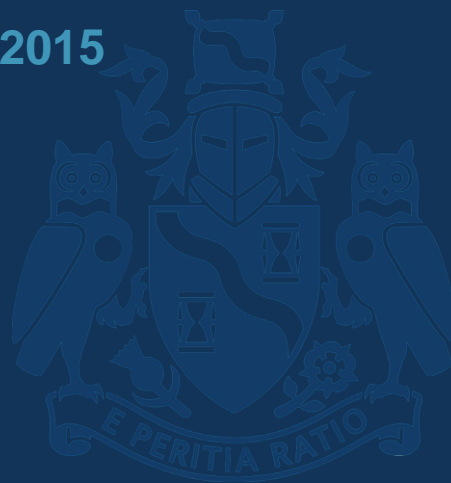




Institute  
and Faculty  
of Actuaries

## Pensions Conference 2015

24 – 26 June  
Hilton, Glasgow



## Investment Strategies for DC

Adapting defaults for Freedom and Choice

Alistair Byrne, PhD, CFA

Institute and Faculty of Actuaries  
Pensions Conference  
June 2015

All the information contained in this presentation is as of date indicated unless otherwise noted.  
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Understanding how members will use Freedom and Choice



In-depth interviews and focus groups with DC plan members age 50+

Undertaken by Ignition House on behalf of the Pensions Policy Institute

How will you use your retirement savings?

“My wife’s one for “let’s live for today as I don’t know what’s going to happen tomorrow.” I am apprehensive but I would like to enjoy some of that money that I’ve saved all my life. I would like to spend some of it while I’m able to.”

Male, aged 61–65

“I am just going to leave it invested... I might leave it to my daughter.”

Male, aged 66–70

“I will take 25% tax free cash. Before the Budget, I would’ve used the rest for an income through an annuity. Now I want to have 2 years salary as a safety net saved and I will leave what’s left after the tax free cash there and take some if anything comes up.”

Female, aged 61–65

Source: Ignition House research for the Pensions Policy Institute, January 2015.  
The information contained above is for illustrative purposes only.

Could you make a decision about how you are likely to want to take your pension 5 to 10 years before retirement?

“I don’t want to make a decision 5 to 10 years before retirement, you don’t know what your circumstances are going to be.”

Female, aged 56–60

“I would have thought two years before. What’s the point of doing it before then? You make your mind up and do it when you need to do it.”

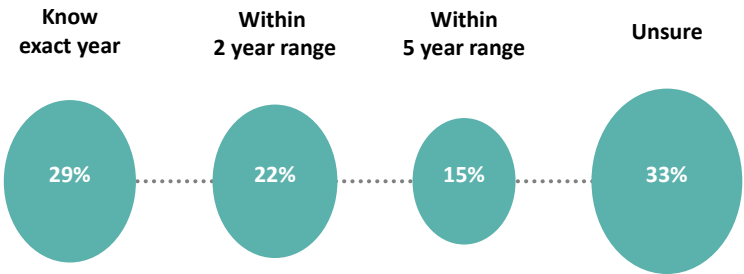
Female, aged 56–60

Source: Ignition House research for the Pensions Policy Institute, January 2015. The information contained above is for illustrative purposes only.

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Do you know when you will retire?



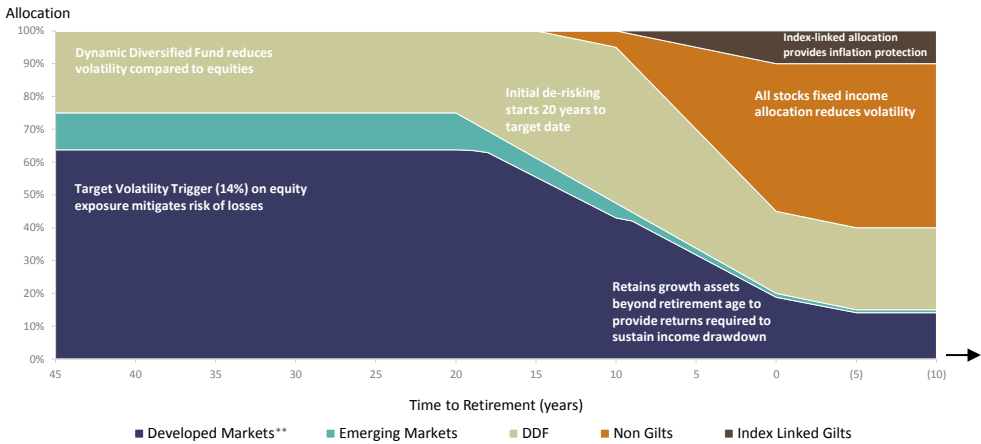
Source: SSGA UK & Ireland DC Survey by TRC, August 2014.

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A glidepath for the new retirement flexibilities?

Timewise target date glidepath balances growth with risk management



\*\* Developed equities will be 50% GBP hedged. Source: SSGA Target Retirement Funds — strategic asset allocation schedule as of 30 September 2014. The information contained above is for illustrative purposes only.

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What are your thoughts on having some pre-defined funds for your retirement years rather than making the choice yourself?

“I would not like to make the choice myself, I don’t have the experience to do that. They’re the professionals, therefore they know what they’re doing.”

Male, aged 61–65

“I think really you should leave things in the hands of people who know what to do and take their guidance on it. I know they can’t tell you what to do exactly, but at least they guide you in the right direction.”

Female, aged 61–65

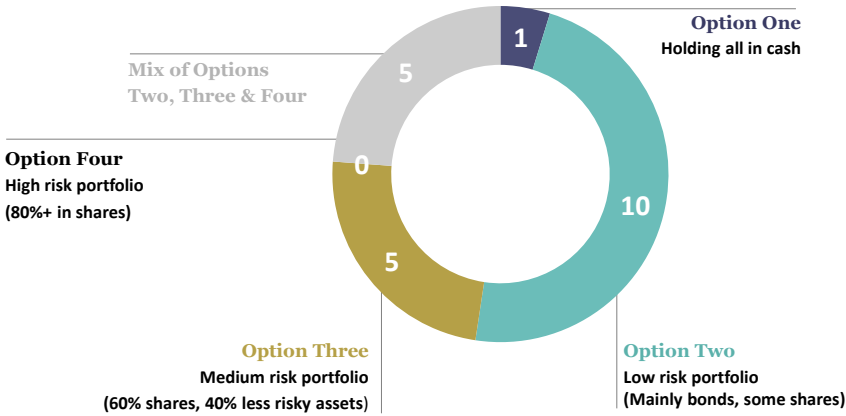
Source: Ignition House research for the Pensions Policy Institute, January 2015. The information contained above is for illustrative purposes only.

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What investment risk would you be willing to take in retirement?

Surveyed n= 21

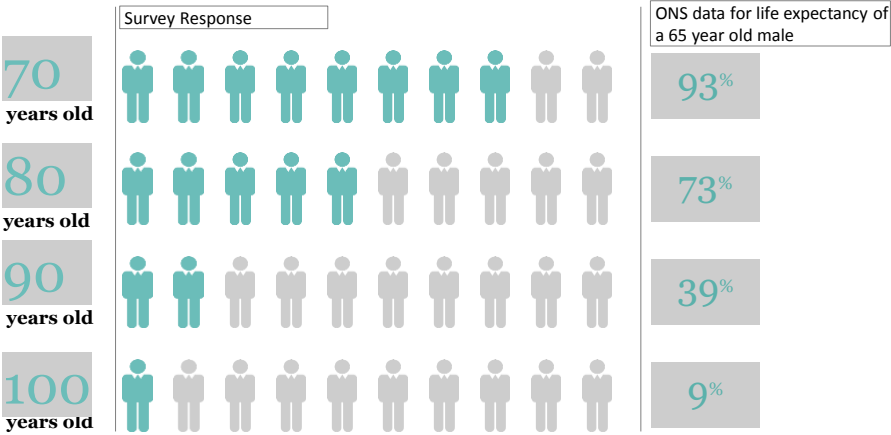


Source: Ignition House research for the Pensions Policy Institute, January 2015.  
Note: Based on focus group interviews only, may not be representative of DC population

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Say there are 10 men who are retiring at 65 in good health.  
How many of these will live to...?



Source: Ignition House research for the Pensions Policy Institute, January 2015.  
The information contained above is for illustrative purposes only.

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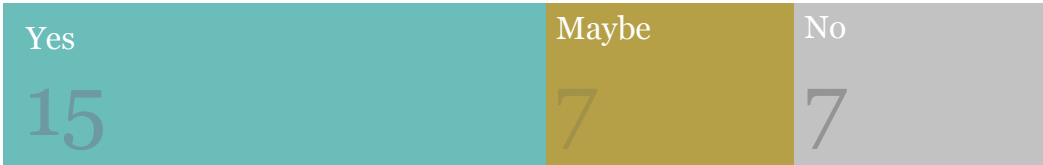
DCIA-0126 10

Would you be interested in purchasing insurance that provides you with a guaranteed income if you live beyond a certain age?

Surveyed

n=

29



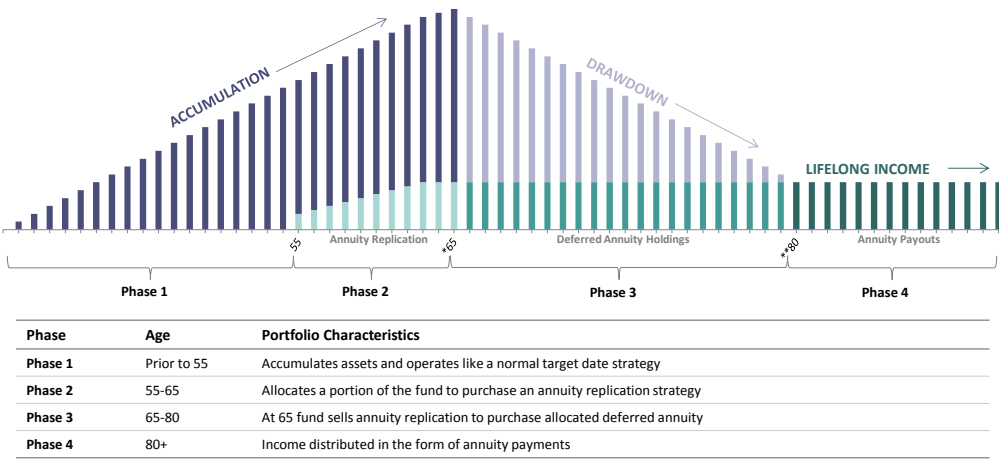
- Respondents could see how this could offer them a ‘safety net’
- The biggest barrier mentioned was the cost
- For a £5,000 secure income starting at 85, with premiums commencing aged 65, a cost of £500–£1,000 p.a. was acceptable

Source: Ignition House research for the Pensions Policy Institute, January 2015.  
Note: Based on F2F interviews only, may not be representative of DC population

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Retirement income solution: the best of both worlds?



Source: SSGA Defined Contribution  
\* Assumed age at retirement  
\*\* Assumes that at age 80 portfolio balance is depleted.  
Note: For illustrative purposes only.

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Our Conclusions from the Research

More varied use of retirement savings	Greater appetite for keeping assets invested after retirement	Challenges in getting members to choose a path in advance	Desire for ‘at retirement’ default and limited choice	Interest in longevity insurance for later life
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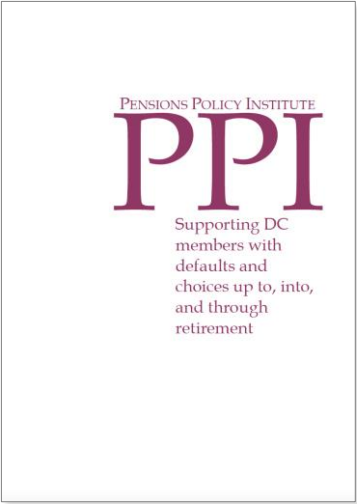
*How should DC schemes support members into retirement?*

Planning your retirement?

1. When do you expect to retire? How certain are you about that?
2. Will you work part-time when you have retired? How much and how long?
3. What level of income will you require in retirement?
4. What sources of income will you have in retirement? How much will it be?
5. How will you access your assets in retirement (cash lump sum, annuity, drawdown)?
6. Where will you get advice on your retirement planning?
7. How will you choose a provider for your retirement income needs?
8. What level of risk do you want to take? Which fund will you choose?
9. How long does your money need to last? At what rate will you draw down?
10. How do your spouse’s answers compare?

Source: SSGA for illustrative purposes only

More detail



[Click here](#)  
to view the research paper

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