Pensions and Savings Conference 2019

Overview

Willis Towers Watson

Contents

Introduction

From taking a look inside the Carillion pension scheme to predicting the future of the private pensions sector, experts at the Pensions and Savings Conference 2019 covered a huge amount of ground.

Over 300 pension scheme representatives with billions of assets under their collective management gathered in London on the 2nd October 2019.

They listened to passionate speeches on sustainability from our spokespeople, including addresses on diversity and governance from our Thinking Ahead Group.

Guest addresses were given by speakers including the renowned economist Paul Johnson; Dianne Day, the trustee in charge of managing the transition of Carillion's DC membership; and Fiona Frobisher, head of policy for the Pensions Regulator.

Read on for the highlights of the day and to learn how you can prepare for the biggest issues in pensions and the wider economy, both today and in the future.

The seven features of well-run trustee boards

Life for pension funds is already challenging. But over the next decade, the pace of change will accelerate even further, said Roger Urwin, global head of investment content in our Thinking Ahead Institute, opening the conference.

This may sound daunting, but there is a silver lining: there are many opportunities for trustee boards to do good work in the face of a "Great Acceleration" of change caused by Brexit, geo-politics, climate, technological leaps, and macroeconomic instability, among other factors. Key to success will be organising trustee boards to manage change effectively. Here are the seven key features of well-run boards.

Well-grounded principles and beliefs

This is a relatively new feature of a well-run board, having come to prominence over the last decade or so. With sustainability rising up the corporate agenda, having a central set of well-socialised principles and beliefs has been enormously important to get right, said Urwin.

Stay focused on the big picture

Retaining a strategic focus is vital to effective board governance. "Boards don't have to do too many things, they have to make sure that things get done," Urwin told the audience.

Delegation is key

Following on from the first point, delegating is one way to ensure a strategic focus is retained at board level. For some this means using your internal team. If that isn't feasible, the outsourced CIO/fiduciary management model is an efficient model through which trustee boards can delegate detailed investment decision-making but retain a strategic focus.

Diverse thinking and unified decisions

"Differences of opinion are inevitable, but you have to make sure the board confronts these differences and comes together with something that is unified," Urwin said.

Disciplined oversight

It is the diligence of trustee boards that is vital. Investment committees need to have individuals with key competencies, said Urwin. Here, it's a good idea to look to international examples of best practice, he suggested.

An effective chair

The chair's role is crucial in terms of setting overall strategic direction and the culture of the board and organisation. They are responsible for best practice and ensuring a high standard, said Urwin.

Sized appropriately

"Five is a good number for an investment committee," said Urwin. This is large enough to ensure a wide range of expertise, but small enough that decisions can be made efficiently.

> We know that millennials make up about 40% of the target group for auto-enrolment. Yet young people are largely absent from trustee boards.

Why diversity matters

Boardrooms are still not diverse enough, despite concerted efforts to make them less male, pale and stale.

"We have a problem: the young, the socioeconomically disadvantaged, and women are not all represented in the boardroom," said Marisa Hall, director of the Thinking Ahead Institute. "If we look at FTSE 100 boards, only 8% of board members are ethnic minorities. Breaking this down further, looking at minorities who are UK citizens, this number drops to 2%, despite them making up 14% of the population."

Just 5% of FTSE 100 board chairs are women, said Hall. While there has been progress on the number of non-executive women in the boardroom, there has been little change in the progress of executives. Only 10% of executives are women.

In the words of Green Park's latest leadership report, which reviews the gender and ethnocultural diversity of FTSE 100 leadership, Hall summarised: "The future leadership of Britain's top companies may be marginally less male, but it is also looking whiter."

Pension trustee boards are also problematic. An overwhelming 83% of UK pension fund trustees are men. Meanwhile, a third of trustees are over the age of 60.

"We know that millennials make up about 40% of the target group for auto-enrolment, yet young people are largely absent from trustee boards," said Hall. She asked the audience for their views on the pace of action on inclusion and diversity. An overwhelming 75% felt it was too slow.

> The historical approach of dealing with gender first, ethnicity second, disability third or whichever order suits the corporate agenda has lent itself to box-ticking and compartmentalisation of diversity factors.

Why does this matter?

"There is a big gap in cognitive and representational diversity in the pensions industry," said Hall. It matters because trustee boards aren't accurately reflecting the make-up of their scheme memberships. This results in less well-rounded decision-making.

"The historical approach of dealing with gender first, ethnicity second, disability third or whichever order suits the corporate agenda has lent itself to box-ticking and compartmentalisation of diversity factors," said Hall. "I don't think of myself as a black woman to be added to statistics, I think of myself as an individual with my own journey, which we all have."

She argued: "Our current approach is flawed, when we pick this one aspect of humanity – gender, for example – because it doesn't reflect the entirety of who we are." Instead, trustee boards should try to map identity more broadly, not just considering gender, ethnicity and age but factors like education, religion, nationality, politics, family and lived experience.

"We tried out this identity map in Willis Towers Watson teams in Sydney, Melbourne, New York, and Reigate – we are doing it in London too – in the form of a game," said Hall. "We looked at the teams that we had. Some interesting things came out: we have a lot of actuaries, and a lot of people who have economics degrees. We need to think more broadly about where we bring in our talent from.

"Historically, companies have asked people to trim away their identities. We are calling for an alternative philosophy – to take people for who they are and ask trustee boards to do the hard work of fitting everyone together. Perhaps more importantly, we need to build a strong culture that views diversity as critical," said Hall.

Practical actions trustees can take:

Review your current board

Carry out a governance and diversity assessment. Identify under-represented parts of the scheme membership.

Challenge group think

Even if we all look different, does it matter if we all think and behave in the same way? Worse still would be if we all acted the same way to avoid embarrassment, because we don't believe our voices will be heard. Trustee boards should challenge their advisers and encourage active discussion.

Take action

Think about a maximum term of appointment. Also consider targeted recruitment: where do you currently look for new people and could you expand your recruitment avenues?

Plan for the future

Develop a robust and inclusive recruitment process. Ensure your succession planning process is well considered.

Five reasons why sustainability should matter to your pension scheme...

Adam Gillett, Willis Towers Watson's head of sustainable investment

Sustainability is the subject of the moment. However its vital importance should mean it continues to be a key consideration for trustee boards for years to come. Here are five reasons why sustainability should matter to your pension scheme.

The first reason is pure and simple: this is about making us better investors. Trustee boards who engage with these issues are likely to have a better considered approach to investment, and companies who are sustainable are likely to outperform those which haven't thought about these issues.

The second reason is regulation. The 1st of October is the deadline for updates to pension schemes' statements of investment principles. There is a lot more regulation to come.

The third reason is reputational risk. A lot of pension schemes are increasingly attuned to this and it is not a good idea to be caught on the wrong side of the sustainability debate.

Fourth, sustainability is a fantastic subject for engaging with members who care about these issues. We can talk about the subject in a way that members will understand. I recently took a boat trip down the River Thames to Corrie Riverside, a waste-to-energy facility.

Our trip followed the path of municipal waste that is non-recyclable and would otherwise go to landfill. This waste is taken down to the river in central and west London, loaded onto barges and shipped to east London. There it's incinerated and turned into enough energy to supply 160,000 homes in London. It's a great investment as it does good and delivers inflation-linked, stable returns. It's also easy and tangible to explain to members.

The fifth reason to consider sustainability is its real-world impact. It is easy to think of investments as a table in PowerPoint, or a line on a graph. But underneath this data are real companies, working in the real world. Sustainability is a powerful tool for making this connection: going out of the office, down the river and seeing the assets in real life.

...and three ways your pension scheme can become a more responsible steward of assets

Luba Nikulina, Willis Towers Watson's global head of research

1. Understand your beliefs

Setting up your portfolio with your beliefs reflected is incredibly important. We have a beliefs exercise that we facilitate for our clients. Taking the time to understand where you are and where you want to go pays off when it comes to investment, because you understand what you believe in. Knowing your members' preferences is very helpful for this exercise.

2. Make a plan

Sustainability is a journey and you will not be able to get there overnight. Measure your current situation and come up with some practical steps.

3. Use data

The quality of data has improved and is continuing to improve. Some information is better than none. Dive in and use what is available. It will genuinely help you to better understand where you are right now, what matters and what could make a difference.

The next steps trustees should take on GMP equalisation

Panel: Claire Carey, partner, Sackers; Sean Burnard, director and independent trustee, Law Debenture; Colin Smith, senior director, Willis Towers Watson; Vanessa Burke, director, Willis Towers Watson; Andrew Long, managing director, Willis Towers Watson (Chair)

GMP equalisation work will take at least two more years to finish, according to the majority of trustees who were polled at the Willis Towers Watson Pensions and Savings 2019 conference. A year on from the High Court judgment in the Lloyds Banking Group case, a panel of experts assembled to talk about the next steps trustees should be taking to equalise pensions for members.

Some issues remain unresolved, said Sean Burnard. "We are all waiting for advice from HMRC and other parties. On the radar now are member communication, strategic decisions and data work. At this point in time we don't know how complicated the process of GMP equalisation is going to be. What will really affect the timing are the resources of the scheme and resource within the advisers."

Colin Smith added: "After a year of people getting to grips with the judgment, things are starting to move, strategic decisions are being made. Issues like, will you treat all members the same, what might post-conversion benefits look like and how to communicate changes will all need to be dealt with. I am not surprised by the reaction in the room – I think it will take 18-24 months for this process to happen. If you want to pay equalised benefits in two years, you need to start making decisions now."

For help trustees could consult a series of guidance notes being produced by the Cross Industry GMP equalisation working group, suggested Claire Carey.

Trustees could start the process by assessing the quality of their data, added Vanessa Burke. "From a member data perspective, you have to understand the scale of the gaps and inconsistencies in your data. Then you can move ahead into understanding what you will need to complete equalisation," she said.

> "From a member perspective, you have to understand the scale of the gaps and inconsistencies in your data."

To keep GMPs or to convert

Should pension schemes be aiming to keep GMPs in their current form or convert them into other types of benefits? asked Andrew Long, the chair of the panel.

Conversion has a lot of advantages, replied Burnard. "It would mean GMP equalisation would be achieved as a one-off exercise, you wouldn't have the year-on-year comparison going forward. That would reduce scheme risk. For instance, inflation risk could be hedged more easily and it would likely reduce the cost of buyout eventually. It would also be easier to explain to your members and subsequently easier to administer."

It was noted that administration would be a key factor in any decision. "Not every administrator will be able to offer every route to implementing GMP equalsation," Vanessa Burke explained. She suggested: "Treat your administrator as you would any other adviser in this. Understand what they have their systems set up to do. This has to be factored into your initial project considerations, rather than making a decision and realising later down the line that you can't successfully implement it."

Is everything in place to allow GMP conversion?

Long asked the panel if the legislation was in place to carry out a conversion exercise. Carey replied: "The legislation to carry out a conversion exercise has been in place since 6 April 2009, but it has been rarely used in practice, with the historic uncertainty from GMP equalisation playing a role here. Nonetheless, we have seen it successfully deployed in a scheme winding up as part of a buyout exercise."

Any scheme looking to carry out a conversion exercise will have to satisfy several conditions and follow specific procedural steps, added Carey. "Member protection is especially important: trustees must convert benefits on an actuarially equivalent basis and there are some restrictions on what you can and can't do. For example, it is not possible to convert GMPs into DC benefits."

There are areas where GMP conversion legislation could be improved, said Carey. "For instance, at the moment, trustees are obliged to take all reasonable steps to consult with members before tackling GMP conversion, but there is no process in the legislation for trustees to follow. Trustees also need employer consent to a conversion exercise. The legislation is not as clear as it could be as it focuses in on the employers of members in contracted-out service from 20 years ago!"

The key message is that schemes should take actuarial and legal advice early in the process. Schemes will need to clearly document the process and the rationale they followed in order to take their decisions, in case it is questioned later down the line by insurers or members.

Treating all members fairly is important with GMP equalisation, explained Carey. "Whilst the high court didn't say anything about whether you have to use the same methods for everyone, I think the starting point is to look at normal trust laws. These require trustees to treat members fairly, which includes treating them in a consistent way. That doesn't mean you have to treat everyone exactly the same. If you are distinguishing between different groups, you have to be sure you are not bringing in anything discriminatory. It is a case of getting legal advice early to make sure you are being consistent."

> "If you want to pay equalised benefits in two years' time, you need to start making decisions now."

The word from insurers

Long asked the panel what they are hearing from the insurance market about what insurers consider to be acceptable conversion methodologies. This will be vital for schemes that are considering a buy-in or buyout transaction.

Insurers have typically used a methodology that is similar to the D1 GMP equalisation methodology in the past, answered Burnard. "Now, they seem increasingly comfortable with trustees using D2 as a method, although recently there have been some large transactions using the C2 methodology as a basis."

Burke added: "Some of you may have seen a survey which said that seven out of eight insurers said they needed things converted on a D2 basis. But what we are seeing is possibly a shift away from that, not least because we think they will have to provide some kind of dual record option. It is a conversation you must have if you are on a journey with an insurer, to understand what you need to do. Insurers will expect well-documented decisions, a solid audit trail and evidence of the process that was followed."

Wherever trustees are on their GMP equalisation journey, some principles are universal. Plan well ahead, start preparing your data and looking for gaps, keep in regular contact with your administrator, and seek legal advice in order to ensure your decisions are robust and well-documented.

GMP equalisation: experts' top tips:

Claire Carey "Get advisers working collaboratively but most importantly, get your employer on board at an early stage. Whilst many trustees will be keen to crack on with GMP equalisation and conversion exercises, it is important that they are keeping themselves aware of the latest guidance."

Sean Burnard "As a trustee, I would say, start your project now. Get a GMP working party together. Who is the project manager, who is the team? Start thinking about what you can do now. Start looking at what data is missing."

Coin Smith "Understand your key strategic decisions. Don't let the project take over your other objectives. Take into account capacity constraints when everyone is trying to take action at the same time."

Vanessa Burke "From a data point of view, set a solid foundation and have the strategy run alongside everything else. You really want as many people to run through those calculations in bulk as possible."

Andrew Long "We as an industry must deliver GMP equalisation well. It is important to work through the steps at the right pace. There are no prizes for coming first, but there are prizes for doing it well."

Selecting a master trust for Carillion's defined contribution plans

> "It is vital to collect personal e-mail addresses when an employee leaves a company, plus collect them from current employees."

When facilities management and construction company Carillion went into liquidation in January 2018, Dianne Day was responsible for ensuring its defined contribution (DC) scheme members found a safe harbour.

Independent Trustee Services was appointed in June 2018, with Dianne as lead director. Her role was helping to close the DC schemes and selecting a master trust to run them on an ongoing basis. During the subsequent transfer process to Willis Towers Watson's master trust, LifeSight, she learned a great deal about what can make or break a successful DC change process.

Carillion's defined benefit (DB) schemes made most of the headlines, but the company also had three DC schemes. The largest had £270m in assets under management, while the other two were much smaller.

The good news was that Carillion's trustees had kept some money in reserves. "We received that, plus some money towards our ongoing costs," explained Day. "I never spoke to the previous trustees about why there were reserves in place – but if you have a weak covenant, it is a really good idea," she added.

Unfortunately there were some historic invoices that had not been paid. "Overall we knew there was going to be a deficit and it was pretty unavoidable that there would be a deduction applied to members' pots," said Day. She was very conscious that every penny the scheme spent would come out of members' pension funds, and in that context, was very mindful about each communication the scheme sent, questioning whether each one was truly essential.

Choosing a master trust

Day and her colleagues selected LifeSight for a number of reasons. "It came down to what fitted the members best," she explained. "Something that was significant about this group of members is that they were all orphans with no future contributions – you talk to them differently, you don't really want to talk about the employer, for instance. The trustees of LifeSight had a customized governance and engagement strategy for orphan members."

Carillion's membership was skewed towards an older population. "LifeSight had a good selection of retirement choices and support through the retirement phase," added Day.

The scheme's default was still to target annuity purchase at retirement. Day and her colleagues decided to take the opportunity to review that, in the context of pension freedoms. With Lifesight, scheme members could benefit from a more modern scheme design. "Investments were realigned to drawdown for the majority at the point of transfer, at nil cost to members," explained Day.

A learning process

Day set out with a set of basic principles for how she wanted to communicate the change process to members. She wanted to be very transparent about the unfortunate fact that the transfer and wind-up process would involve some cost to members, but also to reassure them that after the transfer was complete, their money would be protected.

"Finally, we wanted to show them empathy – they were either losing their jobs or moving to a new employer and we wanted to tell them we understood their situation," said Day.

She learned some valuable lessons, which may help other schemes embarking on change processes, albeit hopefully not in a distressed situation.

Learning one: **the value of personal e-mail addresses.** "We wanted to talk to members, but we couldn't because the administrator held no personal e-mail addresses. Work emails did not work!" said Day. As a result, at the start of the communications process, all she had to work with were paper communications.

"It is vital to collect personal e-mails when an employee leaves a company, plus collect them from current employees," she suggested.

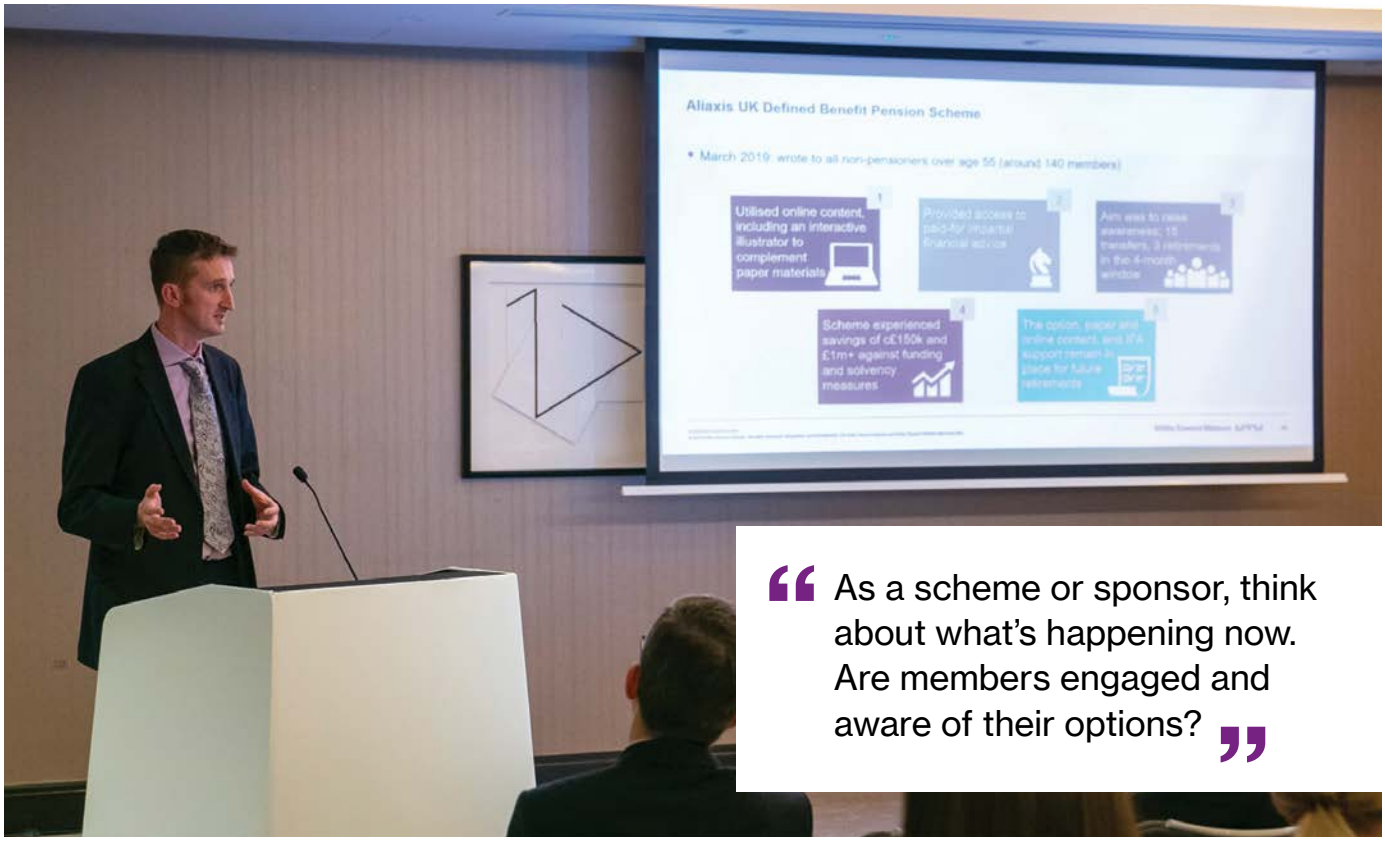
Learning two: members look forward. In the initial letter to members, there was a lot of information to convey. Members' pensions were transferring, some money would be deducted in the transfer process. "I expected the key member questions would be all about the deduction, but the big question was, 'Who is LifeSight? Where is my money going, who is looking after it?'" said Day. Members wanted fund factsheets, information about their choices. They wanted to know that their pension was secure.

"It is easy to get into the past and how and why we got there. But actually, they wanted to know about the future," explained Day.

Learning three: members' first reaction was to go online. "We didn't have a budget to manage communications through all online channels, but it was clear that online and social media platforms were often their first ports of call," explained Day. As these have become increasingly important, schemes conducting change processes in future will need to consider how they manage social media messages.

Learning four: customise the message. Through LifeSight, Day was able to make the messages more relevant to Carillion's members. Simple changes of language made communications sound far more targeted. "Your employer has chosen LifeSight as your new workplace pension" became "You have transferred to LifeSight from your previous scheme."

Learning five: professional project managers are heroes! Project managers are essential to any change project, Day argued. "They create a sense of urgency and commitment. They encourage trust between the ceding and receiving team. They do put pressure on you to commit to dates but the planning, once it comes off, is fantastic."



> As a scheme or sponsor, think about what's happening now. Are members engaged and aware of their options?

Are your members sleepwalking into retirement?

An overwhelming proportion (85%) of the pension funds at the Pensions and Savings Conference believe their schemes should do more to support DB and DC members at retirement.

The Financial Conduct Authority (FCA) has also expressed concerns about how members are making decisions at retirement, explained Stewart Patterson, a director at Willis Towers Watson. The regulator is worried that members are sleepwalking into retirement.

For instance, some DC consumers' retirement incomes could have been 13% higher if they had shopped around. Worryingly, one in three consumers were moving into drawdown unaware of where their money is invested.

The FCA has released two policy statements in 2019 to help improve consumer engagement. Schemes can take action to better support their members, said Patterson.

He suggested: "As a scheme or sponsor, think about what's happening now. Are members engaged and aware of their options? What are you seeing in terms of members transferring out of DB schemes? Are some retiring with DB and DC pots?

"Next, assess the FCA's concerns about the market and to what extent these apply to your scheme. What member support do you already have in place and what else could you put in place?"

There is no one-size-fits-all approach, he said. It is a case of understanding the scheme's specific population and where the gaps lie at present.

When asked what they would do if they could do one thing, the majority of the audience (53%) would offer more one-to-one support. Other popular options were to provide more online content and improved access to annuity broking or drawdown.

How DHL revamped its DC retirement communications

Freedom and choice may give members more flexibility at retirement, but they also present them with more complex decisions. The DHL Group Retirement Plan had quickly complied with the new legal requirements, but they felt they could do more to help members, explained Lee Spithray, DHL's head of pension trustee services.

First DHL surveyed scheme members to get a better picture of their current understanding of their retirement options. The findings cemented their decision to change their current approach.

"Our 2017 member survey showed that 55% of DC members within 10 years of retirement don't know how they plan to use their savings. That translates to more than 15,000 people possibly being in the wrong investment strategy," explained Spithray. "Ninety-five per cent were not aware of the annuity broking service on offer – this was a cornerstone of what we were doing previously and it wasn't really getting any traction among people in the planning stages."

A change of approach was needed. While the FCA Retirement Outcomes Review was not directly applicable to DHL as a trust-based scheme, it addressed many of the same problems. Therefore, Spithray and the team decided to use its findings to inform their change programme.

Spithray added: "From the member survey, we saw that members liked our existing website and saw it as one of the most useful services we already had. We wanted to refresh the content and make it more accessible to tablets and mobile. We also wanted to introduce video content as an alternative medium for learning – we had used it previously for a pension increase exchange exercise and it went down well, so we wanted to do more."

The scheme realised that they needed something more tailored to people approaching retirement. In order to do that, DHL made use of Retire Able, Willis Towers Watson's flexible range of retirement support services. "One of the things we liked about Retire Able is it's essentially a menu of things you can pick from," explained Spithray. "Not everything about our previous approach was bad, but there were things that were missing. We were able to plug in the gaps and retain the elements we liked from our existing approach."

> "We felt we needed to support members more with drawdown – and we chose to facilitate access to LifeSight."

The Retirement Outcomes Review emphasised the importance of wake-up packs. So, the DHL scheme developed a wake-up leaflet, directing DC members to the new, improved website for more information. "The content is largely from the Retire Able suite – it has been tailored to reflect our branding and we have tweaked some wording where necessary. We are sending the wake-up pack out at age 50 and again at around 55 to try to pick up people who are in the wrong strategy," added Spithray.

Throughout the scheme's communications, they use consistent branding to refer to the three routes of annuity, drawdown and cash. There are case studies on the website to bring these options to life: why drawdown was right for someone with a particular set of circumstances, for instance. There is also a timeline, showing what actions someone might want to take in the run-up to retirement.

The DHL scheme also introduced videos. The first is a general introduction to the website and the other focuses on retirement planning. "We were able to tailor the video with a DHL-specific voiceover and branding, but the content is largely standard Retire Able," explained Spithray.

The scheme also developed an app that provides members with a forecast of their retirement income, shows what they have saved and allows them to check nominated beneficiaries. Further developments are planned for the next few years.

Finally the scheme already had an annuity broking service in place. They chose to keep that, but changed the way they talked to members about it.

Spithray added: "However, we also felt we needed to support members more with drawdown – and we chose to facilitate access to LifeSight. We did look at other providers, but we liked the idea of a mastertrust – which is something individuals couldn't access on their own. By comparison, LifeSight looked like better value for members but also more understandable."

How the Aliaxis UK Defined Benefit Pension Scheme reviewed its communications

> "18 members acted where previously they probably wouldn't have realised they had these options."

The trustees of the Aliaxis UK Defined Benefit Pension Scheme were concerned that scheme members might be unaware of the options available to them with freedom and choice. They decided a communications overhaul was necessary, explained Stewart Patterson, a director at Willis Towers Watson.

The scheme wrote to 140 members over 55 this year and gave them access to online content, including an interactive illustrator to complement paper materials. Members were also given access to paid-for, impartial financial advice.

As a result 15 members decided to access their retirement income via transferring out. An additional three DB scheme members decided to retire and take their DB money.

"So 18 members acted where previously they probably wouldn't have realised they had these options," explained Patterson. "Feedback tells us members really find the illustrator very useful as it shows the numbers side by side. This brings the decision to life and it becomes a much more tangible comparison for the member to consider."

The exercise proved a win/win for members and the scheme. The latter saved over £1m against its solvency measure.

As well as the financial benefits, running these types of exercise can have other advantages for pension schemes, explained Patterson. They can help to lower the administration burden: members are less likely to have last-minute enquiries if they have engage with their options earlier on.

"There is also the strong paternalism argument: members typically receive better outcomes if they are engaged," added Patterson.

Paul Johnson: this could be the end of private pensions

The UK's retirement system is facing an unprecedented challenge, thanks to a long period of sluggish economic growth, said Paul Johnson, director of the Institute for Fiscal Studies.

The UK's retirement system is facing an unprecedented challenge, thanks to a long period of sluggish economic growth, said Paul Johnson, director of the Institute for Fiscal Studies.

The afternoon keynote speaker at the Pensions and Savings Conference 2019 painted a bleak picture of the UK's finances. "The economy is about £300bn smaller than we might have expected it to be today, a decade ago," explained Johnson.

Worse, the growth gap is expected to widen. "This is the first time ever that growth is expected to be below 2% every year for the next five years," said Johnson.

Productivity growth and household income growth have also suffered, especially young people's earnings, which have done the worst. Interest rates remain at historically low levels.

"We have layered more uncertainty on top of this by voting for Brexit," added Johnson. "Whilst UK growth wasn't very good, nor was it in the rest of the world, but since 2016 we have moved to the bottom of the league. Since 2016 global economies have grown, but the UK has lagged behind. Most worryingly, there has been a complete collapse in business investment. At this stage in the cycle, we would expect business investment to be up considerably but in fact it is lower."

UK public finances are already under strain because of a long period of economic stagnation. Health spending is also going to need to increase, as a 1.2 million increase in the number of pensioners is expected over the next five years.

"The amount we spend on health and pensions has risen dramatically over the last 50 years. We have paid for it by abolishing defence spending. There's nothing left of defence spending to abolish," explained Johnson.

Austerity has impacted almost every impact of public spending except health spending, which has risen. "It doesn't seem to me there is much space to cut further, which means that taxation will have to increase. Something we won't hear much about in what I assume will be an upcoming election," predicted Johnson.

> "The economy is about £300bn smaller than we might have expected it to be today, a decade ago."

What does all this mean for pensions? The state pension age will keep rising, said Johnson. "Had state pension ages remained the same, there would be something like four million more people over pension age by the mid-2020s than there will be. That is a very significant saving to the public finances. We need to continue that process of increasing the pension age over time to keep a lid on public spending."

Working for longer may also become a reality. At present people underestimate their life expectancy, which is improving all the time. "You can think of someone in their late sixties today as [equivalent to] someone in their mid-fifties in the 1970s," said Johnson.

We could be witnessing the end of private pensions, argued Johnson. "Through a series of policy decisions, we had one of the biggest private pension sectors 30 years ago and today, we have barely anything at all."

Very few people now purchase annuities. Meanwhile the tax treatment of pension savings has changed dramatically. "We have moved dramatically away from a world in which pensions were the obvious place to put your money for tax advantages," said Johnson.

"We don't have anything which looks much like a pension any more, partly because of mistakes over things like the RPI, partly because of low interest rates and partly as a result of government policy," he concluded.

"We have shot ourselves in both knees economically," was Johnson's stark conclusion. Ageing and health will put pressure on public finances over time. "We have some big political questions to ask about how big the state will be in ten years' time – this is starting to impact in a serious way."

> "We have moved dramatically away from a world in which pensions were the obvious place to put your money for tax advantages."

Brexit, the DB funding code and intergenerational inequality: in conversation with an expert panel

Panel: Fiona Frobisher, head of policy, the Pensions Regulator, Paul Johnson, director, Institute for Fiscal Studies, Rash Bhabra, head of retirement, Willis Towers Watson, Emma Palfreyman, senior director, retirement, Willis Towers Watson (chair)

Emma Palfreyman (EP): Fiona, could you update us on progress on the new DB funding code?

Fiona Frobisher (FF): I don't know the extent to which I would describe the new funding code as a change. There is no real fundamental change of direction here. It is about being clear about funding objectives and more transparent around risk-taking. Some of that is being clear about investment strategy, some of it is sharpening up definitions around covenant and contingent security. We would like to be in a situation where we are transparent about what appropriate technical provisions are and setting clear standards, which people can either meet or they can come to us and explain what they want to do and why that is still effective and appropriate, and provide justification for that.

Rash Bhabra (RB): Even if there is no fundamental change to the code itself, it does feel like a toughening of the funding regime. In terms of longer-term funding targets, while they don't exist from a regulatory perspective, we do have a number of pension schemes where there are similar sorts of things in place. Inevitably where there are more set long-term targets to get there, what we have seen in those situations has been either employers paying more contributions and taking less investment risk or more of a focus on liability management. If the funding regime does bring in greater prescription, which it feels it may well do, these are the sorts of things we would see happening in practice.

EP: Are there any steps pension funds should be considering now in response to Brexit?

RB: Clearly Brexit creates uncertainty for companies and indeed for markets generally. The two things for me would be, from a trustee point of view, understanding what the implications of Brexit might be on the employer covenant. Second, quite aside from the impact of Brexit on the economy, we are probably overdue a recession. We have had double-digit returns on equities for the last decade.

I think both companies and trustees should be taking a step back and having a very careful think about what they are doing in a world with even more uncertainty, where that hasn't come through into markets. Today, if you are going to continue to take risk, that should be a conscious decision.

Paul Johnson (PJ): We are overdue a recession, but the difference is we might have brought this one on ourselves. If we move into no-deal Brexit territory, we probably won't see sterling fall quite so far as we saw immediately after the vote to leave the EU, but we will probably see a less positive response in the stock market.

EP: If managing risk is something that pension funds do in the DB world, flipping over into the DC world, it is up to members to manage that uncertainty. How much is it reasonable to expect trustees and sponsors to help them?

FF: It's a really interesting question and it's not one we have an answer to as a regulator at the moment. It's certainly something the new Money Advice Service is looking at. I think people coming up to pension age are being faced with some really important and difficult questions and decisions to make about decumulation. Trustees and sponsors are probably in the best possible place to help them through making these decisions. I think there is a lot of innovation happening and I would like to see more of it. I think duties are going to have to come in – I don't think we can leave members to their own devices.

EP: Can Collective Defined Contribution (CDC) offer a new future for pensions?

RB: For me, CDC conceptually is a very good idea. We have gone from the employer bearing the risk to the individual. Whether or not it does take off has to be a question mark, because employers in the conversations we are having with them are treading quite carefully.

EP: Given the likelihood of the need to raise taxation, are pensions particularly at risk because of intergenerational inequality?

PJ: We already have raised taxation to a great extent – the lifetime and annual limits have come down dramatically. The limits for DB schemes are massively more generous than for DC schemes and I think it's extraordinary that this continues. The impact has not hit the older generation, it's been the younger generation.

RB: Inevitably, the easiest target for raising money through taxes will be pension funds and the well off. So, I think we can probably see a greater risk of pension funds being taxed in some shape or form.

EP: Fiona, the Pensions Regulator has recently consulted on governance, can you share any initial insights?

FF: We have had 160 responses, which is a record! Obviously, we do not want people to jump through hoops for the sake of it, there is a lot of 'good enough' governance out there. But some issues around ESG and diversity are not being looked at enough. These issues are not 'nice to have', they are relatively central to good governance and reflect the mainstream expectations of the membership.

Another issue, which we didn't ask about at all, but which came through strongly, is the importance of employers supporting pension schemes and providing the time and funding for people to do this properly and get the training. We need to be bringing employers into it more centrally.

The third issue is that the aspiration to have a professional trustee on each board has been controversial, which we are not entirely surprised by. There was a complete split in views on this.

Oh, and everybody loves the toolkit, which is quite annoying for me because I would quite like to get rid of it. If it is going to stay, it needs to be better and more linked to standards and codes – it will take quite a lot of work to get it up there, but the feedback is we should do that.

EP: The regulator has said that badly run schemes need to improve or consolidate. Can you give us a few thoughts on consolidation in the pensions market?

FF: Consolidation is the way the world is going. Obviously most new scheme members are in DC mastertrusts and that is what we see as the future. If we are looking for better governance, you have to ask yourself, running a smaller scheme, can I provide the level of governance and value that is expected? We are not advocating any mandatory consolidation at the moment, but we are definitely trying to raise the profile of the question: is this the best place for members to be, or should they be in a scheme that offers economies of scale and services that you probably can't?

Contact us:

Thank you for reading the highlights from the Pensions and Savings Conference 2019. If you have any questions or would like to discuss what you've read in more detail, please contact your Willis Towers Watson consultant, or alternatively:

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WTW343828 10/19

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