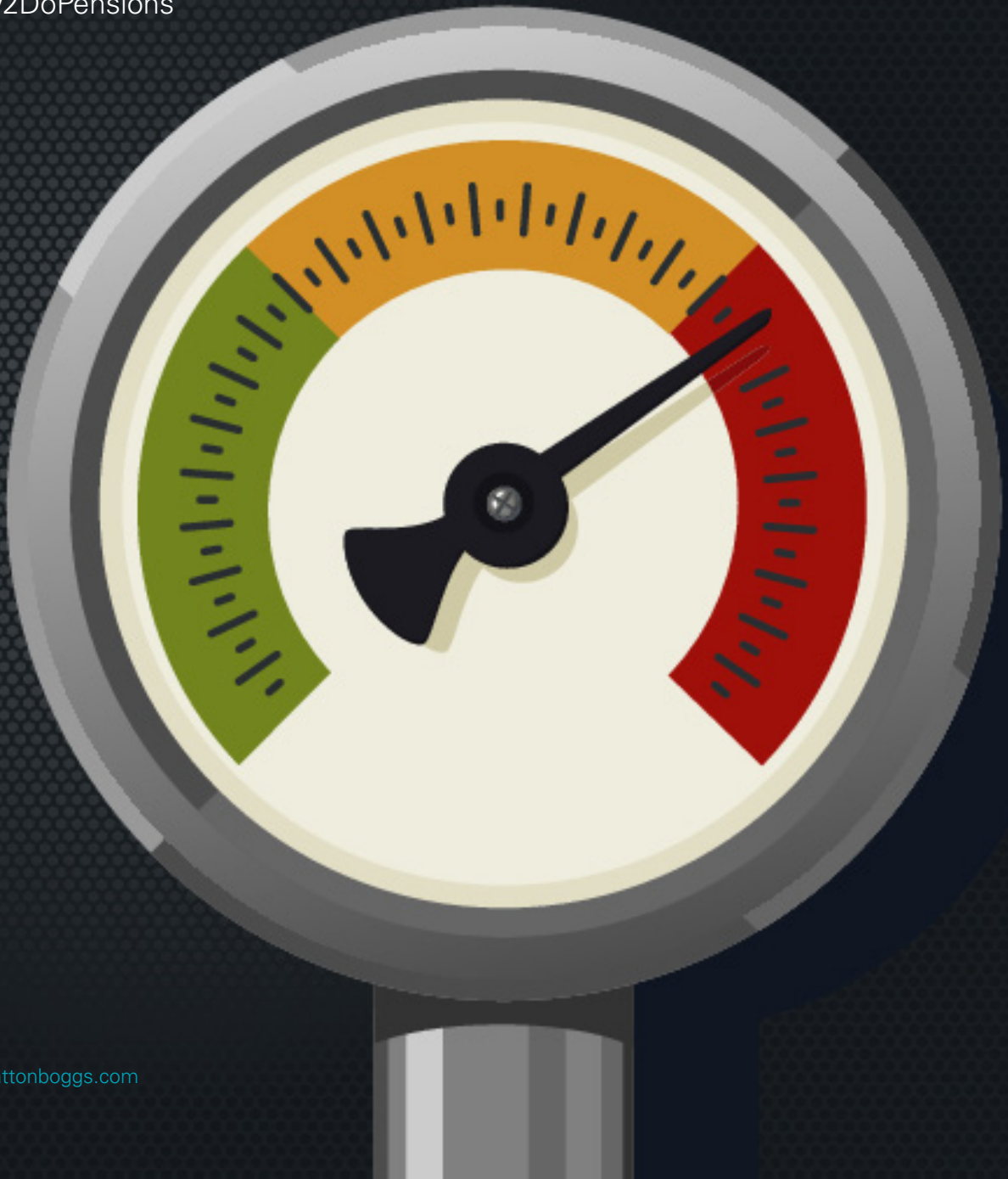


# #PensionsTensions – Campaign Progress Report

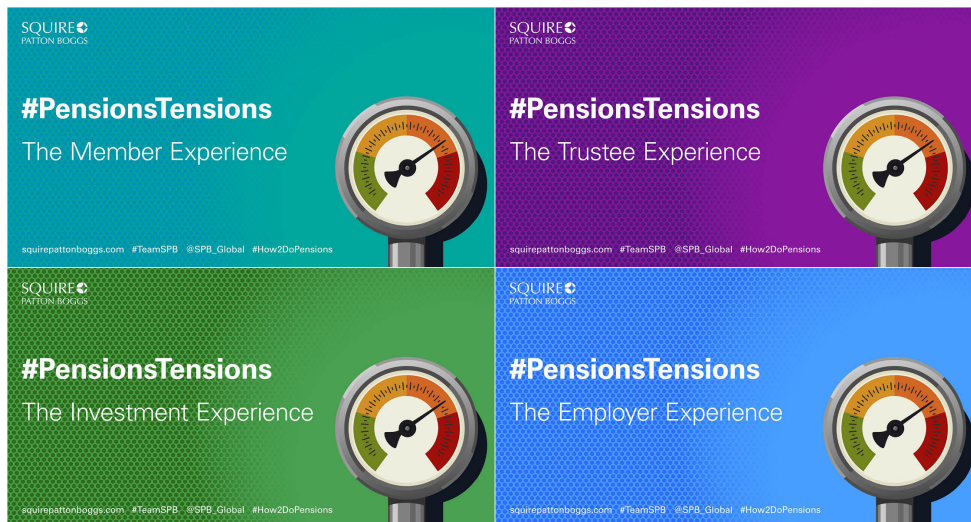
Exploring the Long-term Stresses and Strains on UK  
Pension Saving Following the COVID-19 Pandemic

#How2DoPensions



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# #PensionsTensions Introduction

In July 2020, we launched our new campaign – #PensionsTensions – looking at the pensions tensions being faced by UK pension schemes, both generally and more specifically, in relation to the coronavirus disease 2019 (COVID-19). Our initial activity focused on four publications looking at aspects of #PensionsTensions from the perspective of the member experience, the trustee experience, the investment experience and the employer experience. In each publication, we considered four areas of tension and gave each one a rating under a #PressureMeasure.

We recognise that not all schemes are in the same boat and the impact of the COVID-19 pandemic varies from scheme to scheme and employer to employer – the conclusions that we reach are based on the general trends that we have observed. However, we hope there are some common themes that will resonate with you, and messaging that can be applied to your own particular set of circumstances.

In this report, we:

- Pause for reflection on the campaign to date, review the four areas we covered (the member experience, the trustee experience, the employer experience and the investment experience) and highlight the areas of #PensionsTensions that we think have a more pressing need for action or reform
- Provide our forecast on the areas of #PensionsTensions where we envisage higher or lower pressure over the coming months
- Present our views on the #PensionsTensions on the horizon as the industry continues to evolve and faces further pressures

## Listen to Our Recent #PensionsTensions Webinar

On 27 August 2020, we hosted a webinar that took a closer look at the #PensionsTensions that we flagged in our publications and the opportunities for reflection and further change. We also covered recent developments that will influence how pension scheme trustees and employers react to the immediate pressures they face, and plan ahead for the challenges to come.

The #PensionsTensions campaign to date has been viewed more than 70,000 times by our clients and industry contacts, through a combination of social media engagement and via our mailing list. We will continue to gain momentum over the coming months and we would welcome your feedback and engagement on the topics you would like us to cover or to build on. Please do not hesitate to get in touch with me, or one of the #PensionsTensions team.



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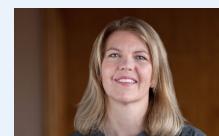
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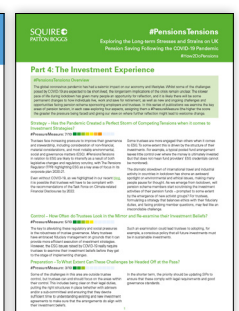
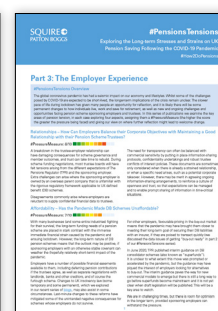
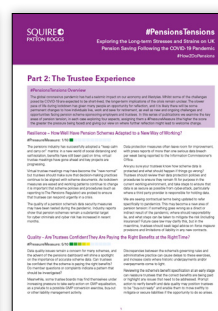
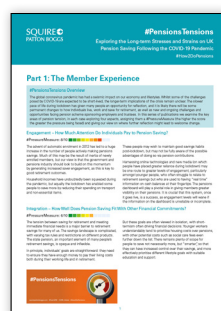
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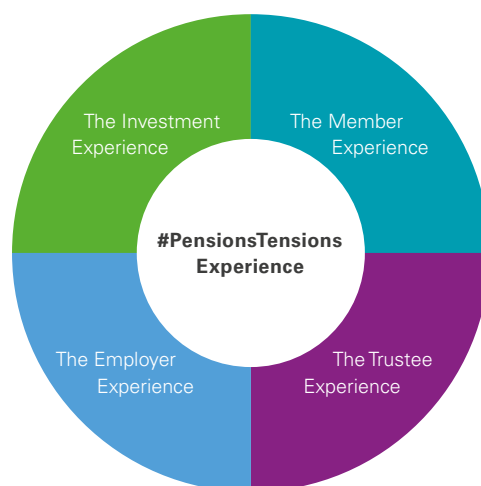


# #PensionsTensions Reflection

The global COVID-19 pandemic has had a seismic impact on our economy and lifestyles. While some of the challenges posed by COVID-19 are expected to be short-lived, the longer-term implications of the crisis remain unclear.

The slower pace of life during lockdown has given many people an opportunity for reflection, and it is likely there will be some permanent changes to how individuals live, work and save for retirement, as well as new and ongoing challenges and opportunities facing pension scheme sponsoring employers and trustees.

In our initial four-part series of publications to launch #PensionsTensions, we examined the key areas of pension tension.



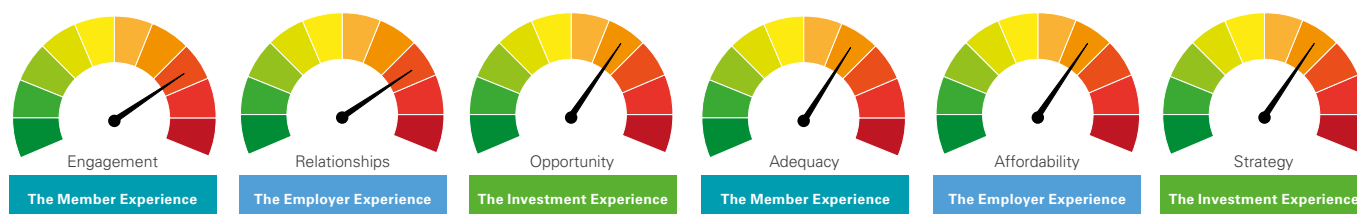
## #PressureMeasure

For each area of #PensionsTensions, we explore four aspects, assigning them a #PressureMeasure (the higher the score, the greater the pressure being faced) and giving our view on where further reflection might lead to welcome change.

The Member Experience	The Trustee Experience	The Employer Experience	The Investment Experience
<b>Engagement</b> – How Much Attention Do Individuals Pay to Pension Saving? 	<b>Resilience</b> – How Well Have Pension Schemes Adapted to a New Way of Working? 	<b>Relationships</b> – How Can Employers Balance Their Corporate Objectives With Maintaining a Good Relationship With Their Pension Scheme Trustees? 	<b>Strategy</b> – Has the Pandemic Created a Perfect Storm of Competing Tensions When It Comes to Investment Strategies? 
<b>Integration</b> – How Well Does Pension Saving Fit With Other Financial Commitments? 	<b>Quality</b> – Are Trustees Confident They Are Paying the Right Benefits at the Right Time? 	<b>Affordability</b> – Has the Pandemic Made Defined Benefit Schemes Unaffordable? 	<b>Control</b> – How Often Do Trustees Look in the Mirror and Re-examine Their Investment Beliefs? 
<b>Flexibility</b> – How Much Choice Is There Within the Pensions Market? 	<b>Quantity</b> – How Can Trustees Manage Their Business Effectively? 	<b>Regulatory</b> – What Challenges Are Posed by New Regulatory Powers? 	<b>Preparation</b> – To What Extent Can These Challenges Be Headed Off at the Pass? 
<b>Adequacy</b> – Are People Saving Enough for Retirement? 	<b>Evolution</b> – How Could the Pandemic Change How Pension Schemes Are Run in the Future? 	<b>Adaptability</b> – Is Current Scheme Design Fit for Purpose for a Post-COVID-19 Workforce? 	<b>Opportunity</b> – How Can Pension Schemes Play a Role in Rebuilding the UK Economy? 

## Summary

The areas of #PensionsTensions requiring more pressing need for action/reform were:



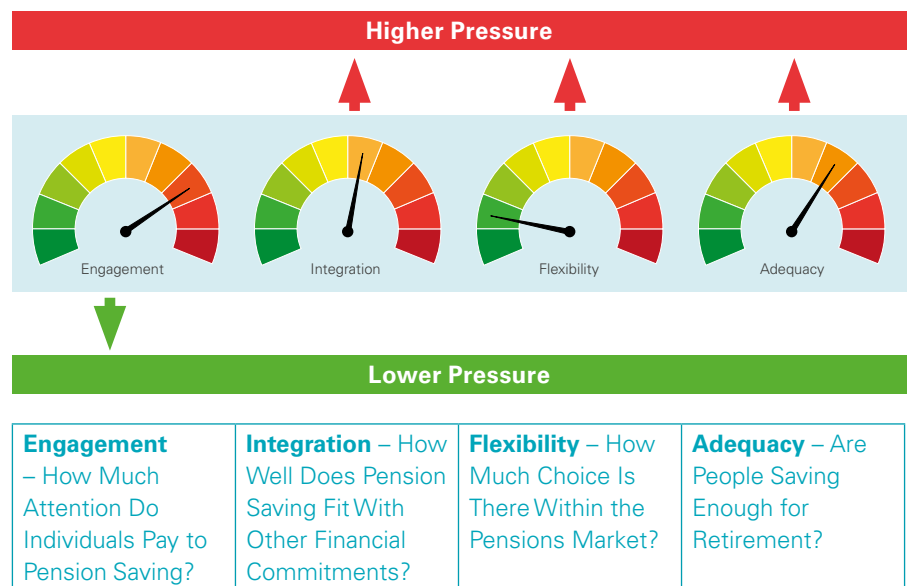


# #PensionsTensions Forecast

Our forecast will focus on the areas of #PensionsTensions where we envisage higher or lower pressure being forecast over the coming months. Our analysis will assist you with putting early intervention and mitigation measures in place across the four key areas highlighted in our recent publications.

## The Member Experience

The pandemic has shone an unflattering light on individual and societal financial health – those with inadequate resources have often struggled to a greater extent. While issues around engagement, integration, adequacy and flexibility are not new, the challenge of finding solutions may be even harder in these economically constrained times.



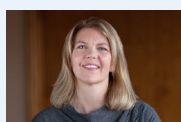
### #PressureMeasure Forecast

We forecast that member engagement pressures will fall. This is mainly because of the potential for online technologies and new media, such as video content, which people have become much more used to harnessing during lockdown. The advent of the pensions dashboard should further reduce pressure in this area, because it will help maintain the visibility and profile of pension savings – as long as it works effectively and efficiently. Therefore, we expect engagement to grow, even if challenges remain on how to increase retirement savings, as noted below.

Our forecast is that #PensionsTensions relating to integration, flexibility and adequacy for members will continue to rise for the following reasons:

- Growing pressure from other financial commitments, and anticipation of potential tax changes to fund the cost of lockdown, may squeeze the attractiveness of pension saving in the immediate term.
- For current pensioners, pension savings withdrawn flexibly, to fund shorter-term cost pressures, may lead to financial pressures in later retirement.
- For those still working, there is limited flexibility for most members to make short-term changes to the pension contributions they and their employer can make. Individuals may need to work beyond their planned retirement date if their defined contribution (DC) pension pot is insufficient.
- The bleak job market, increasing unemployment and growing pressures on salaries will all hit workers' abilities to save adequately. Most workers also have a general lack of awareness of the amount of savings needed to finance either a minimum or moderate retirement income, let alone a comfortable one. A cohort of pension savers may be placing too much reliance on minimum automatic enrolment contributions. None of this is conducive to growing the appetite and ability for members to make pensions savings, and it may be years before we see a material change.

### Key Contact



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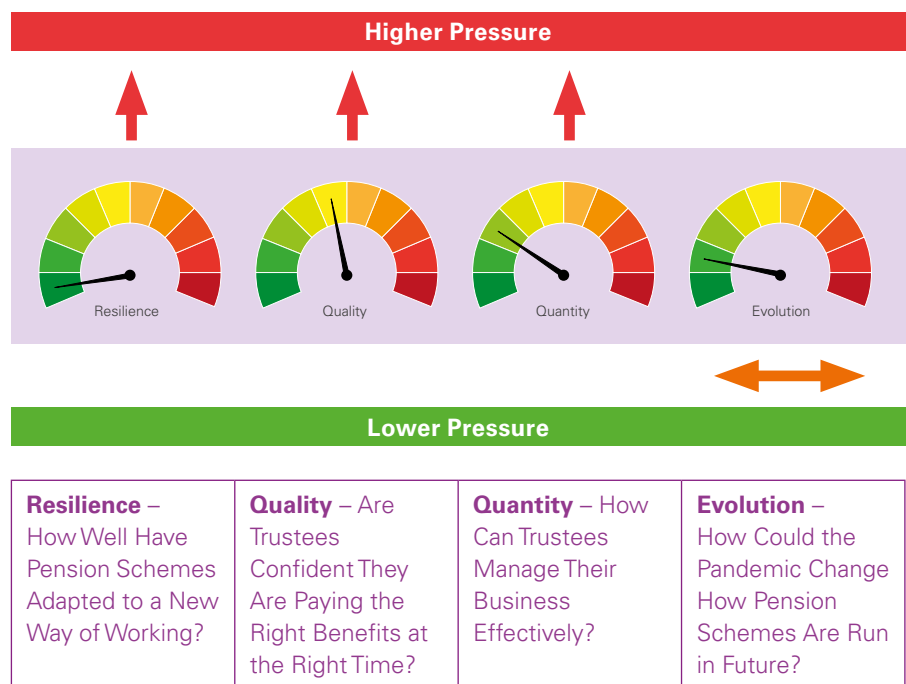
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# The Trustee Experience

Trustee boards have risen to the challenge of working remotely, but the government's advice to "stay alert" is very apt. As well as being aware of the risks facing their scheme and taking appropriate action, trustee boards should look at the opportunities available to them.

Proper delegation to sub-committees may help with efficient scheme priority management. By ensuring that their scheme's data is up to date and identifying and dealing with discrepancies between scheme rules and administrative practice, trustees can position their scheme for any de-risking opportunities that may arise.



## #PressureMeasure Forecast

We forecast that trustee pressures will stay steady as the new professional trustee standards appear to be bedding in well and are serving to validate the widespread expertise and skill-set in the professional trustee market. While the steady trend towards professionalisation continues, many lay boards are functioning extremely well.

Our forecast is that #PensionsTensions relating to resilience, quality and quantity for trustees will continue to rise for the following reasons:

- While pension scheme governance proved highly resilient during strict lockdown, as societal measures are gradually eased, trustees will need to find a new balance between conducting business remotely and face to face. Cyberattacks on the industry are also becoming more frequent and serious, meaning that every link in the pensions chain must remain absolutely steadfast.
- The latest Lloyds Bank judgment on Guaranteed Minimum Pension (GMP) equalisation, which is due this autumn, is likely to bring the records of historical pension transfers under the spotlight. Depending upon the length of any look-back period required, paying top-ups on past transfers could present a massive challenge.
- You will see from the list of " #PensionsTensions on the Horizon" later in this publication that the regulatory burden on trustees continues to be ratcheted up. A prolonged period of recession will not make the job of the pension trustee any easier.

## Key Contact



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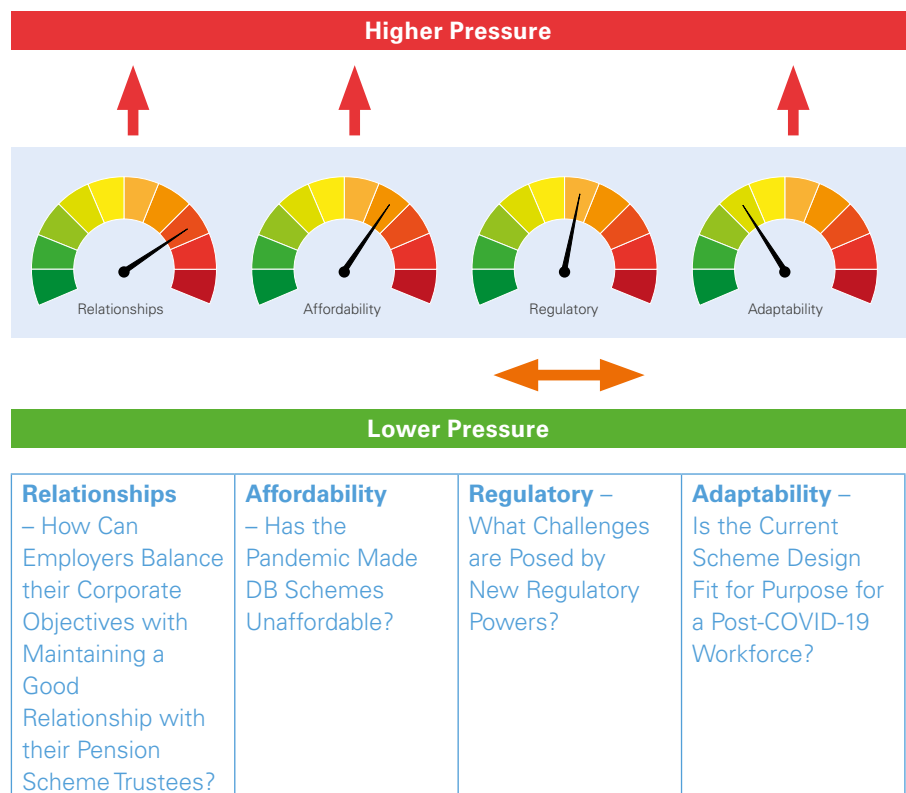
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# The Employer Experience

Employers operating legacy defined benefit (DB) arrangements will be familiar with the time and cost of managing those liabilities. The pandemic may have exacerbated those pressures in the short term and scheme journey plans will need to be adjusted accordingly.

When assessing whether pensions are fit for purpose, the elephant in the room is, perhaps, the gap between DB and DC schemes. In Part 1 of the #PensionsTensions series, we identified adequacy and member engagement as areas of tension in relation to the member experience. At present, an employer's pension offering may be a secondary criterion for a candidate seeking a new role. In future, could higher levels of engagement with pensions mean a generous DC scheme becomes a differentiating factor for employers looking to attract quality candidates?



## #PressureMeasure Forecast

The pandemic has thrown new challenges at businesses and the impact on pension liabilities is just one further unwelcome pressure on what, for sponsors of defined benefit schemes, was often already a testing situation. Against a backdrop of increasing focus from The Pensions Regulator (TPR) on long-term journey planning, it is important that trustees and employers work together to weather this latest storm.

Whilst the initial rate of requests as we went into lockdown for deferral of employer pension contributions was lower than might have been predicted, the pace of economic recovery could well lead to an increased number of requests in the future, particularly in the worst-impacted sectors. It is positive that the government has responded to calls for Local Government Pension Scheme employers to have greater flexibility over the timing of their contribution obligations, with new legislation coming into force at the end of September.

Schemes with a 2020 valuation date face a particularly difficult time and need to factor in both the impact of the pandemic and TPR's evolving views about funding. The new DB Funding Code could represent a step change for some schemes, but the industry has expressed some scepticism about just how many schemes will decide to use a "fast-track" process. Hopefully, however, shorter-term economic tensions will ease and allow employers to agree funding arrangements that will both provide security for member benefits and enable the business to thrive and grow as economic circumstances improve.

Employers may also face pressure from employees looking for their pension benefits to evolve in line with the increased flexibility in working patterns, which looks like it will be one of the pandemic's lasting legacies. It will be interesting to see if the government responds in the coming years with changes to the tax regime that will enable pension schemes to adapt to this need.

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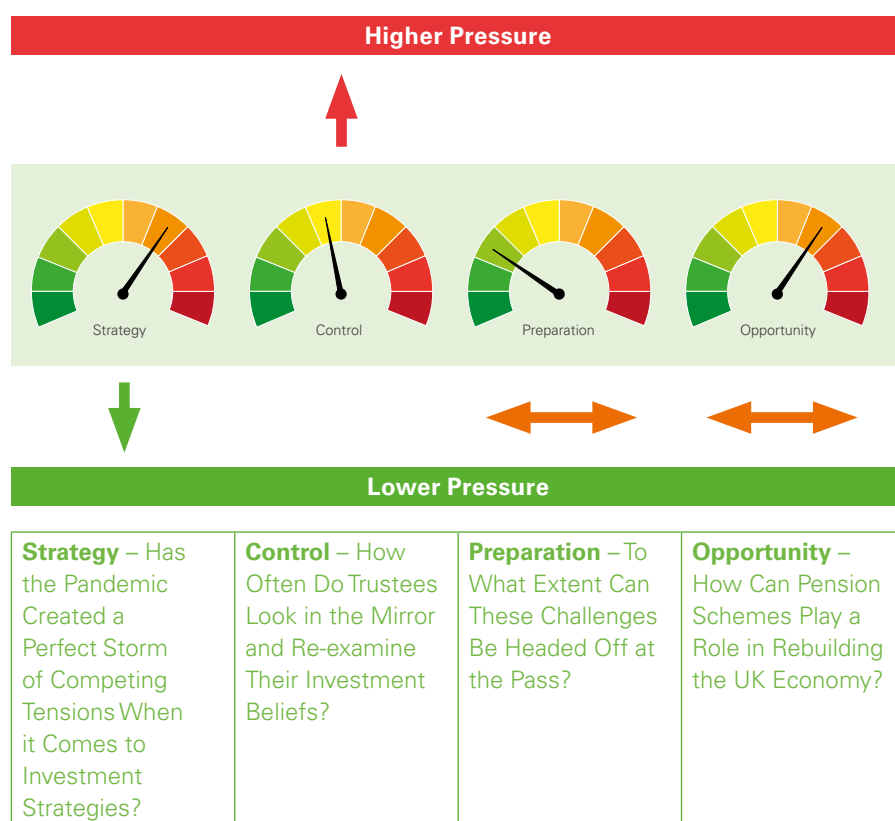
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# The Investment Experience

Trustees do not yet have all of the solutions to the very real tensions surrounding investments, but we consider they are coping well with the matters that are under their control.

It remains to be seen how pension scheme investments will look in a post-COVID-19 and post-Brexit world, but it is possible the pandemic may prove to be a catalyst in increasing public awareness of environmental, social and governance (ESG) matters, as well as new investment opportunities around supporting innovation and funding infrastructure projects.

Will fund managers find themselves under increased pressure to be more proactive on ESG matters and address issues around liquidity? Might they start facing more probing questions from trustees when pitching for new clients?



## #PressureMeasure Forecast

Schemes have now had six months' experience of seeing how their strategies have survived (or taken advantage of) market volatility. Although some planned asset transitions have been delayed because of that volatility, we have not seen wholesale revisions or abandonment of pre-COVID-19 plans. However, trustees will need to revisit strategies to make sure they remain fit for purpose in the short term, with additional events, in particular Brexit and the US elections, on the horizon.

As fiduciaries, trustees are being increasingly challenged by both their members and, more widely, by activists to demonstrate their environmental (including on climate change), social and governance credentials. Making scheme websites accessible to the general public will surely increase that pressure.

Trustees of well-advised schemes ensure that contracts reflect their investment beliefs and are clear on service provider accountability. This is not the case for all schemes, however, and unclear provisions would certainly be tested in the event of any disputes.

Investors are still awaiting clarity on UK infrastructure investment opportunities sponsored by the government (apart from the recent noises on HS2). Basic fiduciary principles mean that investments should be made for the purpose of paying pensions (and not for the purpose of preferring UK-based investments on merely patriotic grounds). In other words, normal investment due diligence rules will apply and, as ever, legal advice should be taken on investment documentation.

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# #PensionsTensions on the Horizon

The pensions horizon continues to evolve, with a number of developments expected in the coming months. These are our top 10 #PensionsTensions on the horizon.

**1** The Pension Schemes Bill will (eventually) be enacted, bringing new TPR powers into play. It remains to be seen how TPR will exercise these powers and what the effect will be on corporate and trustee activity.

**6** The Corporate Governance and Insolvency Act provides company directors with new powers, including the ability to initiate a moratorium. This impacts the balance of powers between sponsoring employers and trustees of DB schemes and requires careful conflicts of interest management.

**2** Pensions transfers are under the spotlight for all the wrong reasons: scam activity, questionable financial advice, poor member decisions, charges and delays. Government, regulators and best practice groups are stepping up activity – this is an area that needs all-round improvement.

**7** New models of DB consolidator vehicles, or “superfunds” are set to emerge from the chrysalis of TPR’s interim guidance. Tensions between the pensions and insurance industry continue around differences between the two regulatory regimes and capital adequacy requirements.

**3** The issue of pensions tax relief will almost certainly come under scrutiny as the chancellor looks to make cost savings. Any further movement of the tax relief goalposts could undermine trust in the system. We hope that any measures are fully considered and aligned with government aims to increase private pensions savings.

**8** Price inflation indices continue to be a point of contention. We await the outcome of the consultation on technical statistical processes to align the RPI to the CPIH. This will add further fuel to the debate around whether changes could and should be made to the revaluation and indexation of benefits in particular schemes.

**4** ESG is high on every agenda with increasing governance and disclosure requirements, and mounting pressure from member action groups.

**9** Data protection and cybersecurity should remain on trustee agendas. There will be more developments on international data transfers following the landmark decision (the *Schrems II* judgment), which affects the lawful transfer of data outside the EEA.

**5** Brexit preparations may have taken a back seat due to the more immediate pressures caused by COVID-19. However, concerns remain around disruption to both pension scheme and sponsoring employer business planning.

**10** The DWP and TPR have repeatedly expressed concerns about the number of small DC schemes that may not be well governed, leading to sub-standard member outcomes. So far they have struggled to address this issue, but we can expect to see more evidence of their work to remove barriers to DC consolidation.

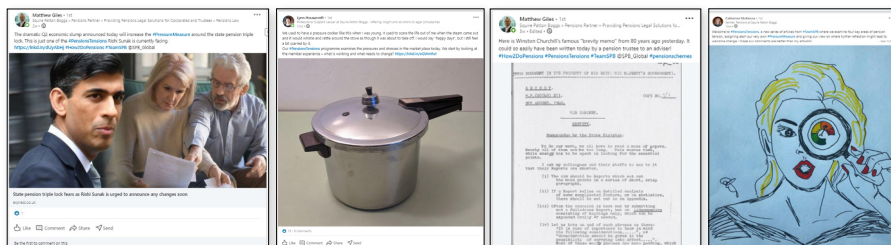


# About Us

We pride ourselves on providing informative and engaging client materials, using infographics and imagination to make them an “easy read” for clients. We were proud to be awarded “Educational Initiative of the Year” at the FT and Pensions Expert’s Pension and Investment Provider Awards 2020 and 2019 for our work to demystify pensions law in our communications, and our #meetPAUL initiative.



Our #PensionsTensions campaign to date has been well received across the industry and has, to date, been viewed more than 70,000 times across social media, our website and through a series of mailings direct to our clients. We have also featured in publications such as Pensions Age, Investment & Pensions Europe and Mallowstreet.



## Our Pensions Team

- Acting for many pension schemes for more than 30 years.
- More than 40 UK pension specialists.
- 17 pensions awards over the last 17 years.
- More than 500 trustee, corporate and public body clients
- 500 years combined pensions law experience.
- Acting for clients with scheme assets between £15 million and £300 billion.
- Run our own professional trustee company, with around 30 scheme appointments.
- Three dedicated professional support lawyers.
- More than 4,000 delegates have attended our events over the last five years.
- Produce weekly and quarterly client updates and regular blogs.
- Recognised by the Pensions Management Institute for providing training around the Award in Pension Trusteeship exam.

## Our Firm

- A global team of more than 2,600 employees
- More than 500 partners/1,500 lawyers across 45 offices in 20 countries.
- A seamlessly connected service that operates on any scale – locally or globally.
- We advise a diverse mix of clients, from long-established FTSE 250 corporations to emerging businesses, start-ups, charities and sovereign nations and we place our clients at the centre of everything we do.
- Our firm is recognised in Law360's annual Global 20 list, identifying the 20 global law firms involved in the biggest, most complex and most diverse array of matters.
- We are the largest law firm in the UK to achieve the Lexcel quality management standard that demonstrates we put in place systems and procedures to manage matters effectively and also hold the Investors in People quality accreditation.

Please follow our campaign on social media using  
#PensionsTensions and #How2DoPensions.



