PENSIONS ASPECTS

EDITION 58 | DECEMBER 2024

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EVOLUTION OR REVOLUTION?

Andy Seed
Strategic Adviser
PMI

Dear readership, goodness me, what a month in pensions! But before we come to that, having now been at the PMI in my capacity as Strategic Adviser since August, it has been both an honour and a privilege to work alongside the hard-working individuals of the Institute, who every day bring together the fantastic content for the membership as a whole. Having now seen firsthand the behind-the-scenes work which goes on every day, I have been nothing but impressed by the thought and diligence which goes into creating a carefully crafted member experience you can all be proud of. I am also delighted to share that I have personally been at the heart of progressing PMI's international development ambitions, with a project now well underway to work with UK offshored and outsourced pensions administration businesses operating in India, with more news to follow on broader plans in due course.

Before I move on to recent pensions events, some of you may have been present at a PMI Annual Conference a couple of years back, where Gareth had asked me to chair a panel on post-retirement issues, where I semi-accidentally concluded that pensions were boring. Important to note here, I was speaking about member engagement at the time. However, to correct that undoubted faux pas, I should have more strongly prefaced and pre-qualified my statement that for the general consumer who doesn't work in our industry, pensions are boring… so as not to undermine a nearly 30-year career I have very much enjoyed in the sector.

So, for anyone who has seen the events of the last few months unfold, I am delighted to say that pensions have been anything but boring in recent days and weeks. During October, we have been engaged across the industry on all sorts of events on your behalf, some of which are covered later in the magazine. In the past few weeks alone just in pensions policy, we've had a VFM consultation, a DWP call for evidence proposal on investment, with a brand-new consultation on collective DC being issued within the last 48 hours of writing.

Outside of purely pensions policy but affecting the broader political landscape, I also had the honour and privilege to be part of the budget webinar with a fantastic panel of speakers live, following the first budget in the history of the UK delivered by a female chancellor. A fantastic milestone in gender equality not to be understated.

Whilst the direct pensions impact within the current budget was nominal and contained, the media hype and speculation of what was mooted by the press ahead of budget day was material. On this point, I must echo disappointment shared by many of you across the industry, that life-changing decisions being made on speculation which did not come to pass have resulted in decisions affecting the pension outcomes of many, with possible material detriment. Anecdotally, I have heard reports that requests for PCLS (tax-free cash) are up 40% at the time of writing, purely over heightened speculation the government might raid or restrict the 25% rights which have universally existed since A-day. We shall of course leave OfCom and the FCA to determine any appropriate investigation as to consequences for misreporting leading to widespread national panic and the quantum of any customer detriment, but as an industry, I would hope we could all agree that we work as an industry to support better member outcomes, not worse. Some of the decisions subsequently taken by the general public at large then, are now irreversible, and the point was made by the Madame Deputy Speaker of the house at the start of the budget directly to the new government, that it remains a parliamentary privilege for the house to be first informed of budget matters ahead of any external bodies to avoid leaks and possible damage to the economy.

But what the budget did direct at pensions, will take some time to work through. The direct impact across our industry will largely be felt via increases to employers' NI, raising it to 15%. Rising the cost of employment as well as widening the band at which these costs bite for employers is significant, at a time where we are otherwise lobbying for increases to pension contributions in light of the well-known and well-publicised inadequacy of AE minimum contributions to pensions. Therefore, expecting employers to raise contribution rates in light of material increased costs elsewhere, makes this a bigger uphill battle than otherwise might have been.

Other notable pensions mentions include the fully funding of previous mineworkers' pensions rights restored and the triple lock maintained on state pensions, as well as pensions credit, welcome for those in receipt I am sure. Lastly, on direct impact, the reintroduction of pensions forming part of an estate for IHT purposes again from 2027 is a notable mention. Whilst this leaves adequate time for estate planning by advisers, it is potentially an unwelcome reversal of policy for many, as pension is likely to be the second largest asset outside of home ownership in many cases.

The indirect impact on pensions of the budget is also worthy of mention. CGT increases will potentially have funding impacts on DC pensions for small business owners, the non-dom tax regime will impact many QROPS-type offshored arrangements for international mobile workers, stamp duty rises on second homes may switch savers back to pensions instead of property portfolios, and the investment landscape will still be actively encouraging domestic investment, infrastructure projects with the new National Wealth Fund and the ESG impact to government promoting carbon capture and storage. So, in summary, a mixed bag of a budget and I do believe the webcast can still be found on the PMI's website for those wishing to know more.

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SEASONS GREETINGS FROM THE PMI MEMBERSHIP TEAM

Dear PMI members,

As we approach the end of another remarkable year, I would like to take a moment to express our heartfelt appreciation for your continued support and engagement with the PMI. Your dedication and commitment to our shared mission of advancing excellence in the pension and lifetime savings industry is truly valued.

In this season of gratitude, we reflect on the progress we've made together, from the new PMI brand and image to knowledge shared at our events to the meaningful connections built within our community. As we look forward to the opportunities of the coming year, we are excited to continue providing you with valuable resources, insights, and opportunities for professional growth.

Kind regards,

Nisha Harley,
Membership Team Manager, the PMI Membership Team

CPD Reminder for APMI and FPMI members

Fellows and Associates are reminded that their 2024 CPD will be due on the **1 January 2025**. Meeting the PMI CPD requirement is compulsory (except where retired/non-working). Under our CPD Scheme, PMI members are required to record **at least 25 hours during the year**. Please log on to your **member portal** and update your CPD record if you have not already logged your CPD.

Failure to complete may result in your membership being downgraded and you will lose your entitlement to exclusive APMI and FPMI member benefits such as the use of your designations, voting rights and opportunity to be elected to PMI's governing structures.

If you do need to make up any shortfall in 2025, please get in touch with us so we can advise you.

If you wish to record a self-declaration for CPD completed under the auspices of another professional institute, please contact the **PMI Membership Team**

PMI Trustee Special Interest Group

We are delighted to share that we successfully launched our first SIG at the PMI for active PMI trustee members representing a pension scheme.

The purpose of this exclusive online portal is to stimulate and facilitate debate among lay and professional Trustees, providing opportunities to develop knowledge and understanding irrespective of simplicity or complexity.

This is an exclusive PMI Trustee Group member benefit. If you are an active trustee but you are not currently in the PMI Trustee Group, please do sign up here so you can take advantage of a range of exclusive trustee member benefits.

If your whole trustee board scheme would like to sign up to join our PMI Trustee Group Network, we offer a further discounted rate per member and further opportunities for group training.

If you are interested in signing up with the rest of your Trustee Board, please apply **here**.

You can join the network even if you are already a PMI member so do get in touch today if you think this would be applicable to you.

Click here to learn more about the PMI Trustee Special Interest Group.

PMI Regional Groups

The PMI are working closer with our current **9 regions** to ensure our members have direct and frequent interaction with other PMI members and professionals in the industry within your local area.

The regional committees along with support from PMI central will be offering tailored learning opportunities, relevant training and insights into local topical subjects to allow you to stay up to date with regulatory changes, market trends and industry developments that may be directly relevant to the work you carry out specifically with your region.

We currently have 9 PMI regions and if you have not already signed up to receiving news from your local region you can do this through your membership portal **here**.

As we continue our regional development work into 2025, we will be reviewing work and home locations of all our members to ensure we are providing local networking and technical training opportunities support to you.

EVENTS & TRAINING

Conferences

Defined Benefit Pensions Conference

25 Feb 2025 | 08:30 - 17:30 | London

DC and Master Trust Symposium 2025

03 April 2025 | 08:30 - 18:00 | London

PMI's Annual Conference 2025

05 June 2025 | 08:30 - 18:00 | London

Northern Conference 2025

03 July 2025 | 09:30 - 17:00 | Leeds

PensTech and Admin Conference 2025

24 September 2025 | 10:00 - 17:00 | Online

Training

Introduction to Pensions (Basic)

28 April 2025 | 28 - 29 April | Online

Introduction to Pensions (Advanced)

30 April 2025 | 30 April - 1 May | Online

Click here to learn more about our 2025 events.

PMI REGIONAL GROUP NEWS

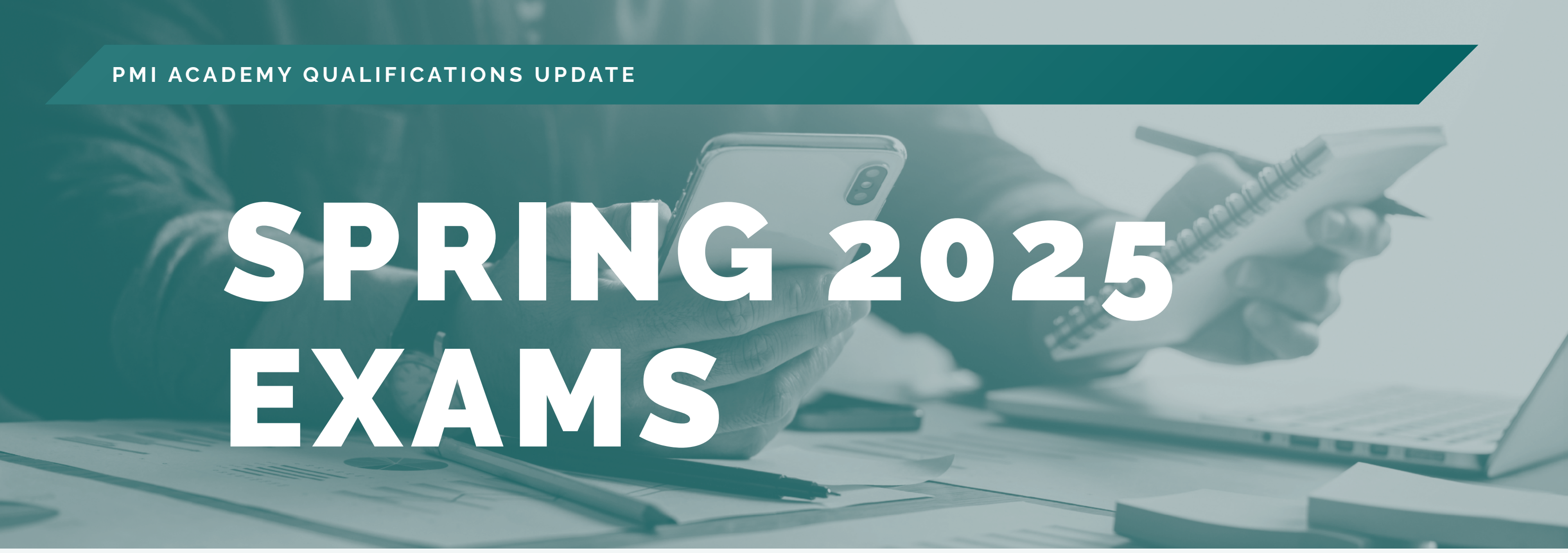
THE SOUTH WEST REGIONAL GROUP

Our autumn seminar was held on 17 October 2024. Thank you to all our speakers: Ellie Taylor (TLT), Vanessa Walker (IGG), Hugo Gravell and Sophie Culliford (Barnett Waddingham), Heidi Webster and Graham Robinson (XPS Pensions) and Angela Bell (The Pensions Regulator). It was an interesting and informative morning. Looking ahead we are planning the 2025 annual dinner, and a quiz is planned for early 2025, more details to follow.

LONDON REGIONAL GROUP

The PMI London Group wishes all our members an enjoyable festive season!

Remember to keep an eye out for details of our upcoming social events and business meetings via the PMI website and the PMI London Group LinkedIn Group.



SPRING 2025 EXAMS

Bookings for the Spring 2025 exams will close on 24 January 2025 at 4PM and we don't want you to miss out. We would encourage all learners who haven't booked on to an exam yet but would like to, to ensure this is done in good time. We offer our normal bookings, alongside our package deal bookings.

For our exams in Spring 2025, please see a list of them below, with the timetables hyperlinked:

Certificate in Pensions Calculations (CPC) – running from 4-19 March 2025 – bookings can be made by clicking on the 'APPLY' button on the **CPC webpage**.

The CPC is contained within the following PMI Pathways:

Technical Pensions Administration
Practical Pensions Administration

Advanced Diploma in Retirement Provision (ADRP) – running from 7-11 April 2025 – bookings can be made by clicking on the 'APPLY' button on the **ADRP webpage**.

The ADRP is contained within the following PMI Pathways:

Retirement Provision
Technical Pensions Administration
Pensions Trusteeship
Pensions and other employee Benefits pathway
Practical Pensions Administration

Retirement Provision Certificate (RPC) – running on 26 March 2025 – bookings can be made by clicking on the 'APPLY' button on the **RPC webpage**.

If you're interested in taking our package deal, please click on these links
RPC package deal
ADRP package deal

The RPC is contained within the following PMI Pathways:

Technical Pensions Administration
Pensions Trusteeship
Practical Pensions Administration

Award in Pension Trusteeship (APT) – running on 26 March 2025 – bookings can be made by clicking on the 'APPLY' button on the APT webpage.

The APT is contained within the following PMI Pathways:

Pensions Trusteeship

Both the ADRP and the RPC have the option of booking onto a package deal. This involves combining the exam and revision course booking into one order, but giving you a discount of £20 on your order at checkout.

We would encourage all learners to attend revision courses where applicable, as they should be used as a useful supplement towards your revision and preparation for your exam.

The revision sessions are typically anything from 4-6 weeks before your exam will take place, and we have extended the time of them from three to four hours, to ensure that learners get the most out of them and don't feel like the session is rushed or crammed with all the content to go through.

If you would like to look at all revision courses available for Spring 2025, please **click here**.

Furthermore, we have worked on improving the look and accessibility of our study manuals for the ADRP and RPC. We hope this change allows learners to engage more with our study material, and allows them to study and absorb the material in a more efficient and helpful manner.

STUDENT ESSAY COMPETITION

What should the next government prioritise in relation to pension policy, and are there industry benefits to political instability?

We posed this question in the 11th edition of the PMI Students essay competition, sponsored by ITM.

Rhys Keeling, Business Development Executive at Wealth at Work, and James Turner, Acting Pensions Administration Team Leader at Quantum Advisory, won second and third prizes, respectively. You can read their essays on our website. Sarah Meehan, Pensions Administrator at Capita, was awarded first prize. Read on for her essay.

Sarah Meehan
Pensions Administrator
Capita

Introduction

At the time the question "what should the next government prioritise in relation to pension policy?" was set, the Conservative Party were still in power and an election wasn't expected until the winter. However, following Rishi Sunak's ultimately unsuccessful decision to go to the polls early, we now have a new Labour government who have already been in power for almost two months. Therefore, I've chosen to answer the question "what should the new government prioritise in relation to pension policy?". When looking at this it is best to split the priorities into those which could be considered short term, and those which might be viewed as more long-term objectives.

With regards to the second part of the question; "are there industry benefits to political instability?", the obvious answer would be "no". When it comes to long-term planning both by individual pension policy holders or by pension providers and pension managers, what people almost universally want is predictability and a sense of continuity. Nonetheless I will examine whether there are any benefits to political instability.

Short-Term Priorities

Triple lock – Labour vowed to continue the Triple Lock during the election campaign, so the hope must be that they stick to their earlier promise. I would go further and implement the Conservative's election pledge to ensure that the personal allowance threshold for pensioners should also increase at the same rate as the Triple Lock, since it is important for the government to support our elderly, particularly given the recent news about the increase in the Energy Price Cap.

Auto-enrolment – The lower age limit for auto-enrolment should be changed from 22 to 18. The government should also change the rules so that pension contributions can be made by employees from their first day of work. A policy of opening this up to the self-employed and casual workers should increase the savings members make to their pensions, given the success of the opt-out design where employees are opted in and have to elect to opt out. Contributions should also be increased to at least 12%. Within the UK pensions industry it is felt by professionals that the current contributions levels are too low. Research from TPT found 96% of workers are supportive of auto-enrolment and of increasing contributions. This issue links closely with that of financial education, which will be discussed in more detail as a long-term objective.

Dashboards – A priority needs to be to push through with the plan to introduce pension dashboards. Research undertaken by Ipsos in 2022 for the Pensions Dashboard Programme found that 57% of individuals they surveyed would be ready to use the dashboards now. Pension dashboards will allow individuals to see their pension information, including their State Pension, for free in one place online at a time of their choosing. Pensions dashboards will also reunite savers with lost or forgotten pensions. The DWP are working on creating pension dashboards, although there have been some delays with this so it should be a priority, as once up and running it will hopefully improve member engagement. Nowadays people move jobs more frequently than in the past, so the dashboard would allow them to keep on top of all their pension schemes. This would also arguably avoid the need to consider initiatives such as lifetime pensions and one-pot consolidation, which might not turn out to be value for money. The desire for dashboards to be up and running was highlighted by a contributor to a recent article by Jonathan Stapleton on the Professional Pensions website in which professionals from different areas of the pensions industry spoke about their priorities for the new government.

Long-Term Priorities

Education – Financial literacy in the UK is very low, particularly in relation to pensions. People want to save for their retirement but often don't know how. They find pensions off-putting because the whole subject is so complex. A key problem is that until a person takes their pension it is not tangible, and with DC pensions it is often hard to predict what it will mean in practice, even with projections being provided. However, parts of the industry are trying to engage on this matter. There is interest in creating income modelling tools, savings goals, comparisons showing how much of a pension's final outcome is down to contributions and how much is down to growth, and also initiatives to use AI to enhance apps. This approach has been met with scepticism by some, whereas others feel it is an opportunity to improve engagement with members. The Money and Pensions Service, following research into the financial literacy of young people, launched 'Talk Learn Do' which is a tool to help parents teach children about money. There are digital initiatives such as Scottish Widows' "Pensions Mirror", which gets AI to guess their age, then tells them to average pension fund for that age group. It appears to be quite popular since its launch in 2023. In the same year the DWP launched an online Midlife MOT to help workers between 45 and 65 (Generation X) with financial planning. Since then Standard Life have rolled their own version out to employees following research revealing Generation X'ers are the least positive about their financial situations, yet the least likely to carry out retirement planning.

Gamification using AI is being considered for games and apps, largely to engage younger people in 'fun' ways. Smart Pension conduct research, test and evaluate areas such as animated statements. Jo Phillips from NEST states they have piloted various workplace savings models with eight of their employers which can be effective, but which only work well under an opt-out design. i.e. when members are automatically opted in and have to elect to opt out. This is arguably due to inertia because opting-out requires members to take action.

In a discussion about the priorities for an incoming government, Robert Wakefield, PMI President, who has a pensions administration background, recently highlighted the importance of financial education and the importance of the new government talking to the right pensions people when conducting any government pensions review.

It seems there is consensus across the industry that financial education is fundamental. Education Select Committee Chair Robin Walker commented there was cross-party support for providing financial education in schools, but it has not yet reached its full potential. The majority of what is being done is pitched more to those younger generations who are more digitally savvy, so I would suggest that to improve engagement a broader approach is needed.

Political Instability

From David Cameron's resignation in 2016, to Kier Starmer taking office in 2024, the UK has had six Prime Ministers in the last 8 years. This has coincided with the ongoing uncertainty caused by Brexit, and a general increase in political instability across the globe, with causes as diverse as Covid and Putin's invasion of Ukraine. The most obvious example of political uncertainty impacting the pensions industry was Liz Truss's 2022 mini-budget which caused pension values to plummet by nearly a quarter following a fall in the price of gilts, (what we know as the LDI Crisis). Furthermore, every time a new prime minister comes in policies can change, all of which makes it difficult for the industry generally to make and implement long-term plans.

However, political instability can also create some possible benefits. Although frequent changes of government or of leaders and ministers can cause uncertainty in many ways, they can also mean that governments struggle to make changes, as they're often not in power long enough to push those changes through. Governments can sometimes have a tendency to push for change for change's sake, rather than because change is necessarily needed, or to opt for headline-grabbing changes rather than more sensible, duller strategies. Instability can therefore act to limit their opportunities to make bad changes, even if it can hamper attempts to make good changes at the same time.

Furthermore, political instability creates problems and challenges, and those in themselves can result in new thinking and new ideas. The gilt crisis triggered by the mini budget taught the industry lessons. It highlighted dangers to an investment strategy that had previously always been viewed as the safer. As a result trustees have improved awareness and taken measures to be more financially responsible to better prepare for any future gilts crisis.

Quite often it is uncertainty that results in innovation, and the best of those innovations can benefit everyone in the long run. As much as political instability is viewed as "bad" it is worth remembering that the current state pension, proposed during the Second World War by Sir William Beveridge resulted, ultimately, from the political and social turmoil caused by that war and the challenge to respond to problems in changed political circumstances.

Therefore, although I would argue that generally speaking political instability is a bad thing for the pensions industry, it can have some benefits in terms of limiting governmental scope to push through bad changes and can also stimulate innovation..

References:

Financial education: 7 recommendations from MPs (schoolsweek.co.uk)

PP Pensions Commission: The key pension priorities for the new government: Jonathan Stapleton – Professional Pensions

Most people would be likely to use pensions dashboards | Publications | UK Pensions Dashboards Programme

Scottish Widows Pension Mirror

New tool launched to help parents and carers teach children about money | Money and Pensions Service (maps.org.uk)

Mid-life MOT expansion to help tens of thousands assess work, wellbeing, and finances - GOV.UK (www.gov.uk)

Retirement Voice 2023: How financial attitudes have changed – Standard Life

A CLEAR FUTURE VISION NATIONAL LIFETIME SAVINGS MODEL

Ruston Smith MBA, FPMI, FCMI, FRSA
Chair
PMI

A Big, Bold, Strategic Plan

The most significant strategic change, that's made the greatest positive difference to UK retirement savings in the modern era, has been automatic enrolment – led by an independent commission.

Regulatory pension change can feel quite tactical rather than considering changes as a deliberate contribution to the UK's long-term retirement and savings vision and strategy.

The Chancellor has recognised the benefit of learning from international practice and has invited international leaders to participate in discussions on future change affecting our industry.

The Lifetime Savings Model, is the first initiative to be launched through the Global Innovation Centre. The initiative has been about understanding, learning and critically evaluating thoughts, ideas and existing practices both in the UK and internationally – to develop a vision for the future and a more sustainable national Lifetime Savings model.

Critical Opportunity

With a new government and Minister, now is the time through the Pensions Review to review and re-state a clear and comprehensive vision for the UK and create a sustainable model for the future.

The PMI in partnership with Schroders, in collaboration with a panel of 80 leaders across a number of different industries and sectors, including those providing expert input and research, published a White Paper to transform the existing retirement savings model – to support those saving for the short and long term.

What We Learned

From the extensive research that was done, we learned that the 3 key pinch points of everyday people were:

1. National Short-Term Savings Plan:

46% have less than £1,000 of savings which means there's a 56% greater chance of a family falling into problem debt. A rainy day fund, as NEST have found, is critical in helping people meet short-term needs like fixing the boiler and repairing the car so you can get to work.

Whilst sadly some can't afford to save, many of the squeezed middle are able to put some money away, but found opening savings and other accounts time consuming and difficult. Another key concern was the fragmentation of the savings market and its products – too many products in too many places.

With 1 in 3 adults feeling anxious about paying bills, the consequences of low or no savings can also affect mental wellness. Supporting people to build a rainy day fund more easily is so important.

2. Difficulty of Buying a First Home

Home ownership has continued to decline, with the average age of buying a first home now 34 - with more people renting. It's hard to save for a deposit on top of everything else.

The real risk is, in the next 20 years, it's expected that 3 times more people will be renting in retirement. The cost of renting in retirement is equivalent to a pension contribution of around 9% of pay from the age of 22.

The current minimum contribution for AE is 8% which means this wouldn't even cover the rent – never mind switching the lights on or putting food in the fridge.

3. Inadequate Retirement Savings

We all acknowledge that people need to save much more than the current 8% minimum contribution to have an adequate income in retirement. It'll take decades before we're in a position where people will have enough money at retirement.

We already have over 2 million pensioners in poverty and, when you also consider the significant increase in those renting in retirement with inadequate savings, we are heading towards a huge systemic risk.

Making Ends Meet

So the question is 'how are people coping?'.

Data collected from Mercer's retirement planning proposition showed that, on average, 68% of people's personal wealth used in retirement are 'non-retirement income or savings'.

So the reality is that 'lifetime' savings are critical not just in the short term but also for retirement. Other more developed countries in retirement provision like the US, Australia, New Zealand, South Africa, Singapore and others have already identified this and allow early access to retirement savings for 'a limited number of specific reasons' that contribute to supporting people financially in retirement.

The Lifetime Savings Model

The proposal from PMI and Schroders' Lifetime Savings Initiative is to build on the existing automatic enrolment framework which has worked effectively – to address the key pinch points we've identified.

There are two key components of the Lifetime Savings Model.

1. National Short-Term Savings Plan

It's proposed that an employer's Automatic Enrolment provider offers a small choice of short-term savings accounts for employees to use.

The employee can choose a suitable savings account and have deductions, net of tax and national insurance, deducted from their pay and paid into that account – to which they'd have access.

An employee, earning say £40,000 a year, who chooses to save just 2% would build up £1,000 within 21 months. This would sit alongside their long-term retirement savings and be accessible when they need it – building critical short-term financial resilience. When their rainy day fund had reached £1,000, an employer or provider could then nudge an employee to pay more to their pension.

Phase 1 of this proposal is based on the voluntary adoption of the National Short Term Savings Plan whilst, influenced by research at NEST, phase 2 would be mandatory, with employees being automatically opted in (with the opportunity to opt out) on earnings over a specific level.

2. National Lifetime Savings Plan

It's proposed that we allow access before age 55 (age 57 from April 2028) to the value of 'additional' contributions in their retirement savings paid over and above the statutory minimum – in very limited circumstances – only:

- To pay a deposit on a first home, and
- To pay down or remove 'problem debt' where there is a statutory repayment plan

No change is proposed to the access of the value of statutory minimum contributions as it's recognised they are inadequate and need to increase.

This proposal supports the challenges of everyday people in buying their first home and managing problem debt – being addressed in a similar way to other countries who have more developed long-term savings models.

What Now?

We've already had significant support for the initiative and welcome further discussions with industry, government departments and regulators to challenge and further strengthen the proposed model.

If you want to learn more or support this initiative please reach out and access the reports through the links on **the PMI** and **Schroders'** website.

There's never been a better time to recognise how people are actually making ends meet in retirement, to support savers in building and managing their lifetime savings – and to evolve the automatic enrolment framework to be fit for the future – making a real difference to everyday people.

PMI TRUSTEE SPECIAL INTEREST GROUP

Tim Middleton
Director of Policy and External Affairs
PMI

Of the various trustee bodies that exist in the UK, the largest is PMI's Trustee Group. Established some thirty years ago, it serves a community of some 1,100 individuals. Its membership consists mainly of lay trustees. Each year, it offers arrange of attractive benefits to members such as a dedicated full-day conference, newsletters and opportunities for trustees to network with peers. In recent years, it has also offered a voluntary Continuing Professional Development (CPD) scheme to allow trustees to maintain their training regime. For an annual cost of just £178 (discounted in some circumstances) this represents an impressive range of services. So why might PMI seek to make changes to a winning formula?

In an era when the demands placed on trustees are growing ever greater, it is clear that trustees need more support than ever before. Regulatory requirements and increasingly complicated investment strategies are two examples of the growing pressure on trustees. In order to help them cope with pressures placed upon them, trustees can benefit from pooling their own experience and expertise.

In response to these challenges, PMI is poised to launch the UK's first Special Interest Group for trustees. This will be an additional benefit available to Trustee Group members who are serving trustees. A private online portal be available to SIG members. It will host special blogs and other articles. Additionally, members will have the opportunity to interact via discussion forums. A member will be able to post a query in anticipation of receiving replies from peers with relevant experience. (Imagine a trusteeship version of Mumsnet.) Posters will be able to post anonymously should they prefer to do so, and Chatham House rules will apply to comments posted. A regular series of blogs posted by the Pensions Regulator and other subject experts will help members keep their technical understanding detailed and up to date. Crucially, PMI's Trustee SIG will be a 'safe space' for trustees to exchange ideas, seek advice, express concerns and to develop relationships.

It is clear that trustees will continue to have a major role to play in managing pension schemes for many decades to come. In order to support them, PMI is delighted to have devised a system that will empower trustees address the range of challenges that face them and to help them serve the millions of people whose ultimate retirement is to be funded through membership of a workplace pension scheme. We at PMI are sure that the new Trustee SIG will prove to be a gamechanger for those who manage the nation's pension savings. We are sure it will prove to be a great success.

INTERVIEW WITH MARY CAHANI EPMI

Can you share a bit about your career journey?

From a young age, I was determined to carve out a successful career in finance, with clear aspirations to become a financial journalist or portfolio manager by 30. However, as I approached 29, I had fully embraced the rewarding chaos of motherhood, raising my two remarkable boys, now aged 18 and 13; balancing the responsibilities of parenting with my role as a headhunter. Fuelled by my desire for personal growth and professional fulfilment, I made a daring choice to attend university when my youngest was just 14 months old, a decision that marked the beginning of a new chapter in my life, where I sought to blend my passion for finance with my commitment to being an engaged and proactive parent.

At Bayes Business School, I found myself as the oldest student in my programme, pursuing a degree in Investment and Financial Risk Management. It was a unique experience, one that brought its own set of challenges, but I was determined to succeed. I also found joy in mentoring younger classmates, offering guidance and support as they navigated their academic journeys.

Once I graduated, I embraced every opportunity in the asset management industry through contracting, laying the groundwork for a fulfilling finance career over the past nine years. My path may not have been conventional, but it has taught me that there are many routes to reaching our goals. I am deeply committed to encouraging others to pursue their dreams with confidence and resilience, knowing that every journey is valid and significant.

What led you to your current role as Head of DC Clients at Invesco, and what excites you most about your work in the pensions and investment sector?

My initial exposure to the pensions industry occurred during my early years in the field, where I played a key role in outsourcing the investment strategies and governance of Defined Benefit schemes. This pivotal experience not only deepened my professional knowledge but also instilled a profound sense of belonging within me. I felt a strong sense of purpose in contributing to the well-being of retirees, ensuring they received optimal service and support during a crucial phase of their lives.

Three years ago, I made the transition to Invesco, which presented an exciting opportunity to expand our initiatives in the Defined Contribution (DC) sector. Invesco is recognised globally as a leading DC provider, enabling the ability to navigate the significant changes and challenges facing this space, especially those impacting member outcomes. In response, Invesco embarked on a thoughtful and strategic consultative journey, engaging with industry stakeholders to glean insights into how we could better assist organisations in overcoming these hurdles. Our focus has been on enhancing resources and driving innovation to improve overall retirement outcomes.

My time at Invesco over the past three years has been extraordinarily rewarding both professionally and personally. It has enabled me to leverage our extensive capabilities and expertise, leading to the forging of numerous partnerships aimed at creating impactful solutions within the DC landscape. Each collaboration has been a stepping stone towards advancing member outcomes and reinforcing our commitment to the retirement community.

What are the career achievements you are most proud of?

My professional journey has been incredibly fulfilling, marked by numerous achievements that I hold dear. One of the standout milestones has been my recent promotion to Head of DC Clients at Invesco, where I have embraced the chance to drive innovation and transformation within the defined contribution space. This role has allowed me to spearhead initiatives that aim to enhance our offerings and better serve our clients.

Additionally, I am thrilled to share that I became a member of the Pensions Management Institute (PMI) just last month. This membership not only signifies a personal accomplishment for me, but also enables me to actively contribute to our industry's growth and best practices. I am excited about the prospects this affiliation holds for my professional development.

I'm really excited about what lies ahead! I'm committed to helping pave the way for future innovations in the industry and showcasing Invesco's excellence in the DC space.

What motivated you to join PMI as a Member by Experience (EPMI)? How do you see this membership supporting your role at Invesco?

Invesco has proudly partnered with PMI as an Alternatives Insight Partner for the PMI members for the past three years. Through this collaboration, I have witnessed firsthand the invaluable networking opportunities that connect me with peers, industry leaders and potential collaborators, driving business and career advancements.

PMI's strong emphasis on professional development through workshops and exclusive resources empowers me to stay ahead of industry trends while advocating for our profession and shaping relevant policies. Being part of the PMI community allows me to engage with others, mentor younger professionals, and embrace leadership opportunities, showcasing my dedication to continuous growth alongside a diverse group of professionals.

This membership not only supports my professional development but also aligns with Invesco's strategic goals. The mentorship and leadership opportunities within PMI support my ongoing learning journey, elevating my knowledge and presence in the DC space.

What are the biggest challenges and opportunities currently facing the DC pension market from your perspective?

What trends are you seeing in the DC pension space in terms of what clients are prioritising? Are there particular areas where you see a shift in focus or demand?

The UK DC market is rapidly changing; schemes are growing and consolidating, and needs are becoming more sophisticated, driven by the accelerated consolidation within the Trust Based DC Schemes. Additionally, we are seeing a strategic move designed to streamline operations and enhance financial efficiency, all aimed towards improved experiences and outcome for members.

Master trusts are particularly witnessing substantial growth. For instance, The People's Pension Master Trust recently achieved a significant milestone of £30 billion, having grown by £8 billion in just one year. Moreover, Nest is projected to expand from £30 billion to an estimated £100 billion in assets by 2034.

These developments underscore the importance of adaptability and innovation for our clients. They need to provide suitable propositions that enhance the strategic positioning of current DC trust-based schemes during the growth stage of the member journey. This focus aims to improve post-retirement member outcomes and offer personalised solutions that ensure financial security and flexibility, driven by both industry participants and regulatory frameworks.

From an investment strategy perspective, we're witnessing a notable shift towards greater allocations in alternative asset classes, alongside a concurrent rise in active public asset investments. Interestingly, reliance on passive investments within the DC market is declining, creating a unique dynamic that differentiates this sector from traditional investment approaches.

Post-retirement solutions are gaining prominence as DC providers strive to equip members with better financial foresight for their later years. This includes developing Retirement Income Solutions and implementing default decumulation strategies to help members make informed decisions regarding their retirement funds, which depend significantly on forthcoming regulatory developments.

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To put this into perspective, most of the clients I work with are focused on enhancing their overall portfolio composition in a cost-effective manner while also achieving sustainability goals. Two primary areas of interest across all defined contribution (DC) trust-based schemes which should not come as a surprise are as follows:

1. Navigating the challenges of integrating alternative investments in a highly fee-compressed environment.
2. Supporting efforts to establish a strategic post-retirement framework that emphasises personalisation and flexibility while ensuring financial security for members.

Additionally, as mentioned above, we are observing clear trends indicating a shifting demand for a more active approach to accessing certain public markets, such as emerging market equity, emerging market debt, and high-yield bonds. There is also a growing demand for solutions aimed at inflation-hedging to protect members from the volatile inflationary environment.

In the alternatives space, DC providers are taking a collaborative approach to working with asset managers to create diversified alternative funds utilising a best-of-breed approach. We are also seeing an increased demand for Multi-Alternative Credit Long-Term Asset Funds (LTAFs) or alternative funds that provide access to Real Estate that play a crucial role in improving member outcomes throughout their financial journey, both leading up to and during retirement.

One of the key shifts I've observed over the past two years is the industry's willingness to partner among providers, trustees, advisors, platform providers and asset managers for a more solutions-led holistic approach. This partnership focuses on delivering solutions across various member journey stages, from growth to retirement and through post-retirement.

Crucially, consolidation is pivotal in driving trends and client priorities, with fee compression through economies of scale across various asset classes as one of the most prominent objectives. However, over time, we can anticipate an evolution towards more versatile and competitive fee structures that cater to the diverse needs of members, with a focus on improving member outcomes rather than simply lowering fees.

Furthermore, innovation will play a crucial role in shaping market share and determining the overall success of organisations within the retirement savings industry, fostering an ever-adaptive landscape to meet the needs of its members.

Lastly, the defined contribution (DC) pension landscape has undergone significant transformation over the past few years and continues to evolve due to the influence of government and key industry stakeholders. Looking ahead to 2025, we anticipate further changes driven by an increase in assets and enhanced regulatory oversight.

As an industry leader, how do you foster strong relationships with clients and ensure you're meeting their evolving needs?

As I mentioned earlier, Invesco has significant global expertise in asset management for Defined Contribution (DC) pension clients. This extensive experience, combined with our broad range of investment options—including both public and private assets and passive strategies—enables us to engage in meaningful discussions with clients about how we can deliver a robust global solutions platform.

This unique combination of resources and knowledge, alongside cultivating relationships grounded in transparency and collaboration, and our solutions-oriented approach, have been vital to engage deeply with the industry as we embarked on a strategic initiative focused on the UK DC market, centred around improving member outcome and experiences of members of trust-based DC schemes, while addressing the evolving needs all the same.

Our dedication to promoting innovation within the defined contribution (DC) landscape was led by our approach to work in close partnership with DC providers, with the aim of improving outcomes for members at every stage of their financial journey, from the initial phases of growth through to retirement and even into the later stages of life.

Over the past two years, we have placed a strong emphasis on enhancing our strategic footprint in the UK DC market to form valuable partnerships with key stakeholders, allowing us to address the unique needs and challenges of this dynamic sector more effectively.

Embracing a partnership approach, with client engagement at the heart of all the work we do, is centred around:

Listening and Learning

We have taken the time to really listen to key stakeholders in the DC space to understand the challenges they face through the whole member journey, accumulation, to and through retirement and postretirement stages of their members' journeys. This has not only provided us with strong foundations to form partnerships, but also provides the opportunity for us to hear from them firsthand what they are looking to solve to improve member outcomes. Additionally, we have been able to learn from our clients what is most important to them and how we can provide access to various investment strategies across private and public markets in a way that adds value, fosters innovation, and improves member outcomes.

Collaborating

Collaboration can mean many things to many people, but for me it is about bringing our clients along the way and giving the entire experience of working together; sharing ideas, understanding the needs and priorities and seeing how we can make full use of available resources to solve the challenges. We have very much focussed on creating tailored DC solutions that address the unique challenges our clients face. We engage with clients to brainstorm ideas and provide thought leadership, allowing for meaningful discussions and comparisons. I believe that bringing clients on a journey of innovation, which leads to customised strategies driven by the best ideas and member needs, is crucial to a strong partnership foundation.

Innovating

Innovation is at the core of everything we do for our clients, and is very much driven by our partnership and the collaborative approach we take with our clients when providing access to investment opportunities.

For example, we have proudly managed capital for DC's real estate clients for over five years. However, in response to client demand, we launched our first exclusive DC Client Only, platform-ready Global Direct Real Estate proposition in January of this year. Leading up to the launch, we engaged in numerous conversations with key industry experts to ensure our strategies aligned with DC client needs. We took note of their recommendations and feedback and continuously incorporated their insights all the way to the launch. Through this process, we listened, learned and collaborated with our clients to create an innovative proposition that is fit for purpose and positively impacts member outcomes throughout their journey, from growth to post-retirement.

Our focus remains on collaborating with the industry to enhance our offerings, help clients optimise their private market allocations, and ultimately improve member outcomes. This deep understanding of the specific needs and constraints of UK DC investors fuels our market-leading approach to developing investment propositions, and has been crucial for developing and designing offerings that meet the future needs of our clients, driving our commitment to creating propositions that positively contribute to member outcomes throughout their financial journey—from growth to post-retirement.

If you could give one piece of advice to pension scheme trustees or employers navigating today's complex investment landscape, what would it be?

It is essential to assess all initiatives and strategies through the lens of member outcomes, and create a unified front within the industry through the collaboration of thought.

This journey calls for a powerful alliance among trustees, service providers, asset managers, and investment advisors to navigate the ever-evolving landscape of rapid innovations to transform the retirement experience for our members, ensuring they have the resources they need during their post-retirement years.

By uniting our diverse perspectives and insights, we set the stage for remarkable success across the industry, and prepare ourselves to overcome challenges, but also empower ourselves to embrace the opportunities that arise in this dynamic, competitive environment.

Ultimately ensuring that our collective focus remains on improving member outcomes and helping them become financially stronger.

ILLIQUID ASSETS AND RISK TRANSFER TRANSACTIONS

Emma Scott
Associate
Sackers

This article looks at the role of illiquid assets in risk transfer transactions and the options available to pension scheme trustees to harness their value. It considers why holding illiquid assets in the current market can be a barrier to buying out and approaches that are being taken by schemes to overcome this liquidity hurdle.

Illiquid assets are assets that are not readily available to sell, generally because they cannot be quickly or easily converted into cash for their fair market value (eg investments in closed-ended funds, infrastructure projects or interests in real estate). Illiquid assets can be attractive investments for pension schemes. They can, contribute to a more diversified investment portfolio, and potentially provide an income stream and capital gains upon sale (which could in turn be used to fund, for example, a bulk annuity premium).

Many DB pension schemes' funding levels have improved in recent years, making buy out a possibility, perhaps sooner, than anticipated. At the same time, illiquid assets (being typically less sensitive to short term yield changes) have also become a relatively larger portion of schemes' overall asset portfolio. To undertake risk transfer transactions, schemes typically need a portfolio of assets that are both highly liquid and low risk, meaning even a modest proportion of illiquid assets can be problematic.

Schemes are utilising different possible solutions to overcome this "illiquidity barrier", all of which need careful consideration by trustees.

How to overcome the illiquidity barrier

Deferred Premiums

An insurer may agree to a "deferred premium", where an amount of the insurance premium is payable at a later date. Essentially, this involves the insurer loaning a percentage of the premium price to the trustee that can be paid down gradually as the cashflow from the illiquid assets is realised. This can give trustees time to consider the sale of the illiquid assets and may circumvent the need to sell them at a reduced price. However, it can be a costly option for trustees, especially given recent higher interest rates.

Loans from a company entity

While the illiquid assets are sold and their value realised, a willing company entity can provide a bridging loan to the trustees to enable them to progress the transaction. This can be a fast and flexible option, potentially reducing the need for a deferred premium solution. Loans of this type also have the added benefit of managing the risk of trapped surplus. Nevertheless, the necessary rules will need to be adhered to, together with negotiations with the company entity.

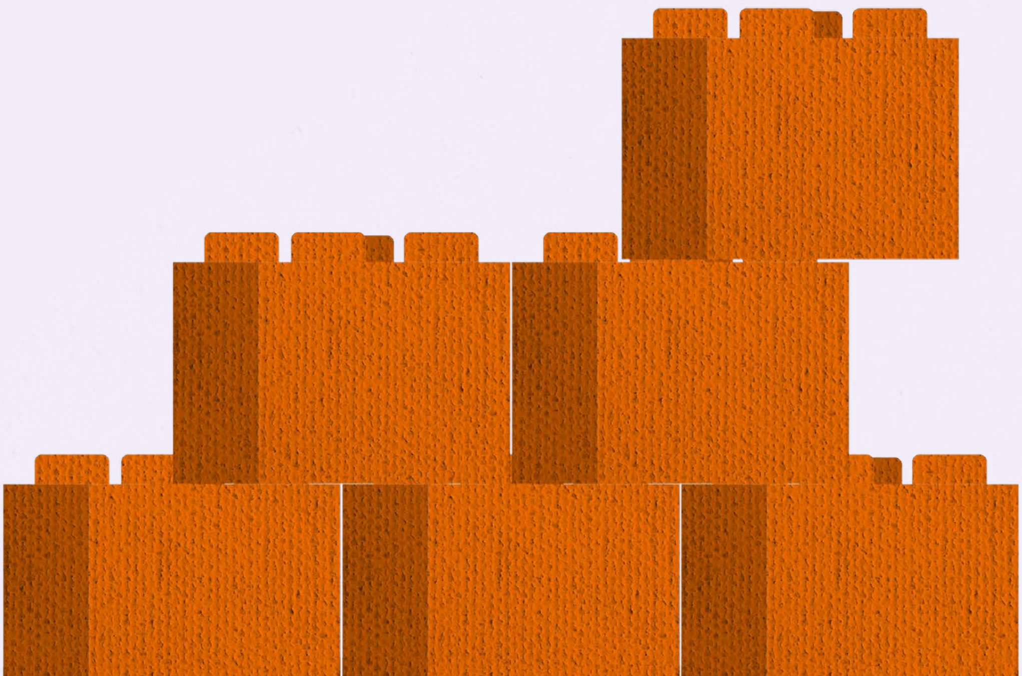
Secondary sales

This involves transferring an interest held by the scheme as investor in a private fund prior to the end of the fund's term, to generate cash proceeds.

Secondary sales can take place pre or post buy in, but need to be carefully planned. These transactions can be expensive, highly complex and, in the current market, may result in a significant reduction in the value of the illiquid asset. In addition, many issues need to be addressed early on, such as those relating to legacy scheme documentation, valuation dates and timing, underlying manager consent and US taxation.

The illiquidity barrier going forward

These are not the only options available to schemes facing an illiquidity barrier. We are seeing innovative solutions to the problem in the market, and the process and approach to the liquidation of illiquid assets by each individual scheme will need to be bespoke and nuanced. Schemes that are well prepared, engaging early with insurers, will be best placed to progress such transactions.



THE FMLC EFFECT:

REDEFINING ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS FOR PENSION SCHEME TRUSTEES

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It's been five years since regulations were updated requiring pension schemes to set out (within their Statement of Investment Principles) their policies in relation to 'financially material considerations', with the definition of financially material updated to include ESG[1] considerations and climate change. This was a shift change after many years of such investment considerations being considered potentially 'ethical' and therefore detrimental to investment performance.

While the industry has come a long way since then and trustee knowledge has improved considerably, there can still be challenges for trustee boards to see the financial significance of environmental and social factors. One of the main reasons for this is because quantitative data points relating to such factors are hard to come by. Thankfully, guidance released earlier this year by the Financial Markets and Law Committee (FMLC) can help trustees ensure they meet their fiduciary duty to act in the best financial interests of members, while also considering factors many recognise as significant to the future of our global economy.

Why is quantitative data difficult?

The world as we know it is changing. These changes affect everything we own – whether we are investing sustainably or not – and will continue to do so in future. For example, we are currently experiencing an energy transition that will likely change the shape of our economy. It is well under way, changing energy sources mean changing energy prices, changing energy prices mean changing asset values. Another example is the increasing recognition of the importance of the resources around us, for example the natural environment, but sadly some of these resources show signs of depletion. Again, the price of these raw materials is changing as a result and with it the price of goods and, you guessed it, asset values. Because this is a changing world, we don't have lots of relevant past data points to refer to. This makes modelling potential financial impacts of our changing world difficult. But in a world that is changing around us can we afford not to be more conscious in our decision-making?

What does FMLC say?

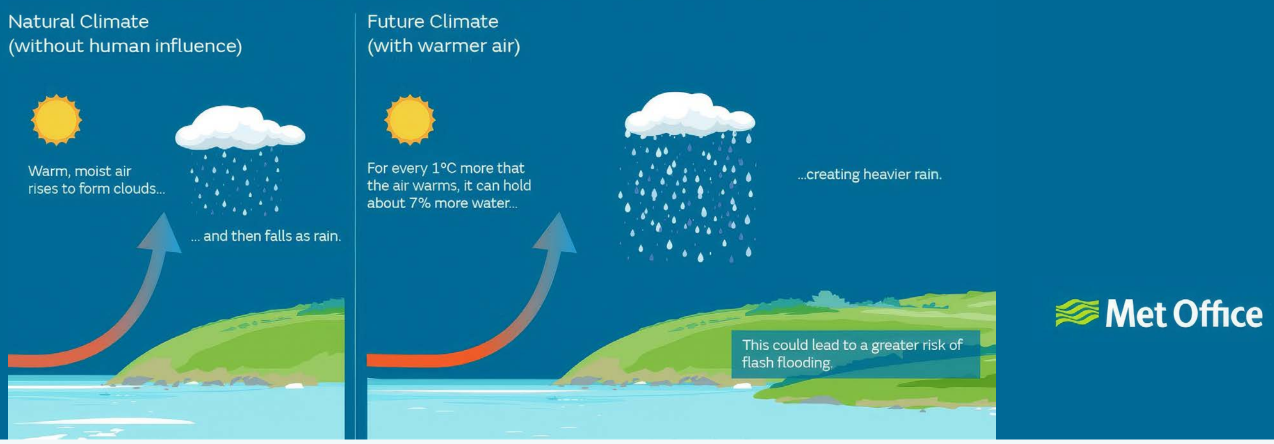
In my view, the guidance from FMLC is particularly helpful to trustees due to two specific points raised:

- **"Numbers and Narratives"** – FMLC notes pension fund trustees will need to expect the reasons for their decision, made with regard to financial factors, should involve both numbers and words. Sometimes financial factors cannot be quantified, but it does not follow that they lack weight.
- **Distinction between financial and non-financial factors** – FMLC highlights that today, financial factors are broad. What at first may appear to be a 'non-financial factor' is actually 'financial' when properly understood. FMLC also highlights that what distinguishes a financial factor from a non-financial factor is the motive underlying its consideration, rather than the nature of the factor. For example, if as a trustee board you are considering the exclusion of a specific investment based solely on your beliefs, then this would not necessarily be a financial factor.

While the FMLC paper is guidance only, there is an open letter from the Work and Pensions Committee to the Department for Work and Pensions to consider its inclusion by The Pensions Regulator in its own guidance to trustees on decision-making.

[1] Environmental, Social and Governance factors

How does climate change affect rainfall intensity globally?



Using 'storytelling'

Let's use FMLC's point that decisions can involve both numbers and words to illustrate an example.

If you are a gardener you may be aware of our topsoil crisis. We could run out of topsoil in the next 50 years. Yet 95% of our food is grown in topsoil.[2]

Let's first consider the impacts on specific sectors. Clearly for the food sector this could cause serious issues, and could impact on financial strength. In addition, the clothing sector could experience significant financial damage, as cotton also requires topsoil. At this point we are starting to see an issue for specific holdings in the investment portfolio due to this topsoil loss.

Let's take this one step further and consider the macro-economic impacts of a loss of topsoil. Food shortages start to appear, and we see higher inflation coming through.

We don't need lots of data points to see that biodiversity loss can impact the pension schemes, but working through a specific example can help to illustrate this point.

Interestingly, with sustainability-related factors you will see lots of interlinkages. For example, soil is a great carbon store, and soil degradation is releasing carbon into the atmosphere, further exacerbating climate change. Climate change has led to milder and wetter climates for some geographies such as the UK, with wet weather being one contributing factor to soil degradation.

Given the increasing importance of sustainability considerations in decision-making, we often see this topic included on trustee meeting agendas. At the next sustainability session for your trustee board, why not have a storytelling session to enhance knowledge and consider the financial materiality (or otherwise) of sustainability-related factors? And while this article focuses on investment decision-making, notice how this storytelling approach can also include covenant strength, which may be a much bigger impact for some schemes than the impact of sustainability-related risks on their investment portfolio.

[2] The Soil Crisis — WeRadiate

How to implement in investment portfolios

Trustees are responsible for their schemes' investment governance arrangements, including determining investment strategy. The investment strategy clearly needs to take into account a number of scheme objectives, from liquidity requirements through to the management of a myriad of risks, including sustainability.

In practice, the vast majority of pension scheme trustees delegate the day-to-day management of their investments to appointed investment managers. There is therefore an expectation that the appointed investment managers will manage considerations such as biodiversity loss on behalf of the trustees. However, it's important trustees have confidence that the selected investment manager is appropriately allowing for such risks both on appointment and throughout the relationship. We strongly encourage holding robust conversations with investment managers on their consideration of such risks within your investment portfolio.

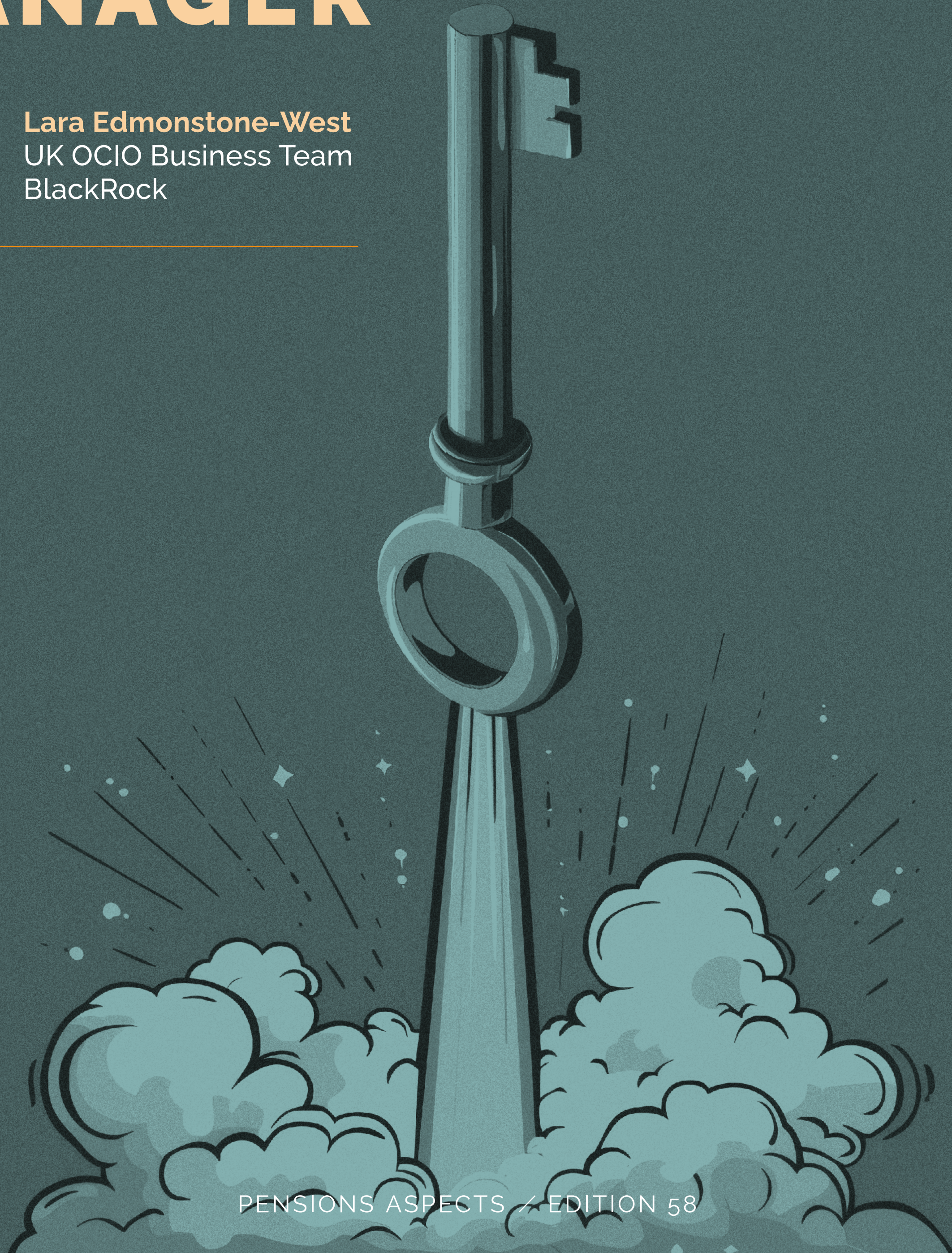
Some pension schemes may also want to consider the opportunity presented by our changing world. There are fantastic investment opportunities available to help solve some of the issues we face in our society today. Such opportunities should be considered within the context of any scheme's wider objectives, for example endgame plans and liquidity needs. Trustees can work with your investment consultant to explore such opportunities and consider their appropriateness.

Key takeaways

- The world is changing and this presents both risk and opportunity to pension schemes' investment portfolios. It can be difficult to assign numbers to this, but by using narrative you can help build a picture of the changing world and its potential implications.
- Pension scheme trustees should hold robust conversations with investment managers to ensure sustainability related risks within the investment portfolio are appropriately managed.
- The changing world also presents an investment opportunity. Trustees can work with their appointed investment consultant to consider if this makes sense for their portfolio.

GOVERNANCE IN FOCUS: UNLOCKING OPPORTUNITIES WITH A FIDUCIARY MANAGER

Lara Edmonstone-West
UK OCIO Business Team
BlackRock



Evolving regulation, reporting requirements and volatile markets are all complex challenges facing pension schemes and trustees today. In parallel, schemes are considering the growing range of endgame options, as they consider how to best secure their members' benefits. Lara Edmonstone-West unpicks the challenges being faced and explores how Fiduciary Management (FM) could help unlock opportunities and provide effective solutions for trustees.

What are the key challenges you believe trustees are facing today, and why?

The main challenges trustees face revolve around time and complexity:

- **Time:** Trustees are often stretched thinly, and over recent years the demands on trustees have grown, but the time they can dedicate to their schemes hasn't increased at the same rate.
- **Complexity:** Trustees are dealing with more requirements, such as the Task Force on Climate-related Financial Disclosures reporting requirements and the DB funding code. These new tasks require trustees to take more time to understand, implement and govern.

Ultimately, time and complexity are interconnected challenges trustees consistently look to explore with us. Additionally, endgame strategies are (rightly) dominating conversations today, and have become another challenge for trustees to navigate, due to broader choice.

As many schemes approach their endgame, the question often arises about whether a FM is still relevant at this stage. Could you explain how FM can benefit schemes nearing their endgame?

Trustees have several endgame options to choose from, including insurance transactions (either directly or through a superfund), emerging models for consolidation, self-sufficiency, or surplus extraction. The chosen path will vary depending on scheme circumstances, but the common thread across all options is the need for a robust investment solution that can act nimbly to respond to market changes and increase the probability of success.

Regardless of the endgame option, we believe trustees always need effective governance and decision-making support. A FM allows the trustee to focus on broader strategic decisions or scheme management, while the FM handles the day-to-day management of the investment portfolio on their behalf.

Decision-making and governance are crucial in the delegation process when partnering with a FM. How does this structure help trustees alleviate some of the burdens?

While partnering with a FM does not entirely remove decision-making responsibility from trustees, it allows them to focus on the strategic decisions that require their full attention, such as determining return targets and endgame preferences.

The FM can manage the day-to-day tasks like asset allocation, manager selection and de-risking, which eases the trustees' workload and time. The key is in the delegation process, where trustees clearly define roles and responsibilities from the outset, and this clarity helps ensure trustees stay aligned with the endgame objective of their scheme.

For trustees transitioning to a new governance model, it's essential to work closely with the FM upfront to establish a strong partnership through training and joint planning.

What are the key takeaways for trustees nearing their endgame and considering instructing a FM?

Trustees should first assess their current challenges and priorities before entering into a FM partnership. Here are some key questions to consider:

- What are the specific challenges you are facing as a trustee?
- What is your priority order in addressing these challenges?
- What role do you want the FM to play?

Working with a consultant or pension trustee can help you refine these questions and guide you through the process. Ultimately, approaching the process ready to engage with and build a relationship with your FM will ensure you get the most out of this partnership. It's a process that can be very rewarding when done right.

LOW DEPENDENCY AND RUN-ON PORTFOLIOS

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In this article, we delve into the potential investment portfolios for schemes targeting either a 'low dependency' or 'run-on' strategy and explore the differences between the two.

Should a pension scheme decide that securing its liabilities with an external provider, either via an insurance buyout or other form of consolidation, is not the most suitable endgame objective they will adopt either a low dependency or run-on approach:

Low dependency approach: Under this approach, the pension scheme continues to operate, managing its assets and liabilities over time. The focus is on maintaining solvency and meeting pension obligations with low levels of investment risk.

The run-on approach: This strategy involves the pension scheme continuing to operate with the intent of investing beyond full funding on a buy-out basis, gradually sharing surpluses between members and potentially sponsors over the medium to long-term.

In this guide, we delve into the potential investment portfolios for schemes targeting either a 'low dependency' or 'run-on' strategy, and explore the differences between the two.

Crafting low dependency portfolios

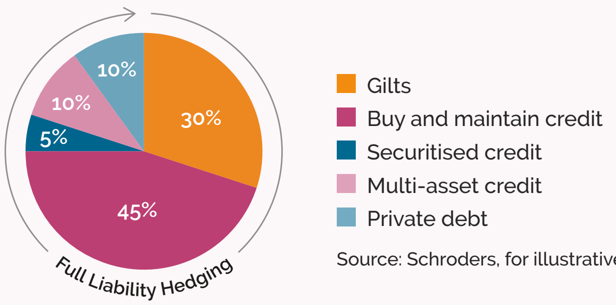
For schemes looking for a low dependency solution, the focus should be on the evolution of the portfolio over time. Key characteristics to consider include:

- **LDI (Liability Driven Investment):** Fully hedging interest rate and inflation risks with greater accuracy (caps, floors, inflation risk) is key.
- **Cashflow Matching:** 'Buy and Maintain' investment grade credit as a core allocation provides greater cashflow certainty over the journey, which can be tailored to integrate ESG and sustainability goals.
- **Contractual assets:** These provide greater stability of income and should be incorporated subject to investor time horizon and illiquidity appetite. E.g. securitised credit is a key tool to provide an additional source of return as well as a ready source of liquidity for collateral needs.
- **Climate risk:** Investors must consider the risk of a disorderly climate transition, so building a portfolio where climate risk and wider ESG risks are integrated within the construction process is essential.

This approach provides all clients with a foundational portfolio that offers strong levels of risk management and low running costs.

Illustrative low dependency portfolio

When targeting low dependency, high quality contractual assets provide greater confidence in achieving the returns required maintain solvency and potentially buyout in the future.



Source: Schroders, for illustrative purposes only

Crafting portfolios for run-on strategies

Schemes looking to 'run-on' have the flexibility to build upon the 'low dependency' foundation portfolio and include a broader range of investment opportunities.

Private assets can play a significant role in run-on strategies. However, it's crucial to size the allocation appropriately to ensure that member benefits, collateral needs, and the periodic release of surplus can be easily met. Schemes should also consider the importance of building flexibility into their strategy, especially if objectives change. For instance, a move to buy-out sooner than expected should be accommodated. The liquidity profile of any private assets should keep this flexibility in mind. This could involve assets with a short-term contractual profile or allocating to private markets through semi-liquid, open-ended vehicles that provide a more flexible form of access to such assets. Long-Term Asset Funds (LTAFs) are an innovative example of this.

For schemes with pre-existing illiquid allocations, it may be necessary to resize or reshape these allocations if they're not already aligned with these characteristics. At Schroders, we have deep expertise in private markets and can assist schemes in repositioning their allocations. We understand that clients may be transitioning from a growth focus, and with our extensive illiquid asset expertise, we can transfer and efficiently wind down these portfolios in an orderly manner.

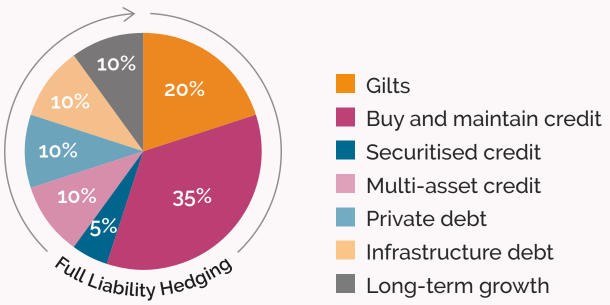
In terms of sustainability and impact, where the investment time horizon aligns, investors can use their illiquidity budget to invest for purpose. This could include assets explicitly linked to specific UN Sustainable Development Goals (SDGs), using innovative tools like LTAFs.

Examples of additional assets that schemes could include under a 'run on' approach include:

- **Liquid growth assets:** A diversified portfolio of liquid assets can enhance returns whilst supporting annual surplus release frameworks.
- **Private assets:** Private assets can be a diversified source of contractual return, improving the likelihood of achieving the returns required.
- **Synthetic solutions:** Investors can use a wider array of derivatives such as options and total return swaps to provide efficient market exposure with contractual downside protection.

Illustrative run-on portfolio

'Running-on' reduces investment constraints, allowing schemes to take advantage of investment opportunities other schemes cannot access.



Source: Schroders, for illustrative purposes only

THE POWER OF ENGAGEMENT

Eva Cairns
Head of Responsible Investments & Stewardship
Scottish Widows

The power of engaging with companies we invest in

It used to be that pension companies and investment managers largely engaged with companies they invest in at their Annual General Meeting. But that's been changing.

Nowadays, there's a more holistic approach to engagement where shareholders aim to influence decisions a company makes, and effect positive change. This can be on both company-specific issues or on wider systemic issues that impact whole sectors or economies.

Yes, the AGM remains a focus. But ongoing engagement, and consideration of non-financial risk – such as operational and reputational risks – as well as financial risk, are now the norm for responsible investors.

Why engagement matters

So, why do we engage?

There are a number of reasons, such as understanding how risks are identified and managed within a business or industry, helping to influence the transition to a low carbon future, and encouraging good governance and employment standards. All these can ultimately create shareholder value, protect our portfolios from risks and shape a better world to retire into.

The findings of a report from the United Nations Principles for Responsible Investment (UN PRI) stated that "engagement by investors with companies on environmental, social and governance (ESG) issues can create shareholder value." *

This conclusion is not new. Pioneering academic research back in 2012 showed successful investor engagement with US companies over a 10-year period was followed by positive abnormal returns averaging +4.4%.** A follow-up study looked at more than 1,800 collaborative engagements, and it also found that successful engagement is linked to increased return. *** Last year, another piece of research revealed that engagement is most effective in lowering downside risk when addressing environmental issues, particularly climate change. It showed companies had less environmental incidents after engagement. ****

The UN PRI research found engagement adds value for companies as well as shareholders through the exchange of information and knowledge. This helps companies identify risks, opportunities, gaps and new trends that can strengthen their ESG strategy.

A spokesperson for a major oil and gas company told the UN PRI: "I think of ESG investors … as an early warning system. They're the canary in the coal mine. You know, they're ahead of everyone else in terms of their thinking about what a problem is and what a risk is. Eventually, governments, civil society and mainstream investors will share the same concerns."

Engagement in practice

Shareholder engagement covers different ways investors aim to influence companies' ESG policies and practices. These include voting on shareholder or management proposals, participating in investor letters and statements and direct, or collaborative, dialogue with management. All of which we employ as part of our responsible investment and stewardship approach.

Dialogue with management

Engagement can be ongoing, and direct. In the case of Ocado, we engaged with management to better understand its approach to diversity. Ocado explained how it was supporting more women and ethnic minorities in technology, and focusing on making its board more diverse. In our review last year, we were delighted to see the progress Ocado had made. Female representation on its board had increased from 23% to 42% across the period of our engagement.

Collaboration

Collective engagement can be one of the most powerful tools in our armoury. A recent study in Japan found pressure is more effective when multiple investors engage together with the same company on an issue. ***** We work with our appointed investment managers, other investors and industry bodies to help drive change.

For example, we began engaging directly with Amazon in 2023 given our concerns about working conditions for its employees and their inability to join unions. We've since collaborated with one of our appointed investment managers to maximise our engagement impact and vote for human rights proposals. As members of the Labour Rights Investor Network, we're collaborating, too, with a broader range of investors to push for change at Amazon.

We're also involved in various industry initiatives to drive systemic change. For example, to tackle workers' rights at industry level, as well as at specific companies like Amazon, we've contributed to the development of the Fair Reward Framework. This provides investors with an assessment of things like companies' pay scrutiny and reward outcomes to support engagement activity.

Voting

Last year, we cast 79 votes across different topics and resolutions. Voting directly enables us to escalate issues when we come to an impasse in our dialogue with management. Or express our expectations of key companies we invest in.

As an example, we supported a shareholder resolution asking Nike to detail its supply chain human rights policies. The resolution noted that Nike allegedly owes Cambodian garment workers $1.4m in unpaid wages. We expect companies to identify modern slavery risk across their supply chain and report on any actions taken to mitigate risks.

We also monitor the engagement activity and voting of our appointed investment managers to ensure it fits with our overarching stewardship priorities. In the case of three of our appointed investment managers alone, this equated to over 4,000 engagements globally undertaken in relation to our holdings in 2023.

You can read more on our many other engagement activities in our latest **Responsible Investment & Stewardship report**.

By continuing to focus on engaging with companies we invest in, we can help create more resilient and sustainable businesses, and reduce risk in our portfolios. And – ultimately – drive better outcomes for customers.

Sources

* 'How ESG Engagement Creates Value for Investors and Companies,' UN PRI, April 2018

** Active Ownership, Elroy Dimson, Oğuzhan Karakaş, and Xi Li, October 2012

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**** ESG shareholder engagement and downside risk, Andreas G. F. Hoepner, Ioannis Oikonomou, Zacharias Sautner, Laura T. Starks, Xiao Y. Zhou, October 2023

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BOUND TO THE BENCHMARK

Lily Tomson
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Jesus College and Departmental Fellow
University of Cambridge

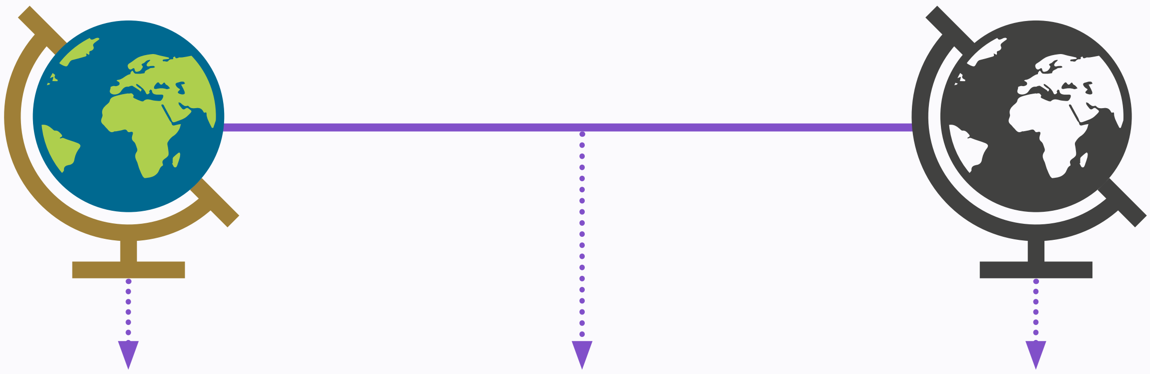
What is the purpose of a benchmark? The answer might seem obvious: to understand how well your investments are doing compared to an independent yardstick. Yet the impact of the climate crisis on portfolios, and of portfolios on the crisis, drives dilemmas around benchmark selection and use. University of Cambridge research with global asset owners unpacks the solutions.

Benchmark bewilderment

Many asset owners are grappling with creating and using benchmarks that align with their intended climate strategy while not breaking their tracking error budget. New University of Cambridge research, based on 309 major global asset owners, a survey of 65, and interviews with 11 investors, explores these dilemmas.

If you are entirely new to the world of benchmarks, particularly in a climate context, 'Bound to the Benchmark' walks you through the ways that benchmarks are used by asset owners such as pension funds. Benchmarks serve as crucial guides to investors: they shape or determine asset allocation, aid reviews of mandate performance, and help investors understand climate change impacts present and future.

However, asset owners interviewed were in some cases unsure about how to use benchmarks in a climate context. Should their benchmarks aim to reflect the current market, support portfolio-level decarbonisation, or reduce systemic risk through a real economy transition benchmark?



REAL ECONOMY TRANSITION BENCHMARK

A double materiality approach attempts to drive change in the real economy. This includes 'transition-engaged' and 'net zero' indices as described by GFANZ. This is an emerging area.

To be considered transitioning, energy companies must have ceased to expand fossil fuel activities, and be phasing down at a Paris-aligned rate.

PORTFOLIO-LEVEL DECARBONISATION BENCHMARK

A single materiality / climate risk approach attempts to mirror market while minimising high-risk holdings.

This includes screened and scored indices that remove/reduce exposure based on corporate classification not corporate activity; PAB/CT that implement mandatory exclusions and linear decarbonisation trajectories.

BROAD MARKET / FLAGSHIP BENCHMARK

A so-called 'flagship' or vanilla approach attempts to mirror the market, and is generally market cap weighted. Shows the 'world as it is' without engagement with climate risk.

Policy benchmarks

Some asset owners shifted their policy benchmark to a real economy transition benchmark, avoiding the 'tracking error trap' of portfolio managers effectively being punished for integrating climate decisions into trading. This requires a strong grasp of index methodology to not drift from the market.

As Hiro Mizuno, former UN Special Envoy for Sustainable Investments Former Executive Management Director and former CIO of GPIF (Government Pension Investment Fund of Japan), writes in the Foreword: "One critical step in this process is reassessing policy benchmarks to ensure they reflect the risks and opportunities of a carbon-neutral economy. Given the significant influence of policy benchmarks on portfolio performance, asset owners should consider using climate-risk-adjusted or net-zero-aligned benchmarks. Since governing bodies, like trustee boards, often choose benchmarks and assign investment teams to manage them, it's essential to recognize the substantial impact of this decision. A clear, well-defined vision for policy benchmarks will help mitigate climate risks and strengthen portfolio resilience."

A number of the organisations surveyed and interviewed describe themselves as **Universal Owners**: asset owners interested in the long-term health of the financial system as a whole, who realise that they cannot hedge against systemic risks such as climate change, and must instead act to mitigate them. As such, some see it as logical to change their 'guiding star' in order to align their asset allocation with their investment priorities. One approach used by such asset owners is adopting indices that support them to avoid participating in corporate bond issuances - a strategy which could directly affect the cost of capital for companies, a powerful 'stick' for engagement - while using equity indices that retain stocks in the same firms so that they can still deploy their power as owners to vote against directors failing to drive the transition appropriately.

Parallel benchmarks

Other asset owners chose to maintain their current broad market index, but add a real economy transition benchmark alongside it. One benchmark represents the climate transition, and the other reflects the market. Now, two benchmarks might sound complicated, but perhaps it's easier to navigate with a constellation?

It's worth noting that if a real economy transition benchmark is not introduced at policy benchmark level, portfolio managers are still incentivised to stay close to the market, which would make it hard to take an ambitious approach to climate without tracking error issues. In this case it is also critical to have a clear approach to accountability and performance evaluation.

Manager-based approaches

For smaller asset owners, or those without significant investments in the asset class under consideration, a manager-facing approach was used. Here, fund manager/s are expected to align with the fund's goals for the climate transition with the market, without an overarching policy benchmark.

A manager-based approach does not mean ignoring the fund's climate strategy. Funds adopting this approach should focus on choosing high quality, ambitious asset managers with a robust approach and a coherent internal performance benchmark. This approach involves setting an expectation for both climate and financial performance.

Bound to the benchmark

Asset owners see substantial unrealised potential for impact within corporate bonds, regarding both asset allocation and engagement. However, even among the sample of large asset owners already engaged with climate issues, 33% reported barriers to gaining access to investment grade corporate bond products (indices and funds), particularly indices driving the real economy transition. This reinforces the gap in provision that the team had heard about anecdotally, which has led them towards developing a real economy climate index.

You can read more about the research **here**.

SPACE

A MULTI-TRILLION DOLLAR IN-ORBIT OPPORTUNITY

Nayen Pankhania
Investment and Strategic Finance Director
Satellite Applications Catapult

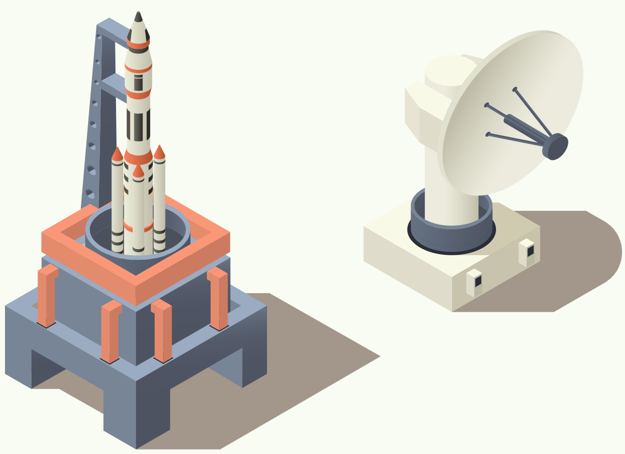
In the last decade a new economic frontier has emerged in space. Once the preserve of superpowers, space is now the realm of ambitious start-ups tackling many of the world's most challenging problems. Estimated by the WEF to be worth $1.8tn by 2035, the global space economy will impact numerous terrestrial industries, with major implications for investors and their assets.

Space – Recent Developments

55 years ago, the Apollo 11 mission put the first humans on the Moon. A mere 66 years prior in 1903, humanity had just achieved powered flight courtesy of the Wright Brothers at Kitty Hawk. Astonishing progress by any measure.

But progress slowed. For many decades after Apollo 11 space became an esoteric, fringe consideration – a place purely the concern of governments and aerospace primes.

In the last decade that has all changed, with a new commercial space industry taking shape. The critical driver has been the falling cost of launch enabled by private companies such as SpaceX. NASA's space shuttle had a launch cost of $54,500/kg to Low Earth Orbit (LEO) in the 1990s. By contrast, SpaceX's Falcon 9 will now deliver a 1kg LEO payload for $3,170, a remarkable 17x reduction.



This has transformed the economics of getting material to orbit. Start-ups can now develop new in-orbit products and services to solve challenges that have existed for decades, but which have only just become affordable to deliver through space-based operations. Furthermore, we can expect the creation of entirely new non-terrestrial industries such as advanced material manufacturing and pharmaceutical molecule development.

Citi predicts that by 2030 launch costs will fall by yet another order of magnitude to around $200/kg, thereby unleashing another wave of in-orbit innovation and commerce.

Why should this matter to investors?

For investors the emergence of a bustling in-orbit economy and its consequences will be hard to miss. As innovative business models mature, industry will look to space for growth and returns which are increasingly hard to find here on Earth.

The WEF expects the space economy to grow at 9% pa between 2023 and 2035, far outpacing global GDP growth. Since 2014 over $300bn has been invested into almost 2,000 space-related businesses globally, and immense additional investment will be required to deliver on this growth.

Moreover, space-based activities will directly impact terrestrial assets, many of which form the foundation of existing investment portfolios. A near-term example is that of direct-to-mobile (DTM) satellite communications and the risk that large parts of terrestrial mobile network infrastructure are made redundant by in-orbit substitutes such as SpaceX's Starlink. According to McKinsey, telecoms firms will have invested over $600m in next-generation mobile infrastructure between 2022 and 2025. DTM infrastructure could leave large parts of the expensive terrestrial asset base stranded.

So, there is an investment opportunity and it is clearly global. Nevertheless, for UK pension funds there will be an increasing volume of high-quality UK space companies that will be hungry for investment. In the last ten years alone over $8bn has been invested into 145 different companies. Vehicles such as Long-Term Asset Funds ('LTAFs') will allow pension capital to flow into illiquid, high-growth space assets. These, along with investment opportunities in other innovative sectors of the UK economy (many represented by the UK's Catapult Network), will come together to realise the full potential of the Mansion House Compact.

Space Matters to the UK

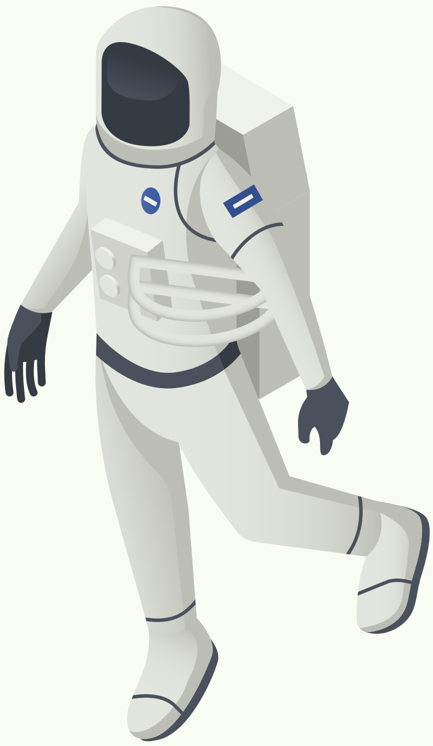
Geopolitically and economically, space matters to the UK and is used by everyone, every day. UK space industry income was £18.9bn in 2023 and space employed 6.7% of the workforce. These numbers don't account for the indirect role space plays in enabling other major industries, such as through the provision of Earth observation in weather forecasting or Positioning, Navigation and Timing ('PNT') in the financial sector. If the UK lost national PNT access, it would cause £1.2bn worth of damage to the economy every day.

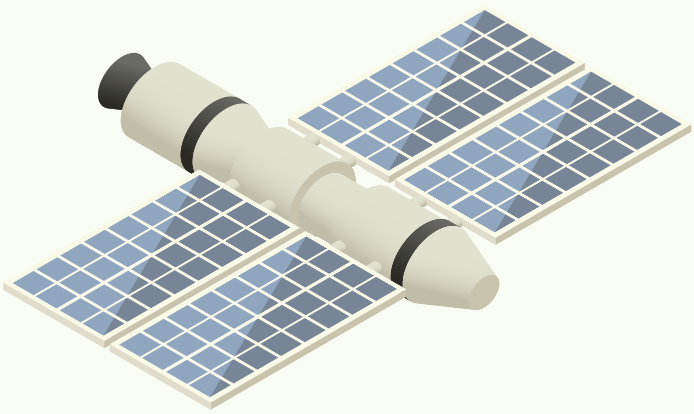
Space is of interest to myriad countries, from the obvious (US, China, India) and now to relative newcomers such as Canada and the UAE. It is central to national prosperity and security both for the UK and its international counterparts. With the publication of the National and Defence Space Strategy in 2021 followed by the Space Industrial Plan in March of this year, the UK has set out its ambition to remain a top-tier space-faring nation.

As the global space industry evolves, the UK is well-positioned to stay at the forefront of in-orbit innovation in a number of key fields.

Earth & Climate Intelligence. Earth observation (EO) is a key application of satellite data and is central to our ability to monitor (and mitigate) global climate change. The UK has a strong geospatial ecosystem underpinned by capabilities in AI and machine learning. Recent UK start-up successes include SatVu which captures high resolution thermal imagery for economic monitoring and climate resilience. Globally, large EO companies include Planet Labs, Spire Global and Maxar, all based out of the US.

Connectivity & PNT. In-orbit PNT plays an integral role in multiple sectors ranging from banking and insurance to emergency services. The UK has strong ambitions to become a key player in the commercial connectivity applications market, with R&D accelerating in 5G and 6G technology in particular. In addition, a significant part of Galileo, the European PNT solution, was built in the UK. Should the UK wish to build a sovereign PNT capability it could do so, representing a major opportunity for UK firms.





Space Manufacturing. With a long track record of designing and manufacturing complex payloads and small satellites, there will be substantive UK opportunities around launch vehicle development, subsystem testing and payload manufacturing. The UK is focused on the emerging field of in-orbit servicing assembly, and manufacturing (ISAM), particularly active in-orbit debris removal which is central to space sustainability. Companies such as Astroscale and D-Orbit with a strong UK presence are global ISAM leaders. Microgravity in-orbit manufacturing of advanced materials and complex molecules for pharma applications are also key strategic themes, with companies such as Space Forge (UK) and SpacePharma (US) demonstrating the inroads being made in these nascent industries around the world.

So, where next?

The UK space ecosystem has led to the creation of many space-related start-ups, all vying to take advantage of these new commercial opportunities. Whilst overall numbers are modest they are growing fast, with the tailwind of these trends driving business creation in volume both in the UK and around the world.

Although most space investment in the last ten years has come from venture capital and corporate investment, the observed step change will present significant opportunities for capital deployment from a wider range of investors, particularly those with substantial assets under management.

The quiet revolution in the space sector will have far-reaching consequences for almost every terrestrial industry. For all investors, pension funds included, it would be advisable to watch this space.

Dashboards guide: Introduction

Tim Middleton
Director of Policy and External Affairs
PMI

A long-standing characteristic of the UK's workplace pensions culture has been for individual employers to sponsor their own pension scheme. Historically, this did not cause any particular problems: until the 1970s it was common for workers to remain with a single employer over the course of their entire working life. In recent years, however, the labour market has become increasingly fluid, and in today's gig economy it has been projected that those born into Generation Z will have as many as 12 separate jobs of the course of their working lives..

A consequence of frequent changes of employment, combined with our fragmented pensions system, has been that those reaching retirement age will have accrued retirement benefits in a range of different pension schemes. Many of these schemes may be difficult to trace.

To address this problem, the previous government embarked on an ambitious programme to develop a pensions dashboard. The objective was to create a portal where an individual could find information concerning all their accrued pension benefits – including the State scheme – in a single place.

The development of the Dashboard has been a long and difficult process, but from October 2026, the first version of the Dashboard will be available. Initially, just the Dashboard developed by the Government's MoneyHelper service will be available, but this will eventually be followed by a number of commercial dashboard services.

This is a particularly exciting development that will empower the public to prepare for retirement in a planned and ordered fashion. PMI's new Dashboard guide examines the new options and their longer-term implications for workplace pension provision, and provides an unmissable introduction to a service that will come to play a central role in retirement provision.

Preparing for the new Pensions Dashboard Programme

Jon Bowden
Principal and Pension Administration Operations Manager
Barnett Waddingham LLP

The pensions industry and trustee bodies are gearing up for the initial connection of schemes onto the pensions dashboards ecosystem.

In the coming months, trustees will need to agree data correction work, establish matching protocols to ensure ease of securely matching members to information, and determine the format in which it will be presented to them.

Below, we cover what trustees should be considering and what development work is happening in the administration sector to be 'data ready' and allow connectivity to the ecosystem.

PDP OBJECTIVES

- *To design and implement the Pensions Dashboards infrastructure*
- *To ensure the Pensions Dashboards are for the benefit of pension scheme members*
- *To ensure they enable individuals to access prescribed pension information online, securely and all in one place (but most benefit information will continue to be delivered by the usual administration team)*
- *It will cover all types of pension schemes in scope with more than 100 (active/deferred) members, but not pensioners in payment*
- *It will cover 40m+ members connecting to 40,000+ schemes and providers*
- *The 'connect by' date will be based on type of scheme and number of members*
- *It will meet significant technology demands*
- *There will be strict timescales for providing members with information*

HOW TO DELIVER THE PROGRAMME OBJECTIVES

Below are some actions and considerations to deliver the programme objectives:

Connection guidance published by Department for Work and Pensions (DWP)

On 25 March 2024, DWP published guidance on a staged approach to connection for Pensions Dashboards, along with a revised "connect by" timeline geared towards orderly onboarding of schemes.

The timeline runs from April 2025 to October 2026, with "connect by" dates provided by type and size of scheme. This will be based on the number of relevant scheme members at the scheme year end 2023/24.

TPR publish revised guidance for schemes

Following the publication of the revised "connect by" guidance, the Pensions Regulator (TPR) have updated their guidance.

TPR is urging the industry to work with their administrators to deliver the staged "connect by" timeline as set out in the guidance. A phased approach:

- *Enables a controlled, well-planned connection*
- *Reduces risk of capacity constraints for those supporting schemes with connection*
- *Enables thorough user testing to begin, ensuring delivery as early as possible*

"Connect by" date calculator

TPR have also released a "connect by" date calculator to help schemes determine when they need to connect to Pensions Dashboards: determine your "connect by" date.

To determine the "connect by" date, trustees will need to know the membership numbers detailed in the Scheme Return for the scheme year ending 31 March 2024.

Trustees, managers and pension providers must consider the guidance when making decisions or taking actions in relation to preparing to connect to dashboards. Trustees will need to be able to demonstrate, upon request, how they have considered the guidance. Failure to do so may result in enforcement action by the relevant regulator.

WHAT CAN TRUSTEES DO NOW?

If trustees haven't already taken these actions below, then they should consider these immediately:

- *Keep up-to-date with regulation developments and guidance, including further details about connect by dates.*
- *Read the TPR guidance: TPR has published its checklist to help schemes identify what was needed leading up to their connect by date: Preparing to connect: checklist | The Pensions Regulator.*

Trustees should also:

- *Consider any governance aspects – trustees should add Pensions Dashboards to meeting agendas and update governance documents, such as annual/work planners and risk registers. Consider this in line with the connect by date.*
- *Ensure the advisers are on track to deliver – is the administration service provider on track to meet your obligations?*
- *If the scheme has data held by multiple advisors, for example Additional Voluntary Contribution (AVC) arrangements, consider which of the advisors currently hold the data for the arrangement and whether the administrator will need to collate additional information from external parties to facilitate Pensions Dashboards enquires in future.*
- *Trustees need to understand the data readiness and start to put in place plans needed to improve data accuracy ahead of the connect by date.*

Other things that trustees need to start thinking about in future:

- *What contractual changes might be needed to existing client agreements. In particular, trustees need to be mindful of GDPR (regarding data security) and related liability (if information is given to the wrong member) clauses.*
- *Trustees may be thinking ahead to budget planning in future years, and whether there will be any change to the fee basis in place with the advisers. There will be implementation and annual costs associated with the introduction of Pensions Dashboards, including direct costs of the administrator implementing the requirements of the PDP, or indirect costs such as an increase in member engagement and unexpected activity due to more members making enquiries directly to the pension provider about their benefits once they have seen their information on the Pensions Dashboards.*
- *Agreeing how to match data find requests – once details of this have been provided, trustees need to consider this further in conjunction with their advisers.*
- *Any schemes considering undertaking buyout exercises which affect the day-to-day administration of benefits, trustees may wish to consider the connect by date in relation to the project planning.*

HOW ARE ADMINISTRATORS RESPONDING TO THESE SHIFTS?

To be able to support trustees in delivering to the requirements of the PDP, the administration sector is creating and developing new processes, routines and reports to facilitate the high data demands of the programme. Below we cover some of the areas:

Project planning and documentation

Planning is an important part of a successful delivery of the project. Administrators need to get multiple schemes' dashboards information ready across their client base. This will require careful planning of key dates based on each client's “connect by” date. Trustees will be required to make decisions regarding finding, matching and value data — this will need to be incorporated within the planning of the project and documented for future reference.

Connecting to the Ecosystem

How will the connection to the PDP Ecosystem be established? Some administrators will be connecting direct from their current systems and servers, others by using an external Integrated Service Provider (ISP). Administrators will need to establish connection routines to the Ecosystem, map and format data streams, test and monitor connections and response times and be able to provide required reporting to TPR.

Find and matching data

To enable members to find their relevant pension benefits, personal information on administration systems needs to be accurate and up-to-date. To assess the quality of the data held on these systems, administrators need to test the quality of the data held on their systems and report to trustees where the data needs to be input or enhanced to meet the matching requirements. Where there is missing or incomplete data, consideration needs to be given about how to gather this information and correct it, so it feeds into the Ecosystem.

Value data

The Pensions Administration Standards Association (PASA) have issued dashboards value guidance so schemes can decide the best course of action according to their own scheme rules and circumstances, to provide the optimum solution for their pension savers.

Depending on the type of calculation system administrators use and the levels of automation those systems allow, the following approaches may be taken:

- ***On-demand calculation:*** *Run a calculation each time a saver requests this via a dashboard*
- ***Periodic pre-calculation:*** *calculate values on a regular basis (monthly, quarterly or annually), store the calculated values, and make these available when a saver logs on to a dashboard*

For complex benefit calculations (i.e. transfers in or divorce debits) decisions will have to be made about what information, if any, can be supplied for the PDP.

Like many developed nations, the UK has a significant retirement income provision problem

Adrian Kennett
Accredited Professional Trustee
Dalriada Trustees Limited

Some life expectation models show that a newborn today has a 50/50 chance of living to 100. The notion that they can leave education at 18, work until their early 60s, put away 8% of salary per annum, and accumulate enough to provide them with a reasonable standard of living for the next 40 years is just fiction. Paying 8% for 40ish years doesn't lead to a decent pension for another 40ish years.

The first step to addressing a problem is to accept that you have a problem. I'm not sure the politicians have got there (publicly) yet. Telling people to save more isn't exactly a vote winner. But the introduction of Pensions Dashboards is a first step. Showing those who have yet to retire what they are going to get. Which, it is then hoped, will trigger them into thinking they need to save more.

Simple idea in theory. Non-pensioners go on to a website, enter a few details sufficient to identify themselves, and they are provided with details of all the pensions they have been saving.

The issue is, the more you go into the practice, the harder it gets.

All schemes (with over 100 relevant [non-pensioner] members) have to contact. Constantly. Securely. Providing data in a consistent format. Be that for money purchase or defined benefit schemes. Schemes with different Normal Retirement Ages. Schemes with underpins. Schemes with different benefit structures. Schemes which haven't seen investment in data or systems technology for the last decade.

The introduction of Pensions Dashboards has already been delayed. The latest timetable consists of staging dates from 30 April 2025, with the long-stop for connection by 31 October 2026. Missing those deadlines won't look good for the DWP or indeed the pensions industry.

What key messages can I share about what I've learnt thus far (and there is still much to be learnt) about taking 130 schemes towards Dashboard connection?

1. THIS IS THE TRUSTEES' PROBLEM

It is tempting for trustees to look towards administrators and say, "are we under control?", for administrators to answer "yes", and to move swiftly on to the investment issues on the agenda. That's a very dangerous approach. If a scheme fails to meet the connection date, and is unable to evidence strong governance, planning and control through the process, the Trustees are massively exposed. Trustees delegate to administrators, but remain accountable to the membership and the Regulator for any actions the party they delegated to takes. Or doesn't take.

I've experienced many meetings where the consultant/client relationship manager has said "I can assure you we have Dashboard under control". And then you ask them basic questions such as "who is your ISP (Integrated Service Provider)?" Or "where is the project plan?". And the response you get is "I don't know". Trustees need to sit with people who know the answers to these questions and appropriately challenge them. Separate meetings should be arranged if necessary. If this doesn't go to plan, it is going to be the Trustees' problem.

2. THE SIZE OF THE PROBLEM SHOULD NOT BE UNDER-ESTIMATED

Today I saw a quote for £600k from one provider to review the data for their scheme, carry out address tracing, and to do the systems programming to calculate ERIs (Estimated Retirement Incomes).

The average quote I'm seeing for the project connection is approximately 40% of the annual administration fee (not including any data cleansing activity). And an uplift in ongoing administration fees of 15% for dealing with the increased volume of queries and maintaining the connection to the Dashboard through an ISP.

Problems are coming home to roost. As a generality, as I mentioned above, investment in pensions administration systems in the last two decades has been lacking. Systems are therefore dated and clunky. Adding additional programming is challenging and complex. Data quality is poor. Trustees who haven't invested in maintaining quality data are now having to run quickly. The administration services industry isn't blessed with an overspill of experienced resources that isn't working on GMPE projects…

Given it is the Trustees' problem, and they only have a short period of time to deal with any issues their administrator provides them with, now is the time to have a long think about whether their administrator is their ideal long-term partner. You wouldn't want to engage in a massive project with them, only to think about removing them halfway through.

3. YOU NEED A PLAN.

Given 1) and 2) above, a detailed plan is just a must. A plan showing accountabilities, responsibilities, deliverables, timescales and budgets. And trustees need that plan NOW. It cannot wait for a draft to be produced at the next quarterly meeting for approval at the meeting in six months' time. Because by then they may well be halfway through the remaining time they have to implement.

4. GETTING CONNECTION-READY IS ONLY PART OF THE CHALLENGE

Getting prepared for the dashboard is essential. However, trustees need to ask two further questions of their administrators:

- *How are you going to convince me that when the Dashboard goes live, you have the resources to deal with queries which result?*
- *Can I please see the contract you are going to ask me to sign to provide live Dashboard services?*

5. CLEAR COMMUNICATION IS KEY

When you first start out in pensions, there is the language of pensions to be learnt. GMPs. SPA. LDI. ERFs, etc, etc. Now there is an additional language to learn – which includes aspects of computer programming and data security.

The value of good communicators amongst administration companies is going to come to the fore during this period. Good client managers are going to be able to convert what can be technical concepts into language that all Trustees can understand, and explain the value of the sizeable projects being undertaken. They are going to provide clear budgets – not those where the true extent of the costs only becomes clear once Trustees are so far down the road that they have little option.

In summary – the objective here is right. Members should have information to enable them to plan. Just don't think that getting there is simple.

Are we ready to talk to our members about dashboards?

Chris Connelly
Chief Strategy Officer, Heywood

When I was asked to write an update on last year's PMI Dashboards guide, I was told I had a tough act to follow as there had been a lot of positive feedback on my use, or abuse, of Bruce Springsteen lyrics to tell the story of "People Get Ready".

We even shared a joke about capturing this year's zeitgeist by including Taylor Swift lyrics instead, but that was a daft idea and we were quickly able to shake it off.

If you did read last year's update, you may remember I discussed in depth how schemes can unlock a successful and stress-free journey to pensions dashboards via an Integrated Service Provider (ISP).

12 months on, and everything discussed still rings true. A good ISP will guide you on the steps you need to take regarding your data, matching rules, and connection journey. Though now the industry is a lot further down the line and schemes are busy preparing for the connection dates that lie ahead, or at least, they should be.

If you have not engaged with an ISP, I urge you to do so now, as onboarding and implementation need to be planned, and schedules are filling up.

Since my last update, there's been barely an article that hasn't addressed data cleanse, dashboard connection, or talked about AI. In fact, there is so much information out there about the whats, whens and hows...why don't we ask ChatGPT to summarise what we should all be doing?

If you are a pension provider, there are these steps to prepare for the pensions dashboard:

1. ***Data Readiness:*** *Ensure that your data is clean, accurate, and in a format that complies with the standards set by the Pensions Dashboards Programme (PDP). This includes verifying member details, addresses and financial information.*
2. ***Connect to the Dashboard Ecosystem:*** *Work on connecting your systems to the pensions dashboard architecture. This might involve integrating with the central digital architecture provided by the PDP, or working with third-party suppliers who offer dashboard connectivity solutions.*
3. ***Compliance with Standards:*** *Familiarise yourself with the technical and regulatory standards required by the PDP, including data security, privacy, and how the data should be displayed on the dashboard.*
4. ***Testing and Trial Participation:*** *Engage in any testing phases or trials offered by the PDP. This will help ensure your systems are compatible and working correctly before the dashboard goes live.*
5. ***Member Communication:*** *Start preparing communications to inform your members about the pensions dashboard and what they need to do to access their information. Clear communication will help manage member expectations and reduce enquiries.*
6. ***Ongoing Maintenance:*** *Plan for the ongoing maintenance of your data and systems to ensure continuous compliance with dashboard requirements after the initial setup.*

By following these steps, providers can ensure they are prepared for the introduction of pensions dashboards, making it easier for individuals to access and manage pension information.

Not bad ChatGPT. I may take the afternoon off. Or maybe I should prevaricate a little longer and test out the image generator too? Why not wipe out all of the productivity gains I just earned?

Ever wondered what the dashboards would look like as a renaissance painting or as 60's comic book art? I did so you don't have to…

But back to our AI summary. As well as the first 4 points, covering what everyone should have already started if not nearly completed by now, it goes further. It talks about two aspects that very few have addressed yet, even those who are further ahead of the pack in their data readiness.

1. *Are we ready to talk to our members about dashboards yet?*

2. *Ongoing maintenance – once you're on, you're always on.*

It might all still seem a long way off, but to put your scheme's annual exercises in dashboard perspective, most schemes have already missed the chance to add any communications about dashboards coming before they have to start connecting the scheme to the dashboards architecture, and you maybe have only one more opportunity to do so with your benefits statements before the Dashboards Availability Point.

Therefore, you might already be needing to think about other ways to communicate dashboards to your members. Maybe you will start to think about your current communications. Your current letter or email templates. Should you say something in those documents about dashboards coming?

As I mentioned in the introduction, we have so much help and guidance available for the whats, whens and hows. Maybe we have overlooked the whys.

Let's start with why we are even doing this at all. It's because we all needed to do a better job for our members and make it easier for them to find their pensions, then understand, then help, then act (or not act, as appropriate).

So WHY tell our members about dashboards coming? Well, I refer you to what our admin assistant, Chattie has already told us– "Clear communication will help manage member expectations and reduce enquiries" We should be telling them, rather than letting Martin Lewis announce it to them.

The presence of dashboards will inevitably change the demand for our services. It will raise pensions in the collective consciousness and make pensions discoverable and administration teams findable.

They will also give members all of their pensions in one place, alongside other pension information. That is going to change how members think about pensions and maybe change the questions they ask you next. None of us really have a lot of experience in showing members DB and DC benefits together, side by side. As an industry we have tended to show them slightly apart, or completely apart.

The key questions that dashboards set out to answer are: What have I got now and what is it worth at retirement? In answering those, we are presenting numbers that seek to avoid teaching members the difference between DB and DC by showing comparable income. But what we have to ready ourselves for is what questions that might lead to. As an example, a DC pension will also possibly show the pot of savings it was calculated from. But a DB pension will not have an equivalent value. Do you think that might lead to a rise in queries about "why not"? Or a rise in requests for a transfer value?

In assessing the need to elevate our comms game, we touch upon the other point made by our colleague, The Chatster: that of "maintenance". But we need to broaden our preparation from a compliance exercise for connection, to a more holistic readiness for a new world of administration. So rather than think about maintaining data or systems, we can think about how we maintain service quality in the new world. We can be more prepared for the compliance aspects if we set out to remember the WHYs. Why are we doing it? Why will my members expect more? Why will that change what I do?

And while you consider that, I'll finish where I started: with Springsteen and AI. I asked my new boss, Mr Chat, to invoke his inner Boss, and remind me again what we need to do to prepare. Clap along if you want to.

(Verse 1)

You've been workin' all your life, savin' every dime, But the road ahead ain't clear, and you're runnin' out of time.

There's a dashboard on the horizon, where your dreams and dues collide,
But to get there, baby, you've got to set it right inside.

(Chorus)

Gotta clean that data, make it shine like a star, Make sure every detail's right, no matter who you are.

From the numbers in your pocket to the life you've got to lead,
You gotta check it twice, darlin', to get what you need...

No, really, it wrote a whole song.

Let me know if you need any help with your preparations, or if you're desperate to hear the other five verses of the song.

Robin Ellison's "Pension Trustee's Handbook" is a masterpiece – packed with everything a trustee needs to know, yet written in simple, clear language. It's not just a book to read, but a vital tool to dip in and out of, offering invaluable insights and even some sharp, humorous commentary on regulators and politicians. A must-have for any trustee.

Mark Tennant
Trustee of the Country Landowners Pension Fund
and Director of Unit Trust of India International

Peppered with pearls of wisdom that emanate from years of trusteeship knowledge, this is a brilliant blend of past, present, and future trusteeship requirements and challenges. A must-read for all prospective and present trustees.

Roger Mattingly
Trustee Director
Independent Governance Group (IGG)

CROSSWORD

Across

1. Necessary depth of research (3,9)
5. Digital column (4)
6. Open to several interpretations (9)
12. Person currently holding a position (9)
13. Machine for the generation of energy (6)
14. A thing or event that evokes a reaction (7)
17. Ecstatic happiness (8)
19. Ability to predict the future (9)
20. A sentimental longing (9)
22. Extremely delicate (8)
26. Core function of a machine (9)
28. Controlled by a skilled operator (7)
29. Lay a hard surface (4)
30. Ancient winter festival (4)
34. Exceedingly idealistic (8)
35. The act of buying something
37. Individual who alters the status quo (6)
38. Self-contradictory
39. Contract (7)
40. Lasting for a very short time (9)

Down

2. Occurring unnoticed (6)
3. Colloquial term for expensive (4)
4. Complex and confusing (11)
5. Prepare oneself (5)
7. Make engaging through the addition of puzzles or challenges (6)
8. Swapped over (8)
9. Period of economic decline
10. Produce something by assembling different items (7)
11. A feeling of pensive sadness (10)
15. Lively and spirited (9)
16. Final stage of a literary competition (9)
18. Sure up (7)
21. Beyond belief (11)
23. Bring a feeling or memory to mind (5)
24. Politically bestow power (5)
25. Involving the agreement or cooperation of two parties (10)
26. Person who assists with changing homes (5)
27. The nature and properties of matter and energy (7)
31. Patronage, support or sponsorship (8)
32. Integral to a particular outcome (7)
33. Relating to or denoting the smallest discrete quantity of energy (7)
36. Enthusiasm and energy (5)

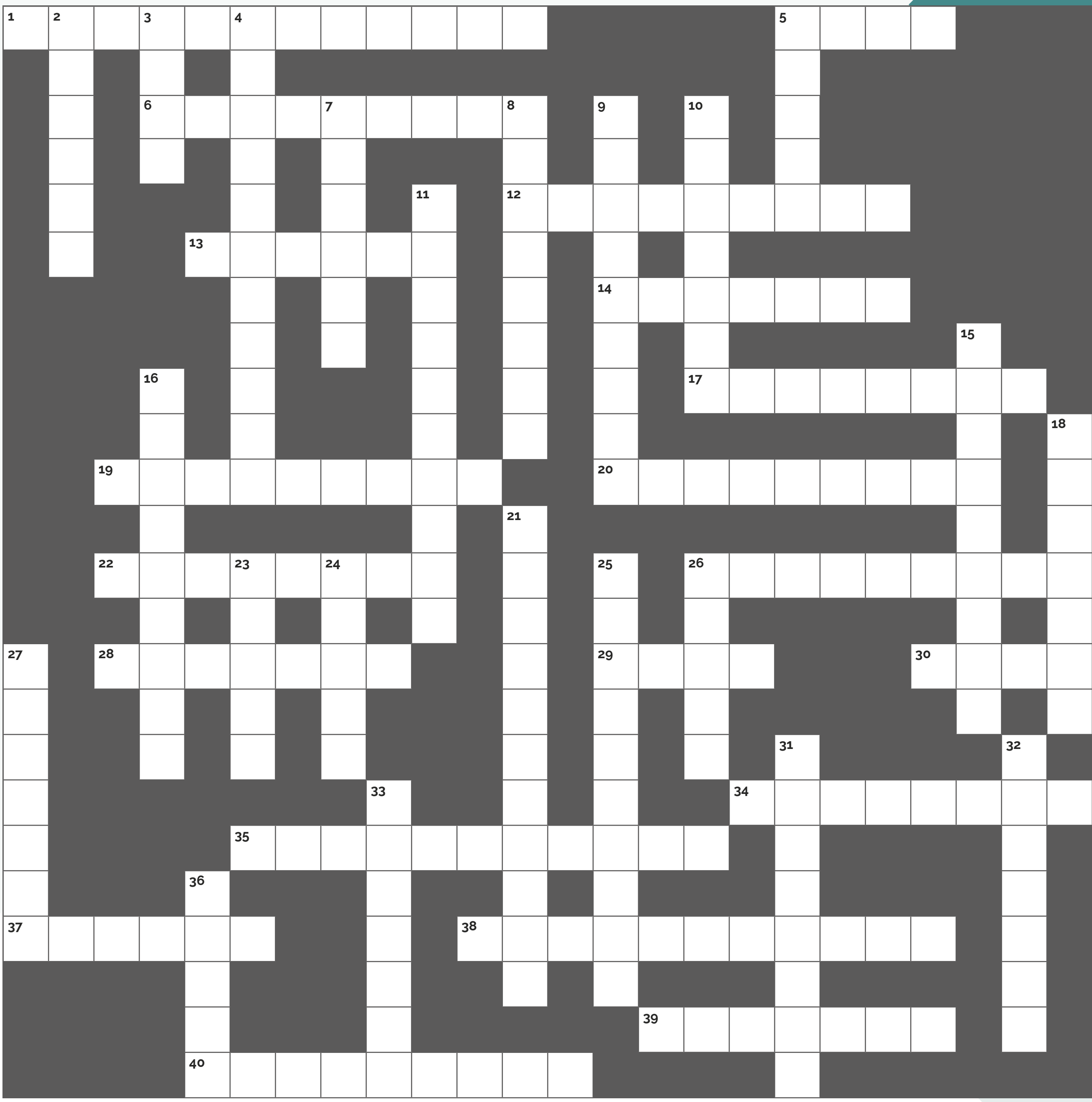
Edition 57 Answers

Across

1.Anomaly detection **5.**Predictive **6.**Grid **11.**Formula **13.**Chatbot **14.**Reboot **17.**Saver needs **19.**Thrive **20.**Stable **23.**Sci fi **24.**Gateway **27.**Bias **28.**Algorithm **29.**End to end **30.**Robotics **31.**Warrant

Down

2.Mainframe **3.**Deep learning **4.**Threat **5.**Proactive **7.**Dynamism **8.**Autonomy **9.**Complexity **10.**Hub 11.Forerunner **12.**Ethics **15.**Ident **16.**Gamification **17.**Server **18.**Flash **21.**Brainstorm **22.**Data mining **25.**Essence **26.**Privacy **27.**Beacon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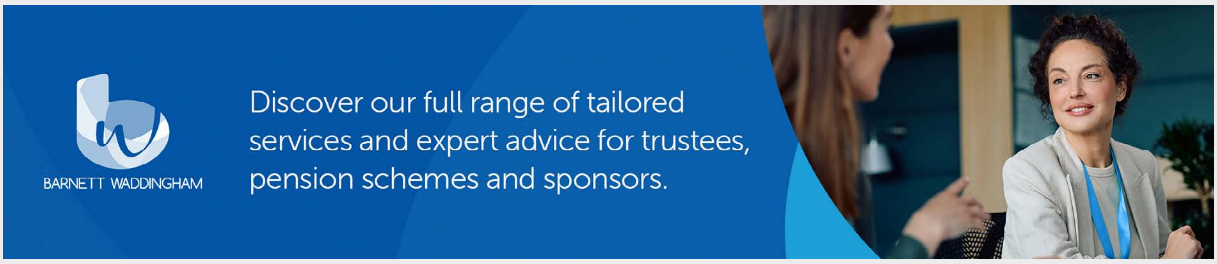

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