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Current Issues in Pensions - 2005

DC Schemes and Plan Design

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DC Schemes and Plan Design

DC Schemes maturing:

- Legislation
- Re-designs
- Winding-up

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Offer a pension at all

Is a DC pension still appropriate anyway?

- Younger employees not interested
- Savings plans instead
- Part of a wider flexible benefits package

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Take up rates

Participation in DC lower than DB

- Surveys show lower take up
- Reduce choices?
- Compulsion

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Contribution structures

Age related structures

- DB replacement schemes
- Are they logical?
- Comparison with DB scheme members

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Contribution structures

Alternatives

- Flat / matched
- Age-related matching
- Service related
- Profit related

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Contribution structures

Levels 'sufficient'

- Schemes designed >5 years ago
- Things have changed
- Lower expected benefits / SMPs
- Corporate constraints

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Investment

Most schemes offer a choice

- Few members make a choice
- Not interested or don't understand?

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Investment

New choices

- Pressure to add funds
 - Shariah
 - Ethical
 - Hedge
 - Property

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Investment

Lifestyle

- The default default choice
- Alternatives
- Flexible retirement

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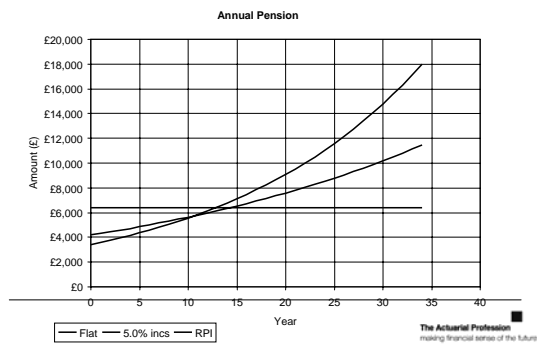
Pension Indexation

Removal of LPI from April 2005

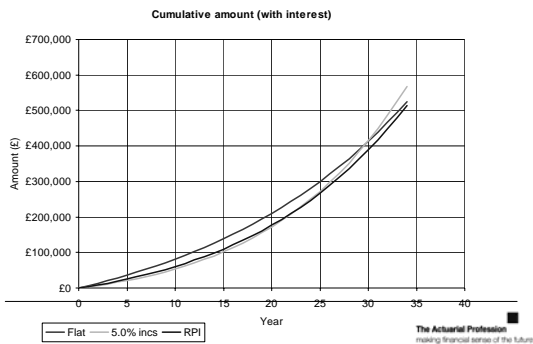
- Consistency with PPPs
- Eases administration
- Most will buy level annuity

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Level vs indexed



Level vs Indexed



Pension Indexation

Removal of LPI from April 2005

- Consistency with PPPs
 - Eases administration
 - Most will buy level annuity
 - Is this right?
 - What annuity options to offer?
-

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Pension Indexation

Affect on lifestyle strategy

- Look at bonds
 - Right for the majority?
-

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New types of pension

Finance Act introduces two new types

- Lifetime Annuity
 - Open market option
- Scheme Pension
 - Trustees choice
 - Have to offer Lifetime Annuity
- Significant difference!

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Affect on Lump Sum

Lifetime Annuity

- Treat as PPP
- LS=25% fund

Scheme Pension

- Treat as DB
- $LS = \frac{P \times 20 \times A}{(3 \times A + 20)}$

A > 20 -> LS < 25%

A < 20 -> LS > 25%

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New types of pension

Potential for confusion

- How do members choose?
- Refer to choice
- Not offer Scheme Pension

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Flexible Retirement options

Many other 'retirement' options

- Work / retire / accrue pension
- Staggered vesting
- Income drawdown
- Limited term annuities
- Alternative Secured Income

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Death benefits

Death in service

- Lump sum to replace spouses pension?
- Uncrystallised Funds Lump Sum Death Benefit
- More tax efficient
- Fits into DC ethos better
- Need advice?

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Projections

Are SMPs enough?

- Better than nothing
- Educational?
- What are members ready for?

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Trust or Contract based

Perceptible shift away from trust based schemes

- Contract based schemes now more attractive
- Pension simplification will accelerate this
- A good thing?

Maturity of DC schemes

Just starting to see “mature” DC schemes

- More deferreds than actives
- Retirements happening

Further changes in world of DB

Changes to closed DB Schemes

- Starting to see closed DB schemes being reviewed
- Move to DC or hybrid

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Discussion Session

- Is a DC pension appropriate for all?
- How to replace age-related contributions fairly?
- How to get members more interested in investment choices?
- Alternatives to traditional lifestyle in world of flexible retirement?
- What type of projections are members ready for / need?
