Media Comments 2017

Pension freedoms leave people with 'little choice' - Researchers warn rule changes have undermined annuity market with sales falling 75%, by Oliver Ralph, Financial Times, 20 November 2017

Changes to pensions rules have left consumers with "freedom but little choice", as it becomes increasingly likely that the state will have to bail out people who outlive their retirement savings, a major new report has warned.

Two years ago, the UK government revolutionised the pensions market by sweeping away rules that forced pension savings to be spent on annuities, which provide guaranteed incomes for life. Instead, savers were given more choice about how and when to use their money.

Many experts, including Clive Bannister, chief executive of Phoenix Group, the insurer, have said that the changes were necessary.

"It was barmy to have to choose one product for the rest of you life," said Mr Bannister. "There has been a period of enormous change, with intended and unintended consequences which still have to play through."

But a new report out on Monday from the Pensions Institute, a research centre, and Cass Business School argues that far from opening up the market, the changes have actually reduced consumer choice.

"Pensions freedoms and choice has made the retirement income environment more complex for consumers," the report said. "The vast majority do not seek advice which results in sub-optimal decisions and ultimately is detrimental to consumers."

The report argues that the 2015 changes have undermined the annuity market, with annuity sales falling 75 per cent between when the reforms were introduced and the end of last year.

Annuities used to be a core product for many life insurers, but the drop in demand, combined with the EU's Solvency II capital rules, has encouraged some large insurers, such as Prudential, to pull out of the market. Instead, insurers are focusing on savings products that do not offer financial guarantees.

"The vilification of annuities by politicians and the media has reinforced the belief that annuities are inherently bad products," the report said. "The annuity market is rapidly becoming a niche sector, operated by a smaller number of specialists."

The report's authors are also sceptical about the income drawdown products that many consumers are now turning to. Drawdown allows savers to spend their money as and when they choose, but offers no protection to those who spend too much or live longer than expected. It is not a new product, but is being used much more extensively under the pension freedoms.

"Drawdown was only ever a stop-gap measure exploited by those who did not want to be forced to purchase an annuity," the report said. "As such, it remains to be seen whether it offers either sufficient growth or sufficient protection to the majority of customers who need life-long income in retirement."

PENSIONERS who blow their retirement savings will have to be bailed out by the state, a major new report has warned, By Simon Osborne, Daily Express, 20 November 2017

Experts claim the scenario has become increasingly likely since changes to pension rules gave people free access to a cash lump sum on their retirement.

The Government revolutionised the pensions market two years ago when it swept away rules forcing people to spend pension savings on annuities which give guaranteed incomes for life.

Savers were given more choice about how and when to use their money and many senior industry figures agreed the changes were necessary.

But the new report from the Pensions Institute research centre and Cass Business School finds that, far from opening up the market, the changes have actually reduced consumer choice.

The report says: "Pensions freedoms and choice has made the retirement income environment more complex for consumers.

"The vast majority do not seek advice which results in sub-optimal decisions and ultimately is detrimental to consumers."

The report says the 2015 rule changes have nearly destroyed the annuity market with sales falling 75 per cent between since the reforms were introduced.

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For Asia’s rapidly aging populations, innovation and forward-thinking policies drive retirement security

TAIPEI, Taiwan--(BUSINESS WIRE) September 22, 2017--The quickening pace of aging in Asia – a region with more than half the world’s population over 60 – has urgent implications for the region’s families, retirees, pensions and policy makers.

> ***“Solutions require urgent action from both businesses and individuals, and governments need to implement policies that support this action.”***

“Given Asia’s aging populations, retirement challenges are particularly acute in the region,” said Professor David Blake, director of the Pensions Institute at London’s Cass Business School. “Solutions require urgent action from both businesses and individuals, and governments need to implement policies that support this action.”

With falling birth rates and declining death rates, Asia’s societies face the twin burdens of supporting rapidly growing elderly populations with shrinking or stagnant working-age populations. In Taiwan, for instance, it is projected that each person over 65 years of age will be supported by only 1.5 working age people by 2050, compared with 5.9 in 2015. Meanwhile, in nations like Japan, low or negative interest rates have discouraged the savings incentives needed to meet the growing financial costs of living longer.

To address these retirement challenges in Asia and throughout the world, Professor Blake, along with faculty members from National Chengchi University in Taiwan, hosted some of the world’s best minds at Longevity 13, the 13th International Longevity Risk and Capital Markets Solutions Conference, in Taipei. Longevity 13 is a forum attended by pension, insurance, capital market, actuarial and academic professionals to discuss market-based solutions to retirement quandaries posed by aging populations. Among those who addressed this year’s conference were Amy Kessler, senior vice president and Prudential’s head of longevity risk transfer, and Dylan Tyson, executive vice president and former chief strategy officer for Prudential of Korea.

“With the rapid pace of demographic and societal changes, understanding the needs of individuals and families is more important than ever,” said Tyson. “Life insurers can help people achieve a secure retirement by providing solutions to retirement challenges, such as guaranteed income that a person can’t outlive.” Tyson added that retirement is an important issue for people of all socio-economic groups. Government policies need to support families of all income levels to save for retirement. A strong partnership with policymakers is critical for developing private-sector solutions, such

as pooling longevity risk, while ensuring robust foundations for consumer protection and financial stability.

Prudential's Kessler emphasized ways for life insurers to create lifetime income solutions that add value for individuals, while carefully managing risk and capital. She suggested that annuity solutions, which have been effective in the U.S. and other markets, can be adapted to help solve Asia's retirement funding challenges. She also outlined policy and regulatory approaches that can encourage retirement readiness among individuals, and sound product design and risk management practices among insurers.

Since 2005, The International Longevity Risk and Capital Markets Solutions Conferences, organized by the Pensions Institute and Cass Business School, have been the major annual international events that bring together leading international industry and academic representatives, as well as policymakers, to meet and discuss longevity risk, as well as the market and government developments and responses necessary for managing that risk. Since 2011, Prudential has sponsored this conference series. The company's thought leadership and research stemming from this event is widely read by the actuarial community, as well as insurers, academics and finance professionals.

FCA: More taking out drawdown pensions without advice, By Brian Milligan Personal Finance reporter, BBC News, 12 July 2017

More people are taking out so-called drawdown pensions without taking advice, the City regulator has warned.

The Financial Conduct Authority (FCA) said 30% of consumers go in to drawdown without getting guidance.

That compares with just 5% before the pension freedoms were introduced in April 2015.

It also says that those who access drawdown policies before the age of 65 typically stick with their current provider, rather than shopping around.

Drawdown pensions allow people to withdraw as much money as they like at any one time.

The FCA said twice as many consumers are now using drawdown rather than annuities, which provide a fixed income for life.

It is also worried that too many annuity providers are leaving the market, which it said could bring a risk of weakened competition.

Critics of the pension freedoms said new rules were vital.

"Many people will run down their precious pension pots too quickly or be scammed by bogus investment advisers," said Professor David Blake, director of the Pensions Institute at Cass Business School.

"What would otherwise be a safe and secure retirement is going to end in tears for many of these people."

'Too much tax'

The FCA said that withdrawing money from pension pots had become "the new norm".

However, the pensions industry has disputed that claim.

According to the Association of British Insurers (ABI), 100,000 people take money out of their pension pots every quarter.

But that is small compared to the 4.7 million people over the age of 55 who leave their pots untouched, the ABI said.

The FCA report said that 52% of fully-withdrawn pots were not spent, but were put into other savings or investments.

Some of this was due to "a lack of trust in pensions", it said.

Only a quarter of people withdrawing cash spent some or all of it.

"Contrary to the concerns expressed before the pension freedoms, we did not find that most consumers spent this money on consumer goods and services such as cars and holidays," the report said.

Of those who took all the money out of their pension pots since 2015:

- 32% put the money into Isa accounts or other savings plans
- 25% spent some or all the cash - for example, on home improvements or a car
- 20% invested the money elsewhere - in property, shares or other businesses
- 14% used the money to pay off debts
- 9% unknown

As a result some consumers may be paying too much tax, or missing out on investment growth, the FCA said.

'Cry for help'

The FCA is considering asking the government to:

- allow consumers to access pension savings early, while continuing to pay full contributions into their existing pension plan

- make it easier for people to compare - and shop around for - drawdown policies

Pensions expert Tom McPhail, from Hargreaves Lansdown, said he was concerned about the FCA's plans to intervene in the market.

"This report looks like a regulatory cry for help; the FCA seems to be trying to put the pension freedom genie back in the bottle," he said.

The TUC was also critical.

"Savers are increasingly dipping into their pots early. And others are following the path of least resistance and risk buying rip-off products," said Frances O'Grady, the TUC's general secretary.

The pension freedoms allow consumers to take out as much as they like from their pension pots after the age of 55, subject to income tax.

The regulator plans to publish its final report in the first half of 2018.

Top academic: 'There is a real and current threat to your pension', Professor David Blake, Daily Telegraph, 28 June 2017

There are 10 million people in 6,000 defined benefit pension schemes in Britain. Most of them will get the pensions they expect in full – but not all. If the companies behind these schemes – the sponsors – are financially strong enough to still be in business when the pensions come to get paid, then all is well. However, around 1,000 schemes possibly with as many as 1.7 million members, are in very precarious position with financially weak sponsors, large deficits and sometimes both. Their members face a real and current risk that their companies will go bust. If this happens their scheme will almost certainly fall into the Pension Protection Fund (PPF) which will ensure they still get a pension, but it will be lower, at around 90% of what they were expecting.

Perhaps surprisingly the schemes that could be in difficulty are not publicly disclosed. It is however sometimes possible to spot them because they are sponsored by what is known as 'zombie' companies, i.e., companies which just about manage to cover their current pension payments, but leave little or no cash for investment in the business.
Listed zombie companies tend to have a large pension scheme deficit relative to their stock market capitalisation. If they have managed to raise any debt or equity finance over the previous five years at all, this money will have been used to keep the company afloat, rather than funding the pension scheme.

In the case of private, smaller companies, what we sometimes see is the key directors trying to keep the company afloat just until they themselves reach retirement, so that if the company goes bust after that, they will get their full pension from the PPF.

Certain sectors are a more natural hotbed for zombies, for example, manufacturing where companies may continue to make products that have become obsolete by newer technology because they don't have enough capital to change their business model. In other instances, the business may make products or provides services that remain attractive to its target market, but is unable to raise capital because the pension scheme deficit deters new investors.

Under these circumstances, members can ask the scheme's trustees to press the company to put in more funding to the scheme. Alternatively, they can prompt the trustees to seek a compromise proposal with the sponsor, known as a regulated apportionment agreement, in which benefits are reduced across all members. By reducing the deficit, this helps to keep the company afloat and members end up getting higher benefits than if the company became insolvent and the scheme went into the PPF. Additionally, members could transfer their benefits out of the scheme into a new, more secure, scheme separate from their company – but the benefits would be lower than the full promised pension to reflect the size of the deficit.

Either way, if you are entitled to a defined benefit pension, be sure you find out about the size of the scheme's deficit and the financial health of the sponsor. If they are both are looking bleak, it may be time to speak to your trustees.

These issues are discussed *Greatest Good 2* which was published by the Pensions Institute at Cass Business School on 21 June. The authors of the report are Professor David Blake and Matthew Roy.

Scrapping triple lock would cost votes, poll finds, By James Fernyhough, FT Adviser, 25 April 2017

Ending the triple lock guarantee on state pension increases would put more than a third of over-55s off voting Conservative, a poll by Old Mutual Wealth has found.

The triple lock guarantees annual state pension increases at the highest of inflation, earnings growth, or 2.5 per cent.

The government had previously committed to keeping the measure in place until 2020, but had made no promises beyond that.

But with a snap election called for 8 June, this timetable is no longer relevant, and prime minister Theresa May's government has not yet stated whether it intends to keep the triple lock in place if re-elected.

Old Mutual Wealth's survey of 1,000 people over the age of 55 found that if the government did opt to scrap the triple lock, 34.2 per cent would be "less likely" to vote Conservative.

This age group traditionally has a high turn-out rate - around 78 per cent in the 2015 general election, compared to 43 per cent of 18 to 24 year olds, according to Ipsos Mori - meaning a decision to scrap the policy could damage the party's chances of re-election.

Opposition leader Jeremy Corbyn, meanwhile, has already committed to keeping the triple lock in place under a Labour government.

On Friday (21 May), Ms May avoided revealing her plans for the triple lock, prompting Mr Corbyn to accuse her of dodging the question.

But while the triple lock is popular with older voters, industry and expert opinion broadly opposes keeping the 2.5 per cent guarantee in place.

In his recent state pension age review, John Cridland went further, recommending the link to inflation also be scrapped, leaving only a link to earnings in place.

Other independent experts who support scrapping the triple lock include former pensions minister Ros Altmann and Pensions Institute director Professor **David Blake**.

Old Mutual Wealth pensions expert, Jon Greer said the triple lock had become a "crucial election battleground".

"The state pension is one of the biggest costs to the public purse and the Office for Budget Responsibility projects it will cost 6.2 per cent of GDP in 2036/7, up from 5.2 per cent today, even though the state pension age is due to increase to 68 by then.

"In his report Cridland noted if the same rise in spending was faced today, this would be equivalent to a rise in taxation of £725 per household per year. On top of this, overall age-related spending is predicted to rise to more than a quarter of GDP by the middle of this century," he said.

Mr Greer argued for a link to earnings, but with an above increase measure when earning fell below inflation.

"As society ages, with more people reaching retirement age leaning on a smaller proportion of the population that are of working age, costs will become a significant burden.

"Any party that refuses to address the political hot-potato of the state pension could be accused of kicking the can down the road," he said.

However, he said the "power of the grey vote" could mean politics "rules over reason".

Fund managers raise the stakes on performance fees, By David Ricketts, Financial News, April 24, 2017

https://www.fnlondon.com/articles/fund-managers-raise-the-stakes-on-performance-fees-20170424?mod=email_topstories

Pressure on fixed fees is forcing fund managers to take a gamble and develop new – potentially volatile – income

Asset managers are quietly adopting a high-risk strategy to generate more from performance fees and offset an expected decline in traditional revenues.

Financial News analysis of recent results announcements has found performance fees at major fund houses including Allianz Global Investors, Ashmore and Liontrust now make up noticeably larger proportion of overall revenues.

The change comes as the active management industry remains under huge pressure to address investor concerns on fees as cheaper passive funds gain popularity and regulators increase their scrutiny of charges.

In AllianzGI's most recent results it emerged that performance fee income at the €480 billion asset manager had increased by €20 million to €162 million, representing 9% of total revenues in 2016. In 2014, performance fees accounted for €70 million, or 5% of total revenues.

Andreas Utermann, AllianzGI chief executive, said its expanding alternatives business, which comprises mainly of products that levy performance fees, is contributing to this shift in its revenue mix.

"Overall, if I look at our business over the past five years, we have seen a rebalancing of revenues towards incentive fees and I would expect that trend to continue," said Utermann.

At Ashmore, in the six months to the end of 2016, performance fees accounted for 15% of total revenues, up from 7% for the same period in the previous year. Performance fees at Liontrust accounted for 16% of total revenues in 2016, up from 9% the previous year.

However, at Henderson, performance fees made up just 7% in 2016, compared with 16% in the previous year.

'There is also a danger that performance fees that reward outperformance, but do not penalise underperformance symmetrically, will only encourage fund managers to take on more risk'

Others have experienced an uptick in the total amount they secured through performance fees, if not as a percentage of revenues. UK-listed Schroders saw a 13% year-on-year increase in performance fees in 2016 to £41.2 million and according to Aberdeen Asset Management's most recent financial results, performance fee income rose to £15.8 million in 2016, some £2 million more than the previous year.

The shift towards these fees is seen by some as an attempt to counter criticism over poor performance returns and for managers to align themselves better with clients by giving them more choice over charging structures.

Diana Mackay, co-chief executive of consultancy MackayWilliams, said there was growing pressure on asset managers' standard fee model, originating from regulators and investors frustrated with paying relatively high amounts for poor performance.

Typical fee structures see investors pay around 1.5% per year on funds. A performance fee model could see this fall as low as 0.8%, but with a potential uplift of as much as 20% if a fund beats its benchmark.

Risky business

Recent figures from S&P Dow Jones Indices point to widespread underperformance among active managers, with 87% of UK active equity funds failing to beat their benchmark in the past year. In addition, 62% of funds underperformed over three years, 50% over five years and 74% over a 10 year period.

This could mean that while the move towards more performance fees offers a solution to firms hoping to appease investors, they also open themselves up to relying on a more volatile revenue stream.

UK-listed fund manager Jupiter saw performance fee revenues slump by more than £8 million in 2016, claiming revenues earned the previous year were at "exceptional levels" due to the performance of a single fund.

In its annual report, Jupiter claimed that the £14.6 million it garnered in performance fees in 2015 is "unlikely to be repeated in future periods, unless a period of outstanding performance on a single fund occurs again".

Given such a high proportion of managers failed to hit their benchmark in 2016, this could bode ill for others adopting a fee model that is dependent on their performance.

Yet some believe fund managers have little choice but to take the gamble. Paul McGinnis, an analyst with Shore Capital, said active asset managers that face stiff competition from low-cost passive providers cannot afford to ignore the potential revenues that can be generated with performance fees.

"The alternative is to stay with progressively deflating management fees on a product set that is being forced up the risk curve," said McGinnis.

"The greater volatility in investment performance that this move [creates] is already going to make profits more volatile. [Asset managers] need a mechanism to get paid when this extra risk is successful for investors."

But McGinnis added that over time a fund house with widespread use of performance fees should expect to generate higher revenues and profits than an identical manager charging only fixed fees.

He said it is "entirely rational" for an asset manager with a more active product set to want to monetise periods where they experience strong investment performance.

Others disagree. **David Blake**, director of the Pensions Institute at London's Cass Business School, said institutional investors "would be unwise to choose this model".

"It is difficult to see a useful role for performance fees from the point of view of the investor," said Blake.

"There is also a danger that performance fees that reward outperformance, but do not penalise underperformance symmetrically, will only encourage fund managers to take on more risk."

FCA pressure

The shift has been going on for years. According to Fitz Partners, a firm that analyses asset management fees, the number of funds in Europe that levy a performance fee increased from around 1,100 in 2012 to more than 2,000 at the end of 2015.

For those funds charging a performance fee the income accounted for 26% of total revenues in 2015 – the most recent set of data made available by Fitz Partners. This figure is up from 19% the previous year.

But the move towards performance fees has gathered pace since a study by the Financial Conduct Authority in November highlighted weak price competition among UK asset managers and was critical of the industry's ability to deliver value for money. Hugues Gillibert, chief executive of Fitz Partners, believes this has prompted some to modify their charging structures.

As a result, asset managers are now looking at ways "to structure their fees in order to better reflect the cost of being active", said Gillibert. Quite a few clients are looking at launching new funds that will have two share classes – one with a performance fee and one without.

'When people are paying high fees for poor performance, they should rightly be concerned with the industry'

"The fixed management fee will be lower, but it gives people choice," he said.

According to a asset manager survey in April by consultants Lane Clark & Peacock, there is a growing preference among institutional clients for performance fees over a fixed management charge.

Orbis Investments, which runs £20 billion in mainly institutional assets, charges clients a fee only if funds outperform their benchmark. The firm also refunds money to investors if a fund fails to outperform.

Dan Brocklebank, Orbis' UK head, expects the use of performance fees to become more commonplace.

"In many ways a shift in that direction would help get to the core problem – that both retail and institutional investors have an increasing suspicion that they are not getting good value for money," he said.

"When people are paying high fees for poor performance, they should rightly be concerned with the industry."

Brocklebank said the prevailing fixed-fee model used by asset managers has "a structural problem and will not deliver value for money", particularly if fund managers are not penalised for underperformance.

"I do sense the mood is changing. We have been in a high return environment. We're in a pretty different environment now so there is going to be more scrutiny on costs," said Brocklebank.

Fixed fees falling

The latest figures from ICI Global – the worldwide body representing the asset management industry – show pressure is building to increase revenues from performance as income from traditional fee structures has dropped.

ICI's analysis indicates the average ongoing charge in the UK, including distribution costs, for active funds has fallen from 1.5% in 2005 to 1.1% at the end of 2015.

Figures from Morningstar, the independent asset management research house, show the cost of investing across all European funds fell by 9 basis points over a three year period to 2016.

Jonathan Miller, head of UK manager research at Morningstar, said some asset managers are looking to launch funds giving investors the option to choose a performance fee, which can make sense if they are combined with a low fixed management fee.

"What they are giving investors is an option to take higher fees when they outperform or if they don't achieve what they state, it isn't a free lunch for the fund manager," he said.

And asset managers are not the only ones to taking such steps. Hedge funds are also experiencing changes regarding their revenue models.

Amy Bensted, head of hedge fund products at Preqin, said investors increasingly hold the power when it comes to driving down fees and that the traditional hedge fund structure of a 2% management fee and 20% cut of profits if performance targets are hit is being challenged.

Like with asset managers, investor dissatisfaction with hedge fund performance and fees charged has led to "more widespread scrutiny" by institutional investors in the past 12 months, said Bensted.

She said: "We have seen management fees come down year on year over the past several years because of this, and it is likely to continue to move towards a mean management fee of 1.5%, rather than the traditional 2%."

She said one fee structure that has gained traction is the 1 and 30 model, and added: "We are also seeing investors look for more performance fee incentives and protections to be in place [such as] hurdles, high water marks as well as clawback provisions."

Investors are willing to pay a higher performance fee, Bensted said, “as long as the performance of the fund justifies it”.

Is it time to move on from active management?

Professional Wealth Management *20 April 2017*

http://www.pwmnet.com/Asset-Allocation/Portfolio-Management/Is-it-time-to-move-on-from-active-management

Chris Bailey, Raymond James

By Chris Bailey and Alan Miller

Chris Bailey, European strategist at Raymond James and Alan Miller, founder and CIO of SCM Direct, discuss whether active management has had its day

No - Chris Bailey

At the beginning of 2017, a respected investment flow survey observed that the ratio between passive and active investments had reached a record of nearly 50:1, in favour of the former. This continued a big trend, with passives 12 per cent of total European mutual fund AuM by the end of last year, according to Thomson Reuters Lipper, compared to 5 per cent in 2004.

But scrape below the headlines in areas such as US and UK equities and you find that passive funds saw inflows while their active peers saw outflows. In short, investors appear to believe these markets in particular are not inefficient enough to warrant the costs and benchmark variable performance of an active approach.

The origins of this trend go back to the depths of the global financial crisis, which induced multiple global central banks to take their first steps into unorthodox policies like quantitative easing and very low interest rates.

These policies benefited broadly all risk assets. Correlations between individual stocks fell and scope for active management abated. Fees and growing preponderance of passive and ETF solutions made this shift in flow start to become even more sensible.

However, investment markets do not stand still. At a time when the US has started to push up interest rates and move away from the policies of exceptional central bank stimulus, stock correlations have once again started to fall. Early data for 2017 shows almost half of actively managed large-cap US equity mutual funds managed to beat their benchmarks in the first two months of this year.

All of this has left investors in a quandary. Simply put, if you believe central banks are moving away from economic stimulus, active investment selections seem on

average a more attractive prospect to beat their passive equivalents. Factor in Brexit, eurozone political angst and sharp debates over the success (or not) of economic change plans in key Asian countries like China and Japan, and it is tempting to favour a more active asset allocation approach than has been seen recently.

Index tracking passive solutions typically buy momentum and sell price weakness. A predominantly passive approach could therefore undermine one of the key rationales for the stockmarket: to allocate capital in a manner which rewards return-generating behaviour. It is possible smaller companies will not attract passive flows of capital until they reach a certain size. Having passive capital trapped in the largest companies by dint of their size, rather than investment potential, is not good for the dynamism of the broader economy.

Fees provide a high hurdle for active managers to jump over, but a central tenet of a successful portfolio is diversification. Adopting a completely passive approach may minimise short-term fees but leaves the allocator exposed to change in areas such as individual stock correlation and central bank stimulus, as well as shifts to a more value or mid/small cap preference.

Collectively this has the clear potential to hurt performance versus a benchmark.

Yes - Alan Miller

As a fund manager for some 28 years, having managed active funds including the first UK equities hedge fund that returned 17 per cent plus annually over nine and a half years, I am often criticised for extolling the virtues of passive funds.

The reality is that my dissertation at university back in 1985 was on active versus passive portfolio management. I interrogated the academic evidence and concluded there were anomalies in smaller company shares, but elsewhere passive made more sense. This resulted in a fund management career trying to find smaller company nuggets.

But that was then, and this is now. Only a fool walks without seeing how the landscape changes. In the low return environment, where information is freely available to all, the reality is that active management is no better than buying a lottery ticket.

There is nothing wrong in buying a lottery ticket – if you know the odds are against you winning. Active management is the same except the company flogging the tickets tells everyone they are going to win when they are almost certainly not.

So why does passive investing make more sense?

Cost: According to the recent Asset Management Study from the UK's Financial Conduct Authority (FCA) it cost nearly three times the amount to invest via an average active vs passive fund (1.175 per cent vs 0.402 per cent).

Performance: Outside the amateurish efforts of the conflicted Investment Association research, there is very genuine evidence to support passive management.

As the FCA points out: "As long as average active charges and transaction costs exceed the charges and transaction costs of tracking the market benchmark (investing passively), more active money would underperform the market benchmark (and passively-invested money) after charges than outperform it."

Professor David Blake from Cass Business School tested two active managers' scenarios to test levels of skill when it came to producing outperformance. He found 95 per cent of managers were unable to outperform, net of fees, and in the second model almost none had the ability of outperformance.

Consistency: The latest S&P research suggests the longer you invest via an active fund, the greater the chance of losing vs the benchmark, even in emerging markets.

Transparency: If you invest in an index fund you know what you are investing in 100 per cent. In an active fund, you are typically told just the top 10 holdings, which often represent less than half the fund.

Information Edge: Active managers used to have an information edge by getting information first. Today, information is regulatorily required to be disseminated across the market, and to all stakeholders, often at no cost; eliminating the edge.

To sum up, this is the advice of the greatest living investor, Warren Buffet when investing his own legacy:

"My advice to the trustee couldn't be more simple: Put 10 per cent of the cash in short-term government bonds and 90% per cent in a very low-cost S&P 500 index fund. (I suggest Vanguard's.) I believe the trust's long-term results from this policy will be superior to those attained by most investors — whether pension funds, institutions or individuals — who employ high-fee managers."

Almost nine in 10 active equity funds under-performed in 2016, Kyle Caldwell, Money Observer, April 4, 2017

http://www.moneyobserver.com/news/04-04-2017/almost-nine-10-active-equity-funds-under-performed-2016

Fund managers were wrong-footed by the Brexit vote and Donald Trump's election victory. The outcomes of both were unexpected, as were the reactions of financial markets.

Caught out by Brexit vote and Trump Victory

In the case of Brexit the UK stock market suffered an initial two-day hangover, but then moved higher – taking passive funds that simply track the FTSE indices higher with them.

At the start of 2017 the UK's leading index, the FTSE 100, powered to a record high and has since managed to maintain its momentum: at the time of writing (11.30 on 4 April) the index was sitting just above 7,300. On 24 June, the day the Brexit vote was announced, the FTSE 100 stood at around 6,000, so it has gained almost 18 per cent since that date.

Last November, fears that a Trump victory would trigger a market correction proved to be completely unfounded. Both the UK stock market and the US exchanges maintained their form, with the two main US market indices, the S&P 500 and Dow Jones, hitting record highs.

In rising markets it becomes much harder for actively managed funds – particularly those run by stock-pickers and diverging significantly from the market – to keep pace.

Funds that have the specific aim of trying to achieve positive returns in all market conditions also endured a tough 2016.

Almost nine in 10 UK actively managed funds (87 per cent) underperformed their benchmark in 2016, according to S&P Dow Jones Indices, the index provider.

Research by Money Observer in January found that out of 93 funds in the Investment Association's targeted absolute return (TAR) sector 30 lost money. Moreover, 49 per cent of TAR funds failed to produce returns that kept pace with consumer price inflation.

Fund managers lagged behind after Brexit

Adrian Lowcock of Architas, which runs a suite of multi-asset funds, says absolute return fund managers were 'completely wrong-footed in 2016'. He explains: 'At the start of 2016, opinion polls indicated that there was a 30 per cent chance of the UK voting to leave the EU.

'As a result, absolute return funds were too positively positioned leading up to the referendum. Then, when a short-term sell-off occurred after the Brexit result, managers quickly took risk off the table, thereby lagging the market's subsequent strong recovery.'

Longer term performance numbers

In 2015, UK active fund managers had a much better year as just 22.2 per cent underperformed. Over three years to the end of 2016, 62 per cent of funds underperformed, 50 per cent over five years and 74 per cent over 10.

One of the biggest challenges a do-it-yourself investor faces is finding the cream of the crop among the thousands of funds all aiming to do the same thing – beat the market and their peers – as only a few will consistently be able to add significant value over long periods.

Damning studies from respected bodies, including the **Pensions Institute at Cass Business School**, conclude that investors are better off sticking to tracker funds, which simply aim to replicate the performance of a market index.

Active versus passive funds

This, however, is not a view shared by Money Observer, which advocates mixing and matching between the two styles.

In defence of active management, there are fund managers out there who over various market cycles have proved their worth by consistently gaining an edge over both the relevant index and active fund manager rivals.

The trouble is that there are far more duds than gems, which makes finding a winner an uphill task. To help readers focus their sights on the superior options, Money Observer has created a shortlist of Rated Funds, which for 2017 features 198 investment trusts and funds.

Round Table – A way out of the morass?, Pensions World, 27 March 2017

A panel of experts chaired by editor Stephanie Hawthorne give their reactions to the DB Green Paper and the DB crisis**. Ceri Jones** reports

Left to right:

Stephanie Hawthorne, chair and editor, *Pensions World*

Paul Feathers, partner, Gowling WLG

Chris Martin, managing director, Independent Trustee Services

Sammy Cooper-Smith, co-head, business development, Rothesay Life

Francis Fernandes, actuary and senior adviser, Lincoln Pensions

Pensions World ***Perhaps we could start with how many defined benefit (DB) schemes the panel believes are stressed with a weak covenant?***

Francis Fernandes It all depends on the definition of "stressed". Just over a year ago, Lincoln Pensions co-sponsored some research by the **Pensions Institute** (*The greatest good for the greatest number*), which found that of the 6,000 or so DB schemes, around 1,000 were under stress – materially underfunded and backed by weak employers. Of these, some 600 are in serious difficulties, with the prospect of never being able to pay full scheme benefits to their members.

PW ***Has the recent Green Paper added anything to how we can put DB pensions on a sustainable footing?***

Sammy Cooper-Smith What the Green Paper has added is focus. Whether it gives rise to meaningful change, only time will tell, but the industry is now talking about it. It seems that the Green Paper starts off from the premise that there is no systemic problem and that no fundamental change is required. But not all the issues we have spoken about at Rothesay Life have been discussed, such as the anomalies in the structure of Pension Protection Fund (PPF) benefits and the Pensions Regulator's conflicting priorities between employers' interests and members' interests, between sustainable growth allowing employers to fund their own business and protecting members' interests. The PLSA Taskforce is focusing on gaining economies of scale for smaller schemes, but there are real issues as to how this idea would work over time.

PW ***With your experience at BHS, Chris, do you agree with Steve Webb that the Green Paper is too timid?***

Chris Martin It is helpful in pulling together ideas that have been around in the industry for a few years, but I don't necessarily think it gives us any new direction. There is a great debate about how distressed DB schemes are, whether these amount to a thousand or a few hundred as the DWP says. The PLSA Taskforce is working on the basis of 50% of stressed schemes ending up not paying the full benefits members expect. However, perhaps we need to look at it differently.

Companies often fail for business reasons. We should focus attention on schemes where the scheme itself is the likely cause of failure. These are the ones we should be addressing.

PW ***Richard Harrington says there is no systemic failure of DB. Would you go along with that?***

Paul Feathers I agree that the number of stressed sponsors depends on the meaning given to that term. The point Chris makes is a powerful one, which is whether the focus should be on addressing situations where the burden of funding the scheme is potentially going to cause the failure of the company. When it becomes clear that this is a possibility, all stakeholders should be intervening to prevent that happening.

Fernandes There are so many moving parts, but I'm sure all of us around this table have seen many DB schemes that are like elephants supported on a rowing boat. By this, I mean schemes that are much, much larger than the sponsoring company and many of these companies are operating in a sector experiencing decline – for example, many in the industrials. I think there's often an obsession with binary outcomes – full scheme benefits or PPF compensation; whereas in many cases, scheme members might have been better served by securing something in between from a strong insurer.

Martin The law unfortunately drives us to binary outcomes. We have to pay full benefits or drive the scheme to the point where it fails.

*PW **Should the law be changed? Is there a way around this?***

Feathers There have been cases where there has been some flexibility in terms of outcomes, but stakeholders have had to work really hard to get to these outcomes. It seems to have been more difficult than necessary. There need to be legislative changes. I was disappointed with the number of references in the Green Paper to moral hazards or the risk of flexibility being exploited. It seems to start from the position that it is all too difficult to make changes, but it cannot be beyond the wit of the pension community to help the government to find a route through for dealing with exceptional cases where the traditional solutions won't work well.

Fernandes What the Department for Work & Pensions (DWP) seems to be saying in many places in the Green Paper is that nothing extra really needs to be done. I would say that the DWP has a valid point because the Pensions Regulator does seem to have the powers, and the mechanics are there already. But it takes a brave Regulator, and a brave set of trustees and advisers to use all the tools, call time and set these mechanics in motion.

Martin The tools are in the toolbox, but some of them cannot be used until the sponsor becomes insolvent. If the Regulator and the PPF want to agree a Regulated Apportionment Arrangement (RAA), they have to wait for the employer to be inevitably insolvent. By this time, most of the value in the business has been destroyed.

Fernandes The Green Paper refers to all the powers available to the Regulator – personally, what I would have liked to have seen listed is how often the Regulator has actually used them! They seem to be infrequently used – perhaps due to a lack of resources or maybe even expertise. Critics might say it's simply a lack of guts. The Regulator will be forced to be more of a player than a referee.

Cooper-Smith Unless they have been involved in a previous process to compromise the Section 75 debt, then I am not sure that all trustees would know how this process works. There is training from the Regulator on various topics, but I am not sure if there is training available on RAAs and compromise agreements.

Martin There may be an education issue here, particularly for smaller schemes. The behaviour that the industry tries to shape is in the opposite direction. The industry is focused on how to carry on collecting the contributions as long as possible, rather than stepping back and considering if there is a better way to optimise member outcomes.

Feathers How clearly do trustees understand that PPF drift is good for their members? The more members that will not have their core benefits scaled back, the better from a trustee and deferred member perspective.

Martin And there is the issue of intergenerational fairness.

Cooper-Smith It is better for all members if the scheme is below PPF funding levels, so that every year people get another increase. The problem I have is that not all schemes know whether they are or not, because they may be ignoring the recovery from the insolvency of the employer. If you are above PPF funding, then PPF drift is no longer a universally good thing; it is just a re-allocation of scheme assets from younger members to older members.

Fernandes Some trustees are not aware of the importance of PPF drift for stressed schemes and have not been asking their actuaries to calculate it (perhaps because it will incur an additional cost!). So how can they assess the options to protect the interests of all scheme members? Many non-pensioners in schemes funded in excess of PPF but sponsored by weak employers are the ones bearing most of the risk in any risky investments that trustees are making. If they knew this, many of these deferred members might be better advised to take transfers out.

Feathers It is hard enough for professionals, let alone lay trustees. And let's face it, the Regulator and the PPF are, quite reasonably, not going to be educating trustees about drift as a positive thing. It would be turkeys voting for Christmas.

Fernandes PPF drift should really be part of the triennial valuation reporting process by actuaries to trustees. Personally, I'm quite disappointed that this simple change has not yet been made by the actuarial profession.

PW ***What should be the role of the government, the Regulator and the PPF in all this? Are they doing a good job?***

Fernandes It is all about being proportionate, recognising the Regulator's resources and the costs attached to advice, especially for smaller schemes. There are a lot of small schemes and one question is how can the Regulator really keep an eye on them? Larger schemes have access to good advice, but perhaps a more mechanical solution is needed for smaller schemes, such as requiring a floor to PPF funding levels before non-statutory benefit increases can be awarded.

PW ***Is there anything more these bodies should do?***

Martin There is a lot the government could do. We have talked about some of the barriers to effective member outcomes because of the law.

We have heard a lot about switching from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI) as a statutory override. We need to give proper empowerment to trustees to drive these processes and to make these decisions, if it means getting an outcome that is higher than PPF compensation.

Feathers The government must be brave. Changing pension legislation has never been a vote winner, but the government needs to do some of the things Chris has been talking about. How indexation is defined was not something that was much thought about when the scheme rules were written to incorporate post-1997 pension increases; it is now a lottery as to whether members receive RPI- or CPI-related increases. Draftsmen wouldn't have considered that defining the obligation by referring to the relevant statutory provision or to RPI would have a completely different outcome in the future. The government should accept that looking again at post-1997 pension increases is an easy win. Legislation adopting a single index in respect of statutory increases, regardless of the drafting in the rules, would restore the intended position and potentially relieve the financial strain on many schemes.

PW ***Should these measures be limited to stressed schemes?***

Feathers Therein lies the challenge! As soon as you start to apply a test, you get back to the original problem of how to define a stressed scheme. I would make the change across the board.

Martin Someone has to make a value judgment and I would put trustees at the front of that decision-making process.

PW ***Could this lead to a situation where sponsors are allowed to get out of their liabilities when they are perfectly viable?***

Fernandes To be sure that calling time is best for members when an employer is still solvent – that is the challenge. Stressed schemes, by their nature, are likely to be closer to the precipice than those backed by strong employer covenants. For stressed cases, hopefully, such action could enable trustees to secure benefits with an insurer that are better than PPF compensation. I'm not convinced that a simple change from RPI to CPI indexation will be the magic bullet. At the moment, securing CPI benefits with an insurer is a lot better than it used to be, but without enough CPI paper in issuance, insurers and banks will have to charge more to take on limited price indexation (LPI) benefits based on CPI. This means there could be a transfer of value from the member to the insurer or bank and it may not represent as good a deal as the trustees might have thought.

Feathers I am not suggesting that there should be an absolute requirement to secure CPI-related increases if CPI is the statutory measure, but adopting a single index for post-1997 pension increases could prevent some schemes from failing.

Fernandes A flat fixed increase could be more beneficial to members, as it's a formula that is far more straightforward for insurers to hedge in investment markets.

Cooper-Smith Scheme actuaries have been pricing CPI at, for instance, RPI less 70 basis points – and over the last few years the market derived cost, as in hedging, has not been at this level. I think over the last few months and looking forward that this perceived lack of value is reducing. This does not change the fact that if your increases are based on an index, then you need to hedge it, and there are trading costs. If you have a fixed increase, there is no hedge and no transaction costs required, so by definition going for fixed increases means that more money from the buyout cost is going to the member. That does not mean that over a member's lifetime they will be better off having fixed increases, because we do not know what will happen to inflation.

It is a hobby horse of mine that there is a cliff edge regarding PPF benefits, depending on when the member's birthday is. If you happen to pass normal retirement age (NRA), then for some people the benefits they receive change dramatically. There are other anomalies. British Steel made public, for example, that in its scheme higher pensions are paid prior to the state pension and then step down, but in the PPF that step down never occurs. Measures could be taken to change some of these issues. I might be doing people a major disservice here, but there are instances where some members are a lot better off if they can eke it out for just a few more months and cross NRA.

Feathers The PPF itself does not have any flexibility and is hidebound by legislation, so as regards Sammy's point change would need to be driven by the legislature.

Fernandes Perhaps it's time for the other levy payers to enter the fray to voice their concerns. If risk starts to really build up in the PPF system, then it will be the stronger employer-backed schemes that will pay the price through higher levies in the future. The prospect of hikes in cash calls might influence the more switched on stronger employers to close out their own risk and take their schemes to an insurance company, thereby removing themselves from the pool of future levy payers.

Cooper-Smith I believe a levy payer made the point in the consultation on their own behalf that they were not keen on schemes carrying on without a sponsor and still having access to the PPF, because ultimately if the scheme failed and entered the PPF, then the deficit would have to be paid by somebody – and that "somebody" is other healthy DB schemes and their employers.

It is a hobby horse of mine that there is a cliff edge regarding PPF benefits. Sammy Cooper-Smith

*PW **Turning now to de-risking, is the advice that nine times out of ten it makes sense to stay in a DB scheme still valid in the light of the high transfer values offered?***

Fernandes As a result of ultra low gilt yields, dizzying transfer value figures have been handed out to scheme members, making the transfer option very tempting. I think the decision to transfer also depends on the sponsor's covenant, but members and their IFAs are rarely given any information on this. The average person is led to believe that DB scheme benefits are 100% secure, whereas DC members bear all the risk – but this depends on just how strong the sponsor backing the DB promise is. If it's very weak, members should be thinking more about the PPF and any differences compared with the scheme, eg in benefit indexation – where a scheme promises attractive pre-1997 increases, these are incredibly valuable relative to PPF compensation increases which are zero on pre-1997 accruals. If the employer's covenant were very weak, so that the comparison is with the PPF, then a transfer might start to make sense.

Martin If the covenant is weak and the scheme underfunded, then the transfer may be scaled back anyway.

Cooper-Smith I would be surprised if nine out of ten would be better off staying put. This is because of selection issues. The transfer will pay a value based on a proportion of members being married. If members are single, then they might well be able to purchase a higher single life benefit than that being provided for by the scheme.It is the same with short life expectancy, as schemes pay on average life expectancy. So I am not sure that nine out of ten members are being paid less than fair value, but that does not mean they should take it. That is why people have to take advice. Sometimes it will be clearly in their interests but not for reasons of the discount rate.

Martin We also tend to forget that retirement is not the concept it was 20 years ago. Most of us expect to work in some form or other way beyond age 65 and to receive our retirement income from a mix of different sources.

Cooper-Smith Another consideration when you move your money to DC is that it is outside inheritance tax limits. So if you don't touch your DC pension, then under the new rules you may pass it all on to your estate. In DB, if you die, you lose it, although to plan on the basis that this will always be the case would be brave. Currently, we have a situation where for some people the money in their pension is the last pot of money they would use to fund their retirement.

*PW **There has been a call for partial DB to DC transfers. Is that fairly easy for a scheme to manage?***

Martin Some schemes have been doing it for years. It is more a trustee and sponsor policy point. They may, of course, want to encourage members to transfer all of their benefits.

Cooper-Smith There is a funding issue for trustees to consider here. Many schemes use a different transfer value basis from their cash commutation basis, with the transfers usually having a higher value to the member than the cash commutation. If I were a member being offered, for instance, 16:1 for cash commutation and 20:1 for transfer, I would consider taking 25% of the transfer into DC and then take it as cash. I have then improved my cash commutation basis and the saving that the scheme makes by not having cash commutation at the same level disappears. So there is a slight downside to partial transfers on the funding of the scheme.

Martin Yes, agreed, and particularly where transfers are now part of the normal set of retirement options.

PW ***There was a lot of controversy a few years ago about pension increase exchanges (PIEs) and enhanced transfer values (ETVs). Are we revisiting that?***

Cooper-Smith It is absolutely still being done. There was more controversy around ETVs, but I believe that today the E has been dropped and they are just transfer value exercises. Happily, the days are long gone of members being offered inappropriate incentives to transfer out. PIEs are common and can make sense as a way of reducing risk by offering a higher starting pension in lieu of some of the inflation protection. This can also allow pensions to be reshaped to better suit the individual.

Martin We are still seeing PIE exercises. The alternative to PIE is to tell your member to transfer the whole thing out and give up DB, which is very difficult for the member.

Feathers The demand for PIE comes from younger pensioners, who still have financial obligations and would prefer a higher pension at the expense of inflation protection. There is a selection risk point, but I don’t think it is massive.

Fernandes Employers should go down these incentive routes with their eyes open. I’ve seen a lot of schemes enter into an arduous and expensive process, only to see extremely low take-up rates and the savings hoped for are not generated.

Cooper-Smith PIE can make sense when buyout is imminent. Offering the membership a market derived value for their CPI benefit means that some of that perceived loss of value can be shared between the scheme and members.

Fernandes Going back to the Green Paper and aggregation and efficiencies of scale, I think one of the biggest nuts to crack is the administration of so many different

benefits structures. Without harmonised benefits, efficiencies of scale can only get you so far. I think what you need is a standard benefit structure that would be easier to manage and hedge risks.

Feathers That is the challenge underlying much of what we are talking about – disturbing accrued benefits.

Fernandes When we sponsored the Pensions Institute's paper, some lawyers talked a lot about how accrued benefits could not be touched. However, a few other EU states have done it; Ireland brought in Section 50 and 50A orders where trustees can apply to the Irish Regulator to reduce increases and accrued benefits for schemes in stress. It seems to be the way that the UK government has interpreted the human rights legislation here, rather than the legislation itself, that has resulted in accrued rights being untouchable.

Feathers Has the Netherlands done it?

Fernandes Yes, although the Netherlands is a little different – the award of pension increases is generally conditional on higher funding levels. However, poor funding on a statutory basis can result in accrued rights being scaled back.

Martin A single benefit structure could make it easier. I struggle with the concept of finding a number of schemes capable of being funded to a similar level without varying levels of additional sponsor contribution. Otherwise, there is potentially a transfer of risk. A scheme that could aggregate and drive cost out is a nice sound bite, but when you work through the practicalities and risks for members, trustees and sponsors, then it is a little more difficult.

Martin Would you, as a trustee, put yourself in a pool with weaker schemes or would you buy yourself out?

The demand for PIE comes from younger pensioners, who still have financial obligations.
Paul Feathers

PW ***Will buyouts and buyins set a record in 2017 and is there enough capacity in the market?***

Cooper-Smith There are plenty of schemes in the pipeline to secure, and a number of providers, such as ourselves. There is plenty of capacity now, but as demand grows and funding improves, then now will probably prove to have been a good time to do it.

Martin Most trustees will have a long-term ambition of risk transfer, but clearly conditions have been and remain very challenging. That shouldn't stop the appropriate framework and planning being put in place, though.

PW ***As a member, I am concerned you might find your pension provided by a Bermuda reinsurance fund.***

Cooper-Smith As a member, you would still face an insurance company regulated by the Prudential Regulation Authority (PRA) with capital requirements. There is a lot of protection. Insurers cannot sell your liability on to another company without PRA approval and a court sanctioning the transfer.

Fernandes Trustees always need to consider the financial strength of a counterparty in the same way that they assess the employer covenant. At a time when there may be opportunities for trustees to take advantage of favourable positions, yet more proposed changes create a distraction for trustees and sponsors away from the really important decision of de-risking and securing benefits and thereby reducing the future reliance on the sponsor covenant.

Martin We try not to let this background noise distract trustees. We focus on how we get from where we are today to the endpoint.

Ceri Jones is an award winning financial journalist. She has edited several publications including the *Investors Chronicle*, *Financial Adviser* and *Pensions Management*.

State pension age should rise to 68 by 2039, review says, Jessica Fino, Economia, 23 March 2017

Millions of workers may need to work an extra year before they can collect the state pension, according to a review by former CBI director general John Cridland

Cridland, who was appointed by the government to carry out an independent review into factors affecting the future state pension age timetable, recommended it should increase from 67 to 68 by 2039, seven years earlier than currently planned.

His report also said that the state pension age should not increase more than one year in any ten-year period.

Meanwhile, the government's actuary department released a report on the state pension age on the same day.

It was asked to consider two scenarios for the state pension age, reflecting someone spending either 32% or 33.3% of their projected adult life in retirement.

Under a 32% scenario, it found that the state pension age could rise to 69 between 2040 and 2042. Meanwhile under a 33.3% scenario, the age could rise to 69 between 2053 and 2055.

The state pension age is currently 63 for women and 65 for men, but this is expected to rise to 65 for both by late 2018, 66 by 2020, and 67 by 2028.

The government is expected to review the state pension age - which sets out the earliest age that a person can start receiving their state pension - in May this year.

But while the next increase to 68 was legislated in the Pensions Act 2007 and is due to take place by April 2046, Cridland said that life expectancy projections have since changed.

He explained that forward projections for the public finances suggest that they are, and will continue to be, under pressure, meaning the 2046 date will need to be pulled forward.

"A judgement on this can be made now, and we believe that there is merit in giving future pensioners as much forward notice of this change as is possible," Cridland added.

Last year, a two-year review carried out by professor **David Blake**, director of the Pensions Institute at Cass Business School, found that future pensioners risk a poverty-stricken old age unless they put 15% of their lifetime earnings away for their retirement.

Moreover, it emerged this week that one in seven people reaching state pension age this year have no pension savings.

Cridland's call to scrap triple lock gets industry support, By James Fernyhough, FTAdviser, 23 March 2017

Pension experts and providers are broadly united in their support of John Cridland's recommendation that the government scrap the triple lock on state pension guarantees.

Mr Cridland released his final recommendations today (23 March) following a year-long review of the state pension age.

His key recommendations were that the government should accelerate its timetable for raising the state pension age and replace the triple lock with a link to earnings.

The triple lock guarantees that the state pension will increase in line with the highest of inflation, earnings and 2.5 per cent.

The government has promised to keep the triple lock in place until 2020, but has not revealed its intentions beyond that.

Mr Cridland proposed abolishing the link to inflation and the 2.5 per cent guarantee.

Commenting on the recommendation, Professor **David Blake**, director of the Pensions Institute, said: "Given that pensioners have done relatively well compared with workers over the last few years (getting a minimum pension increase of 2.5 per cent whatever is happening to prices and wages), this change is unavoidable, and many of us have been calling for it for a number of years."

Richard Parkin, head of pensions policy at Fidelity International, said Mr Cridland's recommendations had "hit the right note".

"While the triple lock was a useful policy for lifting pensioner incomes from a very low base, it seems fiscally unsustainable and the step change in incomes delivered by the new state pension has made its purpose less clear."

While the triple lock was a useful policy for lifting pensioner incomes from a very low base, it seems fiscally unsustainable.
Richard Parkin

He said the proposed link to earnings meant pensions would stay pegged to the national standard of living.

However, he added this would leave those on fixed incomes "exposed to price rises".

Jon Greer, pensions expert at Old Mutual Wealth, was more sceptical.

He described the triple lock as "good policy", and urged the government to consider a replacement policy so that "when earnings fall behind price inflation, an above earnings increase could kick in until real earnings growth resumes".

Lesley Harrold, senior knowledge lawyer in the pensions team at Norton Rose Fulbright, supported former pensions minister Baroness Ros Altmann's suggestion the government adopt a "double lock", "under which pensions keep pace with wage increases and inflation but are not also protected by a minimum 2.5 per cent uplift, which is very costly in times of low inflation, as now."

Baroness Altmann herself said there was "no economic or social rationale" for the triple lock, adding the 2.5 per cent increase was "not related to any economic variables and is politically motivated."

"The longer the triple lock stays in place, the more disadvantaged those who are not covered will become and the greater the pressure to increase state pension age even further," she said.

Speaking more generally about Mr Cridland's recommendations, Aberdeen Asset Management's head of retirement savings Gregg McClymont said hiking the state pension age raised "huge issues of fairness".

"For those who spend their working lives doing hard manual work, 50 years on the job will often be impossible," he said.

"It would be much better to set the entitlement to a state pension on the number of years a person has paid their National Insurance contributions, rather than on age. This would mean that those going to work straight from school will reach their retirement age earlier."

The government will release its response to the Cridland review in May.

Market abuse: 5 outrageous insults against IFAs, By Shunil Roy-Chaudhuri, New Model Adviser, 16 March 2017

Advisers just like estate agents

In the days before Jeremy Corbyn was leader of the Labour party it used to be outspoken on pensions policy, and in 2014 commissioned a root and branch review, in response to the pension freedoms announcement.

When, after a long wait, it was published, it somehow managed to have a go at IFAs.

In May 2014 the Labour party's former shadow secretary of state for work and pensions Rachel Reeves commissioned the Pensions Institute to conduct an inquiry into how savers could be better supported at retirement.

Written by **David Blake**, director of the Pensions Institute, the final report, called for a number of sweeping changes to the retirement income market.

It was also very critical of IFAs, claiming advisers 'must review their industry' with a view to 'transforming themselves into a recognised profession' instead of something more akin to estate agents!

It said: 'One of the reasons for this change was the loss of professional indemnity cover in cases where clients successfully sued a professional services firm and the firm could not justify the size of the fee charged against the amount of work done, typically expressed in terms of hours worked. Many in the financial services industry, in particular advisers and investment managers, along with estate agents, still charge on an ad valorem basis and we wonder why that is the case.'

People need more support and more savings to make the pension system fit for purpose, David Blake, Professional Pensions, 16 February 2017

http://www.professionalpensions.com/professional-pensions/opinion/3004768/people-need-more-support-and-more-savings-to-make-the-pension-system-fit-for-purpose?utm_medium=email&utm_campaign=PP.Daily_RL.EU.A.U&utm_source=PP.DCM.Editors_Updates

At a glance

- While Freedom and Choice has been welcomed there are significant risks
- Many people do not understand these risks and should not be expected to
- A safe harbour retirement income plan could help people navigate this market safely

Professor David Blake gives his view on how the pensions system can be improved.

Most pension savers need much more support than they are currently getting if the government's pension reforms introduced in April 2015 are to be a real success.

This was one of the key messages of the Independent Review of Retirement Income (IRRI), which published its report *We Need a National Narrative: Building a Consensus around Retirement Income* a year ago in March 2016.

While the government's reforms have been widely welcomed, there are significant risks involved in the generation of retirement income from pension savings, such as investment risk, inflation risk and longevity risk.

Following Freedom and Choice, these risks are borne directly by defined contribution (DC) scheme members. The complexity of these risks means that many people do not understand them, even with improved financial education, and the government and the pensions industry should not expect them to.

Instead, if there are well-designed and regulated schemes that manage these risks in the most efficient and cost-effective way, it might be possible to nudge or default savers towards one of these schemes.

Can we build on the lessons of auto-enrolment by having a well-designed default decumulation process at retirement? This would take advantage of economies of scale, spread risk across a large pool of savings, and ensure that the pension outcomes of ordinary savers are not reliant on their individual decision-making.

A good product for delivering retirement income needs to offer a combination of features, including: accessibility (the flexibility to withdraw funds when needed); inflation protection either directly or via investment performance, with minimal involvement by individuals who do not want to manage investment risk; and longevity insurance.

No single product meets all these requirements, but a combination of drawdown and a deferred (inflation-linked) annuity does, for example. So a well-designed retirement income programme will have to involve a combination of products.

Safe harbour plan

One of our key recommendations is that a ‘safe harbour retirement income plan' is introduced. This would involve a simple decision tree with a limited set of pathways. This would allow people to get the best combination of retirement income products for them, given their assets, liabilities, health status, family circumstances, tax position, and risk appetite and capacity.

The plan would be self-started following a guidance or advice surgery, and the plan member has the right to opt out until the point at which the longevity insurance kicks in. The plan would also deal with one of the important lessons from behavioural economics which is that too much choice is a bad thing. There are now far too many poorly designed and expensive choices of product available at retirement, which just leads to customer confusion.

Decisions about retirement income are the hardest financial decisions people ever have to make, because the risks in pensions are so poorly understood. Getting it right requires a national narrative about what pensions are for. All members of parliament, whatever their political affiliation, as well as the pension industry will have to sign up to this narrative - just as they did with auto-enrolment.

This is why we also recommended that the government establishes a permanent independent Pensions, Care and Savings Commission, which reports to parliament, to ensure that there is cross-party consensus for all future pension reforms.

There is widespread support for such a commission, including the Work and Pensions Select Committee, the Association of Consulting Actuaries, the Pensions and Lifetime Savings Association, the Association of British Insurers, the Trades Union Congress, the International Longevity Centre - UK, TISA's Savings and Investments Policy Project, Age UK, and Pensions Age's Unchaining Pensions from Politics campaign.

However, politicians are less keen. While recognising the importance of the problems that the commission would be trying to address, their typical response is that it is the responsibility of government to deal with these.

It is also clear that we are not saving enough for our retirement, so another recommendation was that the government adopts a national retirement savings target of 15% of lifetime earnings, achieved through auto-escalation, to avoid future pensioner poverty.

The most generous final-salary schemes more than meet this target with employers contributing 16% and employees 5% - but sadly, very few private-sector employees are now members of such schemes. In contrast, the average contribution into DC schemes is 2.5% from employers and 1.5% from employees.

Even by 2019, the total minimum contributions into DC schemes under auto-enrolment will only be 8%. We are therefore a long way short of making adequate pension contributions in the UK - and, unless something urgently is done, this will have big consequences for pensioner poverty in the decades ahead.

Professor David Blake is chair of the Independent Review of Retirement Income and director of the Pensions Institute.

Welcome to the new dark ages, where only the wealthy can retire, by Peter Fleming, Guardian, 14 February

It's almost too easy to imagine the scenario. After spending most of our adult life in paid employment, the golden day arrives. A well-earned retirement. Suddenly we're released from the grip of office email and that long commute. Finally we can enjoy our remaining time on Earth pursuing those interests we'd never had time for, perhaps reconnecting with family and finishing those repairs on the house. Above all, time to relax.

Sadly, this probably won't be your future … unless you're independently wealthy. What can only be described as the "battle over work" in the neoliberal era in relation to pay and conditions has just opened another front. Retirement. And things are beginning to get nasty.

We're now told that the real question is no longer when we will retire but if we will retire, with the prospect of working until you drop likely to become the norm. Due to an ageing population, longer life expectancy and a state pension scheme that can't keep up, retirement might soon be a thing of the past. According to **David Blake, director of the Pensions Institute at Cass Business School**, "the danger now is we will have a generation who really can't afford to retire".

Retirement was once considered the jewel in the crown of any civilised society. Discrediting the idea that it's acceptable for the elderly to toil late into their twilight years was one of the great achievements of the 20th century. It wasn't just about morality, of course. There was also an economic rationale. But giving people the chance to rest after 45 years of hard slog was deemed the decent thing to do.

Not any more. Now we have entered the age of austerity, one that we're told might never end. As a result, there'll be no government help in your dotage. Nor will your employer's pension plan provide enough to make ends meet. If this heartless post-crash variant of neoliberal capitalism could be summed up in one message, it would be this: you are on your own.

The important thing to remember, however, is that none of this is as "inevitable" as the politicians would have us think. Many societies have an ageing population. But not all of them are willing to shove a frail 75-year-old back into a cut-throat service economy. That's a specialism of societies that have embraced the utter madness of neoclassical economics, such as the UK and the US.

We can trace the untimely demise of retirement to a number of assumptions about how society ought to be organised. At no other time since its inception has the welfare

state been so hated by the governing elite. Social care. Unemployment assistance. Health. Local councils and libraries. Municipal parks. Anything relating to what used to be called "the public good" is attacked at the roots. Austerity redefines these things as fiscal liabilities or deficits rather than shared investments in common decency. It was only a matter of time before pensions too were put on the chopping block.

This is ideological. It's not that there isn't enough money to fund proper healthcare or pensions. There is. Remember the vast bank bailouts? Quantitative easing? It's just that the cash is being directed elsewhere. Most notably to the private sector in the form of massive corporate subsidies, while public utilities are slowly being starved to the point of decrepitude and collapse.

And let's not forget the tax revenues that aren't being collected when economic policy is geared towards socialism for the rich and the strictest market discipline for everyone else. In 2015 Google paid €47m tax in Ireland on €22bn sales revenue. That's a 0.21% tax rate. It means the average wage earner unfairly bears the burden of society. No wonder a happy retirement is starting to look like an untenable indulgence. If you can't save enough to fund it on that zero-hours pub job or Uber "gig", then hard luck.

Scrapping the right to retire fits perfectly with the ideology of work that the neocons adore so much. If your life and your job are supposed to be indistinguishable, a notion that the Chicago School of Economics perfected with "human capital theory", then there isn't really any place for retirement. Such "unproductive time" is economically irrational, an anomaly that econometric models won't process.

Now the free-market thinktank hacks decide to speak up. Don't many people over 65 actually love working? Isn't the whole idea of retirement totally ageist? Sure, if people want to work past retirement age, that's great. The trouble is that many soon won't have any choice in the matter. Economic desperation will decide for them. We already see evidence of this and it's set to get worse. While some undoubtedly enjoy working well into their later years, research shows that a secure retirement is very good for you. A German study, for example, found that retirees tend to exercise more, quit smoking and get better sleep compared to those who continue to work. As a result, hospital visits drop.

There's clearly a lot of intergenerational resentment towards retirees at the moment. The perception is that they've pulled the ladder up on the millennials who are struggling in low-paid jobs, will never own a house and are laden with awful student debts – and even reports that they're better off than workers. The disgruntlement is understandable. But it also plays into the hands of those trying to end retirement, a divide and conquer tactic that has been remarkably effective in allowing some draconian policies to flourish.

What we really need is an intergenerational alliance to be forged around the issue. Any attempt to protect the right to retire (with a pension) will also have to address the dire developments in the employment sector that are seriously disadvantaging younger people and now creeping into jobs held by 40-somethings too.

Can this cross-generational solidarity be built? It's hard to say. But one thing is certain. We are witnessing a major regression in the treatment of the elderly, something reminiscent of Victorian times or worse, where old age was no excuse for abstaining from an unforgiving world of work. Welcome to the new dark ages.

How can we make DB consolidation a success?, by James Phillips, Professional Pensions, 10 February 2017

At a Glance

- Consolidation with segmentation proves less risky
- Industry-wide schemes should be created
- Government unlikely to take any action

Consolidating DB schemes could prove a solution for small schemes with significant deficits, but how can the UK move ahead? James Phillips reports

Defined benefit (DB) consolidation has been put forward as one of the solutions to climbing scheme deficits, especially for smaller schemes.

The idea is smaller schemes cannot grow their assets as quickly as larger schemes, while liabilities mount, because they do not have the same investment opportunities available to them.

Meanwhile, a lack of funds can have an impact on governance standards and create inefficiencies.

There are nearly 6,000 DB schemes in the country, but many industry professionals believe this is too many, and small schemes should be merged together, and with a larger scheme, to leave the system with fewer, but larger schemes.

Model

Two types of consolidation model are commonly spoken about. The first would see small schemes merged into one large scheme, but with individual segments to compartmentalise assets and liabilities. This would ensure the other schemes do not bear the risk of having to pay for incoming schemes' deficits.

On the other hand, all schemes could be merged into a unified scheme, where assets and liabilities are shared. However, this could raise problems with section 75 debt regulations, as seen in the Plumbers' Pension Scheme, where solvent employers have to pick up the tab for companies that go bust.

The Pensions and Lifetime Savings Association (PLSA) last year launched a report on the state of DB, concluding the system was too fragmented, risked members' benefits and needed greater consolidation.

Yet its interim paper did not advocate a particular model. The association's DB taskforce chairman Ashok Gupta says it does not yet have the evidence it needs to back a particular model.

"We're looking at what type of consolidation model is most likely to work, and what are the benefits of various models," he says. "Doing nothing is creating the worst problem, because you leave sponsors with a never-reducing bill for legacy benefits.

"Something needs to happen, but we've not yet bottomed the benefits of the various models."

Perhaps the industry can provide a steer. JLT Employee Benefits director Charles Cowling and Pensions Institute director Professor **David Blake** both believe the segmented model is the way forward.

Cowling says this is because the total aggregation option has proven to be the least desirable.

"Where liabilities and assets are segregated, you don't have the risk of an employer picking up the tab for somebody else's deficit," he argues.

"A lot of the old multi-employer schemes that were set up were not segregated because they were well before section 75 debt issues were of any relevance. They tend to have everything pooled, which causes problems, because one group of employers ends up subsidising others."

Blake says: "The benefits come from having better governance, the assets have a scale, you have a common investment strategy, but the liabilities sit with the original scheme.

"If you're going for proper merger, you'll end up with a last-man standing model. Then you've got all the problems as we've seen in the Plumbers' Pension Scheme. No-one is going to vote for that."

Size

Small schemes certainly have the most to benefit from scheme consolidation, but it should in no way be limited to just small schemes.

"The starting point is there is definitely a problem with small schemes," Gupta states. "You can create efficiencies through consolidation. Do you then say to larger schemes you are going to prevent them from accessing these efficiencies?

"The large schemes could be the schemes doing the consolidation. We tend to look at it and say 'can you create consolidation to deliver benefits?'"

However, there is an argument that an upper limit exists on scheme size. The larger the scheme is, the more its investments are likely to affect the market, potentially affecting its actual ability to invest.

Cowling does not believe this would ever be a problem, but does caution against the potential effect on market competition.

"Size gives you massive buying power at the investment end. I've seen that not just in the UK but globally," he states. "Some of the massive pension schemes in North America have got very significant buying power.

"Inevitably, there will be a size beyond which it is too big, and there's also an issue of creating competition. If you are going to aggregate, you don't want to entirely take competition out of the system because that creates inefficiencies.

"There will be a limit but it's so far away that it's not something we need to worry about."

This is a point Gupta does recognise, however, although he agrees with Cowling, stating schemes would need to be "in excess of £100bn" before facing problems with investment.

Blake believes it is not the size of the schemes that matter, but the companies and industries involved.

"You've got to look at where the synergies can be best explored," he argues. "Companies in the same industry have more natural synergies because they know each other. You can't have strangers on the train.

"There's got to be some basis for trust, understanding the industry's problems, and taking this forward."

Yet, he does recognise a counterargument that combining schemes within the same industry does not diversify risk. If the industry suffers a downturn, all of the schemes are likely to be hit.

Advantages

For small schemes, there are immediate advantages to funds coming together, in that it creates economies of scale, where investment opportunities are greater and more varied.

It can also mean funds can pool together for greater investment and other expertise, and reduce some administrative costs that come with running a scheme.

JLT Employee Benefits reported schemes could save as much as £500m every year if there was greater consolidation of DB funds.

On top of this, schemes could benefit by being able to write new rules. Upon agreement from members and winding up, trustees could agree new terms of managing the fund, providing greater opportunities to rid themselves of out-dated or badly-written rules.

For example, the move could provide the chance for schemes to move from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI) where they had previously been unable to do so because RPI was hardcoded.

Cowling says: "There are two ways you could consolidate," he says. "You could consolidate with your existing scheme rules or with new rules.

"With existing rules you lose some of the benefits of consolidation. It seems to make more sense to consolidate into a standard set of rules but, if you're going to do that, you've got to make sure you're not going to prejudice members.

"This might be a creative way if you've got very badly worded rules. You could get permission to merge into rules that are much better worded."

Yet Blake argues the UK has already missed out on an opportunity to receive the full benefits of consolidation, arguing we should have made the move decades ago like the Dutch.

"With the demise of DB, this really is a case of bolted horses. It ought to have been done when the Dutch did it," he states. "We might have saved the DB model, or modified it along the defined contribution model. We might have preserved a better model than we're moving towards."

Barriers

Nevertheless, the UK could still salvage some of the remaining DB schemes through consolidation. In fact, technically there is little stopping schemes doing anything right now, but there has been little uptake. What is stopping them?

Gupta states it's a combination of factors: "The benefits structures are complex, the system wasn't built to facilitate consolidation, and there is myriad issues which get in the way, such as regulation, administration, and culture.

"You need to create the right incentives, and you need to have the right sticks as well."

Cowling says providing incentives or promoting benefits is the best approach, as the government is unlikely to mandate any action.

"Theoretically, DB consolidation is possible already but there's a fair bit of inertia," he says. "It's turkeys voting for Christmas; people don't want to propose solutions that write themselves out of a job.

"Those things you can get around by more direction, although the government is probably going to be loath to. It goes against a principle of free trade to force the schemes to do something."

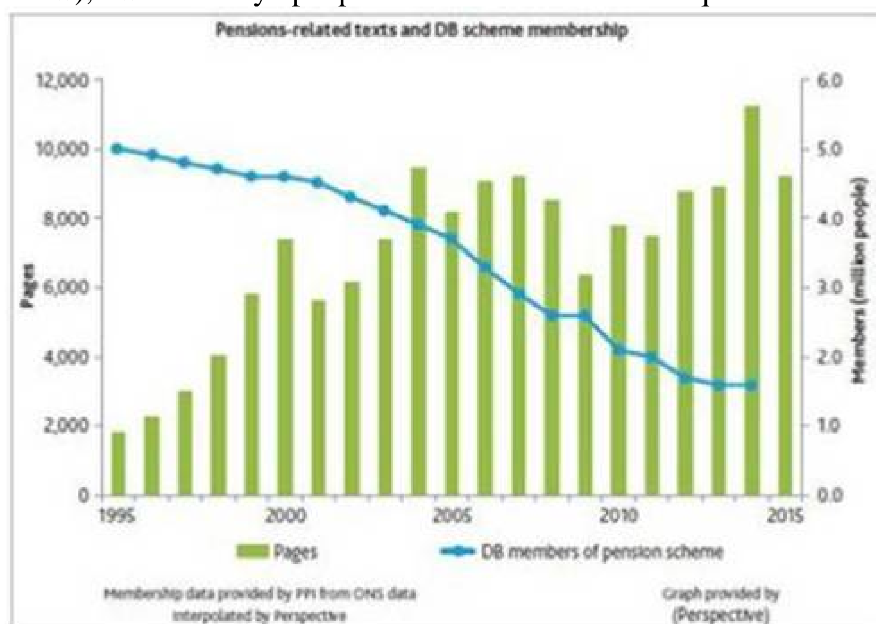
What we do know is the government will include something on DB consolidation in its upcoming green paper on regulation of the sector. However, how far it is willing to go to push DB schemes in this direction is yet to be seen.

Pensions and Chocolate - Pensions Regulation 2017, Actuarial Post, 7 February 2017

Pinsent Masons responds to the House of Commons Work and Pensions Select Committee and calls for the reduction and simplification of pensions law in a review called Pensions and Chocolate the State of Pensions Regulation 2017

Failings of the pension system over the years have led to calls for more legislation and regulation, to prevent scandals being repeated. While rules might indeed be a good thing, too many might be bad for us. The vast number of rules has led to an over-complicated pensions system that leaves not only the public bemused by the whole subject, but also the professionals.

Despite the major increase in pensions rules over the last ten years, aimed at protecting the consumer and encouraging better retirement saving, there has been a significant drop in the membership of defined-benefit pension schemes (see graph below), with many people on course for inadequate incomes in retirement.



Widespread discontent, general confusion and concern that the forthcoming Government Green Paper on defined benefit schemes will recommend yet more legislation has led to this review of the legislative and regulatory state of pensions in the UK.

Jointly prepared by international law firm Pinsent Masons, in collaboration with Pendragon, the publisher of Perspective, the electronic industry standard compendium of pensions regulation, and The Pensions Institute, the Cass Business School research body, the review has prompted a number of preliminary conclusions, including:

- that it might be a better environment for pensions were government to issue a holistic statement of its pensions policies;
- that any additional regulation or legislation should be evidence-based;
- that there should then be a deregulation exercise for all pensions regulation and
- that there should be a consolidation exercise, so that there would be a legal pensions code, understandable by the majority of those concerned.

Carolyn Saunders, Head of Pensions and Long-Term Savings at Pinsent Masons,

says: "The present system is considered by most to be dysfunctional, leading to confusion, expense and a reduction in provision by employers. Whilst auto-enrolment is making some headway, for most of the population there is a reduction in the amount being set aside for retirement at a time when the population is aging and the savings ratios should be higher. Regulation may not be the sole reason for the decline, but it seems to be a major contributory factor."

The diagnosis of excessive regulation has been accepted by government in areas other than pensions. For example, it has adopted: a Red Tape Challenge programme; and a OITO ('one in two out'; now 'one in three out') policy which requires departments putting forward new regulations to remove three existing ones. These, amongst others, are dedicated to rolling back excesses in rule-making. Yet this deregulatory policy has not been extended to pensions.

Final salary pensions 'killed off' by excessive regulation: Too much regulation is a bad thing, says report, by Josephine Cumbo, Financial Times, 7 February 2017.

Millions of savers are relying on retirement income from final salary pension schemes that are being "killed off" by excessive regulation according to a new report.

The claim was made by academics and lawyers in a paper which suggests businesses are closing "defined benefit" schemes — and shifting staff into riskier retirement plans — because of high compliance and running costs.

The government is facing calls to strengthen the Pension Regulator's powers following the high-profile collapse of BHS last year, which left many of the 20,000 members of the retail group's pension facing cuts to their retirement income.

Like most members of defined benefit pension schemes, BHS staff had been promised a secure income for life, typically inflation proofed, and based on a percentage of their final salary at retirement.

Now some face cuts of up to 10 per cent to their pension, after BHS collapsed and the scheme was placed into the hands of the so-called pensions lifeboat.

In the wake of BHS, an influential parliamentary committee has called on the government to force firms to seek clearance from the watchdog before undertaking corporate deals.

However, this would come on top of an estimated 160,000 pages of UK pensions legislation including rules, regulations, codes, case law and guidance notes, according to a joint report by Pinsent Masons, the law firm, the Pensions Institute, part of the Cass Business School, and Pendragon, the information service provider.

"Failings of the pension system over the years have led to calls for more legislation and regulation, to prevent scandals being repeated," said Carolyn Saunders, head of pensions at Pinsent Masons. "While rules might indeed be a good thing, too many might be bad for us.

“Despite the major increase in pensions rules over the last 10 years, aimed at protecting the consumer and encouraging better retirement saving, there has been a significant drop in the membership of defined-benefit pension schemes, with many people on course for inadequate incomes in retirement.”

Ms Saunders said she believed the rules were currently strong enough to prevent “another BHS” if the regulator used its existing powers more effectively and improved its skill mix.

The call came with the pace of closures of the UK’s 6,000 remaining private sector defined benefit schemes quickening. Last year, 35 per cent of schemes were closed to future accrual, up from 12 per cent in 2006.

“Things began to go wrong when they issued more pages of regulations than the number of pension schemes in the country,” said Professor David Blake, director of the Pensions Institute.

“Our once brilliant, flexible, final salary schemes have been killed off by over-regulation. We will all live to regret this.”

Some experts did not agree that legislation was the reason why schemes were shutting their doors.

“It is fanciful to claim that ‘excessive regulation’ has killed off UK defined benefit schemes,” said John Ralfe, an independent pensions consultant.

“These schemes have closed because their cost has increased dramatically in the last 20 years — people are living longer, and real interest rates have fallen — so more money must be put aside today to pay the pension promise.”

Mr Ralfe said the forthcoming pensions green paper on the topic should make funding requirements “crystal-clear, with no wriggle-room” for companies.

“We should be clear that pension regulation is designed to ensure members get their pensions paid and to prevent companies walking away from their pension promises,” said Mr Ralfe.

The call came as the Pensions Regulator revealed in a freedom of information request that it has spent more than £10m pursuing nine employers to settle pension debts.

Pension policy is 'ad-hoc' and needs simplifying, report says, by James Phillips, Professional Pensions, 7 February 2007

Pension legislation and regulation need a radical overhaul in order to reduce complexity and communicate a coherent message, according to a report.

The government should also issue a "holistic" document on its pension policies, rather than the current "ad-hoc" approach.

The comments were made in a report, _*Pensions and Chocolate*_, published 7 February by the Pensions Institute, Pinsent Masons, and Pendragon.

<u>It also criticised The Pensions Regulator's interventionist approach, and called for its powers to be reduced.</u>

In the report, the bodies compared pension regulation to chocolate, stating "while rules might indeed be a good thing, too much might be bad for us".

It called for "160,000 pages of pensions regulation to be radically cut back", via codification of policy. It also proposed a strategy similar to a 'one-in-three-out' programme, where for every piece of regulation introduced, another three are removed.

The analysis pointed to four pieces of primary legislation and 39 statutory instruments brought in through parliament last year.

As such, the report criticised the government for "issuing ad-hoc proposals" and called for a "holistic statement of its pensions policies" where this affects tax, consumer protection and scope of regulation.

In addition, it called for further legislation to be evidence-based and show that a "harm needs to be rectified", the legislation is proportionate, and any potential consequences are outlined.

Following this, there should be a deregulation and consolidation exercise for pension regulation.

The Pensions Institute director Professor David Blake believes the over-regulation has contributed to the fall in the number of open DB schemes.

"Each government policy change looks reasonable by itself, but no-one's stood back and said 'what's the cumulative effect of all this?' he said. "The result is it's all gone and workers have not realised what they're missing.

"Nobody is standing back and saying this is destroying the goose that lays the golden egg. Now, it's too late to reverse the demise of DB schemes in the private sector."

In addition, the report stated the complexity and amount of regulation was increasing litigation and ombudsman challenges. Although, it commended the courts for "moving towards more pragmatic and cost-effective solutions".

It referenced 120 court cases involving pensions over the last year, including the landmark *Hughes v Royal London* and *Barnado's v Buckinghamshire* cases.

Pinsent Masons head of pensions Carolyn Saunders added "confusion" around pensions was leading to lower engagement.

"The present system is considered by most to be dysfunctional, leading to confusion, expense and a reduction in provision by employers," she said. "While auto-enrolment

is making some headway, for most of the population there is a reduction in the amount being set aside for retirement at a time when the population is aging and the savings ratios should be higher.

"Regulation may not be the sole reason for the decline, but it seems to be a major contributory factor."

TPR 'close to interfering in markets' and needs role 'diminished', by James Phillips, Professional Pensions, 7 February 2007

The Pensions Regulator (TPR) has been heavily criticised in a damning indictment of the state of UK pension regulation.

The watchdog was described as "dangerously close to interfering in competitive forces" and "adding to unnecessary costs".

The comments were made in a report, *Pensions and Chocolate*, published 7 February by the Pensions Institute, Pinsent Masons, and Pendragon.

The report also stated complexity and incoherence of pension regulation is causing an increasing number of legal and ombudsman challenges.

In the report, the bodies said the regulator's role needs to be "rethought and perhaps diminished", contrasting TPR's view that it needs more powers.

Chair's statement fines

The analysis cited TPR's intervention over the past year, and particularly points to its use of punitive powers to fine trustees who fail to submit chair's statements.

Namely, it points to the £6,000 fine TPR handed out to PTL last August. The professional trustee firm had failed to prepare annual governance statements for three schemes and had reported itself to TPR. The punishment was the first instance of a maximum fine being issued.

Yet, the joint report argued this was an over-reaction by the regulator.

"In a sensible world, the regulator would have noted the incident, had a coffee with the trustee and encouraged it to do better next time," it stated. "Instead, it chose to issue a fine in accordance with its ‘enforcement guidance'.

"Meanwhile, it appeared to decline to enforce similar breaches against people who failed to confess, or those who completed a formal statement which may have breached the policy objectives but which were technically compliant.

"It is a curious policy that attempts to publicly shame those who confess rather than those who do not."

A TPR spokesperson said the regulator was doing what it was required to do by law.

"We must comply with the law and must impose a penalty where trustees fail to prepare an annual governance statement signed by the chair of trustees," they said. "Providing information to TPR is an essential part of a trustee's role and they are required by law to submit a scheme return and update their registrable information."

The report questions the use of "higher fines where professional trustees are involved", arguing there is little difference between trustees, and causes schemes to reconsider appointing professional trustees due to the financial risk they become exposed to.

The TPR spokesperson added enforcement would also take place where trustees fail to abide by their legal obligations.

"Schemes should be aware that this type of breach will result in a fine and we hope that our latest intervention report will act as a reminder to all trustees to ensure they complete a scheme return on time," they said. "We will act where trustees demonstrate that they are not complying even with the basic duties."

Master trusts

Additionally, the analysis argued TPR's conclusions on master trusts, such as a concern over lack of regulatory oversight, bordered on "interfering in competitive forces".

The TPR spokesperson added it was pleased to be granted more powers in the upcoming Pension Schemes Bill.

"Currently, new master trusts are subject to far less regulatory scrutiny than new contract-based providers," they said. "We have been calling for a significantly higher bar regarding authorisation and supervision, and we are pleased that the Pension Schemes Bill will give us the power to implement these safeguards."

The Pensions Institute director Professor David Blake said the regulator may be overreaching its remit.

"The role of the regulator is to play the part of an intelligent consumer in the case where there are reasons the consumer can't act in an intelligent way because they don't have the skills," he said. "Financial services and pensions planning are an area where people don't have the skills, understanding or experience to understand things like longevity or long-term inflation risk.

"The role of the regulator is to play the role of the intelligent consumer, but no more than that. If they're doing more than that, they're over-regulating."

'There's a danger of a generation who can't afford to retire', Amelia Hill, Guardian, 23 January 2017

At 19, working full-time and studying for an Open University degree, Rachael Ingram is already saving for her retirement. But she’d rather be spending the money elsewhere.

Ingram answered our call-out for those keen to take part in this series. “I shouldn’t be worrying about saving for my pension at my age,” she says. “I’m saving money that could go towards a deposit for my first house – I’m currently renting a flat in Liverpool – or socialising. But I have no faith in government or the state pension. There will be no one to look after me when I’m old.”

It is impossible to consider retirement, and our experience of it, without also considering how we pay for it. In response to part one of this project, which seeks to understand what retirement looks like for current and future generations of retirees, many hundreds of readers shared their experiences. I was struck by their variety and diversity; from baby boomers retiring with final-salary pensions and no mortgage, to those reliant on the state or unable to stop work; from younger people trying to save for house deposits and old age at the same time, to those in middle age who have given up on doing either.

One commenter, Schwitters, wrote about friends in the public sector in the late 50s to 60s, retiring on pensions “that are quite bewildering”. The comment went on: “ They will probably be living as pensioners longer than they were non pensioners. I see my son at university and wonder, just wonder, how hard he and his generation are going to have to work to keep this society going. Many of my retiree friends think the same thing but no one seems to know how we dig ourselves out of it.”

Many other readers, currently retired, echoed the experience of being relatively financially comfortable. But some of the same age painted a different picture. Commenter Anne Williams described peers having to work into their 60s to make ends meet.

“I have friends who, in their 60s, work as care assistants or cleaners. They are on their feet all day, struggling to earn enough to pay the rent, often in arrears, with the attendant threat of eviction … These are lovely, brave, very very very hardworking people – and with every passing month, their lives get harder and more frightening.”

It’s my intention to reflect as many of those experiences as possible – but also to ask why we have arrived at this point of enormous wealth inequality between both peers and generations, and what happens next.

Those most exposed to the great pension shortfall are not those just entering the workforce, most of whom presume they will work until their 70s and will receive limited support from the state. Those most at risk of enduring a penny pinching older age are those in their 40s and 50s who grew up assuming that the pensions system their parents enjoyed – generous income, retirement in their mid-60s – was the norm.

Prof David Blake, director of the Pensions Institute at Cass Business School, thinks the future is bleak: “The danger now is we will have a generation who really can’t afford to retire.”

I talked to David Willetts, the former Conservative MP and author of The Pinch: How the Baby Boomers Took Their Children’s Future – and Why They Should Give it Back. He argues that retirement for future generations is going to be increasingly difficult. While Britain has made great progress in tackling pensioner poverty over the

last two decades, as people currently in their 40s and 50s reach retirement, he predicts a return to mass pensioner poverty not seen for 30-40 years.

“We could find ourselves facing a whole new generation of poor pensioners who, on average, are even worse off than the average poor pensioner today. Because far more of them were unable to get on the housing ladder, they will be paying rent long past the point when their parents had paid off their mortgages,” he says.

The consequences of this will ricochet into society, Willetts warns. “If we don’t have systematic responses now to the pension problems coming down the line, future generations will suffer.”

It’s a perfect storm of problems: the end of the final-salary pension scheme, a failure of subsequent workers to save enough to account for this, and increasing life expectancy. A fall in the number of people who own their homes also means many will pay high rents long after their parents had finished paying their mortgages.

According to a two-year review by The Independent Review of Retirement Income (IRRI), people should put 15% of their entire lifetime earnings into their pension pot merely “to avoid future pensioner poverty”. Workplace pension schemes, the biggest shakeup to pension savings in recent years, have set the minimum contribution (from employers, employees and government tax relief) as 8% of earnings: a great first step but only half this.

So we all need to be saving more. But in putting 10% of her income aside for her pension, 19-year-old Ingram is something of an exception. As a society, Britain is not putting aside nearly enough for life after work, a period that can now continue for decades.

The new state pension – available to men born on or after 6 April 1951, and women born on or after 6 April 1953 – is currently £155.65 a week to those who have paid 35 years of National Insurance. (The old scheme applies to those born before those dates.) Frank Field, Labour MP and chair of of the work and pensions select committee, is adamant that this figure is enough to guarantee all pensioners a decent standard of living: an “adequate minimum”, as he puts it.

Anything above that, he tells me, should be privately funded, without tax-breaks or other government help. “Once the minimum has been reached, it’s not the job of government to bribe people to save more,” he says. “To provide a luxurious pension was never the aim of the state pension.”

When I relay his comments to Dr Ros Altmann, who worked on pensions policy with the No 10 policy unit, is the UK government’s former older workers champion and a governor of the Pensions Policy Institute, she is left briefly speechless. Then she manages a “Wow”.

“Did he really say that? Would he be happy to live on just over £8,000 a year?”

In addition, many will not receive the full state pension. 70,000 men and women who have fewer than 10 years’ national insurance contributions will receive no state

pension at all under the new system, and the government says 63% of those reaching state pension age in 2016 to 2017 will receive less than the full rate.

Tom McPhail, head of retirement policy at financial advisers Hargreaves Lansdown, is clear that he doesn't think we can rely only on the state pension. "How sufficient is the new state pension? That's an easy one to answer: Not. It's not," said

So savings are increasingly essential. But the scale of the "pension gap" is breathtaking. Three in 10 Britons aged 55-64 do not have any pension savings at all, while a 2016 report for Scottish Widows found that 47% of 30- and 40-year-olds are not saving adequately or at all.

In part, that's because we massively underestimate the amount of money we need to save. According to Saga's Investment Series, over-50s reckon you need just over £20,000 a year to have a comfortable retirement. But crucially, they estimate that this income could be generated by a pension pot of £194,000. In fact it would generate just £10,170 a year.

A 2016 report from Aviva underlined the issue : over-45s expect their pension fund to generate £12,590 a year on top of the state pension – but their current savings will deliver less than a third of this target income.

Fiona Macdonald, a 56-year-old civil servant in Scotland who has been working full-time since she was 16, says she is "just appalled" by her pension. Macdonald emailed me to share her experiences, having read the first part of this series. "I have paid in for a long time but I can't live on it. The Tories believe in this completely free market economy. But some things can't be decided by the market and people are just being left to sink when it comes to their pensions.

"Not only am I getting less in my pension but I'm paying more into it because of a change in the way pensions are constructed in the civil service. Then I have not had a pay rise beyond 1% for six years. That has an impact on my pension too."

Millions of women have been caught out by the way the state pension is calculated, and an increase in the age at which they can claim it. Changes from last April mean that women who gave up work to raise a family are no longer guaranteed the right to claim a state pension based on their husband's national insurance records, gouging a huge hole in their pensions.

In 1995, the government announced a steady increase from 60 to 65 in the state pension age for women, but waited until 2009 to start contacting those affected. Then, in 2011 – when the state pension age for women was 63 – the coalition government accelerated the timetable.

"For four decades, I was told that I would retire at 60. I can't do that now without considerable financial hardship," said Macdonald. "I understand that men and women should have their pension age equalised but the goalposts for women my age have been moved and then moved again in a very short space of time. It means we can never plan for the future because we don't know when we'll be able to retire.".

The state pension age for women will reach 65 in November 2018. And, as soon as the pension age has been equalised, there will be a further rise to 66 years – by November 2020 – followed by a further rise to 67 years by 2028. The government has also hinted at plans to extend the state pension age to 75 – or even 81.

But what jobs can we do in our 80s? Will we all have to retrain? How much physical stress does going to the office – or the hospital, school, factory – place on your body as you get older? Which employers will seek to capitalise on this new, grey, workforce? I'll be exploring this next week. You can share your experience by emailing new.retirement@theguardian.com, or by sending them to us here.