

DC Retirement Outcomes Roundtable



THE SOCIETY OF PENSION PROFESSIONALS

making pensions work

In October 2022 Steve Hitchiner, SPP's President, chaired a first DC roundtable. The panel looked at the key challenges in retirement outcomes, focusing on members' needs, the importance of designing appropriate defaults and improving the accessibility of information. The panel also explored new products, emphasising the potential of CDC and the need to develop innovative strategies within existing frameworks.

Key points from the session were:

Members' needs should be the basis for developing DC solutions. Most people aim to have a stable income during retirement, but also to retain some flexibility to access their savings in case of need. We should be wary of excessive generalisation, but the industry should develop products and defaults that balance security and flexibility.

Complex needs may best be served through tailored defaults. Though freedom of choice has been a driver in DC, the risks involved with a high level of autonomy must be considered, not least the risk of running out of money. Designing the right defaults should minimise bad outcomes for savers, within the context of relatively low levels of engagement, the complexity of the pension system and the risks of cognitive decline during retirement.

Greater clarity and product comparability. Many people have a limited understanding of the complexities around pensions and will not have access to specialist advice at and during retirement. Using simplified language, as exists with mortgages, may help. This could be enhanced with clear colour coding and warning signals. A centralised product register allowing easier option comparison may be worth consideration.

CDC. It is considered that CDC may be a key component of future default options, possibly at both accumulation and decumulation phases. The degree to which CDC may deliver higher outcomes than standard DC remains unsettled, but there are positive expectations. The potential advantage for members is in pooling investment and longevity risk. Subject to legislative changes, Master Trusts may lead to enabling CDC as a component of default options.

Innovation within the existing framework. A "lifestyle" cycle of investment, potentially with longer time horizons for de-risking, may improve outcomes. DC lacks outcome clarity for the member. This could be to some degree offset with products such as deferred annuities, and by applying a two-stage approach, accepting that one's retirement needs may not be a single binary, but will develop over time.

Organisations represented: *The Society of Pension Professionals, Nest Corporation, Age UK, Money and Pensions Service (MaPS), Heriot-Watt University, Living Wage Foundation, Aon, Barnett Waddingham, XPS Group, Travers Smith.*