Seminar C22
DC investment in the post-Budget world

6 February 2015

65 Gresham Street, London, EC2V 7NQ
Tel and Fax t 020 7709 4500 f 020 7709 4501

For Professional Clients Only

Agenda

- Some questions from a trustee
- Recap of key Budget 2014 changes
- Immediate response (first year or so)
- Possible longer-term response
- The investor's lifecycle, and communication strategy
- Conclusions

Budget 2014 – DC Flexibility

A Trustee Perspective – Questions to Answer

What outcomes matter

- Deliver benefits under the rules?
- Member requirements both at and through retirement?

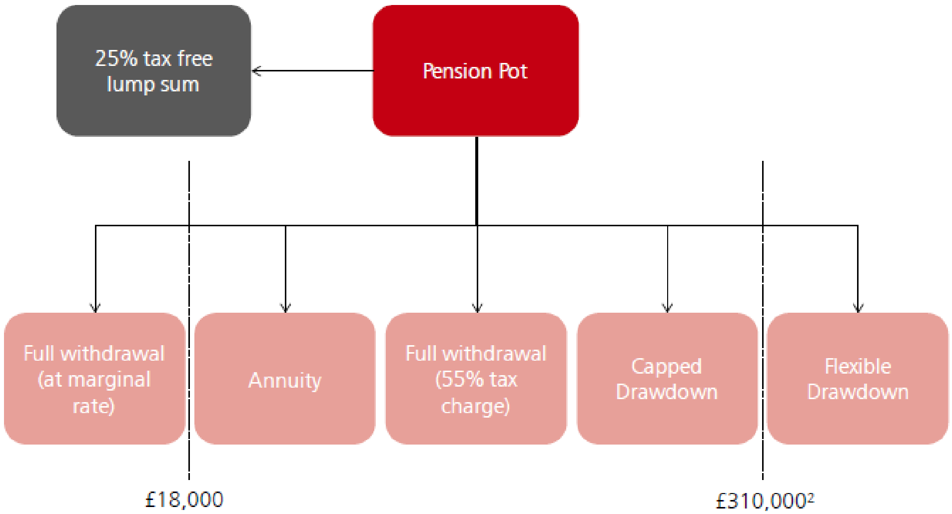
Engagement and communication

- How and when
- How often

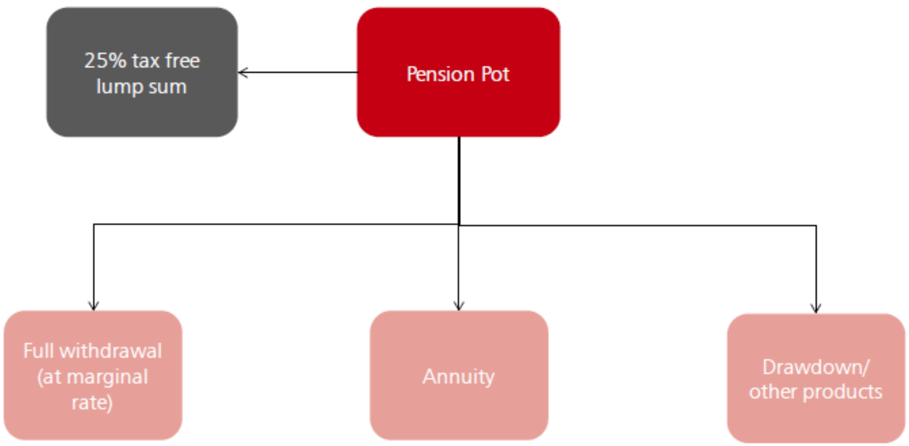
Investment strategy

- Defaults (how many?)
- Self-select range
- Income drawdown?

Recap of key Budget 2014 changes



Under current/previous system, people's choices are constrained by the size of their defined contribution pension pot; around three-quarters of those retiring each year purchase an annuity.



Under the new system, regardless of the size of their defined contribution pension pot, everyone has access to full withdrawal, an annuity or drawdown, and potentially other products created by providers.

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Source:https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/294795/freedom_and_choice_in_pensions_web_210314.pdf

Immediate response (first year or so)

- Membership analysis
  - Existing knowledge
  - Membership analysis
  - Membership survey
- Investment strategy review
  - Overall structure
  - Default fund
  - Self-select options
- Open up member flexibility where appropriate
- Member communications strategy review
- Providers' resource crunch?

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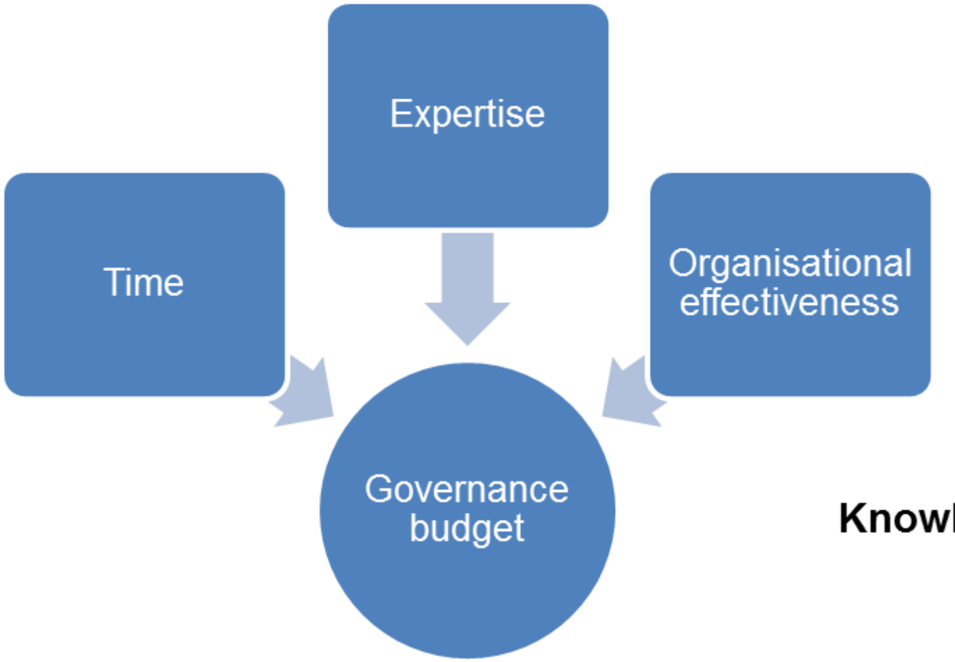
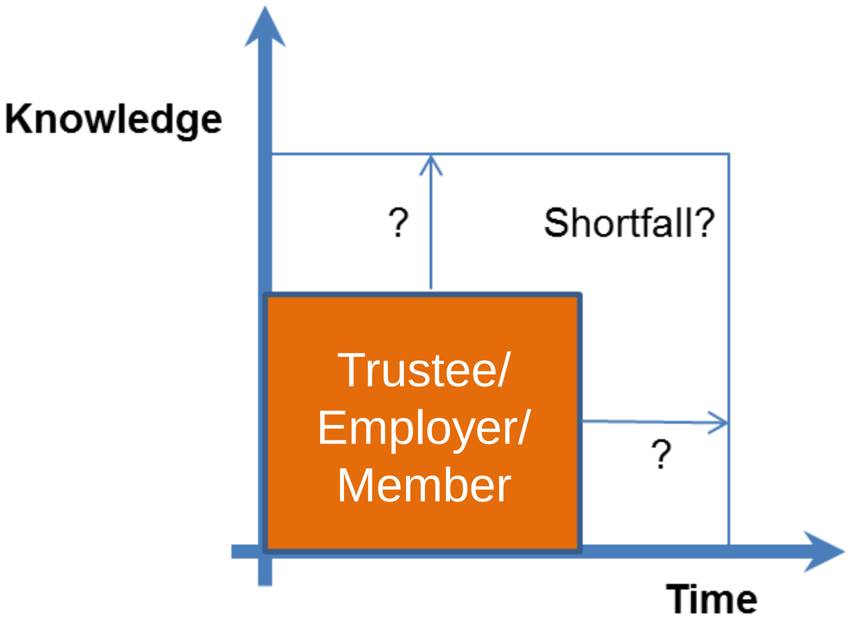
Governance budgets

Trustees/employer and members





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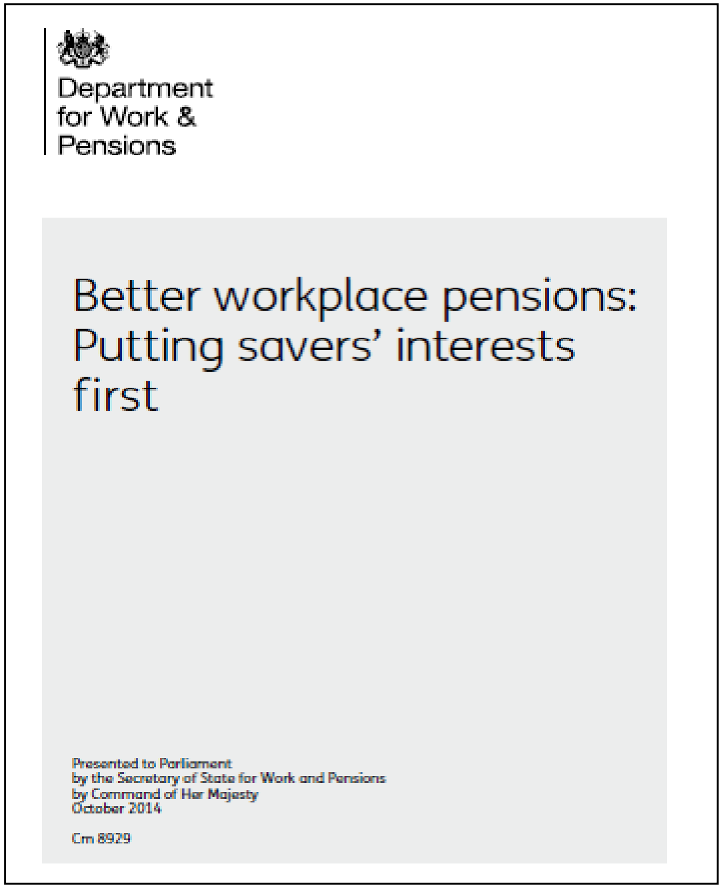
Better Workplace Pensions – Overview

- Minimum governance standards for workplace money purchase schemes from April 2015
- Focus on value for money and raising governance standards
- Governance standards will not apply to AVCs
- Charges to be capped at 0.75%
- AMDs and Commission to cease
- Transparency proposals for full disclosure of default fund costs


Department for Work & Pensions

Better workplace pensions: Putting savers' interests first

Presented to Parliament
by the Secretary of State for Work and Pensions
by Command of Her Majesty
October 2014

Cm 8929

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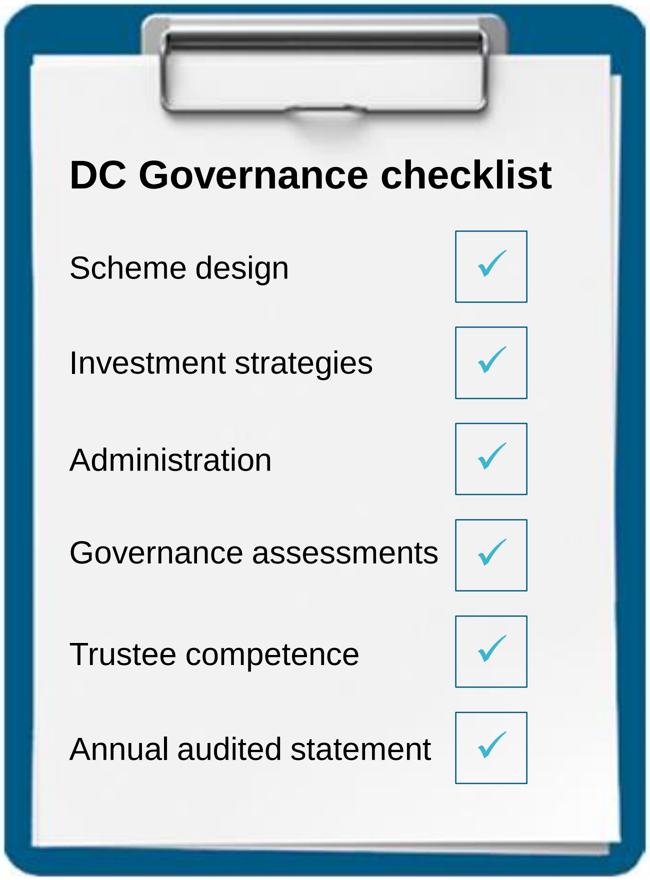
Better Workplace Pensions – DC Governance

Investment-related impact (trust-based schemes)

- Requirement for trustees to appoint a Chair
- Default investment strategies:
  - Designed in the interests of members
  - Clear statement of aims, objectives and policy
  - Regularly reviewed with prompt action taken to make any necessary changes
- A review of their default arrangement strategy, and of the performance of the underlying funds will be required at least every three years; but earlier where there is any significant change in investment policy or the demographics of scheme membership.
- Regular assessments of:
  - Charges borne by members
  - Investment costs



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Some other potential key influences

- DWP guidance on auto-enrolment DC default options (May 2011)
- TPR's Code of Practice 13 – the "DC Code" (November 2013)
- NEST's default strategy
- Trust Deed and Rules
- Revised SORP

- Trustees'/Company's investment objectives/beliefs/philosophy
- Likely level of engagement from members
- Wider employee remuneration packages (including DB pension?)
- Existing investment strategy
- Member expectations
- Auto-enrolment levelling down contribution levels?
- What will the media say?

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Typical results from membership analysis

Informs both investment and member communication strategies

		Members' estimated natural tendency
Passive savers	Members who are unwilling and/or unable to engage meaningfully with their retirement savings. These members will always follow the default or path of least resistance.	**10%** **(Currently 90%)**
Limited personalisers	Members who are willing and able to personalise their retirement savings, albeit often only in a limited way. These members want limited, easy to understand choices with supporting help and guidance to incrementally move away from default position.	**46%** **(Not currently offered)**
Independent choicemakers	Members who are willing and able to engage fully with their retirement savings. These members want a range of good quality, suitable choices.	**44%** **(Currently 10%)**

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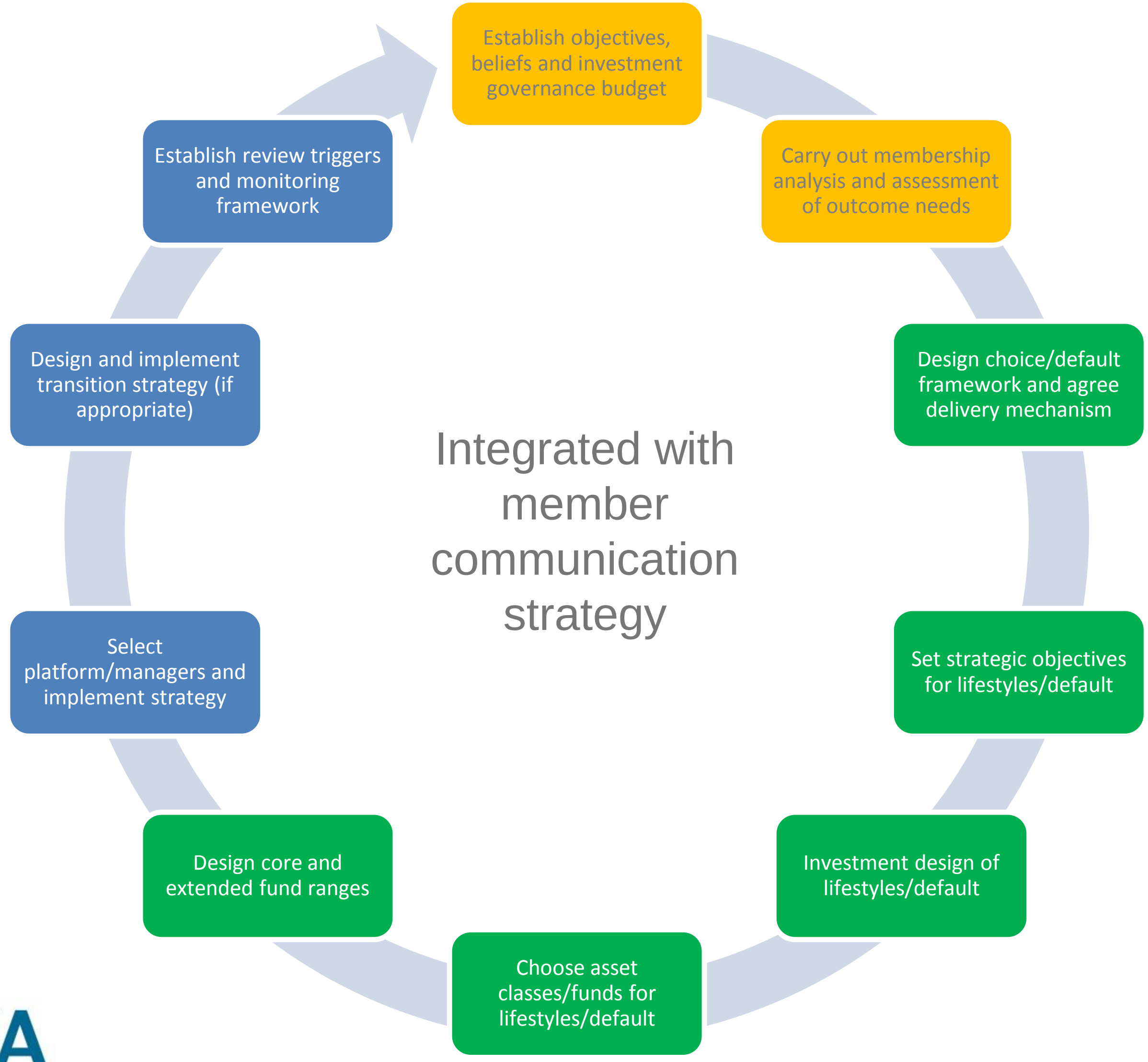
Source: Capita Maestro - membership analytics

Typical DC scheme investment review process

Same as before, but more detailed and focused in certain areas



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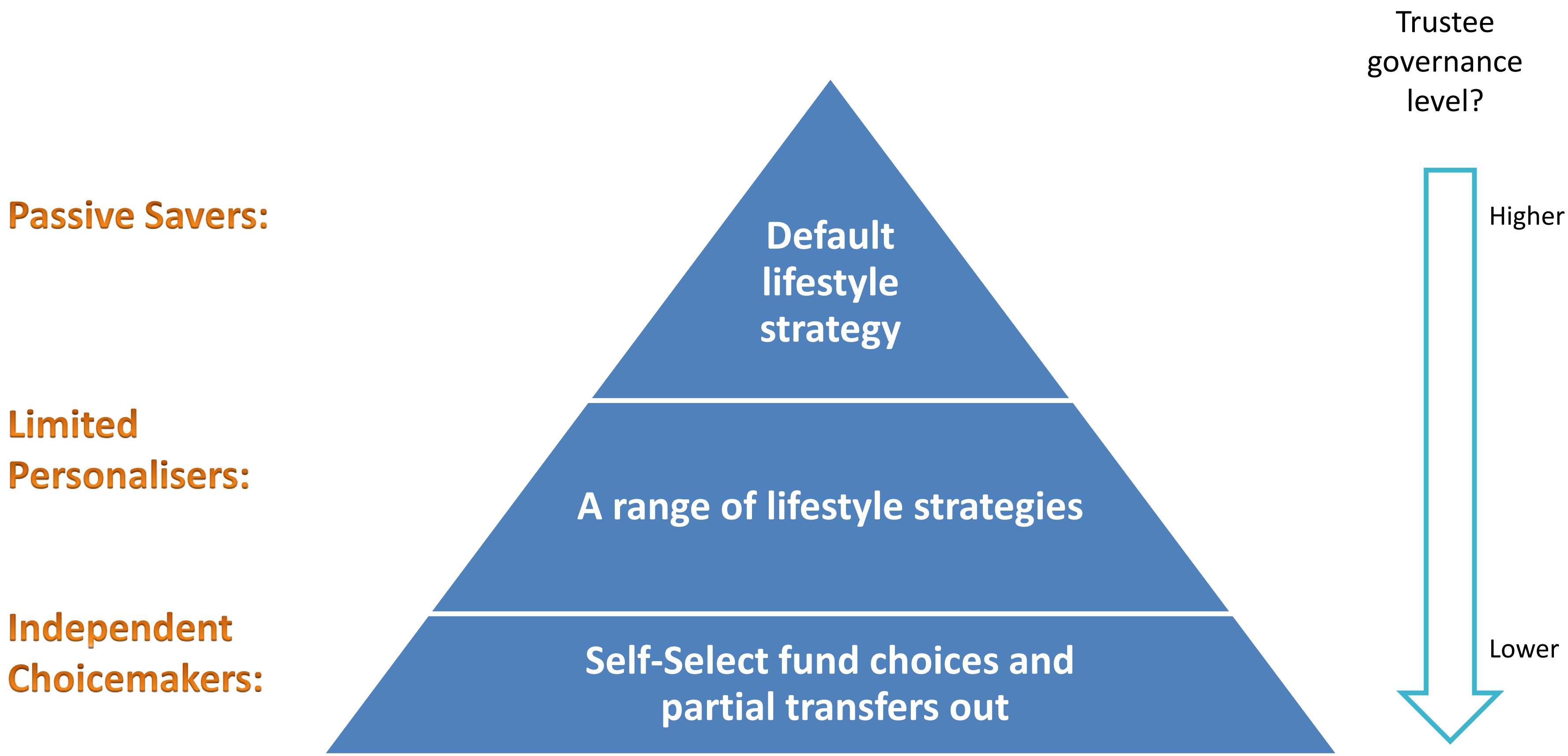
Overview of the typical investment structure



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Choice of default lifestyle

Passive Savers

- Level of risk/return during growth phase
- Asset allocation at target retirement age
- Target retirement age
- Primarily affects members unwilling and/or unable to make a decision:
  - Annuity plus cash still appropriate?
  - Cannot force member to buy an annuity
- Who likely to be most affected before next review?
- Communication, communication, communication!
  - Existing default lifestyle challenges

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Other lifestyles and self-select options

Limited Personalisers and Independent Choicemakers

- Number of other lifestyles and design
- Core or maximum self-select fund range
- Provider capabilities
- Desired level of governance budget (eg monitoring)
- (More) communication, communication, communication!
  - Key ages for member communication strategy?

Possible longer-term response

- Review strategies within two or three years
  - Recognise current action is probably a stop-gap
- Market experience
  - Increased move towards using investment platforms?
  - Increased move towards index-trackers?
  - Increased use of target date funds?
  - Smoother link between collective and individual arrangements?
  - Mis-selling?
- Scheme experience
  - Investment choice as expected?
  - When do members take the money?
  - What do members do with the money?
- Investment options available
  - Innovation around continued investment/flexible income options

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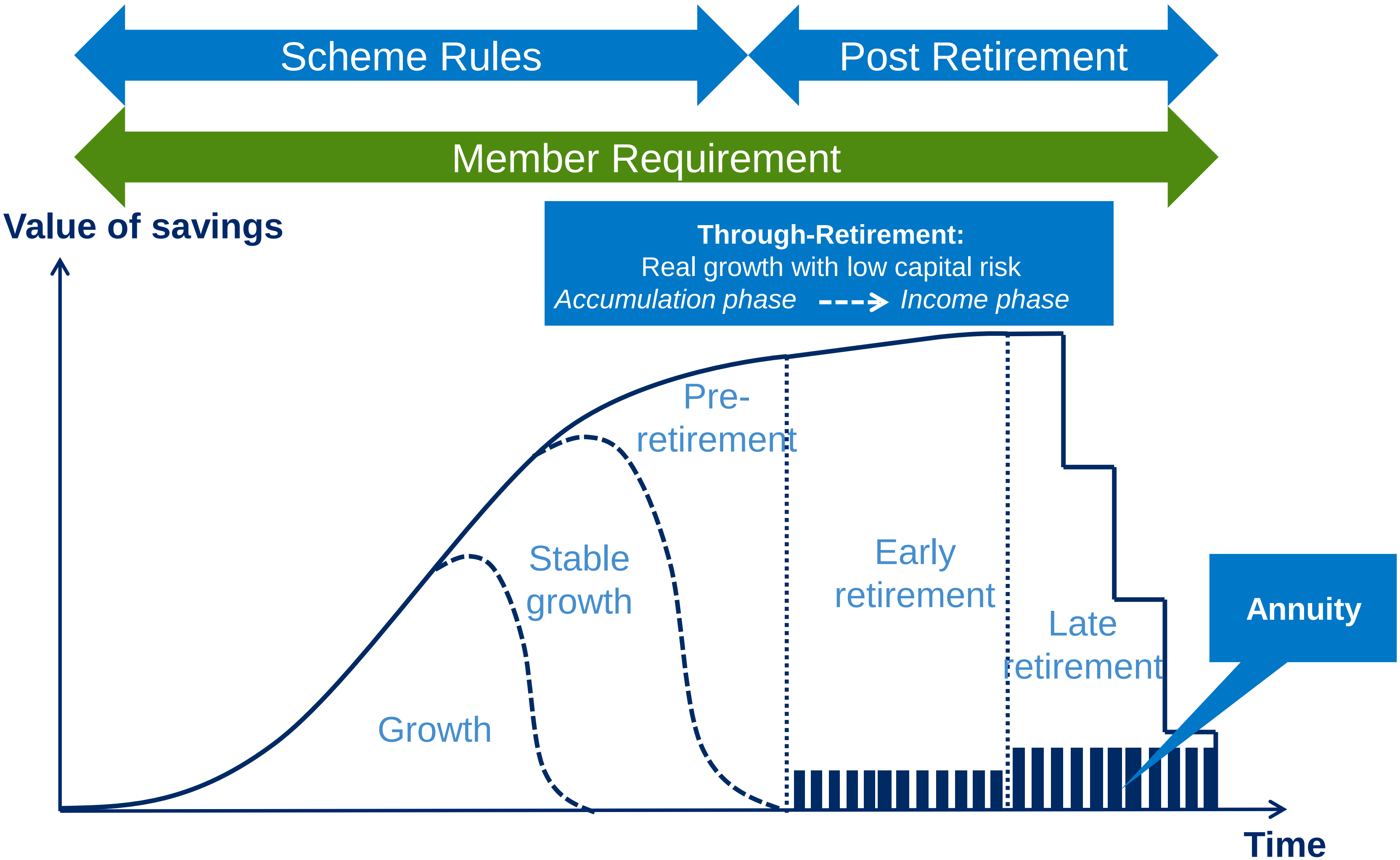
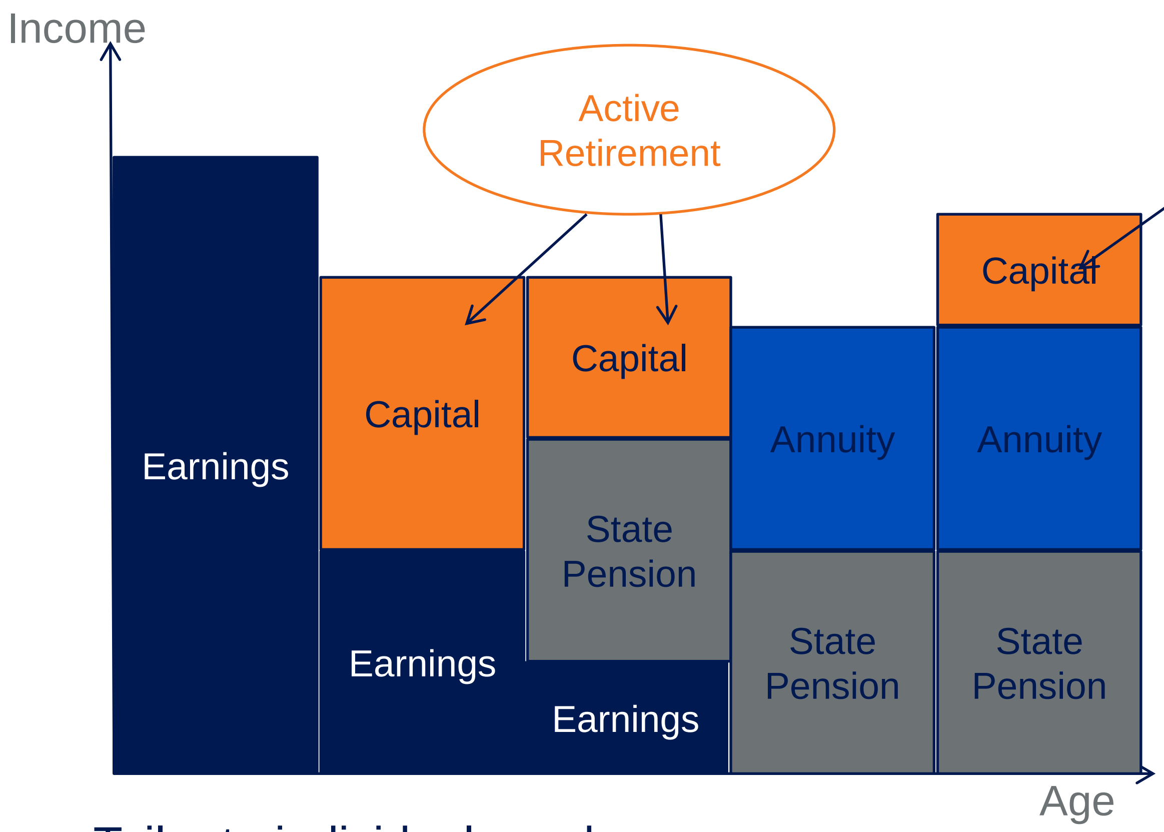
The investor's lifecycle

What outcomes matter?



Retirement Income Patterns

Need flexible solutions

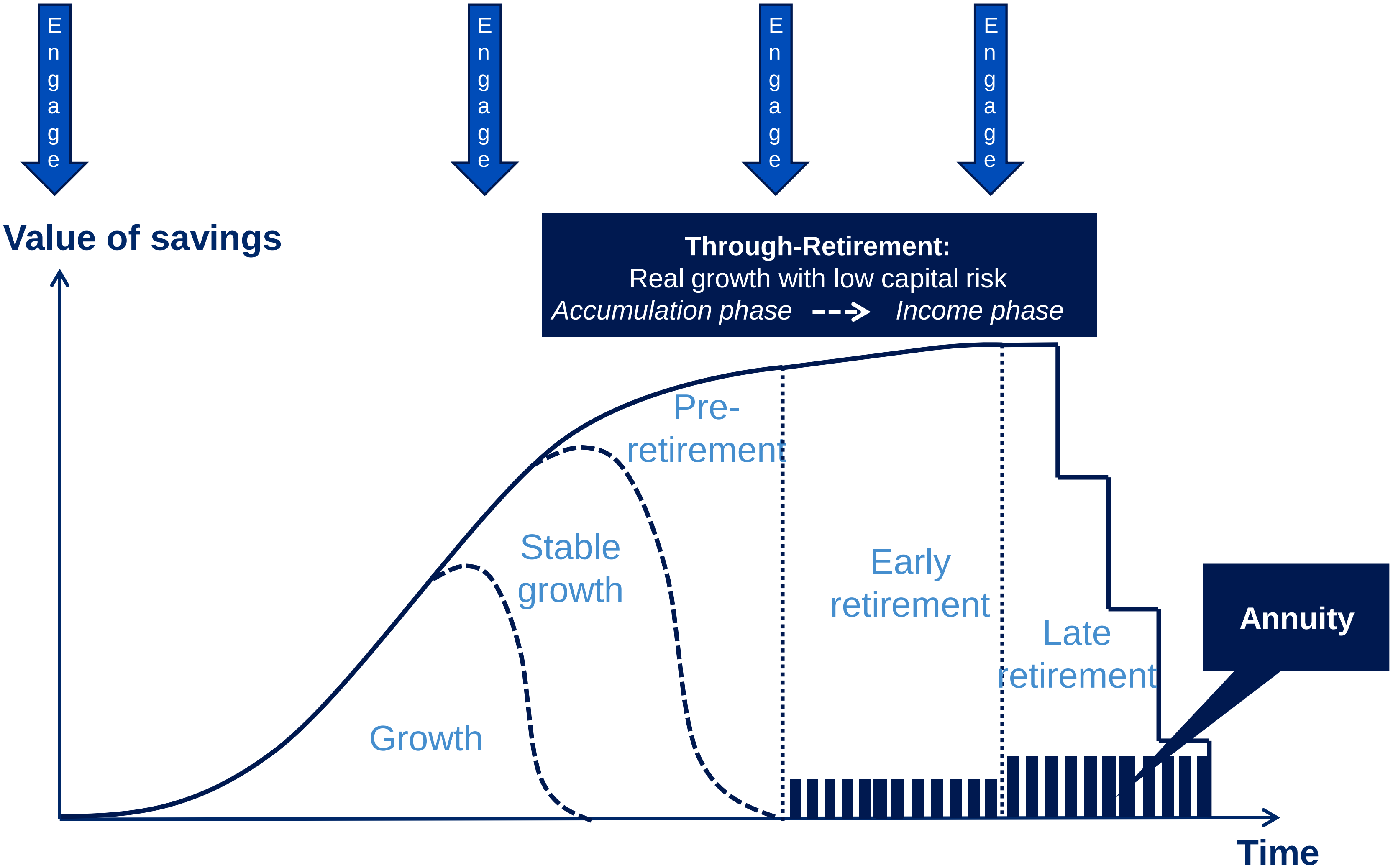


- Retirement patterns changing
  - At older ages
  - Phased
- Increasing longevity and long term care costs require build up of greater pension pot

- Tailor to individual needs
- Provide flexibility for risk controlled growth and stable income

Engagement and Communication

When it is most meaningful



Conclusions

- Back to first principles
- Membership profile understanding: crucial
- Investment changes: almost inevitable
- Member communication: more important than ever

- Lots to do, and a great opportunity to help members to take responsibility for their own money!

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