PERSPECTIVES ON FINANCIAL SERVICES

Pensions:
a time of change
a time of opportunity

Burges Salmon

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Pensions: a time of change a time of opportunity

Perspectives on **financial services**

Kari McCormick

Kari is a Partner in the Dispute Resolution team and head of Burges Salmon's Financial Services sector group. Her practice is focused on financial services disputes and regulatory investigations.

The financial services sector is a key driver of the UK economy and covers a diverse range of businesses with distinct concerns. The pensions industry is a major part of the financial services sector and touches the lives of most people, particularly in relation to the advice and products this sector delivers.

This, our first report on financial services, focuses on the future of the pensions industry. As the report title states, we believe that this is a time of change and a time of opportunity for those operating in the life and pensions industry. We wanted to find out what others think and encourage discussion and debate.

Through a series of interviews, we canvassed the opinions of 11 pensions experts from SIPP providers, IFAs and pooled scheme operators to statutory bodies, trustees and governance specialists. We also worked with Professional Pensions magazine and surveyed its readers on the topic, which received a high response rate in a short time-frame.

To find out the views of the public we carried out a survey via YouGov, which also received an excellent response (of over 2,000 respondents), a strong indicator of a high level of interest and engagement from the public in the future of pensions.

In essence, this research of the public shows clearly that many people find it hard to access good advice, they do not understand the products available nor do they believe their pensions will provide sufficient income for them when they retire. This presents a great opportunity for the pensions industry to develop straightforward, useful, easy to use products for consumers, which will make retirement planning as simple and effective as it can possibly be.

It would have been impossible to cover all aspects of the market in our report, so we narrowed our focus to explore four over-arching subjects that we consider are highly topical and will have a bearing on the future shape of the industry. These are: the future of DB pensions, the role of financial advice, pensions and the changing world of work, and LGPS consolidation. Of course, much more than this was discussed during the interviews we held, which you can read about in the pages that follow.

My thanks go to everyone who so generously gave their time to take part in the report and share their views with us. Also to my colleagues at Burges Salmon who have worked so hard to bring this report together.

If you think we have missed an important viewpoint, or would like to add your voice to the debate, please do get in touch via our website. We would welcome the chance to continue the conversation.

Finally, I hope that you find the report useful and that it stimulates discussion within your organisation.

Key themes and **highlights**

Clive Pugh

Clive is a Partner in the firm's Pensions team. He advises on all aspects of pensions law and has a particular focus on regulatory issues. He is also qualified to practice in Northern Ireland.

Everyone associated with the pensions industry knows it is complex and multi-faceted; it is also in an almost perpetual state of evolution and flux. Regulatory and legislative changes abound, from the introduction of pension freedoms to the consolidation of local government pension schemes, and there is constant discussion and consultation about the best way forward for DB schemes, which have to provide financially for a growing pensioner community over a longer retirement period than ever before.

Our report discusses some of the challenges facing the pensions industry and a number of common themes have emerged from the interviews and the surveys. Some are surprising, others confirm existing thoughts.

Perhaps the most startling revelation is that 58% of British workers in our YouGov* survey say they do not think their workplace pension alone will provide sufficient income in retirement. This reflects the views of several of our interviewees who agree that the needs of a modern retirement are changing. "People are retiring far too early," says Lawrence Churchill, "in post war years people got five to 10 years in retirement, now it's 20 to 25. You can't save enough in 40 years to cover 30 years in retirement." Ian Price from St James's Place echoes this view, adding that retirement planning is all about efficient tax planning and "is now as much about planning for the family as for the individual".

This makes it all the more important for people to be able to access good advice about pensions to help them plan for their retirement appropriately. Just under half the respondents in our YouGov survey (45%) say they find it 'fairly difficult or very difficult' to access good advice. This, coupled with the fact that a remarkable 67% of the YouGov survey respondents say they do not understand the products available to invest a pension in, is a concern for the industry, as borne out in the interviews held.

Mark Smith of Mattioli Woods, SIPP operator, wealth management and employee benefits provider, highlights the fact that it is going to be "increasingly difficult" for providers to give cost efficient advice in complex areas like draw-down and transfers and acknowledges that it is hard for the average person to access advice. He also points out the need for improving the public's level of financial education by moving discussions to a starting point that is about broader financial education instead of being about pensions alone.

Financial education has become more important with pensions freedoms, thinks Alex Kuczynski of FSCS, who is keen to support the pensions industry in promoting FSCS's protection. "How to access information and advice, including about FSCS, needs to be clear and simple," he says.

Margaret Snowdon reinforces the view that we have to make pensions part of mainstream financial advice and that dashboards may help. She believes

that regulated pensions advice is good, in general, and that bad advice is from unregulated organisations, like introducers or from scammers. In our industry survey with Professional Pensions we ask whether The Pensions Regulator (TPR) and the Financial Conduct Authority (FCA) are doing enough to make consumers aware of the risks of unregulated investments. In response, 80% of Independent Financial Advisers (IFAs) say no, as do 76% of trustees. In August, TPR and the FCA announced plans to launch a TV advertising campaign to raise awareness of the risks of unregulated investments amongst retirees and those about to retire, which is a step in the right direction.

Continuing the theme of protection, in our Professional Pensions survey it is interesting to see that 72% of respondents say that the government's current approach to pensions is not doing enough to protect the self-employed and gig economy workers.

The question of TPR's powers in relation to DB schemes is also considered. In our Professional Pensions survey, 87% of respondents (those with DB or hybrid schemes) think that TPR should have the powers set out in the recent white paper. The trustee/pension scheme manager group of respondents tend to want TPR to focus on using its existing powers first (50%). KPMG's David Clarke notes that historically, TPR has not used its full range of powers, and suggests that, before any changes in powers are introduced, the role and remit of TPR are confirmed first and then it should be considered whether their powers are fit for that purpose.

"Perhaps the most startling revelation is that 58% of British workers in our YouGov survey say they do not think their workplace pension alone will provide sufficient income in retirement."

Looking to the future, the prospects for 'robo-advice' look uncertain. In our Professional Pensions survey, the majority of IFAs (56%) think that robo-advice will never form the majority of the adviser marketplace. Those IFAs who say that robo-advice would become the dominant means of providing financial advice think that day is 5-10 years away. Mark Smith says that Mattioli Woods has looked at robo-advice to see how it could improve the provision of financial advice. While he acknowledges there is a place for it and for the use of better technology, he does not see robo-advice as a replacement for a holistic adviser in all areas of the market.

One of the more significant recent developments in the pensions market is the pooling of Local Government Pension Schemes (LGPS) and a drive by government to encourage investment in infrastructure, partly as a means of funding large-scale projects. However, in the words of Richard J. Tomlinson from LPP, infrastructure investing is not a simple task. In addition, as noted by both Tomlinson and John Wright from Hymans Robertson, such investments need to be seen in the context of the overriding fiduciary duties of those responsible for looking after pension scheme assets. In the Professional Pensions survey, respondents from the DB/hybrid scheme group tend to prefer LGPS schemes to have total autonomy over how they invest (42%) while respondents from the other scheme types seem more open to incentives such as tax breaks (44%).

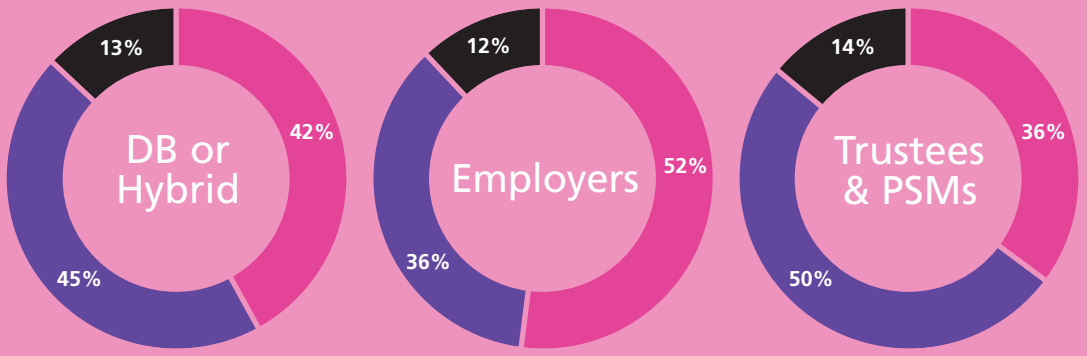
The highlights given above provide a short overview. You can find out much more by reading the interviews that appear on the following pages and the results of both our surveys. Together, they are an informative and intriguing read.

*All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,034 adults. Fieldwork was undertaken between 30-31 August 2018. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).

The future of **DB pensions**

Based on data from respondents who have a DB or hybrid pension scheme. Within this DB/Hybrid group, the results also compare the views of respondents who are trustees or pension scheme managers and those in other (i.e. 'employer') job roles.

The recent White Paper on DB pensions set out new powers for TPR in respect of dealing with mismanaged pension schemes. Do you believe that TPR should have these new powers?



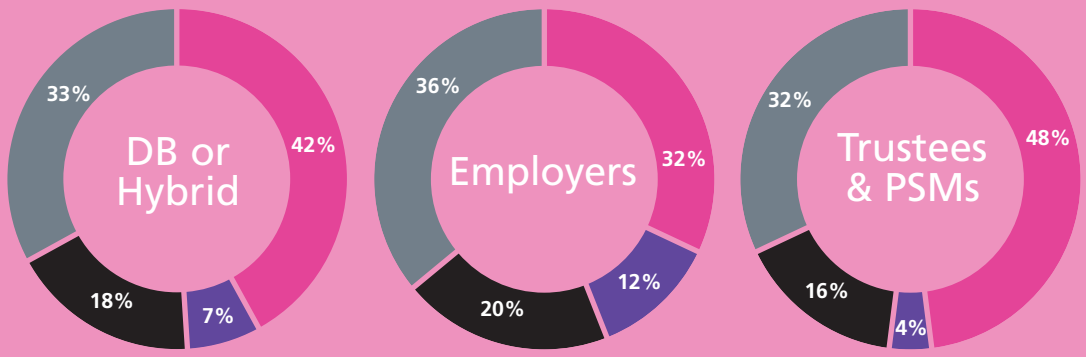
Yes

Yes – though TPR should first focus on changing the way it uses its existing powers

No – TPR should instead focus on changing the way it uses its existing powers

87% of respondents think that TPR should have the powers set out in the recent white paper on DB pensions. They are split on whether TPR should first focus on changing the way it uses its existing powers. Respondents who are trustees or pension scheme managers have similar views to respondents in employer roles (86% and 88% respectively believe that TPR should have these new powers). However, the trustee/PSM group tends to want TPR to focus on using its existing powers first (50%) whereas respondents in employer roles tend not to stipulate this.

TPR is consulting on the Notifiable Events regime and new Declarations of Intent in relation to the impact of corporate transactions on the pension scheme. Do these strike the right balance between supporting the sponsor and protecting members?



Yes

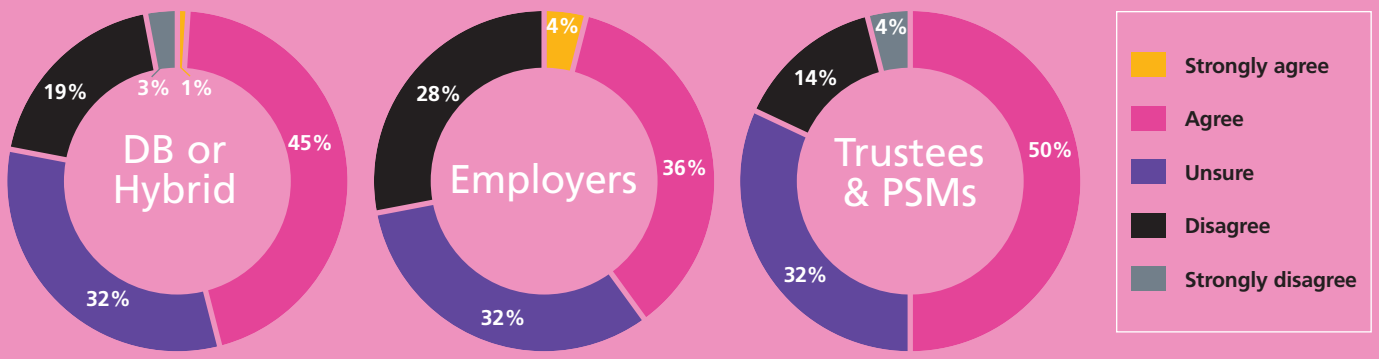
No – they don't support sponsors enough

No – they don't protect members enough

Unsure

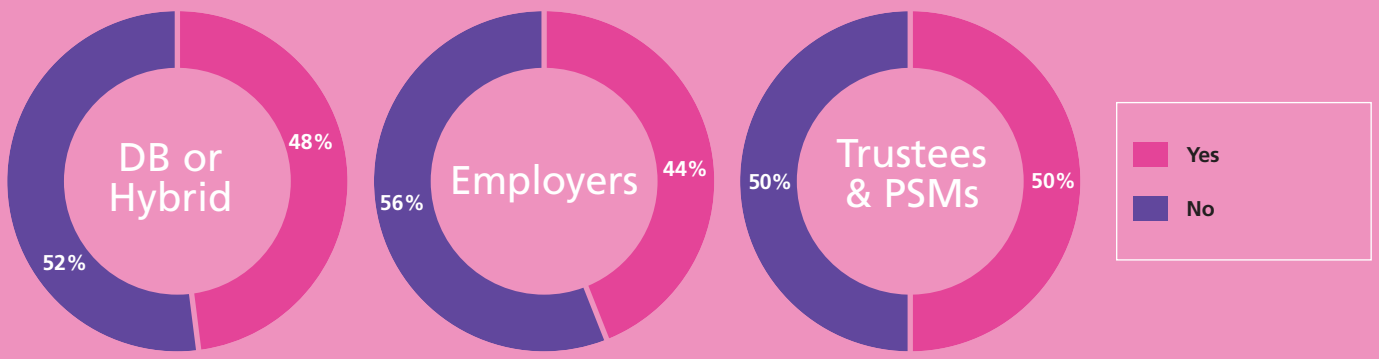
As many as a third of our audience (33%) say they're unsure whether the Notifiable Events regime and Declarations of Intent strikes the right balance between supporting the sponsor and protecting members. Those who did venture an opinion, tended to feel, on balance, that these regulations are striking the right balance (42% 'Yes' vs 25% 'No'). Trustees and pension scheme managers are more optimistic than those in employer roles. The former group tend to believe that the right balance is being struck (48% 'Yes' vs 20% 'No'), whereas the latter group are split evenly (32% feeling that they strike the right balance and 32% feeling that they do not). Respondents who said 'no' tend to feel that it's the members who are being left exposed, more than the sponsor.

How far do you agree with the following statement? "TPR's 21st Century Trusteeship programme will raise governance standards and risk management to the required level to manage today's DB schemes."



Overall, respondents think that the 21st Century Trusteeship programme will raise governance standards and risk management to the required levels (46% agree vs 22% disagree). A third (32%) say that they're not sure though. Trustees and pension scheme managers are slightly more optimistic about the 21st Century Trusteeship programme than those in employer roles (50% agree vs 40% agree respectively), though the prevailing opinion of both groups is still positive.

Do you feel that enough is being done to improve transparency around DB costs relating to the management of scheme assets?



Respondents are almost equally split on whether enough is being done to improve transparency around DB scheme asset management costs. 48% say that enough is being done. 52% disagree.

In association with Professional Pensions we surveyed 154 leaders from the pensions industry to find out their views on the themes explored in this report. You can read the results here and on pages 16-17, 24-25 and 30-31.

The importance **of culture**

Mike Nixon

Mike Nixon is head of pensions at Leonardo, a global high tech company and key player in aerospace, defence and security. He is responsible for two DB schemes, which remain open to future accrual and an award-winning trust based DC scheme for new joiners.

It is clear from the outset with Mike Nixon that Leonardo's approach to its pension schemes reflects the culture of the organisation. "People are very loyal at Leonardo. It is quite common here that when people retire they will be sat at their retirement course next to a person who was also with them 40+ years earlier on their induction course as an apprentice. The DB pension is a highly valued benefit and so, in the spirit of loyalty, we have kept the DB schemes open to accrual. Risk remains a key issue, so it is not an open-ended commitment, but we want to honour our pension promises for as long as it's affordable. In the same spirit of commitment to our people we've also built a very good DC scheme."

Approximately two thirds of Leonardo's pension scheme members are in the DB schemes and the remaining third are members of the DC scheme. Having a workforce with both DB and DC membership raises some sensitive issues, says Nixon. "There are significant differences and risks between DB and DC pensions, but the key, as we see it, is to put as much effort into the DC scheme as we have the DB schemes. Our DC scheme has won industry awards for innovation as well as for its investment strategy and it holds the Pension Quality Mark Plus standard. Setting up a trust based DC scheme, rather than an arm's length contract based DC scheme, gives us greater flexibility to design the benefits and communicate with the members. For example, we provide an ill health cover which most DC schemes avoid and offer employee representatives the same opportunities to consult with us as they have for the DB schemes. Culturally, it has been essential to do DC pensions well."

With The Pensions Regulator's increased focus on DC governance, Nixon believes that the Regulator's guidance and codes of practice are useful tools, which help trustees to review their processes and controls. "One thing we have done is publish 'comply or explain' documents that set out what the guidelines are and what we do in relation to each of them. If we don't do fully what it says, we explain the reasons why and what we do instead. It's a really healthy process to help trustees think through what best practice governance is and be confident in the way the scheme is run." Whilst Nixon believes that the Regulator's guidance and codes of practice work very well, he has reservations about compliance with them becoming mandatory. "There are a huge variety of schemes out there and regulatory standards need to be flexible enough for all sizes of scheme and allow for the different levels of resource available to those responsible for them."

Turning to the issue of protecting DB schemes and the DWP's White Paper, Nixon believes that the White Paper contains a number of positives and the drive to facilitate greater

consolidation of schemes could make a real difference. However he is disappointed that the White Paper didn't make any proposals about the RPI/CPI question. "It is a quirk of history that lawyers elected to hard-code RPI into some scheme rules and those schemes are stuck with it. The intention was to give inflationary increases and RPI was used only because it was the available measure at the time. CPI is now the recognised measure while RPI overstates the rate of inflation by something like 1% per annum and statisticians discourage its use. There is an inter-generational fairness issue, with pensioners receiving much more than was intended while promises for current employees in the same schemes are having to be scaled back on affordability grounds. I understand that there was a debate in government about this and it is disappointing that the White Paper didn't take it any further."

"There are significant differences and risks between DB and DC pensions, but the key, as we see it, is to put as much effort into the DC scheme as we have the DB schemes."

Nixon concludes by recognising the complexity of the issues addressed by the proposals in the DWP's White Paper and so only time will tell whether they will have a significant impact on the pensions landscape for the majority of schemes.

A trustee's view

Jacqueline Woods

Professional independent trustee, Capital Cranfield Trustees, Council member, the Association of Professional Pension Trustees (APPT).

Jacqueline has worked with Capital Cranfield Trustees since 2005. She represents Capital Cranfield as Chair of Trustees, Trustee Board Member and as Sole Corporate Trustee to a number of schemes in both the commercial and not-for-profit sectors.

Previously Head of Pensions Governance for Barclays Bank PLC, her career has encompassed a wide range of pension roles including governance, administration, and communication for both large and small schemes. As a trustee, Jackie has overseen the successful completion of closure to future accrual, buy-ins, solvent wind-ups and complex valuation negotiations.

Jacqueline Woods notes the changing face of professional trusteeship in recent years, seeing it become a career of choice for younger people. "In the past, trusteeship was seen as a part-time, post-retirement career, although we are now seeing those with a 20-year or more time horizon join our company."

She is keen for this trend to continue, and for all schemes to benefit from experienced and knowledgeable trustees. Woods doesn't think there is a case to say that bigger schemes should be required to have trustees with a formal qualification in trusteeship. "A trustee is a trustee and I don't see how you can differentiate in law as regards trustee duties. Smaller schemes tend to have less governance budget and also need capable trustees."

She believes that professional trustees have an increasing role to play as trusteeship becomes more onerous, but Woods notes that "the increasing burden on trustees generally is not helping encourage new people into the role".

She is concerned that not all of the recent regulatory requirements are helpful to members or add to what good trustees are already doing. "The original purpose of the DC Chair's statement was to inform members of trustee activity during the year in key areas of governance, whereas in many cases they have become lengthy, technical and written by lawyers to avoid the risk of a fine being imposed." Her concern is that the proposed DB Chair's statement will go the same way.

Woods welcomes other regulatory developments, particularly those which strengthen trustees' positions in negotiations with sponsoring employers. She believes that employers, particularly those in the public eye, will be minded to involve trustees earlier if corporate activity, such as a takeover, merger or restructuring, is proposed. "Historically, the trustees' position has been very weak. The Pensions Regulator's more proactive stance is welcome and strengthens the trustees' position."

"It is imperative that professional trustees remain independent from commercial influences."

Similarly, Woods approves of the Pension Regulator's approach to dividend payments, which is already influencing trustee discussions with sponsors over deficit repair contributions. Results are mixed, she says, but the support is helpful. "Whether the employer listens is a different matter. Conversations with Finance Directors on limiting dividends and redirecting monies to the pension scheme are generally unwelcome because they are at odds with corporate targets, but the Pension Regulator's statement does give trustees ammunition."

Woods has no doubt that professional trustees who are truly independent are best placed to lead funding negotiations. "As a trustee of a truly independent company, it is imperative that professional trustees remain independent from commercial influences in order to best serve the scheme."

Will the decline in the number of occupational pension schemes discourage good candidates from a career in professional trusteeship? Woods recognises this risk, noting that "for smaller schemes, there is likely to be a rapid decline as they buy-out or consolidate" leaving a rump of larger schemes whose decline (in the private sector at least) "will be more gentle". Such schemes will require less support once they reach the 'care and maintenance' stage, but the need for effective trusteeship and excellent governance will of course remain.

She sees merit in government proposals to consolidate smaller schemes with years to run, but views this as a developing option as new players enter the market. "In theory consolidation could benefit members, but the devil is in the detail and the legal challenges are considerable." As the market develops and these challenges are overcome, however, Woods anticipates that trustees of many private sector schemes will wish to explore consolidation, either as an alternative to the buy-out route or as a means of achieving buy-out more quickly.

She believes that other options to reduce costs and improve scheme performance, such as fiduciary management with liability-driven investment and shared management / adviser structures for schemes which share the same sponsor group, will remain popular in the meantime, although she warns that the conflicts which tend to be inherent in such options need to be managed.

Clarity **required**

David Clarke

David Clarke, partner at KPMG, is one of the leading providers of pensions employer covenant advice, having led and delivered in excess of 350 engagements for both trustees and companies. He has extensive experience in the pensions industry, which includes advising on some of the highest profile matters in recent pensions sector history.

In the coming 12 months, there is one thing in particular on Clarke's wish list. "I think we need some clarity in terms of the Regulator's role and expectations. Although they are consulting quite widely, the Regulator is under a lot of pressure in the context of BHS and Carillion due to perceived failings and lack of action. Some stakeholders argue that regulation has not been proactive or strong enough.

"That said, the Regulator has significant powers, a number of which haven't been used historically. So before anything is changed, it would be best to confirm the role and remit of the Regulator going forward and then consider whether their existing powers are fit for that purpose.

"I spend quite a lot of time working at the sharper end of the industry with stressed businesses, stressed schemes or challenging situations. But it's really important to remember that these situations are in the minority. The vast majority of DB (Defined Benefit) schemes are generally well run and funded adequately, with people acting in good faith (both trustees and employers) to ensure benefits get paid. The majority of DB schemes expect to meet their funding requirements and deliver the promised benefits. Whilst the Regulator needs appropriate enforcement tools, the amended legislative regime needs to accommodate and work for the majority of schemes, and not just focus on the handful of very challenging cases that arise each year. Such cases are often unique in any event and may well throw up issues not envisaged within the revised legislation.

"Corporates also need to know where they stand and be able to plan for a stable regulatory environment. Whilst the interests of DB members need to be well protected, we also need a legislative environment that allows corporate transactions to proceed in an efficient manner. If legislation results in the Regulator having greater oversight of transactions impacting DB schemes, provision will need to be made for it to be appropriately resourced, in terms of both the number and skillset of its staff."

Whether clarity will be achieved in the next 12 months or so is not yet clear, believes Clarke. "The Regulator has come out with some quite marked changes in policy over the last year or so. For example, there has been a significant shift in requirements regards the relationship between

dividends and deficit contributions – in essence, the Regulator has stated that if dividends exceed deficit contributions, schemes need to have a reasonably short recovery plan which isn't unduly underpinned by investment outperformance. This is quite a stark statement – however, what does 'reasonably short' mean? What if a scheme has a particularly prudent set of technical provisions or material levels of contingent support such as a parent company guarantee? In such scenarios, wouldn't it be acceptable for the recovery plan to be longer? If significant changes in policy are going to be introduced, the practical implications and enforcement need to have been clearly worked through, with appropriate qualifying commentary issued to trustees, sponsors and advisors."

Clarke also believes that following recent high profile cases, trustees are considering all options to maximise the effectiveness of their negotiation strategies.

"Before anything is changed, it would be best to confirm the role and remit of the Regulator going forward and then consider whether their existing powers are fit for that purpose."

"Although I wasn't involved with the case, the GKN/Melrose transaction was very interesting. The trustees took the option under the Take-Over code to make a public announcement giving their view on the deal. I have not seen trustees do this before. It is understood that this tactic was very effective at giving the trustees a seat at the table and it was widely reported that the scheme gained material extra value as a result of the transaction."

Clarke concludes by giving his thoughts on the professionalisation of trustees.

"Some schemes are large enough to be FTSE100/250 companies in their own right and typically have very strong governance, controls and training in place for their trustees, supported by high quality advisors. However, that doesn't always trickle down the system. For example, is it fair to select five well-meaning people, provide them with limited training, support and advice, and ask them to control £100 million of assets that will fund several hundred peoples' retirement? Bearing in mind the technical nature of scheme funding, investment and employer covenant, is that really fair on those trustees and is it appropriate in today's world?

"Almost all of the trustees I have met are committed, well-meaning people who take the role very seriously, but in terms of skill levels and experience, the variations can be huge. Being a trustee of a DB scheme is a challenging task – you need to understand the regulatory environment, take complex investment decisions, deal with corporate transactions and understand contingent support structures, often with a limited professional advisory budget. And you can find yourself in front of a parliamentary select committee justifying your actions. As an industry, I think we need to consider how we can best train and support trustees to deliver what can be a very difficult job."

Future **trustees**

Antony Miller

Antony Miller is the CEO of 2020 Trustees and has more than 28 years of pensions, actuarial and trusteeship experience. Much of his working life has been spent helping pension schemes and their sponsors. He is known as one of a handful of leading experts in scheme compromises and apportionments and as a proven solution finder.

When considering the future of defined benefit (DB) pension schemes, Antony Miller's wish list for the year ahead is: strong returns on assets, increasing gilt yields, lifelines for struggling employers and stability in the regulatory landscape. He reflects on the current economic climate and the impact that this could have for pension schemes and describes it as an uncertain and "precarious" time for pension schemes.

Miller welcomes the stronger and tougher powers introduced in the White Paper and says: "Stronger powers could be highly beneficial to ensuring that trustees meet minimum quality standards and understand the significance of their role," adding that this would need to be balanced against the fact that effective monitoring of trustees would be a very time consuming process. Therefore, The Pensions Regulator (TPR) will need to ensure it engages and uses its powers in those areas where it really matters for a pension scheme, believes Miller.

Regarding whether the White Paper strikes the right balance for employers and employees, he describes "a cycle of protectionism... rather than a cycle of corporate growth", proposing that the changes primarily focused on protecting employees. "This is a missed opportunity. The White Paper could have gone further to help pension schemes. For example, by introducing a system which regulates pension schemes with more flexibility, such as the model adopted by the Swiss; or providing more flexibility on different benefits such as RPI/CPI would have helped pension schemes enormously," he says.

He has clear views on whether it is time to introduce formal qualification requirements for trusteeships for funds over a certain size. Miller says: "Qualifications should apply irrespective of size and there should be a minimum standard and minimum level of academics. Professional qualifications such as accounting, legal and/or actuarial should suffice but those without such relevant experience should be required to obtain similarly robust qualifications." Miller sees the role of a trustee as a "career" and suggests that the further qualifications proposed should be challenging, with a low pass

"We know we have the right balance when we do not see pension schemes in the press."

rate, reflecting the responsibility and importance of the role. Trustees are often responsible for extremely large amounts of money.

"There is a risk", acknowledges Miller, "that this approach could eliminate a large proportion of the trustee population; and potentially deter some good quality people from coming into the profession. However, there is a greater risk of pension schemes being poorly managed where the trustee does not possess sufficient academics and expertise."

Moving on to the question of how we will know when we have the balance right of independence versus professionalism of trustees, Miller explains: "These are key characteristics which complement each other and are of equivalent importance. We know we have the right balance when we do not see pension schemes in the press. They are not two alternatives, they go together."

Miller considers how to make the role of a trustee attractive to new entrants and says that paying trustees reasonably and being clear about the role and the risks would be a good starting point. He explains: "Trustees need a breadth of experience and expertise across many disciplines but typically get paid significantly less than advisers working in just one area. Advisers could also have a lower duty [of care] where the trustee is a fiduciary". He stresses that 'trustees' actions can impact materially on people's lives, so we can't downplay the role responsibilities and risks."

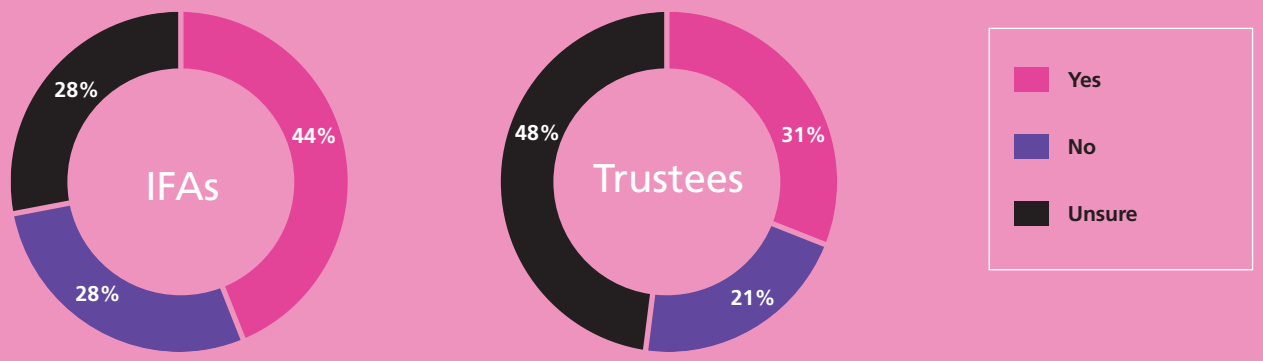
Turning to how closely aligned Miller is to the case for consolidation, he says: "As is the case with many leading independent trustee practices, we are involved with these projects and believe they have a major role to play in the market. One however has to bear in mind that it is not about making lives easier, it is about driving costs down and improving the level of governance". He has had mixed experiences with different consolidators but considers that there is a new, improved, breed emerging. He predicts this will mean fewer schemes in years to come and forecasts a rapid decline in the number of DB pension schemes due to a combination of factors, including consolidation, insurance and PPF regulation.

Looking ahead, Miller discusses whether we are likely to see the number of corporate transactions fall, resulting from the need to involve TPR and trustees. A fall is likely, he believes, as buyers could be deferred unless TPR and trustees are very pragmatic and promptly and actively engage.

The role of **financial advice**

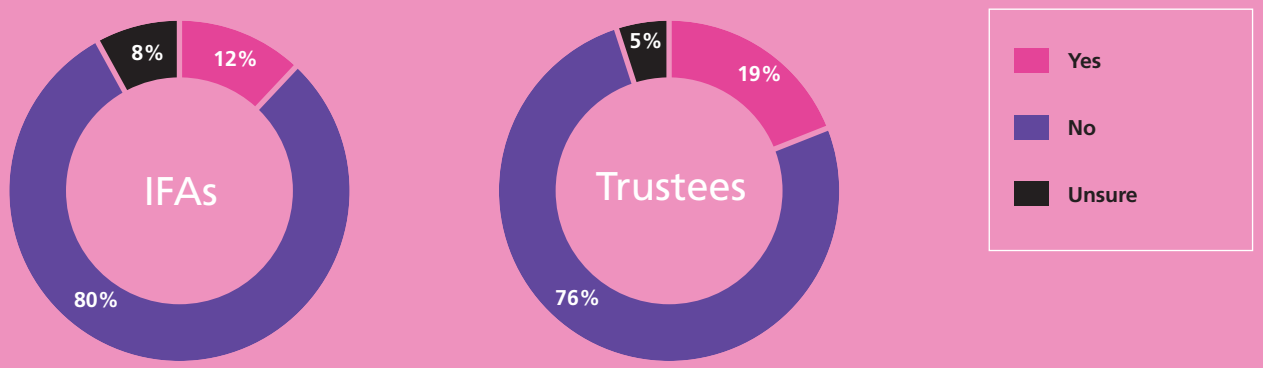
Based on data from respondents who are trustees or IFAs (Independent Financial Advisers). Responses from these two groups are segmented.

Do you think that streamlined advice will prove to be more successful than basic or simplified advice?



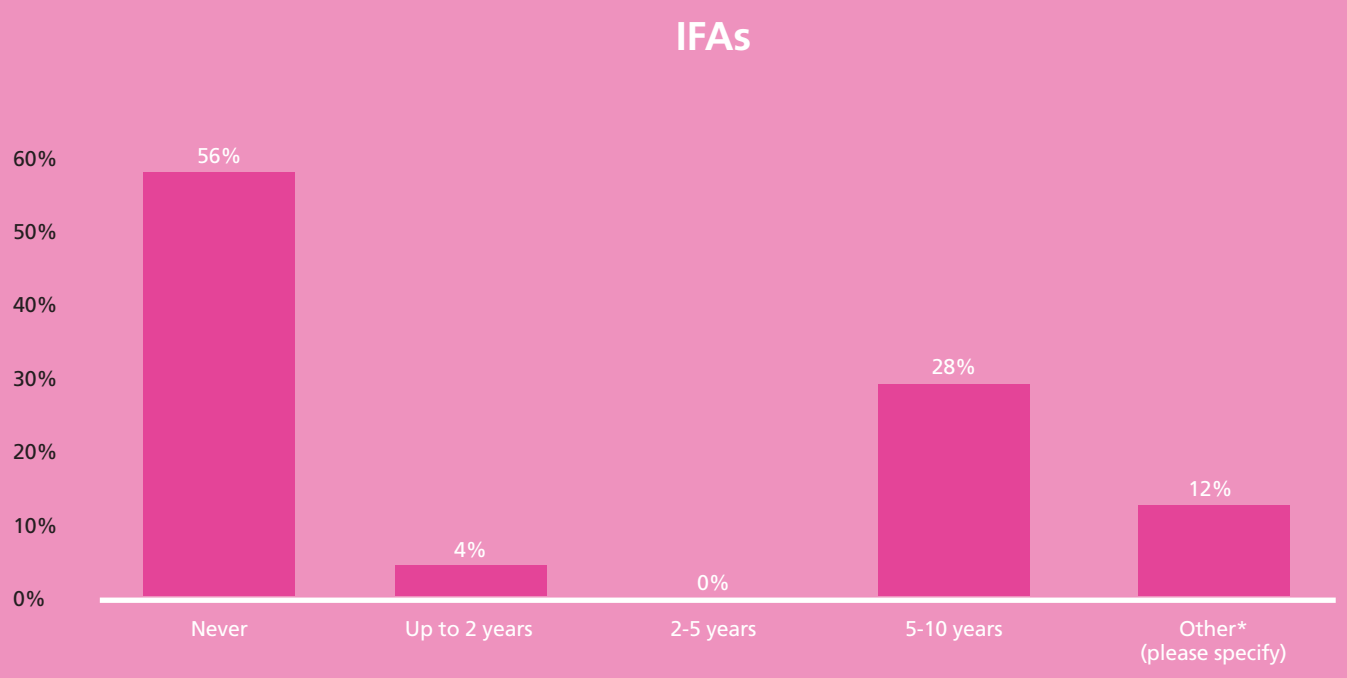
There is little clear consensus from respondents on whether streamlined advice will prove to be more successful than basic or simplified advice. A large minority of IFAs (44%) think that it will be more successful, with the remainder split evenly between those who took a negative view or no view. This contrasts with trustees, almost half of whom are unsure about the future of streamlined advice. However, those trustees who did venture a view were, on balance, optimistic (31% 'Yes' vs 21% 'No').

Are TPR and the FCA doing enough to make consumers aware of the risks of unregulated investments?



On the question of whether TPR and FCA are doing enough to make consumers aware of the risks of unregulated investments, 80% of IFAs say 'no', as do 76% of trustees.

How long will it take before robo-advice forms the majority of the advice market place?



*Other:

- 20 years
- 15 years plus. Financial education needs to improve drastically first.

The majority of IFAs (56%) think that robo-advice will never form the majority of the adviser marketplace. Those IFAs who said that robo-advice will become the dominant means of providing financial advice think that that day is 5-10 years away.

Great **advice**

Margaret Snowdon

Pensions Administration Standards Association (PASA), Chairman, non-exec director at TPR, Member of Phoenix IGC, Chairman of the Monitoring Board on Incentive Exercises.

Margaret Snowdon is the pension industry's agitator in chief. She has a personal passion for tackling scams in the sector and has drawn together counterparties from across the industry to work together to tackle the underlying issues. She is clearly doing something right as she regularly gets shortlisted for industry awards, which is pretty uncommon when the person in question is demanding such levels of change. In fact, most recently she was named *Pensions Woman of the Year* in the inaugural 2018 Professional Pensions Women in Pensions awards.

Margaret Snowdon's continued focus for the year ahead is on trying to win the fight against pensions scammers. "The PSIG has launched a new Code of Good Practice on scams. The new code is an evolution of the Pension Scams Industry Group (PSIG) code from 2015 and involved pulling together regulators, pensions funds, insurance companies and everyone in between. We've created something that we think everyone can sign up to."

Her work on scams is having an impact. "We estimate that the 2015 code has saved around a quarter of a billion pounds from being scammed through good due diligence and boldness in the face of cheats. However, I am not being complacent as savers may have lost up to £1bn to scams. That figure may be even higher – but we just won't know until people retire. People don't want to come forward and admit to being scammed as they might look foolish and they'd also possibly be landed with a hefty tax bill."

Snowdon goes on to explain the focus of the new code. "Schemes ought to have direct contact with members when transfers are requested to get a feel for what is driving the need for this transfer. They need to talk to members as opposed to just having a look at some paperwork because what we've discovered talking to people over the years is that scammers are very clever. They target groups of people, they warn to expect queries from the pension scheme but say that that is just the pension scheme trying to stall the money being transferred. From experience, we think that talking directly to the member flushes out the bad requests."

Surely all this extra member engagement will be a cost to industry? "It depends on your perspective. If we can save another quarter of a billion from going into scammers' hands, that's a hell of a lot of money. But, we know we're asking industry to do a lot of work.

"We could change legislation and make it a little harder but we have to balance that with pension freedoms and people's right to transfer.

While people have a strong right to transfer, it's very difficult. Trustees put themselves in harm's way by preventing a transfer, but they're also potentially in harm's way by allowing it to proceed. They've got to make that judgement call. But that's what a trustee's job is."

How difficult is it to get good advice at the moment? "The quality of regulated financial advice in the pensions sector is pretty good. That doesn't mean it's perfect, but the bad advice is mainly from people who aren't actually regulated financial advisors, like unregulated introducers, hence our desire to focus on the grey areas of the market."

"If we can save another quarter of a billion from going into scammers' hands, that's a hell of a lot of money."

Snowdon also considers what can be done to raise awareness. "It would be easier to tackle if it were in vogue to do so: if central government did something similar for pensions that the FCA recently did with those Arnold Schwarzenegger adverts for PPI claims, then it would climb up the public consciousness. That ad campaign probably cost £8m to £10m. If we ran something similar in pensions, I expect we'd quickly see a reduction in scam activity." It is pleasing to see that TPR and FCA have listened to this and have recently started a strong campaign to raise awareness.

Snowdon also has views on how technology will affect the quality of advice offered. "I think that the industry will change as a result of increased use of technology and that it is an opportunity to both increase profitability and the quality of advice given as people can spend more time on quality tasks and computers take on the rest. We'll also see fewer scams pulled off as a result.

"There are already some pretty good products out there, either apps and platforms, that help to look at financial wellbeing generally. We're not going to crack the pensions problem as an isolated issue. We have to make pensions part of mainstream finance so it's all about financial education and financial wellbeing. All aspects of your financial wellbeing need to be pulled together in order to allow us to make better decisions about our entire financial status. It would be good to see people use dashboards to make better financial health decisions today, tomorrow and for the future."

The pensions industry is currently considering other changes, including auto-escalation. Would this help to improve people's financial wellbeing? "I think auto-escalation is a good thing because it offers an automatic way of doing the right thing. People need to save for the long term but they make short-term choices. The problem is that we need to nudge people to do the right thing before it is too late for them to make a difference to their long-term financial wellbeing."

Advice **challenges**

Mark Smith

Mark Smith is Chief Operating Officer at Mattioli Woods, one of the UK's leading providers of wealth management and employee benefits services.

Mark Smith explains the regulatory landscape in pensions has changed considerably over the years: "We have shifted our focus and there is definitely an increase in the compliance regime within our industry. We've always been regulated, but now we have to make increasingly regular changes to the way we operate."

One thing is certain; more change lies ahead and Smith identifies what he sees as the key issues: "Draw-down and transfers are both really big, topical issues facing the pensions market. It's going to be increasingly difficult to give advice in some of those complex areas.

"On draw-down, it's very much about the regulator's belief that individuals should be getting advice but that's in a market where the access to advice, particularly for the man on the street, is hard. The Regulator's response to that is to say, 'Well if somebody can't get advice, then the alternative is that the provider of the product needs to do more to guide the consumer as to what the outcomes might be.' The draw-down paper suggests that if entering draw-down unadvised, then the pension provider should be offering Default Investment Pathways. In other words, if you can't get advice, at least providers have done something, and doing something is better than doing nothing."

Smith thinks this is a real concern. "Following pension freedoms, there was an increase of individuals going into draw-down unadvised, from around about 5% to 30%. Of those individuals who decided to take out their tax-free lump sum, about one-third of them left the remaining pension fund in cash, effectively sitting in a bank account earning pretty much nothing. That's just unsustainable."

There are implications for the advisory sector, says Smith: "This is a big issue coming up for the advisory sector. The sustainability of pension incomes is a highly complex area. It is very difficult to give the right level of advice to somebody with a pension pot of, say, £50,000 to £100,000. It's difficult commercially for firms to be able to do sufficient fact-finding and to be compliant in order to give suitable advice at those kind of levels."

Smith sees an argument that the consumer is being over-protected: "The reality of pension freedoms has been quite the opposite of allowing people to make their own financial decisions: actually many people can't. We either need to make sure that they're fully advised, or take them down a specific path." This has a knock-on effect, he says. "It has really started to create frictions in the market. For example, from our perspective as a SIPP operator, the reason that a lot of individuals moved away from traditional pensions was to have flexibility and choice. What we're seeing is that a lot of current requirements are restricting it all back down again, because of concerns around the wider mass market. As a result a lot of those protections are actually starting to stifle innovation within the market.

"The end game from that default investment path is that everybody's

going to end up in default funds which look exactly the same because I think the Regulator's view is that that's a better outcome than individuals making choices themselves without the benefit of advice. There seems a real mismatch between where we are and the government's original ideology around pension freedoms," says Smith.

Attitudes to pensions are changing too. Smith explains: "It's no longer just about that retirement income, it's about the flexibility of that income or, potentially, the inheritance of pension funds by not drawing on that income. We all see the inheritance of pension funds to the next generation as a real positive, but arguably regulation still focuses on the world pre-pensions freedoms rather than where we are now."

Technology has a future role to play, he believes: "The position that advisors can give advice and then move away from their firm and leave their liabilities behind, is quite a challenging one. There could be more obligations on an individual adviser; maybe the advice should follow the adviser rather than remaining with the regulated firms. It could be that a combination of a blockchain for advice (or a DNA thumbprint as another SIPP operator recently called it) with a shift to a personalisation of PI cover could make it possible."

He says Mattioli Woods has also looked at robo-advice and how it may improve the provision of financial advice. "We're not seeing many people being successful in that part of the market. Our business model is very much around face-to-face contact and long-term relationships. We can see there's a place for it and that the industry should use better technology, but we're not seeing robo-advice as a replacement for an advisor in all areas of the market.

"There seems a real mismatch between where we are and the government's original ideology around pension freedoms."

"I think that dashboards could be part of the answer. We've been developing tools for our clients who we advise much more holistically; a pensions dashboard in isolation probably isn't fit for purpose because you need to look at the individual's wider wealth position."

Smith makes a final point about how to achieve a better level of general public financial education. "For us, it's on the employee benefits side of our business. In providing services to a much wider workforce, we're looking at the way our discussions have moved from 'let's talk to you about pensions' to a starting point that's about much broader financial education."

Financial **education is key**

Alex Kuczynski

Alex Kuczynski is Chief Corporate Affairs Officer at FSCS, a statutory body charged with compensating consumers when things go wrong with their pensions. FSCS has blazed a trail on deposit protection in the wake of the financial crisis and is now keen to make the same impact with the life and pensions industry.

Alex Kuczynski is clear about what the year ahead should hold for FSCS and the life and pensions industry. "Speaking from FSCS's point of view, one piece of work that we have started and are determined to progress is with the life and pensions industry to raise awareness of FSCS's protection in this area. FSCS's protection isn't always straightforward to explain, but when people understand it, it is definitely of benefit, providing reassurance to the consumer in the product. Our evidence demonstrates that this affects consumer behaviour: people are more likely to invest in pensions and feel better about it, if they know about FSCS protection."

The driver is also clear: he wants the position to be as clear in consumers' minds for pensions as it is in retail banking.

"If you think about the work we've done in the deposit sector, following the banking crisis 10 years ago, we committed a lot of time and effort into increasing awareness of FSCS protection, so that the depositor would know that their savings were protected if a bank, building society or credit union was in trouble. A lot of work was put into that in terms of marketing, which has largely achieved its purpose – currently 80% of the general public are aware of FSCS or a protection scheme. As well as displaying FSCS protection posters and stickers in bank branches, we recently agreed with the banking industry that they will use FSCS's protected logo more prominently and frequently in their own promotional materials, mobile apps and websites. We need to emulate that standard for the life and pensions industry.

"That change is essential because pensions is an area where you can least afford to suffer loss. As an individual, particularly later on in life, there's no way of replenishing that income, that pension saving, so if you don't take advice or you end up investing in risky products, you are putting your future financial well-being at risk. In light of pension freedoms and the need for people to better understand their choices, this education and awareness is more important than ever.

"In pensions, an annuity is 100% protected by FSCS. When you draw down your funds and step outside of this 100% protected perimeter, your protection becomes much more fragmented and you could risk stepping out of the protected perimeter completely."

Is awareness more important following pensions freedoms?

"Financial education has become more important with pension freedoms, because people are now much more exposed to risk. That doesn't just apply to the consumer: according to our industry research, the pensions industry isn't perhaps sufficiently aware of FSCS's protection and doesn't do enough to promote it. In short, we'd like financial literacy and awareness to be higher, we would have liked it to have been higher in the past, and we want it to be higher in the future.

"We are keen to support the pensions industry in promoting

FSCS's protection, by providing tools like displays and badges that fit with their own business model. The move to digital makes it easier to promote awareness, it is much easier to signpost people to the correct information through technology. We'd like to support the pensions industry and encourage it to take ownership. We've established a working group with prominent life and pensions firms and trade associations to work on these initiatives."

Is the industry keen to take this approach?

"There is a willingness to take part because, as we've seen over the last few years, the cost of cure is high. It's better for everyone to have better advice and better awareness and protection at the beginning."

Over the last couple of years FSCS's pension compensation costs have increased significantly:

"Last year, 2017/18, our life and pensions intermediation costs were £155m and about £112m of that was specifically for SIPP (Self-invested Personal Pension) related claims – involving around 6,000 FSCS decisions. The year before, 2016/17, the cost was £105m, with around 3,500 FSCS decisions. Due to the amount of compensation FSCS is paying, the cost is no longer being picked up by the life and pensions industry alone. We are triggering the cross-subsidy on the retail pool, so the financial services industry as a whole is picking up the cost: which emphasises the case for greater prevention."

Turning to the changes in how people live their later years and how this will affect the nature of pensions and the role of FSCS, Kuczynski says:

"People's lives are more complicated. They are more likely to need advice, because they may have worked for multiple employers, have multiple pension pots, and have different forms of retirement provision outside formal pensions, such as property or other kinds of unregulated investments. From FSCS's point of view, as people are facing a more complex world and are asked to take on more responsibility for their longer-term retirement provision, the work around making financial advice accessible will need to continue. Our aim is that people will instinctively check off FSCS protection as part of their decision process."

Is there likely to be an advice gap in the years ahead?

"There's definitely a challenge. It's partly about cost, but also about accessibility of advice and knowing where to go to get advice. It's not something that people have historically paid for, or expect to pay for, so there is more to do.

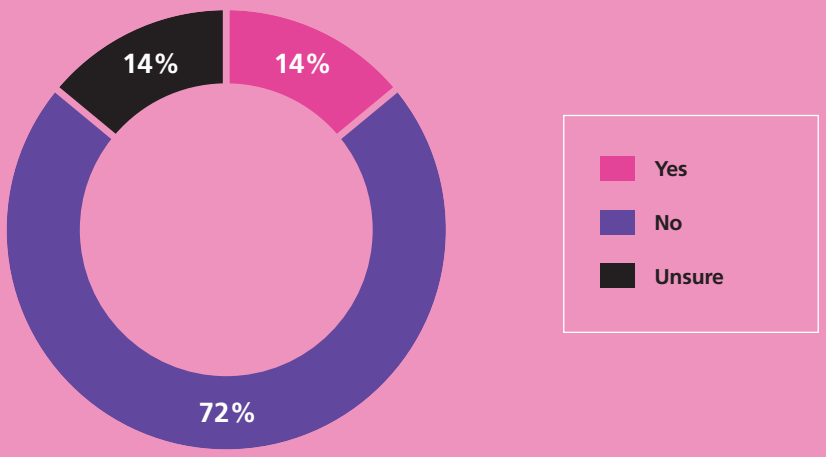
"How to access information and advice, including about FSCS, needs to be clear and simple. It should be joined up with what the FCA is saying, what the Financial Ombudsman Service is saying, and what FSCS is saying. We will work with our colleagues and the new guidance body to make that happen."

"We'd like financial literacy and awareness to be higher, we would have liked it to have been higher in the past, and we want it to be higher in the future."

Pensions and the **changing world of work**

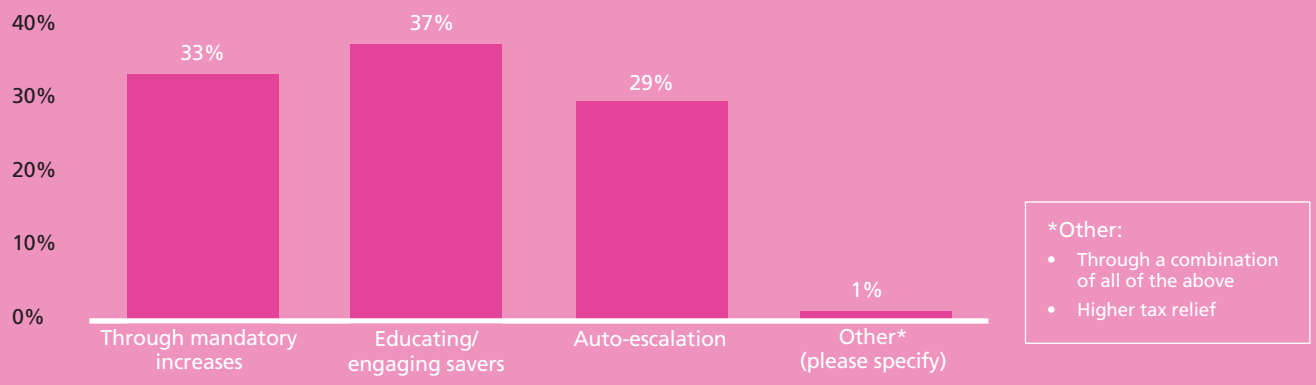
Based on data from all respondents

Does the government's current approach to pensions do enough to protect those workers in the self-employed sector and gig economy?



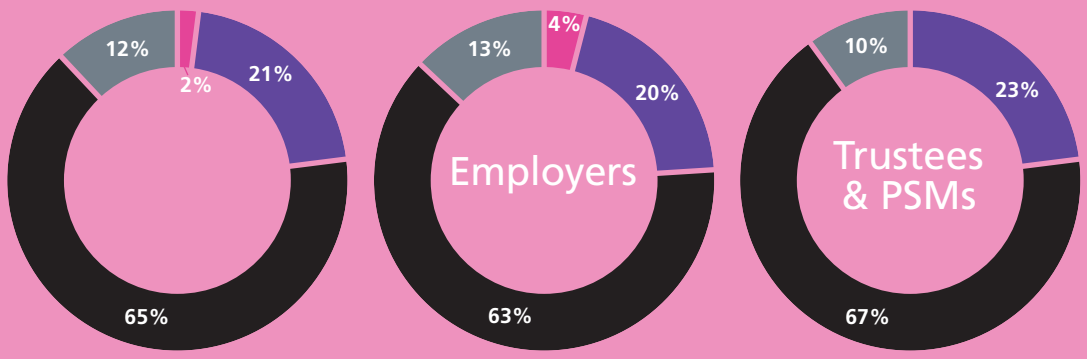
72% of respondents said that the government's current approach to pensions is, in their view, not doing enough to protect the self-employed and gig economy workers. Only 14% feel that the current approach provides sufficient protection.

What's the best way of securing increases in contributions?



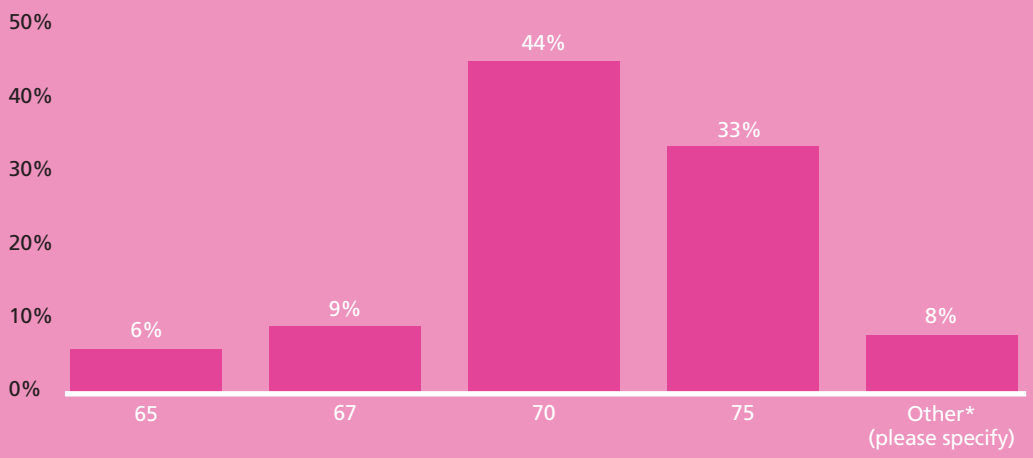
There are mixed views on what the best way would be to secure increases to pension contributions. 33% of respondents feel that the hardest option, mandatory increases, would be best. 37% advocate the softest option, educating/engaging savers, and 29% recommend the middle way – auto escalation.

How much of the burden of securing increased contributions should fall on the employer?



The vast majority of respondents (88%) say that employers should accept at least some degree of responsibility for securing increased contributions, most commonly a partial degree of responsibility (65%). Respondents in employer roles share a very similar view on this question to those in trustees/ pension scheme manager roles, with the majority in both groups feeling that it is partly the employer's responsibility (63% and 67%).

At what age do you think a 20 year old of today will be able to retire?



*Other:

- 80 (3)
- 85
- Define retire!
- Depends how much they save and what they'll need in retirement
- Depends what retirement looks like
- It depends on what they build over the future years
- The concept of retirement is redundant
- We need to move away from the concept of a fixed retirement age

Our audience predicts that a 20 year of today will retire sometime between the ages of 70 (44%) to 75 (33%).

Moving to a **retirement market**

Ian Price

Ian Price is Divisional Director of Pensions and Consultancy at St James's Place Wealth Management. He has spent over 40 years in the pensions industry and has a reputation for breathing life into technical discussions. He spends time at client-facing events across the UK, talking about major themes of change affecting the pensions industry.

"Over the next year, what I'd like to see is: no changes to pension legislation," says Price, "because, over the years, every government seems to want to play around with pensions legislation, and I don't think that actually helps in the long run; instead it creates more uncertainty.

"There are so many rumours floating around about the government's plans for tax relief on pensions. There's lots of talk about a move to a standard rate of tax relief for everybody, which I can see happening. I quite like the ISA concept where, irrespective of your earnings, you can pay the same amount of money in.

"I remember when A Day ('pensions simplification') came in 2006, I loved it. Simple, straightforward. Since then, we've had more legislative changes than ever. A much simpler regime would have cost benefits to the whole of society. There would be less duplication of effort with HMRC checking things, for starters.

"Tapering annual allowance is just so complicated, so personally I think that if you have a contribution limit, you don't need a lifetime allowance limit. If you control the input, why do you need to control the output, as well? If we did that, it would mirror the success of ISAs: simple and focused on inputs only."

But the need for cross-party support – which would be needed for this change – is not something that Price can see happening soon. "Given where we are on Brexit, everything else is getting lost in the mix. The only way you're going to really sort out some of the bigger issues with regard to retirement planning, has to be cross-party. Everybody has to sign up to it, everybody has to agree to it, and then leave it alone."

In addition to being passionate about simplification of pensions legislation, Price is also a proponent of good financial advice.

"What's not really changed over the past 40 years of my career is the fact that people need good financial advice. We are seeing a seismic shift from a pensions market to a retirement market. Years ago, people retired and had a pension. They probably lived for 5-10 years and that was it. Today, people retire

"What's not really changed over the past 40 years of my career is the fact that people need good financial advice."

with a plethora of assets and live for 20, maybe 30 years after they finish working. So it's now become the retirement market, and retirement planning is all about tax planning. The need for advice is probably greater than it's ever been, because the choice you've now got to achieve your objectives, and how to take your benefits, needs to be in the most tax-efficient way."

Price isn't sure that politicians have sufficiently understood that shift in the marketplace.

"It's going to be really interesting to watch what happens. I'm 61 now and I don't know when I want to retire yet. And that's part of this quantum shift away from cliff-edge retirement when you stop work on a Friday and never work again. Nowadays, far more people phase into retirement and this will continue, yet everybody still seems to think that everyone should have a planned date on which they need to retire."

The continued success of St James's Place depends on spotting and working out the implications of such trends.

"When we talk to our partners (those giving advice to our clients), we ensure they are fully aware of what the trends are. One of those trends is that with longer lifespans, people need advice for far longer than ever before, and the next generation need to be fully aware of what their parents are doing. For me, planning retirement is now as much about planning for the family as it is about the individual.

"We see a lot of clients who want to help their children get on to the property ladder much earlier than before i.e. during their working life or in retirement, rather than as an inheritance. This 'warm hand giving' could result in some interesting dynamics within the retired marketplace.

"SJP's research has shown that we're starting to see three different stages to retirement: the go-go years (55-75), the go-slow years (75-85) and the no-go years (85+). What do they say? 70 is the new 50.

"I know somebody who has let their property for two years, and used that money to go travelling. That's the impact of the Millennials' thinking on the Baby Boomers."

In this context, Price feels that pension freedoms have been a success. "You don't need the same level of income at 95 as you do at 55, and pension freedoms allow people to decide what they need when. However, the other side of that is that people need greater financial education and from a much younger age. Auto-enrolment has started that process, because people are aware of pensions far earlier than ever before."

Planning a **modern retirement**

Lawrence Churchill

Lawrence Churchill CBE has been CEO of three insurance groups, and Chairman of the Pension Protection Fund, NEST and FSCS, a member of the Board for Actuarial Standards and the Senior Independent Director at Bupa. He is currently Chairman of the Pensions Policy Institute and the IGC for Prudential.

Over the next 12 months, Lawrence Churchill would like to see some significant progress on DWP's White Paper on Defined Benefit schemes.

"Over the last, lost, decade billions of pounds have been contributed by businesses yet deficits have hardly moved. If you're protecting members at a cost to business that's not as good a situation as if you're protecting members and the business benefits. There are innovations that can make that happen.

"Of course, for the longer term, it's how Defined Contribution (DC) provides a decent retirement income for future generations that matters. We need to see pot sizes grow to around £200k (from £20k today)! Contributions need to increase and we may well see different forms of collectivism creep back into the DC world – perhaps through CDC or with-profits."

Equally, Churchill is keen to see some movement in government and elsewhere on the needs of a modern retirement.

"There's still a lot of work to do at what's called the 'in retirement' phase where, even following the change of regime through freedom and choice, the UK hasn't yet got its act together three years after the regime came in.

"Lifestyles, aspirations and needs are all changing. When we stop work, or increasingly IF we stop work, how we draw down monies, what we need at various stages: all of it is changing. I believe we're retiring far too early. If you look at life expectancy in the post-war years, you might get five or 10 years in retirement. Nowadays you're looking at 20 to 25 (or a good chance of 35 years if you are in the professional classes). The maths are against us here. I don't believe you can reasonably save enough during 40 years of work to pay for 30 years of retirement.

"The timespans involved are much longer than the electoral cycle, so some form of permanent Commission that would make recommendations on policy and how to put policy into practice – but, crucially, with Parliament making the decisions, could work well. Remember Adair Turner's great work on pensions over 10 years ago. Without that, we wouldn't have NEST or auto-enrolment. If you take an expert non-partisan approach, then you can win the intellectual argument and if you phase it in slowly you can gradually shift the way society

"I don't believe you can reasonably save enough during 40 years of work to pay for 30 years of retirement."

thinks. Because, after all, most of it is common sense."

Churchill is very clear that financial education is no panacea, but that simplicity and empowerment are key.

"I'm not a great believer that financial education is going to solve the challenges we're facing. I'm a fan of guidance rather than too much in the way of education. For guidance to work, you have to simplify the system and change the way we view the responsibilities of parties in the transaction. People don't like being told what to do. So an app that shows you how you're doing against your own target for retirement income has to be better, as individuals need to feel empowered and engaged. The freedom of choice changes went down so well because people do feel that it is their money."

Are we ready for this new age of phased, flexible, lengthy retirement? Churchill thinks not.

"The products are simply not developed yet. But the change will be driven by consumer needs, supported by regulation and delivered by providers.

"Under the pension freedom reforms, if you take the "UFPLS" (Uncrystallised Funds Pension Lump Sum) option, then you're allowed to continue with your accumulation style contract and you may decide to retire much later. You then continue to keep invested in growth assets and you can take an annual draw-down as if from a bank account and

leave the rest unchanged. So, the rudiments of the product are out there already.

"Another thing we need to tackle is the perception of poor value for money because all of the charge caps which the government introduced only apply in the accumulation phase. There has been a failure to recognise that people deserve value for money during phased retirement too. If financial institutions won't bring the cost down voluntarily, then they need a bit of help from government."

Churchill is strongly of the view that Millennials understand financial planning.

"The youngsters of today actually know a hell of a lot about this stuff. They're not simple or ignorant and an illustration of that is opt out rates. When we set NEST up, we were predicting opt out rates of about 25%, which never happened. The opt out rates were on average just below 10% but when you segmented them by cohort, we found the highest opt out rates of over 15% were from people in their sixties who arguably said, 'we're too late'. The lowest opt out rates of any cohort were kids in their twenties and for them the winning concept was 'free money'. 'If I put a fiver in, the employer puts a fiver in. So, I can double my money,' and that seemed to work.

"There's a real need for flexibility on products to allow for people having different paths through life. People will have retirement – or non-working – phases that are as different as they are personal. I can see people drawing down on their pensions pot as a lifetime savings pot, maybe when they take a break in their forties. Maybe an offset product will emerge to help youngsters, or a development of NEST's sidecar idea. Something that allows for the provision of care in later years will also need to emerge."

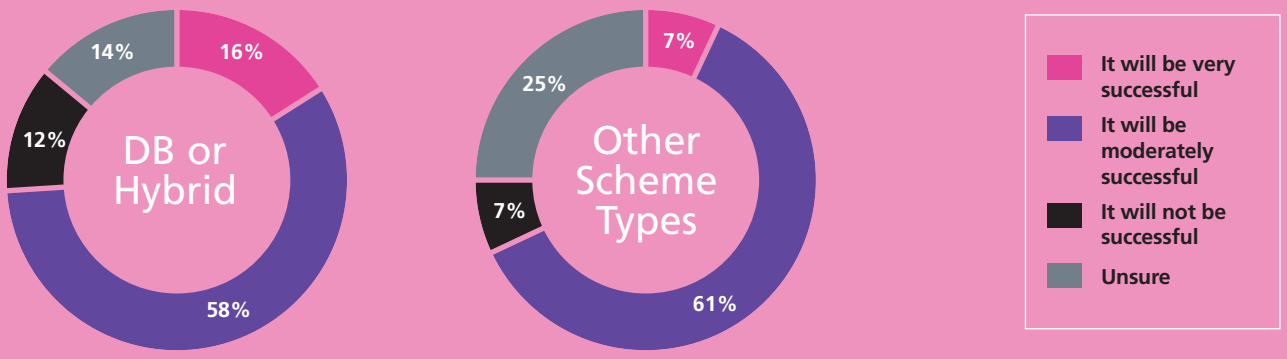
Finally, Churchill is clear that auto-escalation is a good idea.

"Yes, I think that's a little bit of a no brainer, to be honest."

LGPS **consolidation**

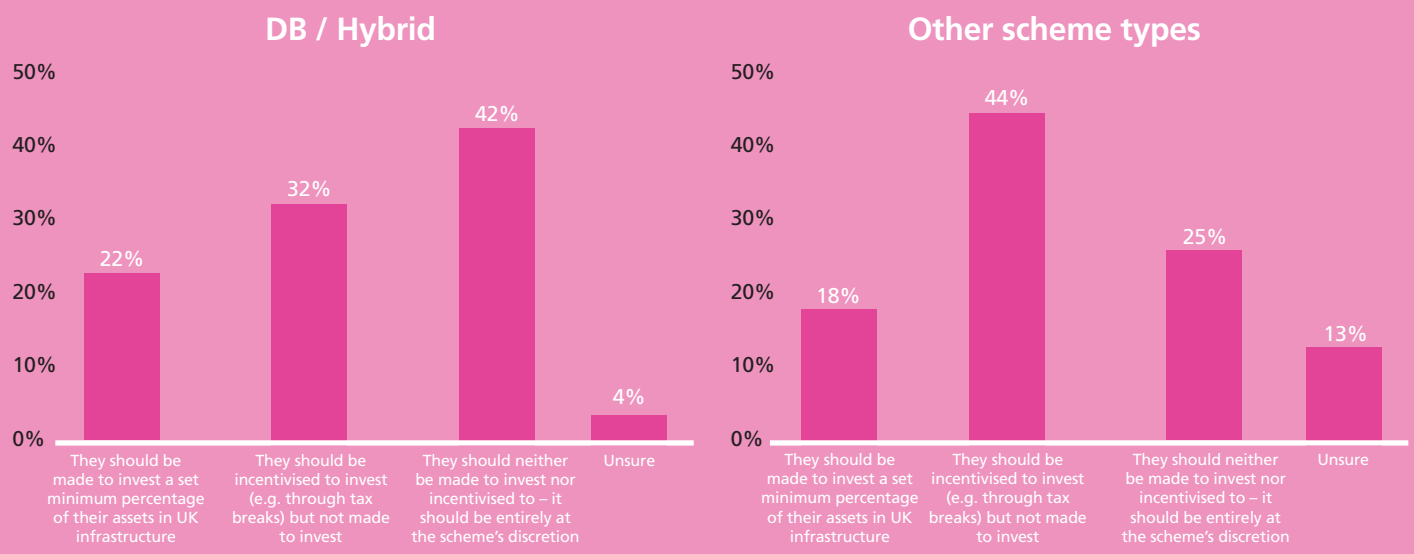
Data in this section compares the views of respondents with a DB or Hybrid scheme with those who have other types of schemes.

To what extent do you think LGPS consolidation will be successful in achieving cost savings and better returns for pension scheme members?



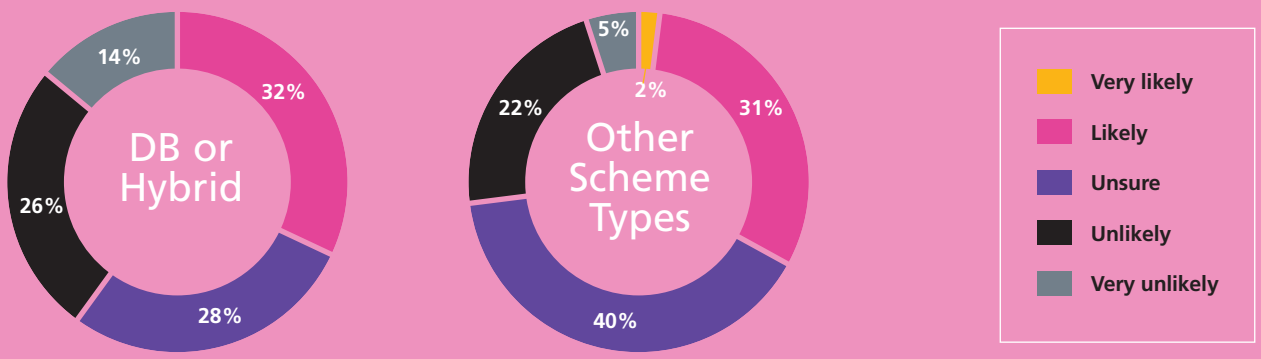
Respondents with a DB or Hybrid scheme tend to share broadly similar views to those who have other types of schemes, on the question of whether LGPS consolidation will prove successful, with the majority in both groups predicting moderate success (58% and 61% respectively).

To what extent should LGPS funds be directed to invest in UK infrastructure as part of their portfolio?



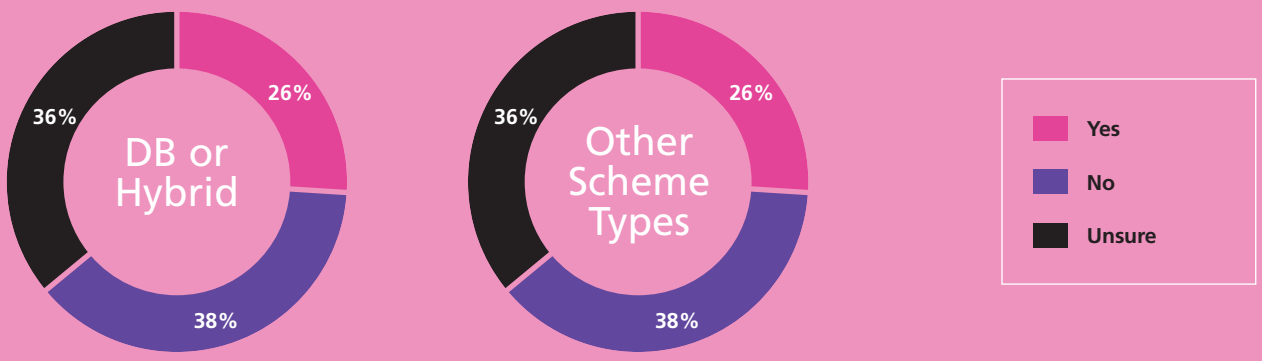
The DB/Hybrid group tend to prefer LGPS schemes to have total autonomy over how they invest (42%), whereas respondents from other scheme types, though they also want such schemes to have autonomy, appear far more open to the soft influence of tax incentives (44%). However, both groups have diverse opinions on this question.

How likely is it that LGPS pooling/consolidation will be replicated as a model for private sector DB schemes?



On balance, DB/Hybrid schemes think that the prospect of LGPS consolidation being replicated in the private sector is unlikely (40% unlikely vs 32% likely). Conversely, those in the 'other scheme types' group tend, on balance, to think that replication is likely (27% unlikely vs 33% likely). However, a substantial 40% of this latter group were on the fence.

Do you believe that the market will provide consolidation vehicles with the right balance between the benefits of consolidation and the risk of members and to the PPF?



The DB/Hybrid group and the 'other scheme types' group both hold identical views on the question of whether the market will provide consolidation vehicles with the right balance between the benefits of consolidation and the risk of members and to the PPF. There is a lack of consensus on this question, with 26% saying 'yes', 38% saying 'no' and 36% unsure.

Pooling **progress**

John Wright

John Wright, director, runs the public sector division at pensions and risk consultancy Hymans Robertson. He has been working closely with the various local authorities and other public bodies whose 88 pension schemes have been consolidated into eight larger investment pools over the past two years.

Since the government announced in 2015 its plan to consolidate 88 local pension funds by pooling their assets in order to drive savings, among other benefits, major progress has been made to deliver this, explains Wright. "We've now got eight LGPS (Local Government Pension Scheme) pools, all implementing pooling in slightly different ways.

"I'd say that all of the approaches pools have chosen make sense given each pool's particular circumstances, their history, availability of resources and their objectives. Given that the consultations only came to an end in 2015, and the pool groups only formed early in 2016, here we are in 2018 with investment management companies in place, so I think progress has been pretty rapid."

John describes how Hymans has been involved in the detail from the outset: "Between September 2015 and January 2016, Hymans supported Project Pool. We helped about 30 to 40 local authorities get together and worked with them to figure out what the best way to implement pooling would be.

"Together we worked through aspects such as what structures they would need, what size of investment management mandates would be necessary to get critical mass for fee savings, and what would be the best way of accessing alternative asset classes."

Hymans then worked with these local authorities to produce a report for government that set how pooling should be done. Wright said that this exercise also helped the local authorities to get used to working together. In fact, through this project some of the relationships between schemes formed that led to some of the ultimate groupings for the final pools.

In July 2016, the government received eight proposals from pools (having originally asked for six) but the relationships that had been formed by the various schemes were too strong to ignore and all eight were allowed to proceed. "In the space of just a year and a half since the government approved proposals, all the pools have either built their own operator company or have completed procurement to appoint third party fund operators to run the pooled vehicles. So, actual progress from the green light from government to the business cases to implementation has been very fast."

Working together on Project Pool worked well to prepare the public sector for pooling once initial concerns were allayed. "Three or four years ago, some local authorities were less convinced by the benefits of pooling investments, especially those that were already performing well", says Wright.

"Even though LGPS funds already have good investment manager fee rates for schemes of their size, through Project Pool we showed that there were further savings to be made if we could get fewer, larger, investment mandates. By coming together as pools, LGPS pension funds have already been able to achieve significant additional savings for passive investment and other liquid assets – maybe another

10 basis points or so on actively managed equities for instance."

They also found there was even more scope for greater savings, as Wright explains. "The other important finding from Project Pool was that if the authorities could pool illiquid assets, e.g. private equity and infrastructure, then they could potentially make very significant savings on asset classes that are a smaller proportion of the overall asset portfolios. Historically, individual authority funds were accessing some asset classes through fund of funds approaches, where there are multiple layers of fees. By coming together in pools, there are other ways of accessing those illiquid asset classes without incurring multiple layers of fees; cutting out fund of funds managers and getting more direct investment into infrastructure, for example, through the right vehicles."

Savings on illiquid assets are, however, going to take longer to achieve, says Wright, because the industry has to work together to create the kind of vehicles that will deliver the types of investment that are suitable for local authority funds, with the right risk-reward profiles, at the right cost. He says: "For example on infrastructure, local authorities generally are looking for income-producing assets, not greenfield infrastructure. Collaboration is needed to create vehicles that will give access for the pools to the sort of infrastructure that individual authorities want to invest in to meet their investment needs and fulfil their investment strategies.

The Pensions Infrastructure Platform ("PIP") is one route to infrastructure investment, which some individual funds are looking at, and the other is GLIL (GMPF and LPFA Infrastructure LLP) – a collaboration between Greater Manchester Pension Fund and LPFA (Local Pensions Fund Authority). An aim of these infrastructure investment vehicles is making available the sort of investments likely to be of interest to local authority funds, given the kinds of liabilities they have, their investment objectives and needs."

"LGPS investment pools have to provide the investment building blocks needed by local authority pension funds."

Wright also considers the extent to which pooling is addressing the government's aim of increasing investment in infrastructure: "Well, the sort of infrastructure investment that local authorities might make are not going to be only greenfield, UK infrastructure projects. Instead, they will invest in different types of UK and global infrastructure. Given the fiduciary responsibilities of those that look after individual authority funds, they will be investing in the right mix of assets to meet their strategic aims, which could include equities, property, UK and global infrastructure, and for some funds possibly other asset classes such as social housing which the government is also interested in."

And of the longer term trends: "I think there will be an increase in the amount of infrastructure investment by LGPS funds over the next 5 or 10 years when suitable investment vehicles offering the kind of infrastructure investment risk-return profiles that LGPS funds want become available. I think pooling can deliver that, but it's going to take time."

Infrastructure **investment**

Richard J. Tomlinson

Richard J. Tomlinson is the Head of Investment Strategy at Local Pensions Partnership (LPP), a local government pension scheme pooling collaboration between Lancashire County Council and the London Pensions Fund Authority.

The creation of LPP pre-empted the government's reform of the LGPS under which its 88 pension funds are seeking to combine c£250 billion of assets across eight large regional pools with the aim of reducing investment costs – as well as becoming much bigger investors in infrastructure. He joined in mid-2017 from the private sector where he had worked in investment management (outside of pensions) for around 15 years.

Over the coming 12 months, Richard J. Tomlinson plans to tackle a number of important initiatives at LPP.

"Near term priorities for us include a significant upgrade to our operating platform for the funds. For the five pooled funds we have launched so far, we've lifted teams, infrastructure, data, and put them into what is now LPP. We're hiring people, we're putting in systems and enhancing our controls and processes as the next stage of that journey.

"When the consolidation was originally envisaged, the four reform criteria were: scale, governance, reduction in costs, and investing in infrastructure. Looking at where we are today as LPP, it's clear that we needed to build an institutional grade investment management capability. The route we have chosen to take is to bring in skills and internal management where it makes economic sense to do so.

"In the near term, we've been looking at what you may call equity protection, or downside risk insurance. As funding levels have improved recently, some clients have asked whether it would be an appropriate time to take some risk out of the portfolio. I've done a lot of the work on that and the intricacies of how that comes together.

"A number of LGPS schemes have moved towards implementing equity put options and similar, and that's certainly something we've been evaluating."

Discussing how close to then Chancellor George Osborne's original vision for pooling the project is today, Tomlinson says: "Before I joined LPP, I looked at [pensions expert] Keith Ambachtsheer's principles of long-term pensions success. These points are very close to the four points envisioned by Osborne and I believe are critical to our success. That alignment played a large role in me deciding to join LPP, because of the aligned interest with plan participants, strong governance, sensible investment beliefs and right scale. In my mind, LPP lines up nicely with what I would say international best-of-breed institutional investing looks like. You can look to Canada and some other places for the model and long-term evidence."

Tomlinson is clearly proud of what has been achieved at LPP. He says: "In my experience of working with large investors globally, LPP is striving to be a best practice organisation. If you were going to build an institutional grade investment manager to run large pools of capital on behalf of public bodies or sovereign wealth, it would look a lot like LPP."

"Clearly infrastructure investing isn't a simple task."

He moves on to the topic of investing pooled funds in infrastructure, a subject about which he has firm views: "My blunt view is that our primary responsibility is fiduciary; a responsibility to our scheme members and to our stakeholders. All our investments have to be made against the backdrop of fiduciary responsibility. There are some infrastructure investments where the return makes sense against that fiduciary responsibility.

"You may ask me 'How much infrastructure should be in our portfolios?'" he adds. "What I can tell you is the long-term strategic weight for all of our clients is higher than the current invested capital today. I suspect Osborne was thinking that figure would be higher but here's what I'd ask 'Are we devoting a meaningful amount of capital to infrastructure projects?' The answer is 'Absolutely'.

"Clearly, infrastructure investing isn't a simple task. You're dealing with large, lumpy projects, large amounts of capital, which is generally deeply illiquid. There are a myriad of risks around that in terms of the political and general backdrop, depending on which asset you're looking at. However, it can have certain characteristics which are a good choice for the portfolio."

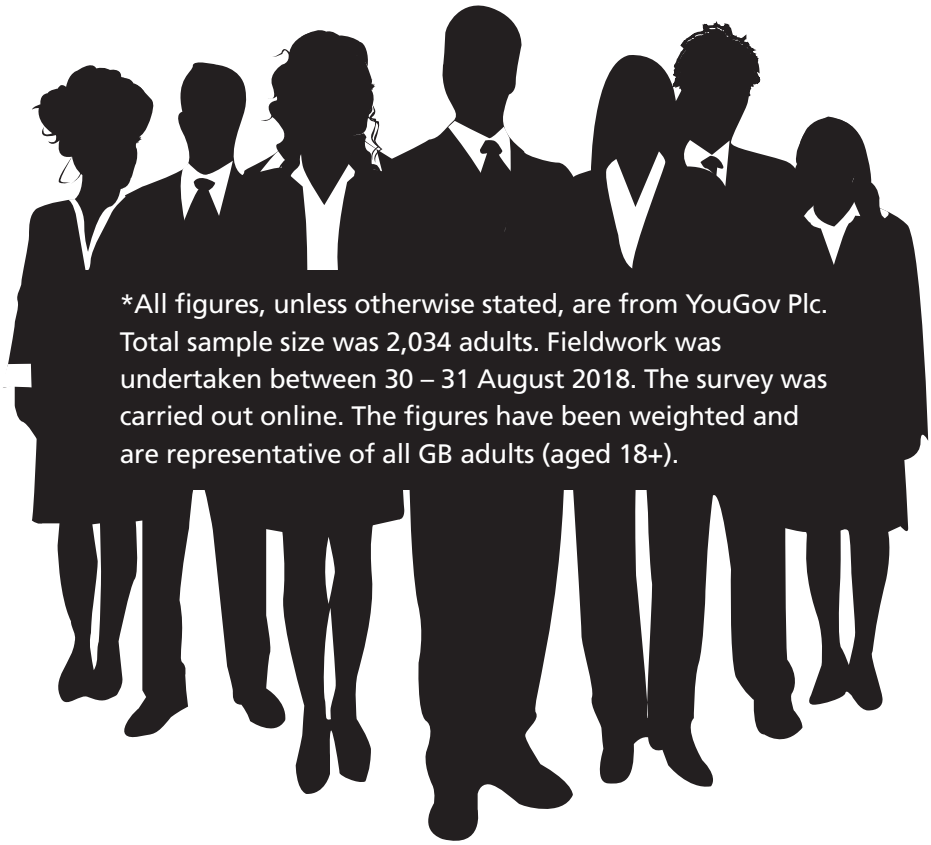
Overall, Tomlinson believes that pooling has definitely resulted in increased exposure to infrastructure, especially through vehicles such as the GLIL Infrastructure platform. "It's a pooled investment vehicle using the combined financial muscle of the partners which gives you a place at more tables. If you're in the infrastructure space, there isn't much you can buy if you turn up with a £50 million cheque. When you turn up with hundreds of millions, or even billions, you can really leverage that. Then you're at the table with the big guys and can start talking about direct investing in scale and on favourable terms. It's one of the asset classes where pooling is incredibly helpful," he concludes.

Please note:
Investment activities are carried out via Local Pensions Partnership Investments Ltd, a wholly-owned subsidiary of LPP. Local Pensions Partnership Investments Ltd is authorised and regulated by the Financial Conduct Authority.

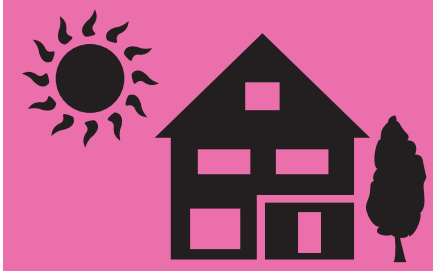
YouGov survey results

In addition to interviewing and surveying people who work in the pensions industry we also wanted to find out what the public, as eventual pensioners, think about pensions.

Working with YouGov* we surveyed over 2,000 members of the public. The results are most informative and give an insight into their expectations.



*All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,034 adults. Fieldwork was undertaken between 30 – 31 August 2018. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).



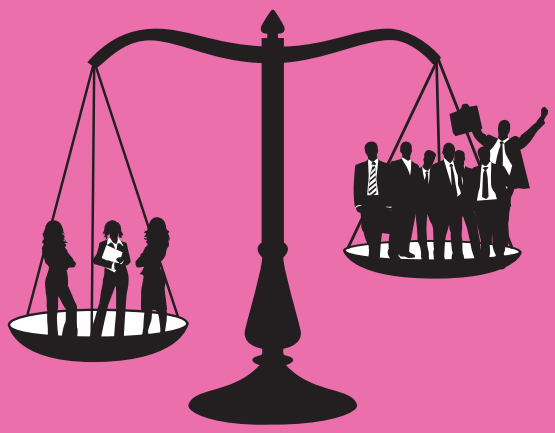
58% British workers, the vast majority, do not think their workplace pension alone will provide sufficient income to live off in retirement

59% of British adults thought that it would help them to save for their retirement if their contribution rate were to increase automatically at set intervals (e.g. when their salary increases)

51% of British workers said they plan to retire 'in their 60s' which is in line with the current State Pension age

45%, just under half of all respondents, said they find it fairly difficult or very difficult to access good advice about pensions

67% of respondents said they don't understand the products (e.g. assets, funds etc) available in which it is possible to invest a pension



39% of GB adults with a pension and in a relationship said the value of their pension is higher than their partner's, of which **56% were men and only 20% were women**

Conversely, **31%** said the value of their pension was lower than their partner's **52% of women** said this compared to **12% of men**

28% of GB adults, almost three in ten, thought pension provision in the UK favours men and women equally

A surprising **42%** said that they did not know

31% think the UK government should be mainly responsible for funding social care and partly the individual (using their pension)

26% said that it should be fully the UK government's responsibility

51% of respondents thought that 20 year olds in the UK today will be able to retire financially 'in their 70s'

'In their 60s' and 'in their 80s' came an equal second, each receiving 15% of respondents' votes

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Burges Salmon is the independent UK law firm which delivers the best mix of advice, service and value. Our financial services lawyers offer market-leading insight into the industry, working with clients to address the challenges they face.

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