



## Defined Contribution Landscapes

### Workshop

A presentation to the Institute and Faculty Of Actuaries

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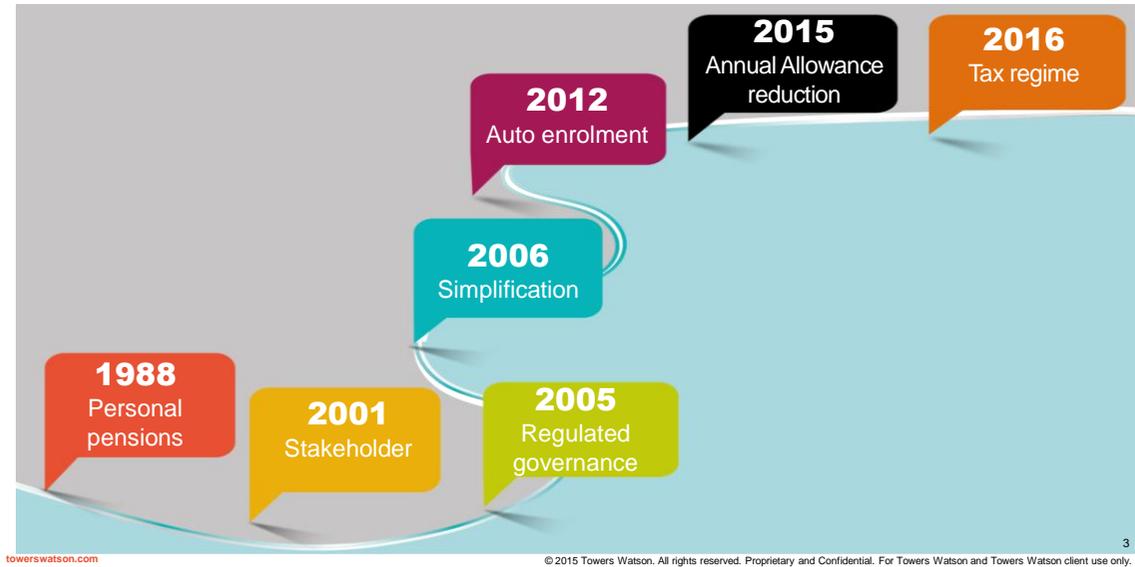


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## Workshop focus

Topic
Accelerated change in the DC Landscape
Increasing DC Governance
Pension Freedoms
The Summer Budget
The consultation – EET or TEE
Questions

## Where are we now



## UK Pensions tax regime

- Primary protection 2006
- Enhanced protection 2006
- Fixed protection 2012
- Fixed protection 2014
- Individual protection 2014
- Fixed protection 2016
- Individual protection 2016
- Scheme specific lump sum protection
- Lump sum protection with primary/enhanced protection

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## Increasing DC governance

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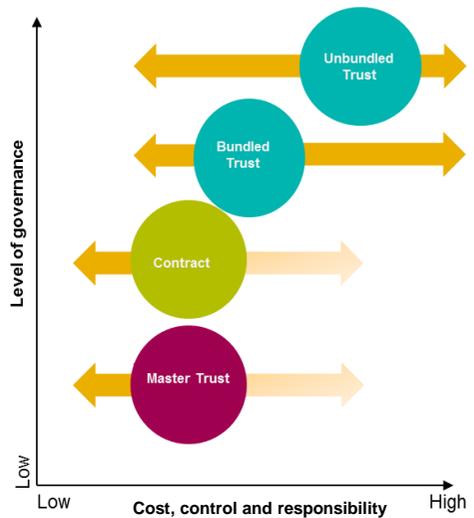
## Different responsibilities

### Trust

- Employer is responsible for scheme design and remitting contributions
- Trustees are responsible for the scheme governance/management and investment offering
- Increased focus on governance following the Code of Practice 13
- New minimum governance standards and Annual Chair Statements from 2016

### Contract (GPP/Stakeholder)

- Employer is responsible for selecting the provider and remitting contributions
- Employer can identify investment ranges including default investment options
- No legal duty for employer governance structure required
- Provider must appoint an Independent Governance Committee (IGC)
- IGC responsible for compliance with new minimum governance standards



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## DWP - minimum governance standards from April 2015

- All schemes must be governed by a body with “a duty to act in members’ interests” – and explain how any conflicts of interest are handled.
- The governing body must consider:
  - the design and net performance of default investment strategies
  - standards of administration and processing of core financial transactions
  - costs and charges borne by scheme members (value for money)
  - levels of knowledge and understanding.
- Additional conditions on ‘independence’ for Master Trusts (excluding NEST) and contract-based schemes.

Trustee bodies must have a ‘Chair’, who must produce a statement to include in the scheme’s annual report and accounts, explaining how the scheme has performed against the minimum standards.



Implementation of the new standards will require changes to how many trust-based and contract-based schemes are governed

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## tPR survey on DC quality features

### Key findings

- Large pension schemes (>1,000 members) display more of the 31 quality features than small (12-99 members) and medium schemes (100-999 members).

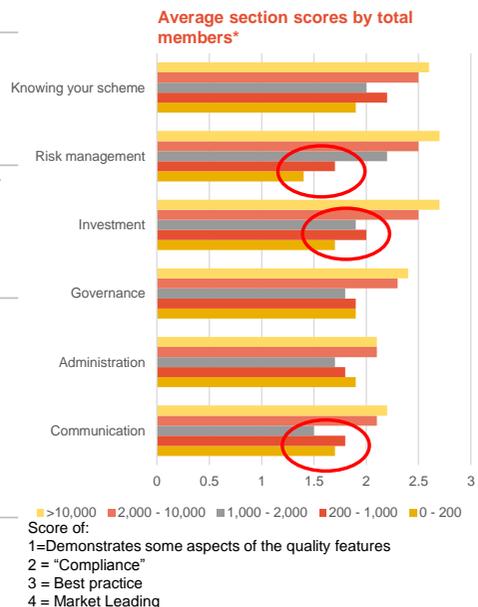
### Smaller employers

- tPR is urging small employers who are preparing for automatic enrolment to choose a high quality scheme such as a master trust or a group personal pension plan.

### Problem areas

- Security and liquidity of scheme assets
- Value for money and transparency of member charges
- Scheme record keeping
- Processing core transactions
- Robust retirement process
- Member communications

\*Graphic shows results of Towers Watson own analysis of DC schemes governance



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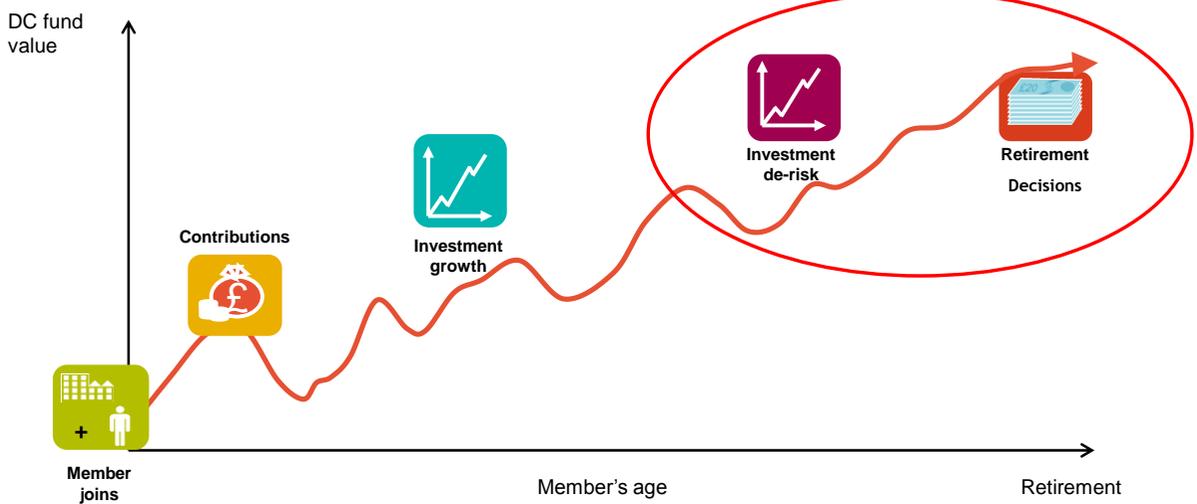
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# Pension freedoms

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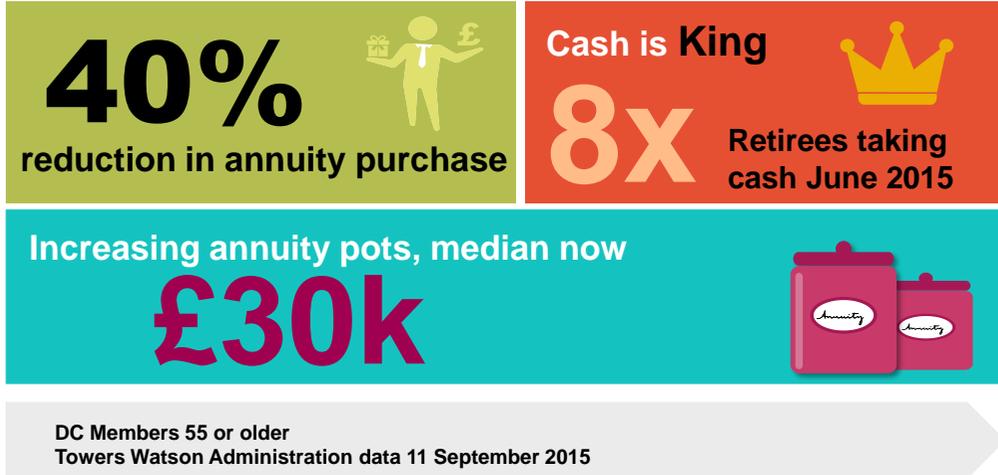
## Impact on member DC journey



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## What's happening at retirement?

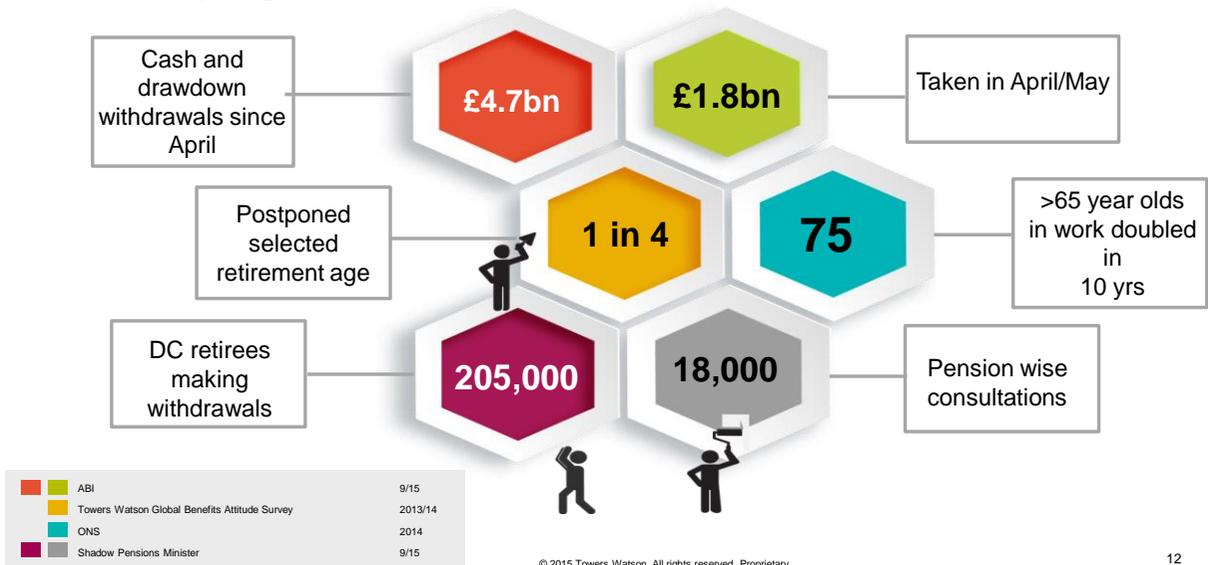


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## Industry figures

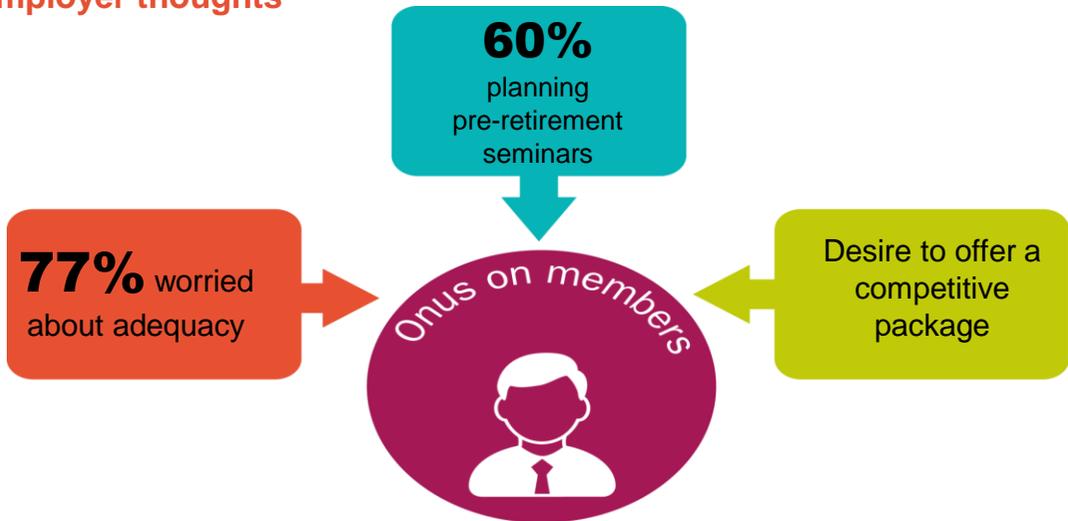


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## Employer thoughts

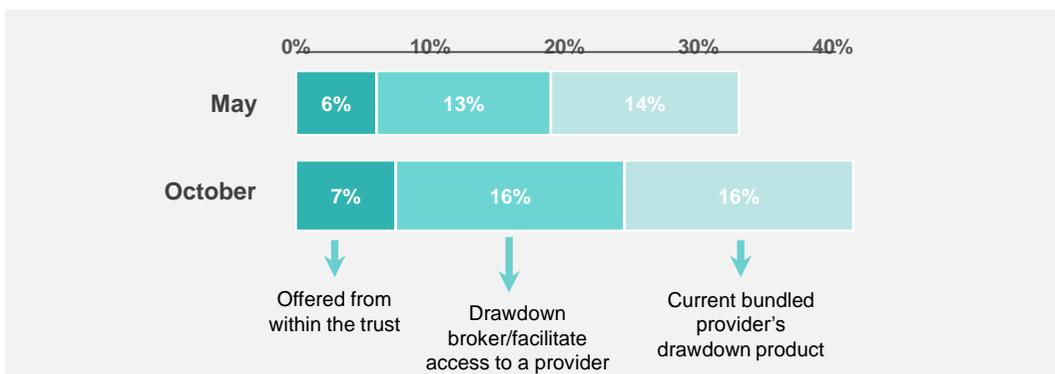


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## Drawdown provision



Among bundled schemes **1-in-5** offer current provider's drawdown product.

Source: Pensions Flexibility survey May and October 2015  
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## The Summer Budget

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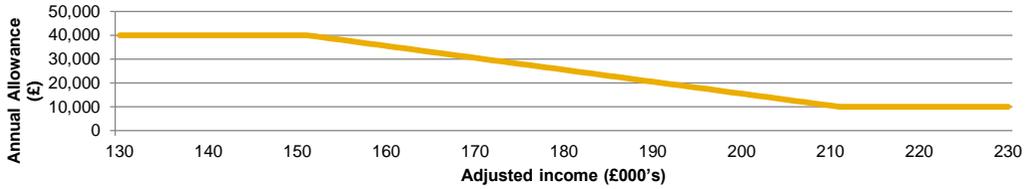
### More change

<p>AA reduced for some* LTA reduced for all</p> 	<p>Opportunity for higher pension contribution in 2015/2016</p> <p><b>£80k</b></p>	
<p><b>April 2016</b> <b>Estimate reduced AA</b></p> 	<p><b>LTA</b> <b>Register for protection</b></p>	
<p><b>Strategic review</b></p>	<p><b>Communications</b></p> 	<p><b>Alternative savings</b></p>

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## Changes to Pension Allowances



## Green paper consultation

<b>The principles</b>	<p>Reform should be:</p> <ul style="list-style-type: none"> <li>• Simple and transparent</li> <li>• Support personal responsibility</li> <li>• Build on the early success of automatic enrolment</li> <li>• Be sustainable (in terms of cost to the Exchequer)</li> </ul>
<b>Why now?</b>	<p>Two reasons:</p> <ul style="list-style-type: none"> <li>• Increasing longevity; and</li> <li>• Move from DB to DC pension provision with the latter likely to prove inadequate to meet individuals' retirement expectations.</li> </ul>
<b>Exempt-Exempt-Taxed</b>	<p>Current model:</p> <ul style="list-style-type: none"> <li>• Contributions are exempt from tax when paid</li> <li>• Roll-up is exempt</li> <li>• Payments are taxed (but 25% can be taken tax-free)</li> </ul>
<b>Taxed-Exempt-Exempt or...</b>	<p>Options:</p> <ul style="list-style-type: none"> <li>• Moving to a TEE system with a government top-up on contributions; to</li> <li>• Retaining the current system and altering the lifetime and annual allowances</li> <li>• ... and anything in between!</li> </ul>

*Any Questions*

