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How Can Actuaries Add Value in the DC World?

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Nico - Defined Contribution history

- Career focussed on DC since 2007
- Head of DC Investment at Towers Watson since 2012
- Main focus is trustee consulting on DC investment:
 - What should the default be, who should it serve?
 - What objectives should it have, how should they be delivered?
 - How are the risks considered and communicated?
 - How can we engage members with choice?



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Jenny - Defined Contribution history

- Career focussed on DC since 2010
- Principal Consultant at Aon Hewitt
- Main focus trustee consulting DC investment and governance
- IFoA DC advisory committee member

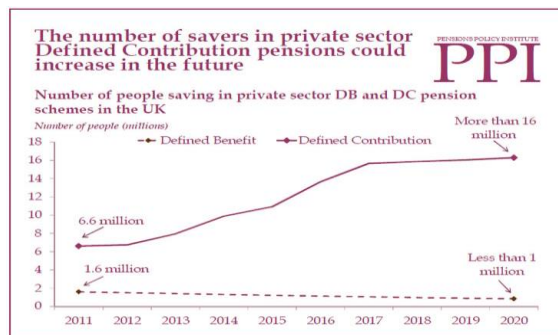


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Evolution of the DC market – drivers

- DC assets are growing



- More risk with members....but members disengaged
- Greater employer exposure
- Greater need for governance
- tPR focus

We need to make sure DC delivers



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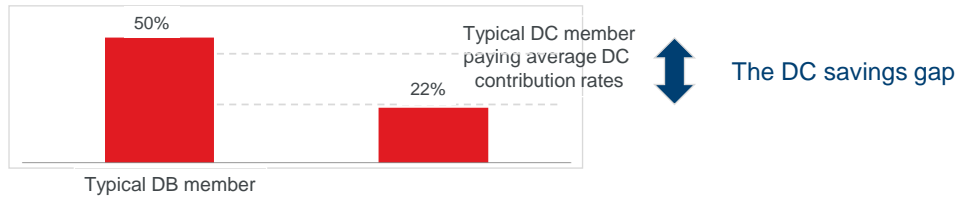
DC – the challenges

- Insufficient savings
- Sub-optimal Investment choices
- Poor access to the best-priced annuities

VS

- Growing retirement income needs caused by increasing longevity and rising long-term care costs

Expected retirement income* for 35 year old as percentage of final salary:



...but there are material challenges

*excludes state pension benefits



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Contributions – what does it mean to be ‘on track’?

Start saving
at age 25



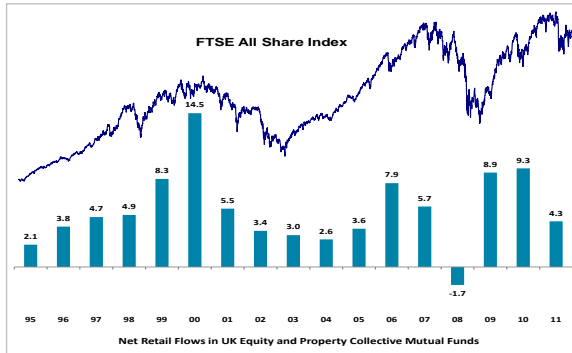
Average employee needs to accumulate over 11 times pay by age 65 to maintain standard of living *

* Allowing for state benefits



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Is extensive use of the default option a problem?



Source: Datastream, FTSE, Investment Management Association and AllianceBernstein

Typical default take up is 80-90% and is likely to increase with auto-enrolment*

As choice increases members engagement actually decreases

High and low levels of engagement are equally dangerous

Members who self select without investment advice achieve annual performance 2.9% pa lower than those who get investment advice or invest in plan-managed funds.**

DC members are safer in the default option than self selecting

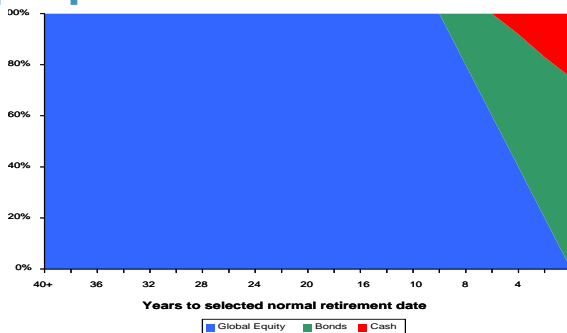


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* Source: Aon Hewitt

**Source: Aon Hewitt, study of US 401k plans

So are traditional default strategies fit for purpose?



All members have the same risk tolerance

All members will take income in the same way

All members have a similar financial "background"

Diversification of growth assets is not important

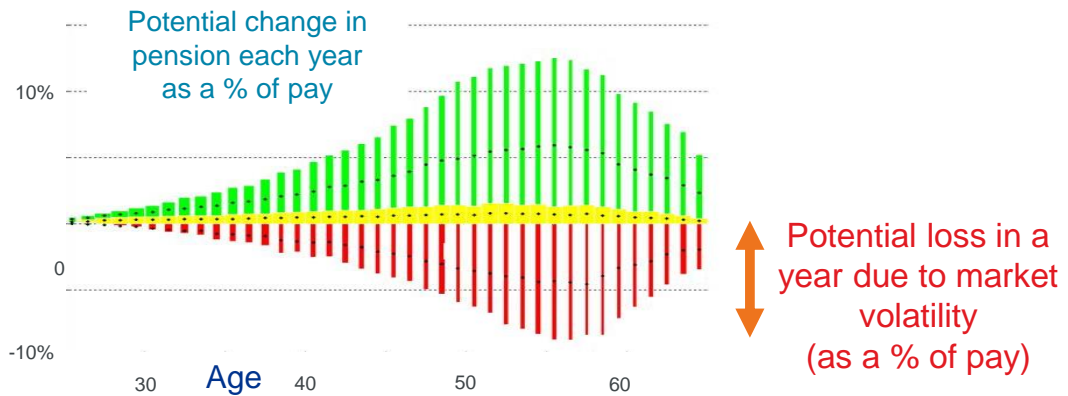
Members have a positive experience in the investment markets

Traditional default options solve some, but far from all of the investment issues facing DC members



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Tackling uncertainty



The accumulation of assets over time builds the risk of catastrophic loss



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So many questions, need more support.....

Do I have to
annuitise
now?

I want to
carry on
working

How do I
consolidate
my other
pensions?

I want to
wind down
gradually

What is flexible
/ capped
drawdown?



Members do not take good decisions at retirement – we can correct this

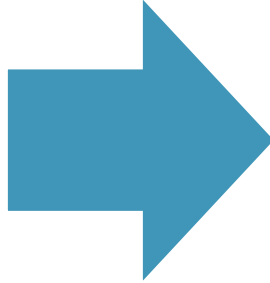


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DC has come a long way

45000 employers have 'staged'

Lower opt out rates than expected
(10-15% v. 25-30%)



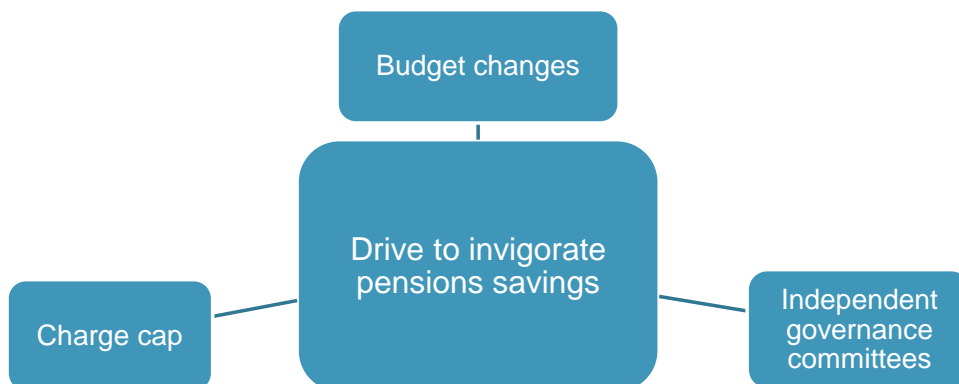
= AE success



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Further reform



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Roles in DC

- Two questions:
 - Member – What should I do?
 - Fiduciary – What should I do for my members?
 - Company – What do I want to provide for my employees?
 - Providers – What products should we offer and how do we support them?
- Advising institutional DC is:
 - Removed (meta-advice)
 - Long-term and complex
 - Dynamic



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Fiduciary advice

- Meta-advice: advising “advisors”:
 - What requirements might members have?
 - What range of products might they reasonably understand without financial advice?
 - How can uncertainty be communicated without reducing engagement?



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Fiduciary advice

- Long-term and complex:
 - There is no “fully funded” in DC – the target moves with contributions/returns/health etc.
 - What is the relevance of investment outcomes to DC members?
 - Members “can” vary:
 - Contributions
 - Retirement age
 - Post-retirement security
 - Can risk be translated in a fair way onto these variables?



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Fiduciary advice

- Dynamic:
 - Minimum income requirement 2010 – 2015
 - Auto-enrolment 2012 onwards
 - Charge caps 2015 @ 0.75% 2017 @ ?
 - 2014 Budget
 - Defined Ambition?



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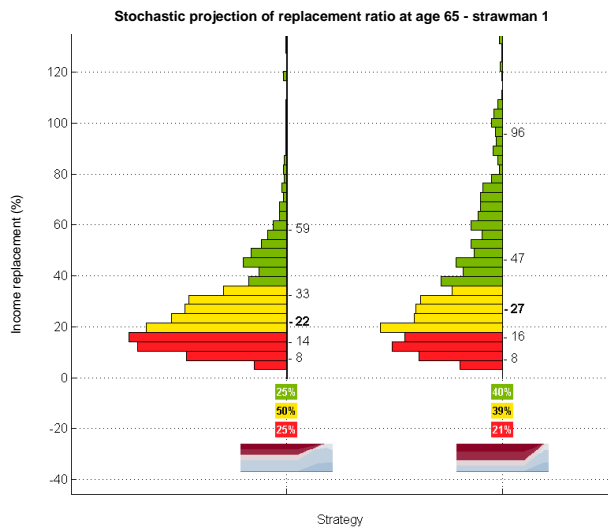
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Member advice

- Is this an Actuarial role?

Company advice

- What are employees on track to receive?



Provider roles

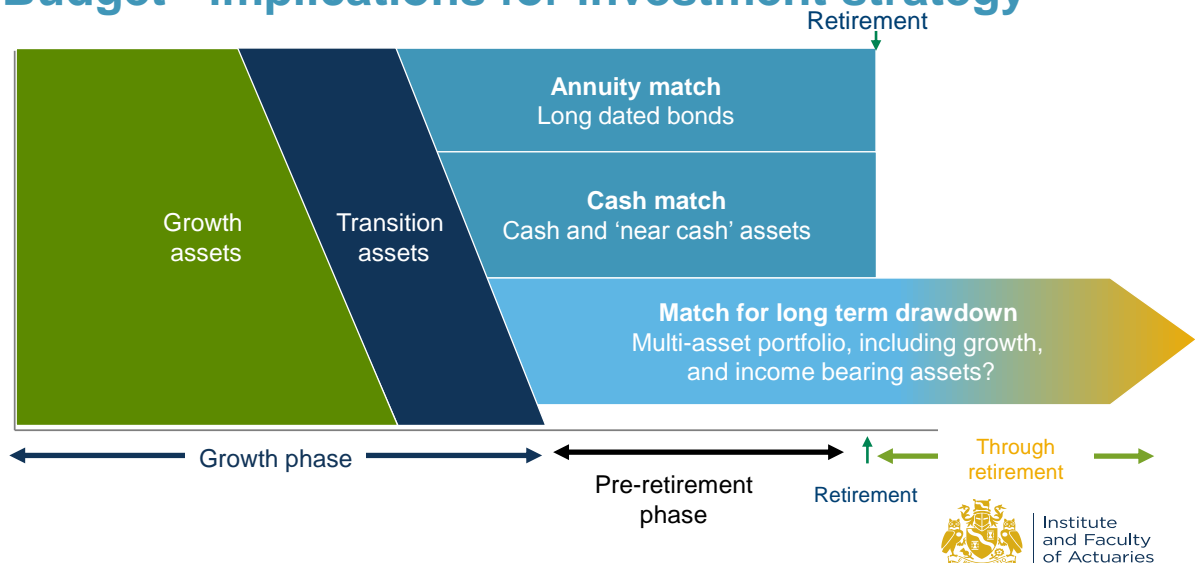
- Product actuaries
- Reserving actuaries
- Pricing actuaries....



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Budget - implications for investment strategy



Why use an actuary?

- Understands asset **and** liability
- Understands long-term financial risk
- Loves solving real problems in a new field



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Why not use an actuary?

- Doesn't respect irrational humans (behavioural finance)
- Won't work on communications
- Won't work on operations



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Questions?



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