INVESTING FOR EVERYONE'S FUTURE

A Response to the Pensions Investment Review: Call for Evidence

September 2024

TABLE OF CONTENTS

INTRODUCTION AND EXECUTIVE SUMMARY……………………………………………………………………………………..PAGE 3

PHASE ONE OF THE REVIEW: FOUNDATIONS FOR GOOD INVESTMENT OUTCOMES…………………………PAGE 7

SCALE AND CONSOLIDATION…………………………………………………………………………………………………PAGE 7

COST VS VALUE……PAGE 13

INVESTING IN THE UK………PAGE 17

LOOKING AHEAD TO PHASE TWO: ADDITIONAL MEASURES TO ACHIEVE BETTER INVESTMENT OUTCOMES………..PAGE 22

INTRODUCTION AND EXECUTIVE SUMMARY

The Investment Association's members include a broad range of those managing money for UK pension schemes and pension savers:

- Domestic and international investment managers providing products and services to DB, DC and personal pension schemes, including retirement income portfolios.

- Occupational Pension Schemes (OPS) firms that are in-house investment management entities for a number of corporate OPS.

- LGPS pool companies.

- Wealth managers and platforms operating more directly with the retail market.

These managers invest over £2trn for UK pension schemes in a range of public and private markets, including infrastructure, in the UK and across the world, as well as being significant holders of government debt.

The IA and its member firms have a strong interest in ensuring the success of the UK pensions system and welcome the opportunity to respond to the Government's Call for Evidence. Over the past decade, we have been highly supportive of both automatic enrolment and the Pension Freedoms, while recognising that there is much more to be done to improve outcomes for new generations of pensions savers in DC schemes.

In a delivery environment characterised by an increasing emphasis of cost over broader definitions of value, we have undertaken a range of initiatives to try to put investment back at the heart of the DC pension debate. This has seen an emphasis on themes such as stronger investment governance, accountability and transparency for delivery of DC default arrangements. More recently, we have focused on practical solutions to help diversification and unlock access to private markets, most notably through the Long-Term Asset Fund (LTAF) structure which we have helped develop and champion.

Overall position on the Pensions Review

We welcome the new emphasis on the investment process as part of the Pensions Review. The investment management industry is strongly committed to working closely with UK pension schemes, Government, regulators and other stakeholders to achieve success in the areas identified by the Review.

Our vision is built on a pensions reform objective and an economic growth objective. Together, they will deliver for the UK, recognising both the opportunity and imperative to drive innovation and sustainable investment that will contribute to future UK prosperity.

First, **ensuring better retirement outcomes for the millions of UK pension scheme members** must be the objective that lies at the heart of these reforms. From this flows a new impetus to scale, a reset of governance culture away from a focus on cost to a wider consideration of long-term value, and a range of other measures to remove existing barriers for pension schemes to access more diversified investments both in the UK and beyond. We believe that the change in behaviour engendered by such reforms will be an important driver of domestic investment behaviour over the next 3-5 years.

Second, **ensuring competitive and innovative capital markets, companies and projects** must be the broader objective that accompanies the first. Greater pensions investment in both UK public and private markets will help facilitate this competitiveness and innovation, but it is not a sufficient condition for success. Success requires a variety of tools, including market enhancements, fiscal changes and supply-side reforms to increase the quantum of investible infrastructure, which will benefit long-term UK growth. For its part, the investment management industry is engaged in a wide range of initiatives that will help drive a new growth agenda, from stewardship and listings reform to digital transformation of the investment process.

By implementing clearly targeted reforms**, Government and regulators can build a new consensus and achieve their objectives without having to mandate or direct capital.** Directed capital flows obscure the true nature of the challenges at play. They create potentially arbitrary constraints that neither help pension schemes discharge their responsibility to members, nor the economy as a whole to overcome the challenges that are dampening both domestic and international capital flows.

This paper focuses primarily on the areas identified in the Phase One Call for Evidence. We also cover several areas either outside the Review or likely to arise in Phase Two, where we feel that they will be material to the investment question. These cover three areas: corporate DB schemes in surplus; DC contribution levels; and the retirement income market. **We stress the importance of higher aggregate contribution levels to achieving long-term scale in the DC system.**

Phase One of the Review: Foundations for Good Investment Outcomes

Below, we have set out a series of observations and recommendations in line with the Phase One Terms of Reference and Call for Evidence, to which we provide detailed responses.

Scale and Consolidation

We endorse an emphasis on scale as a key enabler of efficiencies and investment diversification, while elaborating a concept of 'sophisticated scale' based on the observation that size alone will not set schemes up for investment success and that scale and requisite expertise must be seen in the context of both internal and external management. We re-iterate the importance of diversification to include private markets alongside public.

IA Recommendation 1: Continue the path to greater consolidation of small DC pension schemes, and pooling of LGPS investments. Explicitly embrace the concept of 'sophisticated scale' with an emphasis on the importance of strong governance, accountability and appropriate investment expertise as the starting point for success, regardless of size or legal delivery structure.
IA Recommendation 2: Recognise that expertise and scale can be achieved with both internal and external investment managers, including Fiduciary Managers, depending on the configuration of the scheme and the targeted investment strategy.
IA Recommendation 3: Further consider whether the permitted links regime is proportionate, with a view to ensuring that it does not deter further allocations to private assets.

Cost vs Value

A cultural shift to safetyism has seen price conflated with value in the investment and pensions market. This is primarily the result of policy and regulatory direction until very recently. We welcome the accelerating collective efforts to re-set the approach to value with a range of regulatory initiatives. The next stage is to embed strong investment governance, transparency and accountability through the value chain in a way that avoids mechanistic comparisons between schemes. These actions must now result in cultural change across the pensions system. Ensuring member value through the delivery chain also requires a greater focus on some of the infrastructure issues that are complicating investment allocations, notably daily dealing mechanisms which inhibit access to less liquid or illiquid asset classes.

IA Recommendation 4: Ensure that the new emphasis on long-term outcomes over price in defining value becomes a foundation for cultural change in the DC market, avoiding ratings of schemes which could have unintended consequences and work against market confidence rather than reinforcing it.
IA Recommendation 5: Provide a clearer set of policy and regulatory expectations for the UK fund distribution infrastructure to give DC schemes the confidence and ability to allocate to private assets within the broader daily dealing environment.

Investing in the UK

Increasing domestic allocations to UK companies and projects will not be an automatic consequence of scale. International capital is a critical component, and this requires a focus on enhancing the UK's comparative attractiveness overall, which will also further drive UK pension scheme allocations. Our vision for UK capital market reform will help to ensure that creating more attractive investment opportunities will help reset behaviours both here and abroad. This involves changes in a range of areas, including market regulation and taxation. We also call on the Government to do more to address the imbalance on the supply side, particularly infrastructure bottlenecks, and to do more to provide long-term certainty for investors whose time horizons are decades rather than years.

IA Recommendation 6: Explicitly recognise the need to address frictions and disincentives in the UK capital markets that affect the behaviour of all investors, whether UK pension schemes, other UK investors or international investors. Increased UK competitiveness will have a major impact on capital allocation and economic well-being. On the opportunity side, the investment management industry can help to drive the move towards greater innovation and sustainable finance.
IA Recommendation 7: While short-term fiscal constraints are clearly a challenge, long-term competitiveness will benefit from targeted tax changes. One key ambition should be to abolish stamp duty on UK listed equities. Doing so will eliminate a significant penalty faced by UK and international investors, further enhancing the attractiveness of UK equity markets to corporates and providing wider benefits to the economy.
IA Recommendation 8: Although formally outside the scope of the Review, the Government should take advantage of the current beneficial funding landscape for corporate DB pension plans and move forward with its plans to further consolidate the DB pensions market and allow for the safe extraction of funding surpluses. This should provide a further option for schemes considering run-on as an alternative to insurance risk transfer and permit DB schemes to provide some element of risk capital to UK companies.

The Pensions Review Terms of Reference refer to financial stability policy objectives such as with respect to the gilt market. With the future of private sector DB schemes largely lying outside the scope of the Review, our view is that this question can be addressed in parallel. As we have stated in other submissions[1], we support a more holistic view being taken of how to ensure greater gilt market stability, while recognising that for most DB pension schemes, the investment path is now unlikely to be reversed or significantly amended. This clearly has ramifications for the domestic risk capital base that is reflected in the focus of the Review on DC and LGPS investment patterns.

Looking Ahead to Phase Two: Additional Measures to Achieve Better Investment Outcomes

Our initial assessment is that the investment and ecosystem issues in Phase One of the Review cannot be separated from some of the wider questions arising in Phase Two. There is also an urgency to start addressing challenges in the retirement income market. We will make further recommendations on these areas as the Review advances and will set out a more detailed blueprint in a forthcoming paper.

Importance of contribution levels

We reiterate that scale without adequate contribution levels will not result in a system with the capability to deliver what millions of pension savers will anticipate for retirement income, nor will it boost investment levels in the UK economy. Contributions need to rise but the needs of different cohorts in the population will vary widely. At the same time, studies[2] have shown the positive impact on domestic investment that will arise as the DC system expands.

IA Recommendation 9: Undertake further work to identify appropriate pension contribution rates for different segments of the working population, including the self-employed, and consider how best to achieve these levels, through a mix of options such as higher statutory contributions and/or more behavioural-focused approaches.

Necessary reform to support the retirement income phase

In a more mature DC system, again we see good member outcomes are connected to the way in which schemes and individuals invest to and through retirement. Some of the reform needed relates to the support and decision-making mechanisms available to help savers with what can be difficult decisions on retirement income. Other elements involve improvements to investment-related regulation which can help individuals to remain productively invested for longer while having access to income.

IA Recommendation 10: Ensure that new measures are put in place both to support pension savers in making retirement income decisions, and to enable a new generation of retirement products that are specifically geared towards the provision of retirement income.

[1] IA response to DWP consultation on Options for DB schemes, 2024

[2] Exploring the implications of higher pension contributions in the UK, Oxford Economics, 2024

PHASE ONE OF THE REVIEW: FOUNDATIONS FOR GOOD INVESTMENT OUTCOMES

Good investment outcomes are crucial for schemes to deliver member benefits. In answering the questions posed in the Pensions Review Call for Evidence, we set out in detail our views on how a combination of structural, cultural and regulatory changes will provide the foundation for a new pensions investment environment. At the core of this is what we call 'sophisticated scale'. When combined with broader measures to reboot UK capital markets and restore international investor confidence, significant change can be achieved.

SCALE AND CONSOLIDATION

1. What are the potential advantages, and any risks, for UK pension savers and UK economic growth from a more consolidated future DC market consisting of a higher concentration of savers and assets in schemes or providers with scale?

Both the DC and DB universes (including LGPS) suffer from fragmentation where greater scale could bring significant benefits if enabled in the right way:

- 'Sophisticated scale' can generate delivery enhancements. Scale can be used to deliver specific goals, such as more diverse capital allocation across private and public markets, accompanied by the tools necessary for success: notably, strong governance and oversight; accountability; investment expertise; and sophisticated procurement methods. We call this 'sophisticated scale' whereby scale can make success more likely, though it is not automatic, with the implementation of appropriate governance and delivery frameworks being a deliberate step that schemes must take. Equally, good outcomes can be achieved by smaller schemes depending on their specific configuration, for example where they are managed by a scaled provider or have some other form of sophisticated governance in place.

- Both internal and external managers are essential to the delivery of scale. Scale at the pension scheme level can take time to achieve, but it can be accelerated through the use of both internal and external investment managers. Depending on the asset class and investment approach, pension schemes will adopt different strategies to their use of internal and external managers e.g., given the scale and expertise that exists in indexing vehicles, replicating investment capabilities in-house may be unnecessary and duplicative; equally, managers specialising in small or nano cap investment may be able to offer niche expertise alongside or instead of internal investment teams, which could focus elsewhere. This draws attention to a wider issue of diseconomies of scale that may be encountered in some investment capabilities or areas of the market.

- Scale deployment of investment capital will be most effective when matched with appropriate supply. With respect to UK infrastructure in particular, there has been a long experience of an expectations mismatch whereby capital is readily available for those projects judged most investible by institutional allocators, but projects that meet those criteria are less readily available. Supply-side reforms in areas such as planning will be essential to help ensure the supply of investible projects can match demand. This has been a longstanding problem in facilitating greater flows in productive capital (see p.20-21 below for more analysis).

- Scale can deliver broader benefits for pension delivery. As well as enhancing investment delivery, scale can have significant positive impacts on other aspects, such as administration costs. Given technological advances, scale in these areas may be delivered by external providers able to aggregate across multiple clients.

The benefits to UK economic growth of a more consolidated pension system will depend on pension schemes' asset allocation behaviour. It is not automatically the case that larger pension schemes will allocate more to their domestic markets. The most successful pension schemes allocate assets globally, based on their expectations of which markets and investments are most likely to generate strong performance. For the UK to benefit from these flows, investors must have confidence in the future performance of UK assets. One way for the Government to achieve this would be to focus on a series of supply-side reforms that make UK capital markets more attractive to issuers and borrowers. We discuss this further in our answers to the questions on investing in the UK.

Risks arise where scale simply leads to larger pension schemes without changing their governance, accountability and their underlying investment process from that which characterises parts of the DC market today. If this were to happen, we foresee little change in the DC market, which will likely continue to focus on price competition and have lower allocations to private assets relative to other investor types. A particular concern here would be the extent to which the DC Value for Money Framework, which contains many positive elements that we are supportive of, inadvertently drives schemes to herd in their investment behaviour as a way of avoiding negative comparisons under the proposed Red-Amber-Green ('RAG') cross-scheme comparison process. Such an approach risks damaging innovation in DC investment.

A further risk may arise from a lack of competition if consolidation goes too far and significantly reduces the number of providers in the market. Ensuring that the outputs of the Value for Money Framework are made available to retail customers as well as trustees and IGCs will help maintain competitive pressure.

A final risk would be the concentration of assets with a relatively small number of providers, which, if in the event of a provider failure or market crisis, could have highly negative impacts on member outcomes.

None of these are reasons to avoid consolidation, but they do mean that careful regulatory oversight is required to ensure these risks are not realised as the market consolidates further.

Pension scheme structures and investment process

Our emphasis above on sophisticated scale – strong governance and oversight; investment expertise; and sophisticated procurement methods – leads us to a clear view that it is not the specific structure – single employer trust vs master trust, or master trust vs GPP – that matters most. It is how those schemes develop and implement investment strategies that is critical, coupled with aspects of the regulatory treatment of different structures, which historically has inhibited schemes using life company platforms wishing to invest in private markets and which remains highly complex.

2. What should the role of Single Employer Trusts be in a more consolidated future DC market?

Employers should be free to choose how they set up their pension provision, as long as they are compliant with their auto-enrolment obligations. That said, the DC single trust universe has seen significant decline since auto-enrolment began, with a 70% decline in the number of occupational DC schemes[3] (excluding micro schemes).

Those single employer trusts remaining today tend to have employers who are more engaged in the quality of their pension provision. Some of these schemes, particularly in the financial services sector, already offer well-diversified and sophisticated investment strategies, including through exposures to private markets. These schemes are defined by the high-quality governance structures that we refer to above. Since they operate on a non-commercial basis, they are not subject to the price competition in the DC market, though their default arrangements are subject to the charge cap. Indeed, consolidation is itself a partial driver of

[3] Occupational defined contribution landscape in the UK 2023, TPR, 2024

the focus on price, and so there is a risk that single employer trusts may end up focusing more on price over long-term value if they are pushed to consolidate.

Where such schemes meet TPR's standards in relation to scheme and investment governance, and subject to any application of the VfM framework, they should continue to have a place in the market. They are frequently exemplars of high-quality investment strategies, and they demonstrate that scale alone is not a sufficient driver of better investment behaviours. Indeed, such schemes are already able to achieve the benefits of scale through external providers (e.g. through the use of proprietary defaults).

3. **What should the relative role of master trusts and GPPs be in the future pensions landscape? How do the roles and responsibilities of trustees and IGCs compare? Which players in a market with more scale are more likely to adopt new investment strategies that include exposure to UK productive assets? Are master trusts (with a fiduciary duty to their members) or GPPs more likely to pursue diversified portfolios and deliver both higher investment in UK productive finance assets and better saver outcomes?**

We do not view the dichotomy between GPPs and master trusts as being significant drivers of differences in investment behaviour across these schemes. From an employer perspective, they are substitutable products, and therefore compete in the same market. Indeed, a number of pension providers offer both GPPs and master trusts and there is very little difference in the default arrangements across the two. Indeed, there are huge benefits to the provider in operating a single default approach across product types. Crucially, both types of arrangement are subject to the same cost pressures of the workplace DC market.

While there is a difference in the roles and responsibilities of trustees and Independent Governance Committees (IGCs) (broadly one of fiduciary duty vs a power to scrutinise and make recommendations but not make investment decisions) our experience is that the commercial incentives are more important in shaping how these schemes invest.

A less widely appreciated feature of the DC market which does drive differences in investment behaviour is the use of life company ("lifeco") platforms to access investments, versus the custody model. All GPPs use lifeco platforms, as do a large number of master trusts and single-employer trusts. There are a smaller number of master trusts that use a custody model.

In a life company model, the pension scheme invests in unit-linked insurance wrappers that sit on the lifeco balance sheet and are offered to the pension scheme via a blended default unit-linked wrapper. All investments must be compliant with the FCA's 'permitted links' rules in COBS 21.3[4].

In a custody model, the scheme invests directly in funds with assets held by the custodian and a blended default arrangement created on the scheme's behalf. Each arrangement has its own advantages but the key difference between them is that the custody model is not governed by permitted links, but by pensions law, which is highly permissive on scheme investments. The permitted links rules, on the other hand, are more prescriptive, and not withstanding a series of recent reforms to make it easier to hold private assets through unit-linked wrappers, remain complex and challenging for schemes to navigate. This can make it harder to allocate to certain asset classes, particularly in the private markets, where investments may be held in certain professional-only and/or unregulated fund structures.

While structures such as the Long-Term Asset Fund (LTAF) are treated favourably in permitted links and offer easier navigation of the rules, not all asset managers may wish to or be able to create one of these structures. The broader issue is that the permitted links rules treat workplace DC arrangements like a retail investment, whereas in reality, the design and implementation of these strategies, as well as the ongoing governance and monitoring of them, is more akin to an institutional arrangement, given the presence of trustees, IGCs, insurers' investment committees and investment consultants.

[4] COBS 21.3 Further rules for firms engaged in linked long-term insurance business

Indeed, pensions law and TPR guidance[5] already put responsibilities on trustees in relation to a number of facets of investment decision-making, which together provide sufficient protection to DC investors. The key requirements on trustees here are:

- Obtaining and considering advice from a suitably qualified person before making investment decisions.
- Investing in a way that ensures security, quality, reasonable liquidity and profitability for the scheme's portfolio as a whole, while ensuring that scheme assets are properly diversified.
- Having procedures in place to regularly monitor the performance of scheme investments and investment managers and acting upon any issues identified.
- Offering an appropriate choice of investment arrangements for members who do not wish to invest in any default arrangement.

In GPPs, FCA requirements[6] on IGCs to assess value for money for members of investments (including the default) are not identical to the obligations on trustees. However, they do require assessments in a number of related areas, including:

- Ongoing investment performance.
- Whether default investment strategies have clear statements of aims and objectives and are designed and executed in the interests of scheme members.
- Whether the characteristics and net performance of investment strategies are regularly reviewed by the GPP provider to ensure alignment with the interests of scheme members and that the firm takes action to make any necessary changes.

These are in addition to product governance obligations that manufacturers of investments that GPPs invest in must adhere to, which are intended to ensure that products are sold via appropriate distribution channels, meet client needs and deliver appropriate client outcomes.

Considering these governance and monitoring requirements, it is not obvious that the permitted links rules as currently applied provide protections that are not available to DC investors elsewhere. They clearly do make the structuring of private asset classes in DC more challenging though, in an area where investment implementation and governance is already more complex because of the illiquid nature of the assets. We recommend that further consideration is given to whether the permitted links regime is proportionate, with a view to ensuring that it does not deter further allocations to private assets. Such a review should seek to achieve equivalence between the investment options of schemes using lifeco platforms and those going down the custody route.

4. What are the barriers to commercial or regulation-driven consolidation in the DC market, including competitive and legal factors?

Others are better placed to answer this from a legal perspective, but our view is that while a significant degree of consolidation has already occurred[7], there do remain barriers to further consolidation amongst master trusts. In particular, feedback from master trusts that have recently completed consolidation

[5] TPR Single Code, section on Investment. This also contains references to the relevant pieces of pensions legislation
[6] Set out in COBS 19.5.5 'Terms of Reference for an IGC'
[7] A TPR report from 2022 noted that the market had consolidated by nearly 40% in the past decade

transactions have highlighted post-transaction operational difficulties of effecting a master trust merger (e.g. the combination of investment strategies, administration strategies, etc). These appear to arise from the master trust legislation, accompanying regulations and TPR's Code, which have a series of requirements around "triggering events", which were designed primarily to protect members in the event of the failure of a scheme funder.

This issue could be addressed through the creation of an additional "Scheme Merger" Triggering Event and a corresponding Continuation Option which would cover the consolidation of one master trust into another through a corporate transaction between the funders. This would enable the receiving scheme to remain open for business whilst both sets of trustees engage with the regulator over the terms of the merger.

DWP and TPR should further consider how they can ease and speed up what should be a routine and beneficial commercial corporate action rather than treating it as a scheme failure which necessitates their intervention to protect members' interests.

Finally, we emphasise again, as discussed in our answer to Q1, the critical point around consolidation is to create sophisticated scale in the way defined above – rather than scale for its own sake, which is unlikely to lead to the government's desired changes in investment behaviour.

5. To what extent has LGPS asset pooling been successful, including specific models of pooling, with respect to delivering improved long-term risk-adjusted returns and capacity to invest in a wider range of asset classes?

The move to pooling began in late 2015 and has involved significant work to reach today's current structure of eight pools, four of which are FCA-regulated Alternative Investment Fund Managers (AIFMs) regulated under the Alternative Investment Fund Managers Directive. With various economic, capital market and regulatory changes in recent years, the governance burden on individual local authority funds has grown significantly. Creating greater – sophisticated – scale in the LGPS has helped to increase the resources and investment capabilities of the pools, thus helping ease the pressure on individual local authority funds.

A critical change enacted at around the same time that pooling began was the 2016 changes to the LGPS investment regulations[8], which removed much of the previous prescription around permitted investments, giving local authorities greater discretion in determining their investment strategies whilst introducing more detailed investment governance requirements. These changes have paved the way for the LGPS to allocate to a broader range of asset classes, with a particularly pronounced trend seen in growing allocations to alternative asset classes in recent years[9].

LGPS performance has been strong both historically and more recently, so it is difficult to attribute any specific performance improvements to pooling. Over the last ten years, the average LGPS fund has delivered a nominal return of around 7%pa. Longer term (20-30 years) the results are stronger still at almost 8%pa nominal[10]. Meanwhile the average investment management fee across the scheme was 43bps in 2023, up from 34bps the previous year and around double the average fee of twenty years ago[11]. This is likely to reflect changes in asset allocation, with moves in recent years to more expensive asset classes such as alternatives, as well as higher performance fees, which is indicative of the superior returns that have been delivered.

Our members' experience has been that pooling has generally been a success, with the pools providing high quality and professional investment implementation across a broader range of asset classes. We are

[8] The Loval Government Pension Scheme (Management and Investment of Funds) Regulations 2016
[9] LGPS Annual Report 2023, Scheme Advisory Board
[10] Ibid
[11] Ibid

therefore supportive of the planned direction of travel on pooling – subject to specific views that we have previously put on record about index investments and certain private market strategies[12].

However, one point to bear in mind as the Government moves forward with the next stage of pooling is to consider whether certain investment functions might be better shared at both individual fund and pool level, as doing so would allow for a broader range of objectives to be met. For example, in relation to an asset class like private equity (PE), at pool level, with a larger amount of capital to allocate, the pool would likely want to allocate larger tranches of money. While this may be well suited to national-level projects, it will exclude funding for more local, micro investments which might typically be at much smaller scale and could make more of a local impact. Therefore, retaining a local investment capability in certain asset classes (alongside the pool) might be helpful in achieving highly localised ambitions.

IA Recommendation 1: Continue the path to greater consolidation of small DC pension schemes, and pooling of LGPS investments. Explicitly embrace the concept of 'sophisticated scale' with an emphasis on the importance of strong governance, accountability and appropriate investment expertise as the starting point for success, regardless of size or legal delivery structure.
IA Recommendation 2: Recognise that expertise and scale can be achieved with both internal and external investment managers, including Fiduciary Managers, depending on the configuration of the scheme and the targeted investment strategy.
IA Recommendation 3: Further consider whether the permitted links regime is proportionate, with a view to ensuring that it does not deter further allocations to private assets.

[12] In relation to index investments and existing private market exposures the benefits of pooling may be less obvious, and the costs will likely outweigh any benefits. See the IA response to the 2023 DLUHC consultation on next steps for LGPS investments.

COST VS VALUE

1. What are the respective roles and relative influence of employers, advisers, trustees/IGCs and pension providers in setting costs in the workplace DC market, and the impact of intense price competition on asset allocation?

Pension scheme behaviour and delivery structures vary widely, and a more detailed study would be needed to map the value chain with respect to cost setting and asset allocation. Our view is that the fundamental influence on price dynamics in the DC market has come from the nature of policy and regulatory interventions over the past decade. While the default arrangement charge cap set an expectation about the importance of controlling cost which has been widely seen as helpful, the shift in culture that has ensued has gone much further and had a very clear impact on the DC Pensions system.

The early years of auto enrolment were characterised by a clear steer from the Department of Work and Pensions (DWP) that low costs were consistent with higher returns and that the Government's own objective was to see a low-cost market. A DWP submission to a 2018 Work and Pensions Select Committee Inquiry on Pension costs and transparency noted that *"the main effect of the introduction of the charge cap appears to have been a shift in strategy from active management towards passive or related approaches…. on average (although not in every instance) the effect of this change is to actually increase net returns."*[13]

One of the challenges with this position was that there was little evidence available about default strategy returns in the DC market and little policy interest in looking at how schemes were investing. The 2017 review of automatic enrolment ('Maintaining the Momentum') only tangentially touched investment and even then, the focus was not on performance, but whether the cap needed to be lowered and/or widened in scope to include transaction costs. A similar review took place in 2020.

The combined effect of this regulatory messaging was to instil a mentality in the market that lowest cost was best, and providers subsequently took this as a clear signal. While trustees and IGCs may not necessarily share this view, they are not the drivers of the commercial decisions around pricing, which remain in the hands of master trust sponsors and insurance companies.

For the many employers, who are (understandably) not skilled in assessing the quality of pension provision, particularly in relation to investment strategy design, the measurable goal of price became a convenient shorthand for assessing quality. In this environment, Employee Benefit Consultants have also understandably focused on costs in the scheme selection process as a way to demonstrate value to clients.

Our key point here is that behaviours through the DC system – whether employers, advisers, trustees/IGCs or pension providers – are significantly the product of a prevailing cultural environment in which cost and value have become increasingly synonymous. It is now market mindset rather than specific regulation. There is sufficient headroom within the charge cap for costs to rise further – but currently a concern over 'first-mover disadvantage' in relation to competitive position for any provider that seeks to raise the price of its offering.

For investment, this has resulted in a market where schemes face challenging decisions as to which elements of the service proposition they wish to allocate more of their costs to. Scheme administration is a relatively fixed cost and the consequence of this appears to be that investment costs are being squeezed more relative to other services (often as low as 10bps[14]), particularly since it is straightforward for schemes to switch to cheaper investment products such as index funds, which are a very cost-effective way of achieving market exposure.

[13] DWP submission to the 2018 Work and Pensions Select Committee inquiry on Pension costs and transparency
[14] Source: FCA CP24/16 The Value for Money Framework

In such a market it is very challenging to see allocations rise to actively managed strategies or private asset classes, since these all involve more intensive and thus higher cost styles of investment management.

2. Is there a case for Government interventions, aimed at employers or other participants in the market, designed to encourage pension schemes to increase their investment budgets in order to seek higher investment returns from a wider range of asset classes?

Ultimately the emphasis should be on pension providers to design high quality, well-diversified strategies that balance potential for good outcomes with an appropriate level of cost. As the designers of these strategies, providers are best placed to assess the value they are delivering. Some of the metrics in the forthcoming Value for Money Framework (VfM) will also help in this regard, as will the public disclosures of asset allocation and past performance.

However, further scrutiny on the role of Employee Benefit Consultants and Investment Consultants in scheme selection and investment strategy design decisions respectively, as well as making the Framework outputs available to end investors in pension schemes, may in turn better support employers in putting competitive pressure on providers to raise the value of their investment offerings.

Subject to modifications to the cross-scheme comparison and RAG rating process – where we think there is a serious risk of detrimental unintended consequences under the current proposals – Government should implement the Framework across the trust-based market and then give it time to have an impact.

Implementation of the Framework should be accompanied by guidance from regulators for trustees and IGCs that is designed to ensure that how value is assessed is clear, including on a forward-looking basis and not simply on past performance.

Cost, value and cultural change

We are pleased that policymakers and regulators have recognised the issues in the DC market caused by an over-emphasis on price rather than value. We welcome the recent FCA consultation[15] with detailed proposals to introduce a Value for Money Framework in the DC market, which will result in the greater visibility of investment performance and of investment costs relative to other costs such as scheme administration. We also welcome other changes that will make a tangible difference to the investment process in DC schemes, notably changes to the calculation basis for the DC default arrangement charge cap.

However, regulation alone cannot achieve the necessary change on cost and value: alongside the framework, deeper cultural change is needed across the market – from trustees, IGCs, commercial pension providers, investment consultants and employers. Cost competition is a vital part of a well-functioning market, but cost must always be assessed in the context of delivering the most appropriate investment strategy for a given individual or pension scheme.

Two specific points require consideration by regulators in the approach to DC pensions VfM, which are linked but have a different degree of timing and urgency:

- <u>Learning lessons from other parts of the market</u>. The implementation of the Assessment of Value (AoV) regime for authorised investment funds five years ago, and the much more recent Consumer Duty Fair Value, provide valuable lessons which have potentially important ramifications for VfM. The funds industry sees AoV as particularly positive in its impact on governance and hence behaviours in an environment where reports are not widely read. It does not readily translate into consistent metrics or RAG ratings and current proposals to introduce RAG ratings in the context of pension scheme VfM should take account of this experience before potentially requiring comparisons and automatic actions stemming from a given period of assessment. We will be responding in more detail to CP24/16 (The Value for Money Framework) separately.

[15] FCA CP24/16 The Value for Money Framework, 2024

- Potential rationalisation in due course. We are heading for three distinct but closely-related UK regulatory regimes for assessing value across the retail investment and pensions markets: COLL[16] AoV for investment funds, Consumer Duty Fair Value and DC pensions VfM. While all three processes had a distinct logic during their formulations, there is arguably a case for looking at how to bring these together in a more consistent way. However, the varying system development costs also suggest care should be taken in considering these questions. We will be returning to this issue in our response to the FCA July 2024 Call for Input on Consumer Duty.

Accessibility of private market investment for DC schemes

A further important dimension of the investment agenda for DC schemes is improving access to private markets as they become a much more important part of the capital market environment and therefore the opportunity set domestically and internationally for diversified investment strategies. Initiatives such as the Long-Term Asset Fund[17] (LTAF) and the work of the Productive Finance Working Group, both of which the IA has been closely involved in[18], laid a strong foundation in the necessary push to ensure that more pension funds can benefit from access to private markets. This has the potential to drive growth by driving more capital into UK high-growth companies and infrastructure projects. The Mansion House Compact has built on this, but more work is needed. In the case of the LTAF, its full potential lies ahead.

Ensuring member value through the delivery chain also requires a greater focus on some of the infrastructure issues that are complicating investment allocations, notably daily dealing mechanisms which inhibit access to less liquid or illiquid asset classes. Although there are regulatory requirements around the prompt processing of schemes' financial transactions, as well as contractual terms between schemes and members that effectively promise daily liquidity, there is no wider regulatory requirement to do so. It has become a cultural norm and operational convenience.

A daily pricing and trading norm is clearly challenging for infrequently traded and priced investments, and this has historically been a barrier to DC schemes' ability and appetite to access private assets.

Importantly, the liquidity challenge is not insurmountable, and the development of new investment structures such as the LTAF, alongside greater information and guidance for DC schemes on liquidity management in the context of liquid and illiquid assets forming part of the same portfolio, is giving schemes the tools to overcome the barriers posed by a lack of liquidity.

As new illiquid products are launched and more schemes work through the operational challenges of less liquid allocations, our assessment is that the liquidity barriers to investing in private assets will reduce.

There is, however, scope for policymakers to speed this process up by re-setting the norm around daily dealing. This could take the form of an explicit and stronger statement from regulators that pension schemes should consider the appropriateness of daily liquidity over the course of a pension investor's lifetime. Such an approach would likely lead to different conclusions than today about the need for daily liquidity. In that regard, we strongly welcome The Pensions Regulator (TPR)'s update earlier this year to its trustee guidance[19], where it makes precisely this point. TPR should monitor the impact of this change on trustee demand for daily liquidity.

We also note the operational barriers to illiquid allocations in DC. These centre on compatibility of illiquid fund structures with DC platforms, the challenges around pricing and rebalancing, and the need for DC schemes to have sound liquidity management policies. While a lot of good work has been done in this area to help trustees overcome some of these operational challenges, most recently by the Productive Finance

---

16 Collective Investment Schemes Sourcebook (COLL), FCA
17 COLL 15 Long-Term Asset Funds, FCA
18 The Role of the Long-Term Asset Fund: IA Position Paper, The Investment Association, 2020
19 Private markets investment, TPR, 2024

Working Group, we encourage the FCA to echo TPR's messaging in relation to DC life company platforms, which remain the key route through which UK DC schemes access investment products.

IA Recommendation 4: Ensure that the new emphasis on long-term outcomes over price in defining value becomes a foundation for cultural change in the DC market, avoiding ratings of schemes which could have unintended consequences and work against market confidence rather than reinforcing it.
IA Recommendation 5: Provide a clearer set of policy and regulatory expectations for the UK fund distribution infrastructure to give DC schemes the confidence and ability to allocate to private assets within the broader daily dealing environment.

INVESTING IN THE UK

1. What is the potential for a more consolidated LGPS and workplace DC market, combined with an increased focus on net investment returns (rather than costs), to increase net investment in UK asset classes such as unlisted and listed equity and infrastructure, and the potential impacts of such an increase on UK growth?

Sophisticated scale can improve the governance resources available to schemes in certain areas of the market – notably, private markets. Purple Book[20] data on the corporate DB market shows a pattern of increasing allocations to private equity as scheme AUM increases: negligible allocations for schemes with AUM below £10m, rising to 5% of the total equity allocation for schemes of £10m-£100m, 13% for £100m-£1bn and 38% for schemes over £1bn.

As we note elsewhere in this paper, sophisticated scale will be enabled by a wider range of measures, notably:

- Broader capital market and fiscal reforms that address the attractiveness of UK investment markets.
- Regulatory and market infrastructure changes that address remaining bottlenecks for DC schemes to access illiquid assets.
- Availability of appropriate infrastructure projects.

Net levels of investment in UK asset classes will also be supported by a larger DC system, facilitated – crucially – by increasing contributions over time. Boosting contribution levels further as appropriate to different cohorts are an important part of this process.

However, evidence suggests a degree of caution about the extent of the connection between increasing scale and increasing domestic allocation. In the UK, there are some signs of negative correlation when it comes to decision-making by pension schemes, with evidence of greater home bias amongst smaller pension schemes. Again, data on corporate DB pension schemes from the Purple Book shows that for schemes with AUM of £10m or less, UK listed equity allocations are around a third of total equity allocations. This falls to 21% for schemes with £10m-£100m AUM, 11% for £100m-£1bn AUM and only 5% for schemes with AUM > £1bn. The World Bank has presented empirical evidence[21] that this trend is true of pension schemes around the world as well – increasing scale results in greater international diversification and reduced home bias.

Trends in pension fund asset allocation

2. What are the main factors behind changing patterns of UK pension fund investment in UK asset classes (including UK-listed equities), such as past and predicted asset price performance and cost factors?

Corporate DB pensions: asset allocation and scale

While out of scope of this review, the single biggest impact on UK pension fund investment behaviour has been the impact of the post-2004 DB funding regime, which broadly speaking has led to a well-known and secular shift out of UK equities and into fixed income and liability matching instruments. Although this

---

[20] Purple Book 2023, PPF

[21] Estimating the Gains from International Diversification: The Case of Pension Funds, Policy Research Working Paper 9635, The World Bank, 2021

approach has an internal logic for individual schemes and has worked well for them, at the aggregate level it has had the impact of seeing the DB system significantly reduce its role as a source of risk capital to the UK. At the same time, DB schemes have come to play a significant part in funding the UK exchequer through their role in the UK gilt market.

Although this shift is unlikely to be reversed at a significant scale, the improvement in scheme funding levels since interest rates started rising at the end of 2021 offers opportunities for some limited 're-risking' by DB schemes. Indeed, some trustees – particularly those with a large corporate sponsor and a strong covenant – are already reviewing whether they should run the scheme on rather than going to buyout, seeking to take some additional limited investment risk in doing so, by investing in asset classes such as venture capital, private equity and other long term illiquid asset classes, particularly in the sustainable investment space.

The drivers of this behaviour include the desire to align scheme portfolios with net zero targets, as well as the generation of funding surpluses which can be shared with members via uplifts to benefits or additional DC contributions. There is an opportunity here for the DWP to further encourage these behaviours by taking forward its previously announced plans to allow sponsors to extract funding surpluses, subject to appropriate guardrails around this extraction, as well an increasing the PPF underpin to 100% of scheme benefits. We have supported this measure and set out our views in detail in response[22] to the DWP's most recent consultation on the future of the DB sector earlier this year.

Although it is not discussed in the Review, consolidation and the creation of sophisticated scale has a role to play in the private DB sector. Combined with the funding conditions described above, this may drive some changes in asset allocation behaviour towards limited re-risking. While sophisticated scale in DB is already available via external investment managers as well as Fiduciary Managers, the DWP can drive further scale by moving forward with its intentions to legislate for a permanent DB superfunds regime. Depending on the superfund model, this can act both as a bridge to insurance solutions or an alternative to them. Either way, it creates additional options for DB schemes while ensuring a diversity of suppliers in the market, reducing the capacity constraints and concentration risk in the pensions risk transfer market. The superfunds, by investing on a run-on basis and with professional investment governance structures in place should allow for more sophisticated deployment of capital than the current fragmented tail of smaller DB schemes permits.

The role of the PPF in DB consolidation should not be overlooked. While we do not think there is a case for public provision of consolidation models where the private sector can provide them, there may be a case in those instances where schemes are not attractive to commercial consolidators. This is likely to be smaller, less well-funded schemes with weak employer covenants and it is in ensuring that these schemes have consolidation options that the PPF could have a role to play.

The pensions risk transfer market should also be in scope of the Review: bulk annuity insurers already provide sophisticated scale, but it is a well-known fact that they are somewhat constrained in how they can invest the newly acquired premiums they receive from DB schemes, because of the current configuration of the Solvency II regime, which governs prudential requirements for insurers. The Government should move forward with Solvency II reform to matching adjustment eligible assets to allow insurers to invest in a wider pool of assets that are capable of supporting UK growth.

The globalisation of pensions investment portfolios

While de-risking has been a corporate DB phenomenon, the most important shift in investment behaviour, which is true across all parts of the pension system, is that schemes are allocating assets on an increasingly globalised basis. This has been to their benefit as it allows them to diversify risk and seek both capital growth and income in fast-growing parts of the global economy. As the UK's economic and stock market

[22] IA response to the DWP consultation 'Options for DB Schemes', 2024

performance has over time lagged that of other countries, the UK's share in global indices has fallen and this in turn has been reflected in falling domestic listed equity allocations. With parts of the UK pension system so heavily invested in global equity indices, this increased globalisation, while beneficial to pension schemes and their members, has resulted in lower overall allocations to UK listed equities from the UK pensions sector. There is further a link here back to issues around the dominance of cost in the DC market: with investment budgets being so squeezed, for some schemes the budget for equities only allows allocation to a global index – for which the UK weighting is in the region of just 3–4%. Greater scale and more generous investment budgets would enable a more sophisticated approach to equity investing – and, if the opportunity is suitably attractive, a greater allocation to UK equities.

Private market exposure

The third asset allocation trend is more recent and relates to allocations being ramped up by UK corporate DB and LGPS funds to private markets.

As has been widely discussed, this is not yet a trend that has been seen to the same extent in the DC sector, owing to the issues of cost and market infrastructure that we have discussed above. However, we note the positive direction of travel in this area with respect to the reforms undertaken by the DWP and FCA here in recent years, notably the introduction of the LTAF regime, asset allocation and performance disclosures, charge cap reform and the requirement for schemes to have a policy on illiquid investment. As can be seen through the pledges under the Mansion House Compact, this can be expected to see DC capital being increasingly allocated to private markets in the years to come.

Since private markets are not invested in via market indices, the decision to allocate to UK-based private assets is necessarily an active one. The phenomenon of UK listed exposure falling automatically in line with the UK's weight in global indices will therefore not be observed when it comes to private assets. Instead, we expect that investors will make decisions on where to allocate based on their expectations of their desired risk-adjusted net-of-fees return. Whether this is in the UK or elsewhere will be decided on the merits of a specific investment or strategy.

Raising allocations to UK assets

3. **Is there a case for establishing additional incentives or requirements aimed at raising the portfolio allocations of DC and LGPS funds to UK assets or particular UK asset classes, taking into account the priorities of the review to improve saver outcomes and boost UK growth? In addition, for the LGPS, there are options to support and incentivise investment in local communities contributing to local and regional growth. What are the options for those incentives and requirements and what are their relative merits and predicted effectiveness?**

Our view is that allocations to UK assets will increase with the kind of measures set out in this submission. We would not support formal requirements to raise exposures for several reasons.

First, the investment case has to be clear from a fiduciary perspective.

Second, a hard mandate would be difficult to calibrate across the pensions system as a whole, and risks potentially channelling large amounts of capital into poor prospects if there is too much money chasing too few investment opportunities.

Third, from a broader investment perspective, we believe that a combination of domestic and international capital will support vibrant and innovative UK economic growth under the following key conditions:

- Domestic pension schemes are no longer constrained in ways that are being identified as part of the Pensions Review.

- Wider measures to support economic growth are clearly identified and acted upon, which may include both general incentives, such as abolition of stamp duty on UK listed equities, and/or those specifically targeted at pension schemes.

The impact of such changes should become measurable as a result of existing plans to require pension scheme disclosure of UK investments.

Importance of capital market reforms

At the investment level, we stress the need to boost the ongoing attractiveness of UK capital markets, both by ensuring domestic investors can deploy capital effectively, but also in attracting international pools of capital that have historically been an important part of the growth story in the UK. In this regard, there is an opportunity for the UK to re-energise in areas such as technological innovation and sustainable finance, which have the potential to transform both how capital markets operate and how capital is deployed.

In the public markets, recent reforms in the area of UK listings are a step in the right direction, making the changes necessary to ensure the UK remains globally competitive while maintaining the high standards that have contributed to the UK's international reputation over many decades.

Role of incentives

There is more to do and despite fiscal constraints, tax changes are likely to be a lever that can generate net benefits. Looking back at both the UK domestic experience historically and other international pension markets, for example Australia, it is clear that specific tax incentives can play a role in helping to steer capital flows. One area for focus would be UK stamp duty on shares, which is one of the highest in the world[23]. This should be abolished as an incentive to boost allocations to UK listed equities. Research over many years has demonstrated the potential for the wider benefits of abolition to the exchequer in terms of the positive impact from higher pension savings accounts to higher company valuation and lower cost of capital[24]. These benefits to the wider economy would act significantly to offset the loss of direct revenue.

In the area of private markets, UK allocations will be facilitated by the changes underway in the DC system. However, greater public and private infrastructure investment (ranging from sustainable energy projects to housing), requires a new approach to facilitating supply. There is a range of experience over the past decade that points to a central issue being an ongoing mismatch in expectations between UK pension (primarily DB) schemes looking to deploy capital and the availability of attractive projects. We welcome the new Government's focus on addressing supply-side bottlenecks.

While very conscious of fiscal constraints, we do see scope for the Review to consider the potential for incentives targeted at pension schemes.

Wider measures

It is also important to emphasise that for long-term investors such as pension schemes, whose time horizons stretch over decades, long-term certainty of direction of travel and 'rules of the road' is essential. Problems have arisen in the past where investment managers acting for investors including pension schemes have encountered unexpected policy shifts which impact this certainty and therefore investment confidence.

As an extension of the point about long-term planning and certainty, the public and private market ecosystem is heavily affected by broader sentiment towards the UK, which is in turn influenced by factors

[23] See, for example, analysis by Peel Hunt, which shows that, other than Ireland which has a higher rate than the UK, the UK is a significant outlier. https://www.peelhunt.com/news-insights/articles/stamp-out-stamp-duty/

[24] OXERA has produced several pieces of analysis in the last two decades looking at this issue, most recently in 2018. For a comprehensive analysis of the full economic benefits, see OXERA, Stamp duty: its impact and the benefits of its abolition, Report prepared for ABI, City of London Corporate, IA and London Stock Exchange, May 2007.

such as personal taxation and immigration policy for skilled workers. It is only by aligning all these factors that we can be assured of a truly flourishing eco-system.

IA Recommendation 6: Explicitly recognise the need to address frictions and disincentives in the UK capital markets that affect the behaviour of all investors, whether UK pension schemes, other UK investors or international investors. Increased UK competitiveness will have a major impact on capital allocation and economic well-being. On the opportunity side, the investment management industry can help to drive the move towards greater innovation and sustainable finance.
IA Recommendation 7: While short-term fiscal constraints are clearly a challenge, long-term competitiveness will benefit from targeted tax changes. One key ambition should be to abolish stamp duty on UK listed equities. Doing so will eliminate a significant penalty faced by UK and international investors, further enhancing the attractiveness of UK equity markets to corporates and providing wider benefits to the economy.
IA Recommendation 8: Although formally outside the scope of the Review, the Government should take advantage of the current beneficial funding landscape for corporate DB plans and move forward with its plans to further consolidate the DB market and allow for the safe extraction of funding surpluses. This should provide a further option for schemes considering run-on as an alternative to insurance risk transfer and permit DB schemes to provide some element of risk capital to UK companies.

LOOKING AHEAD TO PHASE TWO: ADDITIONAL MEASURES TO ACHIEVE BETTER INVESTMENT OUTCOMES

Importance of contribution levels

Since 2012, the UK has undertaken arguably the most successful automatic enrolment experiment in the world, with over 12 million new members of schemes, which has helped to dramatically improve pension scheme participation rates. With minimum combined employer and employee contribution levels reaching 8% in 2018, the first phase is complete. However, it is clear – as it was to the Pensions Commission when they established the original baseline – that this is a foundation that will leave many investors with inadequate income.

While scheme consolidation and increasing investment effectiveness is important, it will not on its own move the dial in terms of better investor outcomes in the DC-dominated automatic enrolment system. Contribution levels in the DC market must be increased over time to ensure that more people can achieve the standard of living in retirement they hope for. At the moment, there is a danger that too many people assume a level of pension income and/or capital growth that will not be realistic in the context of how much is being paid in under the auto-enrolment minimum. In part this is because the implications of the gap between DB and DC pension outcomes remain under-appreciated by many members of the general public.

While a number of options are available to enhance DC delivery, appropriate levels of contribution are the key factor to solve for. One specific challenge will be the extent to which the appropriate level of contribution may differ significantly among different individuals and households whose needs will reflect a complex mix of circumstances determined by factors such as: employment income relative to anticipated state pension income; existing pension entitlements (e.g. legacy DB provision); and other sources of household wealth, notably home ownership.

A corollary of higher aggregate contribution rates will be greater scale in absolute terms, as more pensions capital flows into UK and global capital markets.

IA Recommendation 9: Undertake further work to identify appropriate pension contribution rates for different segments of the working population, including the self-employed, and consider how best to achieve these levels, through a mix of options such as higher statutory contributions and/or more behavioural-focused approaches.

Necessary reform to support the retirement income phase

Too many people still don't feel confident to make appropriate choices about how to receive their retirement income. Two strands of work are needed to solve this. First, people need to be better supported in making the best choices around how to access DC pensions in retirement. In this regard, we welcome the recent impetus to reform the current UK regime to facilitate both better targeted support and simplified guidance. Retirement income will be a critical test case for any new regime.

Second, we should consider how to improve pension schemes' ability to meet customer income needs during retirement. These often call for both stable income and the possibility to continue to grow savings. The IA has already put forward proposals[25] here to the FCA and HM Treasury for changes to UK authorised fund rules that would permit the design of funds that can deliver a stable retirement income to customers.

[25] IA response to HMT Call for Input to the Review of the UK funds regime, 2021. See our answers to Q26-27 on the distribution of capital

Relevant changes to consider include permitting the distribution of capital by UK authorised funds; allowing funds the ability to hold back income instead of making 100% distributions; and considering the treatment of products as complex/non-complex in the context of outcomes rather than investment instruments.

We will continue to advocate for these changes as part of a broader package of change to permit investors to maximise the benefits of the pension freedoms and will set out more detail on these issues in a forthcoming paper on the issues in Phase II of the Review.

IA Recommendation 10: Ensure that new measures are put in place both to support pension savers in making retirement income decisions, and to enable a new generation of retirement products that are specifically geared towards the provision of retirement income.