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A Brave New DC Landscape



Imminent changes to the regulatory environment add urgency to the need for flexible pension solutions.

The announcements in the budget represent a fundamental change to the defined contribution landscape in the UK. The UK regulatory environment will more likely resemble that of the US and Australia, the two largest global DC markets. While there is a consultation to go through and a number of issues to be clarified, we have come to some early conclusions based on the existing information and early stage dialogue.

Last year over 350,000 annuities were sold by ABI members in the UK. Analysts predict this market will now drop by around two thirds over the next 18 months. Lifestyle strategies, which are based on the presumption that individuals will retire on a predetermined date and immediately annuitize, will therefore no longer meet members' needs. With over 90% of DC funds following a default lifestyle investment strategy, they will need to be urgently reviewed and adapted.

We have also seen a number of market participants react by suggesting there should be many lifestyle strategies on offer, with individuals being required to choose a retirement date at age 50. Our extensive survey of DC members showed that nearly three-quarters of members had either 'no idea' or only a 'vague idea' of the date on which they would retire. Even in the over 55 year-old age group, more than half the respondents said they were still unsure of their final retirement date, and we think it likely that they are also unsure about what they will do with their pension pot.

As such we see a much greater role for proactively managed solutions that allow for quick and easy changes as well as early or late retirement - such as target date funds. We expect to see an increase in the number of individuals investing through retirement and a greater uptake of collective drawdown solutions.

The objective of any saver in a pension plan is to provide an income in retirement. The speed at which that income is drawn and ultimately the manner in which it is provided, however, is highly uncertain for most individuals. Strategies should remain robust to a wide range of possibilities rather than targeting a specific outcome for any one individual which will almost certainly be wrong.

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