DC investment: Putting the 'trust' in trusteeship

Chris Inman highlights the importance of ensuring DC default investment strategies provide the best outcomes for members, and how target-date funds can help achieve this

How have your scheme members been spending their spare time during lockdown? If they are typical of the UK population and according to the Office for National Statistics, 71 per cent of them will have been streaming films and boxsets. They might have contributed to the 149 per cent increase in time spent doing DIY or gardening, or benefitted from an average 18 minutes a day of extra sleep.

It is far less likely that they will have been checking their pension savings. Aon's 2021 DC member survey, Keeping on Track in Challenging Times, found that only 7 per cent of the 2,000 DC scheme members we surveyed in October 2020 said they had checked the performance of their pension investments during the first quarter of the year. And a mere 8 per cent said that they intended to check their performance over the next 12 months.

On the surface, those statistics seem disastrous. If members will not check investment performance during one of the biggest crises in living memory, when will they?

Viewed another way, these are positive findings. With nearly 40 per cent of survey respondents saying they have been impacted financially by employment changes as a result of Covid-19, now is not the right time for members to start attempting to manage their own pension investments.

Instead, they are outsourcing investment decisions to the people who are best able to manage them: trustees, investment consultants and fund managers. This helps members to avoid the risk of poor decisions, such as moving assets at the wrong time and crystallising losses.

But default strategies are evolving fast. We know from the experiences of the 2008/2009 financial crash that a 'set and forget' lifestyle approach, which moves members from equities into bonds or cash as they get closer to retirement, also risks crystallising losses and leaving members with depleted savings.

In contrast, investment strategies such as target date funds (TDFs) set goals for returns over the long term. We have adopted this approach for our Aon DC MasterTrust, as well as offering our newly-launched target driven investment strategy to schemes more widely.

Rather than simply switching from equities to bonds at a specific point in time, we assess whether investment returns are on track to meet the long-term goals of the TDF. If members' returns have performed below our expected level, we can retain growth assets for longer – even if the member is approaching retirement. Similarly, if markets perform well, we can 'bank' some of the gains and reduce risk earlier.

Another finding from our 2021 research focused on responsible investment. Given that only 7 per cent of members looked at the performance of their savings at all, perhaps it is not surprising that just 4 per cent had explored whether their pension investments were in line with their environmental and ethical beliefs.

Again, this is not because members do not care – but is indicative of the fact that they expect their scheme to be monitoring this on their behalf. Impact investment strategies, such as Aon's Global Impact Fund, mean trustees can share good news stories about ways that members' contributions benefit society. This has the potential to help engage members, but without actively involving them in the complexities of responsible investment.

DC schemes have traditionally focused on encouraging members to contribute as much as possible, then hoping investment returns and market timing work to their advantage. But this is too high-risk. It is vital to go back to first principles with all default strategies and to set clear objectives for returns over time. It then becomes much easier to build and monitor a strategy that meets those objectives. Using goals such as the Pensions and Lifetime Savings Association's Retirement Living Standards can be a good starting point.

If members outsource pensions investment to the experts that run schemes on their behalf, it is vital that those experts deliver an appropriate outcome for them. All schemes must step back and ask whether their default investment strategy is worthy of the trust that members have placed in it.

Visit http://aon.io/3aVfTIE to view Aon's survey results.

Written by Aon head of DC investment advisory, Chris Inman