DC: SMARTER DE-RISKING

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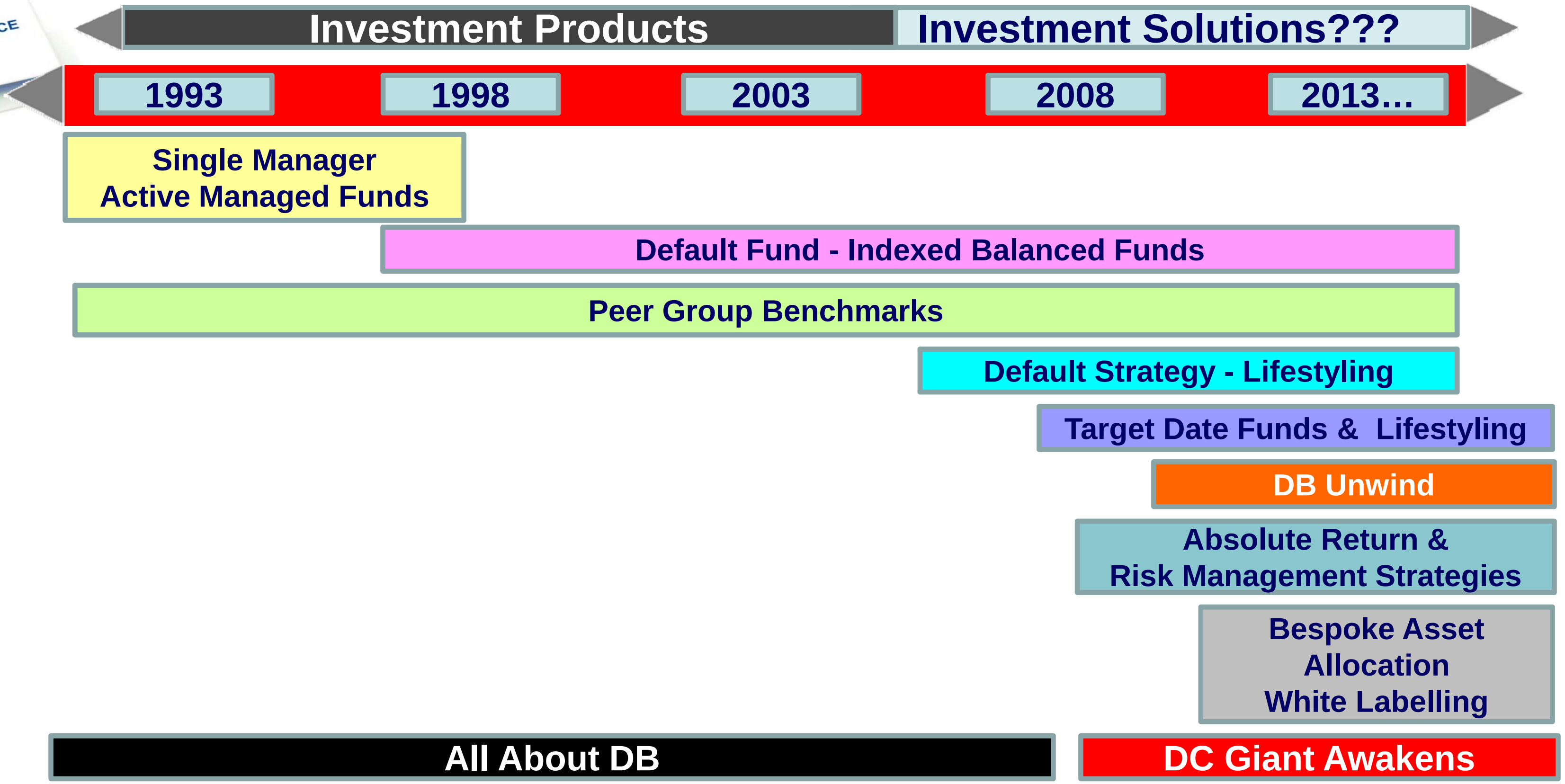
Understanding the DC Investment Journey To-Date



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DC – The Individualisation of Pension

- **Defined Contribution pension provision represents the individualisation of pension provision and responsibility**

- **Individuals (must) decide on:-**

  - ~ **Their Risk Appetite**
  - ~ **Appropriate Investment Strategy/Strategies as they progress on the journey to retirement**
  - ~ **Contribution Levels**
  - ~ **Desired Replacement Income Levels**

Do They?
Is this a collective responsibility?

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Smarter De-Risking *and* Smarter Risk Management

- **All DC Members have 3 phases in their Retirement Planning Journey**
  - **The Growth Phase – *Smarter Risk Management***
  - **The Consolidation Phase – Glide Path – *Smarter De-Risking***
  - **The Drawdown Phase – *Who & How are the Assets being Managed***

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The Growth Phase - Smarter Risk Management

- **Smoother Journey through multi-asset investing**
  - ~ Diversified Asset Classes & Diversification within Asset Classes
  - ~ Diversified Investment Styles
  - ~ Diversified Fund Managers
  - ~ Real and Absolute Returns Funds
- **Avoid significant Peak-to-Trough Falls**
  - ~ Systematic Dynamic Multi Factor Process
- **Risk Parameters Set and Maintained**
  - ~ Defined risk/return characteristics
  - ~ Different risk/return characteristics – clients can identify their risk appetite
  - ~ Quarterly rebalancing – so no drift in asset mix
  - ~ Formal annual reviews to ensure asset mix is fit-for-purpose
- **Strong Cost Management**
  - ~ Indexation where appropriate – cost effective
  - ~ Active and Alternative investment – where evidence of skill exists

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The Consolidation Phase De-Risking Strategy

- **The Past and often still the Present……**

  - **The Default Fund – No De-Risking**

  - **The Default Strategy with Lifestyle – Simple De-Risking**

~ Term to Retirement	5 Years
~ Frequency	Annual or Quarterly (5 or 20 price points)
~ Investment Strategy	70% Bonds/30% Cash
~ Tailoring	None – One Size Fits All

  - **Target Date Default Fund with Lifestyle – Simple De-Risking continues**

~ Maturity Date	Defined
~ Term to Retirement	5, 7, 10 Years
~ Frequency	Annual or Quarterly (multiple price points)
~ Investment Strategy	70% Bonds/30% Cash
~ Tailoring	None – One Size Fits All

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Personalised De-Risking Investment Strategy

- **Is One Default Strategy Appropriate?**
- **What about different individual risk appetites and meeting them**
- **Personalised De-Risking Investment Strategies needs to be based on individual circumstances:-**
  - Age
  - Deferred entitlements
  - Individual risk appetite
  - Salary
  - Length of service
  - Other assets
  - Accumulated pension fund value
  - Regulatory limits
- **This will identify optimal de-risking strategies to match appropriate draw-down options:-**
  - Tax free lump sum
  - Minimum regulatory annuity
  - Approved Retirement Fund

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Personalised De-Risking Investment Strategy – Why?

3 Members. Same Age. Same DC Plan. Different Circumstances.

Member 1

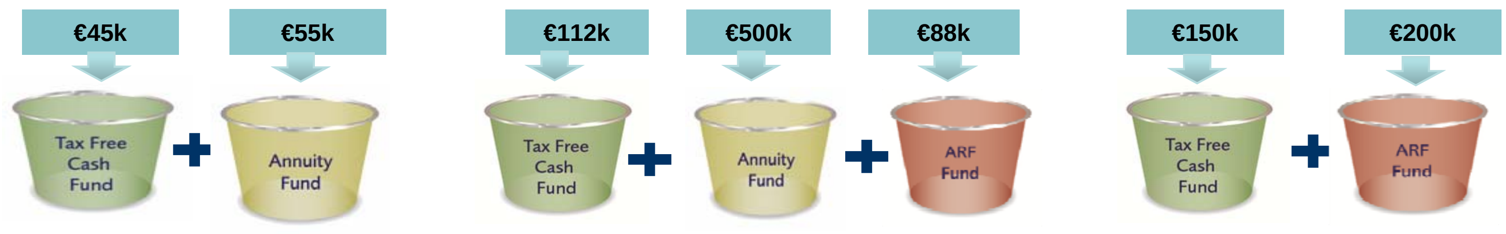
- At retirement age has an accumulated pension saving of €100,000
- No accumulated DB benefit
- 10 years service
- Final Salary of €40k

Member 2

- At retirement age has an accumulated pension savings of €700,000
- No accumulated DB benefit
- 15 years service
- Final Salary of €100k

Member 3

- At retirement age has an accumulated pension savings of €350,000
- Has an accumulated DB benefit of €25k p.a.
- 30 years service
- Final Salary of €100k



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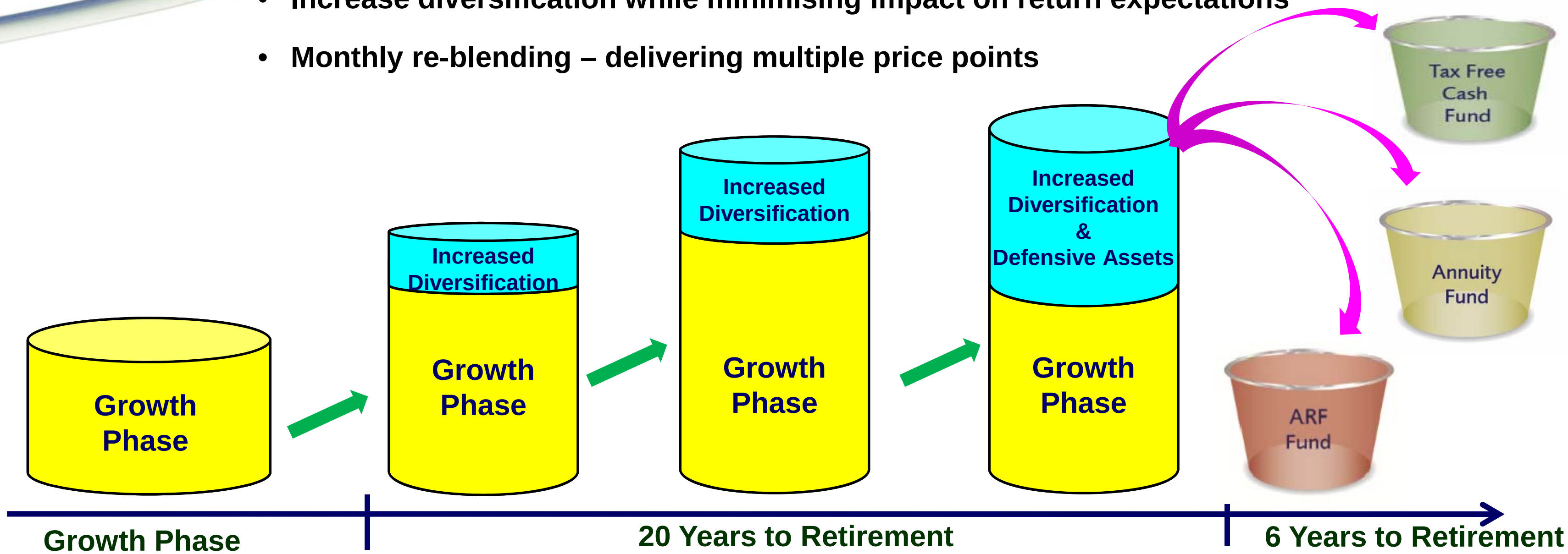
Smarter De-Risking Investment Strategy

- **Investment strategies that recognises individual circumstances**
- **Longer Glide Path**
- **Increase diversification while minimising impact on return expectations**
- **Monthly re-blending – delivering multiple price points**



Growth Phase
Reflecting Risk/Return Choices

20 Years to Retirement
Consolidation Phase
Reflecting Risk/Return Choices

6 Years to Retirement
Reflecting Individual Circumstances

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The Draw-down Phase – How & Who

- **Tax Free Lump Sum Proceeds**
  - ~ Time horizon for use of proceeds
  - ~ Investment options
- **Annuity**
  - ~ Best rates
  - ~ Type of annuity
- **Approved Retirement Fund**
  - ~ Understanding income requirements
  - ~ Appropriate investment strategies to match those requirements
  - ~ Changing risk appetite
  - ~ Investment risk management tools
  - ~ De-risking strategies to match future income requirements

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Conclusion

- Defined Contribution Pension Plans represent the individualisation of Pension Provision
- Investment Strategies are needed for each phase of the retirement journey
- Smarter risk management tools are needed to deliver expected outcomes
- Smarter de-risking is needed to reflect how individuals will most logically draw-down their benefits based on ***their circumstances***
- Within the consolidation phase significant rebalancing of individual investment strategy needs to occur – glide path
- Successful delivery of DC investment strategies requires:-
  - ~ **Investment Strategies with Risk Management Tools**
  - ~ **Investment Strategies that match the position on the retirement journey**
  - ~ **Robust and flexible IT infrastructure**

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