Optimising Investment Options DC Members

Alex Kinsella - Allied Pension Trustees

Agenda

- Pension Landscape
- Redefining DC
- DC Scheme foundations
- Destructive Tendencies

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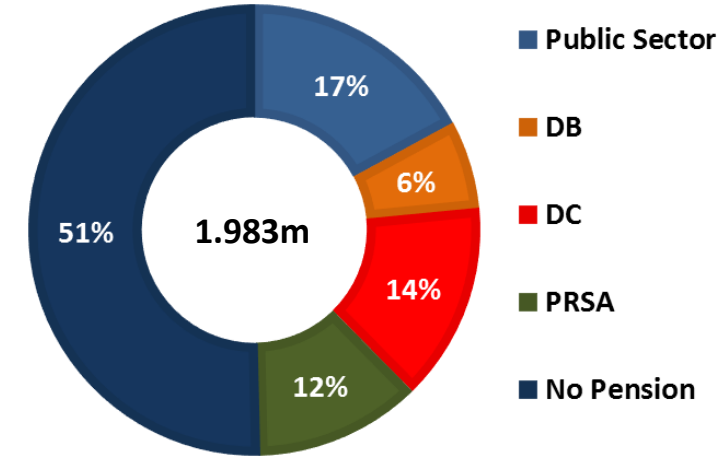
PENSIONS TIMEBOMB IS HERE ALREADY



Who is going to pay for it all?

- ⅔ of workforce has either no pension or is unfunded.
- 12% of the workforce are in chronically underfunded PRSAs.
- 6% of the workforce are in 775 DB schemes, many are winding up & many are closed to future accruals.
- 14% of the workforce are in DC schemes with an average contribution of just 11.1%.

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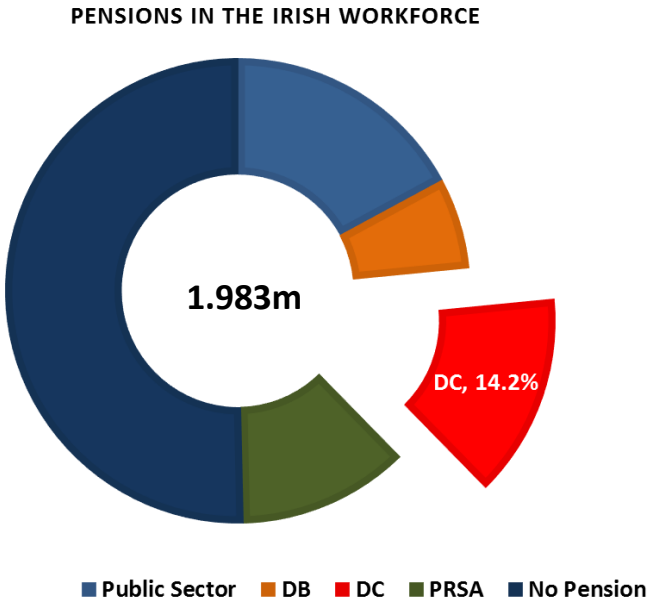
DC PENSION CRISIS IS WORSENING



Q. What's the problem?

A. Quite simply - insufficient funds to provide an adequate retirement income

- Lack of adequacy (contribution levels)
- Focussing on the wrong things (inputs not on outcomes)

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A SIMPLE DC MEMBER CHECKLIST

1. SET A TARGET ☑
2. DECIDE HOW MUCH TO CONTRIBUTE ☑
3. DECIDE WHERE TO INVEST IT ☑
4. RETIRE HAPPILY & COMFORTABLY ☒

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ITS TIME FOR DEFINED CONTRIBUTION TO BE REDEFINED

TARGETING RETIREMENT INCOME

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Define your outcome not your Contribution

1. Get your scheme foundations right
2. Understand Trustee biases
3. Understand Member biases

A WELL-DESIGNED PLAN BEGINS WITH THE OUTCOME

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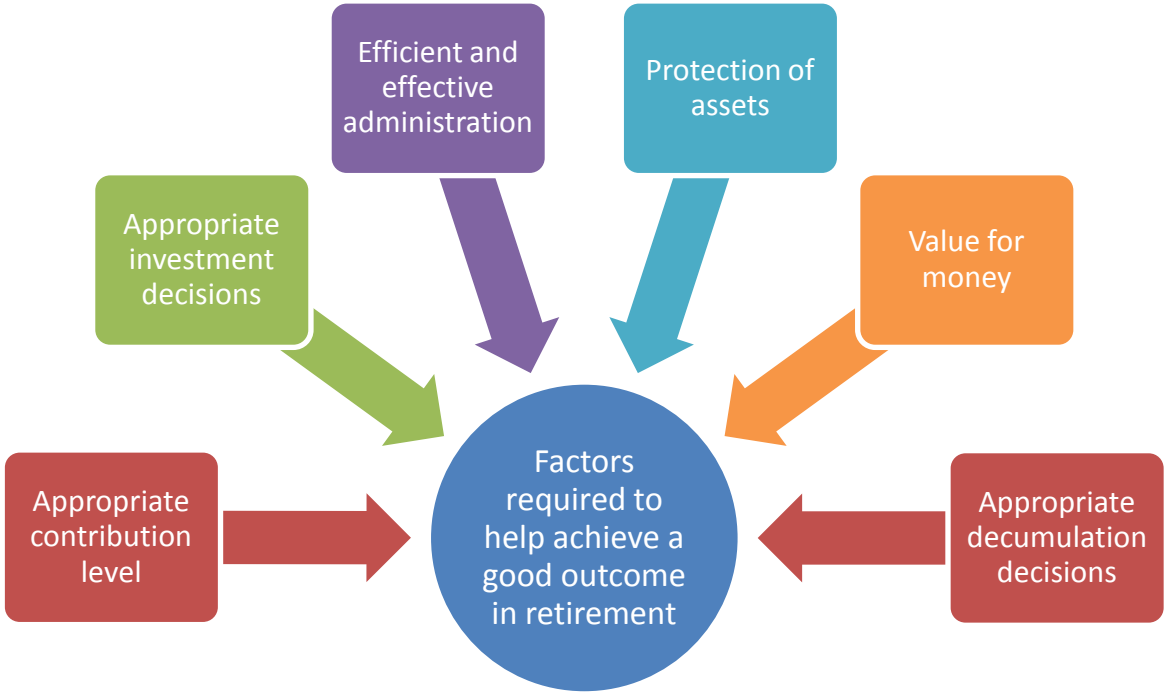
Solid Scheme Foundations



Source: UK Pension regulator 2011 paper - Enabling good member outcomes in work-based pension provision

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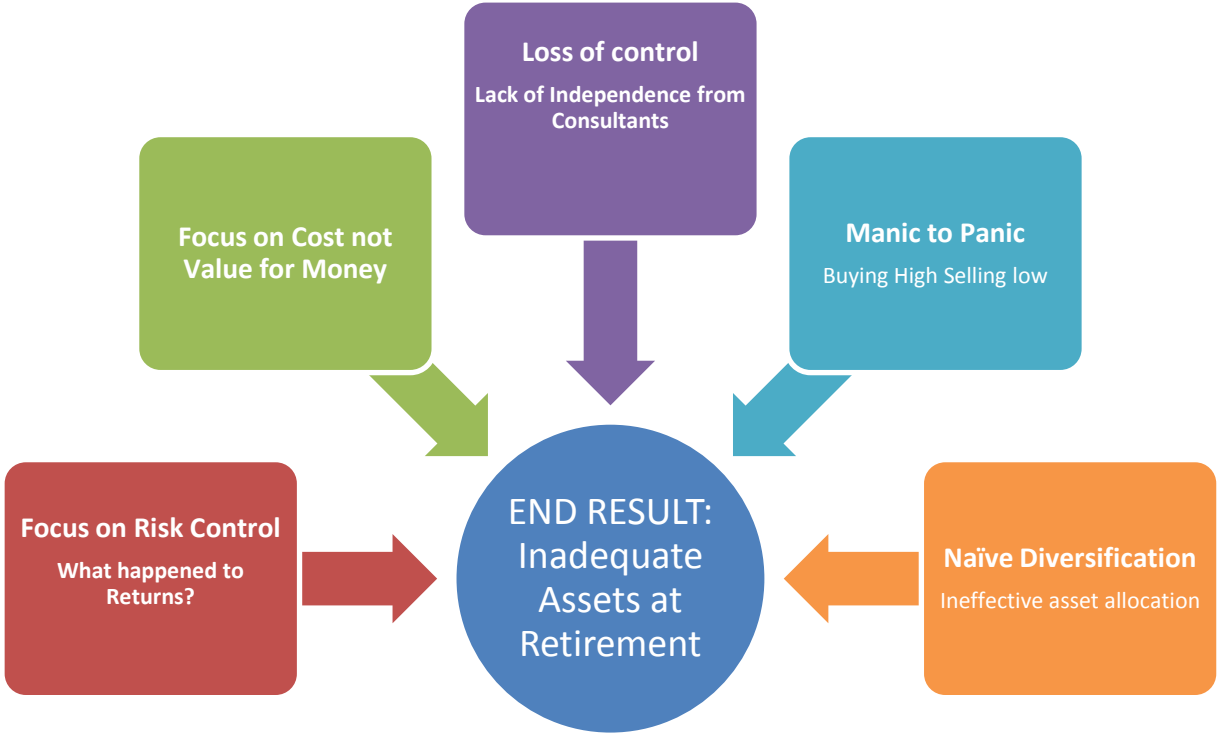
Destructive tendencies of DC Trustees



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DON'T GIVE UP YOUR INDEPENDENCE

Developing trend towards Trustees implementing fiduciary management / delegated consulting.

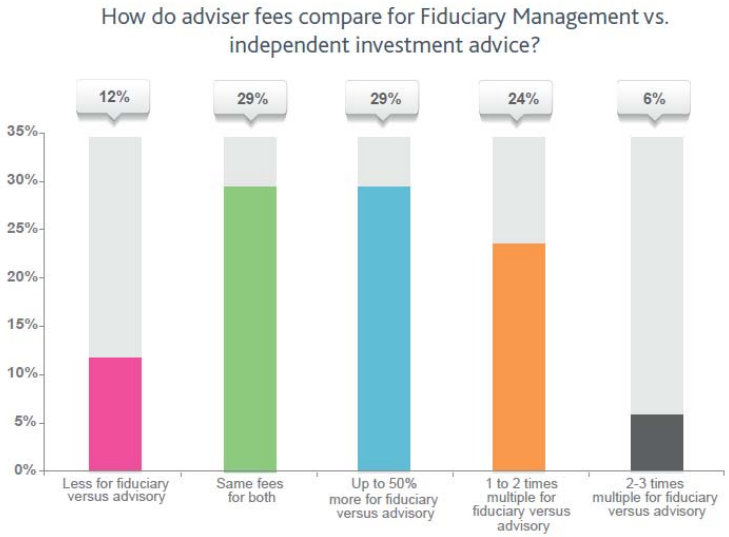
Why would you do it?

1. Time constraints
2. Improve the efficiency of decision-making
3. Cheaper than maintaining direct relationships with A rated fund managers

Why you shouldn't!

1. Cost - Extra layer of scrutiny is required to monitor the fiduciary manager.
2. Control - Only 10% of Independent trustees surveyed recently in UK believe that fiduciary managers are best placed to deliver investment advice aligned to the interest of the scheme
3. Conflicts – Revenue generation/impartial advice/confining advice to strategies and funds within delegated framework/delaying information to non delegated clients

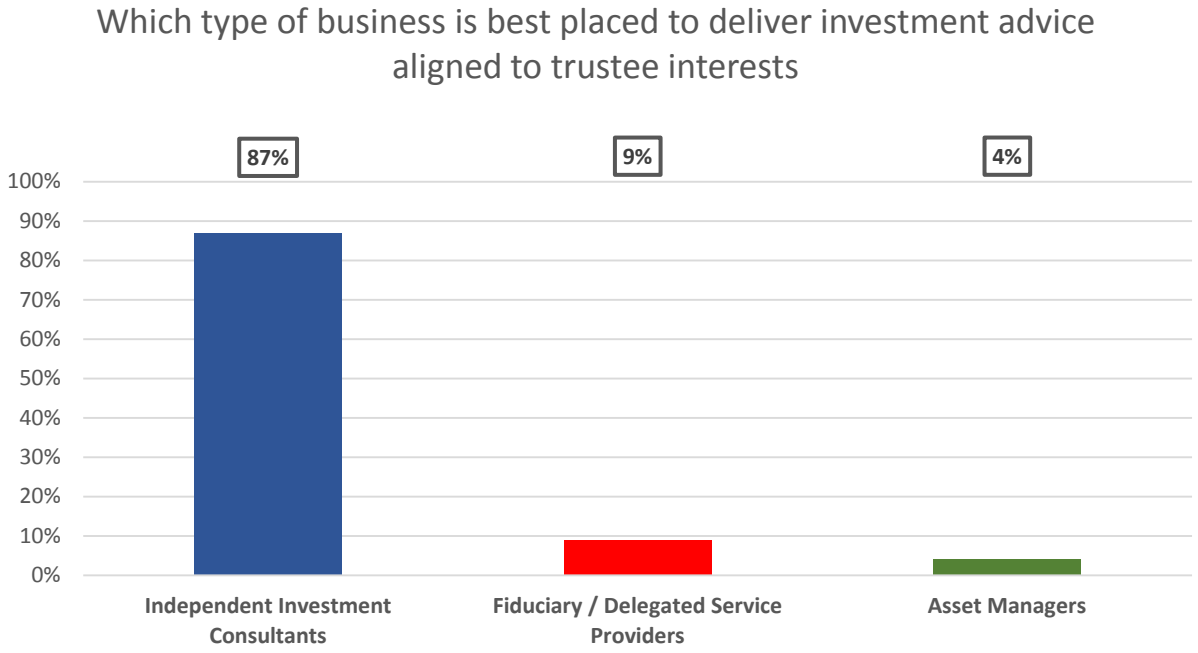
Delegating doesn't remove work and risk; it simply changes its nature



Hymans & Robertson Independent trustee Survey 2015

REMEMBER - Fiduciary responsibility remains with the trustees.

DON'T GIVE UP YOUR INDEPENDENCE



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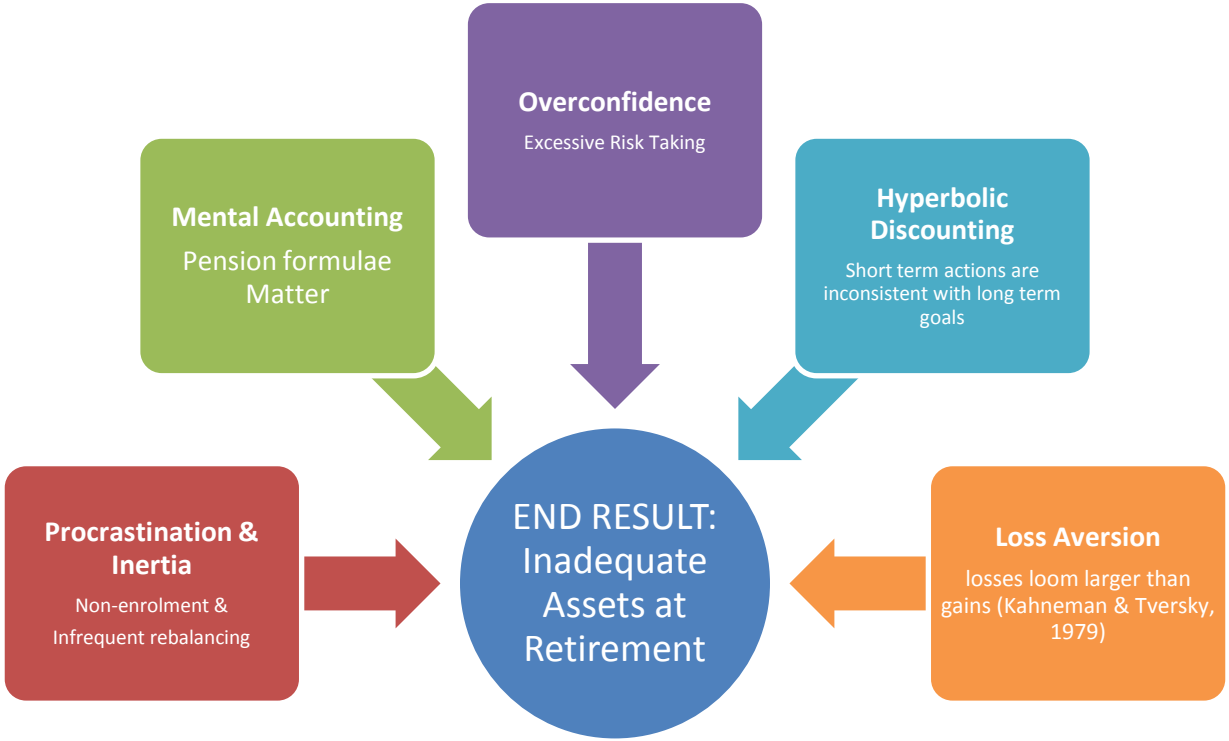
Destructive tendencies of DC Members



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Testing Loss Aversion in the IAPF!

Q

(problem first posed by Paul Samuelson in 1963)

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Key points to consider

- Understand your members' DC scheme reliance for their retirement (greater reliance usually translates to a greater need for less risk exposure)
- Match the decumulation strategy for the largest cohort of the scheme
- Consider risk tolerances of different cohorts with different decumulation strategies
  - ARF (Cautious/Balanced/Adventurous)
  - Annuity (Cautious/Balance/Adventurous)
  - Cash drawdown (Cautious/Balance/Adventurous)
- Measure risk at a strategy level not individual fund level
- Encourage adequacy through education, scheme design and benefit packages

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