PENSIONS & RETIREMENT

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PLANNING

How to play by the new retirement rules

The savings landscape has changed dramatically in recent years. Following the precedents set by previous generations is unlikely to work out well for people in their 40s and 50s

Jeff Salway

Planning for retirement was a relatively straightforward affair when today's pensioners were still in the workplace. But the rules have changed since then and further changes are to be expected. If you don't keep abreast of what's going on, you risk losing out.

In the past, retirement would usually start at state pension age and probably last for a matter of years, rather than decades. It would be funded largely by employers' final salary schemes and the state pension. This situation has altered dramatically in recent years. What does retirement mean now and how can savers best prepare for it?

Rising life expectancy means today's workers need to generate sufficient pension savings for a retirement lasting two to three decades or more. At the same time, responsibility for saving for retirement has shifted emphatically towards the individual. This process accelerated with the so-called pension freedoms legislation of 2015, which brought more flexibility and choice but also greater complexity.

The most significant change in retirement provision in recent years has been the decline of final salary or defined benefit (DB) schemes, according to Fiona Tait, technical director at Intelligent Pensions. DB schemes provided guaranteed payouts linked to salary. But most pension savers today are in defined contribution (DC) schemes, where the outcome hinges on the amount paid in, that investment's performance and the provider's charges.

Tait reports that "about three-quarters of retirement income comes from private sector DB schemes, whereas nearly two-thirds of ongoing contributions are being made to DC schemes".

This means that, while many current retirees are entitled to at least some proportion of a guaranteed income stream, it

> **Retirement is mainly going to be dictated by affordability – and savings rates are largely inadequate**

will be a different story for the pensioners of tomorrow.

Two changes taking place in 2028 will further raise the stakes. First, the state pension age for men and women – 66 at present – will increase to 67. This won't affect those with enough pension savings to be able to choose their retirement date, but it will have a much bigger impact on people with more modest pension pots, for whom the state pension age remains highly relevant. The average retirement age for men is currently 65.2, according to the Pensions Policy Institute, whereas the average retirement age for women was 64.3 in 2020, having been 60.6 in 1995.

The higher state pension age could oblige many people currently in their 40s or 50s to work for longer, predicts Anna Murdock, head of wealth planning at JM Finn. "They may feel they have to continue working to maintain their standard of living until the state pension kicks in."

The national minimum pension age (NMPA) will also increase in 2028, from 55 to 57. This is the point at which you can begin accessing your private retirement savings, so it affects those hoping to retire early or start reducing their work commitments. But very few people use the NMPA as a retirement target, so this increase is likely to have considerably less impact than the change in the state pension age.

While the pensions backdrop continues to change, one thing remains the same: too few people are adequately prepared for retirement. A third of generation Xers – people currently aged 42 and 57 – are at a high risk of retiring with "minimal" incomes, according to the International Longevity Centre UK.

A research report by the Social Market Foundation underlined the problem in February when it revealed that more than two-thirds of 50- to 64-year-olds in the UK don't know how much money they will need to save for their retirement.

Those in their 40s and 50s are also members of the so-called sandwich generation, often helping elderly parents with later life care while also supporting adult children with rising living costs.

"For many people, retirement is mainly going to be dictated by affordability – and savings rates are largely inadequate to support a comfortable retirement," Tait observes. "The ability to retire earlier than the state pension age will often be unsupportable, so they will have to wait until age 67 or later."

People saving for retirement now are more likely than previous generations to have multiple workplace pensions, private pensions and non-pension funds such as individual savings accounts (ISAs). While their retirement income will depend on variables such as investment returns, they will have more flexibility and choice in how and when they retire. But that flexibility demands a proactive approach.

The level of savings needed for a comfortable retirement clearly varies between individuals. But the Pensions and Lifetime Savings Association (PLSA) has proposed a set of national retirement income targets to give people a better idea of how much they need to be saving.

For instance, someone living in a single household outside London would require a pension pot of £440,000 for a "moderate" income in retirement and £966,000 to be "comfortable". The PLSA believes that an ongoing savings rate of 12% is needed to provide a "modest" retirement income.

Although the pensions landscape has become more complex, there are some fairly simple steps that savers can take to boost their retirement savings. The first is to get into the habit of saving from a young age. If you put even modest amounts regularly into a pension and/or ISA, you can let compounding work its magic. This is the snowball effect that occurs when the returns from your investments are reinvested to generate their own growth.

"The best tip I can give is to start saving as early as possible and base your lifestyle around what is left, rather than trying to reduce what you are already spending," Tait suggests.

Second, use your workplace pension. If you're in your employer's scheme, it's likely to match your contribution or at least pay in a percentage of that sum. You'll also be getting tax relief on your contributions at your marginal income tax rate.

"To illustrate the point, should you be a higher-rate taxpayer and wish to make a £10,000 contribution to your pension plan, it could cost you as little as £6,000 net and you will benefit from £4,000 tax relief," Murdock explains.

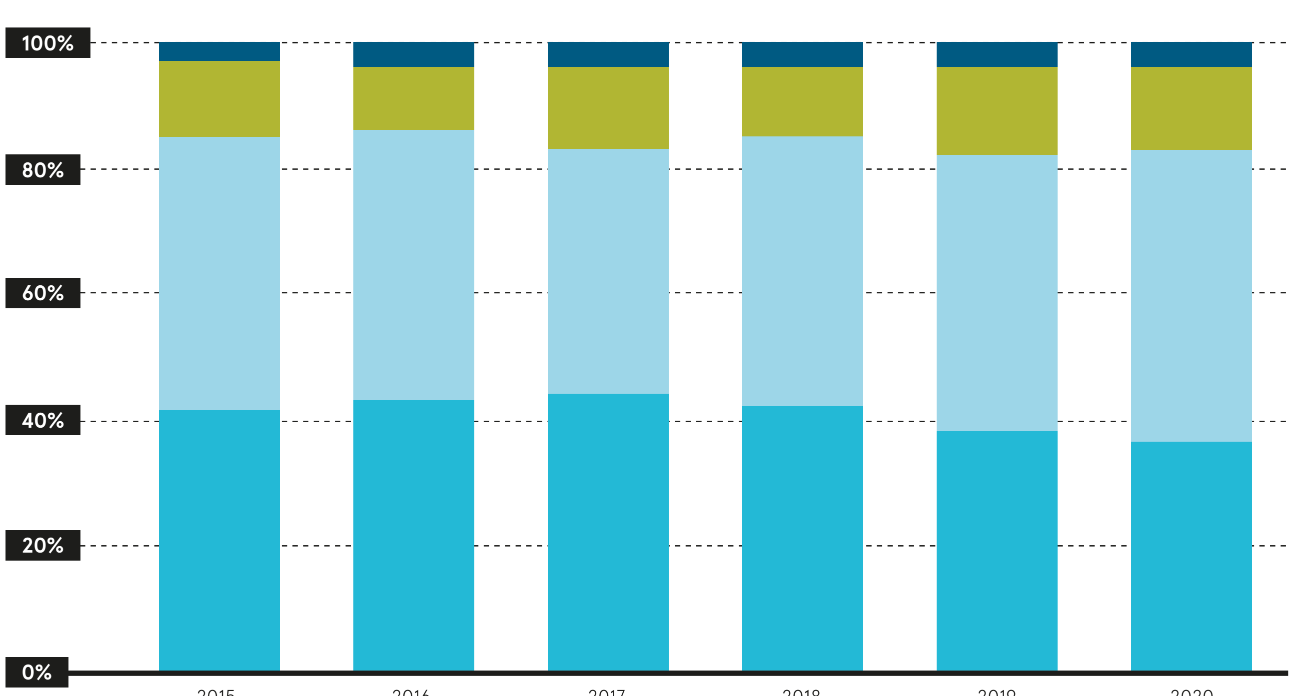
And do ensure that you use all of the tax allowances and exemptions available to you, advises Tom Munro, owner of Tom Munro Financial Solutions. "For example, maximising ISA contributions each year will accumulate free of tax over time, providing a tax-free income stream later."

Given the long-term nature of retirement, people's approaches to it naturally tend to change slowly. As Tait notes: "Most people in their 40s and 50s base their expectations of retirement, if they think about it at all, on their parents' experiences of it. They do this without realising how much longer they are likely to live or appreciating the impact of the shift from DB to DC."

Those who can accumulate substantial private savings will be able to choose when and how they wish to retire – but they are likely to be in the minority.

RETIREMENT PLANS AMONG UK ADULTS

Which of the following best describes your retirement planning strategy?



Aegon, 2020

18%
of UK adults aged 40 to 49 know that the minimum age for accessing private pensions will be raised in a few years

4%
of UK adults aged 40 to 49 can correctly identify the current minimum age (55)

Pensions Management Institute, 2021

SUPERFUNDS

Superfundamentals: how Clara's clearance could affect the sector

The UK's first commercial consolidator has at last secured regulatory approval. How will the superfund market work – and what effect might it have on the provision of defined benefit pensions?

Alex Wright

Superfunds looked set to shake up the UK pensions sector when they arrived on the scene four years ago, but their impact has been less than seismic – so far. Of the two main providers that have emerged to date, only one, Clara Pensions, has secured approval from the Pensions Regulator. The other, the Pension SuperFund, is still awaiting clearance.

What are the main differences between the two? What are their chances of commercial success? What risks, if any, do they pose for members and trustees? And will 2022 be the year when superfunds truly make their presence felt?

Also known as a commercial consolidator, a superfund is designed to take on several final salary corporate pension schemes and use its economies of scale to run them more cost-effectively than the firms that established them could on their own. Clara and the Pension SuperFund are approaching this task in different ways.

Clara's model is known as a 'bridge to buy-out'. It's designed to run a scheme for a relatively short period – probably between three and eight years – before this is bought out by an insurance company. Until that time, the scheme's assets and liabilities will be kept in an allocated section of the Clara master trust scheme, where they will be treated separately from any other funds.

Clara's investors will put up the necessary capital against a given scheme to ensure that it reaches the buy-out stage, satisfying the regulator's requirement that the fund be protected against a one-in-100-year adverse event. This money will then be returned to the investors once the buy-out is completed.

> Superfunds are likely to be attractive if the sponsoring company is struggling

By contrast, the Pension SuperFund is proposing to use the 'long-term run-off' method. This is designed to administer a scheme's benefits in perpetuity and run off its liabilities over several years. Each scheme it takes over will also be pooled rather than sectionalised, with any surplus being shared among the members.

Its investors will also need to put up capital to protect each scheme, but this money will be drip-fed back to them once it's no longer required. Investors in Clara, by contrast, will get their money back in one go.

Having been given the regulatory green light in November 2021, Clara is expected to take over numerous schemes by the end of this year. Pension Protection Fund buy-outs are likely to be among the first in its sights.

The Pensions Regulator has established three so-called gateway principles that any proposed transfer into a superfund must satisfy, based on the watchdog's position that superfunds cannot match the level of security provided by insurance companies. The first is that the scheme under consideration can't afford a normal insurer-backed buy-out. The second is that there is no realistic prospect of such a buy-out in the foreseeable future. And the third is that the transfer would make the scheme members more likely to receive the full benefits due to them on retirement than they otherwise would be.

With these restrictions in mind, uptake is widely predicted to be slow and steady in 2022 before accelerating next year.

"In the short term, the focus will be on ensuring that the first of these new and complex transactions happen smoothly, rather than to push for volume," predicts Harry Harper, head of risk transfer at XPS Pensions Group. Once these have been completed, the key for Clara will then be to grow quickly, "with efficient processes, so that schemes and their providers can benefit from economies of scale, delivering members' benefit promises into the future".

Tom Hargreaves, principal and senior consultant at Barnett Waddingham, believes that any superfund would "need a minimum of £5bn in assets taken on from other pension schemes to achieve scale. This may take time, even with a strong first year. But there is sufficient demand from pension schemes to enable superfunds to reach this point. Insured solutions are likely to remain the gold standard, but that will be out of reach for some schemes."

600

defined benefit pension schemes could satisfy the regulator's three gateway principles and be sufficiently funded to transfer to a superfund in the next decade

£170bn

The combined value of those 600 schemes

5,400

The total number of defined benefit pension schemes remaining in the UK

£5bn

The amount of pensions liabilities that Clara expects to assume over the next five years

PwC, 2020

One of the biggest concerns for scheme members about a potential transfer to a superfund is that they'll be moved out of a good corporate plan that's focused on giving them a healthy return to a larger fund whose main priority is to make profits for its investors. The fear is that they might not receive the full pension they were expecting as a result.

But the bottom line is that the regulator will allow a scheme to be transferred only if the employer in question and its pension trustees can show that this transaction will improve members' chances of receiving all the benefits due to them – as set out in its third gateway principle. When deciding the best course of action, they must therefore weigh up the company's ongoing ability to support the scheme against the likelihood that the superfund will meet its objectives.

> Insured solutions are likely to remain the gold standard, but that will be out of reach for some schemes

Moreover, trustees need a valid reason for resorting to a superfund rather than an insurer. They must exercise due diligence and take appropriate advice when choosing one. They should also communicate clearly to members how their pensions will be provided under the superfund model if that is the chosen option.

"One of the biggest challenges is assessing employer covenants over the longer term. For many companies, it is hard to predict how they will fare over anything but a relatively short period," notes Claire van Rees, a partner specialising in pensions at law firm Sackers.

Trustees and their advisers might genuinely believe that the third gateway principle is met, "based on their assessment of the sponsoring employer's strength at the time", she adds. "But their decision could come under heavy scrutiny if things don't play out as expected and the chosen superfund fails or exits the market, say, while a weak employer does better than expected."

While it's true that the focus of a superfund will be on remaining profitable for its investors, first and foremost it is a pension scheme that's managed by trustees who need to deliver for members. The regulator will also be keeping a close eye on superfunds' activities to ensure that members aren't getting ripped off.

Final salary schemes are "increasingly finding that they need time as much as they need money. In some cases, the contributions are no longer their focus. Corporate longevity is the real issue," observes Jane Kola, partner at Arc Pensions Law. "For these schemes, superfunds are likely to be attractive as an option if the sponsoring company is struggling. It would be a shame if those schemes did not explore this option."

Having your pensions cake and eating it

Innovation in the defined benefit pensions market is enabling employers to reduce the costs of their pension schemes through consolidation—but without losing control

The pensions industry has long grappled with a cost problem: the smaller a pension scheme is, the higher the per member costs of running the scheme.

"There's a whole range of costs across a pension scheme, although investment management charges were probably the lightbulb moment for us," says Mark McClintock, a partner in Deloitte's pensions consulting business. "Why should a pension scheme with £10m of assets pay a higher annual management charge than a pension scheme with £100m of assets with the same fund manager in the same fund?"

That uneven backdrop is driving consolidation across the pensions industry in an effort to level the playing field for small and medium-sized pension schemes. The aim is to reduce their costs and enable them to benefit from the same economies of scale that larger pension schemes enjoy.

One potential snag is that consolidation has traditionally meant employers and trustees have been forced to relinquish control of their schemes in order to merge their assets with a consolidated fund.

"To access a vehicle that allows you to consolidate, you typically have to give up something—and that, if you're an employer, is essentially loss of control," says McClintock. "That matters because employers will have a trustee board that oversees their pension fund and they will know them and understand how they act; there are no surprises."

Under that relationship, employers maintain influence over the scheme's investment and funding strategy - and therefore have more control over how fast the scheme progresses to a fully-funded status.

50%

Typical reduction in investment costs for schemes joining the Deloitte Pensions Master Plan

Deloitte, 2021

3,000

The potential number of defined benefit pension schemes in the UK that could benefit from Deloitte Pensions Master Plan savings

Deloitte, 2021

"If you go into a consolidation vehicle, you don't control who the trustee is and you lose the ability to have your own autonomous plan," says McClintock.

That structural impediment, which has traditionally deterred smaller schemes from consolidating, was the catalyst for Deloitte creating the Deloitte Pensions Master Plan (DPMP). This is a pension plan that allows defined benefit (DB) schemes to pool their assets without ceding control.

"The key design feature we came up with was allowing pension funds to lift and drop into our plan with a scheme's existing trustee in place," says McClintock. "That means there is no loss of control, which is a unique proposition in the market. We believe no other DB master trust has this feature - you get the trustee that attaches to that consolidation vehicle. That's a big barrier for a lot of small and mid-size pension schemes."

DPMP solves this by having each scheme that 'drops' into the fund remaining as a separate entity with its own trustee board. That means trustees maintain their existing powers, including investment discretion. There is also a central professional trustee sitting at the core of the Master Plan who is responsible for oversight of the fund as a whole and can be called on if needed, for instance if a scheme's trustee is facing a particularly difficult decision and they want a second opinion from an experienced practitioner, says McClintock.

Aside from maintaining control, the other main benefit of this structure is that it can drive down costs for small and medium-sized pension schemes by pooling all of the schemes' assets without breaking the segregation of each individual scheme section. Deloitte kick-started the plan by pooling the assets of its own defined benefit scheme, giving the Master Plan sufficient scale to immediately help member schemes reduce their costs. Initially, typical reductions in investment costs were around 30% but that has since risen to more than 50%, McClintock says.

"As the Master Plan gets bigger, the ability to drive down those costs continues to grow, so it becomes a club where the people who are already in it benefit as others join," he says. "And, of course, the more you reduce the cost, the more money stays in the fund and so that drives better funding over time and better outcomes for members."

Robert Hughes, chairman of Hughes Electrical and one of the DPMP's members, says the cost savings of a DB master trust and the ability to retain its existing trustee board and manage its own investment strategy were the chief motivations for joining the plan. Other companies have also signed up to diversify their workplace pension schemes.

"Working with Deloitte, we developed and launched the BT Hybrid Scheme, a blended defined benefit and defined contribution scheme, based on the DPMP. We're delighted with the scheme: for members, it provides greater income certainty and is easy to use; and for BT it's cost effective and reduces risk," says Kerry Shiels, pensions director at BT Group.

The DPMP will typically benefit all small and mid-sized DB schemes. That could be anything up to £500m of assets, especially if those assets are split across several investment managers where the scheme would quickly lose the benefit of scale. The size of the potential market in the UK for DB schemes that fall under this umbrella is around 3,000.

"We're finding that even getting to several hundred million of assets, the cost savings are really quite significant, particularly on the investment side," says McClintock.

The drive for more innovation in the pensions industry comes as the Department for Work and Pensions (DWP) seeks to encourage the consolidation of DB pension schemes where it can benefit the schemes by reducing costs, enabling more effective investment strategies and improving governance. The introduction of the DB master trust self-certification regime, for instance, enables employers that are considering consolidation to compare schemes through self-certificates hosted on the Pensions and Lifetime Savings Association website.

"The pensions industry has had relatively little innovation in the past, so when something new comes along that seems to move the goalposts quite substantially people are naturally sceptical. But one of the benefits of the self-certificates is to have more information available and make this feel a bit more real for employers," McClintock says.

DWP's support for the creation of self-certificates, and the information they provide to employers and trustees, will be critical in helping build trust when companies are weighing up new ways of managing their pension schemes and maximising the benefits of consolidation.

For more information about the Deloitte Pensions Master Plan please visit dpmp.co.uk

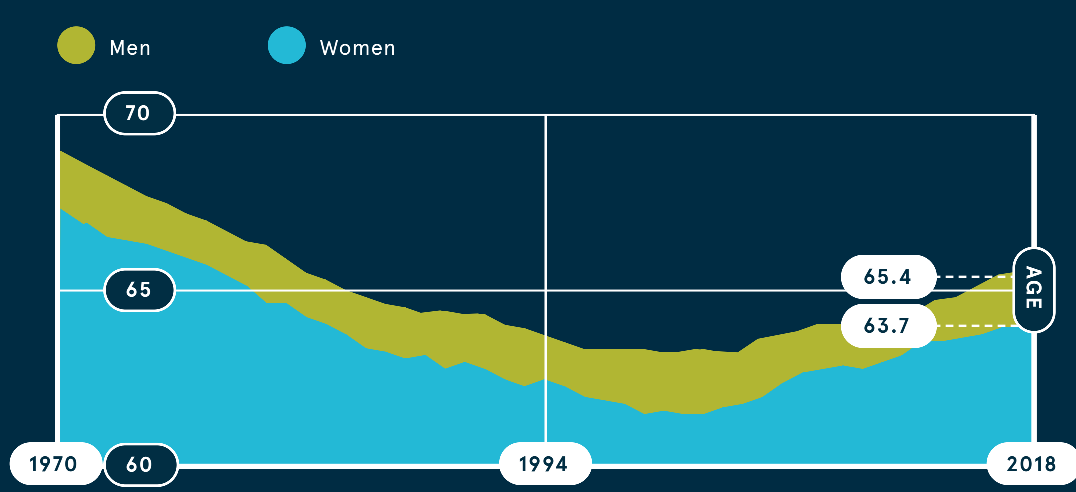
Deloitte.

WHEN WILL YOU RETIRE?

The state pension age is rising around the world as people live longer and birth rates decline. This means that the old model of starting work (or university) at 18 and retiring between the ages of 60 and 65 is becoming increasingly uncommon, as is that of women getting to retire before men. But what does this mean for how long you might need to work before you can down tools for good – and is it affecting the incomes of those who've already retired?

THE AVERAGE EFFECTIVE AGE OF RETIREMENT IS RISING ONCE AGAIN IN MANY COUNTRIES

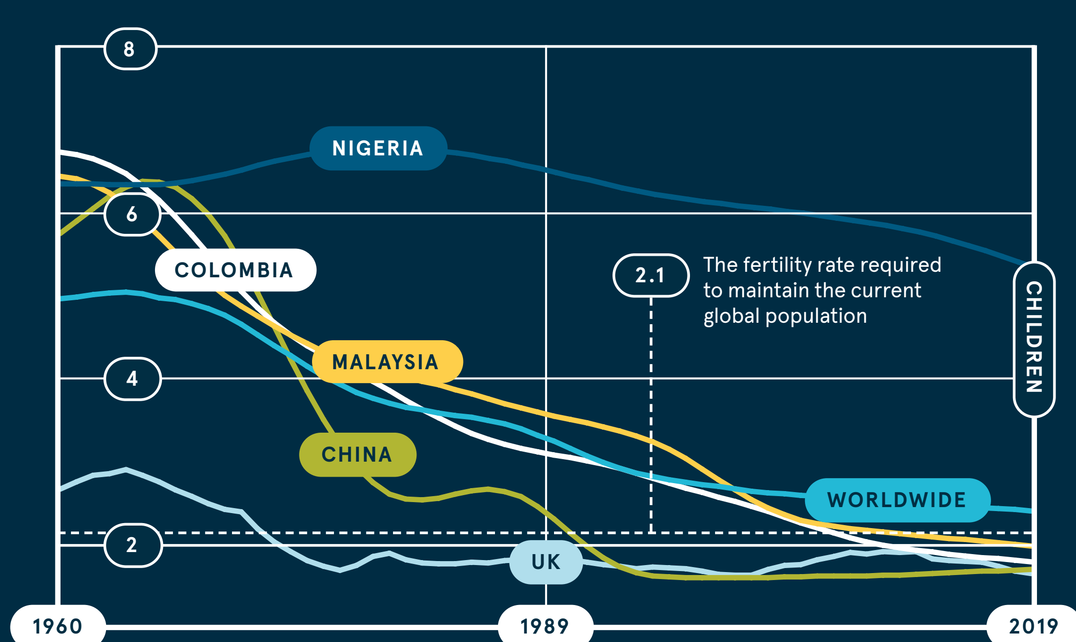
Average age a person withdraws from the labour force, from selected OECD countries



OECD, 2020

THE AVERAGE GLOBAL BIRTH RATE HAS DECLINED BY MORE THAN HALF SINCE 1960

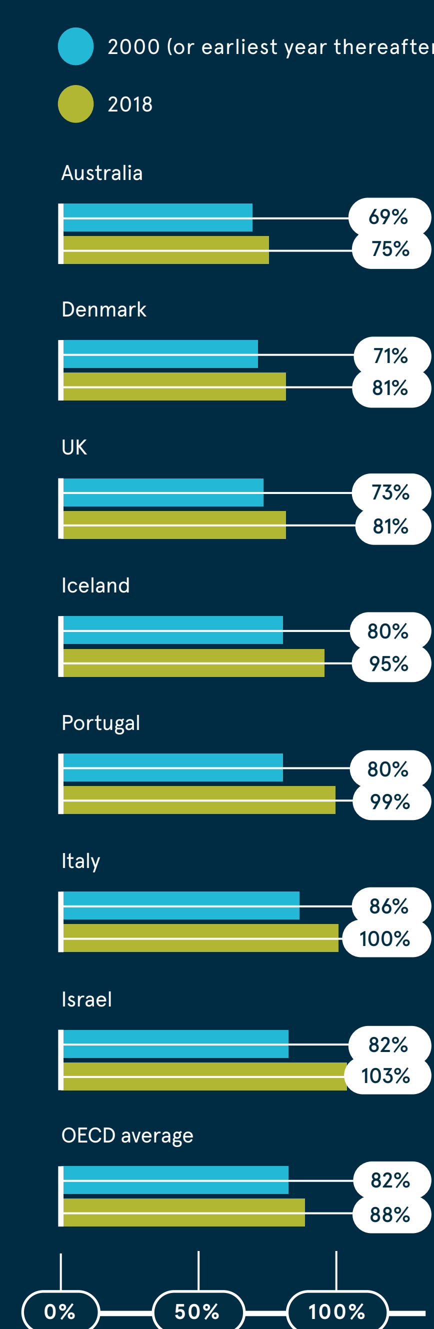
Number of children who would be born to a woman if she were to live to end of her childbearing years and bear children in accordance with her country's age-specific fertility rates of that year



World Bank, 2020

THE RELATIVE INCOME OF OLDER PEOPLE HAS BEEN RISING

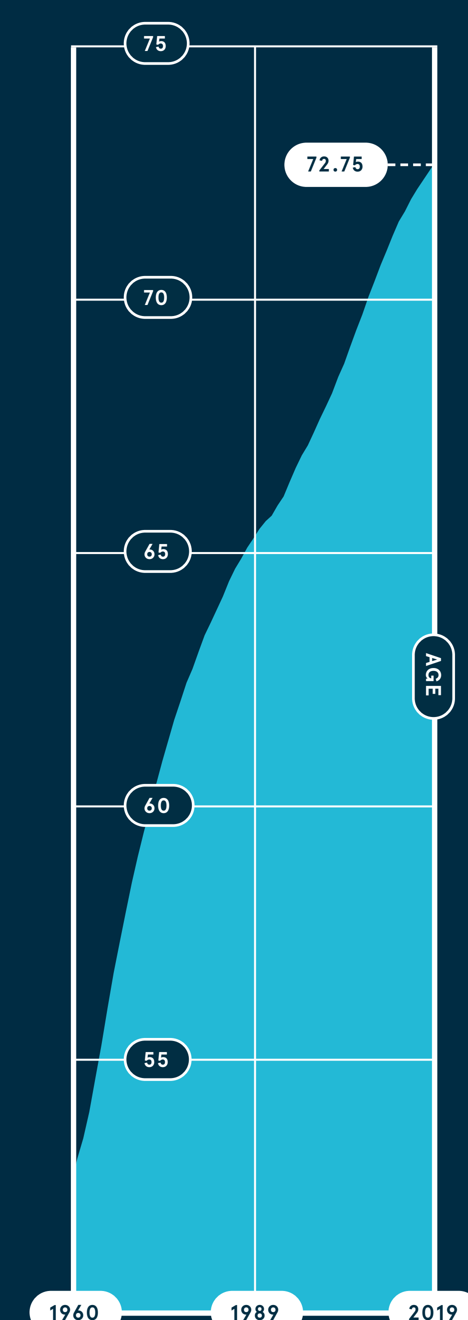
Average disposable income of people aged over 65 as a percentage of the average disposable income of the nation's total population



OECD, 2021

LIFE EXPECTANCY WORLDWIDE HAS RISEN RAPIDLY SINCE 1960

The number of years a newborn infant would live if prevailing patterns of mortality at the time of its birth were to stay the same throughout its life



World Bank, 2020

EMPLOYMENT AMONG PEOPLE AGED 65 ROSE SIGNIFICANTLY IN THE UK LAST YEAR

The government raised the state pension age from 65 to 66 between late 2018 and late 2020. It's estimated that this move had the following direct effects in 2021

55k

Year-on-year rise in the number of 65-year-olds in work

1.8m

Number of extra hours worked by 65-year-olds each week on average

7.4

The percentage-point rise in the employment rate of men aged 65

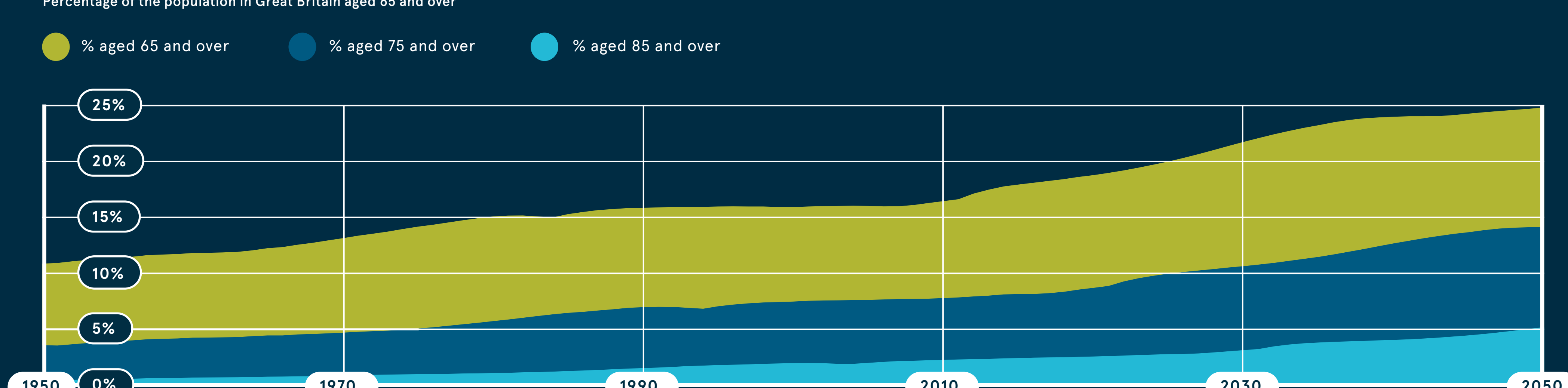
8.5

The percentage-point rise in the employment rate of women aged 65

Institute for Fiscal Studies, 2022

THE PERCENTAGE OF OLDER PEOPLE LIVING IN THE UK HAS BEEN INCREASING SINCE THE MIDDLE OF THE 20TH CENTURY

Percentage of the population in Great Britain aged 65 and over



Office for National Statistics, 2019

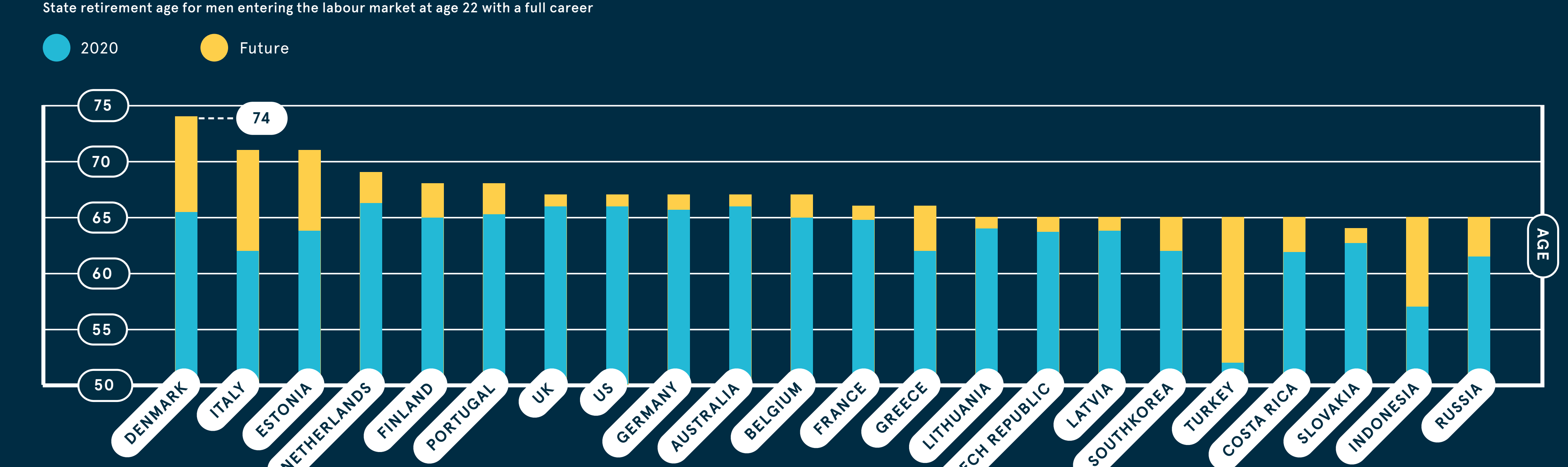
18.5 years

Male life expectancy at age 65 years in Great Britain between 2018 and 2020

Office for National Statistics, 2021

SEVERAL COUNTRIES ARE INCREASING THEIR PENSIONABLE AGES

State retirement age for men entering the labour market at age 22 with a full career



OECD, 2021

21 years

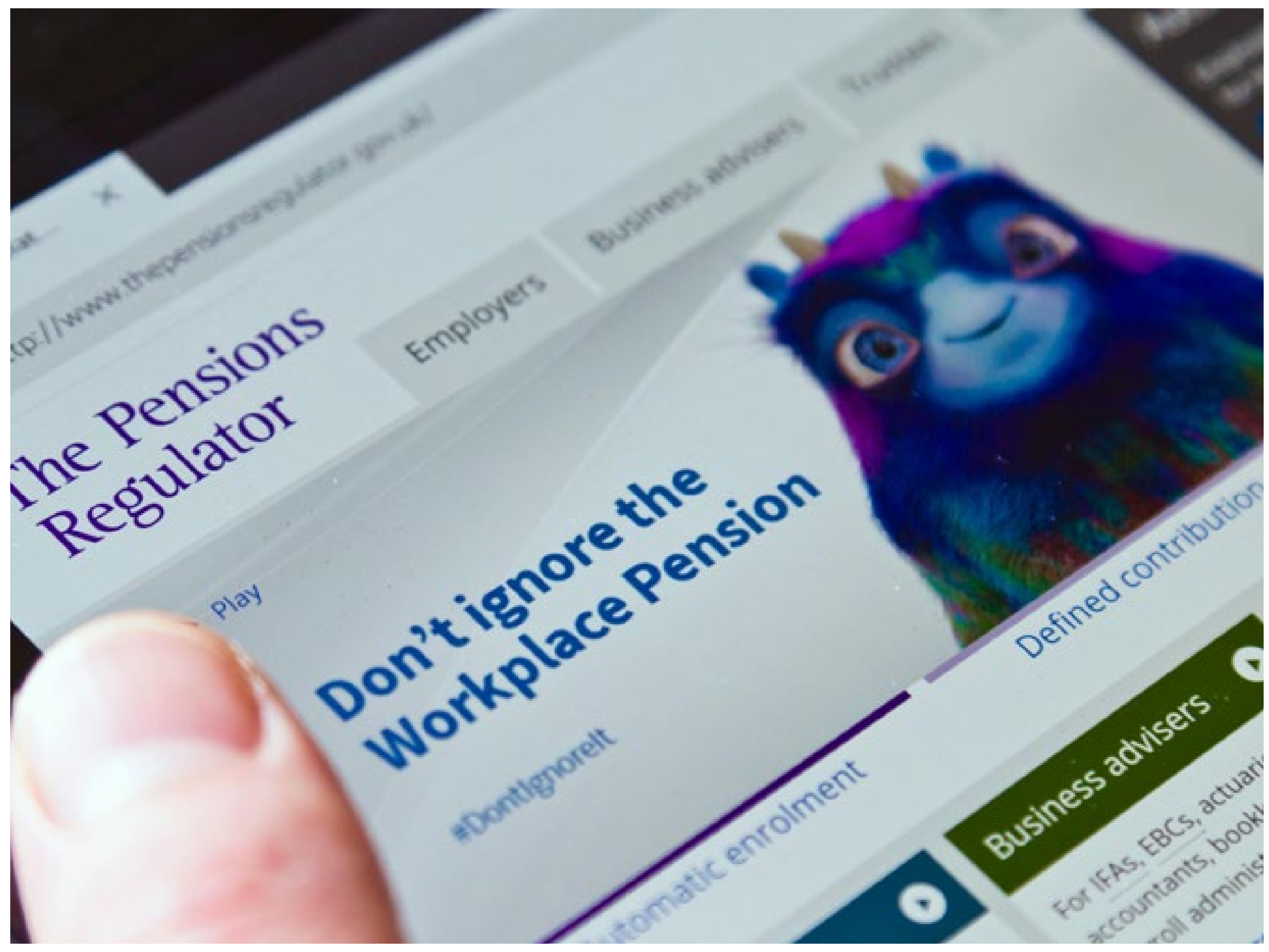
Female life expectancy at age 65 years in Great Britain between 2018 and 2020

Office for National Statistics, 2021

REGULATION

Small DC schemes face big changes

Westminster's decision to subject many defined contribution funds to enhanced value-for-member assessments could have an industry-wide impact



Simon Brooke

Under provisions brought in by the government and the Pensions Regulator in October 2021, smaller occupational defined contribution (DC) schemes must undergo enhanced value-for-members (VFM) assessments. While the new regime aims to secure the best possible deal for savers, it could have implications for adviser costs and fund administration at the very least.

The new VFM assessment applies to any DC scheme with total assets below £100m that has been operating for at least three years. Such a scheme must compare its costs, charges and returns against those of three other schemes. It must also conduct a self-assessment of its administration and governance in line with seven key metrics.

Each affected scheme must then report the outcome of the assessment in its annual chair's statement and submit the findings to the Pensions Regulator in a scheme return. If the trustees cannot demonstrate that VFM is being offered, they'll be expected to wind up the scheme and transfer its members to an alternative provider.

The move has been prompted partly by the success of auto-enrolment, with more people than ever in the UK saving into DC schemes. David Fairs, executive director for regulatory policy, analysis and advice at the Pensions Regulator, explains that the watchdog does not want anyone to "be left languishing in poorly governed schemes that don't offer the same value as larger schemes".

It's thought that Westminster thinks that larger schemes have the resources and economies of scale to ensure good governance.

Suzanne Burrell, pensions partner at law firm Shoosmiths, says: "Smaller schemes are seen by the government as having more limited investment opportunities, whereas a large master trust with billions in assets may be able to take advantage of significant infrastructure investment opportunities."

The authorisation regime that was enacted for master trusts in 2017 set a high bar, with requirements including proof of financial stability and a test to check the competence of those running schemes. With every master trust already having to show that it provides VFM, moving on to smaller DC schemes can be seen as the natural next step for the government.

"I've seen a number of clients move their DC schemes into master trusts in recent years. This has been easier to accomplish since the introduction of the authorised master trust regime," Burrell says. "The new VFM assessment is likely to result in a further wave of consolidation."

> Smaller schemes are seen by the government as having more limited investment opportunities

Some employers, she adds, may have made a deliberate choice to keep their DC scheme in house so that they don't have to unravel some of the benefits provided. These might include a with-profits policy, which is aimed at smoothing out the peaks and troughs in the value of investments caused by market volatility. Such benefits might also be provided as part of a hybrid arrangement in a scheme that has elements of both a DC pension and a defined benefit pension. Although hybrid schemes are not exempt from the VFM assessment, some people believe that the government might consider exemptions in cases where a fund's total assets exceed £100m but the DC element is below that figure.

Whatever the benefits to savers and the country's infrastructure, establishing the new regime could require a significant amount of management time by administrators and also inflate adviser costs, at least in the short term. As a result, some schemes might seek consolidation opportunities to manage these additional costs and administrative requirements, even if they can tick the VFM boxes.

In cases where a scheme fails to satisfy the VFM requirements, there will be even more work to do. But that could provide the affected company with the time and space to rethink its entire pension fund strategy and ensure that whatever replacement it introduces not only meets its needs in terms of rewards but also supports its corporate culture. Could a new scheme help the firm to achieve its corporate social responsibility or environmental, social and governance goals, for instance?

The new VFM requirements could prove hugely beneficial to master trusts, says Mark Pemberthy, principal and benefits consulting leader at the Buck consultancy. He believes that this is their "biggest opportunity to grow their client and asset base since the introduction of automatic enrolment. The big master trusts are all positioning themselves to be the merger scheme of choice. The next few years will define the shape of the DC market for several years to come. Similarly, asset managers are still working hard to win investment mandates from master trusts to participate in the fast-growing DC market."

The new VFM assessment regime could accelerate the already impressive growth of master trusts, which added £30bn in assets in 2020 alone, thanks largely to contributions from auto-enrolled members, according to research by fintech firm Broadridge. They are predicted to enjoy a growth rate of 24% a year to amass £461bn in assets by 2029, by which time they will account for three-quarters of total trust-based assets.

Many observers are wondering whether the VFM requirement will be extended to larger schemes. Last summer, the government gathered evidence on the barriers and opportunities for greater consolidation of schemes with between £100m and £5bn of assets under management. It will publish a summary of the evidence received and an indication of its plans in the coming months.

Some experts believe that any changes will serve to accelerate the consolidation of DC pensions – a trend that the government has been encouraging. As more smaller schemes decide which master trust to join, the market is likely to become increasingly competitive, according to David Snowdon, DC director at master trust provider SEI.

"Companies thinking of joining a master trust in 2022-23 should be mindful of potential capacity issues, as many others are seeking to make that move," he warns.

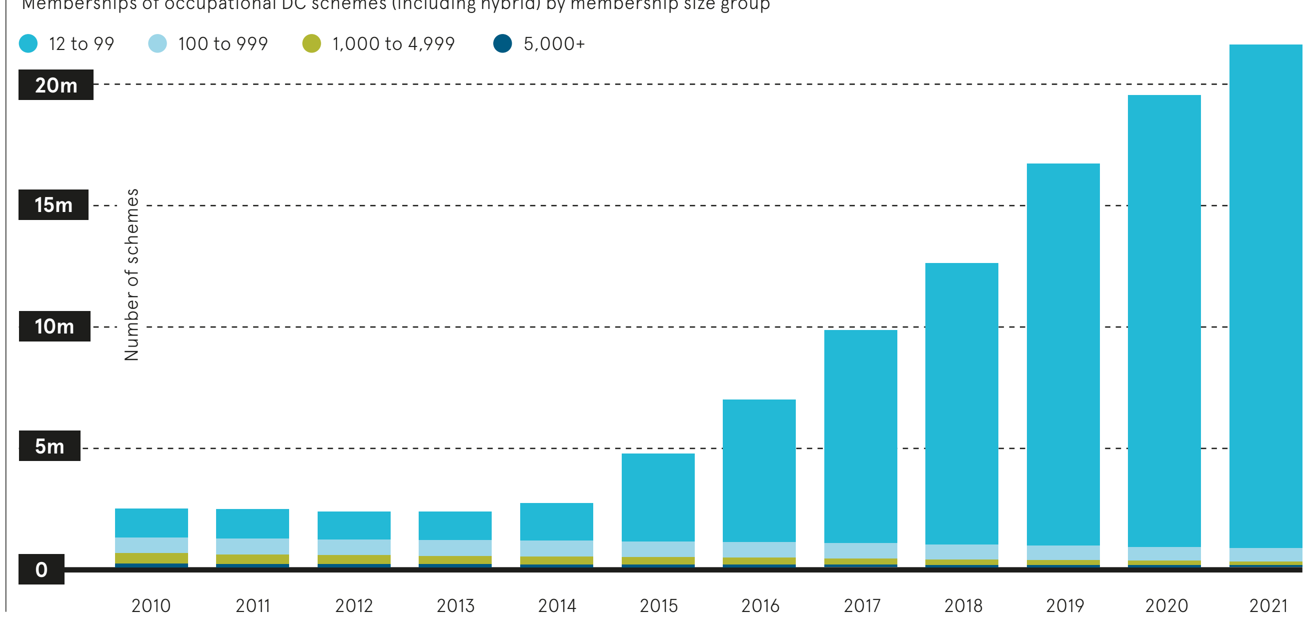
While master trusts should provide value for members, it doesn't mean that they are all the same, Snowdon stresses.

"It is important to find the right fit for your scheme members, with providers out there varying between frills and no frills; off the shelf and tailored; and mass market and bespoke," he says. "And, faced with a consolidating and contracting master trust market, employers should ensure that they choose one that's here to stay."

DEFINED CONTRIBUTION PENSION FUNDS IN THE UK

The Pensions Regulator, 2021

Memberships of occupational DC schemes (including hybrid) by membership size group



INSIGHT

'AI is there to inform an approach, not to dictate it'

A Q&A with **Stuart Breyer**, CEO of Mallowstreet, on the pensions sector's use of artificial intelligence

Q How would you describe the industry's approach to AI?

SB It has been moving slowly in this area, but I have seen pockets of innovation. There are three big stumbling blocks for many players when it comes to AI: what is the business case, how can I actually do it and how can I ensure that it's accurate?

Some people believe that AI is here to replace the human component, but I don't think that's right. AI is a way to help you have the right conversations with the right people.

The most common use cases for AI are focused on individuals saving for retirement. We've seen significant growth in robo-advisers and new tools to help analyse and understand someone's behaviour, enabling better recommendations. AI is also being used by human advisers to aid the planning process by creating profiles for clients and helping to match individual savers within set parameters. That said, AI has yet to feed through to a macro decision-making level in the industry.

The important thing is that businesses first identify what they want AI to solve. They need a laser focus on a specific problem. Solutions will then need to be tested, reviewed and refined. The real benefit will come when the industry stitches together these tested pieces of technology. This will lead to the much broader adoption of AI.

Q What are the main factors hindering the wholesale adoption of AI-led services and the development of more widely applicable AI tools?

SB Privacy and security concerns can be barriers to uptake, but finding a compelling use case with provable benefits is the main hurdle for all new technological adoption. When you have a shiny new hammer, all problems look like nails. It's only with time, experience and domain knowledge that you find the real nails.

We have also heard about the need for 'quality data', but in reality the first issue is simply making sense of the material that's available. Abundant data sets exist, but they are disparate and proprietary. Often it is not the availability of data that is the problem but identifying a use. AI can homogenise and clean data, but this requires oversight, training and, I would argue, a level of collaboration and openness in the industry.

Quality of data remains a challenge. In the first instance, a significant investment is required in manually reviewing and validating initial data sets. But the collection of robust data is gathering pace. As more of this material becomes available, more questions can be answered.

Q What will be the most significant AI use case over the next couple of years?

SB The strength of machine learning and other AI technologies lies in forecasting. While history doesn't repeat itself, it often rhymes. For the institutional pension fund market, there are huge opportunities.

We aren't too far from a world in which a fund's assets and liabilities can be quickly remodelled and reprojected with the aid of AI. Strategy recommendations will be presented to trustees, while funds can focus on ensuring they are asking the right questions of the right people. Advisers will be able to add specific opinions at the right stage of the process. This world can become incredibly efficient, ultimately resulting in a better retirement for everyone.

While the most likely use of AI is probably not as straightforward as what I've outlined here, it is never easy to predict the next stage of a technology's evolution. In our industry, the same decisions will still need to be made. AI will simply become the key tool in that process. It is there to inform an approach, not to dictate it. Modelling will be more accurate and allow for a higher level of decision-making confidence. The tech won't be making the decision and it won't replace the workforce – but it will require a different set of skills.

Stuart Breyer
CEO,
Mallowstreet

CLIMATE RISK

Green paper: providers get ready to issue first environmental reports

Trustees are having to deal with a range of challenges as they get to grips with new rules on disclosing climate risks

Ben Edwards

Members of the UK's largest pension schemes won't have to wait much longer to learn how their investments are affecting the environment.

The reporting framework of the international Task Force on Climate-Related Financial Disclosures (TCFD) came into effect in October 2021, starting the countdown for a host of workplace schemes in the UK to publish their reports. The first are set to come out in the next few months.

The new regime applies to schemes with more than £5bn of assets under management, as well as master trusts of all sizes. Schemes with more than £1bn of assets under management will have to start complying with the rules from this October.

While the regulation is already live for those larger schemes and master trusts, they have seven months from the end of their scheme year to produce their report. For instance, if a scheme's year ended in December, it will have until July to publish. Most schemes run either from January to December or from April to March, notes Stuart O'Brien, a partner at Sackers.

But it's not only reporting that schemes must worry about. They are also several governance-related activities that need to be completed by the end of their year. This means that the rules have varying effects, depending on when that date lands.

"If you'd had a December year end, you would have had much to do in a short time," O'Brien explains. "Although schemes were trying to do a lot of preparatory work, there would still be things that weren't quite done before their scheme year ended."

Such things might well include conducting a climate scenario analysis, formalising governance policies and identifying how three climate-related metrics will be measured. The first two metrics – the total emissions of a scheme's asset portfolio and its carbon footprint – are dictated by the TCFD framework, but schemes have the freedom to choose a third that does not relate to emissions.

Since the new rules took effect, the government has consulted on the inclusion of a fourth metric focused on how schemes' investments are aligned with the net-zero goals of the United Nations' 2015 Paris accord on climate change. This is expected to be introduced from October this year.

"The consultation suggested schemes might choose to voluntarily use that as their third metric for the first year of compliance to effectively give them a dry run at it for next year," says Simon Borhan, a managing associate in Linklaters' pension funds group.

Accessing data of sufficient quality will be a challenge for many schemes. Trustees should engage with their asset managers as soon as possible to ensure that the data provided is suitable, he advises.

"The report is not something you can pull together in a week, so engaging early and gradually easing your way into compliance, rather than suddenly hitting a cliff-edge at the end of the seven months, really helps. That might look like a long way away, but don't underestimate the amount of work required," Borhan warns.

Given that this is the first year of TCFD reporting, some schemes are unsure how candid they need to be when disclosing where they have gaps in their data.

"There is a bit of tentativeness at the moment," says Helen Prior, client director at investment manager Cardano. "This is not because they want to hold anything back, but there is a sense that, if they are really open and honest while others are not, it could make them look as though they haven't got a good handle on this."

While schemes might be reluctant to highlight any shortcomings, it would be more damaging in the long run to misrepresent their position, she adds. "Everyone is in the same boat. If you are honest about what you're still grappling with, you can frame it as 'a journey' and say that you expect the quality of reporting to improve as better data and practices emerge."

> Engaging first, rather than making a snap decision predicated on one data point without understanding the full context, is very important

Some trustees might also struggle with how to present their report, given that it has a wide range of potential readers, including regulators, scheme members and activist groups. That means that the first disclosures are likely to be quite hefty.

"There will be a tendency to ensure that everything is covered and so produce very long reports," O'Brien says. "How much value that will be to scheme members is another matter. These will be dense documents, full of jargon about scenario analysis, that won't be very readable."

To counter this, he recommends that schemes should produce the main report for the regulator and then create a more compact and comprehensible version for scheme members, which will direct them to the main report if they are interested.

Some trustees face another challenge: what happens when the data shows that certain parts of their asset portfolio have high carbon exposures?

Jennifer O'Neill, an associate partner and responsible investment consultant at Aon, calls this the divestment dilemma: do schemes simply exit funds that prove to be carbon intensive or do they engage with their investment managers in an effort to mitigate the risks?

"Engagement is key," she says. "While you need to reserve your right to exit if that isn't fruitful, engaging first, rather than making a snap decision predicated on one data point without understanding the full context, is very important."

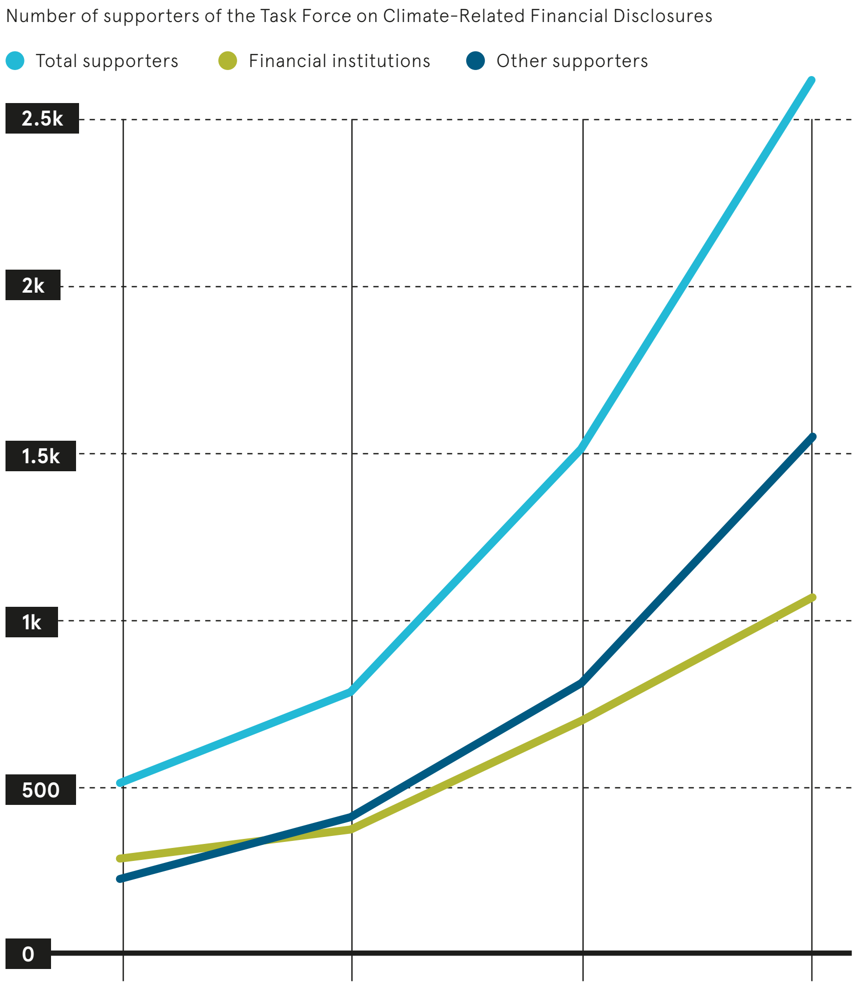
O'Brien warns trustees to beware of treating TCFD reporting as a mere box-ticking exercise and remember that climate change could have an adverse impact on their members' investments.

"It's important not to lose sight of the wood for the trees," he stresses. "The regs are prescriptive, but the whole point of this is that trustees should be managing climate risk as a financial risk to their portfolios. It's quite easy to forget that and start measuring things just for the sake of measuring things."

MAY THE TASK FORCE BE WITH YOU

TCFD, 2021

Number of supporters of the Task Force on Climate-Related Financial Disclosures



Commercial feature

Understanding the complex world of personal pensions

Being retired is like having a lifetime of Saturdays stretching out before you. Having enough money saved to no longer have to work is an incredible freedom. What would you do with your days if you didn't need to work to pay the bills?

The prospect of endless work-free days may seem unrealistic when you're head down in spreadsheets or prepping for another conference call. And it's fair to say there's a lot of negativity about pensions in the press, from the hubbub over tax rules to the rising state pension age.

But for many working professionals, being able to retire in your 60s, 70sand beyond is an achievable aim. You only have to look at the growth of the financial independence retire early (FIRE) movement – where people live on the tightest budgets and strategically build their assets, with the aim of stopping work as young as possible – to see that it can be done. (Although most people aren't planning to quit work in their 40s, so embracing minimalism and extreme frugality isn't necessary!)

Achievable doesn't mean easy. Planning for retirement is a science; a pension calculator can spell out how much you need to put away each month and the rate of return your investments will have to reach. But it is also an art; no algorithm can tell you which of the plethora of accounts to use, from SIPPs to Lifetime ISAs, workplace schemes or properties.

> The days when businesses and the state supported individuals through their grey-haired years are long gone, meaning it's now up to each of us to make our own plans

Previous generations had a huge advantage over today's working age population: their retirement planning was largely done for them through generous final salary pensions and public sector schemes.

The days when businesses and the state supported individuals through their grey-haired years are long gone, meaning it's now up to each of us to make our own plans. That's a greater burden undoubtedly – being well-versed in pensions and saving hard are essential – but it also means potentially greater freedom when it comes to choosing what to do with your assets post-65.

For example, final salary and public sector pensions (known as 'defined-benefit schemes' in industry jargon) gave retirees a fixed amount of money for life. They were fantastic in terms of assured future income, but inflexible for people who wanted to withdraw a bigger chunk of savings to purchase property, gift to children or travel the world.

Those sorts of pension arrangements are an endangered species today. Most younger workers will be paying into so-called 'defined-contribution' schemes, where the individual can decide how much to contribute each year, where it should be invested and how much they want to withdraw each year in retirement. None of those decisions have to be made once – contributions and withdrawals can be changed from year to year, much more like a bank account.

Becoming confident that you're able to make these decisions and be financially stable in the decades to come means rethinking a few things.

1 Shaking off the notions of what 'retirement' is

Pensioners, retirement and the fuzzy concept of 'saving for later life' often bring to mind some stereotypes: cruise ships, bingo halls and drinking sherry. Much as we love the senior citizens in our lives, we find it hard to picture ourselves reaching that age or being part of that culture.

The good news is that you will, in all likelihood, get to that age (no point fighting it) but the current generation of working people won't age the same way our elders did. Each generation takes some of their hobbies and habits with them into old age – so 'retirement' in 30 years will be more about craft beer, adventure travel, oat lattes and crossfit. You will want to have enough money to keep on doing the things you love, and that means retirement planning needs to start decades in advance.

2 Not being put off by the jargon

Like many industries, pensions and retirement planning have developed their own vernacular over the past 50 years, which can bamboozle the uninitiated. Jargon terms such as 'crystallisation event', 'money purchase scheme', and 'lifetime allowance' actually describe quite simple concepts that anyone can understand – so don't be daunted.

3 Knowing that investing in pensions is a different kind of beast

You may know a good deal about investing and already have stocks and shares ISAs, or other assets. Although the golden rules of investing are the same with pensions as with ISAs – invest for the long term in things that are easily understandable, while keeping an eye on fees – there are some key differences.

Investing for a retirement that begins 30 years from now requires a different strategy to investing for a property purchase in five years' time. Over those three decades your tolerance for risk changes, alongside your need for growth-focused versus income-producing investments. Plus the investment charges mount considerably with the sheer size of your pension, which is usually the biggest asset most people have after their home.

> Be open to options that may be particularly well-suited to your pension plans such as managed portfolios or passive investments

So be open to options that may be particularly well-suited to your pension plans such as managed portfolios or passive investments, even if you may not use them elsewhere.

Of course – this is just scratching the surface of the complex world of personal pensions. If this article has given you food for thought, or you would like understand more fully how crystallisation events, money purchase scheme or the lifetime allowance could affect your pension planning then join us at Nutmeg's free 'Understanding the pension lifetime allowance' webinar at 5pm on 26 April. You can register at nutmeg.com/webinar or use the QR code on page 8.

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As with all investing, your capital is at risk. The value of your portfolio with Nutmeg can go down as well as up and you may get back less than you invest. A pension may not be right for everyone and tax rules may change in the future. If you are unsure if a pension is right for you, please seek financial advice.

STRATEGY

How to approach retirement saving, decade by decade

Whether you're 15 or 55, what steps should you take to ensure that you and yours have best possible quality of life once your working days are over?

Chris Stokel-Walker

When should you start saving for your pension – and how can you get the best results? While such questions plague us all, the answers can vary depending on your age.

For those who are younger, saving for a pension can seem like an impossibly distant concept, one that they often put off until later life. It's also, crucially, an attempt to hit a moving target, with the state pension age constantly shifting depending on the government in power and the country's finances.

For the middle aged, pensions can become an obsession. While it could spur dreams of an early retirement, it can also be the source of serious headaches, as juggling life's outgoings competes with the urge to save for a rainy day. And, for those nearing retirement age, it can be a moment of bliss or sheer panic, depending on the size of your pot.

Some parts of the future aren't foreseeable. We know that the ballyhooed pension age rise in 2028 will have a material effect on many of us. But, for those in their teenage years, retirement is long away, with plenty of chance for changes. To find out what people should be doing now, we've asked the experts.

In your teens

It can be difficult to get teenagers to care about tomorrow, never mind 60 years from now. If you can encourage them to look to the future, convince them to think about saving. If you can't get them to care, go about it yourself.

Adolescents as young as 13 are at an age to start thinking about saving for the future, according to Emma-Lou Montgomery, associate director at Fidelity International. For teenagers, "it's more about ensuring that they have a broad idea about what they want their future to look like".

Ask them about the career they might like to pursue or the milestones they would like to pass in adulthood, suggests Montgomery, who says: "Setting these goals and instilling healthy saving habits is a great way to boost confidence and improve their financial awareness and understanding of basic pensions saving, investments and money management."

The bank of mum and dad can help too if there's money to spare, she adds.

"For parents, a junior individual savings account (ISA) is a tax-efficient way to help start off your child's future savings, because you pay no income tax or capital gains tax on those investments. Once your child reaches 18, they can access the money in their junior ISA and decide how they want to spend it – or reinvest it for the future."

> "The compound benefit of saving regularly over time is vital to building up your wealth

Once someone enters the world of work, it's important to enrol on an employer's pension scheme, says Victoria Ross, chartered financial planner at Progeny. This helps them to benefit from any contributions that the employer is obliged to pay.

"Auto-enrolment applies only to those aged 22-plus earning more than £10,000 a year, so under that age and income you may have to opt in," she warns.

Those earning more than £520 a month in the scheme have a minimum pension contribution of 8%. The typical breakdown is 5% from the employee and 3% from the employer, but some employers will pay in more than this minimum.

"Check to see if your employer will match your higher contributions, as this would be the easiest way to boost your retirement savings," Ross advises.

In your 20s

The age-old advice still stands: when it comes to setting up your pension plan, the earlier you do it, the better.

"The compound benefit of saving regularly over time is vital to building up your wealth," says Roy Thompson, head of financial services at Carpenter Box Financial Advisers. As with those aged under 20, employees should ask to opt into a work scheme and see if they can forgo some luxuries to maximise contributions.

If you're self-employed, like an increasing number of people in this age group, you should still consider a private pension contribution. It's important to get into the habit of putting aside money for later.

"Saving for the future while in your 20s may feel particularly tough in the current climate, with household bills, rent payments and general day-to-day costs all going up," Montgomery says. "But that doesn't mean it's any less important. What you do now will hold great bearing on your future, so it's about thinking cleverly about how you can navigate how much money you need for day-to-day spending while working towards your future."

Take, for instance, someone investing £100 a month into a pension pot from the age of 25. By the time they retire, they'll

Commercial feature

How to simplify pension decision-making

Retirement can be difficult to navigate.
Pensions management tools can help keep it simple

Making sense of retirement options can be difficult at the best of times. There are many ways that people can choose to receive their income from their pension savings when they stop working, including taking out an annuity or going down the flexible retirement route, where they take control of their own income.

That's why it's key to provide pension scheme members approaching retirement and retirees with the right tools to help them make informed decisions about what happens with their pension savings.

The UK government introduced auto enrolment in 2012 to remove the barriers from saving for retirement by requiring all employers to establish a workplace pension which their employees automatically join and receive employer contributions towards. It makes saving for a pension easier because the employee doesn't need to worry about joining a scheme, determine how much of and where their money is being invested.

The problem is, though, that as people near retirement, they have to consider a host of different factors related to their pension(s). They must think about how large their pension pot will be when they retire, how much income they need to receive when they stop working , how long they might live, and how they are going to bridge the gap between the income they live off now and what they will need to live on in the future.

With a defined benefit scheme, these difficult decisions are taken out of individuals' hands by the teams of professionals that run their pension schemes, including actuaries, investment advisors and managers and sponsor employers, who protect scheme members' retirement money. In a defined contribution scheme, using a flexible retirement solution, members have to make all of these decisions themselves.

But compounding this is the common problem of having multiple pension schemes with different employers and different pension providers. Because the funds are held in different places, people may find it challenging to assess the complete value of their pension.

To help people understand their pensions better, SEI has built an open banking app in conjunction with Moneyhub. If the user has more than one pension scheme, the app enables them to consolidate all their benefits in one place and see their financial net worth.

> "It's key to provide pension scheme members approaching retirement and retirees with the right tools to help them make informed decisions

This app also provides members with models to calculate how much they need to have in their pension pot if they want to draw a set income for a set period. Similarly, if they have a certain amount of funds and have estimated they are going to live for a certain period of time, and taking into account investment growth, they can work out how much they will receive per month, quarter or year.

The app also allows users to set the amount they receive on a monthly basis and will send out an alert if their outgoings exceed that income. They can then top up that income to make sure there's enough money in their current account, while ensuring their pension funds don't become depleted and remain held in a tax efficient environment.

SEI also provides in-person and online support to help members confidently make complex pension decisions. That includes face-to-face meetings and seminars designed for people reaching retirement to get them thinking about how much they have in their pension, what sort of income they might need when they stop working and whether they can save more.

Retirement does present people with a number of challenges, particularly around understanding and managing multiple sources of pension savings, but with integrated tools like the app SEI provides its members, the pension landscape can be more easily navigated.

For more information on SEI's master trust solution or help with your retirement needs, visit seic.com/en-gb

Important Information

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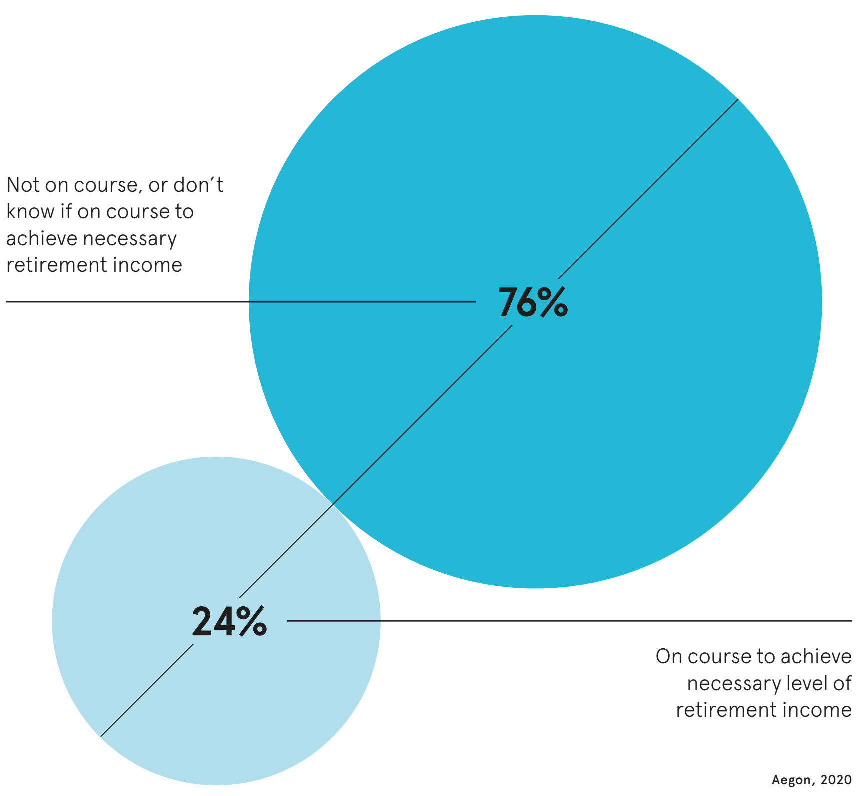
MOST SAVERS AREN'T ON PACE

Expectations of retirement savings among UK adults



Aegon, 2020

have saved £48,000 for their pension. You could achieve the same base amount of money by starting to save 20 years later, at the age of 45, and putting in £200 a month. But compound interest would mean that the 25-year-old's pension pot would be nearly twice as big, assuming a 5% annual return.

"Younger people have the power of compounding on their side, whereas 40- or 50-year-olds no longer have that time," notes Zoe Dagless, senior financial planner at Vanguard UK. "As much as people in their 20s might think it's not that powerful, it will get them a long way once they are 65 compared with starting that planning at the age of 40."

A stocks and shares ISA can be set up with contributions as low as £25 a month and a ceiling of £20,000 tax-free a year.

"By putting away a small amount each month, you can soon build a substantial pot," Montgomery says. That's especially true in the current climate, where the stock market is on an upswing.

The same attitude that may make people in this decade reluctant to even think about pensions could potentially help them embrace slightly higher-risk investment options: if markets collapse, you've still got 30 years or more of your working life to rebuild your pension pot. For those worried about making losses, Dagless recommends trying to put away cash while not looking too closely at the dips. In the long run, they're still likely to benefit.

But don't throw caution to the wind. Thinking about your attitude to risk at this age is key, according to Thompson.

"History suggests that a higher investment risk would be rewarded over the long term, although this is not guaranteed or suitable for everyone," he says. "Younger individuals should engage with investment risk and educate themselves on it."

In your 30s

If you've put a smart strategy in place to accumulate a pension pot, this decade is where things should really start to build up steam. Workers may well have switched jobs several times by this point of their careers and started a number of occupational pension schemes. You should think about amalgamating pension plans into a single collection to reduce the administrative burden and paperwork involved. But be careful: some plans will charge you to move your money, which can counteract any benefits, Thompson warns.

For those lucky enough to be earning a high salary by this age, pension contributions can become a tax-easing strategy. If you're earning more than £50,271 a year, you are currently in the highest income tax band. Contributing to a pension could help you to obtain tax relief of up to 40%.

If you're earning more than £100,000 a year, you could lose your first £12,570 of personal allowance of tax-free income, but "pension contributions can potentially help retain this by bringing your taxable income back down", Ross says.

Your 30s are also likely a time when you'll be thinking about big life decisions, including potentially starting a family.

"This is the most difficult time of life," Dagless argues. "You've got mortgage pressures, family pressures, everything."

> **It's about thinking cleverly about how you can navigate how much money you need for day-to-day spending while working towards your future**

Parental leave and the additional cost of rearing a child can make your pension contributions slightly haphazard.

"There are steps you can take to ensure that any time you take away from work doesn't adversely affect your retirement savings," Montgomery says. "For example, you could choose to pay in extra in the run-up to your leave, you could encourage your partner to pay into your pension while you aren't earning or you could make use of the 'carry forward' rules once you're back in work."

Whatever you do, ensure that you don't lose track of the importance of your pension. With so many competing interests, it can be easy to allow planning for the longer term to take a back seat. But, given average life expectancies, those currently in their 30s are likely to have 20 or more years in retirement, which means saving up plenty to make sure that your standard of life doesn't take a big hit when you leave the world of paid employment.

In your 40s

People in their 40s shouldn't necessarily pursue the same strategies that worked for them in the previous two decades of work. At this point, their pension priorities are likely to differ significantly from those that they had before.

Montgomery recommends considering a self-invested personal pension (Sipp) to supercharge saving towards your retirement. It's simple to open one and you can drip-feed investments into it from as little as £20 a month.

"With a Sipp you choose where your money is invested, giving you control over your pension," she says. "You might also be able to transfer existing pensions you have into the Sipp, making it easier to see how your savings are growing."

Higher earners will want to be cautious at this age, taking stock of their pension plans and ensuring they don't get close to their lifetime allowance of £1,073,100 in pension savings. Anything above that amount could be subject to significant taxation upon retirement, diminishing all the hard work you've put into saving over the years when you want the money most.

"If you're in this situation, you can also look at 'protection' options that, although restricted, will give you your own lifetime allowance," Montgomery says.

So-called tax-efficient wrappers, which insulate your cash from taxation (such as ISAs or pensions), can become more beneficial at this age for higher earners or those who have already amassed a significant pension pot, says Ross, who suggests seeking financial advice for the best possible strategy.

Your 40s are also the time to start making big decisions. Thinking about your retirement goals in this decade is crucial, Thompson says. When do you want to stop working? What kind of life do you want in your retirement? Are you looking for a quiet time or a never-ending parade of round-the-world cruises? The answers to all these questions can help to pinpoint what kind of income you'll need when the time comes to stop working.

"By looking at what savings an individual already has, a cohesive savings plan can be put together that looks at the suitable level of risk for investments as that person moves towards retirement, and a quantum of pension payments to build the required sum," he says.

In your 50s

This decade is one to tie up loose ends and ensure things are steady as they go. Any risky bets made in your 20s or 30s should now be unwound and made safer.

"People are approaching a time when they will be relying on pension assets to deliver an income," Thompson says. It's not the time for big bets that can go wrong.

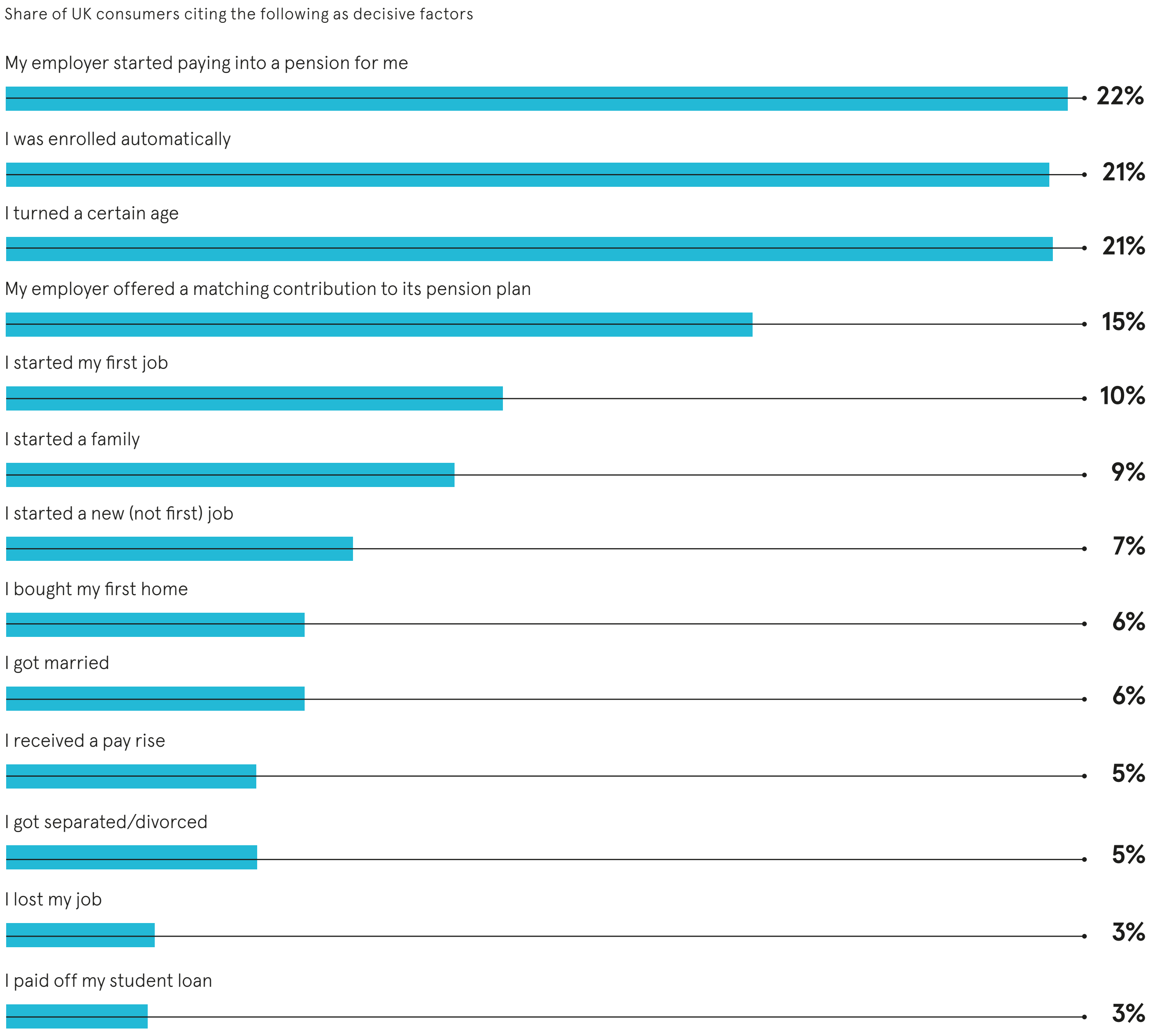
It may also be worth thinking about consolidating pension plans again, says Ross, who adds: "Legacy pensions may no longer be appropriately invested or at a suitable cost."

There's also the question of when to take a lump sum from your pension (or whether doing so is the best option). This is currently available to people aged 55, but the threshold is set to rise to 57 in 2028. Before doing so, it's important to audit what you're likely to get from your state pension. If there are any shortfalls that could scupper your plans and give you a smaller sum than expected, see whether making extra contributions might fill the gap.

But there is only so much you can do at this stage, warns Thompson, who adds: "Having an understanding about how pension benefits can be taken is essential. Several options are now available – and there is no silver bullet."

WHAT CONVINCES US TO START SAVING FOR RETIREMENT?

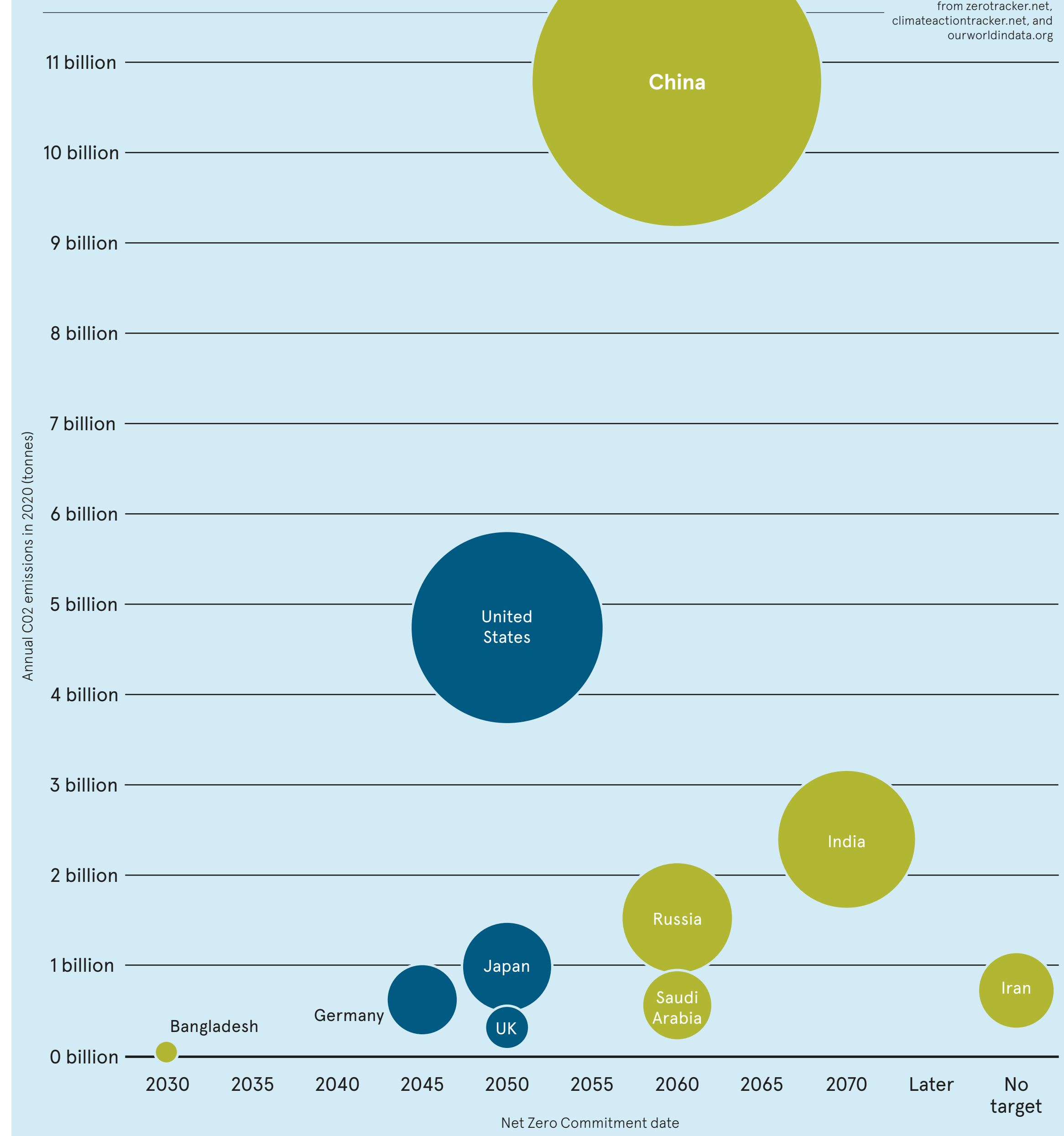
Share of UK consumers citing the following as decisive factors



Aegon, 2020

Commercial feature

ROADMAP TO NET ZERO



Tackling carbon emissions in emerging markets

Asset owners and fund managers need to engage with companies on ESG matters in the developing world, rather than simply avoiding those with poor credentials, says RisCura's **Lars Hagenbuch**

As investors ramp up pressure on developed market companies to improve their environmental, social and governance (ESG) credentials, emerging market companies could be at risk of being left behind – to the detriment of everyone.

"We can't solve the carbon crisis without taking emerging markets along," says Lars Hagenbuch, an investment consultant at global investment firm RisCura.

Emerging markets are the factories of the world. Most of the manufactured goods we buy are connected in some way to emerging markets. The raw materials might be sourced there, the parts were made there or they were assembled in an emerging market country.

We need emerging market companies to continue making the products we require and take for granted every day. Transitioning those companies to a lower-carbon world won't be easy and it will be expensive. Companies can't simply stop and start from scratch, they need to invest in more environmentally friendly methods of production, while simultaneously keeping their production lines running. That requires additional capital. At the same time, simply shutting down certain heavy-polluting industries could leave vast numbers of workers without jobs.

Which brings in another key element: the number of people impacted. Emerging markets account for the biggest share of the global population—about 85%, according to the IMF. Some of those countries are likely to be disproportionately impacted by climate change, such as in Southeast Asia (from severe floods) or Southern Africa (from temperature increases).

"Without engaging with emerging markets companies and policymakers, the carbon transition will be impossible and the rest of us will be faced with significant changes to how we live our lives," Hagenbuch says.

On average, emerging markets have poorer populations than developed markets. Their needs are likely to be more basic as well, meaning carbon neutrality is a lower priority.

"For many, the energy transition is far away," says Hagenbuch. "They accept smoke coming out of the smokestack because that smokestack represents their livelihood. They can't afford electric cars. They may not be as worried about decarbonisation as in the developed world. On a per person basis they also have a point: emerging markets emit a lot less carbon per capita than the developed nations."

Different emerging market economies are likely to have different priorities around ESG. For instance, in South Africa the focus is more on the social aspect given widespread unemployment and historic underinvestment in education. By comparison, in neighbouring Mozambique, they might care far more about the environment given that millions of people are at risk of flooding.

"The occasional corporate governance failure might not even register with the average citizen," Hagenbuch says.

In certain jurisdictions, ESG topics can be politically contentious. In China, for instance, it may be difficult for asset managers to raise some social issues, such as allegations of forced labour. "Regardless of what they personally feel and believe, a Chinese fund manager may struggle to shout loudly that something is wrong—the consequence for them might be prison," says Hagenbuch.

That underscores the potential challenges that investors face when tackling ESG issues in emerging markets. But it also highlights an important aspect of investing in developing economies: fund managers should engage with companies rather than simply divest from positions where ESG standards might be lower.

> **We can't solve the carbon crisis without taking emerging markets along**

"When you rely too much on data it can drive you to an exclusionary model," says Hagenbuch. "You steer clear of investments that show up poorly on rankings, which may be appropriate when avoiding tobacco or coal or weapons, but the minute you exclude something from your portfolio, you lose the chance to make a difference."

That can be especially detrimental if the person who buys the shares from you is less scrupulous and doesn't care if a company is, say, pumping sewage into the Ganges.

"If you are not around to raise the concerns at the boardroom table or at shareholder meetings, then stewardship is worse as a result," says Hagenbuch. "We believe it's very important to engage rather than to exclude.

"Our role at RisCura, as an emerging market investment specialist with a core belief in responsible investing, is to give guidance to the asset managers that we recommend to our clients on how they should engage with underlying companies and what is global best practice."

While some managers might be tempted to offload their positions rather than engage, there are only limited benefits to divestment.

"If everybody sells the shares of a particular company then that company may find it harder to raise new capital and its cost of capital goes up, so there is an indirect impact to the cost of running the business," says Hagenbuch. "But you would have had much greater influence if you had remained a shareholder and turned up at the shareholders' meeting and said you are not happy about A, B or C—do something about it."

Accessing ESG-related data is also more of a challenge in some emerging market countries, particularly if there are no regulatory requirements for companies to collect and publish data. In circumstances where data quality is constrained, investors should instead focus on the trajectory of improvements companies are making rather than specific numbers, Hagenbuch says.

The extent to which emerging market economies are committed to ESG targets also varies. China, the single largest polluter, has pledged to meet net zero by 2060, with some cities having even more ambitious goals. Shenzhen, which has the world's biggest fleet of electric buses, intends to be net zero by 2030. Other countries are less motivated to tackle ESG issues or simply lack the resources to enforce policies.

Where there is an absence of government or consumer pressure to effect change, the onus for fund managers to engage with companies is even greater.

"In some cases you might be lucky and you're dealing with multinational companies that are operating in these areas and where pressure from London or New York to avoid ESG-related failures can cause a change in corporate behaviour," Hagenbuch says. "But patience and effective coordination directed towards emerging market companies can pay off. There might be only a handful of companies responsible for a large proportion of emissions in a particular country, so you can make a big difference by just targeting one or two of them."

By advocating for tougher corporate ESG standards in emerging markets, fund managers can potentially move the needle on decarbonisation in developing economies and ensure no countries are left behind.

Visit investment specialists RisCura at riscura.com to help map your responsible investing journey in emerging markets

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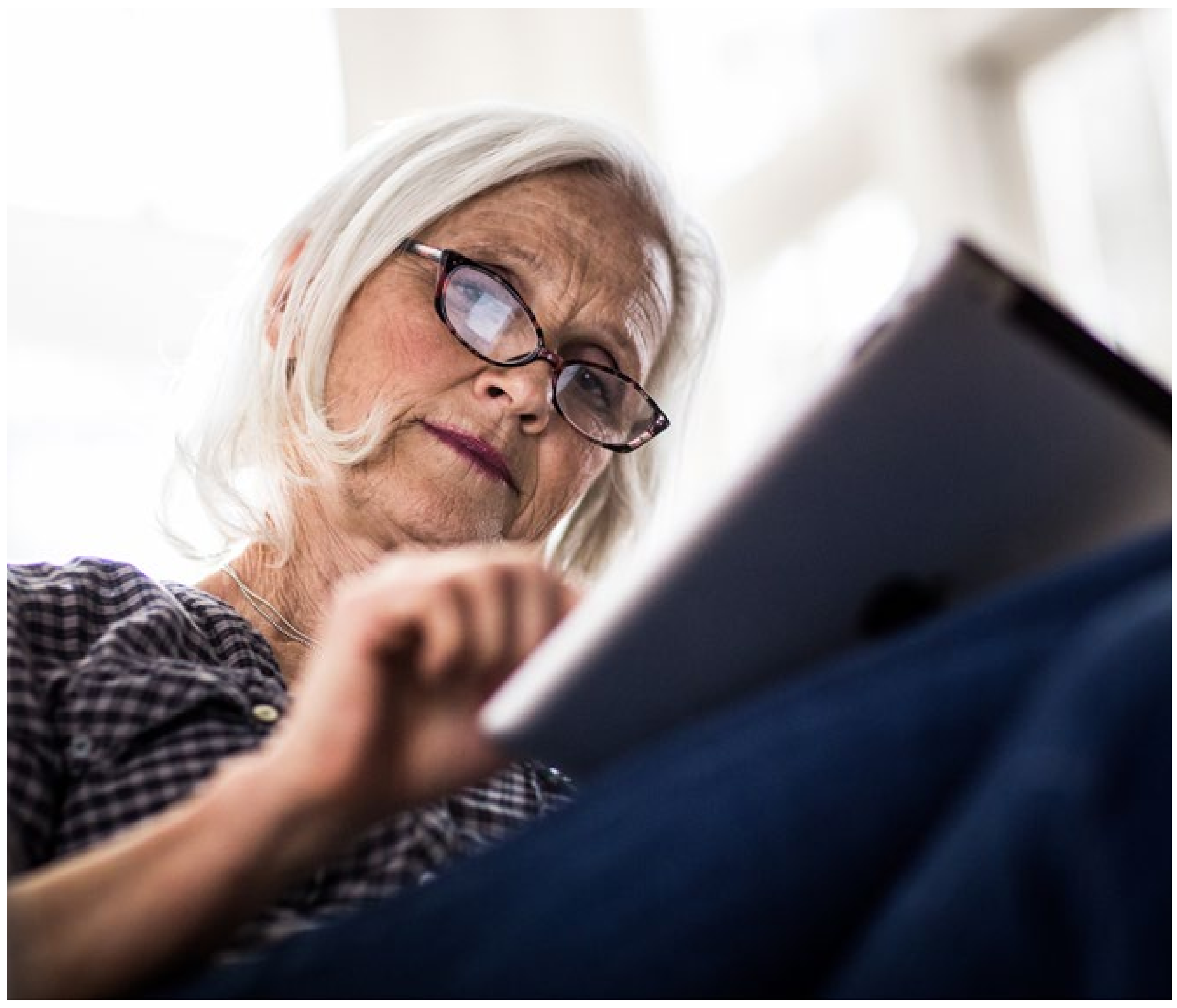
TECHNOLOGY

The future is now: tech's effects on all our pensions

The industry is developing apace, with new technologies presenting opportunities for savers and challenges for providers. Here are some of the emerging trends to keep tabs on

Nichi Hodgson



Technology is transforming our financial lives, with pensions no exception. What are the big trends on the horizon, and how can savers, managers and companies prepare for the future?

The sector has seen a range of changes in recent years. Perhaps most notably, there are more younger savers than ever before: members of generation Z are more likely to have joined a pension scheme than millennials and baby boomers at the same age, according to PensionBee.

This tech-savvy generation is entering a sector that's undergoing a rapid evolution, making the whole process of starting a pension, funding it and monitoring its progress far easier than it ever has been.

Take consolidation, for instance. This has grown in importance as the world of work has changed. The old concept of a job for life is now far from the norm. In the 10 years to 2017, the average UK worker spent just under five years with an employer, while some 9 million Britons have changed jobs since the start of the pandemic.

In that context, the consolidation of legacy funds has become big business. Older retirement savers are particularly likely to have accumulated numerous pension pots with previous employers. Reminding them to follow this up is crucial.

Other changes are helping less savvy savers to top up their funds without much active decision-making. For instance, as an offshoot of the trend for personalisation, 'automatic round-ups' will, as their name suggests, round up contributions on a set date, while the 'auto-escalation' function will increase them over a given period.

"Auto-escalation is the next step after automatic round-ups," observes the founder and CEO of PensionBee, Romi Savova. "This is likely to have a more significant impact over the long term."

With state pension provision looking increasingly shaky, more consumers are educating themselves about their pension options. Personalisation is vital, as savers take ownership of their financial futures.

Enhancing the digital provision of pension information helps people to forecast what they will need to save by when. Even pension-age savers are now more open to digital interactions, with one in every three over-75s opening a new online account during the UK's Covid lockdowns, according to GBG, a digital ID specialist.

"By arming savers with easily accessible, up-to-date information, we might finally be able to dispel the belief that pensions are too complex to engage with or relevant only at a certain age," Savova says.

Pensions dashboards

Today's consumers are, arguably, more conscious than ever about the ethical credentials of their pension funds. The long-promised pensions dashboard could help them to choose and monitor their investments more effectively.

The pensions dashboard is a technology ecosystem that will show a saver all their pensions information online in a secure manner. With pension fund investments in the UK amounting to more than \$3.59tn as of 2020, this piece of pensions tech presents an opportunity, according to Moneyhub's CEO, Samantha Seaton.

"Dashboards that provide essential information to savers on the value of their pension, the cost of that pension and the underlying holdings, and what that means for people and the planet are an incredible chance to change the way we all engage with our long-term savings," she says. "This is brilliant for savers and the wider impact for good that pension funds can have."

With better engagement and education, the pensions dashboard could eventually provide a "two-way exchange of information", says Tom Skinner, co-founder and financial planning director at Barnaby Cecil. "Platforms could then gather information about how investors want their money to be used, which should mean investment products are provided that are a closer match to an individual's ethical requirements."

Based on the use of similar dashboards in other countries, all pension schemes are likely to receive at least 20,000 'find requests' a day, or one every couple of seconds, once the system is operational. The industry needs to be ready to deal with this volume of enquiries.

In the immediate future, it seems the reach of the dashboard will extend only to providing accurate information about a saver's holdings at any time. But, in the longer term, it should prompt more questions from savers about exactly where that money is being invested.

Lastly, tech is helping to tackle pension fraud, using measures ranging from secure identity checks to bank-grade encryption. Biometrics are also proving a particularly essential tool in combating crime, notes Spencer Lynch, director of innovation, wealth, life and pensions at GBG.

"It gives funds and administrators more confidence that they are actually engaging with the member at any given time," he says. This also complements the trend for personalisation, with younger savers less resistant to it from a privacy point of view.

> By arming savers with easily accessible, up-to-date information, we might finally be able to dispel the belief that pensions are too complex

What will these advances mean for all parties? To make a real impact, they must help savers to visualise what retirement actually looks like, says Damian Stancombe, a partner at Barnett Waddingham. This demand relates not only to investments but also to "what retirement is financially, physically and mentally", he argues. "It's not all monetary. If we haven't been there yet, how can we know what it looks like?"

Empowering savers might benefit them but it could increase the industry's costs.

"Platforms may be giving members far more control, but businesses need to be mindful of that power," Stancombe warns. "If a member makes a poor decision, say, this could open an organisation up to fault claims and class actions."

Too many companies and plan managers are underprepared for the pension-tech revolution, argues Samantha Seaton, CEO of Moneyhub. "They aren't thinking about the savers," she says, noting that the Financial Conduct Authority is set to bring in a new consumer duty in July. This is designed to encourage a higher level of consumer protection in retail financial markets. Such a measure, Seaton adds, "speaks volumes about how slow plan managers and companies are at responding to savers' needs".

THE DASH IS ON — PDP, 2021

The proposed schedule for the UK Pensions Dashboards Programme

	CONSUMERS	PENSION PROVIDERS
SPRING 2022	Early consumer testing starts	Early voluntary data providers are connected for testing
SUMMER 2022	Testing with about 2,000 users starts	The regulatory framework is established
2023	Large-scale consumer testing starts	Staged compulsory 'onboarding' starts