

Getting the DC Default Strategy Right

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IAPF Annual Investment Conference 2018

~~Getting the DC Default Strategy Right~~

Don't muck
it up!

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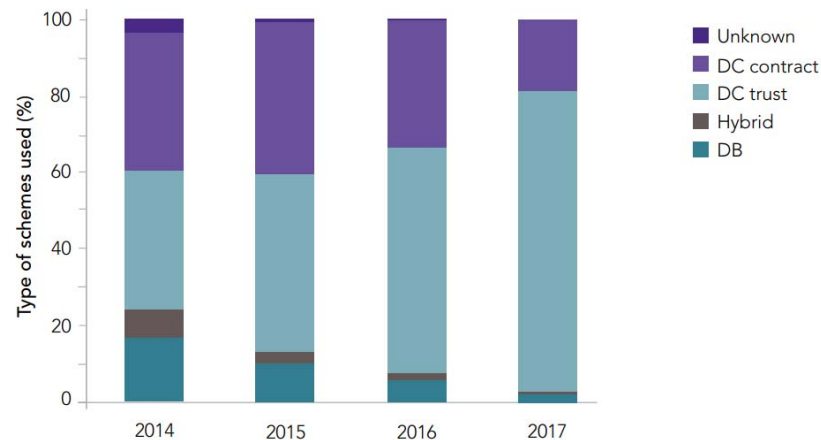
Image: © Gary Larson



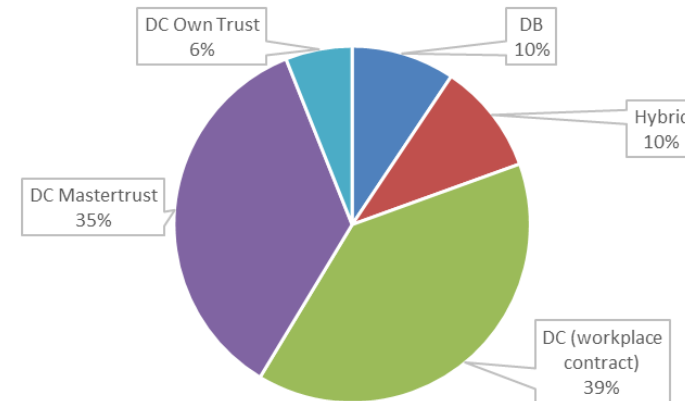
Auto-enrolment progression

Smaller companies have been drawn to Trusts, Mastertrusts in particular, including NEST.
Mastertrusts require a different approach to defaults.

Figure 11: Proportion of scheme types reported in declarations of compliance over the last four years



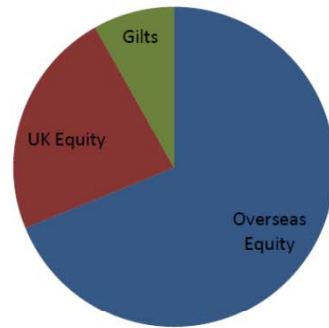
12.5m Active Pension Memberships Dec 2016



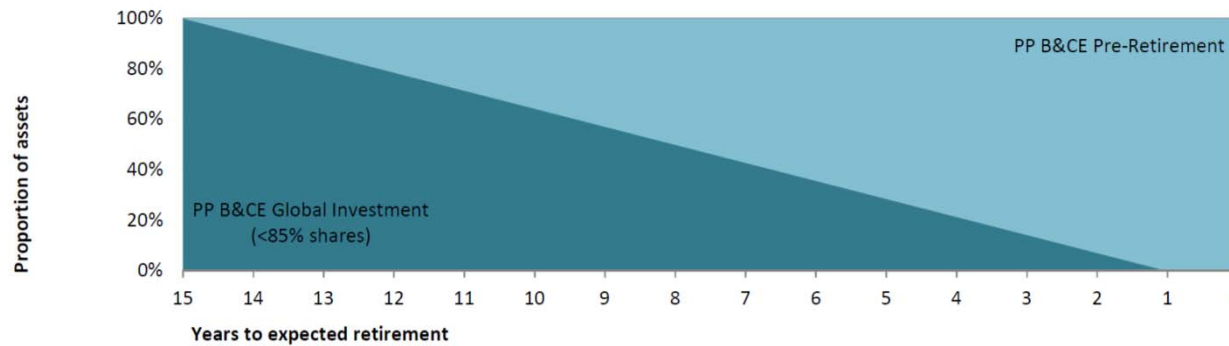
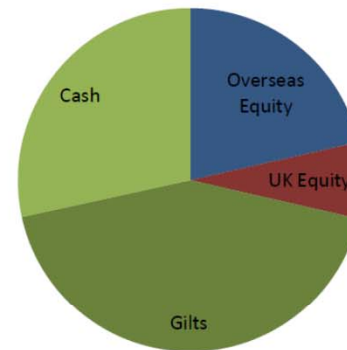
Source: UK Pensions Regulator

This is an asset allocation, not a default strategy

PP B&CE Global Investment (<85% shares)



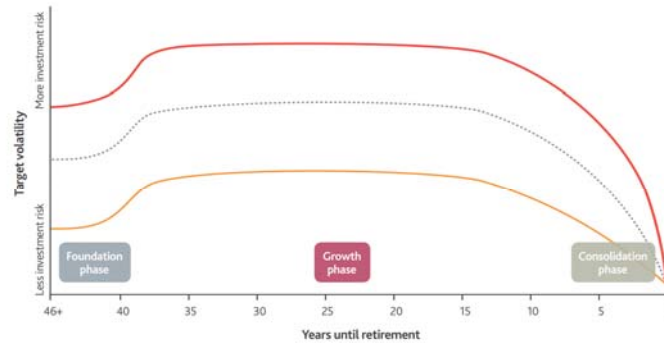
PP B&CE Pre-Retirement



Source: DWA Analysis

This is a clear default strategy

It shows an understanding of how the strategy meets the requirements of its members



- | Foundation phase objectives | Growth phase objectives | Consolidation phase objectives |
|--|--|--|
| <ul style="list-style-type: none"> Keep pace with inflation while preserving capital. Target a long-term volatility average of 7 per cent. Significantly reduce the likelihood of extreme investment shocks. Take appropriate risk at appropriate times, taking account of current economic and market conditions. | <ul style="list-style-type: none"> Target investment returns greater than inflation plus 3 per cent and cover all scheme charges. Target a long-term volatility average of 10-12 per cent. Maximise diversification. Aim for steady growth in real terms over the life of the fund. Maximise retirement incomes by taking sufficient investment risk at appropriate times while reducing the likelihood of extreme investment shocks. | <ul style="list-style-type: none"> Gradually move the portfolio from the return-seeking assets held in the Growth phase to annuity-tracking assets and cash-like investments. Gradually reduce volatility and manage the tracking error to annuity prices. Continue to grow the portfolio in real terms where this doesn't clash with the above goals. Further reduce the likelihood of investment shocks. |

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FACT SHEET
APRIL 2017

NEST in numbers

Meet NEST's members
NEST has over 4.5 million members, but what do we know about them? Here's a short fact sheet about our current membership.

Median member income
£18,200

Contribution levels
88%
2% 2-8% 8%+
Percentage of employers paying at each level

Assets under management
£1.6 billion

Changing jobs
Around a third of NEST members change jobs every year.

Opt out
Our opt out rate is 8 per cent on average and lower for younger members.

Age of NEST members

NEST members, March 2017	UK population in employment*	
less than 22	0%	6%
22-29	30%	18%
30-39	28%	22%
40-49	20%	23%
50-59	17%	21%
60+	5%	10%

*labour force survey 2016 Q1

NEST member numbers

Type of NEST member	Total number as at March 2017
NEST members (total)	4,550,000
Active NEST members	2,720,000

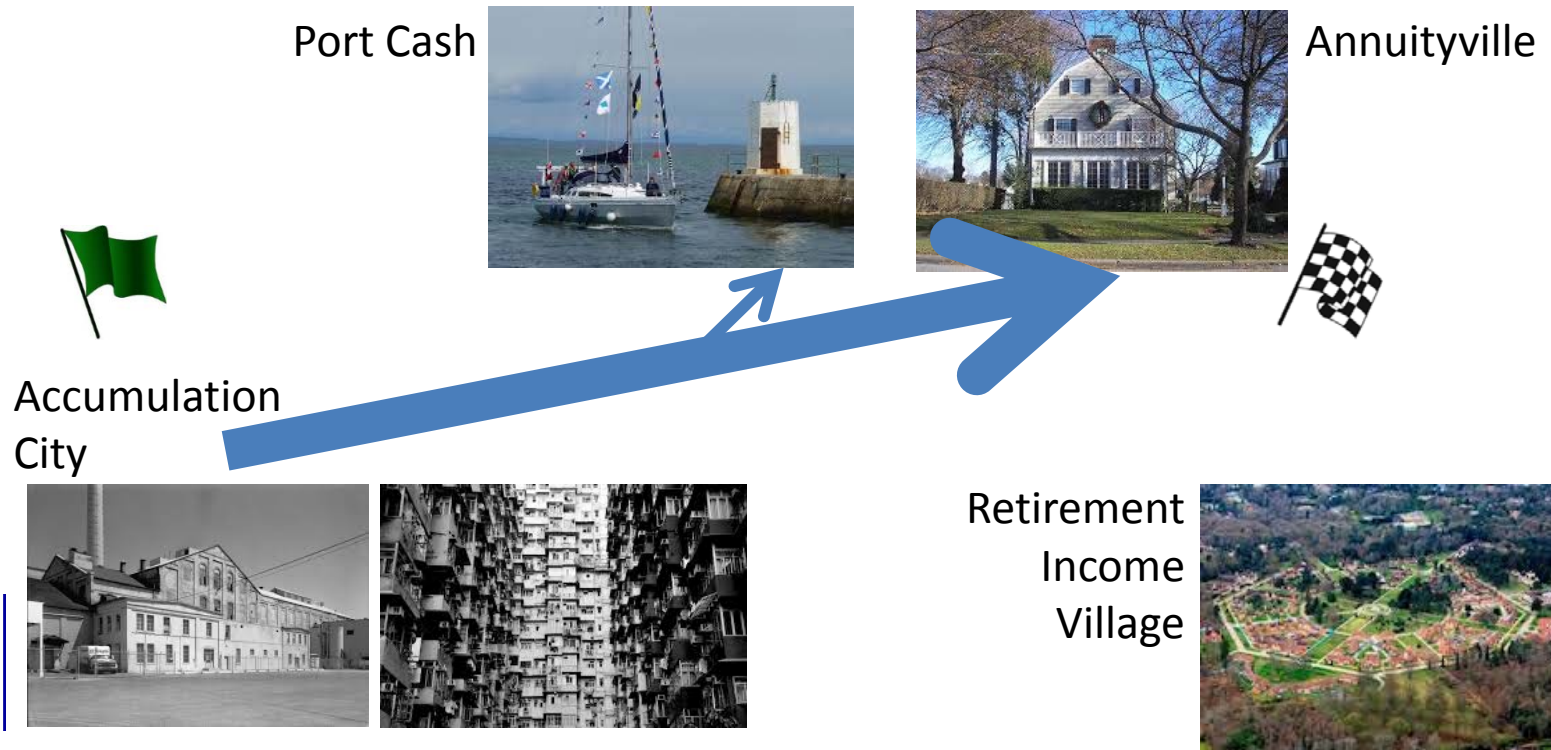
NEST members (total) any individual enrolled into NEST who has not opted out, withdrawn all their funds or died.

Active NEST members total members with a NEST pot who haven't either ceased their contributions or been notified to us by their employer as having left that employment.

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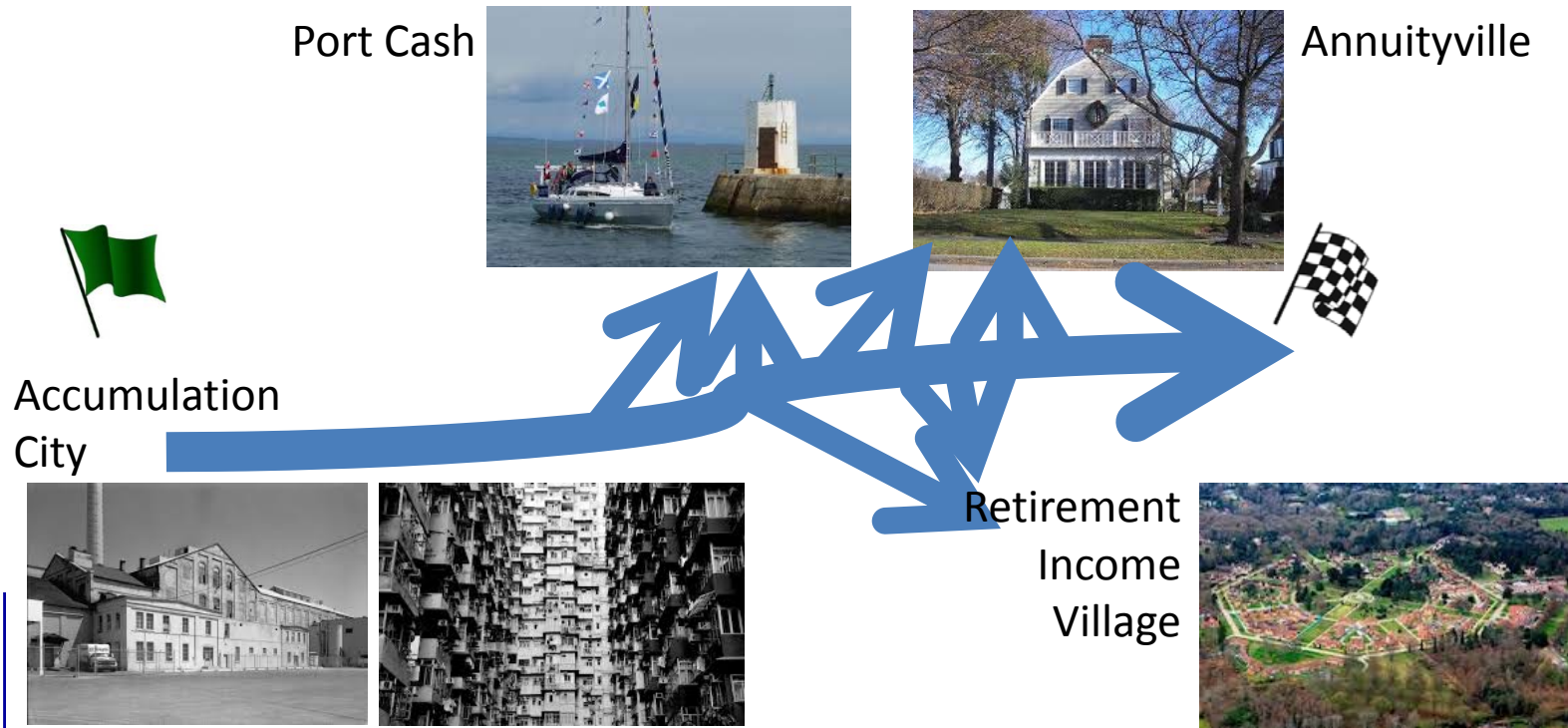
Source: NEST

Pre-Pensions Freedom route planner



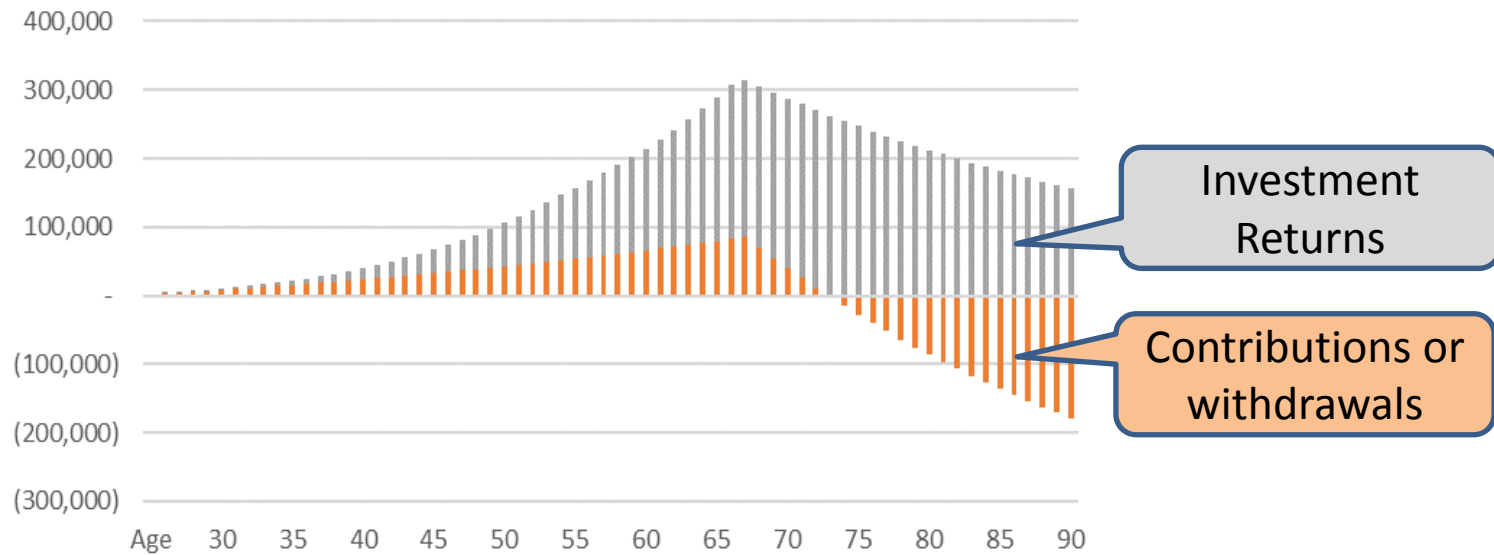
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Revised route planner



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A reminder of how savings accrue

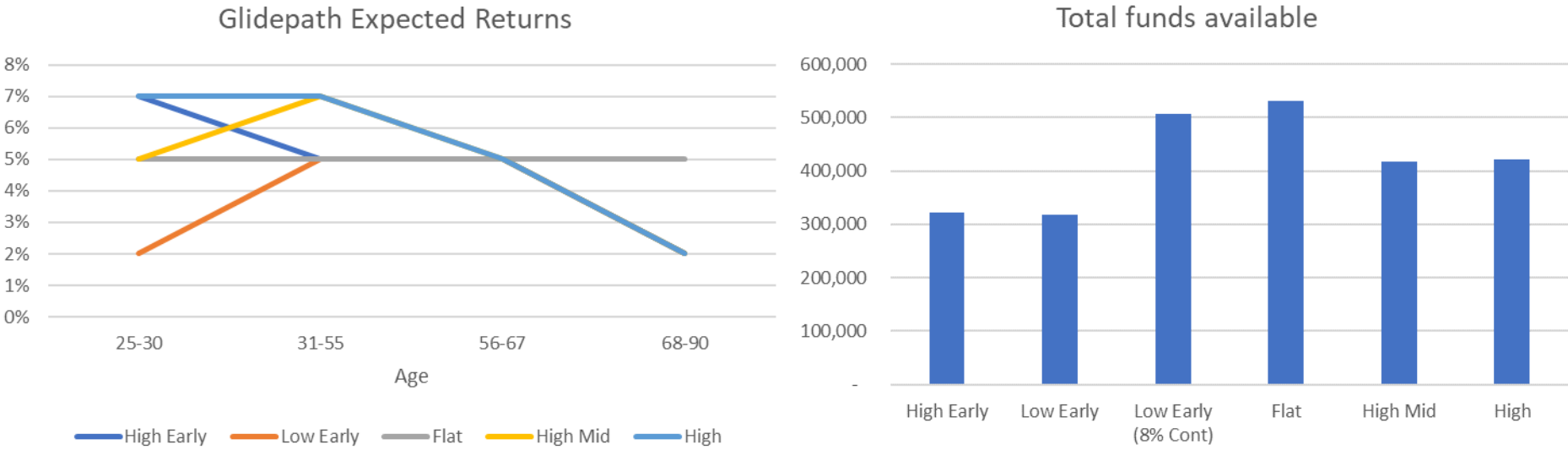


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Source: DWA Analysis

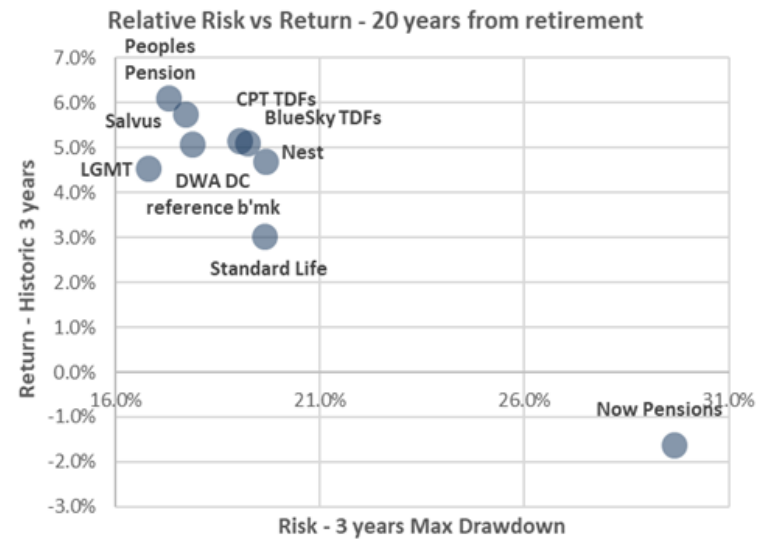
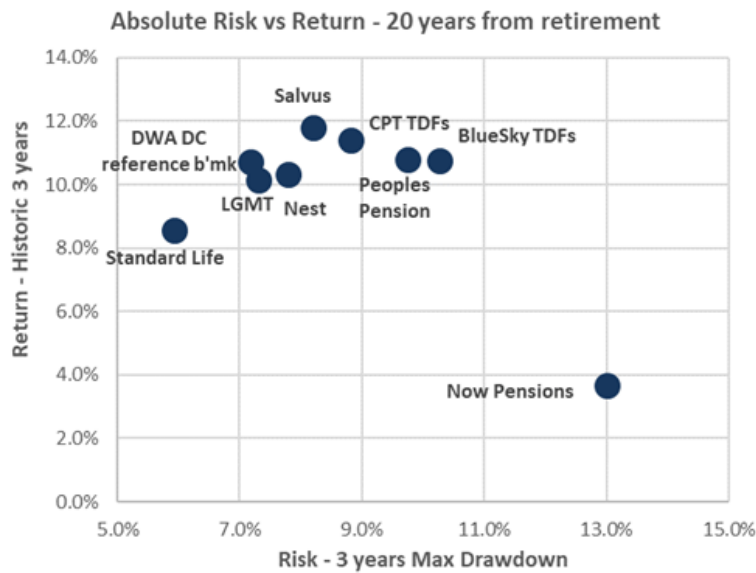
Varying glidepath shape and contributions



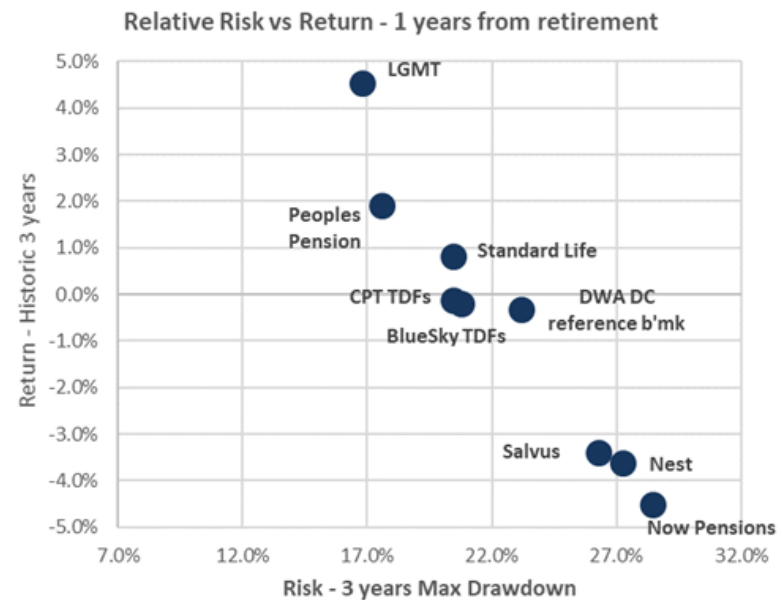
Assumptions
 Initial Salary 25,000 Contribution rate 5%
 Salary Growth 2% 5% Withdrawal from age 69

Source: DWA Analysis

So much for theory, what have the results been?



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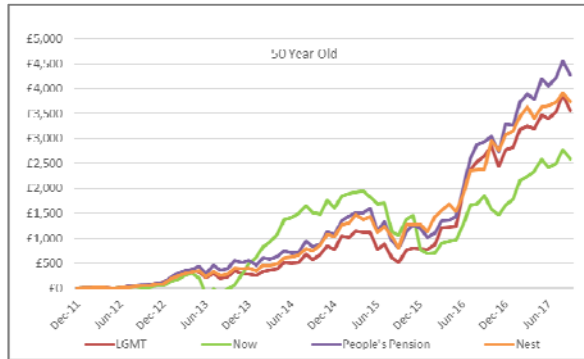
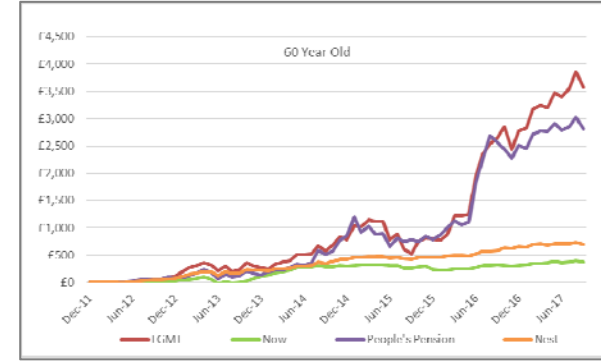
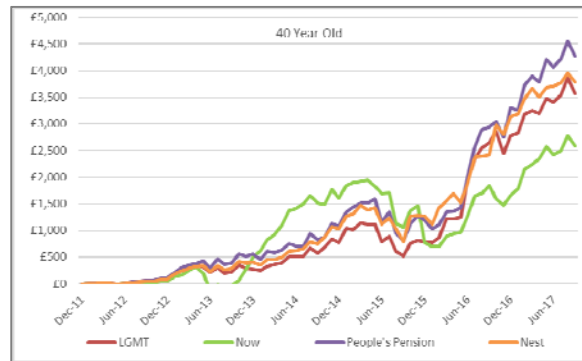
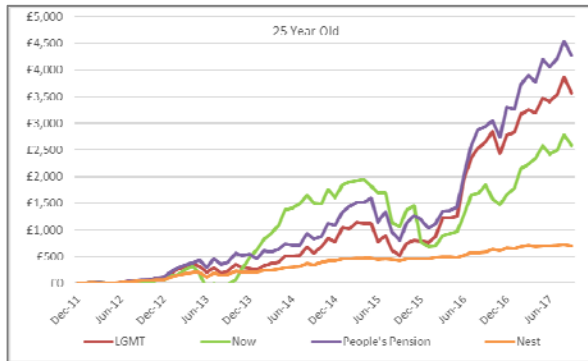
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Older Savers

DWA Reference Benchmark:
30% Global Equity, 70% Cash

Source: DWA Analysis

What about net of fees value added?



Age	25	40	50	60
LGMT	£3,990	£3,990	£3,990	£3,990
People's Pension	£3,090	£4,917	£4,917	£3,090
Nest	£787	£4,480	£4,420	£787
Now	£400	£2,993	£2,993	£400

Assumptions:

- £0 initial pot,
- 8% contribution,
- £25k salary,
- Pro rata of 5 yr average scheme cost

Source: DWA Analysis

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Conclusions

- Focus on the process of managing the default rather than the asset allocation
 - Have clear objectives and govern accordingly for your understanding of the membership
 - There is more than one right way to manage a default

“Do no harm” applies with defaults as much as in medicine!

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