

CAPITA



ACA Smaller Firms Seminar

DC in the post-Budget 2014 world

5 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?

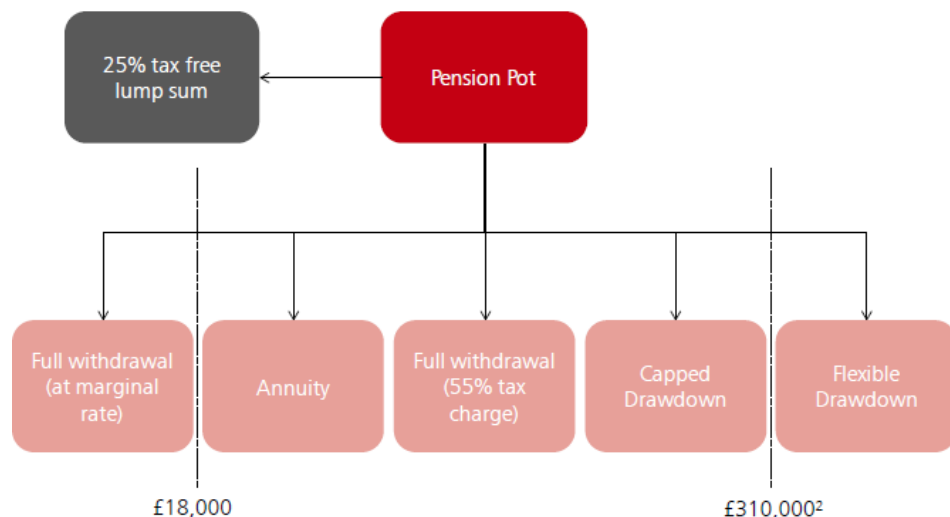
Engagement and communication

- How and when
- How often

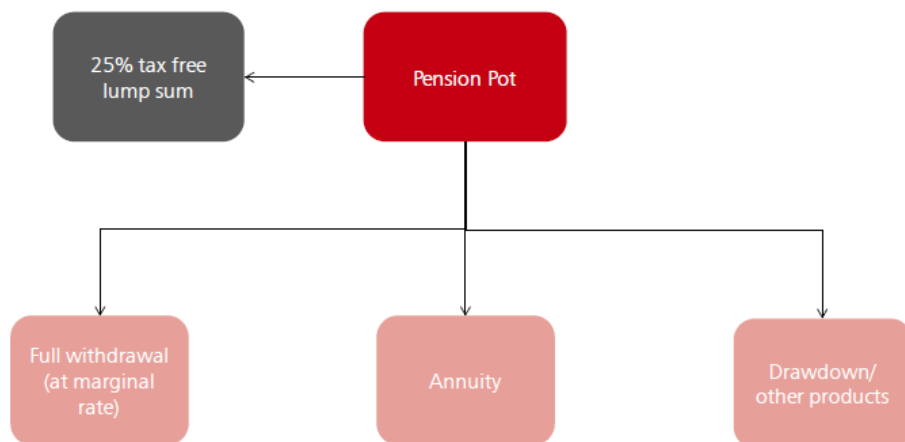
Investment strategy

- 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.



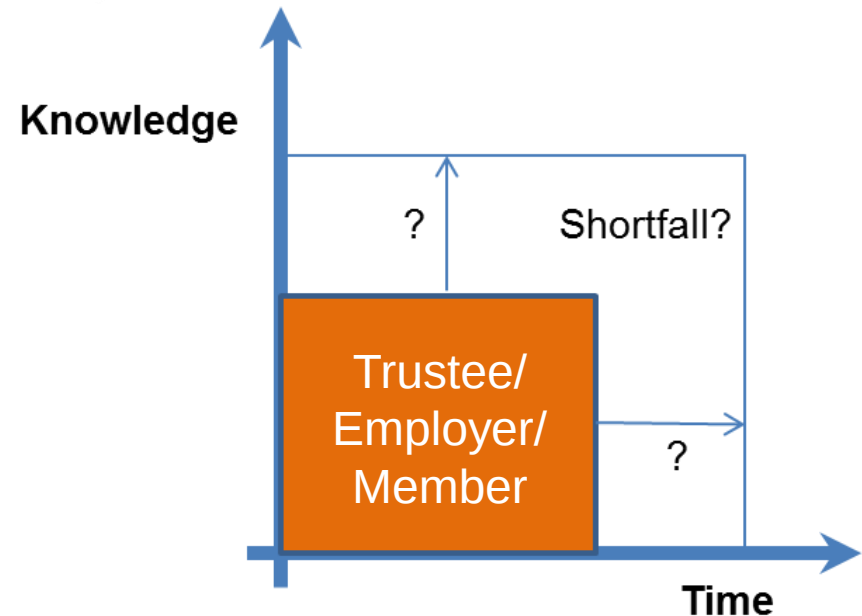
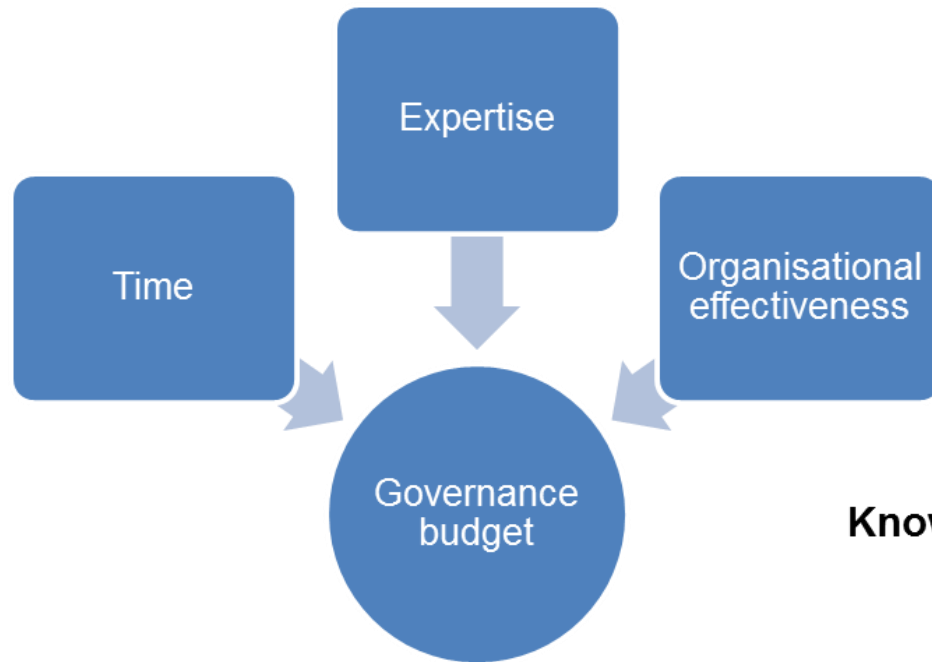
Under the new system, regardless of the size of their defined contribution pension pot, everyone has access to full withdrawal, an annuity or drawdown, and potentially other products created by providers.

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?

Governance budgets

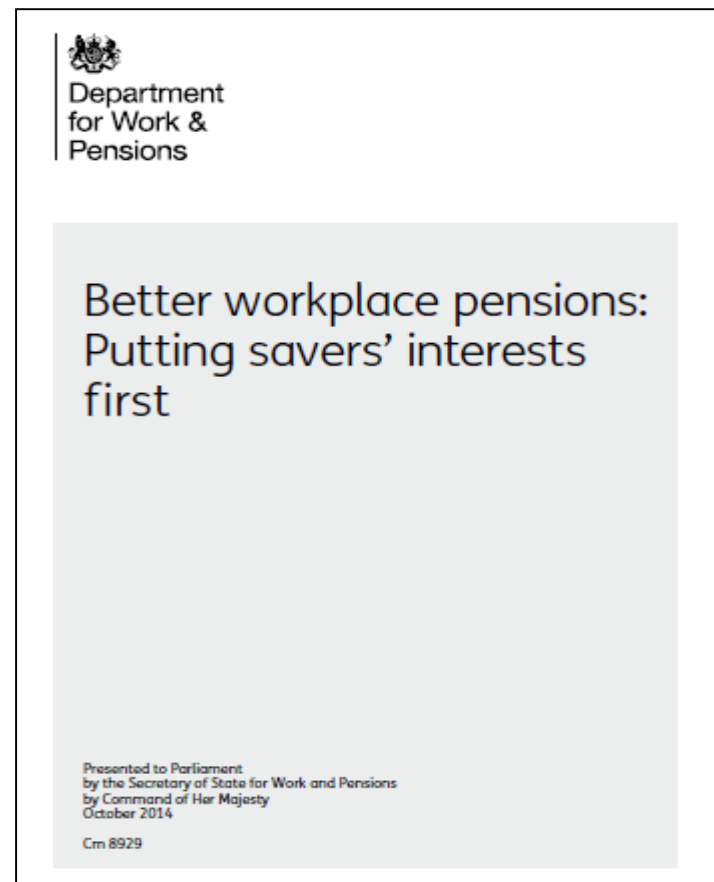
Trustees/employer and members



CAPITA

Better Workplace Pensions – Overview

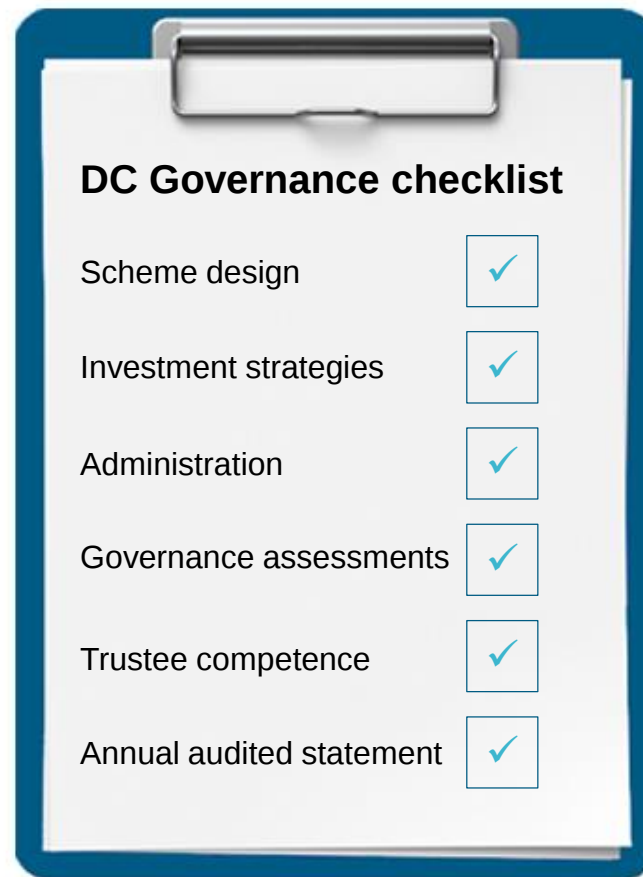
- Minimum governance standards for workplace money purchase schemes from April 2015
- Focus on value for money and raising governance standards
- Governance standards will not apply to AVCs
- Charges to be capped at 0.75%
- AMDs and Commission to cease
- Transparency proposals for full disclosure of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



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



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

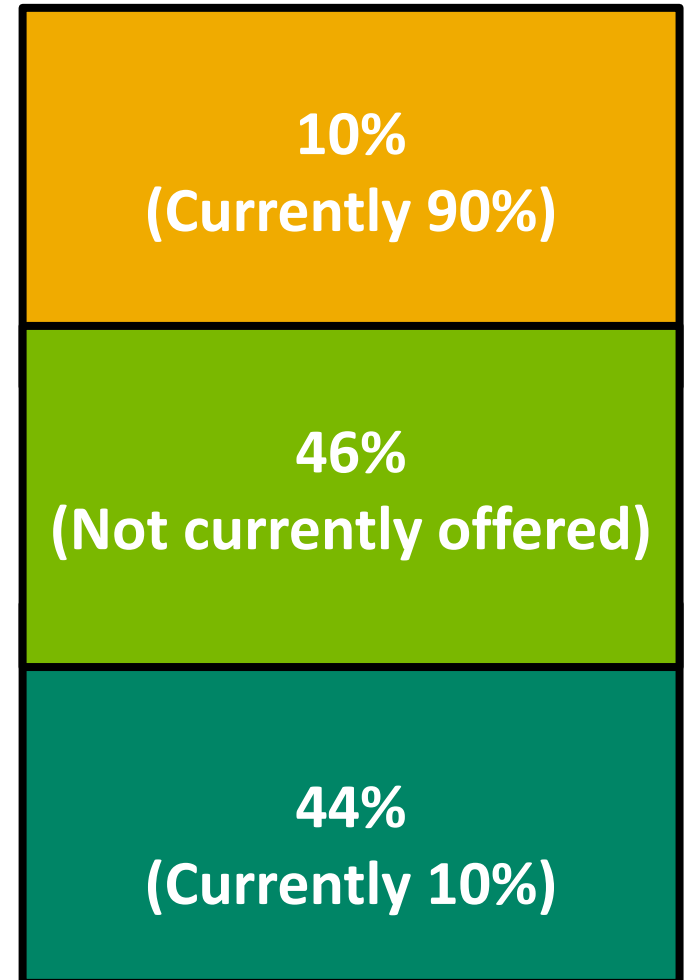
- Trustees'/Company's investment objectives/beliefs/philosophy
- Likely level of engagement from members
- Wider employee remuneration packages (including DB pension?)
- Existing investment strategy
- Member expectations
- Auto-enrolment levelling down contribution levels?
- What will the media say?

Typical results from membership analysis

Informs both investment and member communication strategies

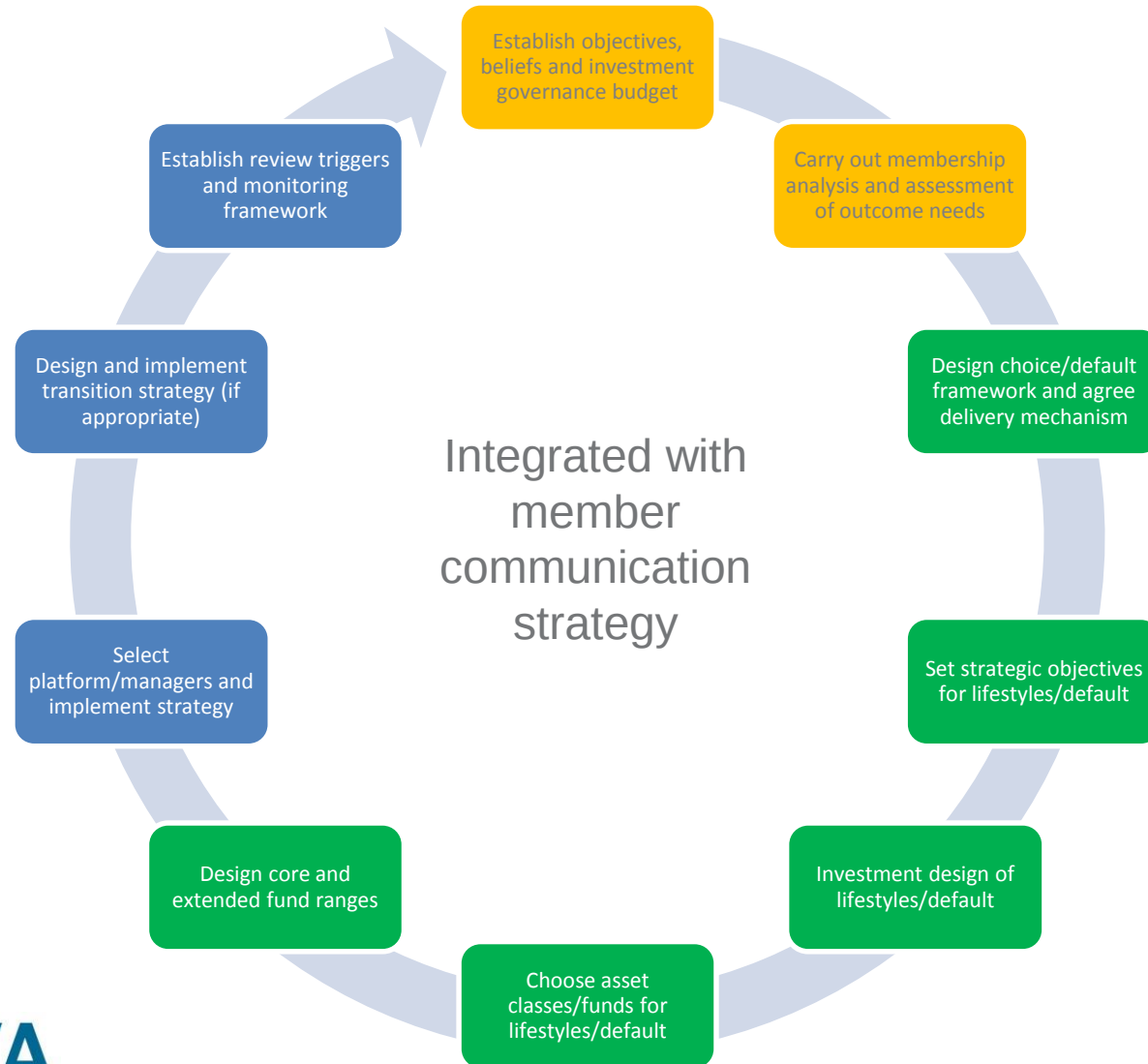
Members' estimated natural tendency

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.
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.
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.

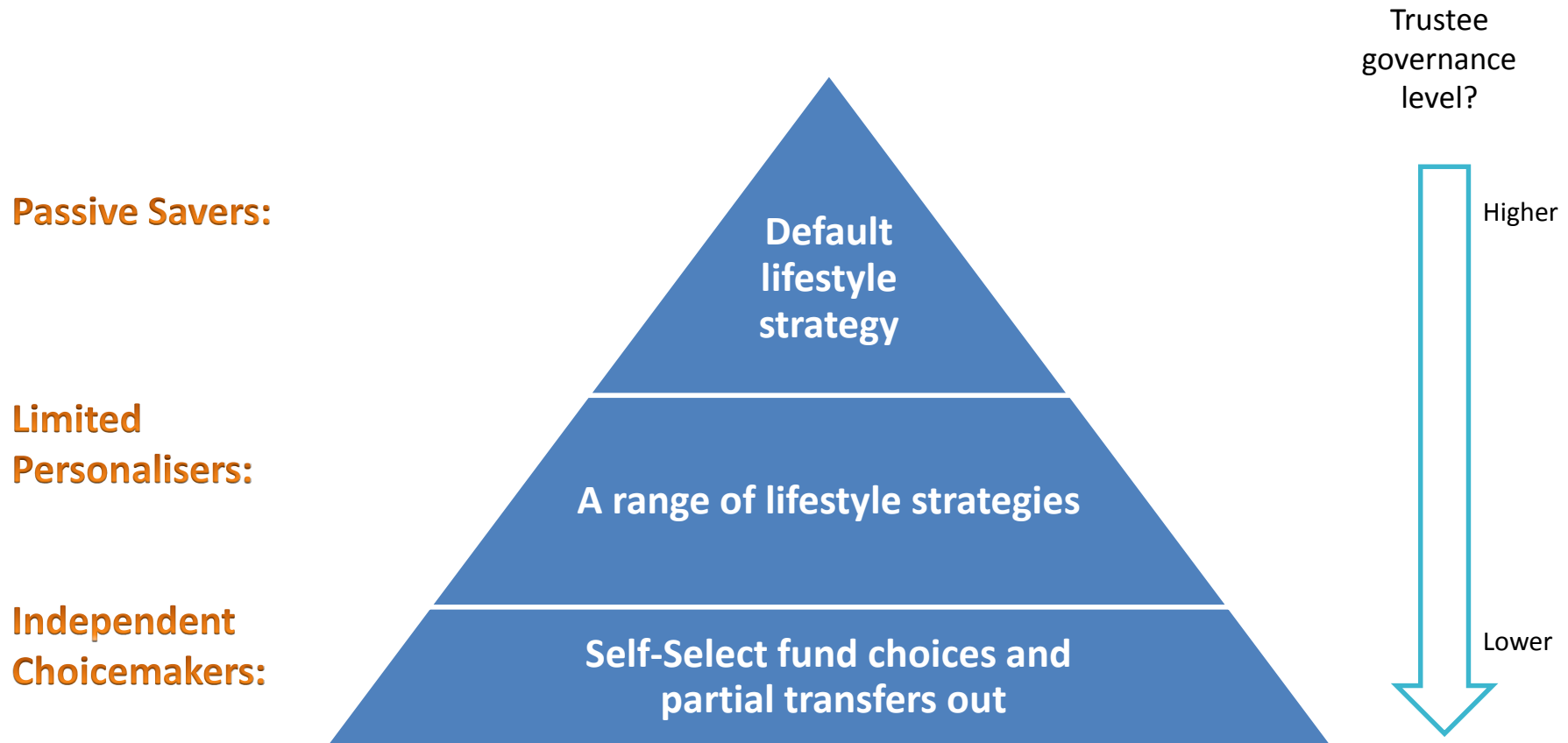


Typical DC scheme investment review process

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



Overview of the typical investment structure



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

Other lifestyles and self-select options

Limited Personalisers and Independent Choicemakers

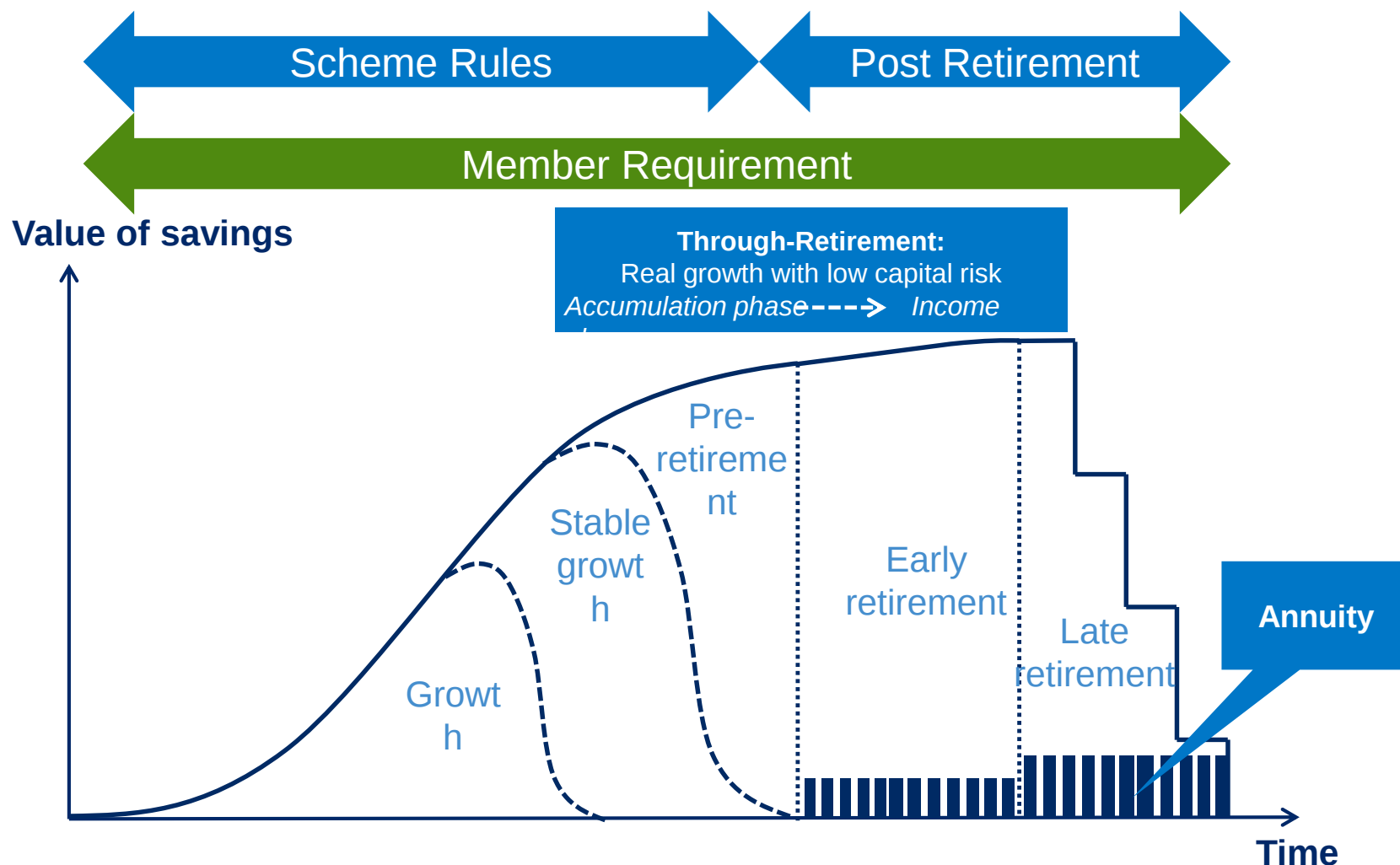
- Number of other lifestyles and design
- Core or maximum self-select fund range
- Provider capabilities
- Desired level of governance budget (eg monitoring)
- (More) communication, communication, communication!
 - Key ages for member communication strategy?

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

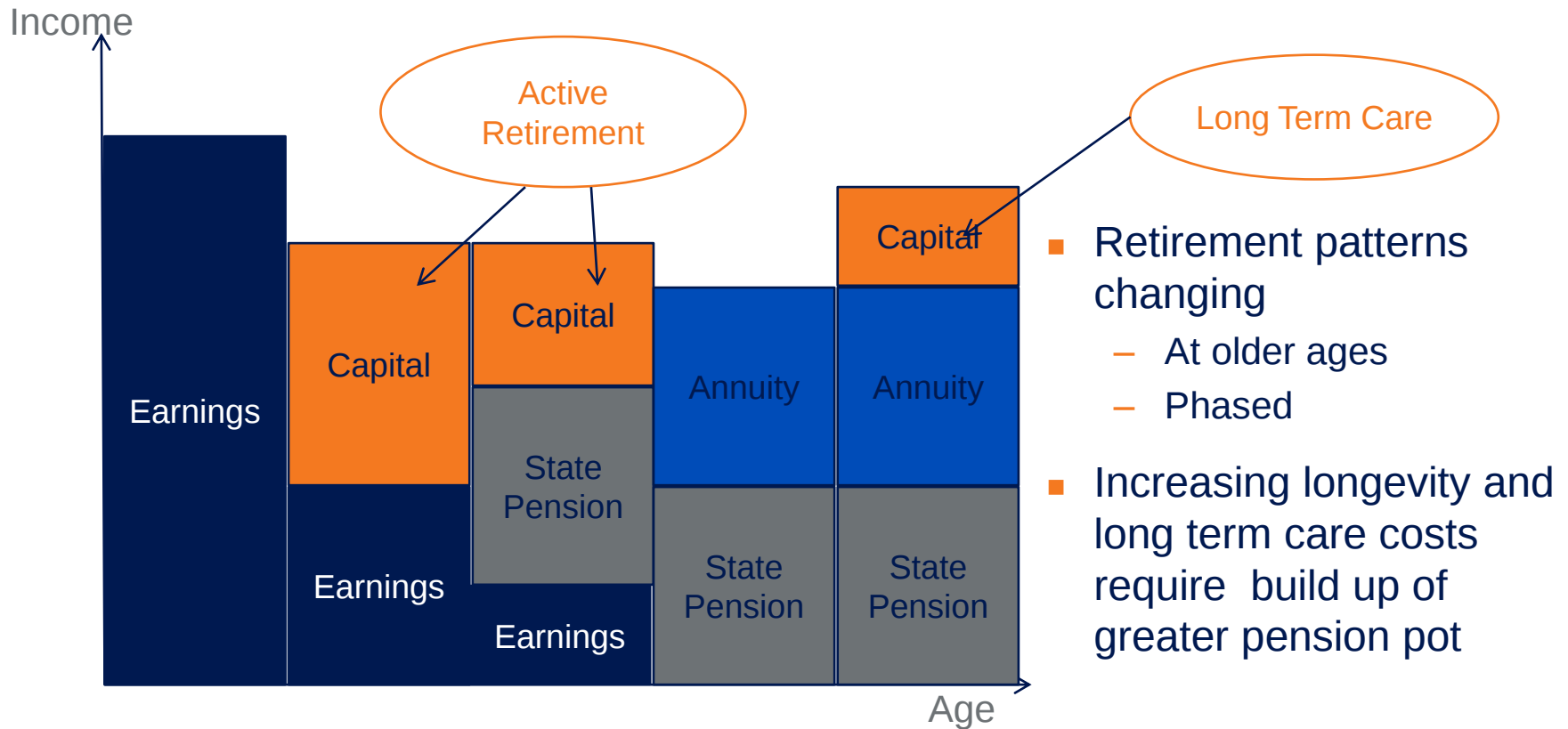
The investor's lifecycle

What outcomes matter?



Retirement Income Patterns

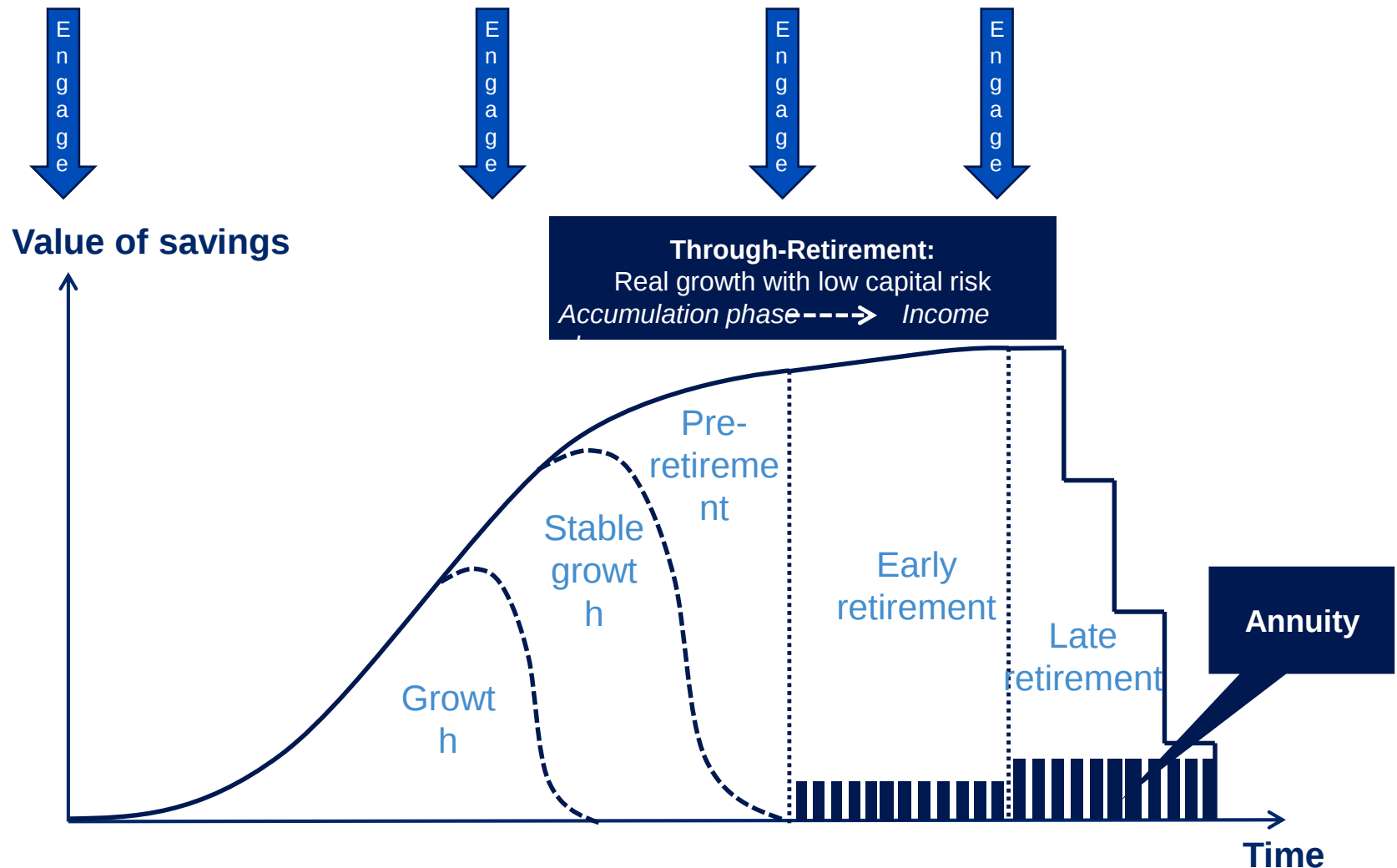
Need flexible solutions



- 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!

Disclaimer

To the extent permitted by law, Capita, its members, employees and agents accept no liability, and disclaim all responsibility, for the consequences of anyone acting, or refraining to act, in reliance on the information contained in this presentation or for making any decision based on it.

In preparing this report we have relied upon data supplied by third parties. While reasonable care has been taken to gauge the reliability of this data, this report therefore carries no guarantee of accuracy or completeness and Capita cannot be held accountable for the misrepresentation of data by third parties involved. The report is for your private information and is for discussion purposes only.

This report is based on data/information available to Capita at the date of publication and takes no account of subsequent developments after that date. It may not be modified or provided by the recipients to any other party without Capita's prior written permission. It may also not be disclosed by the recipients to any other party without Capita's prior written permission except as may be required by law. In the absence of our express written agreement to the contrary, Capita accepts no responsibility for any consequences arising from anyone relying on this report or the opinions we have expressed. This report is not intended by Capita to form a basis of any decision by anyone to do or omit to do anything.

The information contained within this presentation does not constitute financial advice.

The information provided is based on our understanding of current law and taxation as at 15 January 2015.

Tax and pensions policy, practice, and legislation may change in the future.

Capita Employee Benefits is a trading name of Capita Employee Benefits Limited and Capita Employee Benefits (Consulting) Limited. Part of Capita plc. www.capita.co.uk. Capita Employee Benefits Limited and Capita Employee Benefits (Consulting) Limited are registered in England & Wales No: 02260524 and 01860772 respectively. Registered Office: 17 Rochester Row, Westminster, London, SW1P 1QT. Separately authorised and regulated by the Financial Conduct Authority.