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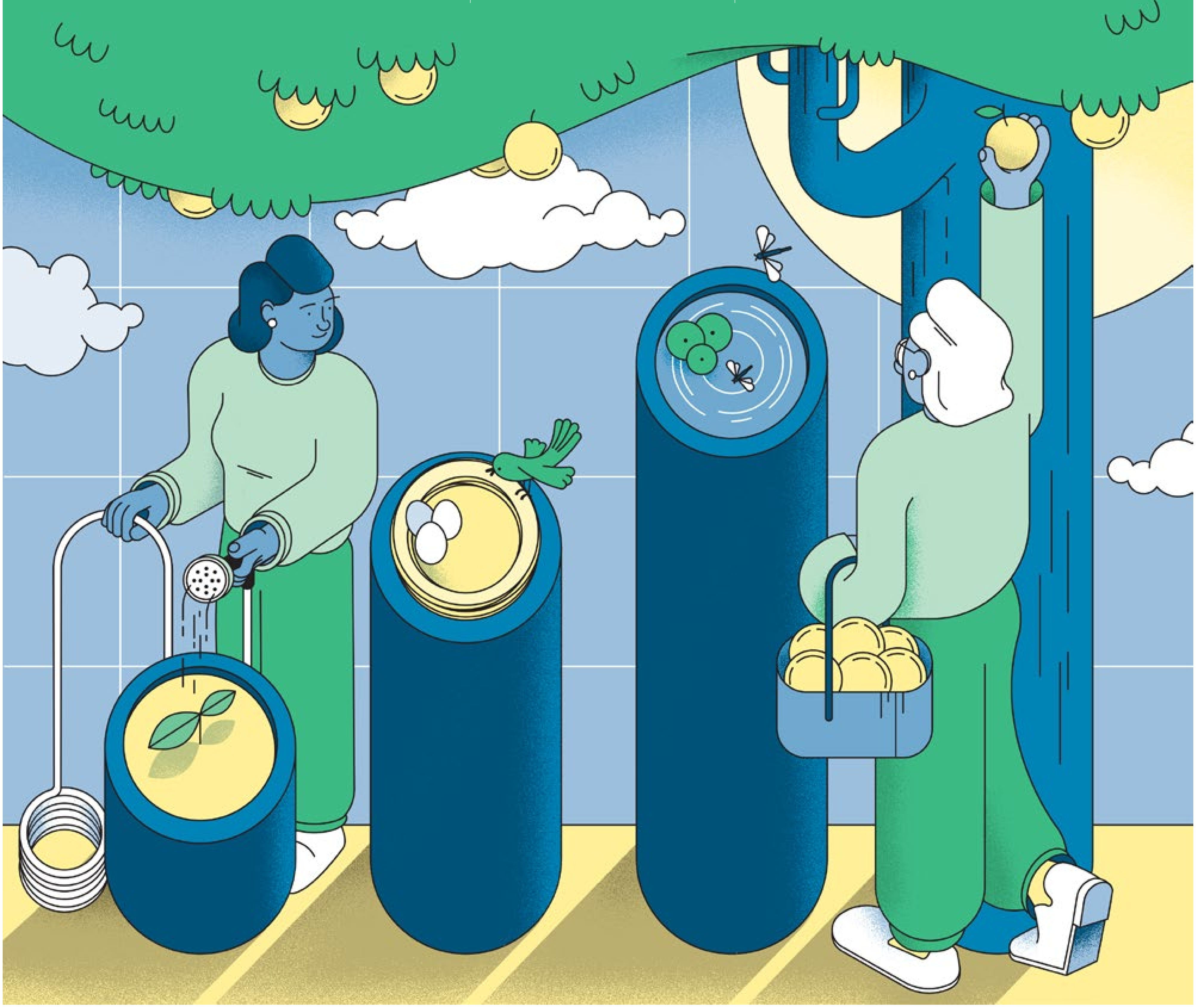
FUTURE OF PENSIONS



DIGITALISATION

Heads-up display: risk versus reward in the dashboard plan

The future of retirement saving is digital. But, while the long-awaited Pensions Dashboards Programme is set to boost engagement among users, it's also likely to increase their exposure to online fraudsters

Marianne Curphey

The full implementation of the UK Pensions Dashboards Programme (PDP) has been further delayed until Q4 2026 to ensure that all participating schemes have enough time to prepare for it. The PDP partners, which include the Department for Work and Pensions and the Money and Pensions Service, hope that the initiative will motivate people to save more for retirement once it eventually enables them to see all their funds in one place online.

Many in the industry think that dashboards will prove a crucial engagement tool. Robert Cochran, senior corporate pension specialist at Scottish Widows, is one of them. Citing a survey by his company suggesting that half of British consumers believe that they aren't saving adequately for their retirement, he reports that "financial preparations for later life are falling woefully short of many people's expectations".

Cochran says that the increased engagement offered by the PDP will prove "absolutely critical" for savers who could otherwise be disappointed with their standard of living in old age.

But the digitalisation of pensions could also open savers up to scams. Critics of the PDP argue that it places too much of the onus for protecting savers on scheme members themselves. The UK pensions market is worth more than £2.5tn, which makes it an attractive target for online fraudsters.

Do the risks of digitalising pensions outweigh the benefits? Not if the right frameworks are put in place to safeguard critical data. That's the view of Kevin Clark, director of business development at Vidett, a professional trustee and pension governance firm.

"While such concerns are valid, regulatory bodies will establish standards and guidelines to ensure the security and privacy of users' data," he says. "And third-party administrators and providers are constantly stress-testing their systems to ever-higher levels to repel fraudsters' attempts to access pension assets."

Nigel Peaple is director of policy and advocacy at the Pensions and Lifetime Savings Association, which represents schemes used by more than 30 million savers. He believes that the limited

functionality of pensions dashboards under the PDP will actually be a boon for security.

"With a dashboard you won't be able to transfer pensions out or consolidate pensions in," Peaple explains. "It is not intended to be transactional, which will massively reduce the risk of scams."

He adds that the security protocols will be similar to those of the digital identity service used for tax and passport services, meaning that high levels of secondary verification will be in place.

But Nigel Bolton, partner and head of pensions at law firm Bevan Brittan, argues that the advent of online dashboards will increase risk of fraud by their very nature.

"Individuals will be understandably concerned and want to ensure that there's some form of compensational redress scheme in place covering fraudulent activity relating to their pensions," he says. "This should guarantee that they wouldn't lose out on any lost benefits and entitlements."

Michael Do is a professional trustee and associate director at the Independent Governance Group, which provides trusteeship and governance services for occupational schemes. He points out that no pension provider would ever be bold enough to claim that its systems were completely safe against hackers and fraudsters.

"The risk of fraud is material and unlikely to be eliminated. It will need to be fully assessed and mitigated," Do says. "While onerous technical standards may reduce risk, they'd also significantly raise the cost of regulatory compliance."

Simon Bain, CEO of software company OmniIndex, believes that the risk associated with any space that holds and distributes sensitive data is enormous.

"But this doesn't mean that we shouldn't be striving to make this material more accessible to those who need it," he argues. "People deserve to be able to view and manage their data quickly and securely, especially when it comes to something as important as pensions."

Bain adds that there is a sticking point concerning who has access to the decrypted data that's most vulnerable to attack. He suggests that only Web3 technology can deliver the required level of security.

Although pension providers and security specialists may devote huge resources to putting fraud-prevention tech in place, the weakest link in the chain may be scheme members themselves. Some industry experts believe that more education is required to protect customers from online scams.

The digitalisation of pensions is "inevitable", according to Ben Pollard, the founder and CEO of Cushon, a fintech firm specialising in workplace savings. He adds that "protecting members' savings is paramount, whether in a digital and non-digitalised world. This is primarily a matter of education and checks at the point of payout."

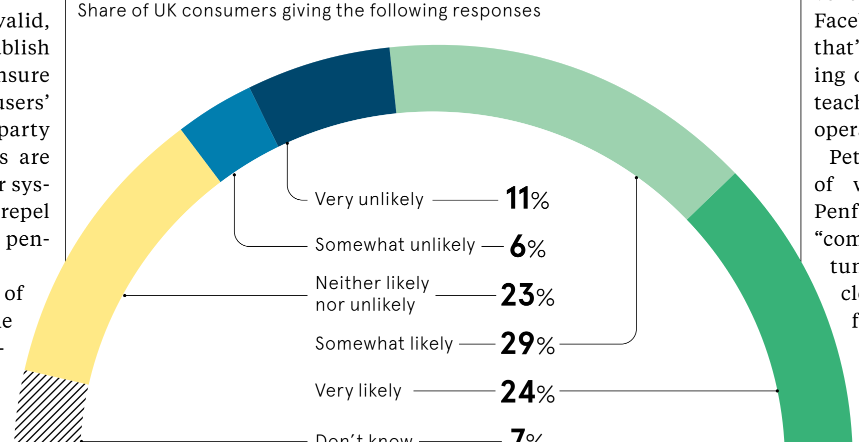
As the CEO of Legal & General's retail division, Bernie Hickman oversees the savings of 12 million retail policy-holders and workplace pension members. He agrees that consumer education is imperative, even though the verification process will be a key element of dashboard systems.

"We do everything we can to safeguard customers, but we can't prevent someone from spotting a Facebook ad promising something that's too good to be true and clicking on it," he says. "This is about teaching people how scammers operate and what to look out for."

Pete Hykin, co-founder and CEO of workplace pension provider Penfold, says that digitalisation "comes with both thrilling opportunities and challenging obstacles. It's undeniable that the future of the pensions industry lies in the digital realm, but it is crucial to approach this cautiously and address concerns about inclusivity, privacy and security."

HOW LIKELY ARE YOU TO USE A PENSIONS DASHBOARD? ABI, 2021

Share of UK consumers giving the following responses



FUTURE OF PENSIONS

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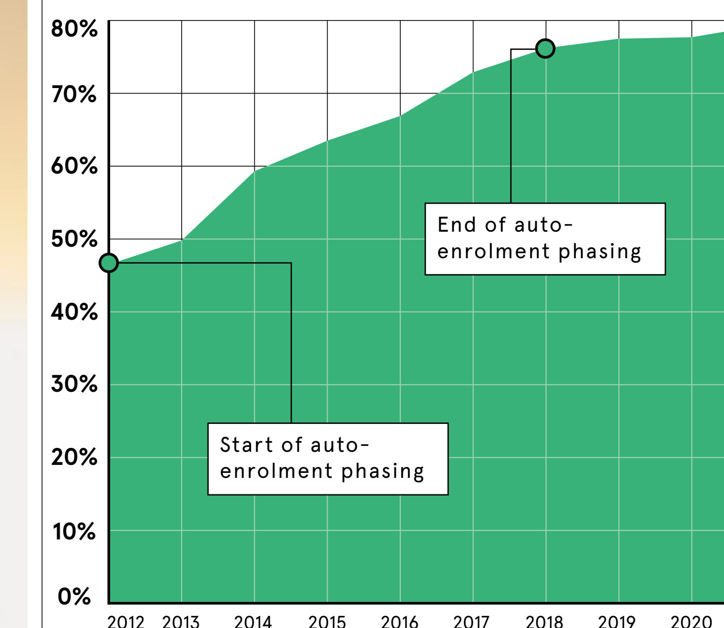
AUTO-ENROLMENT HAS SIGNIFICANTLY INCREASED PENSION PARTICIPATION Office for National Statistics, 2022

Share of UK employees paying into a workplace pension since the start of auto-enrolment phasing



WORKPLACE PENSIONS

Has automatic enrolment been a total success?

Although the programme has transformed pension saving in the UK over the past 11 years, continuing uncertainty over government policy and a lack of financial education are still restricting progress

Chris Stokel-Walker

The requirement for UK employers to offer automatic enrolment into pension schemes for all employees has existed for more than a decade. The programme, designed to help workers provide more effectively for their old age, began in Q4 2012 and has since been claimed to have been a huge success. But beyond the impressive headline figures – total workplace contributions have risen by roughly half since 2012, for instance – is there a more refined appraisal to be made of the auto-enrolment initiative?

Rowan Harding is a financial adviser at Path Financial, a specialist in sustainable investment. While she notes that the number of employees saving for their old age has roughly doubled in a little over 10 years, she's reluctant to call auto-enrolment an unvarnished success.

"It doesn't mean we can rest on our laurels," she argues. "There is much more yet to be done, both to start more people saving and to target those who aren't saving enough."

Indeed, the House of Commons work and pensions select committee reported in January that 60% of Britons remain at risk of having an inadequate standard of living in retirement. And it's also worth remembering that not everyone is eligible for auto-enrolment. About 80% of the nation's 4.4 million self-employed workers are paying nothing into a pension fund.

"There needs to be more targeted work to get people who aren't covered by the auto-enrolment criteria saving for their futures," Harding says.

Those excluded from the programme include people aged under 22 and those on salaries of less than £10,000 a year.

Even people who are saving into workplace pensions may well be able to put more money aside to give themselves a better chance of having a comfortable life in retirement, says Jason Green, chief commercial officer at the Financial Technology Research Centre.

While he considers automatic enrolment to have been a success, with 10 million people paying into pension who otherwise wouldn't have been, "many will still unfortunately find themselves with a retirement shortfall or inadequate savings".

Green believes that this is not necessarily because they can't afford to save enough money now. Rather, it's that they're not sure of the best way to go about it. "Education is one factor to consider here, of course, but we believe that people will save if they are offered the right tools to help them do so," he says.

Digital solutions such as the long-awaited pensions dashboard (see the previous article, opposite) will go some way towards encouraging more active engagement and even providing some education about pensions. But Harding points out that "we all need constant reminders" to remain interested in retirement planning and to truly take control of it.

To illustrate the prevailing lack of engagement, she cites research indicating that 95% of people enrolled on a workplace pension by their employer never bother to shift their money from the default investment fund it's placed into.

"We love to stick our heads in the sand and think 'that's something to worry about in the future, right?' It's so easy to let things just tick along, especially pension saving, because it doesn't affect us now," says Harding, who believes that people need to be taught about the options available to them if they're to make better choices.

That education process should start at an early age, ideally in secondary school, she argues, adding that only 20% of the 11- to 16-year-olds she has asked "what is a pension?" have been able to answer the question correctly.

Harding also thinks that the government should do more to ensure that people who aren't auto-enrolled understand the benefits of getting their pensions in order before it's too late.

"We cannot rely solely on the UK state pension," she stresses. "It is an excellent benefit, but it cannot cover most retirees' average living expenses in full. To cover any shortfall, individuals will need to have savings and investments elsewhere. Larger policy reforms can help to catch more of those groups who are missing out, but these will never be able to reach everyone."

Sweeping changes should also be accompanied by small shifts that encourage people to think about, and save for, the long term. That's the view of Claire Trott, divisional director of retirement and holistic planning at wealth management specialist St James's Place – and a believer in the power of so-called behavioural nudges.

"This is an interesting development," she says. "It's one that's already partially implemented, with the upfront tax relief being the nudge. But that works only for those who are paying enough tax for it to make a difference."

Trott adds that auto-enrolment itself is a nudge, because opting out of a workplace pension scheme is more of a hassle than remaining a member. She argues that the programme "does need to be extended to catch more individuals by reducing the age and income levels where auto-enrolment applies".

The fact that successive governments have tinkered with their approach to pensions is one key factor that may have discouraged people from taking more control of their retirement finances in recent years. Such uncertainty does not make those looking to ramp up their contributions feel confident that they won't be penalised for bothering to plan for the long term.

Take, for instance, the government's announcement in March that it would be raising pension tax limits and abolishing the lifetime allowance, enabling people to put more into their retirement pots. While that change was widely welcomed, it also introduced uncertainty, because there is no guarantee that a future government wouldn't reintroduce the limit, potentially dragging many thousands of people into a tax trap in the process.

On balance, then, has automatic enrolment been a genuine advance in pensions policy? The answer, as always, is nuanced.

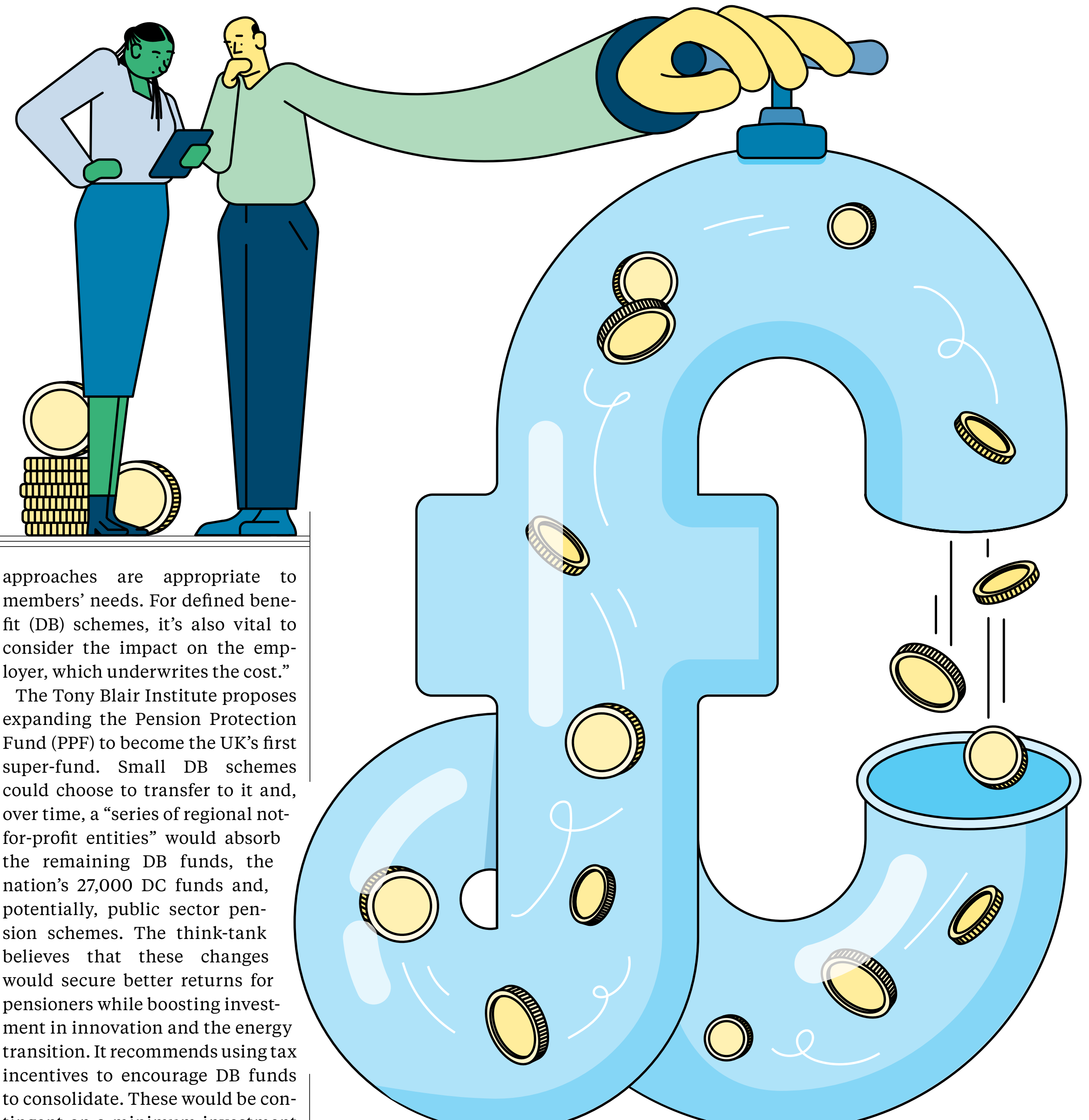
"Overall, it has been a success," Trott says. "But engagement in pensions remains very low – and the legislative complexities and constant changes do not help."

> There needs to be more targeted work to get people who aren't covered by the auto-enrolment criteria saving for their futures

RISK AND RETURN

How pensions could refuel the economy

Schemes could be consolidated and used to boost UK infrastructure and the nation's startup and high-growth sectors. But would the potential rewards justify the risks?



Ruth Emery

Pension funds are traditionally quite conservative with their investments, but there are growing calls in the UK to reform the way these massive pools of money are managed, potentially mandating investments in British firms, infrastructure and industries such as the hi-tech sector.

The Tony Blair Institute for Global Change has suggested the creation of so-called pension super-funds that would "invest in the UK's economic future", for instance. Meanwhile, the Labour Party has backed proposals by Nicholas Lyons, Lord Mayor of the City of London, for a £50bn "future growth fund" with 5% of every defined contribution (DC) scheme's assets invested in it. Labour has also indicated that it could oblige schemes to invest in fast-growing British businesses if it wins the next general election.

The overarching concept is to use pension funds to boost the economy, particularly in sectors such as AI and the life sciences. But such proposals, especially those talking of compulsory investments in certain assets, have elicited a cool response from the industry.

As Joe Dabrowski, deputy director of policy at the Pensions and Lifetime Savings Association, puts it: "We do not believe that mandating investment into particular asset classes is a sensible course of action. Schemes are not homogeneous and it is the responsibility of trustees to ensure that their investment approaches are appropriate to members' needs. For defined benefit (DB) schemes, it's also vital to consider the impact on the employer, which underwrites the cost."

The Tony Blair Institute proposes expanding the Pension Protection Fund (PPF) to become the UK's first super-fund. Small DB schemes could choose to transfer to it and, over time, a "series of regional not-for-profit entities" would absorb the remaining DB funds, the nation's 27,000 DC funds and, potentially, public sector pension schemes. The think-tank believes that these changes would secure better returns for pensioners while boosting investment in innovation and the energy transition. It recommends using tax incentives to encourage DB funds to consolidate. These would be contingent on a minimum investment in UK companies and qualifying infrastructure assets.

Other ideas include the government's Long-Term Investment for Technology and Science initiative, which seeks to alter the risk-return component of investments to make them more attractive for DC funds.

The government says that it wants to "enhance the growth potential of pension funds, making it easier for them to invest in a wider range of high-growth companies to help increase returns for savers and boost economic growth". The chancellor is understood to be considering the PPF super-fund proposals.

Jeegar Kakkad, director of the Tony Blair Institute's "future of Britain" policy, notes that the UK has the world's third-largest pensions market, yet none of its top 40 super-funds. This, he says, has "hurt pensioners and the economy".

Pointing out that economies of scale are a key benefit, Kakkad adds: "A bigger fund can make better asset allocations and is likely to benefit from the relatively higher, longer-term returns of investing in assets such as UK infrastructure."

> The UK has chronically underinvested in its own ideas and infrastructure. We need to invest in ourselves again

The institute's recent *Investing in the Future* report, which Kakkad co-wrote, highlights a dramatic reduction in pension assets invested in UK equities and a corresponding rise in bond investments since the turn of the millennium. In early 2000, more than 50% of pension assets were invested in listed UK equities, while 15% were held in bonds. The equivalent figures today are 4% and 60% respectively.

"The UK has chronically underinvested in its own ideas and infrastructure," he argues. "We need to invest in ourselves again – and a super-fund would unlock the capital to do that."

Becky O'Connor, director of public affairs at PensionBee, agrees that there are economies of scale to be gained by consolidation, saving on the administrative costs of running smaller schemes. And she accepts that the potential benefit of taking more risk is higher growth, which could translate into bigger pensions for all of us. But there is "quite a significant risk" that the entities receiving such investment could be unsuccessful and fail to produce returns for savers, O'Connor notes.

Indeed, investments in immature infrastructure and high-growth companies can be particularly risky. According to Dabrowski, "certain high-risk asset classes will be appropriate for pension schemes only in the right circumstances and within the right products as part of a balanced portfolio. For schemes to invest in UK startup and growth sectors, there needs to be a strong pipeline of opportunities, which must be supported by the right economic conditions and incentives."

He adds that requiring schemes to invest in the same products risks creating asset bubbles.

Meanwhile, mandating a certain percentage of UK investments could also be viewed as unwise, given the FTSE 100's relatively lacklustre returns on investment over the past decade and the possibility of missing out on stronger performance in other countries.

There is also the argument that DB pensions are more suited to 'safe' assets such as long-term debt. Maturing schemes need certainty that they can pay member benefits without requiring extra employer contributions. The DB sector therefore invests heavily in UK gilts (owning 80% of this market), providing the government with a ready buyer and long-term capital for investment.

Jos Vermeulen, head of solution design at Insight Investment, points out that a potential side effect of redirecting the money from UK government debt into other assets is a "likely increase in financing costs for the government, which will have to be recovered, potentially through higher taxes".

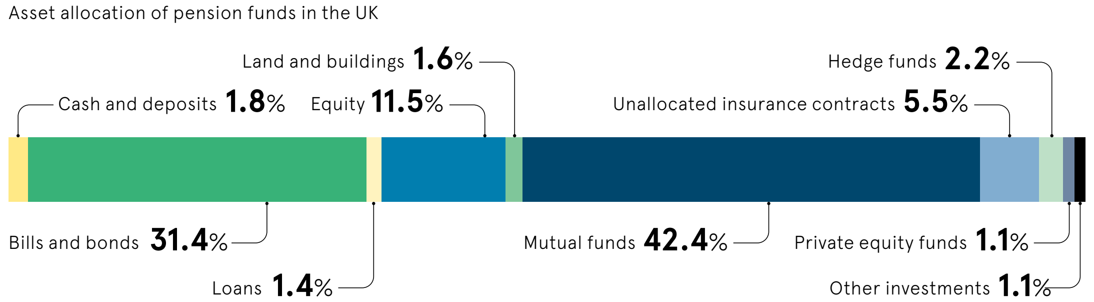
One of the main reasons for being opposed to mandated investments – and cautious about large-scale change – is that the money in pension funds belongs to savers. If an investment fails, they could suffer. The industry stresses that its priority should be giving its customers good retirement outcomes rather than boosting the economy.

Having said that, there could be other ways to encourage pension schemes to fuel UK plc – tax incentives applying to domestic investments, similar to those in France and Australia, for instance. British pension schemes do manage a vast asset base. So, with the right products, even a relatively small shift towards the UK by individual funds could go a long way.

HOW ARE PENSION FUNDS INVESTED?

OECD, 2021

Asset allocation of pension funds in the UK



Commercial feature

Make your family's future a priority for today... not tomorrow

The cost-of-living crisis is forcing many people to cut back on their pension contributions. But one award-winning wealth manager is helping families to think long term about their finances

After two decades of relative calm, today's landscape for personal finance is undoubtedly choppy. Tight household budgets, soaring interest rates and high inflation have left many families focused on saving their pennies rather than spending their pounds.

It's an issue hitting high earners as well as those on low and middle incomes, presenting tough choices for all during a period of economic uncertainty that's likely to persist for years.

But, according to William Stevens, partner and head of financial planning at wealth manager Killik & Co, now is not the time to cut back on your pension contributions; in fact, it's exactly the right time to think more clearly about how to make the right provision for your family's future.

"It is understandable people want a little bit extra set aside to cover additional costs, or, even worse, a potential loss of income," he says. "But opting out totally to receive a little extra money each month has severe long-term implications in return for small, short-term benefits.

"We know people opt out of workplace pensions because they see retirement as being so far away and is tomorrow's problem. But the power of compounding and putting money away, even if it's a small amount regularly, will provide for your discretionary and lifestyle spending in retirement."

Stevens suggests the "little and often approach" is still best "to build wealth over time", particularly with pensions. "Start early, do it regularly. The danger is if you stop doing something, are you going to start again? There's always going to be a reason not to," he warns.

Relying only on the state pension or the future introduction of a universal basic income is not a good strategy, Stevens' colleague Shaun Robson says. The firm's partner and head of wealth planning recognises how "the onus is now on the individual to save that much more" compared to 20 years ago when most people had defined benefit pensions.

Figures from the Pensions and Lifetime Savings Association show someone would need £37,300 per year in income to live a comfortable life, explains Robson; this is substantially more than the state pension provides.

Future-proofing family finance

Family financial planning takes many forms and Stevens acknowledges there is no "broad brush" advice for everyone. Priorities in your 20s might be to own a home, he says, while in your 40s it could be paying the bills to raise your children.

> The little and often approach is still best to build wealth over time, particularly with pensions

Robson advises this makes it important to properly assess how much to allocate each year to get to where you want overall for retirement. "There is a balance between caution as a family and continuing to invest," he explains. "Keeping too much money in cash means the value gets eroded by inflation over the longer term."

One future-proofing family financial plan to consider might be seeking help from older generations who are already retired, Robson suggests.

"Parents and grandparents could set up the financial futures of their children and grandchildren by giving them small monetary gifts now to fund their pensions. They in turn will then benefit from their own inheritance tax savings," he says.

For example, Killik & Co was one of the first private client brokers to offer Sipps, including for children of any age. The Junior Sipp can be kept running with very little capital outlay each month, Stevens explains, with it increasing in value through the power of compounding over the next couple of decades. The government will also add to the pot via tax relief with £720 of tax relief available to non-earners each year.

"Hopefully, when they've seen the benefit of that pension over the first 18 years of their life, they might be in a better position to decide to save via a workplace pension when they first get a job," he suggests.

This route can be more attractive for family members to fund, rather than say a junior ISA, which becomes available at age 18, because the money can't be drawn down until retirement, Stevens adds.

For Robson, it also represents a great way for older relatives to leave a legacy. "Gifting into the next generation's pensions could potentially be outside of the estate immediately if it's from excess income," he advises.

"The pension could run for two decades in the hands of the child and carry on once they reach adulthood and then throughout their whole career. They could also then pass on that wealth to their next generations outside of IHT. This can be powerful as a family savings vehicle across multiple generations."

Transparency and visibility are key

Killik & Co has won several awards for its Sipp in recent years, including best full Sipp provider in the Investors Chronicle and Financial Times investment and wealth management awards for four of the past five years (2022, 2020, 2019 and 2018). During this time, the pensions industry has been challenged and changed by the expectations of young people and families.

Transparency and visibility have become far more important with online dashboards and client portals created to show pensions from many different jobs all in one place, ensuring none are forgotten. Digital tools also make consolidation easier.

Both Stevens and Robson suggest, however, that the industry still struggles with an "advice gap", especially given that pension regulations and individual allowances can be complicated for people to understand.

"Everyone, from pension providers to wealth managers, need to do their bit," Stevens says. "Whether that is making sure they are producing low cost and low minimum investment solutions for the market – like our own save and invest app, Silo, or developing systems for savers to see their finances on their phone."

> Gifting into the next generation's pensions could potentially be outside of the estate immediately if it's from excess income

"You need to be able to access your pensions on the phone," he adds. "That's the way things are going for those in their 20s to 40s."

Recent moves by chancellor Jeremy Hunt to remove the lifetime allowance cap have also presented opportunities worth considering, according to Robson. The decision could be reversed should Labour win the next election and he suggests this offers those families with adults approaching retirement a chance to maximise their pension contributions in the next 18 to 24 months.

But for younger families just embarking on their pension journey, a direct equity approach could offer many advantages as a starting point, Stevens says. He cites Killik & Co's own Sipp, which allows people to know exactly what assets they are buying, compared to a workplace pension that may only show the top 10 investments in the fund.

"For a lot of people, a default fund can be the right choice," he admits. "But the problem is it will never provide a specific solution for you."

He argues a Sipp will allow the buying of companies someone actively wants to hold. "You have transparency to say there are certain sectors and industries you absolutely don't want to be invested into," he adds.

"And as you move through life and your family circumstances and timelines change, you can adjust it easily to target your specific retirement needs."

To speak to one of our wealth planners about how we can make a plan for your family's finances, email info@killik.com quoting 'Raconteur' or visit killik.com/plan

PLSA RETIREMENT LIVING STANDARDS DATA

	MINIMUM Covers all your needs, with some left over for fun	MODERATE More financial security and flexibility	COMFORTABLE More financial freedom and some luxuries
SINGLE – Average	£12,800	£23,300	£37,300
SINGLE – London	£14,300	£28,300	£40,900
COUPLE – Average	£19,900	£34,000	£54,500
COUPLE – London	£22,400	£41,400	£56,500

COMPOUND CALCULATION FOR A JUNIOR SIPP SET UP IN THE YEAR THE CHILD IS BORN TO ILLUSTRATE THE POWER OF SAVING FOR A CHILD AND THE POWER OF COMPOUNDING, AS FOLLOWS:

£3,600
Total contribution in year one

£2,880
Your contribution

£720
Tax relief from HMRC

£3,600 compounded at 7% a year (average market return for global markets) over 65 years

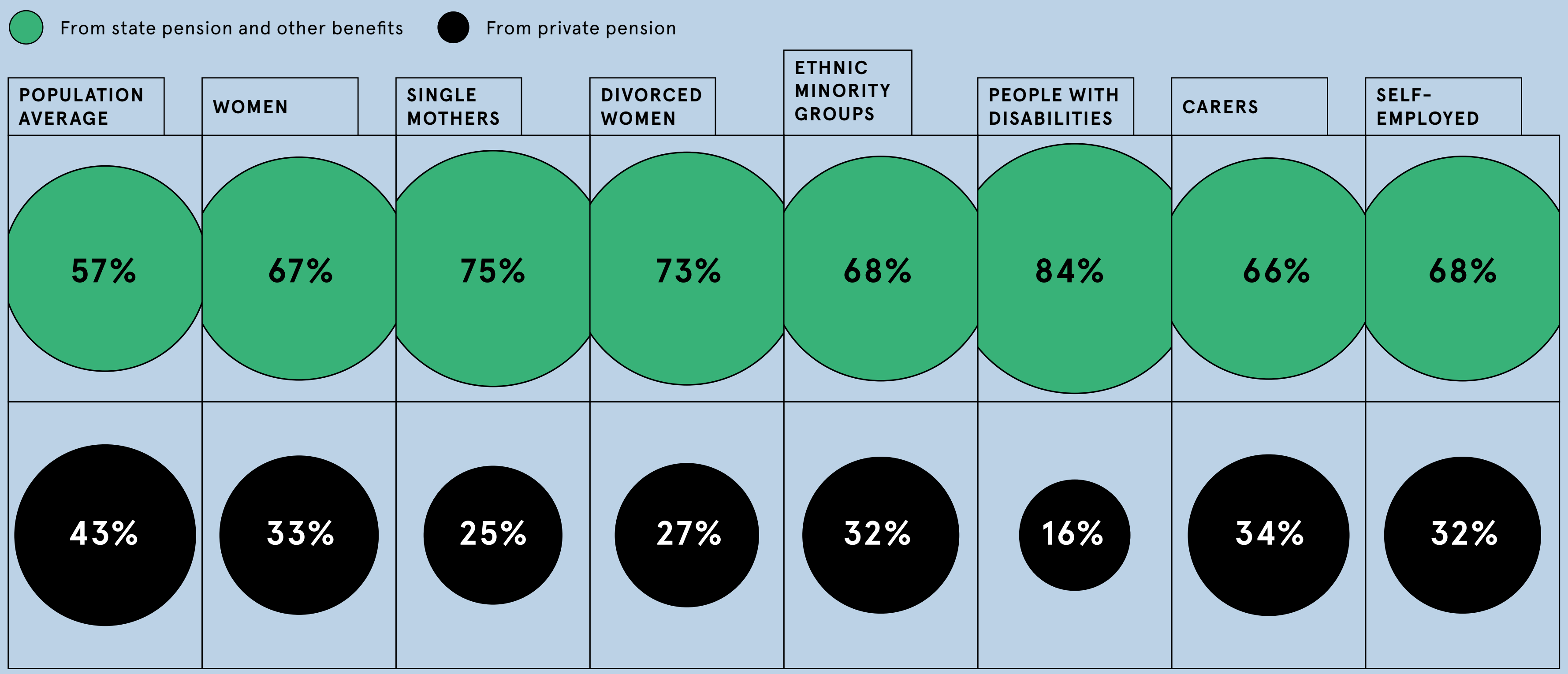
£336,202.75 return

THE NATION'S UNDERPENSIONED

Many of us struggle to save appropriate amounts for our old age, but securing an adequate retirement income is particularly difficult for disadvantaged groups such as women, members of ethnic minorities and disabled people. Indeed, disparities in retirement income start with inequalities in employment, from the gender pay gap (which widened between 2018 and 2022) to lower participation in the labour market across the board. So who are the UK's 'underpensioned' and how do their pension pots compare with the population average?

STATE PENSIONS VERSUS PRIVATE PENSIONS

Proportion of retirement income from state pension and other benefits versus from private pension, by underpensioned group

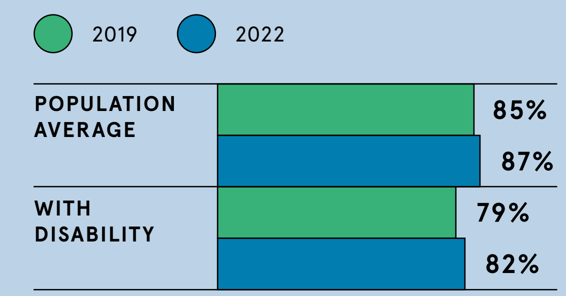


ELIGIBILITY FOR AUTO-ENROLMENT IS ROUGHLY EQUAL FOR WHITE PEOPLE AND MEMBERS OF ETHNIC MINORITIES

Share of employees eligible for automatic enrolment, by ethnicity

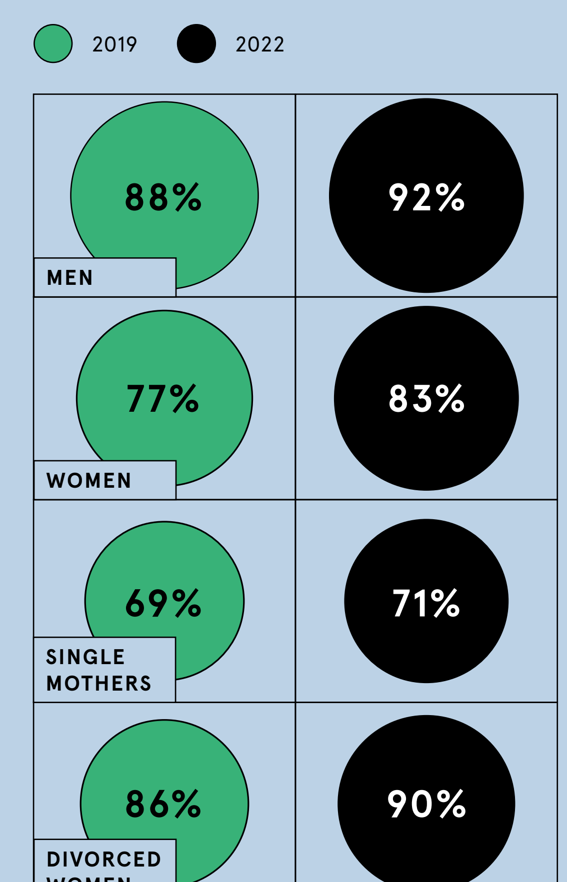
PEOPLE WITH DISABILITIES ARE LESS LIKELY THAN AVERAGE TO BE ELIGIBLE FOR AUTO-ENROLMENT

Share of employees found eligible for automatic enrolment



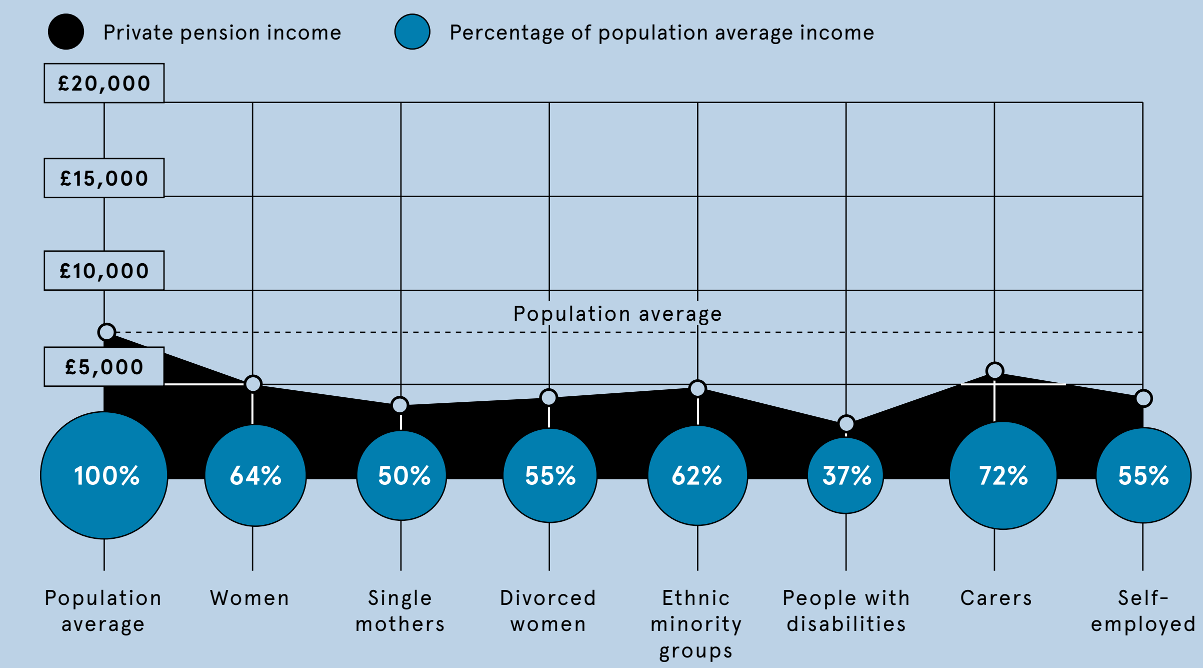
AUTO-ENROLMENT HAS IMPROVED FOR EVERYONE, BUT GENDER GAPS REMAIN

Share of employees found eligible for automatic enrolment, by gender



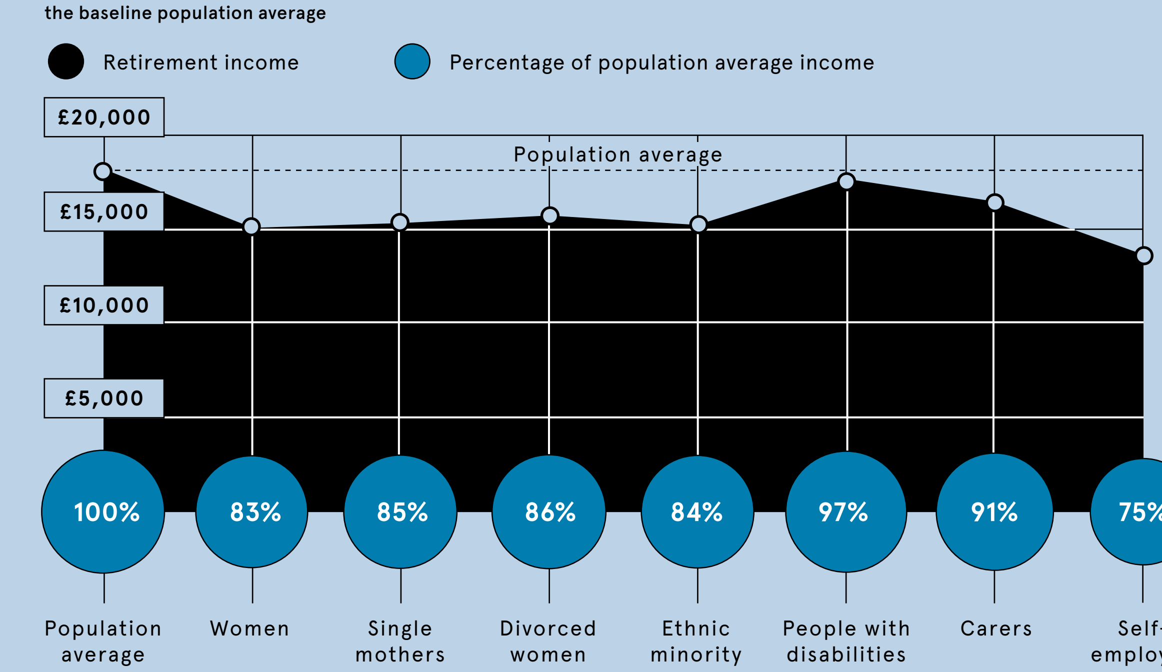
THE PRIVATE PENSION INCOME GAP

Private pension incomes of underpensioned groups compared with the baseline population average

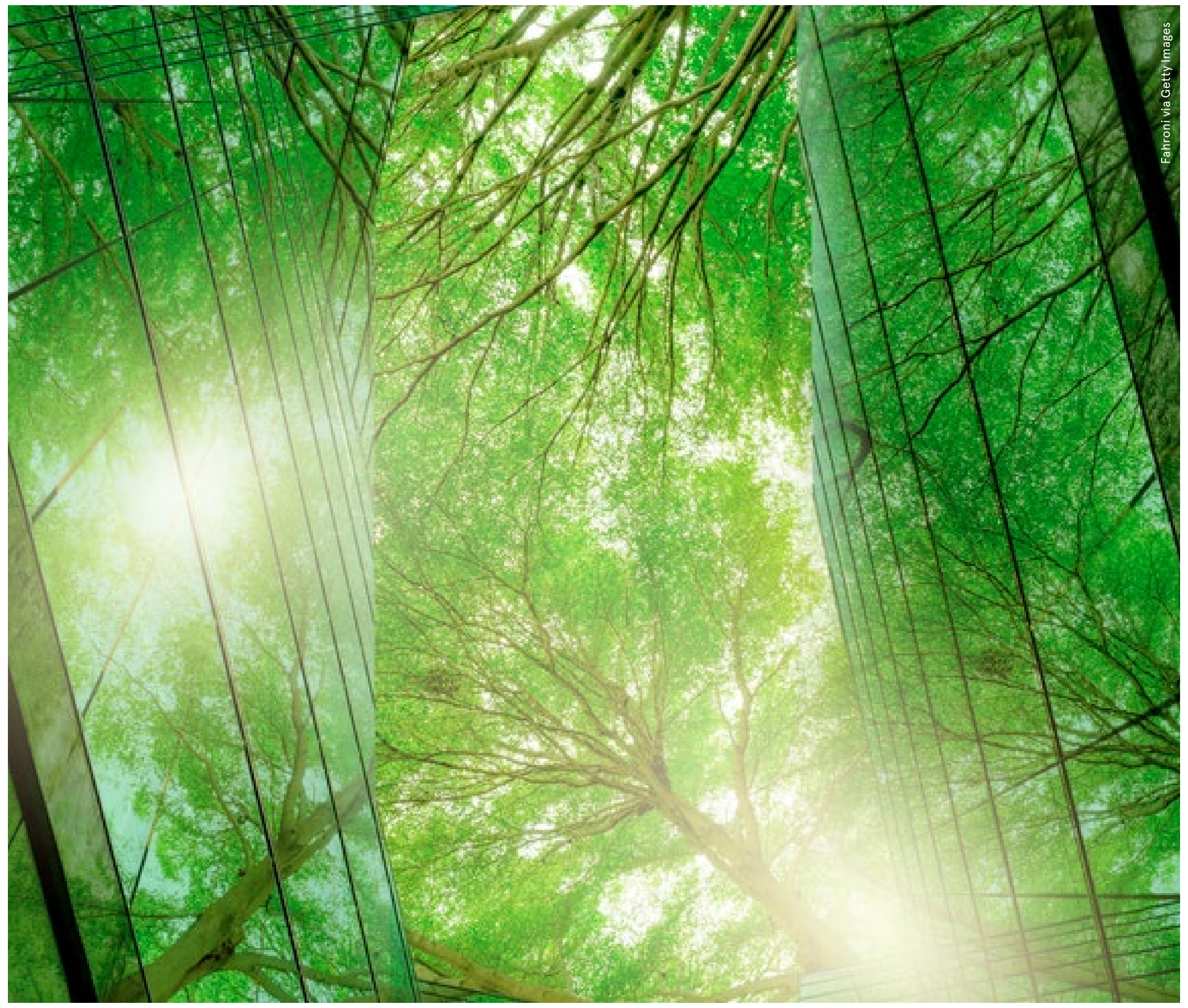


THE GAP NARROWS WHEN BENEFITS ARE FACTORED IN, BUT SOME DISADVANTAGED GROUPS STILL FALL FAR BELOW THE AVERAGE

Average retirement income, including state pension and benefits of underpensioned groups compared with the baseline population average



Pensions Policy Institute, 2022



REGULATION

Westminster and its watchdogs toughen the ESG reporting regime

UK regulators are obliging scheme trustees to review how they consider and disclose the environmental, social and corporate governance liabilities in their schemes' investment portfolios

Alex Wright

The issue of environmental, social and corporate governance (ESG) reporting has ascended many companies' agendas in recent times as climate change becomes ever more of a concern for business. This is especially the case in the pensions sector.

The UK government has already started introducing significant legislation to control how investment managers market their funds and report on their performance, with a particular focus on ESG. The latest proposals from Westminster are aimed at obliging occupational pension schemes to make ESG considerations a core part of their decision-making processes.

The current regulations already require the trustees of any scheme with 100 or more members to produce a statement of investment principles (SIP). This sets out the policies determining how funds are invested, including financially material ESG and climate considerations. The trustees must also detail their stewardship policies and the extent to which members' views on non-financial matters are taken into account in the selection, retention and realisation of investments.

The SIP must be published annually, along with an implementation statement (IS) explaining how the trustees have put their principles into practice. In addition, master trusts and schemes handling more than £1bn of assets must publish an annual climate-change or Task Force on Climate-Related Financial Disclosures (TCFD) report.

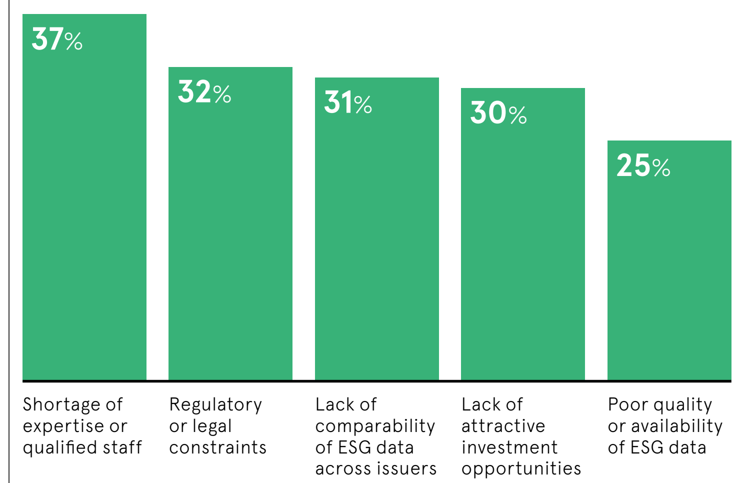
But this regime is set to become even more stringent. In February, the Pensions Regulator started a campaign aimed at ensuring that trustees are meeting their ESG and climate-change reporting obligations. In March, the government published a strategy paper entitled *Mobilising Green Investment*, which contains measures that will oblige stakeholders to clarify trustees' fiduciary duties in light of the transition to net-zero CO_2 emissions by 2050. In the same month, it opened a consultation on whether ESG ratings agencies should be brought under the control of the Financial Conduct Authority.

The Pensions Regulator is also due to conduct a review of SIPs and ISs this year. Where it finds cases of non-compliance, it has the power to fine offending trustees (if they are corporate bodies) up to £50,000.

> With all the disclosure obligations and guidance being published, there is a danger that trustees might get regulatory fatigue

OBSTACLES TO ETHICAL INVESTING

Share of institutional investors and capital market issuers citing the following as key obstacles hinding the broader adoption of ESG investing worldwide in 2021



HSBC, 2021

The main aim of all this regulatory tightening is "to encourage trustees and their advisers to make decisions that take ESG considerations into account", observes Dale Critchley, policy manager, workplace benefits, at Aviva. "These concentrate on the financial implications of ESG risks but can include non-financial factors too, where the trustees are confident that their members would want these to be considered."

He adds that the authorities have two further objectives. One is to ensure that the trustees "put action plans in place and review the outcomes". The other is to put pressure on schemes to "align with the views of members".

Despite all these new stipulations, the government has stressed that it's not telling trustees how to allocate their funds. Yet there have already been significant changes in investment behaviour since the rules took effect.

Given that trustees must consider their fiduciary duties, they need to be clear when setting out the link between climate-related risks and opportunities and the financial implications for investors. Many have also been looking to make voluntary net-zero commitments regarding pension fund assets, which is fast becoming standard practice.

Plenty of guidance has been published to ensure that trustees meet their ESG obligations. The Department for Work and Pensions, the Pensions Regulator, the Pensions and Lifetime Savings Association and the Pensions Climate Risk Industry Group have all provided detailed information about their duties with respect to climate regulations and other stewardship and disclosure requirements.

Some experts fear that the large volume of rules and instructions for following them could prove more of a hindrance than a help. Stuart O'Brien, a partner specialising in pensions at law firm Sackers, is one of them.

"The information on reporting requirements is there for those with enough time to wade through it," he says. "But, with all the disclosure obligations and guidance being published, there is a danger that trustees might get regulatory fatigue. This will need to be considered as new sustainable disclosure requirements come into effect."

Kim Nash is MD of Zedra Governance, where she works as an independent trustee to several pension schemes and heads the Geneva-based firm's office in Birmingham. She believes that trustees will "need the support of the investment community, along with their advisers, to be able to meet all these requirements. It will necessitate the allocation of resources – both time and money – to ensure that risks are identified and mitigated properly and that the external reporting is compliant."

Despite the strides they have made in ESG reporting, trustees will inevitably encounter some difficulties in complying with the new rules. Chief among them is the lack of clarity concerning how the subject is communicated. Larger schemes may struggle with the complexities of TCFD reporting. Smaller schemes may find it hard to afford expert advice on ESG risk mitigation. They're also likely to have relatively little influence over investment managers.

Another problem is that the underlying information necessary for disclosing schemes' climate-related metrics remains patchy at best. Given that trustees are required to disclose the scope-three carbon emissions (those caused by activities from assets in the value chain that are neither owned nor controlled by the reporting entity) of their portfolios in the second year of TCFD reporting, there are likely to be significant gaps in their data.

There will be "challenges and inconsistencies with climate data over the next couple of years. These will continue until we get to a point of standardisation across the industry and it's fully implemented within firms' reporting," predicts Ryan Medlock, senior investment development manager at Royal London.

"The first hurdle is ensuring that the right data is in place and published to meet the regulatory requirements," he adds. "The second is thinking about how we use this data across the industry in a more meaningful way for customers."

Commercial feature

Pensions and beyond: the power of financial confidence

To deliver a better financial future for all, leaders in the pensions and savings industry – and employers – must adopt a more forward-thinking and positive approach that embraces technology and education

The UK pensions industry is steeped in tradition, but it's also constantly learning from other industries that are already ahead of the game. It must now harness new innovations and modernise to meet people's needs as priorities and preferences change. Understanding what will ignite interest across the different generations is critical here. The future for savers and pension scheme members looks even brighter if they can pursue their financial journey with confidence.

That is why industry leaders must adopt a positive and forward-thinking approach, harness the power of technology and put better member outcomes at the top of their agenda. This will enable them to steer a clear path to a more efficient and effective pension system that works for everyone.

It is a vision shared by consultancy Isio, one of the largest pensions advisory businesses in the UK, which has been challenging current thinking on pensions, benefits and investment advice since it launched in 2020, with a relentless focus on innovation and improvement in this market.

"Our aim is always to challenge the status quo," says Andrew Coles, CEO of Isio. "That means we can't accept that what has worked in the past will always work in the future, so we're continually striving for improvement."

Engagement and building confidence

Everyone generally agrees that financial education should begin in schools, in the early years, but the workplace has a massive role to play too in building financial confidence. Employers have a strong trust and information advantage over others when it comes to building and supporting their employees to get the most from their finances – and not just when they reach retirement.

"The ultimate aim is to create more confidence in the savings environment and help people to understand the importance of saving for the future and prioritising in the right way," says Coles.

> Our aim is always to challenge the status quo. That means we can't accept that what has worked in the past will always work in the future

Given the current cost-of-living crisis, it is critical that people learn to manage their finances. That means understanding what people's short-, medium- and long-term needs and goals are, and giving them the right set of tools whether they're an expert or a complete novice.

All of this must be brought together to form an overall financial strategy that focuses on savings as well as pensions. Knowledge empowers individuals to make better-informed decisions about their finances, but it's the tools and hands-on support that help individuals to build this knowledge, to allow them to make better-informed decisions. This philosophy is embedded in Isio, which works with the charity MyBnk to help improve young people's financial education, as well as a financial coaching team providing guidance and support to employees.

The crucial role of technology

The biggest enabler of financial confidence and health is technology. Investing in technological infrastructure and solutions gives firms much greater efficiency in terms of their data manipulation and transfer abilities, alleviates the pressure on their administration team, reduces their risk and enables greater auditability. For employers, it allows them to gain deeper, real-time insights into their workforce.

A money health check tool that Isio offers does just that. Recognising that tackling finances is a daunting task, a five-minute journey allows individuals to start on that path, allowing them to see the key areas that they should address. This in turn provides valuable data that employers can use as a key component of their financial wellbeing strategy.

"From a member's standpoint, they will receive a real-time service and be able to carry out everything they want to do online, as well as having a far broader view of their finances," says Vito Faircloth, chief digital officer at Isio. "The hardest part is starting, so a frictionless experience with clear actions can help them to see the value of getting their finances in order, particularly at this difficult time. A great example where we have done this has been with a large public-sector body, supporting them with staff retention. That combination of a frictionless technological experience and personable, emotive support delivered by our coaches is delivering great outcomes for our clients."

> A frictionless experience can help members to see the value of getting their finances in order

Faircloth also points out the exciting opportunities for innovation around data sharing. "It went from open banking to open finance, didn't it?" he says. "Now, we've got some bold views as to how it's moving more towards open data. Pensions and finance shouldn't be looked at in isolation, because there's a direct link between someone's financial wellbeing, their emotional and mental wellbeing, and even their physical wellbeing. It all needs to be looked at as one overall wellbeing plan for members. So, having upgraded, innovative systems allows the employee to start to amalgamate that data and get to the outcome of taking tangible steps to improve their wellbeing faster."

The market is ripe for disruption here, and an acceleration in change is expected over the years to come – not just in financial and broader wellbeing, but in the whole pensions and investments market. Artificial intelligence is allowing the industry to interrogate ever-expanding datasets at an exponential rate, providing much deeper analysis to employers and trustees, and allowing companies like Isio to adapt, in real time, to the learning preferences and pressing issues that members face. A future consisting of a personalised technological experience for customers is real.

Organisations need to be advancing their thinking here in order to play a key role in driving a pensions and savings sector full of exciting technological possibilities. Chatbots, augmented reality and virtual reality can be used to enhance the member experience further, to a point where they can do everything without needing to leave the comfort of their home. This is the future of pensions.

A forward-thinking, collaborative future

Workplace pension schemes remain the cornerstone of the industry, but they too must evolve to reflect society's ever-changing needs and attitudes. Essentially, what people want is a plan that's easy to understand, cost-effective and flexible. Organisations should also be thinking about what they can offer beyond pensions too, as this is a rapid area of growth.

To drive this change, the UK government, employers and the pensions and savings industry need to work together. Legislative and regulatory policy must be shaped in line with investors' needs, employers must ensure that employees receive the financial advice and support needed to make the right choice, and savings firms must provide the best possible financial products.

"To succeed, the pensions sector needs to adapt to new ways of working. We all need to work together moving forward," says Coles. "Only by challenging the past can we ensure a better financial future for people."

For more information visit isio.com or email at curious@isio.com

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INSIGHT

‘Now is the time to let AI do some of the heavy lifting’

The age of AI is here. **Stuart Breyer**, CEO of Mallowstreet, foresees three key applications for this technology in the pensions sector

When people discuss artificial intelligence, opinions tend to be polarised. There are two main schools of thought: one contains people who believe that AI will destroy humanity; the other contains those who think it will be the catalyst for great advances. I’m aligned with the latter.

Looking beyond the hype to work out how AI can help to create efficiencies, I can see huge potential for its practical application in three areas of the pensions industry.

Everyone lacks time. If we have learnt one thing about AI and machine learning (ML), we know that it’s not a perfect technology, but it can make us more efficient. Consider how much time and money financial services firms spend on documenting call reports and updating client relationship management systems. Here, marginal gains make an enormous difference.

AI can produce meeting summaries, minutes and call reports. If, for instance, one person can save 30 minutes after every meeting and they have 100 meetings a year, they save 3,000 minutes – more than a working week. Apply this across a team and you create hundreds of extra hours of capacity. Teams can then spend their time focusing on working strategically with clients and doing what they do best: building deep relationships.

Financial services firms struggle to ensure consistency across teams speaking to clients. They can send several people to a meeting for oversight, but again this requires more time, which we know everyone lacks. AI can help to objectively measure the content delivered in a meeting and guarantee that the right message gets delivered. Think how much stronger a team is when every member of it is communicating a consistent message.

We all need practice, from the CEO to the most recent joiner. AI and ML models can be calibrated to provide feedback on a presentation, helping the presenter to refine and improve the message they want to land. Now, when someone asks to practise a presentation with a team member, they can receive nuanced feedback that will help to take the material from good to great. The marginal gains achieved after each presentation for each team member are significant, and presentation coaches can then focus on style, confidence, tone and delivery.

Lastly, by capturing and analysing feedback and discussions, AI can objectively and transparently document whether or not the customer understands a financial product – including the risks and potential returns – and how this will help them to achieve their goals.

This has wide-ranging implications for the retail market. It is exactly what the Financial Conduct Authority states it’s hoping to achieve with the consumer duty, for which implementation plans were published in January: “The duty means consumers should receive communications they can understand; receive products and services that meet their needs and offer fair value; and get the customer support they need when they need it.”

The age of AI has already arrived, and it is starting to drive significant changes to how businesses operate, work with customers and engage with the broader market. I have picked examples of how I’m already seeing applications in our industry. But I know of several more – and I am sure that there are many that I haven’t even thought of yet.

Our sector must ask some honest questions: what’s consuming time and a disproportionate amount of human capital? Now is the time to take the first step and let AI start doing some of the heavy lifting. ●

Stuart Breyer
Chief executive officer, Mallowstreet

courtneyk via iStock

POLICY

First quantity, now quality

Now that auto-enrolment has hugely increased the number of UK employees saving into pensions, policy-makers want to ensure that they and their employers are getting the best value for money

Bradley Gerrard

The UK’s introduction of auto-enrolment in 2012 has meant that 28 million people in this country are saving into a workplace pension today, compared with 2 million 11 years ago. While this has clearly been a successful initiative, policy-makers acknowledge that the system still lacks engagement, which is problematic.

Even the Pensions Regulator believes that it is “built and driven by inertia” because so few participants bother assessing their savings and so few employers review the schemes they sponsor. Such apathy creates a moribund ecosystem that’s a breeding ground for inadequacy.

That’s why the consultation paper *Value for Money: a framework on metrics, standards and disclosures*, which closed to responses in March, makes a mark in the proverbial sand as the sector and its regulators seek to improve this situation. A source close to the consultation – the result of work by the government, the Pensions Regulator and the Financial Conduct Authority (FCA) shaped by discussions with the industry – has suggested that an update could be published within weeks.

Cost is clearly an important factor in pensions investment. Virtually everyone linked to the industry agrees that the management charges a saver pays for their investments will affect the size of their retirement pot. But cost and value are different things – and the consultation has shifted the emphasis to the latter.

Henry Tapper is the founder and executive chairman of AgeWage, which helps people and organisations to gauge the value for money provided by their pension schemes. He notes that “employers typically see pensions in terms of something identified by their procurement teams. They focus on cost, because that’s the one factor they can easily understand and measure, but they don’t consider factors such as the members’ experience. I am worried about a race to the bottom.”

> Procurement teams focus on cost, because that’s the factor they can easily measure, but they don’t consider the members’ experience

Tapper cites a case involving a £1bn pension mandate that was seeking a new pension provider. The lowest quote it received was 0.09%.

“That’s too low,” he says. “It is almost impossible to see how a firm could make good-quality investments and offer good service at that price. This creates a scary situation where price is dominating, as employers seeking pension schemes have no concept of value.”

The Pensions Regulator has stated that the three key elements of the *Value for Money* framework are costs and charges, investment performance and service quality. Costs have already been dealt with to a degree, because a charge cap of 0.75% (for the provider’s default portfolio) has been in place since 2015.

Some players have suggested that the overly aggressive capping of fees by the watchdog could have a negative impact on investment performance and customer service. They do have a case for arguing that high quality in these two elements is impossible to deliver on the cheap.

It’s a delicate equation to balance, then, but a solution has been proposed: consolidation. As nearly all industries do, the pensions sector offers clear examples of economies of scale.

Indeed, the idea of so-called superfunds has been generating significant column inches. One particularly forthright proponent of consolidation – the Lord Mayor of the City of London, Nicholas Lyons – has suggested that smaller defined contribution schemes should pool resources in a £50bn fund that would invest in some of the nation’s fastest-growing firms (see “How pensions could refuel the economy”, p4). The Tony Blair Institute for Global Change has also espoused the potential of super-funds.

Some of the world’s largest and most successful pension schemes invest anywhere between 20% and 35% of their funds in unlisted securities across infrastructure, real estate and private equity, including venture capital. The equivalent figure in the UK is 7%, but it’s something that super-fund advocates believe could increase, benefiting investment performance in the process.

Edmund Truell, founder of the Pensions SuperFund, argues that the simplest way to reduce the cost burden of pension schemes, particularly smaller ones, is to pool resources. He explains: “The cost of running a small fund can be 5% of assets, which can be damaging. The best remedy is consolidation – and we can see that from examples in countries such as Canada, where pension fund costs are 0.4% a year.”

Truell, who chaired the London Pensions Fund Authority when Boris Johnson was the city’s mayor, oversaw its merger with the Lancashire County Pension Fund in 2014, encouraging mergers between other schemes since then.

Truell’s belief in the benefits of consolidation is so strong that he suggests that the regulator should adopt a “comply or explain” policy on this matter. By this he means that funds should actively seek to pool resources with others or be obliged to explain why they’re not doing so.

While the Pension SuperFund is aimed at defined benefit schemes, which provide a guaranteed income for retirees based on their salary and length of service, the master trust structure has emerged in recent years as a way for defined contribution schemes to benefit from pooling.

Moving on from the cost/quality equation, the general apathy among British consumers towards retirement saving may be an even tougher problem to solve, particularly in the case of workplace pensions.

Scheme members need to be made more aware of their pension choices, including knowing how much they and their employer are contributing and what their investment options are. Employers also need to be more engaged in the schemes they’re providing, but few have pension expertise. As a result, they find it hard to review the quality of their offerings.

Tapper established the Pension Playpen service in 2013, while auto-enrolment was still at an early stage. This helped 7,000 organisations to choose a workplace pension in the so-called staging period that lasted until 2018, by which time all employers had to have set up their schemes.

“When we launched the Pension Playpen, we were probably the biggest value-for-money people out there,” he says. “But it could still be difficult to engage people – you can lead them to water, but you can’t make them drink.”

Key barriers to engagement cited by financial advisers include limited access to information, coupled with a lack of transparency from pension providers. Some in the sector hope that the regulators will review the gap between pensions advice (specific product recommendations) and guidance (more general suggestions), potentially loosening restrictions on the latter to enhance the availability of information.

With the government right behind them, the Pensions Regulator and the FCA will no doubt be hoping that they can construct a *Value for Money* framework that will lower these barriers and make clear information about pension providers’ fees, performance and service accessible to employers and employees. The availability of easily comparable data should, in theory, improve customer engagement, shake the world of workplace pension provision out of its torpor and add some much-needed dynamism to the market. ●

60%

The percentage of pension schemes with fewer than 100 members that met none of The Pensions Regulator’s key governance requirements in 2021

The Pensions Regulator, 2021

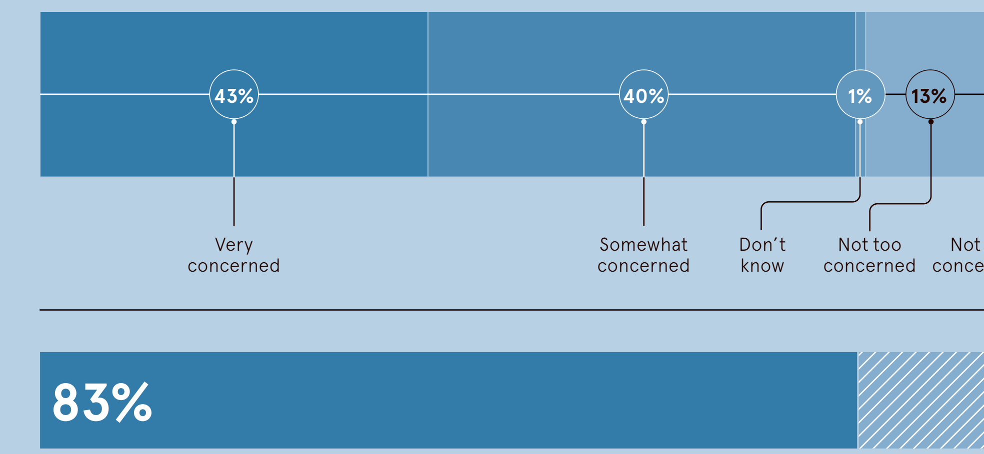
38.6%

Consolidation in the UK defined contribution pensions market over the 10 years to Q1 2022

The Pensions Regulator, 2022

Commercial feature

HOW CONCERNED, IF AT ALL, ARE YOU THAT THE COST OF LIVING CRISIS WILL MEAN YOU HAVE TO WORK LONGER BEFORE RETIRING TO MAKE UP FOR A SHORTFALL IN SAVINGS?



are concerned that the cost of living crisis will mean they will have to work longer before retiring to make up for a shortfall in savings

WEALTH at work, 2023

Are rising costs affecting pension savings?

Employees are being forced to rethink their retirement plans due to the cost-of-living crisis

As financial pressures on UK employees continue to grow, new research by Wealth at Work has found that many people are having to rethink their retirement plans.

It found that eight in 10 employees (83%) are concerned that the cost-of-living crisis means they will have to work longer before retiring to make up for a shortfall in their savings. Worryingly, one in three (33%) believe that they won’t ever be able to afford to retire due to the cost-of-living increases.

Some have even reduced or stopped their pension contributions altogether because of rising costs (13%), while almost three in 10 (29%) admit that they may consider stopping payments in the future, and one third (30%) may think about reducing future payments. This will be of particular concern especially when lower fixed-rate mortgage deals come to an end and if inflation doesn’t come down as quickly as initially thought.

> It’s alarming that these latest figures suggest that so many people are thinking about stopping or reducing their pension contributions to help alleviate current financial pressures

Further to this, one in 10 (10%) of those eligible to access their pension (i.e. those aged 55 or over) say they have withdrawn savings earlier than intended to supplement their income, with a further 31% intending to do so or considering it at some point in the future.

When it comes to getting support with their pension, 56% say they speak to unqualified sources such as their partner, family, friends or colleagues, or no one at all. Very few speak to their pension provider (15%), employer (13%), a regulated financial adviser (8%) or specialist bodies such as Pension Wise (4%) or MoneyHelper (3%).

Whilst more than one in three people (37%) don’t feel supported by their workplace to understand their finances, separate research from the Reward and Employee Benefits Association suggests that more employers are now starting to offer this support.

“It’s alarming that these latest figures suggest that so many people are thinking about stopping or reducing their pension contributions to help alleviate current financial pressures,” says Jonathan Watts-Lay, director at Wealth at Work. “While this is understandable, it really should be a last resort and only if you are facing serious financial difficulties.”

“Those who do go ahead with it should make sure they plan for how long it is going to be for, and restart as soon as they possibly can. While it may result in relatively small savings each month, the impact on retirement savings to be used in later life will be dramatic due to lost employer contributions and tax relief.”

Given the widespread concern over having enough money to retire, it’s more important than ever, particularly for those approaching retirement, to have a financial plan for their future in place. That means looking at the pensions, savings and investments they already have and deciding if these will be enough to retire on comfortably.

A good starting point as a source of guidance is official government bodies such as Pension Wise and Money Helper. Those with more complex situations should consider taking regulated financial advice. The good news is that many employers are now offering financial wellbeing support in the workplace, including financial education, guidance and regulated financial advice for employees, so it’s always worth finding out what’s on offer.

For more information please visit wealthatwork.co.uk