



DC Scheme Governance – trustee-based vs. contract-based

NAPF discussion

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Traditional trust based – potential risks

- Doing your best no longer good enough
- Good intentions not sufficient
- Amateur approach questioned
- Annuity and investment options questioned
- Professionalisation?



Trust-based vs. contract based

- Trust-based easier for members
- Contract-based easier for employers, especially SME's
- Trustee risks and responsibilities increasing
- Being a trustee less attractive
- Professionalisation leads to rising costs
- Post-April 2006 – contract based flexibility increases, e.g. also offer higher commutation etc.



Trust-based DC

Advantages

- Trustees act for members
- Better for most members – easier, refund contributions
- Economies of scale
- Trustees choose providers
- Trustees choose investment options to offer
- Large firms may value HR benefits of 'benevolence'

Disadvantages

- Some members want control
- Members can't choose provider
- Investment options restricted
- Trustee incompetence
- Trustee indemnity
- Annuity decisions?



Contract-based DC

Advantages

- Employer has lower risk
- Big savings in admin costs
- Fewer 3rd party relationships
- No trust law/reg problems
- No trustee responsibility
- Easier for small employers
- Individual freedom of choice
- Flexibility - e.g. ISA/pension, banks/fund mgrs

Disadvantages

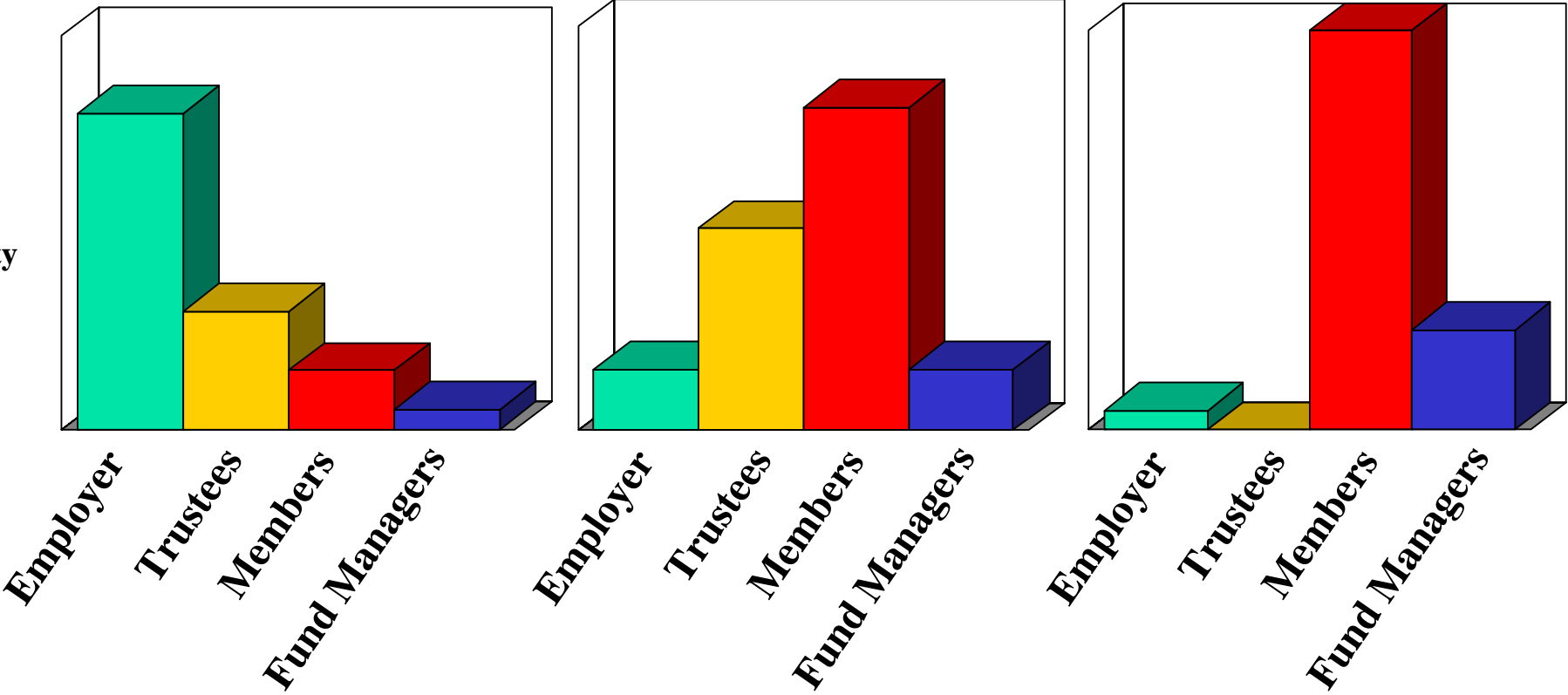
- Who is acting in members' interest?
- Members bear almost all risk
- Members need help
- Caveat emptor
- Members ill-equipped for this
- No economies of scale

DB Trust based

DC Trust based

DC contract based

Risk /
responsibility





What will happen next?

- Pension Act will lead to radical review
- Trustee skills will need to increase
- Amateur/best endeavours not enough
- Employers likely to be attracted to contract based
- Move away from trust-based
- Fewer trustees available, insurance problems?



Conclusions

- Employers should provide independent advice to assist employees in contract based arrangements
- Consider pooled/multi-employer contract based schemes to deliver economies of scale
- Trustee 'professionalisation' likely, but difficult



Pensions of the future?

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