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Default Fund versus Investment Choice



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Agenda

- Why have investment choice?
- Is there an over concentration of investment in default funds?
- How to achieve member engagement?
- Should the default fund relate to age?

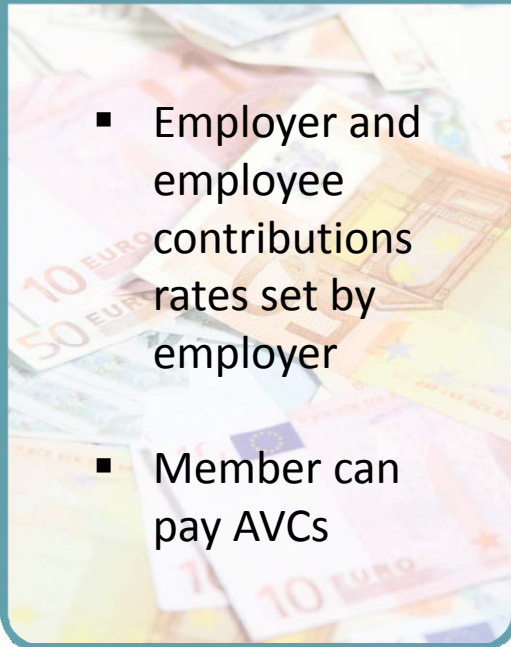




Why Have Investment Choice?

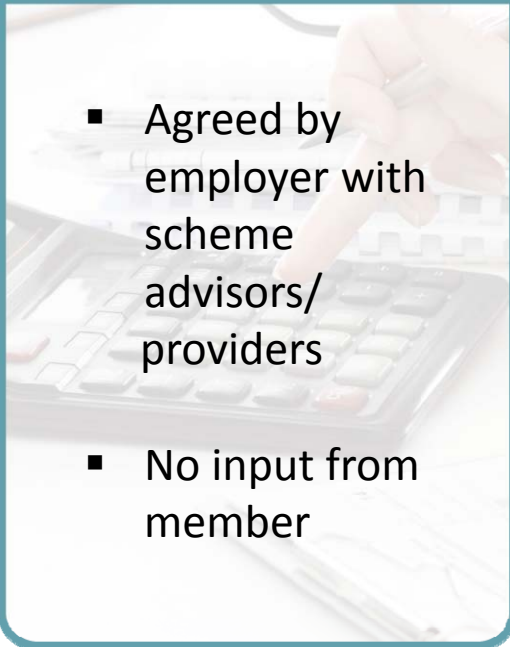
The member's retirement fund depends on

Contributions paid



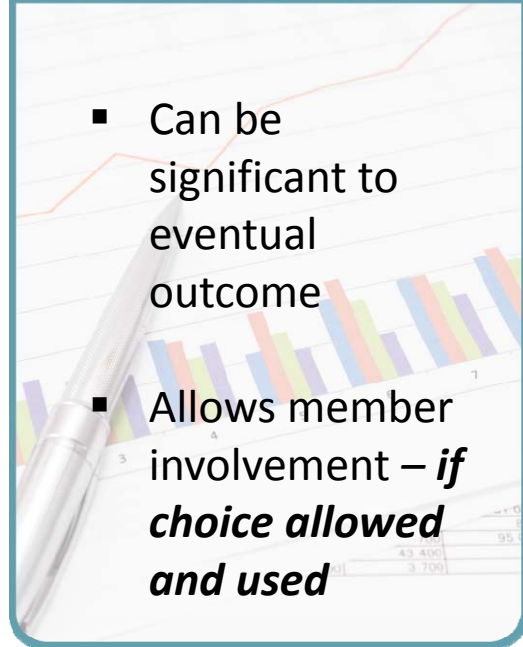
- Employer and employee contributions rates set by employer
- Member can pay AVCs

Expenses paid



- Agreed by employer with scheme advisors/providers
- No input from member

Investment growth



- Can be significant to eventual outcome
- Allows member involvement – ***if choice allowed and used***



Trustees' Perspective

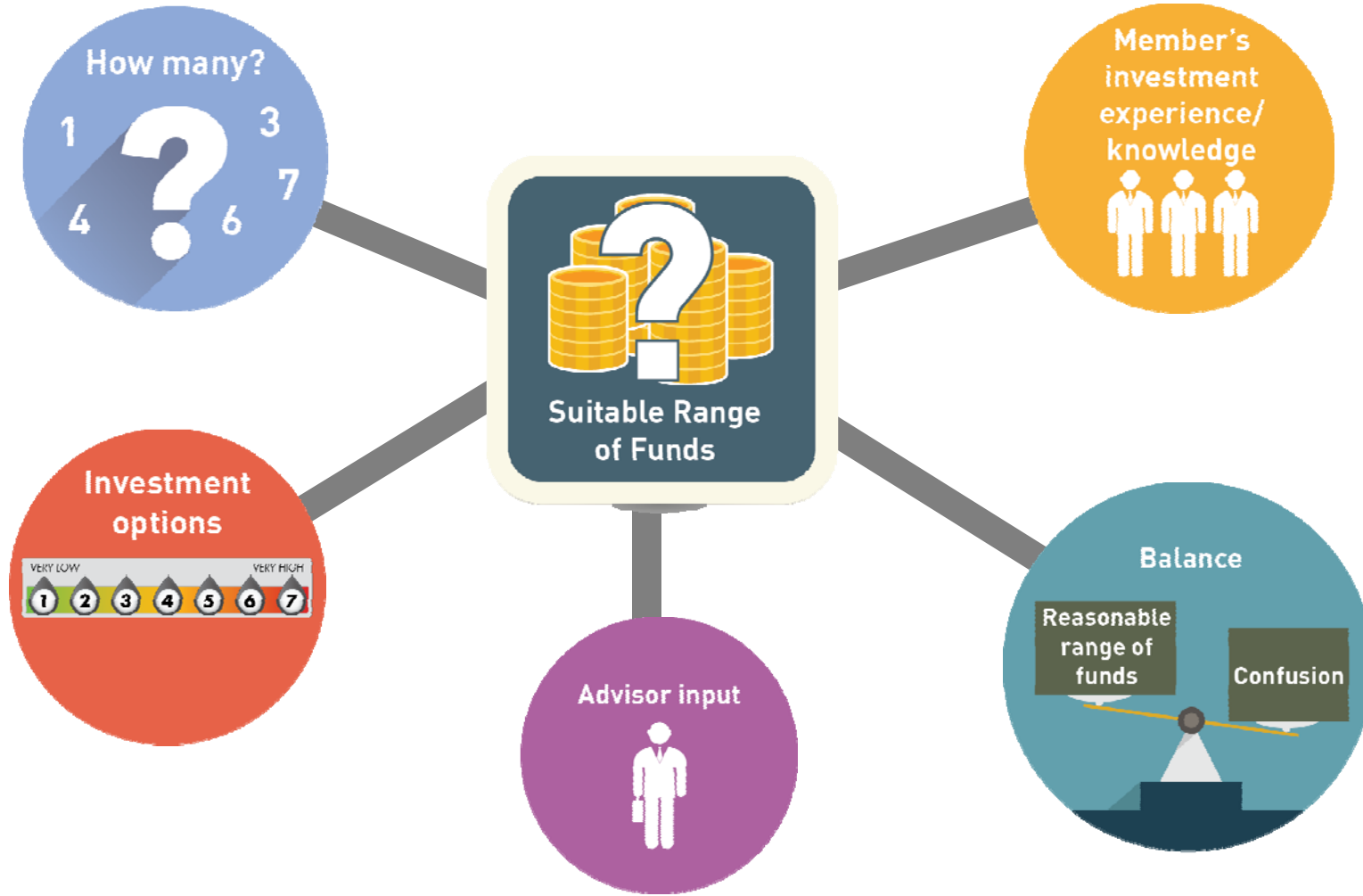
- Pensions legislation provides trustees with an indemnity if they provide:





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Decisions, Decisions...





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Default Fund



Requirement of legislation



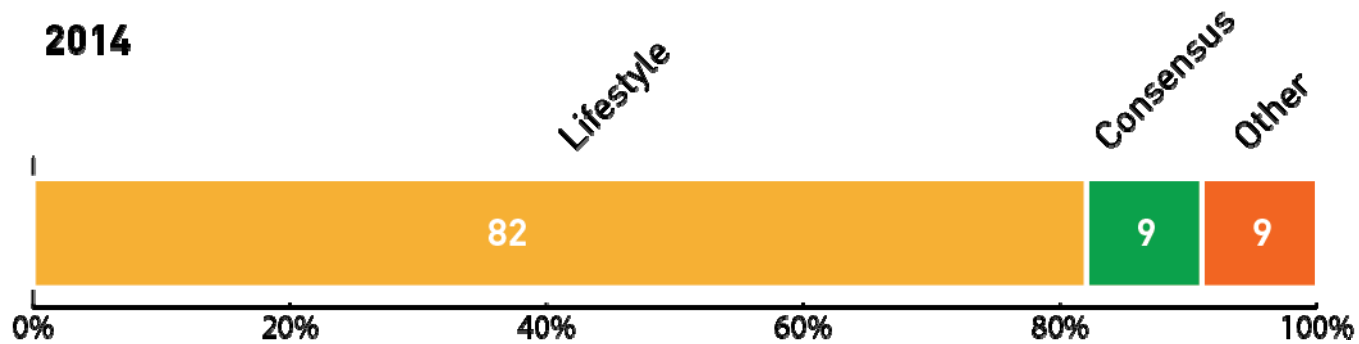
- Used where member:
 - Doesn't make a decision
 - Doesn't want to make a decision
 - Chooses default fund



Apart from ticking a compliance box does it serve any useful purpose ?



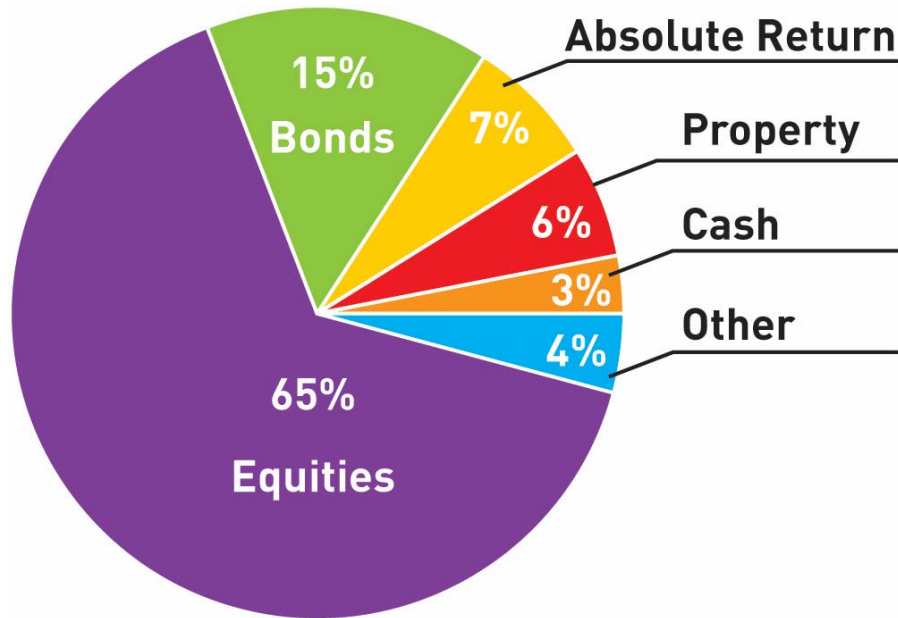
What percentage of schemes use the following default strategies?



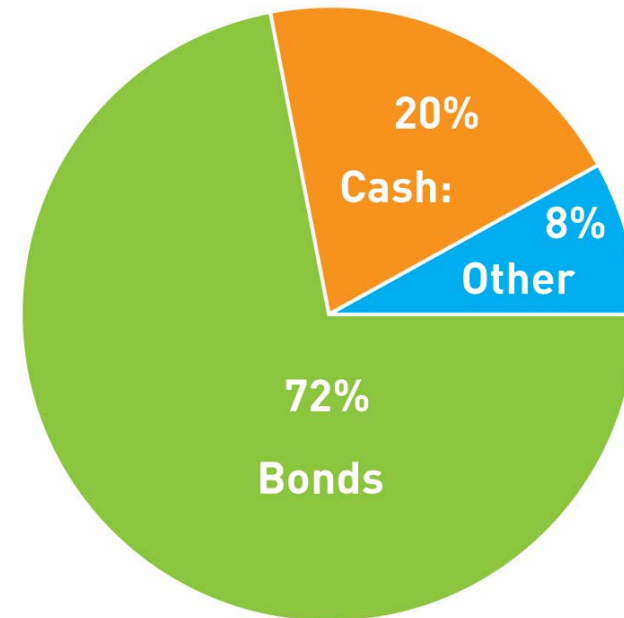


What is the asset class distribution of the lifestyling growth portfolio?

At start of Lifestyling



At NRA





Over Concentration of Investment in Default Funds?

70%

Of active members
invested in a default fund
IAPF Survey

**Why so
high?**

- Apathy/lack of understanding on the part of members?
- Failure of trustees to promote investment choice?
- Failure of advisors to engage with members?



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Member engagement

‘Members have sufficient information to enable them to make an informed decision’

- Meeting a compliance requirement?
- Looking after members interests?

How is it achieved?

- At the outset
- Ongoing basis
 - Informative but understandable
 - Up to date information

Information tools

- Generic information
- Fund descriptions/ risk ratings
- “Live” information - performance/ asset splits



What if fund range changes?





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Default – Suited to All Ages?

Crucial for
younger members



30

Early years
-No real issue
-Investment in equities
/growth assets



Increasingly irrelevant
for older members



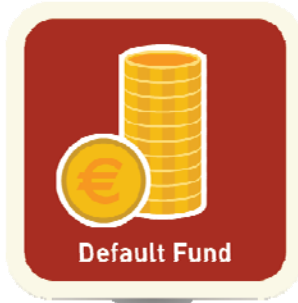
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Need to “persuade”
older members out of
the Default Fund



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Default Issues



- Is geared to a member's Normal Retirement Age
- Aims to be “all things to all members”

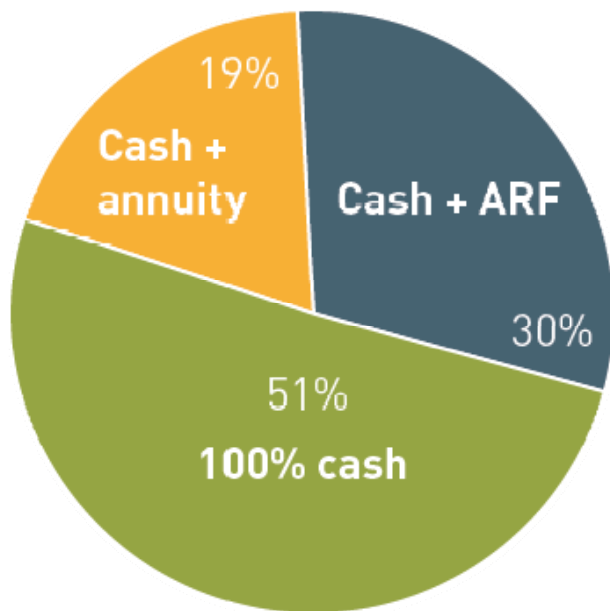
Members of a group scheme are a collection of **individuals**



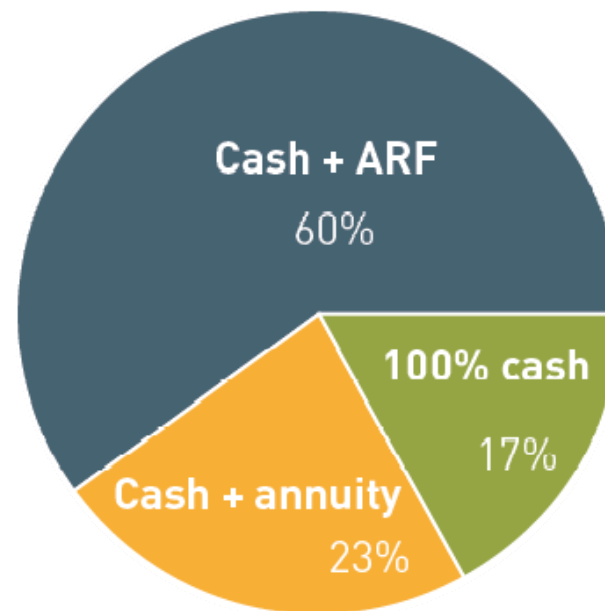


How Retirement Benefits are Taken

By claim count



By fund value



Source: New Ireland Assurance



Case Study

Scheme with 15 members aged 60 or older

100% Cash



Cash + annuity



Cash + ARF



Cash + annuity + ARF



Source: New Ireland Assurance



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The Need for Customisation

- When will the member retire?
- What other benefits do they have?
- What fund will be available when they retire?
- In what format can the benefits be taken?
 - Lump Sum/ Pension / ARF?
- What is the member's attitude to risk?



One size
doesn't fit all.





Summary

- Investment Choice is good practice for DC Schemes
- More members will participate as promotion / education / engagement increases
- Default fund has a role to play
 - Younger members
 - Compliance
- Default fund needs to be replaced by customisation for older members
- A group scheme is a collection of individuals