Original Article

What the future holds for the pensions professional

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ABSTRACT In the New Era of workplace pensions, the most prominent roles will be in consumer dialogue and engagement, process engineering and a broader approach to Governance. There will still be a place for traditional technicians in legacy roles but the industry needs to attract talent with a wider range of skills to service the Google and Facebook generation, which should make a career in pensions more varied and exciting.

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WHAT'S HAPPENING TO THE CURRENT PENSIONS LANDSCAPE?

Nothing much, some might say, at least on the surface. It still looks much the same as it did a decade or more ago: dominated by a relatively small number of large defined benefit pension schemes reflecting the largest employers in both the private and public sectors; controlled by another relatively small number of professional and trade bodies, all with separate agendas; tightly regulated and subject to continuous legislative intervention. The consequent demand for pensions expertise, to help navigate through this complex and difficult terrain, appears as strong as ever. A comfortable retirement still seems a real prospect for pension professionals able to command premium pricing for their

knowledge and skills built up over several decades.

Let's take a closer, more considered look, however, at the cracks appearing in this apparently rosy picture.

1. Almost all private sector defined benefit schemes are closed and on some sort of path to eventual closure, as companies seek to manage down expenditure in difficult times. For some few years now, the majority of new employees that have entered the workplace will only have had access to defined contribution schemes with lower contribution rates.
2. Public sector schemes are attempting to moderate benefit accrual in the face of increasing taxpayer unrest and despite determined union opposition, as the sheer size of potential future liabilities emerges.
3. The retirement prospects of generations Y and Z will be dependent on them sacrificing something realistic out of their current income if employer contributions to DC pensions remain low, but the evidence is of wholesale mistrust and disengagement with any form of pensions saving.

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Brian Critchell, a Principal at PAN Governance LLP, considers what steps are needed to future proof the role of the pensions professional in a fast changing UK long-term savings industry.

4. Demands for better governance are leading to a sharper focus on just how much it costs to run the great British pensions bureaucracy. Trustee boards and public sector scheme managers are increasingly seeking to drive down professional and service costs in the pursuit of efficiency and value for money.

You don't need to be an economist to appreciate that, if the UK pensions industry isn't growing, the jobs of those working in it are at risk. I do recall an eminent economist alluding to this while addressing the PMI conference nearly 10 years ago. He stunned the assembled great and the good of the industry by declaring that the future of pensions would be more secure if pensions professionals were not making such a good living out of it at the expense of the membership. A prescient view, perhaps, though I also recall much scoffing at the time.

THE NEW RETIREMENT LANDSCAPE – SERVING THE FOUR AGES OF MAN

We are fast reaching the point where the old saying about the 'Three Ages of Man' is replaced by a new version. I have seen one or two references to it already in the pensions press. Borne out of economic necessity and political expedience perhaps, but some experts have long believed that retirement in the sense of having nothing to do is bad for you!

Either way, the new 'third age', comprising a mixture of work and some leisure, living off both pay and the proceeds of (any) saving, is likely to grow in significance very rapidly, along with an increasing demand for flexibility in each of the three pillars of state, workplace and personal provision. For this to work, regulatory constraints need to be loosened and products and solutions need to become simpler, so that investment strategies can become more personalised. There should be no need to build complex structures to try and make a pension fund look like something it isn't, in order to fit the box. Similarly, there should be no need to maintain a vast regulatory empire at a huge cost to the taxpayer.

It will be some years yet before the total assets tied up in DC pensions reach the one trillion pounds or so of assets tied up in defined benefits but it is clear that management and stewardship costs need to be seen to be considerably lower than has been the case with DB. A logical solution would be for all operational aspects to be outsourced to NEST, the Peoples Pension and a relatively small number of other industry-wide master trust corporations (as promoted by the NAPF) to achieve acceptable economies of scale to benefit individual savers. The role of employers will then evolve more into that of a facilitator.

Employers will need confidence that this approach fits into and enhances their HR strategies. Costs must be fully transparent and Governance robust and effective to satisfy this. At the same time, Government and the industry have a moral obligation to derive a sustainable form of defined benefit for the lowest paid who are unable to tolerate any risk to their long-term prospects. A moral market will have to emerge, comprising new partnerships between the State and insurance companies offering guarantees at acceptable cost.

THE TRANSFER OF POWER TO THE CONSUMER

The relentless rise of consumer power, driven by the kind of global social networking the Internet has made possible, has made its presence felt in the retail end of the savings movement but hasn't yet made much impact in workplace pensions. The pensions industry has been reluctant to embrace Web technology as a means of mass communication, mainly due to a lack of knowledge and skill in managing the pension scheme 'brand' in the world of Facebook and Twitter. The Google generation are coming into their own now and will make or break products and solutions that do not deliver to their wants and needs for a fresh, new, lifetime experience of having control of their savings. They will be seeking support that suits them personally to manage both accumulation and decumulation phases over their whole life from a 'can do' perspective.

DO WE NEED TRADITIONAL PENSIONS EXPERTISE ANY MORE?

If the future is predominately DC, except for ring-fenced groups primarily in the public sector, then we won't need so many experts and technical specialists in funded pensions as we have now. The industry has already seen the consequences of unpreparedness: over the last 5 years or so a wave of consolidation and retrenchment has occurred among the larger professional firms. There is no reason to believe that their strategic plans do not include further significant reductions in headcount in traditional areas.

The baby boom came early to the pensions profession and many technicians and managers are approaching normal retirement, if they haven't been caught up in consolidation programmes. This may help further consolidation but there is a danger of a shortage of 'heritage' knowledge and skills in pensions management that could directly impact employers that use them in house; in addition, professional services firms that want to keep a share of the legacy defined benefit market will need to make it attractive for more senior qualified people to remain there. This will not be easy as legacy services become increasingly commoditised.

Government and the pensions industry should have learnt their lesson from the past multiplicity of changes to *future* pensions design, infrastructure and legislation. Preserving the features and obligations of *past* (accrued) benefits has meant that the industry has had to retain the knowledge of how they work. What would happen if there was no one left who knew how calculators derived the answer to calculation work and the world was plunged into a shortage of batteries?

SO WHAT AND WHO DO WE NEED?

A very senior actuary, who happened to be leading one of the Actuarial profession's trade bodies at the time, told me last Christmas that he wouldn't let his children become pensions actuaries, no matter what he had achieved. On the other hand, he saw opportunities for

actuaries to add value in enterprise areas dependent on probability factors and stochastic analysis to determine business strategy, such as insurance and risk management. Thus, there is a future for mathematics specialists, just not as readily lucrative as has been the case in funded pensions. I haven't discussed this with my friends in the legal profession but am prepared to bet that similar feelings are widespread. In a world of DC pensions, with clear objectives and a proper focus on the needs of the end user, there should on the face of it be less need for micro management by legislation and regulation, less need for clarification and less opportunity for doubt of intent.

We will need more engineers than pure mathematicians but, even though Britain's previous world beating engineering generations worked in bricks, mortar and metal, there is no reason to suspect that the next generation of pension engineers will be any less successful at product and service development, with all the modern tools at their disposal. Perhaps, the most prominent role, however, will be that of 'The Communicator', with behaviouralist and attitudinal skills and knowledge and familiarity with the use of the Web for sales and marketing, service delivery, and building and managing the 'brand'. These are not the skills of traditional pension professionals.

In both the public and private sectors, there is also likely to be a convergence of the separate roles of the Trustee and the Pensions Manager, the unsung heroes of the current system. This is likely to lead to the emergence of a new kind of Trustee, most probably a properly paid Governance professional with a wider range of responsibilities but still independent of the provider and the employer to prevent conflicts of interest.

HOW DO WE ATTRACT, RETAIN AND NURTURE TOMORROWS' TALENT?

What I have outlined above will I believe make pensions attractive to a wider range of professionals than at present. Much will depend on how the current firms in the marketplace rise

above the current round of retrenchment and consolidation, however. So far, attempts at diversification by the larger firms have been limited (largely to delegated investment services) but the best brains in these firms are I'm sure alive to the future. Diversification and the forging of new partnerships should already be easier for the smaller firms that have sprung up via the fallout of senior staff from continuing consolidation at the top end.

The professional services firms can learn a lot from the retail savings providers, many of whom are already seizing the opportunity offered by the trend to DC to develop appropriately 'badged' versions of their retail products for the occupational market. Investment providers have suffered from the opacity of their charging structures and poor governance due to regulatory constraints but the new markets and thus the career potential for new professionals are there.

A NEW KIND OF PROFESSIONAL WILL EMERGE

Enlightened employers will find it easier to offer a variety of roles and possible career paths

but will need to support their professionals via a process of continuous learning and adjustment, as career paths will not be straight line any more. In addition to providing a properly skilled workforce to service the industry in future, employers will need to encourage their best employees to progress rapidly to the point where they contribute not just to the direction of the firm but to the industry as a whole, through opportunities to engage in effective dialogue with peers and customers alike and with Government and the relevant Institutions.

To do this, we need to ensure that the industry offers flexible and adaptable professional qualifications via the appropriate awarding bodies that support the development of multiple and varied career paths while maintaining the rigour and discipline of professional standards. The PMI and CII, the Institute and Faculty of Actuaries, the Law Society and others will be obliged to forge new alliances and partnerships to achieve this.

There will be a fulfilling role for a good few years yet for those unwilling or unable to embrace the new order. To everyone else I say *carpe diem*.

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