# DC Pensions – a Challenging Environment for Trustees


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Director,

Trustee Principles

# Background

- Second 'once-in-a-generation' decline in asset values in the last 10 years
  - What are the long term implications?
  - What are the considerations for trustees?
- Vast majority of DC members don't change their investment allocation
  - Can we really engage DC members?
  - Critical importance of Default Option
- DC costs can amount to 20%+ of funds

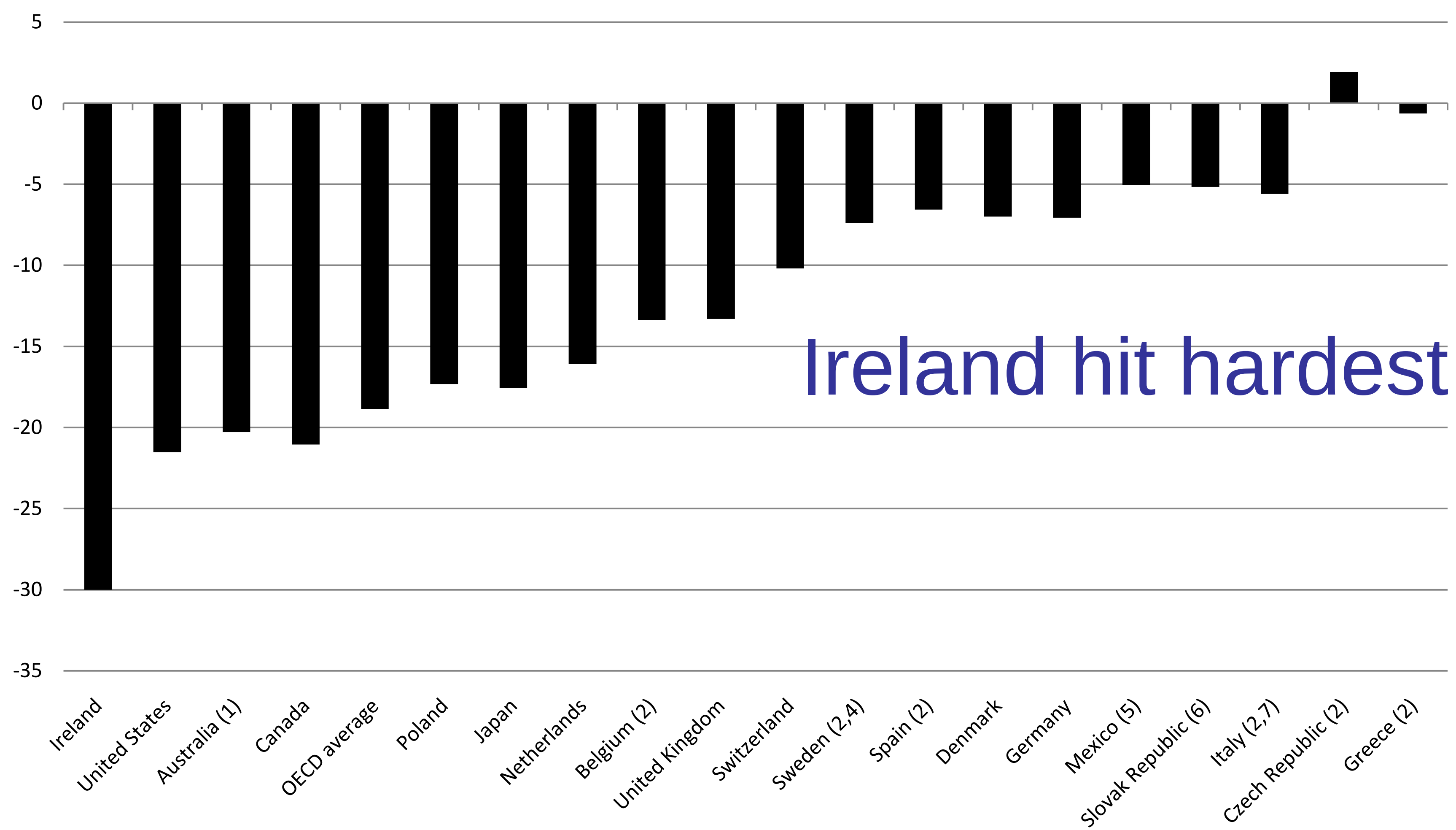
# Managed Fund Returns

- A lost decade for pension funds
- Average annualised returns:

| | Return p.a. | Inflation p.a. |
|---|---|---|
| 5 years | 1% | 2% |
| 10 years | 0% | 3% |
| 15 years | 7% | 3% |

- Volatility and liquidity issues

# OECD Returns Jan/Oct 2008



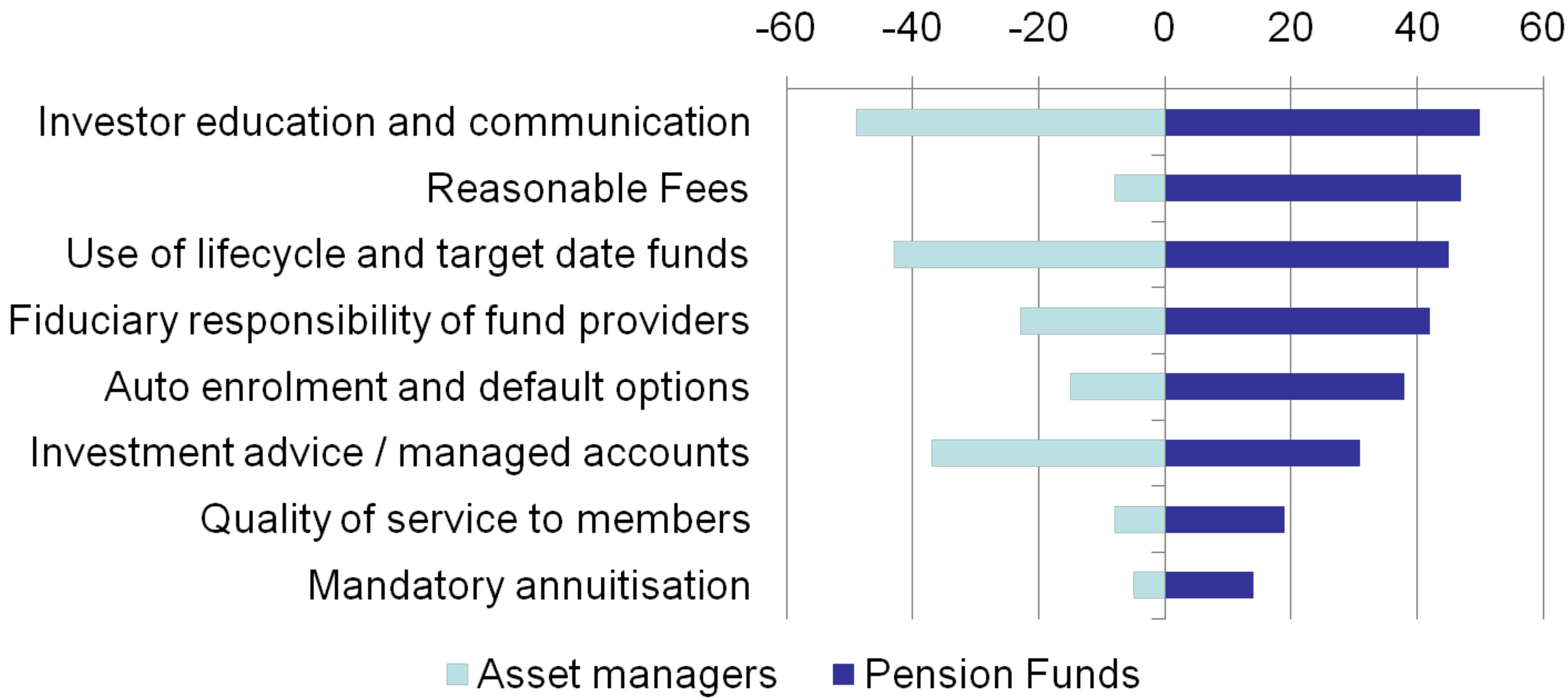

Source: OECD

# Key Issues for DC

- Enrolment
- Contributions
- Investment
- Inflation and longevity
- Administration
- Costs
- Financial knowledge
- Financial advice

**But ... who is responsible?**

# Contrasting Views




“Which areas present major challenges in DC plans currently?”
Source: CREATE Research

# Key Issues

- Enrolment
- Contributions
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- Inflation and longevity
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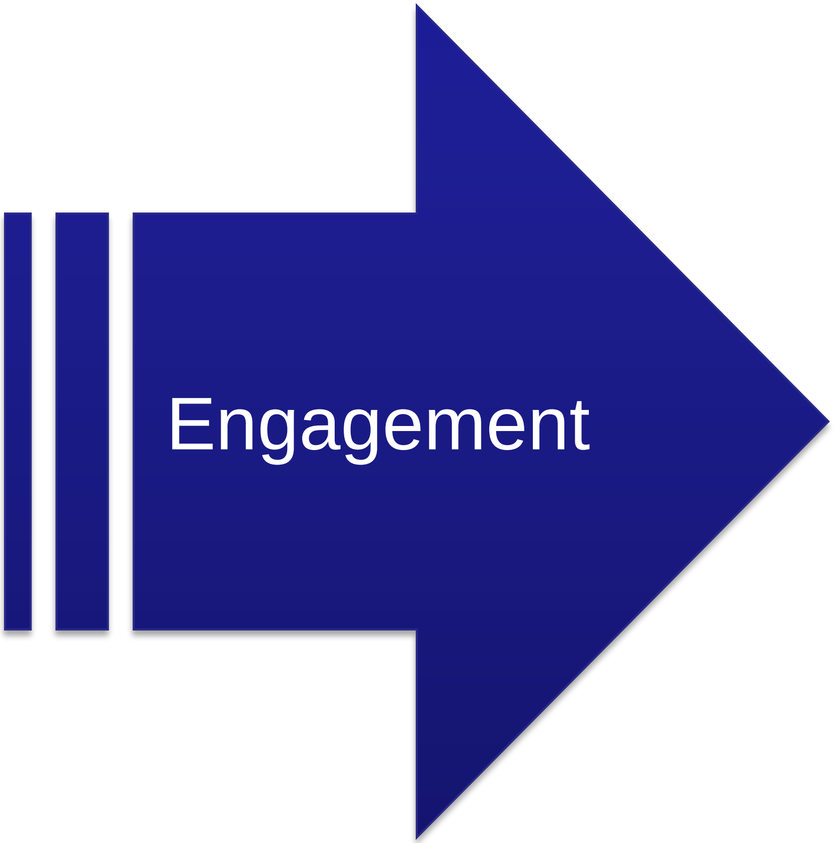
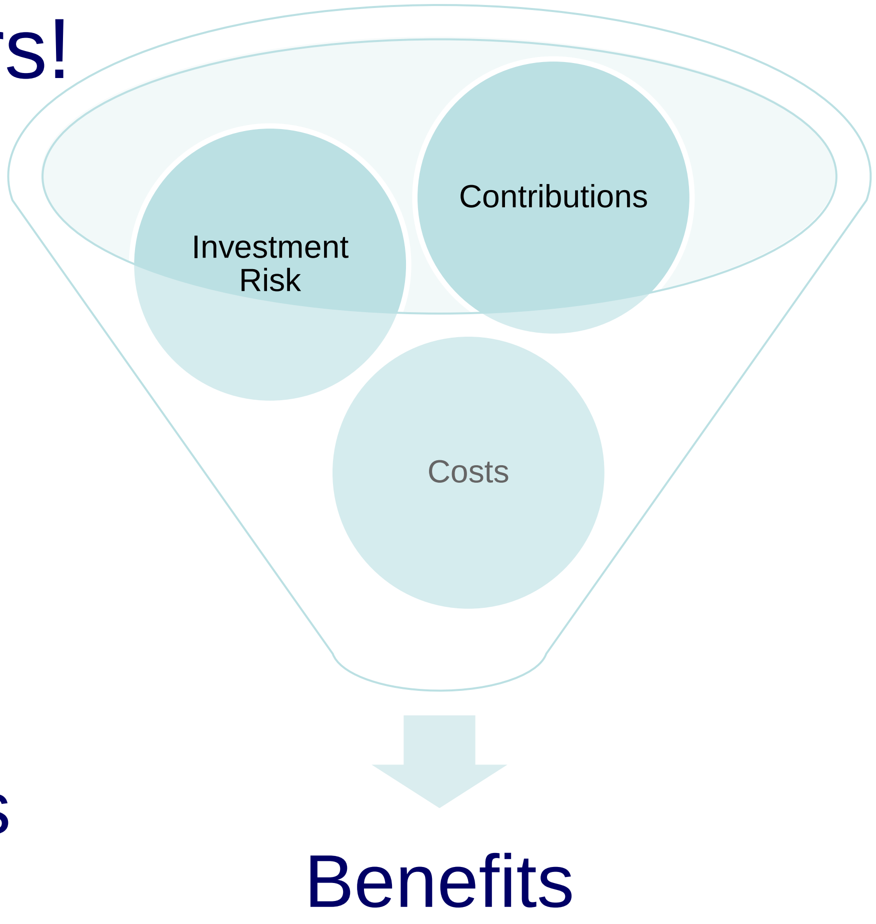


# Engagement ...

- But not just members!
  - Government
  - Regulator
  - Employers
  - Unions
  - Advisers
  - Providers
  - ..... and ..... Trustees



# DC Trustee obligations

- Act in the best interests of beneficiaries
- Act prudently and diligently
- Exercise care and good faith
- Supervise those to whom functions are delegated
- Seek professional advice

# Key Questions

- Are your trustee arrangements appropriate?
  - Do you have appropriate experience and expertise?
  - Have you completed trustee training?
  - Do you hold regular trustee meetings?
  - How regularly do you meet with service providers and investment managers?
  - Do you know the costs involved in running the scheme?

# Key Questions

- Do you know the profile of your members?
  - Are investment options appropriate?
  - Are people approaching retirement invested appropriately for their likely benefit options?
- Are members well informed?
  - How can you be sure?
  - Have they joined?
  - Are they optimising contributions?
  - Do you monitor investment choice?

# Trustees need to consider...

- Enrolment
- Contributions
- Investment
- Inflation and longevity
- Administration
- Costs
- Financial knowledge
- Financial advice

**... even if some of this has been delegated**

# IAPF DC Guidelines

- Discuss investment matters at least annually
- Take specialist advice
- Comply with investment regulations
- Reasonable range of investment options
- Consider likely investment needs of members
- Sufficient communication and appropriate default
- Retain responsibility for high-level strategy

# Investment issues to focus on

- Consistent long term returns
  - Rewarded risk
  - ‘Managed’ funds – dynamic and diversified approach to asset allocation
  - Transparency and liquidity
- Income / capital protection mechanisms
  - Target date funds / lifecycle managed
- Cost
  - Low cost index fund options

iapf

Trustee Principles

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