The changing role of advisers and trustees in a DC world

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The new world of DC

"…if people do get a Lamborghini, and end up on the state pension, the state is much less concerned about that, and that is their choice."

Steve Webb, March 2014

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The new freedoms

- Full cash commutation
- Annuity purchase
- Drawdown
- UFPLS

The new responsibilities

- Default funds
- Range of funds
- The charge cap
- The guidance guarantee
- The 31 quality features
- The Chair’s Statement

Default funds

- "Design default arrangements in members' interests"
- Which members?
  - Those with just one DC pot?
  - Those with several?
  - Those with deferred DB benefits?
  - Those with high risk tolerance?
- Usually over 90% default

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The guidance guarantee

- "Pension wise"
- Will have to be "signposted"
- 45 minutes consultation is enough, apparently
- Limitations on "guidance" when compared with "advice"
- "A single session per consumer"

The role of communication

- Vitally important
- Education as well as communication
- Member engagement very difficult
- Options to be explained and understood
- Without giving advice!

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DC investment strategy

- Designed for what outcome?
  - Cash out?
  - Drawdown?
  - Annuity purchase?
- Should you offer drawdown within the scheme?
- How wide a range of funds?

The problems of lifestyling

- Who knows 10 years in advance when they will retire?
- Decision to retire might depend on DC outcome
- Becomes a circular decision
- Do you get another go at the guidance guarantee?

Roles of advisers

- Investment
  - Designing default and other strategies
  - Helping trustees to choose funds
- Admin
  - Choosing admin arrangements (bundled or not)
- Communications
  - Explaining and educating
- Where do actuaries fit in?

Risks 1

- Most stakeholders face risks
- Members:
  - choose the wrong option
  - cash out and spend the lot
  - guidance guarantee doesn’t deliver
- Employers:
  - members can’t afford to retire
  - “post-blocking”

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Risks 2

- Trustees:
  - inadequate or incorrect communication
  - poor default fund
  - “pension liberation”
  - regulatory failure
- Advisers
  - inevitably it will be your fault

Looking forward

- DC funds will be much greater
- Will members engage more when average fund size is (say) £200K rather than £30K?
- Will members use freedoms wisely?
- Will government be able to say “we told you so”?
- Or will we?

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