



# **DC Provision – Discovery, Wilderness and Enlightenment**

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# Trends in UK

- Transition from DB to DC has happened
  - Big shift to contract based
- Pensions Regulator has made intentions clear on improvements needed to DC schemes
  - Governance
  - Administration
  - Communication
- Employers and trustees
  - Need to revisit strategy
  - Investment options
  - Think about NEST



# My start point in pensions

- SSASs
- Trust Based with professional trustee
- Part of negotiated remuneration package
- Active investment choices/decisions
- Usually a target benefit
- Revisited annually
  - Adequacy checked
  - Investments reviewed
- On the whole worked well



# Discovery, Wilderness and Enlightenment

- What have we learnt from the past?
- What went wrong?
- What should the future look like?



# Discovery

- When I joined the industry in 1990...
- Pensions were largely DB
- Exceptions were
  - AVCs/FSAVCs
  - Self employed
  - SSASs
- De facto there was
  - some level of member engagement
  - some form of target benefit
- DC provision was largely fine (if expensive)



# Wilderness

- Closure to new DB members/accruals
  - Bolt on DC sections
  - Wind up trigger
- High charges – initial and/or ongoing
- Pensions mis-selling
- Stakeholder provision
  - Half of schemes only 1 member
  - “not my problem”
- Member experiences with insurers
- SMPI
- Default funds?



# Enlightenment...

- What is it?
- How do we define success?
  - Is it replicating DB levels of pension promise?
  - Is it members taking responsibility?
  - It is better employer engagement?
  - Is it about better Government engagement?
  - Is it more funds or fewer funds?
  - Is it a no-default fund rule?
- It is about what members expect and need



# Key elements of a DC schemes

Adequacy of  
Contributions

Investment  
Performance

Annuity  
rate



# Member expectation

- Not always realistic
  - Amount they pay
  - Amount it costs
- State pension misunderstanding
  - Now
  - Future
- Misunderstand partner's pension
  - My partner has a pension
- Sometimes misguided
  - 50%
  - 80ths



# Member engagement

- Pensions can be boring
- Pensions can be complicated
- SMPIs are:
  - very dull
  - Static
  - Guaranteed to be wrong
- Compound interest
- Access to modelling tools
- Clear consistent information



# Comments often heard

*“We receive leaflets regarding our pension. As far as most of my colleagues and I are concerned the leaflets might as well be printed in Latin.”*

*“...my husband has a good pension...”*

*“I’m 23. I’m going to pay off my student loan and get a mortgage before worrying about pensions.”*

*“...with other financial commitments including 3 children I just can’t afford to save for my pension.”*



# Member education - sponsors

- Get the facts out
  - Dependency ratio
  - State pensions
  - Cost of pensions
  - Annuity rates
- We all absorb information in different ways
  - Verbal
  - Written
- Time (or space) to make choice
- **PENSIONSFORCE**



# Member education – UK industry and Government

- Industry
  - Clearer explanations of funds
  - Consistency of language
  - Better use of technology
  - Support initiatives PENSIONSFORCE
- Government
  - Get off the fence
  - Come clean on dependency ratio
  - Schools initiative
- Regulator
  - Member Toolkit (only if the above are settled)



# So what is enlightenment?

- Governance structure
  - Trust based
  - Trustee structure
  - Responsibility/Monitor
- Control
  - Non-insured arrangements
- Flexibility
  - For members
- Reasonable cost
  - Employer and members
- Good administration
  - Annuity choice



# Enlightenment - Default funds

- Worst thing to say to members
  - Recent case
- Typically mix of equity, bonds and cash
  - Delivered some shocks
  - Litigation
    - If not reviewed
    - If risks not well explained
- The power of (positive) compound interest
- Regular reviews
- Encourage greater member choice
- Active default?



# Summary

- Governance
  - Trust based v contract
- Education
  - Delivery
- Engagement
  - Tools
  - Facts
- Communication
  - Language and method
- Default funds
  - “Choice”



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# Thank You

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