



A presentation to the Institute and Faculty Of Actuaries

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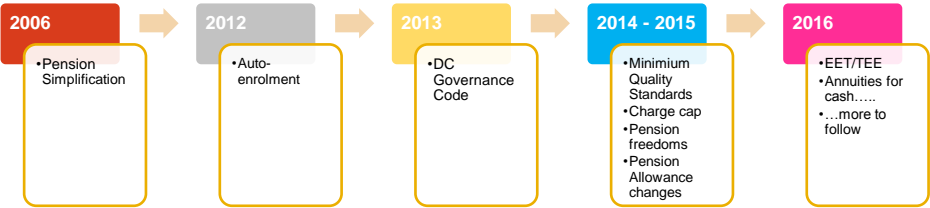
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Workshop focus

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

Accelerated change in the DC landscape



Increasing DC governance

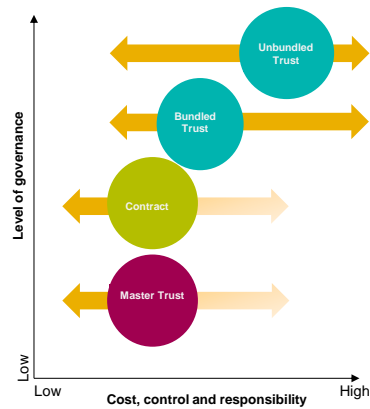
Different responsibilities

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

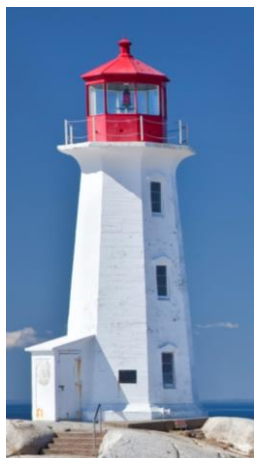


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Code in the spotlight

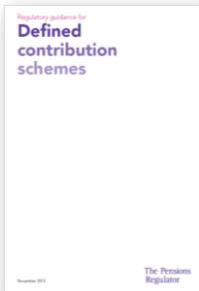
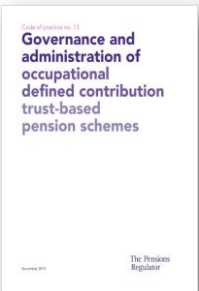


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The Pensions Regulator

Thursday 21 November 2013:

- TPR Code of Practice 13 came into effect *"Governance and administration of occupational defined contribution trust-based pension schemes"*
- DC Regulatory guidance
- New consultation on AVCs expected late 2015



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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	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• 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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Pension freedoms

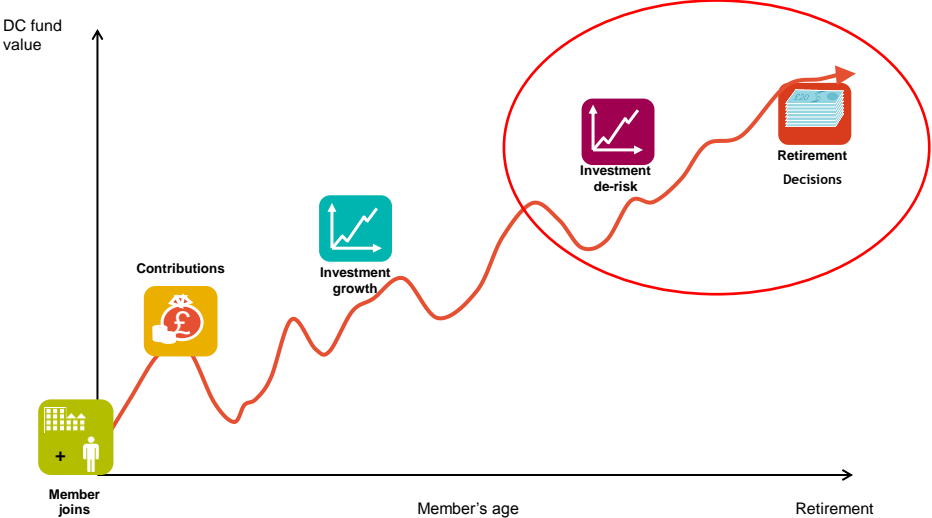
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Remember the headlines



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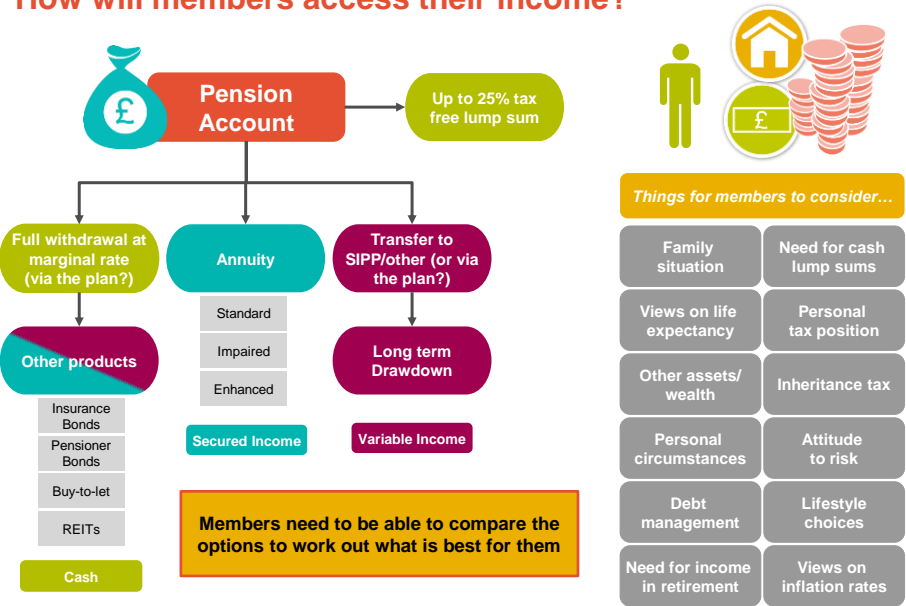
Impact on member DC journey



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How will members access their income?



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Member behaviours – Standard Life



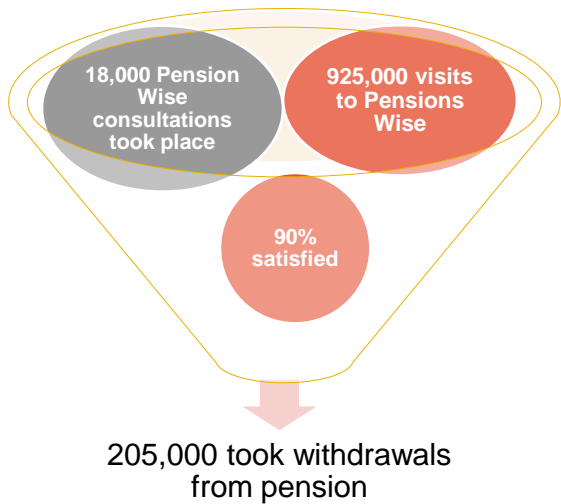
Source: Standard Life 8 October 2015

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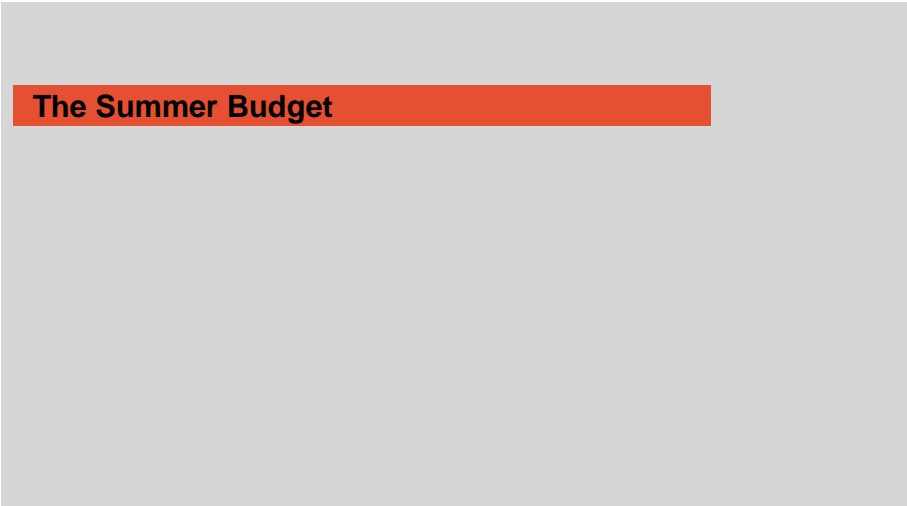
Guidance/advice gap



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More change


AA reduced for some*
LTA reduced for all



Opportunity for higher pension contribution in 2015/2016

£80k

April 2016
Estimate reduced AA




LTA

Register for protection

Strategic review

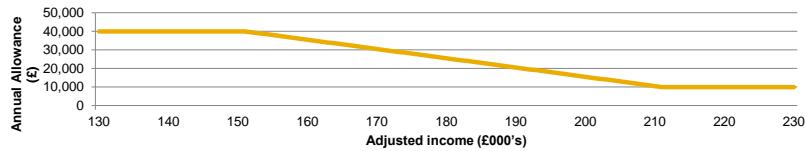
Communications



Alternative savings

BUDGET 2014

Changes to Pension Allowances



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Green paper consultation

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

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