

# Pensions Matters

LGPS and Police and Fire Pensions  
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# The Election Result

- ▶ Political mess
- ▶ Caught between hard left and hard right
- ▶ DUP deal
- ▶ Weak Government gives Commons more power
- ▶ Hard vs.soft Brexit
- ▶ Will May stay?



# Impact of political developments

- ▶ Light legislative agenda – Brexit dominates
- ▶ Little action on pensions, triple lock stays
- ▶ Pensions Regulator may get more powers
- ▶ Public sector pay restraint likely to ease
- ▶ Financial Guidance and Claims Bill
- ▶ Consultation on social care – action is needed

# Impact of Brexit?

- ▶ Political uncertainty unsettles markets and sterling
- ▶ Companies nervous
- ▶ Will Government prioritise business and jobs
- ▶ Lower growth, higher inflation
- ▶ Easier monetary policy despite inflation
- ▶ Pressure on interest rates – maybe offset by more QE?

# DB pensions – looking after members

5

- ▶ Auto-enrolment
- ▶ Encourage contributions – explain benefits of pensions
- ▶ Financial education - help plan pensions and work income
- ▶ Access to financial advice - £500 tax deductible
- ▶ Signpost information on State Pensions

# Information about state pension

- ▶ Help ensure full NI record
- ▶ Link to on-line State Pension forecast
- ▶ Check State Pension age
- ▶ Even if not entitled to Child Benefit still need to claim it or lose State Pension entitlement for that year (can only backdate 3 months!)
- ▶ Part-time low earners or grandparents caring 16 hours pw could claim NI credits for state pension

# Member engagement

- ▶ Encourage and engage
- ▶ Help members check their own pension position
- ▶ Videos, webinars, promoting pensions, gamification
- ▶ New technology to help members understand
- ▶ Get rid of jargon, explain free money, brilliant benefits

# Equalisation – how and how much?

- ▶ Consultation on equalisation for public service schemes
- ▶ Equalisation of GMP then also age and indexation
- ▶ Three options:
  - ▶ Continue interim method – simplest but adds 0.5% cost
  - ▶ Case by case – fairest but slowest with uncertain cost
  - ▶ Convert GMP to scheme pension as in private sector – cost of implementation
- ▶ How will LGPS schemes manage costs of equalisation
  - ▶ estimate £2.5bn - £9bn?

# Good-quality data essential



- ▶ Record-keeping is essential part of running pension scheme
- ▶ Enables efficient governance and administration
- ▶ Public service schemes have legal duty to keep certain data
- ▶ Can't give members correct information without reliable data
- ▶ Can't do reconciliation and equalisation without correct data
- ▶ Rely on employers to provide accurate up-to-date report

# Governance lessons from Teachers Scheme

- ▶ Regulator to become more 'hands-on' – focus on governance
- ▶ Legal duty on employers to submit audited End of Year Certificate to Scheme Manager to confirm all member data
- ▶ Several employers had failed to submit EOYC on time
- ▶ Administrator chased many times without success
- ▶ Employers didn't understand duties, confused
- ▶ Duty to report breaches of the law to tPR

# Regulator intervenes – more to come?

- ▶ Once reported to Regulator, Section 89 intervention began
- ▶ tPR stepped in to help employers who had broken the law
- ▶ Helped employers understand and then comply
- ▶ Educate, Enable, Enforce
- ▶ Having Educated and Enabled, didn't need to Enforce
- ▶ So report breaches if your employers fail to report

# Unintended consequences of QE

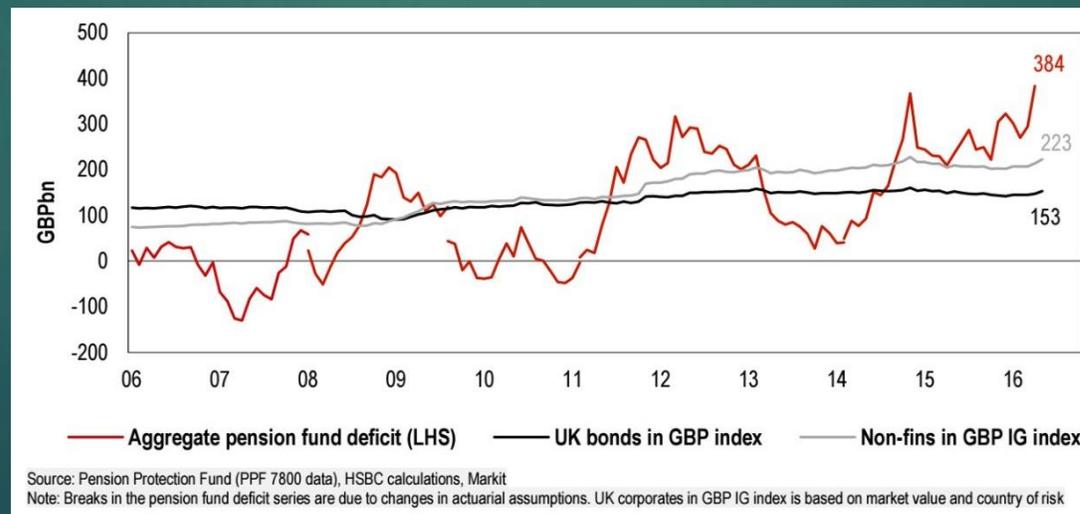
12

- ▶ Higher Pension deficits
- ▶ Distort investment markets – and investment risk
- ▶ Greater income and wealth inequality
- ▶ Exacerbates inter-generational inequality
- ▶ Political fallout - rise of populism as ordinary people lose out?

# QE increases DB deficits

13

- ▶ Liabilities rise by more than assets
- ▶ Typical DB pension fund sensitivity to interest rates:
  - ▶ 1% point fall in long rates => 20% rise in liabilities
  - ▶ 1% point fall in long rates => 6-10% rise in assets
- ▶ As deficits rise, trustees compete for bonds – vicious spiral



# Pensions and investment risk

- ▶ As deficits worsen trustees told to 'de-risk' with gilts/bonds
- ▶ Sell equities, buy more bonds
- ▶ But is buying gilts 'de-risking' as QE distorts risk models?
- ▶ Do negative yields give 'risk-free returns' or 'return-free risks'?
- ▶ With uncertainty, maybe diversification manages risk better

# DB pension fund asset allocation trends

15

Year	Equities	Bonds	Other
2006	61%	28%	11%
2007	60%	30%	11%
2008	54%	33%	14%
2009	46%	37%	17%
2010	42%	40%	18%
2011	41%	40%	19%
2012	39%	43%	18%
2013	35%	45%	20%
2014	35%	44%	21%
2015	33%	38%	19%
2016	30%	51%	18%
Source:	PPF	Purple Book 2016	

# Open vs. closed DB

16

- ▶ Regulator doesn't distinguish between open/closed
- ▶ Closed want to get rid of risk – annuity or self-sufficiency?
- ▶ LGPS open – longer term time horizon, cash inflows
- ▶ Can benefit from illiquid investments
- ▶ Broader diversification can help manage risk
- ▶ Infrastructure, social housing, alternatives – pooled assets

# Policy agenda

- ▶ DB Green Paper – pooling, regulatory powers?
- ▶ Auto-enrolment review – no new burdens on business, help for self-employed?
- ▶ Cridland response – no change to state pension age?
- ▶ Comprehensive Pensions Dashboard – who will fund it, will it be mandatory?
- ▶ Reform of pensions tax relief – on hold?

# The future

18

- ▶ Once Auto-enrolment established maybe compulsion next?
- ▶ Then auto-escalation and new incentives to focus on more
- ▶ More emphasis on workplace financial education
- ▶ Local authorities can be excellent role-model for others
- ▶ Improved governance, economies of scale, member engagement
- ▶ Exciting opportunities to promote pensions: explain, engage, enthuse

Any questions?...

19

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