



Aon's DC Webinar

Navigating the future: is your scheme ready?

25 January 2018

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What structures are companies adopting?

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Conclusions and questions



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Client Manager



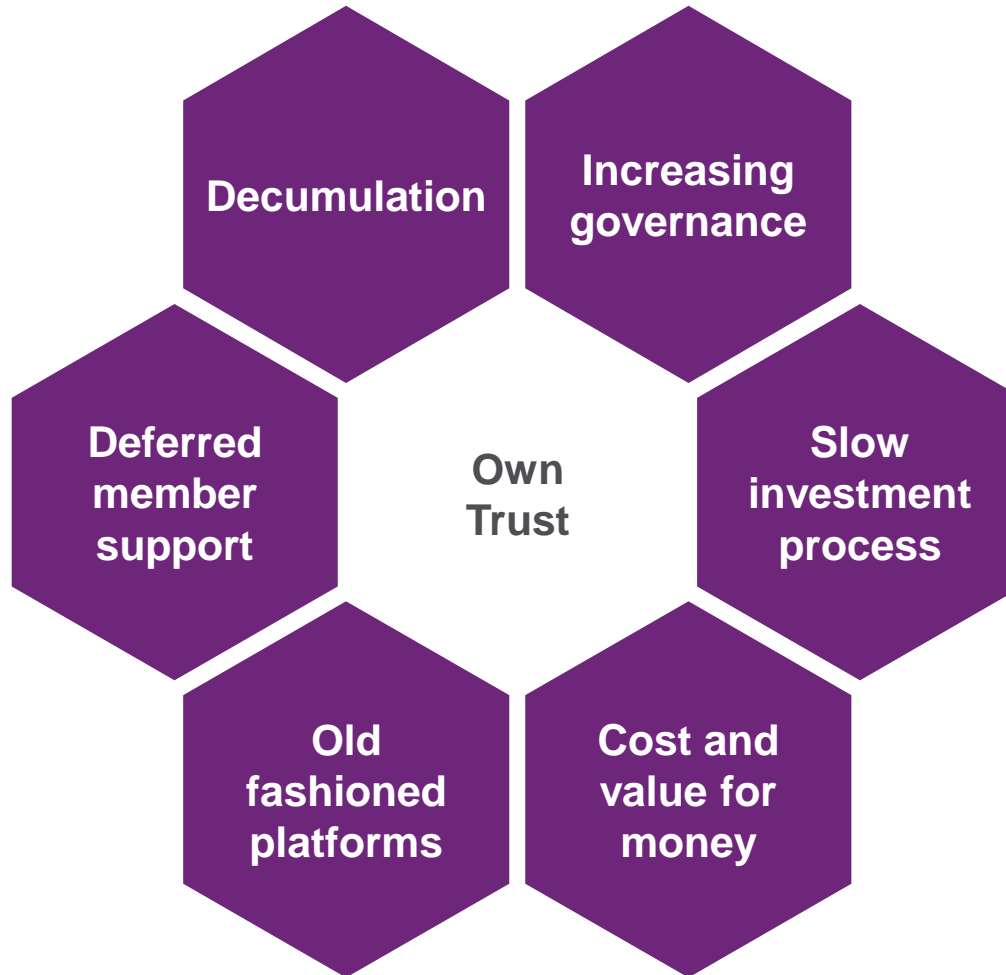
Challenges for trust-based schemes

Tony Britton

Own-trust structure – the benefits



Own-trust structure – the challenges



Defining the challenges

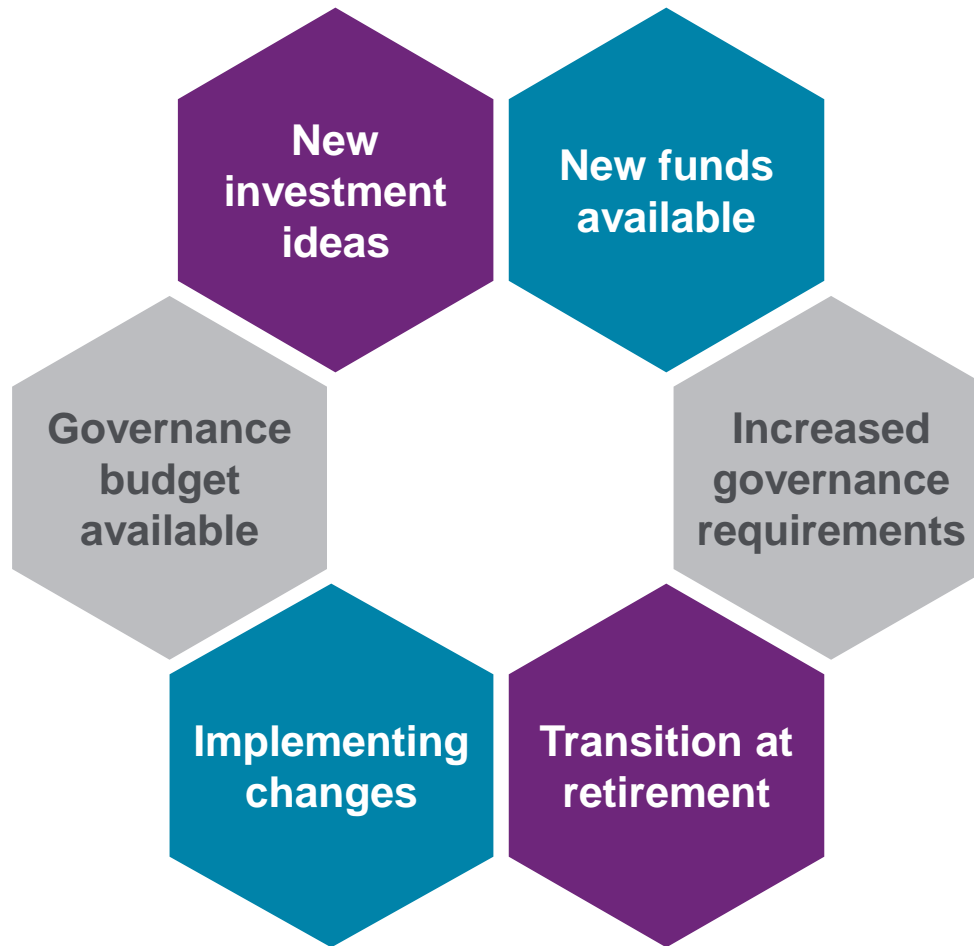
Investment	Member engagement	Governance
Right default	Education and guidance	Trustee responsibilities
Managing funds	Pensions freedoms	Regulator
Managing managers	Active and deferred	Platform
Annual management charge	Tools and services	
Pension freedoms		
Value for money		



The investment challenges and how to tackle them

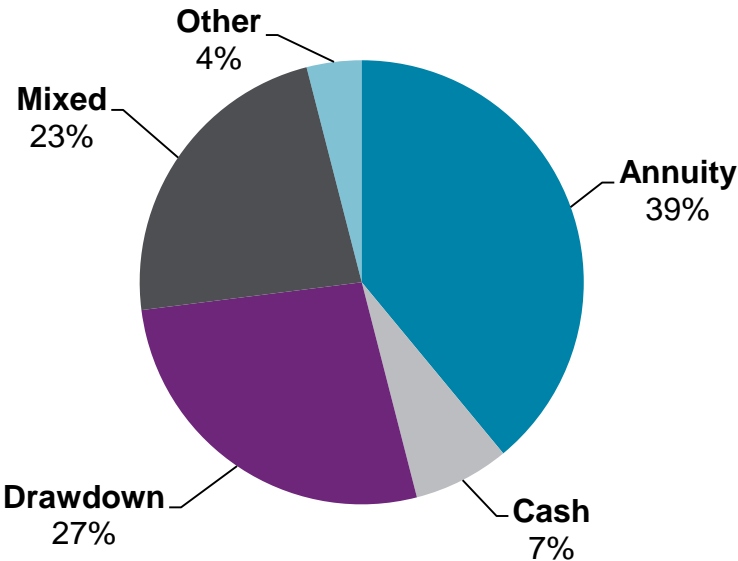
Jo Sharples

What are the investment challenges you are trying to meet?



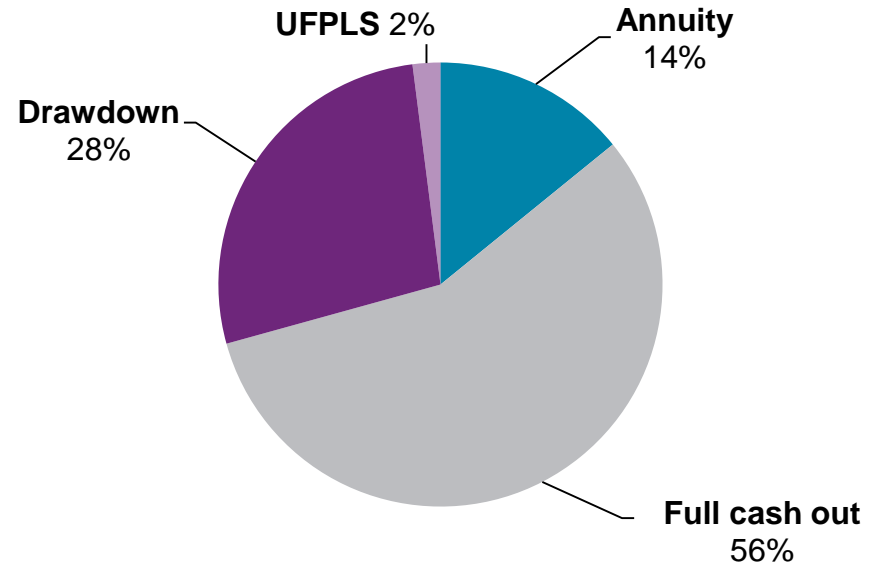
Have you got the right default?

What does your default investment option target at retirement?



Source: Aon Defined Contribution Survey 2017

What are members currently doing at retirement?



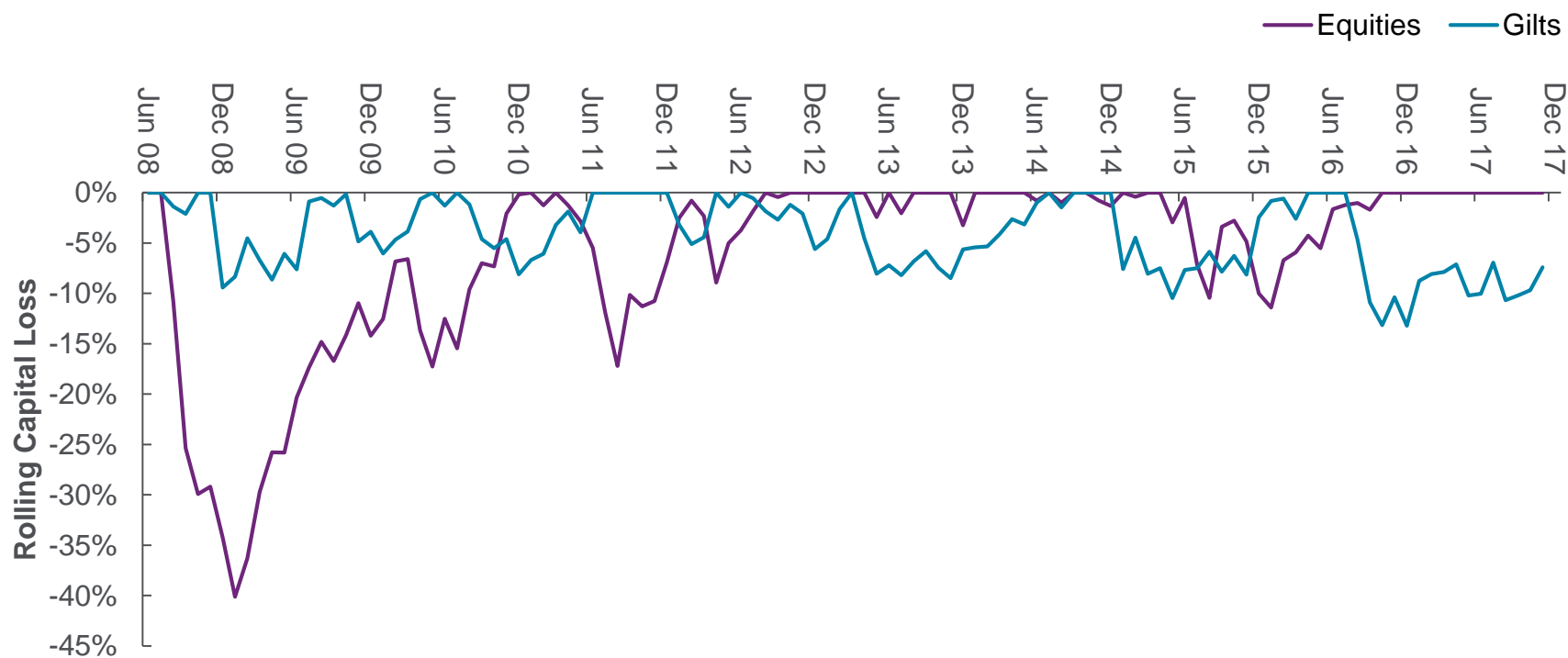
Source: FCA retirement outcomes study interim report



Is your default investment aligned with what your members are doing with their DC funds at retirement?

Fixed income is risky!

- ▶ Equity markets have experienced significant volatility
- ▶ But returns from long-dated bonds can also be volatile
- ▶ For members not wishing to purchase an annuity this is unlikely to be appropriate



Keeping the DC investment strategy up-to-date

Offers valuable opportunities for DC investors to enhance returns, reduce the expected volatility of the equity portfolio and in turn improve member outcomes

Factor investing

Currency hedging

Currency movements can have a significant impact on portfolio volatility and can dominate returns at times. Consider members' exposure and likely tolerance for currency risk

Consider how to better align DGFs with member risks and objectives in order to deliver better, net of fees, outcomes for members

Consider how you use DGFs

Fixed income can be risky!

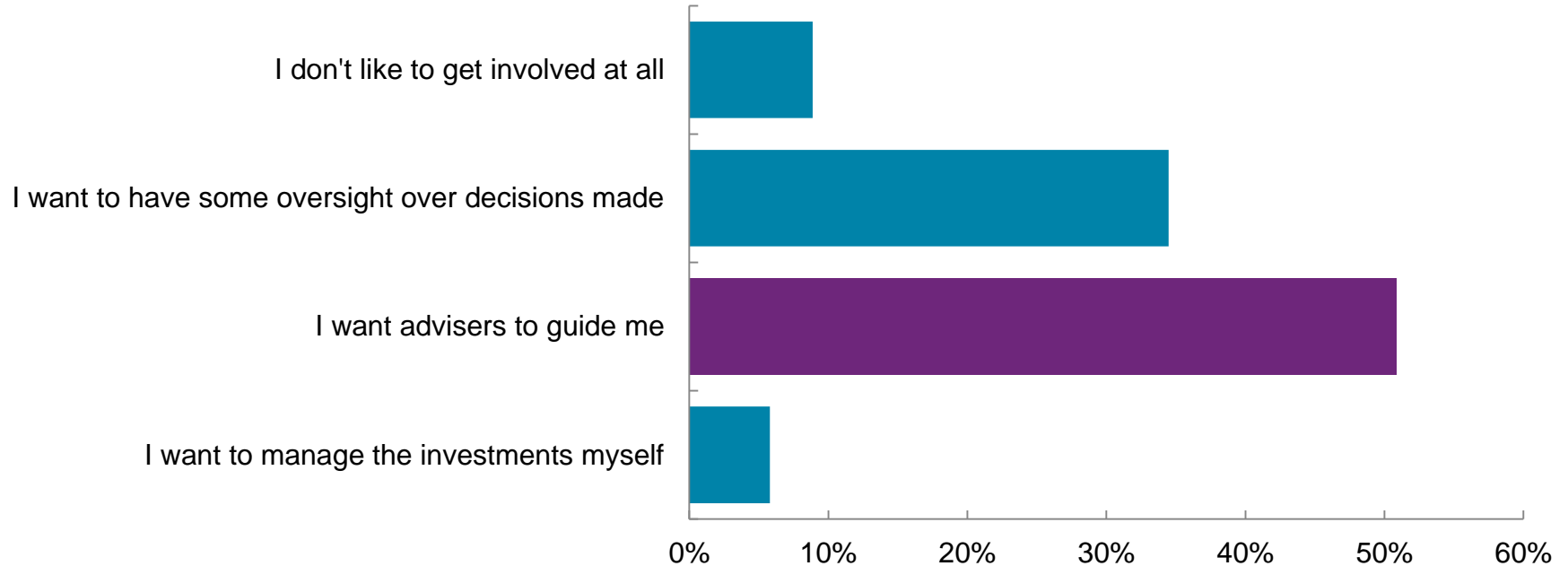
Broadening the focus to global strategies through multi-asset credit and absolute returns bond strategies can enhance member outcomes

ESG investments can reduce risk within a portfolio and engage your DC members

ESG

How much involvement do you want in the management of the investments?

Involvement in management of investments



Source: Aon Defined Contribution Survey 2017



**How does this compare with what you do currently?
What would you like to do more/less of?**

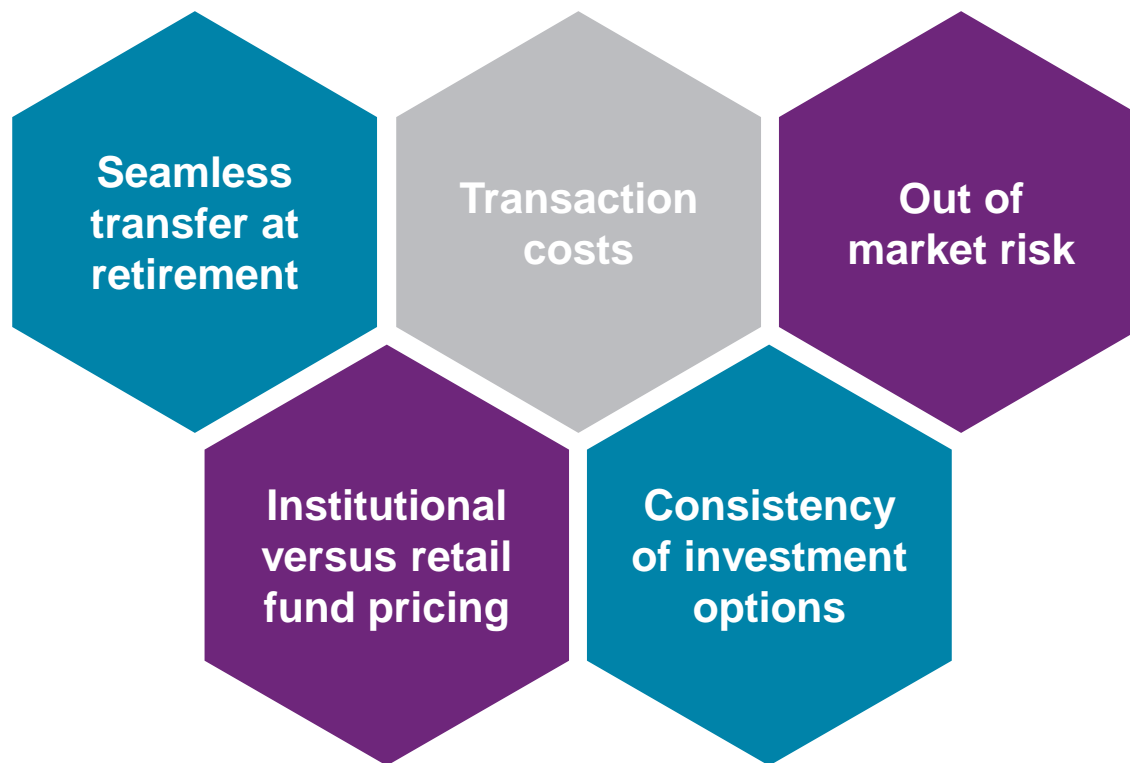
Align implementation options with governance capacity

Approach	Do-it-yourself	Pick and mix	Off-the-shelf	Delegate
Investment design	<ul style="list-style-type: none"> Retain full control Individual asset class funds 	<ul style="list-style-type: none"> Tailored use of multi-asset funds coupled with individual asset class funds 	<ul style="list-style-type: none"> Use of standard products and strategies 	<ul style="list-style-type: none"> Third party designs and manages strategy
Governance demand	<ul style="list-style-type: none"> High 	<ul style="list-style-type: none"> Medium to high 	<ul style="list-style-type: none"> Medium 	<ul style="list-style-type: none"> Low



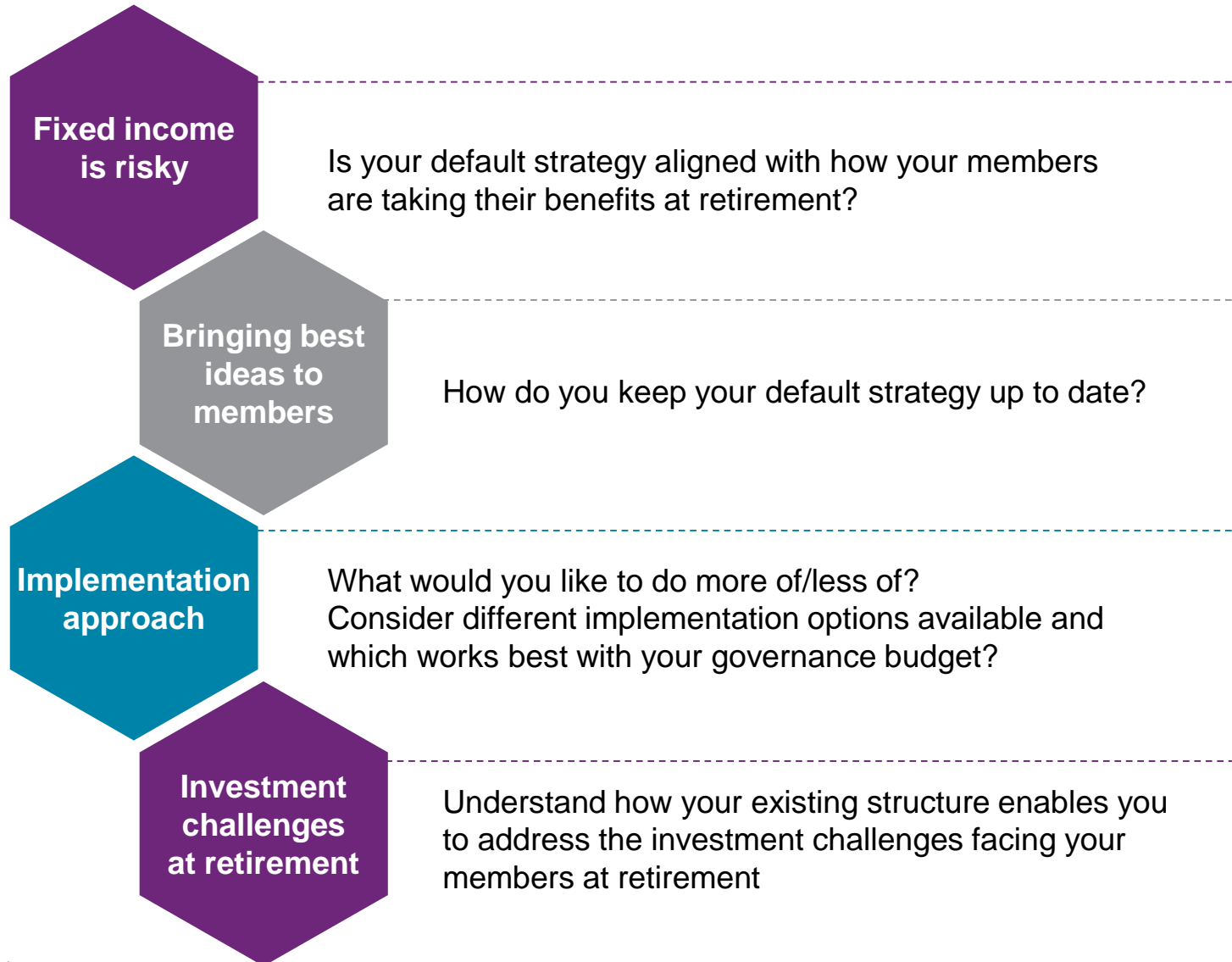
A range of implementation options now exists to suit different governance requirements

Understanding the investment challenges at retirement



How does your existing structure enable you to address these challenges?

Investments actions

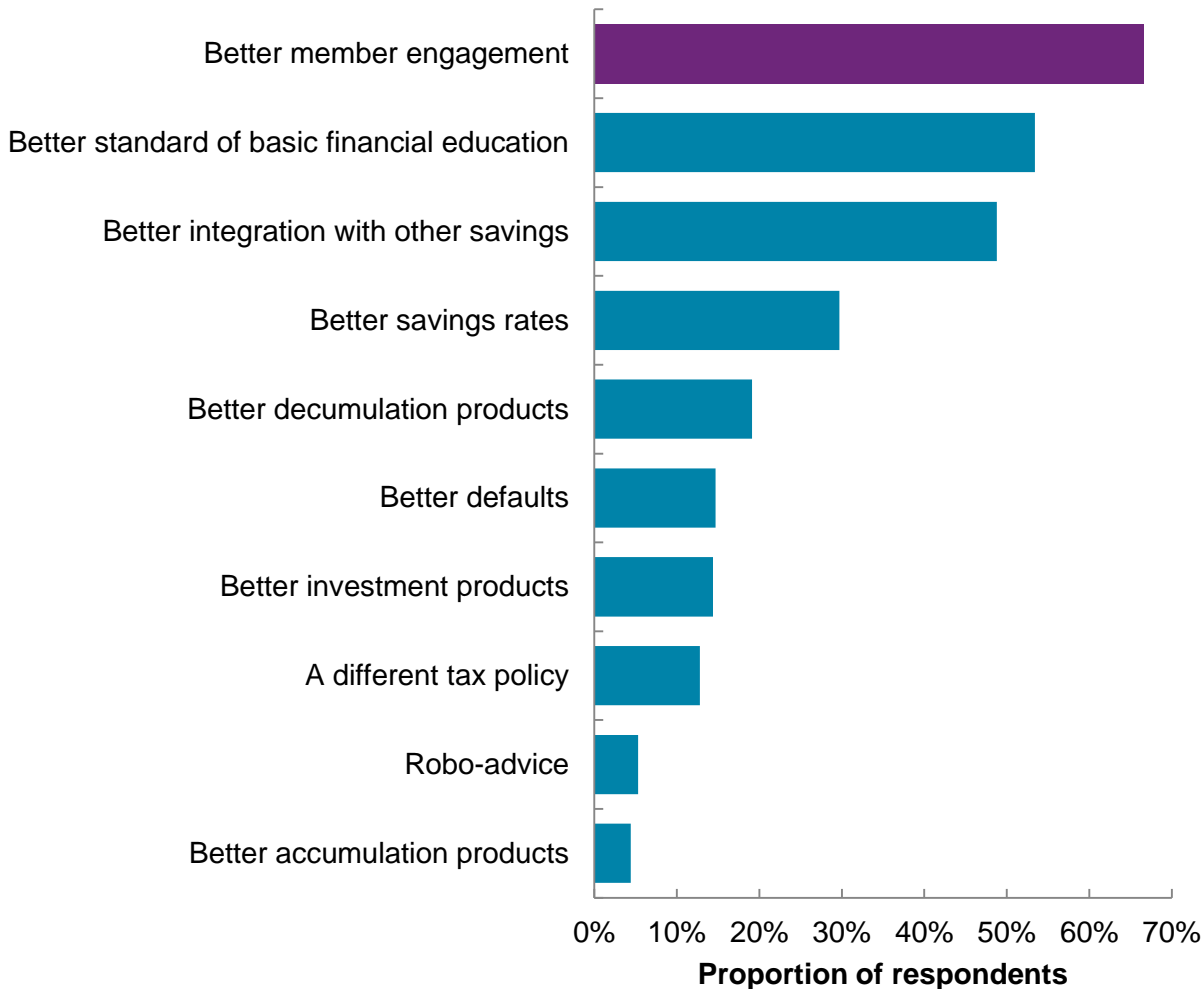




Communications and engagement

Louise Wheeler

What do you think will be key to successful DC pensions in 20 years' time?



60%
of people followed
what is offered by
their employer when
choosing where
to save

What are the obstacles?



Providing flexibility for different generations



Convincing members that now is the time to start planning for their retirement



Employer and trustee engagement that supports communications for better member education and outcomes

Communicating to your members



Did you know – only 35% of organisations offer some sort of financial education

Know your communication goal...

60%

▶ Most schemes aim to improve engagement but over 60% do not have specific communication goals

**Clear
objective**

**Plan
accordingly**

**Review
and change**

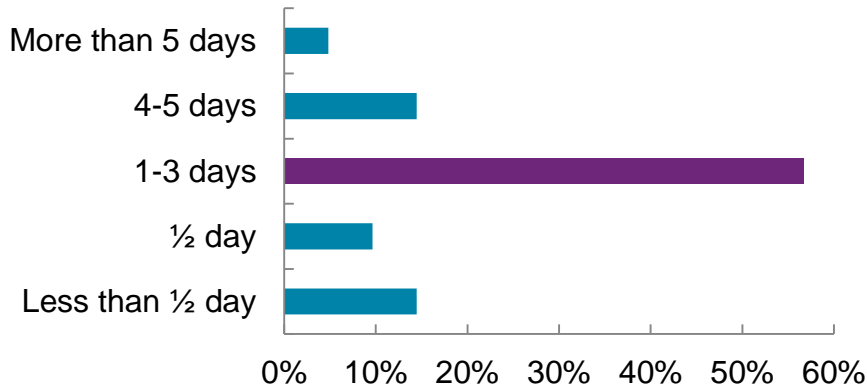


Governance challenges and solutions

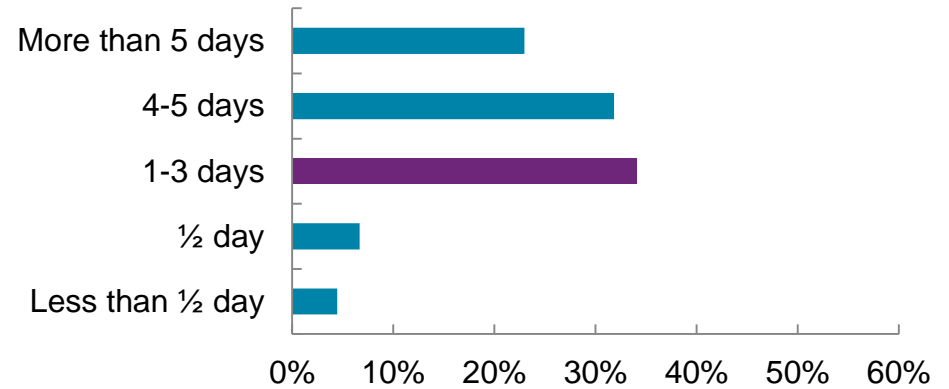
Tony Britton

How much time do you typically devote to DC matters per quarter for this scheme?

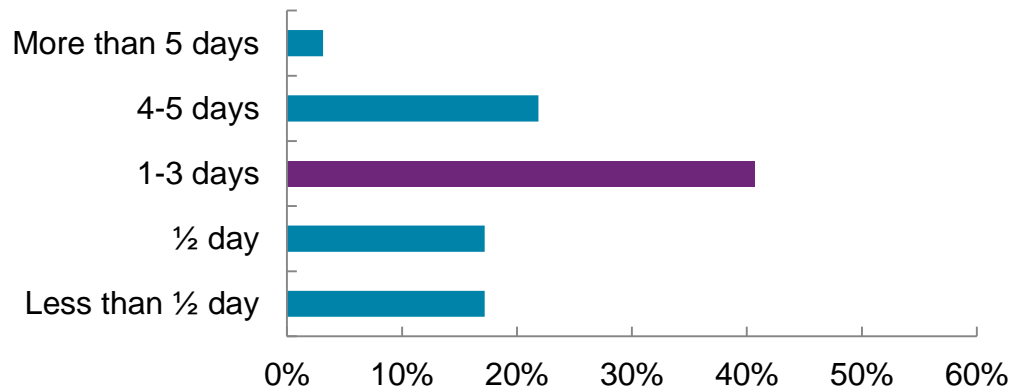
Time spent on DC matters per quarter for trustees



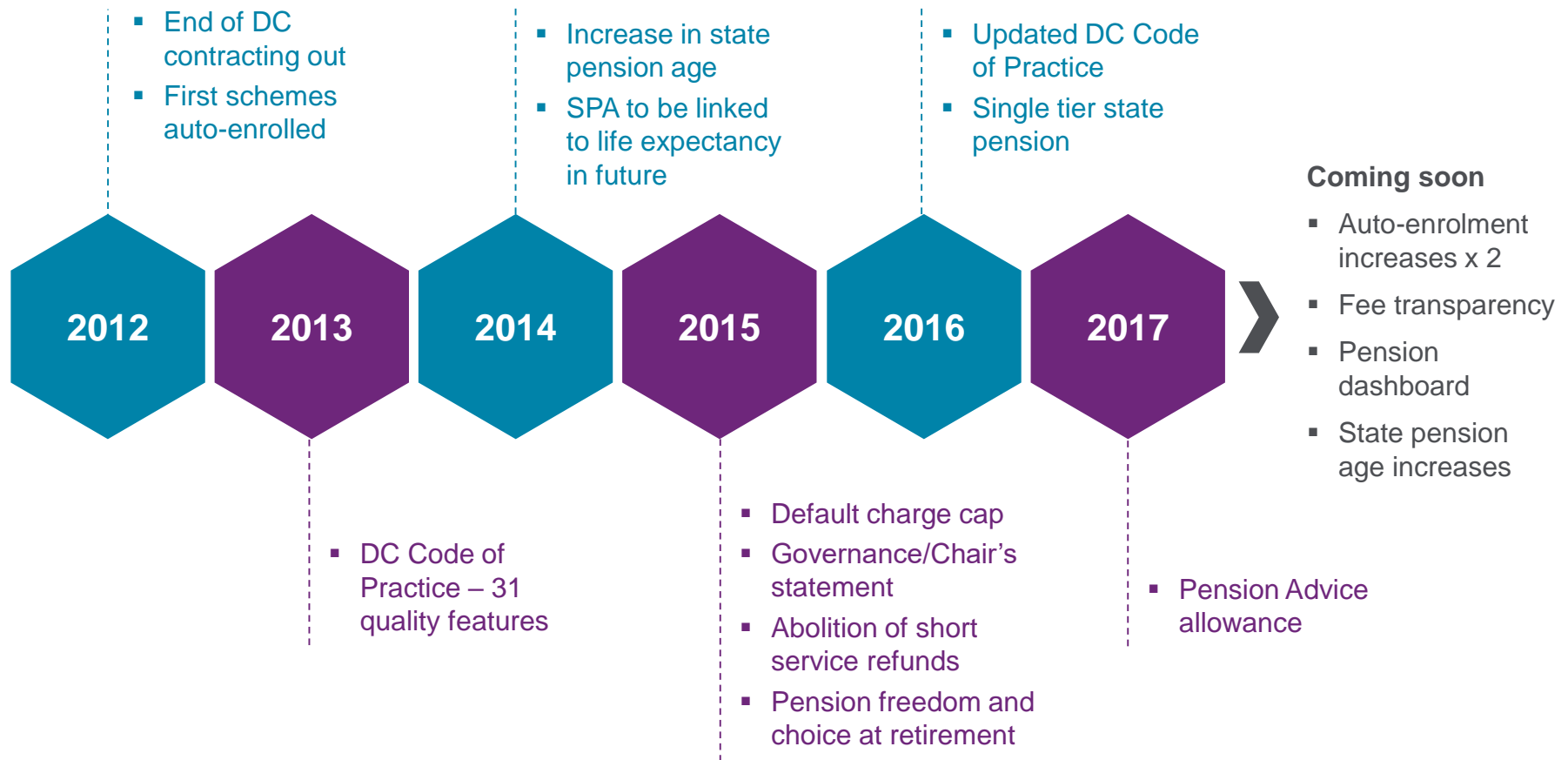
Time spent on DC matters per quarter for pensions managers /secretaries to trustees



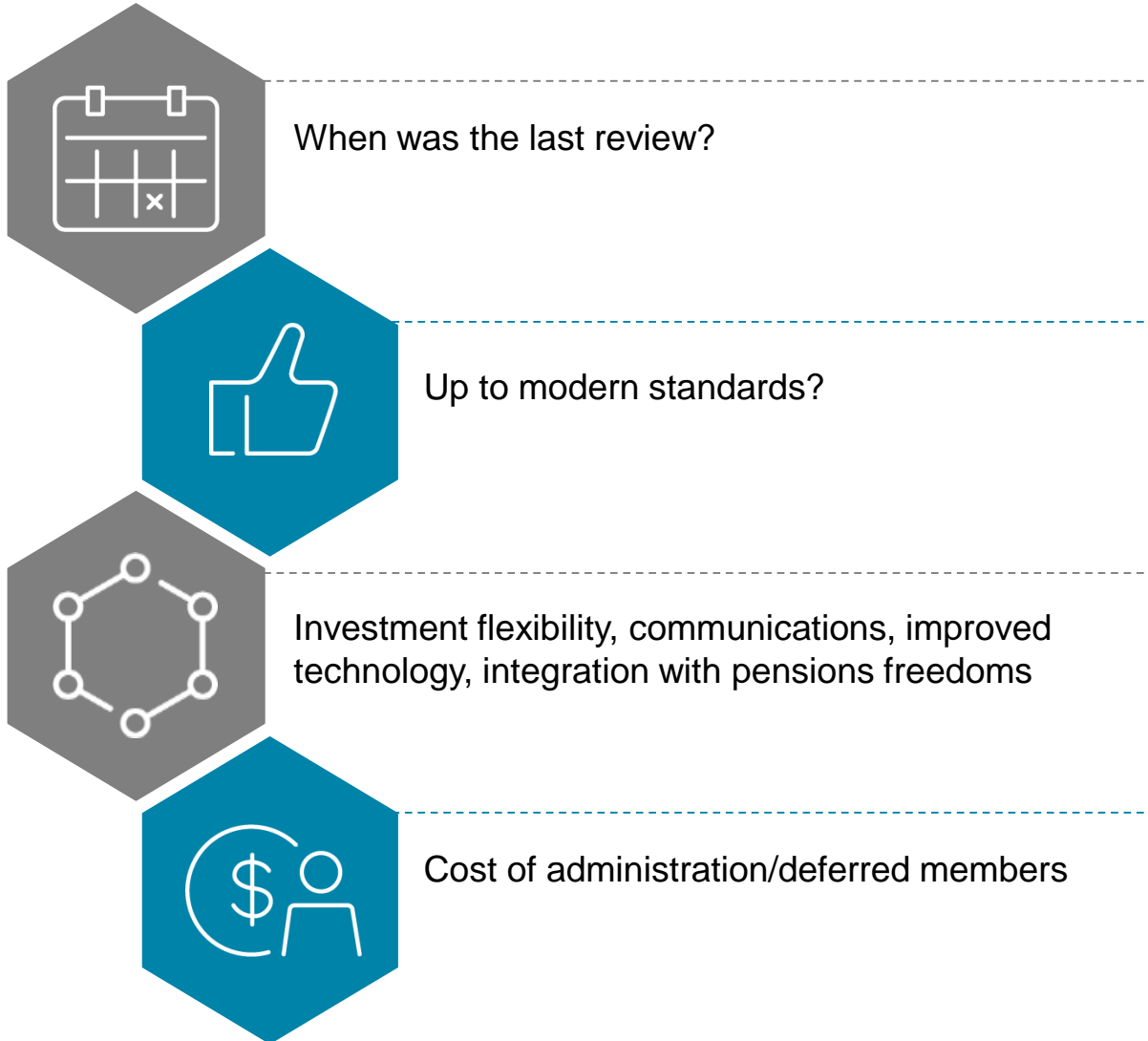
Time spent on DC matters per quarter for HR and Finance



The regulatory burden

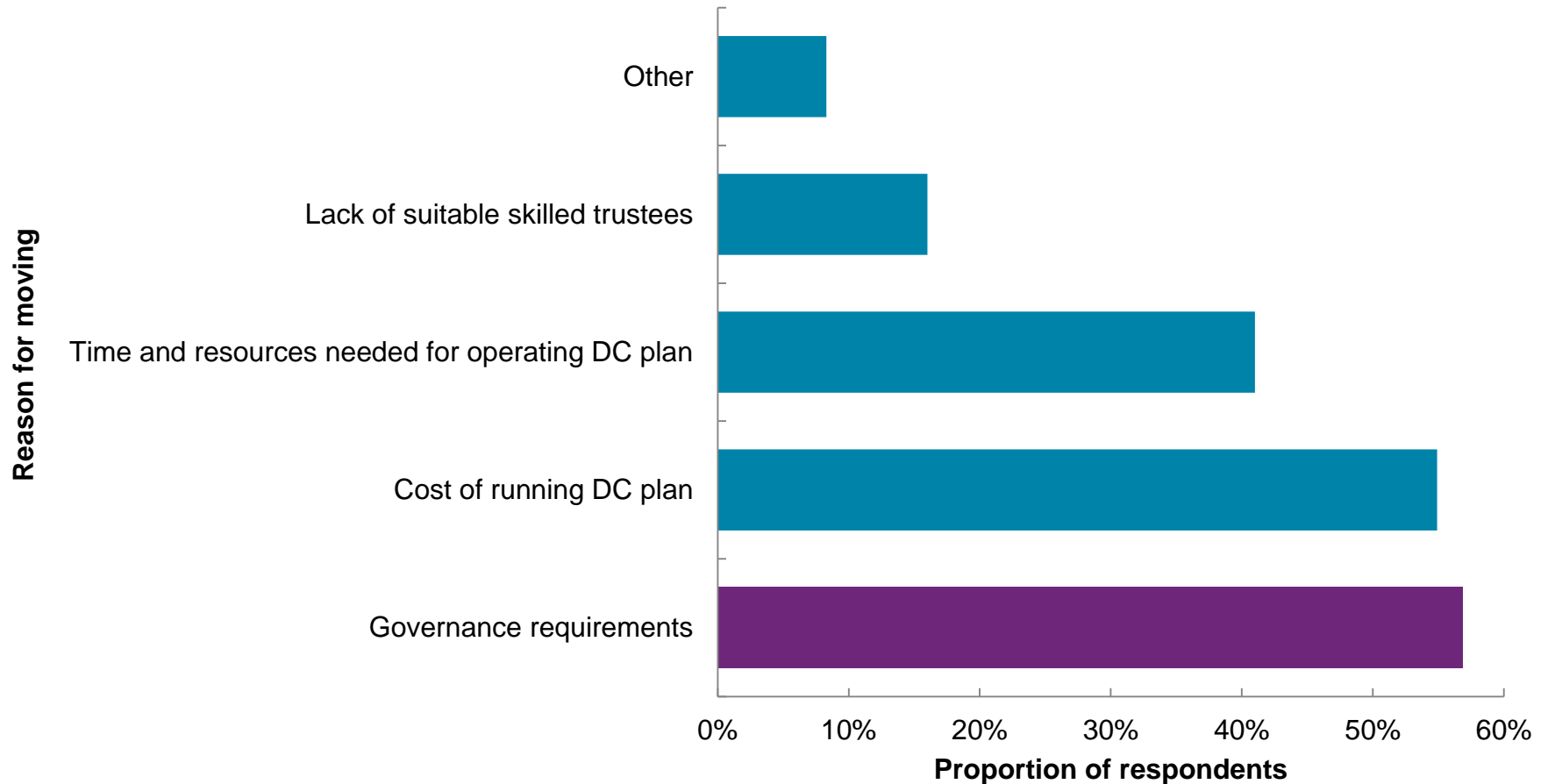


Administration platform issues



Platform issues in isolation don't necessitate structure change

If you were to consider moving from your current governance structure, why would you move?



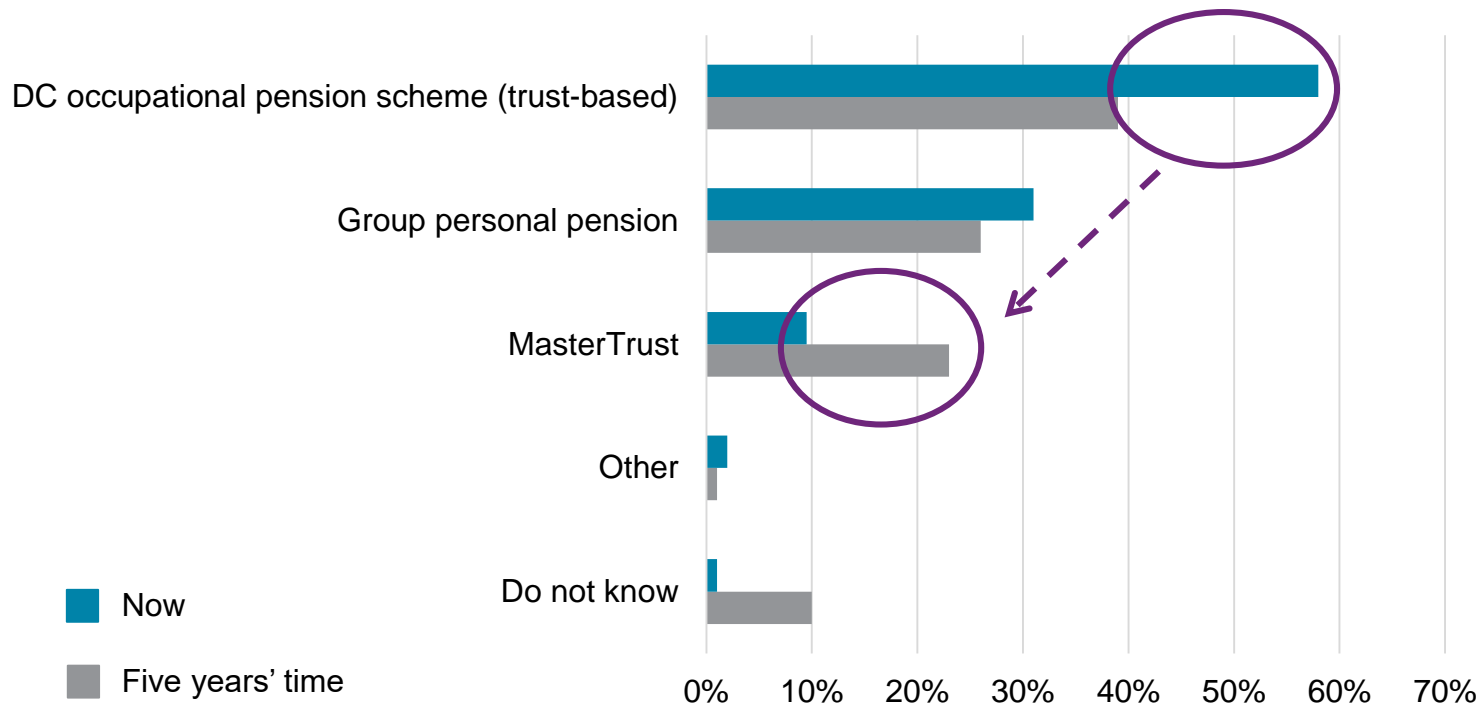


What structures are companies adopting?

Tony Britton

What does the future look like

What type of pension scheme do you use to provide your main DC benefits? And what would you expect it to be in five years' time?



Greater focus on outsourcing

Does it depend on culture, philosophy and feelings?

Own Trust

- Currently works well
- Full control
- Resource and expertise
- Complex DB integration
- Consider delegated DC investment
- Trustees take pension freedoms responsibility/create separate vehicle

Master Trust

- Out-source trustee liabilities but some retained control
- DB integrated for tax free cash only
- Buying power
- In scheme pension freedoms
- Communications flexibility but also need for support

GPP

- Outsourcing liabilities
- Outsource communications
- Pensions freedoms support
- Partners/self employed
- Little interest in deferred members

Final thoughts



What are the scheme objectives?



Are the trustees able to focus on the strategic issues or are they constrained by the details?



What elements might you wish to outsource?



Is the current DC delivery vehicle optimal for delivering to your objectives or would another vehicle deliver enhanced outcomes?



Does the governance structure form part of this review?



Could a change actually be cost effective and provide improved value?



Any questions?

Contact us

Contact Aon's dedicated DC Solutions team for assistance
with your DC investment options



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