


Defined Contribution
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pensions – benefits – wellbeing – attraction & development

It is different

DC is essentially different from DB

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Different

- Member takes investment risk
- Member retires on a precise day
- He can be made redundant

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Different

- He has little understanding
- Contribution rates normally cut
- Regulators protect individuals and can act with hindsight

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Design – Best Advice

- Small investment choice
- Member understanding limited
- Difficult to take away choice
- EU employment law
- Trust deed

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Retirement

- Equities for growth
- Then bonds
- Lower volatility
- Match annuity pricing
- Cash to match tax free

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persons – benefits – wellbeing – attraction & development

Lifestyle Matrix

- Automatic transition by administrator
- Usually quarterly rebalance
- 10 – 5 years
- Equities to bonds
- Then to cash

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persons – benefits – wellbeing – attraction & development

Member Communication

- Seems simple
- Isn't
- Creates legal expectation
- Communication = FSA indirect communication?

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Relevance of DB to DC (New Thoughts for This Year)

- Finance Directors have woken up
- Not bothered when surpluses
- Very bothered when deficits
- Even more bothered at increased contributions for DB

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What can Finance Directors do?

- Close DB to new entrants
- Want to be rid of a problem area
- =Insured, not occupational DC

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Does insured DC get rid of the problem?

- Very slowly
- But pensionable staff recruitment low due to more use of outsourcing
- Problems for the future
- Lack of control over insurance company
- If insurance sector investments under-perform, can members argue, with hindsight, the employer should have known that?
- The courts don't act on hindsight
- BUT - the FSA can and does act on hindsight

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Accident waiting to be discovered

- Much lower contribution rates normal
- = lower contribution based returns
- Normal, not supernormal, investment returns
- High returns from lowered costs by Mrs Thatcher
- High returns from lowered costs from computing
- Norm= Inflation + 2% for bonds, + GDP growth for equities
- = lower investment returns
- = Much higher voluntary contributions needed (*Ha! Ha!*)

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Accident waiting to happen

- Man in the street disillusioned
- Not saving enough
- Government rushing legislation in response to media comment.
- E.g. PPF at same time as Chapter 11 equivalent bankruptcy law
- Not Apocalypse now, but Apocalypse in 20 years?

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Accident

- What to do
- Document, document
- If client won't pay enough
- Set out parameters this gives
- Limit liability
- "Be careful out there" (*Hill Street Blues*)

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