The Specialist
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CHARGES

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Editor's comment

Ian Smith
Editor
Ian.Smith@FT.com
twitter.com/iankmsmith

DC schemes tread tentatively on new turf

Of all the intractable problems that dog the manager or trustee of a defined contribution pension scheme, I would venture that setting up its investment strategy has become the trickiest.

Before March, when the industry had scheme member charges capped by the pensions minister and the annuity market then had its hair cut by the chancellor, it was hardly a simple task.

It should be acknowledged that some schemes have had great success engaging members to think outside of the default, or at least picking one of a small number of risk-graded, white-labelled investment strategies.

But with the majority not making an active investment choice, how do you build a default fund that caters to everyone's savings profile, risk tolerance and the moving piece that is their retirement date?

As this supplement explores, this year has presented two further beasts to grapple with. First, the growing political pressure on charges has finally led to the 0.75 per cent cap, triggering concerns the options open to scheme members will now be limited.

In our main feature, we seek to push beyond the noise around charges and assess how much of an impact they really have on member outcomes.

Secondly, at the centre of the DC investment puzzle has been the presupposition that the annuity market was the investment target. Funds could move more or less mechanistically towards a set goal.

It has become almost trite at this point to say that has been blown out of the water. Indeed, depending on which survey you choose to believe, it may still be the investment destination for a substantial amount of scheme members.

But it is clear that each scheme is going to have to think about how they structure the risk profile of their default fund, and how they implement a 'third way' at retirement, whether that be drawdown, variable annuities, or another strategy yet to be created.

And then there is the prospect of collective pensions. We wait with suspended disbelief for the details of a scheme design that will work with Budget flexibilities and overcome the intergenerational issues.

For the moment, there is quite enough on the plate.

Editor
Ian Smith
Deputy editor
Lisa Botter
Reporters
Emma Powell | Tom Dines
Contributors
Pádraig Floyd | Maxine Kelly | Charlotte Moore | Sandra Wolf
Group production editor
Maxine Kelly
Production editors
Daniel Scanlon | Karen Goodchild

Head of sales UK
Nick White
Agency account manager
Ben Tobin
Senior marketing manager
David Buttle
Art editor
Jonathan Saunders
Advertising production executive
William Baxter
Chief production officer
Peter Slaughter

Publisher
Eduardo Llull

Switchboard 020 7873 3000
Email name.surname@ft.com

Registered office: Number One, Southwark Bridge, London SE1 9HL

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ISSN: 1366-8765 Registered number: 227590 (England and Wales)
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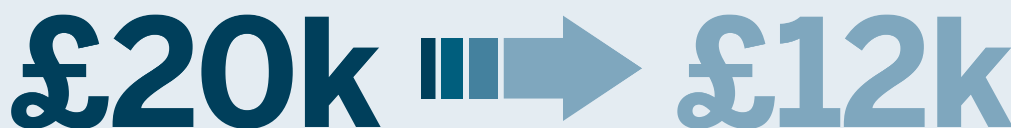
DC investment in numbers

Drawdown costs, the charges cap and the other key figures for setting up a defined contribution pension scheme

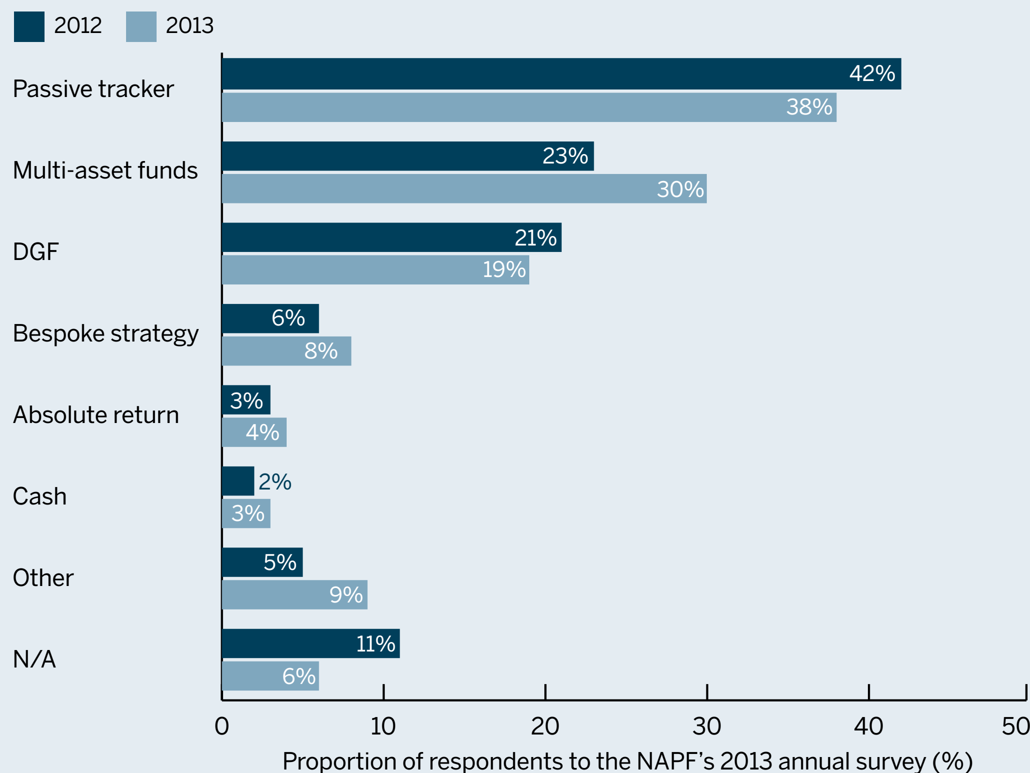
Key stats

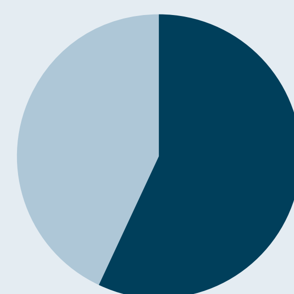


The Budget's reduction in the amount of guaranteed income needed in retirement to access flexible drawdown

Sum that can be accessed via trivial commutation rules from March 2014

How schemes' DC defaults are invested in the growth stage





57% the amount of NAPF members that said they would struggle to meet the April 2015 deadline to set up free retirement guidance

8% the minimum total auto-enrolment contribution level, with calls to increase it

0.75% Charge cap level set by the government for auto-enrolment default funds

Pensions Expert's top five DC investment stories from the past year

The defined contribution pension industry has become a mass of numbers, levels, and surveys, so we have picked out some of the statistics that matter.

In the middle is a telling survey from the National Association of Pension Funds on how schemes' default investment strategies are invested in the growth stage.

The majority are still in low-cost, passively managed tracker funds, but importantly multi-asset funds are on the march as managers seek to 'smooth' the investment returns for their savers.

But these strategies will have to deal with two other key numbers. Most important of all the 8 per cent of pensionable salary, which will be the annual savings of a large part of the auto-enrolment population.

Also in there, the 0.75 per cent charges cap that will be applied to AE schemes. There are more facts and figures around charges in our cover story on pages 12-15, including a table of how different investment cost levels can impact member outcomes.

Budget shockwaves

At the top of the graphic are important changes introducd in the Budget that will increase the amount that can be taken as a lump sum at retirement, and an increase in the amount of people that can access flexible drawdown.

The industry is still reeling from the shockwaves of these changes, added to the wider fundamental reform that, from age 55, people can access the remainder of their pension pot, in addition to the tax-free lump sum, subject to their marginal rate of income tax. This will be effective from April 2015.

And how set up are schemes to guide members through this maze? More than half of NAPF members (57 per cent) said they would struggle to provide retirement guidance by that same deadline. Ⓟ

We look back at the five most popular DC investment stories on pensions-expert.com

Ian Smith

Budget 2014: How historic DC changes affect your scheme
March 2014

Unsurprisingly, the Budget comes out on top. In this story, the Pensions Expert team digest the changes from the historic 2014 changes, which blew out of the water many schemes' lifestyle strategies.

Schemes respond to AE charge cap proposal
March 2014

Coming in at number two is scheme managers' response to the government's announcement of the 0.75 per cent charges cap on all pension schemes used for auto-enrolment.

Fidelity to launch mastertrust on employer demand
July 2013

The pension provider's decision to launch a mastertrust fed into the growing momentum of this type of multi-employer pension scheme, and concern over how they would be regulated.

Royal Mail annuity broking gets almost total member take-up
June 2013

Royal Mail's defined contribution scheme opted to default members into an annuity brokering service, as the scheme sought to help members get the most value from their pension pots. The story demonstrated the industry's growing dissatisfaction with the traditional retirement income market.

Nest: disclosing transaction costs could prompt bad choices
November 2013

The state-sponsored pension scheme's director of communications' comment that transparency could lead to members choosing less appropriate investments, purely because they are lower cost, fed into the debate on what needs to be disclosed to members.

Go online for more stories and video

Pensions-expert.com provides daily case studies, analysis and comment on how UK pension schemes are meeting the challenges of providing a sustainable retirement income for their members.

It also showcases video discussions with key industry and scheme decision-makers as well as topical debates.

Feature Case study

Kingfisher reviews its DC set-up to meet newfound flexibilities

As Budget changes mean lifestyle default funds will no longer be relevant for many, one scheme is rethinking its approach

Emma Powell

Kingfisher Pension Scheme is planning to review member outcomes as it looks to make sure its default fund fits with the greater at-retirement flexibility opened up by the Budget.

The retailer's default fund is currently under review as part of the £2.4bn scheme's defined contribution governance cycle.

However, changes brought in by this year's Budget – reducing the tax hit on savings taken as a lump sum and increasing the amount that can be taken as drawdown – have increased options for members, says Matt Fuller, investment manager at the scheme.

"We need to factor those changes into our thinking, recognising that fewer people will purchase annuities. At the top end they may prefer to consider drawdown, and at the lower end more will be able to take 100 per cent cash if they wish to do so," says Fuller.

Understanding member outcomes

At the heart of deciding the structure of the default will be understanding what the majority of the scheme's members want to do, and providing solutions which allow them to use any of the three options, says Fuller.

To do this it will be important to identify what each member is likely to achieve, as the majority of the scheme's members are relatively low earners that are contributing the minimum required under auto-enrolment, he says.

"On the member data side of things, we know how much each of our members is saving and the size of pots they have, so can use that data to help inform our decision making," says Fuller.

Staying on-risk

At the dispatch box in March, chancellor George Osborne announced an increase in the trivial commutation levels, enabling members to take small pension pots worth up to £10,000 as a lump sum at retirement, up from £2,000, for up to three pension schemes.

Aside from the 25 per cent tax-free lump sum, from April of next year members that fully withdraw from DC at retirement will also be taxed at marginal income rates rather than the current 55 per cent.

As a result, traditional lifestyle strategies that derisk into gilts and cash either 10 or 20 years from retirement are no longer fit for purpose, industry experts say.

Some providers, including Legal & General Investment Management, Axa Life Invest and Friends Life, are responding by designing products that retain greater risk as a member approaches retirement.

Lifestyle make-up

Members of the Kingfisher scheme are currently defaulted into the 10-year lifestyle option, which is invested equally in passive global equities and a diversified return fund at March 31 2013, according to its 2013 annual report.

The diversified return fund passively invests in a wide-range of assets including high-yield bonds, property, commodities and specialised alternative assets, according to the report.

The fund starts to derisk 10 years out from retirement, investing 75 per cent in gilts and UK corporate bonds, and the remainder in money market funds.

The company matches employee contributions up to 6 per cent, and will contribute 10 per cent if members pay in 7 per cent, and 14 per cent for 8 per cent member contributions.

Members also have the choice to invest in two other five-year lifestyle funds, one of which has a cash target and invests completely in money market funds during the pre-retirement phase.

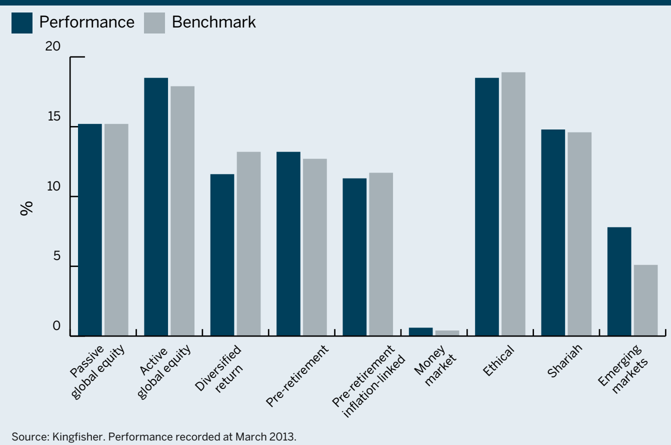
The scheme's self-select funds include an active equity fund, an emerging markets fund and an ethical fund. However, more than 90 per cent of members are invested in the default fund, according to Fuller.

> **Lifestyling strategies are out of the window because they're based on people buying an annuity**
>
> Laith Khalaf, Hargreaves Lansdown

[Schemes should] maintain the default they have got in place, introduce the alternative options and see what members want

Ryan Taylor, Aon Hewitt

B&Q is among the companies owned by Kingfisher, which will be reviewing its default options



Laith Khalaf, head of corporate research at Hargreaves Lansdown, says: "The lifestyling strategies are out of the window because they're based on people buying an annuity."

The difficulty with default funds is there are lots of people who will want different outcomes, says Khalaf.

"We actually think the default setting is to derisk them into cash," says Khalaf. "I think whatever the default, there are going to be risks involved in it and cash is probably the most material choice and carries the least risk."

While derisking into cash carries inflation risk, investing in gilts is susceptible to inflation and interest rate fluctuations, adds Khalaf.

The 10-year lifestyle has always been the most popular option at Kingfisher, and formally became the default when the company staged for auto-enrolment in March 2013.

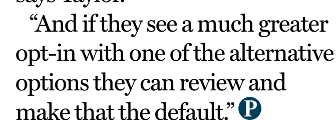
However, its asset allocation changed in 2009 with the introduction of the diversified return fund, says Fuller.

"The committee felt that members needed exposure to equities during the growth phase but also wanted to provide exposure to other asset classes and reduce some of the volatility," he says. "Hence the 50 per cent allocation to the passive equity fund and a 50 per cent allocation to the diversified return fund."

Ryan Taylor, senior DC investment consultant at Aon Hewitt, says his team has begun looking at the member make-up of scheme clients to assess the size of the pots they will be likely to achieve.

"The other thing that we would suggest is that they maintain the default they have got in place, introduce the alternative options and see what members want," says Taylor.

"And if they see a much greater opt-in with one of the alternative options they can review and make that the default." P



Emma Powell is a reporter at Pensions Expert

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Schemes and providers pick through the Budget wreckage

Freedom of choice and product overload are likely outcomes for DC, but it is hard to predict how the market will settle

Sandra Wolf

Few expected the changes to defined contribution schemes that were announced in this year's Budget.

They create almost complete freedom in what to do with your pension pot on retirement, from next April.

The changes surprised many even though, or perhaps because, compulsory annuitisation at age 75 was removed in April 2011.

"The world did not change fundamentally through the abolition of annuitisation; that ended three years ago," says Jonathan Lipkin, director of public policy at the Investment Management Association.

The system introduced at the time still restricted choice, however. Members had to have an income of at least £20,000 a year to access flexible drawdown, for example, while full withdrawal was taxed at a rate of 55 per cent.

The new rules, such as the lower minimum income limit of £12,000 for drawdown and the greater size for small pots that can be taken as a cash lump sum – £10,000 instead of £2,000 – will change people's decision-making on retirement.

According to the government, under the current rules, three-quarters of people purchased an annuity when they retired.

Most trustees have therefore aligned their schemes' default funds with the assumption that their members would buy an annuity, in the form of lifestyling.

This usually meant growth until about 10 years before retirement, obtained by investing in equities, followed by gradual derisking into fixed income.

With the new rules, "that assumption is now flawed", says Lee Hollingworth, partner and head of DC consulting at Hymans Robertson.

Although people under the new rules will no longer 'default' into annuities and are expected to make active decisions upon retirement, the requirement for DC schemes to offer a default fund remains.

This is because the accumulation phase is, via auto-enrolment, based on the assumption that most people are financially inert and should therefore have investment decisions made on their behalf.

Jane Wolstenholme, partner at pensions law firm Speechly Bircham, points out that there is no explicit legal requirement to offer a separate default fund, but that any form of choice in auto-enrolment would be considered "a barrier to entry".

Wolstenholme and fellow Speechly Bircham partner Penny Cogher say default funds were inadequate even before the Budget decision, since they move into fixed income on a fixed timescale, without taking economic developments or personal situations into account.

"After the Budget the problems worsen, as the purpose of the default fund is to allow the individual to buy an annuity, but this will no longer be the only effective retirement option," Cogher adds.

Lipkin, on the other hand, believes annuities could still play a central role. "It may well be the case that for many individuals, annuities will still be the optimal outcome. However, we are also likely to see later annuitisation where individuals do choose to annuitise," he says.

He expects a diverse product market to emerge due to the changes, but says it is not clear as yet what default funds will look like.

"Some trustees or governance committees might decide that the default strategy should focus on maximising pot size with a view to leaving individuals to decide what to do with that pot at the time.

"Others may decide that they still think that for their particular cohort of members, annuitisation earlier in retirement is likely to be the case," he speculates.

> **The world did not change fundamentally through the abolition of annuitisation; that ended three years ago**
>
> Jonathan Lipkin, Investment Management Association

The purpose of the default fund is to allow the individual to buy an annuity, but this will no longer be the only effective option

Penny Cogher, Speechly Bircham

DC lottery: there is speculation as to what lies in store for DC pensions following George Osborne's Budget announcements

One DC scheme that has started to think about its default option is the Trinity Mirror Group. Currently it has a lifestyle fund, invested passively in 30 per cent UK and 70 per cent overseas equities.

"It will be more complex, I think," trustee Laurie Edmans says, when looking at DC in a post-April 2015 world.

He and his colleagues are "thinking about whether you need to get back to the basics of investment, looking at a person's profile and the period of time they are likely to keep it invested".

Edmans says that in the past, the fund has learnt from what he calls the "auto-enrolment school", which assumes that people are inert.

A recent reduction in employer contributions was communicated to members by sending a small card saying that if they sign the next letter, their own contributions will not go down with the employer contributions.

As a result, 60 per cent agreed to keep their contributions up.

Communication will be crucial under the new system. Hollingworth says "a massive piece of education and communication needs to be done".

Aside from communicating the changes, a further challenge for schemes will be the government's statement in the Budget that every DC member "will be offered free and impartial face-to-face guidance on their choices at the point of retirement".

Lipkin notes that so far, "we don't know who's going to provide that, what the relationship between guidance and regulated advice will be, we don't know how the Financial Conduct Authority will look at this market".

This means it will take several more months until the asset management and insurance industries put new products on the market.

As long as the framework for the announced DC changes has not been set out in detail, both industry and trustees will wait for the government to provide more information before taking action.

"I genuinely believe it is too early for anyone to give a definitive view as to how this is going to develop," Lipkin says.

He is hoping for greater clarity in the summer as the government's consultation on Freedom and Choice in Pensions ends. Ⓟ

Sandra Wolf is deputy news editor at MandateWire Europe

Advertisement

Read all about it: DC investments are in the news

The Budget changes to pension regulation means 'to and through' retirement investment strategies will become standard requirements

DC pensions have been in the news, even making the headlines on TV. And it is all rather positive news at that. The Budget announcement has firmly put DC pensions back in the spotlight, this time for good reasons: greater freedom over access to your pension savings and no obligation to buy expensive annuities. Now, you can even buy a Ferrari with your money.

Given that current DC strategies usually assume annuity purchase is the end goal, this all raises the game for fiduciaries of DC schemes in how they help scheme members save for the future.

The other good news for DC pensions is that, in the run up to auto-enrolment, investment strategies have become more focused, albeit primarily on the accumulation phase. This has resulted in a move away from reliance solely on equities to provide growth. Diversified growth funds and absolute return strategies that bring greater diversification and lower volatility characteristics to investment returns have been utilised. This is usually at the latter savings phase to help reduce the uncertainty DC savers face as they approach retirement. Used smartly, such approaches can also enable the DC fund to generate returns for longer, before moving into lower-return bond assets.

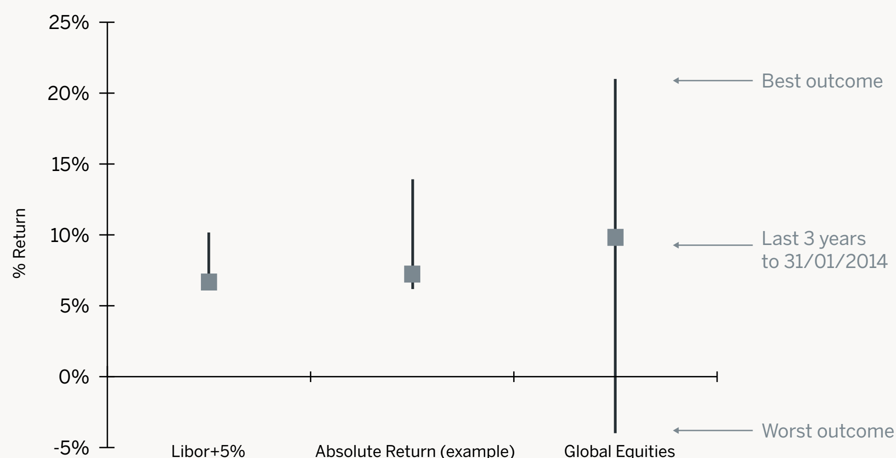
So, what next for the investment design of DC schemes? Clearly, the post-retirement phase as well as the run-up to retirement is now under the spotlight. A new 'to-and-through' retirement investment strategy is needed if, as expected, most DC savers take their cash or avoid buying annuities.

What might this look like? As an important first step, there is recognition that adopting multi-asset strategies into DC during the accumulation phase can add value to members by diversifying equity risk, lowering volatility and improving return potential. As the accumulation and 'taking benefits' phases blur, some form of derisking may still be attractive to those members who opt for an annuity in future. However, for those who remain invested, it will be about delivering a stable distribution of income balanced against the potential to make future investment returns during retirement.

It is worth bearing in mind that for a 90-year old who started saving at age 20 and stopped saving at age 60, 10 per cent of wealth was created from contributions, 30 per cent from investment returns up to age 60 and 60 per cent from investment returns after age 60, assuming a constant annual return of 6 per cent and that the accumulated savings were sufficient to pay out for 30 years.

Andy Dickson
Investment director
Standard Life Investments

Creating more predictability



Source: Standard Life Investments, 31/01/2014
Return ranges based on 3 years of monthly observations of rolling 3-year data
Standard Life Investments claims compliance with the Global Investment Performance Standards (GIPS®).

The Budget announcement has firmly put DC pensions back in the spotlight

Delivering a stable distribution income from a portfolio that will be subject to constant future withdrawals poses an even greater investment challenge than while working and saving. While 'pound cost averaging' in savings accumulation means that the volatility of riskier investments is mitigated, the opposite occurs in constant withdrawal phase – 'pound cost ravaging' is the unflattering term given to mean that market volatility is amplified, thus increasing uncertainty for retirees.

Having confidence in the possible spread of future outcomes makes it much easier for members to make informed decisions on when and how they will take their money out of their DC savings. However, the specific approach used to construct a diversified portfolio is very important. Many diversified growth funds are constructed using, in essence, a basket of growth assets. Typically, they combine equities, commodities, property and corporate bonds from developed markets and may even add some exposure from emerging markets. We can expect these assets to grow as a result of economic growth, which generates earnings for companies, stimulates property markets and so on. However, should the economic backdrop change and create stresses in markets, scope for diversification is limited and the potential for wealth destruction is high.

On the other hand, if we embrace a very wide range of return-seeking strategies beyond those traditional growth assets, we can benefit in two ways: we can take on more return-seeking risk and at the same time, achieve a higher level of diversification. This can create a more stable return, a feature which is even more crucial when withdrawals are being taken. Chart 1 shows an example of the range of outcomes comparing global equities with an absolute return strategy.

In the new non-annuity scenario delivered by the Budget, predictability of investment returns to-and-through retirement will likely hold considerable appeal. We can also expect to see managed risk and income strategies as well as demand for cash & proxies strategies – the ability to guarantee income for limited timeframes (temporary annuities) may also appeal to many investors.

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Cover story Charges

Checking the price tag: evaluating the charges obsession

Investment costs have been held up as the straw man of DC investment, but how important are they to member outcomes?

Maxine Kelly

The Budget reforms signal an age of greater plurality in retirement possibilities for members.

But up to this point, politicians' focus had been on getting the industry to define and deliver 'good' member outcomes – an even greater challenge in this new environment.

Conversations around value have centred on charges, in part because they can be "immediately influenced", in the words of Alan Morahan, head of DC consulting at consultancy Punter Southall.

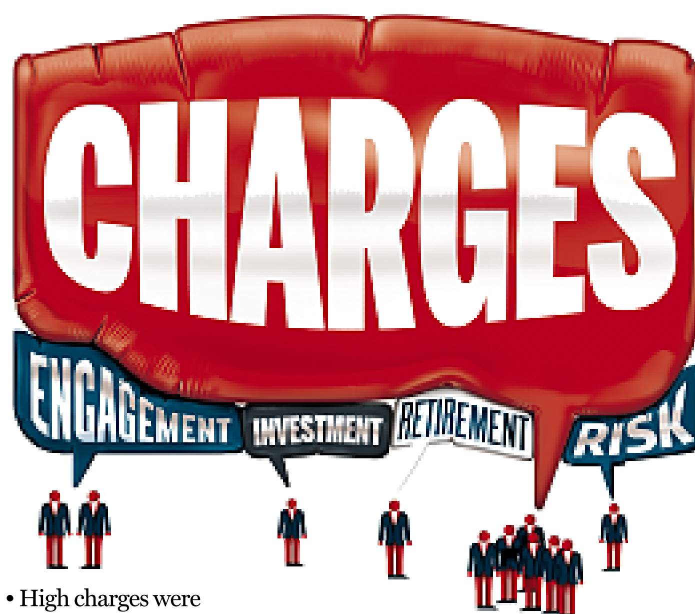
Put another way, charges are a visible and tangible way to gain traction on the more complex issue of value.

Pensions minister Steve Webb confirmed in March that a cap of 0.75 per cent on default funds of schemes used for auto-enrolment would come into force from next April.

As the impact of the Budget focus beds in, the conversation will inevitably return to what price these product innovations can be delivered at, and whether their results constitute value.

The main objections to a cap from many providers and consultants are as follows:

- Many qualifying schemes are already operating well below the charge cap;
- A cap would stifle innovation and could block members from sophisticated investments that could deliver better returns;



- High charges were predominantly a problem for legacy schemes set up prior to 2001, so why throw the baby out with the bath water?

Others, meanwhile, have pointed to the fact that even incremental increases in charges can have an exponential impact on savers' pot sizes.

But there is also concern that taking a tunnelled view of charges has diverted focus from other, perhaps greater, influences on retirement incomes such as contributions.

A raft of research last year sought to establish exactly to what extent charges affect member outcomes. This included a government survey published in October, which among its findings noted advisers cannot agree on what instances it would be worth paying above the cap.

Trust-based schemes were found to have an average annual management charge of 0.75 per cent – in line with the cap – while contract-based schemes are averaging 0.84 per cent.

But what difference does a few basis points here and there really make to savers' returns? Is there even a correlation between what members and employers pay, and overall performance?

In November, the Pensions Policy Institute carried out research to establish where the balance lay in terms of charges versus outcomes in DC schemes.

It found that actively managed strategies, such as low-volatility and diversified growth, are judged by some employers as

There is no evidence that higher charges can 'buy' more sophisticated investment strategies

The Pensions Institute

offering better value for money despite the higher charges.

Paul Bucksey, head of UK DC at asset manager BlackRock, says the added costs associated with such strategies offer a viable trade-off. "DC investors may value the additional protections offered by multi-asset or volatility controlled funds versus more volatile, but less expensive forms of investment management," he says.

The PPI study showed a member saving from aged 22 to state pension age under a 1 per cent AMC would lose a quarter of their final pension pot to charges (see table p15).

This assumes the individual has contributed throughout that period and does not account for people who take career breaks or deferred members, so the AMC will continue to eat away at the pot while no contributions are going in. But the government's pot-follows-member proposals may go some way in alleviating this risk for deferreds.

And active member discounts – often viewed more as a levy on deferred members – were cited as a significant risk to returns, potentially adding around 50bp to the member's AMC.

The PPI's report found there are some 10,000 contract-based schemes with AMD structures in place, the vast majority of which (94 per cent) are eligible for auto-enrolment. The government is exploring banning AMDs from 2017.

Either way, the inputs and outputs surrounding charges do not get to the crux of whether those higher fees are actually buying better value for members. In January this year, the Pensions Institute in its VfM: Assesing value for money in defined contribution default funds report sought to gauge value beyond mere cost.

The headline finding was that there was no link between charges and performance. It stated: "While 'cheapest' is not synonymous with 'best', there is no evidence that higher charges can 'buy' more sophisticated investment strategies that deliver superior performance."

Gina Miller

Pension fees and costs – what's the fuss about?

Judging from various pension conferences I have attended over the past year, the industry would rather gloss over this question and maintain the status quo.

On a panel session alongside a consultant who did not understand how hidden transaction costs varied between assets, he said all you needed to know was how much a fund traded.

At these events audiences rarely ask questions and appear jaded on the subject – are they worried about offending the large institutional sponsor and not receiving any future corporate hospitality, or do they simply not understand the importance of knowing the true total fees?

The truth is costs are the biggest eroder of returns, especially for pension funds where the effect of compounding make even small differences substantial.

Vanguard's founder, John Bogle, said in 2003: "Whether markets are more efficient or less efficient, costs matter".

He also said: "The mathematical expectation of the long-term investor is a shortfall to the stock market's return, a shortfall that is precisely equal to the costs of our system of financial intermediation – the sum total of all those advisory fees, marketing expenditures, sales loads, brokerage commissions, transaction costs, custody and legal fees, and securities processing expenses".

A report we published in March 2014 provocatively entitled 'Legalised looting' found that the total cost of investing for retail investors was typically 2.7 per cent a year. Of course, for pensions the various layers and charges are normally less, but will often amount to more than 1.5 per cent when properly costed.

The long-term real return from world equities between 1990 and 2013 was 5.2 per cent a year, so the difference in paying 0.5 per cent a year rather than 1.5 per cent in total costs determines whether an investor with a £50,000 pot retires with £106,653 or £71,694 – clearly illustrating that a 1 percentage point difference is significant.

Another academic paper published in January 2013 that reviewed 1,758 equity funds between 1995 and 2006, 'Shedding light on 'invisible' costs: Trading costs and mutual fund performance", found that hidden costs were, on average, higher than the funds' declared expenses and had a significant negative impact on returns.

The study found funds with the highest trading costs produced the lowest returns, and those in the lowest 20 per cent, ranked by trading costs, beat the 20 per cent of funds with the highest trading costs by 1.8 per cent a year.

Telling the truth may not make you popular but surely it is the fiduciary duty of every trustee to calculate the true total cost of their pensions. Investors should always balance costs, risks and performance, but knowing only risks and performance leads to sub-optimal outcomes.

Gina Miller is co-founder of SCM Private and the True and Fair Campaign

Other performance drivers

What goes in and stays in members' pension pots will have a significant steer on outcomes, along with investment returns. But while many have flagged low contributions as a major risk, employers have been waiting for the contributions to be phased in, before addressing whether to increase their own or their members' contributions.

The government's October paper found the biggest drivers of AMCs are scheme size and members' salaries, meaning in general smaller employers and those in sectors where wages are low shell out more than larger employers – supporting findings by the Office of Fair Trading in its September 2013 report.

Governance is also key. Schemes that tend to deliver

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How much of a saver's pension is lost in charges?

	Value in cash terms			Value in 2013 real earnings		
	Total pension pot without charges	Pension pot with charges	Pension pot lost due to charges	Total pension pot without charges	Pension pot with charges	Pension pot lost due to charges
AMC 0.5%	£701,800	£610,00 (87%)	£91,800 (13%)	£115,500	£100,400 (87%)	£15,100 (13%)
AMC 1%	£701,800	£532,100 (76%)	£169,700 (24%)	£115,500	£87,600 (76%)	£27,900 (24%)
AMC 1.5%	£701,800	£465,800 (66%)	£236,000 (34%)	£115,000	£76,700 (66%)	£38,800 (34%)

Source: PPI, percentage figures represent the proportion of total pot

above-average outcomes relative to contributions are single trust-based schemes and modern trust-based multi-employer schemes, the VfM report found.

Mike Spink, DC pension consultant at Spence & Partners, says regulatory guidance that demands a new value-for-money assessment by trust-based schemes will "elevate charges analysis to the same level as the quality of service received from the various providers".

Andy Dickson, investment director, UK institutional, at asset manager Standard Life Investments, says the Budget changes has also pushed investment returns up the agenda of factors that have a material impact.

Under the new regime, Dickson says a 90-year-old who starts saving at age 20 and stops at age 60 will find that "10 per cent of wealth was created from contributions, 30 per cent from investment returns up to age 60, and 60 per cent from investment returns after age 60".

Brian Henderson, senior consultant at Mercer, says the increased flexibility introduced by the Budget now makes good outcomes, and the cost of getting there, even harder to define.

"Is it cash, secured income, or is it variable income – post-retirement earnings or drawdown income?" he asks. "There are different costs depending on which route you take."

It has been argued that a cap on charges will disincentivise providers from developing new products that could produce better outcomes for members.

Henderson says some larger schemes have been using higher-cost DGFs, many of which could see them breaching the cap.

"The reality is those trustees that adopted these well-diversified funds did so on the basis they felt they would deliver a better outcome for consumers," he says. "Now they are faced with having to unwind some or all of these funds to keep charges below the cap."

However, SLI's Dickson says it is possible for schemes to invest in more sophisticated DGF strategies and keep below the cap, which it achieves by blending DGFs with passive trackers. But he warns: "Time will tell whether and to what extent [the Budget changes] stifle innovation to support the new 'to and through' retirement phase."

A 0.75 per cent cap impinges on many default strategies, even among larger employers, counters Nico Aspinall, senior investment consultant at Towers Watson.

"Passive and static variants of DGFs do exist, but we are concerned that someone does need to review the allocation from time to time and this costs money," he says.

Aspinall adds that the threat of a further cap reduction to 0.5 per cent means "the scope for innovation within defaults has been pushed back dramatically".

Performance is as much down to managing risk as it is overall returns, says Henderson, but costs tend to focus only on the latter.

Aspinall agrees; performance is not solely defined by the overall return, but the timing and nature of return-seeking. Growth will be achieved through equity investing and diversification, but attention must be paid to risk-adjusted return, he says.

"This will be suitable for many younger members but as they approach retirement we should be talking about risk-adjusted return, with risk measured relative to the member's needs at retirement and the degree of security their portfolio offers them," he adds.

Martin Freeman, director at consultancy JLT Employee Benefits, warns that funds labelled as low risk can be a misnomer and could lead to poor returns.

"Locking into a 'low risk' cash or bond fund early in a person's career could lead to substantial missed returns by the time the person retires," Freeman warns. "That means poor member outcomes."

The interplay between charges, contributions and governance is among the factors that will drive performance and value. Charges on their own can cynically be viewed as a simplistic inroad into the more complex route towards good outcomes.

But they do offer an easily identifiable yardstick for members that could help garner faith in the industry, during a time when politicians gamboling across the pensions landscape has muddied what for many is an impenetrable subject.

JLT's Freeman notes: "Consumers care about charges. Unless they understand how much they are paying and for what, we will not be able to earn their trust and talk to them about the other things that matter in getting them the best outcomes we can." Ⓟ

Maxine Kelly is a reporter at Pensions Expert

Advertisement

The pension reforms – choice and change for DC members

The road ahead may be full of change, but it also promises more control for the consumer as reforms herald a new wave of retirement choice

The recent budget announcement proposing changes to the UK pension system generated much analysis about what it means for our industry — and, more importantly, for the workplace savers we serve.

The days of compulsory annuitisation of pension savings at retirement are numbered. Plan members are to be granted with similar levels of responsibility around their retirement savings as afforded to consumers in mature DC markets such as Australia and the US. We believe that this is a positive development and are optimistic for the future of workplace saving.

Our experience of operating in global DC markets leads us to believe that people can generally be trusted to make rational long-term savings and expenditure decisions, given access to the right products and guidance. We remain quietly confident that UK retirees will not recklessly spend their entire pension savings as some in the media have suggested.

In the US, a recent paper on the The Drawdown of Personal Retirement Assets, showed that:

- The vast majority of people do not make withdrawals from their personal retirement accounts until 70.5, the point when minimum distributions are required.
- Between the ages of 60 and 69, only 18 per cent of individuals make a withdrawal from their retirement accounts in a given year and only 7 per cent of individuals withdraw more than 10 per cent of their total balance.
- At age 70.5, the number of individuals making a withdrawal in a given year jumps to 60 per cent and this increases to 70 per cent for advanced life retirees. The percentage of balances withdrawn during the after 70.5 age group is stable at around 5 per cent per year. [1]

In our recent UK survey we questioned members about their intentions in relation to the 25 per cent they are currently permitted to take in cash. We found that, on average, 13 per cent of the cash would be used to pay down debts, 17 per cent spent and the remaining 70 per cent invested or saved. While only indicative, this presents an interesting picture as we look to understand exactly how access to the additional 75 per cent of pension savings available from 2015 might be treated.

Implications for DC investment strategies

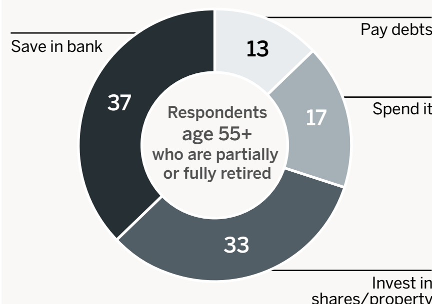
We believe the new post-budget landscape heralds an era not only of increased consumer choice, but of better investment defaults for those who do not wish to choose.

While 90 per cent of people annuitise under existing requirements, from April 2015 the majority will seek an alternative solution. Perhaps the best way to think

1 The Drawdown of Personal Retirement Assets – Poterba, Venti, Wise, 2013.

Nigel Aston
UK Head of Defined Contribution
State Street Global Advisors

Exhibit 1: How DC investors will distribute their 25% lump sum cash payout



Source: SSgA Member Survey, December 2013

about it is not how members will cope with choice per se, but how default design can make the post-retirement landscape more attractive and adaptable for them. Default funds, currently relied on by 80–90 per cent of savers to take them to retirement, are well positioned to be the natural vehicle to also take them through retirement with increased predictability about their retirement income. One of the real advantages of more advanced default funds is that they will be 'reversible', unlike an annuity purchase that is a one-off but life-changing decision at a single specific point in time. Default funds that are designed to go 'through' retirement will be built on an investment mix that can be easily amended as markets, legislation and behaviour dictate. The complete liquidity of the vehicle also means that, post 55, a member can just transfer away if their priorities change and annuitisation or an alternative becomes more attractive.

Governance in this new environment will be key — both at the plan level so that the membership has access to sensible, sustainable and good value options, but also at the investment level itself, to ensure the investment construct underpinning the plan is doing a good job today and into the future.

While the annuity market itself hasn't always been working to the benefit of pension savers at retirement, we don't believe the new reforms necessarily predict their complete demise. Annuities have a place among the range of choices available to savers. However that choice is one that can now be made on logical investment grounds relative to other alternatives.

Life's one constant: Change

As managers of pension assets, we need to be cognisant of the range of changes that can potentially impact members and their expectations of how we manage their savings. These include not only alterations to the rules, but also to the way that people behave over time, as well as how markets fluctuate and evolve. Our role as an asset manager is to ensure product design is structured in such a way as to be adaptable to such changes.

To date, DC default funds have historically changed little. That's why the better investment solutions for DC members will be those that are constructed to be nimble enough to adapt and respond on their behalf.

Solutions that feature well-governed asset allocation, based on real world behavioural and market insights, throughout the investment journey, can deliver this adaptability. Asset allocation must strike a strategic balance between capturing market returns and managing risk over time while being intuitive and straightforward to the real people with whose savings we are entrusted.

Good investment oversight tends to recognise that people's tolerance to risk changes over time — as they move through different phases of their lives; that markets need to be monitored and adjusted for as they move between cycles; and finally that, as regulations change, investment solutions need to be able to continue to deliver the outcomes that pension savers and fiduciaries expect of them.

Target Date Funds, such as our own recently launched Timewise Funds, feature a structure that enables modifications to asset allocation or the investment glide path, to align with any changes to member cash or income requirements at retirement. Lifestyle products, conversely, typically face a more complex route to effect change.

Our research indicates, and we continue to believe strongly, that DC members see themselves principally as savers, not investors. They will look to trusted third parties such as trustees, advisers, service providers and asset managers to take care of the complex investment aspects of their pension provision while they consider their own personal saving and expenditure requirements. More than ever we recognise that workplace savers will rely on intuitive, good value default options that have the ability to evolve over time and deliver predictable and repeatable results.

STATE STREET GLOBAL ADVISORS.

Fight! TDFs take on lifestyle for default crown

Target date funds and lifestyle have the same goal – to secure a good retirement outcome without members having to make major investment decisions. But how do they stack up?

Strengths

Target date funds are much more dynamic than lifestyle funds. While both aim to protect the value of the scheme member's pension pot as they approach retirement, lifestyle will mechanistically switch out of growth assets and into fixed income according to the age of a particular member.

Nigel Aston, head of UK defined contribution at provider State Street Global Advisors, says: "In contrast, the manager of a TDF can be much more nimble and take advantage of changes in market conditions, legislation or evolving member behaviour when changing asset allocations and glidepath design. And this can be achieved at low cost."

In a lifestyle fund, these switching transactions are carried out for each individual member, which is not always very cost effective. Paul Todd, assistant director of investment at government-backed mastertrust Nest, says: "As a target date fund effectively pools all the people of the same age, then just one trade can be made, which is much cheaper." The larger the TDF, the greater the economies of scale, he adds.

The manager of a TDF has more discretion, so it's also much easier for them to implement strategies to manage market, longevity, inflation and interest-rate risk. Simon Chinnery, head of UK DC at TDF provider JPMorgan Asset Management, says: "There is no mechanism for managing all of these risks throughout the scheme member's employment in a lifestyle fund."

It's also much easier for the member of a TDF to access the performance and the value of the fund. Ryan Taylor, senior DC investment consultant at Aon Hewitt, says: "As the scheme is a member of just one fund, it's easy for them to see the value of the fund along with its historic performance."

Weaknesses

One criticism of TDFs is that unlike lifestyle funds, they tend to lump together scheme members who will retire over a three to five-year period and thus a single scheme member's asset allocation will not be optimal.

But designers of TDFs argue this concern has been overstated. Chinnery says: "We take such a gradual approach to the shift in asset allocation that there will only be a 2-2.5 per cent difference in any one asset class between two cohorts."

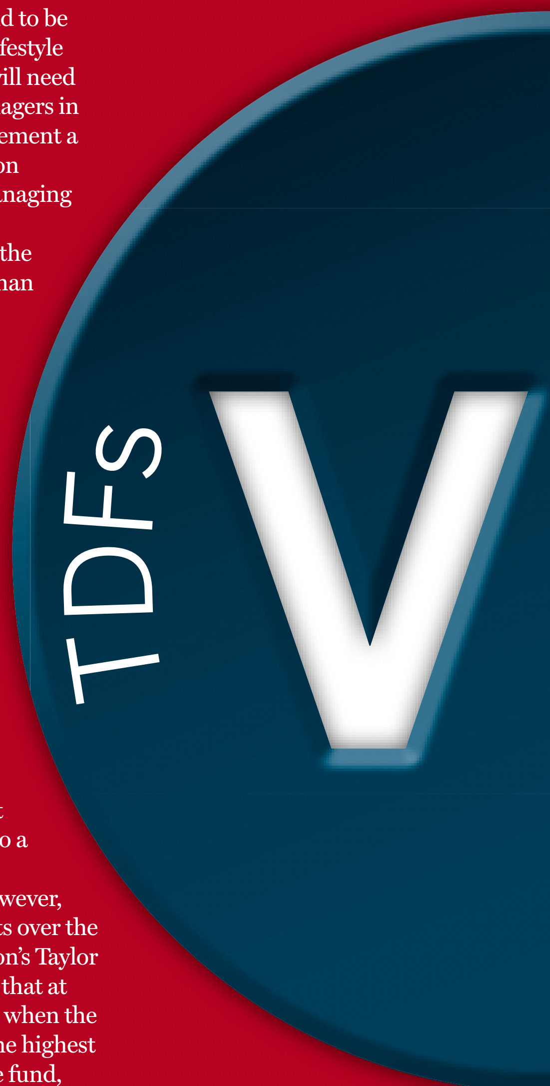
The advantages of TDFs also only really come to fruition if it is done at scale. Todd says: "It would not make sense for a small scheme to set up its own TDF." Nico Aspinall, head of UK DC investment consulting at Towers Watson, agrees: "A big TDF can benefit from scale."

Costs

Its should not come as a surprise that TDFs tend to be more expensive than lifestyle products – extra fees will need to be paid to fund managers in order for them to implement a dynamic asset allocation strategy along with managing risk.

But providers argue the cost of TDFs is lower than would be expected. Chinnery says: "We offer TDFs based on a sliding scale of 45 to 60 basis points, but we'll re-engineer that now the 75bp cap has been introduced." Aston says: "Our TDF costs 30bp." Nest charges a 30bp annual management charge and a charge on contributions of 1.8 per cent. Together, these charges work out as broadly equivalent to a 0.5 per cent AMC.

It's worth noting, however, that TDFs smooth costs over the lifetime of the fund. Aon's Taylor says: "That does mean that at the end of the lifetime, when the scheme member has the highest amount of assets in the fund, they could be paying the highest price for what is typically the cheapest strategy."



Strengths

Lifestyle funds can provide more choice than TDFs. Taylor says: "Most providers have a framework structure that either trustees or individuals can populate with a choice of funds". Aspinall agrees. "The trustee has a much greater role to play in selecting investment managers and deciding the asset allocation strategy."

That can allow the trustee to choose the best in breed for each individual asset rather than having to hand over control for the entire strategy to one manager.

They are also often cheaper given their passive investment building blocks (see costs).

Weaknesses

There is, however, a downside to giving trustees more control over how lifestyle funds are constructed – it also means they must invest more time and governance budget to running the scheme, adds Aspinall.

While there is more choice when lifestyle funds are created, it is much harder to change the investment strategy once it has been selected. Taylor says: "It's often hard to make changes to investment strategies for a contract-based scheme." Often the only option is to launch a new fund and then inform the members of its existence, he adds.

There are also challenges about whether the derisking strategy will stand the test of time. "The derisking strategy is often put in place at the start of the process and it's hard to know whether it will still be the right strategy 15 years later," adds Taylor.

The trustee has a much greater role to play in selecting invest-ment managers and deciding the asset allocation strategy

Nico Aspinall, Towers Watson

Figuring out the performance and value of a lifestyle strategy can be much more challenging. Taylor says: "Halfway through the switching process, members might be invested in six different funds and would need to know the exact number of assets in each fund along with their performance to come up with an overall fund value and performance."

Costs

At their most basic, lifestyle funds can be extremely cheap to implement, especially if they make use of a high proportion of passive investment strategies. These could cost as low 10-20bp.

Even if a lifestyle scheme used a diversified growth fund in the mid-phase of investment, this could also be low cost. Excluding platform charges, this could be "around 25-30bp" says Taylor. Derisking strategies can also be cheap, but a scheme needs to keep an eye on the cost of making many individual transactions.

Aside from the differences between the two strategies, the recent changes in the Budget also raise an interesting question for both strategies: how can they be adapted in a world where pensioners are no longer required to buy annuities?

Providers of TDFs and lifestyle funds both claim adaptions can be made, but until these changes are implemented, it is difficult to know whether these claims hold water.

Charlotte Moore is a freelance journalist

Clear and present game-changer

The Budget will have a huge impact on savers, and rapid response is key, as change is inevitable in the pensions world

The announcements in March's Budget will bring significant change to the defined contribution market in the UK. The chancellor's far-reaching proposals, when they are enacted in April 2015, will give DC pension savers greater flexibility in how they access their pots. Some see these changes as a serious danger – namely annuity providers and lifestyle strategy providers. But others, rightly, see this as an opportunity to change the game – to the benefit of consumers.

What is clear is the scale of the Budget proposals' impact. Demand for annuities is likely to collapse – it is predicted that the number of people buying annuities in the next 18 months will drop by two-thirds from last year's total of 350,000. Another consequence is that lifestyle strategies, which assume people will retire on a pre-determined date and buy an annuity, no longer meet DC scheme members' needs. With more than 90 per cent of DC funds in the UK using lifestyle strategies, these are being urgently reviewed.

What is less clear is how individuals and product providers will respond to the changes. So far, there have been no product offerings from the established market participants. The only comments to date have been vague holding statements and rhetoric about the need to improve member engagement. In short, no one quite knows what to do, or how to react.

The impact of the Budget proposals is uncertain. And while we have to acknowledge that some savers will take their cash out sooner—and more than the current 25 per cent tax-free cash allowance—we also believe many will want to remain invested in order to provide an extra income in retirement.

We believe that in order to encourage more savers to draw a sustainable income to support their later years, the industry will need to respond with some urgency to provide simple and cost effective solutions.

So what does the Budget mean for DC investment?

There are other things we can be confident about. We already know that a one-size-fits-all retirement date, traditionally the 65th birthday, has become a thing of the past. This concept of 'cliff-edge' retirement is dead. And therefore the traditional lifestyle default fund is unlikely to survive. Lifestyle strategies require employee engagement – but that has been hugely lacking. The new world of auto-enrolment with the enormous advertising campaign that has accompanied its launch has managed to get people to sign up. But what our research showed was that once people decided to save for their pension they don't engage or even read the correspondence from their service provider.

Consumers are going to behave differently, though. The old model of 75 per cent income and 25 per cent cash is going to change, and we expect a greater balance between income and cash. As a result, the lens through which we as asset managers are judged is going to change. So the default investment strategy needs to stand up to members' requirements for income stability and cash (capital value) stability.

The number of people buying annuities in the next 18 months will drop by two-thirds from last year's total of 350,000

So what does that mean for investment design?

Some market participants think that, instead of providing cash and income stability for members, they should ask at age 55 what the member wants to do and aim for that target. We believe this thinking is flawed. Our extensive research with DC members shows that 73 per cent of 55-year-olds don't know what they want. At 55, they say they want cash, but when it actually comes to the point of retirement, people then say income is more important – that's the understandable reality over a long retirement. What's more, at 55, most people can't predict how their circumstances will pan out 10, 15 or 20 years into the future – marriage and divorce are just two potential life events that could change people's plans dramatically.

Others in the market are suggesting that there should be two, three, or even four default strategies in place. The idea is that there would be alternative default strategies for different employee types, for example one for directors and executives, and another for the workforce. We think this is a terrible idea. Imagine the scenario of the directors' default strategy outperforming the workforce's default strategy – lawyers would be licking their lips if this came to fruition. So, please, let's put this to bed once and for all – let there be only one default strategy per scheme.

As we've argued many times before, some observers are trying to answer an uncertain question (when are people going to retire and need access to their money?) with a precise answer (exactly what date will that be?). We think that if you're too precise, there's a better chance of getting the answer badly wrong. Interestingly, in the US, target date funds have been the default investment strategy of choice for some time. In Australia, although TDFs are a nascent strategy they are gaining in traction there too. And of course, the UK government's Nest scheme has opted for the TDF approach. TDFs are a tried and tested model for investing for retirement; we think the recent Budget only underlines their credentials.

What will the challenges be?

Much of the post-Budget press chatter has been about how some people will cash in their retirement pots to buy Lamborghinis and yachts – or less headline-grabbing measures such as choosing the wrong option. So the government has proposed that it will provide a 'guidance guarantee'. How this will operate in practice remains to be seen, and until then uncertainty will prevail, but the principle is sound in theory.

So what is the right solution?

We've said for a long time that the mechanistic approach – of lifestyle strategies in particular – is doomed to fail. The need to be flexible and alter asset allocation quickly in a fast-changing market does not suit the bureaucratic nature of lifestyle strategies; it can take six months to change a lifestyle fund's strategy.

We think TDFs are better suited to the new world of pensions. TDFs are more sophisticated investments as they are actively managed to cope with changing economic conditions. They are flexible, giving access to open architecture with a huge choice of funds to suit specific client objectives. And they are nimble – TDF managers have the remit to change a portfolio immediately if it's in the clients' interests.

Our ability to be agile and responsive was proven shortly after the Budget. After our investment team met and discussed the immediate impact, we made changes to our default strategies – at no cost to our clients and at no cost to members. We adjusted the strategic allocations of our TDFs to reduce the duration of our at-retirement fund. This reflected our expectation that investors will take more of their fund as cash once they retire, and this reduces their interest rate risk accordingly. Once the investment implications had been discussed and a decision made, we executed the change within two hours.

Conclusion

Our actions immediately following the Budget underline our ability to cope with uncertainty and change, and to respond quickly, efficiently and with our clients' interests at heart. If there's one certainty we can take from recent events, it's that the pension market will continue to change. As always, we'll continue to monitor events, seek to influence the direction of the industry where possible, and act quickly to ensure our clients and scheme members are looked after. And we remain vigilant to avoid any further clear and present dangers.

AB
AllianceBernstein

How to predict member outcomes in the new normal

Myriad products could help grow pension savers' assets following the Budget changes, but caution is recommended

Pádraig Floyd

The landscape for defined contribution schemes has changed beyond all recognition.

No longer an afterthought, the Pensions Regulator is driving up governance to levels equivalent to that demanded of those running defined benefit schemes.

In addition, the major structural changes introduced in the Budget will transform how schemes may choose to run their funds.

Herding cats

DC schemes are being asked to measure not only the performance of their fund, but predict that performance to ensure members receive 'good value', that their objectives are achieved and that they receive 'good outcomes'.

None of these terms of reference yet have as yet any technical or legal definition. Tim Gardener, head of institutional clients group at asset manager Axa Investment Managers, warns the employment landscape has also radically changed, making any such definition harder.

The notion that retirement and employment can be separated at the age of 65 was the model for our parents' generations, but has little meaning now.

"The most fundamental change is there is no single point of retirement," Gardener says. "For this generation, there will be a transitional period where you may work at Tesco, drive a taxi or perhaps do some part-time non-executive work."

Growth argument stunted

The removal of this cliff-edge poses problems for schemes planning their investment strategies.

Historically, schemes have emphasised asset growth until a predetermined point before retirement where the individual's fund is derisked progressively into bonds and cash, in preparation for annuity purchase.

However, the changing market means that emphasis must now shift to providing income, says David Calfo, an independent strategic adviser.

"The sting is predicting outcomes," Calfo says. "While you can anticipate, target, or aim at [outcomes], predicting them is quite dangerous."

This makes absolute return approaches more appropriate, argues Calfo. Whether Libor-plus or inflation-plus, the issue will be how to achieve the 'plus' component in the markets.

The key lies in interest rates to achieve the targeted returns. If global markets become more bullish, as anticipated, then as the bar goes higher, so the plus component becomes harder to achieve.

"To produce income will mean you need to sweat the assets more, particularly when you consider longevity and the wave of babyboomers hitting pensionable age, which creates a huge dynamic," adds Calfo.

Rough with the smooth

However, sweating the assets implies increased risk. In order to control volatility in recent years, schemes have made use of multi-asset strategies, many labelled as diversified growth funds.

These have, in effect, become

Six DC principles

The Pensions Regulator has set out six principles it requires of schemes:

1. Essential characteristics of a "durable" and "fair" scheme to deliver good outcomes.
2. A comprehensive scheme governance framework to be established at set up.
3. Run by fit-and-proper people accountable for scheme decisions.
4. Effective governance and monitoring through the full scheme lifecycle.
5. Good administration with "timely, accurate and comprehensive" record-keeping.
6. Communications that ensure members make informed decisions.

While you can anticipate, target, or aim at [outcomes], predicting them is quite dangerous

David Calfo, independent strategic adviser

[Schemes] will have to consider the objectives of different member ages, offering different buckets for different needs, underpinned by a process that makes robust decisions

Stephen Bowles, Schroders

the default for default funds.

The latest Spence Johnson report into DGFs says allocations have grown by £22bn in 2013 and are expected to reach £201bn by 2018.

Though DGFs are applied to achieve similar aims – equity-like growth with two-thirds the volatility – there are vast differences between the products.

The attraction of growth with limited downside presents a danger of DGFs and other multi-asset approaches being considered a panacea and used in the same set-and-forget fashion as balanced funds in the past.

The current lifestyle model has been criticised for showing a lack of sensitivity towards an individual's aspirations, risk tolerance or, often, market price. It has also been accused of failing to take into account an individual's views over the course of the accumulation period.

While the performance of DGFs can be measured in relative terms year on year, they do not provide the context to be able to assess the journey of a member who might seek a 50 per cent replacement ratio over a 30-year period.

No silver bullets

Implementing multi-asset strategies alone is not a satisfactory way for schemes to help members achieve their objectives, says Stephen Budge, head of DC investment at consultancy KPMG.

Schemes must understand what they are trying to achieve with these funds when building a strategy, he says.

"When we look at the diversification element, we don't simply implement 50-50 equity and diversified growth as there is no science behind that.

"Diversification will dampen returns even if you improve the risk-adjusted return. You then have to hope you don't dampen the terms too much and hopefully achieve the outcome that the member is targeting."

Budge recommends an approach that determines:

- the long-term return target;
- the risk budget;
- the fee budget.

This feels an awful lot like a DB approach and demonstrates the higher levels of governance expected of DC investments. For Budge, the message is clear – investment is complex and will only become more onerous as the 75 basis point charge cap bites.

Schemes will have to become more proactive in their asset allocation and consider the unseen – often undisclosed – charges the regulator is seeking greater clarity over. This will include the monthly rebalancing of the scheme's fund or funds in order to limit transaction costs, adds Budge.

All change

It may be unpalatable, particularly with the imposition of a charge cap, but though DC schemes are obliged to provide a default fund, they will find it increasingly difficult to make it a simple one-size-fits-all product.

The proliferation of different DC strategies means trustees will require more advice, according to Stephen Bowles, head of DC at asset manager Schroders.

"Schemes will require different solutions, with their strategic defaults being their single most important solution.

"They will have to consider the objectives of different member ages, offering different buckets for different needs, underpinned by a process that makes robust decisions," says Bowles.

This provides opportunities for approaches that are less about dampening volatility than preserving wealth in the latter stages before retirement, he says.

Remaining in growth assets when a member's fund is at its largest will generate the highest returns, says Gardener, making DGFs most suitable for older members who need the combination of continued growth with downside protection, or even capital preservation of the kind common to the wealthy investors of family offices.

Though the DC market may seem in turmoil, prudence remains the order of the day. Nothing can change until the regulations are published, because no one can be sure their existing solutions – or any on the market – will be suitable for the new paradigm.

However, sponsors, trustees, governance or investment committees and their advisers must understand they will be expected to offer not only growth, but protection, flexibility and security.

That alone requires a review and a reassessment of the governance budget allocated to their DC investment strategies. P

Pádraig Floyd is a freelance journalist

Case study

Ian Smith looks at how L&Q modelled outcomes

London & Quadrant Housing Trust segmented its scheme membership into quadrants by earnings in order to model its scheme member outcomes.

It calculated their likely future pension incomes based on investment assumptions and the cost of the strategy.

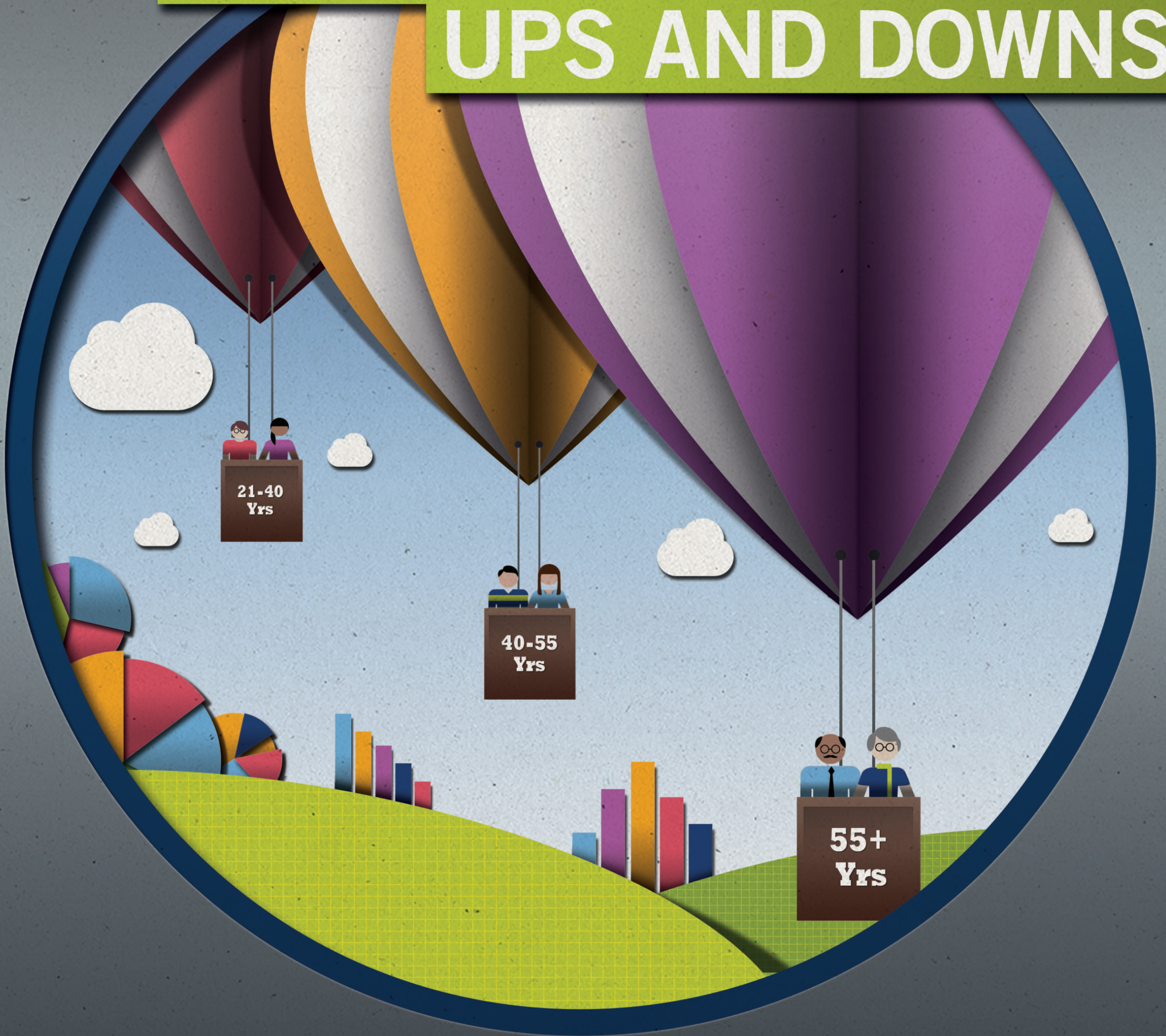
"We found that different quartiles were in different places relative to their replacement income ratio," said Richard Butcher, independent chair of the trustee board, and managing director at independent trustee company PTL. "Some were fairly close, others further away."

The top quartile were projected to get close to their 50 per cent replacement ratio, but this still represented a relatively big income hit, so the communication effort became focused on informing them of this and the actions they can take to address it.

Members in the lowest-earning quartile were close to their target of 70 per cent, but the modelling highlighted the impact of taking a cash sum at retirement.

The scheme concluded it would not switch to a more expensive diversified growth fund from its current passive managed default, but would refine its communication strategy to suit members' needs.

RISK AND RETURN, BALANCED WITH LIFE'S UPS AND DOWNS



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