

# Default Design: Making the Healthy Choice



  
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Defined Contribution Investments

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# The Default is the Healthy Choice

**90%+ In  
Default  
Strategy**

**Wealth  
Destruction  
of Partially  
Engaged**

**Financial  
Education  
Ineffective**

**Auto  
Enrolment**



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# Defaults are Extremely Popular

**87% of Irish DC Plans offer a default fund.\***

**In the UK, where a default is offered, 94% of members invest.\*\***

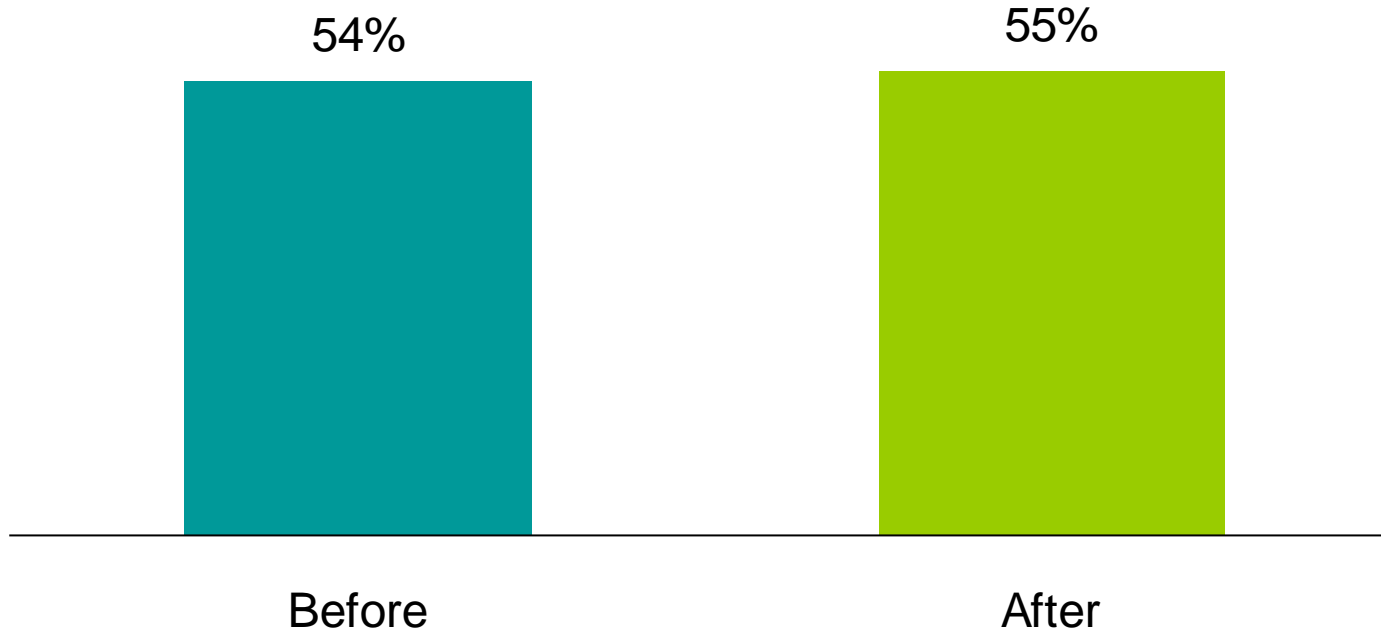
\*Source: John Ashcroft, March 2009, "Defined-Contribution (DC) Arrangements in Anglo-Saxon Countries" *OECD Working Papers on Insurance and Private Pensions No. 35*

\*\*Source: National Association of Pension Funds



# Education Often has Little Impact

## Correct Answers on Basic Investing Principles True/False Test Before and After Education Programme (US)

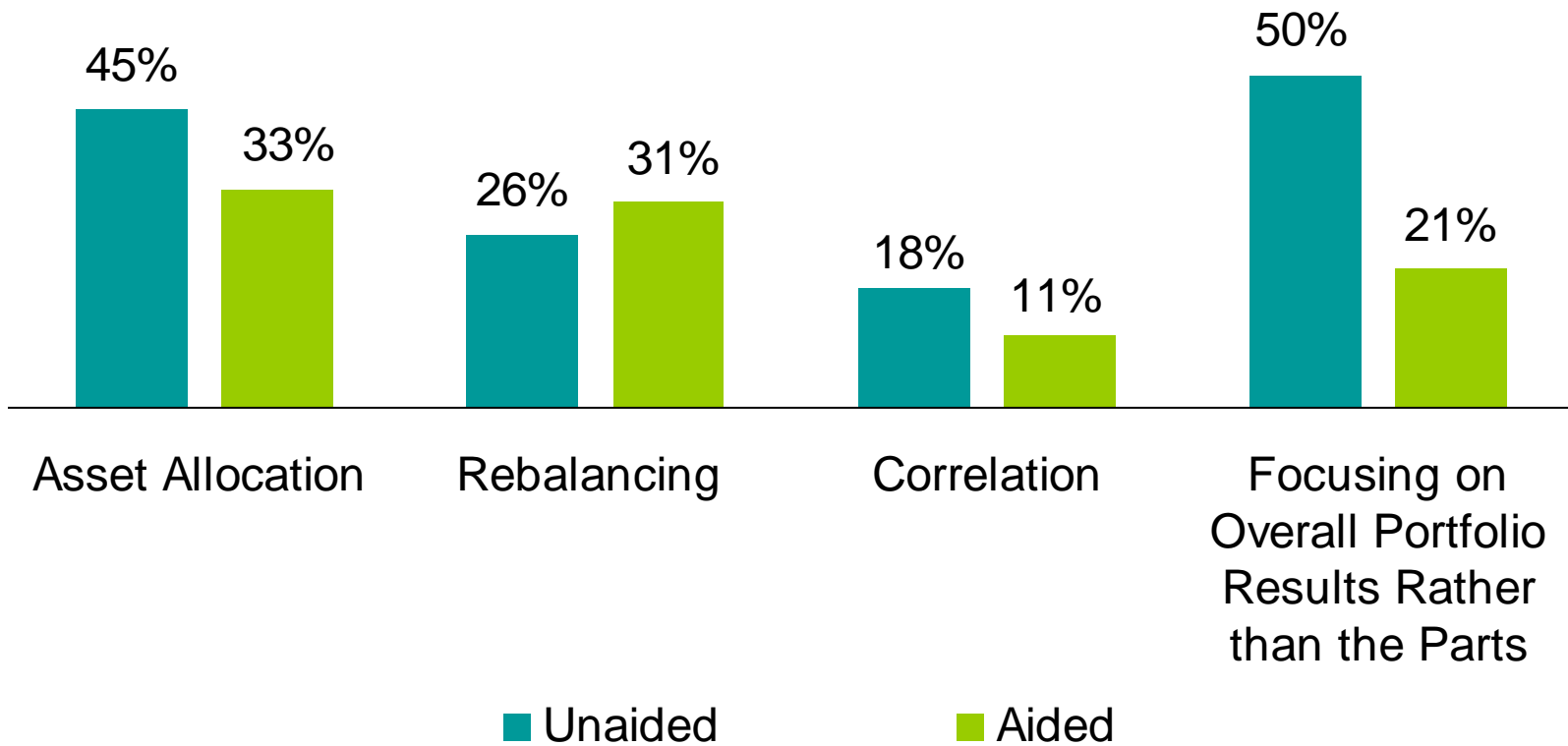


Source: Benartzi, Shlomo and Richard H. Thaler, 2005 working paper, "Heuristics and Biases in Retirement Savings Behavior"



# Education can Reduce Confidence

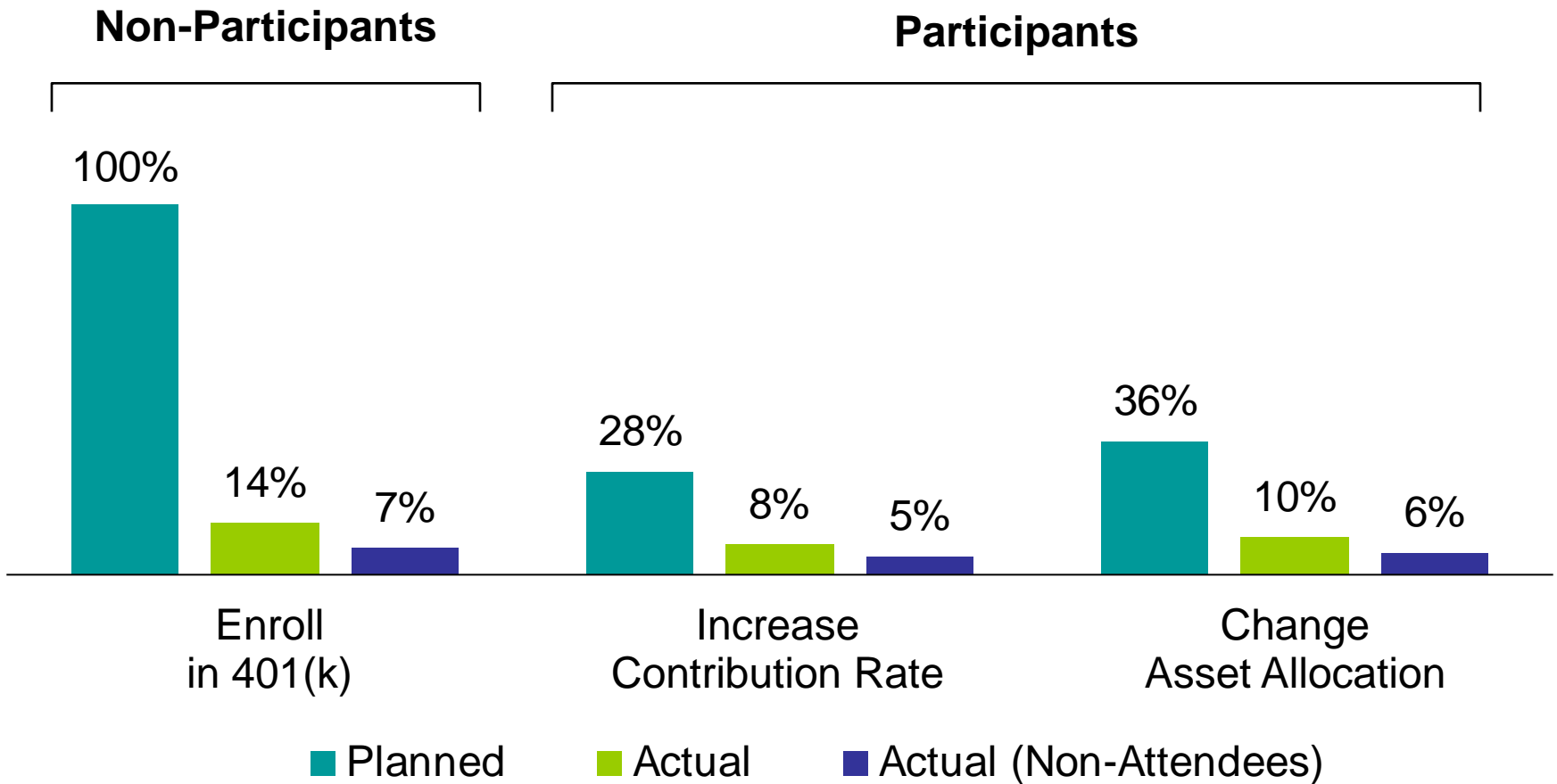
## Percentage of Investors Understanding Investment Concepts (UK)



Source: AllianceBernstein Global Literacy Research Program, 2006



# Education Fails to Overcome Inertia



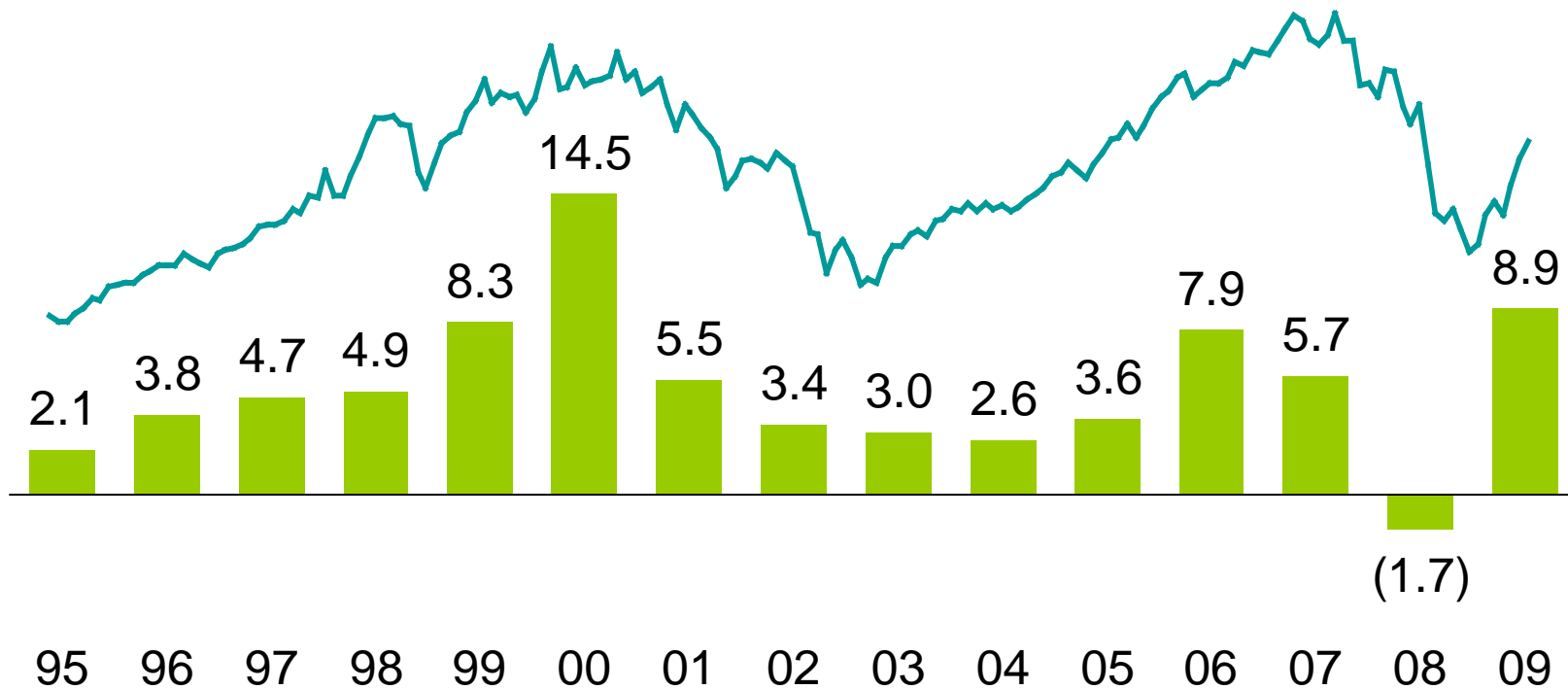
Source: Medrian and Shea, 2001



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# “Confident” not “Competent”

### FTSE All Share Index (Rebased)



Net Retail Flows Into UK Equity and Property Collective Mutual Funds

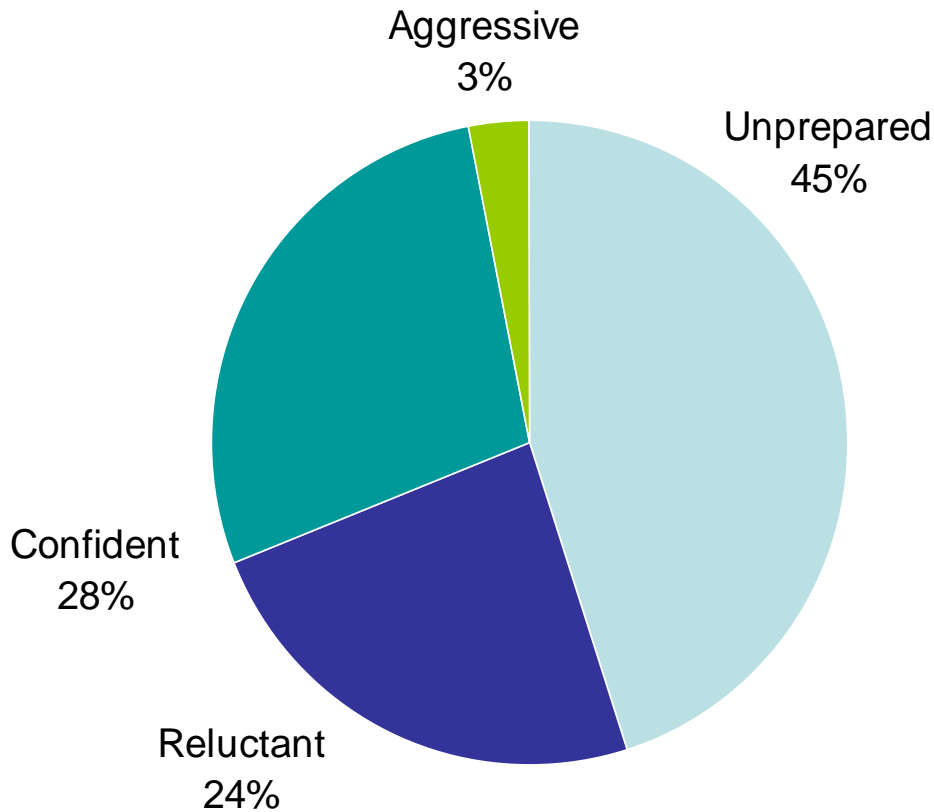
Source: FTSE, Investment Management Association and AllianceBernstein

  
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# Healthy Default Best for Most

## UK DC Saver Research



**Unconscious and Conscious Delegators**

45 – 97%

**Sporadically Engaged**

3 – 55%

**Highly Engaged**

3%



# What Is a Healthy Default?

**Robust  
Investment  
Design**

**Good  
Governance**

**Future Proof  
Implementation**

**Suitable pension  
savings objective**

**Independent  
expert  
oversight**

**Ability to make  
changes simply  
and efficiently**

**Coping with  
Lack of Engagement  
and  
Inertia**



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# But What are the Healthy Choices for the Default?



## Single Fund Solutions

Diversified Growth  
Absolute Return



## Administrative Solutions

Lifestyling  
Target Driven Investment  
DC Banking



## Target Date Funds

  
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# What are Target Date Funds?



## A Dated Range of Funds

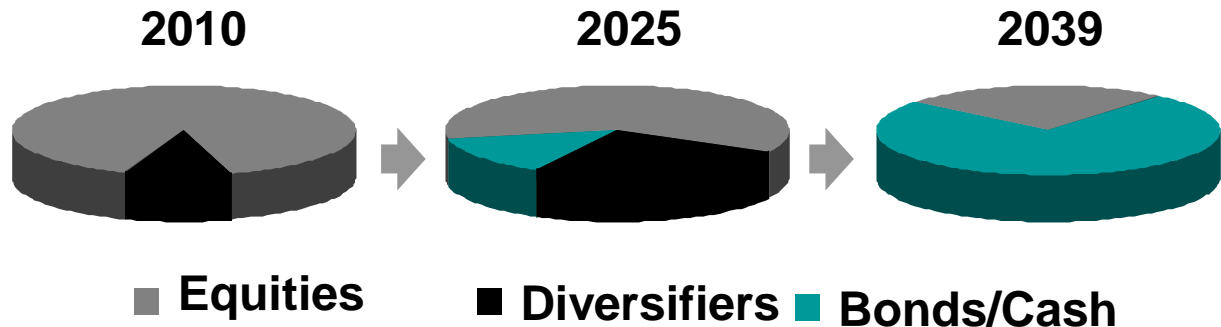
XYZ Pension Plan 2009 Fund

XYZ Pension Plan 2010 Fund

.....  
XYZ Pension Plan 2055 Fund

## With An Age Appropriate Diversified Investment Strategy

2039  
Fund  
Example





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# Not Healthy on their Own



Robust  
Investment  
Design

Suitable pension  
savings objective

Good  
Governance

Independent  
expert  
oversight

Future Proof  
Implementation

Ability to make  
changes simply  
and efficiently

  
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# A Bitter Aftertaste



Robust Investment Design

Suitable pension savings objective

Good Governance

Independent expert oversight

Future Proof Implementation

Ability to make changes simply and efficiently

  
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# The Best of the Bunch



**Target  
Date  
Funds**

**Robust  
Investment  
Design**

**Suitable pension  
savings objective**

**Good  
Governance**

**Independent  
expert  
oversight**

**Future Proof  
Implementation**

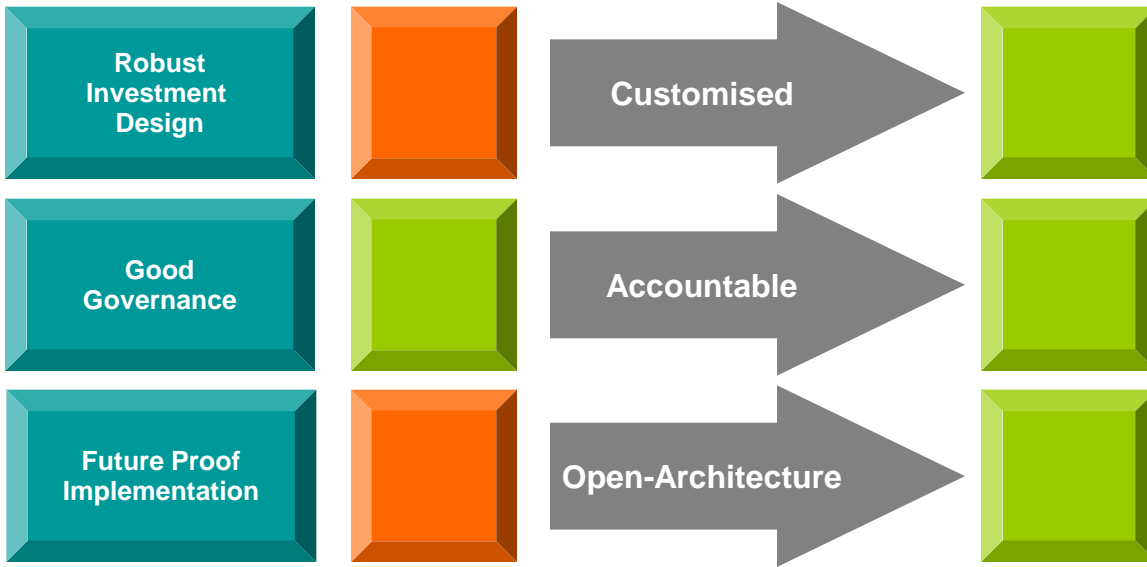
**Ability to make  
changes simply  
and efficiently**

  
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# Building Better Target Date Funds



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