PLACARD

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Mansion House search for the Holy Grail of growth

The Chancellor's Mansion House speech in July represented the latest 'growl of frustration' from the Government on the UK's inability to attract sufficient private investment into what has been loosely described as 'productive finance' – a definition that now looks to be focussing increasingly on venture capital. His speech explored the reasons, as he sees it, for the UK's weakness in driving economic growth through bolder investment decisions, with pension funds a particular target due to their current asset allocations. Were there, he asked, reforms to pension structures and attitudes that could be put in hand at pace to improve UK growth by schemes being more adventurous (but still meet members' needs for security)? It seems likely, his Autumn Statement on 22 November will set out a challenging agenda for sponsors, trustees and consultants as his thinking has met considerable support from Opposition benches, where growth is now seen as a high priority to bring in more tax revenues and fund any further increases in public spending.

His speech brought to the forefront once again the issues surrounding scheme consolidation and its potential to boost investment in UK businesses within the UK pension scheme landscape. On one hand, consolidation is seen as a means to create larger, more efficient pension schemes, which can lead to economies of scale and reduced administrative costs. This can free up resources for increased investment in a variety of assets, including UK businesses.

The idea behind consolidating smaller pension schemes is to pool their resources and expertise, making it more feasible to allocate a portion of their assets to investments in domestic businesses. Such investments can be beneficial for both pension schemes and the broader economy. They can generate returns, support economic growth, and create job opportunities within the UK.

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However, this approach is not without its challenges. Consolidation requires careful planning and execution, as merging schemes may involve complex transitions and potential conflicts of interest among trustees. Additionally, it may lead to a loss of investment diversity if schemes adopt a more standardized approach, which could impact risk management.

Overall, the challenge for UK pension schemes lies in finding the right balance between consolidation for efficiency gains and increasing investment in domestic businesses for economic growth, all while safeguarding the long-term financial interests of scheme members.

As I finish this editorial introduction, The King's Speech has outlined no new legislation to progress those pension reforms that need changes in the law to be enacted in this Parliament. That suggests only those reforms that can make progress through updated regulation or new guidance are likely to move ahead over the next 18 months to two years.

Tom Hargreaves, Editor

A change of approach?

One of the key take-aways from the Mansion House speech was the change in focus from pension scheme de-risking to using pension scheme assets for the benefit of the wider economy. It is not impossible to have both (and that is where consolidation comes in) but it will certainly be difficult to balance these points in the context of setting long-term funding targets. We await further updates on the long-awaited revised code of practice on Scheme Funding as it navigates yet another significant hurdle on its journey.

The question is will we see a fundamental shift from schemes who were targeting liability settlement who will instead run off? This may certainly be feasible for larger schemes, but with the cost benefits that come with scale, smaller schemes are unlikely to see much benefit even if rules on return of surplus are changed.

Driving consolidation

There is clearly a desire within government for greater consolidation of DB schemes (something that has been happening in the DC universe for a while now). This is not without its challenges, and alongside consolidation that offers settlement of benefits it is important to not discard other means of consolidation that don't (such as DB Master Trusts) – as highlighted in the **ACA's response to the call for evidence on *Options for DB Schemes***. There won't be a one-size-fits-all solution to this, and different trustees and employers will see different solutions that are right for them.

It is also pleasing to see the first CLARA deal announced and a relaxation of the superfund assessment criteria, although the continued limit on profit extraction mechanics may continue to be a barrier to a flourishing superfund market for the time being. The industry has been wary of a significant increase in pressure on the bulk annuity market for a number of years and superfunds now provide a viable alternative, albeit in a still developing market. Although bulk annuities continue to be accessible for the vast majority of schemes, smaller schemes could feasibly soon find themselves without an option at all, which is a problem yet to be solved.

Trustee skills holding up ‘progress’?

One of the outputs from HMT/DWP immediately after the Mansion House speech was an evidence call on trustee skills, capability and culture. This was designed to examine whether today’s trustees have the skills the Government believes are necessary to run schemes – notably smaller arrangements – and whether new legislation and regulation may be needed so, in particular it would appear, they are in a position to properly consider investment in productive finance. The ACA undertook a quick survey of trustees and advisers – with 208 responding – and a few of its key findings were that:

- Professional trustees should be required to be accredited (71%), but lay trustees should not (79%);
- Trustees’ fiduciary duties do not discourage investment in alternative asset classes (72%);
- Fiduciary duties do not prevent trustees from seeking best returns for pension savers (83%);
- Trustees would not find more direction from Regulators on investment decision making helpful (78%)

For further details on the findings click **here**.

Decumulation equation

The choice of how best to access benefits at retirement is complex, and our **response to DWP’s consultation on *Helping savers understand their pension choices*** calls for legislation to require schemes to offer decumulation options.

Collective Defined Contribution (CDC) could be a valuable weapon in the decumulation arsenal, but even with widespread support and a fair wind it will still be some time before CDC decumulation will be available (at least to a wide audience), and so it is important to push on now to ensure those retiring in the short term are well served. With that in mind, regulations will need to be wide enough to factor in CDC as well as other potential longevity pooling designs, albeit without making the already complicated decision even more challenging!

ACA I?

Another key development in recent months is Artificial Intelligence (AI) and the way that this might influence our role as actuaries and the pensions industry more generally. Picking up the point above, it is easy to see how AI could be used to help members understand their benefits and make complicated choices at retirement, albeit this is also arguably a mis-selling scandal waiting to happen!

In terms of day-to-day working, we are already seeing examples of AI being used to generate “standard” wording to use as templates for wider work. You have probably noticed

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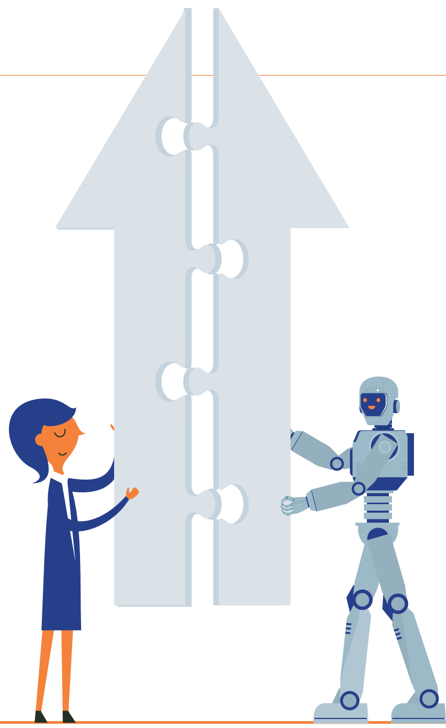

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that part of the introduction to this issue of *Placard* was generated using ChatGPT (the errant "z" from the American developers being left in as a clue..!) and whilst it didn't come up with something usable straight away, it only took a few iterations to generate something that was sensible. Perhaps a new skill for actuaries will be knowing how to ask the right question to get the output you need.

Realistically it is unlikely that AI will ever be able to replace an actuary in the role of a trusted adviser, or at least not until you are able to engage with it "face to face" (and by that time Hollywood would have us believe there will be very different challenges!). But it does present a question on risk. This author has heard an anecdote where a client runs an advice report through ChatGPT to provide a 2-page summary for a Board meeting. Aside from highlighting the need to include a clear and succinct summary in all advice, it also points to the potential need for a new caveat on the use of our work!

Recognising the challenges presented by AI, the ACA has set up a new AI Group to address and inform the Main Committee and members on the opportunities and threats presented. You will hear more in a forthcoming ACA News. An AI seminar also features in next year's Winter 2024 Gatwick Conference, where the programme and registration forms have just been circulated.

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Placard is the periodic briefing and discussion paper of the Association of Consulting Actuaries. Please note that the views expressed in this publication are not necessarily the views of the Association and can reflect those of individual authors.

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