


The Actuarial Profession  
making financial sense of the future

# Investment Strategies for DC members

Robert Hayes



---

---

---

---

---

---

---

---

## Agenda

- Market trends over the last 15 years
- Default options
- Beyond lifestyle
- Member communication
- The future



The Actuarial Profession  
making financial sense of the future

---

---

---

---

---

---


---

---

## Market trends over the last 15 years

**1990s**

- Closure of DB to new joiners, trust based DC scheme put in place
- Lifestyle default
  - 10 year switching
  - Balanced Fund the norm
- 3-5 fund options
- Members paying investment fees, company paying admin fees



The Actuarial Profession  
making financial sense of the future

---

---

---

---

---

---

---

---

## Market trends over the last 15 years

### 2000 to date

- Move towards total packaged solution
- Lifestyle default
  - 3-5 year switching
  - Global Equity Funds the norm
- Newer schemes set up as contract based not trust
- 30-40 fund options
- Members paying all fees
- Trusts winding up in favour of contract for the future

The Actuarial Profession  
making financial sense of the future

---

---

---

---

---

---

---

---

## Freestyle

- In trust based DC Schemes, the range is increasing, but why?
  - Member demand?
  - Trustee "insurance"?
  - Consultant input?
- For contract based schemes, the range has always been wide
- Presentation of the range to members is key

Too much choice is no choice at all!

The Actuarial Profession  
making financial sense of the future

---

---

---

---

---

---

---

---

## Defaults

- Predominantly Lifestyle – very high take up rate even at financially literate companies!
- Some schemes still have a single fund
- No default = lower take up
- If you have no default, the level of communication must be higher

Most members are scared of investment. Why? Risk!

The Actuarial Profession  
making financial sense of the future

---

---

---

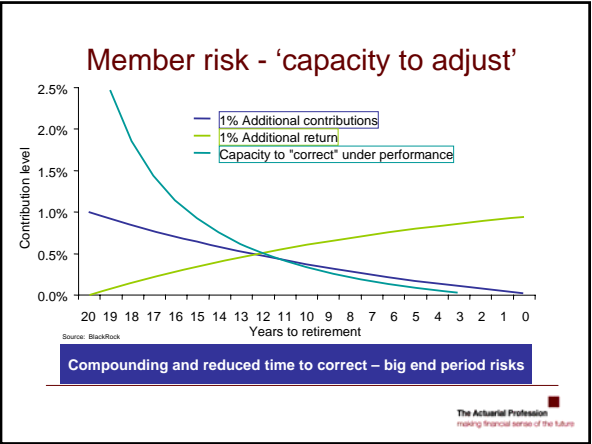
---

---

---

---

---



---

---

---

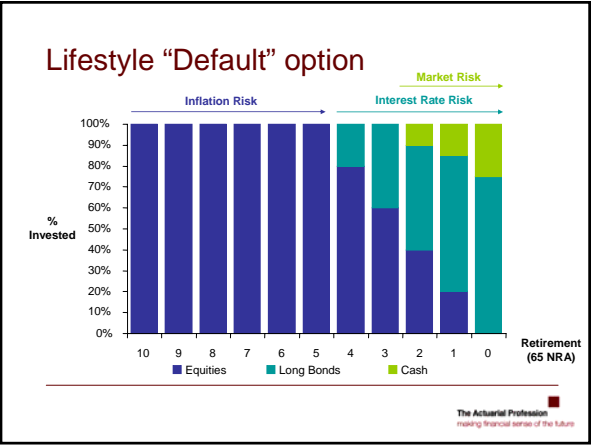
---

---

---

---

---



---

---

---

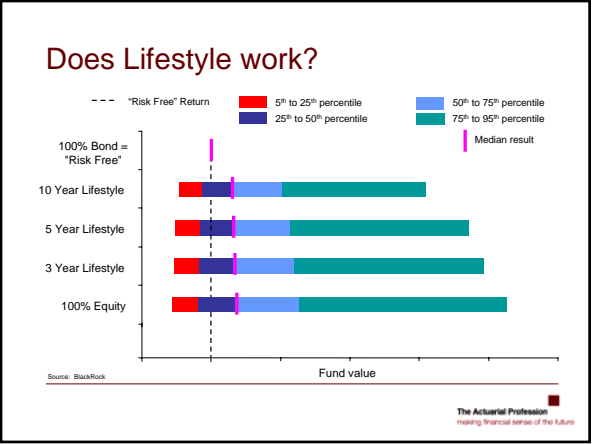
---

---

---

---

---



---

---

---

---

---

---

---

---

## Lifestyle: Conclusions

- Has little impact on median expected outcome compared to 100% equity investment
- Range of possible outcomes is reduced, but still very wide
- Helps protect against pre-retirement and market risks in the final years before retirement
- What about fund volatility in the build-up phase?
- Possible solution: ignore Lifestyle until 5-10 years before retirement, then review:
  - Where has my fund got to in relation to what I need?
  - What is the right strategy for the last few years?

The Actuarial Profession  
making financial sense of the future

## Alternative approaches to Lifestyle

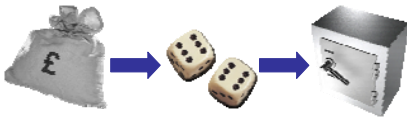
- Aim is to target a specific fund size, investment return or annuity amount
- Rather than a fixed schedule of switching from equity to bonds, weighting could be altered dynamically
- Can we "bank" any supra normal returns?
- Focus on the "destination" as well as the "journey"

Target Driven Investing (TDI)

The Actuarial Profession  
making financial sense of the future

## DC Banking

- Contributions invested in "risk" asset (e.g. equities)
- Bank good performance into "risk-free" fund to safeguard future returns
- Banking triggered by performance vs. required level of return
  - Bank when future returns from risk-free + past returns = required overall return
- Fits in with members' ideas on risk



The Actuarial Profession  
making financial sense of the future

## What do members expect from their investments?

- Don't like market falls
- Don't understand the concept of benchmarks
- Expect investment managers to lock in profits
- Want to know what they are going to get
- Don't like any form of risk

Are there any alternatives?

The Actuarial Profession  
making financial sense of the future

---

---

---

---

---

---

---

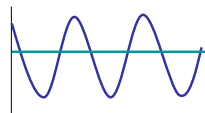
---

## DC Target Return versus relative return investing

Relative Return: asset allocation remains constant; investment returns fluctuate



DC Target Return: asset allocation fluctuates; investment returns remain constant



The Actuarial Profession  
making financial sense of the future

---

---

---

---

---

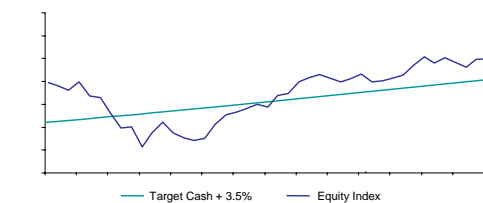
---

---

---

## DC Target return approach

- Joint objectives of providing a positive return whilst preserving capital



Source: BlackRock. Illustration Only

The Actuarial Profession  
making financial sense of the future

---

---

---

---

---

---

---

---

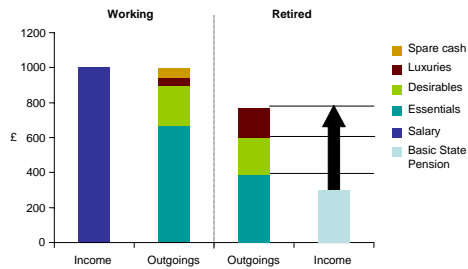
## Alternatives to Lifestyle: Conclusions

- No perfect solution or "magic bullet"
- Much of best practice LDI thinking can be translated into DC → TDI
- Lifestyle can help members manage some of the risks they face in the run up to their retirement, but maybe not the most serious one – "standard of living" risk
- There are alternatives e.g. DC Target Return/DC Banking which may produce a better range of outcomes
- Members need to be more focussed on their end goals

**Encourage members to focus on their target – standard of living in retirement**

The Actuarial Profession  
making financial sense of the future

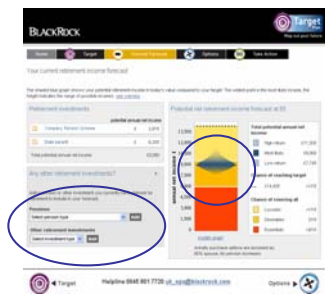
## How much do I need?



Source: BlackRock

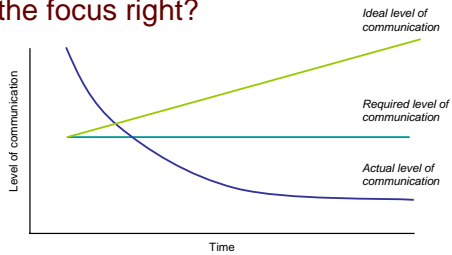
The Actuarial Profession  
making financial sense of the future

## What am I am likely to get?



The Actuarial Profession  
making financial sense of the future

## Member communication: Is the focus right?



Communicating the right things at the right time

The Actuarial Profession  
making financial sense of the future

## Future DC Developments

### 2007 and beyond

- Some Trust based schemes winding up and using a contract based scheme in the future
- Potential closure of DB not only to new joiners but to future accrual as well
- Alternatives to Lifestyle
- Greater use of comprehensive modelling tools
- Group Self Invested Personal Pension
- National Pensions Savings Scheme (NPSS)

The Actuarial Profession  
making financial sense of the future

- The following notes should be read in conjunction with the attached document:

1. Issued by BlackRock Investment Management (UK) Limited, authorised and regulated by the Financial Services Authority. Registered office: 33 King William Street, London, EC4R 9AS. Tel: 020 7743 3000. Registered in England No. 2020394. For your protection telephone calls are usually recorded. BlackRock is a trading name of BlackRock Investment Management (UK) Limited.
2. Past performance is not a guide to future performance. The value of investments and the income from them can fall as well as rise and is not guaranteed. You may not get back the amount originally invested. Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.
3. Any research in this document has been procured and may have been acted on by BlackRock for its own purpose. The results of such research are being made available only incidentally. The views expressed do not constitute investment or any other advice and are subject to change. They do not necessarily reflect the views of any company in the BlackRock Group or any part thereof and no assurances are made as to their accuracy.
4. This document is for information purposes only and does not constitute an offer or invitation to anyone to invest in any BlackRock funds and has not been prepared in connection with any such offer.
5. This material is for distribution to Intermediate Customers (as defined by the FSA Rules) and should not be relied upon by any other persons.
6. Subject to the express requirements of any client-specific investment management agreement or provisions relating to the management of a fund, we will not provide notice of any changes to our personnel, structure, policies, process, objectives or, without limitation, any other matter contained in this document.
7. Unless otherwise specified, all information contained in this document is current as at 11 January 2007.

The Actuarial Profession  
making financial sense of the future