


Defined Contribution Landscapes

**The Institute and Faculty of Actuaries
Current Highlights in Pensions Seminar**

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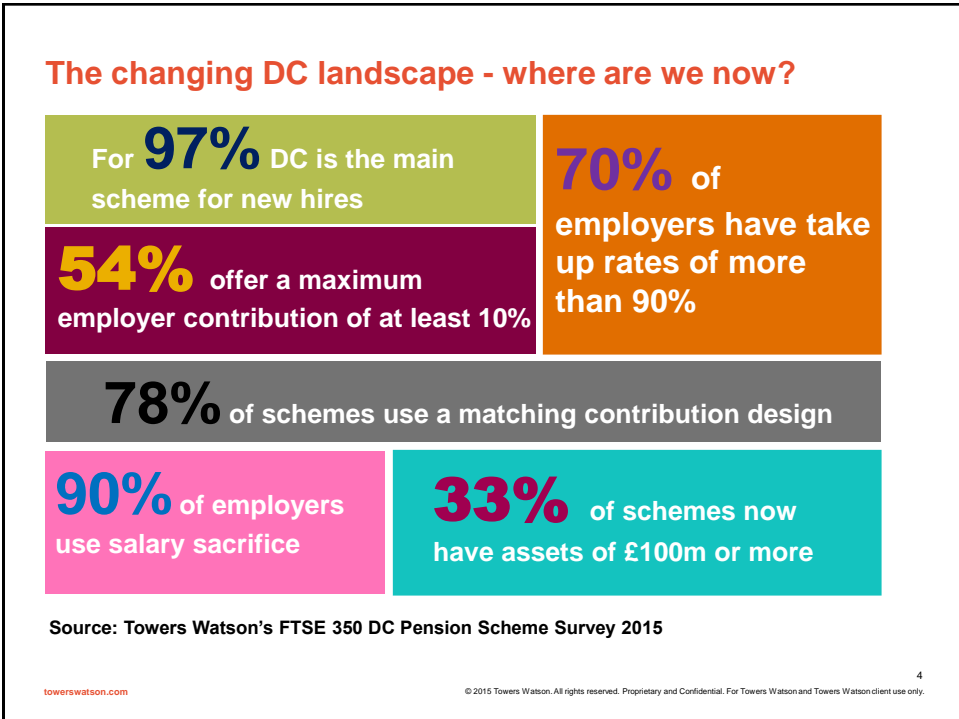
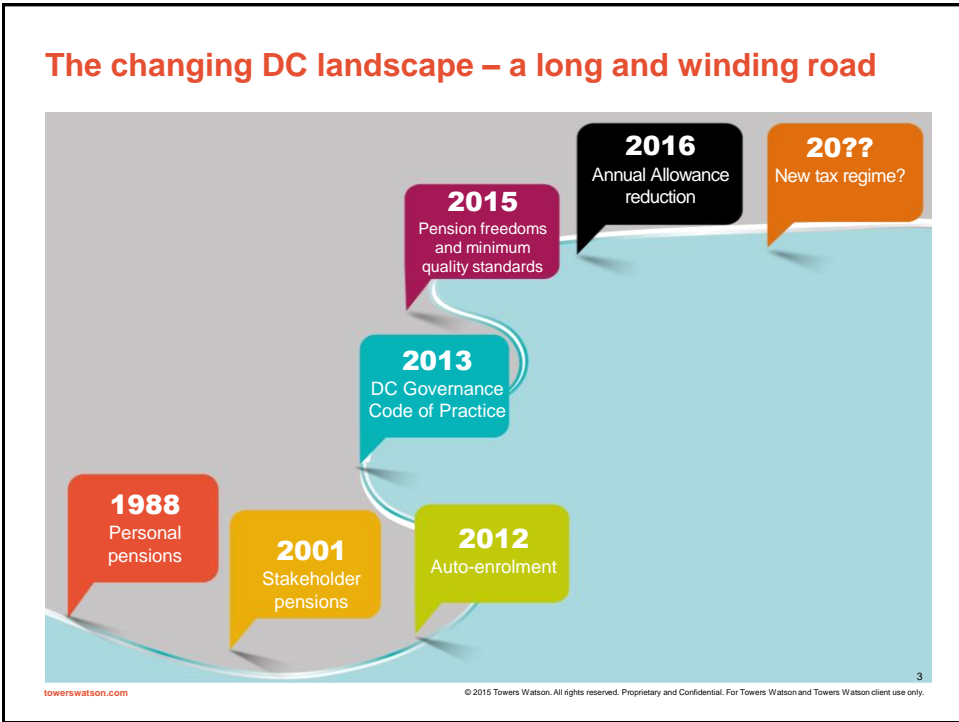
Agenda

-  **The changing DC landscape**
-  **DC governance under the spotlight**
-  **Pension freedoms – 6 months later**
-  **The Summer Budget – more changes on the way**

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DC governance under the spotlight

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Code in the spotlight



Thursday 21 November 2013:

- TPR Code of Practice 13 came into effect *"Governance and administration of occupational defined contribution trust-based pension schemes"*
- DC Regulatory guidance
- New consultation on AVCs expected late 2015



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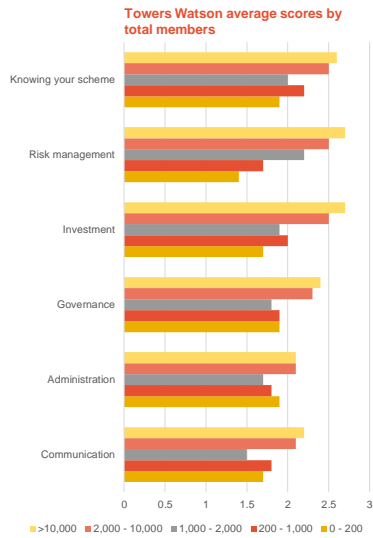
How are schemes measuring up to the Code?

Key finding from tPR survey

- Large pension schemes (>1,000 members) display more of the 31 quality features than small (12-99 members) and medium schemes (100-999 members)

Problem areas

- Security and liquidity of scheme assets
- Value for money and transparency of member charges
- Scheme record keeping
- Processing core transactions
- Robust retirement process
- Member communications



DWP - minimum quality standards from April 2015

- Introduction of a charge cap of 0.75% for default funds
- New minimum standards covering:
 - the design and net performance of default investment strategies
 - standards of administration and processing of core financial transactions
 - costs and charges borne by scheme members (value for money)
 - levels of knowledge and understanding
- The DWP, tPR and FCA worked closely to try and ensure a consistent approach.
- For trust based DC schemes, stronger governance duties have been placed on trustees – ‘Chair statement’ to be included in the report and accounts from 2016
- For contract based schemes, providers required to set up Independent Governance Committees (IGCs)



Implementation of the new standards will require changes to how many trust-based and contract-based schemes are governed

The influence of auto-enrolment

Trust

- Trustees are responsible for the scheme governance
- Increased focus following the Code of Practice 13
- New minimum standards and annual Chair Statements from 2016

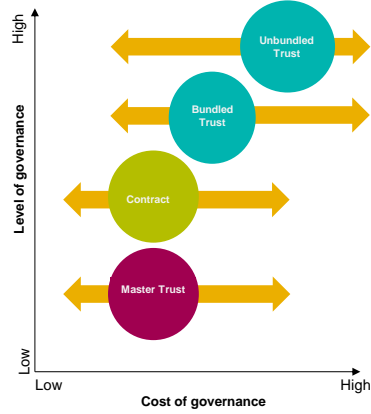
Contract (GPP/Stakeholder)

- No legal duty for employer governance structure
- From April 2015, the provider must establish an Independent Governance Committee (IGC) that has responsibility for compliance with new minimum governance standards

Type of DC scheme offered to new hires



Source: Towers Watson's FTSE 350 DC Pension Scheme Survey 2015
towerswatson.com



tPR is urging small employers who are preparing for automatic enrolment to choose a high quality scheme such as a master trust or a group personal pension plan.

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Pension Freedoms – 6 months later

Remember the headlines?

the guardian
BUDGET 2014
Vote blue, go grey

THE TIMES
YOUR PENSION • YOUR NEST EGG • YOUR ISA

THE Sun
2 FREE
Rompin' Van Persie
MADDIE
BUDGET FOR SUN READER

FINANCIAL TIMES
Budget 2014
Pensions revolution as Osborne wooes the silver-haired and savers

DAILY EXPRESS
MADELINE BREAKTHROUGH
Police hunt intruder who attacked five other British girls in Portugal

WINNING
TAX ON BINGO HALVED
2 PENCE OFF POINT OF BEER
PENSIONERS CAN CASH IN
HELP TO BUY EXTENDED

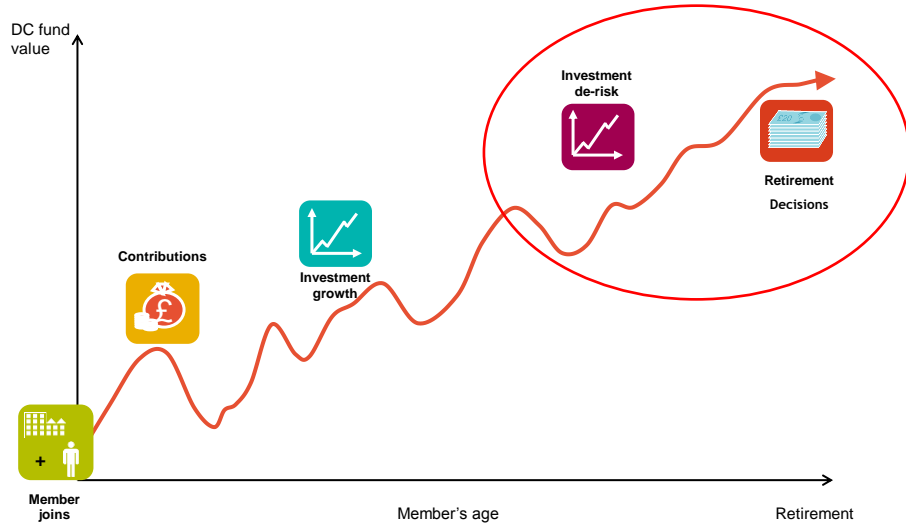
BUDGET 2014 AT A GLANCE
1. TAX ON BINGO HALVED
2. PENCE OFF POINT OF BEER
3. PENSIONERS CAN CASH IN
4. HELP TO BUY EXTENDED
5. EXTRA £5 TAX-FREE PENSION
6. ISA LIMIT UP TO £15,000
7. A MILLION

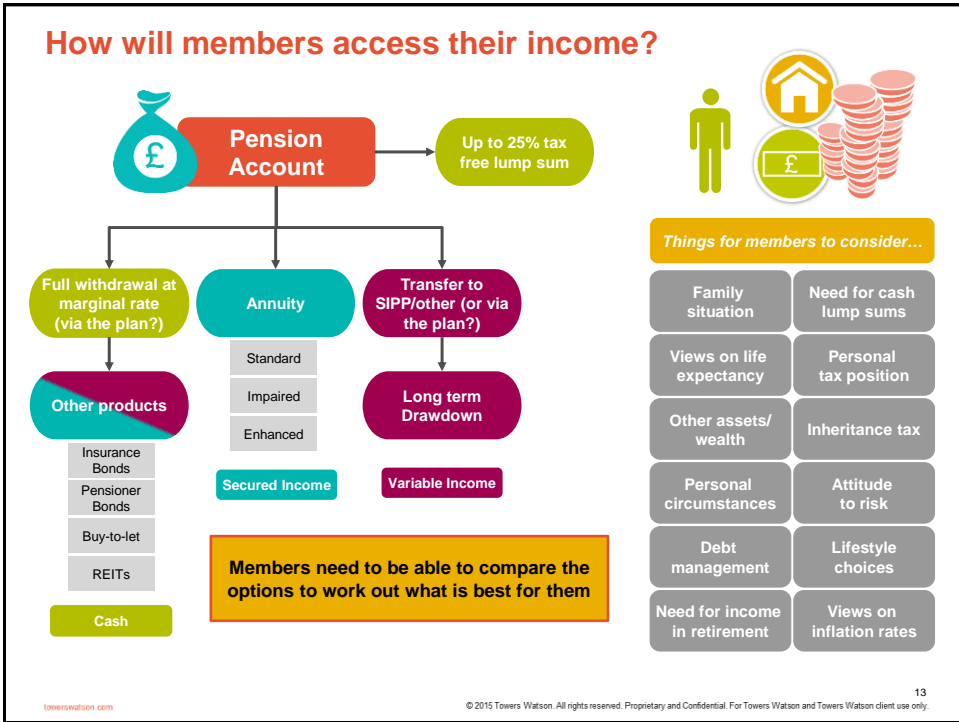
PENSIONS AND SAVINGS FOR ALL
Chancellor's great news for 'makers, doers and savers'

"Everyone will be offered free, impartial, face-to-face advice..."

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Impact on member DC journey





What's happening at retirement?

40%
reduction in annuity purchase

Cash is King

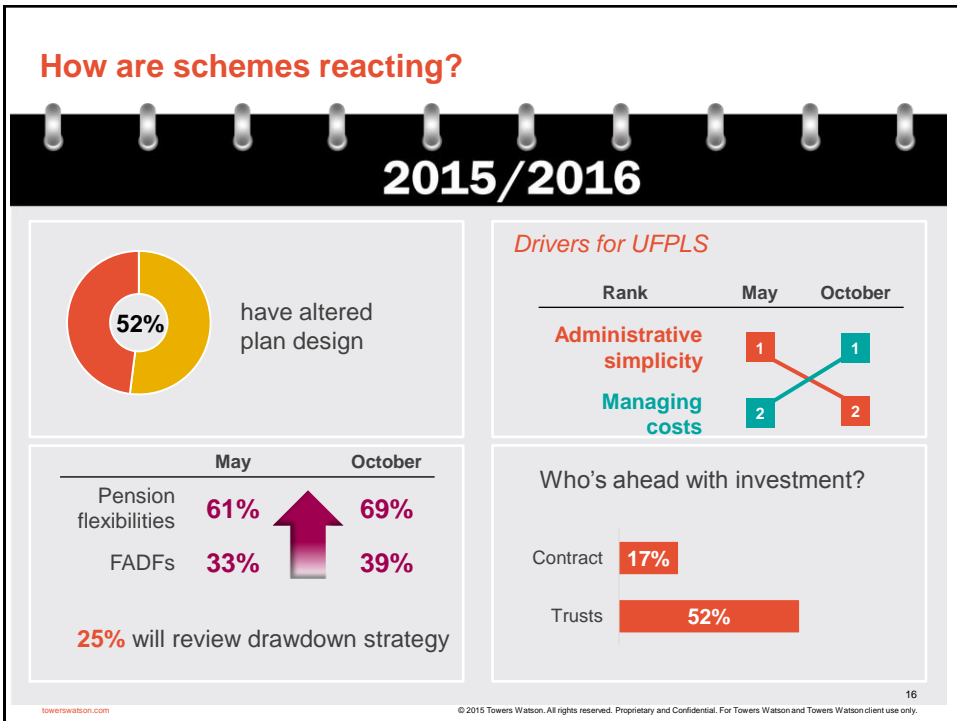
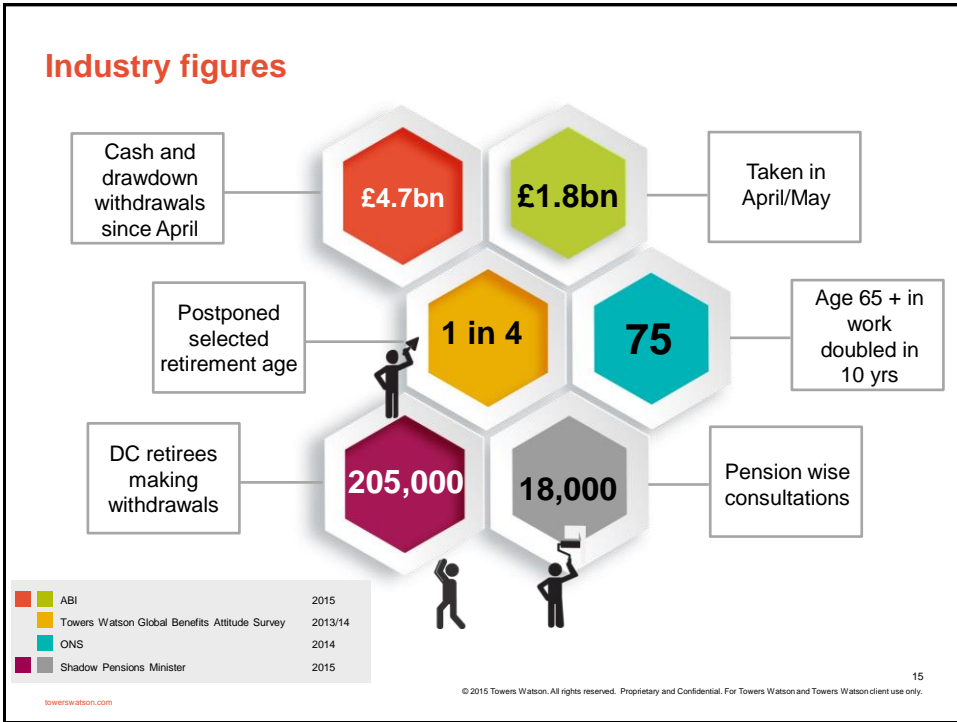
8X Retirees taking cash


Increasing annuity pots, median now

£30k


DC Members 55 or older
Towers Watson Administration data 11 September 2015

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The Summer Budget – more changes on the way

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More change on the way

<p>AA reduced for some LTA reduced for all</p> 	<p>Opportunity for higher pension contribution (up to £80K) in 2015/2016</p>	
<p>April 2016 Reduced AA</p> 	<p>LTA Register for protection</p>	
<p>Strategic review</p>	<p>Communications</p> 	<p>Alternative savings</p>

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Green paper consultation

The principles

Reform should be:

- Simple and transparent
- Support personal responsibility
- Build on the early success of automatic enrolment
- Be sustainable (in terms of cost to the Exchequer)

Why now?

Two reasons:

- Increasing longevity; and
- Move from DB to DC pension provision with the latter likely to prove inadequate to meet individuals' retirement expectations

Exempt-Exempt-Taxed

Current model:

- Contributions are exempt from tax when paid
- Roll-up is exempt
- Payments are taxed (but 25% can be taken tax-free)

Taxed-Exempt-Exempt

Options:


- From moving to a TEE system with a government top-up on contributions, to
- Retaining the current system and altering the lifetime and annual allowances
- ... and anything in between!


Where to next for DC?



***‘To get there,
I wouldn’t start
from here’
Old Irish proverb***

Any Questions



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