The view from the ground

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For both pension providers and the trustees of pension schemes, alignment with scheme members' interests is crucial. There is no better way of gauging those interests than by asking members what they actually think. That's why we commissioned YouGov to conduct a survey of 500 active DC savers. The respondents were aged between 25 and 65, so they spanned the full spectrum of DC investors.

Some of the findings are encouraging. The survey makes it clear that most respondents are taking their pension investments seriously. Only 4 per cent plan to use their pension pots for one-off purchases such as cars or holidays, with most planning to stay invested. And scheme members are also realistic about their likely retirement age, with 47 per cent expecting to retire between 65 and 70.

In the main, however, the survey underscores the crucial responsibilities placed on providers and trustees. The respondents told us that DC savings are going to be the main source of retirement income for the vast majority, with property portfolios and ISAs barely registering as alternatives. The survey also made it clear that most DC investors are facing up to considerable uncertainty in the future. A third of people (30 per cent) don't know what they will do with their pensions when they gain access. A larger proportion (39 per cent) don't know how much their savings are likely to be worth when they become available. And a full 46 per cent don't know how much of the charges they pay should go towards improving the performance of their pension funds.

For pension scheme trustees, our survey delivers three main messages. First, given the uncertainties they face, DC scheme members require flexibility in their pension investments. Second, there is a growing interest in comparing the performance of pension funds with other offerings. And, third, underpinning all of this is the crucial issue of trust.

Flexibility – pension provision in an uncertain age

The need for flexibility arises from the uncertainties over retirement age, the size of pension pots and the use to which they will eventually be put. A full 73 per cent of our survey's respondents said flexibility was important to them. The message here is clear. It makes no sense to ask members to choose a single specific investment outcome, as some pension providers do up to five years before retirement. Instead, flexible and responsive options are likely to be increasingly attractive.

As a pension provider, AB aims to cater for the demand for flexibility through our packaged ranges of TDFs, which offer clearly specified objectives and investment

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guidelines. These allow trustees to select appropriate strategies for their members. And that appropriateness is constantly reviewed, so that members' objectives continue to be met. This gives trustees low-cost access to well-diversified strategies employing sophisticated investment management techniques.

These strategies are updated swiftly and cost-efficiently when market conditions change. As an example, when the UK's freedom and choice regulations were introduced in March 2014, our strategies were updated to comply with the new measures at no cost to the 2,500 employers who use them. And because our TDFs emphasise monitoring of default strategy fees and performance, with independent oversight of asset allocation, the governance role of trustees is enhanced significantly.

Along with our packaged ranges, we also offer a service that allows larger schemes to build a bespoke range of TDFs to match the specific requirements of their members. We believe flexible options such as these will soon become standard in pension provision. Both trustees and providers will have to adapt accordingly.

Performance – a growing focus

Along with the need for greater flexibility comes a growing interest in the performance of pension funds. One of the key findings of our survey was that most DC members are, to varying degrees, interested in the specific performance of their pension funds. Although 20 per cent said they were not interested, and 16 per cent didn't know, a full 64 per cent were interested. This figure rises as retirement approaches, with 71 per cent of those aged 45 to 55 expressing interest.

Many members also want to compare their funds with others to see if they are getting good service from their default strategy. Of our respondents, 56 per cent said they would be interested in comparing their fund's growth with that of others. Only 23 per cent were not interested, although 21 per cent didn't know. That in itself suggests that there is plenty of room for scrutiny of fund performance to increase – especially in light of the finding that interest in performance grows as savers approach retirement. We should always remember that DC schemes are relatively new, with the generations that have been invested in them from the beginning of their careers still to reach retirement. So it's unsurprising that members are taking time to appreciate the importance of performance in assuring their futures. This has important implications for trustees, who must strive to obtain superior investment performance from providers on behalf of their members.

Trust – the heart of the matter

Flexibility and performance are two of the challenges that our survey presents to the pensions industry and to scheme trustees. But the underlying issue both providers and trustees need to address is one of trust. In our survey, we asked respondents what prevented them from investing more in their DC pensions. Some interesting patterns emerged, with 33 per cent citing high fees and 34 per cent indicating that they were put off by the possibility of changes in government policy or tax treatments. And 29 per cent said poor market returns had deterred them from investing more.

So, DC savers don't trust the pensions industry, they don't trust the government and they don't trust the markets. Regaining their trust will take time to achieve, but is a challenge that both trustees and providers must address. Our survey indicates there is clear room for improvement in aligning interests with those of scheme members. Greater flexibility and a clearer focus on superior returns can help trustees and providers to restore the trust that is currently lacking, thus keeping pension provision fit for purpose in the decades ahead.

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