



Society of Actuaries in Ireland

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## **PRSA Forum 2023**

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18<sup>th</sup> January 2023

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# **DC Pension Scheme Investments**

## **Grainne Newman**, she/her/hers

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18<sup>th</sup> January 2023

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## Disclaimer

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**The views expressed in this presentation are those of the presenter(s) and not necessarily those of the Society of Actuaries in Ireland or their employers.**

## Introduction Slide

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- Asked to review the investment aspects of DC occupational schemes – may be of interest to PRSA
- Will look at:
  - DC Scheme impact of rising rates, inflation
  - Overall DC Scheme Investment Strategy
  - ESG
  - Wider non-investment topics

# DC Impact of Rising Rates



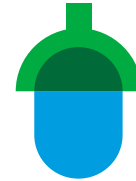
## Annuity Prices

If buying annuity – net buying power maintained?



## Annuity Matching funds

Severely negative returns which will appear alarming to members – even if they are targeting annuity purchase at retirement



## Risky Assets

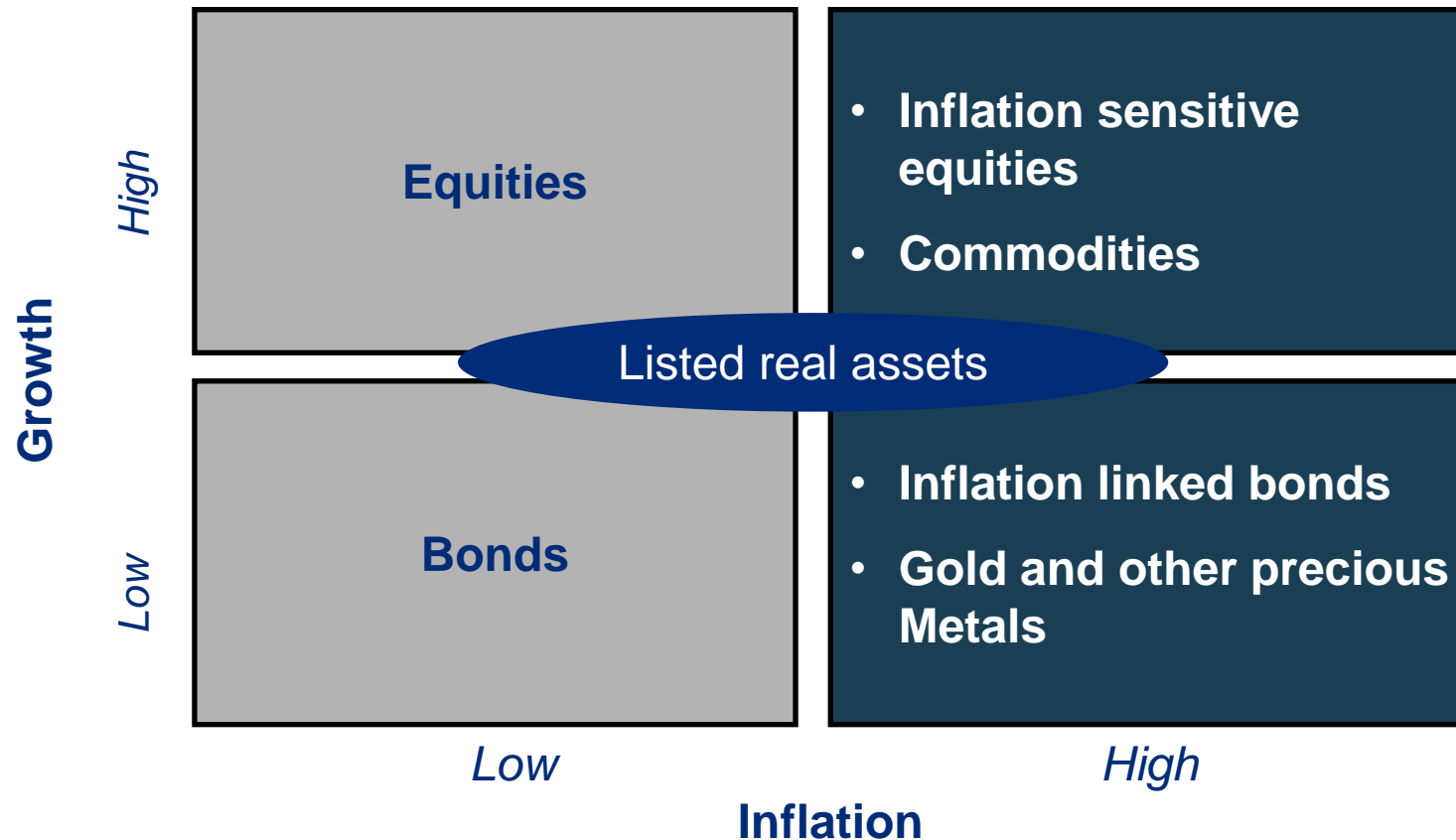
Higher rates may be negative for equity assets if due to economic shock / central banks raising rates beyond market expectations.

Trustees need to consider the lifestyle strategy default and whether it continues to be appropriate. Trustees should avoid knee jerk reactions and aim to keep a long-term focus.

Members should also avoid making knee jerk reactions

The impact of inflation on assets needs to be assessed within the context of the broader economic environment

### Relative Performance by Economic Environment



# DC Investment Strategy



## Lifestyle strategy approach

- Evolution of lifestyle strategies
- Robust design of default growth engine
- Default endpoint depends on membership profile

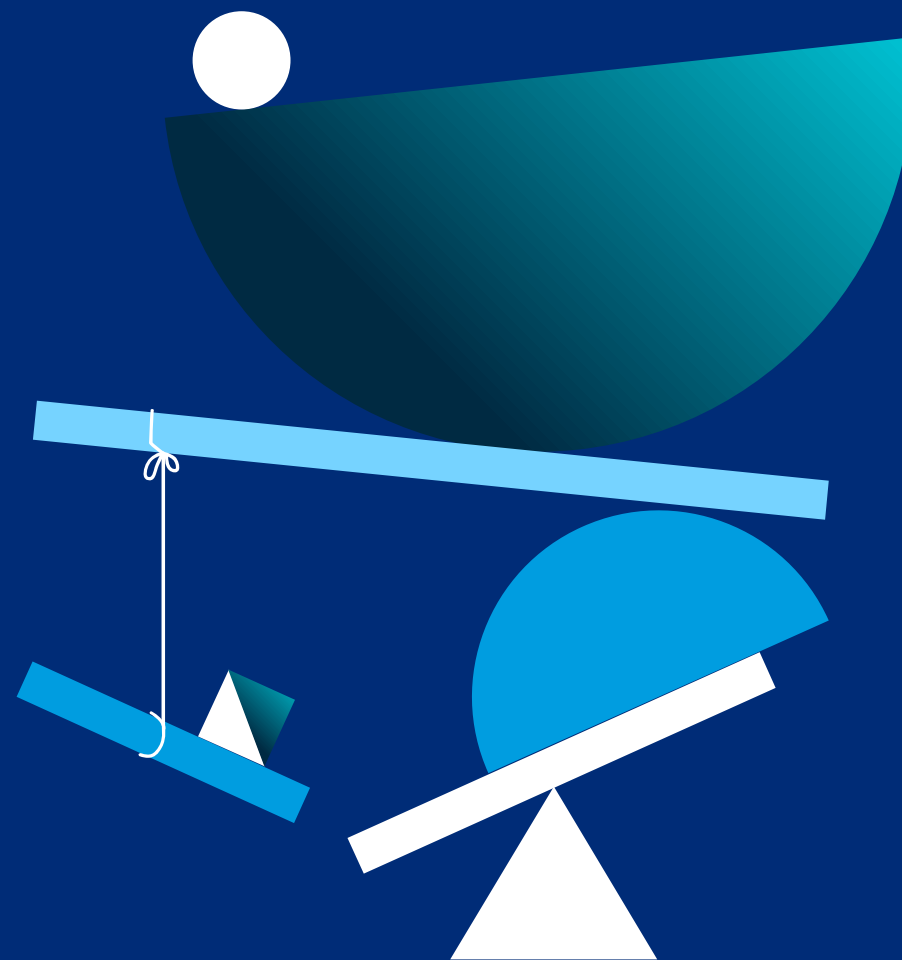


## Investment Range

- Get the basics right - investment range across the risk return spectrum
- Not too much choice
- Sustainability focussed fund options
- Institutional charges tend to be lower than PRSAs

## Balancing financial reward with sustainability

- EU Action Plan and regulations driving DC Trustees to incorporate ESG monitoring and oversight
  - Sustainable Finance Disclosure Regulation – articles 6, 8 or 9
  - More to come in 2023, only expect this to continue
- IORP II queried ESG in 2021 year-end check
- Trustees may have different opinions on ESG
- May want to reflect Corporate approach
- ***ESG aspects are providing a way to engage with members on the dull topic of pensions?!***



# Beyond Pure Investments: DC Hot Topics?



**Regulatory  
change**  
IORP II



**Pensions Authority objectives**  
Mass consolidation



**Auto Enrolment**  
How will it tie in with  
occupational DC?





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## **Insights from a Digital PRSA**

**John Gethin, KBC Life and Pensions**

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# What I will talk about

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- The issue with pensions
- The digital approach
- The customer outcome
- The business approach
- What we learned

1972 - 2022

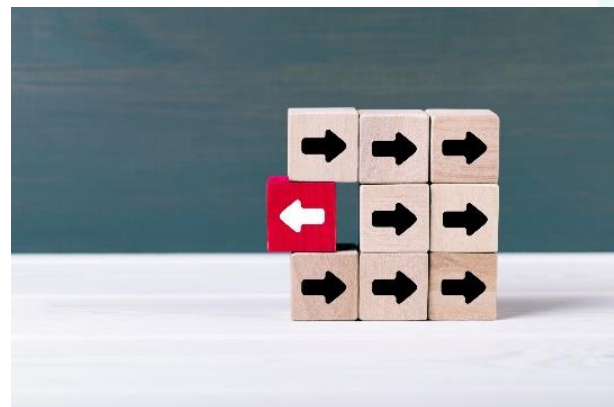
# The issue with pensions: A tale of 2 sides

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They are complicated & involve commitment

Pensions are problematic



Development is hindered by legacy

Design is driven by technical capabilities & compliance

# The hardy perennials

## The Problems

- ❖ Coverage & Adequacy
- ❖ People are starting too late
- ❖ We are living longer
- ❖ State Pension as income replacement
- ❖ Lack of digitisation – legacy systems preventing innovation
- ❖ Fund choice as a differentiator

## What's changing?

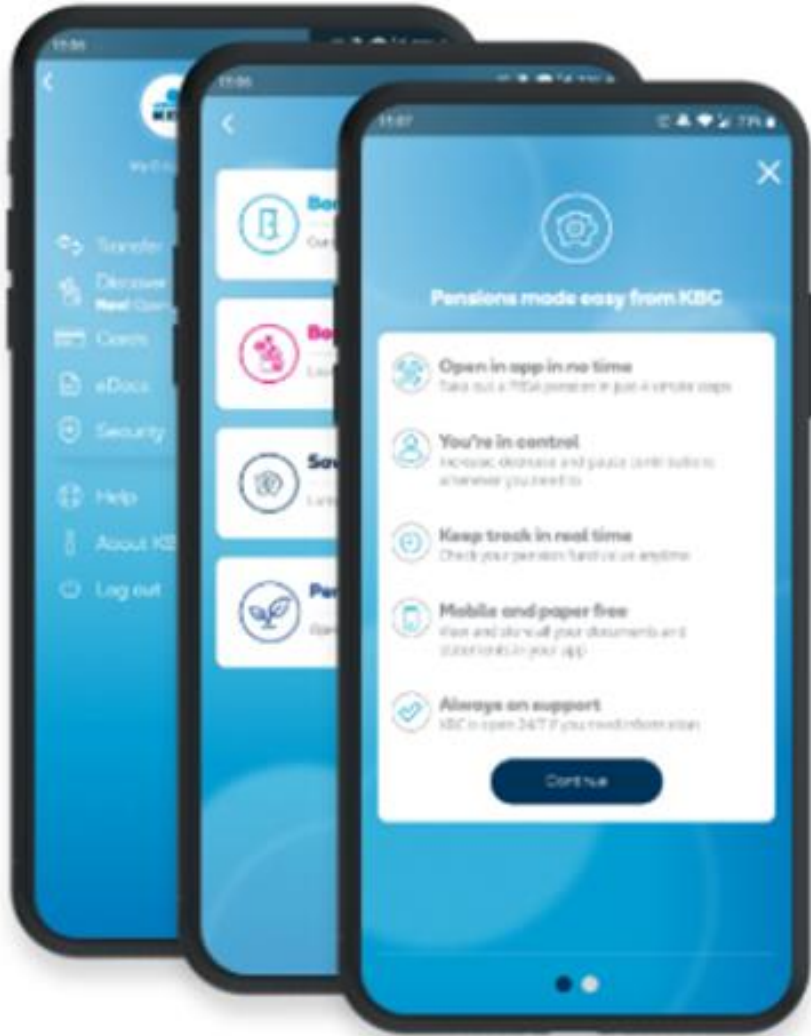
- ❖ Auto Enrolment
- ❖ Pension simplification agenda:
  - ❖ Simplify the process
  - ❖ Reduce products
  - ❖ Align options
- ❖ PRSA as the pillar 3 option
- ❖ Peoples expectations

# What the research tells us

- ❖ One of the biggest issues with pension planning is customer engagement
- ❖ Research consistently points to the effect of decision making on consumers particularly for investment products (e.g., Prospect Theory, Framing Effect, Loss Aversion, Cognitive Load Theory, Bounded Rationality) and that this negatively impacts engagement with retirement planning
- ❖ The important decision is saving for retirement – not choosing an investment strategy



# What's a digital PRSA?



....this means the ability to manage all aspects of your pension in App

From setting everything up, to managing contributions, tracking performance to reviewing documents – your phone becomes your pension drawer!

# The most important people



## Personal details

Names: Darren & Emily  
Ages: 36 & 38  
Working Status: Engineer & teacher  
Living in: Limerick  
Family: 2 kids, 6 & 6 months  
Average Income: €55-75k per annum

- 3 bed semi in Celbridge
- Lydia (6), Aidan (6 mths), cat called Tom
- Both tech savvy



## Personal details

Names: Michelle and David  
Ages: 30 and 33  
Working Status: Business Development Manager and Sales Rep  
Living in: South Dublin  
Family: No children  
Average Income: €75-85k combined income per annum

- Renting an apartment in Sandyford
- Early digital adopters
- Research on line



## Personal details

Names: Mary & Liam  
Ages: 68  
Working Status: Just retired  
Living in: Limerick  
Family: 3 kids all living independantly  
Average Income: €40k per annum  
KBC Products: Current Account, Debit Cards

- Future state personas - Recently retired
- Active lifestyle, walking holidays
- Listen to Newstalk and podcasts

# The customer outcome

## Key principles

### Simplicity

My Autoinvest:  
default investment  
strategy designed for  
everyone, built for  
the individual.



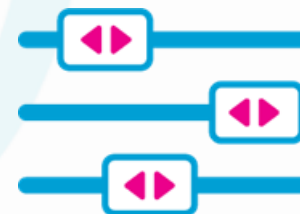
### Instant

View pension  
performance  
in app



### Control

Increase,  
decrease or  
pause  
contributions



Customers can self-serve, receive real-time  
statements and values and track their  
progress against their own retirement goal  
simply and instantly in App

# The Omni-Channel Approach: Customer & Staff see the same

Do it  
yourself



Customer



Save for later  
functionality.  
Allows Staff to  
prepare\ assist  
Customer.

Get  
Assisted



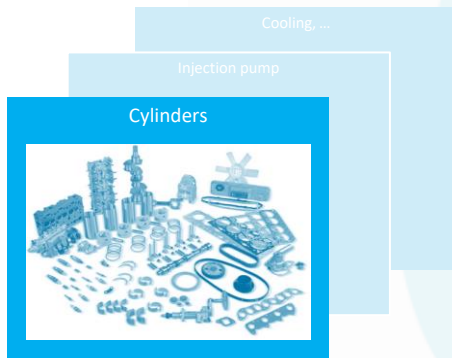
The Phygital  
solution



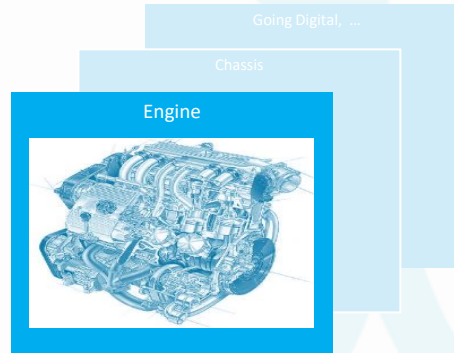
# Strategic principles for collaboration

**Share, re-use and copy** technological and commercially **proven solutions** developed in other countries (or parts of the business) and do it **fast and cheap**

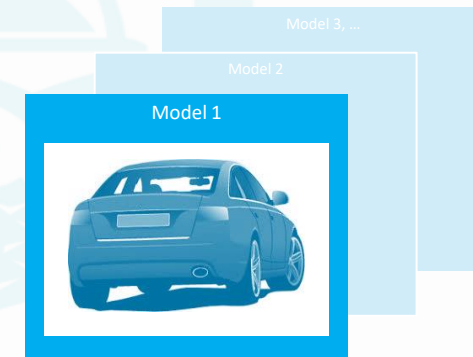
Not creating all components again



Reusing parts and assembled solutions



Still creating local models



- **Faster and cheaper development** process, lower general overall development costs and consistent security standards
- Reuse innovation
- Facilitates collaboration between IT and business.
- Facilitates collaboration with 3<sup>rd</sup> party developers.
- Willing to make compromises....

# Explained by Lego



Basic building blocks of a technology stack.

Standardisation of solutions will enable fast and cheap exchange of functionalities



# Share, reuse, improve, localise



Smart  
copy

- ❖ The city as a model can be copied, changed and improved.
- ❖ It will become a new and independent city.
- ❖ Cities can learn from each other and copy components.



**Not just the front end, don't forget the back end!!!**



# Benefits to the customer and the business

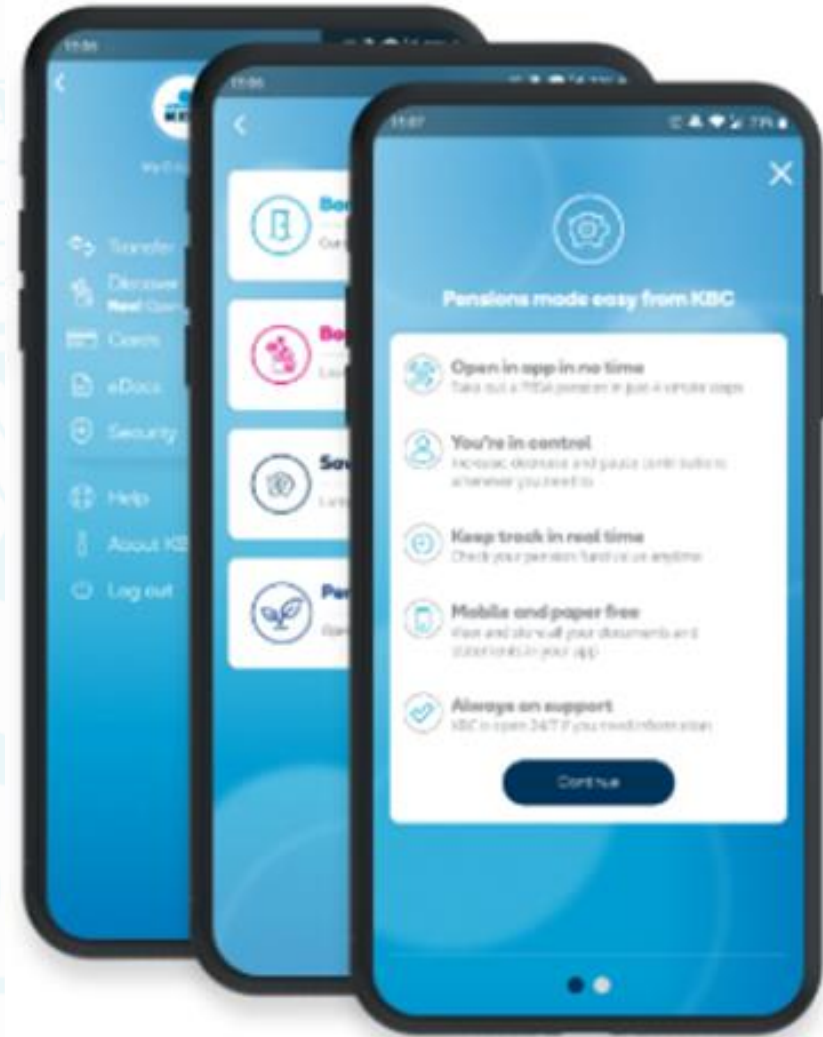
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## Self – serve is critical to the outcome

- 💡 Trackable goals
- 💡 Personalised PDC
- 💡 Instant contribution management
- 💡 No paper
- 💡 Education Hub
- 💡 Digital self-service
- 💡 Reduced back office footprint
- 💡 High STP rates
- 💡 Easy follow up through App activity tracking

# We Learned and Implemented

- 💡 How to make the intangible, tangible
- 💡 The importance of keeping it simple
- 💡 To empower and equip people to take control
- 💡 To communicate simplicity



Questions  
are  
Welcome



# Q&A

Please click on the '**Raise Hand**' icon  
to ask a question aloud  
and  
wait to be unmuted

or

Use the **Q&A function** to ask a question

