

# PENSIONS IN 2020



Hewitt

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# What does the future hold?

- Where we're coming from
- Where we're headed
- Current trends
- Impact on Members, Trustees and Employers
- Predictions on the State of the Industry in 2020





# DB evolution

**Then**



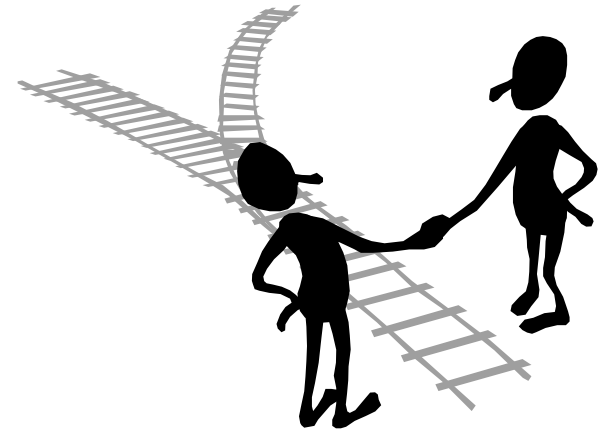
**Now and in the Future**





# Current DB trends

- Everything is on the table
- DB closures/Benefits under fire
- Must agree a way forward
- Benefit benchmarking
- Increased Pro-activity





# Tools to get where you're going



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.



# Current DB trends

- Tailored Investment Strategies
- Dynamic Risk Reduction Strategies
- Increased Diversification
- Alternative Consultant Engagement Models



# iapf Alternative engagement models

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



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# Governance must be addressed!





# Near Future DB trends

- Increased Delegation
- Better Liability Management
  - Hedging risk (inflation, interest rate risk, longevity, etc)
  - Removing risk through use of buy-out, etc.



# DC Evolution

## Then and Now



## In the Future





# Current DC stats

- 80% to 85% use Default Option
- 90% of Default Options invest in Managed Fund (50% Stand Alone; 40% coupled with Lifecycling)
- Managed Fund has 65% to 80% in Equities
- Investment Managers no longer actively 'manage' asset mix in Managed Funds



## Hewitt's 2009 Trends and Experience in 401(k) Plans

- Automatic enrolment, automatic contribution escalation and automatic rebalancing
- More diversified investment options
- 78% now offer Lifecycling, 69% use Lifecycling as default
- 50% offer access to outside investment advisory services for education and guidance paid for by member
- Over ¼ offer access to self directed brokerage window
- Median number of core funds is 12
- Huge focus on fees (increase in index offerings)
- 97% have a loan provision and 95% have hardship withdrawal provision. All offer lump sum payments



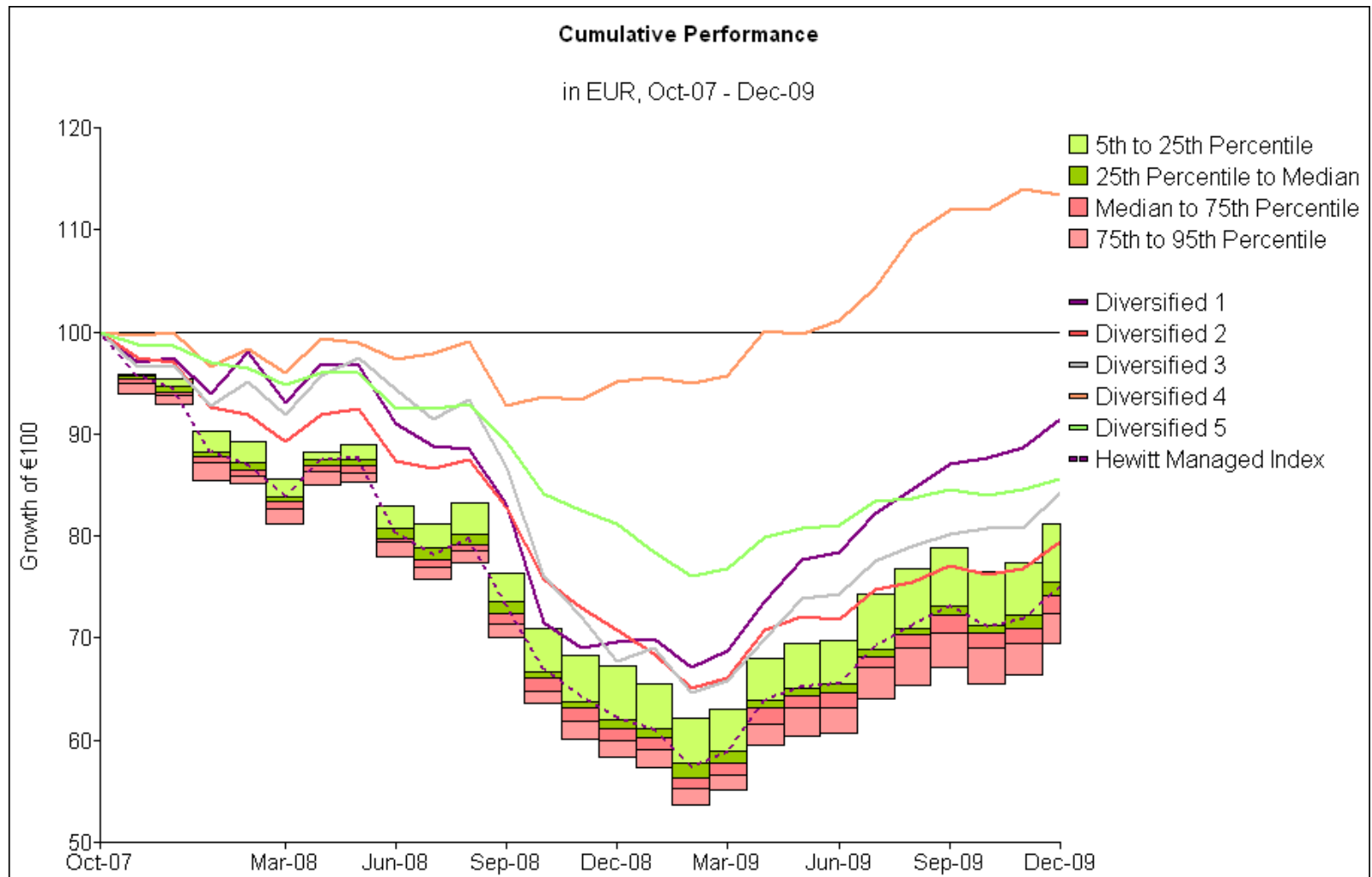
# iapf Issues with Traditional Default

## Managed/Consensus Funds

- High equity exposure
- Irish exposure
  - Equity
  - Property
- Inefficient from a risk/return perspective
- Consensus perceived as low risk



# Diversification lowers volatility

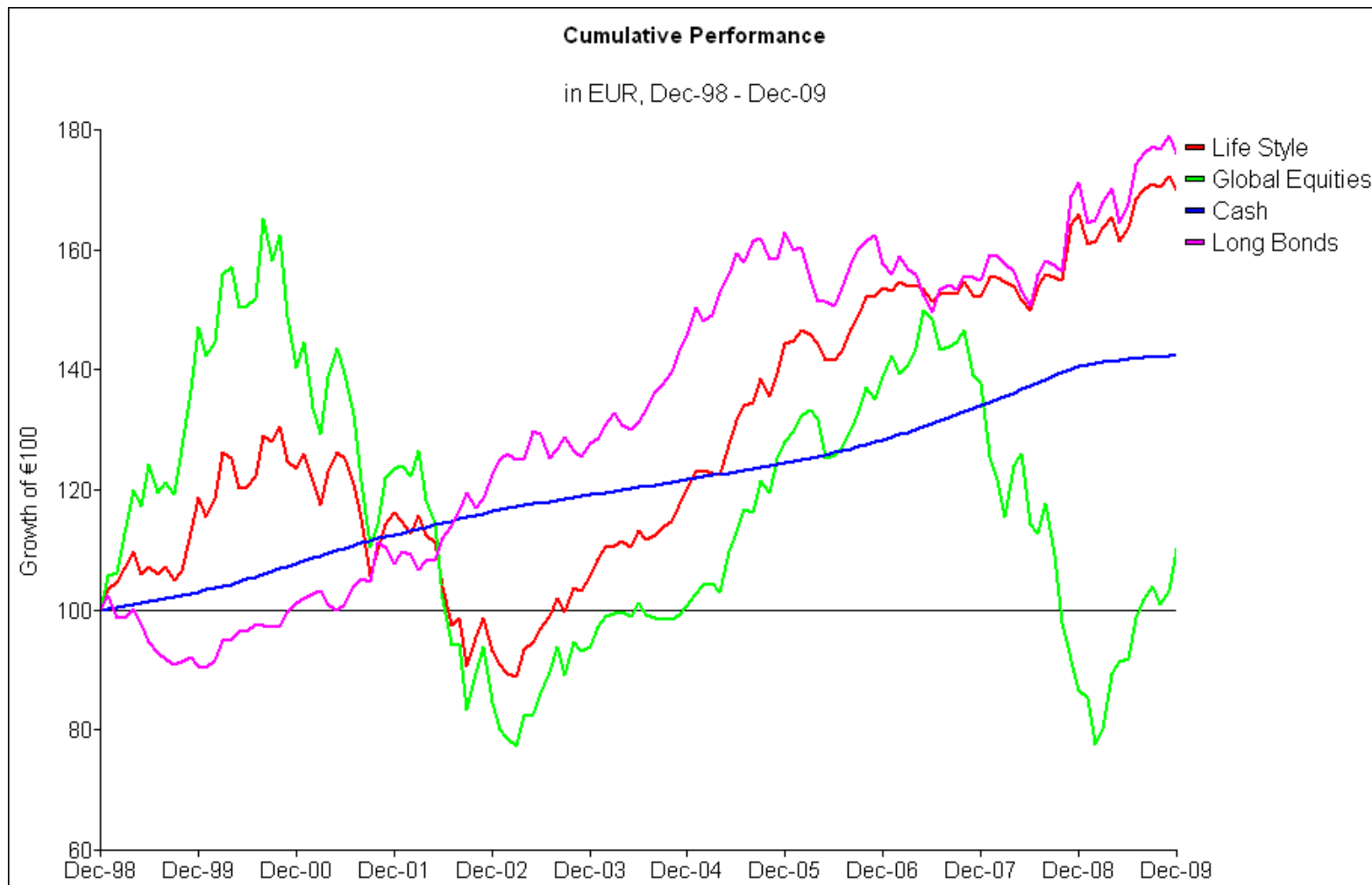




- Getting more onerous
- Real choice???
- Proper guidance? Adequate information?
- Policies on member switches
- Governance!
- Investment strategy and “Nature and Duration of Liabilities” – Lifecycling!



# Lifecycling works!





# Trust vs contract models

## Trust Based Arrangements

## Contract Based Arrangements

Advantages

**Scheme is more closely assoc with Employer**

**More paternalism**

**Communication customised to scheme/branded by Employer**

**Additional risk benefits more easily tailored**

**Trade unions/employees typically favour**

**Employer contribution can be much higher**

**Cost less to establish**

**No monitoring requirements or costs**

**Provider bears regulatory burden**

**Policy between employee and provider**

**Employee takes with them when they leave (no deferred costs).**

Dis-advantages

**Larger regulatory burden on Trustees**

**Trustees may be subject to legal challenge (and if indemnified by Employer than employer responsible)**

**Contributions must cease on leaving service**

**Deferreds hard to keep track of**

**Employer has no control over options and may not be seen as a “benefit”**

**Employee must claim tax relief to offset BIK**

**Employer may have difficulty finding out what is going on**

**Communication is standard and inferior to best in class trust based schemes**

**Tax free lump limited to 25% of fund**

**Contribution limits (tax relief) include Employer contribution**



# iapf 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



## 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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# Shorter Term Predictions

