



The changing role of advisers and trustees in a DC world

Peter Thompson
BESTrustees plc



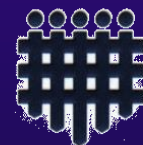
BESTRUSTEES



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

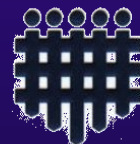


BESTRUSTEES



The new freedoms

- ◆ Full cash commutation
- ◆ Annuity purchase
- ◆ Drawdown
- ◆ UFPLS





The new responsibilities

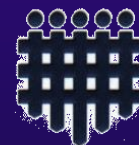
- ◆ Default funds
- ◆ Range of funds
- ◆ The charge cap
- ◆ The guidance guarantee
- ◆ The 31 quality features
- ◆ The Chair's Statement





Default funds

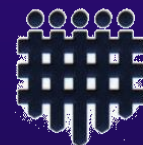
- ◆ “Design default arrangements in members’ interests”
- ◆ Which members?
 - Those with just one DC pot?
 - Those with several?
 - Those with deferred DB benefits?
 - Those with high risk tolerance?
- ◆ Usually over 90% default





The guidance guarantee

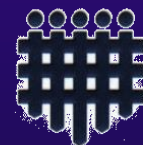
- ◆ “Pension wise”
- ◆ Will have to be “signposted”
- ◆ 45 minutes consultation is enough, apparently
- ◆ Limitations on “guidance” when compared with “advice”
- ◆ “A single session per consumer”





The role of communication

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





DC investment strategy

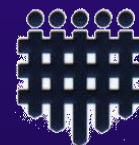
- ◆ Designed for what outcome?
 - Cash out?
 - Drawdown?
 - Annuity purchase?
- ◆ Should you offer drawdown within the scheme?
- ◆ How wide a range of funds?





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”





Risks 2

◆ Trustees:

- inadequate or incorrect communication
- poor default fund
- “pension liberation”
- regulatory failure

◆ Advisers

- inevitably it will be your fault



BESTRUSTEES



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?

