# Agenda

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<th>The challenges for trust-based schemes</th>
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<td>The investment challenges and how to tackle them</td>
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**Tony Britton**  
Head of Aon UK  
Delegated DC Solutions

**Joanna Sharples**  
Head of Delegated DC  
Investment Proposition

**Louise Wheeler**  
Client Manager
Challenges for trust-based schemes

Tony Britton
Own-trust structure – the benefits

- Control
- Investment strategy
- Transfer without consent
- Who knows the members best?
- Integrated DB and DC
- Care for legacy schemes
- Fee separation
Own-trust structure – the challenges

- Decumulation
- Increasing governance
- Deferred member support
- Slow investment process
- Old fashioned platforms
- Cost and value for money
## Defining the challenges

<table>
<thead>
<tr>
<th>Investment</th>
<th>Member engagement</th>
<th>Governance</th>
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<tbody>
<tr>
<td>Right default</td>
<td>Education and guidance</td>
<td>Trustee responsibilities</td>
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<tr>
<td>Managing funds</td>
<td>Pensions freedoms</td>
<td>Regulator</td>
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<tr>
<td>Managing managers</td>
<td>Active and deferred</td>
<td>Platform</td>
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<td>Annual management charge</td>
<td>Tools and services</td>
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<tr>
<td>Pension freedoms</td>
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**Value for money**
The investment challenges and how to tackle them

Jo Sharples
What are the investment challenges you are trying to meet?

- New investment ideas
- New funds available
- Governance budget available
- Increased governance requirements
- Implementing changes
- Transition at retirement
Have you got the right default?

What does your default investment option target at retirement?

- Drawdown: 27%
- Annuity: 39%
- Mixed: 23%
- Other: 4%
- Cash: 7%

Source: Aon Defined Contribution Survey 2017

What are members currently doing at retirement?

- Full cash out: 56%
- UFPLS: 2%
- Drawdown: 28%
- Annuity: 14%

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

![Graph showing rolling capital loss for equities and gilts from June 2008 to December 2017. The graph illustrates the volatility of returns over time.](#)
Keeping the DC investment strategy up-to-date

**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.

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

**Fixed income can be risky!**

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

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

**Broadening the focus to global strategies through multi-asset credit and absolute returns bond strategies can enhance member outcomes**
How much involvement do you want in the management of the investments?

Involvement in management of investments

- I don't like to get involved at all
- I want to have some oversight over decisions made
- I want advisers to guide me
- I want to manage the investments myself

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

<table>
<thead>
<tr>
<th>Approach</th>
<th>Do-it-yourself</th>
<th>Pick and mix</th>
<th>Off-the-shelf</th>
<th>Delegate</th>
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<tbody>
<tr>
<td>Investment design</td>
<td>▪ Retain full control                                                         ▪ Tailored use of multi-asset funds coupled with individual asset class funds</td>
<td>▪ Use of standard products and strategies                                  ▪ Third party designs and manages strategy</td>
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<tr>
<td>Governance demand</td>
<td>▪ High                                                                          ▪ Medium to high                                                               ▪ Medium                                                      ▪ Low</td>
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A range of implementation options now exists to suit different governance requirements
Understanding the investment challenges at retirement

Seamless transfer at retirement

Transaction costs

Out of market risk

Institutional versus retail fund pricing

Consistency of investment options

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

**Fixed income is risky**
Is your default strategy aligned with how your members are taking their benefits at retirement?

**Bringing best ideas to members**
How do you keep your default strategy up to date?

**Implementation approach**
What would you like to do more of/less of? Consider different implementation options available and which works best with your governance budget?

**Investment challenges at retirement**
Understand how your existing structure enables you to address the investment challenges facing your members at retirement
Communications and engagement

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

- Better member engagement: 60%
- Better standard of basic financial education: 50%
- Better integration with other savings: 40%
- Better savings rates: 30%
- Better decumulation products: 20%
- Better defaults: 10%
- Better investment products: 10%
- A different tax policy: 10%
- Robo-advice: 5%
- Better accumulation products: 5%

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

Source: Aon Defined Contribution Survey 2016 & 2017
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
Did you know – only 35% of organisations offer some sort of financial education

Source: Aon Defined Contribution Survey 2017
Most schemes aim to improve engagement but over 60% do not have specific communication goals.
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

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<tr>
<th>Time</th>
<th>0%</th>
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Time spent on DC matters per quarter for pensions managers /secretaries to trustees

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Time spent on DC matters per quarter for HR and Finance

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Source: Aon Defined Contribution Survey 2017
The regulatory burden

- **2012**
  - End of DC contracting out
  - First schemes auto-enrolled

- **2013**
  - Increase in state pension age
  - SPA to be linked to life expectancy in future

- **2014**
  - Updated DC Code of Practice
  - Single tier state pension

- **2015**
  - DC Code of Practice – 31 quality features

- **2016**
  - Default charge cap
  - Governance/Chair’s statement
  - Abolition of short service refunds
  - Pension freedom and choice at retirement

- **2017**
  - Pension Advice allowance

**Coming soon**
- Auto-enrolment increases x 2
- Fee transparency
- Pension dashboard
- State pension age increases
Administration platform issues

When was the last review?

Up to modern standards?

Investment flexibility, communications, improved technology, integration with pensions freedoms

Cost of administration/deferred members

Platform issues in isolation don’t necessitate structure change
If you were to consider moving from your current governance structure, why would you move?

- Governance requirements
- Cost of running DC plan
- Time and resources needed for operating DC plan
- Lack of suitable skilled trustees
- Other

Source: Aon Defined Contribution Survey 2017
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?

DC occupational pension scheme (trust-based)

Group personal pension

MasterTrust

Other

Do not know

Greater focus on outsourcing

Source: Aon Defined Contribution Survey 2017
Does it depend on culture, philosophy and feelings?

<table>
<thead>
<tr>
<th><strong>Own Trust</strong></th>
<th><strong>Master Trust</strong></th>
<th><strong>GPP</strong></th>
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<tbody>
<tr>
<td>Currently works well</td>
<td>Out-source trustee liabilities but some retained control</td>
<td>Outsourcing liabilities</td>
</tr>
<tr>
<td>Full control</td>
<td>DB integrated for tax free cash only</td>
<td>Outsource communications</td>
</tr>
<tr>
<td>Resource and expertise</td>
<td>Buying power</td>
<td>Pensions freedoms support</td>
</tr>
<tr>
<td>Complex DB integration</td>
<td>In scheme pension freedoms</td>
<td>Partners/self employed</td>
</tr>
<tr>
<td>Consider delegated DC investment</td>
<td>Communications flexibility but also need for support</td>
<td>Little interest in deferred members</td>
</tr>
<tr>
<td>Trustees take pension freedoms responsibility/create separate vehicle</td>
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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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