

## Do default investment strategies align with members' needs?

The Pensions Policy Institute (PPI) held a roundtable on 6<sup>th</sup> September 2018 to coincide with research sponsored by Alliance Bernstein. This analysis investigated how well the objectives of pension schemes meet the needs of a diverse membership. Objectives influence how assets are managed and invested, as well as whether default strategies are evaluated as delivering good value for money. Therefore, a well-structured and transparent approach to the process of setting default investment strategy objectives, is essential to deliver value for members over the long term.

The aim of the roundtable was to encourage debate and contributions from participants in response to the research, and to identify what different elements of industry can do to take forward this issue. Attendees at the round table included representatives from trade associations, pension providers and consultancies.

**Sarah Luheshi**, PPI Deputy Director, chaired the roundtable welcomed attendees and made introductions.

**Chris Curry**, PPI Director, presented the findings of the research.

**David Hutchins**, Portfolio Manager, Multi-Asset Solutions, Alliance Bernstein responded to the research findings:

- Without clear objectives, it is difficult for members to understand how their default investment strategies work and perform.
- The priority of all default investment strategies should be transparency.
- Transparency is needed:
  - For better governance.
  - For greater accountability and comparability.
  - Most in relation to the costs and charges elements of default investment strategies. This will result in a more transparent performance of the default investment strategy and greater comparability of default investment strategy options.
- Currently, considerable engagement of default investment strategies occurs at the point of sale. It appears that less thought has been given as to how investment strategies can continue to fund the engagement of members throughout their pension saving journey.

The following topics were raised during discussion. The discussion was held under Chatham House rule and comments do not necessarily reflect the views of the PPI or the represented organisations.

### Language

- It was agreed by participants that it is important to agree on a common and consistent language in the pension industry.
- It is not clear who should lead the initiative on this, e.g. whether it should be a trade body, such as the PLSA or ABI (who have tried this in the past and who are currently leading the dashboard initiative) or another organisation (regulator, government, industry, for example).
- At present, until someone is prepared to take the lead, it was considered important to lead by example.

### Data

- It was considered that the gathering and disclosure of concrete data is essential for greater transparency and comparability of default investment strategies. Comments were made that:
  - This involves quantifying elements of investment strategies and ensuring they are easily available.
  - It is important to ensure the continued rolling of data.
- As default investment strategies are composed of many different elements, e.g. default funds, underlying funds, glide-paths etc. measurement has proved challenging.
- At present, the relevant data on default investment strategies does not appear to be easily accessible by all. Typically, it is provided to meet regulatory requirements.

### Engagement or confusion?

- Discussion was had on whether greater disclosure of data can lead members to manage and engage with their investment strategies more frequently. There was no conclusion on this, as such disclosure would need to be accompanied by greater education to ensure that decisions were well informed.
- Opinion was expressed that there could be a danger of giving too much information to members.
  - Too much information may confuse members, which could result in them making less favourable investment decisions.
- Disclosure of data may be more useful to IGCs and trustees so that they can understand how they are performing.

### **Context**

- It was agreed that data disclosure and transparency are meaningless without context.
- In the cases where a context is provided, this often involves an internalised benchmark.
- There must be clear objectives and benchmarks that can provide default investment strategies with a context that is relevant throughout the pension industry.

### **Trustees and Regulation**

- Discussion was had on whether greater transparency would necessitate regulatory change with the concern that, often, new regulations do not replace old ones but are added on top of existing ones, making the requirements complex and confusing.
- Trustees are nervous about all the rules and regulations they have to take into account, which means they could be hesitant about disclosure and transparency changes.