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Defined Ambition

DC+ Working Group

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Finding the Middle Ground

DC+ Working Group
4 ideas

DB

DA

DC

DC= Employers will not put balance sheet or P&L at risk

Product Assessment Criteria

- Today it’s about the **Default** and its **Ongoing Governance**
  - **Flexible** and **Robust** for real individuals
  - **Adaptable** to the real world
  - **Ongoing Best Execution** (Principal versus Agent)
  - **Cost** efficiency
  - **Alignment** with long-term outcomes
  - **Transparency** of objectives, costs and decision making process

Guarantees or Risk Sharing place an added emphasis on these issues

The Long List

- Money back guarantees
- Income guarantees
- New style with-profits
- Targeted outcome strategies
- Employer smoothing fund
- Collectivised income provision
- Enhanced engagement models
- State benefit integration
- ……………………….

Principal Reasons for Establishing the Short List

- Already doable
- No real guarantees or risk sharing - more “A cunning plan”
- Ungovernable
- Poor value for money :

  potential cost of guarantee **greater than** perceived value

- Unsellable

Where We Ended Up

A. Retirement Savings Protection Fund (“RSPF”) for qualifying retirement savings products (“QRSP”)

B. Integration of DC Income with State Benefits

C. Standardised insurance wrapped guaranteed investments

D. Standardised retirement income insurance

Passed to CDC group

1. Employer smoothing fund

2. Collectivised income arrangements

Retirement Savings Protection Fund ("RSPF") for Qualifying Retirement Savings Products ("QRSP")

- Confidence inspiring low cost money back guarantee, potentially:
  - Individual contributions only (subject to cap) with no indexation
  - tPR responsible for QRSP compliance

✓ Simple, cost effective, transferable/flexible, transparent, best execution

✓ Supports improved governance regime for DC

✗ New legislation, scope creep, PPF appetite

✗ Not focused on pension benefit

Integration of DC Income with State Benefits

- In return for contracting to defer an element of the State Pension an individual will be allowed to decumulate their entire DC savings in the interim

- ✓ Individuals get their savings back first

- ✓ Longevity risk (not cost) passed from inefficient markets to State

- ✗ Hard to model risks and costs to State, along with complex administration

- ✗ At retirement advice model potentially problematic

Standardised Insurance Wrapped Guarantee Investments

- Term insurance products purchased on investors behalf by default manager
  - Standardisation of terms
  - Regulatory easement on need for daily liquidity for savers
- ✔ Reduced cost of guarantees and increased investment opportunities
- ✔ Good ongoing governance of insurance purchase
- ✘ Insurer appetite and competition issues
- ✘ Loss of daily liquidity for members

Standardised Retirement Income Insurance

- Insurance progressively and collectively purchased from age 50 onwards separate to invested assets that guarantees income in retirement
  - Guaranteed income grows each year on savers statement
  - Individual retains full ownership rights of their fund at all times
- ✓ Alignment with pension benefit
- ✓ Transparency, flexibility and adaptability
- ✗ Insurer appetite
- ✗ Separation of insurance and funds increases costs

What Next for the Working Group

- Round-out those ideas liked by Government

- Look at any new ideas and subject them to a similar assessment process