# The mid-term investment Review

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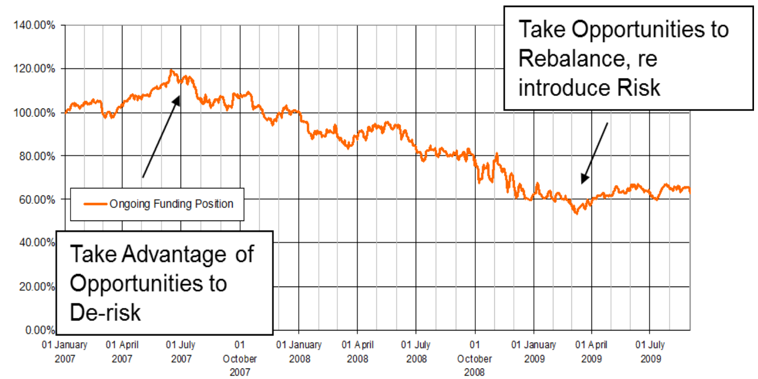
21 January 2015

# January 2010: State of the Industry in 2020 - DB

1. Fewer DB schemes but focussed on LDI and risk management
2. No one size fits all strategy
3. Lower Benefits
4. Increased use of Delegation
5. Blurring of line between managers/consultants
6. More diversification
7. Retire later

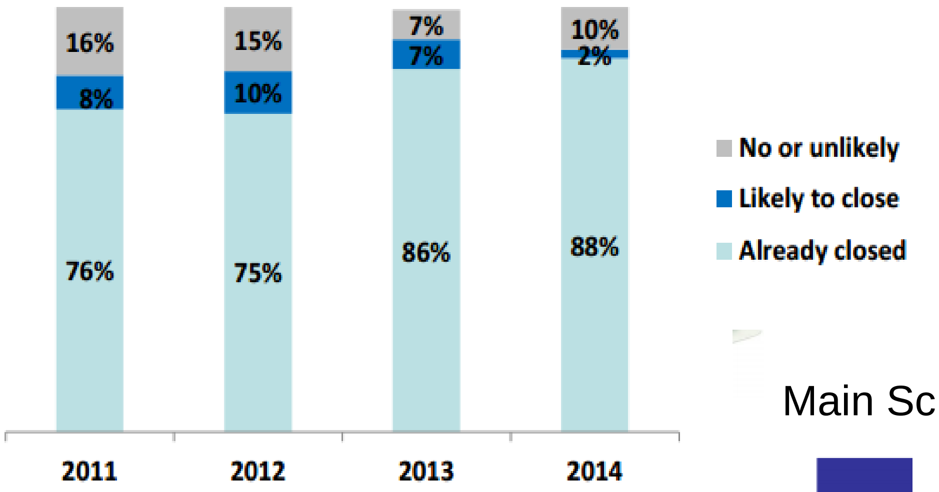



Note: The above graph is approximate, and becomes more approximate as the projection period lengthens. It reflects approximate stock market movements and interest rate changes (assuming these occur uniformly along the length of the yield curve), but not client-specific factors, such as material changes in membership numbers or profile or changes in benefit scales. It is designed to give a broad picture of the direction of funding changes since the last actuarial valuation but does not have the same level of reliability as, and therefore does not replace the need for, formal actuarial valuations.

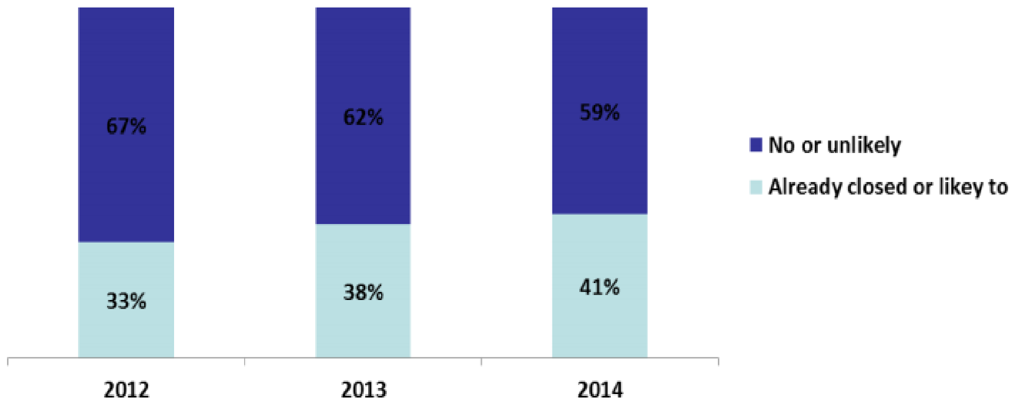
| Traditional Approach | Directive Approach | Delegated Consulting Service (DCS) |
|---|---|---|
| Monitoring<br>Long term Asset Allocation<br>Manager Selection<br>Reactive<br>Slow to Implement | Make proactive recommendations and revert for approval<br>Use of Tracker<br>Advice and assistance with Dynamic Investment Strategy<br>Shorter Term Asset Allocation<br>Work with Small Group | Full delegated management of Assets and Liabilities<br>Implementation of Dynamic Investment Strategy<br>Fee pegged to improvements in funding |

# 1. Fewer DB Schemes but focussed on LDI/Risk Management

Main Scheme Closure to New Entrants

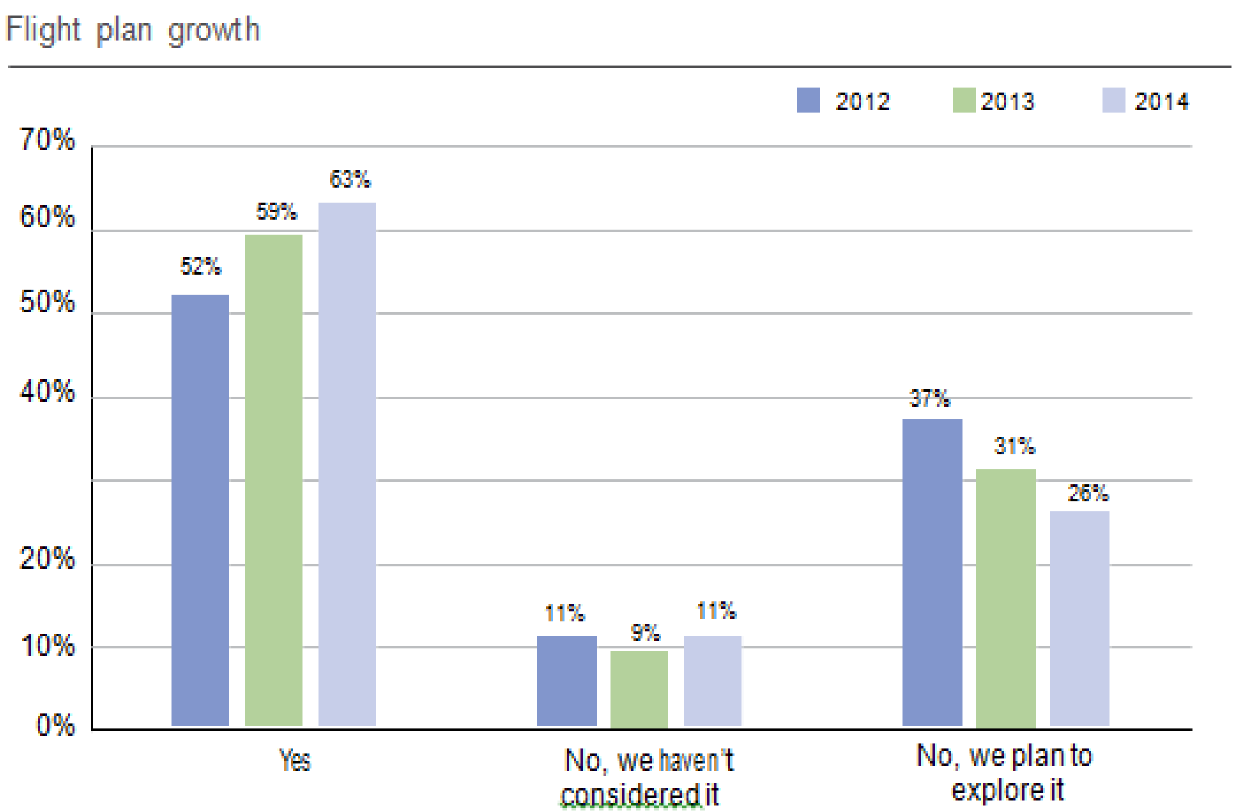



Main Scheme Closed to Future Accrual




*Source: IAPF Investment Survey 2013*

# 1. Fewer DB Schemes but focussed on LDI/Risk Management



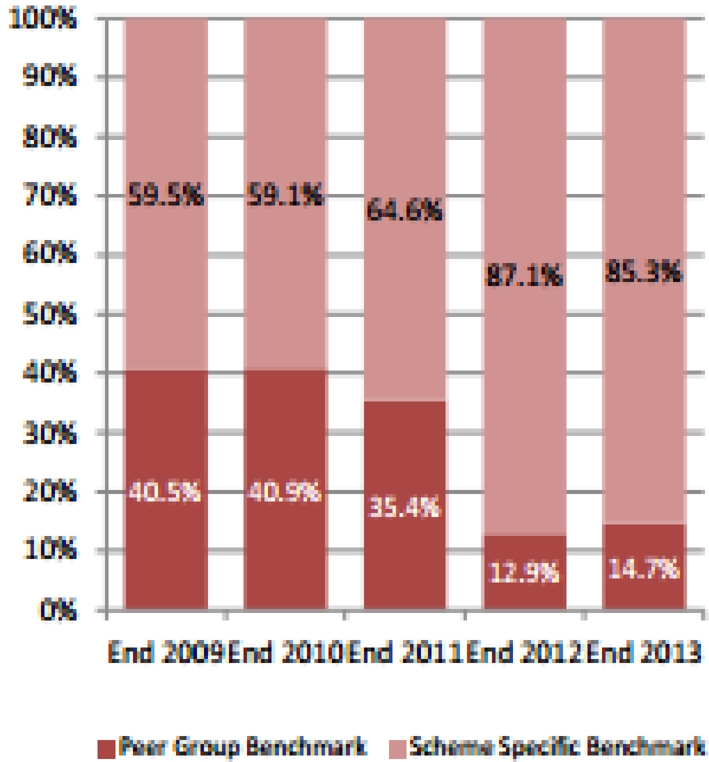

*The use of flight plans continues to increase rapidly, having grown from 52% in 2012 to 59% in 2013 and now at 63% in 2014.*

*As the number of schemes using flight plans has increased, the number of schemes who plan to explore flight plans has fallen correspondingly. Even so, there are still 26% of respondents in this category, suggesting further growth to come.*

*Source: Aon Hewitt Fiduciary Management Survey 2014*

# 2. No “One size fits all” investment strategies

*Figure 6:*
*DB Split by Benchmark Type*




*Source: IAPF Investment Survey 2013*

# 3. Lower benefits

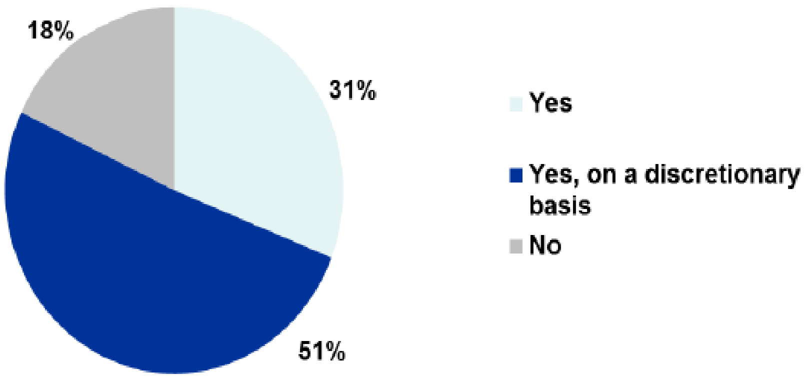
## Other Actions Considered

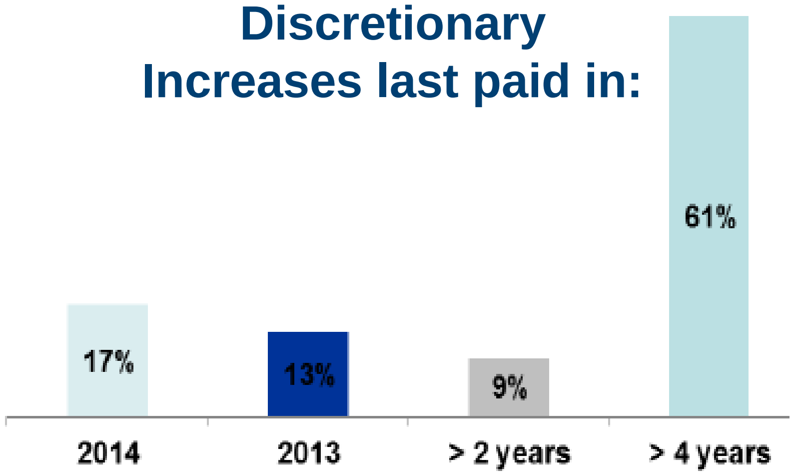
| | Already Implemented over 12 months ago | Implemented in last 12 months or in process | Considering Likely | Considering – but Unlikely | No |
|---|---|---|---|---|---|
| Reduce future accrual | 7% | 3% | 3% | 7% | 80% |
| Buy out of pensions | 3% | 3% | 7%<br>23% -2012 | 7% | 80% |
| Freeze/restrict pensionable salary | 31%<br>19% 2013 | 3% | 12% | 3% | 51% |
| Reduce investment risk | 36% | 25% | 18%<br>29% -2012 | 0% | 21% |
| Increase employee conts. | 31% | 3% | 7% | 9% | 50% |
| Offer Enhanced transfer values to deferred members with company funding | 3% | 3% | 9%<br>23% -2012 | 26% | 59% |

*Source: IAPF DB Survey 2014*

# 3. Lower benefits

## Do pensions in payment increase?




*Source: IAPF DB Survey 2014*

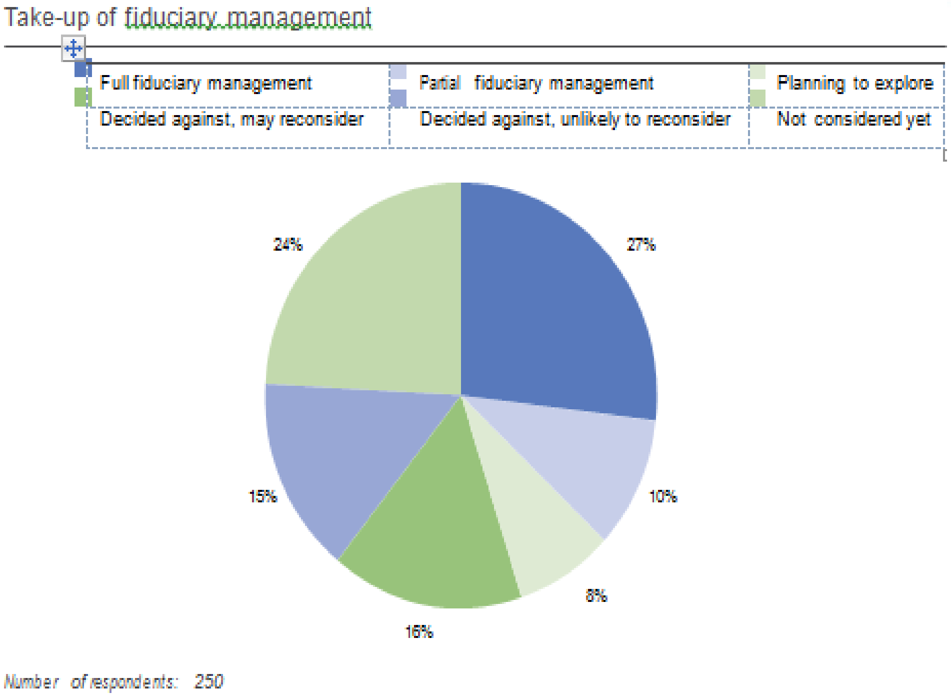
# 3. Lower benefits (and 7. Retire Later)

## Section 50

| | Submitted | Under Negotiation | Considering Likely | Unlikely |
|---|---|---|---|---|
| Increase NRA | 3% | 3% | 9% | 85% |
| Reduce or remove post retirement pension increases | 18%<br>10% 2013 | 3% | 9% | 70% |
| Reduce past service levels | 5% | 3% | 0% | 92% |
| Reduce pensions in payment | 3% | 3% | 0% | 94% |

*Source: IAPF DB Survey 2014*

# 4. Increased Use of Delegation




*Since 2011, the survey results suggest that most of the growth within fiduciary management has been amongst schemes with assets of £101 million to £1 billion where take-up has jumped from 15% to 49%.*

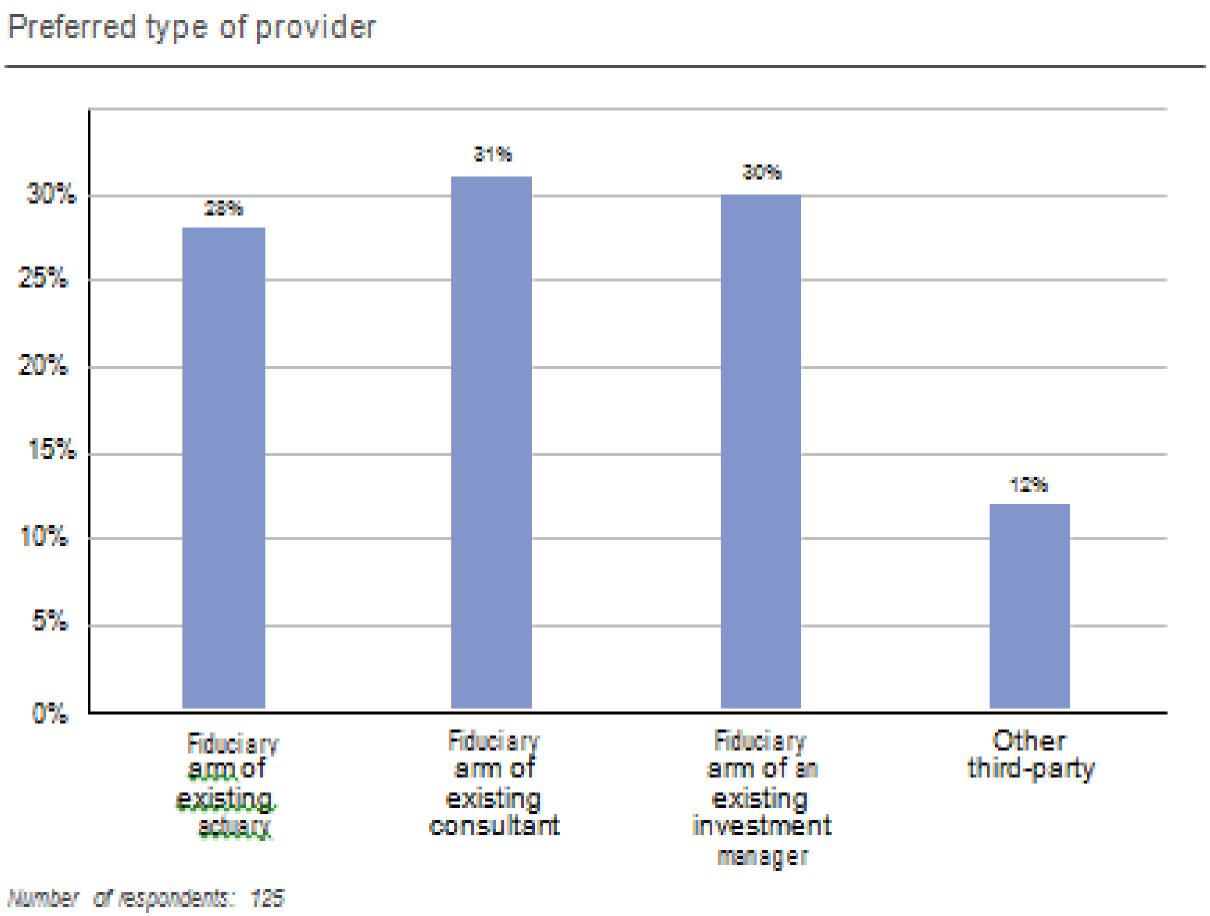
37% of respondents currently have a fiduciary solution in place. This has doubled since 2011 where just 18% used this approach.

Of the 37% of respondents (93 schemes) who have already appointed a fiduciary provider, 75% of these have a full fiduciary mandate in place while the rest have opted for a partial fiduciary mandate.

8% of survey respondents are planning to explore fiduciary management and 16% say that, while their trustees have previously decided against fiduciary management, they may now reconsider their decision. 24% of respondents have not yet considered fiduciary management at all.

Source: Aon Hewitt Fiduciary Management Survey 2014

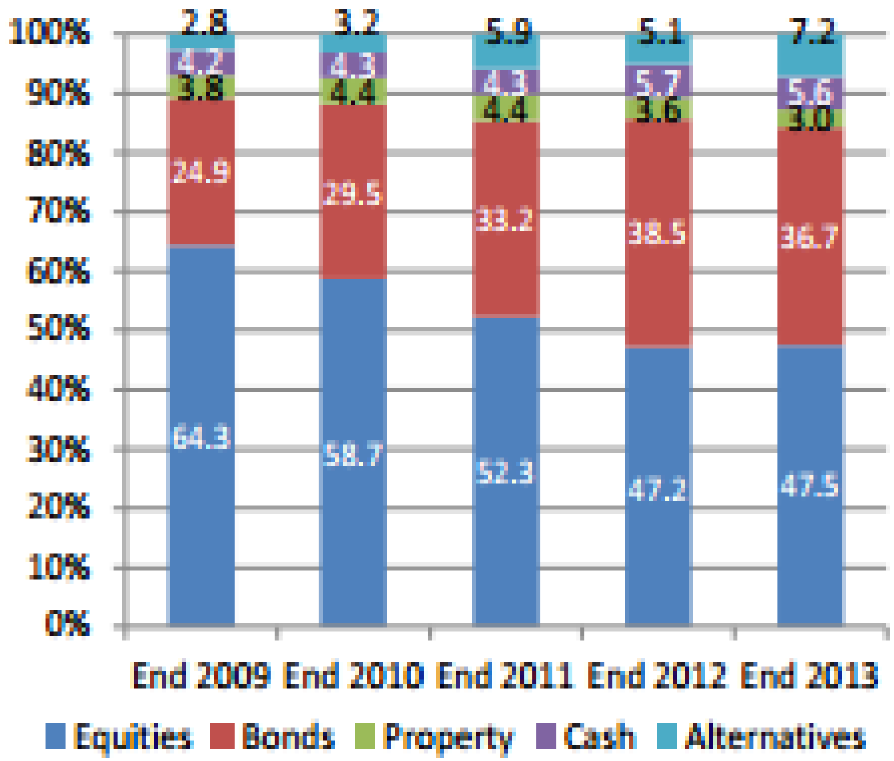
# 5. Blurring of lines between Managers/Consultants




*Source: Aon Hewitt Fiduciary Management Survey 2014*

# 6. More Diversification

*Figure 4:*
*DB Asset Class Weights*




*Source: IAPF Investment Survey 2013*

# January 2015: DB-Where to from here?

# Governance in the spotlight leading to increase in fiduciary

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Time on i

80%
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60%
50%
40%
30%
20%
10%
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Other

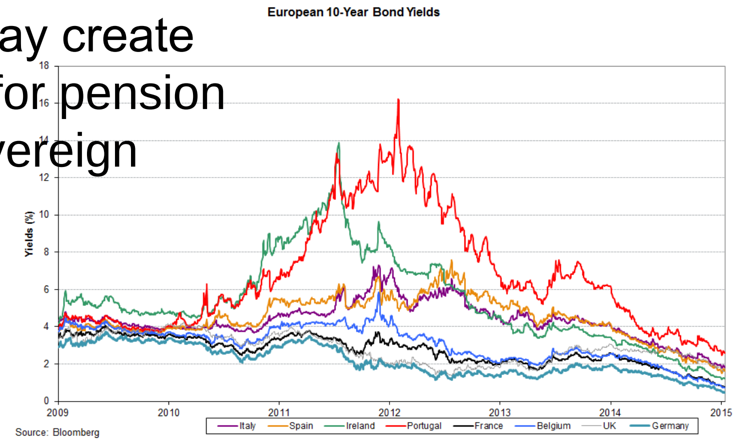
*Source: Aon Hewitt Fiduciary Management Survey 2014*

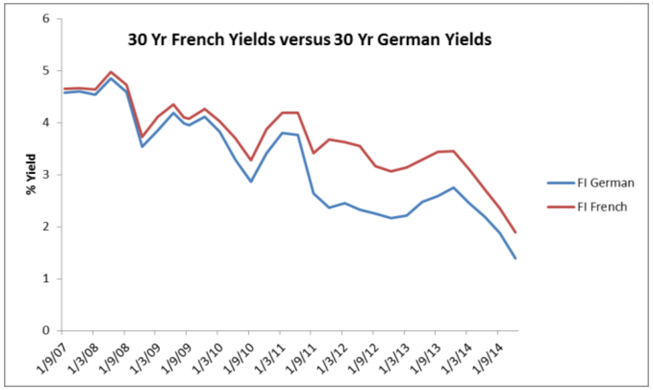
# January 2015: State of the Industry in 2020 - DB

1. Still fewer DB schemes but focussed on LDI and risk management
2. No one size fits all strategy
3. Lower Benefits?
4. Increased use of Delegation
5. Blurring of line between managers/consultants
6. More diversification
7. Retire later

# DB Risks

OECD: "Revise the new funding standards as they may create new risks for pensioners by offering strong incentive for pension funds to invest in government bonds, in particular sovereign annuities."





# January 2010: State of the Industry in 2020 - DC

1. Less paternalism
2. More responsibility on individuals (with greater emphasis on guidance/education)
3. Increase in contract based schemes
4. Bigger Pan European providers with open architecture
5. More choice and more diversified options
6. Access to customised arrangements
7. Retire later

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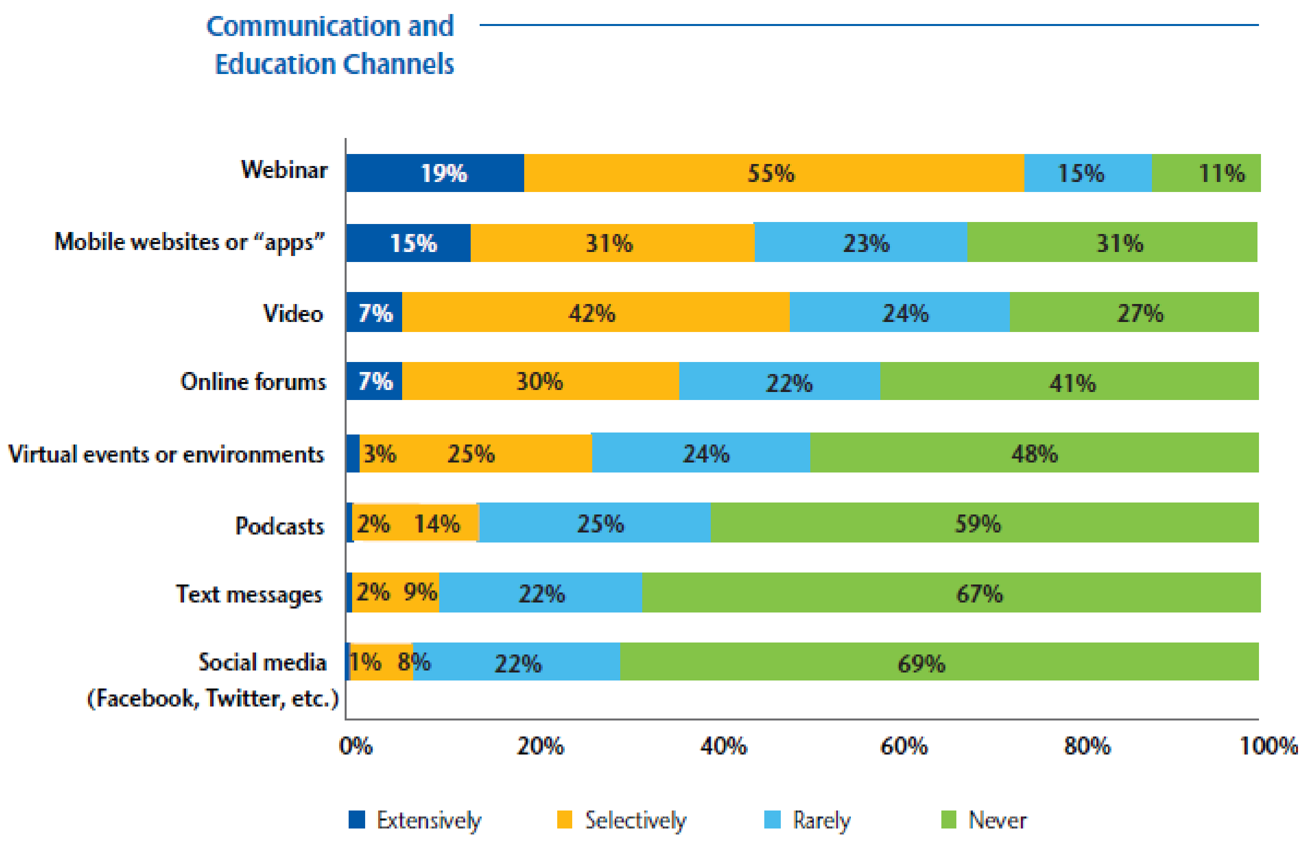
# 1. Less paternalism

More than three-quarters of respondents are very or somewhat likely to introduce or expand their focus on the financial well-being of their employees in 2014. Specific channels include:

- **Offering and promoting services to help employees manage their day-to-day finances**. In the coming year, 25% of employers are very likely to provide some assistance to employees to help with budgeting and ensure that employees' paychecks cover expected expenditures while still leaving some money for savings.
- **Providing online modeling tools and mobile applications.** Nearly two-thirds of all plans (63%) have tools within their defined contribution plans that allow participants to model different savings and investing habits and vary their investment horizons. By better visualizing how current actions can impact their financial profiles later on, participants can more effectively decide how and where to allocate their money.
- **Reviewing and reducing investment fees.** One-third of plan sponsors are comprehensively reviewing their fund offerings with a sharp eye on the fees charged. Reducing investment fees directly and meaningfully helps participants increase their retirement savings.
- **Facilitating access to professionals.** Employers are providing access to experts and professionally designed tools that can recommend individual investment strategies based on a person's expected retirement date and other income sources. Close to half of all companies (44%) provide online third-party investment advisory services to individuals, more than one-third (35%) facilitate the interaction of participants with third-party advisors through the phone, and nearly one-quarter (23%) allow for face-to-face meetings with professional advisors.

*Source: Aon Hewitt 2014 Hot Topics in Retirement*

# 2. More responsibility on individuals (greater emphasis on guidance/education)




*Plan sponsors continue to expand their communication channels so they can reach an increasingly mobile workforce with messages about the retirement plans. Webinars continue to be the most common avenue, with nearly 90% of all respondents using them in some fashion. Social media applications like Facebook and Twitter continue to gain acceptance. In 2014, more than three out of 10 employers will use social media.*

*Source: Aon Hewitt 2014 Hot Topics in Retirement*

# 3. Increase in contract based schemes

**Trust-based schemes**

established under trust and administered by individual trustees or a corporate trustee (the ‘trustees’). As trustees of these schemes, they have a general duty to act and exercise their powers in the best interests of the scheme membership.

**Contract-based pensions**

involve a contract between each individual member and a product provider. There is no direct contractual relationship between the employer and the product provider regarding the pension itself.

- Contract based  now the majority in the UK.
- Progression has stalled in Ireland.
- Important for development of Pan European schemes

# 4. Bigger Pan European providers with open architecture

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**New pan-European pension fund to boost researcher mobility:**

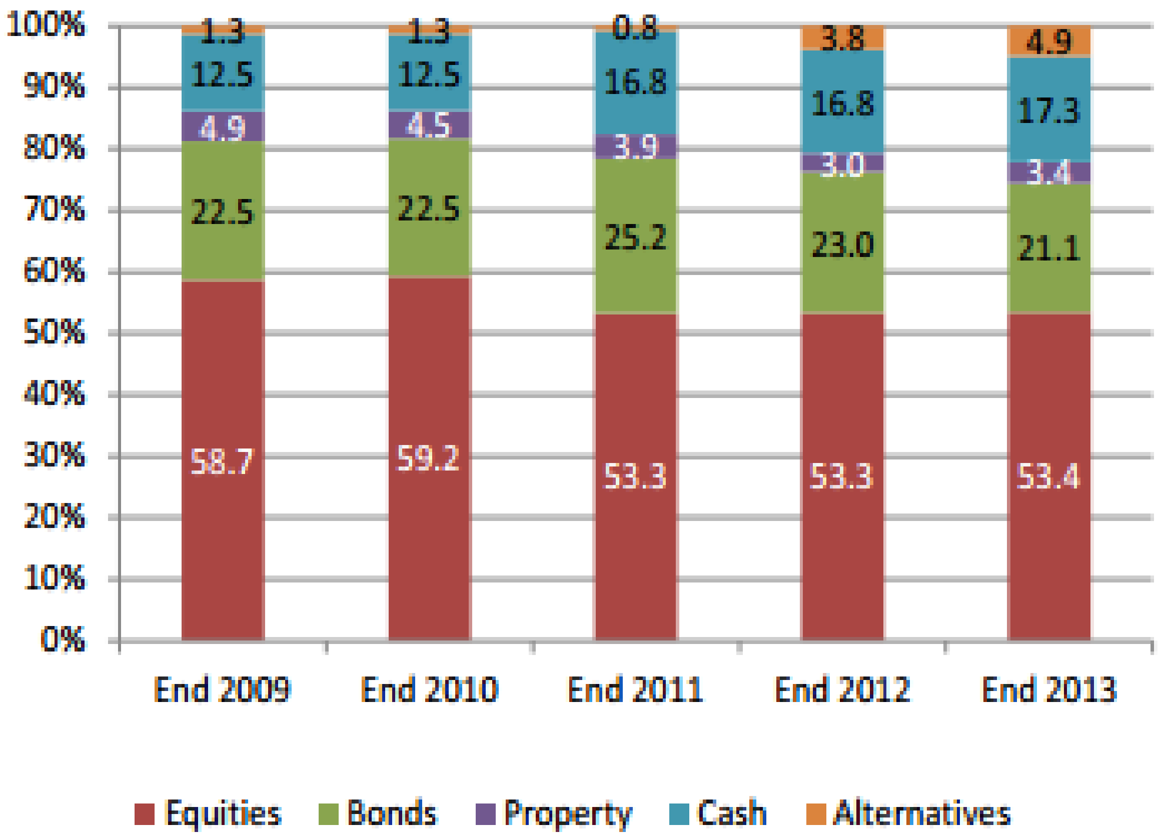
The European Commission is to boost the mobility of researchers in Europe with the launch of a new consortium that aims to establish a new pan-European pension arrangement.

The consortium plans to set up the pension arrangement (RESAVER) in 2015; it will enable researchers to remain affiliated to the same pension fund and to continue to accumulate pension benefits, even when changing jobs and moving between different countries. The initiative also aims to deliver lower overhead costs, and by participating in RESAVER, employers will be able to sponsor one single pension arrangement.

- Máire Geoghegan-Quinn, European Commissioner for Research, Innovation and Science, said: “We have worked hard to boost the free movement of knowledge in Europe … Horizon 2020 was built with this in mind. Pensions are a serious barrier to free movement, but today that barrier has begun to crumble. I strongly encourage research organisations across Europe to join the consortium.”

# 5. More choice and more diversified options

*Figure 8:*
*DC Asset Class Weights*




*Source: IAPF Investment Survey 2013*

# 5. More choice and more diversified options

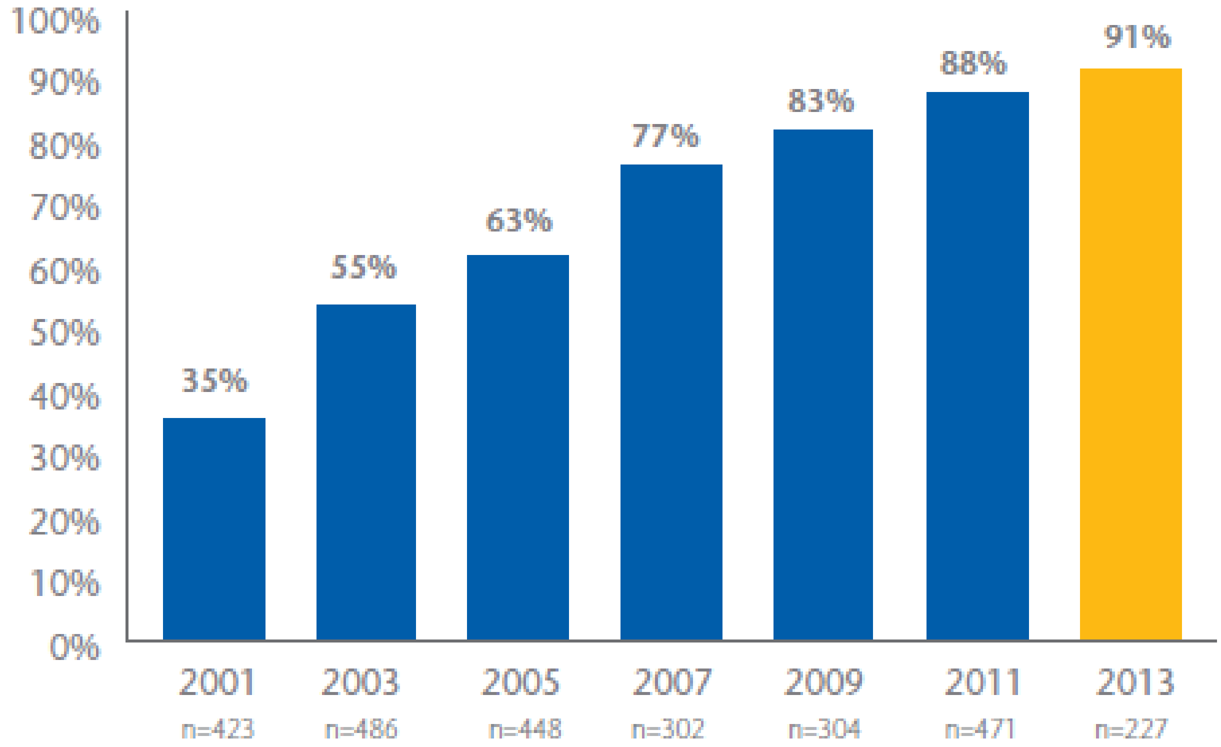
Distribution of the Number of Investment Funds Offered—Excluding Premixed (Historical)

| | 2001 | 2003 | 2005 | 2007 | 2009 | 2011 | 2013 |
|---|---|---|---|---|---|---|---|
| 1–5 | 24% | 12% | 16% | 3% | 5% | 1% | 1% |
| 6–7 | 22% | 12% | 16% | 8% | 6% | 3% | 4% |
| 8–9 | 19% | 16% | 18% | 20% | 16% | 11% | 13% |
| 10–11 | 15% | 21% | 17% | 26% | 19% | 19% | 17% |
| 12–13 | 8% | 14% | 14% | 16% | 21% | 27% | 19% |
| 14–15 | 4% | 10% | 8% | 14% | 13% | 16% | 14% |
| 16–17 | 2% | 5% | 6% | 6% | 5% | 10% | 11% |
| 18–20 | 2% | 7% | 3% | 3% | 7% | 7% | 8% |
| 21–25 | 2% | 2% | 1% | 1% | 2% | 4% | 8% |
| 26–30 | 0% | 0% | 0% | 1% | 2% | 1% | 2% |
| More than 30 | 2% | 1% | 1% | 2% | 4% | 1% | 3% |
| Average | 10 | 11 | 10 | 12 | 14 | 13 | 15 |
| Median | 8 | 10 | 10 | 11 | 12 | 13 | 13 |
| n= | 146 | 268 | 267 | 295 | 292 | 470 | 331 |

*Source: Aon Hewitt 2013 Trends & Experience in Defined Contribution Plans*

# 6. Access to customised arrangements

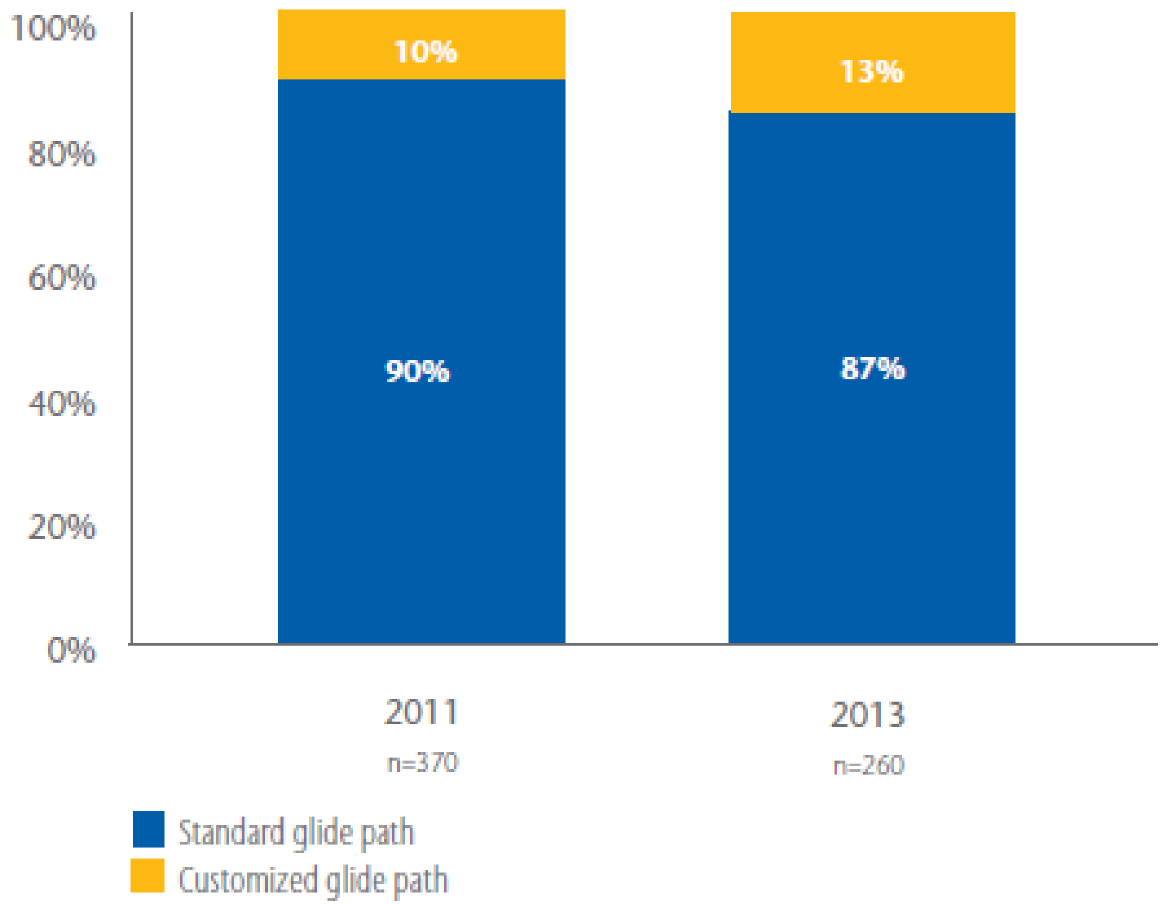
Use of target date/risk funds




When looking separately at target-date and target-risk funds, the majority of plans (86%) offer target-date funds.

*Source: Aon Hewitt 2013 Trends & Experience in Defined Contribution Plans*

# 6. Access to customised arrangements




"Establish default life-cycle investment strategies as a default option to protect those close to retirement against extreme negative outcomes."

OECD Review

*Source: Aon Hewitt 2013 Trends & Experience in Defined Contribution Plans*

# 7. Retire Later

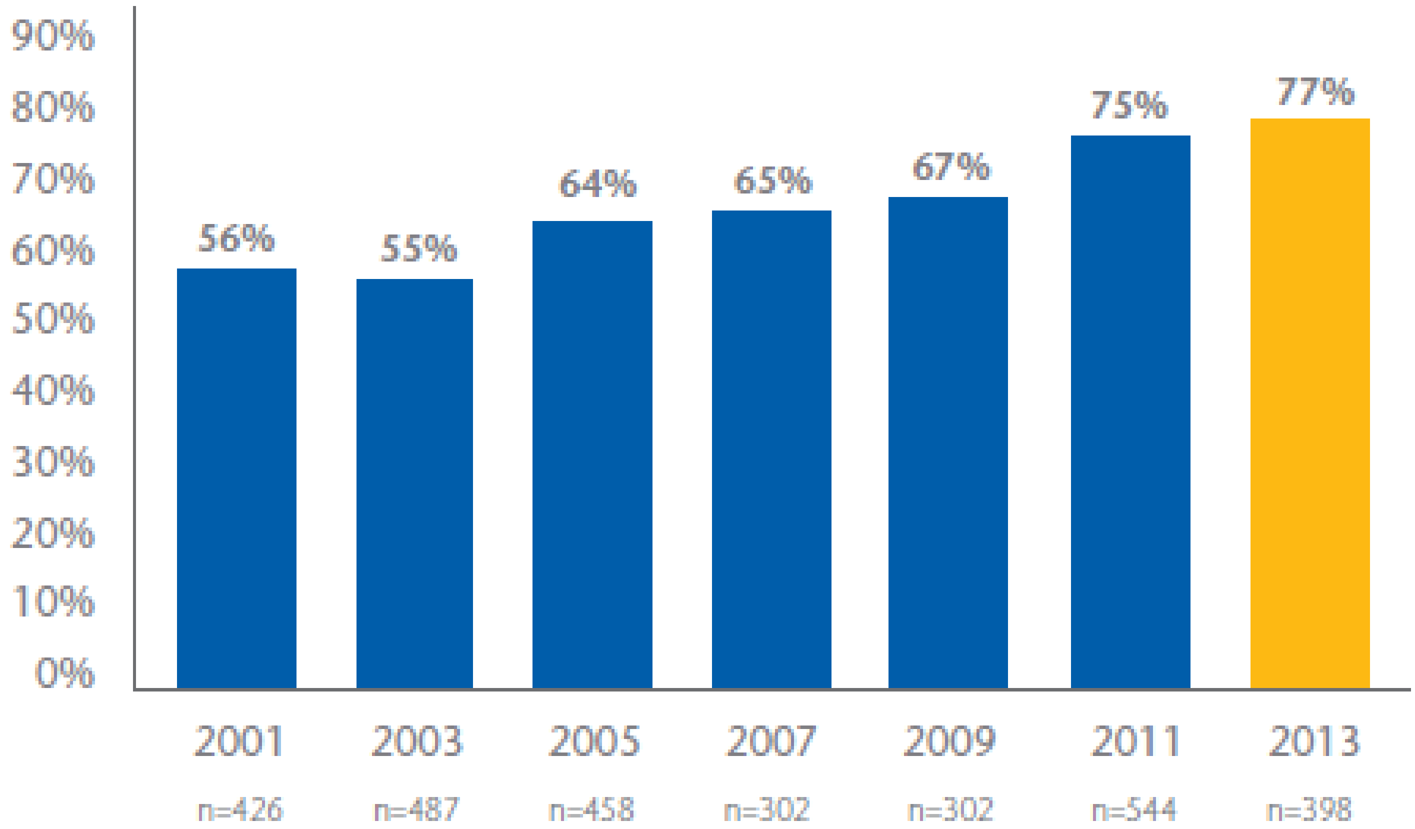
*“The long-term retirement age, which at 68 is relatively high in international comparison, could be linked to life expectancy after 2028 in order to ensure that improvements in life expectancy do not significantly extend the duration of retirement.”*

OECD REVIEW OF THE IRISH PENSION SYSTEM

22 April 2013

# January 2015: DC- Where to from here?

# Plans reporting DC as primary retirement savings vehicle




*Source: Aon Hewitt 2013 Trends & Experience in Defined Contribution Plans*

# Likely Actions to be taken with respect to Fees in 2014

| Completed Recently | Actions Related to Expenses/Fees | Likely Action in 2014 (Among Those Who Have Not Completed Recently) Very Likely | Somewhat Likely | Somewhat Unlikely | Very Unlikely |
|---|---|---|---|---|---|
| 31% | Review the plan's total plan cost (including fund fees, recordkeeping fees, trustee fees, etc.) | 61% | 31% | 4% | 4% |
| 34% | Hire a third party to benchmark or evaluate costs | 31% | 19% | 22% | 28% |
| 12% | Supplement required fee disclosure with additional participant communication or details | 10% | 21% | 32% | 37% |
| 21% | Restructure fees in the plans so administrative fees are assessed to participants in a more equitable manner (e.g., consistent asset-based/ revenue sharing or per-person charge to participants) | 6% | 17% | 28% | 49% |
| 7% | Have participants share more plan expenses | 3% | 8% | 29% | 60% |

OECD Review of the Irish Pension System:
"*Pension charges by the Irish pension industry on large occupational DC plans are not too high when assessed on an international context; they are however rather expensive for small occupational schemes and personal pension schemes*"

Source: Aon Hewitt 2014 Hot Topics in Retirement

# Align Lifestyles with reality

Employee/AVC Contribution

Employer Contribution

Investment Returns

**Retirement Savings Account – "your Pot"**

Cash Lump Sum (Tax Free and/or Taxable)

Pension (Annuity)

Approved Retirement Fund

# January 2015 State of the Industry in 2020 - DC

1. Less paternalism – desire for higher member engagement
2. More responsibility on individuals (with greater emphasis on guidance/education and financial wellness)
3. Increase in contract based schemes
4. Increase in delegation
5. Increase in Pan European Funds/Pan European providers with open architecture
6. More choice and more diversified options
7. Access to customised arrangements (multiple lifestyles)
8. Retire later!

# DC Risks

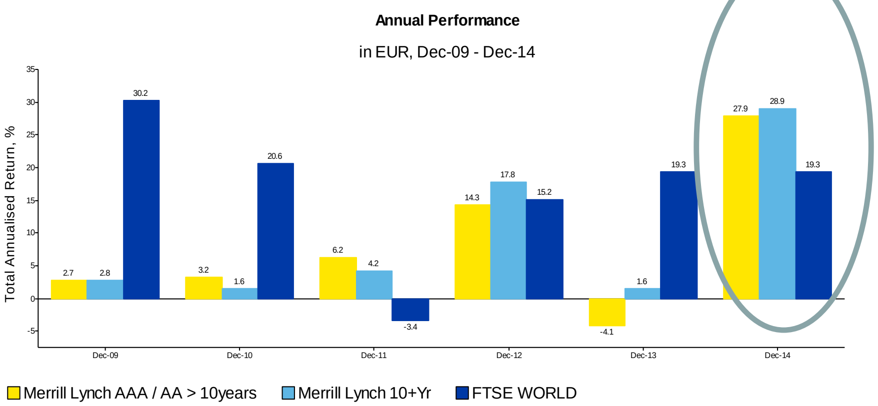



**Chart 2: Median price/earnings multiple for U.S. stocks***
*Based on all NYSE stocks with positive earnings for the last fiscal year calculated in June of each year since 1951 through 2014