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## New Pensions Commission: consensus emerging

The idea of a new Pensions Commission to inject rigorous analysis and long-term thinking into UK pensions policy has been gaining traction since the unexpected announcement of pensions “freedom” reforms in the 2014 Budget.

In March, the House of Commons Work and Pensions Committee became the latest body to throw its weight behind such a call.

Committee chair Dame Anne Begg

said: “The scale and pace of recent changes in pensions policy have completely changed the retirement saving landscape. It is necessary to draw breath and review the extent of the changes and their implications.

“A new independent pension commission would be able to identify any emerging risks, and explore with stakeholders how these can best be addressed.”

*Continued on page 2*

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# Welcome

There have been huge changes to the pensions landscape recently and it is likely that the coming years will be no different.

This means that the TUC needs to be able to react quickly to keep Trustee Network members abreast of what is going on.

To this end, we intend to send out future Trustee Newsletters by email only. We will aim to provide more regular updates in between editions and to seek the views of network members on ongoing pensions issues.

Therefore we would like you to stay part of the network by completing the online form at [www.tuc.org.uk/join-trustee-network](http://www.tuc.org.uk/join-trustee-network) or by filling in your details on the enclosed postcard, including your email address, and returning it to us in the freepost envelope provided.

Among the issues that will generate much debate in the coming months will be proposals for an Independent Pensions Commission.

The TUC has supported calls for a standing pensions commission. This is not to “take the politics out of pensions”, as some lazily advocate, because decisions about distribution of resources need to be part of the democratic process.

However, a commission with expertise drawn from social partners, including trade unions, that focuses on evidence-gathering and consideration of the long-term should serve to make the politics of pensions work better.

*Continued from page 1*

The Pensions Commission of a decade ago was chaired by former Confederation of British Industry director-general Lord Adair Turner with trade unionist Baroness Jeannie Drake and academic Professor John Hills also serving on the commission. This involvement of social partners led to wide acceptance of its conclusions. These included the automatic enrolment of employees into a workplace pension scheme with compulsory employer contributions.

Dame Anne said: “The Turner Commission brought political consensus, full involvement of stakeholders, and detailed consideration of the wider impacts of major pensions policy changes.

“The successful introduction of auto-enrolment is a product of this. The current reforms have not always benefited from the same careful approach.

“A new commission is now needed to provide coherence in pensions policy and to build public confidence and long-term stability in the system.”

Commenting on the Work and Pensions Committee’s recommendation, TUC General Secretary Frances O’Grady said: “It is welcome that the committee adds its voice to calls for a new pensions commission to bring back long-term thinking and consensus-building to pensions policy-making.”

The TUC has long been a supporter of a new Pensions Commission. This case has been strengthened by the clear lack of evidence-gathering before the rushed implementation of the new pension flexibility reforms.

Other supporters of a Pensions Commission include the National Association of Pension Funds. The Association argued in its 2014 manifesto for the establishment of an Independent Retirement Savings Commission with a clear remit to define, measure and promote good

retirement outcomes.

A report published in February by the International Longevity Centre-UK (ILC-UK) and sponsored by insurance company Prudential also alighted on the idea of a new independent Pensions Commission to rebuild consensus-based policy making in pensions and tackle the challenge of insufficient incomes in retirement.

Ben Franklin, Senior Research Fellow at ILC-UK said: “A new Pensions Commission is urgently needed in order to look at the problem of retirement income adequacy in a holistic way – taking into account the political and economic realities of our time.

“The core goal of ensuring adequate retirement incomes based on the principle of consensus-based policy making is consistent with the original thrust of the Turner Commission a decade ago, and can be at the heart of a new coherent settlement on pensions policy in the UK.”

*“A new Commission is needed to provide coherence in pensions policy and build public confidence.”*

However, current Pensions Minister Steve Webb has remained sceptical, arguing that action on issues such as improving automatic enrolment are too urgent to wait for the deliberations of a new commission.

He said: “There is a risk that if we think that we’ll fix things by commission, that actually what happens is you take years... when we could be achieving something that I agree is absolutely urgent.”

# TPR issues guidance on pensions freedom

The Pensions Regulator has released two key documents as it seeks to support trustees dealing with the pensions freedom changes that come into force on 6 April.

These are:

- an essential guide for trustees of DC schemes to the new governance standards and charge controls: <http://tpr.gov.uk/trustees/new-duties-for-dc-schemes.aspx>, and
- draft guidance for trustees of DB schemes on managing member requests for transfers from DB to DC schemes: [www.thepensionsregulator.gov.uk/doc-library/db-dc-transfers-conversions.aspx](http://www.thepensionsregulator.gov.uk/doc-library/db-dc-transfers-conversions.aspx)

The regulator's interim chief executive Stephen Soper said: "In the context of the new flexibilities, the first step for many members

will be seeking a transfer of their safeguarded DB benefits to a DC scheme, enabling them to access their benefits flexibly.

"DB trustees may experience an increase in the number of requests for transfers and transfer quotes as members consider their options. We have therefore produced this guidance to assist DB trustees to manage transfer requests and their impact."

The guidance aims to:

- help trustees ensure they have appropriate processes in place to manage transfer requests
- prompt trustees to consider the impact of transfer values as part of an integrated approach to risk management of their scheme
- require trustees to provide clear information for members so that they can get independent advice on the best option for them.

Mr Soper added: "The regulator believes that for most members, it is still highly likely in current conditions to be in their best financial interests to remain in their DB scheme. However, members' personal circumstances may mean they wish to consider the other options open to them."

In the coming weeks, TPR will also be publishing a new guide for trustees, following publication of further DWP regulations in March, to address the new pension flexibilities – including how trustees should direct their members to the new Pensions Wise service.

It will also be updating its Scorpion communications materials to help members understand the risks of pensions and investment scams, which are expected to evolve as a result of the new pension freedoms.



Citizens Advice has announced face-to-face Pension Wise sessions will be available from 50 delivery centres across England and Wales.

Each delivery centre will work with a different number of sites, making guidance available at more than 500 locations, Citizens Advice has said.

There remains widespread concern that savers will struggle to access appointments and about the value of the generic guidance provided if they do attend.

Gillian Guy, chief executive of

Citizens Advice, said: "The size of the Citizens Advice network means that we can be flexible and respond to demand by providing support in the nearest available locations, giving easy access to Pension Wise."

Each delivery centre will employ the equivalent of between three and eight full-time members of Pension Wise guidance staff.

In Scotland, Pension Wise guidance sessions will be available face-to-face from Scotland's 90 Citizens Advice Bureaux and more than 200 service points. More than 40 staff will be involved in the delivery of the service.

Local arrangements will also

be made for people in remote locations to be offered guidance, including home visits, Citizens Advice Scotland has said.





# Putting the collective back into pensions

The introduction of Collective Defined Contribution pensions has taken a large step forward with Royal Assent for the Pensions Scheme Act.

Detailed regulations on the operation of such schemes, also known as target pensions, are still required. These will clarify rules on subjects such as funding levels, which could affect how effective they will be, or if they will be introduced at all. These are expected to be developed over the next 12 months.

CDC pensions are part of a new breed of what the government styles Defined Ambition pensions, that could offer less volatility than traditional defined contribution pensions but might hold greater appeal for employers by limiting their liabilities.

Pensions Minister Steve Webb said: "There is a real appetite from employers to offer high-quality pensions for their staff and the new Defined Ambition pensions made

possible by this Act will enable a new generation of better, fairer schemes."

The proposed model will have a fixed contribution rate for employers; a target pension income for employees (with provision for this to be adjusted if the scheme is underfunded); and pooling of scheme assets (rather than individual funds for each member).

Income will be paid from this pool of assets when a member retires.

This could provide greater stability of outcomes for individuals than traditional DC, with schemes able to invest in a wider range of assets, including those such as social housing that cannot be easily bought and sold, because schemes can invest for the long term.

There should not be the same need to move into less risky assets when a saver approaches retirement, as there is with individual DC, and pension incomes would be less dependent on market



conditions at the point of retirement.

However, certain conditions will be necessary to enable them to operate successfully – in particular, large scale and strong governance.

Critics of CDC argue that there is little appetite among employers to try out new forms of pension and that savers may be wary of schemes that require decisions to be made about how to share investment gains and losses between different generations of savers.

The TUC is a long-term supporter of CDC pensions as a way of ensuring that savers get the highest and most predictable income in retirement that is possible.

However, it retains concerns about the operation of CDC schemes, including the provisions in the Act that allow CDC schemes to be set up as contract-based schemes. These have none of the protection provided by a not-for-profit trust-based structure that the best workplace schemes have.

This could lead to conflicts of interest when companies look at difficult issues such as intergenerational fairness that are an essential part of running CDC pensions.

There is undoubtedly strong interest in CDC pensions with 130 delegates attending a TUC conference The ABC of CDC at Congress House in January.

Speakers from a range of organisations including the Dutch trades union federation the FNV, fund management firms, pension providers, law firms and actuarial firms discussed the potential way forward for CDC pensions in the UK.

Much of the discussion focused on the impact of pension flexibility rules from April leading to renewed focus on retirement income options for savers. This could spark interest in the use of CDC initially in the retirement phase, as a way of sharing the risk of living longer than expected.

NEST, the government-backed automatic enrolment pensions provider, is looking at whether CDC could be relevant as a post-retirement option as part of its 'Future of Retirement' consultation.

Even those on the individualist right of the political spectrum, such as the Centre for Policy Studies, have suggested that CDC pensions might have a role in providing more secure incomes in retirement.

Meanwhile, in Australia there is growing concern that many people run out of savings relatively early in retirement. This is leading trade unions and others to push for the establishment of CDC schemes.

## What they said at the TUC

### Pensions Minister Steve Webb

"You can imagine NEST potentially ... having a collective option."

"There will be a kickback against individual DC, make no mistake."



### Shadow Pensions Minister Gregg McClymont

"The Pension Schemes Bill leaves many decisions on CDC to further discussion, to put it politely."

### David Pitt-Watson, executive fellow, London Business School

"CDC is like DB but without the heavy promise."



### Nigel Stanley, head of campaigns and communications, TUC

"What people want from a pension in retirement is an income. They want it to be predictable and last until they die."



### NOW: Pensions chief executive Morten Nilsson

"I can't see how CDC will work in the UK as the market is still too fragmented."



**Sandeep Maudgil, partner, Slaughter & May** "The reality is governance will be key and will impose heavy burdens on trustees."



### Hilary Salt, actuarial director, First Actuarial

"CDC only works if you trust the trustees ... which is why that role is vital."



Look at a Storify post on the ABC of CDC conference here: <https://storify.com/TUCeconomics/the-abc-of-cdc-tuc-pensions-conference-21-january>

# In the news

theguardian | 26 February 2015

## Young people boost UK pensions to 17-year high

"Auto-enrolment is a huge success and has reversed the decline in the numbers saving into pensions," said the TUC's head of campaigns, Nigel Stanley. "Like the minimum wage, compulsory employer pension contributions have gone from controversial to consensus in just a few years."

THE INDEPENDENT TUESDAY 10 MARCH 2015

## Consumers face rip-off scams after pension reforms, MPs warn

Frances O'Grady, the TUC's general secretary, said: "The committee is right to warn that savers are at risk of being 'ripped off' in a new pensions scandal, after George Osborne rushed through radical reforms with little thought of the consequences."

FRIDAY, MARCH 6, 2015

The Daily Telegraph

## Rip-off charges on 'pension bank accounts'

Frances O'Grady, general secretary of the TUC, said: "Millions of people could lose thousands of pounds due to excessive charges in retirement at the very time they should be enjoying the fruits of their savings. Consumers do not want the freedom to be ripped off. And there is no better way of deterring a generation from saving for their old age than another pensions scandal."

THURSDAY, FEBRUARY 5, 2015 | The Daily Telegraph

## Young workers' £100,000 boost from ban on rip-off pension fees

Frances O'Grady, general secretary of the Trades Union Congress, said: "The government's failure to extend the cap in April could leave some savers in a financial services 'Wild West' with no protection from excessive charges or dodgy products."

# These pension changes are a "reckless experiment"

The next government needs to encourage the development of default pathways to mitigate the worst excesses of the pensions freedom experiment, the TUC has said in its submission to a review of retirement income being led by Professor David Blake of Cass Business School.

The independent review, which is due to report this summer after seeking input from a range of organisations, was commissioned last year by Shadow Work and Pensions Secretary, Rachel Reeves. The conclusions reached by Prof Blake and his colleagues at Cass Business School's Pensions Institute are therefore expected to be highly

influential if Labour enters power after the general election on 7 May.

The TUC said: "We regard the government's changes to retirement income rules as a reckless experiment, with low and middle-income savers the unwitting guinea pigs."

It added: "Giving people the freedom and choice to opt out of default options or choose between well signposted routes is a very different process to the free-for-all favoured by the current government."

The TUC's response was deeply critical of the government's failure to gather evidence, consult widely or build consensus.



"What makes the pension 'freedom' policy especially irrational is that it follows the remarkable success of the early years of automatic enrolment. Introduced

after prolonged consultation and careful evidence-sifting by the Pensions Commission, auto-enrolment has resulted in opt-out rates of little more than 10 per cent.

“These are even lower than its greatest advocates dared to hope for. What this tells us is that harnessing the inertia that many experience when facing retirement planning and directing people towards well-researched investment options that suit most savers, works well.”

The TUC argued that there is little prospect that a 30–45 minute highly general guidance conversation, even if taken up by savers, will be sufficient to guide them through the dangers and complexities of retirement income provision. Many savers will likely be tempted just to cash in their retirement savings.

“This all strongly suggests that savers would benefit from what has been described as a pathway approach – a limited selection of decumulation routes. For those above the trivial commutation thresholds, these would most likely consist of income drawdown progressing to an annuity contract in later life,” the TUC said.

“As an alternative to a combination of drawdown and annuitisation, collective defined contribution (CDC) arrangements could provide the twin benefits of continued exposure to investment markets in retirement and longevity pooling, without the cost of indexed hard annuity guarantees.”

### The Blake Review's key concerns:

- how to get more predictable retirement incomes
- how to generate the most value for every pound saved
- how to nudge people towards well-designed options.

## Charges clampdown

There has been a step forward in long-running moves to clamp down on excessive and hidden fees levied on pension schemes with the launch of a joint call for evidence by the Department for Work and Pensions and the Financial Conduct Authority.

They will explore:

- how improved transparency in the reporting of information about the transaction costs and charges incurred can be achieved
- what costs should be included in transaction costs reporting
- the basis on which costs should be captured and reported
- whether other factors that influence investment returns should also be provided
- how Independence Governance Committees (IGCs) and trustees will receive transaction cost information

- when, how and in what format information should be provided and to whom.

A study of costs incurred by group personal pensions (GPP) by consultancy Novarca for the FCA asserted that “calculating transaction costs is not an exact science”.

Novarca said that the bulk of the costs that are most likely to occur within the investment portfolios of GPP products can either be measured directly or estimated with enough accuracy to give IGCs a good view of the impact on the portfolios underlying their schemes.

It said that partial transaction cost transparency could be introduced quickly, following an approach adopted in the Netherlands.

[www.fca.org.uk/news/dp15-2-transaction-costs-disclosure](http://www.fca.org.uk/news/dp15-2-transaction-costs-disclosure)

## MEPs consider IORP 2

The European Parliament has begun its consideration of the IORP (Institutions for Occupational Retirement Provisions) II Directive that has the potential to threaten the position of member-nominated trustees in the UK as well as the prospect of placing additional burdens on schemes.

Ministers from member states finished their deliberations in November, which resulted in many of the most potentially damaging proposals being removed.

However, MEPs will begin their work looking at the original European Commission text.

The Directive includes proposals requiring that all people who run an IORP must have the “professional

qualifications, knowledge and experience” to enable them to ensure the sound and prudent management of the IORP and to carry out their key functions.

If strictly applied this could lead to many trustees, both employer- and member-nominated, being forced either to take professional qualifications or to resign from the trustee board. There is a risk of a great loss of expertise from UK trustee boards and a diminished level of member input.

The European TUC has asserted that the aim of creating an internal EU market for IORPs should not be a goal in itself and the focus should be on improving outcomes for savers.



## Stewardship update

The US Teamsters trade union is seeking support from pension funds and other shareholders as it steps up its efforts to encourage UK-based transport multinational National Express Group to take a more constructive approach to relations with its US employees.

For the second consecutive

*“If you are able to direct your scheme’s voting please vote for the resolution on 6 May.”*

year the Teamsters and its allies among UK pension funds and other shareholders have tabled a motion to be discussed at National Express’s annual investor meeting on 6 May in an effort to stop National Express frustrating US employees’ right to representation by a trade union.

In 2014, a motion that included a demand for a workplace policy that enshrined workers’ rights to freedom of association gained support from City firms such as Legal & General Investment Management, Threadneedle Asset Management and Aviva Investors.

Co-sponsors of last year’s motions were Greater Manchester Pension Fund, Nottinghamshire Pension Fund and the London Borough of Islington Pension Fund.

It was one of the most successful

motions on social and environmental issues tabled in recent years with a vote in favour of almost 13 per cent.

Including abstentions, the total share of votes not supporting management was just under 15 per cent.

The motion being tabled this year requests that National Express obtain an independent review of its North American school bus operations to address continuing reports coming from the company’s Durham School Services employees claiming management interference with their freedom of association rights.

It said the results of this inquiry should be reported to shareholders by the end of September this year. We would welcome the support of UK trustees on this issue. If you are able to direct your scheme’s voting please vote for the resolution on 6 May. If voting is delegated to your asset manager, please ask them to vote for the resolution. We believe a strong vote for the resolution will encourage the Board to deal with long-standing problems in its US business.

Louis Malizia, assistant director of the Teamsters, said: “As investors and stewards of union members’ capital we can be proactive to move National Express Group in a direction that promotes sustainable growth in the expanding North American student transportation market.”

One of the first, major post-general election events for pension trustees will be Workplace Pensions Live on 13–14 May, organised by the team behind *Pensions Insight* magazine.

Keynote speakers at the gathering in Birmingham include David Willetts MP, David Blunkett MP and former BBC Economics Editor Stephanie Flanders.

Trustees and trustee chairs from schemes including the MNOPF, Carillion Pension Scheme, Pensions Trust, USS and Tower Hamlets Pension Fund will also give their verdict on the election results.

There will be conference streams focusing on both DC and DB schemes.

Register for free at [www.workplacepensionslive.co.uk](http://www.workplacepensionslive.co.uk)