



Defined Contribution Schemes

Simon Pickerill

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Agenda

- UK Defined contribution pension provision
- DC Schemes in practice
 - How DC works
 - Retirement options
- DC Governance requirements
 - Trustee duties
 - Code of practice
 - Chair's statement
- Investment strategy
 - Default funds, life-styling and Target Date Funds
 - Member choices
- Retirement Living Standards



DC pension provision in the UK

2020 snapshot

	Defined Benefit	Hybrid dual-section	DC (trust)	DC (workplace contract)
Schemes	4,890	720	27,640	1,960
Open schemes	710	320	23,350	1,560
Total memberships	6,620,000	4,552,000	20,233,000	N/A
Total active members	585,000	241,000	969,000	5,605,000

Sources: All figures from TPR's data based on scheme returns, 31 December 2020 except DC (workplace contract) total active members, from ASHE 2019 (published March 2020).

Defined contribution membership

DC Trust Trends

Figure 2: Memberships of occupational DC schemes by membership size group (including hybrid schemes) (2010-2021)

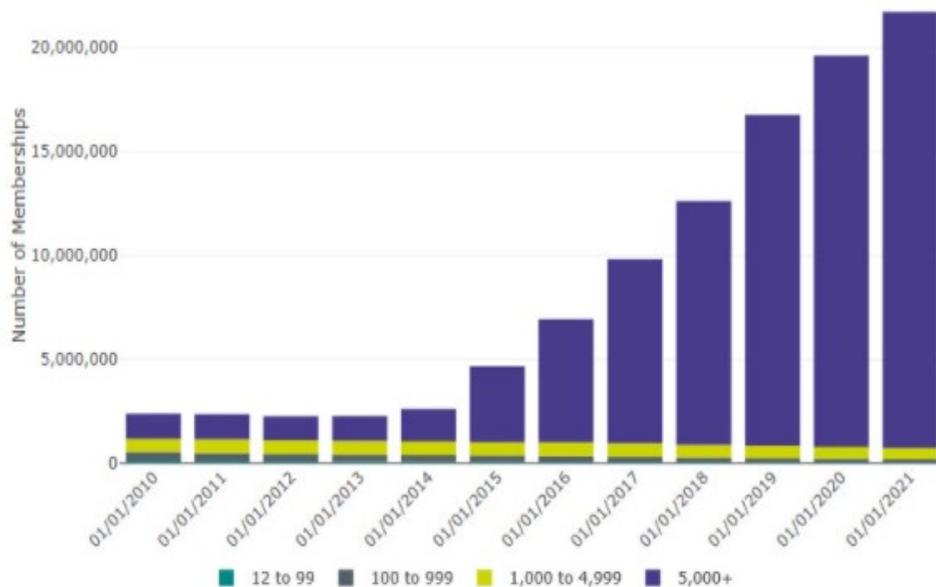
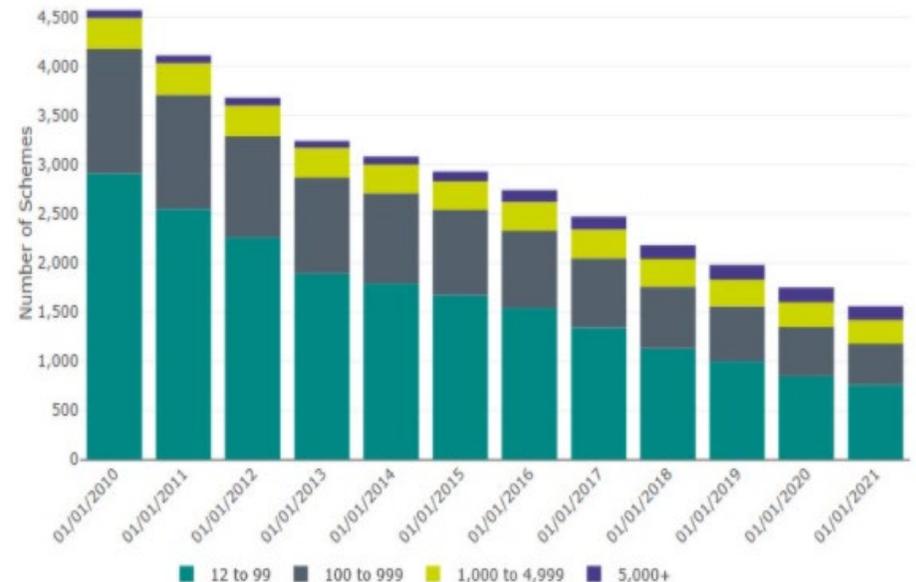
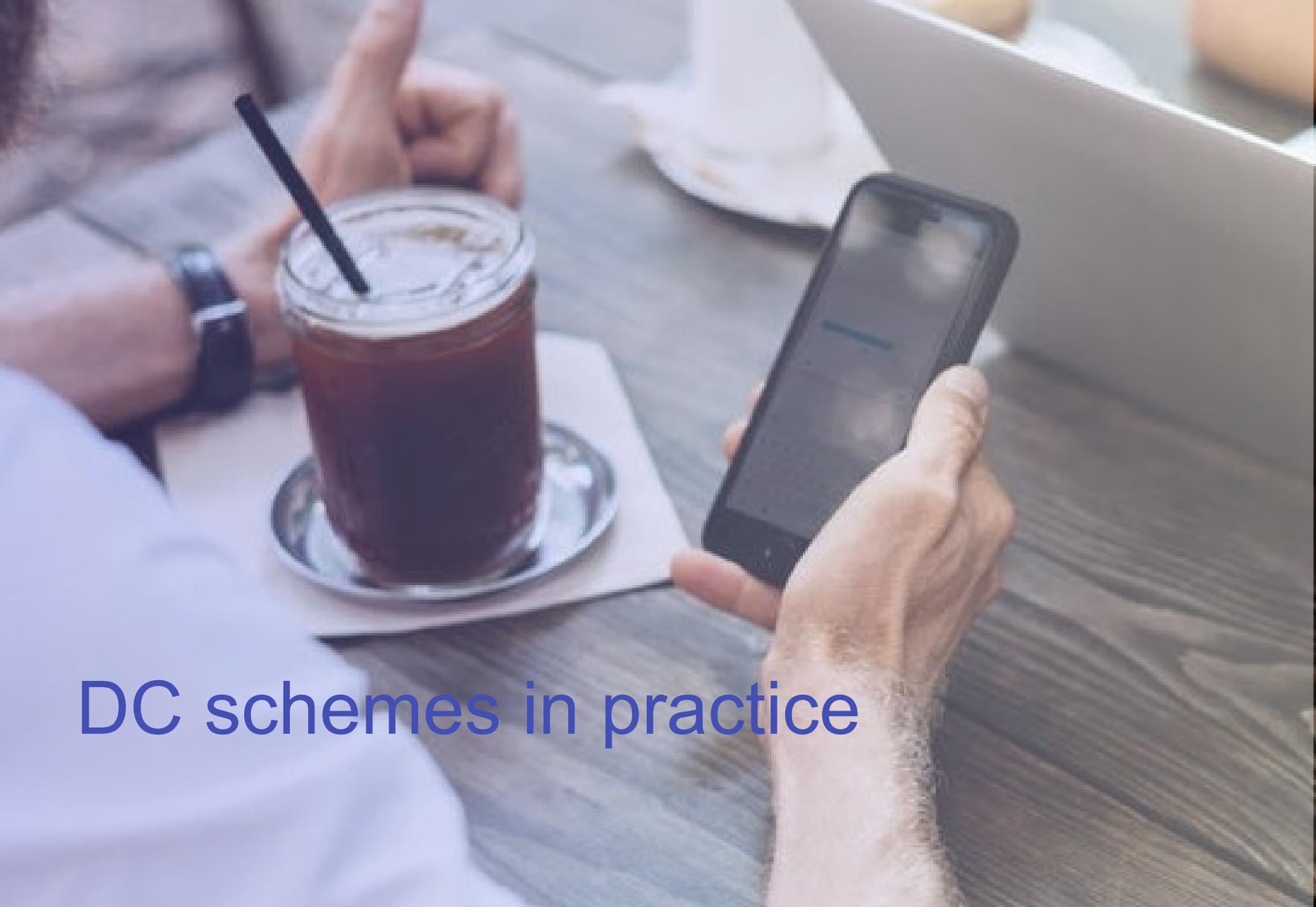


Figure 1: Occupational DC schemes by membership size group (including hybrid schemes) (2010-2021)



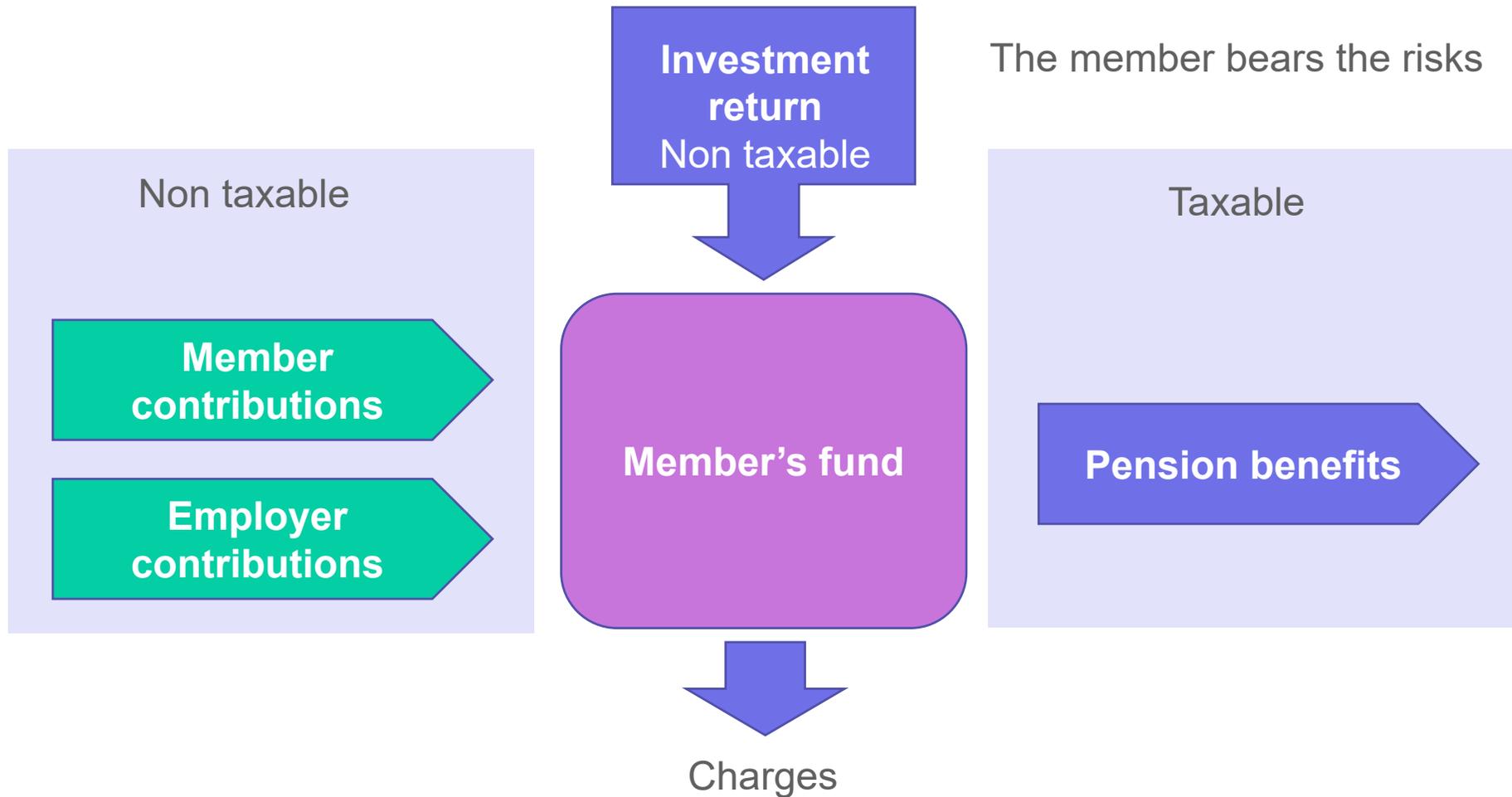
Source(s): TPR: DC Trust: Presentation of scheme return data 2020 - 2021



A close-up photograph of a person's hands. One hand is holding a black smartphone, displaying a dark screen with a faint blue line. The other hand is holding a black straw in a clear plastic cup filled with a dark liquid, likely coffee, topped with a white foam. The cup is on a silver tray. The background shows a wooden table and a white plate with a fork. The overall scene suggests a person using a mobile device in a cafe or office setting.

DC schemes in practice

How DC schemes work



Risks



Insufficient contributions



High charges



Inadequate or volatile investment returns



Improving longevity



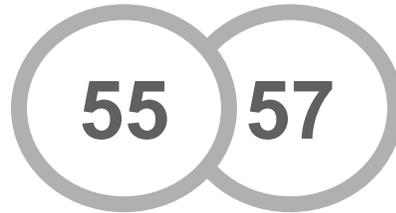
Inflation



Retirement Options

Using funds at retirement

Minimum pension age



Option to take 25%



Lump sum

Swap for a guaranteed Income

Lifetime Annuity

Leave invested and take an adjustable income

Flexi Access Drawdown

Take your whole pension pot In one go

Full encashment

Take cash in chunks

Series of cash sums

From your Scheme or by transferring to another arrangement



Lifetime annuities

Secure income, no flexibility

- 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

Shop around

£100,000 fund			
	Age 60	Age 65	Age 70
Single life, 5 year guarantee	£4,193	£4,884	£5,737
50% spouse pension	£3,882	£4,295	£5,066
3% escalation 5 year guarantee	£2,592	£3,328	£4,161
With both spouse pension and escalation	£2,314	£2,823	£3,571

April 2021



Pension Flexibilities

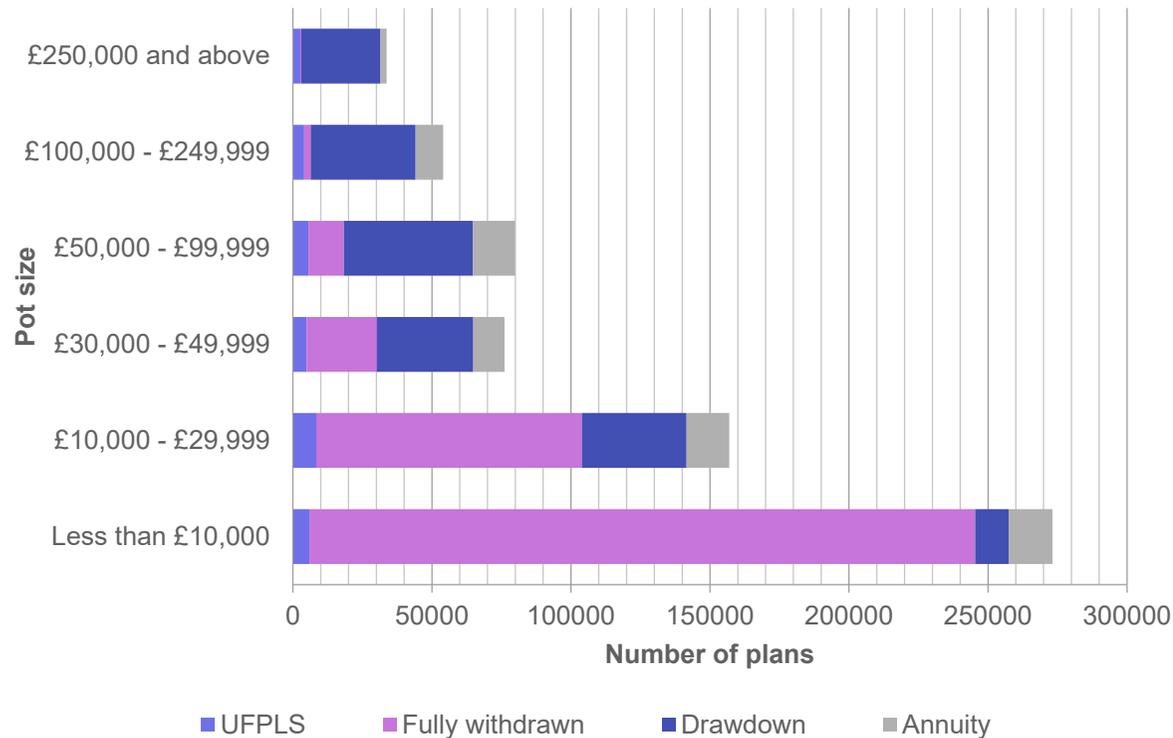
Flexi Access Drawdown and UFPLS

- 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

What have members been choosing?

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



Choice depended on pot size but Annuity purchase declining

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



A close-up photograph of a person's hands at a cafe table. The person is holding a black smartphone in their right hand, looking at the screen. On the table in front of them is a clear plastic cup filled with a dark brown beverage, topped with a white foam and a black straw. The cup sits on a silver metal saucer. The table is made of light-colored wood. In the background, another person's hand is visible, pointing upwards. The overall scene is a casual cafe setting.

DC Governance requirements

Trustee duties

Legal and regulatory regime



Hold assets for the benefit of beneficiaries

Carry out 'fiduciary' duties by acting:

- in accordance with the trust deed and rules
- for the proper purpose of the trust (what have beneficiaries been promised)
- impartially between all beneficiaries
- prudently, responsibly and honestly



The Pension Regulator

- DC Code of Practice 13
- Trustee Knowledge and Understanding Code 7
- Scope Guidance
- TKU Syllabus

Regulatory regime

For trustees of occupational DC schemes

“Code 13: Governance and administration of occupational trust-based schemes providing money purchase benefits” otherwise known as:

DC Code of Practice 13

- Trustee Board
- Scheme Management Skills
- Administration
- Communications and Reporting
- Investment and Governance
- Value for Members



6 Key Areas

Over 50 'legal requirement' references

Over 100 'expectations'

Additional Guides

Quality Assessment Template

Also:

Code 7 Trustee Knowledge and Understanding

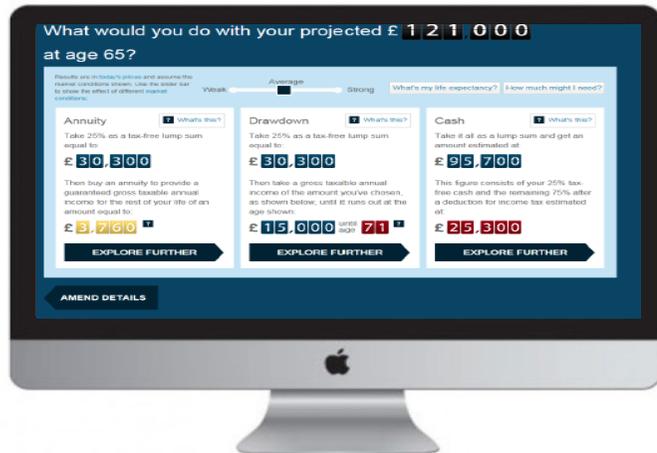
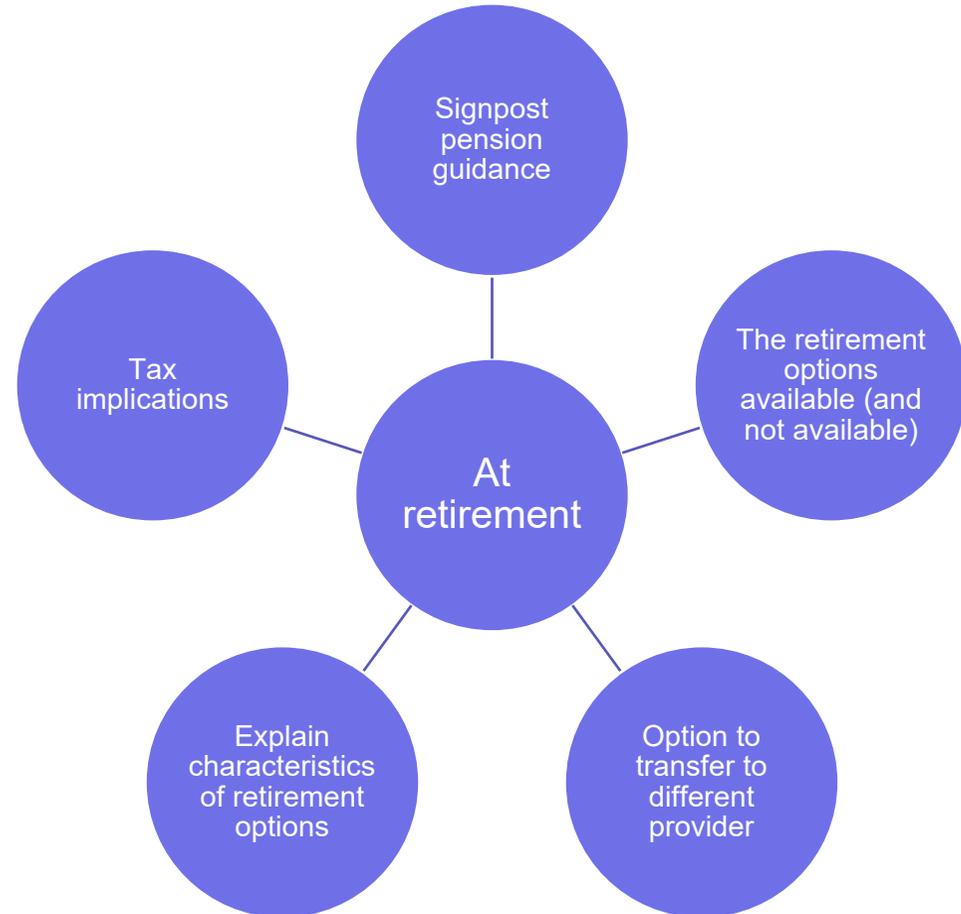
TKU indicative syllabus

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
- Fines for non-compliance

Communications

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



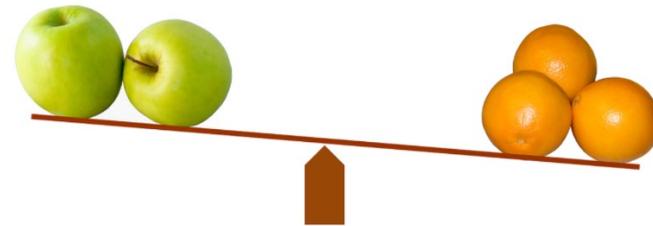
Administration

- 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 – Part I

- 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”

Value for Members 2021- Part II

- Draft Regulations – expect effective 6 October 2021
- Schemes with less than £100M assets
- Additional Chair Statement and Scheme Return disclosures
- Annual comparisons with 3 large schemes
 - Costs and charges
 - Net Returns
 - Default fund, Self Select and legacy funds



Does your scheme provide Value for Members - at least as good as these large schemes?

If No – “If trustees do not take immediate action to wind up the scheme then explain why they are not immediately consolidating in the annual scheme return, and set out what steps they will take to ensure that the scheme delivers value for members.” DWP 2020



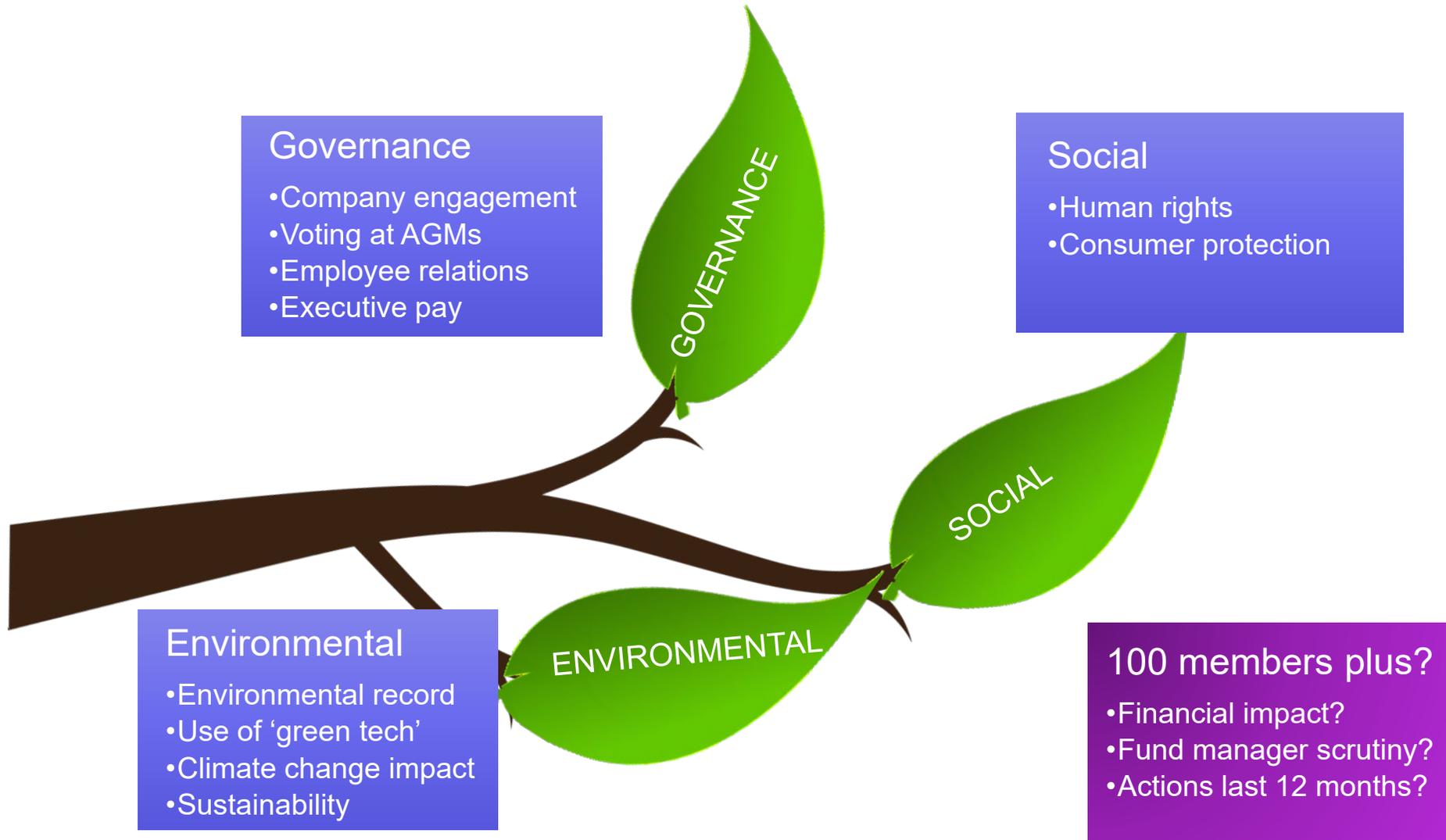
Investment strategy

Strategy - Objectives

- **Maximise** the assets, and hence **pension benefits**, at retirement
- Agree and implement your **ESG** approach
- Anticipate likely **member choices** 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”**



Environmental, Social and Governance considerations



Environmental, Social and Governance Factors

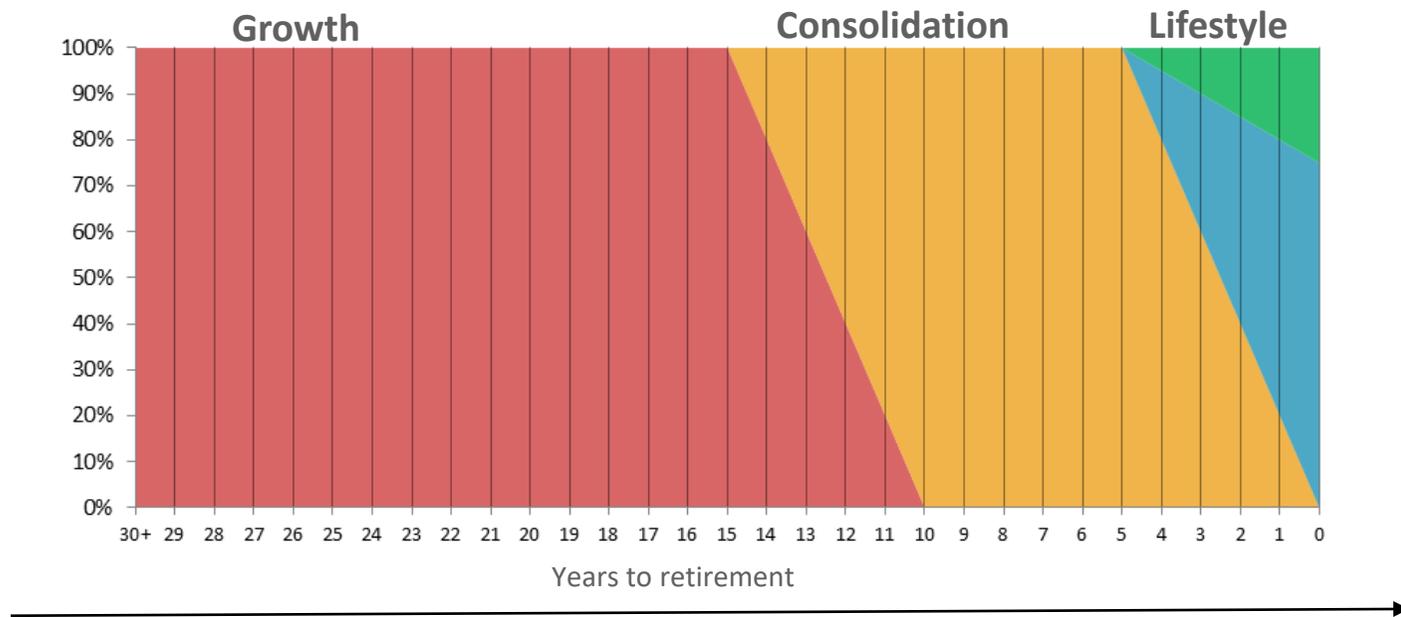
Risks and opportunities

- Over 100 members – Statement of Investment Principles
- Recognise impact on financial performance of assets of
 - Environmental e.g. climate change and activities which impact on the environment
 - Social criteria e.g. relationships with staff and suppliers
 - Governance factors e.g. accounting methods, political funding, conflict management
- Scrutinise fund managers on ESG approach
- Disclose actions on SIP in previous scheme year – Implementation statements



“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)

Target Date Funds

Target Date Funds	Lifestyle Strategies
<p>Single fund</p> <p>Targets expected retirement window e.g. 1 to 5 years</p>	<p>Often uses a group of funds</p> <p>Targets a specific retirement date.</p>
<p>Designed to manage investment risk as the retirement window approaches</p>	<p>Portfolio of funds is de-risked according to a set process – and set use at retirement e.g. typically, switching out of equities and into long-dated bonds if assuming an annuity target</p>
<p>Fund managers can take proactive strategic and tactical decisions with regard to risk and asset allocation.</p>	<p>The funds that are switched into may have short, medium or long term objectives but won't be geared to member specific time horizons or current market conditions</p>
<p>Enables managers to act on behalf of investors taking opportunities to benefit from favourable market conditions at any stage in the life of their investment - or take shelter in lower-risk asset classes if market conditions are less favourable.</p>	<p>If a member changes their selected retirement date, their whole portfolio has to be reworked which carries some additional costs and risks.</p>



Fund options



How do you **cater for diverse** member circumstances?



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



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

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?





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