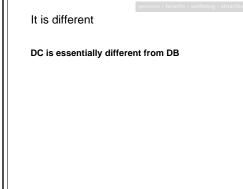


Defined Contribution Aon Consulting Ltd. Chris Erwin Investment Principal

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Different

- Member takes investment risk
- Member retires on a precise day

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• He can be made redundant

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Different

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

Design – Best Advice

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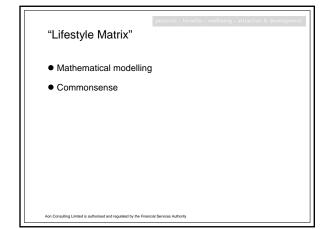
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- Small investment choice
- Member understanding limited
- Difficult to take away choice
- EU employment law
- Trust deed

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Retirement

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



"Lifestyle Matrix"

- Modelling says don't (5% events)
- Commonsense says yes
- Stock-market is fractal
- Fractals driven by economics, sentiment, greed, fear etc.
- Mathematically impossible to model to a precise time
- "Fat tail" distributions, not normal

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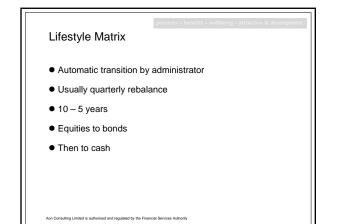
Lifestyle Matrix

• Gains matter, but

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- Member more scared of big losses, near retirement
- Wants to avoid rare event
- Will accept cost if he retires in in normal times

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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

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• 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

Does insured DC get rid of the problem?

Very slowly

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- 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

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• = Much higher voluntary contributions needed (*Ha! Ha!*)

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?

Accident

- What to do
- Document, document
- If client won't pay enough
- Set out parameters this gives

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- Limit liability
- "Be careful out there" (Hill Street Blues)

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