UNDERSTANDING PENSIONS

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Stepping up efforts to improve racial diversity in pensions

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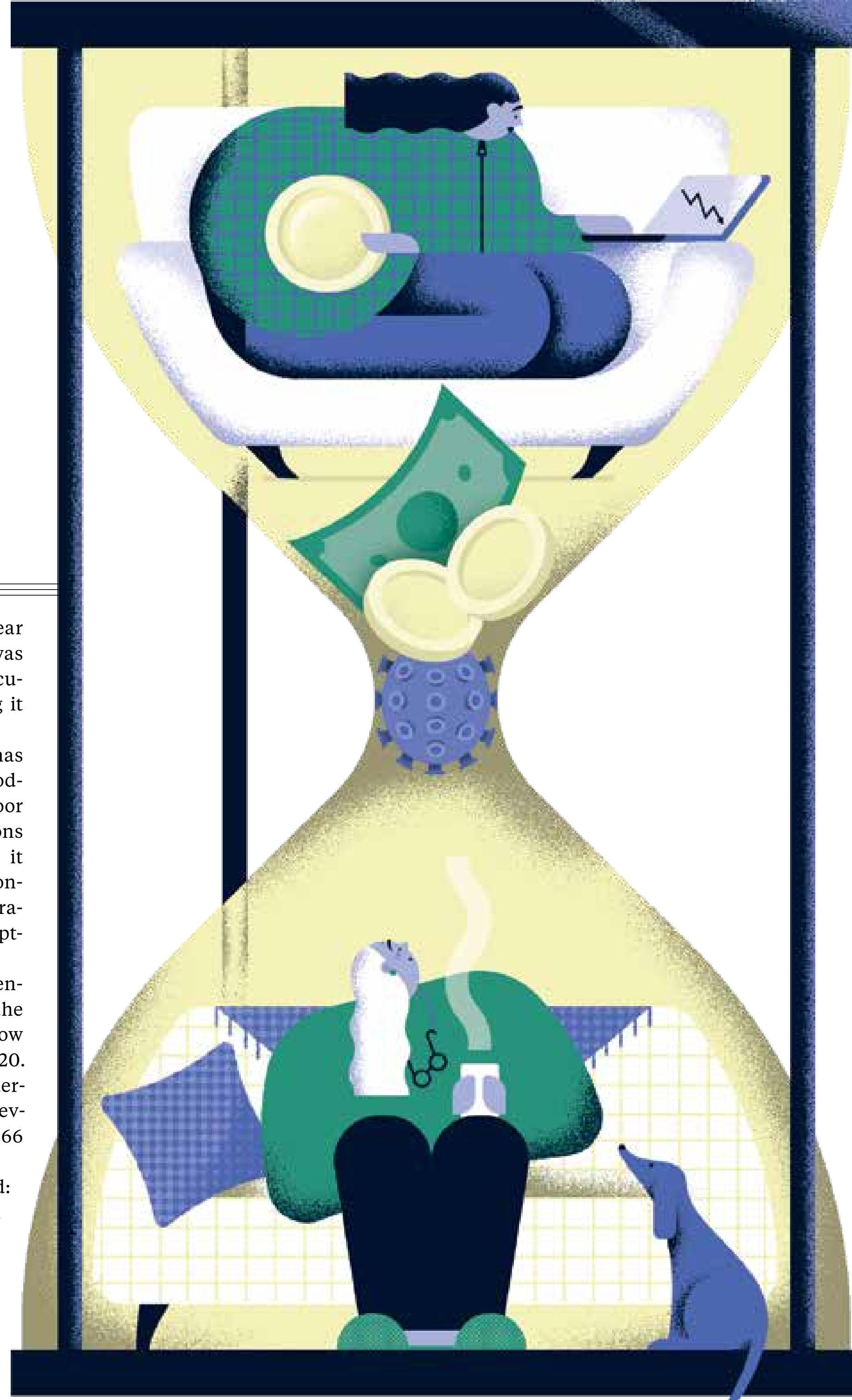
Everything you need to know about pension scams

PANDEMIC

How COVID rocked pensions

Coronavirus has sent the UK into its worst recession since records began. Pension providers and savers alike have not escaped unscathed as they face unprecedented economic upheaval

Uneesa Zaman



The coronavirus pandemic has shattered lives and left many to pick up the pieces of their broken financial future. A YouGov poll with Smart Pension found more than one million 55 to 64 year olds are now set to delay their retirement due to the pandemic.

From mass unemployment, furloughs, reduced income and volatile global markets, a wave of economic hardship has left many with shrinking incomes and pension pots. However, the last year has also strengthened financial resilience across demographics, as people begin to prepare for an uncertain future, not just a rainy day.

Once valued as the safest way to ensure a smooth retirement, attitudes towards pensions had their ups and downs long before the pandemic. While many baby boomers traditionally enjoyed lucrative pension plans, a survey by PensionBee of 1,000 people aged between 55 and 70 found 40 per cent of working respondents would want access to their money if they became unemployed, with 22 per cent saying they are more likely to make a withdrawal due to the pandemic.

And these findings seem to be borne out as a record number of over-55s have dipped into their pension pots due to the current uncertain climate. According to the latest HM Revenue & Customs figures, 360,000 people withdrew £2.4 billion in flexible payments from their pensions in the fourth quarter of 2020, a 10 per cent increase on Q4 2019.

Former business consultant, Steve Jenkins, 60, from Manchester is one example. "The pandemic, coupled with successive lockdowns has meant I've had to reassess my financial situation. I was recently made redundant and needed to ensure I was in a financially secure position to weather the foreseeable future. I've reassessed my priorities and as a result I've had to withdraw some of my pension in the event my health deteriorates further and I need an adequate safety net," he says.

> Gen Z are beginning to see pensions as an investment for the future and they want to know they're building a better world

While the spotlight on job security has largely focused on Generation Z, according to the Learning and Work Institute over-50s are more likely to be long-term unemployed and, as COVID-19 continues to add pressure, patterns of unemployment are forecast in the job market, putting pension planning in a precarious position for many.

And baby boomers aren't alone as, according to a survey by Invesco, millennials have a "worrying lack" of awareness around the purpose behind pension savings. Some 54 per cent of 24 to 34 year olds surveyed thought a pension was deposited in a savings account to accumulate interest, rather than viewing it as an investment tool.

Historically, the financial sector has filtered access to its more mature products through coded language and poor communication, and the pensions industry is no different. However, it seems successive lockdowns have contributed to the rise in younger generations becoming more informed and opting into pensions.

Penfold, a fintech specialising in pensions for the self-employed, has seen the number of millennial customers grow by 150 per cent over the course of 2020. Analysing further, 92 per cent of under-30s who use Penfold have chosen a level-four, high-risk fund, compared to 66 per cent of over-35s.

Pete Hykin, co-founder of Penfold: "The language and wording used by the pensions industry has been repeatedly highlighted as a huge barrier to getting more people saving. The industry needs to solve this as it deters people across age, income level, educational background, job type from engaging further. Technology can help here, offering people the flexibility to access information, rather than assuming everybody has access to a financial adviser."

The pandemic has highlighted the importance of technology in democratising finance, including pensions. Now, more than ever, we are witnessing a groundbreaking shift in attitudes towards pensions, as access to financial literature and technology increases.

"There's been a big mindset change from an audience typically reticent to engage with pensions." says Hykin. He isn't wrong. 2020 ignited mass conversations, with knock-on effects, regarding equality and justice as a result of the Black Lives Matter protests. This has pierced the conscience of global business, where racial discrimination, environmentalism and economic disparities are being brought to the forefront, amplifying the way younger generations engage with their finances.

"We've seen a rise in people looking into the social impact of their pensions," says Hykin. "What's most exciting about millennials and Gen Z is they are actively engaging with these companies and consciously considering where their wealth is invested and who is being impacted. They're beginning to see pensions as an investment for the future and they want to know they're building a better world."

Zahid Mahmood, a 26-year-old IT developer from London who works in the fintech industry, reinforces this point: "My first real exposure to pensions was when the human resources team at my place of work asked how much I'd like to contribute on my first day; I had no idea." Mahmood's limited exposure to pensions meant he wasn't best informed on how a pension works, what he would be investing in and the associated tax benefits, to name a few.

"The change in my attitude came when I realised pensions were another way to invest. By September 2020, I had learnt enough through personal research to understand how a pension can be a powerful tool for building wealth. As a result, my strategy has become more aggressive in realising the tax efficiency of pensions."

While COVID has certainly shaken the world, it has also provided ample opportunity for people to gain a more holistic understanding of their finances. The increased time at home due to lockdown, combined with assessing the longevity of the current economic downturn, has forced people to consider the financial options in relation to their pensions.

We are yet to fully understand COVID's long-term effect on unemployment, but pensions have long been an established financial tool, aiding governments, businesses and society by transferring the working population into the next phase of life and this is unlikely to change. With technology helping to democratise financial access, savers are likely to have a more invested relationship with their providers.

Clare Reilly, chief engagement officer at PensionBee, says: "The increased data transparency through technology has revolutionised the way we engage with our pension. We want to know where our money is going and build a sense of ownership."

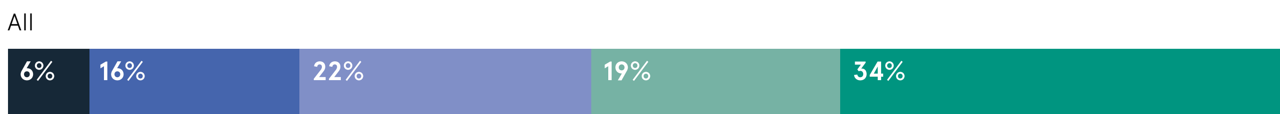
Be it more informed lines of communication, financial literacy, technological advancements or data clarity, pension providers are re-examining their approach to meet the changes in consumer habits. With legislation adapting to meet society's changing career cycles, choice and autonomy are set to pave the way pensions are managed. ●

HAS COVID PROMPTED EARLY WITHDRAWALS?

Britons aged 55-70 who hold a defined contribution pension rate how likely they are to dip into their pension pot during the pandemic

● Strongly agree ● Slightly agree ● Neither agree nor disagree ● Slightly disagree ● Strongly disagree

All



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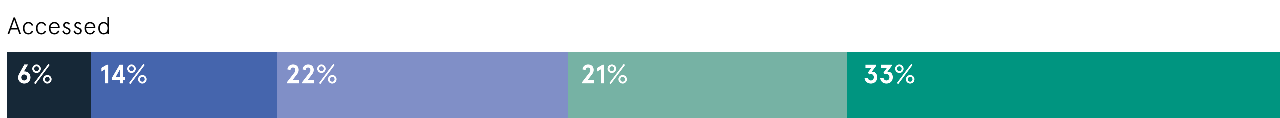

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We're retiring that.
Find out how Legal & General can help you find lost or forgotten pensions – see back page.
Legal & General

Commercial feature

Q&A

Technology fuels meaningful pensions engagement

Adrian Durham, chief executive and founder of FNZ, reveals how a more digital experience is boosting people's interest and engagement in their pensions. FNZ is a leading British fintech platform headquartered in Edinburgh, partnering with many of the UK's largest financial institutions to support millions of households saving for retirement and other financial goals

Q Why has engagement become an increasingly important metric in the pensions industry?

A It's largely been driven by the shift from defined benefit (DB) to defined contribution (DC) pensions, accelerated by the introduction of auto-enrolment in 2012 and then further regulatory changes in 2015 giving DC scheme members more control over their savings. In a DB scheme, engagement isn't terribly important. As long as you stay employed until your retirement date, you can have a degree of certainty about what your retirement income is going to be. It is very simple to understand. DC schemes, on the other hand, are far more complex. As households invest in assets, which have a degree of risk and evolve dynamically, retirement income is less certain and influenced by personal investment decisions and the degree of risk taken on. If something is more complex and less certain, and it needs people to understand a lot more about what they are doing, it requires greater engagement.

Q Has engagement in pensions increased over the last decade?

A Yes, but not by enough. We've been tracking engagement, at the highest level, since we first entered the workplace pensions market in 2011. In 2012, around 10 per cent of people viewed their pension online at least once a year. Now, it is just over 30 per cent, so a threefold improvement. While it is great that one in three people now engage with their pension digitally, at least once a year, that means two-thirds still don't, so there is clearly a long way to go.

Q How is technology able to increase engagement further?

A There are a number of ways, one of the most important of which is personalisation and answering questions that are meaningful to each person. Every pension scheme member should be able to visit a mobile app or website and immediately understand, in a digestible format, how much they're going to receive as a retirement income based on what they're currently saving and what products they're saving into. In the DC world, we present this income as a likely range, along with educational information on how they can influence that. People now retire at different ages and in different ways. For example, some take early retirement or semi-retire, while others come in and out of retirement, so it is essential we help people to personalise their pension to their own specific needs. Technology is making this more interactive and it is also allowing people who haven't traditionally been able to afford a financial adviser to access personalised robo-advice, which is becoming a really important service.

Q Are you finding that savers are also becoming more interested in the specific companies their money is invested with?

A Increasingly so, but I think a lot of people still look at their pension fund and have no idea that underneath it they are probably invested in some very exciting businesses, which really interest them, such as Amazon and Tesla. Technology can increase engagement in the economy more broadly by helping people to understand they are directly participating in some of the greatest innovation taking place around the world. Equally, it allows them to directly influence issues that are important to them on a personal level. Without compromising the importance of professional asset management for their lifelong savings, they can influence the extent to which their pension has a positive social and environmental impact based on the particular companies it invests in. Technology can allow them to not just see the impact of their investments, but set constraints on certain things they care about as well. For example, if they don't want to invest in companies which contribute adversely to climate change, they can set constraints around that. Half the world's capital comes through pensions from median-income household savings, and technology is crucial to giving savers a direct role in how their money is allocated and the effect it has. By doing so, it not only boosts engagement in pensions, but helps direct capital towards companies helping to build a more sustainable future.

Q Automation is most commonly associated with cost reductions; is this also the case with pensions?

A Undoubtedly, and it's more closely linked to engagement than you might think. At the simplest level, technology removes the need for paper, which has historically featured heavily in workplace pensions due to the number of forms that needed to be completed. If every time I want to do something I have to fill out a piece of paper, that makes me less likely to do anything. By taking it further and automating the entire end-to-end process, the impact is transformational. Ten years ago, pension admin and investment costs ran at 1 per cent a year or more. Today, certainly in a large UK employer, it is around 0.2 per cent.

> **"Technology has played a fundamental role in sustainable cost-reduction and access to growth investments for UK households**

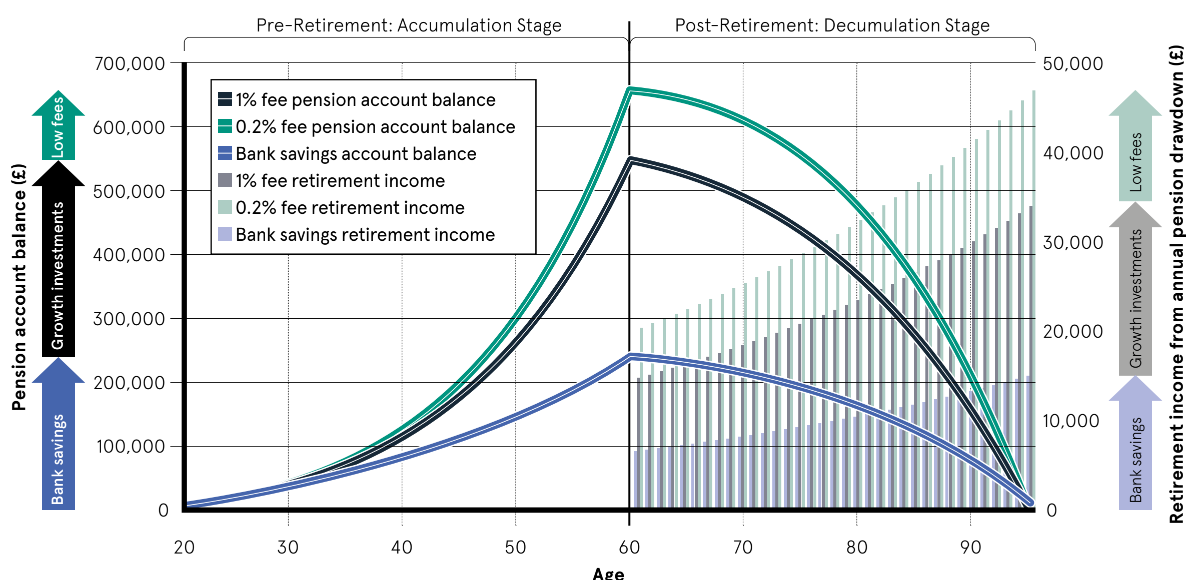
That reduction over 30 to 40 years of retirement savings actually increases your median household retirement income by about 40 per cent, which is huge. That situation is even more transformational, if households consistently save and allocate their investments into growth assets, rather than bank deposits. Technology and automation have played an absolutely fundamental role in both sustainable cost-reduction and access to growth investments for UK households.

Q What is your vision for the future of pensions?

A Our ultimate vision is everybody has a personalised pension that is tailored to how and when they're going to retire and their individual preferences around how their funds should be invested, according to their interest in key themes, such as sustainability and diversity. Pensions will be accessible entirely through mobile and will help people, with virtual personal financial advisers, not just in the workplace, but as they transition into retirement or some form of flexible retirement. Clearly, delivering that kind of personalisation and engagement to ten to twenty million households requires sophisticated technology and algorithms. FNZ and the industry at large is about a third of the way to delivering this vision and we are firmly focused on getting there as quickly as possible. We are also investing heavily in bringing the savings, retirement and wealth management platform, which we have successfully built here in the UK, to other key international markets.

REDUCTION IN PENSION COSTS MEANS A HUGE INCREASE IN TOTAL RETIREMENT INCOME FNZ 2021

Impact of 1.00% vs 0.20% annual fees on pension balance and retirement income from annual pension drawdown over time



Carlina Teteris via Gettyimages

MILLENNIALS

Are young people heading towards a pension crisis?

Research shows an alarming number of young people aren't saving enough, or anything, for retirement. So what can be done to change this?

Jonathan Weinberg

The younger generation of workers face a torrid financial future. Pre-pandemic, many struggled to buy their own home or save regularly. Post-pandemic, that may prove even more difficult. Rising unemployment, a drastically different working environment and tax increases to pay for government furlough and business support will all plague their pockets for years to come.

And with the state pension starting age expected to rise even further, perhaps even to 75, it appears worrying that research by Royal London found two in five millennials aged 18 to 34 had stopped or reduced their pension contributions following coronavirus. A survey for Unbiased.co.uk also reported 24 per cent of under 35s said they had no pension savings at all.

The government's workplace auto-enrolment scheme has gone some way to heading off a crisis, but it fails to take into account the many young people in casual or insecure gig economy roles or the self-employed. Encouraging them to fund a self-invested personal pension, or SIPP, can be tough when money is tight and retirement seems like a distant dream.

Matthew Arends, head of UK retirement policy at Aon, says: "At times of pressure, it is natural to focus on the short term over the long term. The issue with auto-enrolment is it doesn't apply to the self-employed, for whom there are no minimum savings requirements, nor for the unemployed. The under-employed will tend to under-save too, despite auto-enrolment.

"Although it is easy to talk about mandating increases to minimum contribution levels, the reality is if individuals are paid less or work less, it won't translate into higher savings levels."

Some suggest ways to change this. For example, Jon Greer, head of retirement policy at Quilter, raises the idea of allowing employer-only contributions for auto-enrolment, which could benefit younger people on lower salaries and with less disposable income.

And Mark Pemberthy, head of defined contribution and wealth at Buck, believes reducing the auto-enrolment age to 18 and removing the lower threshold of earnings that isn't pensionable would "make a big impact to the amount of money saved by this generation".

Behavioural science is also being used. Last September, the Behavioural Insights Team and Scottish Widows found, in a UK study of 3,000 22 to 29 year olds, that a number of so-called "nudges" could boost younger people's retirement funds.

It pointed to using the word "invest" over "save" while also explaining the benefits more. "By including tangible explanations such as 'a 12 per cent contribution would keep you above the poverty line' and 'a 15 per cent contribution would allow for a comfortable retirement', twice as many young people would recommend almost doubling pension contributions from the default minimum of 8 to 15 per cent," the study says.

However, it also discovered that before the pandemic, 49 per cent of that age group were not saving adequately for retirement.

One who is, however, is Lewis Harding, a 22-year-old accountant in training. Aiming to retire by 55, he uses Freetrade to manage his funds, but highlights a growing problem for his peers, the move from a job for life to more portfolio careers.

"Auto-enrolment fixed one issue, but young people are more likely to move around jobs, especially in their 20s," he explains. "I've found it stressful to keep track of pension pots you can collect along the way. If I forget about one, it might mean valuable savings are slowly eroded away.

"The difficulties with consolidating and transferring pensions can put many people off and this effectively eliminates the benefit of starting investing early to give yourself as much time as possible to grow your savings.

"When joining a company scheme, if employees were given a default option to have employer contributions either go there or to a pre-existing SIPP, this would go a long way towards simplifying the pensions savings process in my view.

"Rather than seeing statements with each new employer looking paltry and uninspiring, a default contributions option could help drive home the power of regular savings and compound interest."

Another idea to prevent a pensions crisis among the young comes from Ben Pollard, founder of Cushon, which recently announced the launch of the "world's first" net-zero pension.

"If we want the younger generation to engage more with pensions, we need to give them something they want and can really get on board with. Green investing and protecting the planet is something they feel very strongly about and 62 per cent of under-35s told us they would engage more with their pension if they knew it was making a positive impact on climate change," he says.

It's not all doom and gloom however. Research for digital wealth manager Moneyfarm found 50 per cent of 18 to 34 year olds with a SIPP invested more or opened a new account during lockdown. A quarter were more likely to set early retirement as a financial goal following the pandemic.

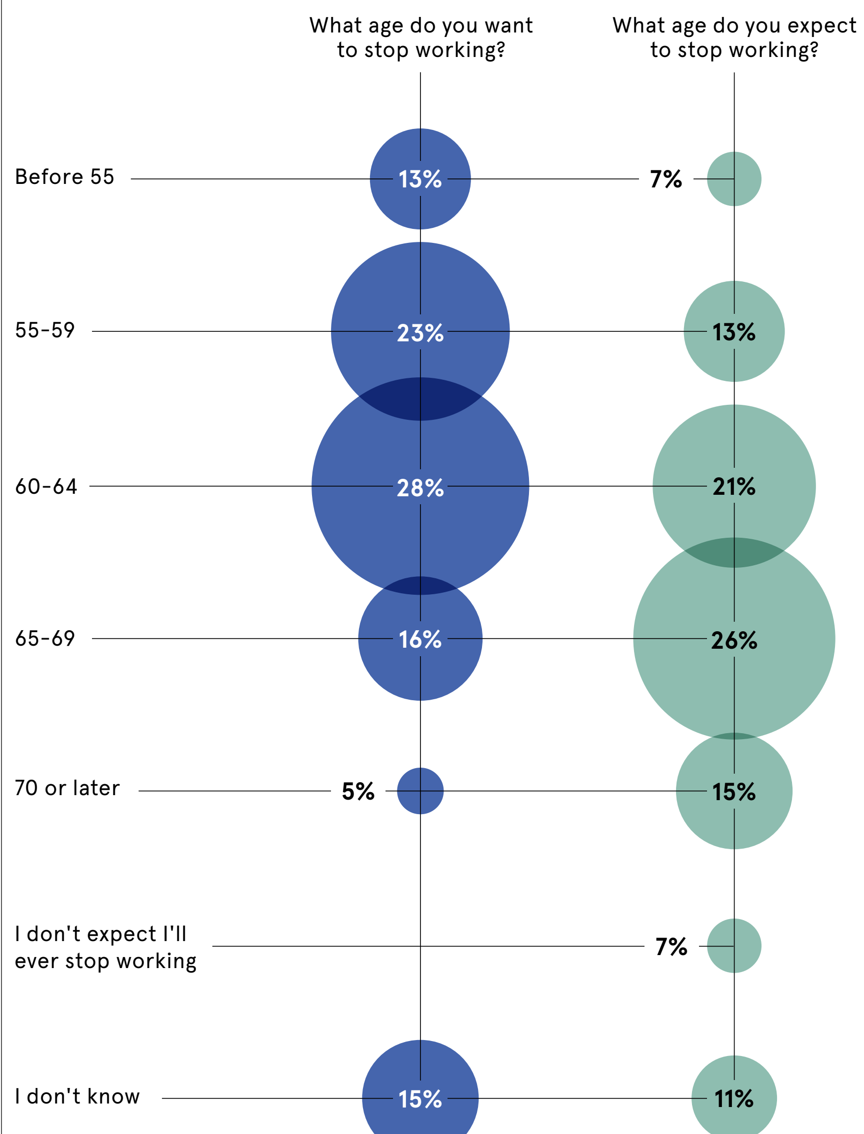
Similarly, Pollard saw a 50 per cent increase in those under 24 saving in a pension compared to before the pandemic, with 83 per cent of under-35s and 92 per cent of under-30s choosing its highest risk fund compared with 66 per cent who are 35 plus.

According to digital investment service Wealthify, 30 per cent of its SIPP customers are under 35, with many in typical self-employed or gig jobs, such as electricians, bricklayers, gardeners and musicians.

David Brooks, technical director at Broadstone, concludes: "Although current circumstances are difficult, young people should not lose heart. There are advantages to saving early in a pension, but pensions are not everything. If a pension feels like something that is locking money away for too long, younger people should consider a lifetime ISA. The old adage is true though: if you can afford it, the smallest amount is better than nothing."

YOUNG PEOPLE ARE NOT OPTIMISTIC ABOUT RETIREMENT

Britons' aged 22-29 answers on the age they would like to stop working versus when they expected to



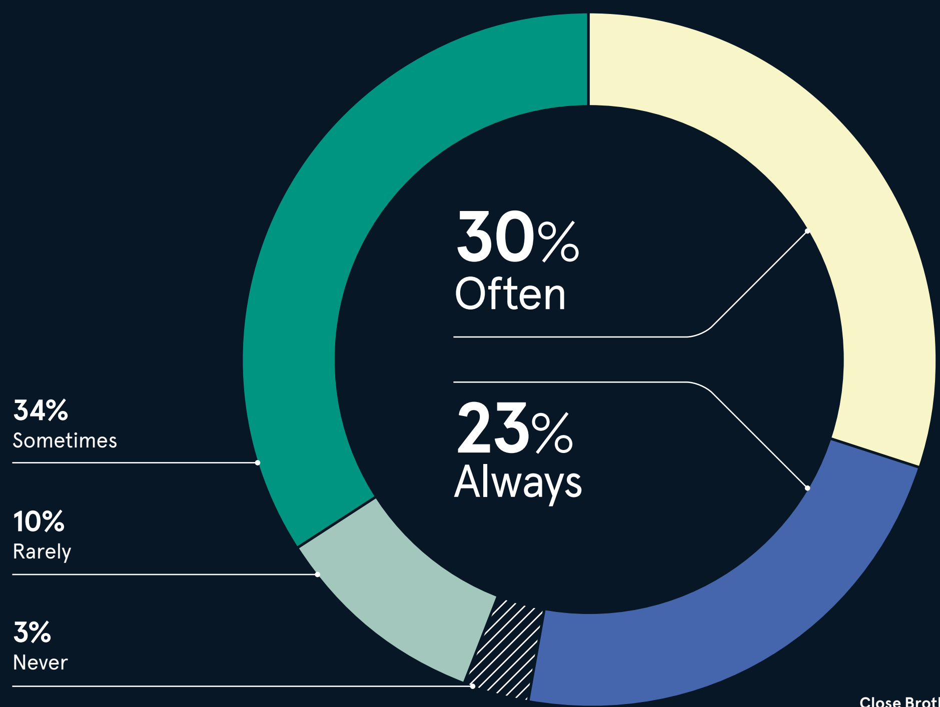
Scottish Widows, The Behavioural Insights Team, the Cabinet Office 2020

MONEY MATTERS

Young people are worried about money. And they should be. As higher education continues to be disrupted, unemployment spikes, and the country heads towards another recession, the immediate future looks rocky for those aged 18-35.
The consequences, however, could have a longer-term impact too, as a generation of young workers stop contributing to their pensions

YOUNG ADULTS' MONEY WORRIES

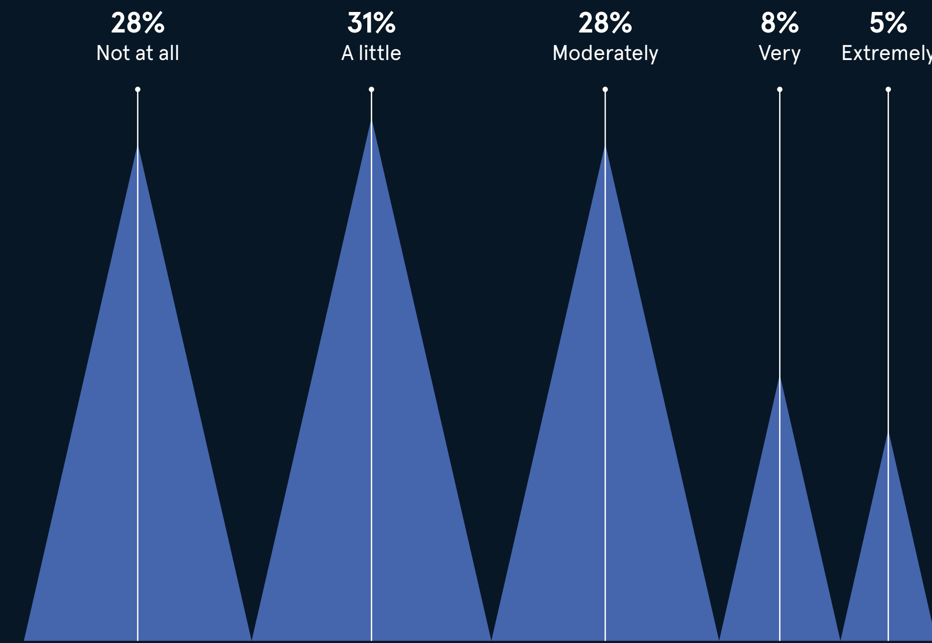
UK millennial employees' answers to the question "how often do you worry about money?



Close Brothers 2019

RETIREMENT REMAINS A CAUSE FOR CONCERN

Do young people (22-29 years old) from across the UK feel confident they are doing enough for their retirement?



Scottish Widows, The Behavioural Insights Team, the Cabinet Office 2020

51% young people saving an adequate amount for retirement

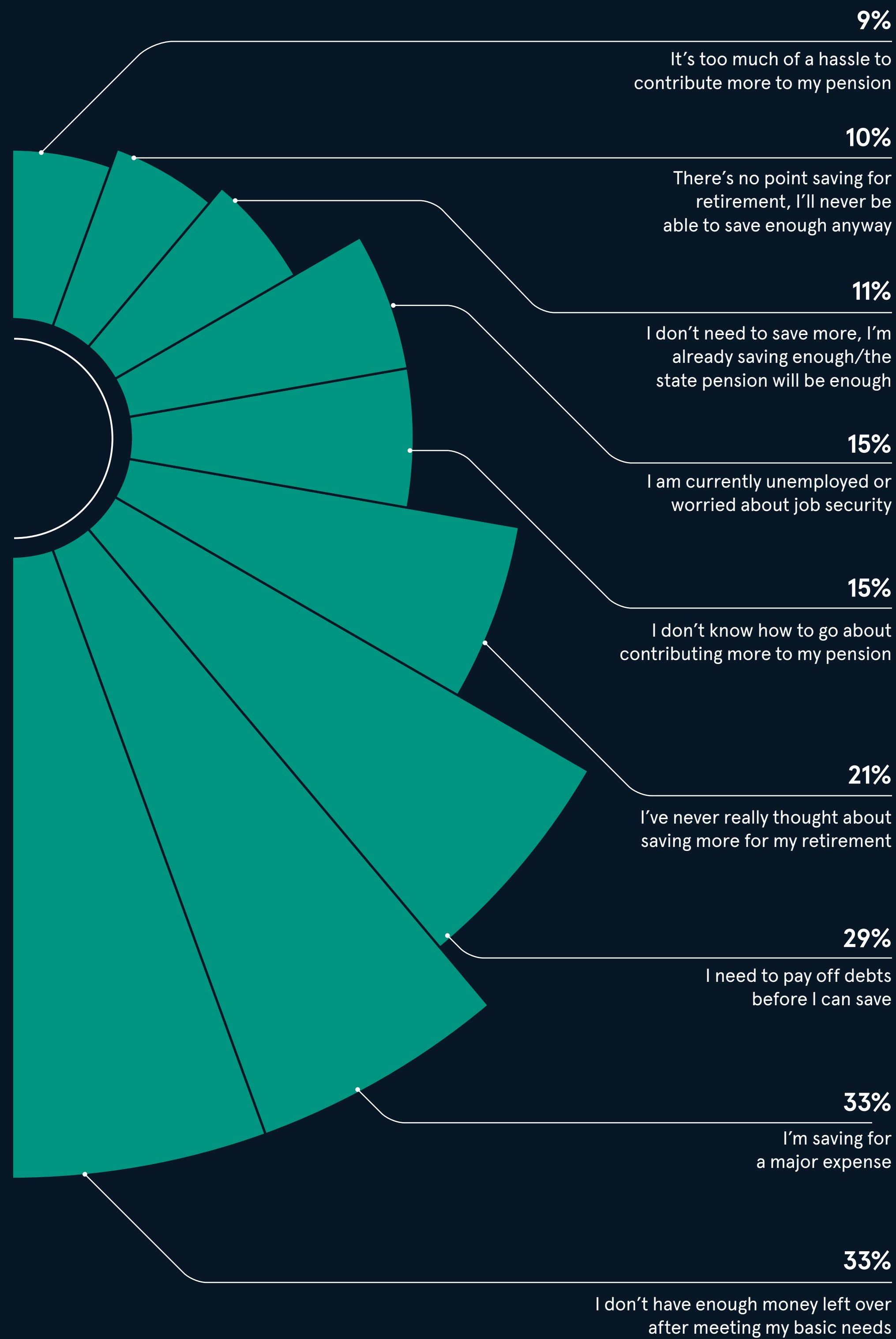
17% did not save anything at all in 2020, up from

14% in 2019

Scottish Widows, The Behavioural Insights Team, the Cabinet Office 2020

WHAT IS STOPPING YOUNG PEOPLE FROM SAVING?

Top factors which 22-29-year-olds cite as being a barrier to saving more for retirement (proportion of respondents indicating 'yes' to any of the following)

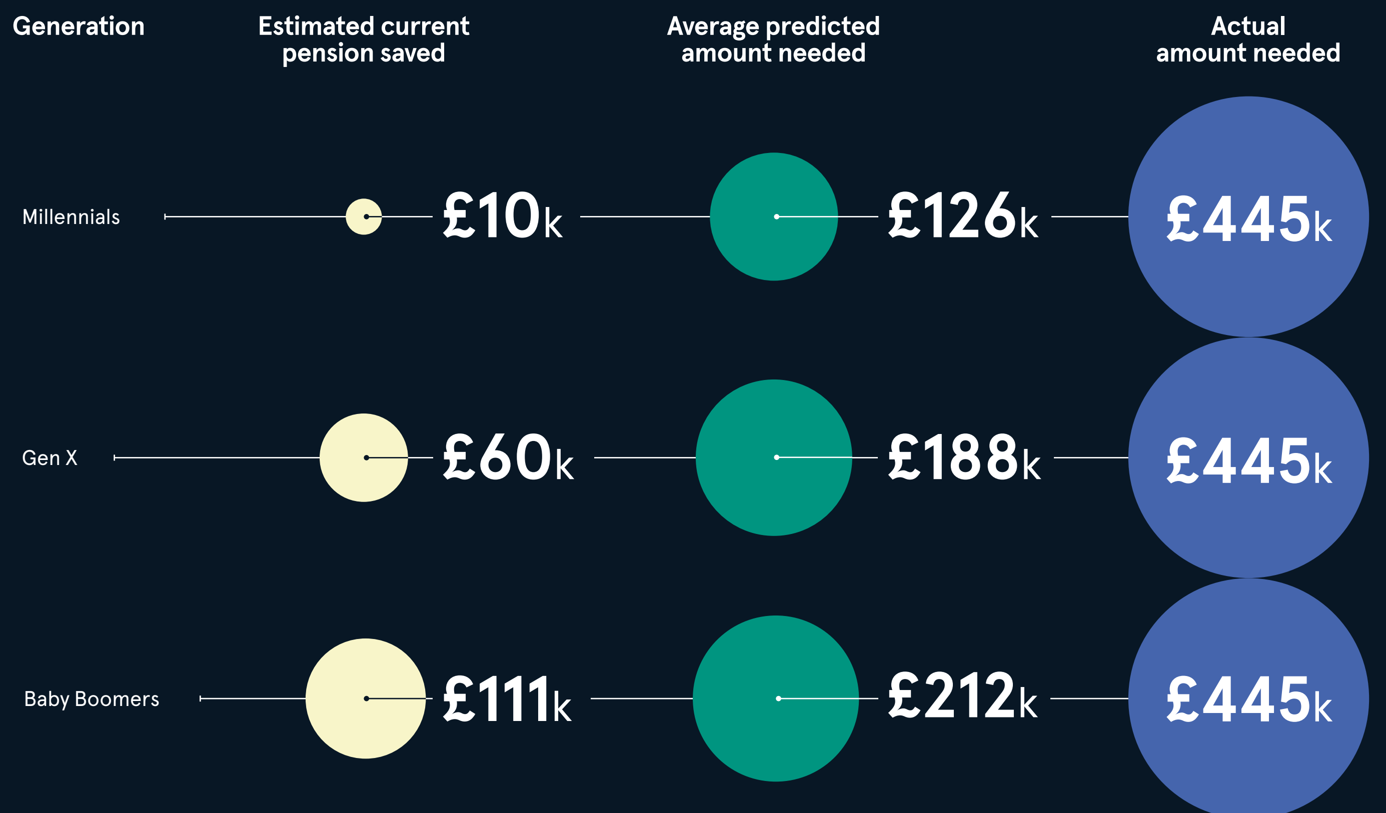


Scottish Widows, The Behavioural Insights Team, the Cabinet Office 2020

UNDERSTANDING HOW MUCH WE SHOULD BE SAVING

Finder 2020

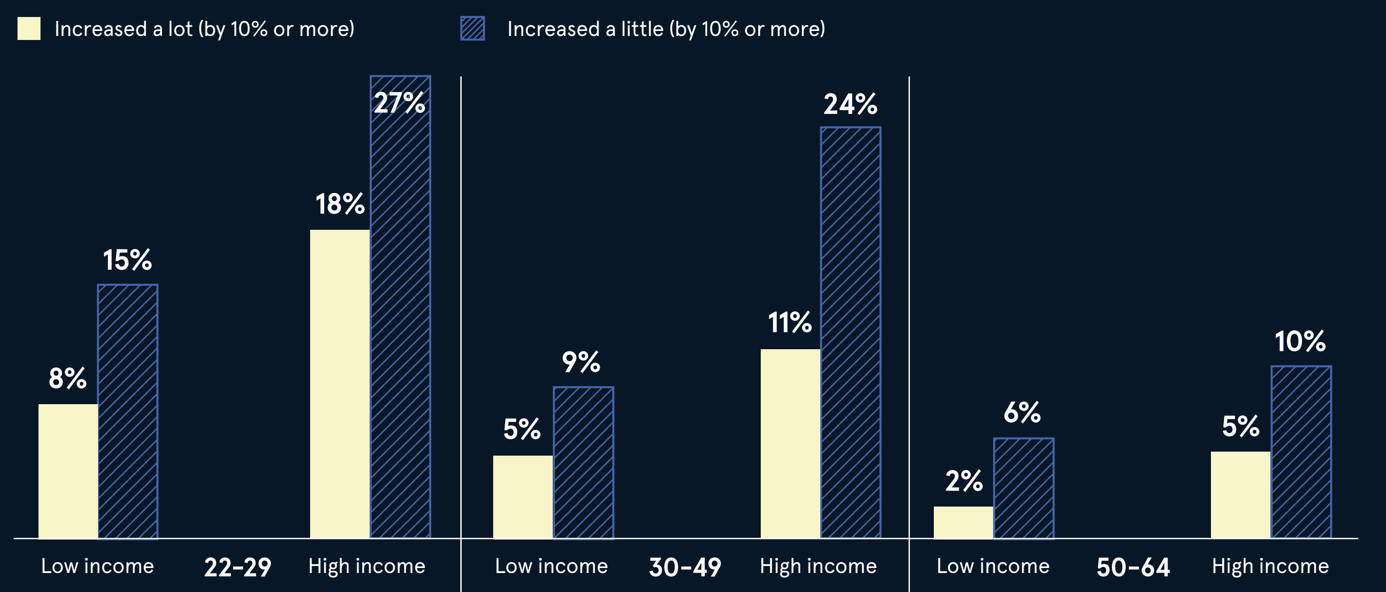
The gap between how much Brits think they need to retire comfortably, and how much will really be sufficient



Generation	Estimated current pension saved	Average predicted amount needed	Actual amount needed
Millennials	£10k	£126k	£445k
Gen X	£60k	£188k	£445k
Baby Boomers	£111k	£212k	£445k

LOCKDOWN MAY HAVE IMPROVED CHANCES TO SAVE

Proportion of Britons whose family saving rate has changed compared to before the coronavirus outbreak

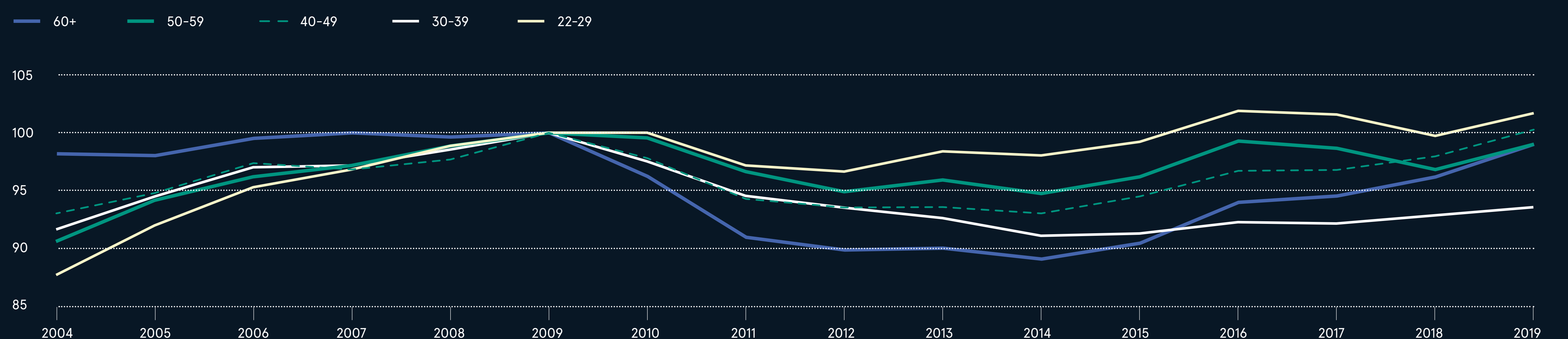


The Intergenerational Centre with Resolution Foundation and the Nuffield Foundation 2020

WEAKER PAY GROWTH HOLDING YOUNG PEOPLE BACK

The Intergenerational Centre with Resolution Foundation and the Nuffield Foundation 2020

The index of median real hourly employee pay in the UK shows that only those over 60 had comfortably surpassed their previous pay peak from a decade before, with 30-39-year-olds badly hit



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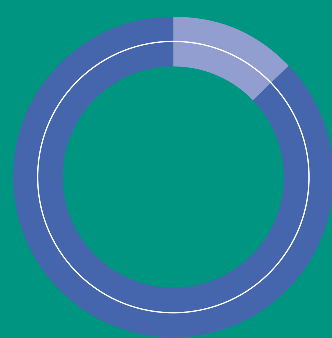
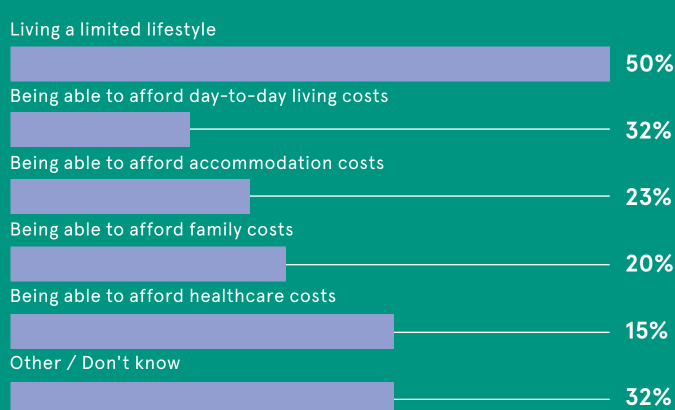
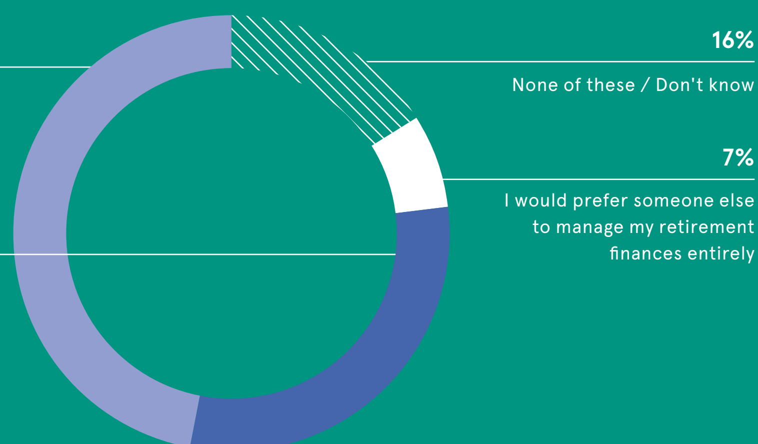






Has retirement technology been left behind in the 21st century?

A technology gap perpetuated by legacy systems in workplace pension platforms has left the retirement sector lagging behind in the innovation stakes, but disruption is coming

Driven by a wave of disruptive fintech startups in areas like neo banking, payments and insurtech, the financial services industry has been forced to embrace digital transformation over the last decade. Yet one of the largest markets of all, pensions and retirement, has largely been left behind, overlooked with lower-hanging fruit elsewhere.

By operating in very much a long-term, highly regulated sector, incumbent workplace pension platforms have faced less pressure from outside innovators than other segments of the market, creating a retirement technology gap. Innovation, historically, did not need to be a core competency for most sizeable retirement savings providers, putting them off from investing the large sums required to upgrade legacy systems.

But the rapidly evolving pensions landscape has created an impetus for change. The rise of defined contribution schemes, fuelled by auto-enrolment and regulatory changes allowing more freedom over pension pots, has left employers paying over the odds due to the inefficient processes of providers and their ageing workplace pension platforms.

"The pension industry has quite an archaic way of thinking about technology, whereas for most other industries technology is the thing you need to enable anything you are doing," says Michael Watkins, director of retirement propositions at Smart, a leading retirement technology provider in the UK. "It is only a matter of time before a number of pension industry providers are caught out for having waited too long to update their technology. If you don't adapt to the situation you are in, you will very quickly go bust."

Even if a provider's current software has been operating as expected, necessary upgrades and enhancements can be problematic. Software introduced even just a few years ago is likely to be out of date by now, and many tech providers will charge extra for enhancements or new versions and may no longer offer support for older editions.

For in-house systems, it costs money to maintain a fully skilled tech support team capable of reacting to these changes and implementing regular updates. In addition, a bespoke system needs to be able to "talk" to many other clients and providers to process transfers in and out. Without significant investment and scalability, providers will find it hard to keep up with changes to other systems that are vital to their ability to operate.

"Most workplace pension platforms are at least 16 years old and are often wealth platforms that then tried to do workplace pensions when suddenly auto-enrolment arrived and meant more than ten million people needed to get one," says Will Wynne, co-founder and group managing director at Smart. "When it was just large companies, it could sort of work because there was enough money for inefficient technology to still be profitable. When smaller employers joined, the market was terrified about scalability."

The broader picture is that this is a challenge which is not insurmountable. The benefits that technological innovation has brought to other financial markets can be viewed as incentives and opportunities for the pensions sector, providers and consumers alike, creating value and efficiencies and driving better outcomes and competitive advantage.

> **It is only a matter of time before a number of pension industry providers are caught out for having waited too long to update their technology**

With a background in finance and high-scale ecommerce platforms, the founders of Smart spotted an opportunity to create a more agile and cost-efficient pensions solution that works at the volume required. Designing its systems from the ground up, and in the cloud, Smart reassembled the key pieces and reimagined user experience with technology at the heart. Crucially, by releasing code up to 30 times a day, Smart can constantly iterate.

"We do a lot of research to understand what is working, what is not working, where are the painpoints, and then we can evolve and release new features, tweaking things as we go daily," says Wynne. "With the incumbents, meanwhile, if you are using one of the underlying software providers, you'll be lucky to get quarterly updates. Typically, it's biannually or annually. Then you might have to get a whole new version of the platform and be running two different types. We have one platform for the whole world and it can be configured for every local market and client, wherever they might be located."

A recent study by Smart highlighted the pace at which retirement is changing, accelerated further by coronavirus, which has prompted many to pay closer attention to their retirement income. Some 13 per cent of over-55s said they plan to delay their retirement due to the pandemic. In the UK, specifically, there is a growing desire to manage retirement saving and spending without any outside assistance, amplifying the need for solutions that help them understand their position and make better decisions.

In the same survey, Smart and YouGov found more than half of UK adults aged 50-plus worry about being able to afford their lifestyle when retiring, just one fifth see retirement as the single event it was the past and 47 per cent would prefer to manage all their retirement finances themselves. These statistics reflect large shifts in the way people want to retire, intensifying the gap in the ability and technology to guide them on the journey.

Smart's fully integrated digital platform is approaching one million savers across the UK and other countries including the Republic of Ireland and Dubai. The team is currently hiring a further 100 engineers, supporting Smart's forecast to reach ten million members on the platform within a couple of years. This scale provides unique insight into the behaviour of members and interactions with their savings, which can be used in partnership with clients to improve the outcomes and overall experience for members.

In the same way Smart has revolutionised the accumulation journey, it is now revolutionising the decumulation journey through its Smart Retire solution, enabling individuals to chart their entire investment life plan from beginning to the end.

"Retirements are no longer a one-off event and everybody's is different. As our systems were built at the individual level, we can personalise every investment journey and strategy," says Wynne. "When you get to the end of your working life, you can take the money you have accumulated, break it up and use it in a sensible, flexible way through the course of retirement. You can have personalised investment planning all the way through your life and then flow that into retirement. That's not been possible until now: a truly end-to-end life journey that reflects your own circumstances, needs and beliefs."

For more information please visit www.smart.co

Stephen Smith via Gettyimages

QUANTITATIVE EASING

How government involvement could change investing

Quantitative easing may be a bitter pill, but it comes with its own spoonful of sugar and is certainly better than the alternative

Pádraig Floyd

Restricting the spread of coronavirus has disrupted the entire economy. With businesses unable to trade, the government launched a series of stimulus packages to shore up the economy and maintain social cohesion.

The cost of this was met by the government creating more money, by issuing debt. Raising cash at a time of great uncertainty can be risky, so quantitative easing (QE) was used to support the project.

QE is throwing money at the problem

Central banks use QE to create money by buying government-issued bonds from banks and other investors, generating cash to be pumped back into the economy.

There is nothing new about it. When the banks began feeling the pinch caused by bad debts as the credit crunch became the financial crash in 2008, the Bank of England stepped in to smooth things out.

The cost of keeping banks open and protecting consumers rose to £445 billion by August 2016. In the past year, QE has more than doubled this figure to £895 billion by November 2020.

> **I'm more worried about stimulus being pulled back too soon, rather than too late. We haven't finished this crisis yet**

We're all in it together

The UK is in good company when it comes to the application of QE. The US Federal Reserve, European Central Bank and Bank of Japan increased their balance sheets by $8 trillion in 2020. However, quite apart from having to pay back the debt, QE comes at a cost, by making all assets, not just bonds, more expensive.

"With central banks buying massive amounts of government, or in some cases, corporate bonds, some investors can no longer just hold on to bonds and are forced to look at other, riskier assets," says Celene Lee, principal and investment consultant at Buck.

An increase in demand for government bonds, pushes up their price, but reduces the returns on those bonds. The amount repaid to the purchaser over the time it is held is the yield and typically yield curves would increase as durations increase. But QE not only lowers the curve, reducing yields on all bonds, but flattens it, so that longer-duration bond yields resemble those of shorter duration.

QE makes all assets more expensive

The return on government bonds is usually referred to as the "risk-free rate" and is the benchmark other asset classes are generally measured against when it comes to risk.

"When you start to move away from that to credit, corporate bonds for example, you're taking on additional risk," says Chris Iggo, chief investment officer at AXA Investment Managers.

"Normally you're compensated by getting higher yield, but that difference has been reduced. And so investors have been driven into riskier asset classes to get the yield they need for their objectives."

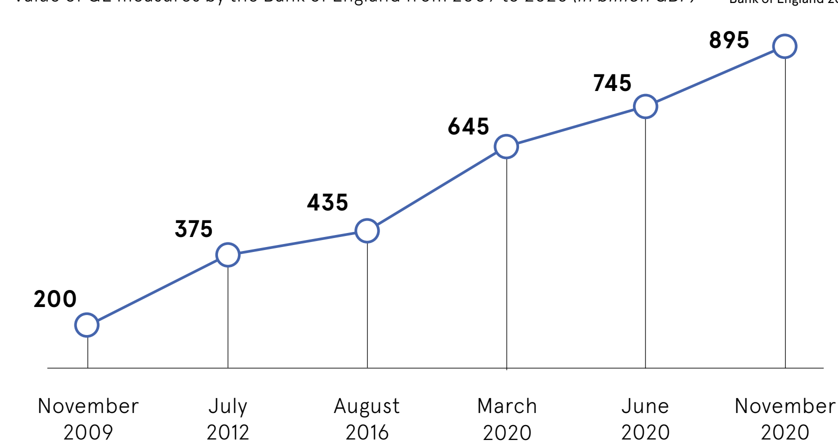
Risk is not a bad thing, provided you can afford it. The search for returns has resulted in booming equity markets and it is government intervention that has boosted investor confidence.

"These measures have been largely responsible for driving the recovery of markets, most of which have returned to, and in some cases surpassed, their pre-crash peaks from early last year," says Maike Currie, investment director at Fidelity International. "The steps taken early on provided investors with much-needed confidence following swings in volatility."

QUANTITATIVE EASING SHOOTS UP

Value of QE measures by the Bank of England from 2009 to 2020 *(in billion GBP)*

Bank of England 2020



Growth will also have a positive impact upon some markets, such as commodities, driving up the price of oil and other important materials. These markets have been suppressed while economies were in lockdown.

Avoiding a temper tantrum

Melanie Baker, senior economist at Royal London Asset Management, says the "swift policy action" limited the "short and long-term damage to the economy" that would have been caused had central banks not intervened.

Concerns that asset price inflation will lead to broader inflation in the economy – one of the key responsibilities of central banks – are valid, but premature.

"I'm more worried about stimulus being pulled back too soon, rather than too late," says Baker. "We haven't finished this crisis and though we can see some light at the end of the tunnel with vaccines, we're not there yet."

In 2013, the Federal Reserve announced it would reduce its QE programme, leading to a panic that the markets would fail due to a lack of liquidity.

This event was referred to as the "taper tantrum", but there is a danger investors become used to QE as the norm, with any reduction in the supply being met with violent reactions, much like a drug addict going cold turkey.

The future is bright and may be green

Despite concerns about the medium-term effect on investment markets from the influence of QE, increased demand for policies to combat climate change presents attractive opportunities for investors.

"ESG [environmental, social and governance issues] and energy transition provide the potential for a kind of longer-term economic expansion that could be equivalent to a kind of fourth industrial revolution, where returns may be supercharged because of all these new investment opportunities," says Iggo.

Reversing the communication breakdown

As Baker points out, it is too soon to say how governments will begin to unwind QE. But one thing the government and central banks can do now, says Iggo, is to improve their communication on the economy and their strategies to manage it.

"There needs to be more clarity and it's the same with fiscal policy, which simply confuses people," he says.

There are those in government, says Iggo, who want to see spending cut and taxes raised as soon as possible. This may not be appropriate when they want to see it done and the mixed messages of opinions and policy confuse everyone and reduce confidence.

How governments manage their QE policies is likely to become a yardstick for their overall performance. This is because QE is here for the foreseeable future and will not be reversed during the term of this administration or even, perhaps, under a number of future governments. ●

RACIAL EQUALITY

Tackling pensions' diversity problem

Organisations need to deliver on commitments to take action on diversity after admitting not enough was done in the past, but optimism is growing as new initiatives are launched

Yasemin Craggs Mersinoglu

Klaus Vedfelt via Gettyimages

After a legacy of limited racial diversity within the pensions industry, company pledges to increase representation have risen up the agenda following the killing of George Floyd and the Black Lives Matter movement.

Just 7 per cent of the Pensions Regulator's workforce declared they were from a Black, Asian or ethnic minority background as of March 2020, which is significantly lower than the 14.4 per cent of the UK population these communities make up.

The regulator now has a diversity and inclusion committee and chief executive Charles Counsell has pledged "to encourage, support and, in some cases, cajole the organisations we regulate to better embrace the need for diversity and inclusion particularly on trustee boards".

As well as being the right thing to do and better reflecting customer bases, research shows taking action on this has financial benefits. According to a report by McKinsey, companies in the top quartile for ethnic and cultural diversity are 36 per cent more likely to outperform their peers in profitability. Sandra Kerr, race equality director at Business in the Community, suggests pension companies should monitor all stages of recruitment to see where interventions, such as pre-application days and diversified panels, need to be made.

It is also important, particularly where there are no role models in senior positions, to provide a transparent career path for progression and opportunities for shadowing executives "so when the doors are open, you have people with the expertise and who are board ready", she says.

A number of cross-firm schemes, including Classroom to Boardroom and the Catalyst After School Program, have been set up to try and develop a diverse pipeline into the pensions industry. Following the huge success of the #100BlackInterns initiative, which started with the pension and asset management industry, the 2021 summer programme has been quickly expanded to help 10,000 Black interns over a five-year period.

Pension provider Aviva is one of the participants and also runs both its own ethnic minority leadership programme for employees and the Origins intern programme to support younger generations from minority backgrounds. The company launched a Black Lives Matter Action Plan in September 2020, working with experts from each market to localise this.

Sabina Khanom, Aviva's head of inclusion, says: "For such internal initiatives and internship schemes to succeed, they must have a clear purpose, resources and buy-in from the business areas and leaders."

It is crucial staff at all levels actively engage to ensure productive outcomes. Sachin Bhatia, co-lead of the Diversity Project's newly created race and ethnicity workstream, believes interns should meet senior executives and rotate around departments so more employees can see the added value of utilising a different talent pool. "You get a better idea of how diversity can impact your firm," he says.

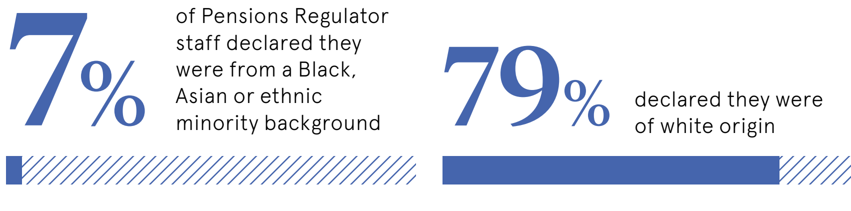
However, such schemes must also be accompanied by increased representation at the top and changes across the entire organisation to effectively make a difference. Raj Tulsiani, chief executive of Green Park and co-founder of Race Equality Matters, warns: "For some it's going to do absolutely nothing long term unless they're given roles, and then there's a culture and systemic approach to development that allows them to get forward on: a true even playing field."

There is a growing trend for US public pension funds to use diversity criteria as part of due diligence. New York City comptroller Scott Stringer, for example, has asked for details of workforce, leadership and board composition, and allocated specifically to emerging managers and minority-owned businesses.

Bhatia, who is also head of UK core institutional and consultants at Invesco, says the UK, Europe, Middle East and Africa are now also moving in this direction. "What we need to see is a greater effort of capturing that data and some uniformity across firms of how that's presented," he says.

Asset owners can therefore potentially demand racial diversity in other employers by using it as investing criteria, but should not wait for the completion of collection to tackle the industry's racial diversity problem.

However, there does now appear to be a more widespread intention to address this issue and the first steps are being taken. "I do think we'll see some tangible change over the coming years," says Bhatia.



7% of Pensions Regulator staff declared they were from a Black, Asian or ethnic minority background

79% declared they were of white origin

The Pensions Regulator 2020

> You have to care about belonging as much as you care about the bottom line

#10000Blackinterns

Dawid Konotey-Ahulu is a champion for diversity and inclusion in the pension industry as the co-founder of a number of grassroots initiatives, such as #10000BlackInterns, which he believes have a chance of moving the dial. "I think we're potentially seeing some real change and real impact in quite a short period of time, which is very exciting," he says.

Over the past few years, more young people have reached out to ask Konotey-Ahulu, who is the co-founder of Redington and mallowstreet, for advice about navigating the industry because they do not feel like they belong or are able to progress in it. His initiative #TalkAboutBlack identified only 13 Black portfolio managers in UK asset management.

However, Konotey-Ahulu is optimistic the next decade will see pension companies addressing their own culture and more Black people in middle-management roles moving up with the belief they could become the chief executive. His positive outlook is based on the values of the new generation coming through and firms beginning to look at the S in ESG (environmental, social and governance).

He thinks the lack of racial diversity has not previously been tackled because of the "cognitive dissonance" of chief executives, in which solely commercial metrics were used to measure success. "You have to care about belonging as much as you care about the bottom line and about your share price," he says.

Konotey-Ahulu has been involved in recent executive and all-staff company calls about diversity. He says: "If you're prepared to have that kind of conversation, do something about concerns raised and hold yourself accountable, then I think change starts to happen."

For the pension industry to increase representation, Konotey-Ahulu concludes, chief executives must not sideline the issue to human resources and businesses should actively seek out future Black talent by telling schoolchildren there is a seat for them in the future.

OPINION

"It is our job to influence and shape the world we will live in, to act as allies where we can to enact change"

The year 2020 has been described as one few saw coming: a curveball, a wrecking force, the year that blindsided governments, businesses and individuals alike. The coronavirus pandemic pushed through innovation, technology adoption and the need to think differently. There was an overwhelming requirement to avoid being constrained by what "used to be" or "the way things have always been done".

As British historian David Olusoga says, in 2020 the volume on everything in the world was turned to zero because of the pandemic and resulting lockdowns, and the underlying hum of society could finally be heard. The consequences of being able to discern this hum have been absolutely remarkable. In particular, 2020 was the year the role of the ally became incredibly important in driving and delivering change in our society.

What has been done to combat COVID-19 – the sheer volume of resources, money and intellectual capital deployed – has been extraordinary and shows what the world can achieve when faced with a severe threat. COVID has demonstrated the co-ordinated global mobilisation of trillions of dollars to take on an issue is possible.

Imagine if even a fraction of this commitment was dedicated to, for example, combating climate change. Suddenly, paradigm shifts and huge leaps become eminently possible. Every meeting I have with an asset manager now covers this topic, regardless of what was on the agenda. The industry seems to be finally listening and responding.

Pension funds are leading the discussion, posing very direct, and sometimes difficult, questions to those who are managing the funds' assets. You are seeing them act as true climate and ESG [environmental, social and governance] allies, being the drivers of change and helping to shape a society far beyond the discussion of investments or retirement savings.

A further area of change has been around the issue of representation. For years, the investment management industry has had a problem with diversity. For example, there are only 14 Black portfolio managers; pick your statistic, but there is a problem.

I am now seeing firms within the investment management industry becoming allies. For example, more than 200 firms have backed the 100BlackInterns Programme. The ask is simple: provide a paid internship for a minimum of six weeks in a front-office or portfolio management role. The programme will run this summer and has now expanded to cover 20 sectors in the UK (10000BlackInterns), with the aim of delivering 10,000 internships for Black candidates over five years.

The 100BlackInterns and 10000BlackInterns programmes are both examples of real, tangible change, with the investment management industry taking the lead.

The pension industry exists to help people have the money and financial resources they need to fund their retirement. I'd argue it is also our job to influence and shape the world that we and those who we invest on behalf of will live in, and to act as allies where we can to enact change. Equally as important, we need to have a diverse set of individuals at the core of our industry, helping to make great decisions for those saving for their retirement.

I think we should embrace the opportunity to have the volume turned down for a few more months and listen to the underlying hum of society a bit closer. Allyship is so powerful and there are so many more issues that need to be addressed. I've just offered two examples that I've been lucky enough to be involved in. The big question is, when the volume does get turned up again, what will each of us be doing differently? I have my list, but what's on yours?

Stuart Breyer
Chief executive, mallowstreet

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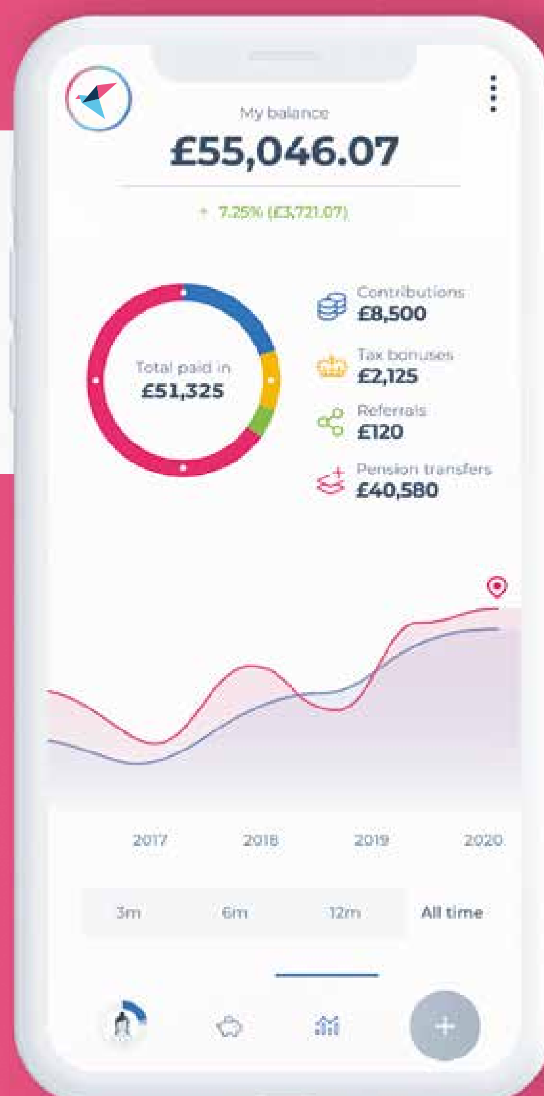

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TAX

Understanding how your pension is taxed

A wide range of tax benefits have been created to encourage workers to save for retirement. But what are they exactly and which might be at risk in future Budgets?

Jessica Bateman

> Trying to guess a chancellor's next move is a tricky game

There's no question about it, pensions are officially the most tax-efficient way you can store your money in the UK. A whole range of incentives have been developed over the years to encourage workers to save for retirement and for their employers to assist them.

However, they can also be quite complicated. According to Jon Dean, head of retirement strategy at financial consultancy Altus, explaining taxation remains "one of the biggest challenges for pension firms when encouraging people to save for the long term". Yet understanding them will help ensure your pension pot goes as far as it can.

Adding to the complexity, these benefits may shift slightly whenever a new government policy is announced. Currently, there is speculation over what might be unveiled in chancellor Rishi Sunak's March 2021 Budget.

With the coronavirus pandemic and related recession pushing public borrowing to record levels, it's likely the government will be looking to make savings wherever it can. So how might we see the way pensions are taxed change and what can we do to best prepare?

One of the most important pension tax benefits to understand is the tax relief offered on contributions up to £40,000 a year. For every £80 a basic-rate taxpayer in the UK, excluding Scotland, pays into their pension, the government tops it up to £100. This reduces to £60 for higher-rate taxpayers and £55 for additional-rate taxpayers.

"Less well understood is the fact you can still save up to £3,600 a year into a pension, or for children if you're not working, and still benefit from the government's 20 per cent uplift," advises Dean. So in effect, this would only cost you £2,880.

There have been calls over the years for tax relief on higher earners to be reduced. According to Dean, additional-rate taxpayers make up only 11.7 per cent of the workforce yet represent half of all tax relief. There have even been suggestions that a single flat rate of tax relief should be introduced.

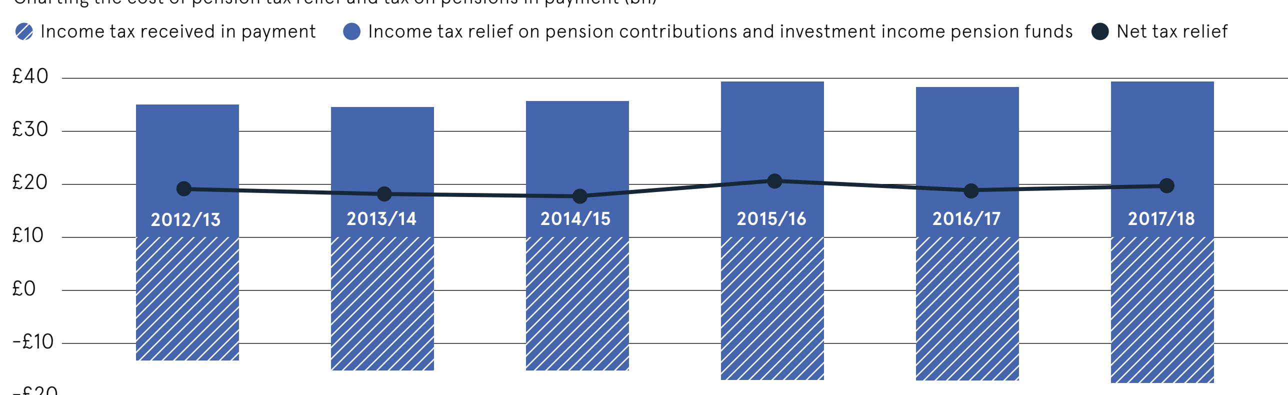
Dean describes this as "a political hot potato" that would particularly impact those with public sector pensions, which are tied to salaries, the very same people who have been shouldering society during the pandemic.

Neil Jones, tax and wealth specialist at Canada Life, says governments keen to make savings are more likely to lower the total size of the pot that can be kept tax free, rather than interfere with tax relief. This is the total amount you can have stashed away without any of the interest on it being taxed. It currently stands at £1,073,100, but has been higher in the past.

WILL PENSION TAX RELIEF CONTINUE TO RISE?

Charting the cost of pension tax relief and tax on pensions in payment (bn)

Income tax received in payment · Income tax relief on pension contributions and investment income pension funds · Net tax relief



HM Revenue and Customs 2019

Another major aspect of pension taxation is the tax-free lump sum. When you first dip into your pension pot, you can take 25 per cent out and use it as tax-free income. Previously, this was released when you took out an annuity – a type of insurance contract that gave you an income from your pension for life – until then-chancellor George Osborne introduced what's known as "pension freedoms" in 2015.

These allow all savers to dip into their pensions from the age of 55 onwards and were designed to reflect the changing nature of retirement. The lump sum can, for example, supplement part-time work or be used to plug the gap between early retirement and the state pension kicking in.

However, the current economic climate may have forced some of us to dip into this just to make ends meet. HM Revenue & Customs figures for the fourth quarter of 2020 show there was a 10 per cent increase in flexible withdrawals from pensions compared to the same period in 2019.

Tom Selby, senior analyst at investment platform AJ Bell, warns that anyone wishing to use their pension in this way needs to be aware of the tax implications as once you withdraw more than 25 per cent, the amount of contributions you can enjoy tax relief on drops from £40,000 a year down to just £4,000. This means that topping your pot back up becomes increasingly difficult. "We are pushing the government to look at whether something can be done to make this fairer," he says.

Dean adds that capping the tax-free lump sum could be an alternative money-saver for the government; a similar cap was recently introduced in Ireland. "However, the lump sum is the best understood part of UK pension rules," he adds. "So this would just be adding further complexity."

For those in the opposite situation, with a pension pot so large they won't get through it all before they die, there are also benefits as the pot can be passed down to beneficiaries free of inheritance tax if death is before the age of 75. This means that, for those with enough assets, it's better to work through ISAs and money gained from property before withdrawing your pension. Most experts don't see this changing for the time being, but it would certainly be less politically risky than chopping other tax benefits.

One rumour currently doing the rounds is that the Budget could include changes to capital gains tax, with the percentage paid potentially being tied to an individual's existing tax bracket. If this does materialise, Selby says it would create an even bigger incentive to invest as close to your annual £40,000 allowance in your pension as possible. "Moving your money into a self-invested personal pension and ISAs could become a better move than property investments," he adds.

Overall, experts advise educating yourself on the benefits available and keeping track of any changes that may affect you remains the best way to prepare for a comfortable retirement. "The starting place for most people is always their workplace pension," says Selby. If you can afford more than your £40,000 annual allowance, then seek independent financial advice on where the best place for your money is. "Trying to guess a chancellor's next moves is always a tricky game," Selby concludes.

Commercial feature

Financial wellbeing in a post-COVID world

The coronavirus pandemic has changed the way we live, it might also change the way we think about financial wellbeing

People nearing retirement have been adversely impacted by the events of the past year, particularly those whose work situations have changed either through redundancy, furlough or just weaker economic prospects for their industry. All this uncertainty means people should be paying closer attention to their pensions and ensuring their financial plans are still on track.

"The first step for anyone who is over their late-40s is to make sure they know what the target dates on their pension plans are and are they actually in line with their retirement plans," says Rachel Meadows, head of proposition for pensions and savings at Broadstone.

There are a number of key questions people should be asking themselves. Do you know where your pension is invested? Do you know at what age it is going to pay out? Do you know how much it is going to pay out and is that enough for what you actually need in retirement? Have you even thought about what you need in retirement?

94%

of recently surveyed employees valued a financial education webinar provided by their employer

72%

of these employees also said that following the webinar they would consider taking financial advice in the future

Broadstone Mid-Life MOT Feedback Survey 2020

To help with this, more and more employers and pension scheme trustees are increasing the amount of pre-retirement financial education they are providing their employees or scheme members, including deferred scheme members who may not work within the business anymore, says Meadows. This is often in the form of webinars, access to advice, videos or other guides, such as animations, which can help people better engage with and understand their pensions.

The pandemic has also highlighted potential pitfalls for people on defined contribution plans who had planned to draw down their pensions rather than buy an annuity.

"That's all been absolutely fine when markets were just on a steady upwards bull run since the credit crunch, but last year was the first reality check since pension freedoms either for people who had gone into drawdown themselves or people planning to go into drawdown and suddenly this is the first time they've seen their fund values plummet in any meaningful way for a long time," says Meadows.

In addition, the pandemic has shown many people are unprepared to withstand economic shocks, such as when their income levels drop unexpectedly. While people might have built up healthy pension pots, they don't always have savings on hand to help them through financial emergencies.

"Increasingly employers are looking to provide standalone workplace ISAs, which are not redirecting money from pensions savings but try to give employees an easy way to build up some short-term financial resilience," says Meadows. "Employers recognise short-term financial worries can cause their staff to lose focus and be less productive."

Financial wellbeing education also extends to providing younger people with advice and guidance about their pensions. Often it is the last thing people in their 20s or 30s are thinking about, particularly with competing financial pressures, such as housing costs. But taking action early can make a huge difference.

> Employers recognise short-term financial worries can cause their staff to lose focus and be less productive

Another risk to financial wellbeing that has become elevated during the pandemic is a rise in pension scams. Employers and scheme trustees must ensure their employees or scheme members are alert to potential scams by providing details on what to watch for, such as cold-callers claiming to be from a workplace pension provider or people claiming they can offer guaranteed returns.

"Even if it seems authentic, check with your employer or your scheme trustee," says Meadows. "You don't get a second chance with your pension savings. It's better to be an awkward customer than a swindled customer."

Employers and trustees are increasingly feeling morally and commercially compelled to do more for their employees to support their financial wellbeing. Doing nothing is a risky strategy and a lack of leadership in this area is unlikely to pay off long term.

For more information please visit www.broadstone.co.uk

BROADSTONE

OPINION

'Once we're on the path to recovery, we need the government to follow through on its promise to increase and expand auto-enrolment'

First, the good news: automatic enrolment in workplace pensions has been a resounding success; ten million more people are now saving.

However, contributions at the minimum auto-enrolment rate of 8 per cent, plus the state pension, are unlikely to provide a good income in retirement.

According to our analysis, at these rates 51 per cent of savers are unlikely to meet the Pension Commission's target replacement rates. For the increasing number of people with only a defined contribution pension scheme, where contributions tend to be lower than for defined benefit schemes, just 3 per cent will have enough.

To compound the problem, people are living longer, the cost of care is increasing, home ownership, particularly among younger people, is down and generous defined benefit schemes are increasingly rare, especially outside of the public sector. All that is before we consider the impact of the coronavirus pandemic on people's financial health.

Worryingly, despite this reality, more than half of savers believe that the minimum auto-enrolment rate is the recommended amount to save for retirement. Savers will not reach the right savings rates if they don't know how much they need.

One key way to ensure people save enough is that they have a clear picture of the lifestyle they want in retirement and how much it will cost. This is why the Pensions and Lifetime Savings Association, with Loughborough University, created retirement living standards to show what life in retirement looks like at three different levels.

A single person will need about £10,000 a year, after housing costs, to achieve the minimum retirement living standard. This will give them enough money for their essential needs, plus a little extra for fun, like an annual UK holiday and budgeting for grandchildren's presents.

At the moderate level, £20,000 a year will provide more financial security and flexibility. This might mean enough money to run a car and to holiday in Europe for two weeks a year. A comfortable retirement provides more financial freedom and room for luxuries and will cost around £30,000 per year. If a couple is sharing costs in retirement, the cost per person falls to about £7,500, £15,000 and £22,500.

A full state pension will more or less achieve the minimum retirement living standard. And if someone has private pension savings, such as those from auto-enrolment, they will have additional income which will help them rise above the minimum level and be on their way to having the retirement lifestyle outlined at the moderate and comfortable levels.

But savings inertia means people need more than an idea of their future retirement spending if they are to fully address the problem. They need help from the system.

Once we're on the path to post-COVID recovery, we need the government to follow through on its promise to increase and expand auto-enrolment so the value of savings is based on each pound of earnings and applies to anyone over the age of 18, rather than 22. The government has said it will make this change by the mid-2020s.

And, to ensure everyone has a good retirement income, the minimum level of auto-enrolment contributions should be lifted from 8 to 12 per cent by 2030. We think it would be fair if the cost of contributions is split 50-50 between employers and employees.

As a result, if this reform were introduced, employers would be asked to increase contributions from 3 to 6 per cent and employees from 5 to 6 per cent. Of course, reform should include the option for people on lower incomes to opt down to 8 per cent if they are concerned about affordability.

Our vision for the pension system seeks to remove the risk of the poorest outcomes, to fully address the savings gap and help more people achieve a better income in retirement. ●

Nigel Peaple
Director of policy and advocacy
Pensions and Lifetime Savings Association

10'000 Hours via Getty Images

PENSION SCHEMES ACT

2021: A landmark year for pensions?

Fresh on the statute book, the Pension Schemes Act promises much but will it deliver?

Stephanie Hawthorne

The newly minted Pension Schemes Act 2021 heralds momentous change. The ambitious legislation provides greater safeguards for the £2-trillion defined benefit (DB) pension sector by extending the Pensions Regulator's sanctions regime with three new criminal offences, seven-year jail sentences for wrongdoers and civil penalties of fines up to £1 million for those who recklessly neglect their responsibilities to members.

The act also brings in new funding requirements, including the need for DB schemes to set a legally binding long-term objective, and a framework for the long-awaited pension dashboard with an optimistic launch date of 2023. The idea is to bring pensions into the digital age, making information about retirement savings available to savers via their smartphone, tablet or computer screens, thereby revolutionising the way we plan for later life.

Savers will also be better protected from scams by tightening the rules and guidance required around transfers, ensuring suspect moves are red-flagged and cannot proceed before expert guidance is sought. Trustees too will have new duties to assess and report on the financial risks of climate change within their portfolios.

Commenting on the new legislation, minister for pensions and financial inclusion Guy Opperman says: "It has made pensions safer, better and greener. Safer, by cracking down on scams and unscrupulous bosses. Better, by making pensions more accessible through the dashboard. And greener, by encouraging investment in a more sustainable way."

But beyond the well-meaning intentions of the government, whether the act will achieve its laudable objectives is open to question.

The collapse of BHS and Carillion with black holes in their pension schemes highlighted glaring weaknesses in pensioner protection. More widely, 3,149 of the 5,318 remaining DB schemes have a massive total deficit of £212.4 billion and are in a precarious position.

Former pensions minister Baroness Ros Altmann stresses: "Too many employers seem to have managed to pay handsome bonuses to senior staff, for example, while leaving their pension deficit unaddressed."

There may be yet worse to come with the coronavirus pandemic likely to lead to many more firms failing with their pension funds in the red, so it is in the nick of time that the Pensions Regulator has been granted these extensive powers.

Could the cure be worse than the disease? Employers and their advisers could now face criminal sanctions for wrongdoing based on what they should have known, but 20:20 vision in hindsight is nigh on impossible. This will lead to boom time for pension lawyers as employers will be fearful to take a step without their advice. Legal fees could go through the roof.

> It could take many years before we have systems that can reliably access pension data and convert it into the dashboards envisaged

But only a very few pension trustees have faced a jail sentence so change here seems unlikely. Much depends on how the regulator uses its new powers with further guidance expected this year.

Of seminal importance is the long-awaited dashboard which takes one step nearer to fruition. Left unchecked, by 2035 there may be 27 million small pension pots, according to research by NOW: Pensions and the Pensions Policy Institute, many lost and forgotten. The pensions dashboard will remedy this by displaying everyone's pensions in one place.

"The act is an important milestone," says Chris Curry, principal of the Pensions Dashboard Programme at the Money and Pensions Service, "as it unlocks the next stage of law-making around dashboards, which will make it compulsory for pension schemes and providers to connect to the dashboards."

But it is also dauntingly difficult. Charles Cowling, chief actuary at Mercer, notes: "Highly complex pension data is stored on old systems, which are often unreliable and not standardised, and there are no agreed standards for benefit calculations or even consistency of terminology. Even state pension records are unreliable. It could take many years before we have systems that can reliably access pension data in a standard form and then convert it into the dashboards envisaged for members."

The volume of data involved is going to be eye-watering and a big risk in terms of careful management. Tyron Potts, associate and head of pensions research at Barnett Waddingham, says: "Security of this data will be paramount and delivery will be complex, requiring collaboration between hundreds of different providers and pension schemes."

Public service schemes face a particular challenge. Sir Steve Webb, former pensions minister and now partner at LCP, warns: "Many of them already have record-keeping issues. The McCloud judgment on age discrimination could create a huge amount of work; public service schemes are already indicating it could be years before they are in a position to devote resources to supplying data to a dashboard."

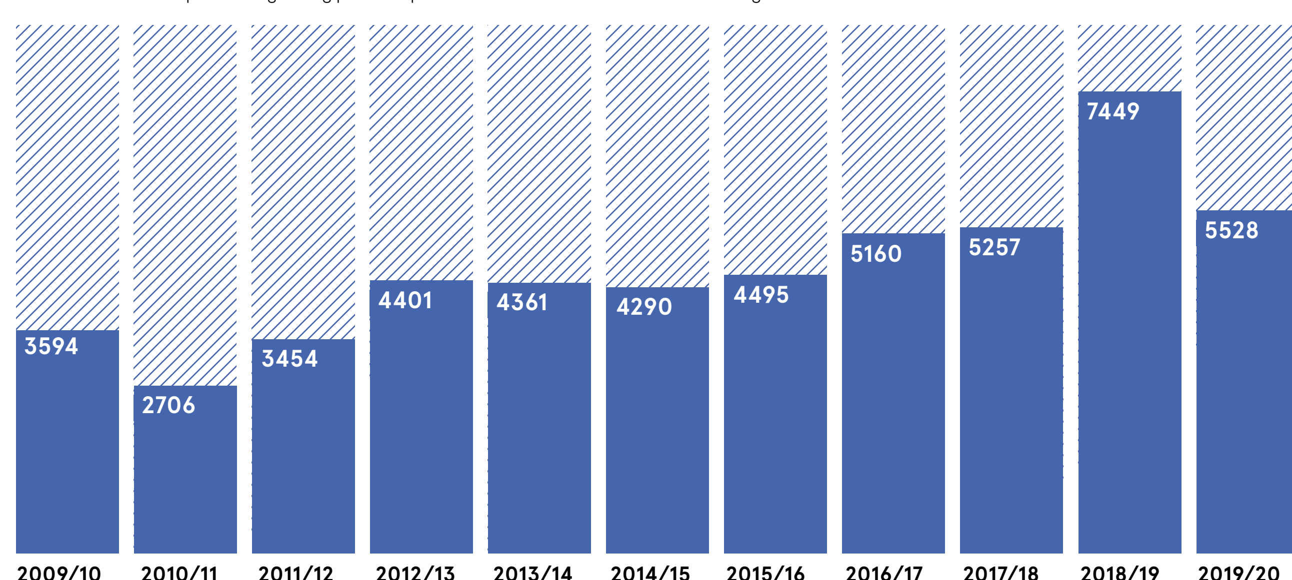
Anyone who expects an all-singing, all-dancing dashboard with comprehensive information by 2023, and with a system akin to open banking, will be disappointed, for different types of scheme will come online at different times. The fear is that, with incomplete information, consumers will not trust the dashboard and will not use it.

Climate change is also creeping up the agenda, with the likes of Sir David Attenborough and *Love Actually* director Richard Curtis pushing the £6-trillion pension industry with its massive buying power to go green. The new legislation recognises this with an emphasis on schemes to consider the climate change impact of the investments they make on behalf of members and publish information on how this has been achieved.

Finally, the Pension Schemes Act also opens the door for Royal Mail's new-style collective defined contribution scheme. Watch this space.

WILL THE ACT DELIVER GREATER SATISFACTION?

The number of complaints regarding pension products and services in the United Kingdom



Financial Ombudsman Service 2020

Could the Pensions Regulator's new powers have unintended consequences?

Are industry professionals right to be concerned and might consolidation help manage this risk?

When the UK government introduced the Pensions Act 2004, the new "moral hazard" powers granted to the Pensions Regulator were meant to prevent business owners from walking away from their pension scheme obligations.

However, after a number of high-profile insolvencies, including BHS and Carillion, left significantly underfunded pension schemes, the government began questioning if the regulator had sufficient powers to police the industry effectively.

Yet as the new Pension Schemes Act 2021 comes into force, many in the industry are now left wondering if the regulator's revamped powers go too far, says Michael Collins, pensions partner at Gateley Legal.

Stuart Evans, pensions partner at Gateley Legal and director of Gateley's trustee company Entrust, believes the changes will increase the drive towards a more professional approach to pension scheme governance, including greater uptake of operational consolidators.

Under the new rules, which introduce a number of criminal offences, the regulator can impose far stiffer sanctions of unlimited fines and up to seven years' imprisonment, as well as wider powers to issue contribution notices to those who have taken actions that either reduce the value of an employer's resources or reduce the amount a scheme is likely to recover in the event of an insolvency. In addition, liability is no longer limited to just those connected with the employer.

"These criminal offences can be applied to anybody involved with the scheme or its sponsoring employer, so it could cover advisers, the trustees themselves, investors or banks. Anybody involved in a business with a defined benefit pension scheme has to have one mind on this potential criminal offence," says Collins.

The onus will be on the individual or organisation to demonstrate they were acting reasonably. Consider a bank lending to a business with a defined benefit scheme. If that bank asked for security so it ranks ahead of the pension scheme in the event of insolvency, could the bank be at risk of sanction?

"In circumstances like that you would be confident you could show a defence of reasonable excuse, but your starting position as a bank or a bank's adviser is you're potentially treading into criminal territory, so it could put some banks off lending to businesses with defined benefit pension schemes," says Collins.

Evans adds that anyone looking to invest in a business that has a defined benefit pension scheme is also potentially bringing themselves within the scope of these powers.

"However, any strategy that has the agreement of a professional independent trustee will almost certainly clear the reasonable excuse hurdle," he says.

As well as potentially deterring legitimate business activities, the new contribution notice powers could have unintended consequences by causing employers and trustees to focus on the short term rather than what is in the interest of the pension scheme in the long term.

"Because of the pandemic, many sponsoring employers are struggling financially," says Collins. "From a trustee's perspective, the best chance of members getting their pensions paid in full is if the employer is there for the long term, because if the employer was to become insolvent, the scheme would only get a fraction of what it needs to secure the members' benefits."

> The key will be making sure you can demonstrate you can justify any actions you take

The potential problem with the new contribution notice powers is they might deter the parties from agreeing to actions that could help secure the long-term viability of the employer, because in the short term they reduce the employer's resources or the amount the trustees would recover in an insolvency.

"Sometimes a short-term reduction in what the trustees would recover in an insolvency might make that insolvency less likely," says Collins.

Evans says a professional trustee can help overcome these difficulties by factoring in the pension scheme's long-term funding target, which is another priority for the regulator.

While the new legislation has only recently received Royal Assent and the regulator is yet to issue guidance on its enforcement policies, employers should still start preparing for the changes.

"Although these new powers will not be retrospective, people should have one eye on them now," says Collins. "The key will be making sure you can demonstrate you can justify any actions you take. The starting point of that is showing you considered the effect on the pension scheme, took appropriate advice and agreed any actions with the pension scheme trustees. If you can show you have done this, it will be difficult for the regulator to show you didn't have a reasonable excuse."

Evans adds that a professional trustee will assist greatly in such scenarios and this will accelerate the consolidation of the pensions market towards more efficient scaled-up solutions, such as shared service platforms and master trusts.

Despite criticism of the breadth of the new powers, Collins is hopeful some of the pension industry's misgivings prove to be unwarranted, not least because similar concerns about the impact on legitimate business activities were raised in 2004.

He also expects, like in 2004, there will be a spike in clearance applications, where employers can seek regulatory approval for any plans they have by outlining how they would impact the pension scheme, but that these too are likely to recede over time. After the original provisions were introduced in 2004, there were more than 200 clearance applications submitted annually for the first few years, but by 2019 there were just three.

"There will be a period when people are getting a handle on what's acceptable and what isn't, and that's where we as advisers can help," says Collins.

The industry is also hopeful that the regulator will only use its new powers to prosecute the very worst offenders. The regulator has said it will use the new powers proportionately, which is consistent with its current approach.

"The regulator has only used its existing powers a handful of times; instead it uses its existence as a deterrent," says Collins. "The regulator has reported several cases where it has stopped short of using its powers, but the threat of those powers has been enough for it to negotiate a good outcome. That will likely happen more often than not with the new powers. If the regulator has concerns, it will investigate and bring all the parties to the table, with the threat of criminal sanctions seen as another tool in its armoury to drive better behaviour."

For a comprehensive guide on how to deal with the new powers visit gateleyplc.com/pensions

Gateley

Commercial feature

Q&A

Technology powers the path to sustainable retirement income

Steve Charlton, SEI's managing director for defined contribution, Europe, Middle East, Africa and Asia, reveals how technology can enable savers to get the most from their defined contribution pension

Q Auto-enrolment has helped fuel the rise of defined contribution pensions. How have the ways in which employers deliver these schemes to employees evolved?

A There has been a significant shift from group personal pensions and trust-based pension schemes towards master trusts after regulation made the former more onerous. Multiple non-connected employers use the same master trust environment and it's a completely outsourced service. Even the governance is outsourced to third-party trustees, so there's no decision-making by employers other than which master trust they use. They just pay across their contributions. A couple of years back there was probably about 100 master trusts, which The Pensions Regulator said was too many, and some weren't particularly well run, so it introduced an authorisation process. This not only reduced the market to around 30 master trusts, but also ensured employers and pension scheme members can receive a very professional service with good protections.

Q How does the experience of retiring through a defined contribution scheme contrast to that of a more traditional defined benefit scheme?

A It's much more complicated, which will be highlighted in the next five or ten years when the first people with only defined contribution benefits to rely on reach retirement. With defined benefit schemes, you get what you are given. There is no flexibility, but a lot of certainty. With defined contribution, you have to make the decisions about how you take your benefits yourself. There is a lot more freedom about what you do with your pension pot, but also risk that you might run out of money earlier than had you not had those freedoms. You have to think about how long you are going to live, how much money is in your pot, how much should you draw from it each month or quarter, how long that will last and where to invest your pension to provide a sustainable retirement income. They're really difficult, complex decisions and most people don't have the knowledge or experience to work it out for themselves. The risk brings uncertainty and uncertainty can bring inertia. Indeed, the biggest action we've seen people take at retirement, in the first few years since pension freedoms were introduced, is no action.

> the biggest action we've seen people take at retirement... is no action

Q What is required to protect members and ensure they are using pension freedoms to their advantage rather than disadvantage?

A Put simply, technology. And we've been on our own journey in recent years to help simplify and improve the whole defined contribution experience for pension scheme members. We started with modelling tools, whereby you put in the pension values you have collected from different places through your working life, along with your preferences and risk level, and it calculates your income potential. But we realised we need to do more.

Q What technology specifically enabled you to take a more sophisticated approach?

A Open banking. We developed an open banking app that sits alongside our master trust and, if you want to use it to its fullest extent, you link it to your bank accounts to aggregate not only your income but your expenditure too. The app builds a picture, over a period of time, showing the income you need to sustain your life. Giving somebody that kind of intelligence, in an engaging mobile app, is much better than asking them what they think they will need, which most people struggle to answer. We're delivering to members the answers we always wanted them to put into the modelling tools, but were never certain they would take the time to do. By taking the information capture element out of their hands, we can seamlessly deliver valuable insights on how much income they need against their pension, what we think they need to draw down each month and what age it will last them until. It has been a really useful step forward.

Q How do you intend to simplify people's retirement journey even further?

A In the past, you have always had to send an instruction to your pension provider saying you want to draw down, say, £1,000 a month, which is paid until you say you want a different amount or you want to stop it or you die and the benefits are passed onto those who survive you. We don't know whether members are drawing too much or too little, so we think there's a better way. Using the information that's in that open banking app, we can set a rule that says you don't want the balance in a bank account to fall below the amount that covers all your essential outgoings. Every time it then looks like it's going to fall below that amount, the app sends a message saying you need to draw a little bit more from your pension scheme. Not only do you only draw down the amount of money you actually need to provide for yourself, but it also means you won't find yourself in the sudden position where you forget there's an insurance premium or a tax bill that needs to be paid and there isn't enough money in your bank account to cover it. Of course, we also know a lot of people suffer from cognitive decline with age, which adds to the complexities of making financial decisions, so we think the app can take some of those difficulties away, avoiding unnecessary risk or distress.

Q How do you see the pension landscape playing out in the coming years?

A There is a big wave of people that arrived into the defined contribution pensions environment in 2012 as part of auto-enrolment and some may already be coming up to retirement now. We are taking all the knowledge we gained from being part of the defined benefit environment and we are trying to build it for individuals in a defined contribution space, with the added bonus of pension freedoms. That's the kind of experience that the defined contribution generation will get, which is completely different from the experience those who have already gone through retirement received over the last five or ten years. It'll be a world apart and ultimately it is technology led.

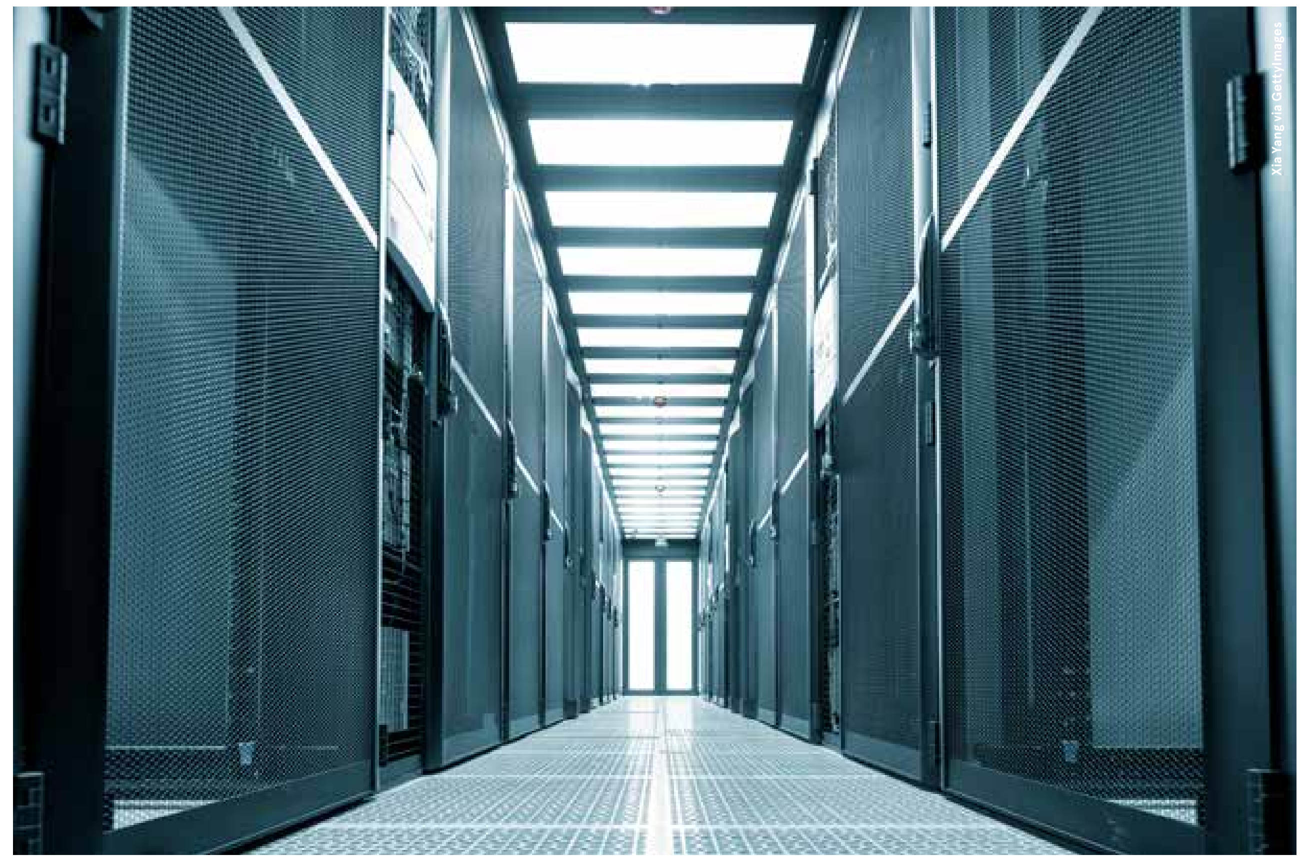
For more information please visit seic.com/en-gb/solutions/master-trust

£10k
Amount per annum required to meet minimum needs in retirement

£14k
Average annual expenditure in retirement per person, or £28,000 p.a. per couple

<10%
of couples have a survivor past 95

Office for National Statistics 2018



CYBERSECURITY

How to build security into pensions

When dealing with vast pools of personal data, as pension providers do, building cybersecurity into every step of the process is critical

Davey Winder

In 2021, organisations of every ilk are faced with an ever-evolving cyber-threatscape and pension schemes are not exempt. It's surely only a matter of time before we start reading about a noteworthy uptick in the number of major incidents involving the pension sector. Unless, that is, cybersecurity measures are built into the foundations of pension providers to make meaningful reductions to risk.

What is the precise nature of pension scheme cyber risk?

"The pensions admin industry is rich with personal data, which we control and process, everything a fraudster could wish for," says Charles Ward, a professional trustee at Dalriada Trustees. "These fraudsters will typically not target an individual person's data, rather they are after the whole scheme or entire database."

Ward flags phishing attacks as still the most common and dangerous risk. Especially given techniques, such as spear-phishing, targeting specific individuals in an organisation, and whaling, targeting C-level executives, are now seen as being worth the attack investment. "The other key area of risk is in the transmission of personal data between trustees, administrators and advisers," he says, with many organisations still reliant on password-protected documents.

Ian Thornton-Trump, chief information security officer at threat intelligence specialists Cyjax, agrees that relying on passwords alone is problematic. "Pension information is typically accessed via web portals," he says, "and these pension portals may be one of the few remaining places where storage of financial data is not subject to the European Union's strong customer authentication regulatory requirements that data is secured with multi-factor authentication."

A lack of multi-factor authentication, combined with sophisticated social engineering, could leave pension schemes particularly exposed to the current corporate cyber-scourge that is ransomware. "Cybercriminals know that the imperative for pension schemes is to pay beneficiaries," says Jim Gee, chair of the Pensions Administration Standards Association Cybercrime and Fraud Working Group. "This means there would be strong pressure to pay a ransom if their systems were encrypted by a ransomware attack."

COVID raises the risk-map temperature

But the risk map doesn't stop there; the pandemic has added a new and worrying dimension. "Pension organisations are facing the new model where the majority are working from home, which has massively changed the risk profiles of organisations, opening up the business for criminals to target pension customers and workers over diffuse networks with multiple points of risk," says Zeki Turedi, chief technology officer, Europe, Middle East and Africa, at CrowdStrike.

"This new model was driven by an urgent necessity, with IT environments hurriedly moved to the cloud, but data security functions often lagged behind."

Christiane Wuillamie, from Pyxis Culture Technologies, adds: "The use of personal devices, less-secure internet providers, laptops left open to prying eyes and distractions at home can lead to security errors or half-followed procedures, among other vulnerabilities."

And those firms that administer pensions in-house are especially at risk, as pension administration is not their core competence, says Girish Menezes, head of administration at Premier Pensions Management. "These companies' processes are more likely to be manual and pensions admin may not have received the attention, resources and investment given to the core business," says Menezes.

Trustees a weak link in the pensions cybersecurity chain?

Gee insists: "No, trustees are not the weak link. As the people who are ultimately accountable, increasingly they are pushing for faster progress and an approach that is not just based on technology, but on awareness, management and the right specialist skills."

> The pensions admin industry is rich with personal data, which we control and process, everything a fraudster could wish for

However, professional trustee Ward concedes that practice varies across the industry from sole-traders operating from a Hotmail account to large firms with cybersecurity accreditation.

"All trustees should ensure they are educated on this topic, to take personal responsibility for improving their knowledge and compliance with cybersecurity and to think twice before sharing data with any third parties," he says. "As data controller, the trustee is crucial in co-ordinating data management for the scheme and this responsibility cannot be delegated to any third party."

The legal liability perspective cannot be overstated. Anna Copestake, at Arc Pensions Law, points out: "Trustees are ultimately accountable for the security of their scheme data, it was not a 'once and done' job when the General Data Protection Regulation came into force in 2018."

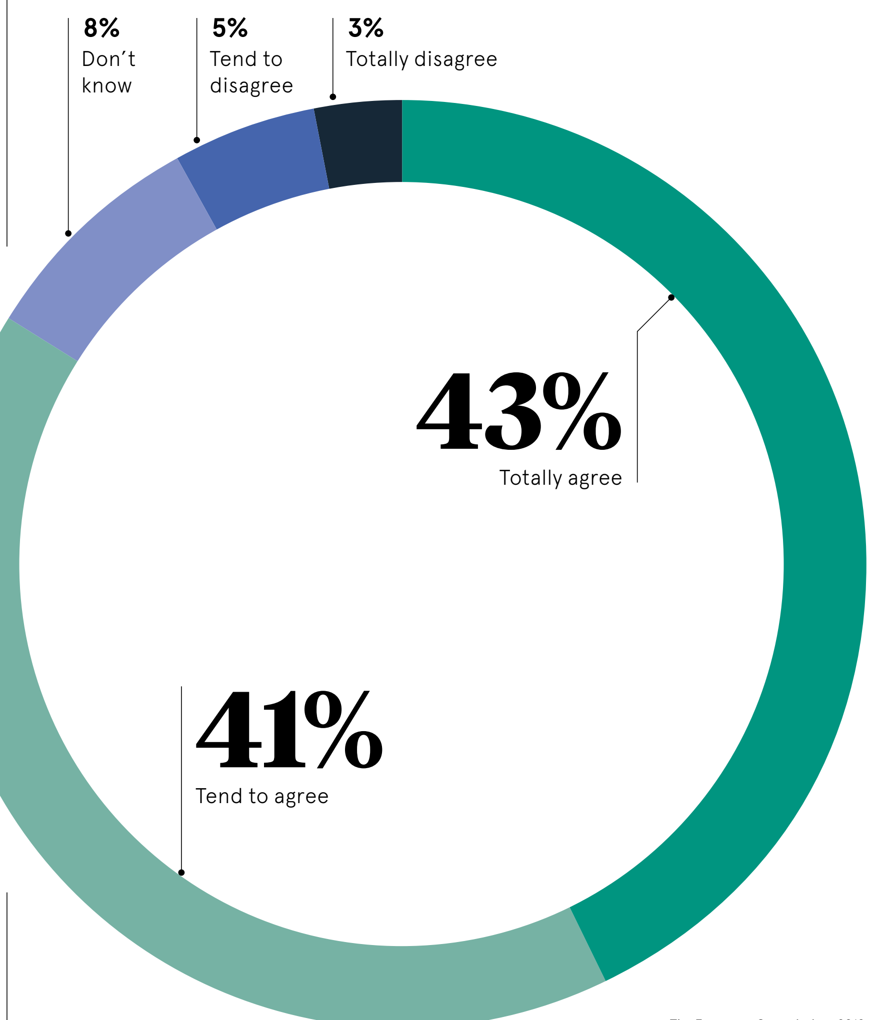
This means they need to remain aware of the cyber-footprint of their scheme and the impact any breach could have. "They should have regular training to keep pace with the evolving risks and regulatory expectations," says Copestake. "Legal obligations must be met, which includes having adequate oversight of third-party service providers."

So what do pension providers need to be doing differently, and better, in terms of cybersecurity risk mitigation? "Clearly, organisations managing sensitive data such as that found in pension funds must ensure only authorised access is provided," says Thornton-Trump. "This may include regular website penetration tests, vulnerability scans, and the deployment of technologies to defeat brute force and password 'spray' attacks."

Menezes advises that both IT and cybersecurity policies need to be reviewed within a post-pandemic context. "Firms should have data access locked to company-provided encrypted hardware, encrypted VPN access from laptops to servers, multi-factor authentication, data encrypted on servers and companies should minimise entry points to the server to the bare minimum," he says. "Resilience against denial-of-service attacks and the frequent testing of back-ups is critical. This needs to be commensurate to the risks involved."

WORRIES AROUND CYBERCRIME ARE ON THE UP

Percentage of Europeans who agree with the statement: "you believe the risk of becoming a victim of cybercrime is increasing?"



The European Commission, 2019

PENSION TECHNOLOGY

Eight innovations to revolutionise pensions

Technology is revolutionising pensions, with some transformative options already available

John Greenwood

Technology is revolutionising pensions, in some cases slowly, in others incredibly quickly.

The biggest tech innovation of all is the pensions dashboard initiative, which will require pension providers to feed their data into a centralised hub to give a single view of all your pensions. This project has been years in development and will only start rolling out with the simplest defined contribution (DC) pensions from 2023. But there are plenty more innovations coming down the line that are changing the way we save for retirement.

Here and now

Become a shareholder activist

1

Pension savers with Aviva and Legal & General can have their say on shareholder resolutions around issues as diverse as climate change, executive pay and child labour, through technology from fintech startup Tumelo. The technology, which is being adopted by Aviva and Legal & General, who are piloting it with a limited number of employers, allows members to see all the companies in their investment portfolio and cast advisory votes on contentious resolutions relating to them.

The savers are informed about new votes and vote results via email or in-app notifications and the providers take the votes into account when formulating their own voting strategy. Early trials have seen significant investor engagement in shareholder votes on issues such as the pay packet of Sports Direct chief executive Mike Ashley. Providers offering Tumelo say it helps scheme members understand what it is they are investing in and raises awareness of the role of shareholders in responsible investment.

Hold onto assets for longer

2

Income drawdown customers can maximise the tax efficiency of their pension wrapper by only withdrawing what they need thanks to an open banking interface used by provider SEI.

Steve Charlton, DC managing director at SEI, says: "Historically, drawdown investors have had to specify a fixed amount to be paid into their account each month. Thanks to open banking you can now fix a level to which your bank account can be topped up each month, meaning if you spend less, you can keep more in your pension where it benefits from tax-free growth."

Beer today for beer tomorrow?

3

Financial aggregation platform Moneyhub offers the ability to set up a "sweeping rule" that means each time the user spends £x on coffee, golf, beer or whatever, a related amount, which can be half, all or 10 per cent, gets swept into a nominated pension account.

"The system will also check the person can afford to do this without running the account dry before the end of the month or week when they are next paid," says Sam Seaton, chief executive of Moneyhub.

Sweep up old pots

4

With the average UK worker having 11 jobs through their working life, so-called "stranded" pots from former employers are widespread. Providers are keen for you to roll these over into their own schemes and the system is getting faster every year, although it depends where the transfer is from and to.

Robert Cochran, senior corporate pension specialist at Scottish Widows, says: "If you are a Lloyds Banking Group customer, which includes Bank of Scotland and Halifax, you are pre-authenticated so you only need four bits of information to transfer a pension: the name of your employer, an approximate value, the name of the scheme and your date of birth. It's possible to clean up a left-behind pension pot in six minutes."

Clare Reilly, chief engagement officer at online consolidator PensionBee, says transfers can take considerably longer, between ten days and two months depending on the pension administrator processing the transfer.

Coming soon

VR view of your retirement

5

Employees of J Sainsbury and other big retailers will be given a virtual reality view of their retirement thanks to a Legal & General pilot designed to help staff visualise how the amount they save will influence their enjoyment of their retirement.

A virtual reality headset experience takes staff on a journey through three different holidays – Brighton beach, a Mediterranean city break and an underwater scuba-diving experience – each representing the sorts of holiday that can be expected for those following low, medium and higher contribution savings strategies, says John Bland of Pension Geeks, a consultancy working with L&G.

The three destinations reflect the three categories of retirement income – minimum, moderate and comfortable – set by the pensions industry to help savers benchmark savings goals. Users are also able to explore a wind farm in 3D, to highlight some of the sustainable investments their pension fund has invested in.

Talk to a digital expert

6

Taking the sort of voice recognition software techniques used by Amazon's Alexa to the next level, Trulience could be bringing a digital human experience to a pension provider near you soon.

"Digital human" means an eerily realistic on-screen avatar that exists in-browser, with no need for downloads, who can answer a range of questions about your pension. Currently being rolled out to employers in Dubai, the technology will be available for customers of the Smart Pension Master Trust towards the end of 2021, says group managing director Will Wynne.

On the horizon

Invest in a smart default fund

7

Intelligent default funds are predicted to revolutionise the way most of us invest in our pensions. Currently, more than nine out of ten people opt for the "default" fund, a fund set up by the scheme provider for those who don't know what investments they want.

Default funds offer a one-size-fits-all investment strategy designed to be more or less OK for everybody, but they are not the best for some, taking a line of best fit between investors wanting to take their pension as a cash lump sum, buy an annuity or remain invested through income drawdown.

Some pension companies are part of bigger organisations that already have a substantial amount of information about us, such as post code, salary and, in some cases, medical history. And where individuals agree to share their data through open banking protocols, a greater degree of personalisation is possible. Data such as propensity to clear credit card debt, attitude to overdrafts and credit ratings can give as accurate a picture of an individual's attitude to risk as a psychometric questionnaire. In future, pension defaults are expected to farm all this data to give individuals personalised default investment options.

Richard Butcher, chair of the Pensions and Lifetime Savings Association, says: "Personalised defaults are no more risky than standard defaults and they produce better outcomes for pension scheme members. At the moment most trustees are resistant to the idea, but once one scheme introduces them, others will follow."

Low-cost retirement advice

8

Every year hundreds of thousands of UK savers transition into retirement without financial advice, instead relying on interpreting "financial guidance" offered by providers that does not give them a personalised recommendation based on their unique circumstances.

Aon is developing its Well One Money app to be able to deliver full regulated financial advice for pension savers at a price point in the low hundreds of pounds, a fraction of the price typically paid, says Ben Roe, senior partner and head of DC consulting at Aon.

Commercial feature

Q&A

Surveying the pensions landscape

Alex Hutton-Mills, Co-founder and Head of Pensions Corporate Finance at Lincoln Pensions, shares insights into latest developments

Q The Pension Schemes Act introduces new powers for the Pensions Regulator and even criminal sanctions. How can sponsors ensure they comply and remain on the right side of the law?

A The act will create meaningful uncertainty and will certainly have an impact on behaviour, but there isn't a one-size-fits-all approach to defined benefit (DB) pensions. The broadening of the moral hazard tests, particularly around contribution notices, will focus directors' minds on the impact of transactions on DB schemes as the legislation is very broadly drafted. Businesses and investors must be alive to these risks to not fall foul of the new contribution notice tests or face criminal sanctions. The ambit of the act catches many normal business activities, for example paying dividends, which I worry has not been fully thought through. We need clarity from the Pensions Regulator through new guidance in this area. Having the right advisers in place will clearly be essential.

Q ESG – environmental, social and governance issues – is a hot topic. How do you see it fitting into the DB pensions landscape?

A ESG has generated significant interest in institutional investment circles through consideration of investments in ESG-compliant corporates by DB schemes. However, ESG also impacts the main asset of the pension scheme, the corporate covenant, an often-overlooked aspect, impacting the visibility trustees have of that "asset". Trustees must begin to factor the covenant impact of ESG into their risk management strategies. The E of ESG risks will clearly affect corporate business plans in certain sectors, such as oil and gas. However, the broader approach to becoming carbon neutral can impact business plans in many sectors and understanding the bottom-line impact of social and governance changes for the covenant remains a nascent discipline.

Q With increased mergers and acquisitions in recent months, are companies with DB pension schemes always a risk to investors or can they also present an opportunity?

A In the current environment, corporates need liquidity and may need to dispose of non-core assets. Private equity investors may look on those as value opportunities, particularly if they can manage the pensions risk effectively over the life cycle of their holding period. Overseas investors, in particular, may see value in UK corporates for foreign exchange reasons and because of the potential purchase price deduction from a target having a UK DB pension scheme.

Q With the Pensions Regulator's new plans to require longer-term journey planning from trustees, how can sponsors comply without stifling their business plans?

A Corporates have a number of levers available to fund their DB pension scheme: cash contributions; non-cash contingent support, available to support downside scenarios; investment performance; and time. Understanding what funding target trustees are aiming towards and the time required to reach this objective is critical. That understanding needs to be mapped against corporate business plans, which should enable a meeting of minds between corporates and trustees regarding the right investment strategy with the right balance of risk, given the covenant.

Q What can sponsors do to reduce pensions risk on their balance sheets?

A Insurance transactions are becoming more popular to transfer pensions risk off the balance sheet and provide secured outcomes for members. But they are expensive and likely unachievable for many schemes. Equally, running schemes off is unlikely to be sufficiently secure. New options are available from DB pension consolidators; while we've yet to see them really take off, a wider choice of end-games is to be welcomed.

Alex Hutton-Mills
Co-founder and Head of Pensions Corporate Finance
Lincoln Pensions

For more information please visit lincolnpensions.com

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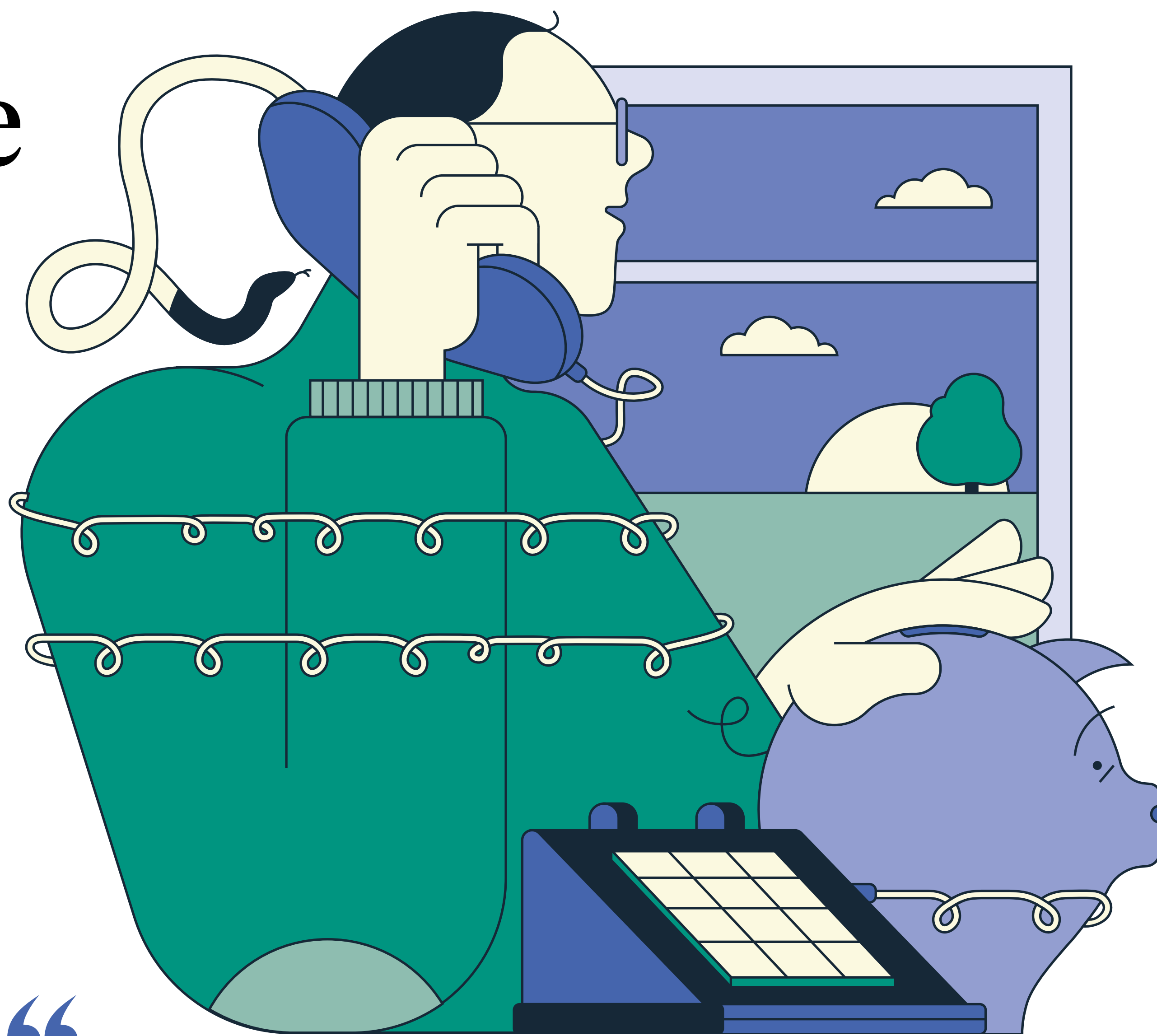
FRAUD PREVENTION

Practical advice for avoiding pension scams

As the coronavirus pandemic continues to leave doors open for fraudsters, people with pensions must beware of scammers and consider the best ways to thwart them

Celia Jones



Fraudsters have ramped up their attempts to swindle people out of their savings in the last year. The Financial Conduct Authority (FCA) opened 24 per cent more pension scam cases in 2020 compared to 2019 and the Pensions Regulator is currently investigating more than £54 million of lost money.

Scammers are taking advantage of the increased financial vulnerability of so many people across the country. One in four UK adults, or 14 million people, currently have low financial resilience as COVID-19 has battered incomes, pension funds and overall security.

Professor David Blake, director of the Pensions Institute at London's Cass Business School, says: "People who have lost their jobs have become desperate to find a way to pay the bills. If they are over 55, then the pension pot is an obvious thing to raid."

Fraudsters have become more sophisticated in their targeting. People are spending a lot more time online as a result of lockdown and unscrupulous schemers seize on this, with a rise in fake comparison websites or social media adverts that can be difficult to distinguish from legitimate services.

Ever-changing scam tactics mean an already complicated investment, which hinges on complex terms like longevity risk, inflation risk or investment risk, has become even more difficult to navigate and protect. This presents a golden opportunity for fraudsters, who thrive on confusion and consumer trust.

Be vigilant and avoid cold calls

Claire Trott, head of pensions strategy at wealth management firm St. James's Place, recommends vigilance at all times. "Know who you are talking to, ask for proof of identity and do not take any unsolicited calls," she says.

> Scammers may try to pressure you with 'time-limited offers' or even send a courier to your door to wait while you sign documents

Many people believe they know the tell-tale signs of a scam. However, recent research from the Financial Conduct Authority (FCA) and the Pensions Regulator shows, alarmingly, almost half of UK adults aged 45 to 65 with a pension would take one or more actions that could expose them to common scam techniques. This includes almost a quarter of people (23 per cent) admitting they would engage with a cold call about pension plans, despite their illegality.

While cold calling is certainly not the exclusive domain of pension fraudsters, it was banned for pensions in 2019. Any unsolicited phone call about a pension is therefore likely to be a scam.

In Trott's experience, callers tend to pace themselves; they might encourage further engagement by asking victims to visit a website or agree to receive so-called advice, which is the point where someone becomes trapped. She suggests anyone on the receiving end of a cold call trying to peddle pensions reminds the caller they are breaking the law and can face fines of up to £50,000.

Beware of so-called freebies

There's no such thing as free pensions advice, according to Tom Selby, senior analyst at investment platform AJ Bell. He urges people to be wary of anyone offering financial support without asking for any money in return, such as a "free pension review" or "early access schemes". The tempting offer of consultation allows scammers to see personal and precise details, while there's no access to pensions before 55 unless someone has serious health issues. What's more, funds taken out before that age are subject to especially high taxes.

Selby encourages people to double-check any adviser's credentials on the FCA register, especially if opportunities sound too good to be true, as schemes offering high guaranteed returns are often at the heart of pension and investment scams. "The golden rule should be if you are in any doubt about whether or not the firm you are dealing with is legitimate, do not part with your hard-earned savings," he says.

Anyone trying to hurry along decision-making about pensions should also set off instant alarm bells. Dr Anna Tilba, associate professor in strategy and governance at Durham University Business School, has noticed the COVID-induced boom in scams. She advises people to not be forced into making a quick decision about something with lifelong consequences.

"The scammers may try to pressure you with 'time-limited offers' or even send a courier to your door to wait while you sign documents," says Tilba. People should walk away if confronted with pushy techniques and not sign any papers without seeking vetted, regulated advice.

Raising awareness to save hidden victims

Margaret Snowdon set up the Pension Scams Industry Group to help the sector act against the increase in fraudulent activity. She believes the number of reported victims represents a fraction of actual cases, which means the prevalence of scams isn't fully understood.

One of the terrible effects of being scammed is victims can feel too ashamed to report incidents. The reporting process isn't straightforward or particularly user friendly, so there can be both emotional and technical barriers.

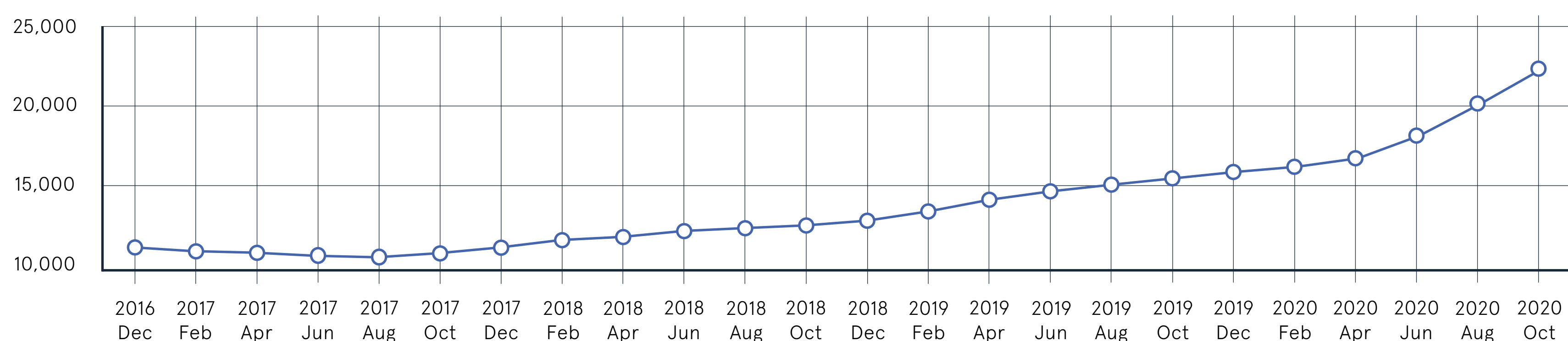
Snowdon urges anyone affected to contact Action Fraud, the UK's reporting centre for fraud and cybercrime, and take free guidance from the Pensions Advisory Service, as there is help out there. "Reporting needs to be publicised and easier to do or the problem will continue to be underestimated," she says. Raising awareness can also protect others from falling into the same trap.

As the pandemic threatens so many people's financial security, it's more important than ever to exercise extreme caution with money. Fraudsters target pensions because they're one of the largest investments a person will ever accrue. There's something particularly heinous about devastating finances that keep people afloat once they leave the workplace. Once those life savings are gone, they're often impossible to get back.

PENSION SCAMS ON THE RISE

Financial Conduct Authority 2020

Rolling scam enquiries trend, from 2016 to 2020



It's time to transform pension advice

Through accessible, interactive and relevant tools, information and advice, our team of experts can help you, your pension scheme members or employees to make the best financial decisions.

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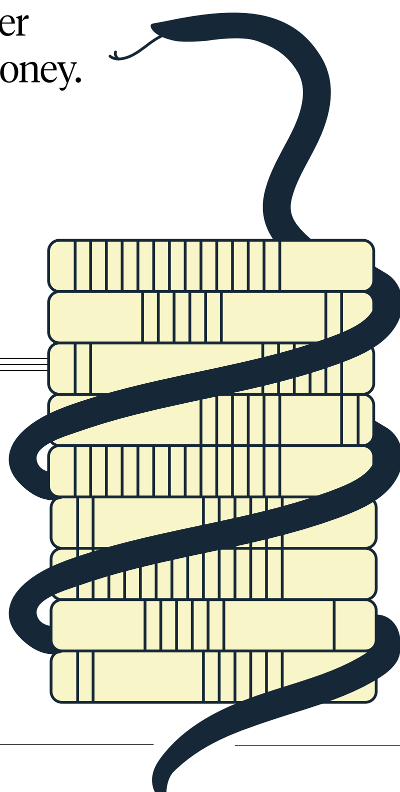
FRAUD

Three high-profile pension scams

As fraudsters become ever-trickier, savers must be better informed about how to protect themselves and their money. Here are three high-profile cons and what people with pensions can learn from them



Celia Jones

Pension fraud has been on the rise ever since the government introduced pension freedoms in 2015. The relaxation of legislation allows over-55s to access certain types of pension pots and, if they wish, take out all their savings in one lump sum. The significant assets people hold in their pots and the increased flexibility make them an obvious target for immoral or illegal activity.

Government, regulators and pension providers are all involved in protecting pension investors. But it remains the case that it's ultimately the individual who is expected to guard themselves against fraud.

Over the years, there have been high-profile scams that highlight the importance of only dealing with legitimate organisations and seeking regulated advice.

Withdrawing lump sums for truffle trees

Professor David Blake, director of the Pensions Institute at Cass Business School, at City, University of London, believes the change in pension and tax rules in 2015 will turn out to be "one of the greatest catastrophes in British pension history". Freedoms work by allowing people to convert their pension into an income drawdown account. Their money is invested in the stock market while they dip in and out of their savings.

Age UK has raised concerns about pensioners making regular high-value drawdowns. No investment is without risk and if markets turn and investments make losses over a prolonged period, there's a serious possibility money will be exhausted.

Richard Butcher, chair of the Pensions and Lifetime Savings Association (PLSA), says it's common for someone to underestimate how long they'll live and how best to manage their drawdowns. "It's quite frightening how few people can conceptualise quite how much money they need," he says.

Many, like Blake, believe this is a ticking time bomb. "What is going to happen when all these people have spent their pension pot and still have many years left to live?" he asks.

Meanwhile, scammers are offering people impossibly good investments for a chance to increase the value of their savings. They trick people to tap into their pension before they turn 55.

In one high-profile pension liberation scam, more than 100 UK investors learnt money truly doesn't grow on trees. They were mis-sold saplings inoculated with truffle spores which turned out not to exist. Fraudsters encouraged transfers into a type of pension called a small self-administered scheme, or SSAS, which allows individuals to manage their own retirement funds, a set-up typically designed for experienced investors.

The truffle tree opportunity cost victims tens of thousands each, including a couple in their 40s. Against advice from their provider that this could be liberation fraud, they transferred £78,000 to a conman and lost track of their life savings. HM Revenue & Customs came after them with a surprise bill, as taking pension cash before the eligible age is subject to 55 per cent tax.

Dolphin Trust's damage

Pension scammers pander to the human instinct of wanting a good deal. The Dolphin Trust, now known as German Property Group, offered investors the chance to entrust their pension savings in a scheme that would redevelop listed buildings in Germany and turn them into luxury flats. Investors were misled, many properties were left derelict and in July 2020 the firm filed for bankruptcy. It owes an estimated £378 million to people in the UK.

Financial planner Andrew Haley is helping someone left devastated by Dolphin. A regulated advisory firm encouraged his client to take £100,000 from their pension and invest it overseas. Instead of chasing high returns, Haley says his "client was simply trusting of the wrong people who took advantage of their lack of knowledge and experience". They are now unable to retire until state-pension age at the earliest.

The Financial Conduct Authority (FCA) is investigating financial advisers who suggested UK customers invest in the Dolphin Trust and some self-invested personal pension scheme, or SIPP, operators that held people's mis-sold investments.

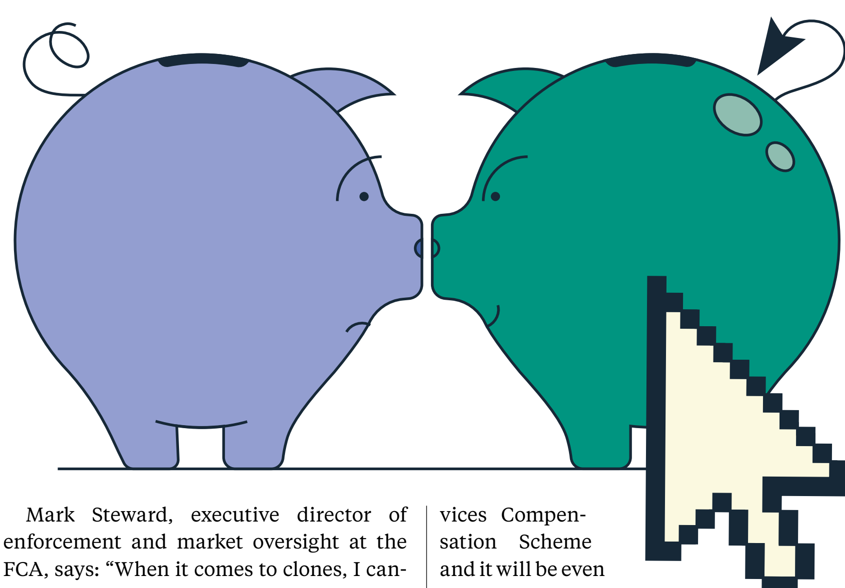
The scandal raises questions about whether regulated companies should accept investments from people who didn't receive regulated advice and how fair is it that the risks aren't shared? Pension holders should always err on the side of caution when considering who they trust with their money.

Rise of the clones

This advice is especially important when it comes to navigating the Wild West of online duplicity. The FCA recently issued a warning over "clone firm" investment scams, as Action Fraud reported more than £78 million of clone-related losses in 2020. The tactic is increasingly popular in the pensions sector, with fraudsters jumping on confidence in well-known brands.

Last summer, a clone masqueraded as Aviva. Peter Hazlewood, group financial crime risk director at Aviva, says: "We're working round the clock with the authorities to have these types of websites taken down. Unfortunately, as soon as one is taken down, a new one inevitably pops up."

Victims of this scam tend to be people approaching retirement age who have access to their pension pot and are browsing the internet in the hope of finding higher returns. Warning signs of clones include low-quality images on websites, poorly written copy or missing contact details. Butler at the PLSA was once nearly reeled in by a message purporting to be from a government website, until he realised the url ended in ".guv".



Mark Steward, executive director of enforcement and market oversight at the FCA, says: "When it comes to clones, I cannot emphasise enough how important it is to double-check every detail. And remember, if it looks too good to be true, it won't be true, so don't invest."

The FCA's warning list of identified clone companies is updated daily. Unfortunately, if people don't use FCA-authorised companies, they don't have access to the Financial Ombudsman Service or the Financial Services Compensation Scheme and it will be even more difficult to get any money back if things go wrong.

High-profile scams raise awareness of the various predatory tactics out there and the importance of working with trusted and regulated advisers. With the stakes so high, pension savers should remain hyper-alert to any red flags.

Commercial feature

How better education can transform pension advice

An evolving pensions landscape has made financial advice and engaging education more important than ever, but trustees and pension scheme members alike need to know where to find it

Changes to the law in 2015 triggered a surge in pension scheme members transferring from defined benefit to defined contribution schemes, after the chancellor ceased the need to purchase an annuity with the latter. Instead, those aged 55 and over now have more flexibility in what they can do with their pension pot, including taking it all out as cash.

Some employers, spotting an opportunity to ease the burden on their defined benefit pension liabilities, even offer incentives to transfer. Transfer rates from defined benefit schemes, also known as final salary pensions, have increased six fold between 2016 and 2020, according to figures from the Financial Conduct Authority (FCA).

Transferring is far from a straightforward decision, however, and must always start from the assumption that a transfer is not in the best interest of the member. The government therefore mandates that you must receive regulated financial advice before transferring a defined benefit pension worth more than £30,000.

Finding that financial advice, in itself, can be a tricky task for those unfamiliar with the pensions landscape, as most people are. The FCA's review into defined benefit pensions advice in recent years has presented cause for concern, stating that the harm from unsuitable advice may be as high as £2 billion a year.

To combat this, last year the FCA banned contingent fees, where advisers would only get paid if their client transferred their pension and introduced abridged advice, a quicker and cheaper way of understanding whether to enter the full transfer advice process. In light of these developments, how can people ensure they are getting advice from the correct places?

"The best source of advice is from an adviser, appointed by the pension scheme. They have extensive knowledge of the scheme and direct access to the scheme administrators," says Mark Pearson, director of Origen Financial Services, a UK leading financial adviser owned by insurance, pensions and investments firm Aegon. "The advice is likely to be at a lower cost than on a standalone basis, as all of the research work and building of the analysis tools used in giving advice will have been completed in advance and can be reused for each member."

As well as holding the FCA-required designation of a pension transfer specialist, Origen's advisers sit a scheme-specific, exam-style test before they can advise members. Their advice is "hot reviewed" via an internal quality unit, which operates within Origen's compliance team, and the company also has stringent governance processes in place to monitor the advice outcomes and report back to the trustees.

> Origen is totally committed to the provision of education and advice to pension scheme members; it's at the core of what we do

The trustees of employer pensions schemes have a duty of care to provide clear information and education to members on how their pension works and the scheme's assets and funding position. This traditionally has consisted of an annual printed report, but engagement is lacking in a digital, mobile world where people expect more accessible, interactive and short-form information that holds their attention span.

"There is generally a lack of interest until members are 55 and can start taking their benefits, at which point many schemes are now making members aware of their options. Not enough, however, are offering access to advice and fewer still are offering access to short educational videos, animations or apps," says Pearson. This is what needs to change so the knowledge and understanding become accessible.

"The obvious solution is to appoint a member adviser such as Origen to provide these education tools and deliver the advice," Pearson adds, noting the pace of progression in this area. In the defined contribution world, Aegon emails members an animated walk-through journey of what their fund is worth, what contributions have gone in, the change in value over the past year, and an ability to view what their retirement options are and the impact of changing their contribution levels.

"It's much more engaging and suited to the way that many people wish to consume content and, importantly, act upon information in an increasingly digitalised world. Origen is totally committed to the provision of education and advice to pension scheme members before and after they retire; it's at the core of what we do."

Ruston Smith, chair of the Tesco Pension Scheme, which manages the supermarket giant's defined benefit scheme, has architected "independent governance", a process designed to test with vigour the capability and appropriateness of the firm appointed to advise the scheme members and create ongoing independent oversight and governance.

Working with Smith, the Tesco Pension Scheme and law firm Eversheds Sutherland, Origen created a best-in-class experience for Tesco members, supported by a monitoring process that is independently assessed by PwC. Such an experience is crucial for all pension scheme members to get the education and knowledge they need, backed up by quality advice.

The challenge for trustees is interesting because the information a pension scheme actuary needs to know about the members is very limited. They will assume all members are married, for example. If you aren't, you might be able to get a higher income by buying an annuity or the flexibility of drawdown might be more suitable. Trustees therefore need to engage with the current members, retired members and the human resources team of the sponsoring employer to build an understanding of the challenges scheme members are facing.

"Without good financial education, members may discover too late the decisions they need to be making, including whether or not to take the tax-free cash allowance from their pension. We want to turn this situation around so everyone is planning ahead to secure the retirement they deserve," says Pearson. "Technology will have a growing part to play both in the accumulation and sharing of information and experience, but engaging with an adviser who can discuss these options with you is vital.

"The expectation of multiple employers and portfolio working will continue to present opportunities and challenges that few people retiring will have experienced. The flexibilities offered under current legislation require solutions from the UK pension providers that leverage the knowledge and experience of those who are actually advising scheme members. We need to see safeguards alongside the flexibilities. The best of both worlds may come at a price, but as we have seen with the economic challenges created by the COVID-19 pandemic, guarantees are valuable."

NUMBER OF PEOPLE ACROSS THE UK WHO WILL BE COMING UP TO RETIREMENT

UK population ages ONS 2019

For more information please visit origenfs.co.uk

Track down your pension pots and reap the benefits

Losing track of pension contributions can cost you dearly, but it's not always easy to trace your savings

THE HUGE NUMBER OF UNCLAIMED PENSION POTS MEAN INDIVIDUALS ARE LOSING OUT FINANCIALLY

1.6m
pension pots unclaimed

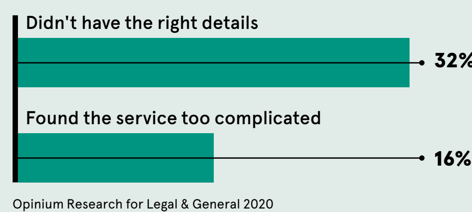
£19.4bn
value of unclaimed pension pots

£13k
average value of a lost pension pot

Association of British Insurers 2020

TRACING PENSIONS CAN BE COMPLEX

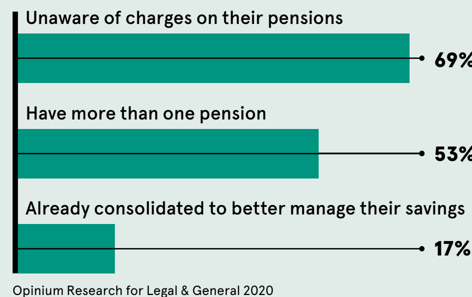
User difficulties tracking down lost pensions through the Government's Pension Tracing Service



Opinium Research for Legal & General 2020

MOST 45 TO 65-YEAR-OLDS HAVE MORE THAN ONE PENSION BUT HAVE YET TO CONSOLIDATE THEIR SAVINGS

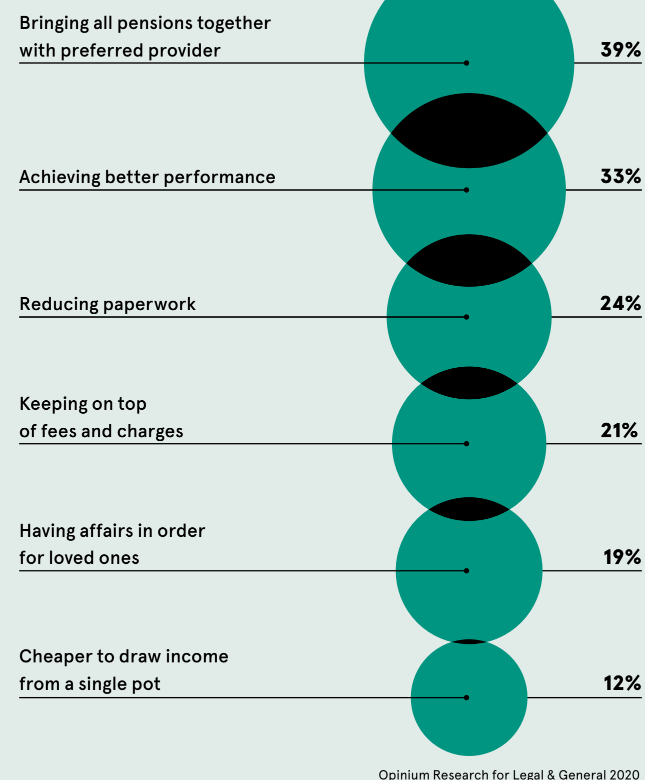
Pensions outlook of 45 to 65-year-olds



Opinium Research for Legal & General 2020

THERE ARE MANY REASONS TO BRING TOGETHER PENSION SAVINGS

Benefits of consolidating pension plans



Opinium Research for Legal & General 2020

There's a lot to think about when you move home, from finding the kettle to redirecting the mail. Yet while most of us manage to tell our bank and GP our new address, only one in 25 remember to let our pension provider know.

This means there is up to £19.4 billion[1] lying unclaimed in pension pots in the UK, according to the Association of British Insurers. That adds up to an average value of £13,000 and around 1.6 million people who are missing out on savings that could help fund a more colourful retirement.

Tracking down lost pension pots is not always straightforward, but two new services from Legal & General are set to change things.

"We want to make life simpler for the millions of people who need help locating lost and forgotten pots, without them having to have their old pension statements to hand," says Emma Byron, managing director of Legal & General Retirement Solutions. "People change jobs and move home more frequently than in the past, but the options for people looking to trace their pension pots have not kept pace."

Legal & General's research shows over half (53 per cent) of 45 to 65 year olds have more than one pension pot. It's not surprising; beyond house moves, there's frequent job changes – government figures show the average person has 11 jobs in their working life[2] – or lost paperwork to complicate matters. Many of us have no idea where to begin and are daunted by the possible time and effort needed if we have a number of schemes to track down.

The government does offer a service to find lost pensions, but research undertaken by Legal & General found that, of those who have tried to locate their lost pension through the government's Pension Tracing Service, approximately a third (32 per cent) didn't have the right details and 16 per cent found it too complicated[3].

"Many people simply never try, or give up in frustration, so there is an urgent need for a simple, straightforward tracing service. It's hard enough financing your retirement without missing out on money you've already saved. We want to reduce the complexities of retirement," says Byron.

> **For about the time it takes to make a cup of tea, you could make a big difference to your retirement planning**

The Legal & General service requires the absolute minimum detail on your pensions and past employment, just where you worked and when. Once registered, you'll receive regular progress updates and details of any pensions traced will be shown in a personal, secure dashboard. You'll be able to see the pensions' current values and, where possible, whether there are any penalties, guarantees or valuable benefits you should be aware of.

If you want to bring your pension pots together in one place with Legal & General, also known as pension consolidation, there is no fee for the tracing service. The standalone tracing service costs £100, but this fee is refunded if you decide to consolidate within six months.

Consolidation is not right for everyone, for example, those with defined benefit pensions may lose valuable benefits by consolidating, or there may be an exit charge for moving your money. However, you might choose to consolidate to simplify the paperwork and make funds easier to manage, or potentially reduce fees and charges.

"Not everyone is ready to make that consolidation decision until they have a better understanding of all their pension savings, which is why we've created a 'standalone' tracing option for customers unsure of their next steps," says Byron.

The main reason for consolidating, given by 39 per cent in research carried out by Legal & General, was to bring all pensions together with a preferred provider. For many people this makes it much easier to understand how your pension fund is doing and to manage the admin.

"If you are still saving, it gives you a clear view of the charges you are paying and means you can choose to bring a higher charging pension into one with lower charges," says Byron. "The majority (69 per cent) of 45 to 65 year olds we spoke to were unaware of the charges on their pensions. You can also clearly see what you have and how much it is worth, to ensure you are on track for the retirement you want.

"You can start drawing on your pension from the age of 55 but most people carry on working, at least until their state pension age, and continue saving. If you're 55 or over, looking to bring your pots together and to start to receive a retirement income, consolidating means you can receive one payment. That makes it easier to keep track of your finances."

Some of the decisions you have to make about your retirement can be complicated, but Legal & General is committed to demystifying the process, giving customers all the information they need to navigate between different options.

"At Legal & General, we understand that pensions can seem overwhelming. People now have control over their own retirement planning, which is great, and we would always advise they take proper advice where possible. We are continuing to lead on innovation with our tracing and consolidation services," says Byron.

It's never a pleasure to sort out paperwork. But, for about the time it takes to make a cup of tea, you could make a big difference to your retirement planning, which is surely time well spent.

1 https://www.abi.org.uk/news/news-articles/2020/05/19.4-billion-of-pension-pots-unclaimed-just-because-of-house-moves/

2 https://www.gov.uk/government/news/thousands-more-make-contact-with-long-lost-funds

3 Opinium Research ran a series of online interviews among a nationally representative panel of 2,008 UK non-retired adults aged 45-65 from the 6th-12th October 2020

You can find out more about tracing and consolidating pension pots with Legal & General at legalandgeneral.com/retirement/pension-consolidation/

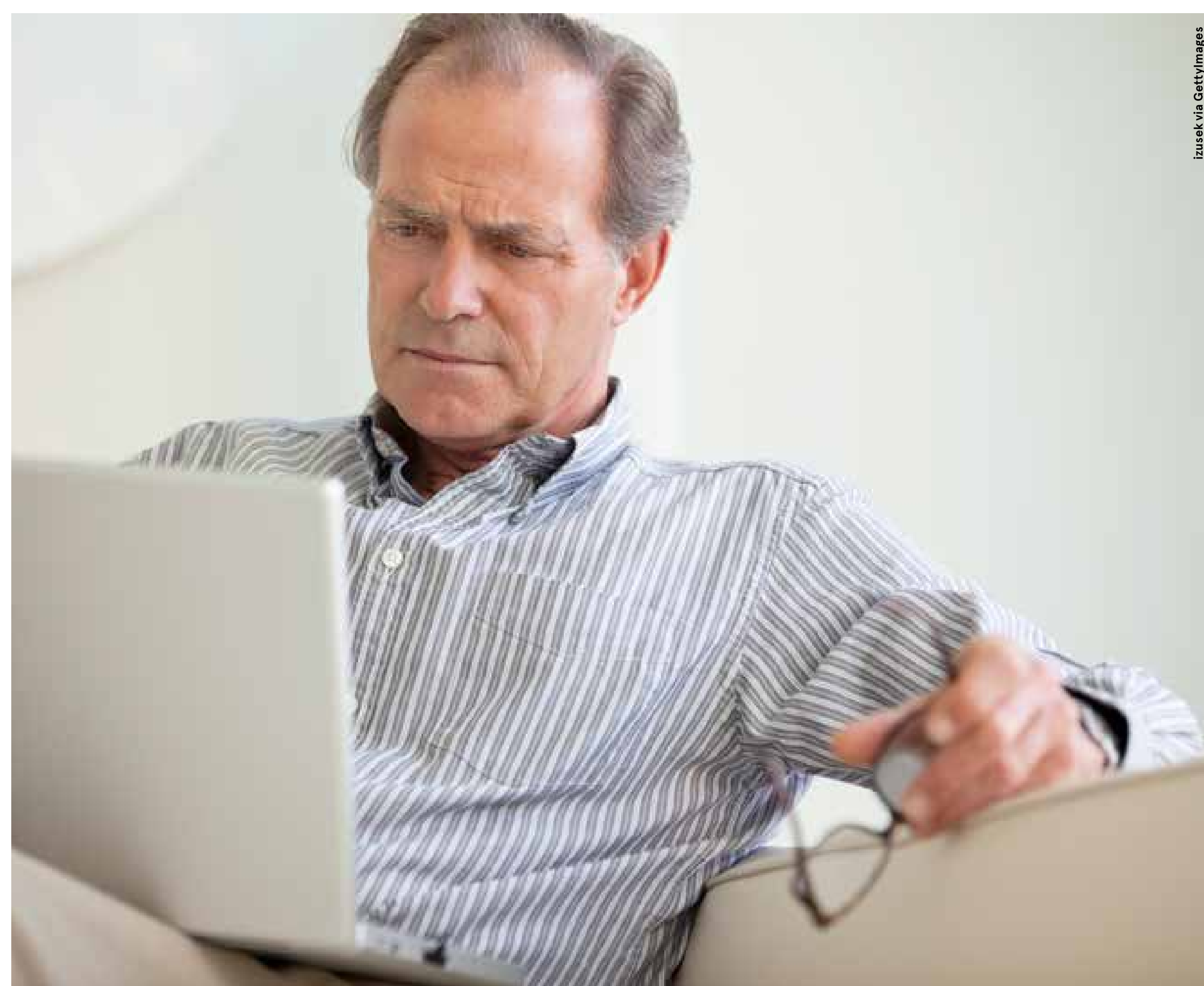
Impartial retirement guidance is available from the government's Pension Wise service www.pensionwise.gov.uk

DISPUTE RESOLUTION

All you need to know about pension disputes

When it comes to your pension, little could be more distressing than a dispute, but there are things employers and employees can do to help the situation

Diana Bentley



izusek via Gettyimages

Millions of people in the UK now have pensions and, happily, many are trouble free. Yet pensions can give rise to an array of disagreements which are of vital importance to those involved and which can cause considerable upset. How they are managed can have a significant impact on the outcome, both financial and emotional.

Disputes between pension holders and schemes

Many disputes between pension holders and their schemes are settled privately through an internal dispute resolution procedure, which all schemes must have. A quick resolution at this stage is in everyone's interests and trustees who handle these disputes work hard to settle them amicably, says Sean Browes, accredited professional trustee with Dalriada, an independent services provider.

"Trustees have to act in the best interests of members, and they try to be fair and reasonable in handling these complaints," he says. Since they are dealing with complex regulation, trustees sometimes seek legal guidance during this process to avoid further misunderstandings over scheme rules, which can hinder the resolution of the complaint.

Why use the Pensions Ombudsman?

When disputes are not resolved at this level, a complaint is often made to the Pensions Ombudsman, a non-governmental body whose services are free. Its mission is to resolve disputes about occupational pensions and personal pension schemes as quickly as possible, through agreement between the parties. According to the ombudsman's latest annual report, the demand for its services has never been higher. During 2019-20, its first contact team handled 11,552 telephone inquiries, a 41 per cent increase on 2018-19, and 8,977 written inquiries, a 24 per cent rise on the previous year.

> **Usually taking a case to trial and winning is a failure in terms of the costs spent**

Pensions Ombudsman Anthony Arter says various factors have caused the dramatic rise in inquiries and complaints. "People may now cash in their pensions, which can cause disagreements with fund trustees; then people's awareness of the value of pensions has risen. Auto-enrolment has also greatly increased the number of people who hold pensions and now too many more scams are occurring," her says.

Nonetheless, the ombudsman has been particularly successful at settling matters rapidly. During 2019-20, 95 per cent of disputes were resolved informally at an early stage compared to 80 per cent the previous year. Those complaints not settled early can be investigated and determined in a more formal adjudication process by the ombudsman, whose decision is final and enforceable in court. Both types of cases are normally completed within months.

What causes pension disputes?

Disputes can erupt over a range of issues. Arter explains: "Many of them, about 23.6 per cent in the last year, arise out of transfers and the calculation of transfer values, transfer delays or delays in payment. Misquotes and misinformation are matters of contention too, as are disagreements about administrative mismanagement and ill-health."

Some can be resolved in a fairly straightforward way. Recently, an employer agreed to provide an ill-health pension it had refused after the ombudsman persuaded it to seek further medical advice on the pension holder's condition. Scam disputes can be particularly upsetting. Often these arise when fraudsters persuade pension holders to transfer funds out of their pensions and abscond with the funds, and the pension holder then complains the scheme administrators should not have permitted the transfer.

When employers get involved in pension disputes

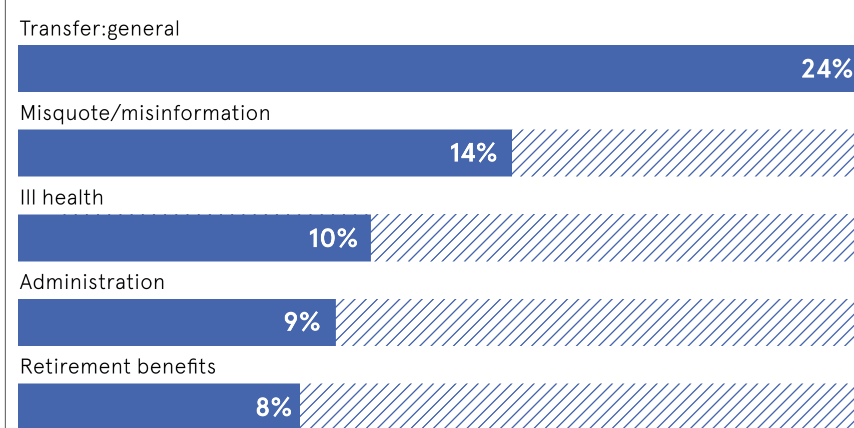
As well as disagreements at this membership level, plenty of disputes arise between employers, scheme trustees, managers and advisers. Usually more complex, they frequently involve litigation. "These disputes are often about the interpretation of the scheme's documents, its proper administration, the scope and proper exercise of the trustees' powers and around fixing former mistakes. In many cases the directions of the court are needed," says Geoff Egerton, managing associate of Linklaters. Professional negligence claims against advisers, such as actuaries and lawyers, are common too.

Some types of disputes involving employers, trustees and others have become more prevalent. "The requirement to equalise pensions benefits arising from the historic differences in the retirement ages of men and women has led to court action, and these cases often involve complex legal and actuarial issues," says Peter Murphy, partner and head of pensions and investment litigation at Sackers, the specialist pensions law firm.

Many disputes are also arising, he notes, with financially distressed employers and their obligations to pay contributions into their pension schemes, which can cause considerable worry for pension holders. These can lead to intervention by the Pensions Regulator, which has just been granted greater powers to protect pension benefit pension schemes under the new Pension Schemes Act 2021.

WHAT MOST PENSION DISPUTES ARE ABOUT

Subject matter of the top five closed investigations by the Pensions Ombudsman



The Pensions Ombudsman 2020

Power of mediation

Many of these disputes are referred to lawyers at an early stage. "We're asked to conduct the negotiations and advise clients on the options and best outcomes," says Mark Blyth, partner and head of pensions dispute resolution at Linklaters. He is a champion of alternative dispute resolution and believes mediation could be used more often in pension disputes. Under this procedure, an independent mediator attempts to prompt the parties to negotiate an agreed end to their dispute, a process that can offer a much quicker and cheaper solution than litigation. It is also encouraged by the High Court.

"Usually taking a case to trial and winning is a failure in terms of the costs spent," says Blyth. Mediation is now widely used in professional negligence cases, but is relatively underused in other pensions disputes. Even in cases that require court approval, to bind a pension scheme's members and the employers to a settlement, mediation can help the parties reach an agreement earlier before seeking the court's consent, he adds.

Avoiding disputes in the first place

So how can disputes be avoided or better managed? Arter urges people to raise claims promptly as they must, except in limited cases, be referred to the ombudsman within three years. Both he and trustee Browes believe the one-tier internal disputes resolution procedure is more efficient than the two-tier system some organisations use. Pension managers should ensure the data they use is correct and audited, says Browes, and use technology well to avoid mistakes.

Meanwhile, Linklaters' Egerton advises trustees and scheme administrators to take good care over governance, get advice, document decisions properly, take decisions in the right way at the right time and follow the processes stipulated in pension documents to help avoid problems arising. When disputes do occur, trustees should act quickly and not turn a blind eye.