

Institute & Faculty of Actuaries

**2003 Pensions Convention
Investment Strategies for DC Schemes**

Chris Erwin
Investment Principal
Aon Consulting Ltd

Risk Characteristic of DC

- Doesn't eliminate risk, exchanges it
- Should eliminate mismatch risk
- Investment risk with members
- Introduces HR risk

Risk Characteristic of DC

- Financial mismatch risk is short term
- HR risk is long term
- Member wakes up when pension = salary

Legal background

- US ERISA 404c
- Multiple choice no guidance = no fiduciary liability
- UK law untested
- Legal regulatory precedent = opposite of US

Myners

- Unclear for DC

NAPF

- Another long document

Strategy 1

- Multiple choice no guidance
- Retail
- ERISA
- Not UK law

Strategy 2

- One fund only
- NAPF says ok
- Old fashioned
- Risk in retrospect

Strategy 3

- Lifestyle
- Equities first
- Bonds/cash after
- Risk if no choice?

Strategy 4

- Lifestyle and small opt out
- Most common
- Active vs Passive

Guidance

- UK law assumes paternalism

Basic funds

- Same as US essentially
- Equities, Bonds, Cash

Composite funds

- All equity: UK/Overseas split?
- Bond: Gilt/Corporate/Indexed split

Changing manager

- Nightmare?
 - Communications
 - Administration
 - Legal

Lifestyling

- Length of switch
- Administrative practicality
- Short term market conditions

Opt out funds

- Basic funds & what?
- Active v Passive

Communication

- Creates liability

Problems

- Early retirement
- Redundancy
- Redundancy/stockmarket correlation

Solutions

- Old solutions
- New solutions

Future Issues

- £1.4m limit
