can become a roadblock to a desired securing of benefits with an insurance company.

Where schemes have not taken the lead to address GMPe, insurers will reflect the additional workload and risk in charging a higher premium. Schemes must weigh the cost of undertaking GMPe work with the benefits of a smoother transaction and potential lower than otherwise insurance premium.

With every challenge comes opportunity

There are solutions entering the market that enable schemes to factor GMPe work into the PRT process: Solutions that can dramatically reduce the time required to complete GMPe work at scale, such as Heywood Passport.

Being able to automate and efficiently tackle GMPe, without compromising accuracy, will allow schemes to experience significant reduction in project times. This translates to lowering costs, faster buyout completion and achieving their PRT endgame in desired timeframes.

Stakeholders benefit from the above: Trustees and advisers can focus on value-adding BPA negotiations whilst administrators will welcome the workload support. An efficient GMPe solution will be welcomed by insurers, as it helps instil confidence about a scheme's preparedness. Insurers can then focus on developing favourable risk reward propositions and create a more attractive market for everyone involved. Addressing GMPe remediation work is essential for achieving successful outcomes.

As the BPA market continues to be buoyed by a strong tailwind, staying ahead of challenges like GMPe is crucial. Visit Heywood.co.uk to learn more about Heywood's data and benefits calculations expertise, how it helps schemes navigate the hurdles and complexities associated with endgame journeys and tackle important GMPe projects.

Written by Heywood director of pension risk transfer (PRT), Kelvin Wilson

In association with HEYWOOD

VIEW FROM TPR: Engaging with administrators to drive better saver outcomes

I know the invaluable contributions pension scheme administrators make behind the scenes, ensuring the smooth functioning of our financial systems.

At the same time, I am aware of the current challenges they are facing, with the surge in demand straining resources, as well as legislative changes.

While regulatory frameworks aim to improve standards, curb fraud, and promote fairness within the market, the administrator sector remains unregulated. By expanding our engagement with administrators, we hope to help drive better saver outcomes. Our pilot initiative we undertook last year yielded significant insights. Focusing on several risk factors, including data digitisation and systems and trustee/scheme manager engagement, the initiative was received positively and led to actionable recommendations that have already started to be implemented.

We are expanding our engagement and are planning to invite 10 to 15 of the largest administrators to voluntarily collaborate with us, focusing on four key areas: Financial sustainability, risk and change management practices, cyber resilience, and tech and innovation.

We will use our learnings to adopt a light-touch approach with the rest of the market within the next 12 months. Through these engagements we aim to help elevate administration services, ensuring positive outcomes for savers and bolstering confidence in the pension system.

TPR interim director of supervision, David Walmsley

View from the PMI: Pension services are alive and well in the north

From the industrial revolution to the Northern Powerhouse and beyond, the north has proven its economic worth again and again. And yet northern professionals have long been eclipsed by their southern counterparts. The belief that only firms in London and the southeast offer quality financial services persists.

In fact, those of us working in the north have always provided high-quality services, but to get visibility by attending industry events, we had to travel down south. Attempts to hold national events in the north haven't always been given the support they deserved.

Lockdown may have been a pivotal moment though. With more people relocating to work remotely including in the north – adding to those of us who've always been here – we need more national events and representation in the north.

For the past two years, the PMI has run a sell-out Northern Conference in Leeds, with several northern based speakers addressing local professionals. The 2024 event, which I was honoured to chair, was attended by a capacity crowd of lawyers, actuaries, consultants, trustees, investment consultants, administrators and other pensions professionals.

The pensions industry is taking the lead in extending professional gatherings beyond the southeast, to support early careers, provide vital professional support and drive collaborative practices.

Let's channel the spirit of the Northern Powerhouse and give valuable industry initiatives the support they need right across the country.

PMI president, Robert Wakefield

View from the PLSA: Autumn calls for pension policy reform

As autumn sets in and the pension review call for evidence is in full swing, a number of reports have been released, aiming to shape the direction of reform.

The Fabian Society proposes tax relief reforms that could raise over £10 billion annually, including a flat-rate system and higher taxes on larger pensions.

The BVCA calls for regulatory changes to support long-term private capital investments and the PLSA sets out how to support pension fund investment in the UK.

Phoenix Insights advocates for the expansion of auto-enrolment and enhanced retirement planning support.

WTW highlights growing employer concern about the adequacy of DC pensions, with over half now monitoring retirement outcomes.

For the self-employed, the IFS recommends introducing pension contributions through tax self-assessments, alongside a wider call to expand AE to cover a broader age range. In seeking to measure the level of pension investment in productive assets, the PPI found mapping the assets of UK pension funds was like 'trying to nail 20 jellies to a wall'.

Amidst the flurry of reports and proposals, there is near universal consensus that AE contributions must rise. It's clear that the system must evolve to benefit all savers.

PLSA chief policy counsel, Nigel Peaple

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View from the AMNT: Surveys – asking the right question

In a brilliant sketch in *Yes Minister,* Sir Humphrey Appleby explains to Jim Hacker how to ask a survey question to get the answer you want.

This devious viewpoint is still relevant in questionnaires particularly from organisations who are simply pursuing their own agenda. When drafting the questions for the latest AMNT survey we were conscious of such possible bias so asked a group of MNTs what questions they thought were appropriate and relevant. These questions form the base of the survey. They produced some fascinating and insightful responses from our members and not always the answer we expected.

Our findings show an improvement in trustees' confidence in reaching beneficial outcomes for members, which is pleasing. Though buyout remains the primary end game there is a significant increase in funds moving to self-sufficiency. On a less positive note, one of the most significant threats to funds was felt to be the possibility of cyber-attack with its harmful effect on the fund and its members. However, MNTs are actively engaging with their administrators; not only in prevention but also in drawing up recovery plans in the case of such attacks breaking through the safeguards.

MNTs are renowned for asking the right questions at the right time.

The full results of the survey can be found on the AMNT website.

AMNT member, Stephen Fallowell

VIEW FROM THE ABI: Engagement for pensions review phase 2

The third Pension Attention campaign spearheaded by Gemma Collins has had a great start. We know, though, that engagement is a challenge that runs through everything in pensions.

It's absolutely right that adequacy is the government's pension review's priority: Financial resilience, the state pension and auto-enrolment minimum contributions. In doing so, it should take engagement into account. The future system may need more flexibility, which needs engagement: Decisions about opting out are more important if contributions are higher, and opting down is increasingly proposed as a solution.

There are policy and regulatory factors that impinge on engagement. We have called for changes to PECR – the rules that prohibit schemes from emailing auto-enrolled savers about increasing contributions, where they never had the opportunity to opt in to marketing.

There are opportunities too, for instance, pensions dashboards and targeted support integrated into customer journeys.

Pensions people are often dismissive of it, but from Midlife MOTs to GMPEasy, engagement and comms can make a huge difference to people's awareness, understanding and decision-making. Of course it's not everything, but engagement and comms have their place, and should find a place in the review.

ABI head of long-term savings policy, Rob Yuille

VIEW FROM THE PPI: Is alternative investment coming to DC at last?

Historically, DC pension fund assets have been primarily invested in publicly listed equities and government or corporate bonds. Alternative assets have played various supporting roles over the past 50 years.

The volatility of the past five years has highlighted new opportunities to deploy alternative investments in workplace DC schemes. With greater consolidation supported by government and regulatory policies and a high concentration of DC members in their scheme's default fund, it's anticipated that we're rapidly approaching economies of scale that should enable DC schemes to diversify their portfolios through greater allocation to alternative assets.

The newly announced pension review could further accelerate a shift into alternatives in DC investment. Increasing focus on value for money is also expected to encourage more alternative investment. However, there are some concerns about potential market supply issues and possible tension between the government's productive finance agenda and member needs.

As we move forward into what is expected to be a less volatile political and economic landscape, alternative investment and productive finance is high up the agenda for both government and industry. Coupled with rapidly increasing scale in the DC market, we may now start to see DC investment in alternatives exceeding the upper limits of allocation we've observed up until now.

PPI senior policy researcher, Lauren Wilkinson

Virgin Media v NTL Pension Trustees (CA) [2024]

Following this landmark judgment, it has now been confirmed that there will be no further appeal to the Supreme Court. The DWP has not yet indicated whether it will intervene. Trustees, some of whom may be under pressure from their scheme sponsors and auditors, therefore now need to consider whether a 'wait and see' approach remains appropriate or to embark upon a review of their scheme documentation

Background

The Court of Appeal upheld the High Court's decision in Virgin Media v NTL Pension Trustees that a failure to obtain a "section 37" actuarial confirmation (Confirmation) in relation to an amendment to a salary related contracted-out scheme invalidated that amendment in relation to both past and future service rights. As a result, where defined benefit schemes have made amendments between April 1997 and April 2016 affecting salary-related contracted-out rights, and there is no evidence of a Confirmation having been provided, those amendments will be void for past and future service based on this judgment.

The decision could have a significant impact on salary-related contracted-out schemes. However, not all amendments to benefits made during the relevant period would be caught by the judgment. Those within scope include changes to revaluation (the subject of the ruling) and amendments to survivors' benefits. However, other benefit changes, such as closing a scheme to accrual, may be out of scope.

It has now been confirmed that there will be no further appeal to the Supreme Court. However, there is the possibility of a further court application to resolve other issues. In addition, an unrelated case is listed for hearing in February 2025, which is expected to touch on similar issues to Virgin Media. There also remains the possibility of DWP intervention to enable trustees to retrospectively validate amendments, although it remains unclear whether they will intervene or when.

Next steps – Wait and see? Or undertake a review?

The key question that trustees must consider is whether they should review past scheme amendments or wait for further clarification from the DWP or the courts. Scheme sponsors and their auditors, who, in the wake of Lloyds and GMP equalisation, are keen to account for possible liability in the company's accounts, are likely to want to understand what steps (if any) trustees are taking to consider the impact of the judgment on a particular scheme.

Trustees and scheme sponsors should be aware of the risks associated with undertaking a full review. For example, the review may reveal issues in relation to Confirmations not being obtained; it may also reveal separate issues with scheme documentation which would be disclosable against warranties in a transaction and may increase scheme liabilities. Therefore, trustees may wish to push back against sponsor/auditor requests to conduct a review, for example, by noting that the risk of there being no Confirmation in relation to a scheme amendment may not be significantly different to any other execution risk. Your legal advisers will be able to assist you in replying.

If trustees do wish to undertake a review, however, a lighter touch review may be possible in the first instance in order to establish how many amendments are in scope, the nature of the amendments and whether there may be sufficient evidence to conclude a Confirmation was obtained. A Confirmation does not have to be appended to a deed of amendment and so could have been provided in any written form, for example in a letter or email.

Finally, trustees engaged in a de-risking exercise may wish to check with the insurer whether they have any specific requirements in relation to the steps that trustees should be (or should refrain from) taking. Trustees and sponsors who are in a buy-in/out scenario or are involved in an ongoing sale or acquisition may want to understand the precise benefits they need to insure and/or the level of residual risk they will retain.

Trustees should now liaise with their legal advisers and consider whether to:

- continue to adopt a wait and see approach; or
- undertake a review of the relevant scheme documents, considering the scope of that review and the potential risks of doing so.

Written by DLA Piper partner, Matthew Swynnerton and knowledge lawyer, Megan Sumpster

In association with

VIEW FROM THE PPF: Your views shape our levy rules

Recently, we kicked off our annual consultation exercise on next year's PPF levy.

Stakeholder feedback really matters to us. It has, over many years, informed and shaped how we've evolved the levy. Many of this year's proposals can be traced back to the feedback we received to last year's consultation.

Our focus for next year is on the best way to distribute the proposed £100 million levy estimate. We were told it was important that the risk-based levy continues to be paid by a broad range of levy payers – rather than allowing the levy to become concentrated on a smaller group – and that the levy should continue to be distributed in the most risk-reflective way possible.

We responded by increasing the asset and liability stresses used in our calculation to two standard deviations.

Reflecting suggestions to simplify parts of the levy process, we're proposing to make it easier to certify deficit reduction contributions. We're opening up the simplest approach to certification to all schemes, and widening our definition of contributions. We've also considered how we can support schemes to take account of full insurance buy-ins in the levy.

We hope many of you will respond to this year's consultation by 23 October, and, if you represent a smaller scheme, please join our bi-annual Small and Medium Employer Forum, where we discuss a wide range of topics, by emailing externalaffairs@ppf.co.uk.

PPF executive director and general counsel, David Taylor

VIEW FROM PASA: Implications of the Virgin Media case

In July, the Court of Appeal dismissed Virgin Media's appeal against a High Court decision last year that historic amendments to its members' contracted-out rights were void. So, what next for trustees and what are the consequences for their administrators?

As a first call to action, trustees may wish to review their historical amendments. This will likely involve significant administrative work to locate and verify old documents, to the extent they still exist. They may also want to examine current document destruction processes to prevent future destruction of relevant evidence.

Where there are invalid amendments, these will need to be rectified requiring substantial administrative resource and time; potentially diverting attention from other critical tasks and further complicating matters if, for example, GMP equalisation exercises need to be unpicked and repeated.

Where amendments are made, trustees will need to manage communications with scheme members carefully, increasing the load on administrators in cascading the change and answering any resulting queries. Consideration also needs to be given to those who've transferred out or died in the interim.

Is there a possible way out? The DWP has the power to make regulations to retrospectively validate rule amendments that would otherwise be void. Given the significant load this would put on administrators, the DWP needs to step in to avoid thousands of pension savers being put through yet more uncertainty and confusion.

PASA board director, Emma Watkins

VIEW FROM THE ACA: A new era of UK pensions

We made our pre-Budget submission to the Treasury in September and cautioned the Chancellor to consult widely and to take time in any reform of pension taxation or face the same unintended consequences of the reforms of recent years that have disrupted pension savings. The government's pension review that is underway is the obvious opportunity to look at tax changes as part of a holistic approach.

The tax treatment of UK occupational pensions schemes is based primarily on the premise of aligning taxation with the deferral of pay and income to encourage and incentivise long-term saving for retirement.

Despite the success of the UK occupational pensions system, there remain significant challenges in the level of adequate savings being built up by current and future workers. Whilst we recognise the reality that Chancellors may want to review and potentially adjust pensions taxation from time to time, this needs to be undertaken carefully and in full knowledge of the potential consequences for savers (and pensioners), pension schemes and employers given wider policy aims such as improving retirement outcomes and encouraging economic growth.

Changes that bring forward tax revenues will likely exacerbate the adequacy challenges for current and future workers, and for current pensioners. Confidence in the future tax treatment is essential if adequate provision is to be made.

ACA chair, Stewart Hastie

Diary: October 2024 and beyond

PLSA Annual Conference
15-17 October 2024
ACC, Liverpool
This event will bring together pension professionals for a programme of world-class keynotes, roundtable discussions and educational sessions. The conference will see the discussion of every aspect of pensions, from communications and engagement, to investment and regulatory updates. There will be networking sessions allowing attendees to connect with peers, share insights and discuss collaborative opportunities.
plsa.co.uk/events

Irish Pensions Awards
20 November 2024
The Round Room at the Mansion House, Dublin
The Irish Pensions Awards aim to give well-deserved recognition to those pension funds, pension providers, advisers and pension professionals who strive to maintain the highest standards of excellence and professionalism in everything they do, despite the challenging economic and political landscape. The awards will be hosted at a new venue, the Mansion House.
europeanpensions.net/irishawards

Pensions Age Awards 2025
4 March 2025
Grosvenor House Hotel, London
The 12th Pensions Age Awards aim to recognise and celebrate the excellence of both pension schemes and providers across the UK, especially those that have demonstrated outstanding performance and resilience in challenging economic conditions. These prestigious awards are open to all UK-based pension schemes and provider firms that cater to UK pension schemes. The deadline for submissions is 1 November 2024.
pensionsage.com/awards

European Pensions Awards 2025
7 July 2025
London Marriott Hotel, London
Now in their 18th year, the European Pensions Awards were launched to give recognition to the investment firms, consultancies and pension providers across Europe that have set the professional standards in order to best serve European pension funds over the past year and continue to do so. The awards are free to enter for pension funds and firms. The deadline for submissions is 7 March 2025.
europeanpensions.net/awards/

Visit www.pensionsage.com for more diary listings

Don't forget...

National Pension Tracing Day 27 October 2024

This industry-backed campaign urges savers trace lost pensions, making use of the extra hour when the clocks go back.

nationalpensiontracingday.co.uk/

VIEW FROM THE SPP: Accountability in pension schemes post-outsourcing

In-house pension specialists are increasingly rare. The trend to outsource this role to a third-party, often triggered by closed DB schemes and an ageing pension manager, continues.

I have been an in-house pension specialist and am now a professional trustee. I recently came across a pension scheme that had gone through this transition.

The in-house pension manager retired several years ago. A third party had stepped into the role.

The trustee board had happily run the pension scheme in a way it felt fit. Everything appeared well-run, but when I was asked to look 'under the bonnet', there were cracks.

The sponsor wasn't kept up to date, adviser costs had spiralled and it was unclear who was holding advisers and trustees to account.

The consequences of this lack of accountability can be severe. Left unchecked it could impact members benefit security, while reputational damage can erode trust among stakeholders.

To address these issues, sponsors should look to establish clear governance structures at the outset, including awareness of the balance of powers, and maintain transparent communication with external providers.

By prioritising accountability, sponsors and trustees alike can ensure effective pension management and protect the financial wellbeing of their beneficiaries.

SPP member, Nigel Modlinsky

Murtaza Merchant

DC investment in private credit

MV Credit managing partner, and co-head of business development, Murtaza Merchant, speaks to *Pensions Age* about the opportunities for private credit investment within DC schemes

Private markets were traditionally seen as an inaccessible area for DC scheme portfolios. Why was that the case; what were the barriers preventing this?

The reason private markets have been difficult for DC schemes to access is primarily because of the nature of the structuring of private market funds. Private market funds are typically structured as closed-end funds because they are illiquid investments. Really to benefit from the investment strategy of private markets, investors need to be in the strategy for the long term. The closed-end nature of these funds hasn't helped DC schemes, which need to be invested in open-ended set ups, to be able to access these.

The second challenge is that these private market funds invest over a period of time. It's not possible to take capital from an investor and put the money to work immediately in private markets. I need time to build a diversified portfolio, and each time I find an investment I will draw capital from the investor. This doesn't work for DC schemes because they need the ability to deploy capital immediately and consistently.

Then the final two points are really valuation and pricing. It's getting better now, but there was always the idea that if you need daily liquidity, you need daily pricing and private assets don't change daily in price. There is management fee and then there tends to be a performance fee as well, which is very alien, or it used to be very alien to the DC community. So, it was difficult for DC schemes to then reconcile all of these factors and think about private market investments.

Is this situation starting to change now; are the challenges you mentioned being overcome?

It's definitely changing and we have been lucky enough to be at the forefront of this change, as we launched one of our hybrid products more than three years ago now.

We created a product that combines illiquid investments, which is private markets, with an allocation to liquid investments. We are credit-focused, so we have a liquid strategy in there. By doing that we addressed two of the challenges; we addressed the challenge of liquidity because we have a liquid allocation within our investment strategy, but we also solved the problem of immediate deployment.

So by having a liquid strategy, if we get incoming cashflow from an investor we can immediately deploy that into the liquid strategy and then reallocate to the illiquid strategy.

We understand that performance fee is very sensitive for the DC community, so we came up with a structure that had a flat fee and no performance fee for the investors

The last, but most important point, is we made sure that we were marketing it to the right DC community. This is meant to be a long-term investment, and therefore we positioned our fund very much towards the default funds strategy, where you eliminate the ability for investors to trade in the fund.

Why would you suggest that those managing DC schemes look at investing in private markets – what benefits can it provide for DC schemes?

The biggest point is diversification.

If you look at private credit, it's one of the fastest growing asset classes globally. After the global financial crisis, there has been a shift away from traditional bank lending, with capital flowing into private markets.

Typically, private credit has yield enhancement, as the fact that you are illiquid means that you are compensated for being illiquid, which provides a higher yield and higher return over the long-term to investors.

Private credit, direct lending where we operate, is at least in our case, a 100 per cent floating rate. We are not exposed to interest rate movements, which is very, very important from a duration perspective for DC schemes because we will capture the underlying interest rate movements automatically.

There is less volatility by including private credit in your portfolio by nature, because private credit investments are not 100 per cent marked to market and they do not move in a volatile fashion.

The final point I'll make is ESG. Given DC investors are so focused on ESG, sustainability and impact, in the private markets you really have the option to drive that forward with the underlying companies.

Looking at MV Credit's hybrid fund solutions – please could you tell me about its structure and how it is created to meet the needs of DC pension fund investors? And how does this approach compare to other funds in the market?

We solved the challenges facing DC schemes investing in private credit by having the hybrid liquid and illiquid strategy. But structuring was the key to making sure that we had the right outcome for the investors.

What that involves is a very significant amount of operational efficiencies. We need to make sure that we were well-positioned in cash management, in operations, in making sure that we worked well with our liquidity providers on the fund, to ensure that if there was ever a need for liquidity we could provide that. So operationally and logistically, it requires a lot of work to make sure that all the things that are sensitive to the DC community are addressed.

You have to make sure that there is a lot of cooperation between the managers managing your portfolio to be able to deliver what is required for the investor. Again, I'd stress that this is very much geared towards a long-term horizon investor, so we make sure that in our conversation with the investors we keep that front and centre.

We were first movers three and a half years ago, so there are not many strategies that we can compare to. Of course there are a lot of private credit managers out there, but there are not many private credit managers who have actually been able to structure a product that is tailored for the DC community.

MV Credit's hybrid fund is now over three years old. How do you ensure it continues to meet the evolving needs of pension schemes amidst changing market conditions?

Trustees of DC schemes are getting more and more comfortable with the idea of illiquid assets in the portfolio. I think as the familiarity and as the comfort factor increases, the market has started to evolve. For example, in our hybrid strategy we have a 60 per cent allocation to illiquids and a 40 per cent allocation to liquids, but we have the flexibility to vary that, depending on what the underlying DC scheme's objectives are.

That flexibility is very important. In fact, we are on the verge of launching with another investor, a strategy which is 100 per cent illiquid. The reason this works is because DC investors are now getting comfortable with the idea that frankly this so-called need of liquidity isn't really a need for liquidity, because most of these large DC schemes have a very small allocation to illiquids, and the rest of their portfolio is in liquid assets anyway. The cash management can be done at a global level at their end, and they really don't need liquidity to be coming from an illiquid bucket.

So, we are really happy that we moved early and are now evolving and providing solutions to other DC investors as well.

UK DC schemes are being increasingly encouraged by the government to invest in private markets to help bolster and grow the economy – how do you see DC levels of investment in private markets changing in the near future?

I think the government has done a good job here in making sure that there is the ability for DC schemes to participate in private markets. The new LTAF structures are one example of that. I personally think that this is a question of comfort and familiarity, as trustees and decision-makers see this really works for the long-term. As more products come online, as new managers come online with similar products, I think that familiarity will help the decision-makers to make decisions.

The hardest thing to do is to be the first mover, both for the manager and the DC trustees, but as the concept of investing in private markets is adopted more widely, it makes the process a little bit easier. I think the consultant community will also then be able to analyse the track records for some of these managers and so, be much more comfortable in proposing strategies to the DC community.

It is a joint effort between decision-makers, consultants and managers, but the more this happens, the more familiarity increases and it becomes easier for everyone.

In association with

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Soapbox: Small pots issues

A few editions ago, I wrote a soapbox about the 'pot for life' proposals, aimed at addressing the growing issue of small pension pots. At the time, I expressed cautious optimism, suggesting that the 'pot for life' proposal could be beneficial for young savers like me who were just starting their working lives. However, I highlighted several concerns I had about this model, including the potential of complacency among savers, employer engagement challenges, regulatory and implementation issues, and what I believed was the biggest issue – financial literacy.

However, after three months of discussions with industry experts and further research into its reception and alternatives, I now believe that my initial concerns about this concept were justified.

I have just written a news story about recent industry rumours, which have suggested that 'the pot for life' model raised by the former government is no longer expected to be pursued, with a formal decision expected to follow the government's pension review.

However, this now begs the question of what the government will do to tackle small pots issues?

Several pathways are being considered, and have been for over a year, including a 'pot follows member' system and a multiple default consolidator approach.

The 'pot follows member' model means that when a saver changes jobs, their existing pension savings automatically transfer and combine with the pension provided by their new employer. This aims to reduce the number of small pots a person accumulates throughout their working life. Since last September, this has become a popular solution to the small pots issue.

Another approach is the multiple default consolidator, introduced by the Department for Work and Pensions (DWP) in last year's Mansion House speech. In their initial consultation, the DWP outlined a framework allowing a small number of authorised schemes to act as consolidators for deferred small pension pots. The previous Conservative government said it would look to advance primary legislation to implement a statutory framework for this "as parliamentary time allows". Despite this promise also being reiterated by the former Pensions Minister, Paul Maynard, in the last Autumn Statement, progress has stalled.

However, this delay is understandable given the change in government and shifting policy priorities.

But this solution comes with hurdles as it could create an increase in cost for employers, additional administrative burden and potentially more confusion for savers. As with anything in the pension industry, member choice comes with the possibility of members making poor choices. This could create confusion for savers on which consolidator to choose.

Despite this, a recent survey by the Social Market Foundation, supported by Cushon, revealed that 72 per cent of workers with a defined contribution pension were in favour of member choice.

Regardless of the method chosen, it is clear there needs to be government action on this. While auto-enrolment has been highly successful in encouraging the country to save into a pension (whether savers are consciously aware of it or not), it has also contributed to the small pot issues. Many savers are unaware they have multiple pension pots, a problem that could compound closer to retirement. Personally, I know this is not a problem I would want to face in the future.

It isn't just auto-enrolment that is to blame though – the increasing trend of changing jobs means more people are accumulating small pots with each new role.

With the new Labour government in power and the pensions review currently going through its first phase, it remains to be seen whether small pots will be a priority. Perhaps we will receive more clarity in the upcoming Autumn Budget.

In the meantime, it's clear that addressing the small pots issue will be crucial for ensuring a more streamlined and efficient pension system in the future.

Written by Paige Perrin

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A week in the life of: Railpen director of fiduciary clients, Julie Alexander

As director of fiduciary clients at Railpen, my team's focus is on supporting the trustee in delivering an integrated investment and funding approach for every section of the Railways Pension Scheme – all 107 of them! We provide formal covenant advice and investment advice to our trustee, as well as supporting delivery of advice from the external scheme actuary. Collectively, Railpen and the trustee look after £34 billion in assets on behalf of c3,500 members. The bits I love the most about my job are the variety of the work, and the people. My colleagues are both impressive and lovely.

Monday

I'd love to say I start my week with a 7am run…but honestly, I'm not a morning person! Railpen supports hybrid working and I tend to come into the office when we have trustee meetings or large internal meetings. They are rarely on a Monday, so I have a gentle start to the week at home with a coffee and chat with my executive assistant, Sue. After our weekend comparisons, we go through my diary and task list. We're planning our next quarterly team meeting, so Sue is going to work on the agenda.

Fewer meetings today, so a great time to get my head down and focus on the scope for some strategy work to discuss with the team later.

I have some CVs to go through for a new role. We have two roles to fill to get us up to our full complement of 22 people.

Two of my three kids get home from school at 5.30pm, but my husband takes them straight out for McDonalds and chess club – so a relaxing night in front of the TV awaits (still no 5k jog….). My eldest is at uni; I'm hoping he'll pop home later in the week.

Tuesday

London day today, but my first meeting is not until 11 so a civilised 9am train down from Doncaster where I live. I've commuted to the city for around 20 years, and it usually works really well. I get a good hour and a half to focus on emails on the train. My first meeting is with Richard, a relatively new trustee. He joins from one of our larger employers and has lots of really useful pensions experience. He's already proving to be a great addition to the trustee board.

In the afternoon, I have a three-hour DC executive committee meeting. It's chaired by Matt, who has done some amazing work over the past couple of years, bringing all the DC governance across administration and investment together into one productive committee.

In the evening, I chair a roundtable discussion on social infrastructure. One of my passion projects is making sure women are represented at industry speaking events and sometimes that means volunteering myself. It's a really interesting asset class, and draws a great crowd. I was pretty tired by the end as I find I have to concentrate really hard if I'm in the chair! My husband has been working in London today too, so with the kids safely dumped with my parents, we have a quick drink together.

Wednesday

Wednesday starts with a catch-up with John, who runs the fiduciary management team. Our teams work very closely together. In the afternoon, I meet Paul, who runs our covenant team. They assess the covenants of all the sponsoring employers of the railway pension schemes. It's their assessment that determines how much risk we can run in the investment and funding strategy. They know our employers so well! I'm back in Donny tonight, so more emails on the train home with an obligatory G&T.

Thursday

More meetings! Fortunately, I love chatting to folk. Today I have a couple of meetings with trustees. The first is an update on some of the work we've been doing on our buy-in/buyout process. Then a meeting to discuss the upcoming Integrated Funding Committee with the chair, Adam. There are always LOTS of people on this call, each going through their planned agenda items. It's an incredibly busy committee that deals with much of the covenant, investment and funding advice and reporting. It meets every month.

On Thursday nights, I take the younger kids to see my friend and we eat pizza and cake.

Friday

I'm rarely in London on Fridays. It's usually a good day to catch up. Today I'm going through all the performance reviews I've recently completed with my team (adding in my comments to say how fabulous they all are!) I meet with Peter and Nikhil (head of trustee delivery and head of investment advice and funding) to discuss progress on the upcoming trustee workshop. Workshops tend to be a good forum for our trustees to think about their approach to important issues; in this instance it's about setting investment and funding approaches for open pensions schemes.

As I'm just about to get ready for that 5k jog, my eldest turns up. My husband and I bribe him with cash and pizza to babysit and we hit the pub instead. I'll definitely go on that run next week….

Pensions with purpose

Patrick Heath-Lay explains how the pensions industry must build on past successes to create lasting benefits for society

Since the launch of automatic enrolment (AE) in 2012, more than 11 million previously underserved individuals have started saving for retirement. This milestone demonstrates the pensions industry's potential to affect positive social change, inspiring further progress.

The role of pension providers in shaping financial futures has never been more crucial. Employers and advisers recognise this, with 90 per cent of intermediaries valuing responsible business practices when recommending a workplace pension[1].

Founded for social good, The People's Pension stands out as a responsible business driven by a commitment to reinvest its profits directly into benefiting its members rather than shareholders. With phenomenal success in the past 12 years—supporting more than 100,000 employers, managing over £28 billion in assets and becoming one of the UK's fastest-growing asset owners – the organisation is built on purpose: To create financial foundations for life.

We embed responsibility across our activities. The trustee of The People's Pension recognises climate change as an urgent societal challenge and one of the most financially material environmental, social and governance risks facing pension savers. That's why 70 per cent of The People's Pension's main investment fund is invested in climate-aware strategies.

We aim to make our products simple and accessible so that all our members can easily understand them. To promote transparency, we publish our charges, investment returns, and service levels on our website in one place. Additionally, to maximise returns, we've implemented a fairer and more responsible fee structure that reduces charges as members' funds grow.

Recognising the complexity of financial planning, we have launched an app enabling members to track their pensions more easily and a financial wellbeing hub to help make informed financial decisions. Unlike most financial services, we impose no time limits on customer service calls, allowing our colleagues time to fully resolve issues.

We also take our responsibility as an employer seriously, fostering an inclusive environment that encourages growth and development and empowers colleagues to contribute through dedicated volunteer days and raise funds for local initiatives.

We've always believed sustainable employment is central to building financial foundations. Our history reflects this through the charitable trust supporting construction workers experiencing hardship and helping them return to work. Additionally, we've partnered with the Good Things Foundation to address digital inequality, recognising that employment and essential skills enable pension saving.

The pension industry must continue exploring innovative approaches to support individuals facing saving challenges. For example, we've highlighted that parents of disabled children risk a £138,000 pension shortfall if caregiving responsibilities keep them from returning to work. The industry must also provide better guidance and support for individuals facing barriers to saving. Our Pension Transfer Outcomes Index also underscores the risks of higher-cost pension transfers, potentially saving UK savers £1.2 billion yearly. By advocating for transparent and comparable information disclosure, we empower consumers to safeguard their savings.

Following a decade of AE, the imperative to establish resilient financial foundations persists. By embracing responsibility, pension providers, employers, and advisers can deliver enduring value to savers and nurture a fairer society.

Written by People's Partnership, provider of The People's Pension, chief executive officer, Patrick Heath-Lay

In association with the people's pension

[1] People's Partnership Customer Barometer, 2023-2024

Emma Reynolds

A £2 trillion industry working for pensioners now and in the future

Pensions Minister, Emma Reynolds, discusses her plans to unleash the real potential of the private pensions sector to deliver for both today's and tomorrow's pensioners

Writing in *Pensions Age* for the first time since I was appointed as Minister for Pensions, I want to tell you that I am genuinely excited by the potential of our pensions industry to unlock economic growth and deliver for both today's and tomorrow's pensioners.

Our commitment to protect the triple lock is providing certainty for pensioners, with the full rate of the new state pension set to increase by £1,700 per year by the end of this parliament.

Now we need to unleash the real potential of our private pensions sector to secure a brighter future for future pensioners.

As a nation, we are punching well above our weight, with a booming pensions industry – the third largest market in the world with around £2 trillion saved – and with more and more people saving, this is only predicted to grow.

Automatic enrolment has played a key part in our massive milestone of around 88 per cent of employees saving for their retirement as of 2023. It has been a quiet revolution, ensuring that working people are putting something away for their retirement.

However, much more needs to be done to harness this trillion-pound industry to drive more investment into our economy and improve returns for pension savers.

There is an urgent need to shift the focus of investment towards providing real value and growth. Our future pensioners deserve stability, accountability, and transparency – in short, an industry which serves them.

Driving more UK pension fund investment into UK growth and ensuring people have enough in retirement – are the twin challenges of my brief in this new government.

I am leading the first phase of the pensions review, which is considering what we can do right now to ensure the vast resources within our pension funds are actively contributing to economic growth across the UK.

By channelling investments into high-growth sectors, infrastructure projects, and innovative enterprises, we can boost our economy while securing better returns for pensioners.

I want to see a private pensions system that encourages the consolidation of smaller pension schemes into larger, more efficient funds in order to deliver better value for money and outcomes for members while unlocking UK investment opportunities.

The second phase of the pensions review will look more broadly at adequacy – improving pension outcomes, exploring ways to ensure greater security in retirement.

I have heard the call to consider higher automatic enrolment contribution rates. As part of phase two of our review, we will look at ensuring that people have the pension provision they need for a secure retirement – but to have the discussion about contribution levels, and security in retirement, we need to have confidence that our pension system is delivering a fair outcome for savers, employers and the taxpayer, and importantly for our economy.

Through our Pension Schemes Bill, we know that our measures could boost the pension pots of someone saving into a defined contribution scheme over their career by more than £11,000. We want schemes to be able to access these opportunities, whilst ensuring UK businesses get the investment they need.

The bill will be delivered through our value for money framework and small pots consolidation into law, with the ultimate aim to drive growth and put members first.

With better, more productive investment we can achieve greater outcomes.

This will not only increase security in retirement, but also enable pension schemes to invest in a wider range of assets, driving growth and delivering on our mission to kickstart the economy.

Written by Pensions Minister, Emma Reynolds

We help pension scheme trustees and sponsors identify and implement the right endgame strategy for their schemes.

LCP stands out in the market. We uniquely deliver a complete solution, combining the talents of specialists in regulation, funding, investment, covenant, health, and pensions risk transfer. Whether you're aiming for run-off or a transfer to a third-party such as an insurer or consolidator, we have the experience, knowledge and expertise to guide you to success.

From de-risking to dad dancing

Pensions Age sits down with Clara Pensions chief transactions officer, Matt Wilmington, to talk superfunds, Sunday afternoons and his love for building 'stuff'

What's your employment history (including jobs outside of pensions)?
Aside from working in bars to feed my own bar habit during university, my first job was as a trainee actuary at Bacon & Woodrow, which is now part of the Aon empire. I had some great opportunities there to get involved in actuarial advisory work in the UK and overseas, before focussing on pensions de-risking activity. That led to an opportunistic career move as gamekeeper turned poacher to Legal & General and, latterly, to Scottish Widows to take on responsibility for originating and structuring bulk annuity transactions. Most recently, I joined Clara Pensions as chief transactions officer and am really looking forward to helping scale up our business.

What's your favourite memory of working in the pensions sector?
In a role driven by advising on or structuring pensions transactions, it has to be the excitement of any day getting the signatures on the page – always a culmination of lots of hard work across advisers, trustees, sponsors and various teams at the providers. The celebratory drinks are usually pretty good fun too.

If you did not work in pensions, what sector do you think you would be in instead?
I love tinkering with stuff at home (much to the dismay of my family). If I wasn't an actuary, I'd love to be designing and building 'stuff' – whether that be cars, buildings, or anything else.

What was your dream job as a child?
I was always fascinated by how the universe worked as a child – I think my dream job was an engineer or scientist.

What do you like to do in your spare time?
I spend as much time as I can riding or racing my bike – although it has taken a back seat recently as my family gets older and 'dad taxi' is much more in demand! I now also coach an under-15 cricket team and am busy getting qualified as a rugby referee, both sports my son is mad on.

Do you have any hidden skills or talents?
I make a pretty good pizza in my 'lockdown project' pizza oven.

Is there a particular sport/team that you follow?
Other than the sports I'm involved with, I do enjoy a Sunday afternoon in front of the Formula 1, and the banter at home over which of the British stars to cheer on this week!

If you had to choose one favourite book, which would you recommend people read?
Formulae and Tables for Examinations by the Institute and Faculty of Actuaries – impossible to pass your exams without those green or yellow books in the early 2000s. Not sure I'd recommend it for bedtime reading though.

And what film/boxset should people see?
Going back a while now, but I can't think of any TV I've enjoyed more than *The West Wing* – really clever writing brought to life by a talented bunch of actors.

Is there any particular music/band that you enjoy?
Either a good bit of dad dancing (much to the disgust of my daughter) to some 80s bangers, or if I'm in the car I'll always tune in to a classic rock station.

Who would be your dream dinner party guests?
I'm fascinated by trailblazers in their fields, what makes them tick and how their brains work, so it would be easy to pick an Albert Einstein or Freddie Mercury; but the best guests would be those who inspired the interests in the first place. I'd love to meet up with teachers and lecturers from my past to chew the cud over common interests.

Is there an inspirational quote/saying you particularly like?
I love the sentiment behind "I didn't fail, I just found 100 ways to do it wrong". A younger me would beat himself up for not getting things right first time. If the only thing I have learned is that it's ok to try, not succeed and try again until I do, then I'm ok with that!

Written by Francesca Fabrizi

O Canada!

Can the UK LGPS emulate Canada's 'Maple Eight'? Alex Janiaud finds out

Summary
- The UK government is considering a Canadian-style pension model to tap into Local Government Pension Scheme (LGPS) investment.
- Canada's eight large public sector pension schemes have a much higher allocation to private equity and infrastructure assets than their UK counterparts, although their respective allocations to domestic assets vary.
- UK pension trustees have a fiduciary responsibility to prioritise their members and not the fortunes of the UK economy.

Chancellor, Rachel Reeves, is the latest in a line of UK politicians seeking to channel UK pension money into domestic assets.

In September, the Treasury, the Department for Work and Pensions the and Ministry for Housing, Communities and Local Government issued a sweeping call for evidence that included questions on the potential for a more consolidated LGPS, with a view to boosting investment in UK listed and unlisted equities and infrastructure.

The government asked if there is "a case for establishing additional incentives or requirements" for Local Government Pension Scheme (LGPS) funds, as well as DC schemes, to

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increase their portfolio allocations to UK assets and asset classes. The preceding Conservative government shared its hope of mobilising LGPS funds, publishing a consultation outcome in November 2023.

Labour's Pension Schemes Bill and pension review aspires to support this aim. And in August, Reeves said that she wanted LGPS funds to learn from the Canadian pension system, ahead of a meeting with representatives from 'Maple Eight', a group of large Canadian pension funds.

"The size of Canadian pension schemes means they can invest far more in productive assets like vital infrastructure than ours do," she says. "I want British schemes to learn lessons from the Canadian model and fire up the UK economy, which would deliver better returns for savers and unlock billions of pounds of investment."

Pension Protection Fund chief executive officer, Michelle Ostermann, tells *Pensions Age* that "it's understandable that the government's eye has been drawn to Canada as part of its pension review, given that it is now considered a global leader in the pensions space".

"The experience of Canada demonstrates how size and scale is critical to good outcomes for members," she continues. "The challenge the UK faces to achieve a similar scale is the fragmentation of the pensions market," she adds.

Canada is 'eating the UK's lunch'

Like the LGPS, the Maple Eight are large investors with globally diverse portfolios. Together managing more than £570 billion in assets, five out of the eight funds allocate over half of their assets towards private markets, according to Hymans Robertson.

Canadian schemes have followed a similar trajectory in their allocations to domestic equities, with allocation to Canadian public equities dropping from 80 per cent of their total equity investments in 1990 to just 10 per cent in 2020, according to Letko Brosseau.

There are significant differences in the extent to which these funds have domestic investment exposure, however. The Healthcare of Ontario Pension Plan has the greatest exposure to Canadian assets at 55 per cent of its portfolio, per Hymans Robertson, while the Canada Pension Plan Investment Board has Canadian exposure of just 12 per cent.

LGPS fund investment in UK equities is low. Just 6 per cent of LGPS fund assets were held in UK equities in 2023, compared with 45 per cent of LGPS assets held either in non-UK equities, according to the LGPS Board.

"As UK pensions have switched out of UK equities, they have helped feed a doom loop of lower demand, lower valuations, and a less dynamic market," a report by New Financial says.

Canadian public sector pension funds are lightyears ahead of the LGPS when it comes to private equity and infrastructure. Just 8 per cent of LGPS fund assets were invested in private equity and 7 per cent in infrastructure last year, while Canadian public sector pension funds hold 34 per cent of their assets in private equity and infrastructure in aggregate, according to the New Financial study – although just 7 per

cent of the Maple Eight's infrastructure investment is in Canadian assets, according to Hymans Robertson.

"Canada's thirst for growth from private markets is leading to them eating the UK's lunch," Pension SuperHaven director, Henry Tapper, tells *Pensions Age*.

UK central government interference

Hymans Robertson head of LGPS client consulting, Robbie McInroy, observes that the UK and Canadian systems have similar levels of assets invested domestically and that both countries' governments are focused on encouraging more domestic investment.

The LGPS and Canadian funds both have a clear desire to tackle climate risk and carbon transition challenges, he adds. But there are differences between the way politicians in both countries interact with their public sector pension funds.

"A founding principle of the Canadian model is an aim to align interests and collaborate between the different stakeholders without political interference," McInroy says.

"The ongoing trend for *[the UK]* central government to involve itself in the LGPS investments and structure would make it hard to argue there is more independence from political interference than for the Canadian funds," he continues. McInroy also notes the Maple Eight funds' extensive use of internal investment management compared to the LGPS.

The previous UK government's 2023 consultation proposed requiring LGPS funds in England and Wales to invest up to 5 per cent of their assets in "levelling up the UK", and to update guidance to compel funds to consider meeting the government's ambition of a 10 per cent allocation to private equity in the LGPS.

It may take an even more robust approach from Labour to push LGPS funds to invest in domestic assets.

Pensions Management Institute director of policy and public affairs, Tim Middleton, tells *Pensions Age* that trustees will place the interests of their members above the government's desire for more domestic investment.

"Pension schemes won't invest more heavily in UK equities just because the government would like them to," he says. "There would have to be sound investment decisions for them to invest their stakeholding in the UK equity market."

"If that's going to happen then it's likely that the government will have to resort to either incentivisation, or even more ominously, some form of coercion." Middleton warns that this "will create real conflict between the pension system and the government".

UK pension funds also face a practical obstacle to investing in patient capital, Middleton observes.

"There is no proper exchange for that kind of asset, so it's very difficult for pension schemes to invest in that particular class of asset and divest at the same time as well," he says.

"Unless, and until there is a more efficient system – an exchange of some sort – there are going to be significant obstacles for all UK pension schemes to increase their holdings as the government wants."

Ostermann is, however, optimistic that the UK can learn from Canada.

"Over the past decade, Canadian DB pension plans have modernised to address shifts in life expectancy, employment patterns, and retirement age choices," she says. "This has been achieved through hybrid designs, for example by utilising shared-risk models or by incorporating target benefit provisions.

"I believe there is an opportunity for the UK to draw on the Canadian experience here as we evolve our thinking around consolidation, sophisticated investment management and governance."

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Pensions Age Autumn Conference: Embracing change and grasping opportunities

A new public sector consolidator, learning lessons from abroad, and taking advantage of dynamic investment opportunities were just some of the hottest topics at this year's Pensions Age Autumn Conference

This year's Pensions Age Autumn Conference took place at the historic Waldorf Hotel at London's Aldwych, welcoming several hundred pension trustees and industry personnel to digest the hottest topics in UK pensions today.

Capital Cranfield professional trustee, Andy Cheseldine, chaired the one-day event which included keynote presentations, fireside chats, case studies and interactive Q&As.

The event kicked off with an exclusive for the delegates, as Charles Stanley Fiduciary Management portfolio manager, Barnaby Low, offered a sneak preview of the firm's 2024 survey of professional trustees.

Key findings included, for example, that long-term funding targets have changed for many over the past 12 months; and that there is room for improvement on communication, especially in relation to liquidity, explained Low: "Trustees appear to have slightly less confidence around liquidity. Perhaps while advisers, fund managers and fiduciary managers have improved in some areas, communicating around liquidity is one where more work needs to be done in the industry particularly, as long-term funding targets change, illiquidity could be the right solution for many schemes but for other schemes it is going to be very different."

DB consolidation was next in focus, with Sackers associate director, Emily Rowley, joined by Pension Protection Fund (PPF) executive board member, David Taylor, to discuss the latest developments in the area.

Rowley began by offering an explanation of the different DB consolidation options; and the legal considerations that go alongside those. For example, when it comes to considering the superfund option, she stressed it was a "big decision" for trustees: "Trustees can, to some degree, rely on the assessment process that The

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Pensions Regulator has been through, but that doesn't mean they can move away from looking at and understanding the model themselves. If they are going to make a decision to transfer to a superfund, they need to understand what they are doing and what they are moving the benefits to."

Taylor later focused on how a public sector consolidator could work in practice alongside existing offerings. "It is important to say this isn't instead of other solutions. It is to complement existing solutions and provide options for schemes that might not otherwise have the best choices. Schemes that are attracted to commercial providers, primarily the larger well-funded schemes, are likely to still prefer to go to those existing options, be it an insurer or commercial consolidator. They'll be able to get pricing that they find attractive, move relatively quickly and provide benefits that match what they have got under their original schemes, so the proposition for the public sector consolidator is to pick up the schemes that can't do that."

The focus of discussions then moved on to administration, as Capita Pension Solutions director of global pensions policy, Anish Rav, looked at the challenges and opportunities that come with administering schemes of different sizes, and considered how technology is transforming the pension administration landscape.

He reflected on how smaller schemes have historically not had services specifically designed for them; how the industry is dealing with a plethora of initiatives and changes which require resource and automation; how new technology will lead to a step change in delivery; and that innovation in the way services are provided will lead to better outcomes.

He commented: "What does the future hold? From my perspective, it is about using technology in the right way – not to use technology for technology's sake but to think about what it is trying to do. It has got to improve something."

Governance next was in focus as BlackRock OCIO UK director, Lara Edmonstone-West, took part in a fireside chat with Capital Cranfield professional trustee and UK Power Networks head of pensions, Michele Hirons-Wood, to explore how an OCIO model can provide effective solutions for trustees.

Together they considered the key challenges trustees are facing and how a fiduciary manager (FM), wherever a scheme may be on its journey, can help alleviate some of these burdens.

Edmonstone-West also highlighted how a fiduciary manager is still relevant even as schemes get closer to their endgames and are deciding which option they will take. "I spend my time, for example, talking to trustees about traditional routes of going for an insurance transaction or self-sufficiency; about consolidation; and now about surplus extraction. So, trustees have got a huge range of options to consider.

"You might not know which end game is right now, and it might even change, but you still need help to govern you along the way. Whichever one you are going to do, they all have complexity challenges, they all require time and, what does a fiduciary manager do? It releases time in part of the trustee's role."

Hirons-Wood later highlighted the benefits of working with a third-party evaluator when appointing a FM; but, she added, the most important thing is to be clear about what you are looking to achieve. "Be clear about what you want, what you are looking for, so that when you go through the process, you can find a partner that aligns with what you are trying to achieve and with your values."

After a refreshment break, asset allocation was under the spotlight, with HSBC Asset Management senior investment specialist, Paul Mitchell, exploring the evolving role of securitised credit, and looking at how the asset class can offer benefits including diversification and a significant yield premium when compared to traditional fixed income instruments.

He explained what securitised credit is; how the market has evolved since the global financial crisis; the reasons why it is worth considering now; the global opportunity set; and also, with the use of a case study, explained HSBC's approach to the asset class including its rigorous risk management framework.

He concluded: "This is one of the

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largest floating rate asset classes; the yield advantage is second to none at this point in time; you are going to get income from it; it has low correlation to traditional fixed income; and we have one of the largest most experienced teams in the industry to help."

A hard-hitting presentation followed, as Newcore Capital founding principal and CEO, Hugo Llewelyn, set out the reasons why a new, more sustainable approach to capital management in private equity, infrastructure and real assets is needed.

Llewelyn began by looking at what social infrastructure means; ways in which to gain exposure; and more importantly, why doing things differently can create better investment outcomes and a more positive impact for investors and the advisers to those investors.

For example, he called for performance fees in core functional infrastructure and core functional real estate to be abolished; and argued that if a fund manager is taking its profits offshore, and not paying tax, "they should not have a sustainability report at all".

He commented: "How can you run capital and not pay your tax? If we live in the UK, with state healthcare and education, we have an obligation to pay our tax properly to the government so they can deal with state education and state healthcare.

"If we can change how fund managers work and behave, we will fundamentally change the UK's balance sheet and outcomes for poorer people in society and for the environment."

Staying on the investment theme, Acadian Asset Management director of systematic credit, Scott Richardson, focused on the benefits of systematic investing in credit, and explained how systematic approaches can offer greater transparency to the asset owner as well as capitalise on the asset class' fragmented trading market. He explained what systematic credit is (and is not); the return potential of systematic strategies and its ability to generate alpha from overlooked sources; and the benefits beyond diversification to include implementation efficiencies.

"Corporate credit is an important strategic component of your overall portfolio – you want it. Passive offerings are structurally deficient – too much tracking error, for example – so active approaches are the most common. The predominant active approach of taking credit risk is discretionary, which is fine, and systematic approaches are highly complementary to traditional discretionary approaches, so diversifying."

A systematic approach, he added, lends itself well to more easily providing transparency to asset owners and more quickly reacting to trading opportunities in the market.

Administration was later re-visited, as Aptia proposition manager, Stephen Blakesley, and partner, Sue Doughty, looked at how data insights can be applied to strengthen engagement with scheme members.

Together they explained why Aptia, as an administrator to 1.3 million DB and hybrid members, is well placed to talk about member behaviour; pulled out some key analytics relating to its membership; and reflected on how, by using this data, they can better engage with their membership.

"For example," said Blakesley, "people are very aware of the gender pensions gap but, as so often you find when you go into the analytics, when you are actually staring at the numbers, it can be quite stark. We looked at all the DB pensions we pay to male and female members, and found that the pensions we pay to female members was about half what we pay to male members."

Following on from this, Doughty highlighted how powerful having this kind of information can be: "It's important that we understand this type of information, because knowing this can really make us think about the support and information we can give to members. Understanding the data really does give you a different perspective and can change the conversations that you have."

Dashboards were the post-lunch topic of debate, as keynote speaker Pensions Dashboards Programme (PDP) principal, Chris Curry, provided an update on the

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latest progress from the programme: "We are working very closely with a group of just over 20 volunteer participants from various parts of the pensions industry to make sure that the connection process we are setting up is going to be one that works going forward.

"We started testing with some of those members over the summer and, it's fair to say, it is broadly all going to plan."

Curry also talked about the various standards and guidance that are available to the industry to help them connect; and highlighted the importance of testing with live data: "User testing with live data starting from April next year is going to be absolutely critical to the future design."

Finally he talked about what the industry can be doing in preparation, including being aware of the guidance and gettting data ready.

Bringing dashboards to life was the role of the next set of speakers, as ITM chief innovation officer, Maurice Titley, joined forces with Bupa head of pensions, Scott Blurton, to present case studies showcasing pension schemes getting ready for dashboards.

Titley began by running through a compliance-readiness timeline, set out as five different streams – governance; matching; values; technology; and administration/communications.

"With this final pillar, there's a lot for an administrator to think about in terms of what a post-dashboards world will look like, and not least some of the announcements around dashboards themselves – making sure that your members understand what's coming and understand the information that they'll see on dashboards."

Blurton then talked the delegates through Bupa's dashboards preparations to date, highlighting the reasons why it chose ITM as its ISP provider: "At the end of the day, dashboards are for members, so we wanted to make sure we had a product that was best set up to meet member needs as best as we knew; also, we were keen to keep demands low on our teams; and wanted to make sure the ISP provider we picked could do the job, their security features were there and that could even deal with the tricky things."

A focus on pension communication was the next topic of discussion, as Landscape delivery and creative director, Ryan Sales, outlined the steps to auditing pension communications so that schemes can be assured about the impact of their activity. He began by considering what engagement really means, highlighted some key statistics to show how pension engagement is currently falling short; and considered ways in which to the bridge the gap, such as through a pensions audit.

He explained: "Sending out pensions information, however a scheme does it, is not the same as communicating – information is talking; communication is being heard.

"But the real goal is to create pension engagement. Unless you have that, we will have generations of hardworking people who won't have enough money to live how they expect later in life, or they won't be able to stop working until much later than they imagined; or simply won't be able to retire at all."

For the penultimate session, superfunds were in the spotlight, as Clara Pensions client transactions officer, Matt Wilmington, discussed the similarities and differences between transferring assets and liabilities to a superfund and transferring to an insurer. Wilmington covered a range of topics including the economics of each option, the member experience and the 'what if it doesn't work out' scenarios and discussed why, in his view, these two approaches are

completely complementary.

He commented: "Are superfunds a threat to insurers? And vice versa? The answer is absolutely not! We are partners. The role of a superfund is to be able to get a pension scheme in a fit state to be able to access insurers."

Finally, the PPF came back to the stage, this time it was CEO, Michelle Ostermann, who leveraged her global experience to look at what we can learn from international pension models.

Ostermann began with an overview of three of the most sophisticated pension systems in the world – from Canada, Australia and the Netherlands; she highlighted some of key principles of a world class pension system, such as independent governance, and high quality communication; and she also focused on the benefits and challenges of achieving scale. Finally, she highlighted several of the key trends in the global pensions industry, such as a rapid increase in sophistication and a focus on productive finance, with governments' preference for local investing.

"The motive of local governments to encourage local investments is clear – although we might be wanting to go further afield, governments want us to stay closer to home – they want us to do more local productive investing."

Written by Francesca Fabrizi

Access all areas

Private markets and the public:
What do DC pension savers think?

Read our latest private markets research report here: **lgim.com/dcprivatemarkets**

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__Access all areas:__ An affordable home is where the heart is for most DC pension savers ***p48***

Private market investment - remembering ESG: *Lynn Strongin Dodds explores ESG considerations for pension schemes investing in private markets* ***p50***

Private markets focus:

Building a sustainable future

Legal & General head of DC, Rita Butler-Jones

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Access all areas

An affordable home is where the heart is for most DC pension savers

We believe using defined contribution (DC) pension fund investments to help tackle the UK's housing shortage could be the way to the hearts of retirement savers when it comes to helping them understand – and maybe even embrace – the concept of looking beyond traditional public market investment funds.

The suggestion comes from a survey by Legal & General's asset management division[1] which asked more than 2,000 people currently investing in a DC pension, for their views on private market investments. Across all generations, 70 per cent said they'd feel more positive about their pension if its funds were being used to help support affordable housing schemes.

We conducted the research as part of Legal & General's move to widen access to private market investments for DC investors. We believe that exposure to private market assets could introduce more diversity into DC investment portfolios, which could help spread financial risk. We also believe that investing in high-growth sectors such as affordable homes, science and technology and clean energy could create the potential for long-term financial value for those saving for their retirement.

In addition, it isn't only DC pension savers who could benefit from investing in areas not usually included in DC pension strategies. We believe investing in private markets could also offer potential opportunities to boost the UK and global economy and help fund projects linked to issues that communities both need and care about such as the provision of clean energy sources, roads, local jobs and housing.

The illiquidity of private market assets means they're typically suited to investors with longer-term time horizons such as pension schemes. In exchange for investing money over the longer term, private markets have the potential to offer an 'illiquidity premium' which refers to the additional return received to compensate for tying up capital in an asset for a long time which could be as long as a decade or more.

However, private market assets can be more complex to invest in and manage, which can mean higher fees compared with traditional assets. So, it's important to consider the potential value that investing in private markets might bring to an overall portfolio rather than considering fees in isolation.

And while as asset managers, pension providers like Legal & General might feel comfortable with the rationale for investing in private markets, it's important to us to take scheme members with us as we map out long-term investment strategies that involve their pension savings. Hence our research into what they know about non-traditional market assets and how they feel about them.

Local authority housing waiting lists have averaged 1.3 million households over the past four decades[2] and estimates suggest that 145,000 new affordable homes are required each year.[3] However,

on average, 52,000 affordable homes are built[4].

Therefore, the need for more affordable homes in the UK could also, in our view, present an opportunity for institutional investors like us at Legal & General to gain increased exposure to a highly regulated and relatively low-risk sector, offering sustainable returns, long-term inflation-linked income and tangible social impact.

Legal & General's recent survey suggests how deeply the lack of affordable homes appears to be preying on the minds of UK retirement savers. We may speculate on the reasons for this, but rising prices in the past few years appear to have made home affordability a 'live' issue among most of the DC savers we surveyed. As one put it:

"…affordable housing is so important, especially for young people trying to get on the ladder. You know, it's near enough impossible these days… there also isn't enough of it (affordable housing)."

Our research demonstrates that members of DC pension schemes have also made the connection between investing in affordable housing as being both socially positive and a relatively sound long-term investment for their money. When asked if they felt that pension companies investing in affordable housing would perform worse financially that those who did not, just 8 per cent said they did, while 60 per cent felt that investing in this way would lead to better financial performance.

It's possible that investing in affordable homes could also result in members making increased pension contributions with 55 per cent of respondents saying they'd be prepared to pay more into their scheme if they thought it was being invested in this way. Perhaps unsurprisingly, younger age groups were particularly supportive of the concept, with 66 per cent of those aged between 18 and 24 at the time of the survey saying they'd be inclined to pay more, compared with 47 per cent of those aged between 55 and 65.

Across all age-groups, 61 per cent said they'd be prepared to pay more in fees for their pension to see their funds invested in affordable housing. Of these, 78 per cent would pay more than £50 a year in additional fees, while 36 per cent would be prepared to pay more than £100 a year.

Of the other options put to them, investing in clean energy came a close second with 66 per cent saying they'd feel more positive about their pension if it invested in this area, followed by 60 per cent for investing in innovation and technology, and 49 per cent for investing in private, unlisted companies.

Among those we interviewed, typical comments were:

"I think it's quite a good idea (to invest) because safe and affordable housing is something which each of us needs on a daily basis. So I think it's a good investment because you'll always get good returns. If not straight away, maybe within a longer time period. So, whether you're rich or poor, you always need to have a safe place to live, so it'll always be demand for this (sic)."

"I think I'd feel more confident that the investment's gonna do well because… there's such a demand for it. So it'd make me feel like, you know, fingers crossed nothing's gonna go wrong with that investment because there is such a demand for affordable housing. And it also, I think, sits quite nicely with me because I know that when I bought my first house, it was a new build, it got me on the ladder, it allowed me to buy my next home with the profit that I got from the first one. So it would make me feel quite relaxed and confident."

So, would understanding the rationale behind investing a proportion of DC funds in private market investments and what this could mean for real-world projects that they understand and support, help scheme members to engage more with their pensions? When it comes to issues dear to people's hearts, such as affordable homes, Legal & General's survey findings suggest that it would.

You can read our full research report 'Access all areas? Private markets and the public: What do DC pension savers think' here - Private markets (lgim.com)

Written by Legal & General head of DC, Rita Butler-Jones

In association with

[1] Research carried out in April 2024 by Ignition House on behalf of Legal & General's asset management division. The research sampled 2,024 people in the UK who were currently contributing to a workplace pension.
[2] Department for Levelling Up, Housing and Communities, Local Authority Waiting Lists as at January 2024.
[3] Heriot-Watt University & National Housing Federation – Housing Supply Requirements across Great Britain, April 2019.
[4] Department for Levelling Up, Housing and Communities, Affordable Housing Supply Statistics 2022-23 as at January 2024.

Key Risk Warnings
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Private market investment: Remembering ESG

Lynn Strongin Dodds explores ESG considerations for pension schemes investing in private markets

Summary
• DC schemes offer the most promise for private assets in the longer term.
• Investors are still strongly interested in investments that align with their ESG and impact goals, with private markets increasingly able to meet those goals.
• A move away from diversified multi-asset strategies to single sleeve solutions, with specialist managers in each asset class, is anticipated in the future.

The newly elected Labour government, just like its Conservative predecessor, is hoping to motivate investors to embrace private markets to bolster the economy. The diversification benefits and risk-adjusted returns of the asset class are certainly attractive, but increasingly the environment, social and governance (ESG) alignment has also become a driving force.

As Hymans Robertson chief investment officer, David Walker, puts it: "ESG considerations will be a key focus of private market allocations. The importance of these goals is compounded given the greater impact that can be achieved through these assets, and also given their illiquid nature, meaning that the schemes will be invested in these assets for a significant period of time."

Different schemes, different needs

The level of interest from pension schemes in private markets varies depending on the type of scheme, maturity levels and liquidity constraints. Walker notes that most DB private sector funds are looking to wind down their exposure mainly due to a confluence of overall improvements in funding levels, a move towards insurance solutions and a desire for increased flexibility in their asset allocations.

Against this backdrop, DB plans tend to be focus more on cashflow generating investment, pushing allocations toward sectors such as real estate – core equity, social housing and real estate debt, as well as energy infrastructure including wind and solar, battery storage and energy efficiency solutions, according to Cardano senior investment manager, Geordie Cox.

By contrast, Walker adds that Local Government Pension Scheme (LGPS) funds have a broader view and are still in the process of building allocations across the spectrum. This is reflected in figures from the latest LGPS Advisory Board Annual Report for the year 2022/2023 which shows that alternatives such as infrastructure, private equity and debt accounted for 23 per cent of portfolios last year, a substantial hike from 8 per cent in 2013.

LGPS can afford a longer-term horizon than their DB colleagues due to strong employer covenants, but they also have government pressure bearing down on them. One of the key planks of the former Conservative government's policies was to double the existing LGPS exposure to private equity to 10 per cent, which it said could unlock £25 billion by 2030 for UK growth.

It also proposed that these schemes invest up to 5 per cent of their assets to support the government's 'levelling up' strategy. The current Labour government has now also made clear its intentions to direct pension investments into domestic projects to help offset the restricted government borrowing capacity.

Although LGPS are in the political spotlight, Mercer partner and wealth strategy leader, Tessa Page, believes DC schemes, albeit currently representing a smaller asset level than DB, offer the highest potential for investment in private markets. She points to the Mansion House Compact introduced last year by Jeremy Hunt, the then-Chancellor of the Exchequer, as one

catalyst. It encouraged these schemes to allocate at least 5 per cent of their default funds to unlisted equities by 2030. At the time, their exposure was just under 1 per cent.

Page though notes that implementation has been slow, but both standalone trusts and master trusts are looking at private markets. She adds that one key determinant for these schemes is price and that they are looking at a variety of strategies that have different sleeves including private equity and debt, and infrastructure.

Access routes

One of the most popular routes for DC schemes has been long-term asset funds (LTAFs) which made their debut three years ago. Hymans senior DC consultant, Adam Fisher, explains that the first illiquid strategies launched using these structures have mainly been multi-asset solutions that offer one fund for clients to access a wide range of private market assets such as property, infrastructure, private equity and credit. However, he adds, this is beginning to change with the launch of a number of private credit focused LTAFs and infrastructure LTAFs.

There is also a growing trend to combine LTAFs with other private market funds. For example, Legal & General launched its new private markets access fund, a fund-of-funds vehicle that invests in a LTAF as well as third-party funds, other Legal & General funds, and directly held liquid assets.

"We spoke to clients to better understand what type of solutions they would want," says Legal & General head of DC investments, governance and proposition, Jesal Mistry. "As a result, we created a diversified global fund that was straightforward, easy to access and available regardless of the size of the scheme."

He adds that daily dealing was an important attribute for his clients, which is why three quarters of the fund is invested in private illiquid strategies with one fourth into liquid securities.

Although strategies may differ, there is no doubt that ESG and impact investing will continue to be an important factor. As Cox says: "We remain in the foothills of a private market trend we expect to develop further in the coming years. We are also seeing a growing number of schemes exploring sustainability and positive impact agendas within their private portfolios. Going beyond ESG to focus on investments that can deliver positive real-world impact, alongside return that can be measured and reported on."

Real world impact

Cox adds that increasingly, across LGPS, DB and DC, schemes are leaning more and more into investments capable of delivering positive real world impact outcomes alongside return. Common themes include financing products and services that will accelerate the energy transition or social opportunity.

This is reflected in Legal & General's recently published annual DC study that found 68 per cent would prefer to invest in schemes with allocations to private markets, as affordable housing and clean energy. More specifically, they are also prioritising these outcomes with 80 per cent predicting this trend will accelerate over the next two years. In terms of opportunities, climate transition, digital transformation and AI and healthcare were top of the list for the private market themes DC schemes wanted to pursue.

"We found that the responses were much more personal to the individual, especially with the younger generation," says Mistry. "Gen Z, for example, were much more interested in affordable housing and technology because this is what is impacting them the most. Also, they are not just looking at the projects but the sustainability, for example, of how a data centre or a bridge is being built."

Mistry also notes that investing in these types of private investments can help the education process that is still underway in terms of how DC schemes operate. "We are trying to bring to life these investments because if people can see the impact, for example, of the regeneration of their town centre, they can engage with the process and also better understand," he adds.

However, as with all illiquid investments there are challenges, particularly when it comes to pricing and dealing frequency, according to IFM Investors director, clients and strategy, Phelim Bolger. "In the case of the former, cost cap charges, although altered in recent years, continue to dominate the market, with many DC providers effectively competing on fees rather than net-of-fee returns and value to members," he adds. "The second issue, that of pricing frequency, is really a legacy result of the UK's DC provision evolving from retail investment platforms."

Fisher echoes these sentiments. He notes that fees in DC are very low, particularly in the master trust market; where they are currently well below the 0.75 per cent p.a. charge cap. "Access to good quality private asset managers is therefore difficult and most schemes are limited in how much they are willing to allocate," he adds.

Looking ahead, he anticipates the move away from diversified multi-asset strategies to single sleeve solutions with specialist managers in each asset class to continue. "Over time, I would expect allocations to private markets in DC to increase from fairly small 5-10 per cent allocations to closer to 20-25 per cent. However, the DC market needs to get over the above fee constraints before this is possible," he adds.

Written by Lynn Strongin-Dodds, a freelance journalist

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There's no place like home, except for pension fund investments

As UK pension funds continue to shift away from domestic investments, the government must identify the causes and implement changes to address this trend

Summary
• Expected performance and diversification needs are causing pension funds to reduce investment in the UK economy.
• Compared to countries like Australia, the US and Canada, UK funds are outliers for not investing back into their domestic economy.
• Consolidation and regulatory reform could encourage investment in the UK economy, but the government must ensure these measures do not conflict with trustees' fiduciary duties or harm members' retirement outcomes.

The idea of boosting pension funds' investment in the UK economy has dominated the new government's agenda recently, with reforms and reviews aimed specifically at directing funds into domestic markets to increase pension pots and stimulate economic growth.

Pension funds' investment in the domestic market has been on the decline for the past few decades. The Pension Policy Institute's (PPI) *Pension scheme assets – how they are invested and how and why they change over time* report found that, in DC schemes, £51 billion is invested in listed UK equities and £21 billion is invested in UK property.

Pensions Minister, Emma Reynolds, says there is "no really good reason" why funds should not be investing in the UK economy – but schemes do have their justifications, which may also shed light on how to reverse the trend.

Why has investment in the UK economy declined over recent decades?
Asset allocation is influenced by factors such as expected performance, portfolio diversification, costs, accessibility, liquidity and volatility. Therefore, many funds choose not to invest in the UK economy because it doesn't meet their criteria.

PPI senior policy researcher, Lauren Wilkinson, says performance is the main factor why most master trusts have reduced their exposure to UK equities in recent years.

"Those who have invested more heavily in UK public equities than a global index have found that to be a drag on their performance, something that then makes them uncompetitive in responding to tenders," she says.

Wilkinson highlights that master trusts may also question whether they are really satisfying their fiduciary duty by investing in long-term underperforming assets.

Arc Pensions Law partner, Beth Brown, agrees that trustees' duties often steer them away from investing in the UK economy, adding that their responsibility to ensure diversification plays a key role.

Trustees of trust-based pension schemes have an obligation to ensure their scheme's assets are diversified so that "excessive reliance on any particular asset, issuer or group of undertaking" is avoided, Brown notes.

She says this is arguably a contributing factor that leads trustees to allocate to a mixture of riskier and less risky investments in the UK and globally.

"It is in members' interest not to put all assets in one basket because concentration in any one aspect of the market, particularly a risky part of the market, does not allow for a safety net if things go wrong," Brown says.

Wilkinson adds that equities play a major role in DC default funds, with high use of passive, usually global, equity index funds, which is in part driven by the need to keep investment costs low and within the price cap.

"It's also driven by the strong long-term performance of global equities, much of which can be attributed to the so-called 'Magnificent Seven' *[seven famous and high-performing US tech stocks]* shares that have led to growth in the US equity market," she says.

She explains that with passive investment, as the US and other territories outperforms the UK, UK holdings shrink to mirror the global market capitalisation.

UK is an outlier compared to other countries
Unlike other countries with large pension fund assets, the UK stands out as an anomaly for reducing investment in its domestic markets over the past few decades.

BVCA chief executive, Michael Moore, demonstrates that the UK is an outlier when compared to countries like Australia, the US and Canada, citing that over the past five years, overseas pension funds have invested 16 times more than UK pension funds in British venture capital and private equity.

In particular, Swedish pension funds alone have invested more in British private businesses than UK equivalents, he says.

While Wilkinson notes that comparing the investment behaviour of UK pension funds with their international counterparts is challenging due to differences in pension landscapes and domestic markets, she agrees that the data suggests evidence of greater investment in funds' domestic assets in some instances.

"For example, Australian funds invest a higher proportion of their assets in domestic business than UK schemes, in particular in alternative markets," she says.

She adds that Australian funds are taking this approach to investment because they are tax incentivised to invest in their domestic market, whereas the trend in the UK has been in the opposite direction.

"The UK DC market is in many ways following in the footsteps of Australia, where the market is more mature, so could potentially see investment following a similar trajectory, with the right market conditions in place," she says.

Moore says that investing in domestic markets is leading to better retirement outcomes for members in these countries, particularly in comparison to UK members. I think you can add something here about how it's good even for non-members.

"These countries' pension funds typically invest a significantly larger

portion of their assets into private capital, resulting in more diversified portfolios and higher returns for savers," he says.

For example, Australian pension savers enjoy a more diversified portfolio as well as better returns compared to their UK counterparts, according to Moore.

Wilkinson adds that this not only has a positive on retirement outcomes for Australians, but it also helps stimulate investment in the domestic economy.

"This difference highlights the need for reform in the UK pensions industry," Moore says.

Change is needed to boost investment

To address the continued declined investment in the UK economy, the Chancellor, Rachel Reeves, has launched a 'landmark review' aimed at boosting investment.

This effort seeks to unlock £2 trillion in pension schemes in order to boost the UK economy, particularly DC pension schemes and the Local Government Pension Scheme (LGPS), to help kickstart economic growth in the UK.

However, significant changes are needed to make the government's goal of increasing pension fund investment achievable.

Moore recommends a revision of the regulatory framework to improve cooperation between DC pensions and private capital firms, including a review of regulation relating to life-insurance platforms to facilitate DC investment in private capital.

The government should take inspiration from overseas as "learning from successful international models, such as France's Tibi scheme, would offer valuable lessons for the UK on how to address these challenges", he says.

He also strongly advocates for the consolidation of UK pension schemes into fewer, larger entities as he says this would significantly enhance their ability to invest in private capital.

Brown agrees that consolidation could help. For example, allowing the separate pension funds that participate in the LGPS in England and Wales to pool their £360 billion worth of assets would allow them to invest in a wider range of UK assets using economies of scale, she says.

Brown adds that a suitable offering of investment that will boost the UK economy will need to be developed and marketed to trustees of trust-based pension schemes.

The Chancellor has already said that the government will focus on the financial service sector's role in delivering more investment and financing growth, including getting the industry and regulators to work in partnership to deliver growth, she notes.

"This could lead to some exciting new investment products being developed. The intention is to continue to fix the foundations of the economy, rebuild Britain and make every part of the country better off," she says.

Government should consider risks when implementing change

Brown cautioned that the government needs to be very careful when making changes to reach its goal of boosting investment because each individual, especially in DC pension schemes, relies on the investment performance of their pension pots to boost their savings for retirement.

"It is an admirable goal to want the UK economy to do well for the benefit of all, but pension funds are private property. They represent the retirement savings or deferred pay of individuals. The government must be well aware of the political risk of interfering with members' money," she says.

Wilkinson agrees that the government needs to be careful, especially as the policy initiatives currently underway could lead to some unintended consequences.

"For example, there is the risk that disclosing asset allocation could lead to less innovation in asset allocation as schemes tend towards the mean and disclosure could lead to a reduction in UK investment if it becomes more evident that schemes that are overweight in the UK are underperforming," she says.

"Any attempt to force providers to invest more heavily in certain asset classes is a direct challenge to trustees' fiduciary duty and can be expected to be met with considerable backlash. The government could also find itself in conflict with regulators, both of whom put member outcomes at the forefront of their strategies and policy," she adds.

Written by Niamh Smith, a freelance journalist

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The virtue of value: Placing communication at the heart of the value equation **p58**

Spreading the word: Communicating effectively with pension scheme members has always been important, but as more people come to rely on DC pensions, the quality of member communications will become critical. David Adams investigates efforts being made to create and measure the effectiveness of communications strategies and processes **p60**

Value for member focus:

Putting the member first

Gallagher retirement communication director, Karen Bolan, and senior communications consultant, Dave Crofts

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The virtue of value

Placing communication at the heart of the value equation

'Value' has been one of the buzzwords in the pensions industry for the past couple of years, as schemes come under increasing pressure to get value for money, to give value for members and to add value to the UK economy. But what does *'value'* really look like? And what role can member communications play in helping schemes to achieve this lofty goal?

Most people probably think of value as getting more for less – a smaller outlay, and a better outcome. There's danger in that approach, however: because the former is often easier to control than the latter, the quest for value can quickly become all about cost-cutting, about trying to *do* more with *less*. We focus all of our attention on the expenditure side of the equation and think we've increased value when all we've really done is to reduce quality by spreading resources far too thinly.

The wildly successful and fabulously wealthy Warren Buffett – clearly a man who knows a thing or two – had this to say on the subject: "Price is what you pay. Value is what you get."

That's profoundly helpful, because it places the emphasis on the outcome, and that's where any proper assessment of value ought to start. So, your investment manager reduces the charges for one of its funds – great. But how are the returns? And you've slashed your administrative expenses by moving to a new provider – great. But how's the service to members?

By and large, most people working in our industry get this, as do those regulating it and legislating for it. The Pensions Regulator's 'Value for members' guidance explicitly states: "You should consider that value for members does not necessarily equate to 'low cost'."[1] We welcome the use of Value For Money (VFM) assessments as a tool to ensure these matters are properly considered by trustee boards.

Of course, schemes tend to sit in the middle of the value equation – on the one hand, the scheme is the client for investment managers, administrators, consultants and communications providers. The onus on the scheme here is to get value from its suppliers. But on the other hand, the scheme has a responsibility to give value to its members in the services it provides. And the value you get will greatly determine the value you're able to deliver.

In the remainder of this piece, we'll look at value from these two perspectives, specifically through the lens of member communications.

How can schemes get value – and know they're getting value – from their communications providers? And how can member communications help schemes give value to members?

Getting value from your provider

We recommend three essentials for any relationship between a scheme and its communications provider:

1. Create a strategy
2. Set a budget
3. Leverage a reporting mechanism to measure results.

Firstly, **creating a strategy**:
What are you trying to achieve with your member communications in 2025 and beyond? If value is about what you get, strategy is about being able to answer the question: "What do we *want* to get – why and how are we going to do it?"

It might be that you want to improve member education in a particular area, increase member self-service, or simply ensure that members feel better connected to their pension scheme. But unless you know what your goals are, you won't be able to properly assess whether your provider has helped you to meet them – and therefore whether you're getting value for money.

Thinking strategically also helps you to ensure you're getting value on a project-by-project basis. Each item in your communications plan should serve a strategic purpose. Remember, the aim is not simply to do less, but to ensure that what you do delivers a meaningful result. Removing projects that don't serve your strategy, because they simply aren't a good use of your resources.

Equally, the strategic mindset will always be looking to triangulate your message, audience and format: are you saying the right thing to the right people in the right way? There's no sense

sending something to every member if it's only relevant for a few or sending something by post when it could be sent electronically.

Linking 'value' to communications, The Pensions Regulator specifically says you should: "Make sure you understand your members' views and needs, and that you communicate with them at the right time and in the right way to help them make good decisions."

Secondly, **setting a budget**.
We've already said that value isn't about cost-cutting – and having a budget can help with that. Ringfencing an annual spend for communications prevents a 'race to the bottom' approach because there's a protected, affordable level of expenditure designated for this function.

Of course, budgets do have to be well-informed and realistic – you don't want to be the scheme that underestimates the cost of postage and ends up spending most of its allocation on a large mailing exercise. That's where the conversation between strategy and budget becomes important: communicating electronically rather than by post could reallocate precious financial resources to spend on something more strategically worthwhile.

Thirdly, **leveraging a reporting mechanism and measuring your results**.
This is all about knowing what you're getting – and it's all-too-often overlooked by schemes whose busy schedules mean they don't make time to evaluate (a word with ***value*** at its heart!) the communications service they're receiving.

Each of your strategic goals should have some sort of metric by which it can be assessed, and a good communications provider will regularly and consistently update you on those. Often that means having a well-integrated set of providers who work smoothly together: if the aim of a particular piece of communication was to increase registration on your member portal or activity on your scheme app, you'll need your comms provider to talk to the admin provider or digital services provider to see how things are going. This doesn't necessarily mean the providers have to sit under one roof – although at Gallagher we're already experiencing the benefits of sitting alongside administration teams and actuaries following the acquisition of Buck last year.

Sometimes the metrics will be simple and quantitative: website hits or email open and click-through rates don't tell you everything, but they're an essential insight into whether your money is being well spent.

Some metrics are qualitative and might require you to survey the members to establish if their knowledge is increasing, if they're happy with the service they're getting or if one of your other strategic objectives is being achieved.

This kind of analysis can be used to inform subsequent strategy, either by changing your objectives if they've been achieved (or are no longer valid), or by changing your approach to achieving those objectives if your communications haven't done what you wanted them to.

Essentially, your communication strategy should be an evolutionary process, which enables you to evaluate the results you are achieving and help you plan to achieve further success.

Giving value to your members
At the end of the day, pensions are all about the members – and so is the value equation. All of the steps taken above to ensure you're getting value from your communications provider will help you to pass on that value to your members by delivering communications that are relevant, interesting and actionable.

Thinking more broadly, member communications have a vital role to play in ensuring members understand and appreciate what they're getting from their pension scheme. It's about turning *value* the noun into *value* the verb: members truly *valuing* what they have.

Your VFM assessment and Chair's Statement could be absolutely glowing in terms of what you've done to ensure members are reasonably charged and excellently serviced – but unless members know about it, they won't really value it. And if we're to tackle the perpetual under-saving crisis, we need people to value their pensions – to care about what they have (or don't have) enough to take ownership of their financial future and act accordingly.

And that's where member communication comes in. For the schemes who take the virtue of value seriously, Gallagher is here to help you shout it from the rooftops, on websites, through emails, in videos, via webinars – whatever it takes to get the message across successfully.

Being strategic in your approach to communications also helps you demonstrate the value you are providing to the sponsor and the members. Measuring the effectiveness of your communications gives you the ability to prove the ROI of any communications spend.

Having a communication strategy also helps you to focus on your specific objectives and drive the behaviours you want to see from members.

We must remember that effective communications focus on outcomes not outputs. It is not only about what is created, but what happens as a result.

Written by Gallagher retirement communication director, Karen Bolan, and senior communications consultant, Dave Crofts

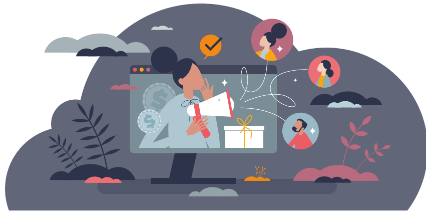
In association with

[1] https://www.thepensionsregulator.gov.uk/en/trustees/governing-the-scheme/value-for-members

Summary
• Effective communications strategies are essential for every type of pension scheme, but particularly for DC scheme members considering how to use pension pots.
• Effective communications need to use clear, jargon-free language, to be carefully tailored and sent using different methods to engage different audiences within a scheme.
• It is necessary to try to gauge the effectiveness of communications strategies and processes, using both quantitative and qualitative metrics.
• In future, the introduction of the value for money framework may compel trustees, governance committees and pension providers to demonstrate the efficacy of member communications.

Spreading the word

Communicating effectively with pension scheme members has always been important, but as more people come to rely on DC pensions, the quality of member communications will become critical. David Adams investigates efforts being made to create and measure the effectiveness of communications strategies and processes



Trustees, employers and pension providers all need to communicate with scheme members regularly throughout their membership. Effective communications are essential, because they encourage members to engage with the scheme and with their pensions and can inform decisions that may have significant consequences for long-term financial outcomes. While a complete lack of engagement may not always lead to disaster, it is likely to mean that members take decisions without a full understanding of their possible consequences.

You don't have to look far to see why a lack of understanding might cause problems. Research commissioned by the Pension Protection Fund (PPF) in 2021 showed that almost one in four (24 per cent) of DB pension holders assumed the pension they would get would match their current salary. But at least those people would have a retirement income of some kind – a similar lack of understanding among DC scheme members could be disastrous.

"In the DC universe, some decisions could be very beneficial, or very negative," says Pensions and Lifetime Savings Association (PLSA) head of DC, master trusts and lifetime savings, Alyshia Harrington-Clark. "For example, a single piece of communications that encourages someone to increase their contributions could have a huge material outcome on their outcome." Effective communications can also help protect members against pension scams.

But attempts to communicate with members also have to compete with many other items of interest and importance competing for members' attention. "Members are busy people, and pensions are not necessarily at the top of their minds," says Gallagher director of retirement communications, Karen Bolan. "So communications must be relevant and timely … and messaging very clear and targeted."

Pensions Management Institute (PMI) president, and First Actuarial head of administration services, Robert Wakefield, also emphasises the need to ensure communications use plain, jargon-free language.

"You can have the best communication strategy in the world, but if the language isn't appealing and easy for members to understand, you may as well not have bothered," he warns.

Different methods, different messages

This is particularly important when communicating with DC scheme members approaching retirement, who may need to make complex decisions about how to use their pension pots. But 2022 research commissioned by the SEI Master Trust found that two-thirds (66 per cent) of active members in a range of workplace schemes said they didn't pay much attention to their pensions; and 65 per cent agreed with this statement: 'My employer set the pension up and I trust that they are making sure I am paying in enough to have a comfortable retirement'.

Many schemes and employers will find it difficult to budget for the kind of face-to-face engagement and guidance processes that the work of Pension Wise has shown can really improve understanding of pensions. Instead, most DC members will need to be engaged via a scheme's communications processes.

Use of digital technologies does seem to help. "If you were to measure progress by the volume of more easily comprehensible communications, then definitely the introduction of digital has improved things," says Harrington-Clark. "It means you can use video, and diagrams – the general move away from prose text has enhanced the accessibility

of communications. But whether that has a meaningful impact on outcomes is harder to measure."

Bolan agrees that improvement in the quality of communications is not so important as signs of improvement in outcomes for scheme members.

"The industry is making progress, but we still see too much emphasis on what is produced – ie. a nice website and attractive messaging – as opposed to what happens as a result," she says. "This is why our emphasis is on thinking strategically about communication. What do you want to achieve as a trustee board, or a governance board? If you set objectives that enables you to set goals and targets."

Ideally, communications intended for different groups of members in the scheme would be tailored in more sophisticated ways than segmentation by age, as two people the same age may have very different understanding of, or attitudes to financial matters, or very different personal circumstances. Messaging content can be tailored for different audiences in different ways: For example, some demographics may be encouraged to engage more closely with their pensions if they are informed about changes to the ESG aspects of an investment strategy.

The choice of communications methods used is also important. Bolan highlights the results of recent research commissioned by the FCA that highlighted the shortcomings of email as a communications medium, in part because many people check email infrequently and find it easy to ignore messages in which they are not immediately interested. The FCA's conclusion was that it is difficult to persuade people to engage with pensions via email alone, and that other approaches to communications should be considered.

That might mean using new technologies or channels, such as social media or AI. Wakefield says First Actuarial is about to roll out a solution that will send members approaching a tailored, AI-based video in which avatars talk individuals through their own specific pension options.

But in other circumstances more traditional methods such as posters on the workplace wall might be the best way to communicate with some members. Hymans Robertson senior DC investment consultant, Kirsty Moffat, also highlights the importance of word-of-mouth, particularly in non-office workplaces. A pensions champion could help, she suggests: "Somebody who is tuned in with what's going on with the pension scheme and can filter appropriate communications down to members".

"The industry is making progress, but we still see too much emphasis on what is produced, as opposed to what happens as a result"

A quest for qualitative feedback

Meanwhile, in future the need to measure the effectiveness of whichever communications methods are used may be linked to the new value for money (VFM) framework being developed by the government, The Pensions Regulator and the FCA. The new VFM framework will assess value based on annual investment performance, service, costs and charges; and assessment outcomes will be reported. Consultation on the framework has begun; it may be in place by 2028, increasing the need to find ways of assessing the effectiveness – and therefore the value – of communications strategies and processes.

"You really need to know from the member, 'How did this interaction make you think, or feel – and what did it make you do, if anything?'" says Pensions Policy Institute head of policy research, Daniela Silcock. "Did they find it useful, did it impact their thinking?" She suggests that schemes might run a representative survey of members who have interacted with the scheme to try to obtain this sort of information.

Focus group findings may also be useful, if practical and affordable. But Wakefield says that even basic feedback can be useful, such as asking members what they want from communications they get from a scheme or provider, or what help and other support they might like.

In future, the roll-out of pensions dashboards may also help to boost the effectiveness of member communications. Wakefield says: "People will be more aware of what pension benefits they've got, and where." But Silcock feels there is a need for additional policy intervention to boost engagement.

"There needs to be joint funding and design between government and the pensions industry and employers, to allow more tailored approaches," she says. "We need nationwide data, so we can see whether communications have improved across the country." She is hoping that the government's pensions policy review will include a look at how to better support engagement with pensions, building on progress made by recent campaigns like Pay Your Pension Some Attention.

As with other aspects of the pensions system, it is certainly possible to see signs of improvement in member communications within many different types of schemes. We won't know for many decades whether that leads to improved outcomes – but surely using well thought-through communications strategies to try to improve engagement and understanding is more likely to do good than harm.

Written by David Adams, a freelance journalist

In association with

Shantel Okello

Lauren Wilkinson

10 more years of DC

Pensions Age sits down with the authors of the Pensions Policy Institute's latest *DC Future Book*, Shantel Okello and Lauren Wilkinson, to discuss the progress made in the industry over the past decade, and the challenges still to come

This year's future book comes almost a decade after the launch of the inaugural 2015 edition of the *DC Future Book.* Can you tell us a bit about how the landscape has changed in the 10 years since the launch?

Shantel Okello: There have been many changes within the pensions industry landscape, and I think the most significant one is the introduction of automatic enrolment in 2012 *[and growth in participation seen since]*, because of the way it's brought millions of savers into retirement planning that wouldn't have done so otherwise.

Another big one was the introduction of the freedom and choice, as that marked a real shift in the way in which people can access their DC savings and gave them much more flexibility.

But the overarching change has definitely been the shift in responsibility of risk from employers to individuals.

That shift has also presented some challenges for the industry, and this year's future book also has a focus on the what the next 10 years may hold, particularly given that move towards DC. So, with so many challenges on the horizon, what challenges do you think are most pressing for the industry to address?

Okello: The adequacy of contributions is a major one. I think that is a very persistent issue and currently contribution rates are nowhere near enough to ensure adequate standards of living in retirement.

Another issue though is the number of employees that are actually found ineligible for automatic enrolment as well. That is a major issue, and it highlights the gaps that we have in the current system – so it's definitely up to the government to make sure that people aren't being left behind.

Lauren Wilkinson: Yes, that was a very stark finding, as we've seen the number of ineligible workers overtaking the number of eligible people for the first time.

One thing to flag is that there are some people within that 11.2 million ineligible workers who will have been counted multiple times because they've been shifting around jobs quite a lot.

So, I think the real concern over the next decade is which groups are overrepresented in that ineligible group. Under-pensioned groups – including women, people from minority ethnic backgrounds, people with disabilities, carers, and people in non-traditional employment, so multiple job holders and the self-employed – are much more likely to be overrepresented in that ineligible group, which is really concerning in terms of the impact that could have on existing inequalities.

Do you think these are issues that we can expect to see addressed in the government's upcoming pensions review?

Wilkinson: Potentially, I think particularly in the second phase of the review where we're looking at adequacy – I think that these are all questions that will need to be fed into the review at that stage.

The first part of the review will be focusing on pension investments though, amid the broader push to encourage greater pension investment in the UK. This is another area that the *DC Future Book* looks at in depth, suggesting that the move towards private markets will need to be handled carefully to ensure that schemes still put the needs of their members at the forefront. Can you tell us a bit more about these concerns and any specific measures you'd like to see from the government?

Wilkinson: Even before the current focus with the Mansion House Compact and the current investment review, we have been seeing DC schemes tentatively exploring alternative asset classes a bit

more beyond that sort of traditional equity bond split.

That's a trend we've been highlighting in the *Future Book* for quite a few years now, but I think we've really started to see an increased focus recently.

There have been some structural and governance barriers that have meant progress was quite slow, but the daily pricing issue, which was quoted for a long time as a reason for DC schemes not investing, has largely been dealt with.

And as we see scale in the DC market grow, I think we'll see some of the other challenges reducing as well – so I think we can expect to see allocation to alternatives and private markets growing over the next decade.

But it's unclear at the moment how much of that will be going into the UK economy specifically, which seems to be the government's main driver.

And while there are societal benefits to stimulating the UK economy, for schemes, there really needs to be a strong case for why it's in their members' best interests before they start making changes to investment strategy.

If not, I think we're really going to see a growing tension between fiduciary duty

to members and the external pressures coming in from the government around UK productive finance.

One of the other issues is on the supply side, as there are concerns around whether there's currently enough in terms of quality UK productive finance investment opportunities.

If we start to see a rapid shift of schemes channelling funds into this, there is a risk there would be a potential herding effect, and it could have quite a detrimental impact on asset prices and returns.

We don't yet know what exact approach is going to be taken by the government, but we may see lighter touch measures explored first, such as disclosure requirements.

Even that could prompt less innovation in asset allocation though, if schemes tend towards the average allocation they're seeing among other schemes.

There's also the potential that could have the opposite effect on UK investment compared to what the government is intending, because if we start to see that schemes that are a bit overweight in UK investments are underperforming, then we'll see less schemes investing in UK assets.

It's a difficult one and it needs to be approached very carefully.

Do you think there is any risk that the focus on productive finance could distract from recent progress made on the push towards net zero?

Wilkinson: Potentially, we've seen ESG considerations really growing massively in importance in recent years, and again, that's something we're tracked in the *DC Future Book.*

But the increase in these ESG regulatory requirements has led to a bit of fatigue in terms of ever-growing disclosure requirements to be met.

We don't know what the government's approach is going to be on productive finance, but if we do see disclosure requirements, that could mean less time spent on ESG considerations.

We are quite far down the ESG-path though, and I think a lot of schemes, particularly larger DC schemes, have already thoroughly incorporated these considerations into their approach and into their processes, so hopefully we wouldn't see too much in terms of backsliding on these issues.

There's also the potential for productive finance assets to support the ESG objective, so I don't think they necessarily have to be in conflict, but they'll likely require a fair bit of work from schemes.

Given some of the adequacy issues raised in the report do you think it's the right approach for the pension investment review to tackle investments first, or do you think contribution rates should be tackled in tandem or sooner?

Wilkinson: Obviously I think that investment returns are an important part of the puzzle, and so I completely understand why we're focusing on that.

But I don't think they will solve the problem. We've got a lot of people that are sleepwalking towards very poor retirement outcomes and even with the best investment returns in the world, they won't be able to achieve positive outcomes without also increasing those contribution rates.

Okello: I agree. I think they both need to work simultaneously, and we want to ensure we don't overemphasise one or neglect the other.

Focusing on investment and performance can have a great impact as well, and even if it's just through active management or incorporating alternative assets, it is important to try our best to maximise those returns.

But again, I think the foundation and the building block is increasing those contributions.

Written by Sophie Smith

Empowering financial futures

As part of our year-long focus on financial literacy, *Pensions Age* asks industry experts what key elements of financial education they believe should be integrated into school curriculums

Financial education

• Financial education was added to the National Curriculum in September 2014 as part of citizenship education for students aged 11-16 in secondary school. It is mandatory in local authority-maintained schools. Additionally, the mathematics curriculum was designed to help students understand essential personal finance skills.

• In England, this requires teaching topics like budgeting, credit, and debt, insurance, savings, and pensions.

• Wales introduced a new curriculum in 2022 in primary and secondary schools that incorporates financial education across subjects like maths and health and wellbeing.

• In Scotland, financial capability is covered in the curriculum for students aged 3 to 14, while in Northern Ireland it is taught to students aged 4 to 14.

• A 2022 survey of 401 UK primary and secondary teachers by the All-Party Parliamentary Group on Financial Education for Young People found that over two-fifths of secondary school teachers were unaware that financial education was a curriculum requirement.

Case study: RedSTART

Redington's RedSTART, founded in 2012, is a charity focused on providing financial education for primary-school children. Initially launched as a corporate social responsibility initiative, it aimed to teach financial basics at school, at home and in the community. By August 2021, RedSTART had reached over 40,000 children across the UK through interactive workshops, both online and in person.

Despite the many challenges they face, I've yet to meet a teacher who doesn't think that teaching financial education is a good idea. Getting teachers onboard is not the issue. Delivering financial education consistently across all primary schools is the real stumbling block. As it stands, the inconsistency in how financial education is delivered means where it has been taught it hasn't always produced the right outcomes. And if you live in an area of greater deprivation, you are much less likely to receive any kind of financial education at primary school full stop. In the UK, to our shame, we've been squandering the potential of millions of children year after year because we don't equip them with the everyday life skills around money that they need in adulthood. In doing so we perpetuate a pernicious cycle of disadvantage right through to retirement. That cycle has to be broken. And it has to be broken now. That means starting early, the earlier the better because children's attitudes and habits about money are shown to have developed by the age of seven. It also means ensuring that it is impactful and sustainable by being delivered through a structured ladder of consistent, repeated learning.

RedSTART Educate CEO, Sarah Marks

We urge the government to consider steps to improve financial literacy, particularly around pensions, which is a blind spot for many, especially younger generations. This move would help pensions savers get the most value from their consolidated retirement savings and reduce poverty for future generations. Saving for retirement is often viewed by consumers as an older person's issue, but money saved early on has more time to grow if it's invested wisely. Many people don't consider how much they will have to live on in retirement until it is too late to make adequate provision. Better financial education early in life, through a government backed financial literacy programme in schools, would help people make the right choices earlier in life to secure a more comfortable retirement.

RSM UK head of pensions, Ian Bell

Financial literacy is an essential life skill for all of us that helps build our financial resilience and allows us to look after those we love. We know that supporting school children to develop that skill early helps them to make better financial decisions later in life. Encouragingly, financial education is now part of the school curriculum across the UK's four nations. However, financial literacy is about much more than just numbers and we would like to see it move beyond the maths classroom. It's about helping children and young people visualise ambition and lifestyle goals throughout their lives. That's why we are keen that children are introduced to some of the basic concepts of pensions and long-term savings, in a relatable way – it will make it feel much more accessible when the time comes to make decisions about them in adult life.

Royal London customer life stage director, Rory Marsh

Our recent *Retirement Report* found 47 per cent of young people (aged 22-29) are on track for a less than minimum lifestyle in retirement. We need to massively ramp up the provision of financial education in schools, especially on key topics like pension awareness. Today's students need to understand the importance of long-term financial planning. Pensions are critical for ensuring a stable retirement, yet they're often misunderstood. Teaching students how workplace pensions work, including the benefits of auto-enrolment and employer contributions, would provide practical knowledge they can carry through into their future careers.

Scottish Widows pensions expert, Robert Cochran

The Money and Pensions Service (Maps) firmly believes that the better financial education young people receive, the more this will set them up for their adult life. From pocket money to pensions, Maps would like to see savings habits being taught early on in life, ensuring young people can save to afford everyday wants and needs, as well as saving and looking ahead to their futures. As a way to start thinking about pensions early, when young people move into employment, they should ask their employer about enrolling in their pension scheme, even if they don't quality for auto-enrolment. Maps has endorsed the Financial Education Planning Framework, developed by Young Enterprise, which sets out key areas of money knowledge, skills, and attitudes. As part of this, Maps hopes to encourage long-term financial planning for 11-19-year-olds. This includes ensuring that young adults can not only start creating good habits early, but also ensures that they recognise the potential consequences of not making long-term financial decisions.

Money and Pensions Service senior policy and propositions manager, Lisa Davis

Written by Paige Perrin

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Continual innovation: *Just Group managing director, Pretty Sagoo, talks to Pensions Age about the company's continual innovation, to the benefit of schemes of all sizes looking to implement a buyout deal* ***p68***

The buyout game: *As DB pension scheme funding levels have generally improved over the past year or two, many of those seeking buyout have seen their journeys to wind-up accelerated. But how is the sector reacting to this increased demand and how can trustees best prepare their schemes for a smoother journey?* ***p70***

Bulk purchase annuities focus:

Changing times

Just Group managing director, Pretty Sagoo

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Pretty Sagoo

Continual innovation

Just Group managing director, Pretty Sagoo, talks to *Pensions Age* about the company's continual innovation, to the benefit of schemes of all sizes looking to implement a buyout deal

The bulk purchase annuity (BPA) market has skyrocketed over the past couple of years, so your arrival at Just in April 2022 was perfectly timed to capitalise on the opportunities in the market. Could you explain how, under your leadership, Just has seized upon this opportunity?

The great thing about joining Just was that there was already a quite phenomenal team in place. That allowed me to not have to make lots of changes in personnel. I was able to focus on the structural things we needed to do to grow. The idea was to grow because, in 2021, we'd written £1.9 billion in business and, at that time, the BPA market was £28 billion. Then, in 2022, the total market was still £28 billion and yet we grew 50 per cent, even though the market was actually flat. So that was quite important for us to demonstrate that even when the total volumes in the market are flat, we can still grow how many deals we do.

In my personal experience, what insurers are consistently poor at is technology. If you combine actuarial, with computational and good commercials sense, that's the magic triangle. You can do amazing things.

So what we started in 2022 was a new platform build, from the ground up. Instead of outsourcing, we retrained our own people to be able to leave Excel and automate what we do, and really start looking at the end-to-end in the business.

The other thing I often observe is you have a lot of deal hubris. 'Oh, look at me, I did this big deal', that kind of thing. In pensions, our world is about taking care of the member. It's all fine and good saying, 'oh, we did this big deal', but if you haven't got all the infrastructure in the background to deal with a customer effectively, then it can come unstuck.

This is important in a growth market like BPA. You can't put all your focus on just winning deals. It has to be end to end. So that's quite important to me to make sure we don't just grow and try to do lots of deals, but that we get the end to end right, by investing in operations infrastructure.

After all, Just has already completed 400-plus deals. We've pretty much seen it all in terms of complexity. We've seen every nuance of member benefit that you can imagine.

Could you explain the practicalities of the transformation you have overseen since 2022, both in terms of technology and personnel?

We've doubled the size of our team over the past two and a half years. What we have also done is changed the way we recruit. We have shifted our hiring requirements; you have to have a mindset in most of our roles now where you're open-minded to embracing or using new tools, doing things differently.

On the tech front, from an infrastruc-

ture perspective, we actually have done quite a lot of engineering of the way we model cashflows.

When we first were testing our new pricing model, one scheme had 1,000 members and cashflows were running in three hours. When we took that first scheme and ran it through the new model, and we did the cashflows in 23 seconds.

For small schemes we provide a bulk quotation service, called Beacon. As a service it's still fairly unique. Other insurers, such as Aviva and PIC, have launched their own small scheme offerings. So for me it was important that we keep developing ours. Evolving that has been a core part of our mission. For us, it is important that it is as streamlined as possible and not complicated for trustees. A scheme can send their data in, and we just price the deal for them and that price would be the execution or near executable price.

But now we've developed it again, and engineered it even better. Two years ago, we had 100 schemes on it. Now it's got more than double. To achieve this, one of the vital things to do was developing it, while at the same time listening to the trustees and keeping it simple.

What about what you were looking to evolve in terms of Just, as a company, culturally?

Historically Just has not been known for doing the £1 billion-plus, larger deals. This is due to us being smaller in size, as a company, within the BPA space, along with our tradition, coming from being purely a retail business where we used to sell annuities and lifetime mortgages. Basically, we are the biggest broker for selling annuities on the open market. Where we come from is we're all only about retirement, nothing else. What we say is we're here to help people live a better later life. It's all about retirement, retirement, retirement.

And now, a big aim of our growth plan is, instead of being seen as a small-deal-only house, to be seen as a whole of market player in the BPA space.

We want to use our experience on smaller schemes to support larger schemes get the same innovative and excellent customer service that we pride ourselves on. So a lot of the work we're doing is just to demonstrate that in the market. To achieve this, what we have done is steadily and carefully grow the biggest size of the deal we've ever done. We have steadily grown that and we're going to continue to do so.

In the context of Just itself as a company, culturally, it is the nicest place I've ever worked in. This meant that I didn't have to do any fixing of culture. We're in this together, we're building the business together.

> **"We want to use our experience on smaller schemes to support larger schemes get the same innovative and excellent customer service that we pride ourselves on"**

So, from a cultural perspective, for me the biggest challenge is when you grow a business and you grow the number of people, how do you hold on to your 'pixie dust'? For me, that is the most important thing. That even as you grow, you still know everybody's name and you still know their roles and what they're doing. Because operations is only going to work really well with pricing and business development if they have a connection and they all understand where everybody fits within the process. Business development and operations are a key consideration here actually, as it comes back to that 'peacock' point. Operations has to be as prominent as business development to ensure an optimal experience for the end customer. That's really important to me, for everybody to have equal accountability, responsibility, and also glory and responsibility for what we do. That's really important to get right. Being a purpose-driven organisation really helps galvanise everybody around what we're here to do and what our contribution is, and our focus on the member as well.

What were the challenges you first foresaw when you joined and have they shifted over the two-years-plus since you joined? And what will your longer-term aims be for the future?

We have quite a huge change programme underway, which is still nowhere near complete. The big focus right now for us is data architecture. During the end-to-end bulk annuity process, there are lots of touch points on the same original set of data, so we are considering what trustees might struggle with, with that. So we are helping them get what they need out of their admin, getting it to the right quality and at the right time to help them complete the processes they're involved in.

Our focus is on the degree to which we can fix data flows and validation routines. And then we want to deliver that for the benefit of administrators and trustees, as we think that will be really powerful. That is one part of our transformation programme, and phase two involves how we transform operations. So our tech plan is to get ourselves to a place where the tools we use to assess data quality develops to the extent that a scheme may not necessarily even need to come and talk to us but can actually just use our portal themselves for their own benefit.

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The buyout game

Summary
- The UK PRT market for DB schemes is currently febrile.
- There is little-to-no constraint in capacity.
- Governance and data remain at the forefront for schemes looking to make a transfer.

As DB pension scheme funding levels have generally improved over the past year or two, many of those seeking buyout have seen their journeys to wind-up accelerated. But how is the sector reacting to this increased demand and how can trustees best prepare their schemes for a smoother journey?

There have been tumultuous shifts in British life in recent years, usually predicated on the shifting of one administration to the other: Boris Johnson's turn in No. 10 gave way to the truncated stay of Liz Truss, who was followed just over 40 days later by Rishi Sunak. Sunak's stay in power came to its endgame in July when Keir Starmer took the keys to Downing Street.

Behind the scenes, while all this political jockeying has been going on, there have been massive shifts in the country's pension transfer market as an accelerating number of funds have moved towards obtaining buyouts through insurers.

LCP, writing in its *A Seismic Shift in Buy-Ins/Outs: How is the Market Adapting?* report last October, said: "[*Our*] analysis shows a sustained period of high demand over the next five years to 2028 as many schemes reach full funding on buyout and choose to insure. Estimates of transaction volumes over the next five years of up to £360 billion represent a substantial uptick from historic levels."

In a later paper, *LCP's Predictions for the Pension Risk Transfer Market in 2024*, the same company went further, predicting that volumes in 2024 would reach over £50 billion, which it said would make it 'another record year'.

It added: "The growing volumes will be driven by a greater number of £1 billion+ transactions. There have been at least 10 £1 billion+ transactions in 2023, exceeding the previous record of nine in 2019 and double the number in 2022. This trend of more large deals looks set to continue into 2024, with insurers reporting record numbers of large schemes in their pipelines."

It is not only the number of transactions that has shifted, says WTW managing director of transactions, Shelly Beard, but also the individual size of those transfers. "Five or six years ago," she says, "the transactions were mostly pensions buy-ins. You might have gotten £300 million, which would have covered about 60 per cent of a scheme. And volumes were somewhere between £25 billion and £30 billion a year."

The environment has been febrile and is aptly summed up by Just director of commercial, Rob Mechem.

He says: "What we've seen over the past two to three years is that as interest rates have risen, funding has improved to a point where many schemes no longer need contributions and are now in a fully funded position, meaning that they can transact quite quickly. And from the perspective of the insurers, there's more appetite and ability to source assets on their side. So we have a situation where supply and demand are working well together, and circumstances in which one is not outstripping the other."

The Truss budget

Many of those spoken to by *Pensions Age* put much of the onus for the improved funding position and the resulting acceleration in buyouts on the Budget put forward by then-Prime Minister, Liz Truss, in September 2022.

"The rise in yields throughout 2022 and beyond," says XPS head of risk settlement, Stephen Purves, "really helped the majority of funds move closer to their eventual target. That really focused the minds of trustees and sponsors, and it means that the endgame for a scheme went from being 10 years into the future to now just being a couple of years away."

Many UK schemes are now carrying heavy surpluses. In May, the Pension Protection Fund said that this had increased between March and April from £455.5 billion to £458.3 billion. At the same time, UK DB schemes were holding assets of £1.398 trillion against liabilities of £939.7 billion. Meanwhile, the funding ratio for the 5,050 DB schemes in the index increased from 146.5 per cent at the end of March 2024 to 148.8 per cent in April. It was also reported that 4,545 schemes were in surplus, compared to 505 in deficit – an overwhelming ratio.

There is also little risk of deceleration, says Purves, citing the fall in the cost of annuities from the rise in interest rates. Those schemes that have not yet gone for buyout, he says, will still be looking to de-risk their assets so they can be positioned for a future transaction.

"Lots of them," he adds, "will have come out of equities and gone into something like corporate bonds and gilts, which will lock them into that position. If the scheme has been sensible, it will have locked into the upside and de-risked, putting them in place for a buyout."

There seems also to be little constraint in capacity. Pricing has reportedly been good and while there have been fewer insurers placing bids, those bids have remained strong. Against that backdrop, two – and, possibly, three – insurers are also set to enter the market this year.

"The insurers have been seeing it come for a long time," says Legal & General Retirement institutional head of execution and origination of UK PRT, Dominic Moret, "and they've been scaling up their teams in preparation. So that, along with the new entrants, means that we don't see any capital constraints in the market – any scheme that is looking to transact will be able to transact."

There are challenges, however, on the administrative side. This is the view of Mechem, who says that while there is no issue with the insurers coming to market, the work involved in a transfer means there is often a deficit of skills and knowledge to make this occur at the same pace as before.

Mechem adds: "Having the capacity to get to that place with the data and the administration is where we are seeing some challenges. It used to take 12 months to complete some transactions, but they are now at 18 months. And the stuff that used to take 18 months has now stretched out into two years."

"We have a situation where supply and demand are working well together, and circumstances in which one is not outstripping the other"

It may also be that some smaller schemes may find themselves squeezed amongst the larger players, says Beard. She says that the beginning of the year saw no constraints and heavy engagement, but she has since observed greater selection in the past two months from insurers.

"That," she says, "has affected the smaller end of the market because the amount of work being done is not that dissimilar between smaller and larger schemes. It just happens that the prize and profits are bigger with the larger schemes, so the smaller ones get a little crowded out."

Preparing for buyout

There is a mnemonic, says LGIM head of endgame solutions, Mat Webb, for schemes looking to prepare themselves for buyout: ABADGE. It stands for, he says, Affordability, Benefits, Assets, Data, Governance, and Engagement.

"That," he says, "is what we tell schemes."

Perhaps the three most-important aspects amongst them are data, governance, and assets.

Webb says: "When it comes to data, we work with administrators to provide clear, checked, and verified data that we know is reliable without any unnecessary risks. For governance, we look for schemes that have clear processes in place that the trustees have discussed with the sponsors, along with a clear process for making decisions. And we, when it comes to assets, ask schemes to work with investment managers to understand what might be attractive to insurers, and we can then help design portfolios that are more efficient for the transfer process."

PIC co-head of origination, Tom Seecharan, adds one more thing to the mix.

"You also need to think about what you want from the process," he says. "Price is important, but there are different commercial points that are important to schemes. So it's worth talking to stakeholders and making sure that they're all on the same page. If they're not, you don't want to find this out at the last minute."

While the market is a heightened, heated state, it might be easy to assume that executive a pension transfer is easy. But the important thing to remember, says Purves, is that it is a process that is not completed in a week.

"It can take months," he says, "and it's similar to buying a house when it comes to effort and negotiation. There are lots of things that can prevent the transaction from going ahead. You need to keep continually monitoring and keep the champagne on ice until everything is signed and sealed."

Written by Pete Carvill, a freelance journalist

In association with

CAF chair of trustees, David Locke

K3 senior actuarial consultant, Thomas Crawshaw

Navigating the buy-in journey

CAF chair of trustees, David Locke, and K3 senior actuarial consultant, Thomas Crawshaw, explain how careful handling and collaboration were key to the success of their recent £12 million full scheme buy-in transaction

Congratulations on the recent £12 million full scheme buy-in of the Charities Aid Foundation (CAF) Pension Scheme. Please tell us about K3 and, separately, about the pension scheme.

Thomas Crawshaw: K3 is the pension market's only specialist independent bulk annuity advisory business. Helping defined benefit schemes to de-risk and develop solutions to improve outcomes, through insurance or other risk transfer options, is all we do.

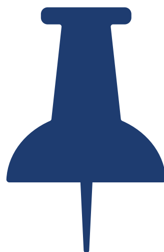
Since our inception in 2018, we have quickly built up a strong reputation for running simple and certain insurance broking processes that attract more insurers to quote, leading to better pricing and lower advisory costs for schemes.

We're proud to have completed 87 transactions securing the benefits of over 10,000 scheme members and cover nearly £2 billion of premium. We also recently launched our buy-in to buyout service, supporting trustees and insurers to get schemes through the buy-in to buyout phase and, ultimately, to wind up.

David Locke: The CAF Pension Scheme is a scheme sponsored by the Charities Aid Foundation, a not-for-profit organisation that provides services for charities and works with individual and corporate donors to enable them to give effectively and impactfully. The trustees of our scheme ran a tender process in early 2023 to help us secure a full scheme buy-in, and we were delighted to select K3 to lead this milestone transaction for the scheme, and the charity.

Please tell us about the intricacies of the deal, as well as which other parties were involved.

Locke: The transaction was around £12 million in size and secured the benefits of 64 of our pensioners and 155 of our deferred pensioners. K3 led the transaction, which completed with Just Group. They advised our trustees on the transaction, which secured the buy-in policy at a very competitive price and with contractual terms that met the requirements of our trustees. We chose K3 as they really understood our specific needs and challenges. They are true specialists in the small scheme buyout transaction market and have a proven track record. Their independence was also important to us, as was the clear strength of their relationships in the insurer space.



What were the challenges faced along the way?

Locke: We had some unique elements that needed careful handling. The main challenge being around a group of members whose benefits were defined in a variety of formats rather than just purely as a defined pension, and therefore required the option to convert into pension benefits in very specific ways at retirement.

Crawshaw: We needed to work with Just Group to understand if they could both price and administer these benefits and, if so, whether they could do so on terms that the trustees were comfortable with, and they felt offered value for members.

How long did the process take from start to finish?

Crawshaw: We were initially engaged in June 2023 and commenced the work of getting the scheme prepared to formally approach the insurance market for a quotation. Several months were spent doing important groundwork such as initial planning, getting data and liaising with the investment advisers, LCP, to understand the profile of the scheme assets.

At the same time as the preparation work we also sourced indicative pricing, which clearly demonstrated that the scheme, with the support of the sponsor, could afford a transaction. LCP undertook work to align the scheme's assets to insurer pricing and to be easy to transition. Work was then undertaken to deal with the more unusual benefits and at the same time we ensured the scheme benefit specification was reviewed by both the administration team, Broadstone, and the scheme's legal adviser, Osborne Clarke. Given the unusual benefits, this process took several months before the trustees were in a position to request a binding quotation. The trustees chose Just as their insurer based on the quotation from Just, which was received in May 2024 and the transaction completed shortly afterwards, in June 2024. The buy-in policy is now going through the data cleansing period with the insurer.

Locke: While time was not necessarily a focus for us, rather it was navigating our unusual requirements, we were pleasantly surprised at how short, in relative terms, the process was. What was really important, and impressive, was how smooth and efficient the whole process was. Having a group of advisers who can work collaboratively was critical to how the whole process felt for us.

What advice would you offer similar schemes who are thinking of embarking on a similar journey?

Locke: Start your preparation as soon as possible – the benefits of this can't be overstated. Also, ensure you have a good calibre of trustees who work well together and also ensure you have in place a team of professional advisers who are all top of their game.

Crawshaw: It has become a cliché in the bulk annuity world that data and benefits are key for a successful transaction, but it's a cliché for a reason – data and benefits are incredibly important and underpin all aspects of a transaction.

The same is also true of the scheme's assets. It's very important to understand the nature of the assets, how often they are traded and in particular whether there are any illiquid assets. If there are illiquid assets, then it's important to understand the nature and term of those.

Locke: It is also really beneficial to appoint a bulk annuity adviser early and discuss the status of the data and benefits with them so that they can advise on the critical items for resolution prior to requesting quotations from insurers.

Any final thoughts?

Crawshaw: There is still a lot of 'can't be done' negativity in the market when it comes to small scheme transactions, often from organisations who have vested interests. It's clear and it's simple, it is perfectly possible for small schemes, regardless of size, to transact and secure member security, as long as they are prepared. Further to that, as is the case here, they needn't be put off if they have unusual features – it is still possible to attract keen pricing and get to the safety net of a buy-in.

It is a vibrant, well-functioning market for schemes of all sizes and we are particularly encouraged that small schemes are reaping the benefits of access in order to crucially secure their members hard-earned benefits.

Locke: Our primary focus throughout this process was always to safeguard the members benefits. Working with K3, and harnessing their expertise, we were able to successfully navigate the scheme's unique benefit structure and ensure not only immediate protection but also long-term stability for our members.

Written by Francesca Fabrizi

AI in diversity – a blessing or a curse?

As the pensions industry strives to instil diversity in everything it does, we ask if AI can be a help or a hindrance

We're finding that AI has a limited ability to produce the first draft of something like a job ad. That's partly because, while it might help balance your biases, it has plenty of its own. It's just as likely to leave out an important concept, or use the wrong word for the situation, as you are.

AI is much better suited to analysing – either data or copy – and making suggestions. So, for example, you can show it the draft of your job ad and ask it to point out any structure, content or language that could be improved to make the ad more inclusive, and so attract a more diverse range of candidates. It could be pretty good at highlighting gendered, age-specific, or culturally biased terms that may unintentionally discourage certain candidates from applying.

AI could also play a role in reducing your bias when the CVs and job applications start arriving. Imagine, for example, putting your 'reject' pile into your AI bot, along with your ad, and asking it to suggest any of the applicants it thinks you might have overlooked. Perhaps you were overly influenced by the applicant's name, gender or school. Your AI is more likely to give greater weight to skills and qualifications. Again, your AI will bring its own biases, but they will be different from yours, so it could help to open your eyes to a more diverse range of candidates.

Despite good intentions, one often sees the diversity of candidates reduce as a proportion as the hiring process reaches the end. AI can be one tool that helps counteract that. That's not the same as saying hand over your hiring process to a robot – far from it.

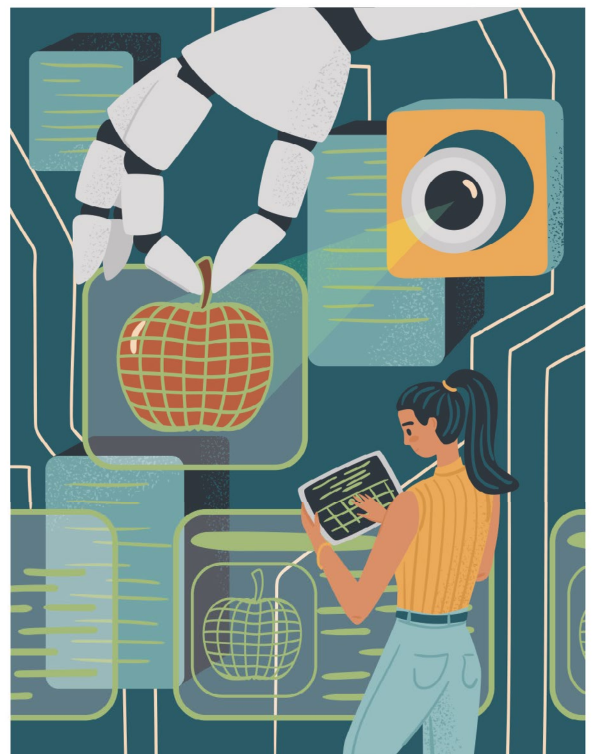
Quietroom director, Simon Grover

AI is a knife. It could be an essential tool, or it could cause great harm. We will need to use it with care. Many technologies fall prey to latent biases. Famously, hand dryers are significantly worse at detecting darker skin tones. That's just an irritation, but when autonomous vehicles have the same problem, the results could be fatal.

If AI is built using databases that structurally incorporate the latent biases of our society, it will have those latent biases. Unless countermeasures are taken. Unfortunately, there are no indications that many AI builders are thinking about this problem. Google's Gemini attracted perplexity and derision for its ham-fisted attempts to address this (for instance, it generated ethnically inaccurate historical pictures), and as a result seems to have abandoned the whole idea. Other AI companies don't seem to have tried.

AI is likely to develop into an all-encompassing technology, including in pensions. Unless we act now to make sure its builders have an understanding of underlying societal structures, it will perpetuate them.

Zedra client director, Alastair Meeks



AI can be a game-changer in improving diversity, but it's far from a silver bullet. The assumption that AI is unbiased is misleading. In fact, it's often the opposite – AI picks up and amplifies human biases embedded in the data it's trained on. Take facial recognition technology: Studies have shown it misidentifies people of colour at alarmingly high rates. Similarly, language models like GPT have been found to reinforce harmful gender stereotypes. Far from being an impassive decision-maker, AI reflects the prejudices in our society. In the pensions space, while AI can support diversity efforts, human oversight is critical to prevent the very biases we're trying to eliminate from creeping back in.
Trafalgar House client director, Daniel Taylor

"AI reflects the prejudices in our society. Human oversight is critical to prevent the very biases we're trying to eliminate from creeping back in"

If we focus on generative AI within the wider spectrum of AI, its power lies in recognising and using patterns. Patterns and biases are similar things. Generative AI is already being used to reduce unconscious bias in communication. This is treated with fear and suspicion by some, however a desire to make communication more inclusive is something we should aspire to. The focus on patterns allows us to hold a mirror up to our decision-making processes and highlight where outcomes look inequitable. This not about saying the outcome is wrong, but this check allows us to consider where there might be a better path. Better insight should lead to better decisions. The ability for AI to reduce or reinforce bias seems huge. Like most tools, how we use it is what matters.
IGG trustee director, Tim Giles

AI could play a transformational role in boosting diversity across the pensions industry, given the relative ease with which it can analyse data to spot differences across various groups such as gender, ethnicity, or income level. This will allow pension providers and trustee boards to create and shape products and support services that meet member needs, especially those who are often under-represented.

AI tools can also be leveraged to make pensions more personal through tailored financial advice and communication, making it easier for people from diverse backgrounds to truly engage with and understand their options. Given the wide pension engagement gap for demographics such as younger women, this could be a real game changer.

There's also a role for AI to play across the industry more generally, for example, by removing bias in hiring and promotion processes – this opportunity will help firms and trustees boards build more diverse and representative teams which will go some way to helping address some of the challenges which are still present in our industry.
Scottish Widows master trust and IGC lead, Sharon Bellingham

The potential uses and benefits of AI in the pensions industry could transform and modernise the way the sector operates. AI could be used to analyse extensive datasets to identify and help address inequities in pension outcomes, automate personalised communication for diverse members, and optimise investment strategies for inclusive outcomes.

However, it's essential for the industry to be mindful of the existing risks within data sets and information systems (e.g. algorithmic biases) to ensure they are not made worse. AI is relatively immature, with acknowledged flaws, and has been shown to inadvertently perpetuate existing bias when used for some HR processes. To mitigate these risks and promote equitable outcomes for all scheme members – particularly while it is still fast evolving – robust policies that support thorough trustee training in the use of AI systems and address data quality issues are crucial.

Ultimately, trustees must be aware of both the risks and benefits of AI. Understanding the right questions to ask and knowing how to effectively leverage AI could serve to enhance diversity and inclusion within the pensions sector. The Pensions and Lifetime Savings Association (PLSA) is exploring AI challenges with experts, and we will soon be releasing a report aimed at supporting pension trustees in the effective application of this developing tool.
PLSA deputy director of policy, Joe Dabrowski

Written by Francesca Fabrizi

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For Professional Clients Only

How Cyber Resilient is Your Pension Scheme?

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Cyber focus:

Rising to the challenge

Aon associate partner, John Harney, and Aon partner, Paul McGlone

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Pension schemes and third-party providers

Delegated functions, but not delegated cyber responsibilities

Pensions schemes rely heavily on third parties to provide critical services to their members. With this responsibility comes operational risk and the potential for huge impacts on scheme members and managers in the event of a cyber incident. Monitoring this is not an easy task, as a complex, ever-evolving risk, cyber challenges cannot be neatly reduced to a short checklist.

The potential of cyber risk is now firmly on The Pensions Regulator's agenda; their 2023 guidance stated that trustees "should seek assurance or evidence that the right controls are in place" for suppliers and those handling or managing systems. The guidance is clear that trustees "should not assume your suppliers and those handling or managing systems on your behalf have taken the required steps".

Thoughts may immediately go to third-party administrators, however, other providers could hold significant amounts of data or be critical to scheme operations. Furthermore, for many the sponsor of the scheme is also a service provider from a cyber point of view. Former service providers can also hold data that could have implications for the scheme should they suffer a cyber incident.

Doing nothing is no longer an option.

Most pension schemes will have little cyber expertise on the board, making the trustees' challenge - ensuring all providers (present and past) are doing enough to protect scheme information – a daunting one.

- Step 1: understand the big picture. Who has access to your scheme data and assets; how is this information transferred between different parties? Understanding this enables trustees to better identify the potential impact on their scheme of an incident at these providers. Often this can be quite intuitive, so schemes do not need to carry out extensive mapping exercises if they feel their budget is stretched too thinly.
- Step 2: decide what assurances are required. Cyber assessments should be proportionate to the potential impact each provider poses, based on their operating relationship to the scheme. For instance, carrying out a review of a scheme administrator demands a more detailed approach than, say, an AVC provider.
- In our view, schemes do not need to use the same cybersecurity questionnaire across all providers; lighter touch questioning may be appropriate in some circumstances. For high impact providers, however, questioning should be more detailed, with responses to questions subject to trustee scrutiny.
- The final consideration is how these assessments can be interpreted by trustees. Trustee boards with cyber expertise within their skillset are unusual. By their nature, reviews are technical and jargon heavy. In our experience, boards tend to need assistance from a cyber expert to establish whether the responses are in line with best practice or if additional measures should be sought from that provider. Expertise need not be expensive, and many can seek assistance from their sponsor. Others appoint third-party experts to manage a rolling programme of reviews. Whatever approach you take, output should include clear and concise reporting in a language that can be easily understood, with proportionate recommendations.

While this may seem onerous, I have seen how this approach can be established and embedded successfully in the scheme's risk management framework with the support of appropriate experts, and without disproportionate calls on trustee board time and resources.

Not only are these actions expected by TPR, but scheme members will also expect trustees to take this seriously. Understanding the scope of the risk is fundamental to building a robust, proportionate, risk-focused cyber resilience framework.

Unfortunately, no organisation is immune to cyber attacks, but by demonstrating alignment to best practice guidelines and being open to review and constructive feedback, schemes can be assured that their providers are taking the right steps to keep your information safe.

For more information on Aon's Cyber Solutions email talktous@aon.com.

Written by Aon associate partner, John Harney

In association with AON

‘Cyber VaR’ and the path to cyber insurance

How to protect against ‘1-in-20-year’ events

How much could a cyber incident cost your pension scheme? It is a question that could keep trustees awake at night, as most do not have a good answer. But that is changing.

The incident at a major administrator in 2023 caught the attention of the industry, with many schemes impacted. At the time it felt disastrous: finally, ’the big one’ had hit. But in hindsight was it really that bad?

It was clearly a challenging situation, but in the end no data (that we are aware of) was sold on the dark web and no pensioner missed a pension payment. Day-to-day admin was impacted only for a short period; communication and identity monitoring was paid for by the administrator. Regulatory involvement was limited, and no schemes were fined. In short, it could have been a lot worse, and could have cost schemes a lot more had it panned out differently.

One of the concepts that pension schemes use regularly is Value at Risk, (VaR). In an investment context we typically use it to describe a ‘1-in-20-year’ event: An event that is not the ‘worst’ that could happen but is unusual and damaging.

So, can we apply this to cyber risk, and ask: “What is my cyber VaR?” Put another way, what would the financial impact be on your scheme of a ‘1-in-20-year’ cyber incident? It is a question that The Pensions Regulator also referred to in its 2023 guidance.

“Understand the potential impact of a cyber incident on your members, the scheme, and where appropriate, the sponsoring employer. The impact assessment should cover multiple elements, such as operational, reputational, and financial impacts.”
The Pensions Regulator, December 2023

It is not a simple question to answer. Running stochastic models does not make sense for this type of risk, and in any case, future cyber risk is very different to historic cyber risk. But it is certainly possible to construct realistic ‘1-in-20-year’ scenarios and then assess the financial impact on a scheme. The outcome is likely to be a lot worse than the incident in 2023.

Once a scheme understands the potential risk from a cyber incident then the next question is: “What can I do about it?” And that answer is changing as well. Until recently schemes only had a few choices:

- Accept the risk, and hope it could be covered by scheme assets or a company bailout
- Piggy-back on the sponsor’s cyber insurance
- Claim what you can through a pension trustee liability policy
- Hope you can recover costs from a provider through your contract

In practice, the latter three are all much harder than they sound, so most schemes have been left holding the risk. But over the past 12 months, cyber insurance for pension schemes has finally come of age. With suitable underwriting, insurers who understand the risks that schemes face, and suitable levels of cover, it is now possible for pension schemes to secure their own protection should they wish.

In summary:

- Cyber risks can have material financial consequences, which most schemes have not assessed.
- While the major administrator incident in 2023 was challenging, it was far from disastrous; it could have been much worse
- It is possible to assess the cyber risk for your scheme, to consider what a ‘1-in-20-year’ event might look like, and to calculate your cyber VaR
- You can then decide what to do about it, whether that is just to accept the risk or look for options such as cyber insurance

For many schemes, cyber risk is still scoring high on risk registers. Perhaps these options could help boards with getting more comfortable with the residual risk.

For more information on Aon’s Cyber Solutions email talktous@aon.com.

Written by Aon partner, Paul McGlone

In association with AON

Summary
• Cyber-attacks are becoming more frequent and costly, and trustees are directly liable for the risk.
• The Pensions Regulator expects trustees to have adequate protection plans in place.
• Outdated and ineffective cybersecurity makes pension schemes vulnerable to attack.

The cost of cyber attacks

Gill Wadsworth reveals the costs of cyber-attacks and how schemes can best protect against this risk

Protecting against cyber-attacks is an expensive business, but failing to take effective security measures can cost pension schemes an awful lot more.

In 2022 cyber-crime cost UK businesses on average £4,200, while the average cost to remedy is five times as much at £21,000.

This is something Capita found in March 2023, when the firm suffered a serious cyber security breach in which customer data was exfiltrated.

The attack affected thousands of pension members who had their personal data compromised and led to £25 million in costs, as well as reputational damage, potential loss of business and customers, increased regulatory scrutiny and investigations from the Information Commissioners Office and The Pensions Regulator (TPR).

And the threat from cyber criminals is only set to worsen. Cyber research firm Cybersecurity Ventures expects global cybercrime costs to grow by 15 per cent every year over the next five years, reaching $10.5 trillion (£7.92 trillion) annually by 2025, up from $3 trillion in 2015.

In the UK, cyber is the fastest growing fraud with around £37 billion a year lost to all types, and of the £6 billion a year lost to pension fraud each year, the lion's share is now believed to be cyber.

And this could be a vast underestimation, since Pension Scams Industry Group chair, Margaret Snowdon, notes the industry "does not collect enough data to be able to be sure of the figures, as companies and schemes do not always report ransomware attacks".

Ripe for the picking

Pension schemes are ripe for the picking for cyber criminals; holding trillions of pounds in assets and with deep reserves of member data make them a particularly attractive prospect.

Trafalgar House client director, Daniel Taylor, says: "Cybersecurity is one of the biggest threats facing pension schemes today. The message has finally sunk in; schemes hold massive amounts of sensitive data and significant sums of money, and many are still relying on outdated or cobbled-together systems that leave dangerous gaps. The industry is traditionally slow-moving, with legacy tech and data stores that create serious vulnerabilities."

In December 2023, TPR issued updated guidance for pension scheme trustees on how to manage cyber risk to schemes. This was followed in February 2024 by a *Regulatory Intervention Report* on the Capita cyber security incident.

The watchdog is clear that trustees and scheme managers are responsible for protecting their members, and that they must have risk mitigation in place and adequate procedures in the event that the worst should happen.

Aon partner, Paul McGlone, highlights how TPR expects every scheme to have an incident response plan that could be used in the event of a cyber incident, and to have tested it.

"The details of each plan will differ, as processes should be suitable for their specific scheme, structure, size, and people. For many schemes, the plan isn't so much about a rigid process as guidelines and checklists to refer to. Common elements of a plan would include some sort of severity assessment, an escalation process, guidelines on reporting, draft member communication, as well as emergency contact details and checklists to ensure that key tasks are not forgotten," he explains.

TPR acknowledges the "amount of work involved in this type of exercise" but says trustees "should factor this in as part of effective contingency planning".

Sackers partner, Olly Topping, says the level of resource needed will depend on the size of scheme and the number or different third-party providers it employs, but irrespective of the amount of commitment required, trustees must take cyber security seriously.

"Schemes are already very busy, and cybersecurity can a lot of resource, but the regulator feels, and we would agree, that this is a serious risk and requires the appropriate level of time and investment to manage if it is to be mitigated adequately."

Topping notes that while larger schemes may have the resources to put cybersecurity in place, they may also have multiple third-party providers making oversight of all data and assets more complex.

Meanwhile smaller schemes, according to Snowdon, "tend to keep their heads down or rely on third-party service providers", but she notes that there is "no foolproof protection because cyber criminals are organised and sophisticated".

"If criminals want to get in, they almost certainly will. A scheme should aim to be better protected than others; like a burglar alarm makes thieves move on to easier prey," Snowdon says.

Prevention better than cure

Stephenson Harwood cyber lead, Joanne Elieli, says there are several prevention measures that pension trustees can enforce to ensure they are cyber resilient.

These include regular security audits and vulnerability assessments; robust data encryption; multi-factor authentication and strong password policies; and regular cybersecurity training for trustees, administrators and staff.

"Human error is the biggest vulnerability any organisation has and so regular, meaningful training can dramatically reduce this risk," Elieli says.

Elieli encourages pension trustees to discuss their cyber security needs with their in-house and/or external legal counsel, together with their relevant technical team.

"The most effective type of support at a high level though is that which is collaborative, specifically between the legal and technical teams. You want your key stakeholders engaged too to ensure that best practices and cyber resilient measures are in place and being endorsed from the top down," she says.

According to McGlone, prevention measures need to cover the trustees themselves, their various service providers, and the scheme sponsor.

"Most trustees start by reviewing the controls at their critical providers, typically administrators, and then work through other providers based on potential impact of a cyber incident. But it's important to include the sponsor in that assessment, as well as the trustees' own controls. Having the most secure administrator is no help if the weakest link is a trustee using a Hotmail account on a laptop with no virus software," he explains.

"Cybersecurity is one of the biggest threats facing pension schemes today"

Control, monitor, test

LawDeb director, Sean Burnard, says his independent professional trustee firm follows a strict cyber-security process.

"We have a mantra when it comes to cyber security: Control, monitor, test. It is this mantra that guides our behaviours and our recommendations to trustees. As the world becomes more digital, cyber presents an increased risk to schemes, trustees, and their members – it should be high on the risk register for schemes of all sizes."

McGlone recommends that trustees have both preventative support and response support.

"Preventative support includes general cyber governance (e.g. setting up cyber policies and incident plans), specialist cyber expertise (e.g. assessing controls at providers) and legal advice (ensuring contracts are robust). Response support is quite different and can be practical support (e.g. project management), forensic IT expertise (e.g. if an incident needs investigating), legal advice (e.g. data privacy issues) as well as advice around member communication, media enquiries, credit monitoring services etc," he explains.

TPR also expects trustees and scheme managers to have robust policies in place should the worst happen. Every scheme should have a cyber incident response plan that includes communication strategies, legal and recovery procedures.

Snowdon says: "The most important thing is for trustees to have a cyber expert on tap, whether directly or via cyber insurance. Doing your own thing when facing a cyber threat can often lead to a worse outcome, including you possibly going to jail. Ensure you have a plan on what to do if something goes wrong and have someone in charge of executing that plan. And keep on testing and replanning. Seems a lot, but the cost of doing nothing is much more than you can ever imagine."

But the cost of such cybersecurity is an issue for some schemes, and since TPR places the burden of risk squarely with the trustees, they will need to find the resources to make sure they are protected.

Taylor says: "Tackling cyber threats isn't a cost-free exercise. Schemes must recognise that it's not just down to the administrator to plug every gap. Trustees need to be prepared to shoulder some of the costs and work together with their advisers in a spirit of cooperation. It's a shared responsibility, and without the right level of investment and collaboration, it's impossible to effectively defend against the growing cyber threat."

In a world where cyber criminals are getting ever more sophisticated and the spoils from pension funds increasingly tempting, trustees will need to keep security both tight and responsive.

As Burnard concludes: "This is not a once and done. The cyber risk landscape is evolving as fast as the world's technology, and trustees must regularly and thoroughly review their cyber approach to ensure they're as prepared as they can be. The mantra holds true – control, monitor, test."

Written by Gill Wadsworth, a freelance journalist

In association with AON

Summary
- Cryptocurrency is a subset of the digital assets sector.
- The US approved 11 Bitcoin ETFs in January this year, and approved trading in options in Bitcoin ETFs in September.
- US pensions in Wisconsin and Michigan have invested small proportions of their funds in Bitcoin ETFs.
- Some argue that Bitcoin, in spite of its inherent volatility, can provide valuable diversification for pensions.
- Others say that it is the 'wild west' of investment and amounts to little more than speculation.
- Still in its infancy, time will tell how the story of cryptocurrency plays out.

Cryptocurrency: Diversification opportunity, or risky business?

Sandra Haurant considers the arguments for and against cryptocurrency investment and what opportunities may develop for this new asset class

Cryptocurrency is defined as: "Any form of currency that only exists digitally, that usually has no central issuing or regulating authority but instead uses a decentralised system to record transactions and manage the issuance of new units, and that relies on cryptography to prevent counterfeiting and fraudulent transactions," by Merriam Webster. To which many would say, what's cryptography? The same dictionary replies: "Secret writing; the enciphering and deciphering of messages in secret code or cipher," and "the computerised encoding and decoding of information."

Perhaps it's not surprising, then, that the world of cryptocurrency can feel so secretive, a space that has its own vernacular, an area that seems to generate a plethora of negative headlines.

In one high-profile scandal, the 2022 fall of one of the biggest crypto exchanges, FTX – put simply, a bureau de change for cryptocurrencies – landed CEO, Sam Bankman-Fried, in jail for 25 years for fraud (at the time of writing, he was reportedly sharing a cell with Sean 'P Diddy' Combs, who is facing charges including sex trafficking, which he denies). Caroline Ellison, Bankman-Fried's former adviser, ex-girlfriend and prime witness in the case against Bankman-Fried, has just been sentenced to two years for her role in the crimes.

A controversial area, then, cryptocurrency is a subsector of the broader digital assets sector, which also includes non-fungible tokens (NFTs), asset-backed tokens and tokenised real estate. And it's a big space. According to the UK's Financial Conduct Authority, more than 20,000 cryptocurrencies existed at the start of 2023.

The scope of scarcity

Cartwright senior investment consultant and head of digital assets, Glenn Cameron, says: "My professional opinion on the matter is with that cryptocurrencies, in the best cases, and there's a handful of them, you could think of them as sort of technology start-ups. But I would say in the vast majority of cases they are just outright scams."

There is, though, a notable exception to this, in the form of Bitcoin, argues Cameron. "It's a completely different kettle of fish," he says. "There's a hell of a lot of noise here, and there is signal in the noise and the signal is Bitcoin."

What makes Bitcoin stand out, says Cameron, is its finite nature. In nation-state currencies like the pound and dollar, more notes and coins can be minted as and when the powers behind them decide to. There will only ever be a fixed number of Bitcoins – once the maximum number (21 million) is reached, no more will be created. In that sense, according to Cameron, Bitcoin is comparable with gold – there is only so much of it in the world. Its scarcity, he argues, is what makes it valuable.

Moving to mainstream?

In January this year, the US Securities and Exchange Commission (SEC) approved 11 Bitcoin exchange-traded funds (ETFs) in the States, although it framed its approval carefully. In a statement at the time, chair Gary Gensler said: "Importantly, today's Commission action is cabined to exchange-traded products (ETP) holding one non-security commodity, Bitcoin. It should in no way signal the Commission's willingness to

approve listing standards for crypto asset securities. Nor does the approval signal anything about the Commission's views as to the status of other crypto assets under the federal securities laws or about the current state of non-compliance of certain crypto asset market participants with the federal securities laws."

Gensler went on: "While we approved the listing and trading of certain spot bitcoin ETP shares today, we did not approve or endorse Bitcoin. Investors should remain cautious about the myriad risks associated with Bitcoin and products whose value is tied to crypto."

One of the ETFs launched in January was BlackRock's iShares Bitcoin Trust (IBIT), which seeks to track the performance of the price of Bitcoin. Commenting at the time, BlackRock global head of digital assets, Robert Mitchnick, called the ETF "a natural progression of our efforts over multiple years," building on "the foundational capabilities we've established to date in the digital assets space".

IBIT quickly became the largest Bitcoin ETF with $20 billion in assets by the end of May 2024, according to Nasdaq. More recently, in September 2024, the SEC approved listing and trading of options for IBIT on the Nasdaq, opening the door to the trading of derivatives in this space.

Piquing interest for pensions

If Bitcoin – and other cryptocurrencies – are known for one thing, it's their headline-grabbing propensity for growth. On 24 September 2014, one Bitcoin had a value of $435. On the same date a decade later, that value was more than $63,000.

But this also comes with great risk, of course. Cameron says: "If you take 100 per cent of your money, and you want to invest in something for six months, then Bitcoin is super risky." The falls can and do come fast and hard. But, he claims, in small doses within a large fund, invested over 10 years, Bitcoin can reduce volatility, thanks in large part to its lack of correlation with the other asset classes typically held in pensions, namely equities and bonds.

Tobam founder and CIO, Yves Choueifaty, agrees. "Pension funds are looking for diversification, obviously," he says. And for diversification, funds need a lack of correlation. "But also, from a US perspective, the US$ debasement is leading pension funds' US$ liabilities to decrease, as expressed in Bitcoin. This is also one of the drivers of the interest in Bitcoin."

"Despite some significant allocation *[in Bitcoin]*, the interest is not yet mainstream; however, the trend is upward in US pensions funds"

And there is evidence that pensions are opening their doors a crack to these new asset classes, says Choueifaty. "The interest in Bitcoin in particular is already rising, and allocations have already been allocated to Bitcoin. There is public information that some public pensions funds have allocated to Bitcoin."

He adds: "Despite some significant allocation, the interest is not yet mainstream; however, the trend is upward in US pensions funds." Indeed, the state pensions in Wisconsin and Michigan have taken this route, investing a very small proportion of their portfolios in Bitcoin ETFs. Small – but nonetheless significant, since the move marks a real shift in attitudes and one that proponents of crypto greeted with glee.

Risks without rewards?

For XPS Group CIO, Simeon Willis, cryptocurrency remains unappealing for pensions in the UK. "We haven't seen any interest from UK pension schemes in relation to cryptocurrency investment," he says. "Other than the odd conversation over coffee, in our experience trustees are not enquiring about cryptocurrency."

Indeed, Willis says: "XPS Group is unwavering in our view that cryptocurrency is an unsuitable asset for institutional investment, on account of its speculative nature and highly questionable fundamental value. […] Cryptocurrency is still the wild west of investing and I don't see that changing any time soon," he adds. "The investment case for crypto falls down in several areas. Aside from the well documented price risks involved, cryptocurrencies don't pay interest and can be thought of as equivalent to investing in physical cash. You don't find institutional investors investing in stacks of £50 notes."

Baby steps vs giant leaps

For Cameron and Choueifaty, though, investing a relatively small amount in Bitcoin (as opposed to other cryptocurrencies) could pave the way for significant returns in the long term – but as the big pitfall of these asset classes is (very significant) volatility, it's perhaps crucial to begin with just a toe in the water. "Pension funds do not like volatility," says Choueifaty. "In order to manage this pitfall they allocate smaller amounts. Typically, at Tobam we recommend for a pension fund having a 40/60 fixed income/equity allocation, to allocate approximately 2 to 4 per cent in Bitcoin."

He adds: "It appears that the US is once again the leading wagon for all crypto-related innovations and regulatory changes, and it would be disappointing to see the UK and Europe missing the boat and lose out on one the most revolutionary inventions of the 21st century."

Nonetheless, Bitcoin is only 15 years old, still a new kid on the block. Only the future will show whether this divisive asset can deliver.

Written by Sandra Haurant, a freelance journalist

Identifying value for money in pensions

With the FCA consulting on how to ascertain the value for money of contract-based DC schemes, industry experts argue more needs to be done to improve member outcomes, finds Jon Yarker

Summary
• Generally the FCA's work to assess VFM has been encouraged by the industry, with experts wanting to see decision-makers empowered with standardised data that doesn't exist.
• The proposed traffic light system – where green, amber or red ratings are used – has been heavily criticised.
• Not only will 'value' be difficult to define in this consultation, but comparing different schemes will likely prove to be very challenging.
• Value is an important concept for members, but the regulator can do more to build on this and to improve decisions made around pensions.

In August, the Financial Conduct Authority (FCA) launched a consultation into proposed rules and guidance around value for money (VFM) for contract-based pension schemes. In a bid to drive greater value for members, the regulator is proposing the introduction of a traffic light system in schemes' public disclosures. The ultimate aim of this work will be to design and implement a joint framework with The Pensions Regulator (TPR) and Department for Work and Pensions for workplace schemes to be used by pension providers and those making decisions on behalf of savers.

With feedback due by mid-October, the consultation has been broadly welcomed by those in the industry. One fan is WTW senior DC consultant, Gemma Burrows, who says there is a need to look closer at value to improve member outcomes – citing the value-based approach already used by TPR to push poorly run own trust schemes into consolidation.

"We welcome the greater focus on this, although there are inherent challenges in determining value at scheme level and it is likely to be different for each member, for example when the member joined, the investment they are in, their retirement choices and the different features and models," says Burrows. "Inconsistent VFMs could have serious commercial and market implications and cause problems for member understanding."

Concerns around consistency aside, a VFM framework could help inform decisions around scheme choice. This would support employers according to LCP partner, Steve Webb, who says there is currently a lack of comparative measures that can be used.

"If it was much easier to compare different providers on metrics other than price, employers and their advisers might be more likely to shop around and this could provide competitive pressure on providers to improve their overall offering," adds Webb.

"From the perspective of the consumer, choosing where to consolidate their scatted pension pots can be difficult; simple VFM ratings could be helpful to them, perhaps ultimately being displayed on pensions dashboards alongside the list of their pensions."

A red light to colour grading

The pension industry may be welcoming greater scrutiny of VFM, but the proposed traffic light system has not gone down well. This would see schemes given a red, amber or green rating and firms bound to make improvements if arrangements are assessed as red or amber. The Lang Cat director of public

affairs, Tom McPhail, isn't a fan and says this approach is "reductive" and "crude".

"It's important the VFM metrics are captured and presented in a format that can be accessed and interrogated by anyone with an interest in this market, including journalists, employers and members," states McPhail. "Preferably, the regulators should make the data accessible in a standardised format allowing external third parties to use it for comparison website type purposes."

Webb is also sceptical and is concerned about the repercussions of such a system. Like the way actual traffic lights can dictate traffic flow in a city, Webb questions how these ratings could impact investment decisions within schemes.

"Unless you are rated 'green', you are forced to close to new business and also to report to your existing customers that your scheme is not regarded as being currently good value for money," says Webb, highlighting no one will want to do this. "Which could easily lead to 'herding' of investment strategies; being in the middle of the pack is a safe place to be, whereas taking on investment risk in the interests of long-term growth could expose you to a commercially catastrophic risk if things do not turn out well."

Unlike others, Hymans Robertson head of DC governance consulting, Claire Kapitan, likes the concept of this traffic light system and applauds its simplicity and clarity. However, with a focus naturally gravitating towards schemes with amber or red ratings, Kapitan warns against complacency being created by green ratings.

"It's important to note that a green VFM rating should not imply that VFM cannot be improved further," she adds. "Value changes over time, particularly in areas like technology, communications and investment strategy, so it will be important to look at value on a regular basis."

The challenge facing the regulator

The FCA's work has been welcomed by the industry, but experts appreciate that this is a difficult task. To an extent, this is largely a reflection of the scale of the industry and the lack of standardisation of data that currently exists. Burrows highlights that there will be a challenge for the regulator to classify what value exactly looks like, given investment performance is difficult to compare across different strategies and retirement targets.

"It's important the VFM metrics are captured and presented in a format that can be accessed and interrogated by anyone with an interest in this market"

In particular, she warns there could be an issue for workplace pension schemes to use Independent Governance Committee (IGC) conclusions in these assessments. If these IGCs choose their own comparators, results could be skewed which highlights the importance of access and reporting to verify VFM rankings.

"The availability of data and ease of reporting, particularly for older legacy arrangements will need to be considered," says Burrows, who warns that the process of gathering such data can be lengthy and problematic.

"There will need to be some consideration on what happens if a scheme is identified as not delivering value. Receiving vehicles for transfers from very small schemes will be hard to find and transacting could be uneconomic relative to the assets in the scheme."

Webb agrees that difference in size can also have significant impacts to determination around value with bigger schemes scoring differently on various VFM measures simply due to their size.

"If the ultimate outcome was that such schemes wind up and members all end up in a master trust, there is a risk that employer engagement and commitment to pension provision could be undermined," he says. The scope of this data will also need to be considered. The FCA is proposing looking at performance over one, three and five years – something that Webb says is at odds with the long-term nature of pensions and the decisions around these.

"There is a risk that investments which would be good for members over the long run but potentially take time to deliver or have short-term volatility could show up badly in league tables," he adds.

Going further

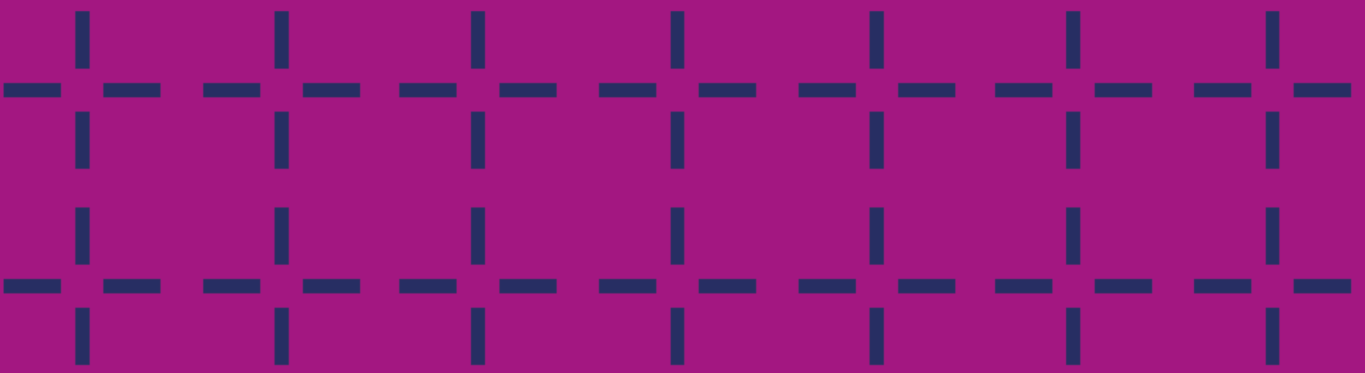
The FCA's VFM work is aiming to improve member outcomes, but value is only one part of this issue. Identifying VFM is important, but what happens next will require focus as well according to Burrows.

"Crucially, there needs to be some attention given to moving members when poor value is identified," she says. "It needs to be easier to move members of GPPs without consent."

McPhail also wants to see this work built on. Instead of simply identifying low value schemes, and potentially penalising these, the public affair's director wants an approach that makes it easier for decision-making.

"The answer to the question of 'is provider A better than provider B?' is always 'it depends' – this is no longer good enough," says McPhail. "We should do what Australia has done and require all providers competing in the auto enrolment marketplace to have just a single set of charges, which applies across their whole book of business."

Written by Jon Yarker, a freelance journalist



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New, but with experience: *TPT Investment Management's managing director, Nicholas Clapp, and investment director, Peter Smith, talk to Pensions Age about how its new fiduciary management offering blends its own experience of managing pension fund money with the opportunity to invest in private markets and focus on climate change, due to its long-term investment horizon* **p88**

The fiduciary management reckoning: *Louise Farrand considers the continual impact from the 2022 gilt crisis and the fiduciary management reviews it has generated* **p90**

Fiduciary management focus:

The next stage

TPT Investment Management's managing director, Nicholas Clapp, and investment director, Peter Smith

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Nicholas Clapp

Peter Smith

New, but with experience

TPT Investment Management's managing director, Nicholas Clapp, and investment director, Peter Smith, talk to *Pensions Age* about how its new fiduciary management offering blends its own experience of managing pension fund money with the opportunity to invest in private markets and focus on climate change, due to its long-term investment horizon

TPT Retirement Solutions is entering the fiduciary management market, as TPT Investment Management (TPTIM). It is doing so with quite a unique background, being owned by an asset owner. What benefits do you feel TPTIM's fiduciary management operating model provides schemes?

Nicholas Clapp: TPTIM is new but it's not new. It's new in so much as we're launching fiduciary management as a standalone service to pension schemes. At the same time, we've been doing fiduciary management for well over a decade, it's just been part of the solution that we provide inside our master trust.

We come with a different slant on what fiduciary management can look like, bearing in mind our ownership structure. We've got a past track record. We've got successful performance and we've got scale.

Peter Smith: What we are doing is providing non-master trust schemes access to our investment strategy, which has been developed over the past 15 years. It's not something we're having to build from scratch and create a track record. Also, our private market allocation has been built up over this period. Therefore, it has a different risk, return and exposure profile from something that is being built from scratch today.

Having an asset owner perspective means we're generally thinking 20 to 30 years ahead. I think it gives us a different time horizon compared to other fiduciary managers, particularly around important topics like climate change, and how we engage with the underlying investee companies that the trustee has a holding in.

Clapp: Because of our ownership structure and the operating model that we deploy, we offer something that is different to the rest of the market. We don't have an asset manager thought process. We don't have a consultant thought process. We have an asset owner thought process. We don't have to worry about other stakeholders in the business that require certain targets for us to hit. We are here solely for that singular focus on what that client's end goal is.

Historically, fiduciary managers have been heavily invested in public markets, due to pension schemes' need for high liquidity and low fees, thereby limiting the scope for alternative assets and alpha generation. How does TPTIM approach asset allocation and to what extent are the private markets a part of that?

Smith: When I started at TPT back in 2008, pension fund strategies were very much equity and corporate bond focused, with a small allocation to property. But because we are historically an asset owner, we started looking at diversification into unlisted assets. We have long-dated liabilities with some of our clients open to new accrual, meaning we have a long-term mindset when it comes to asset allocation. This means we can get exposed to long-dated, more complex, illiquid assets, such as unlisted infrastructure, which we believe can ultimately can provide an uptick in return and an increased level of portfolio diversification.

We are willing to give up liquidity if we think we can get access to a return premium not available in the public

markets. It provides diversification to the portfolio, recognising it might not be the lowest cost option. Private markets are generally more expensive than public markets, but as long as the net return is above our return objective we're willing to do that. Ultimately, it's around value for money, rather than just cost.

One such change in pension schemes' investment strategies in recent years has been an increased focus on climate change. How does TPTIM measure climate risk for its clients?
Smith: We explicitly incorporate positive allocations to things that can help solve the climate problem. That generally sits in the private market space. For example, we have a significant allocation to renewable infrastructure, be it energy generation, or storage, or grid.

Every three years we stress the portfolio against a number of climate scenarios, and then seek to understand the potential impact on the portfolio, recognising that climate scenarios are still very nascent. We take this into account when we're looking at future asset allocation, particularly on the solutions side.

When we're working with external managers, we look at how they incorporate climate change into their investment philosophy, portfolio construction and security selection to ensure that it is consistent with our views. With regards to reporting, all our clients will have access to carbon footprinting data. One of the things we're currently doing is exploring how to do that consistently across all of the portfolio given data challenges. At the moment, we're rolling that out to infrastructure and the next challenge with that is private credit.

Clapp: Whatever we do here for our largest client we can apply to our smallest client, as we're able to make sure that these solutions are scalable.

The growth in the fiduciary management market in recent years has compelled many providers to streamline their operations. While having generated some advantages, it can also be argued that some fiduciary managers have, as a result, somewhat pivoted away from clients' specific needs. How does TPTIM balance ownership and alignment?
Clapp: We've taken the opportunity to refresh our capability of how we deliver for clients at scale. That's taken a significant amount of work over the past 12 months in order to set up new fund structures and enhance our systems and reporting. All of which is very operational, but it leads to a better solution strategically for the client. This means that we don't have the problem of a change of business model diverging away from what the client requires.

Probably at the heart of that is the ownership structure, where TPT is ultimately owned by a pension fund. So, we're very close to understanding our clients and the issues they are grappling with. We're very empathetic to that. Our solution is designed explicitly with that in mind.

Smith: We deliver good outcomes for a range of pension schemes. We manage schemes ranging from £10 million up to £2.5 billion. Whilst they all have slightly different requirements in terms of endgame target, return and risk objectives, ultimately what they're trying to do is deliver good member outcomes. We recognise that scalability is key in doing that. We've managed to think about designing that into what we've built in the fiduciary management space.

How do you ensure that TPTIM is positioned to deal with changing scheme requirements?
Clapp: There's the changing regulatory environment and changing funding levels that are generating different trends, in terms of where schemes might actually end up or what they're targeting as an endgame.

Then there is the changing requirements on the responsible investment side of things as well. For all of these changing requirements the tide continues to only move in one direction.

Talking to trustees, their job is vastly different from the job they did even three or four years ago, let alone 10 years ago. They see it as only becoming more complicated in terms of where they spend their time. So, the more that we're able to free their bandwidth up as a fiduciary manager, the more they can focus on the areas that are strategically important to them.

Smith: Ultimately it comes down to making sure you have a good enough understanding of what the trustees' objectives are. I think the key bit that's changed over the past 18 months is what level of illiquidity they require in the scheme, given that flexibility towards the endgame choice.

If a scheme has a very firm view that they want to run on, allocating to long-dated illiquid assets is still an option for them. For those schemes that want to keep their options open, it's making sure that you give them the flexibility to change their investment strategy at relatively short notice. One thing that we have been able to do is, by bringing about pooling and scale, we can create effectively a market where we can allow schemes to benefit from different endgame objectives. We can actually facilitate schemes changing their investment strategy at relatively short notice. By bringing together a large number of schemes within a pooling arrangement we can provide increased flexibility to individual schemes.

In association with tpt Retirement Solutions

The fiduciary management reckoning

Louise Farrand considers the continual impact from the 2022 gilt crisis and the fiduciary management reviews it has generated

Summary
- Fiduciary management is entering a new phase, prompted by several seismic events: The gilts crisis in autumn 2022 and the Competition and Markets (CMA) review of the market.
- More broadly, the market is evolving and maturing, as new players enter the market and consolidation happens.
- Many DB schemes are going through strategy reviews to learn lessons from the gilts crisis. What should they consider – and what other trends are defining fiduciary management?

The repercussions of the gilts crisis of autumn 2022 are still reverberating for many DB pension schemes. Trustee boards were already concerned that they were not responding quickly enough to fast-changing markets; the financial crisis of 2008 demonstrated that investing in a straightforward mix of equities and bonds would not deliver their funding objectives.

Few pension schemes were able to move quickly enough to take advantage of opportunities in the aftermath. "Post 2008, and going into 2009, trustees were slow to move into what turned into a 15-year bull market," observes TPT head of investment, Peter Smith.

The introduction of in-house chief investment officers and fiduciary management gathered pace in the UK after the events of 2008. But despite all the lessons learned, DB schemes were unprepared for a seismic event like the gilts crisis of autumn 2022.

Nobody expected it. The gilts crisis categorically debunked the myth that equities and bonds are uncorrelated and raised questions about DB pension schemes' widespread use of liability-driven investment (LDI) strategies.

Despite their post-2008 move towards delegated governance and the implementation of swifter decision-making, many DB schemes – and their fiduciary managers – were not immune to the volatility. As XPS Group head of fiduciary management oversight, André Kerr, recalls: "There were some fiduciary managers that had an absolute disaster during the gilts crisis."

TPT commercial director, Nicholas Clapp, adds: "The gilts crisis threw everyone into a spin. I thought that six months later there would be a collective review of where people were, because the fiduciary management governance structure did not hold up well in the gilts crisis. I anticipated that would result in new appointments and reviews. However, the pace has been slower than anticipated, and we are only getting to that now."

The reason for the delay is the abrupt improvement in DB schemes' funding levels, adds Smith. "There has been a whole heap of work to be done from an investment perspective. DB schemes have had to get on top of that first. They are in an entirely different place, so what does their end goal now look like? Only after that has been established can schemes start think about what vehicles will take them to that destination."

Governance reset

The majority of DB schemes which use fiduciary management are going through a strategic review at present, reports Isio partner and head of fiduciary management oversight, Paula Champion. Trustee boards are resetting their objectives and thinking about different governance options, she says. In particular: "They are thinking about whether they get help and guidance and assistance with assessing their fiduciary manager and making sure they are doing a good job," she reports.

Fiduciary managers are also learning lessons from what happened during the eventful autumn of 2022 – particularly in terms of managing their exposure to illiquid assets. Champion explains: "Off the back of the gilts crisis, trustees were much more conscious of having enough cash collateral for their LDI portfolios and making sure those were managed effectively. There is a need and a want for trustees to have more liquid portfolios and to monitor the liquidity of their portfolios over time.

"This means two things for fiduciary managers. One, they want to make sure they have got differentiating assets that are illiquid – so alternative illiquids. And two, they are ensuring they have their reporting and communication aligned to what trustees want – so, evolving their reporting for fiduciary clients to give them greater visibility and shed light on the liquidity of the portfolio."

Under pressure

Before the gilts crisis, fiduciary managers were growing fast. "Gilt yields were falling, so even if they did nothing they were growing. I think most fiduciary managers expected that trend to continue," recalls Kerr, adding: "When things started to turn it became a very different situation: cost pressures, gilt yields going in the opposite direction, fees going down because of new entrants to the marketplace. It was not the easiest of marketplaces for fiduciary managers to operate in and it put a lot of pressure on them as businesses."

Champion agrees, adding: "We have seen fees ticking up. One in three fiduciary managers have increased their fees over the past year or two. So, while there was an increased saving on the back of the CMA review, I think some of that has been whittled away by inflation and the pressure on fiduciary managers."

The CMA review has had other positive effects on the market, Champion qualifies. "When the review happened, we were in a position where a lot of schemes had to take their fiduciary managers out to a competitive tender. I think that helped fiduciary managers to sharpen their pencils, not just in terms of fees, but also in terms of servicing, trying to very succinctly communicate their USPs as well. It helped to put a little bit of space between the different types of fiduciary manager and their areas of expertise. In that way, it made the market clearer and more transparent."

Kerr is still unconvinced that the market is transparent, particularly when it comes to comparing performance. He argues: "Fiduciary managers have a massive asymmetry of information, and I would argue that most trustees aren't able to make a judgement call on whether they are doing a good job or not."

He suggests trustees should be unafraid to challenge their fiduciary manager and have a strong framework in place: "Don't just accept that what they say is correct. The difficulty is, a lot of people don't feel they are able to challenge properly; they don't like asking questions that make them look difficult or feel stupid. Generally, if you have a question that you want to ask, ask it! Other people will probably not know the answer as well. Don't be afraid to channel your inner five-year-old and keep asking: 'Why?'"

What's next for the fiduciary management industry?

Larger mandates are becoming more common, reports Clapp. "Fiduciary management has worked its way through the sizes over the years – slowly going up through the sizes, starting with smaller schemes."

Now, very large schemes are thinking about it, Clapp says, explaining: "In the big picture of things, UK DB schemes are small asset owners. It's not about UK rankings – it's the context of who are the global asset owners that are able to negotiate strong contracts with different fund managers to the benefit of their clients."

With many boasting much improved funding levels, DB schemes are also reviewing what their end games now look like. Champion says: "All these discussions are very active. In terms of the proportion of schemes that have come to a conclusion on that, we are less sure at the moment … fiduciary managers are very cognisant of the fact that they need to address that with trustees and talk about it."

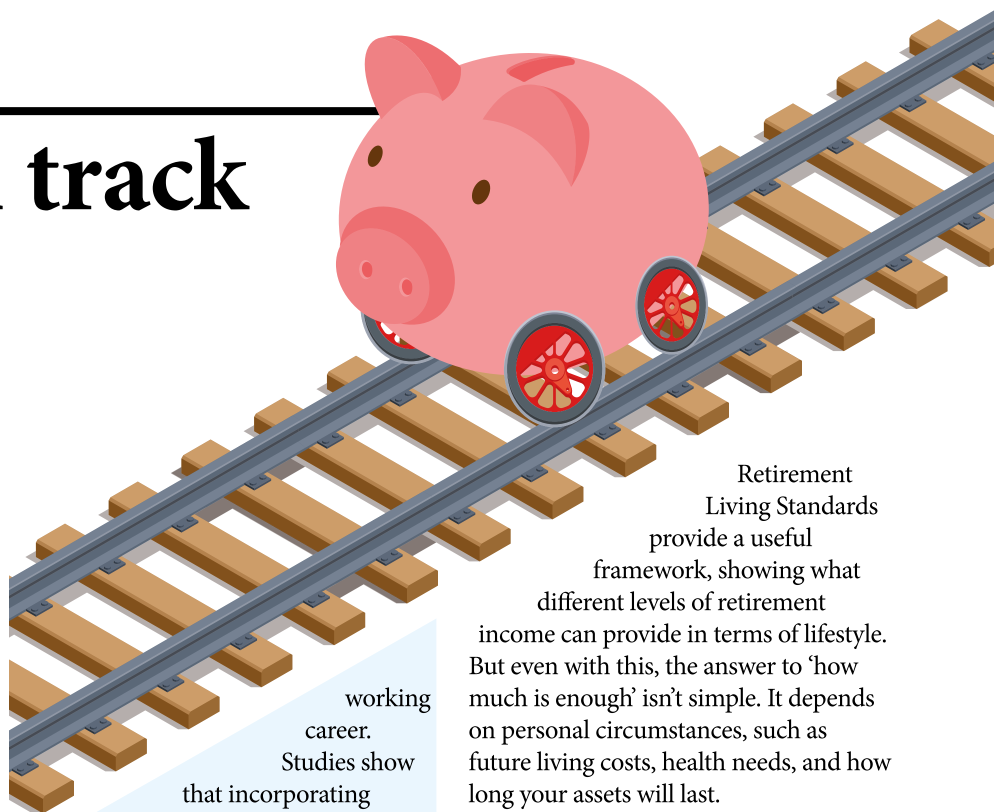
Another growing trend is a reshaping of the fiduciary management market, with new entrants to the market – such as TPT Investment Management – and consolidation of fiduciary managers, says Zedra client director, Daniel Walsh. "Mercer are acquiring Cardano, and there's a sense that this may not be the end of consolidation."

Trustees should be unafraid to ask hard questions, says Walsh. "If you've appointed a manager because you believe in their philosophy and their approach, if they're then acquired or acquire another firm, what does it mean? Ask what's happening and what it means for the proposition going forward."

Fiduciary managers are confident about the future. "We anticipate there is significant growth still to happen – both in terms of schemes embracing it and schemes switching over for a different approach," says Clapp. "We also think there will be more options in terms of endgame solutions but also in terms of operating models available to pension schemes in the fiduciary management world."

Written by Louise Farrand, a freelance journalist

In association with tpt Retirement Solutions



Staying on track

A common query from pension savers is that they do not know whether they are on track to achieve their desired retirement saving amount throughout the accumulation stage (or even what that final amount should ideally be). Therefore, what guidance can the industry provide to help savers monitor and understand if they have the 'correct' amount of savings for them, for their age, throughout their working lives?

With auto-enrolment, the concern is that members think they have a pension so therefore they are sorted for retirement without considering how much their envisaged lifestyle will cost.

However, neither is there such thing as a blanket 'correct amount' of savings at any particular age, or indeed working life stage. A 32 year old with two children and a house may have very little disposable income to save, while a 32 year old who is single and living at their parents home might have a lot. It's all relative, with many variables, and therein lies the challenge for industry. Financial positions outside of a single pension arrangement can't be compared, nor can they be predicted with accuracy. It therefore stems in communication and education, as early as possible, in a working career. Studies show that incorporating visual aids, for example, boosts learning by up to 323 per cent – making it easier to covey complex information in a way that's clear and easy to understand and making abstract concepts concrete. Help people set goals they can see come to fruition, track progress and milestones. Visually showing members whether they are on track to meet their goals and the steps they can take if they are not on track will try to avoid unwanted surprises and enable members to take action whilst they still have time on their side.

Zedra Governance managing director, Kim Nash

One of the most common questions people ask about their pensions is: "Am I saving enough?" While pension schemes and administrators offer a wide range of tools – modellers and projections – what's often missing is a straightforward benchmark. Many people I speak to, from friends to family, find it hard to judge whether they're on track with their savings.

The Pension and Lifetime Savings Association's (PLSA) Retirement Living Standards provide a useful framework, showing what different levels of retirement income can provide in terms of lifestyle. But even with this, the answer to 'how much is enough' isn't simple. It depends on personal circumstances, such as future living costs, health needs, and how long your assets will last.

There's also plenty of guidance and blogs online, which can be really insightful. However, savers need to be cautious, as some of these sources can be quite nuanced, and others might be more focused on selling products or services than offering truly impartial advice.

Many savers, particularly in the DC space, can turn to their schemes for support. There are excellent tools available to help members understand their savings. However, these are sometimes too focused on the individual scheme's benefits, rather than taking a holistic view of a saver's full financial picture. A broader approach would give people more confidence in planning for their future.

Trafalgar House senior client relationship manager, Katie Stone

There are two critical elements that can help savers know if they are on track to achieve their desired retirement lifestyle.

The first is seeing a holistic picture of their pension savings, including their state pension, in a single place. This is crucial as it provides savers with a comprehensive understanding of their current savings, which they can use to assess whether they are on track meet their ultimate goals. Working in partnership with the government, the industry is on track to be able to show savers this holistic view via pensions dashboards. These are long overdue and will be a real help to savers.

The second key element, where the industry has already started to help, is to provide savers with rules of thumb that offer a guide to the cost of retirement. The PLSA's Retirement Living Standards show the cost of maintaining a range of lifestyles in retirement: 'Minimum', 'Moderate', and 'Comfortable'. Rules of thumb like this provide savers with a yardstick to measure their savings trajectory against, enabling them to make timely interventions to improve their expected outcomes if necessary.

LCP DC senior consultant, George Currie

It is hard to put a number on the 'correct' amount of savings that should be in your pension pot. Everyone has different spending habits and expectations of what their retirement looks like, whether it's the standard of living or how soon they hope to stop working. Achieving a specific number also depends on what an individual can afford, what they are invested in and how those investments perform.

A general rule of thumb is the 'Half Your Age' rule. The idea being that you save a percentage of your gross salary equal to half your age when you start contributing to your pension. You then continue to contribute that same percentage for the rest of your working life (you don't need to keep upping it as you grow older).

The PLSA's Retirement Living Standards have calculated what the average retirement income looks like at three different levels: Minimum, Moderate and Comfortable. Its website goes on to explain what this sum translates into for typically spending on things such as house repairs, food bills and holidays.

Charles Stanley Direct financial planner, Alex Webb-Bowen

Many savers budget and pay bills as a household so looking at retirement finances should be no different. Some basics might also be to understand exactly what is due to come into payment, and when, so savers know if they have any gaps (e.g. state pension and private pension are not always aligned). Savers should start with a PensionWise appointment – it's completely free so there is nothing to lose but lots to gain for many.

We would like the industry to encourage the development of a more sophisticated guidance service that can better take account of all pre-retirement saving levels (e.g. allowing savers to understand their saving levels if they go part time as they reach retirement) and holistic financial situation when they reach retirement (e.g. allowing for household savings accumulated and likely other financial incomes/outgoings they will have at retirement) to better support savers in understanding how much they may have saved by the time they retire, and how much they may need in retirement.

Hymans Robertson head of DC corporate consulting, Hannah English

The first step for savers is understanding 'what have I got?' By connecting all their finances through tools like Moneyhub, savers get a clear picture of their financial situation. Next, they need to ask, 'is it enough?' Using the PLSA's Retirement Living Standards helps estimate how much is needed for retirement. It's also a good idea to chat things through with friends and family to account for any other needs. Finally, the question becomes 'am I paying enough?' Auto-enrolment rates are currently 8 per cent, but our recent *Retirement Report* recommends a minimum of 12 per cent, depending on when contributions begin. Arguably the biggest impact on this last question will be whether savers are on track for a full state pension.

Once these steps have been taken, encouraging regular check-ins on pensions is also crucial to keeping savers engaged. Engagement really is the silver bullet for keeping pensions tracking at a positive level.

Scottish Widows pensions expert, Robert Cochran

Written by Laura Blows

Joined-up thinking

We now have a Pensions Minister working across both the DWP and the Treasury, and the FCA and TPR are thinking holistically with their value for money proposals for trust-based and contract-based schemes. *Pensions Age* asks: Is this is the start of new joined-up thinking for UK pensions policy and regulation?

These are encouraging first steps but they are very much first steps, tendrils reaching out across the gaps to create filaments of coherence between the different regulatory tectonic plates. Bigger thinking is required. For example, the idea of separate regulation for financial services and pensions belongs to a different era. The division is arbitrary and confusing, and in the case of dispute resolution, actively harmful. The Financial Ombudsman Service and The Pensions Ombudsman operate very different time limits and processes, and while they have a memorandum of understanding, complaints can fall into the gaps between them, causing real practical difficulties and hardships.

The time has come for the separate tectonic plates to coalesce into a single regulatory regime. The initial earthquakes and volcanic eruptions would soon be outweighed by the benefits.

Zedra Governance client director, Alastair Meeks

With pensions having risen up the political agenda in recent months, co-ordination of policy thinking, and regulation is essential. This makes the appointment of a Pensions Minister with dual responsibilities within both the DWP and HM Treasury a very welcome step towards greater co-ordination of policymaking.

The main regulators of pensions – The Pensions Regulator and the FCA – have demonstrated much greater co-ordination in recent years and this looks set to continue. As such, calls for them to merge are probably over-played, and would create unnecessary upheaval for limited gain.

Perhaps more importantly, we need this joined-up approach to translate into a longer-term strategy, one with long-term consensus.

Royal London director of policy, Jamie Jenkins

Having the pensions brief sit across the Treasury and the DWP is a welcome move from the government. It should lead to more joined-up thinking, particularly in ensuring that pension policy is developed in a way that drives better outcomes for savers.

It also makes sense to take a holistic approach on value for money. There should be a consistent framework applied to both trust and contract-based schemes, but given the way in which the two regulators operate (the FCA can make rules itself, whereas the TPR relies on DWP legislation), we'd like to see the framework implemented simultaneously to avoid one going before the other. This will ensure that all schemes publish their VFM data at the same time, facilitating an effective comparison process across all types of pension schemes.

There are many other differences in the regulatory approach between trust and contract-based schemes. With the new government in place and the pensions review underway, this is an ideal opportunity to carry out a detailed review of the entire regulatory framework. Consistency is the key word here – developing a system that works in the best interests of savers, regardless of the type of pension scheme they belong to.

Legal & General head of product policy strategy, workplace, Colin Clarke

For a Pensions Minister to be working across the DWP and the Treasury suggests strongly that the new government is seeking to co-ordinate policy and regulation for workplace pensions. Historically, it has proved difficult for governments to achieve consistency in their regulatory approach to trust and contract-based pension provision and this recent development has the potential to achieve this. However, there are issues that will need to be addressed.

The recent value for money consultation issued by the FCA, whilst welcome, was a missed opportunity: Its impact would have been far greater had it been issued jointly with The Pensions Regulator. At a strategic level, it is likely that the DWP and Treasury will have competing objectives. For example, it is commonly believed that the Pensions (Extension of Automatic Enrolment) Act 2023 has yet to be implemented as to do so would reduce tax receipts. Care will be needed to prevent such conflicts from compromising policy objectives.

One area where the new structure has the potential to achieve significant benefits is in co-ordinating scheme governance. For too long, the approach to managing occupational schemes has not been consistent with the approach adopted for the contract-based alternative, and the new regime offers an opportunity to address this.

PMI director of policy and external affairs, Tim Middleton

Rather than the joint DWP/FCA/TPR approach to value for money in pensions being the start of joined-up thinking, it is the welcome continuation of an existing journey.

The stronger nudge to guidance took a similar approach, albeit with some differences. The introduction of Independent Governance Committees and the Consumer Duty arguably partially replicated the fiduciary duties of trust-based schemes.

The gap between automatic enrolment inertia and required member engagement is also narrowing. The proposed VFM in pensions assessment includes metrics designed to measure member engagement. Supporting individuals at the point of access was designed to both support actively engaged members and to provide suitable default retirement products for the unengaged.

We may be some way from a holistic UK pension and retirement policy. To get there, we need to decide whether the aim is to provide a universal minimum income, to incentivise employers and employees to provide an adequate retirement income or to make pension funds available for the public good.

Spence & Partners managing director, Alan Collins

Whilst encouraging, let's not pretend having a Pensions Minister with a foot in both camps will solve everything overnight. Unfortunately, past performance shows us that these things take time. It's been six years since the two regulators released their first joint regulatory strategy in October 2018. Yet, we still have differing rules in many areas that impact people all the time.

The work on the value for money framework is the most tangible evidence so far of genuine joined-up thinking. But even that is unlikely to bear fruit for many years – we have proposed rules from the FCA, but we'll have to wait for parliamentary time before the edict for trust-based pensions is confirmed. Let's hope past performance is not a guide to the future here, and that the pace of change improves.

Redington senior vice president, Russell Wright

Emma Reynolds is the first ever joint HMT and DWP Pensions Minister, giving her the opportunities to join up pension polices and regulation across both government departments and both regulators, something that has been lacking. This join up is increasingly important as the government sees pensions as a 'super power' supporting UK growth, moving pensions up the political agenda.

We're constantly looking at where pension regulation can join up and work better to improve members' outcomes and minimise regulatory arbitrage. One major gap is that under 'trust-based' scheme rules trustees can 'lift and shift' members using bulk transfer rules without members' consent, from poorer value to better value schemes when it's in members' interests. Under contract-based pension rules, the contractual terms may require the consent of the individual saver, which can be expensive to obtain and be a long, drawn-out process. To make transfers without consent could lead the provider being open to legal action if the new arrangement were to underperform. This means that the existing savings of many contract-based savers risk being left behind in poorer value schemes meaning poorer member outcomes. We're hoping the government will address to empower the value for money framework to improve member outcomes for all savers.

Aegon head of pensions, Kate Smith

Pensions history

When is a trustee not a trustee?

The new funding code published by The Pensions Regulator is expected to came into force last month. A quick glance reminds us how much the role of a pension trustee has changed over the past 30 years – and not just because the underlying law on pension funding has changed. Trustees must now have regard to the regulator's expectations and views of best practice, although hopefully remembering that there is a world of difference between what the regulator would like and what is legally required.

In the early 1990s, trusteeship, with its standard of a prudent man of business acting on professional advice, was still central to pensions governance in the Goode Report and the Pensions Act 1995 which followed it, even though the legislation codified some trust duties and added more statutory requirements, a process which accelerated in subsequent Pensions Acts.

Thirty years later things are different. In a speech in March 2024, the regulator's chief executive was right to point out that trusteeship needed to adapt to the changing pensions landscape emerging through scheme consolidation, auto-enrolment and other pressures. But it would be a pity if, in rising to these challenges, we inadvertently tipped the balance from informed decision making to an overly prescriptive approach.

Thousands of private sector DB and DC schemes remain. Not all schemes are the same, and the same solutions don't work for everyone.

Pensions Archive Trust director, Jane Marshall

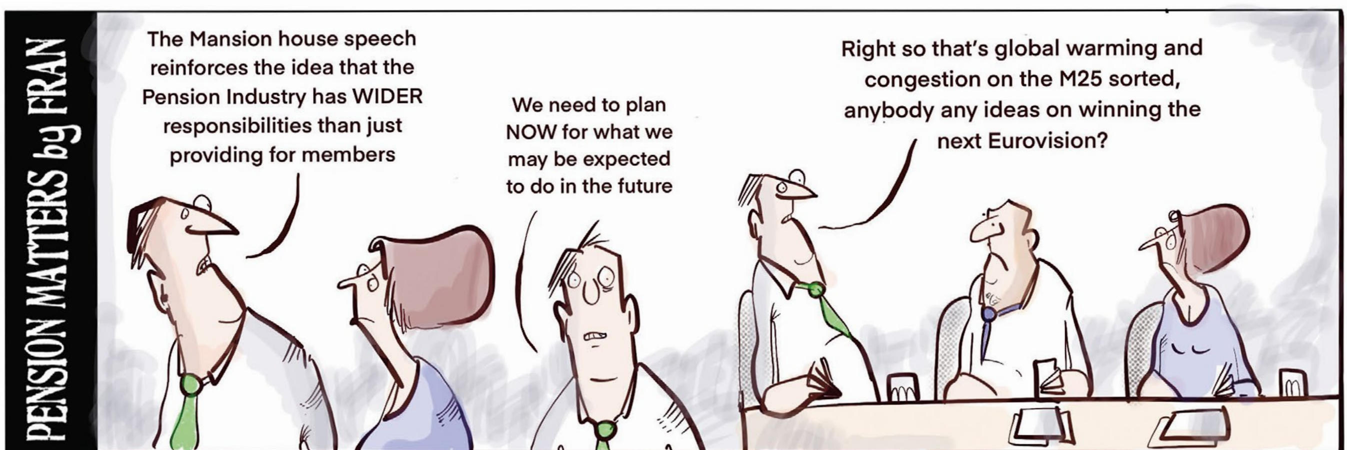
www.pensionsarchivetrust.org.uk/our collections

The bright side

***Pensions Age* takes a closer look at some of the recent good news stories in the pensions industry...**

The Cosan Regatta returned in 2024, with around 120 participants taking part in the annual charity event in Lymington, raising a total of £1,750! A number of industry organisations took part in the event: Aptia Group, Arc Pensions Law, Balance Strategic Capital, Capita Pension Solutions, Cosan Consulting Limited, Equiniti, Gallagher, Hymans Robertson, Intellica, Vidett, and XPS Group.
After a crashingly exciting race, Capita

Pension Solutions was crowned the winner for the day, nominating Macmillan Cancer Support to receive this years' donation.



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Some of the latest roles at www.pensionsage.com/jobs …

TRUSTEE DIRECTOR APPOINTMENT; THE AON MASTERTRUST
Aon is reviewing the Trustee Board of its market-leading Defined Contribution MasterTrust – a multi-employer pension scheme – and we are looking to make one change to the current Board as part of our succession planning, with effect from December2024....

STRATEGIC MANAGER PENSIONS
Location: Agile: working from home and County Hall, Newport, Isle of Wight
Salary: 73,267.00 to £79,016.00 per annum

SENIOR TRUSTEE EXECUTIVE, LEAD SCHEME SECRETARY
Location: Remote working, attending London & South East offices as required
Salary: £Superb benefits & bonus potential

CLIENT RELATIONSHIP MANAGER - PENSIONS ADMINISTRATION (REMOTE WORKING)
Location: Remote Working (with travel to client and operational sites)
Salary: 50,000 - £80,000 + p.a. + bonus scheme

PENSIONS ANALYST
Location: Hybrid/Staffordshire c. 2 days in the office per week
Salary: To £50,000 per annum

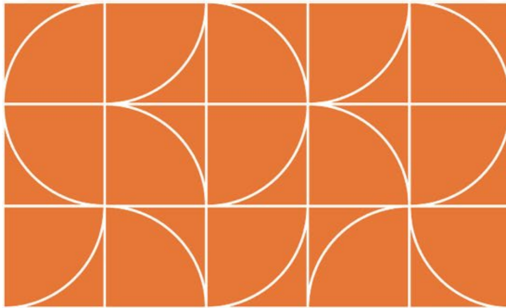
PENSIONS BUSINESS ANALYST
Location: London/Hybrid Working
Salary: Dependent on experience

SIPP TECHNICAL / COMPLIANCE MANAGER
Location: Hybrid/Bristol
Salary: Competitive

DIRECTOR OF PENSIONS, IN-HOUSE PENSION SCHEME
Location: Hybrid Working (London office 2 days/3 days homeworking)
Salary: six-figure package

PENSIONS CALCULATIONS ANALYST GMPE
Salary: To £50,000pa

PENSIONS Age JOBS



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Access the survey via www.sammonspensions.co.uk
Contact us for more information or to discuss previous years' findings.

Communications Consultant
Home-based £doe
Work with this Pensions Communications Specialist – be at the forefront of Member Engagement. Ref: 72005 BC

Trustee Pension Services Manager
Home-based/Warwickshire office 1 day a week £excellent
Excellent opportunity to join an in-house team on a 12-month FTC offering fully flexible working. Ref: 81654 JW

Pensions Calculations Analyst, GMPe
Hybrid/UK Wide to £50000 per annum
This growing team of GMPe specialists are seeking DB pensions professionals with industry experience to join.
Ref: 81595 NMJ

Assistant Trustee Executive
Hybrid/London or Hertfordshire to £55000 per annum
Fantastic opportunity to join a growing organisation and support senior members of the team. Ref: 73740 NMJ

Pensions Analyst
Hybrid/Staffordshire to c.£45000 per annum
Fantastic opportunity to join a leading brand in their small in-house pensions team. Ref: 81271 JW

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Take the next step in your pensions career with this award-winning consultancy. Ref: 72975 NMJ

Pensions Trustee Consultant
Hybrid/Scotland to £35000 per annum
Join this leading independent law firm. Assist with the provision of administrative support for secretariat to pension scheme trustees. Ref: 81548 NMJ

Benefits Pensions Administrator
Hybrid/Greater Manchester to £30000 per annum
Undertake day-to-day administrative work whilst going the extra mile within a well-established SIPP team. Ref: 81446 MV

Pensions Administrator
Hybrid/South Yorkshire to £30000 per annum
Excellent opportunity to join a leading independent employee benefits specialist as a professional DB Pensions Administrator. Ref: 65417 MV

Pensions Administrator
Hybrid/Offices Countrywide £competitive
Join one of the UK's largest independent pensions advice and wealth management specialists. Ref: 81335 MV

Director, Risk Transfer Consulting
Hybrid/UK £6 figure
Senior, progressive appointment for a skilled Risk Transfer specialist with this industry-leading specialist.
Ref: 80830 SB

Head of Pension Operations, In-House
Hybrid/London £excellent
Fantastic new executive-level appointment with this £multi-bn Pension Fund, leading DB and DC member administration. Ref: 81645 SB

Senior Pensions Manager & Professional Trustee
Hybrid/UK £attractive
Key senior opportunity with this growing outsourced pensions management and scheme secretarial team with opportunity to take on professional trustee appointments. Ref: 80225 SB

Senior Pensions Investment Accountant, In-house
Hybrid c.2 days London office £six fig package
Fantastic opportunity for a skilled Pensions Accountant to join this in-house Finance team supporting a £multi-billion Pension Scheme. Ref: 81054 SB

Senior Pension Trustee Executive
Work from home c. £75000 - £95000 per annum
Join a collaborative and skilled team of pensions professionals, supportive culture offers flexible home working. Ref: 59729 SB

Pensions Pre-Deal Manager
Hybrid/London £excellent
Excellent opportunity for PQ/FQ Actuary to work within a fast-moving, dynamic and exciting M&A environment for a well-established team. Ref: 81600 BC

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Hybrid/Offices Countrywide c.£70000 per annum
New opportunity for a Pensions Project Manager with a background in DB Pensions. You will work with a portfolio of clients across a wide range of projects. Ref: 80915 BC

Senior Pensions Data Consultant
Hybrid/Offices Countrywide £excellent
Join a fast growing and effective data solution team within a leading pensions consultancy. Ref: 71182 BC

Senior Pensions Operations Analyst
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4 days per week West Yorkshire — DB15787

You will complete this small in-house pension team of just 3 & assist the Pensions Manager to support the company & trustees in managing the pensions schemes (outsourced administration). A varied role from good governance to member benefit help.

Day rate contractors SPA level In-house — £DOE
Home working — DB15695C

You are a highly experienced Senior Pensions Administrator, seeking a 6mth+ contract home working. You will be working 3 days on pensions administration cases (DB Scheme) and 2 days on a member contact hub. Starting early/mid November 24.

Remote Pensions Administrators — £29-32k
Home based other than training — DBHRS

Seeking long term contract job security? How about a 9mth+ contract from home on the clients payroll, so you get all their super company benefits, including a long notice period both sides? Our client needs your pension administration skills now!

Senior Pensions Analyst — Up to £55k
Flexible Working on offer — CE15771

In this crucial role, and at an exciting time of growth for this well-regarded administrator, you will be involved in Business Procedures; collecting and documenting the business processes for data, workflows, interfaces, communications and calculations.

Pensions Administrator — £DOE + excellent benefits
London twice per week/Flexible working hours — TD15790

We are seeking a Pensions Administrator for a great employer in London. You must have good Defined Benefit administration experience and DC knowledge would be beneficial. Excellent analytical and problem-solving skills are required as is attention to detail and the ability to work well in a team.

Chief Service Delivery Officer — £DOE
City of London / Hybrid Working — TD15793

As a member of the **Executive Management Team** you will be contributing to the strategy, governance and management of Pension Services. With specific responsibility for the quality and efficiency of services provided to all members and employers.

Pension Trustee Consultants — £50-£90k
London — CE15551

Do you have an excellent grounding in UK pensions and ideally have experience of working with Trustee Boards, providing specialist governance support? If so, this could by your next exciting challenge.

Pensions Admin for Scheme Events — Up to £30k
Remote Working on offer — CE15623

A chance to take your pensions administration experience into a more project based role, working on those scheme events which are required for occupational pension schemes, such as annual renewal and benefit statements.

Client Relationship Managers — £DOE
Flexible Working, UK-Wide — CE15701

This senior role will see you managing a portfolio of key clients for this well-respected provider, which will include some trustee governance. Good experience of budgets, relevant scheme change projects working with senior external and internal parties.

Lead Pensions Administrator — £DOE
Manchester / Bristol / Edinburgh — TD15756

This is a fantastic opportunity for you as an experienced Pensions Administrator to work for a highly regarded firm. You will be responsible for administrating a portfolio of occupational pensions schemes and supervising up to 5 administrators. Defined Benefit knowledge is essential. Flexible hybrid working arrangement.

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Contact Dianne Beer (DB)
dianne@abenefit2u.com
0207 243 3201 / 07747 800 740

Contact Tasha Davidson (TD)
tasha@abenefit2u.com
0208 274 2842 / 07958 958 626

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