

The Actuarial Profession
making financial sense of the future

Pensions, benefits and social security colloquium 2011
Mark Stocker and Paul Macro



Role of the Actuary in DC schemes

25-27 September 2011

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Agenda

- The position a decade ago
- What's happened in the last decade?
- What's happening now?
- The next decade?

DC Working Parties

Background

- In the late 1990s the UK Actuarial Profession commissioned a report on the potential role of actuaries in the DC environment
- Expectation of a gradual move away from DB
 - But with DC and DB elements
- We were not downbeat

2

The view then on potential future actuarial involvement

Scheme design

- Advice about contracting-out and integrating benefits with State pensions
- Design of contributions to provide targeted levels of benefits
- Calculation of age-related contribution structures
- Advice relating to possible investment choices and lifestyling approaches
- Kite-marking of DC schemes

3

The view then on potential future actuarial involvement

Other areas

- Ongoing review of benefits against original objectives / targets
- Provision of illustrations to individuals
- Educating members on the trade off between investment risk and reward
- Possible 'DC reserved work' for actuaries

4

What happened?

Things didn't quite turn out as expected

- Many of the above roles have not materialised
- Cash balance but did not prove as popular as in the US
- Contracting-out less attractive and eventually abolished!
- Age-related contributions banned (effectively)
- Kite-marking hasn't materialised (yet)
- Few schemes formally targeted benefits or informally had objectives on benefit outcome
- SMPs introduced
- No sign of reserved work or statutory requirements emerging

5

What else happened?

Perhaps we didn't do enough?

- Our input into design (contributions and investment) was overlooked
 - herd mentality
- Were we concentrating on our DB roles instead of leading the way in DC?
- Have we been priced out of the market versus the competition?
- Little has changed in terms of the actuaries role in the DC

6

What's changed?

Who would have predicted these...

- Pace of change from DB to DC accelerated significantly
- 2 stock market crashes
- Credit crunch
- Onerous DB funding regulations
- More transparent accounting for DB pensions

7

Where are we now?

Another attempt

- In 2010 a new group was established to update our thinking
- Participants from range of disciplines
 - Actuaries and non-actuaries
- The key is to demonstrate where actuaries can add value

8

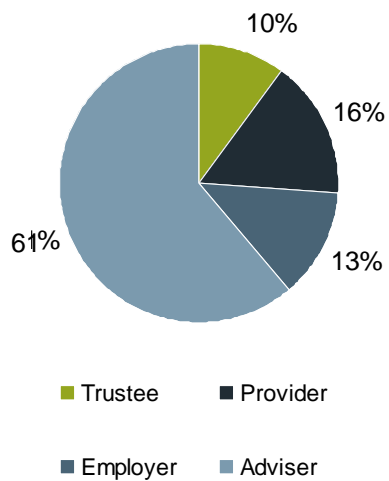
Stakeholder survey

Issued 2011

- Aimed at
 - Advisers
 - Sponsoring employers
 - Providers
 - members
- Widely publicised
 - Did anyone see it / respond to it?
- 34 responses

9

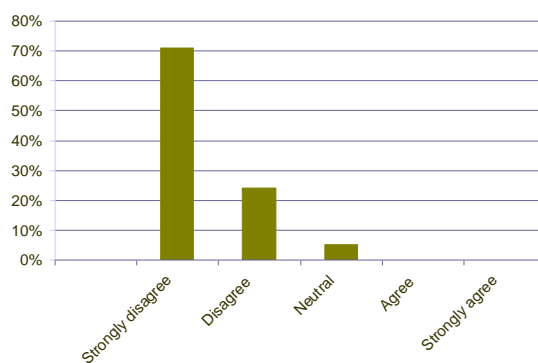
Responses



Contributions

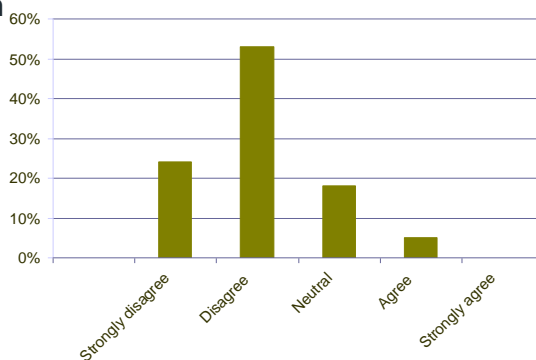
-What average score do you think employees would give to the following statement?

- "I know the monthly contributions required to get the income I want from my planned retirement age"



Advice

- "I can easily get as much good advice as I need about choices I make affecting my pension scheme benefits"

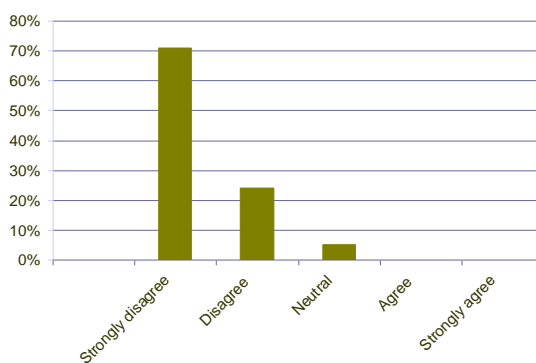


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12

Outcome vs expectations

- "I understand all the important assumptions behind estimates supplied of income I can expect at retirement and by how much the actual outcome could differ from the estimates"

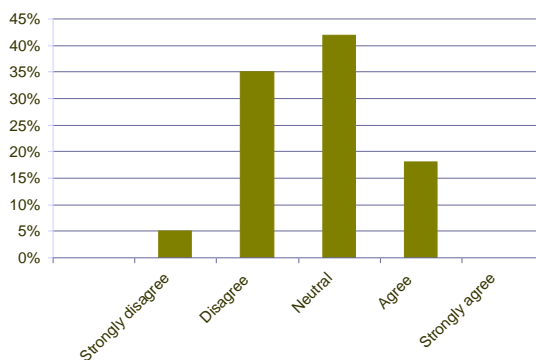


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13

Risk attitude

- "Contributions are invested for me in a way which reflects how much risk I am willing to accept to get the chance of better benefits in the long term"

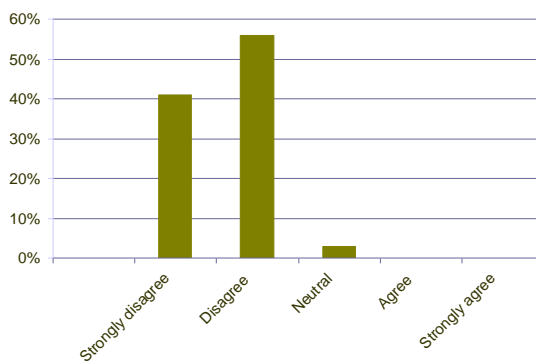


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14

Longevity expectations

- "I have checked and know how many years on average someone might expect to live taking pension income after my planned future retirement age"

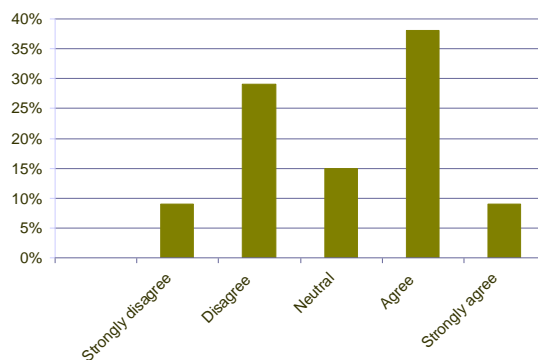


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15

Stochastic modelling

- “Good stochastic modelling tools are essential to enable the average employee to really understand how likely they are to get pension income at various possible levels”



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16

So what 'new' ideas might arise from this?

Scheme design

Is it all about costs?

- Pensionable salary x contribution rate
 - Not actuarial
- Projection of fund values / pension at retirement
 - More actuarial
 - But hardly rocket science
 - SMPI basis now 'standard'
- Comparisons of
 - actual vs expected
 - Revised expected vs originally expected
- Do corporates 'care' about ultimate benefit outputs?

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18

Investment matters

Increasing sophistication is needed

- Attitude and tolerance to risk
 - Is different for each member
 - Changes for an individual member over time
- Is not just about 'investment'
 - Long term objectives are important
 - Size of fund
 - Decumulation approach
- Individual asset / liability modeling
 - How to get this across
 - Administration

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19

At retirement

Members now have multiple possibilities

- Annuity conversion
 - Type and shape
- To buy an annuity at all
- But are these actuarial questions?
- Income drawdown amounts
 - Possibly
- Advice on effects of changing mortality on options
- Can this be supplied to the masses or just High Net Worths?

DC Certification for qualifying schemes

From October 2012

- Contribution levels
- Definition of earnings for contribution calculations
- No actuarial input required

Kite marking of DC schemes

A new standard?

- The Pensions Regulator wants schemes to be fit for purpose
 - “*voluntary accreditation or kite-marking for auto-enrolment schemes*”
 - the level of contributions
 - default fund
 - member communication
 - member understanding
 - retirement processes
 - value for money
- Should we push for a role for actuaries here?
- NAPF Pensions Quality Mark

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22

Wider savings product design

Will the future be more than just pensions?

- Move to wider savings approach beyond pensions?

Public interest role?

Can DC deliver?

- How far to take this?
- We 'know' that contributions will not be 'enough'
 - What is 'enough'?
 - Expectations vs outcomes
- Traditional lifestyle is now out of date
 - Retirement flexibility / uncertainty
 - Investment sophistication
- Commercial suicide?

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24

Do we need a scandal?

Can we be white knights?

- Might a(nother) major pensions issue brings us back to the fore?
- Someone will have to lose for us to gain
- Might we be seen (again) as the problem and not the solution?

The next ten years is just as difficult to predict as the last

Uncertain future?

- Changes in fiscal policy
- Cultural changes
- Impact of individuals retiring on lower (DC) pensions than hoped for
- Expansion of flexible benefits / wider wealth savings
- Potential for high inflation and poor investment returns
- Impact of auto-enrolment

DC and the role of Actuaries?

Negative outlook

- DC is simply not very actuarial
- Pushing for a statutory DC role will do us no favours
 - ‘Jobs for the boys’
- Our high expectation of remuneration could be a ‘drag’
- Back into the back room with others fronting the member side?

DC and the role of Actuaries?

Positive outlook

- Our wide / deep pensions experience has real value
- Opportunity to be (very) specialised financial advisers
- Role may be educational more than technical
- We need to market the skills that distinguish us
- As ten years ago, the challenge remains for actuaries to think about the areas where we can bring unique added value

28

Questions and your views?

The views expressed in this presentation are those of the presenters.



29