



Defined Contribution Schemes

Hatty Goodwin

24 November 2020

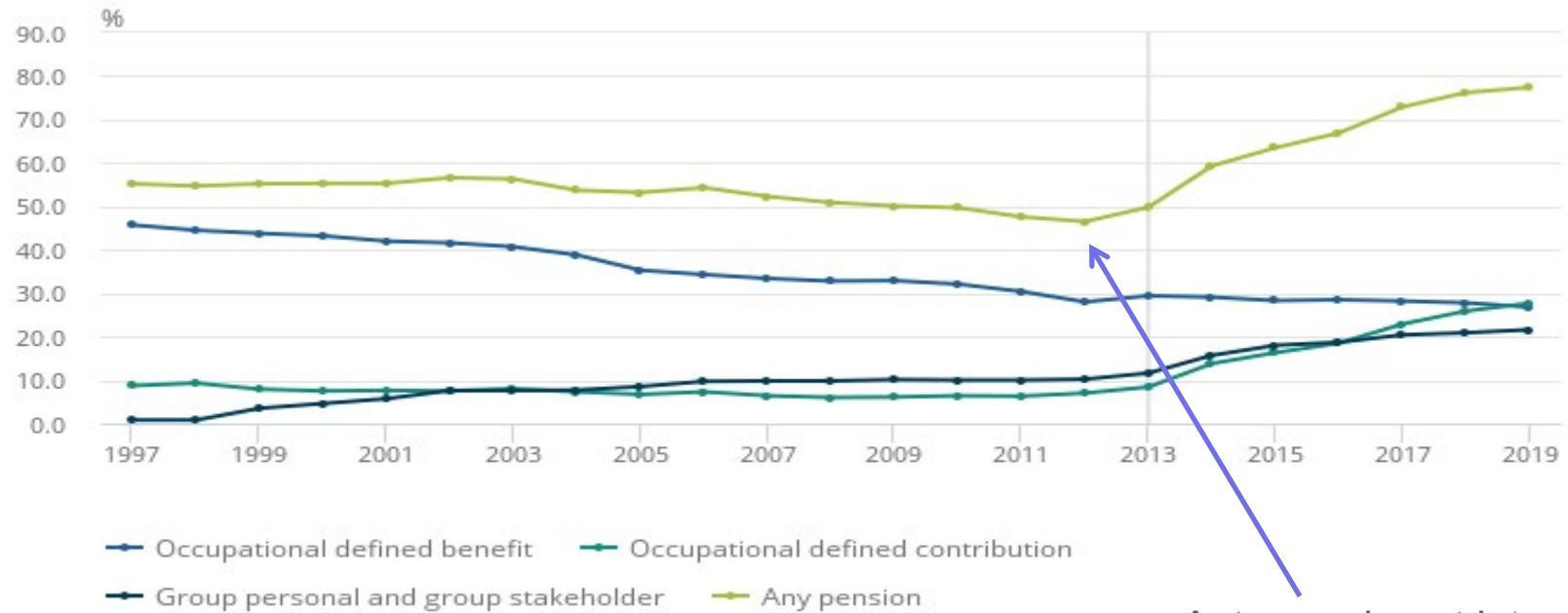
Agenda

- The nature of Defined Contribution Schemes
 - The market
 - How DC works
 - Retirement options
- Investment strategy
 - Default funds and life-styling
 - Member choices
- Governance requirements
 - Code of practice
 - Chair's statement
- Retirement Living Standards



Workplace Pension Membership

Proportion of employees with workplace pensions: by type of pension, UK, 1997 to 2019



Auto-enrolment introduced

Source: Office for National Statistics - Annual Survey of Hours and Earnings

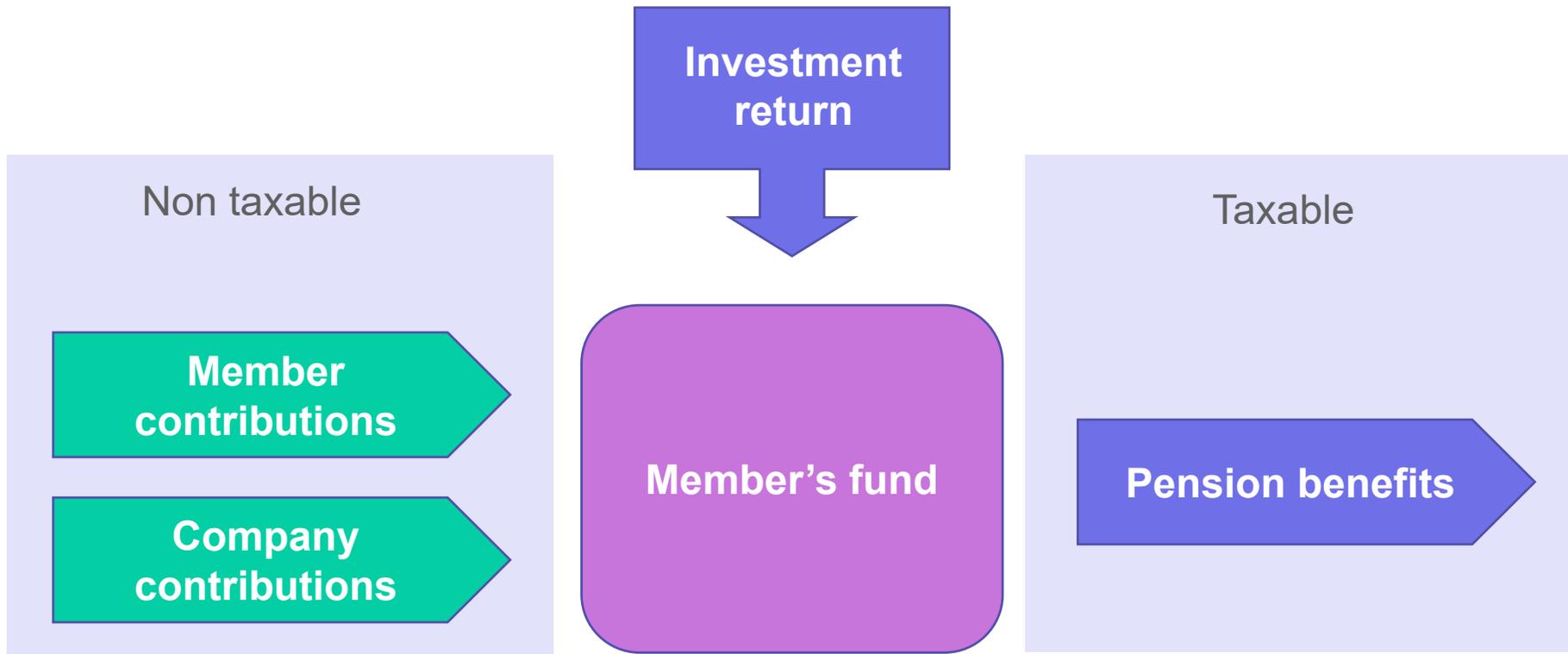
Workplace Pension Membership

	Public Sector	Private Sector
Membership of a scheme	89%	73%
Membership of DB scheme	92%	11%
Membership of DC scheme	8%	89%

Source: Office for National Statistics: 2019 Annual Survey of Hours and Earnings (Provisional results)



How DC schemes work



The member bears the risk

Risks



Insufficient contributions



High charges



Inadequate or volatile investment returns



Improving longevity



Inflation



Retirement options

Minimum
pension age

55

25%

TAX FREE

lump
sum

Annuities



Income drawdown
“cash flow”

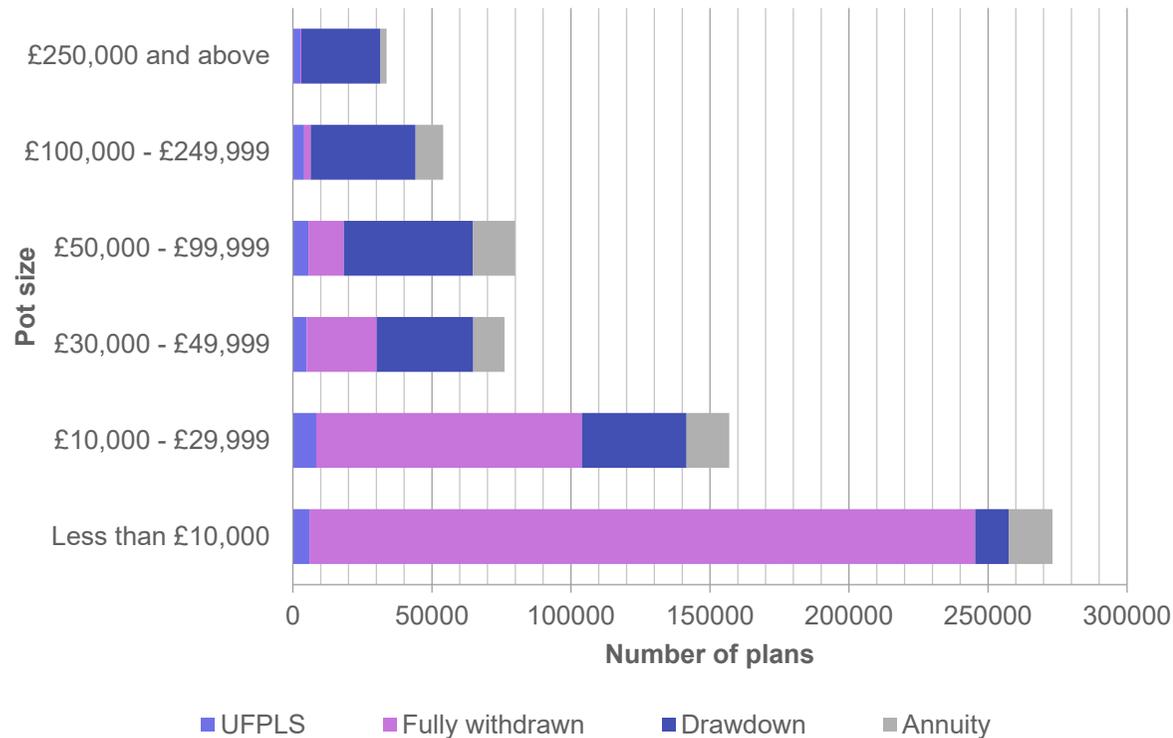
Transfer Value

UFPLS
“cash lump sums”



Market Update – FCA*

Number of plans accessed by pot size and access method in 2019/20



42% of regular withdrawals were withdrawn at an annual rate of 8% or more of the pot value (40% in 2018/19)

*FCA retirement income market data 2019/20



Lifetime annuities

- Pay an income for Life
- Can be purchased at any age (from 55)
- Options include:
 - Single or joint life
 - Fixed or escalating income
 - Lifestyle considerations

Your Quotation

Your annuity quote for a fund value of
£100,000:

Annuity at Age 60 £ 4,620 p.a.

Annuity at Age 65 £ 5,350 p.a.

Annuity at Age 70 £ 6,130p.a.

50% spouse pension -£ 590 p.a.

Inflation increases -£ 2,050 p.a.

Impaired annuity +£ 1,050 p.a.



Pension Flexibilities

- Pensioners can choose how much to drawdown from their pension pot (two options are FAD or UFPLS)
- 25% of the fund can be taken **tax free** – the rest will be subject to marginal rate of **income tax**
- Individual **retirement guidance** available
- Money Purchase Annual Allowance (£4,000)

Flexi-Access Drawdown (FAD)	Uncrystallised Funds Pension Lump Sum (UFPLS)
25% tax free lump sum is taken initially	The first 25% of each UFPLS is tax-free



Investment strategy

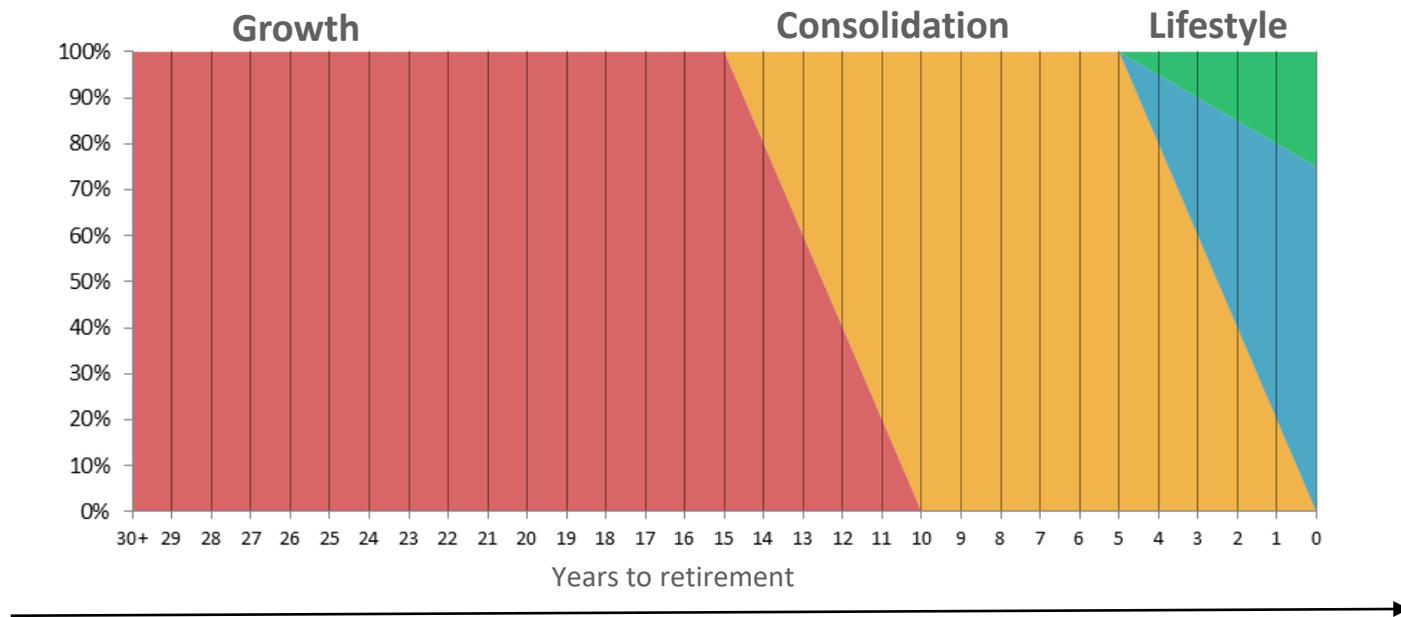
Strategy - Objectives

- **Maximise** the assets, and hence **pension benefits**, at retirement
- Control the **variability** of the expected benefits at retirement
- Offer a **range** of different **fund choices**
- Choose an appropriate **default fund**
- Ensure **“Value for Members”**



“Life-styling”

- Fixed mechanism to switch from **growth to matching assets** over up to fifteen years prior to **selected retirement date**



- Lacks **flexibility** and requires assumptions about benefits at retirement (cash, drawdown or annuity)

Fund options



Can **too many** choices lead to information **overload**?



Around **90%** use the **default fund**



DC Governance requirements

DC Regulations

- Occupational pension schemes - the Pensions Regulator
 - Code of Practice (e.g. 13 – Governance and Administration)
 - Regulatory Guidance (e.g. Record-keeping)
 - Auto-enrolment
- Contract based pension schemes – the Financial Conduct Authority
 - Independent Governance Committees
 - Financial Services Compensation Scheme
- 2020 DWP Consultation
 - Improving outcomes for members of defined contribution pension schemes
 - Comply or consolidate

Code of Practice

- Code of Practice no. 13
 - The Trustee Board
 - Scheme management / Knowledge and Understanding
 - Administration
 - Investment governance
 - Value for Members
 - Communicating and reporting
- Quality Scheme Assessment Template

Administration

- Trustees must ensure prompt and accurate processing of core financial transactions
 - Review quarterly administration reports
 - Consider service level agreements and administration processes and controls
 - Record keeping checks
 - Reconcile contributions



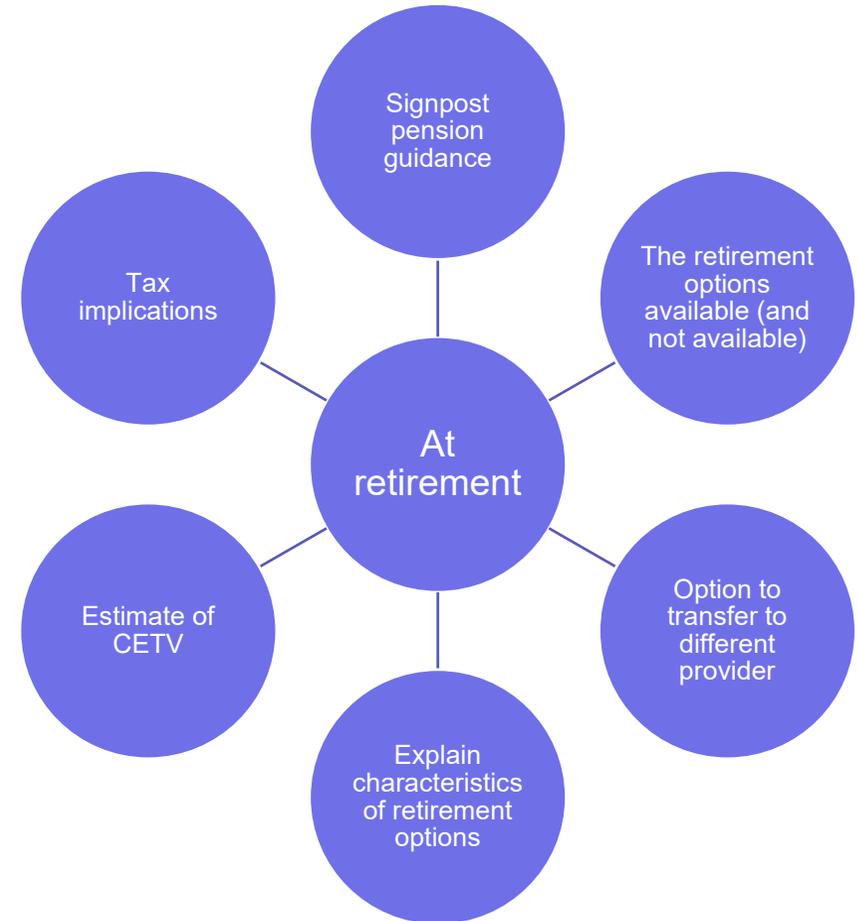
Value for Members

- Four key areas:
 - Scheme management and governance
 - Administration
 - Investment governance
 - Communications
- Restrictions on costs and charges
- Reviewed annually and clearly communicated

“Poor value for members is a key risk that trustee boards need to manage”

Communications

- Plain English
- Timely
- Level of contributions is key
- Pension scams
- Review content and format
- Electronic/Online



Chair's Statement

- Provides information to members (investment options/charges)
- Confirms how Trustees are meeting governance standards
- To be published in annual report and accounts and online (searchable)
- Also declaration on Scheme Return
- Documented evidence may be requested by Regulator
- Fine for non-compliance

Retirement Living Standards



PLSA Retirement Living Standards

	MINIMUM	MODERATE	COMFORTABLE
SINGLE	£10,200 a year	£20,200 a year	£33,000 a year
WHAT STANDARD OF LIVING COULD YOU HAVE?	Covers all your needs, with some left over for fun	More financial security and flexibility	More financial freedom and some luxuries
 HOUSE	DIY maintenance and decorating one room a year.	Some help with maintenance and decorating each year.	Replace kitchen and bathroom every 10/15 years.
 FOOD & DRINK	A £38 weekly food shop.	A £46 weekly food shop.	A £56 weekly food shop.
 TRANSPORT	No car.	3-year old car replaced every 10 years.	2-year old car replaced every five years.
 HOLIDAYS & LEISURE	A week and a long weekend in the UK every year.	2 weeks in Europe and a long weekend in the UK every year.	3 weeks in Europe every year.
 CLOTHING & PERSONAL	£460 for clothing and footwear each year.	£750 for clothing and footwear each year.	£1,000 - £1,500 for clothing and footwear each year.
 HELPING OTHERS	£10 for each birthday present.	£30 for each birthday present.	£50 for each birthday present.

PLSA Retirement Living Standards

Retirement Living Standard	Annual Expenditure	State Pension	Pot Income	Fund Size required (If purchasing an annuity)*
Comfortable	£33,000	£8,767	£24,233	£484,660
Moderate	£20,200	£8,767	£11,433	£228,660
Minimum	£10,200	£8,767	£1,433	£28,660

*Figures assume £5,000 annuity per £100,000



Questions?





Broadstone Consultants & Actuaries Limited (BC&AL), Broadstone Consulting Actuaries Limited (BCAL), Broadstone Corporate Benefits Limited (BCBL), Broadstone Financial Solutions Limited (BFSL) and 3HR Benefits Consultancy Limited (3HRL) are companies registered in England & Wales, with Companies House numbers 07165366, 04240092, 07978187, 02131269 and 06681835 respectively. BC&AL, BCAL, BCBL, BFSL and 3HRL have their registered offices at 100 Wood Street, London EC2V 7AN. BCBL, BFSL and 3HRL are authorised and regulated by the Financial Conduct Authority (Financial Services Register numbers 587699, 134771 and 556015 respectively). Broadstone Pensions Consulting Limited is a company registered in Scotland, with Companies House number SC458221. Its registered office is at 221 West George Street, Glasgow, Scotland, G2 2ND. Broadstone Risk & Healthcare Limited is a company registered in Scotland, with Companies House number SC191020. Its registered office is at Falkirk Business Hub, 45 Vicar Street, Falkirk, Scotland, FK1 1LL and it is authorised and regulated by the Financial Conduct Authority (Financial Services Register number 308641). Each of the above companies use the trading name Broadstone, which is a trademark owned by BCBL and used by companies in the Broadstone group.

Nothing in this presentation should be considered as granting any licence or right under the Broadstone trademark nor should you attempt to use, copy, adapt or attempt to register any similar trademark to the Broadstone trademark appearing on our website or in the information contained herein.

Whilst care has been taken in preparing this document it is for information only. Unless otherwise made clear, it is not, and should not be construed as advice, and accordingly no reliance should be placed on the information contained herein. Any views or opinions expressed herein are not necessarily the views or opinions of Broadstone or any part thereof and no assurances are made as to their accuracy. Please contact Broadstone to discuss matters in the context of your own particular circumstances.

Past performance of an investment is no guide to its performance in the future. Investments, or income from them, can go down as well as up and you may not necessarily get back the amount invested.

This document is only for your use and must not be circulated to anyone else without the consent of Broadstone.