

# Defined Contribution Schemes

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- UK Defined Contribution Pension Provision
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  - Illiquid investments
  - Member choices
- Retirement Living Standards

## DC Pension Provision in the UK

2022 snapshot

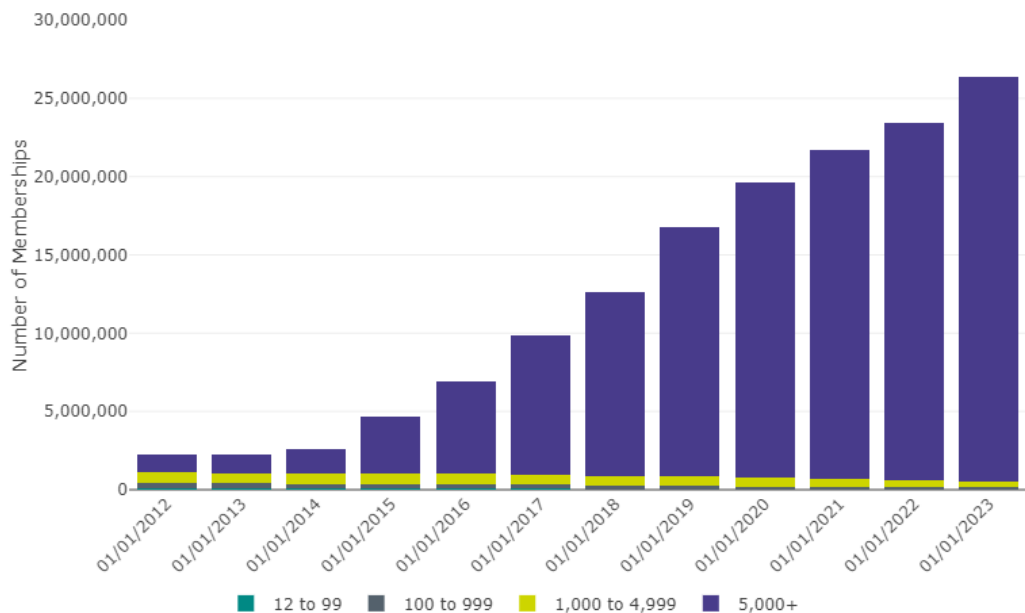
	Defined Benefit	Hybrid dual-section	DC (trust)	DC (workplace contract)
Schemes	4,740	840	26,390	1,830
Open schemes	640	280	22,750	1,450
Total memberships	5,913,000	5,403,000	24,789,000	N/A
Total active members	440,000	1,127,000	10,474,000	5,666,000

**Sources:** All figures from TPR's data based on scheme returns, 31 December 2022 except DC (workplace contract) total active members, from ASHE 2021 (published April 2022).

# Defined contribution membership

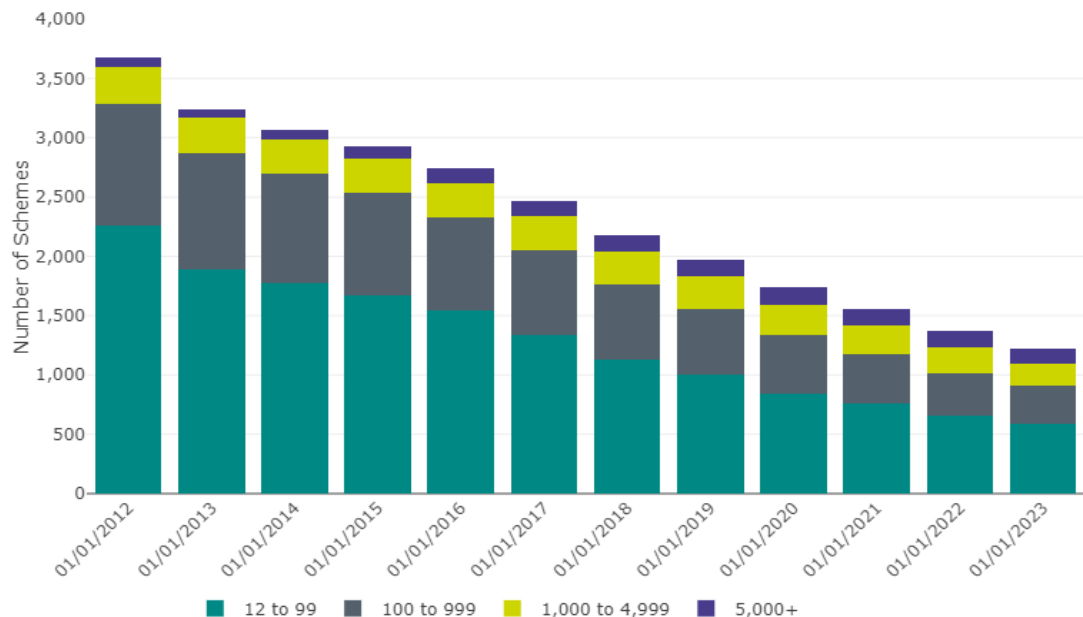
## DC Trust Trends

Figure 2: Memberships of occupational DC schemes by membership size group (including hybrid schemes) (2012 to 2023)



Membership in non-micro schemes increased by 13% over the past year (compared to 8% last year), and increased by 1069% since the beginning of 2012.

Figure 1: Occupational DC schemes by membership size group (including hybrid schemes) (2012 to 2023)



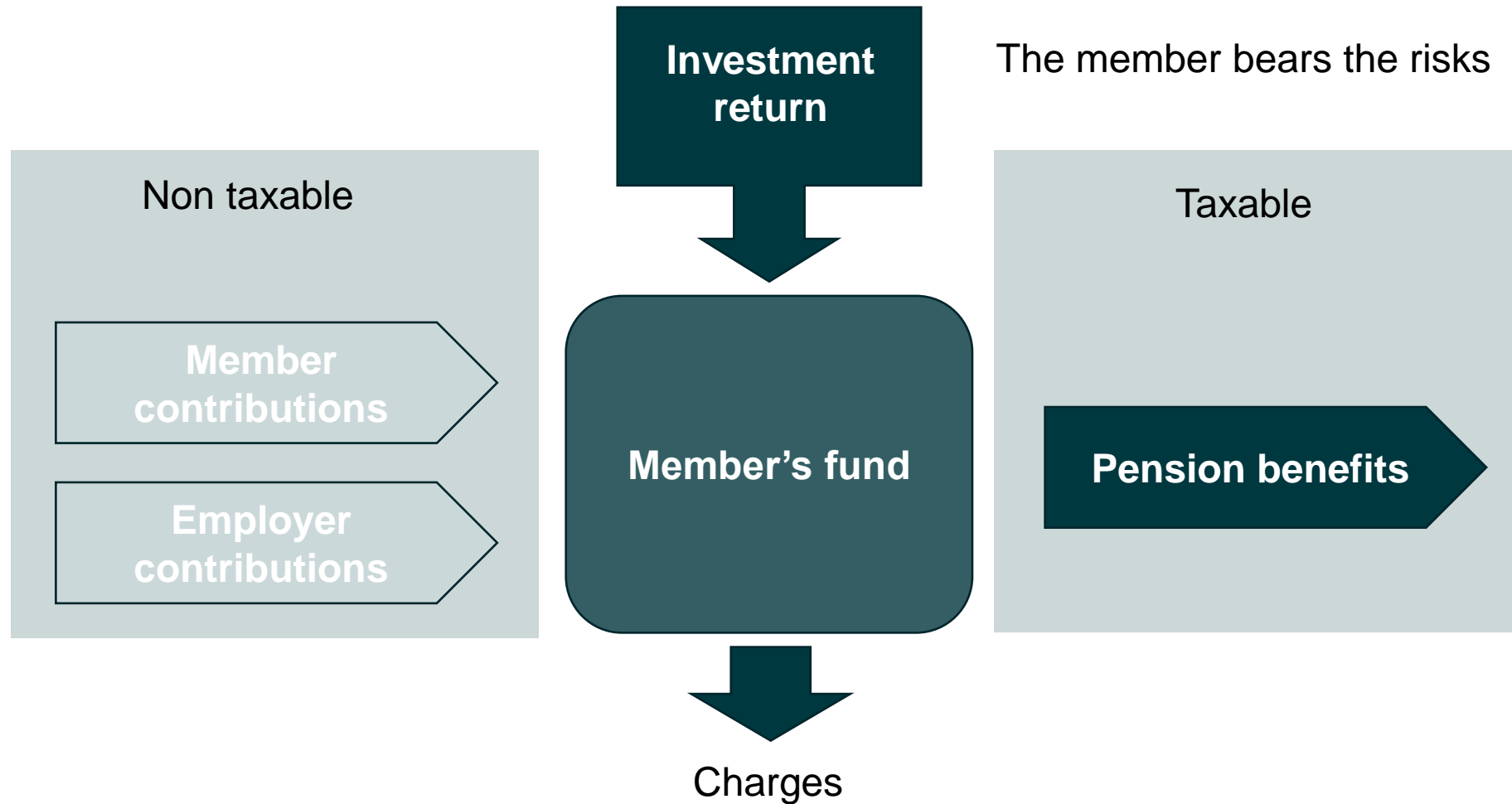
Since the beginning of 2012, the total number of non-micro schemes and hybrid schemes has declined by 67% from 3,660 to 1,220.

Source(s): TPR: DC Trust: Presentation of scheme return data 2022 - 2023

# DC Schemes in Practice



## How DC Schemes Work



## Risks



Insufficient contributions



High charges



Inadequate or volatile investment returns



Improving longevity

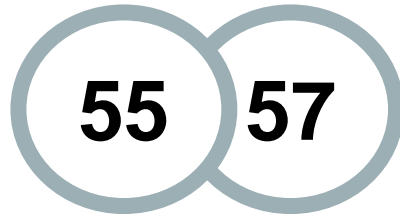


Inflation

## Retirement Options

Using funds at retirement

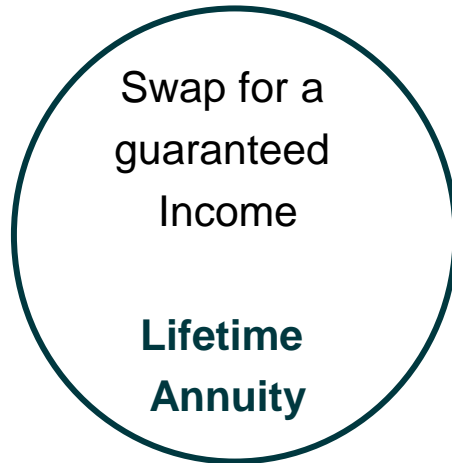
Minimum  
pension age



Option to  
take 25%



lump sum



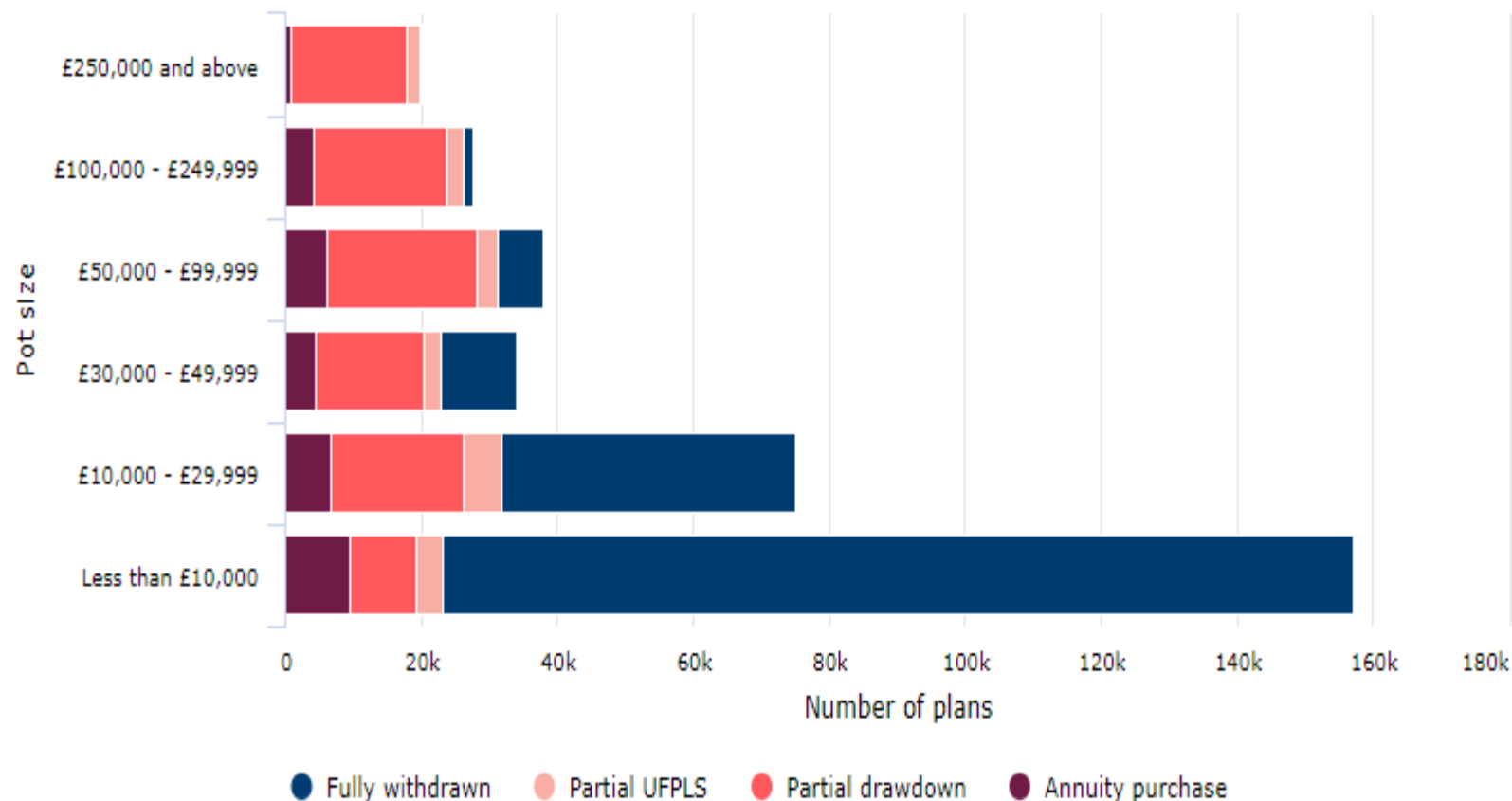
From your Scheme or by transferring to another arrangement



## What have the members been choosing?

Number of pension plans accessed in 2021/22 by pot size and method of access

Source: FCA retirement income data



Choice depended on pot size but Annuity purchase has been declining – until recently.

40% of regular withdrawals were withdrawn at an annual rate of 8% or more of the pot value (42% in 2019/20)

\*FCA retirement income market data 2021/22

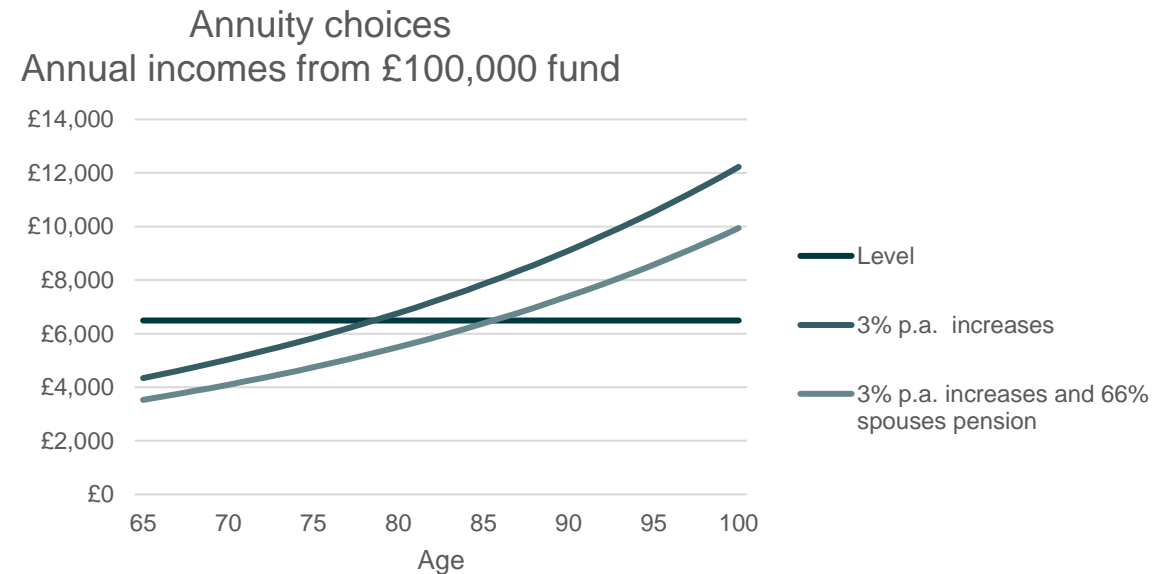
## Lifetime Annuities

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
  - Guarantees

Shop Around

£100,000 fund	
	Age 65
Single life, No escalation or guarantee	£6,490
Single life 3% escalation, no guarantee	£4,344
With both spouse pension and escalation	£3,531
June 2023 Source Aviva annuity calculator	



## 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 (£10,000)

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



# DC Governance requirements



# Trustee Duties

## Legal and regulatory regime



The diagram consists of two large, dark teal rectangular boxes, each with a white arrow pointing to the right. The top box is labeled 'Trust law' and the bottom box is labeled 'Regulatory Guidance'. These boxes represent the legal and regulatory frameworks that govern trustee duties.

Trust law

Regulatory  
Guidance

### 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)

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)

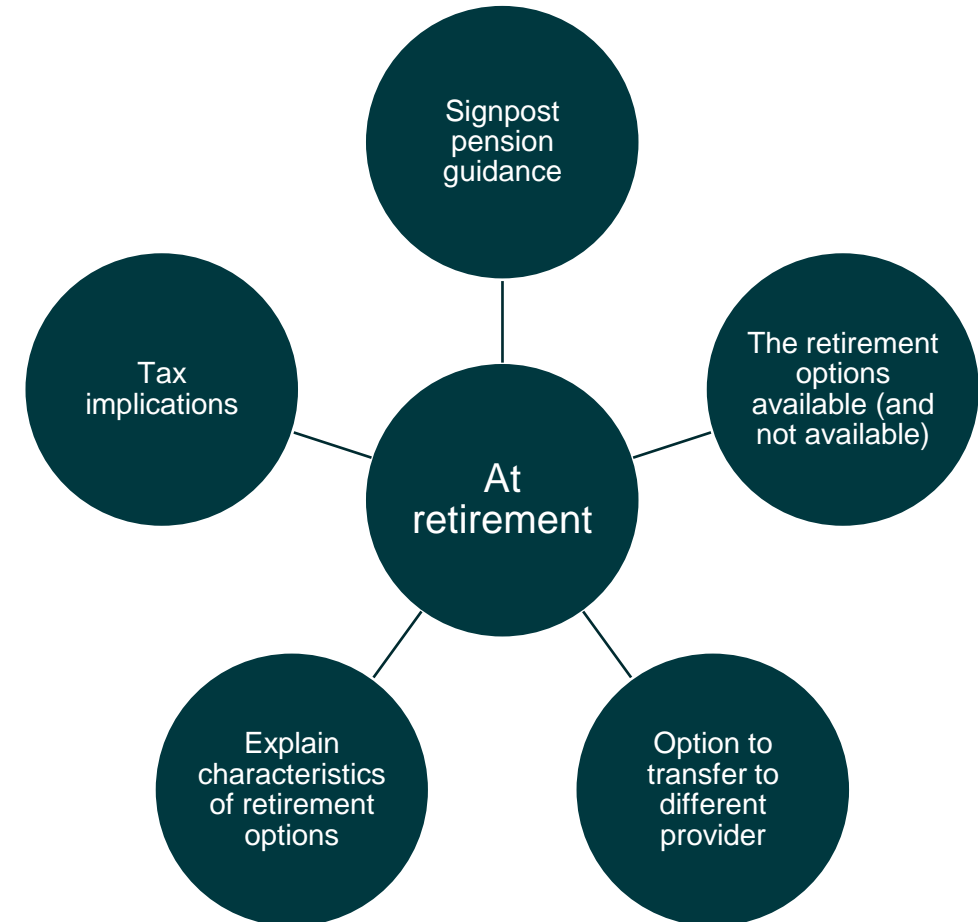
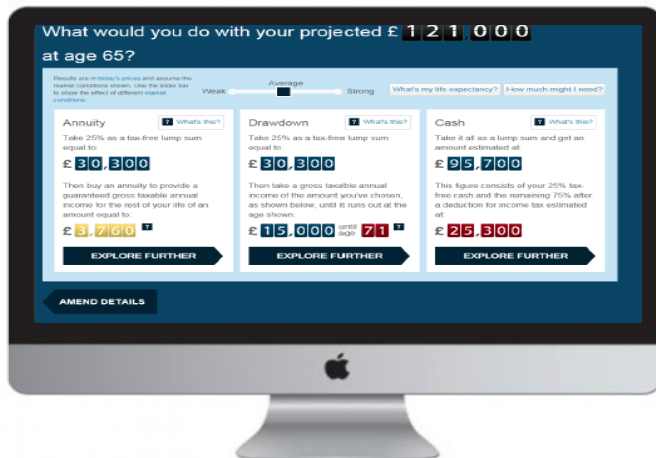
Also declaration on Scheme Return

Documented evidence may be requested by Regulator

Fines for non-compliance

# Communications

- Plain Language
- 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

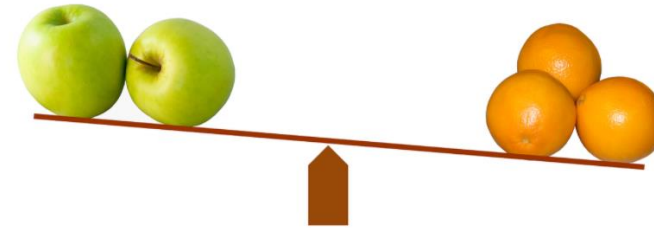
Record keeping checks

Reconcile contributions



## Value for Members – Part 1

- 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 – Part 2

Effective scheme year end after 31/12/21

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*

## Value for Members – Part 3

Consultation on Framework

Common standards on metrics and disclosures

Tripartite consultation with TPR / DWP and FCA

Potential expansion of scope

Suggestion of benchmarks

More to come .....

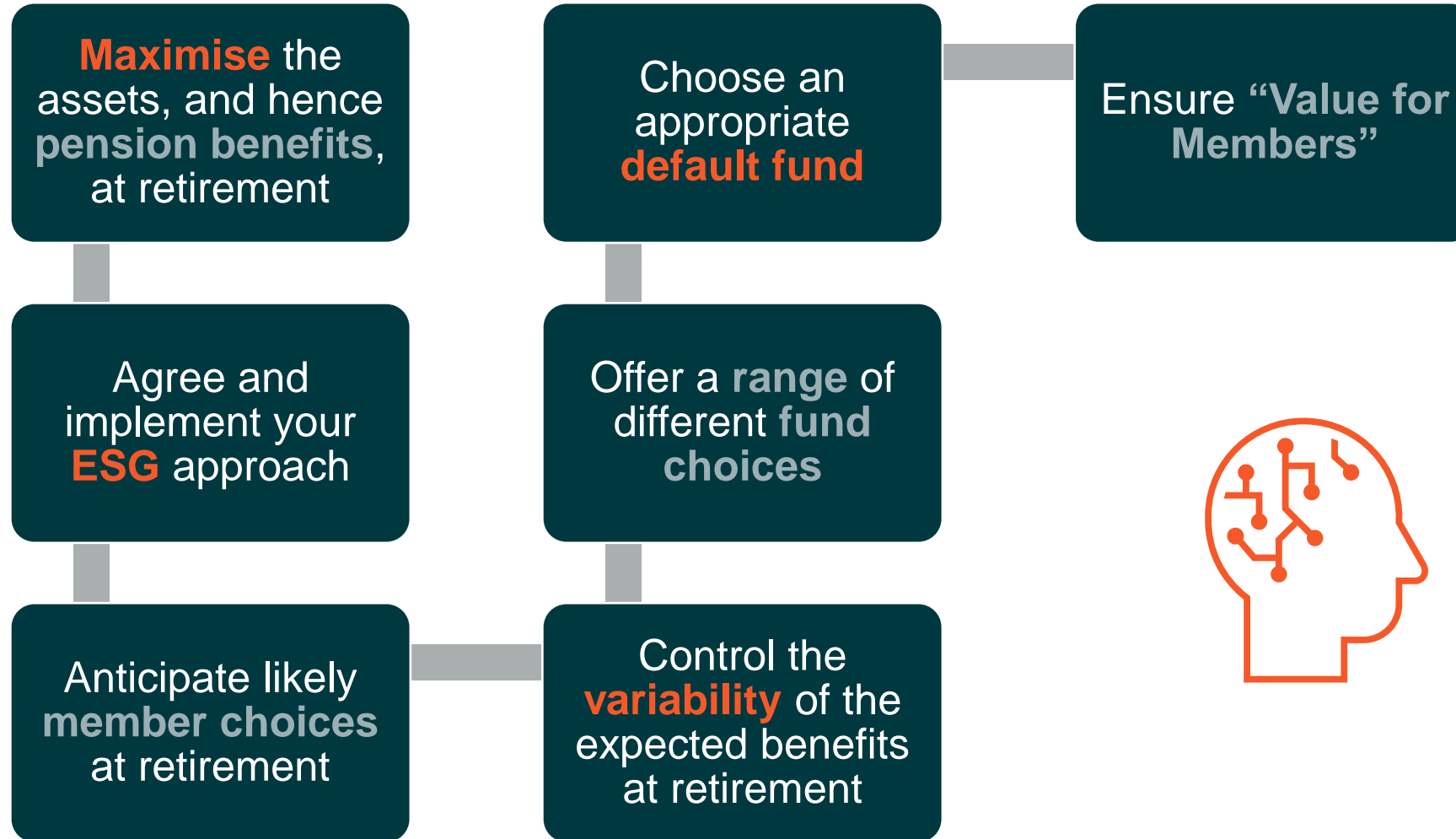




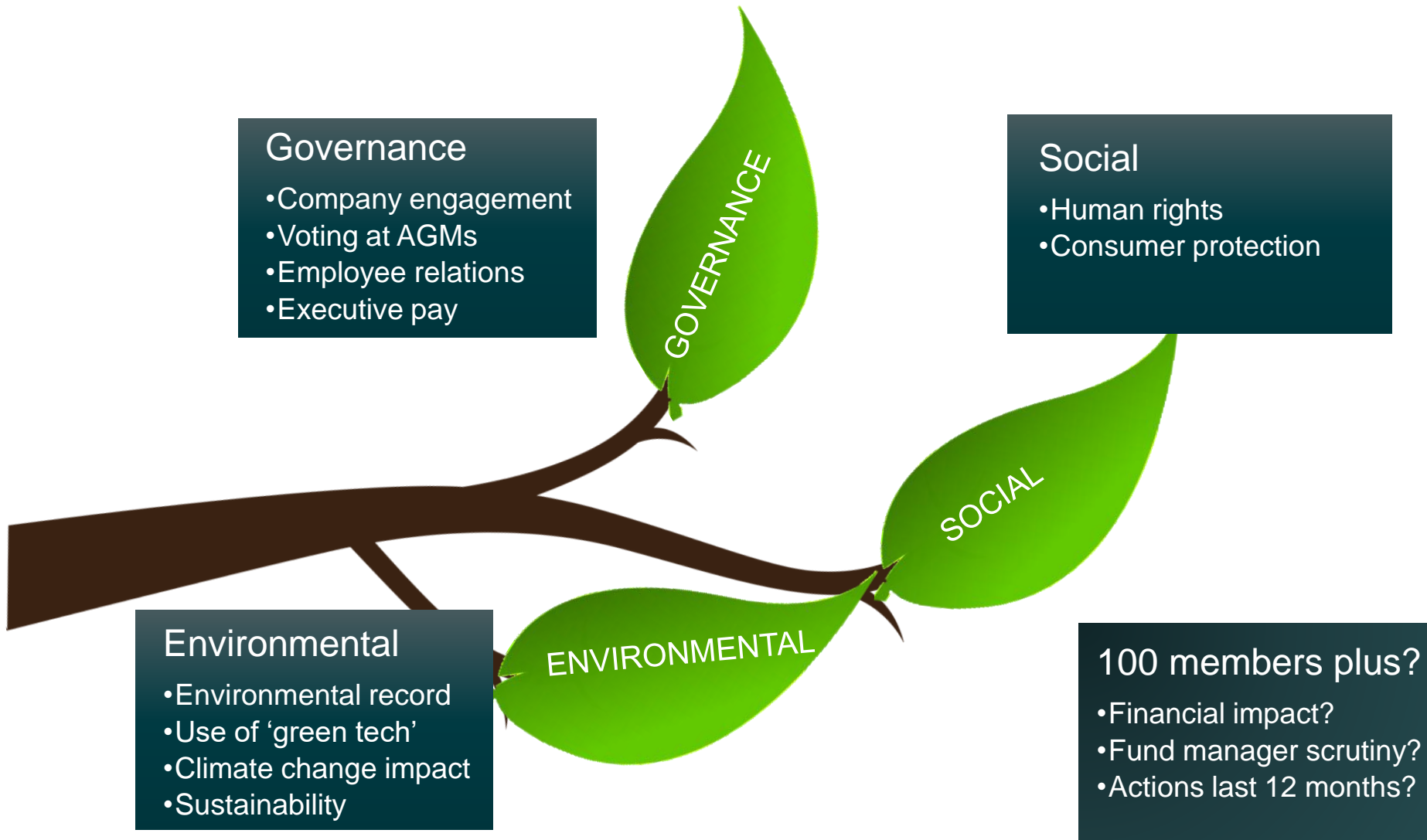
# Investment Strategy



## Strategy - Objectives



# Environmental, Social and Governance Considerations



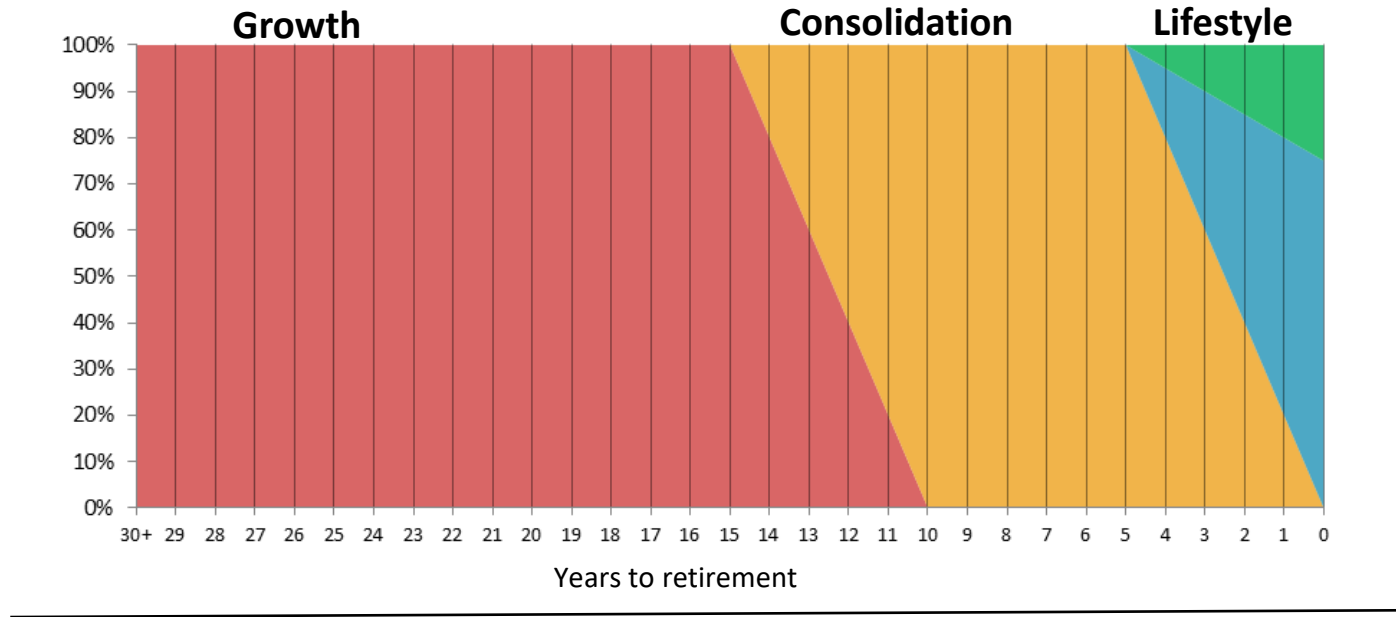
# Environmental, Social and Governance - Factors Risks and Opportunities

- **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
Single fund	Often uses a group of funds
Targets expected retirement window e.g. 1 to 5 years	Targets a specific retirement date.
Designed to manage investment risk as the retirement window approaches	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
Fund managers can take proactive strategic and tactical decisions with regard to risk and asset allocation.	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
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.	If a member changes their selected retirement date, their whole portfolio has to be reworked which carries some additional costs and risks.

## Fund Options



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



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



Illiquids are coming!




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



# Retirement Living Standards



# PLSA Retirement Living Standards

	MINIMUM	MODERATE	COMFORTABLE
<b>SINGLE</b>	£12,800 a year	£23,300 a year	£37,300 a year
<b>WHAT STANDARD OF LIVING COULD YOU HAVE?</b>	Covers all your needs, with some left over for fun	More financial security and flexibility	More financial freedom and some luxuries
 <b>HOUSE</b>	DIY maintenance and decorating one room a year.	Some help with maintenance and decorating each year.	Replace kitchen and bathroom every 10/15 years.
 <b>FOOD</b>	£54 a week on food (including food away from the home).	£74 a week on food (including food away from the home).	£144 a week on food (including food away from the home).
 <b>TRANSPORT</b>	No car.	3-year old car replaced every 10 years.	2-year old car replaced every five years.
 <b>HOLIDAYS &amp; LEISURE</b>	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.
 <b>CLOTHING &amp; PERSONAL</b>	Up to £580 for clothing and footwear each year.	Up to £791 for clothing and footwear each year.	Up to £1,500 for clothing and footwear each year.
 <b>HELPING OTHERS</b>	£20 for each birthday present.	£34 for each birthday present.	£56 for each birthday present.

\*These amounts would fund this lifestyle for people living outside London.

# Questions?



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