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CHAIR

Chair for the day: Andrew Cheseldine, Client Director, CCTL

Andy joined Capital Cranfield in 2017. Before joining Capital Cranfield, Andy acted as an adviser to trustees and employers at Watson Wyatt, Hewitt Bacon & Woodrow and latterly as a partner at LCP. Using his experience of over 30 years in consulting on both DC and DB pension arrangements and liaising with regulators throughout the pension and financial services industry, he is able to use his wide knowledge and understanding for the practical benefit of trustee boards. He has served on the PLSA DC Council since 2013.

PANEL

Robin Armer, Director of Business Development, NEST

Robin has 20 years' experience in financial services, predominantly working in the corporate pensions market. He has a number of industry-related qualifications, including having been diploma-level qualified with the Chartered Insurance Institute. Robin is an experienced public speaker and has in-depth knowledge of the pension landscape and the intermediary sector. He previously worked for a large employee benefits consultancy and brings a variety of skills and knowledge from his time in the advisory community.

Michael Clark, Owner, CBC Pension Services

Michael is the founder and owner of CBC Pension Services, an independent company specialising in providing professional trusteeship and secretariat roles since 2012. Since then, Michael has sat on trustee boards of many schemes, including three master trusts. Prior to this, Michael was a MNT and member of an independent governance committee. With a background in administration and management gained with specialist TPAs and actuarial consultancies, Michael is an FPMI and Fellowship Ambassador.

Jerry Gandhi, Pensions Manager UK & Ireland, Schneider Electric

Jerry is a seasoned freelance pensions and benefits professional currently working as Pensions Manager UK & Ireland (Contract) for Schneider Electric to manage legacy Invensys and Schneider UK and Irish DB pension schemes structures. In addition, he is driving visibility and value of the DC offer as part of the overall reward proposition. He has a passion for ensuring employees understand and value the pension benefits they accrue while the employer gets value for the costs to which they commit.

Steven Leigh, Senior DC Consultant, Aon

Steve has over 20 years' experience working with schemes on all aspects of DC pension provision and wider benefits strategy. Steve works with many of Aon's key DC clients, advising corporates and trustee boards to ensure they effectively manage their pension strategy, maximise value, implement effective governance, meet regulatory duties and ultimately improve outcomes for members. Steve leads Aon's DC research into member behaviours and how schemes and sponsoring employers are adapting to the changing pensions landscape.

Gregg McClymont, Director of Policy & External Affairs, B&CE, provider of The People's Pension

Gregg joined B&CE, the provider of The People's Pension, in July 2018. He believes that pensions for the many are best delivered by profit to member funds with scale. In the UK B&CE is the only fund of this kind. Gregg is the co-author of two volumes on global pension system design. Previously Gregg was an MP 2010-15; shadow minister of state for pensions 2011-2015; and a member of the prime minister's commission on further devolution to Scotland. His first career was as an academic.

Matthew Swynnerton, Partner, DLA Piper

Matthew is a partner at global law firm DLA Piper and heads the London pensions team. He advises on all aspects of pensions law, including corporate and bulk annuity transactions, reorganisations, benefit redesign and liability management projects, reviewing and updating scheme documentation and advising trustees and employers on their legislative and trust law duties. Matthew drafted key legal sections of the Combatting Pension Scams Code of Practice, which received widespread praise from TPR, the Pensions Ombudsman and Pensions Minister.

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Engaging with DC

What's next for auto-enrolment and master trusts, the emergence of the pensions dashboard and the reasons for member engagement were just some of the topics at our latest DC roundtable

Chair: What are the main regulatory issues of the day around DC?

Swynnerton: There's a lot of talk at the moment with auto-enrolment (AE), about whether greater access should be provided, both in terms of reducing the lower earnings limit and reducing the lower age limit. I think the government is very keen to increase auto-enrolment, but now that the increase in contributions has just been introduced the government presumably needs to see how levels of opt out are affected by the recent changes.

McClymont: The AE charge cap is very important, and the OFT enquiry in 2013 into the DC market really led to some changes, because it was focused about the weaknesses of contract DC in particular. Although that's not been resolved, because independent governance committees are advisory not governing, nonetheless, they're a modest step forward from where we were in 2013 on contract side. So, when combined with charge cap, the regulatory environment is stronger than it was.

We need to see what happens with AE opt outs now, following the significant contribution rise recently, I agree. I think the industry view is, since opt outs were much lower than was expected in the previous rounds, we have now adjusted expectations and expect them to continue to be low, but we don't know yet.

Then there's the pensions bill. It doesn't look likely that the promises to bring in those aged 18-22 into AE and to make contributions from the first pound of earnings will appear in the bill.

But what we do know should be in

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the pensions bill, if there is a pensions bill, given the way Brexit messes about with the timetable, is potentially pensions dashboards. Dashboard would be useful, but it's not going to change the world. Collective DC (CDC) I think, is the other thing the government is very keen on.

Clark: I take Gregg's *[McClymont]* point about the dashboard. I think there's an awful lot of heat being generated, but I'm not sure how much light's actually going to come out of it. That's a really sad thing to say, because I think that it ought to work. I can see it working easier in the DC world than the DB world.

Gandhi: I concur with the sentiment from the trustee point of view that the regulations are just overburdening the framework for operating pension schemes. From an employer's point of view, spending a lot of money on the governance, rather than on the value of benefits, doesn't make sense. The objective must be to put more into members' pots, in terms of broad context. With AE I think we're in a fantastic place, compared to where we've been, in terms of the population coverage. It's the quality of that coverage that's the challenge.

The bit that worries me, is process. The process of doing AE is nonsense. So, compulsory membership, deepening the coverage, giving some sort of incentive would make it a lot easier, but that doesn't really solve the problem of engagement. The more we do for people, the less they'll do for themselves, and that's not a good place, either.

Leigh: Auto-enrolment and the proposed changes to lowering these thresholds so that people are contributing from the first pound, I think, would be a positive thing.

However, with DC tax relief, we've now got this discrepancy, in that people are auto-enrolled at £10,000, but don't pay income tax until they earn over £12,500, so depending on what their company's decided to do when they set the pension scheme up, people in this earnings band may be paying more for the same level of pension saving. At the moment, it's not a massive difference, it's something like just over £5 a month to get the same level of pension if someone was in a net pay scheme, roughly earning just below the tax threshold, and it was auto-enrolment minimum contribution rates. But then if we do start auto-enrolling people and contributing from the first pound of income, that missing tax relief will almost double.

So, it's going to cost people on lower earnings more for the same level of pension, which is completely crazy, isn't it? I think that's a challenge for the government to do something about the tax relief issue by the time they legislate the auto enrolment changes that were proposed in 2017. Which I think is currently planned for mid-2020, so it's a long way away, and it should be enough time to come up with a sensible answer, we'd hope.

Armer: Auto-enrolment to date has been very successful, for what it set out to be and proves the use of nudge theory for the employed workforce. The side question to that is how we can take that understanding, that knowledge, and find something that works for self-employed people, where there isn't an employer to enrol them.

Chair: If you were Pensions Minister for a day what one regulation would you remove from our existing regulations, and what one regulation would you fast-track to put in place immediately?

Armer: I would want to introduce a solution for the self-employed. I would probably look at some form of compulsory saving, albeit perhaps not directly into a pension initially. So, having a layered saving process, similar to the sidecar model that we're trialling at NEST.

The one area that personally worries me is around the challenges for people at retirement from freedom of choice. We created an environment where people are defaulted through a series of mechanisms into saving – where they save, how they save – but takes the onus off the individual, and then we suddenly present them with a huge number of choices to make in very complex areas at-retirement. At the moment, there are no default solutions for them, and I think that would be what I'd want to change.

Swynnerton: I would change the master trust approval legislation, which can inadvertently catch multi-employer schemes where the participating employers are associated or belong to the same group, but there is a lack of a degree of connection between them. But they are not commercial master trusts.

In terms of bringing in new legislation, the sooner that the transfer regulations are amended to restrict the statutory transfer right to help prevent transfers out to receiving schemes suspected of scam activity, the better.

Gandhi: Well, I suppose in terms of removing, the lifetime allowance regime is so complicated and all it does is disenfranchise a lot of senior people.

In terms of new legislation, or something that would be useful, we're looking at collective DC (CDC). It's designed around the single employer. I think CDC, particularly in the decumulation phase, has a massive opportunity. If we broaden and let master trusts go into that space more quickly, I think the value would be, to the population out there who retire in 10 years' time, of great significance.

McClymont: A straightforward pensions dashboard would be a big step forward. It could be a very helpful aid to people's awareness of their pension. I would define that as a single non-commercial dashboard, which allows people to see what they've got and where it is.

That's a bit narrower than where the government currently is. It's naturally trying to appease different interest groups, which in turn, I think will end up with the project taking a long time if it's too complex.

In terms of regulation worth changing, I do think there's a growing issue in the larger master trust space, around the way in which levies are calculated. That's hitched to the small pots issue. The People's Pension alongside NEST will be in the same position – we have very big memberships anyway, but look even bigger, because you've got lots of members who have been in for a few months, and then moved elsewhere, and have got very little in their pot left with us. Of course, the way the levy weighting is calculated is on a membership basis, and I think that's something that needs to be looked at since it penalises schemes with large memberships but very small pots.

Leigh: In terms of removing legislation, I'm going to go with Jerry *[Gandhi]* on this, in terms of the tax rules around pensions, because I think if there's one thing that makes pensions too complicated for the person on the street, it's the tax. It doesn't need to be as complicated. But it is going to take a big change. It's going to take a very brave step and detailed analysis, I think, to be able to look at it, rewrite it, and start again. The annual allowance makes sense, the lifetime allowance is increasingly making no sense.

But in terms of something new, what I'd like to see is the ability for somebody to be able to access their pension prior to retirement, in certain circumstances. I think you need controls, to prevent people from draining their pension savings before they get to retirement. I think for younger individuals, if they knew that their money and their company's money could, for example, help them buy a house, and that they could draw on some of that money, they would be more inclined to save into a pension. Most people don't just retire and stop working anymore, it's a lot more phased, which I think adds to the thought of why can't I get some money out of my pension pot earlier and then put it back in when they're 50 or 60 – why sacrifice in their working life for their retired life, when actually, there's quite a blur between the two.

Clark: Wearing my trustee hat, I don't think it would come to any surprise if I said, I'd dump the chair's statement in its current form. The chair's statement is actually not doing what it was designed to do, which was to engage with members and tell them about their master trust. Instead, it's an exercise for The Pensions Regulator (TPR) to fine trustees. I think the chair's statement is an important document, or could be an important document, if it was written for

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members. Instead of that, it's written by trustees to the TPR.

Master trusts

Chair: Let's move on to master trusts. There's a lot going on with those. So, what will allow master trusts to take on business from standalone DC schemes? I think it's really pretty obvious that TPR is driving a lot of that move, but what would make a master trust particularly good for a standalone DC scheme to move to it?

Armer: Around assessing value for member, TPR talks about the four core components of a pension scheme being governance, investment, administration and communication. I think if master trusts are doing their job properly, they're doing those four things really well. If you get those bits right, that should be 95 per cent of what somebody needs to have the security in where their money is invested.

It should be about consumer confidence. It should be about ensuring that as a member of a scheme, when my money is given over to somebody to do that fiduciary duty of looking after it for me, for maybe 40 years or more, that there is a minimum standard of operation and skills that those people are going to meet. Whether that's in a master trust, whether that's my employer's pension scheme, or whether that's an insurance company.

I think one of the big challenges we have is that there is such a low level of consumer confidence in pensions. Authorisation, or minimum standards, however you want to define it, seems to me like a way that we could try and improve that confidence. The focus within pensions management is generally on two things. One is how much can we drive the cost down, but with often very little relationship between cost and value. So, as long as it's really cheap, somebody will buy it. It doesn't actually matter, if we compare the quality as we'll buy the cheapest offering. A lot of that is due to the fact that cost is the tangible item, and value is often intangible.

The other point is the focus on things that make very little difference to the outcome. A huge amount of focus in decision making is around things like, can we get the employee's name on the pack that goes out to the member and how many additional funds are available. While the reality is 90-plus per cent of the members are going to be in default funds. So, we should spend a lot more time worrying about whether that's suitable, than whether we can offer them five funds or 200 funds, or 1,000 funds outside of that.

Gandhi: From an employer point of view, you can be mechanical, compliance driven. What's the cheapest product; throw your money in that direction. For many employers, that probably works. But there's another perspective, which is more the paternalistic side.

We actually have our own standalone, single employer master trust. So, the question is, how can we transplant what we've got from our sole trust into a master trust, to keep the front end looking like ours, and all the engines underneath being the same.

But the bit that really is the challenge for a master trust, in my view, is how they use technology. So, what does a member do when he goes in, how is he doing it? How can we use artificial intelligence (AI) in a productive way, without breaching confidentiality and GDPR, but interacting continually? The way that I phrase it is, how can we have a series of continuous conversations, at the right level, at the right time, on a regular basis, over a career path, so the destination's clearer and ultimately the member's outcome is better. So, technology is the biggest driver, the biggest differentiator of master trusts.

Clark: From a trustee perspective, it's absolutely about making sure that investment options that are available to members in the default funds is in line with what the trustees developed over time. So it is very much about what is in it for the member. How do they communicate with members, what's the technology like, what's the level of communication? For me, that's one of the key things, I think trustees will be looking for if a master trust is the chosen destination.

Chair: Trustees – if I were in your shoes, one of the things I'd be doing is benchmarking what we do against the big master trusts and genuinely saying, is what we do adding value above and beyond what we get in that marketplace? If you can't genuinely answer yes, then you have to ask why you've still got your standalone DC. If you can, how does what we do add value to the members? How do we demonstrate

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that having our own scheme, having the trusteeship of that, being able to bespoke it in the ways we want, drive value to those members?

Clark: I wouldn't disagree with that one second, but I'd also say how do you benchmark against master trusts?

Chair: So, the Department for Work and Pensions (DWP) consultation specifically says, should the government impose a requirement on trustees to regularly put a statement into their chair's statement that says, 'we looked at what we do, and we're good enough or better than master trusts, so we're going to carry on doing what we do. Otherwise, we have to close it and put it somewhere else'.

Leigh: I think it's a good idea, and I think the chair's statement has come in for a lot of stick so far today, but I think one of the good things that I've seen, particularly for some of the smaller single employer trust schemes, is that the chair's statement pushes trustees to really look at the charges and the value point, reviewing admin, communications etc, and state, yes, we think it's good. Or if they don't, which was often the case for the first chair's statement the trustees hold their hands up and said, actually, we recognise we need to do a bit more here.

I think it is driving people to look at master trusts, and I think the requirement to compare with a single trust against what people might get in the wider master trust makes sense. The challenge would be, that not all master trusts are the same!

Chair: Matthew *[Swynnerton]*, what is the legal advice when you advise clients on this?

Swynnerton: If you look at it on the trustee side, the questions tend not to be about governance or cost, which is often going to be the main driver for change, but rather the kind of issues that concern trustees of hybrid arrangements are the consequences of breaking the linkage between DB and DC benefits.

For the employer, I think it probably just does come down to a cost analysis of future contributions. If it's cheaper to use a master trust than to operate a standalone scheme, that's probably going to be a key driver for change. Assuming that the scheme it operates is reasonably well governed. But if you're saying that master trusts are the benchmark for governance, then how do you define the benchmark given the different varieties of master trust offerings?

Gandhi: But what are you really measuring? What are you trying to achieve? We have our own website, which is open. There are videos, explaining all our elements in lay language. We've been out and done roadshows. Of our population, more than half are registered to go online and see about their personal DC pot. So, we've got a lot of people going in repeatedly. But they're not doing a lot. The problem is the next phase. From an employer point of view, having a pension is not a tick box. In our case, it is part of the employee value proposition. It's the journey. I don't necessarily want a master trust, I want a vehicle or an engine behind what we're doing at the front end, which will help me interact with the population.

McClymont: I just emphasise, there's a danger, and all industries are like this, of going immediately to the complexity as an obstacle to action. But if you're a policy maker, you have to work through that complexity, and then make a decision. Either you do nothing, because in balance, the advantages don't outweigh the disadvantages, or you judge that they do. I think it's clear from this proposed approach, that government and the regulator are going down that path.

Chair: I want to talk to Jerry *[Gandhi]* very quickly. As a scheme, what's your size in terms of membership and assets?

Gandhi: Four thousand actives, 1,000 deferreds, and it's about 160 million. It's a good-sized scheme.

Chair: So as a scheme, you're probably bigger than quite a lot of the master trusts who are now exiting the market because of the authorisation process. So, as a big scheme, should you not have to apply to some sort of accreditation process about your quality, in the same way that if you were a master trust, you should?

Gandhi: We comply with all the regulatory requirements. We have all the right things in place. The chair's statements – it's an absolute nonsense. The more imposed regulation, the less inclined we're going to be to do what we're doing.

McClymont: I have sympathy Jerry *[Gandhi]*. It happens in every regulatory

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sphere. If government has confidence that all schemes are well-governed like yours it wouldn't be an issue, but the longer the tail the more likely regulation comes in that affects schemes that actually would be better off outside that regulatory box.

Clark: I think it's difficult for any regulatory framework to have one set of regulations for one size of schemes than another. But if it's proportionate, and it's driven on principles rather than prescriptive, then there's more opportunity to allow a bit more flexibility. As we've talked about, the chair's statement is prescriptive. Even if the regulator thinks it doesn't want to impose a fine, but it has to. That's the challenge. The more we get prescriptive, the more we get tick box, the less people will do.

Leigh: A good thing about the chair's statement is that it can force small DC scheme trustees to actually come out and say, this is too much trouble, it's too difficult, we're not really governing our scheme as well as we should under the new rules, and we now have to tell the members. So they are then either upping their game, or getting out and going to the master trust market.

CDC

Chair: Moving onto CDC, Jerry *[Gandhi]*, you've already talked about CDC. It's a concern with you?

Gandhi: Not many big employers are going to take it up. If it really is going to work, it can work in the master trust space, and in particular into the drawdown phase. Shared annuitisation of some sort makes sense. So, you're syndicating the longevity risk with a level of clarity around where you're going to get to as an individual. The challenge is communicating it.

Swynnerton: I agree. For employers

there are still so many unknowns, which must make CDC a risky proposition currently. The authorisation regime details are still being decided; secondary legislation containing the detailed provisions in relation to valuations, disclosure, transfers and altering benefits are still to be drafted; and how CDC fits in with the tax regime is due to be consulted on shortly. There's a lot to come.

Chair: Michael *[Clark]*, if you were a trustee of a CDC scheme, what do you think your big challenges would be?

Clark: Intuitively, I might see sympathy for CDC, because I believe that the collective is going to be stronger than the individual. But I think you have to go back to the early days of DC benefits. Why were DC benefits taken up? Because DB benefits were then too expensive, and so, with respect, consultants came in here and sold relatively low-level DC pension schemes to those employers. So, you swung from a gold watch of pension provision, to something you bought in the market for a couple of quid.

I think CDC is DC plus, it's not DB minus. The really tricky bit is managing the investments in such a way that you've provided enough to provide back to members, but you didn't then manage to give more money away and then leave nothing for the people behind.

Leigh: CDC will be good for some, but may not be right for everybody, so there needs to be a transfer out option. I think for the group, that want more certainty on pension income CDC could be a really good thing. Because it's a target income, not a guarantee, it should be able to provide better value than an annuity. So I think it's a really good idea for some, particularly in the decumulation phase. Our latest research found only around a third of people said they were going to retire and take a pension and stop working completely. For that group, a regular income, CDC, probably does make a lot of sense. But for people that need more flexibility of income, it may only be part of the answer.

Engagement

Gandhi: As the population gets older, they won't retire unless they are able to retire. So, are we going to have Zimmer frame brigade people turning up at work because they have an insufficient retirement fund? Or have people who have a journey plan so that they can transition, be it full time, part time, into retirement. So, that's the biggest challenge. Technology and AI and interaction can help with this. But there's a bit of spend involved to get there. The master trust that can deliver that, I think, is one who will capture a lot more of the market than they've got at the moment.

McClymont: I think the front end, back end distinction, is really important. So, what do we mean by technology? When people talk about engagement, we mean front end, right. I think the key is, on the technology side, in the first instance is improving those back-office functions to improve administration.

Leigh: I frequently hear trustee

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boards, or companies, say one of their objectives is to raise member engagement. I ask why? What do you want members to do? Often, what they really mean is, we want people to save more. Or, realise the value of what they have and when they can retire. Well-defined engagement objectives and measures are far more effective that trying to increase engagement for the sake it.

Swynnerton: I was thinking it might be interesting to talk about the dashboard. It feels like a heavy compliance burden for pension schemes. I think the government and the pensions industry is quite engaged, but I'm not so sure the intellectual property and data risk industry is as aware of all of this. I think there will be a huge raft of legal issues that come out in relation to the dashboard when they do become engaged. We're now looking at three to four-year timeframe for dashboard implementation. I don't know whether that is enough time, especially for DB.

Armer: The challenge is if we create a pension dashboard, are we just giving another tool to the same people who already are engaged, or are we genuinely going to get the other 75-90 per cent of people who currently aren't, to use the pensions dashboard.

If we do, then it's amazing. If it's sat on their phone next to Twitter, or whichever apps they have and they use it, then it's absolutely going to be market-changing, and it will redefine the way people engage with their pensions.

But if actually it's the same people who already can go on their app for their current provider, or log in via the website to look at it, and it's just a bit more convenient for the same data, then has it really changed anything? I'm not sure it has.

Gandhi: There is a challenge around the financial education of people generally. I think the statistics that I've seen show that a lot of the problem with stress at work does link to financial capacity. The bit that I really think we should do something about, again, is technology. Technology can do a lot of things. Think about being able to sweep in your banking, sweep in your pension from wherever it is, and actually start to see your journey plan as a total holistic economic wellbeing. We should be focusing on the bigger piece rather than just the narrow piece.

McClymont: I'm a bit more doubtful – these discussions always seem to get to a place where we resolve have to do everything to encourage engagement, encourage people to take charge of their own finances, which in the abstract, is absolutely sensible but flies in the face of the evidence. Technology can do a lot of things, but it can't change the nature of what pension is, which involves, in DC, uncertainty about outcomes. That's a barrier to individual engagement alongside the well-known behavioural scientific discoveries about our tendency as people to focus on the present not the future, on loss not gain, and so on.

There's also a large minority of the UK population who don't even have £200 put by for an emergency. Sort of puts pensions savings into perspective. Added to that, the increasing number of self-employed whose volatility of the earnings makes steady pensions savings a greater challenge So, a lot of obstacles.

The danger is that we all talk from our own experiences, it's inevitable. But for a lot of people pensions are the last thing on their mind. Technology can help with that, by reducing frictions to engagement, but it's a really steep hill. More awareness of pension entitlements would be a start. This is the case for a simple pension finder dashboard.

Clark: I'm incredibly passionate about the fact that we live or work in a very bubble square mile, and if you talk to many people outside of this about why they should join a pension scheme, you're more likely to get a blank look than anything else. Because they are just simply not able to be saving much beyond the fact that they know that the kids need new shoes come September, and they're already starting to think about the fact that school holidays are coming up, and what they're going to do with them.

So, there's a huge population with minimal, if any savings. It's incumbent upon us to just manage what they have got the best we possibly can, and I don't think anybody around this table would do anything other than their absolute best for everybody, we all have a passion for that. It's just so many different pressures on trustees when we're trying to do all of this, such as trying to keep the regulator happy, who in turn is trying to keep the DWP happy. At the end of the day, just trying to do the best you possibly can for members is incredibly hard.