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WORKPLACE PENSIONS

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OVERVIEW

Resolving the UK's retirement conundrum

Ensuring people save enough for a comfortable retirement is a taxing problem which continues to vex government, employers, employees and the self-employed

PÁDRAIG FLOYD

The last decade has seen a raft of reform within the pensions arena. Some, such as the freedom and choice reforms that provide savers with total control of their pension pots after the age of 55, have been revolutionary.

Others have been evolutionary, such as the introduction of auto enrolment, which requires all employers to enrol staff into an occupational pension scheme.

The UK has also moved to a flat-rate state pension that in time will deliver a third more income than the previous system, provided you have full eligibility.

These developments may suggest the UK is on its way to resolving the retirement conundrum of encouraging individuals to save enough to deliver a meaningful income in retirement. However, the recent state pension review by former Confederation of British Industry chief executive John Cridland may scupper the plans of many UK citizens.

The report recommended the state pension age should continue to be pushed back and even rolled out to 68 by 2035, seven years earlier than currently scheduled.

The reasons are simple – we are living longer and this should be reflected in the state pension age if it is to remain sustainable. The cost of providing the state pension is projected to shoot up from 5.2 per cent of GDP today to 6.2 per cent in 2036-37, according to the latest figures from the Office for Budget Responsibility.

That is equivalent to £725 of additional taxation per household each year, says the report. This doesn't take account of other health and social care requirements that will add an additional 6.8 per cent of GDP to age-related spending by 2066-67, only 1.8 per cent of which is for the state pension.

Things could get worse, too. The triple lock – a guarantee that state pension will keep pace with earnings, inflation or 2.5 per cent, whichever is greatest – is considered an unsustainable yardstick and many argue pensions should be indexed to earnings, so pensions track average salaries instead.

Not everything is rosy for auto-enrolment, either. One area of consensus on pensions policy is that current contribution levels are far too low to deliver any meaningful income in later life. Though the minimum level was due to be increased from 2 to 8 per cent in October, this has been put back to April next year.

Compassionate Eye Foundation/Ezra Bailey/Getty Images

Claire Carey, a partner at pensions law firm Sackers, argues is a sensible idea if it aligns the system with the tax year. However, though auto-enrolment has seen more than 7.8 million workers enrolled since 2012, there are many for whom it simply does not apply.

"There are many different categories of worker who don't fit into the auto-enrolment regime," says Ms Carey. "This includes the self-employed, who could retire without much more than the state benefits."

The imposition of a flat-rate state pension does provide individuals with a clear marker as to the amount of state support they can expect in retirement.

This transfer of risk from institutions to individuals has taken place in the workforce as defined benefit (DB) pensions, which promised a certain income in retirement, have given way to defined contribution (DC), which build a fund to be used to purchase income in retirement.

Though contributions through auto-enrolment remain too low, the structural shifts across the retirement landscape may well compensate for the scheme's current weaknesses.

6.2%
of GDP will be the equivalent cost of providing state pension by 2036-37, up from 5.2 per cent today

1.13m
people aged 65 and over were in employment in 2014

7.8m
workers have been auto-enrolled into a workplace pension since 2012

Office for Budget Responsibility/Office for National Statistics/Pensions Regulator

"Much of the shortfall may be addressed by many people working longer, either because they feel they cannot afford to fully retire or because they feel capable and do not wish to stop," says Gregg McClymont, head of retirement savings at Aberdeen Asset Management.

"And if we see a rise of contributions from 8 to 12 per cent or more, we may find that auto-enrolment and the state pension have gone a long way to solving the savings crisis."

Sir Steve Webb, director of policy at Royal London who as pensions minister in the coalition government was responsible for implementation of both auto-enrolment and the flat-rate pension, takes a similar view.

At around £8,000 a year, the new state pension replaces about one third of national average wages, says Sir Steve. "Those with 35 years of low pay with tax credits will make £8,000 a year, instead of £6,000 on the old system. If auto-enrolment can do the same over a working lifetime, that's not a bad world for us to be finding ourselves in today."

Yet, he says, there remains unfinished business. More people are working longer. Government data shows that in 2014 there were more than 1.13 million working above the age of 65 and this figure is believed to have increased. Yet there are many who will not be able to continue working until a later date.

"We haven't made later working lives viable," Sir Steve says. "There is no well-worn passage to 67 for people in certain jobs."

David Dodd, consulting director at Thomsons Online Benefits, says auto-enrolment is something of a "red herring", as the current model is "pretty much dead" and something else is required.

"DC pensions are not enough for people to retire on and our research shows that 65 per cent of employees want something broader than pension savings alone in the workplace," says Mr Dodd.

This approach, generally known as "financial wellness", takes a more integrated or holistic view of reward and includes other tax-efficient savings vehicles such as corporate ISAs, but also services such as mortgage surgeries and debt counselling, to help people plan their futures.

This planning increasingly looks at long-term care in later life, says Mr Dodd, particularly for the "sandwich generation". These are the group approaching middle age, who deal with the care needs of family members. Having seen how expensive care is, they don't want to leave theirs to chance.

AUTO-ENROLMENT

More people are saving, but too little

The automatic enrolment of workers into a workplace pension scheme may be heralded as a success, but current savings fall below the level needed to provide an adequate retirement income

STEPHANIE HAWTHORNE

By 2020 more than ten million people are expected to be new savers or saving more as a result of pension auto-enrolment reforms, according to the Department for Work and Pensions (DWP). All firms, in a gradual rollout since 2012, must provide a pension for their staff and even an employer of a nanny must auto-enrol them in a scheme.

So far, more than seven million people have already been auto-enrolled into a workplace pension by more than 250,000 employers.

Auto-enrolment applies to workers aged at least 22, but under state pension age, usually working in the UK and earning more than £10,000 a year unless they are already a member of a pension scheme that meets certain criteria set out in law. A worker who is auto-enrolled into a scheme has the option to opt out of it within one month if they choose.

At the moment, employers and employees must each contribute 1 per cent of an employee's qualifying earnings until April 2018 when employer minimum contribution rates will rise to 2 per cent with employees contributing 3 per cent. By April 2019, employers must pay a minimum of 3 per cent of qualifying earnings per employee into a pension scheme with employees contributing 4 per cent with the government adding 1 per cent tax relief. Employers need to repeat the auto-enrolment process approximately every three years.

Most industry experts say contributions are far too low. To replicate fully the kind of pension which would have been enjoyed by someone with decent service in a final salary scheme, today's new worker, according to the Royal London policy paper *The Death of Retirement*, would need to work until they were 77 based on contributions at the statutory min-

INSIGHT

COVERING THE SELF-EMPLOYED

A huge army of more than 4.4 million people are self-employed, often in low-paid occupations, as mini-cab drivers, gardeners, painters and decorators. These workers have few perks: no paid holidays or sickness cover and rarely retirement provision, and are currently excluded from the auto-enrolment reforms.

Indeed, the issue of pensions among the self-employed has now reached crisis levels with only around one in seven having made retirement provision, according to the latest Department for Work and Pensions figures. Pension coverage is even lower for self-employed people who are women, low earners or from minority ethnic communities.

Two influential reports, *Britain's "Forgotten Army"* from Royal London and *Going it alone, moving on up: Supporting self-employment in the UK* from the Federation of Small Businesses (FSB), have urged the government to work towards a savings solution for the self-employed.

The FSB suggests the government should prompt the self-employed to start saving or increase their contributions into a private pension or Lifetime ISA at certain stages, for instance, upon completion of their annual self-assessment.

Sir Steve Webb of Royal London agrees: "We urgently need something akin to auto-enrolment for the self-employed. In my view, this should be some sort of nudge focused on the annual tax return process which would engage with most self-employed people who make a decent income.

"We have in the past suggested a default National Insurance charge on the self-employed which could be redirected into a pension. If that is deemed politically difficult because of the recent Budget row, something similar via the income tax bills of the self-employed ought to be possible."

Peter Dazeley/Getty Images

> Most industry experts say contributions are far too low

imum. Even disregarding the valuable benefits of inflation-protection and provision for spouses, the worker would need to work until 73.

Richard Butcher at PTL agrees: "The 8 per cent contribution is too low to provide most people with enough money to be able to provide, along with the state pension, an adequate income in retirement. Modelling by the Pensions and Lifetime Savings Association suggests contributions should increase to around 12 per cent."

David Weeks, co-chair at the Association of Member Nominated Trustees, goes further. "I would like to see a target of 15 per cent of qualifying earnings," he says.

However, there is a danger that if contributions are too high, people will opt out. Research from NOW: Pensions shows that 24 per cent of auto-enrolled savers say they "definitely will" or "might" opt out, when minimum contributions hit 8 per cent of qualifying earnings in 2019.

To counter this, Bob Scott, chairman of the Association of Consulting Actuaries, would like to see more flexibility so, as minimum employee contributions increase, for example from 3 to 4 per cent, employees are given the option to elect to go back down to 3 per cent before being able to opt out.

"For employers and employees staging late in the process, there should be a phasing in of minimum contributions, not an immediate jump to 8 per cent," he says. "The same goes for new businesses. A phasing in of minimum contributions for younger employees also seems sensible."

Another important factor is qualifying earnings. Workers' contributions are limited as they can only make contributions based on their qualifying earnings. This means the first £5,876 of earnings, as well as anything they earn more than £45,000, are not used to calculate their pension contributions.

This has an important impact on their ultimate pension. Sir Steve Webb, former pensions minister and now director of policy at Royal London, explains: "If someone is using qualifying earnings, they could end up only contributing around 6 per cent of pay for the typical automatically enrolled worker. This is a fraction of the amount needed for a decent retirement."

Other urgent reforms are needed. Tim Gosling, the Pensions and Lifetime Savings Association defined contribution policy lead, says: "The government should look at bringing in younger people aged between 18 and 22, the self-employed and those with total earnings over £10,000 from more than one job." Mr Butcher agrees: "There are no sensible pension arguments against any of this."

Ferdinand Lovett, senior associate at law firm Sackers, points to changing working patterns. The whole auto-enrolment process hangs on who is a "worker". He says: "Employment status is becoming much more ambiguous. The recent Uber and CitySprint tribunal cases have shown this, and this needs immediate attention."

Phil Farrell, partner at Quantum Advisory, urges simplification of the process. "Current legislation is far too complex and onerous, especially for smaller sized employers who may be unable to afford the cost of obtaining professional advice. The Pensions Regulator's guidance totals 11 separate documents," he says.

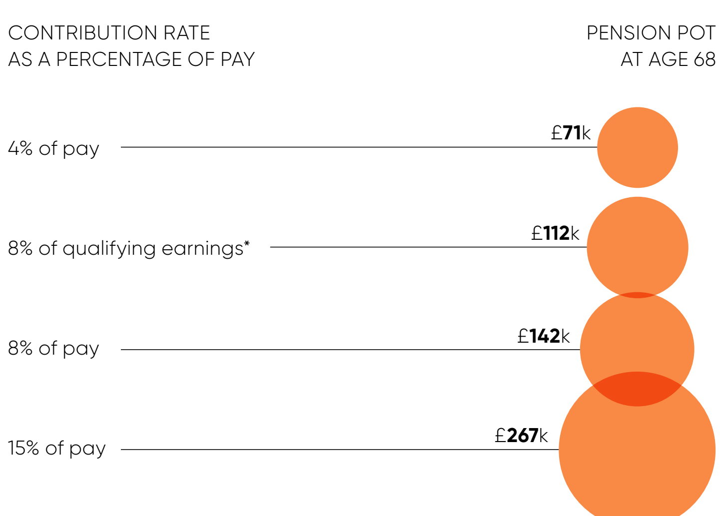
At Royal London Sir Steve forecasts: "In terms of the market, I suspect the main short-term change will be the weeding out of smaller, more poorly capitalised master trusts."

Mr Butcher agrees: "The number of master trusts will consolidate. Their economic model doesn't work if there are too many in the market. They can't all deliver economy of scale and make enough money to operate."

One key change experts would like to see is a new duty on employers to review their provider, perhaps on a three-yearly cycle to coincide with re-enrolment. The risk is that employers settle for the first provider they chose simply because of the hassle of changing, but this may be to the detriment of scheme members.

PENSION POT FORECAST

Hypothetical model based on someone on median earnings at the age of 68 after being enrolled at the age of 22; investment returns of 5 per cent and charges of 1 per cent are assumed



*Qualifying earnings includes the deduction of the first £5,876 from median earnings levels

Hargreaves Lansdown Pensions Calculator

LIFETIME ISA

‘Trojan Horse’ threat to pensions plan?

A new savings vehicle, the Lifetime ISA could, unwittingly or otherwise, undermine the success so far of pension auto-enrolment

DANIEL LEAL-OLIVAS / Stringer/Getty Images

JEFF SALWAY

UK pension providers breathed a sigh of relief after the 2016 Budget as speculation of a wide-ranging reforms overhaul of the pensions tax system proved wide of the mark.

But then-chancellor George Osborne did unveil the Lifetime ISA (Lisa), seen in some quarters as a “Trojan Horse” that represented a step towards the end of the existing pensions system.

There are particular concerns that it could pose a threat to the success of automatic enrolment. Under this initiative, which began in 2012, employers have to offer pension saving to all their employees and those over 22 usually earning more than £10,000 a year are automatically enrolled into a pension scheme.

> A shortfall in consumer trust in pensions perhaps makes it inevitable that some will prefer the new option as a long-term savings vehicle

The challenge that the Lisa presents to pensions arises from its hybrid nature, blending elements of a short and medium-term savings product with those of a long-term retail investment.

To recap, anyone aged between 18 and 40 can save up to £4,000 a year into a Lisa and benefit from an annual government bonus of 25 per cent, up to age 50.

The savings can be used either towards retirement or for a deposit on a first home worth up to £450,000. If it’s the latter, the money and bonus can be taken out at any point, provided the account has been open at least a year.

But a 25 per cent exit charge – a reclaim of the government top-up and what’s effectively a 6.25 per cent exit fee on the member’s own subscriptions – takes effect from 2018-19 if the savings are accessed for reasons other than buying a home or funding retirement, unless the holder has turned 60 or is terminally ill.

Workplace pensions in particular have several advantages over the Lisa. Most notable is the employer contribution from which people saving into workplace pensions can benefit, in addition to the tax relief. Costs are falling too. A charge cap that took effect in 2015 means people automatically enrolled into default pension funds pay management charges of no more than 0.75 per cent a year.

But the popularity of the ISA concept and a shortfall in consumer trust in pensions perhaps makes it inevitable that some will prefer the new option as a long-term savings vehicle.

Savers will lose 25 per cent of everything they withdraw from a Lifetime ISA unless it is to buy a house or they have reached the age of 60

> Communicated well it could offer an additional way for younger staff to save and ultimately encourage long-term provision

For anyone aged between 18 and 39 and saving for their first home there is an obvious benefit in opening a Lisa, in the form of the government bonus. It also provides a tax-efficient alternative for self-employed workers currently excluded from automatic enrolment.

While many retirement savers will use a Lisa alongside a pension, it may be viewed by some as a choice between the two. The tax relief available on contributions made by higher rate taxpayers makes pensions the most suitable option for people in that category. But for those below the higher-rate threshold and who are not in a workplace pension with matching employer contributions, the Lisa is more suitable.

Malcolm McLean, senior consultant at Barnett Waddingham, says: “The Lisa isn’t necessarily more complicated than a pension, but there are a few hidden traps into which the uninitiated could easily fall, notably the loss of a possible employer contribution from the alternative of a pension plan.”

Some 7.8 million employees are now saving for their retirement after being automatically enrolled into a workplace pension, according to The Pensions Regulator. The National Audit Office has estimated that the opt-out rate is between 8 and 14 per cent, while the Department for Work and Pensions has arrived at a figure of around 10 per cent, lower than the 15 to 20 per cent level predicted at the outset.

“It seems a strange time to be introducing the new product, with the phased introduction of auto-enrolment still not complete and at a most critical stage over the next two years with the take-on of millions of the smallest employers,” says Mr McLean.

For many young people with limited resources it will inevitably be an either/or choice. Almost a quarter of under-40s surveyed by insurer Metlife said they would use a Lisa and reduce the amount they pay into pensions, while 9 per cent said the Lisa would replace their pension as their long-term savings product.

Former pensions ministers Baroness Dr Ros Altmann and Sir Steve Webb have both warned that the Lisa could harm pension contribution levels, while the Work and Pensions Select Committee called

ANALYSIS

DISADVANTAGES OF THE LIFETIME ISA


Rangizzz/Shutterstock

- 5 per cent penalty on withdrawals before the age of 60 if the money is not used for a house purchase
- The bonus and interest earned on it will be lost in the event of a withdrawal before 60
- Employers are not able to make contributions
- No bonuses can be earned after the age of 50
- Higher-rate taxpayers may lose out on a higher rate of tax relief

INSIGHT

LISA GETS A MIXED RECEPTION

Cristina Nixau/Shutterstock

A year after it was a headline measure in the Budget, the launch of the Lifetime ISA (Lisa) was distinctly low key.

The introduction of the new wrapper was undermined by the number of providers that either opted against offering a Lisa or who had delayed making one available. Investment platforms Nutmeg, The Share Centre and Hargreaves Lansdown had stocks and shares Lisas up and running either by day one or shortly afterwards, while AJ Bell, Fidelity and Scottish Friendly are among those with propositions in development, and Skipton Building Society was preparing to launch a cash version.

Most big providers kept their powder dry, however. Barclays, Santander, Bank of Scotland, HSBC, Lloyds and Nationwide have all said they have no plans to launch an account in the near future, with some continuing to review the rules and guidance.

The Financial Conduct Authority has amended the regulatory handbook to address two specific risks that "investors may lose out on employer's pension contributions where they have a personal pension and there is an employer matching contribution structure in place" and "investors may not consider the impact of taking out a Lisa on means-tested state benefits as opposed to saving in a pension".

It may yet need a change of rules to encourage more large providers into the market. The Tax Incentivised Savings Association (TISA), which counts Barclays, Vanguard and BlackRock among its members, has called for the removal of the exit penalty and for the product to be opened up to people in their 50s.

for urgent research on the impact of the Lisa on pension savings through auto-enrolment.

That fell on deaf ears, but there is already debate over what happens if there is evidence of more people opting out of automatic enrolment in favour of a Lisa.

The Association of British Insurers has suggested that the UK may need to consider making auto-enrolment compulsory, by ending the right to opt out.

Rachel Vahey, product technical manager at Nucleus Financial, says the answer could lie in presenting Lisas and pensions as complementary.

"Employers could decide to maintain a minimum level of pension saving to meet their automatic enrolment obligations and offer younger employees the option of either paying a higher employer contribution into a pension or into a Lisa instead."

Communicated well it could offer an additional way for younger staff to save and ultimately encourage long-term provision, says Ms Vahey.

As it stands, the restrictions on the Lisa, from the age limit to the exit charge, mean it's unlikely seriously to threaten pensions as a retirement savings vehicle.

A government-commissioned review of automatic enrolment is currently exploring ways of increasing coverage and engagement, with the aim of building on progress so far. At the same time, however, some in the industry believe the government will consider raising the entry age for the Lisa as it seeks to reduce the cost of tax relief on pensions.

The extent to which the Lisa shapes the industry over the coming years will, as ever, therefore depend to a significant degree on policymakers.

COMMERCIAL FEATURE

Fasten your seatbelt: turbulence ahead for pensions

With a growing and varied range of threats to pension schemes, companies and trustees have to be more prepared than ever to anticipate and manage their risks

Linklaters

The world of pensions is changing faster than ever as companies and trustees find themselves facing new and growing challenges. An industry that was originally quite straightforward and even, perhaps, a little bit dull is now under the spotlight from government, regulators and commentators as it faces increasingly turbulent times.

The Green Paper on the *Security and Sustainability in Defined Benefit Pensions* addressed some important issues and made some sensible suggestions, such as targeting solutions for schemes with distressed employers, says Philip Goss, a partner in Linklaters pensions practice.

"However, some of the options could be a significant overreaction to recent high-profile cases, risking adverse consequences for the pensions regime generally," he says. "Take, for example, compulsory clearance of certain corporate transactions and punitive fines. Extreme caution should be exercised in making any such changes here – they should be carefully considered in the context of experience across the industry, rather than as a reaction to one or two specific cases."

Corporate transactions, he argues, are in fact often in the interests of pension schemes as they can maintain or improve the health of the company supporting the scheme, thereby maximising long-term security of benefits. "Granting the Pensions Regulator the power to block transactions threatens to impede legitimate business activity, particularly when the regulator's resources are limited."

Another key risk is the volatility of pension liabilities, according to Mr Goss. "Many defined benefit schemes have reduced the volatility of their liabilities by hedging inflation and interest rate risks. But a key remaining risk is longevity – a significant contributor to the ballooning of scheme deficits in recent years." He advises corporates and trustees to consider managing this risk by passing it to an insurer, either through a bulk buy-in policy or a specific longevity swap, especially since recent pricing for buy-in policies is favourable.

> Granting the Pensions Regulator the power to block transactions threatens to impede legitimate business activity

PHILIP GOSS
PENSIONS PARTNER
LINKLATERS

As with almost every other aspect of life, Brexit and its inherent uncertainties, even beyond any immediate change to pension law, present another risk to be managed. "Defined benefit pension schemes are reliant on the covenant, in other words, the financial strength of the employers that sponsor them," says Mr Goss. "If the economy is adversely impacted by Brexit, the security of UK pension schemes will suffer. Corporates and trustees will need to remain alive to changes in covenant and maintain a dialogue to mitigate adverse experience."

The effect of any requirement in a Brexit deal for continued supervision by the European Union or for "equivalence" of regulation by UK companies, perhaps around solvency level funding, should also be considered.

The government's recent consultation Green Paper on *Corporate Governance Reform* is highly relevant to pensions, he points out, as it proposes changes to executive pay and aims to give a greater voice to stakeholders, including pension scheme investors, in the boardroom.

"It's triggered calls for UK pension scheme trustees, as investors of over £1.4 trillion, to vote against proposed pay rises by the corporates in which they invest," says Mr Goss. "But government and regulators should be wary of imposing additional obligations on trustees because of the cost and administrative burden they would bring."

He points to other important issues that companies and trustees need to be ready for. These include the *Pension Regulator's Corporate Plan 2017-2020*; potential changes to the funding regime and rules on accounting treatment of pensions; compliance with auto-enrolment obligations; and new EU data protection laws, which come into force in May 2018.

"Corporates and trustees will need to be well prepared to navigate their way through the uncertain times ahead in the pensions industry," says Mr Goss. "They have to be more risk aware, more proactive about handling threats and more prepared to adapt quickly to the increasing pace of change."

For more infomation please visit www.linklaters.com

AGEING BRITAIN

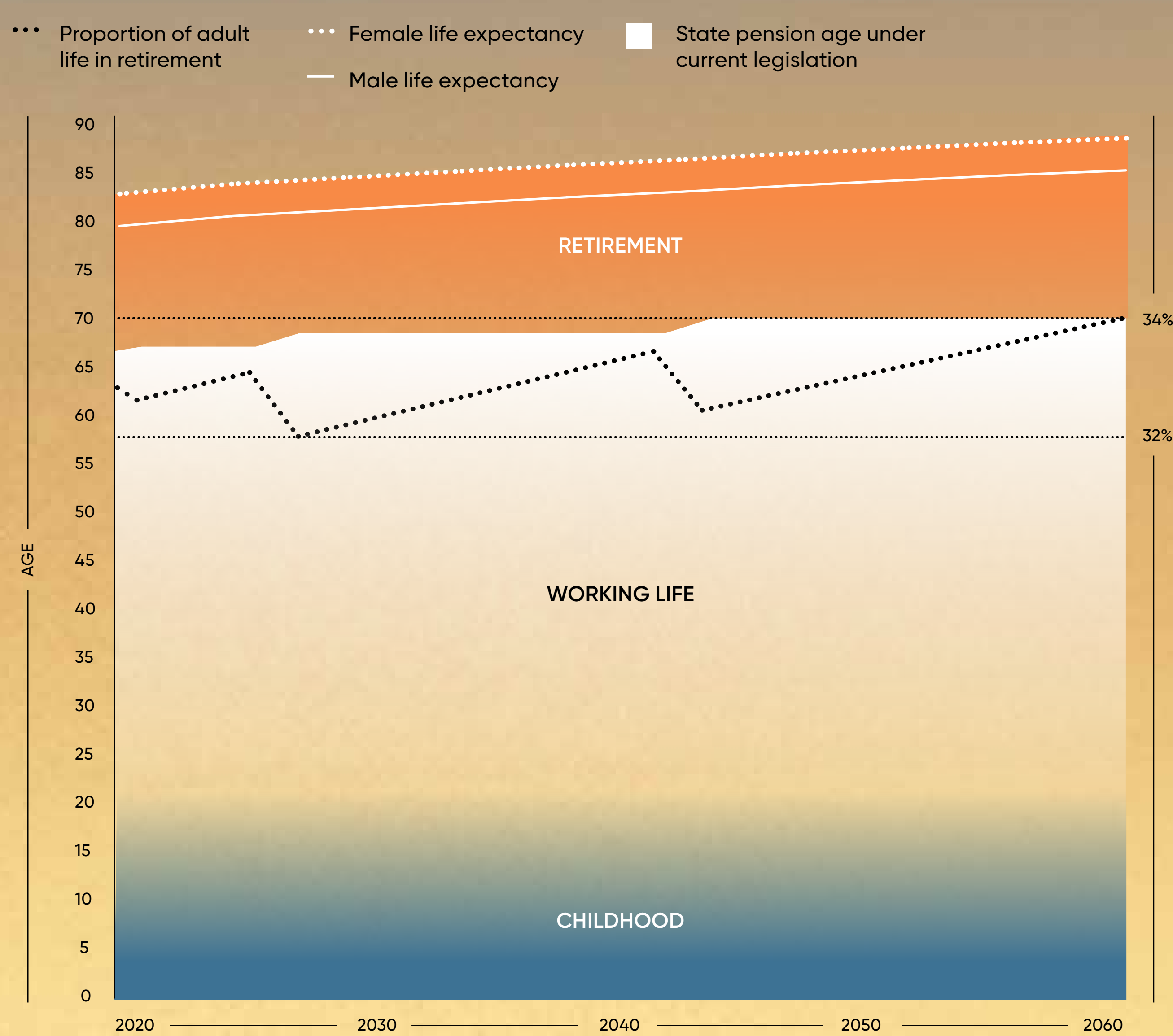
People are living longer and yet the state pension age has remained unchanged at 65 for men (and lower for women) for years. However, the cost of retirement has surged as pension costs for the Treasury followed the same trajectory as life expectancy, which has increased by more than a decade over the past 50 years.

The state pension age for both men and women is set to reach 66 by 2020, rising to 67 and 68 over the coming decades. The World Economic Forum has even suggested developed countries should raise their retirement age to at least 70 by 2050 as the number of people over 65 more than triples to 2.1 billion.

Yet an increasing number of employees wish to continue in employment past the state pension age, with seven out of ten citing income and savings-related concerns. And while data shows that workers want the option of flexible retirement, not all businesses are prepared to offer it

PATH TO STATE PENSION AGE AND RETIREMENT TIME

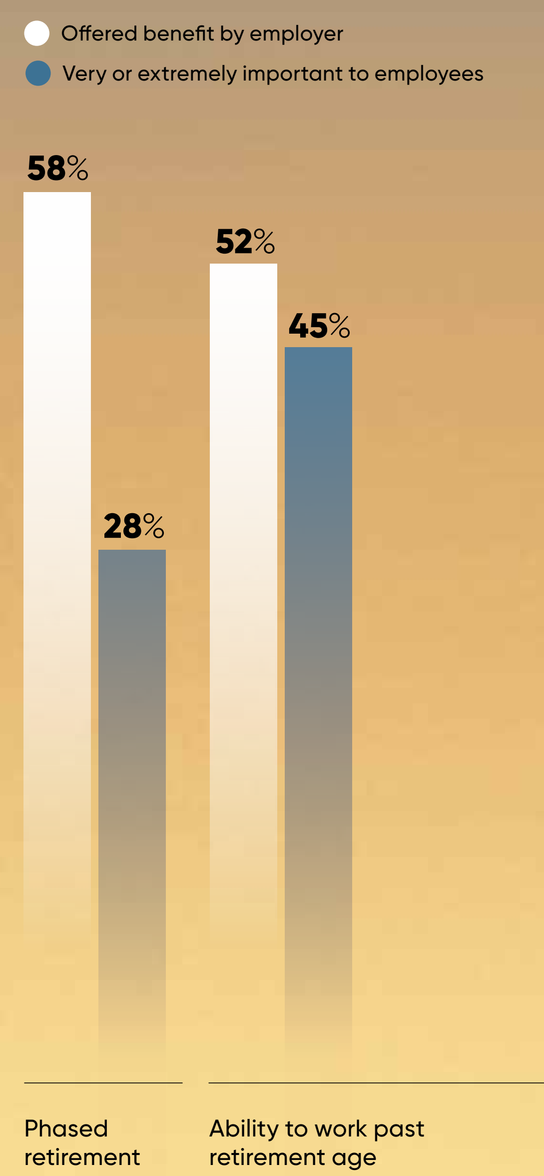
Projected state pension age under current legislation and proportion of adult life in retirement



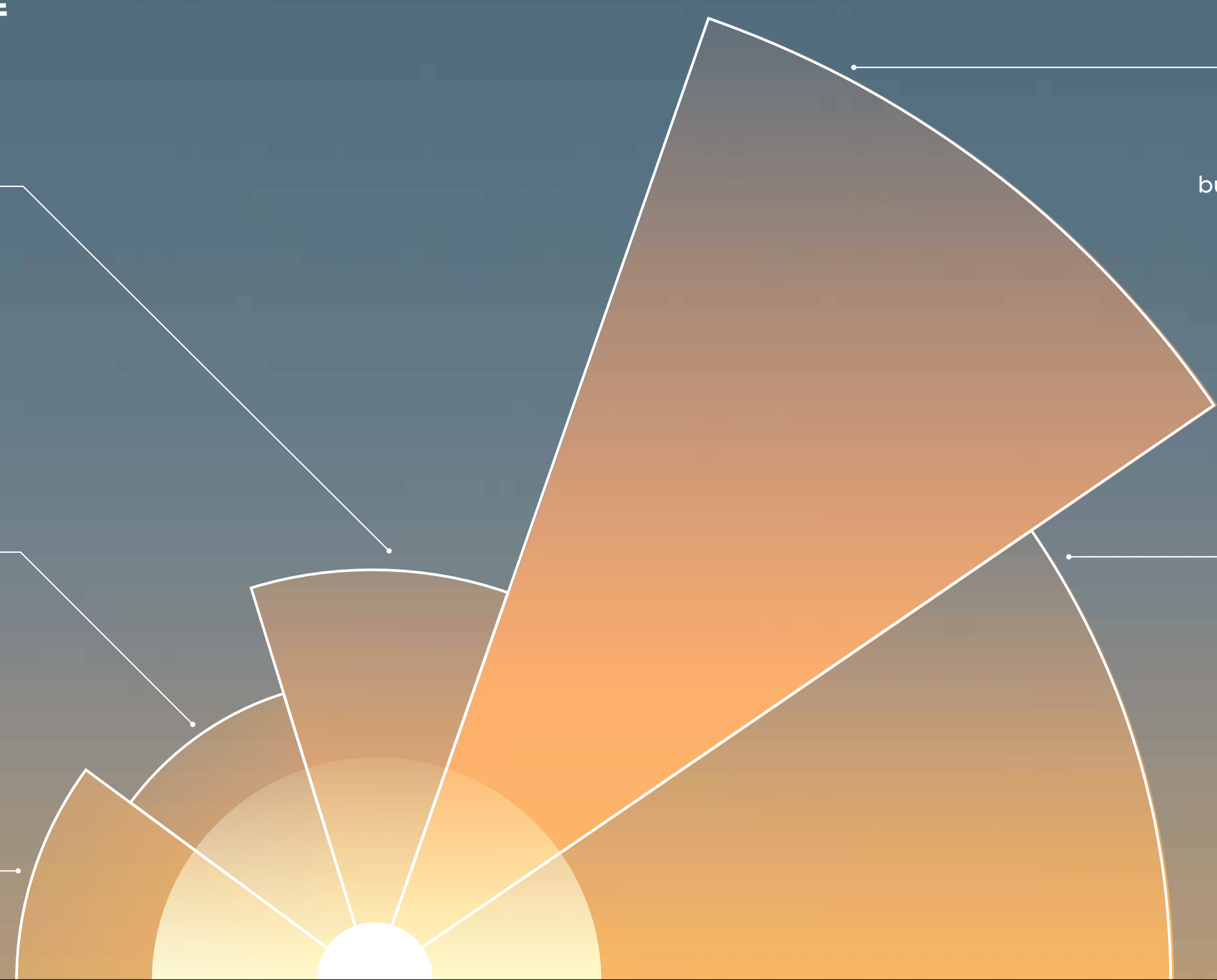
Government Actuary's Department/Office for National Statistics 2016

FLEXIBLE RETIREMENT OPTIONS

Data shows a gap between what employees want and what is offered by employers



HOW UK WORKERS SEE THEIR RETIREMENT



14%
I will change the way I work (working part time or temporary contracts) and will continue paid work throughout retirement in some capacity

10%
I will keep working as I currently do; retirement age won't make a difference to the way I work

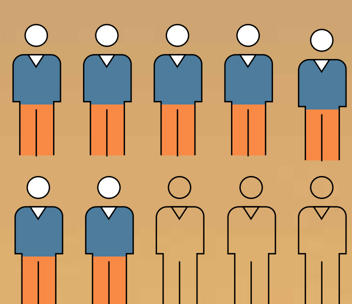
12%
Other/don't know

36%
I will change the way I work (working part time or temporary contracts), but only for a while before I eventually give up paid work altogether

28%
I will immediately stop working altogether and enter full retirement

REASONS PEOPLE WILL CONTINUE WORK AT RETIREMENT AGE

7/10
workers expect to continue working at retirement age because of income and savings-related concerns



57% Want to keep active/ brain alert

37% Enjoy my work/career

32% General anxieties about retirement income and savings

32% Concerned social security benefits are less than expected

24% Concerned that my retirement plan benefits are less than expected

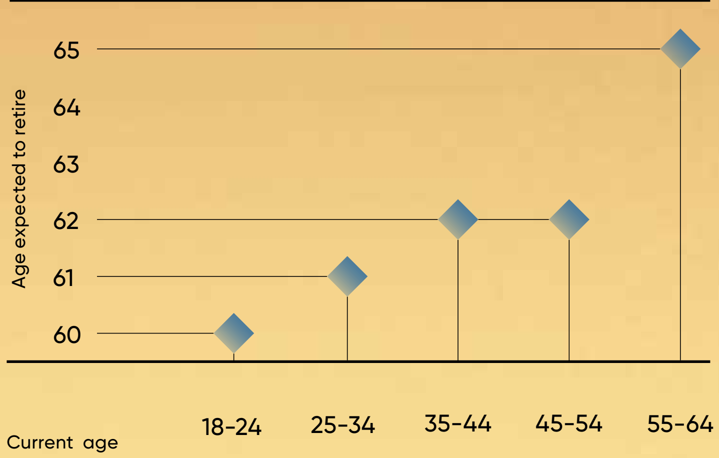
23% Not saved enough on a consistent basis

21% Expect employment to be my primary income while transitioning to retirement

20% Retirement income less than expected due to recession

6% Planning a career break/time out

MEAN AGE AT WHICH PEOPLE EXPECT TO RETIRE

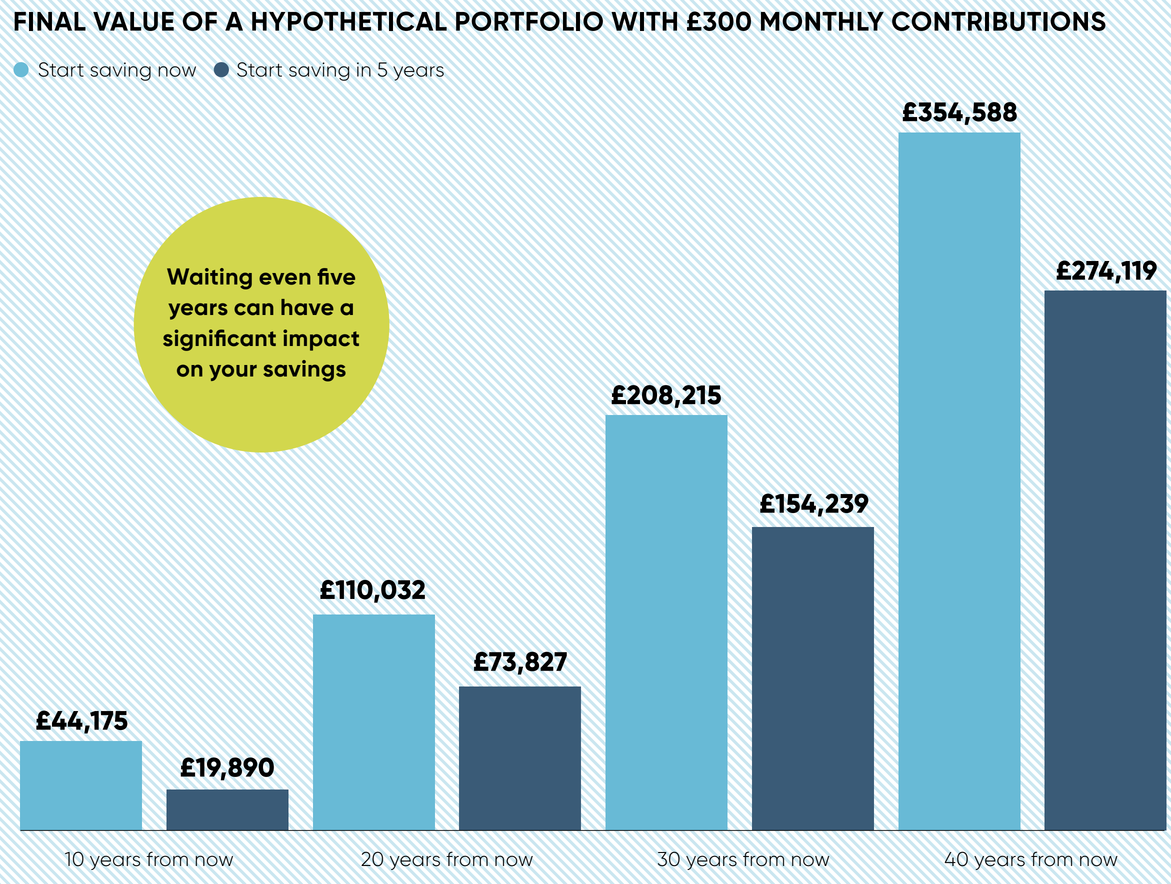


Aegon 2016

COMMERCIAL FEATURE

Saving enough for a comfortable retirement

The world of pensions has gone through a period of dramatic change that is having a profound impact on the way people need to plan for their retirement



For illustrative purposes only; assumes 4 per cent annual returns compounded monthly

BlackRock

As the state pension age rises, workplace pensions are undergoing a transformation that has seen the decline of final salary schemes, a shift to defined contribution (DC) schemes and the introduction of auto-enrolment.

DC means each of us is in charge of our own personal pension pot, while the pension freedoms that came into place recently have given us more choice over what to do with that pot when we reach retirement age.

This increased individual responsibility and our increasing longevity means we should all be paying a lot more attention to our pension provisions than our parents had to.

Firstly we need to ask ourselves how much we'll need for the retirement lifestyle we want, whether that is maintaining our current standard of living, planning to travel or live abroad, downsizing, or sharing our accumulated wealth with family.

The second step is to calculate how big our pot will need to be to fund the retirement lifestyle we are expecting. Often this then leads to the inconvenient realisation that we'll need to set aside more now to ensure we are still able to exercise financial choice in the future.

One of the issues highlighted in recent research by BlackRock is that people tend to underestimate how much they need to set aside for retirement. The average person in the UK thinks a pension pot of £230,000 will be enough for a retirement income of around £26,000, when they really need at least double that, even with the state pension.

So how do we take more control of our future? How can we better ensure that we have the financial resources to decide when and how we retire? Claire Finn, BlackRock's head of UK strategic partnerships and DC investments, advises using a simple equation for retirement income (see graphic below).

The biggest influence on how big our pot will be is how much we are putting into it. For those young enough to start saving towards retirement early, the power of compounding should not be underestimated. The longer something has to grow, the more this growth snowballs.

For the rest of us, the biggest lever we can pull is to put more money into our pensions.

> People tend to underestimate how much they need to set aside for retirement

Ms Finn says: "It is common sense that we can't save for the future in the future. Money put towards retirement should be regarded as deferred gratification rather than a sacrifice. If most of us could look into our future and see the choice between a happy retirement or one full of compromises and sacrifices, we would probably do more now to ensure we don't let ourselves get into the latter position."

Raising contribution levels is something that everyone can consider, whether employed or self-employed. It is something which auto-enrolment will do in two sharp steps over the next two Januarys to get people in the workplace up to a total contribution of 8 per cent of pay.

Auto-enrolment has brought millions more people into workplace pensions, which is a tremendous achievement. However, there remains the danger that employers and employees will feel they have done enough by enrolling, and will not take a step back to consider the hard reality that recommended combined contributions are closer to 15 per cent.

Many employers already have well-established retirement schemes, but they still have a crucial role to play in helping to provide for the retirements of their employees.

They can make an immediate difference by increasing employer contributions, but they can also encourage smarter behaviour among their staff by offering to match employees' increased payments.

In addition, Ms Finn believes the UK could learn something from US-style auto-escalation schemes such as Save More Tomorrow where employee payments are ratcheted up at regular intervals to ensure savings increase over time.

The next part of the equation – returns – is particularly important when interest rates are at all-time lows, dividend yields are low by historical standards and returns on government bonds look set to be weak for some time.

In workplace DC schemes, a lot of work is put into building a robust default investment approach. The reason? Typically, nine in ten of us keep our money in our scheme's default fund, so the duty falls to the custodians of the pension scheme to provide us with something which broadly fits all.

However, a focus on cost can often drive these trustees and advisers to the cheapest investment offering, even if these are not the most fit for purpose. Although BlackRock is a market leader in low-cost index funds, Ms Finn believes most clients are best served by a blend of investments which target a specified outcome within cost constraints.

She says: "In an era of low returns, getting a good rate of return is much more important than shaving a small amount off costs. The key question is 'have I selected a good blend of investment approaches to reach my goal?'"

Sophisticated investment approaches have been made more accessible and affordable by competition and innovation. These help to reduce the reliance on raw market performance for returns. Examples include multi-asset funds, which hold a combination of shares, bonds and cash, or alternative investment funds covering the likes of private equity, property and infrastructure.

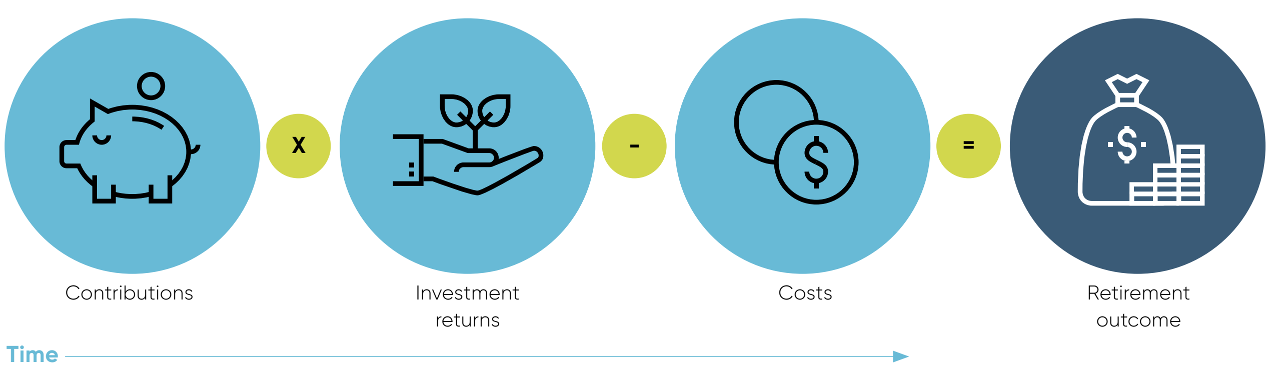
Another option is smart beta, which screens shares by different criteria such as dividend payments or how volatile the stock has been over different time periods.

"Schemes need more tools in the kit," adds Ms Finn. "What worked well when interest rates and returns on equity were higher will not work in an environment of low returns.

"Your typical woman or man in the street doesn't wake up in the morning thinking about their pension, but it's something everyone will have to pay more attention to, whether that's the individual giving themselves a better chance of a comfortable retirement by increasing contributions or schemes finding the best balance between returns and costs."

For more information please visit www.blackrock.com/institutions/en-gb/solutions/defined-contribution

THE CHANGING EQUATION



BlackRock

TRUSTEES

Are we putting too much trust in amateurs?


Thomas Barwick/Getty Images

Pressure to raise standards among pension trustees is growing amid concern that their role is becoming increasingly difficult

PETER CUNLIFFE

The role of pension scheme trustees is under the spotlight from regulators concerned about their ability to look after members' interest as the industry goes through rapid change and growing complexity.

The Pensions Regulator and Department for Work and Pensions (DWP) have each expressed concerns about the role of trustees and whether more professionalism, tighter scrutiny and increased regulatory power would benefit members.

Trustees manage £1.8 trillion of assets on behalf of 32 million members, according to the Pensions Regulator, but the demands on them are rising, from technical issues over funding to increasing regulation and an ageing population increasingly reliant on private pension provision.

They are responsible for ensuring a pension scheme, either defined benefit (DB) or defined contribution (DC), is run properly and members' benefits are secure.

Boards range in size from one trustee to nine, with an average of three, and can include professionals, trustee companies and lay members who may be individuals, company or member-nominated trustees.

They work with advisers such as lawyers, actuaries and investment managers, and are legally obliged to have a knowledge and understanding of the law on pensions. Aside from a basic Pensions Regulator "trustee toolkit", training and qualifications are largely voluntary.

Their role is described as "important and difficult" by the Pensions Regulator in its *21st-Century Trusteeship and Governance* discussion paper, which has been the subject of heated debate since publication last year and will be a key influence on future developments.

It describes effective trusteeship as the key to underpinning good outcomes for members and says it was reassured by the "dedication, skill and tenacity" displayed by many boards.

But it also warns that not all boards met good standards of governance and administration, stating: "In short, poor governance and administration is not a victimless phenomenon – it's bad for members and it's bad for employers too."

The DWP also entered the fray this year with its Green Paper on the *Security and Sustainability in Defined Benefit Pension Schemes*.

It called trustees the "first line of defence" for members, pointing out that average DB pensions of £7,000 a year were a vital source of income for 11 million people.

Among the issues raised by the DWP are whether trustees are sufficiently skilled in making decisions about investment in a sophisticated market, whether they need more training and whether there should be a drive for more professionals on boards. It says, if small schemes fall short of required standards, they should consider consolidating with others.

Industry response so far has been varied. The Pensions Regulator says its consultation showed a consensus that good governance was essential and all types of trustees made a valuable contribution.

It notes concerns that unnecessary regulation could place a burden on well-run schemes as could mandatory training for lay trustees, and it recognised disagreement about how to set minimum standards for professionals and who should oversee any regime of compulsory qualifications.

Joe Dabrowski, head of governance and investment at the Pensions and Lifetime Savings Association, says smaller schemes tended to have lower levels of good governance because of pressure on resources and expertise, but not all big schemes were well run.

He adds: "We are sympathetic to the view that there should be more demanding standards for anyone claiming to be a professional trustee. There's a lot of room for improvement."

Rachel Croft is a director of Independent Trustee Services, a firm of professional trustees, and sits on the council of the Association of Professional Pension Trustees (APPT). The APPT carried out a consultation about bringing in a recognised qualification for professional trustees, which Ms Croft's company supported, but the overall view of its members was that now is not the right time. The APPT is currently working with the Pensions Regulator on developing a set of protocols that professional trustees can adhere to.

Ms Croft says: "I think there is a need to have a clear demarcation line between professional and lay trustees. If you call yourself a professional, you should adhere to a set of standards. There's a push to bring up standards, but if we don't have a kite mark, how is a buyer of services to know what they are getting?"

Wayne Phelan, managing director of PS Independent Trustees, with two decades' experience sitting on boards, says: "I think you need a good blend of lay and professional trustees. The more diversity of thinking you can get the better."

Not only is there a limited pool of professional trustees, it is getting hard to find the volunteer lay trustees who not only bring a detailed knowledge of a company's history, but can challenge advisers by asking the simple questions members are concerned about.

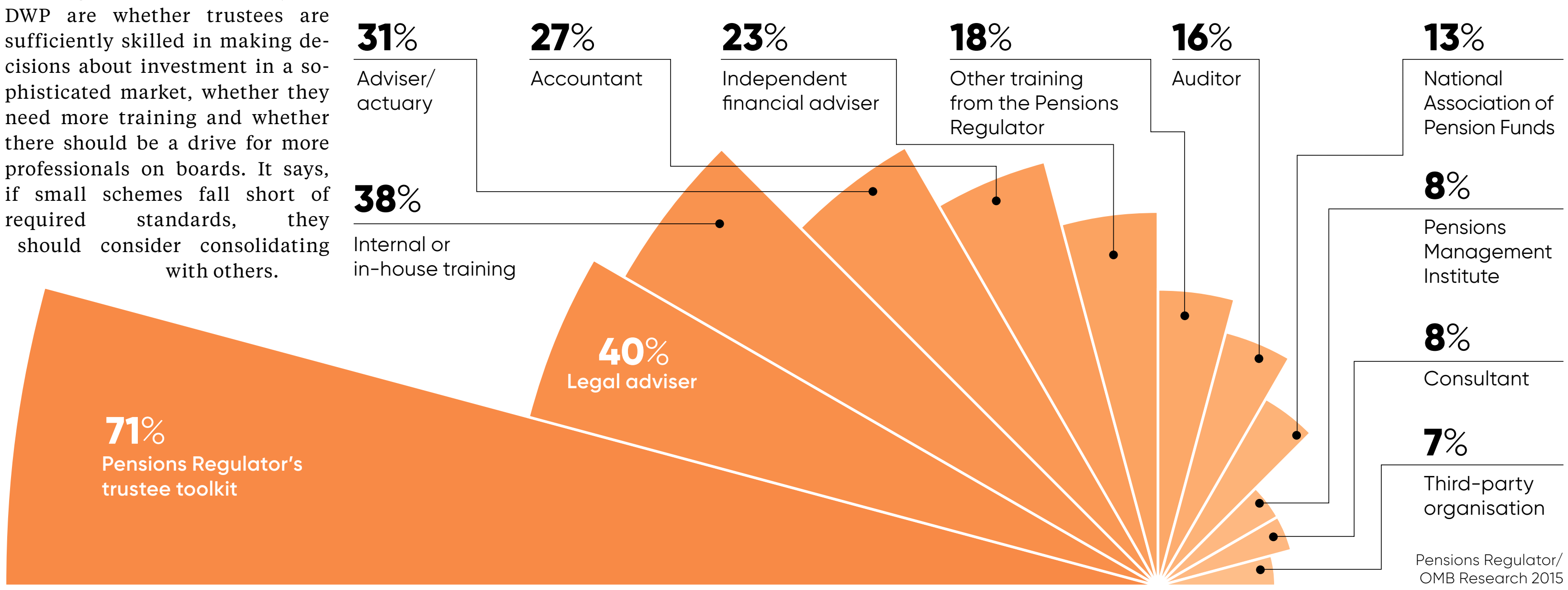
Bruce Allison, 70, a retired marketing director, is one of four member-nominated trustees of Volvo Corporate Trustee and sits alongside four company-nominated trustees and a professional chairman.

He says: "In theory we could run it without a professional, but they bring a broader experience of other funds and what is going on in the industry."

Regulators may have stepped back from any immediate major changes to the demands on and scrutiny of trustees, but the pressure to drive up standards is growing.

The challenge facing regulators and the industry is how to secure agreement on getting the best out of lay and professional trustees without making their responsibilities so onerous that recruiting skilled and dedicated people becomes even more difficult.

SOURCES OF TRAINING FOR NON-PROFESSIONAL TRUSTEES



Pensions Regulator/ OMB Research 2015

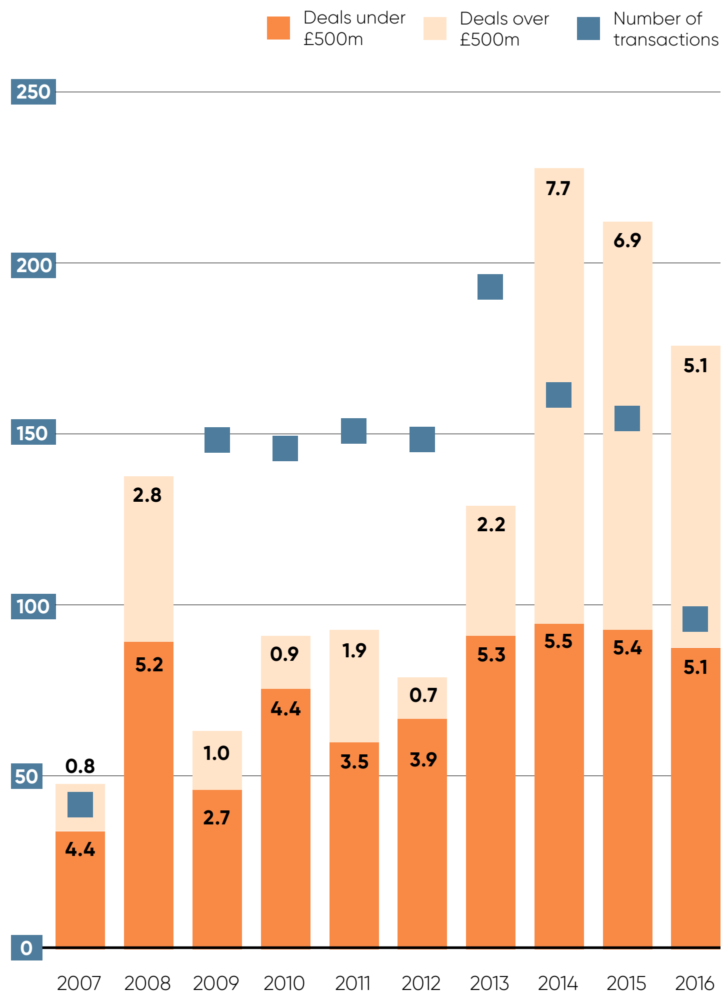
DE-RISKING

ODD ANDERSEN / Staff/Getty Images

Legal & General's £1.1-billion buyout of the Vickers Group pension scheme, part of the Rolls-Royce Group, covered more than 11,000 members and was the largest bulk annuity transaction last year

UK OCCUPATIONAL PENSION SCHEME DEALS (£BN)

PENSION SCHEMES PURCHASING BULK ANNUITIES FROM THE INSURANCE MARKET



Mercer 2016

Taking the sting out of paying pensions

Employers grappling with huge deficits in generous defined benefit and final salary pension schemes are increasingly de-risking their liabilities

CERI JONES

One by one, the UK's 600 defined benefit (DB) pension schemes have closed to new members, as employers struggle to contain their escalating costs.

The average life expectancy has risen by a decade since most of these private DB schemes were set up in the 1970s. Their collective liabilities, which exceed £2.1 trillion, stretch out decades into the future and have produced deficits that are a significant drag on corporate performance, curbing cash for expansion and acting as a barrier to takeover activity.

According to Mercer, the 350 largest listed companies were weighed down by combined deficits of £137 billion at the end of 2016, despite stock markets ending the year on a high.

To reduce the burden, companies are making eye-watering cash contributions into their schemes; last year £13.5 billion was paid in by FTSE 100 companies, brokers Jardine Lloyd Thompson has calculated.

Some pension scheme sponsors have been able to limit their risk by effecting buy-outs where the employer pays a fixed amount to an insurance company to absolve itself of any liabilities relating to some or all of its members, usually pensioners rather than deferred members, and the insurer delivers the cash flows required to pay the members' benefits.

Last year more than £10 billion of these contracts were written in the UK. Consultants predict the total volume this year will hit a record level at around £15 billion. Such transactions are invariably greeted favourably by the markets.

Buy-out activity includes full buy-outs, and also buy-ins and longevity swaps. A buy-in differs from a buy-out in that the pension scheme takes possession of the contract, so any money it can make on it benefits all members, not just those covered by the contract.

Some schemes are also putting in place longevity swaps, to reduce the risk of members living longer than expected. In this arrangement, the scheme makes regular payments based on agreed mortality assumptions to an insurer, which in turn pays out amounts based on the scheme's actual mortality experience.

> “Some pension scheme sponsors have been able to limit their risk by effecting buy-outs where the employer pays a fixed amount to an insurance company to absolve itself of any liabilities

Very often the pension scheme will exchange a holding in gilts for a buy-in contract. Gilt yields are currently very low by historical standards so it makes sense for the insurer to hold longer-duration illiquid assets against the contract, making its profit on the illiquidity premium.

"Brexit has helped because long-dated debt-like illiquid assets such as infrastructure, commercial mortgages, equity release, ground rents and some commercial property are currently cheap, and so give a better return than holding gilts," says Charlie Finch, a partner at Lane Clark & Peacock. "Risk adversity in the current economic climate has allowed insurers to pick up these assets more cheaply."

Buy-ins often presage a full buy-out and increasingly pension trustees are setting up a number of buy-ins under an umbrella scheme, which allows contracts covering different member cohorts to be completed quickly when the timing is right.

Deals depend not only on the longevity of a specific tranche of members, but on the assets available to match the cohort's liability profile, with insurers often asked to quote on several different subsets before the client selects the most cost-effective deal. For example, the ICI pension fund set up an umbrella contract in March 2014 and has since written 11 buy-ins covering £8.2 billion. It was this structure that allowed the scheme to transact a £750-million buy-in the week following Brexit at terms so favourable that it made a saving of £10 million.

Buy-outs and buy-ins have become possible in recent years because most schemes are closed to new entrants, so the life expectancy of scheme members is reducing, and this makes it surprisingly easier to estimate the remaining liabilities and how best to match them with investments.

Trustees have also reacted to funding volatility over the last ten to fifteen years by de-risking their assets, switching from risk-on assets such as equities to risk-off assets such as bonds and gilts, which are directly linked to the inflation and interest rates on which liabilities are calculated. With the value of scheme assets and liabilities reacting to these factors in the same way, funding level volatility can be reduced.

"The whole thing comes and goes in line with financial conditions," explains David Ellis, UK leader for bulk pension insurance advisory at Mercer. "It depends on how much corporate cash is out there and the scale of the deficits. There has been swelling demand from UK corporates, some of it due to financial conditions and some because schemes have got themselves into a position where they are well hedged, have good cash flows and are looking at the future."

OPINION COLUMN

‘The pensions industry will be unrecognisable in ten years’ time, if not before, and the individual will stand at the heart of the system’

STUART BREYER
Chief executive
mallow Street

Imagine having full control and visibility on where your savings are at any point in time. Imagine being able to test scenario changes and to see the expected impact on your savings. Imagine feeling like you have control over your savings outcome. This is where it feels we are headed.

As we hurtle towards the reality of the pensions dashboard, robo-advice, and the consolidation of retail and institutional, the pensions industry will be unrecognisable in ten years’ time, if not before, and the individual will stand at the heart of the system.

Isn’t this what we all signed up to in the first place – to ensure everyone has sufficient savings in retirement?

The key drivers of change have always been on the scene in some form – technology, consolidation, government policy and education.

Technology will be at the heart of this revolution. Moore’s law broadly states that computing power doubles every two years. Put another way, in the past two years, computers have become more powerful than in all of history. Pensions are not immune to the impact of this exponential development in technological advancement.

Artificial intelligence has moved from sci-fi to reality as Google, Tesla, IBM and a huge swathe of start-ups embrace its potential. This is about computers learning how to think by rewriting their own code based on constant learning. What if we could adjust people’s savings automatically, based on learning algorithms that match their lifestyle to their ambitions?

For example, if I have a healthy lifestyle and go to the gym, my life expectancy is likely to increase and so my requirements in retirement will change. Changes to asset allocation, risk levels, investment strategy and contributions will all happen automatically. People may want multiple careers, time to take a break, retrain, go back to university, gain new vocational expertise and want to work beyond today’s retirement age. Savings options should be capable of automatically considering all these decisions.

If this is the direction of travel, then the current industry structure isn’t really fit for purpose. The recent merger activity in the asset management industry is just the start. More consolidation is inevitable as organisations race to achieve the size and scale to manage money and service clients efficiently.

Local government pension funds are starting to pool assets and it is only a matter of time before we see consolidation of corporate defined benefit pension funds. Consolidation alone won’t solve the problem; a string of new businesses will have to be invented and a long list of established businesses will find themselves redundant. Success will come to those who adapt.

The government has one of the most difficult tasks. First is to establish long-term accommodative policy to support innovation in technology and financial services, and stop meddling with and moving the goal posts for the tax treatment of retirement savings.

Perhaps more difficult is the introduction of financial education into schools. Savings is deferred consumption and can only happen if an individual has the ability to budget. Get this right and the rest is likely to fall into place. While our psychology may not be able to see or think of our future selves as the actuaries and financial planners do, we need to entrench an understanding and culture of saving at the earliest opportunity.

Looking at the influences to get us to a world where the individual has full control over planning for retirement savings, where do you sit and what changes do you need to make?

COMMERCIAL FEATURE

Approaching pension pressures

UK defined benefit pension schemes face increasing challenges as the interest rates on government bonds – fixed income securities issued by governments – remain low

The majority of UK defined benefit (DB) pension schemes are currently in deficit, which means they do not have enough assets to cover existing and future pension payouts, otherwise referred to as liabilities.

The value of a pension scheme’s liabilities are estimated based on a number of assumptions – inflation, interest rates, how long people are expected to live – and are closely linked to government bond yields.

The current yields on government bonds are extremely low, which means they are considered to be very expensive, and this in turn is putting pressure on pension schemes in a number of ways.

The value of liabilities are linked to the value of government bonds, so when bonds become as expensive as they currently are, the estimated value of a pension scheme’s liabilities increase. This means that even if a scheme’s assets did not change in value, a pension scheme’s deficit would increase as a result.

Pension schemes that already have a significant allocation to government bonds are in a better position, having a larger proportion of assets which move in line with their liabilities. This is known as hedging. For those pension schemes that do not currently hold much in government bonds, it has now become very expensive to hedge any proportion of assets at all.

If trustees were to hedge today by buying government bonds and held them to maturity, the yields received would be very low and are not likely to exceed current or expected future inflation. This means that pension schemes may actually be eroding the long-term value of a portion of their assets.

As most pension schemes also need to hedge their inflation exposure, the increased demand for inflation-linked bonds has made them more expensive. Uncertainty surrounding expected inflation levels in the future has exacerbated this even further.

> Schemes are now seeking to structure their asset portfolios to generate cash flows that more closely reflect the profile of their liabilities

In addition, trustees are tackling how to make sure they have enough cash flow to pay out existing pensioner liabilities. As pension schemes mature, the proportion of cash required to pay pensioners will also increase, as more members migrate from active (paying in) to retired (paying out). More schemes are reaching the point when pension payments exceed contributions and they become cash-flow negative.

Pension schemes have three ways to meet their cash flows: sponsor contributions; disinvesting assets; or income from invested assets.

In an environment where interest rates and government bond yields are low, pension schemes have been looking at private assets. With private assets – asset-backed securities, private lending, real estate debt, infrastructure debt or property – it is possible to find sources of reliable income that offer a higher interest rate in exchange for tying up assets for longer.

Pension schemes have the added benefit of long-term investment horizons, so are in an ideal position to invest in these assets to receive higher returns. Private assets can also offer better protection to investors in the form of security and covenants.

These sorts of portfolios have had two main objectives to provide a return higher than the equivalent government or corporate bond, and generate stable, predictable and high-quality cash flows that can be used to deliver pensioner benefits.

There are a range of assets available that pension schemes can access on a standalone basis or as a multi-asset approach. Schemes are now seeking to structure their asset portfolios to generate cash flows that more closely reflect the profile of their liabilities, while at the same time diversifying away from the volatility and uncertainty of more traditional asset classes.

ANNABEL GILLARD
DIRECTOR
GLOBAL INSTITUTIONAL BUSINESS

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

Now is the time for a fresh look at company pensions

As the pensions industry continues to come to terms with enormous changes over the last five years, business leaders are looking again at the defined contribution pension arrangements they're offering employees

Five years after the first stage of auto-enrolment was launched for larger employers, defined contribution (DC) pension plans now dominate the UK market in terms of member numbers with asset levels running into hundreds of billions of pounds. The government and the Pensions Regulator have responded accordingly with legislation providing flexibility for members and numerous regulations to protect the consumer. As a result, DC plans have become considerably more complex to run and the risks in doing so have escalated.

While flexibility and choice have been increased, many employees still have little detailed knowledge of their pension arrangements and what benefit they might expect to receive. Research from Aon, the leading global provider of risk, retirement and health solutions, reveals that a third of the population have no idea what retirement income they can expect to get and four in ten high earners underestimate how much they need to maintain their standard of living.

Perhaps this is why a growing number of trustees and business leaders are starting to look again at how they run their company DC pension funds. In particular, they're asking whether their delivery, investment and communication strategies, many of which were established in some haste to hit government deadlines, are really meeting the needs of their members.

"Today there are billions of pounds in schemes that were set up relatively quickly at a time when clients didn't have many members or assets. If employers have a scheme that has been around for more than three or four years, they really need to take a step back and review it," says Tony Pugh, Europe, Middle East and Africa DC solutions leader at Aon. "Given how much the market has changed in the last few years, there is likely to be a better solution available to them and their employees."

Pension funds and their trustees need to think about how they can become more efficient, according to Mr Pugh. They must ensure they're not wasting time, money and effort on tasks that have a low priority or could be carried out more efficiently by delegating them to a pension provider. They also need to ask themselves whether every penny is being well spent as they manage issues such as increased regulation.

To ensure they're doing the best for their members, more and more companies are now taking advantage of a new generation of master trusts and group personal pension solutions to cut administration costs. These delegated solutions combine the best thinking and are delivered in a streamlined, efficient way that allows pension fund members to gain access to the best investments and services at aggregated, scalable prices.

"For example, a company employing a few thousand people will find that running a standalone trust-based DC plan might cost them around £300,000 to £400,000-plus a year," says Mr Pugh. "If the average member may, at best, glance at their benefit statement once during the year, is that spend delivering value for money for the members or the company? They could move to a delegated proposition such as a master trust and bundle it all together to save on costs. The employer can then put the money they've saved into other areas, for example higher contributions or a wider financial wellbeing programme."

Companies that choose a group personal pension plan now have, for the first time, access to the same type of cost-efficient delegated investments that will really deal with most DC pension scheme members' concerns – "I am not an investment expert, so can't someone do this for me?"

The last five years has seen the range of delegated trust and contract-based solutions grow significantly. These allow the employer or trustee to feel much more comfortable that their members are benefiting from the right investment decisions.

Delegated solution providers will constantly monitor the market and, where they identify what they believe to be a better investment, will automatically choose and implement it on behalf of the scheme.

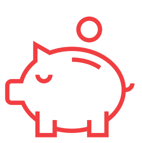
> Delegated trust and contract-based solutions allow the employer or trustee to feel much more comfortable that their members are benefiting from the right investment decisions

We're now seeing a new generation of master trusts that have been developed to serve larger-scale clients used to the highest quality of services. "Even organisations with super-sized schemes of £500 million-plus have realised that their trustees were only meeting a few times a year and so it's made sense for them to put their funds into a delegated solution where professionals can look after these funds day in, day out," says Debbie Falvey, DC proposition leader at Aon.

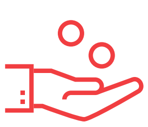
The other advantage of these new generation solutions, which many trustees and corporates are now discovering, is that their scalability allows significant investment in new technology such as robo-advice and easy-to-access at-retirement solutions. Market-leading solutions can give members access to financial aggregation tools that enable them to see all their financial affairs in one place, including their debts and other savings products such as ISAs, alongside their pension. They are able to deliver intelligent communication "nudges", prompting members into activity at a time when action would be appropriate for them.

Delegation can enhance the employee experience and provide a host of otherwise unobtainable opportunities. "There are so many new opportunities to make DC pensions more financially efficient and engaging – the time is right to take a fresh look at them," Ms Falvey concludes.

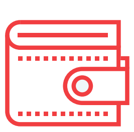
To find out more about Aon's DC Solutions please call 0344 573 0033 or visit aon.com/pensions



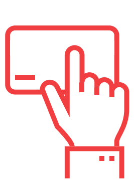
27% of people have no idea what income they need to maintain their standard of living



34% have no idea what retirement income they can expect to get



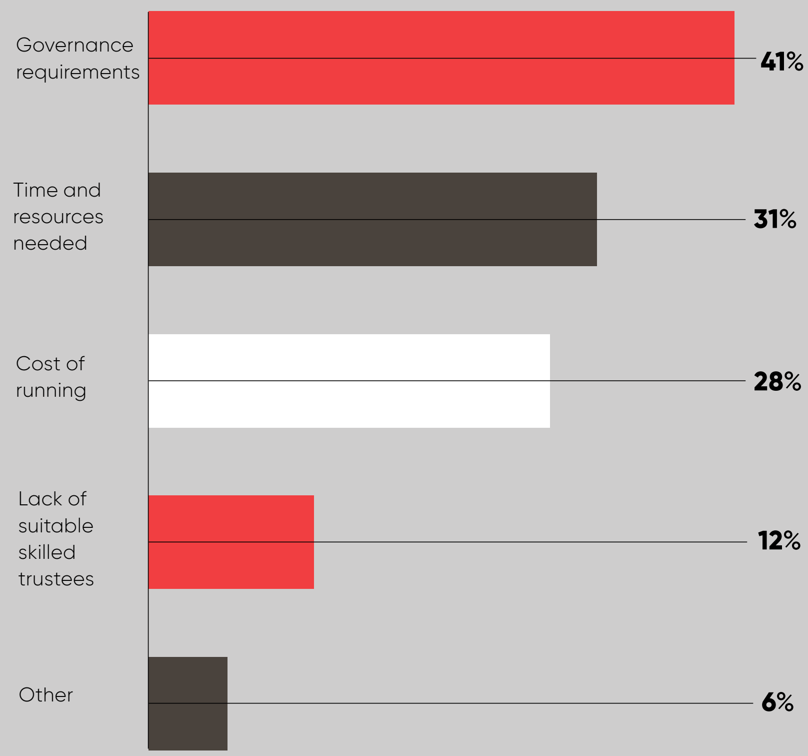
70% of lower-paid workers (<£20,000) overestimate how much they need to maintain their standard of living



42% of high earners underestimate how much they need to maintain their standard of living

Aon Defined Contribution Member Survey 2016

MAIN REASONS FOR MOVING AWAY FROM TRUST-BASED DC



Aon Defined Contribution Survey 2015

BENEFITS OF NEW GENERATION DC SOLUTIONS

Aon

MEMBER PROTECTION

01

Can we learn lessons from BHS scandal?

The collapse of BHS has prompted pension trustees, companies and regulators to ask how defined benefit schemes can be protected

SIMON BROOKE

The failure of the retailer BHS last year caused much anger among the public and considerable soul searching by the corporate world. Not only had a well-known name disappeared from the high street, but 11,000 people lost their jobs. According to a committee of MPs "a large proportion of those who have got rich or richer off the back of BHS are to blame" for the retailer's failure.

There was also controversy about the fate of the company's pension scheme and its 19,000 members. MP Frank Field, the work and pensions committee chairman, was among those who demanded that Sir Philip Green, the former owner of the BHS group, donate around £600 million to the pension fund. In February Sir Philip handed over £363 million.

> Nothing has yet been done to ensure this won't happen again

As more companies face a growing range of economic risks from disruptors, Brexit and an anti-business sentiment among other issues, protecting corporate defined benefit (DB) pension schemes is increasingly becoming a focus of attention.

"The real shock was that the business was sold as if the pension debt was not material," says Baroness Dr Ros Altmann, former pensions minister and BHS campaigner. "With Philip Green standing behind it, the scheme didn't look like an accident waiting to happen until he decided to sell the company."

Catherine McAllister, head of pensions at Addleshaw Goddard, London, says: "Although the numbers are eye watering because of the size of the scheme, personally I didn't think it was a shock. Scheme funding has really suffered over the last nine years and many schemes have large deficits, which seem to keep getting bigger as market conditions have remained very difficult."

It's worth noting, of course, that there's nothing that pensions legislation can do to stop a company from going bust and in fact a pension deficit can sometimes itself lead to insolvency. Ultimately, the Pension Protection Fund will ensure the majority of the pension that an individual has built up will be paid. But campaigners are still concerned and want to see greater protection for pension fund members in these situations.

"Nothing has yet been done to ensure this won't happen again," warns Lady Altmann. "The government needs to ensure that the regulator can demand more information. Trustees should also be able to resist employer refusal to discuss the employer covenant and the impact on security of member benefits resulting from a takeover or business sale."

01
The BHS pension scheme has 19,000 existing members

02
Sir Philip Green, former owner of BHS, handed over £363 million to the pension fund

02

However, Jon Hatchett, head of DB consulting at actuaries, pensions and investment consultants Hymans Robertson, believes the scandal has already changed the way in which company DB policies are viewed. "The [BHS] case caught the public's attention and so galvanised politicians," he says. "In the difficult balance between investing in businesses and securing legacy pensions it has moved the dial several notches back towards security. This is at odds with where we were a few years ago when the 'sustainable growth' objective arrived for the Pensions Regulator."

Chris Curry, director of the Pensions Policy Institute, believes the BHS case, along with the introduction of more freedom and consumer choice among pensions, has helped to make defined contribution (DC) pensions more attractive. "They're 'owned' by the members rather than relying on the employer, even though they are usually less generous and place more risks on individuals," he says.

In the long term, Mr Curry believes, the move from DB to DC pensions will reduce the reliance on scheme sponsors. "But in the short to medium term, the fact that many DB schemes are closed can mean there's no new money coming in to the schemes other than from the employer and the contributions being made by the employer may be for past, rather than current, employees," he says.

"This could weaken the employer's attachment to the scheme, particularly if the contributions made to the closed DB scheme reduce the contribution that could be paid to current employees in a DC scheme."

Ms McAllister believes that the Pensions Regulator could offer more support to those trustees and companies looking to secure their DB pensions. "The Pensions Regulator has many powers, but its approach has very much been to provide information. They do lots of that, just have a look at their website and you'll find large numbers of very long codes of practice and guidance notes. They need to be 'a referee and not a player'. However, in the absence of regulator intervention, funding must be agreed between an employer and the trustees," she says.

Mr Hatchett advises companies to ensure they can afford the risk they are running within their schemes and that they are taking no more risk than they need to pay the benefits. He says: "There are now a wide range of actions companies can take to ensure schemes are not only affordable today, but that they remain affordable in future."

£1.5trn
is held under management by defined benefit (DB) pension schemes

6k
DB schemes in total

11m
members of DB schemes

13%
of DB schemes were open to new members in 2016, down from 35 per cent in 2006

£7k
a year is paid out on average to DB scheme members

Department for Work and Pensions 2017