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Pensions Aspects

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Investment principles

Empowering trustees through clearer regulation

HOW RESPONSIBLE INVESTMENT CAN IMPROVE MEMBER ENGAGEMENT

A SIPPERLY SLOPE

DRAWING ON DIVERSITY TO MAKE BETTER DECISIONS

Pensions Management Institute
ACHIEVING PENSIONS EXCELLENCE

Edition November/December 2018

Features

Regulars

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PMI and the next generation

By Lesley Carline, PMI President

Last month the PMI was delighted to host the launch of NextGen at PMI Towers. This welcome initiative is in line with PMI's special interest group which is looking at how we develop and deliver what our members need, if they are younger than the grey hair and grey suited brigade and/or if they are new to pensions.

Many would think that we have this covered with our extensive range of qualifications, and educational seminars and conferences. However, it is not all about sitting qualifications; members do need them but they need other things as well.

Having reviewed our membership profile, a third of members are under 35 and whilst this is not just about youth, it does show there is a large section of our membership who have different needs to PMI Fellows.

It is often daunting being new in any industry, and pensions is no exception. It is complicated, there are several specialist areas, and it can look as if everyone knows each other or has worked together at some stage. After 26 years in the industry, if I go to an event or seminar, I will invariably know quite a large proportion of the other attendees. If I want some information on a subject or to clarify my understanding, I know who to pick up the phone to and ask a favour from. I am perfectly happy to approach someone I don't know and strike up a conversation, and I do try to ensure I don't fall into the comfort trap by just speaking to my existing contacts and industry friends.

What do the newbies, whether a youngster starting on a career in pensions or a new more mature newcomer, need to help smooth their way into the world of pensions?

Should we consider providing specialist events where they are welcome to meet other newbies? Approaching someone in the same boat may be less scary. PMI London region recently hosted an event based on speed dating, which proved to be an enormous success. However, not everyone is in London; and is this something that could be replicated in other regions? Should we encourage collaboration with other pensions bodies and look to hold mutual events?

What else, other than meeting likeminded people do, our newbies to the industry feel they need or want? Perhaps mentoring or understanding how to progress and succeed in the workplace? A session at the administration technical seminar which looked at career progression and how to move forward was presented by the immediate past president. Administrators found it really useful; not only did it cover what they could do within pensions but how what they did outside of pensions could also aid their development.

One thing I would like to see is organisations putting forward the next generation of speakers for our events, or anyone else for that matter. They bring a different perspective and often when it is deeply technical, are closer to the practical implications of the topic. It is also a wonderful development experience for them. And, if they don't want to speak, start them off by getting them to write articles for Pensions Aspects!

1/3

of our members are under 35

Our special interest group will be surveying the membership to ascertain what more can be done to help them. We will also maintain our support of the NextGen initiative, hopefully along with employers and other industry bodies.

Congratulations! Your commitment to your own learning and development through working towards a professional qualification marks you out as a serious pensions professional. At present we are working hard at PMI to tell pensions employers and employees about our sector based qualifications and the value of investing time and effort into achieving recognition through the PMI.

We are now attracting more interest than before and therefore need to increase our pool of examiners, assessors, verifiers and moderators for qualifications ranging from the Award in Pensions Essentials for newcomers to the pensions sector, through to the Advanced Diploma in Retirement Provision, and our apprenticeships offer where we need end-point assessors, along with question writers for multiple choice based examinations, and tutors for our online learning programmes.

All of these roles:

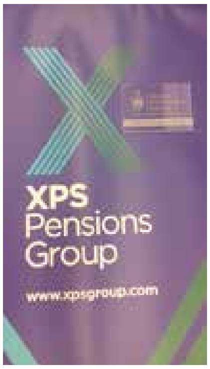
+ **attract a fee** comparable to those offered by other commercial awarding organisations;
+ **require you to be able to give of your time**, some during the working day. Typically assessors and others can be conducted outside of your 9-5 commitments;
+ **will be supported by a continuing professional development programme** which will embrace both pensions expertise and the technical aspects of assessment.

For more information please email **qualifications@pensions-pmi.org.uk** using the subject title PMI support opportunities.

Thank you!

Anne Harper
Director of Lifelong Learning

XPS Administration



XPS Administration recognise that the success of everything we do depends ultimately on the capability and commitment of our people so we support them to excel in their role and develop their long term career with us. We do this by offering a robust training programme and support in studying for exams to attain professional qualifications, at all stages of their careers, supporting lifelong learning. A combination of our comprehensive induction programme, our extensive range of internal training courses, 'on the job' training, and our commitment to professional study support enables both our business and staff to realise their potential. The main professional qualifications we support are aligned to pension administration, with staff encouraged to complete the Certificate in Pension Calculations (CPC), initially, followed by the Advanced Diploma in Retirement Provision (APMI). Further professional qualifications are also encouraged. XPS Administration recognises that our continuous commitment to supporting and developing our staff helps to ensure that they enjoy engaging and fulfilling careers with us.

With legislation and governance becoming increasingly more complex, XPS Administration recognises the need for ongoing technical training for our staff in addition to on the job training and the cascading of technical and legislative updates, technical discussion groups, and studying for professional qualifications.

Some of our XPS candidates

Member Excellence Awards

Association Excellence Awards 2018
PMI a finalist in two categories!

Founded in 2014, these awards identify and reward the hard won achievements of UK trade bodies, professional membership organisations, and associations. Bringing together a panel of independent judges, representing associations from every sector, these awards recognise individuals, teams and initiatives, and highlight excellence in how trade bodies operate and serve their members.

Pensions Aspects, our member magazine, and Pensions Aspects Live, our flagship conference, were launched earlier this year after undergoing a rebrand. The changes to Pensions Aspects were largely in response to our 2016 member survey, in which you told us you wanted better insight and learning. As one of the key aims of the PMI is to provide industry-leading insight to our members and the wider industry, we wanted to get this right.

The result was a fresh and modern design and concept, integrating the magazine and conference under one brand. The conference aims to build on the themes developed in the monthly Pensions Aspects magazine and bring them to life in a reinvigorated conference format. This format included running breakout streams as well as the main sessions, ensuring fresh, relevant content for each attendee.

We have been delighted with the results and your feedback. In a readers survey conducted earlier this year, you rated Pensions Aspects as the best publication as a means of staying informed about the industry, above seven other industry publications.

We are delighted to confirm that Pensions Aspects Live won the Silver award for “Best Association Conference Under 500 delegates.

As well as this...

90% of readers rated the relevance of the content as excellent, to good, 80% rated the layout as excellent to good, and 75% rated the new look and feel as excellent to good.

Meanwhile, Pensions Aspects Live enjoyed a 146% increase in attendees compared to 2017, and positive feedback on the new format and variety of speakers.

We are delighted to have been recognised for these initiatives and look forward to building on the Pensions Aspects brand next year.

Membership update

Obituary

We are saddened to hear that **Peter Bryant CertPMI** has recently passed away.

2018 – 19 Membership Renewal Subscriptions

Your membership renewal was due on **1st September 2018** and subscription renewal notices have been sent out to all members.

A late payment fee of £35 has been applied to all outstanding membership subscriptions.

If your payment is not received by Wednesday, 14th November 2018, your membership will lapse.

Please renew now to avoid any disruption to your membership services. Please make your payment now by visiting **www.pensions-pmi.org.uk** and logging in to the **'MY PMI'** section to make your card payment. Alternatively, payment can be made by contacting the Membership Department o**n 020 7392 7410/020 7392 7414.**

2018 – 19 Affiliate Renewal Subscriptions

Affiliate memberships were due for renewal on the **1st November 2018** and subscription renewal notices have been sent out to all Affiliate members. It costs just £75 to renew for the 2018/19 period. If you have not received your renewal notice please contact the Membership Department at **membership@pensions-pmi.org.uk** or on **0207 392 7410** or **020 7392 7414**.

Continuing Professional Development (CPD)

Fellows and Associates are reminded that meeting the PMI CPD requirement is compulsory (except where retired/non-working). Members are required to record at least 25 hours. Please log on to the website and update your CPD record.

Members with outstanding CPD have been notified to complete and submit their CPD to the PMI Membership Department. Failure to comply will result in the withdrawal of their designatory initials FPMI and APMI.

PMI Fellowship Network 4th Anniversary Party (PMI Fellows only)

The PMI Fellowship Network will be celebrating its 4th anniversary on Thursday, 22nd November 2018 from 17:00 – 19:30 at Sackers, London. This year, we will be welcoming two guests: Debra Soper, Director of Civil Service and Royal Mail pensions from the Cabinet Office, and Chris Turner, British comedian and freestyle rapper!

All Fellows will have received an invitation to the event. As spaces are limited, please RSVP as soon as possible to avoid disappointment.

PMI Membership Upgrade Waiver

The Board has decided to allow all future qualifiers after each exam to upgrade their membership without the appropriate election fee. The invitation to upgrade letter will be posted together with your results, indicating a three-month window in which to upgrade your membership.

Members wishing to upgrade after the end of the waiver period will be required to undertake the usual process which requires the upgrade fee plus the annual subscription at the appropriate rate. For further details contact the Membership Department at

membership@pensions-pmi.org.uk

or on **020 7392 7410 / 020 7392 7414.**

PMI Trustee Group Board Scheme

The PMI extends a warm welcome to the following Trustees who have recently joined the PMI Trustee Group membership:

Bank of America Merrill Lynch
Lancashire County Pension Fund
Jaguar Land Rover
Rexel UK Limited
Vodafone

Membership Record

Please ensure that your personal details are correctly updated on the PMI database to ensure that there is no interruption to your membership service. If you require a reminder of your username/password to log in and check your details, please contact the membership department at **membership@pensions-pmi.org.uk** or on **020 7392 7410** / **020 7392 7414**.

Certificate Membership

Certificate membership is open to those who have completed one of our qualifications at the Certificate Level; for more information please see the PMI's website. We are pleased to announce that the following people have been elected to Certificate Membership and can now use the designatory initials "CertPMI":

Laura Chesson

Jennifer Soper

Fellowship

Fellowship is open to Associates with five years membership and five years' logged CPD.

We are pleased to announce that **Jamie Gateshill** has been elected to Fellowship and is now entitled to use the designatory initials "FPMI".

Diploma Membership

Diploma membership is open to those who have completed one of our qualifications at the Diploma Level; for more information please see the PMI's website. We are pleased to announce that the following members have been elected to Diploma Membership and can now use the designatory initials "DipPMI":

Marcus Allen
Neel Karia
Derick Macleod
Ciara Smyth
Christopher Wilson
Mathew Witherwick

Associate Membership

Associate membership is open to those who have completed the Advanced Diploma in Retirement Provision qualification; for more information please see the PMI's website. We are pleased to announce that the following members have been elected to Associate Membership and can now use the designatory initials "APMI":

Alison Hay
Jane La Pla
Suzy Roberts
Liam Scarfe
Michele Slazyk

Start your own pension network

On Thursday 4th October, The PMI, along with The Association of Consulting Actuaries, the Association of Pension Lawyers, the Employer Covenant Working Group, and the Society of Pension Professionals, hosted its first "Start Your Own Pension Network" evening at the Aon Centre.

The evening, designed to help those starting out in the industry to start to build a network of contacts across various disciplines, was a success, with over 100 delegates in attendance.

Events

DIARY DATES

Tuesday 27th November
DATA ROUNDTABLE

Are pensions schemes still stumbling in the dark with poor data?

Join us for our latest morning roundtable seminar, in which we will discuss:

+ What are the benefits of good data?
+ The legal position - TPR's view
+ Is the general data protection regulation (GDPR) working well?
+ Will schemes' data be ready for the Pensions Dashboard expected to launch in 2019?
+ How does poor data impact on scheme funding?
+ Can you get a better buy-in / buy-out deal with good data?
+ How do we fix the problem / improve data?
+ What tools are there on the market for improving data?
+ What priorities should pension scheme managers have for fixing data?
+ Is data cleansing too costly?
+ Do pension schemes give cyber security a high enough priority?

This seminar is free to attend but seats are limited – contact the Events team for more information.

2019 EVENT CALENDAR:

3rd April 2019
PENSIONS ASPECTS LIVE 2019
Venue: IET

3rd April 2019
PMI ANNUAL DINNER
Venue: The Savoy

6th June 2019
TRUSTEE SEMINAR
Venue: Grange City Hotel

10th October 2019
DC WORKPLACE PENSIONS SYMPOSIUM
Venue: Grange City Hotel

7th November 2019
PENSION ADMINISTRATION SUMMIT
Venue: Grange City Hotel

Thursday 29th November 2018
PMI TRUSTEE SEMINAR

The PMI is delighted to announce our Winter Trustee seminar will be held on the 29th November, in London. Join us for a day with some of the top influencers in the pensions industry. Topics to include:

+ ESG vs ethical investment
+ How does fiduciary management work?
+ PMI Trustee Group
+ Risk transfer
+ Role of the professional trustee
+ Trustee soft skills
+ Valuation methodology
+ What should trustees be asking about costs?
+ White paper summary

This event is free for PMI Trustee group members to attend

Wednesday 5th December 2018
DC SYMPOSIUM

Come and join the PMI for a comprehensive look at all things DC related. Topics of discussion to include:

+ FCA retirement outcome: what's coming?
+ From defaults to pathways
+ Overcoming barriers to good service delivery
+ DC governance in practice
+ DC issues and resolutions
+ Communication: getting the message across
+ The impact of member outcomes

Members £100.00 **Non-members £150.00**
All prices displayed exclude VAT.

Register your interest in any of our listed events by emailing events@pensions-pmi.org.uk

Investment principles

Empowering trustees through clearer regulation

Continue reading on pages 12 -19.

How responsible investment can improve member engagement

By Chris Inman, Aon Consulting Limited

With so much focus in the DC market on member communications and experience, would you overlook an opportunity to further engage DC savers and engender pride in their pension scheme?

This is exactly what Aon believe the incorporation of Responsible Investment, or, if you prefer, Environmental, Social and Governance (ESG), policies and strategies has the potential to achieve. This view is supported by DC savers we have spoken to as part of our ongoing research, including Aon's 2018 DC pension and financial wellbeing member survey, which will be released this autumn, to better understand their attitudes towards saving, including pensions and investment strategies.

One consistent message that has emerged from our 2018 DC pension and financial wellbeing research is that members are surprised to find out that, unless they had specified otherwise, their pension money could be invested in companies and sectors that they oppose. These findings are consistent with those published by the DC Investment Forum (Navigating ESG: A Practical Guide) ,and NEST (building new norms), whereby DC savers wanted, and expected, their pension savings to be invested responsibly. Both pieces of research found that when this was the case and tangible 'good news' stories about their investments were shared, most members' impression of, and confidence and pride in, their DC scheme was improved.

Schemes may want to ask themselves a couple of very simple questions before they progress further:

1. Is it desirable to increase member engagement and savings?

2. Will our DC members be more engaged and potentially save more if their money is doing some good?

If you have answered "yes" to both, then the next step is to better understand the current regulatory landscape, and to devise a practical framework to move responsible investing forward for your DC members.

If you answered "no" to either question, then it is still worthwhile understanding more about the regulations and practicalities.

Regulatory Landscape

In recent years there has been growing interest in responsible investment for pension funds and in ESG considerations. A number of consultations and reports have been released, including a June 2017 report by the Law Commission, which concluded that there are no legal or regulatory barriers to pension schemes making social investments. Final regulations have now been released by the DWP, which aim to dispel trustee confusion and to give institutional investors renewed confidence, if they so choose, to begin allocating, or increase the allocation of capital to investment opportunities such as unlisted firms, green finance, and social impact investment.

Whilst all pension schemes will need to provide information within their Statement of Investment Principles (SIP), setting out how they take account of financially material considerations, including climate change, there are a number of additional requirements for DC schemes. From 1st October 2020, DC trustees will, in addition, be required to produce an implementation report for the year setting out how they acted on the principles set out in the SIP, as well as explaining any changes made to the SIP. In addition, the DC scheme's SIP and implementation report must be published on a publicly accessible website so they can be found by scheme members and interested members of the public.

Whilst perhaps some people breathed a sigh of relief as the proposal for a 'statement on members' views' was removed from the final regulations, engaging with members to better understand their views on such topics may in fact be a valuable exercise.

Indeed, in the Ministerial foreword to the Government's Response Guy Opperman states that ***"…in line with the conclusions reached by the Law Commission, I do believe it is possible and appropriate for trustees to take account of members' views in certain circumstances."*** Pension or wider benefits focus groups can be a great way to do this.

Framework

Aon believes that the spirit of the DWP regulation is to encourage trustees to develop their own views as to what Responsible Investment means for that scheme. In Aon's experience, the conclusions and resulting policies can differ greatly based on a combination of various inputs including:

- the views of their member base;
- time horizon of the scheme;
- investment beliefs;
- preferences to align with the global initiatives such as the Sustainable Development Goals or the Task Force on Climate Related Financial Disclosures, and so on.

Whilst a process of discussion is potentially uncomfortable, there is a worthwhile benefit in reaching a position where one can be clear on exactly what the scheme's policy is on ESG factors such as climate change, and why it takes that stance. So how can pension schemes do this? **To facilitate this, we have constructed the below six step framework that we have successfully used with a number of our pension schemes to walk them through an initial education session all the way to the implementation of responsible investment policies and investment strategies.**

		Stage	What is it?
Discover	1.	Raise awareness	> Education amongst stakeholders and members to understand issues and relevance
	2.	Define beliefs	> Survey stakeholders' views and beliefs, including members > Discuss and reach consensus on core objectives
Develop	3.	Agree policies	> Consider regulation, best practice, stakeholder policies, views and beliefs > Define policies and procedures
	4.	Assess risks	> Review asset allocation against systemic risks (e.g. climate change), and portfolio level ESG risks
Deliver & review	5.	Engage with managers	> Review policies and actions of managers > Engage and seek to improve, or take action
	6.	Reporting and reviewing	> Report and further engage with members, stakeholders and relevant industry bodies

Summary

The capacity for responsible investment strategies to engage DC savers and engender pride in their pension scheme is an opportunity that should not be missed. Through a considered process of discovering stakeholder beliefs (i.e. those of trustees, companies and members), and developing appropriate policies, a successful and engaging responsible investment strategy can be delivered!

To discuss any of the issues raised in this article or to request a copy of Aon's DC pension and financial wellbeing member survey 2018, please email **talktous@aon.com** or call **0800 279 5588**.

The Pensions Regulator : the road ahead

Since The Pensions Regulator's (TPR's) inception in 2005, the political, economic and pensions landscape has shifted significantly. So too have stakeholders' expectations of what an effective pensions regulator ought to look like. In this article, we look at what lies ahead for TPR and, crucially, whether it can meet those expectations.

TPR's effectiveness as a regulator has been put to the test in the past few years. Busy with the introduction of auto-enrolment in 2012, pensions freedoms in 2015, and increasing numbers of scams, TPR has also faced the scrutiny of Government select committees in relation to the failure of several high profile businesses and associated defined benefit (DB) pension schemes.

It is against this backdrop that TPR undertook a review of the way it works, the first instalment of which was published in July 2017 and the second of which was published in September 2018. Its report, had served it well but was no longer appropriate and that, instead, TPR would aim to be *"clearer, quicker, tougher"*.

> **"Making workplace pensions work - TPR Future - our new approach" noted that TPR's aim to "educate, enable, enforce".**

In particular, TPR says that its new approach will focus on setting clear expectations, identifying risks early, driving compliance through supervision and enforcement, and working with others. We have already seen some evidence of this approach in the form of increased imposition of fines for failure to submit compliant chair's statements, late scheme returns, and the first fine for a late valuation. But is TPR's proposed approach achievable more generally?

At roughly the same time TPR conducted its TPR Future review, the Department for Work and Pensions (DWP) undertook a wider review of DB schemes. The White Paper, *"Protecting Defined Benefit Pension Schemes"* sets out DWP's approach for the future of DB schemes, and supports TPR's ambition to be clearer, quicker and tougher. The resulting consultation sets out how DWP intends to do this. In brief, TPR's powers are set to be considerably strengthened in three core areas, as set out below:

+ **improving TPR's and trustees' roles in scrutinising corporate transactions by strengthening the notifiable events framework and introducing a new "declaration of intent";**
+ **improving the sanctions regime to deter wrongdoing, and punish it when necessary, including a new civil penalty of up to £1,000,000 as well as criminal sanctions; and**
+ **improving TPR's existing powers to issue Contribution Notices and Financial Support Directions.**

Whilst these proposals are welcome and may, in part, reflect recent high profile cases, their success, and the success of TPR's new approach outlined in TPR Future, depend upon a number of factors. First, TPR must have the appropriate legal powers; this depends upon clear and careful drafting of any forthcoming legislation. Second, TPR is part of a wider pensions framework; it must foster closer, more effective relationships with institutions such as the DWP and the Financial Conduct Authority. Third, it must undergo a cultural shift, which will, perhaps, be hastened by the appointment of a new Chief Executive in February 2019. Finally, it must have sufficient resources to enable it to use its new powers effectively.

It will never be an easy task for TPR to balance its objectives and deploy its resources to best effect. However, things seem to be heading in the right direction and we seem to be entering a new era of pension scheme regulation.

The Pensions Regulator

Legal Aspects

A SIPpery slope...?

By Jeremy Goodwin, Partner (Pensions), Eversheds Sutherland

Consultation response

In September, the DWP responded to its consultation on clarifying and strengthening investment duties. Some material changes have been made to the original proposals.

By 1st October 2019, trustees will be required to update their Statement of Investment Principles **(SIP)** to include:

(1) information about how financially material considerations including, but not limited to, environmental, social and governance considerations (ESG), are taken into account;

(2) the extent (if any) to which non-financial matters are taken into account; and

(3) policies in relation to the stewardship of investments, including the exercise of voting rights.

Schemes with DC benefits (except where those are derived only from AVCs), will also need to update the SIP for their default arrangement ,and publish the SIP on a publicly available website by 1 October 2019. Looking further ahead, from 1st October 2020 trustees of these schemes will also have to publish an implementation statement describing how they acted on the principles in the SIP.

Note that schemes with fewer than 100 members, and public service schemes, do not need to prepare a SIP.

The DWP has also updated its guidance on reporting costs, charges and other information to reflect these changes. In addition, the Pensions Regulator is expected to produce high level guidance by the end of November 2018.

Background

One of the perceived barriers to ESG investment has been the legal duty on pension trustees to invest in members' best financial interests. Some have viewed this as a duty to maximise members' short term financial returns, which could be an issue for ESG.

> **The DWP acknowledges in its consultation response that pension legislation is currently "confusing and misleading" in relation to ESG. It says, however, that "given the evidence that ESG factors can lead to better returns in the long run, pension trustees may consider ESG factors".**

The Law Commission's 2014 report on Fiduciary Duties of Investment Intermediaries (quoted in the DWP's consultation response), concluded that trustees should take into account factors which are *financially material* to the performance of an investment, such as ESG, whatever their source. In addition, they may also take account of *non-financial factors* but only where a two-step test is met:

(1) trustees should have a good reason to think that scheme members would share the concern; and

(2) the decision should not involve a risk of significant financial detriment to the fund.

Comment
To the relief of some, the suggested requirement in the previous consultation to canvass member views has been dropped. Instead, trustees will be required instead simply to state the extent, if any at all, to which non-financial factors have been taken into account. The consultation response emphasises that trustees have primacy over investment decisions, and whilst they should not rule out the ability to take account of members' views (as set out in the above test), they are not obliged to do so.

Enforcement, enforcement, enforcement...

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> **"Whilst 'educate, enable, enforce' has served us well, our approach to how we regulate is changing and so this no longer accurately reflects how we work".**

So says the Pensions Regulator in its new report, "Making workplace pensions work (TPR Future: our new approach)". Supervision and enforcement are the overriding themes, and it seems that less emphasis will now be placed on education and employers' sustainability.

A new supervision team will focus on 25 of the biggest schemes (DC, DB and public service), with one to one attention starting from October. This approach will be rolled out to more than 60 schemes over the next year. Schemes selected for close supervision could be issued with improvement plans if the Regulator establishes particular concerns, and it will engage in regular meetings to review progress.

The Regulator will develop a range of approaches, and supervisory activity will include a variety of interventions that reflect the level of risk identified; everything from letters, phone calls and meetings, to being part of a 'thematic review'. It will also continue to respond to intelligence-led or event-driven issues with direct interventions. Overall, about 20-40% of schemes can expect to be subject to some sort of supervisory interaction.

Comment

Having been stung by criticism following BHS and Carillion in particular, it seems that the Regulator has reacted by getting tough. Expect schemes to be 'named and shamed' and the Regulator to have far greater involvement in the way (in particular, large) schemes work on a day to day basis.

Vive la Ombudsman?

An efficient, consistent Pensions Ombudsman

In the annual report and accounts 2017/18, the Ombudsman notes a 26% increase in the number of cases accepted for investigation last year. The average timescale for closing cases has halved to five months, and common topics for complaints are transfers (20.5%), failure to provide information or act on instructions (11.8%), and incorrect calculation of benefits (10%).

Consistent awards for distress and inconvenience

The Ombudsman is now introducing fixed amounts for non-financial injustice awards (commonly referred to as 'distress and inconvenience' awards), to enhance "transparency, create consistency and manage expectations for all parties to the complaint".

An award will now usually fall into one of the following five categories:

- **nominal (£0)**
- **significant (£500)**
- **serious (£1,000)**
- **severe (£2,000)**
- **exceptional (over £2,000).**

Guidance is given as to when a case would fall into each category and what the Ombudsman would look at.

The awards are intended as an acknowledgement to the applicant of the inconvenience and/or distress they have suffered. In other words, to remedy the injustice genuinely suffered, not to penalise or punish the respondent for bad behaviour.

However, if a respondent persists in behaviours that make it difficult for members to achieve redress, and causing more anxiety, this is likely to result in a higher award. Additionally, the Ombudsman will not look to 'rob Peter to pay Paul'. For example, where the award comes out of limited scheme resources and the scheme is underfunded, is in wind up, or is in the process of being transferred to the Pension Protection Fund".

Comment

The Pensions Ombudsman has made great strides forward, bringing swifter, cheaper justice to many and introducing what will hopefully prove to be a more logical, consistent approach to the way in which non-financial injustice awards are given.

CETVs: are you looking after stayers?

HamishWilson

By Hamish Wilson

Figures released by ONS, FCA and tPR show upward trends in numbers and amounts, literally £billions, of defined benefit (DB) to defined contribution (DC) transfer payments.

Why are individuals transferring out of DB schemes?

Transferring out is not a decision that can be taken lightly since it means giving up DB benefits and is irreversible.

- access flexibilities not available in DB schemes since pension freedoms introduced
- certain personal circumstances
- tempted by apparently high transfer payments on offer, sometimes enhanced by sponsors
- lack of trust of employer backing DB scheme
- victims of pension scams.

Transferring out is not a decision that can be taken lightly since it means giving up DB benefits and is irreversible. Control systems have evolved to make sure individuals wishing to transfer out understand the risks involved. For example, there is a requirement to obtain financial advice for transfers above £30,000 and many schemes make guidance available. The fact that scams are still on the list above shows there is still work to be done to protect transferrers.

What about stayers?

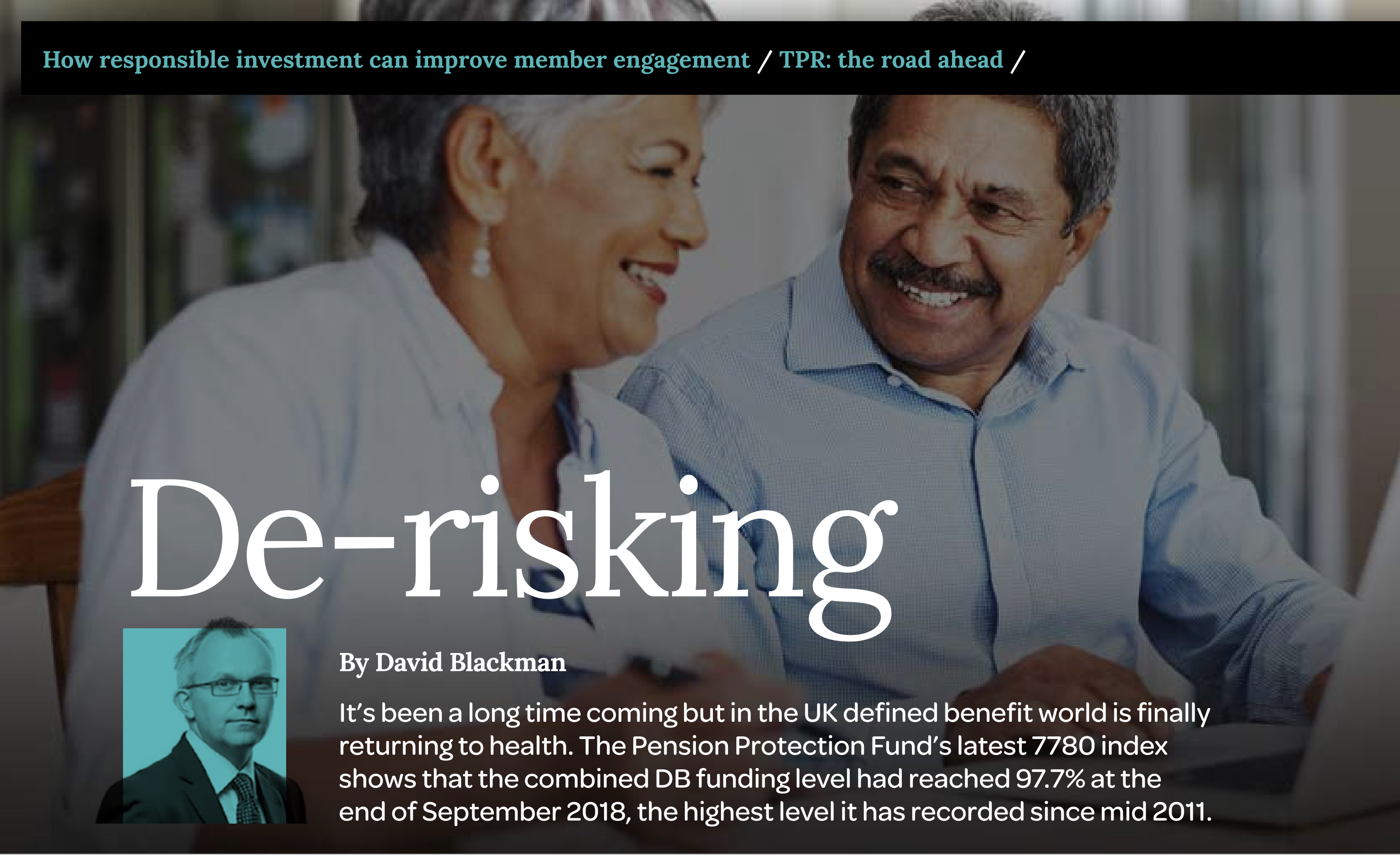
For example, do stayers understand excessively high transfer payments can in fact increase risk for them?

One of the main challenges for trustees (and sponsors), is to ensure equity between different classes of membership. When it comes to transfer payments, schemes can be split into 'leavers' and 'stayers'. Controls have been developed to assist and protect transferrers but is enough being done to help stayers? For example, do stayers understand excessively high transfer payments can in fact increase risk for them? Either directly, by depleting scheme assets, or indirectly if the sponsor is using cash to enhance transfers which could be used to improve the business.

Here are three areas worthy of consideration to ensure fairness:

- Transfer basis: when was the basis last reviewed? Is the basis scheme specific or one size fits all? Are you satisfied it produces 'best estimates'?
- Underfunding reductions: have you talked to the actuary about reducing transfer payments if the covenant is poor? Do you consider the future sponsor covenant?
- Agree a plan for the scheme: have trustees and sponsors agreed longterm goals? Is the future impact of encouraging transfers fully understood by the sponsor?

News that the regulator wrote to 14 schemes asking for overly generous transfer payments to be reviewed is a timely reminder for trustees and sponsors to take action sooner rather than later.



De-risking

By David Blackman

It's been a long time coming but in the UK defined benefit world is finally returning to health. The Pension Protection Fund's latest 7780 index shows that the combined DB funding level had reached 97.7% at the end of September 2018, the highest level it has recorded since mid 2011.

These improved funding levels are naturally fuelling sponsor and trustee interest in de-risking, which is becoming a feasible option for an increasing number of DB schemes.

To explore these issues, the Pensions Management Institute held a de-risking roundtable last month at its London headquarters in Tower 42.

Ross Leach, co-head at River and Mercantile Solutions, said he is definitely seeing an increased focus on the de-risking end game from trustees.

But whilst achieving funding self sufficiency on a technical provisions basis is a "great staging post", it can breed "false confidence", he cautioned.

Just keeping a scheme ticking over still involves ongoing costs in fees for consultants like lawyers and actuaries, which swiftly add up, Leach said: "The difference between self sufficiency and buy out may not be quite as big as you think it is."

And whilst they have achieved funding self sufficiency, generating cash flow is a headache for an increasing number of DB schemes as their membership grows older and the population of contributing active members dwindles.

Sorca Kelly-Scholte, head of EMEA Pensions Solutions & Advisory at JP Morgan Asset Management, said: "Most schemes have not been in negative cash flow until relatively recently but now we are seeing more and more.

"This is an underlying structural change which is to do with maturing of funds which have been closed for long periods. As they age you have a shrinking active member base."

For many schemes, this shift has been partly masked by deficit contributions, which is receding as funding levels improve.

As a result, she said that schemes would increasingly have to build up strategies based on investing more in real assets like property and infrastructure, which generate income.

But access to high quality real assets or investment grade corporate debt is limited

And holding real assets like property and infrastructure can be a headache when approaching buy out, said Leach: "They (trustees), don't want to invest in illiquid assets that they feel they won't be able to hand on to the insurers should they get there."

Gavin Smith, a director in the core transactions team at insurer L&G, said lack of such high quality assets is also a major constraint on the growth of the pensions buy out market,

> "We can expect demand to continue and the market to stay at around the levels we've seen in 2018 for the next few years. We are very comfortable that these levels can be sustained."

potentially ultimately driving up pricing levels in transactions.

"Demand for those kinds of assets is unprecedented from pension schemes. We are doing a lot of work to generate those high quality assets; we are actively putting back into the economy ourselves by investing our own capital in projects," he said, pointing as an example to L&G's regeneration of Cardiff city centre.

Insurers' appetites for pension scheme buy out business is strong with eight writing bulk annuities and others rumoured to be entering the market.

As a result, the bulk annuities market is "well on course" to have a record breaking year, surpassing 2014. Smith said: "There seems no let up in demand from pension schemes. The pipeline for 2019 remains very strong and funding levels remain in a strong place".

Appetite is strong across the market, including for the largest £1bn-plus transactions. He said "We are already in discussions with a significant number of large pension schemes, which have de-risking very high up on their agenda, whether this year or two or three years down the road."

And whilst current levels of buyouts are high by historic standards, the £20bn worth of bulk annuity transactions recorded so far this year are "just skimming the edges" of the £2tr worth of liabilities in UK DB schemes.

Faced with this competition for insurers' attention, the key for smaller schemes in particular is to ensure that they have done their homework before seeking a quote, said Leach.

"Insurers and employee benefit consultants could do more to standardise how they present data and information" Smith said, pointing to the bulk annuities market with general insurance where comparison websites are the norm.

> "This is a very complex market and we are a very long way from being able to standardise it as much as that."

Simon Taylor, a partner at consultants Barnett Waddingham, said member choice exercises could help schemes get ready for buy out. "Smaller schemes often have a concentration of risk in a certain individual, such as the ex FD or MD sitting with a big defined benefit pension, whose transfer can have big effect on the ultimate cost of securing benefits."

He said there has been a "huge" increase in the volume of liability management exercises over the last three to four years due chiefly to the 2015 introduction of pension freedom flexibilities and the growing frustration amongst sponsoring companies about deficit contributions.

"A lot of FDs were pretty unhappy about putting in pretty sizeable amounts and not seeing anything for it: they wanted to know if there was a better way of spending their money."

In addition, many schemes have seen an upturn in interest from the members themselves who have read in the personal finance columns about the high transfer values that they could achieve for their pension pots.

However, the recent British Steel pension scandal, which saw unscrupulous IFAs preying on unwary DB scheme members, have hit the reputation of DB transfers.

A "well run exercise" can get around such problems though, Taylor said: "They're not the group of IFAs we would typically appoint to run a bulk exercise. There are ten or eleven firms we would trust and they were not involved in that sort of behaviour."

However, the "huge" number of such exercises going on in the market, including one alone involving 30,000 members, means that such firms face acute capacity constraints.

And out of the approximately 200,000 members who have gone through transfer exercises, around seven out of eight have sourced their own advice, underlining the importance of schemes taking control of such exercises.

He said: "Some will be fine but some won't be: trustees are paying huge amounts in transfer values but are not doing due diligence on where it's going or the quality of advice members are getting."

And generally L&G is "very comfortable" with the quality of member choice exercises taking place before schemes come to market. Smith said: "It's all about making sure that trustees can demonstrate that those exercises have been well run. If there is any suggestion that poor advice might be given that would give us cause for concern."

News from the regions

[Eastern regional news]

We welcome Zoe McLaughlin of Ensors to our Committee.

By the time you read this our afternoon seminar on Tuesday 30th October at Aviva in Norwich will have taken place with speakers from WEALTH at Work, Aviva, Champion Retirement Ltd, XPS Pensions Group, and Aon. We are sure it will have been an enjoyable and informative seminar and we are grateful to all who gave up their time to come to speak to us, and to their employers for allowing them to do this.

Our next afternoon seminar is likely to be on Tuesday 26th February 2019 in Ipswich and will hopefully include our usual annual legal update and some other interesting topics. Details will be emailed to members in late January.

If you wish to be added to our distribution list, please contact Susan Eldridge at susan.eldridge@aviva.com

Finally, a little on the early side, we wish you a Merry Christmas and a happy and healthy 2019!

[London]

Summer may be over, but there is plenty to look forward to with the PMI London Group. We have our new committee in place, and are making preparations for another year of informative presentations, networking opportunities, and social events where we can have some fun with our peers.

The last year has seen the group thriving, with a range of events covering topics including: how to engage with millennials; DB transfer out activity, and how to stay out of trouble with GDPR. Keep an eye out for details of the new business committee on the PMI website and our LinkedIn page, as well as some of the topics which will be discussed.

On the social side we held a series of events including a very entertaining (and rather competitive), evening of social darts and, of course, our legendary pub quiz.

The PMI London Group pub quiz is held annually in November and is always a highlight of our social calendar. This year it will take place on the 14th November. We have started to make preparations for this year, so keep an eye out for more information on the PMI website, as well as the PMI London Group Linkedin and Twitter.

For student members, we have run a series of revision sessions to give candidates a boost as they prepare for their exams. In the last year we have organised a number of practice sessions for students of the Advanced Diploma and Retirement Provision Certificate, who say they feel more confident afterwards.

We are always delighted to have new members, so please do get in touch if you would like to join in. The membership secretary is Mark Jenkins (contact details on PMI London Group page).

By Ella Pryor, Associate Consultant, Smart Pension

I work in pensions…

But are they ancient history?

I'm not sure if there is a degree that obviously leads into a career in pensions, but I studied Classical Archaeology and Ancient History. People like to joke that my degree is perfect for working in pensions because I am still studying 'old things'. All the best jokes are explained; here the joke is that I have studied dead languages and dead civilisations and now I'm studying dead people, which is morbid and not completely true.

It didn't immediately hit me just how undiverse the pensions industry can be because the FinTech nature of my company encourages diversity. Over time I realised that this view was wrong and the pensions industry is not diverse but, much like at the pivotal Battle of Issus where Alexander the Great outmanoeuvred the Persian army to seize victory despite being outnumbered 2:1, there is scope within the industry to overcome this imbalance.

Why does it matter that the pensions industry isn't diverse? It matters because the average trustee is a 54 year old, university educated, male (Aon Hewitt, Mapping the Trustee Landscape, 2017), but the average worker is 40. These trustees are only representative of a specific demographic of people nearing the end of their pensions journey; the minimum age that someone can retire at is 55. This contrast is not limited to trustees; in the first few months of working in pensions I attended an industry conference and was surprised to note the overwhelming dominance of middle to late aged men. The experience left me feeling like my generation and gender were nearing extinction.

There are other young people, and other women, working in pensions, but there aren't enough. Increasing diversity does not mean wiping out the 54 year old male contingent, it just means altering the balance to be more equally representative. Members of pension schemes are not limited to one demographic so the people making decisions for them shouldn't be either. Auto enrolment was introduced to encourage more people to save for retirement but the industry itself needs shaking up; pensions are not centred around ancient beings, they are for people of all ages and walks of life.

What can be done about this lack of diversity? Before I answer this, it is important to highlight that when I speak about diversity I mean both age and gender diversity. For the age diversity issue the most obvious group that is tackling this is NextGen. Founded specifically to tackle generational diversity, NextGen has gathered together a range of the younger generation from across the industry to promote and encourage the next generation. NextGen's plan is split into two streams; one stream targets those who have been in the industry for some time and are ready to take the next step, for example being appointed onto boards or becoming trustees. The other stream targets people like me who have just entered pensions and are looking to make their mark and grow within an intimidating industry which feels closed off. PMI's Project 35 is another initiative looking to provide support and encouragement to the younger members of the industry. These programmes are going to fill a really important gap in the pensions industry for young people and I am excited to be involved and see how they develop.

In terms of gender diversity, in the time that I have started working in this industry the Women in Pensions awards have been introduced. These awards are important for highlighting that there are women in pensions, literally, and that these women are being recognised and appreciated. There are other approaches to tackling diversity; for example in 2007 Norway introduced a quota of 40% female representation on the boards of large companies. Imposing quotas is a controversial topic, but even just active encouragement makes a difference. In 2017, 27% of board members in the UK were female which is more than double a decade earlier (The Economist, Ten years on from Norway's quota for women on corporate boards, 17th February 2018). A good example of diversity is the PMI; as of July this year the PMI has a female president and two female vice presidents. Having more women on boards and in senior positions helps promote to women that it is possible to reach that level and the positions are not just for men.

Conclusion

Change in the pensions industry is a bit like the building of the Parthenon; slow but purposeful, beginning with the main structure and adding decoration later. The basic structure is solid and fit for purpose, but it is the decoration, the frieze, metopes and pediments, that complete the building and deliver the impact. The main pensions industry structure has been established for a while and now it is time to build on this and add the decoration: diversity. The decoration of the Parthenon is significant, meaningful and specific, it took time and it was important. Addressing diversity in the pensions industry is the same; it won't change overnight but it is happening, and it is important. Hopefully in the future the joke will be ancient history, not pensions.

Drawing on diversity to drive better decisions

The pensions industry is starting to realise the value of diversity and inclusion in pension scheme trustee boards and beyond. This is about more than reflecting the diversity of pension scheme beneficiaries amongst trustee directors: the evidence is clear that diverse groups, which work well together, are better at making good decisions. At a time when trustee decision making, for both defined benefit and defined contribution schemes, is under more public and regulatory scrutiny than ever before, ensuring boards and committees are diverse and inclusive could give trustees an extra layer of reassurance that they are fit to meet the challenges their schemes face.

"Diversity and inclusion" may just sound like buzzwords, albeit ones that are on the lips of government, regulators, industry bodies and FTSE 100 boards alike. But when we are inclusive in how we select people, when more viewpoints are shared, we see the clear advantages that a broader range of individuals bring to the board table. In short, diversity produces better decision making. Where's my evidence for this bold claim? Well, there's a wealth of it.

A long line of researchers, from psychologists and business analysts to mathematicians, have compared the decision making performance of homogeneous (similar) and heterogeneous (diverse) groups. Whatever characteristics group members either share or do not share with each other, the findings tend to be that diversity is significantly advantageous. For instance, heterogeneous groups are more likely to:

1. **Pay attention to the facts and assess evidence correctly**
2. **Have sound reasoning**
3. **Reach the 'best' conclusion**
4. **Be able to explain their decision well**

There is also growing evidence that more diverse businesses tend to perform better. We know this is true for teams with more women in senior management roles or that are racially diverse, and there is growing evidence that this advantage will apply across the diversity spectrum, including sexual orientation, gender identity and disability.

Diverse teams that work well together seem to be more innovative too, and they even perform better on collective IQ tests.

It's not enough for a group to just be diverse though, it must also be inclusive. Everybody around the table needs to be heard, and all views need to be considered and debated. In my experience, this is sometimes helped along by a cultural shift, which can be supported by training, for instance into the unconscious biases we all have.

There are various theories about why and how diversity and inclusion can improve decision making, but the key point is that it

Diversity isn't just a buzzword, it can make a real difference to how we all perform, and ultimately benefit scheme beneficiaries

does. You can look up some of the research for yourself (or you can get in touch and I can tell you more about it), but you might also want to reflect on your own experiences. I've certainly seen evidence of the advantages of diversity; as a lawyer advising trustees, a senior leader in my firm, and as a charity trustee director. I have seen the effectiveness of trustee boards improved radically by the appointment of a new, and very different, professional trustee chair, although, on occasion, with some initial pain relating to the changes. And there have been plenty of times when I've gone into a meeting with the 'right answer', only to have my thinking changed and a better solution identified through people listening to each other and properly entertaining other ideas. Very often, the best ideas are introduced with "this may be a stupid point, but… "

Perhaps, unsurprisingly, creating a diverse and inclusive culture is a key business priority at my firm, because of a strongly held belief that only the highest performing teams, which maximise the power of different opinions, perspectives and cultural references, will best succeed in the marketplace.

Of course, in the complex and subtle world inhabited by pension scheme trustees, many aspects of performance are hard to measure and there is often no single 'best' solution. However, going back to the basics of how trustees should properly make decisions, it seems likely that a more diverse trustee board or committee has a better chance of getting this right. As us lawyers would say: they are more likely to take account of relevant factors and disregard irrelevant factors, and they are less likely to reach a perverse or irrational conclusion. If this is true, then the decisions of diverse groups of trustees are likely to be better protected from challenge, whether by members, employers, regulators or Select Committees.

The pensions industry is waking up to the many, real benefits of diversity and inclusion

On top of this, it seems that the more complex the subject matter, and the more difficult the decision, the more diversity and inclusion are likely to help. So an area as multi faceted and challenging as pensions governance is, in fact, a perfect setting for diversity to work its magic.

Conclusion

The pensions industry is, in many respects, in the early stages of its journey towards diversity and inclusion, although a side-effect of the member nominated director requirements has long been to introduce a greater diversity of backgrounds and experience. However, pensions is typically a fairly agile sector and, given other developments shaking up trusteeship, progress in diversity and inclusion could be rapid. Those who stand to gain from more diversity and inclusion in trustee boards, and in the industry as a whole, are not only those who are more likely to be included in boards, panels or recruitment processes. We all stand to gain: from better performance and more innovative solutions. And, importantly, the beneficiaries of the schemes we all work for, in one way or another, will ultimately benefit too.

If you would like to get involved with promoting a culture of diversity and inclusion in the pensions industry but aren't sure how to do so, there are plenty of opportunities. Travers Smith is committed to creating a diverse and inclusive workplace and we are keen to help promote these aims more widely. Please do get in touch to find out more.

By Daniel Gerring, Travers Smith

Daniel Gerring is Partner and Head of Pensions at Travers Smith. Daniel's other roles include appointments to Travers Smith's Diversity and Inclusion Board, the LGBT+ committee of The Law Society of England and Wales, the PLSA's Advisory Group on Diversity & Inclusion, and the trustee boards of the charities Just Like Us, City YMCA, and Refugees at Home. He has been ranked amongst the 100 leading LGBT Executives worldwide according to the Financial Times and OUTstanding for the last three years running.

Pensions Aspects LIVE/19

3RD APRIL 2019
IET

2019
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After a successful launch of our newly branded **Pensions Aspects Live in 2018**, we are pleased to announce that we will be holding the 2019 conference on 3rd April at The IET (Institution of Engineering and Technology) – followed by the annual dinner on the same evening.

Contact us at **events@pensions-pmi.org.uk** to find out more.

PMI ANNUAL DINNER /19

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GRANGE CITY HOTEL

DC WORKPLACE SYMPOSIUM19

10TH OCTOBER
GRANGE CITY HOTEL

PENS TECH
ADMIN SUMMIT

7TH NOVEMBER 2019
THE GRANGE CITY HOTEL

PASA's Administration Governance checklist and the Governance gap

By Michelle McInnes,
Pensions Administrator
Barnett Waddingham

PASA's July 2018 Administration Governance Checklist aims to help trustees evidence and action appropriate levels of governance over their pension administration provider. Covering eight key areas (administration agreement, reporting, operational procedures, business continuity, change control, controls assurance, data management, and staffing), the checklist is derived from PASA's existing governance principles.

PASA accredited member firms are explicitly exempted from the checklist on the basis that they are already regularly (and robustly) assessed against PASA's standards. However, given the almost glacial industry pace towards accreditation, the vast majority of UK occupational pension schemes could potentially integrate PASA's checklist into their existing governance structure.

A question of scale

From the TPA point of view, the checklist is a welcome new player on an already crowded stage. Third party administration is an industry that routinely operates under a huge amount of oversight. Internally, there is peer review of almost all work, integrated checklists, structured authorisation processes, and regular performance reporting. Externally, a high degree of independent assurance comes with the annual scheme and AAF audits, risk registers, ISO accreditations, and also from PASA itself. This is an industry that already has governance front and centre. Looking at the checklist from the point of view of an accredited member firm, PASA's checklist naturally covers what we would expect to already be in place for high quality administration.

Taking another view though, there are questions to be asked around if and how smaller in-house teams can be supported to deal with ever increasing complexity and specialisation in delivering administration services. Don't think 30,000 member scheme with a professional in-house team working, in well defined roles with a robust budget and business plan. Think 500 or 1000 member schemes, probably closed to accrual, with one or two in-house administrators filling all the pension functions, maybe with some payroll and HR responsibilities thrown in. For these schemes, the governance challenge is likely to be uphill all the way.

Calling on the experts

Bringing in specialists to review the governance framework against the PASA checklist could be an area where external expertise can add value in a measurable and standardised way. This type of reporting can provide comfort over the design, implementation and operating effectiveness of the in-house administration model.

Keeping the scheme fit for purpose

A key part of governance is being aware of all the options, limitations and incentives open to the scheme. As the pension environment continues to change very rapidly, the way that schemes are administered must adapt. This is especially true with the increasing maturity of defined benefit schemes and the move towards de-risking projects which require highly specialist knowledge, rarely available to in-house teams.

Straddling the operational procedures and change control areas of PASA's checklist, the provider's ability to deliver and manage change actually opens up a wider conversation around the ability to envisage the changes that can or should be made. This is where in-house administrators are most likely to struggle without specialist input.

Stronger together

That's not to say that third party administration is made up entirely of gold stars. Few providers are currently PASA accredited and even in the TPA environment standards vary, and, administration can only be as good as the combination of corporate and commercial priorities allow it to be. But, in the main, the entire point of the TPA industry is to be exceptionally good at pension administration and, eventually, PASA accreditation will naturally follow suit.

By Maria Nazarova-Doyle, Head of DC Investment Consulting at JLT Employee Benefits

Can we make DC pension scheme governance **exciting?**

Governance: a word we all hear on a regular basis that seems to cover just about everything in terms of running a defined contribution (DC) pension scheme. But how can governance evolve from being just another tick box exercise to something that is effective and, ultimately, provides better outcomes for members?

Let's look at the main aspects of DC governance.

The Pensions Regulator has set out the DC code (code of practice 13), which details the standards of conduct and practice that they expect DC trustee boards to meet. Whilst the code looks at six main aspects of running a pension scheme, as an investment consultant I wholeheartedly agree with the Regulator, which considers investment governance to be "one of the most influential factors in the delivery of good member outcomes". I may be biased, but getting investments right in a DC scheme goes a very long way towards supporting savers' financial wellbeing in retirement.

Auto enrolment (AE) has been a true success story in the UK, with over 10 million people now saving for retirement, and DC arrangements comprise 97% of the schemes used for AE. Given the importance of this type of pension provision, it is unsurprising that the government is working to strengthen the trustees' investment duties, particularly when it comes to DC investment governance.

One of the key governance documents in DC is the Chair Statement which has gone through a rapid evolution. What used to be a standardised report has now become a living document reflecting the state of affairs in a scheme, and all the important work trustees have been doing and planning to do on members' behalf. Published online, the Chair Statement also provides a crucial direct link between trustees' governance duties and members.

Recent developments will see DC trustees assessing the sustainability of their default strategies and future proofing them from a variety of additional risks, environmental, social and governance factors among them, particularly climate change. Default strategies are meant to invest savers' money for decades, so it only follows that these investments need to be approached carefully and, where possible, look far ahead into the future to protect savers from potential risks. In a further bid to improve the connection between scheme governance and members, Statements of Investment Principles for DC, including stewardship policies, will also have to be published online by 1st October 2019.

Governance is not just a boring tick box exercise; it's a way to connect with members.

ESG and impact investing can be used as powerful tools to engage with members, particularly millennials who have shown strong interest in these subjects when given an opportunity. Instead of regarding online publication requirements as another box to tick, why not treat it as an engagement tool and a way to bring pensions closer to the people who actually contribute into them?

Both the investment and the regulatory landscapes for the provision of defined contribution schemes are constantly evolving. Without good governance it is impossible to stay on top of these changes and to achieve good member outcomes, namely, ensuring people have enough money to retire on. Good governance can make a real difference to people and is vital to ensuring savers avoid poverty in retirement. It can feel boring at times, but it is crucial. I may have to hand in my cool badge by saying this, but given the profound difference that it can make to people's lives, governance must be viewed as one of the most rewarding and exciting parts of a trustee's job.

**Mike Crowe, Trustee Representative,
Dalriada Trustees**

Please read me…

A very unhelpful title for this month's article, but if I had put down that the subject was Brexit and the key considerations for Trustees in the run up to 29th March 2019, I feared that eyes would have glazed over and there would be cries of "not more on Brexit." Stick with me.

Let me start with a question. What is the top risk on your scheme risk register? If it is not "a no deal Brexit" then please go back and rewrite it. The current economic uncertainty caused by Brexit highlights the need for an effective integrated risk management framework for pension schemes.

It is important that Trustees understand the risks that their schemes face. Effective contingency planning is key and that planning is needed now.

But no one knows what 29th March 2019 will bring, so how can I plan? Will there be a deal? If there is a deal what will it look like: a hard Brexit, a soft Brexit or something in between? All valid points, but, as I was always told, you hope for the best but prepare for the worst. The worst is a no deal Brexit scenario. So, to start your planning, lets look at three key areas that you can plan for.

Employer Covenant

Trustees need to understand the impact that a no deal Brexit will have on the business of its sponsoring employer. Conversations should be taking place with employers to review their prospects given the uncertain economic climate, and potential shifts in currency or other markets, which may impact on their support for schemes; either in terms of DB funding or contributions to DC pots.

Actuarial Assumptions

The impact of a no deal Brexit should be taken into account in setting assumptions for actuarial valuations and agreeing recovery plans. To enable trustees to assess the impact on planned contributions to the scheme, they need to understand the impact of Brexit negotiation outcomes on the cashflows of the business.

The funding levels of DB schemes need to be reviewed as continuing low interest rates and quantitative easing means DB liabilities remain high. New market conditions will raise questions about whether the scheme's valuation is still current. The funding level and the associated risk it poses to the employer needs to be considered, and ways of mitigating this risk need to be discussed.

Buy out prices for DB schemes may be more attractive. It would be worth checking with the scheme's advisers whether now is the time to remove some risk from the scheme.

Investments

Trustees should consider whether the investment strategy is still appropriate for current market conditions and take advice from their investment advisers. For a DC scheme, the trustees should check to see if the default fund is suitably diversified so as to protect members from any shock to the UK or European economy. A check should be carried out to see whether there has been an impact on the value of collateral that the scheme posts or receives under derivative contracts. The scheme might need to post extra margin, or ask their counterparts to do so.

It will be some time before there is clarity on how Brexit affects schemes' investments, contingent assets, and investment yields in other countries, both EU and non EU. Trustees need to keep this under review.

Trustees should also check that their fund managers have a Brexit plan. They should.

It is imperative that you prepare for whatever 29th March 2019 brings. As far as you can, protect your scheme and your members from the impact of a no deal Brexit. It is a risk that with good planning you can and should manage.

Preventing scams: when does voluntary guidance become mandatory?

By Max Ballard, Pensions Lawyer, ARC Pensions Law

When pension fraudsters succeed in deceiving the unwary, there can be terrible consequences. Last year, 253 victims reported pension scammers to Action Fraud with individual losses averaging £91,000. In response, a television campaign has recently been launched by The Financial Conduct Authority (FCA) and The Pensions Regulator (TPR).

This begs several questions: how far are pension scheme trustees required by law to protect their individual members from committing to potentially calamitous investment decisions, and if they enable transfers to fraudsters what are the consequences? The expectations on trustees seem to be increasing, without any change in the law having taken place.

Over the past three years, the Pensions Ombudsman (PO) has investigated seven separate complaints relating to transfers to the Capita Oak Pension Scheme which were feared lost. The transfer values ranged from between £18,643 and £151,277.

Not one of the complaints made against the trustees, administrators or insurers who were involved in executing the transfers, were upheld. In all of the determinations, the transfers were judged to have been undertaken in accordance with current best practice and guidance.

However, the PO has recently reached a different conclusion against a police authority which it concluded was guilty of maladministration. This related to a payment from the Police Pension Scheme, with a transfer value of £124,000, to the London Quantum Retirement Benefit Scheme. The PO instructed that the complainant's benefits be reinstated in the scheme, despite the Authority claiming that it was impossible to do so. The Authority was also ordered to pay £1,000 in compensation for the significant distress and inconvenience caused.

In contrast to the seven Capita Oak cases, the PO clearly did not consider that current best practice and guidance had been followed in the transfer to the London Quantum Retirement Benefit Scheme. The PO decided that the Authority had failed to: conduct adequate checks and enquiries into the receiving scheme; send the member the Pensions Regulator's transfer fraud warning; and engage directly with the member about the concerns it should have had with the transfer.

> **However, it was not a legal requirement to send a TPR fraud warning. Instead, all the failings related to what the PO considered to be industry best practice and guidance when the transfer was made.**

The case further illustrates that maladministration, ill defined though it is, goes beyond adherence to legal requirements in the PO's opinion.

The Authority had argued that it was entitled to a statutory discharge. This was dismissed by the PO on the basis that the Authority was not entitled to rely on section 99(1) of the Pension Schemes Act 1993. The Authority could not state that it had "done what is needed to carry out what the member requires", when what the member needed could only be determined once the appropriate due diligence had been undertaken on the receiving scheme, and any consequent warnings or concerns that were identified had been brought to their attention. Adopting this position on the statutory transfer process creates a somewhat onerous burden on trustees, who are not, advisers to members.

The PLSA has issued an updated version of its code of good practice in relation to combating pension scams. This offers guidance to trustees and providers on the due diligence that they should carry out in order to protect individuals against fraudsters.

Annual Lecture 2018

We were delighted to welcome Tim Harford, a world renowned behavioural economist, award winning Financial Times columnist, and BBC broadcaster, as our fourth Annual Lecture speaker on 12th September 2018.

In front of an audience of 130 pensions professionals at J.P. Morgan's impressive Great Hall, Tim considered how we can make the world add up. He argued against the old adage of "lies, damned lies and statistics," and showcased a number of examples which highlighted how statistics, can be an incredibly powerful tool to help us understand the world around us, whether we are thinking about pensions, the broader financial economy, sociology, medicine, or anything else we are trying to understand objectively.

Thank you to all those who came and to J.P. Morgan for their hospitality. We hope to see you there next year!

Watch the highlights of our Annual Lecture: ***pensions-pmi.co.uk/p/1TJ9-9AP/pmi-annual-lecture-2018***

Article for business advisers:

Automatic Enrolment

Advisers, ensure your clients get to know their **workplace pension** responsibilities

How do workplace pensions work?

More than 1.2 million employers have now successfully met their automatic enrolment duties and put nearly 10 million staff into a workplace pension.

Workplace saving is now the social norm with 84% of staff now saving, and automatic enrolment has reached steady state with around 100,000 new businesses a year putting staff straight into a pension.

However, automatic enrolment has ongoing tasks which must be completed to ensure employers continue to comply with the law, and staff continue to receive the pensions they are entitled to.

Ongoing duties include monitoring the age and earnings of staff, keeping records, managing requests to leave or join a pension scheme, and maintaining pensions contributions. More information about ongoing duties can be found here.

Every three years, employers must also complete re-enrolment which means enrolling all eligible staff who are not currently members of a workplace pension, into a scheme. They must then complete a redeclaration of compliance.

Last April, the minimum pensions contributions increased from 3% total contribution to 5%, and next April it will increase again to 8%. This is a straightforward task for employers, but they should ensure the correct amount is being paid into the pension scheme. We have been monitoring compliance with the increase in April through PAYE data provided by HMRC, and indications are that it is very high.

As published in our recent Automatic Enrolment Commentary and Analysis report, compliance with the law is high. Our research shows the vast majority of employers are aware of, and understand, their ongoing duties, find them easier than expected, and are confident they can complete them. Most employers spend less than two hours a month on their ongoing tasks and one third use a business adviser.

However, there are a small minority who fail to meet their ongoing duties and we will take action, including issuing financial penalties.

There are a number of ways we can detect non compliance. This includes monitoring contributions to ensure employers are continuing to make the correct payments, alerts from pension schemes, reports from, whistleblowers and, compliance validation checks.

Between April 2017 and April 2018 we carried out nearly 2,000 compliance validation exercises, or 'spot checks', nationwide. Employers were identified through data and intelligence analysis and scheduled for either desk-based investigation or an inspection in person. Employers targeted included those we believed may be non compliant and those where our data suggested full compliance.

Where we found an employer was non compliant, our case teams took a positive approach and worked to help them. In many cases, employers welcomed the opportunity to show how they had complied and ask questions to ensure they were carrying out their duties correctly.

We know that most employers want to do the right thing for their staff and we are here to help, but we will take action where an employer is non compliant to ensure staff receive the pensions they are due and the culture of workplace saving remains strong.

Useful links for business advisers

AE guide for business advisers: **www.tpr.gov.uk/business-advisers**

Ongoing duties guidance: **www.tpr.gov.uk/ongoing**

Completing the declaration of compliance: **www.tpr.gov.uk/client-declaration**

By Nigel Cayless, Associate Director, Sackers

The regulatory system: room for improvement?

The past year has seen the Government focus on improving the way that occupational pension schemes are managed. The Pensions Regulator (TPR) has also announced that it intends to drive up standards in the pensions sector by being "clearer, quicker and tougher". As part of this campaign, the Department for Work & Pensions (DWP) published a White Paper on "Protecting DB Pension Schemes". In it, the Government argued that the existing regulatory system is working well for the majority of DB schemes, members, trustees and sponsoring employers, but that it could see ways in which it could be improved.

Consultation

In June 2018, the DWP published the first of the consultations promised by the White Paper. It covered three key areas:

- increasing TPR's and trustees' access to timely information
- extending the sanctions regime to deter wrongdoing and to punish it when necessary, and
- expanding on TPR's existing anti-avoidance powers.

The aim is to improve TPR's oversight of corporate transactions by broadening the current notifiable events regime and introducing a new requirement for sponsors to produce a "declaration of intent" (to be addressed to the scheme's trustees and shared with TPR), prior to certain business transactions.

The DWP also proposes extending the existing penalty regime, to include a new power to impose a civil penalty of up to £1 million for serious breaches, and criminal offences to punish wilful or grossly reckless behaviour in relation to a DB scheme.

Clearer, quicker and tougher?

A key theme is improving the flow of information between employers, trustees and TPR. This aims to ensure that trustees (and TPR) have a better early warning system of problems with the scheme sponsor, and, in theory, allow them to act quickly if needed.

The planned changes to the notifiable events framework, backed up by the new sanctions, and the new declaration of intent, could have a significant effect on corporate activity where there is a DB pension scheme. Companies would have to engage with trustees at an early stage in a transaction. However, a balance will need to be struck between protecting pension benefits and not impeding normal corporate activity.

The Government did not go as far as including dividend payments in the set of circumstances that must be reported to TPR. However, in recent weeks, TPR set out its new approach to regulation. In addition to establishing a closer supervision regime, including one-to-one contact, a pilot run of around 50 DB schemes is to be assessed on compliance with TPR's 2018 annual funding statement, and in particular whether schemes are treated fairly in relation to dividend payments to shareholders.

In terms of improving anti-avoidance powers, TPR already has scope to seek payments to schemes where an employer's actions have caused loss or detriment, or employer support for a scheme where it is reasonable to impose this. In practice, the process involved with any exercise of these powers is complex, and to date they have been used sparingly. There is certainly potential scope for simplification here and any such steps should be welcomed by trustees.

The DWP's consultation closed in late August and we await the response. A recent written statement from Guy Opperman noted that the DWP hopes to publish its conclusions "towards the end of this year". TPR has said that it is "reviewing and streamlining" its existing guidance, "to make sure [its] expectations are clear", and that it is currently "working closely with Government" to ensure that any changes that result from the White Paper would work successfully when implemented: it stresses that any new powers it is given need to be "proportionate, reasonable and workable."

I (still) work in Pensions
(or nearly a lifetime in Pensions)

By Michael Burgess, Professional Trustee

I was brought up on a farm. A lovely childhood and one, to be treasured, but it was not a financially secure occupation. I have 3 siblings but none of us followed in the farming footsteps. My sister was working at an insurance company and when it came to what I would do after schooling, I applied to work at the same company. In June 1964 I was taken on in the pensions department.

What was it like then?

As you can imagine, nobody had mobile phones, iPads, Fitbits or Tablets, nor was there any Facebook, Instagram or Twitter, to name but a few. Instead, pen and paper prevailed.

Member records were kept on cards. Calculators existed but you had to turn a handle to make them work. Computers were coming in during the 1960s but in large format. Nothing like all the smaller devices around today.

We worked in a large office with a lot of people, one of the initial joys of working in this industry. The other satisfying part of this period in my career was the facilities: subsidised lunches and the leisure activities such as cricket, tennis, snooker and bridge.

We were encouraged to take professional exams and to some extent we were helped with the studying. By 1969 I had qualified as an Associate of the Chartered Insurance Institute. It was very satisfying after little 'academic' success. Was there any recognition for the ACII? Not a lot, and that was demotivating.

The pensions industry was beginning to evolve in the 1960s and in to the 1970s. Old average salary DB schemes were in many cases changed to final salary DB schemes. Consultancy firms were establishing a foothold in the market and studying to be an actuary would secure a job for life, whether in the insurance company market or in the consultancy market. Many pension professionals moved over to work for consultancy firms such as Noble Lowndes and Metropolitan Pensions Association. These larger consultancies were gradually taking away business from the insurance companies, particularly where a scheme was relatively large. The consultancy firms would provide the full range of services: administration, general advice, investment

The pensions industry was beginning to evolve in the 1960s and in to the 1970s. Old average salary DB schemes were in many cases changed to final salary DB schemes.

advice, actuarial and legal. They were not necessarily better at all the disciplines, witness the fact that there are now specialist investment advisory firms and pensions lawyers.

This was largely a trust based pensions market with all DB schemes having trustee boards. Trustees were typically employees of the sponsoring company and probably members of their company scheme. It was not until the 1990s and beyond that the professional trustees market began to rapidly develop into what it is today.

There were lots of career opportunities in the pensions market whether as an administrator, in IT, as an actuary, a lawyer or an investment adviser, possibly leading on to becoming a professional trustee. Many in the pensions market stayed for years in this industry and did not change careers. Why? Possibly because it is a people industry dealing with people from all sorts of walks of life, and at all levels. It is also essential to bear in mind that these trust based arrangements were there to look after the members so there was a sense of purpose in a pensions career. We should not lose sight of The Pensions Regulator (TPR) in all of this.

Another career opportunity?

Finally, there are other elements being pensions audit work and covenant review specialists. Is it also a team game? Yes, probably, depending on how you define it but you need a large team of people to look after trust based DB and DC schemes.

Moving on to the last 20 to 30 years and how the pensions scene has changed, DB schemes have shrunk and been closed in most companies, DC schemes and arrangements became more popular.

The growth of arrangements meant that providers were in a business that was expanding. However, consolidation has meant that there are now big players and not many small players. Automatic Enrolment has come on stream in the last few years. We are of course now using online access to personal investments including pensions. As it has evolved it has not lost its interest as a career even though the trust based pensions market is now more limited.

My CV?

After being in the insurance company environment for 13 years, I moved on to DB and DC consultancy work advising corporates and trustees boards. I became a Fellow of the Pensions Management Institute in 1986. I started to do some trusteeship work as far back as the 1980s and gradually over the last 20 years, this has become my main involvement within the pensions industry. It also meant that I sat and passed the PMI's Trusteeship Certificate and completed TPR's Toolkit.

So, I am still there, to some extent, after 54 years. That is my career although I still like the idea of being a farmer; too late for that!

Starting out with a career in pensions today would be significantly different but hopefully still very rewarding.

Admin Summit

By Chris Parrott, Head of Pensions, Heathrow Airport Holding

The last twelve months have seen developments that herald new professional challenges for pensions administrators. The possibility of scheme consolidation and the authorisation process for Master Trusts potentially paves the way for the emergence of a small number of large schemes. It is a possibility, but by no means a certainty, that within a few years the majority of pensions administrators will be working for, or supporting, such arrangements. A scheme with a large membership and many participating employers, representing perhaps a diverse range of industries, has distinctive characteristics that present new challenges to administration professionals.

There is also extensive discussion about the extent to which schemes should offer decumulation solutions for members. The administration of drawdown arrangements is a complex business that may become a growing part of the administrator's role; to date it has been the reserve of specialists.

GMP reconciliation has continued to create significant challenges. It is unlikely that all issues will have been addressed before HMRC's December deadline, and the pensions industry will have to work hard with the Government to ensure that outstanding GMP data issues are resolved promptly.

Perhaps the most distressing facet of the administrator's role is the continuing threat posed by pensions scams. Determined fraudsters continue to find new tactics to steal members' pension savings, and administrators remain the first line of defence. Identifying fraudulent transfer applications at an early stage requires vigilance and continuous training to identify suspicious signs. And then, of course, there is the ongoing issue of data quality and the security of that data. Meeting the demands of a career in administration calls for briefings in the latest developments within the industry.

PMI's Administration Summit presents the perfect opportunity for administration professionals to join the debate about the future of pensions administration and challenges ahead.

TRUSTEE AUTUMN SEMINAR

Navigating change: addressing future challenges

Thursday 29 November 2018

Pensions Management Institute
ACHIEVING PENSIONS EXCELLENCE

Event Schedule

9:00	**REGISTRATION AND COFFEE**	
9:25	**Chair's Introduction**	**Chris Parrott,** Head of Pensions, Heathrow Airport Holdings
9:30	**Integrated Risk Management**	**Karina Brookes** Partner, EY **Sean Bottomley** Head of the Northern Pensions, Advisory Team, EY **Clifford Sims** Squire Patton Boggs
10:15	**Derisking Through Annuitisation**	**Pretty Sagoo** Head of Pricing and Execution, Legal & General
10:45	**ESG: How to Implement DWP Consultation Proposals**	**Cindy Rose** Head of ESG Investing, Aberdeen Standard Investments
11:15	**COFFEE**	
11:30	**The development of DB consolidation**	**Adam Saron,** Founder and CEO, Clara Pensions
12:00	**Data Integrity**	**Matt Dodds** Director, ITM
12:30	**Selecting a Fiduciary manager** Regulatory Expectations After CMA Review	**Peter Dorward,** Managing Director, IC Select
13:00	**LUNCH**	
13:45	**How to Challenge Advisers (Panel Session)**	**Anthony Raymond** General Council and Director of Legal Services, The Pensions Regulator **Hugh Nolan** Senior Trustee, Dalriada **Speaker TBC**
14:30	**DC Strategies: Accumulation and Decumulation**	**Maria Nazarova-Doyle** Head of DC Investment Consulting, JLT **Dinesh Visavadia** Director, ITS Limited
15:00	**DC Decision Making:** **Informed Choice v Effective Defaults**	**Richard Williams,** Director of Pension Decision Service, JLT **Gregg McClymont** Director of Policy and External Affairs, B&CE, provider of The People's Pension
15:45	**Chair's Summation**	**Chris Parrott**
15:55	**Networking and Coffee**	

Cost: Trustee Group members – free, Members – £250, Non-members – £300

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Visit our website for more details
www.pensions-pmi.org.uk/events

Generation diversity on pension boards

By Lorna Russell, Vice Chair, London Borough of Camden Pension Scheme

Pensions and retirement have typically been issues that people have started to think about as they approach their middle age. In the era of DB pensions, and at a time when the majority of people owned their own house, younger generations did not tend to think about planning for their retirement, and did not really have to.

But with a pension crisis looming, times have most definitely changed, and people need to think about their pensions as they enter the workforce. Though retirement may be a daunting prospect for an 18 to 21 year old, it's imperative that workers save for a pension as early as possible.

As millennials do begin to save for their retirement, helped in part by Government initiatives like auto-enrolment and the Lifetime ISA, pension trustees should also do their part in representing their youngest scheme members. I believe that this requires pension boards to take a look at their own make up and diversity to ensure that they are representative of their membership.

All diversity is important on trustee boards, whether it be age, gender, race, class etc., as it leads to better decision making and better member outcomes. Put simply, pension boards that are more reflective of their scheme members are more likely to make decisions in the best interests of those members.

> **As a young trustee myself, I want to focus on the importance of generational diversity on boards, and highlight some of the benefits that younger trustees can bring to the world of pensions.**

First, as I have already outlined, the best boards are ones that reflect and represent their members. All members, whether active or retired, deserve equal representation, yet pension boards tend to be comprised of older trustees. More younger trustees must be recruited in order to ensure that the youngest scheme members have a voice.

Secondly, younger trustees bring a different perspective to pension boards. When boards look the same, they tend to think the same. Too often they suffer from groupthink, and the desire for consensus can override good decision making and problem solving. Recruiting younger trustees is a way of overcoming this problem and of introducing a different type of challenge to a board's decision making. And often we are not afraid to ask those 'stupid', yet necessary, questions that our older counterparts may be reluctant to pose.

Finally, recruiting younger trustees is a way of bringing additional energy and enthusiasm to pension boards. At a time when the pension industry is undergoing significant change, and with the prospect of more innovation on the table, it's important that trustees are willing, and able, to adapt to the evolving landscape. Younger trustees are likely to find this easier, and are usually quite enthusiastic to learn, use the trustee toolkit, and undergo continual training.

Therefore, my advice to trustees therefore is to look at your own boards and assess whether your diversity reflects the diversity of your scheme membership. If there are gaps, seek to address them. Set goals, introduce a diversity code of conduct, and establish clear board accountability for diversity. Only by addressing diversity in the whole will boards have the right balance of skills and experience needed for effective decision making.

Trustee update

**By Tim Middleton,
PMI Technical Consultant**

Earlier this year, the DWP published an interesting consultation entitled "Consultation on clarifying and strengthening trustees' investment duties." This considered some wide ranging changes to issues that trustee boards might consider when preparing an investment strategy. Members will recall that in preparing PMI's formal response, the Policy and Public Affairs Committee issued a member survey.

One of the most striking proposals in this consultation was the suggestion that in their Statement of Investment Principles (SIP), trustees formally set out the extent to which investment decisions are influenced by Environmental, Social and Governance (ESG) concerns. This is not entirely new: the Pensions Act 1995 required that the SIP set out the influence of 'ethical factors' in selecting investments, and, more recently, the Law Commission review addressed the scope available for trustees to consider issues other than simple financial returns, when setting investment policy. However, one strikingly new development was the suggestion that trustees consult members about investment policy and demonstrate how members' views are taken into account. These proposals proved quite controversial for those PMI members who responded to our survey.

Whilst there was a clear majority who favoured a statement within the SIP about the influence of ESG in decision making, just a third supported a requirement for trustees to demonstrate how members' views were reflected in trustees' investment decisions.

The principal concern about this proposal was that special interest groups might have excessive influence over investment policy. There was also an argument that this amounted to the delegation of trustee responsibilities. Respondents were also very critical of the suggestion that the SIP, together with the new information about ESG and member consultation, be published online. One comment was "the members most likely to respond are those with particular issues that may not be representative of the membership as a whole."

The DWP published its formal response in September. The concerns of PMI members were consistent with those of the industry as a whole. As is to be expected, many respondents had been critical of the proposed requirement to consult members and to demonstrate how members' views were taken into account. As a consequence, the DWP removed the proposed requirement for trustees to include a Statement on Members' Views from the trustees' SIP.

Devising an investment strategy that most appropriately addresses a scheme's specific requirements remains a difficult balancing act. For many years, many boards believed that as a consequence of the Cowan v Scargill case of 1986, trustees simply did not have the scope to consider issues beyond financial returns when selecting investments. The Law Commission review, and this more recent consultation, have finally clarified this point. There is now consensus about the desirability of permitting trustees to consider ESG issues, and for requiring them to report their ESG policy publicly, however, there may be an ongoing debate about the extent to which trustees are accountable to members when choosing assets. In an era of widespread Defined Contribution provision, where the design of a default investment strategy is crucial, this is a debate which will surely continue.

PMI's consultation response can be found at:
/www.pensions-pmi.org.uk/documents/pmi-response-to-dwp-consultation/ex06-18-final.pdf

Defaults at retirement:
great for providers but what about scheme members?

Jonathan Watts-Lay, Director, WEALTH at work, joins PMI TV to discuss why the idea of defaults at retirement is concerning and what the alternative could be.

PRESENTER: In view of protecting savers who are disengaged with their pension choices, the Work and Pensions Committee has recently recommended that every pension provider should be required to offer a default decumulation pathway by April 2019. Jonathan Watts-Lay, Director, WEALTH at work, joins me now to discuss why this idea is worrying for a number of reasons, and what the alternative could be. Well Jonathan, it's good to have you with us today. So let's start with the background around the Work and Pensions Committee recommendations.

JONATHAN WATTS-LAY (JWL): Yes, the background to this really is that there's been a lot of growing concern, I think since freedom and choice came in, that perhaps people are making choices that are not the best choices possible. And some of the background to that is there's a lot of evidence that people are cashing in their pension pots completely. And that might be that they're just cashing in one pot, and they've got another five or six pots, so that's not particularly clear. But we also know that the tax take from the Treasury has been bigger than what they actually forecast. So, clearly people were doing things and paying tax, and maybe they needn't pay that tax.

So, there's a general concern about what people are doing. And so one of the recommendations from the Work and Pensions Select Committee was that actually there should be defaults for decumulation. So, basically when someone gets to the point of retirement, if they don't make an active decision, then they will actually go into a default, and they will draw their retirement income from that default. But there's a bit of a concern around that, because that's clearly in a provider's interest. Because if it's in your existing pension provider then those assets stay with that provider. But the big question mark is, is it actually within the consumer or the member's interest?

PRESENTER: So, what are the risks then?

JWL: Well I think there are a number of risks.

> **The first one is probably that there's a danger that freedom and choice almost gets destroyed by defaults, because actually people don't go out and make active decisions around the choices that they have. They just end up in a default.**

And we have been there before. If we go back to pre-freedom and choice, most people had to buy an annuity, and yet we know that when they bought an annuity, a large number of them bought it from their pension provider, albeit they could have got a better deal elsewhere. So we've kind of been here before.

So, we know there are risks with that. I think part of the issue is that there's a spectrum here really, where on one end of the spectrum you've got people, perhaps, making poor decisions; so buying the wrong product, paying too much tax or whatever it may be. At the other end of the spectrum you've got people taking regulated advice, where one would hope that they're being advised appropriately, so they're making good decisions. And maybe that advice, support goes with them throughout retirement. And then kind of in the middle you've got these things like guidance, which are good in the sense that, okay, it's not as good as regulated advice, but at least that will give the individual an idea as to what the advantages are, or what the disadvantages of various options are. And of course, defaults fit within that middle ground somewhere as well, but they're probably a little bit more to the left where actually is that the right decision for an individual just to go into a default? Particularly if they've got a number of different pots. I mean, you can imagine with three or four different pension pots, maybe of varying sizes, and if they all went into default then they could all actually be going into different strategies really, which holistically wouldn't really make that much sense.

PRESENTER: So, what then would you say is the likely impact on individuals?

JWL: I think ultimately it means that they don't shop around, which is the key thing. They just end up defaulting into whatever is being provided by their pension provider, or indeed pension providers.

I think there are also other issues as to how defaults would actually work in practice. So is the pension provider just going to be sending a letter to that member saying, 'right, you've now reached your stated retirement date, send us your bank details and we will start paying you income.' Because if there is no guidance, no advice, then that would be very easy for someone to go, 'okay well I'll provide my bank details.' But of course, again, if they've got five different pensions, and they do that to all of them, then actually what retirement strategy have they ended up in?

> **So, they don't shop around, and the impact of them not shopping around is really that they end up with potentially less money every month in their pocket in retirement than could have been the case.**

PRESENTER: But what then is the alternative?

JWL: Well, I think rather than talking about defaults, we should actually be talking far more about guidance at the very least. So, if we're going to make the most of freedom and choice, then really people need to understand what their options are. They need to understand generically what the advantages and disadvantages are of those options. And then it will allow people to make a choice to either say 'yeah, I am happy to go into the default' or 'no, actually I want to look at another option'. And one of those options may be, 'I want to go and get some regulated advice, because I feel as though I need support in making that decision so I make sure that it is the right decision.' And I think only by having that guidance in place will people be able to make informed choices, and therefore have better outcomes.

PRESENTER: Super, Jonathan, thank you.

JONATHAN WATTS-LAY: Thank you.

To view the video interview please visit www.wealthatwork.co.uk/corporate/films/

Thank you dear readers for all your support throughout the rebranding of 'Pensions Aspects' (formerly known as PMI News).

Each month, we rely on an army of writers and contacts to ensure that there is something for everyone to enjoy each month.

We hope that you have enjoyed reading the magazine in 2018 and as you are reading this, we are tirelessly working away behind the scenes to ensure that content for 2019 is relevant.

Below is the editorial schedule and copy deadline dates for 2019 – if you have something to say or write about then please do, remember it is your magazine.

Kind regards,

The Editor

January	Policy and challenges
February	Member communications and engagement
March	Professionalism, education and training
April	Investment strategies
May	Cyber security and data management
June	Pension scheme sustainability and development
July/August	Pension fund governance and trusteeship
September	Defined Contribution considerations
October	Pensions administration, innovation and technology
November / December	De-risking

If you have any comments or wish to pitch an idea for an article, please email: media@pensions-pmi.org.uk, titled 'Pensions Aspects article'.

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Award-winning consultancy offering flexible working and study support seeks ambitious fund accountant to provide superb service to a scheme portfolio. Ref: 1373014 FR

Pensions & Benefits Specialist
London — **£in line with experience**
Ambitious and motivated pensions professional sought to join this large international pension scheme. DC/DB scheme management experience from a TPA or in-house.. Ref: 1374393 JW

Senior Pensions/Projects Administrator
Surrey/West Yorkshire — **to £32000 per annum**
Seeking a new challenge? Leading consultancy recruiting for key positions in DB/DC administration/projects teams. Ref: 1368309 / 924300 FR

Senior Projects Administrator
Bristol — **to £30000 per annum**
Work on varied scheme events for high-profile clients with the projects team of this global consultancy. Ref: 1374622 FR

Pensions Communications Specialist
Middlesex — **£in line with experience**
Join this in-house pensions team and deliver cutting-edge member communications. Consider graduates with related degree.
Ref: 1374723 NMJ

Pensions Administrator
Manchester — **to £22000 per annum**
Exciting opportunity to provide 1st class administration with this company which boasts a superb reputation in the industry. Ref: 1374809 NMJ

Pensions Administrators, all levels
Nationwide — **£in line with experience**
Multiple opportunities available nationwide for entry-level/recent school leavers, genuine scope for progression as you provide first-class administration to a portfolio of clients. Ref: 1372026 NMJ

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Group Pensions Manager
North West — **£superb**
You will ensure efficient management of Pension Schemes operated throughout the Group for employees, UK and worldwide.
Ref: 1374682 SB

New Business Consultant
London/Surrey/Scotland — **£in line with experience**
Accomplished, ambitious consultant to join a growing pensions technology specialist; pensions-led new business exposure preferred.
Ref: 1364684 BC

Head of Compliance and Risk
Derbyshire — **£competitive**
Superb career move for a motivated Pensions specialist, with expertise in Pensions Operational Risk. Ref: 1374726 SB

Head of DB Technical Services, Operations
Derbyshire — **£competitive**
Superb, newly-created opportunity with the large in-house pensions team of this multi-billion pension fund. Ref: 1374744 SB

Pensions Secretary/Governance Manager
Berkshire/Middlesex/London — **£attractive package**
Support trustee boards for £bn+ schemes, using your scheme secretarial/governance expertise. Ref: 1374438 SB

Group Pensions Manager
Bedfordshire — **£in line with experience**
Superb in-house opportunity with this industry-leader. Ref: 1374677 SB

Pensions Consultants - All levels
London — **£flexible**
Deliver market-leading corporate/trustee services. APMI/equiv, DB & DC with secretariat services experience required. Ref: 1374134 BC

Wednesday 5 December 2018

Eversheds Sutherland, 1 Wood St, London EC2V 7WS

9:00am - 4:00pm - followed by an hour networking

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- What DC governance means in practice
- DC - it's easy until it goes wrong!
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If you would like to receive further details, please contact us on events@pensions-pmi.org.uk or alternatively, you can call us on 0207 392 7427