Before the Budget !

This House believes CDC is better than ~~current~~ DC for both employers and employees

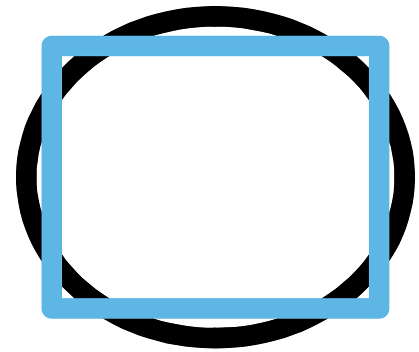
In favour of CDC

Kevin Wesbroom

Senior Partner, Aon Hewitt

Collective DC (CDC) plans

(the ones without guarantees)



- The employer pays a fixed contribution rate
  - Rate could be a range
  - In our view employers will not tolerate pension risk
- No individual accounts
  - Investment done by independent trustees, with professional advice
- The member gets a DB-like Target pension
  - Pension paid from the plan, not annuity purchase
  - Revaluation and indexation to preserve real value
  - Expected benefit level facilitates retirement planning
- We “square the circle” because the Target Pension is not guaranteed
  - Indexation and revaluation is not guaranteed
  - Even the basic pension is not guaranteed in extremis
  - Benefits adjusted to ensure cost stays constant
  - Plan would have strict rules on how to get back into balance – benefit adjustments or bonus additions

2

CDC Issues

THE GOOD

- Bigger pensions
- More stability
- Pensions not accounts
- No annuities
- No member investment
- Lower charges?
- Better returns?

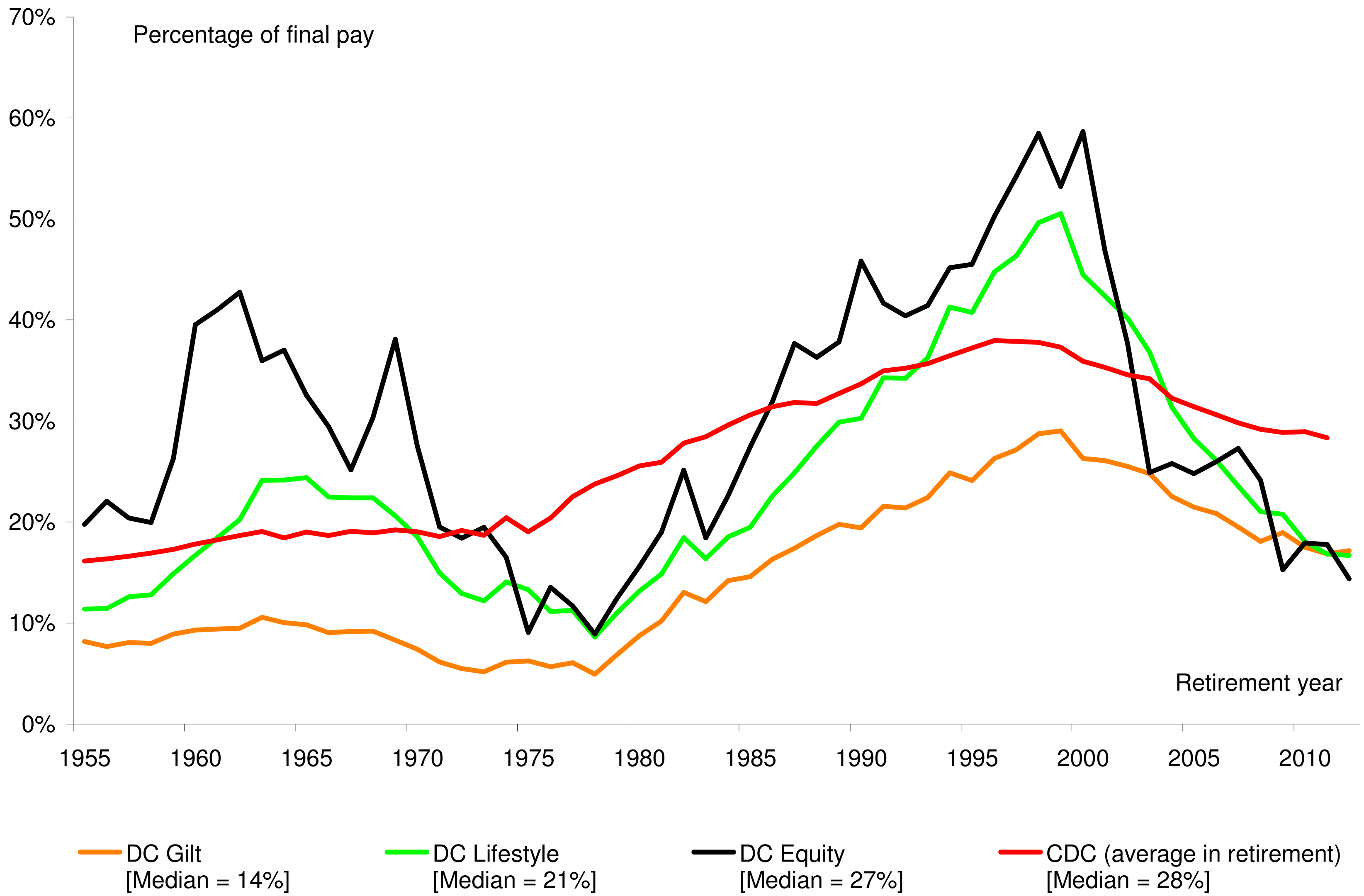
THE BAD

- Risk Sharing?
- Been Here Before?
- “Soft” guarantees
- Cross – subsidies
- Complexity
- Lack of choice
- The need for scale
- Run off schemes

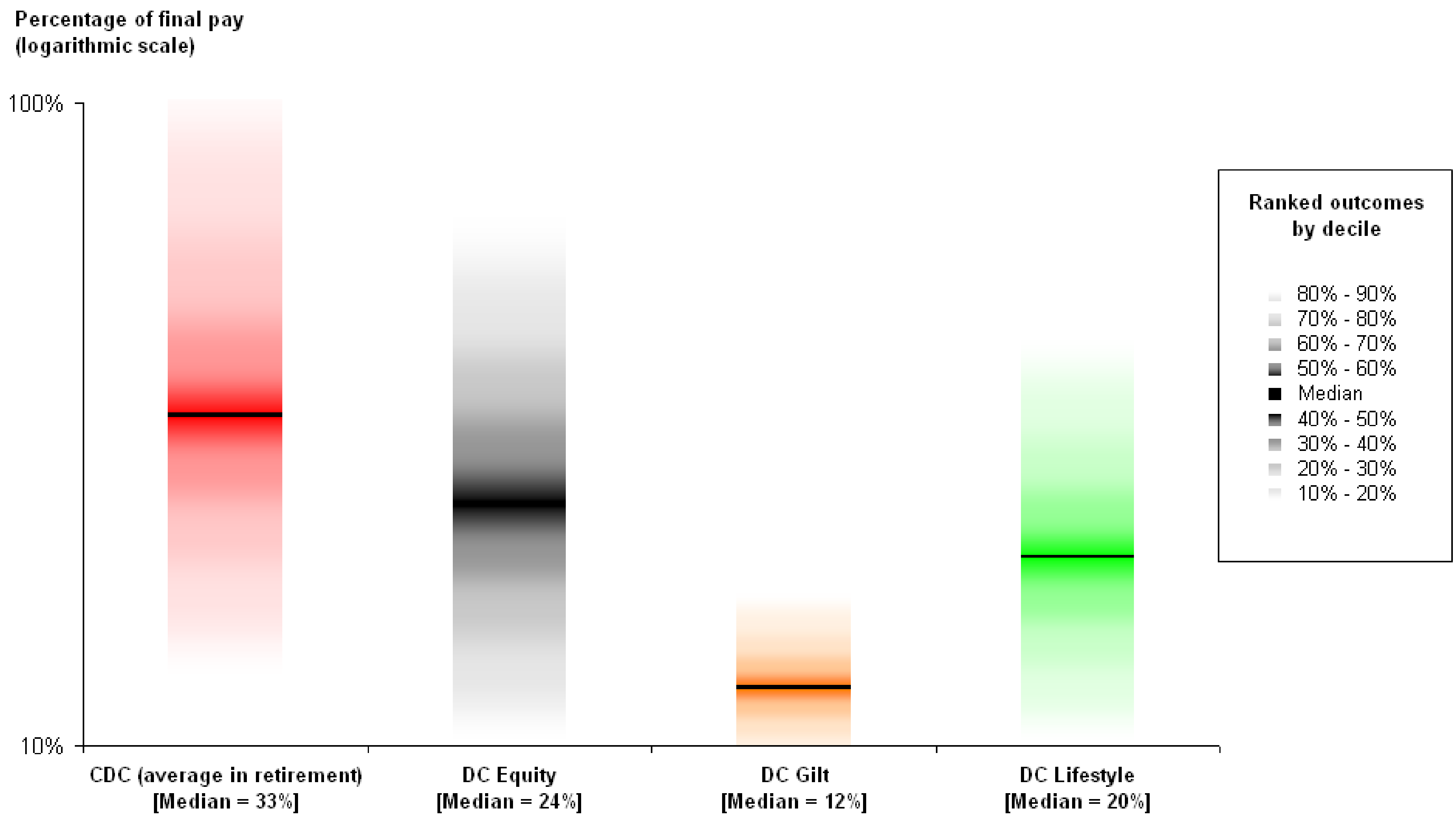
THE UGLY

- DB in waiting
- With Profits?
- Benefit cuts

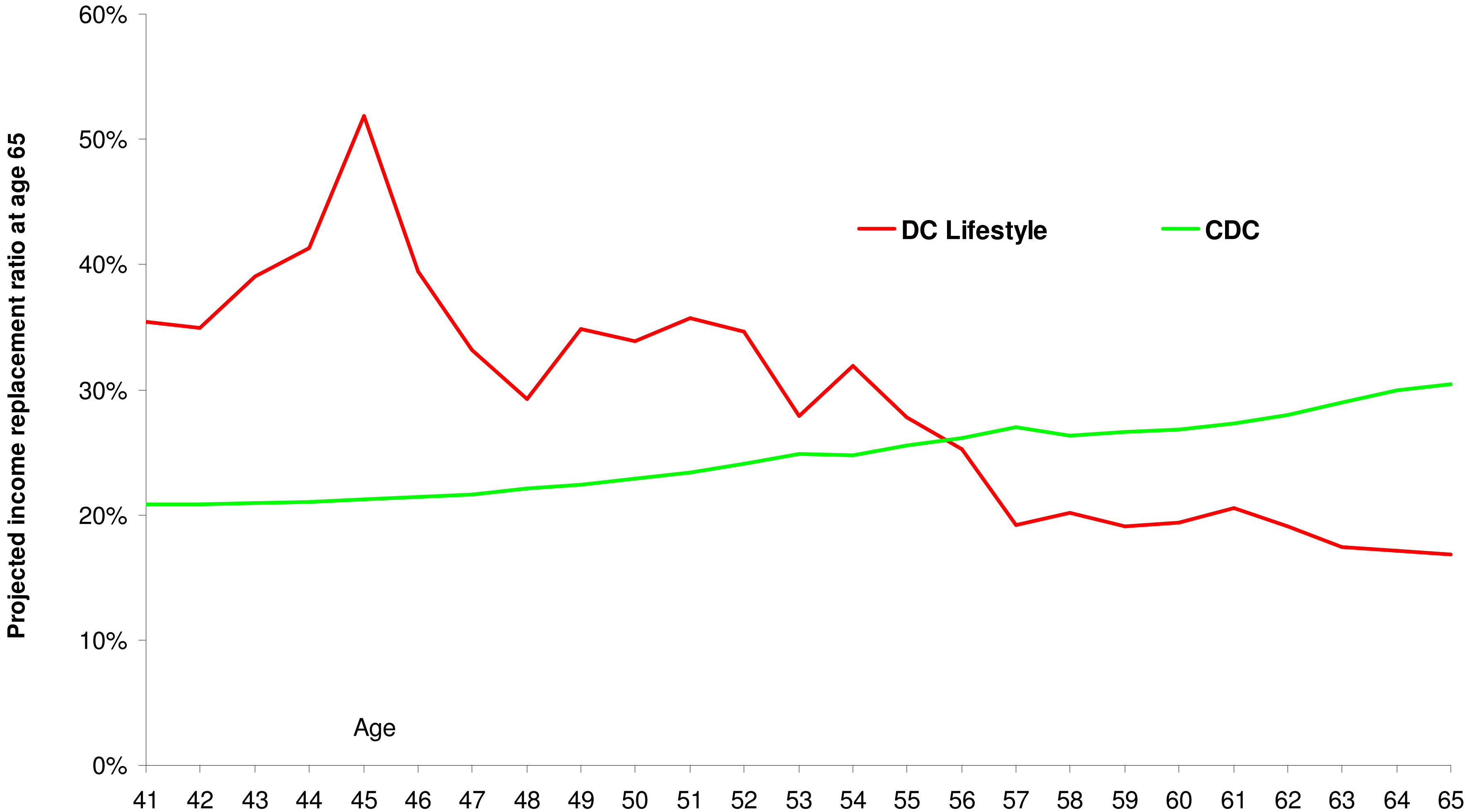
The Good – Bigger, More Stable Outcomes



Aon Hewitt Modelling - Projected outcomes



More helpful for planning?



Our modelling - what's not included!

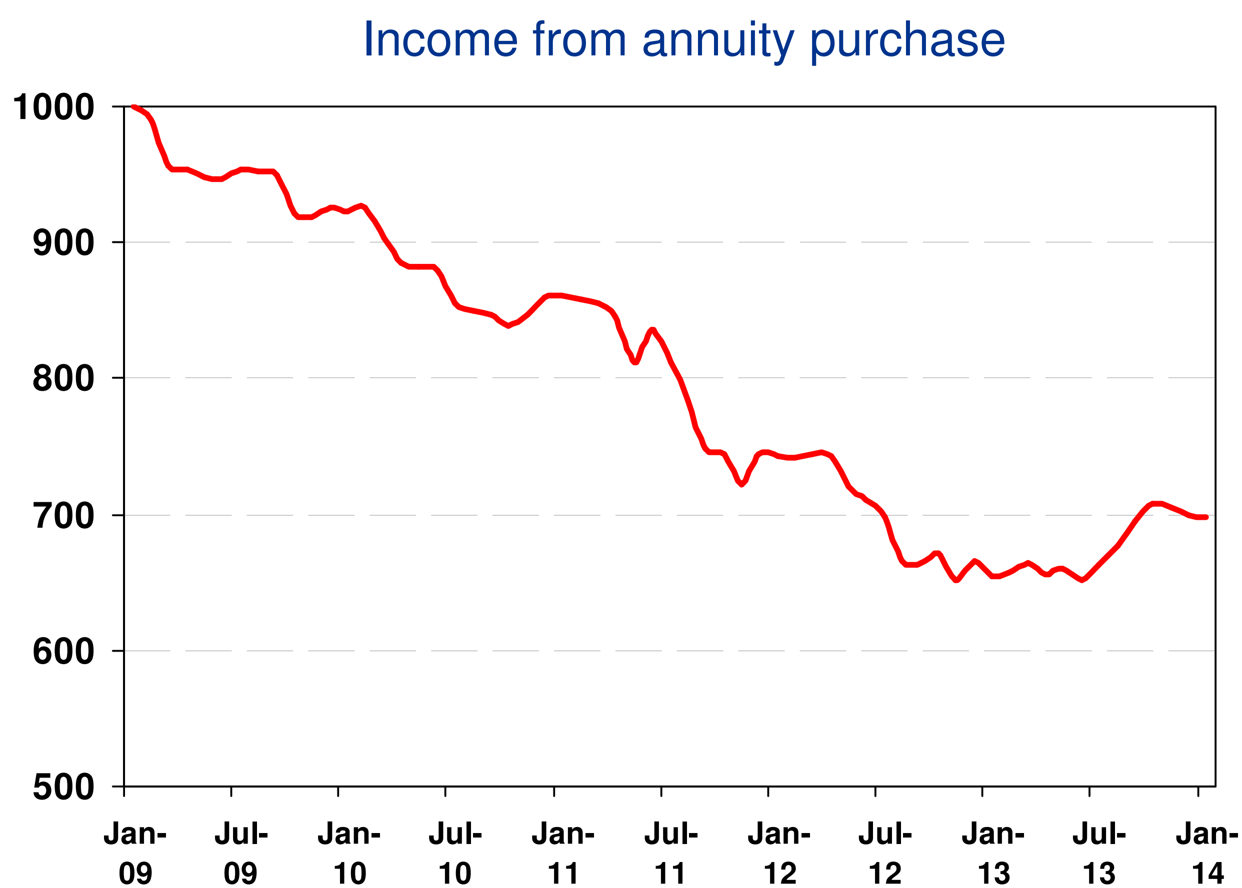
- Lower charges for CDC vs DC
  - Can get economies of scale from DC
  - But many don't!
- No out performance of CDC vs DC
  - Can get (most) best ideas in DC
  - But many don't!
- Out-performance?
  - Best ideas into DC portfolios?
  - Illiquids and daily pricing
  - Member led inertia?
- The Weakness of DC is the member!
  - Unwilling and unable to take the required investment decisions*
  - Have no idea how much to save – partly because of uncertainty

* Eg Byrne, A.; 2007, *Employee Saving and Investment Decisions in Defined Contribution Pension Plans: Survey Evidence from the UK*, Financial Services Review, Vol. 16, No. 1.

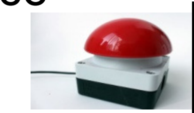
Good Things - No annuity purchase

- Annuities are bad long-term
- Annuities are bad short-term
- Dealing with longevity
  - Quicker with trustees
  - Better diversification

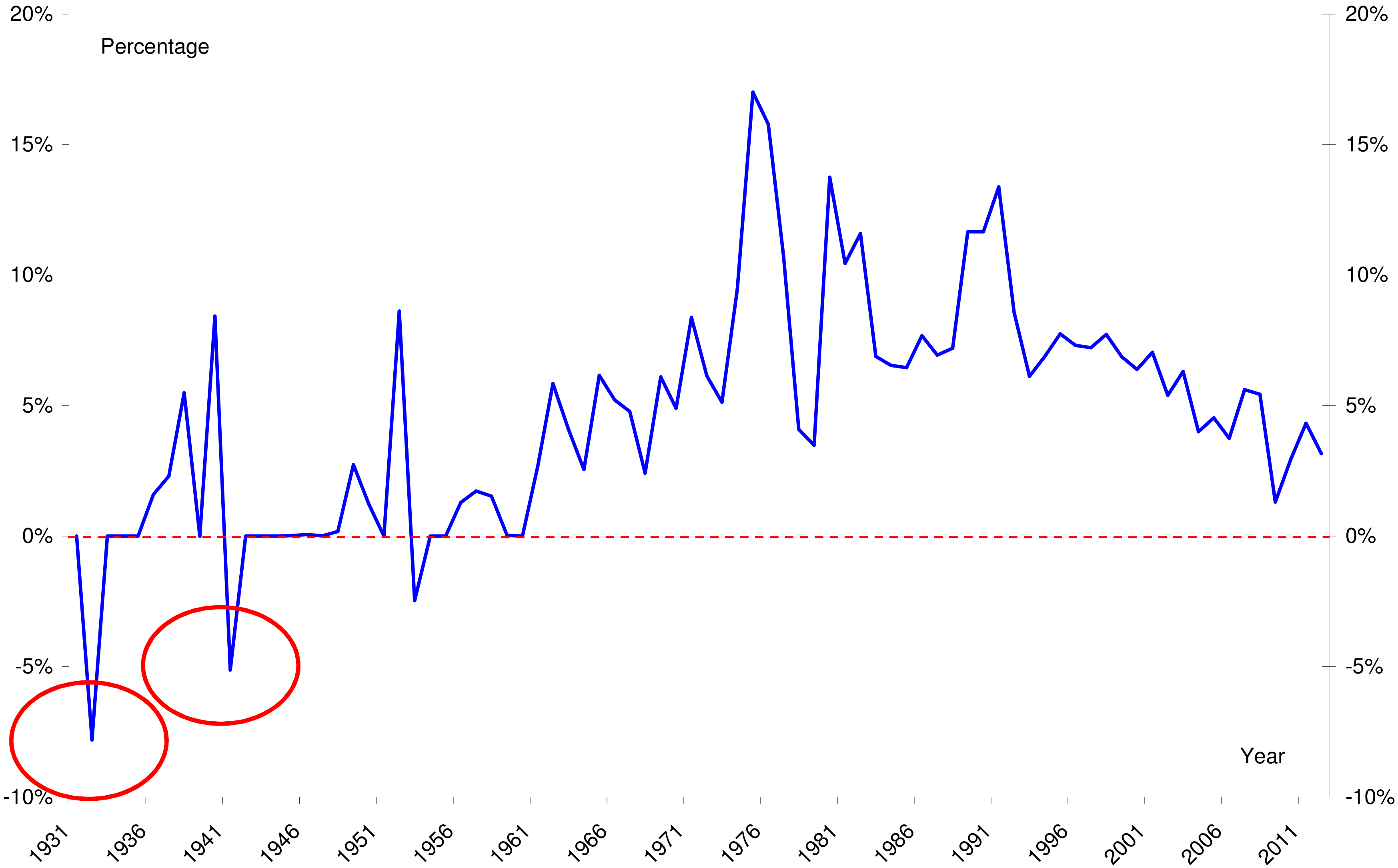
How has this changed post Budget? Will people still need an income in retirement?



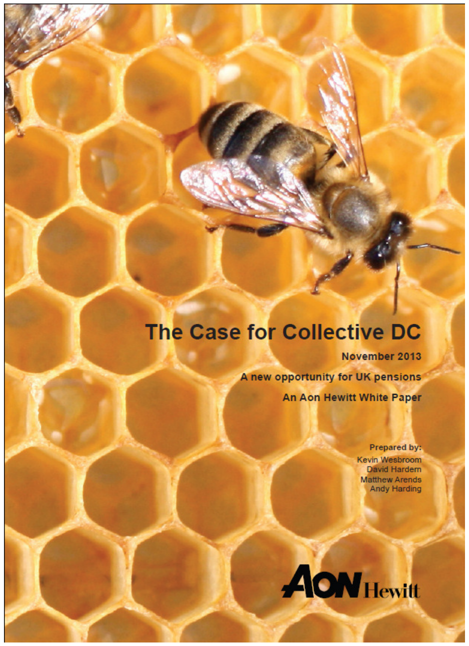
Not Giving In …

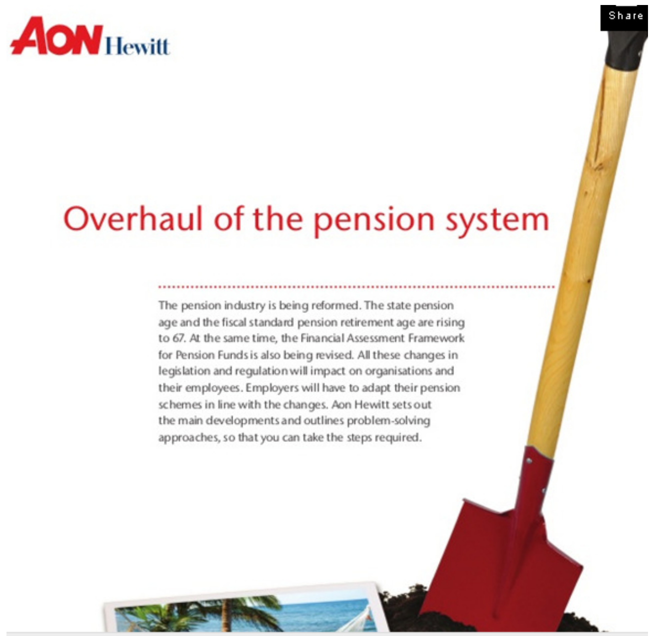
Issue	Resolution
Employer Concerns of Regulatory Creep	Explicit legislative reference Big Red Button in deed  
Communicating with members	Regular focused communication Raised public awareness Communicating the uncertain future
The W Word - with profits	Actuaries roll over?? Public disclosure through CDC Website
Cuts in Benefits	Look at likelihood and severity Public tolerance – within limits Let's understand the Netherlands Systems break under extreme pressure

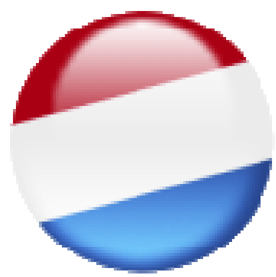
Historic modelling - bonuses added



We are not alone ....







www.aonhewitt.co.uk/collectivedc

www.targetbenefits.ca

The Canadian Vision

We define a **sustainable pension plan** as one that can consistently deliver, through both favourable and adverse circumstances, an **appropriate range of benefits** within an **acceptable range of costs** over the long-term.

A sustainable approach to pensions will allow a pension plan to adjust both costs and benefits in response to actual experience, with the key objective that adjustments be infrequent and low in magnitude.

The UK Vision – and Your Role

- The Politics of CDC changing legislation – and elections
- What do actuaries want to be remembered for in this debate?
- Do we have a Plan B?

- More public awareness raising needed

- CDC from DB or from DC (10 years too soon or 10 years too late?)

- Where will CDC flourish?
  - Large, unionised employers?
  - Industry wide arrangements
  - Ready made solutions – provider led master trusts

All we are saying …..

le mieux est l'ennemi du bien (Voltaire)