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DC Scheme Design

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Defined Contribution

Each member has their own fund

Contributions by member

Contributions by employer

Investment returns

Proceeds used to secure retirement benefits



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Factors affecting ultimate fund value



VALUE OF
CONTRIBUTIONS



TIME BEFORE
DECUMULATION



INVESTMENT
RETURNS



CHARGES



INFLATION

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DC schemes

Trust
based

- Single-trust employer
- AVCs
- Hybrid schemes
- Master Trust
- SSAS

Contract
based

- Personal Pensions
- GPPs
- Stakeholder Pensions
- SIPPs

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Master Trust

DC scheme

Used by two or more employers

Employers are not connected

Not a public service scheme

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Benefits of a Master Trust

Economies of scale

- Reduced management charges

Centralised Governance

Centralised Administration

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Small Self Administered Scheme

FA 1973

Small company

- Family business

Special powers to lend to / borrow from employer

12 or fewer members

- All Trustees

Pensioner trustee

- FA 2005

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Defined Benefit (DB) vs Defined Contribution (DC)

DB

- Known benefit
- Unknown cost
- Investment risk entirely borne by employer

DC

- Unknown benefit
- Known cost
- Investment risk entirely borne by member

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Contribution structures

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Contribution rates

Contribution rates
and structure set
out in scheme
rules

Must meet
requirements of
AE legislation if
used as AE
scheme

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Statutory minimum for a workplace scheme

Total	<ul style="list-style-type: none">• 8% of Qualifying Earnings
Employer	<ul style="list-style-type: none">• 3% of Qualifying Earnings

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Example matching structure

Option 1	<ul style="list-style-type: none">• Employee 3%• Employer 6%
Option 2	<ul style="list-style-type: none">• Employee 4%• Employer 8%
Option 3	<ul style="list-style-type: none">• Employee 5%• Employer 10%

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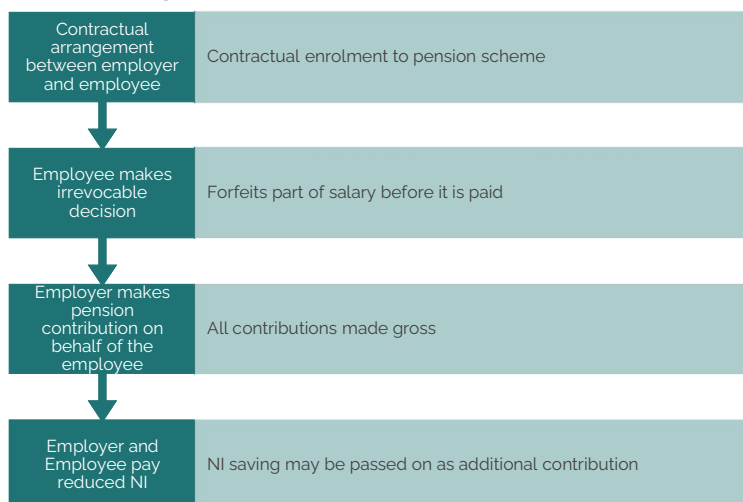
Other factors

Contractual agreement

Seniority

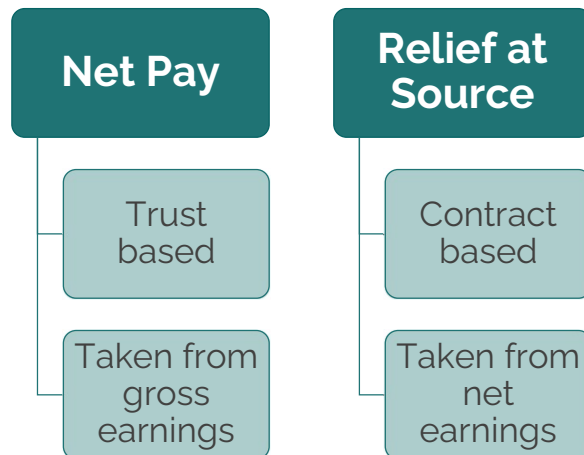
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Salary Sacrifice



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Tax relief on member contributions



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Tax relief: Net Pay vs Relief at Source

	Net Pay	Relief at Source
Gross pay	£2,000	£2,000
Pension contribution	£100	nil
Pay after contribution	£1,900	£2,000
Tax	£380	£400
Net pay	£1,520	£1,600
Pension contribution	Nil	£80
Take-home pay	£1,520	£1,520

Under RAS, HMRC makes a tax refund of £20 to the pension provider to gross the total contribution back up to £100.

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Employer contributions

All employer contributions are made gross

- Salary Sacrifice

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Decumulation

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Decumulation options

Taxation of Pensions Act 2014

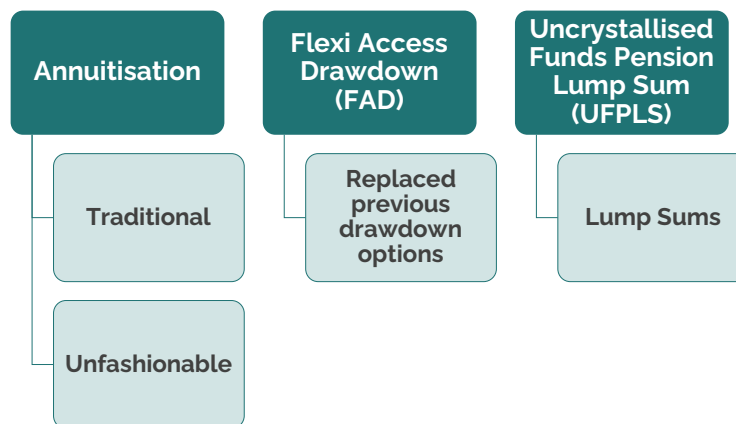
- Three options
- Can be combined

Trustees have no statutory duties

- Guidance from Pension Wise

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Decumulation options



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Annuity

Contract with insurance company

Guaranteed income

- For life; or
- For fixed term

Options

- 'shape'

Nothing returned on death

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Annuity example

Your results

Total pension pot

£500,000

Tax-free cash 25%

£125,000

Remaining pension pot

£375,000

These examples give you an idea of the income our annuity and our other guaranteed income products might provide. They assume you take the maximum 25% tax-free cash sum available but you can choose to take less. The annual result is made up of 12 equal monthly payments. The results are examples only and aren't advice. The actual income you can get will depend on your individual circumstances.

Guaranteed income for the rest of your life

Pension Annuity

£24,375

a year for the rest of your life

[View assumptions](#)

- ✓ Can pay more if you have health conditions or lifestyle risks
- ✓ Can keep paying out to a loved one after you die
- ✗ Can't be changed once the plan has started.

The figure above shows the gross income before any tax is deducted. We've assumed you're in perfect health, your postcode may impact any subsequent quote. For a personalised quote, click 'Quote and apply'. For further information on our [Pension Annuity](#).

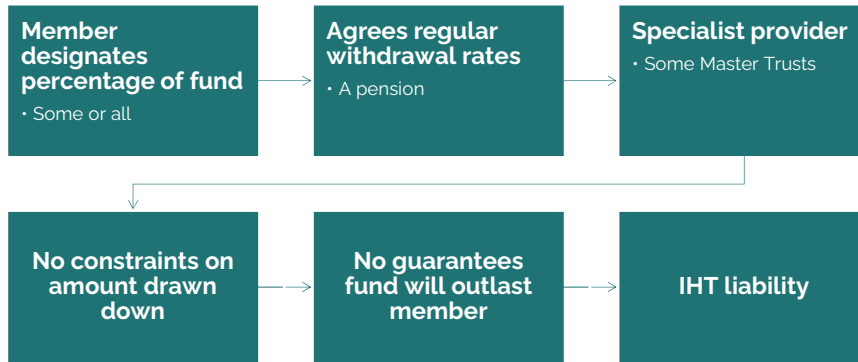
[Find out more](#)

[Quote and apply](#)

- 65 years old
- £500,000 pot
- Rates change according to annuity shape

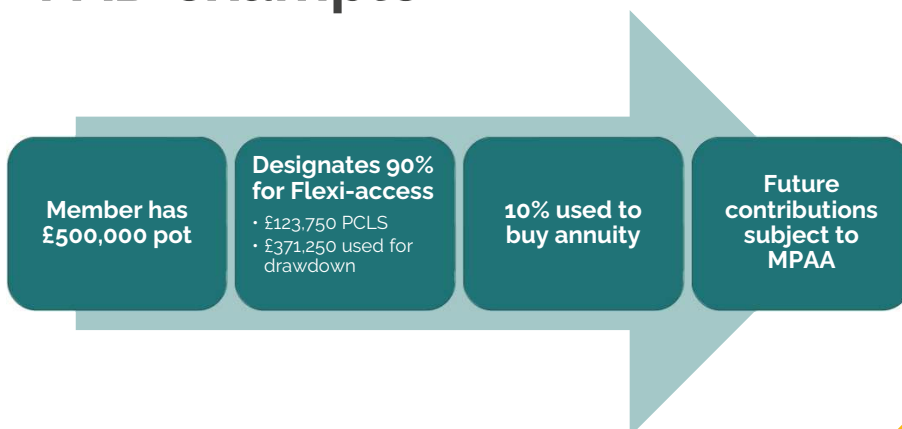
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Flexi-Access Drawdown (FAD)



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FAD example



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FAD risks



**LONGEVITY
RISK**



**FUND
PERFORMANCE**



'4% RULE'

4% of £371,250 = £14,850

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Uncrystallised Funds Pension Lump Sum (UFPLS)

**Single or series
of Lump Sum
withdrawals**

- Not regular withdrawals

**Provider may
restrict
frequency**

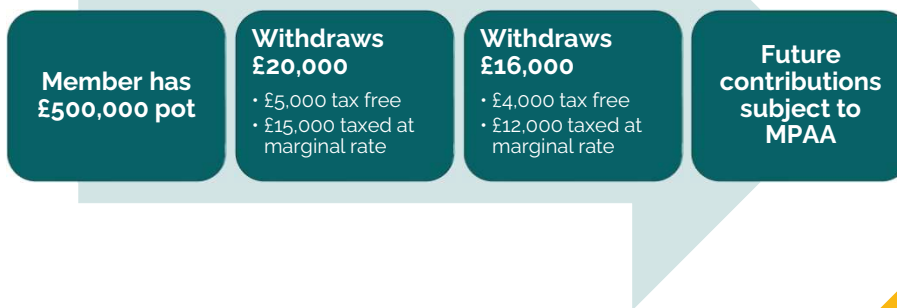


Tax

- First 25% tax free
- Remainder taxed at member's highest marginal rate

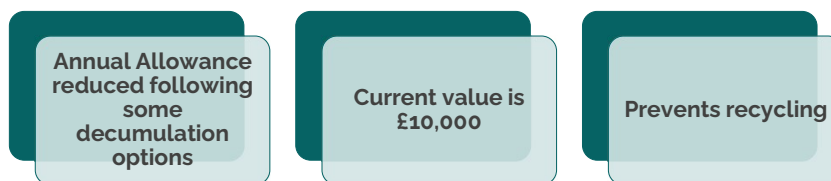
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UFPLS: example



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Money Purchase Annual Allowance



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Money Purchase Annual Allowance

Event	MPAA applies
UFPLS	Yes
FAD commences	Yes
Temporary / Flexible annuity	Yes
Pre-2015 capped drawdown but payments exceed cap	Yes
Lifetime Annuity	No
FAD designated but not commenced	No
Trivial commutation	No

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DC Investment

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Unitised Funds



Assets held in funds

Price unitised



Blend of Assets



Active / Passive Management



Bespoke or Retail

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Underlying Assets



Equities

UK and overseas



Bonds

Conventional gilts
Index-linked gilts
Corporate bonds



Cash

Liquidity



Property

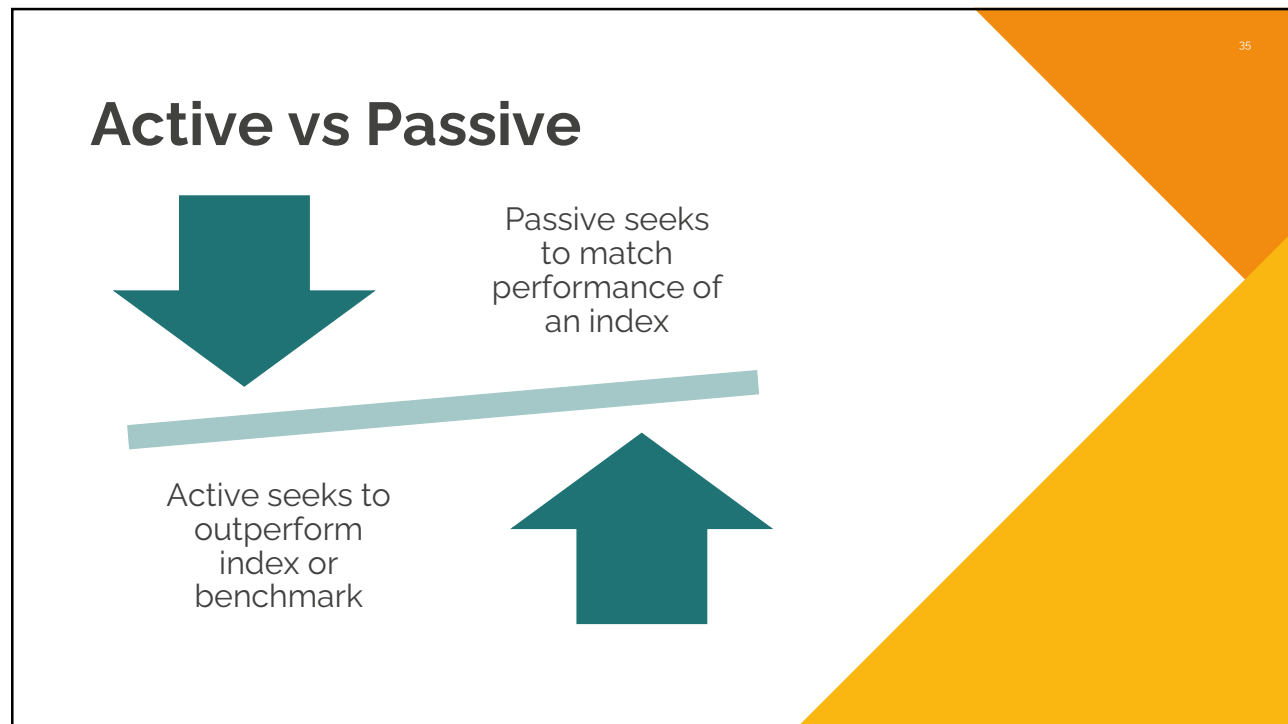
Larger schemes



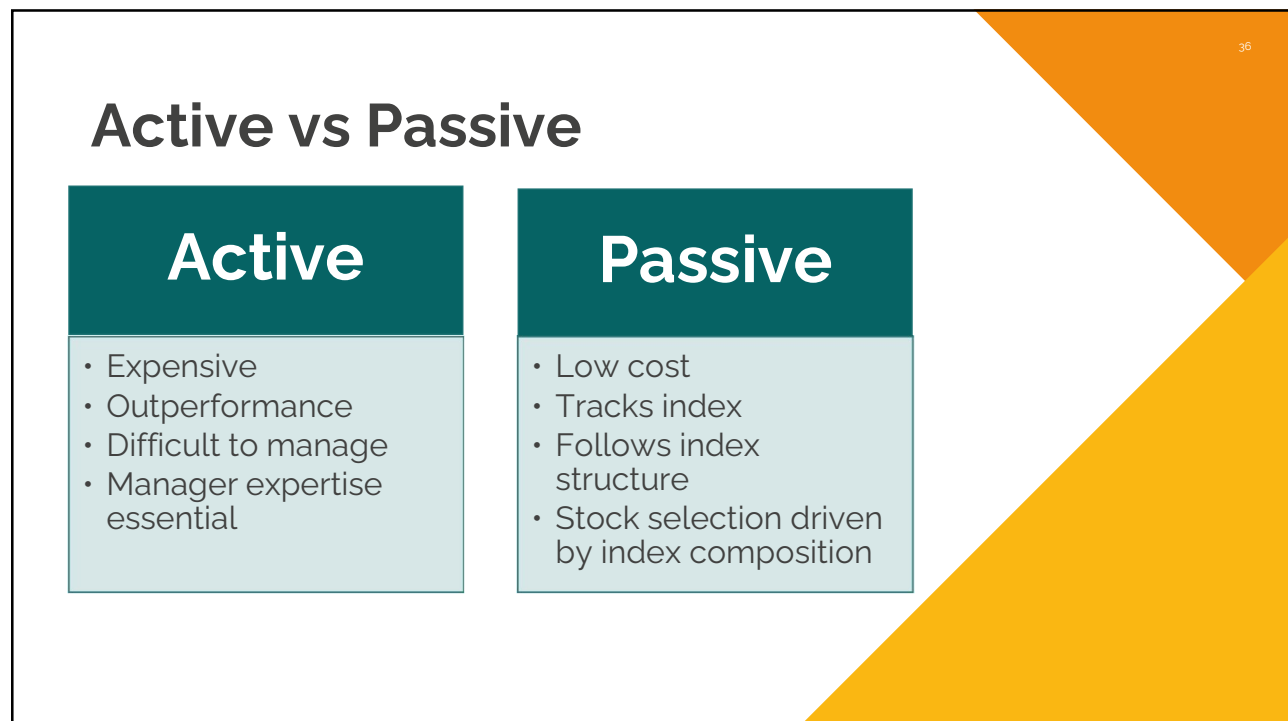
With Profits

Legacy arrangements

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Fund range

Master Trust

- Bespoke funds
- Typically, 6 - 8

Smaller schemes

- May be full range of retail funds

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Requirements of fund range



Appetite for risk

Equities, bonds and cash



Ideological concerns

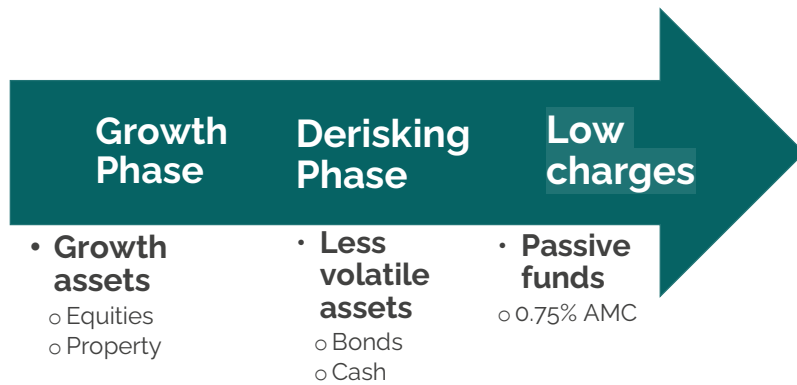
Ethical fund
Sharia fund



Member charges

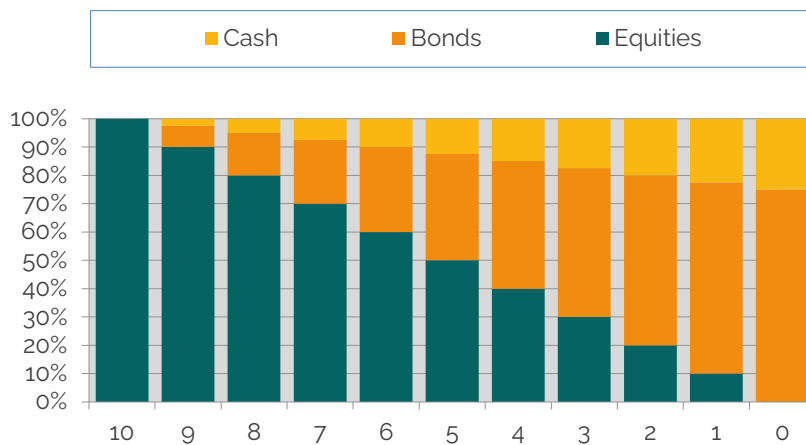
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Default fund design



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Life styling



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Target Date Funds

DC schemes

De-risks to a date rather than member's age

Avoids mismatch on decumulation

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Importance of Default Fund

"94% of group personal pension (GPP) members and 99.7% of master trust members were invested in their scheme's default fund as of 2017."

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Chair's Statement

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Purpose

Transparency

- Demonstrates trustees' attention to DC investments within the scheme






Compliance

- Must be included in the Annual Return

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Contents of Chair's Statement

					
Default Fund	Charges and Transaction costs	Value for Money	Governance	Core Transactions	Trustee Knowledge and Understanding
Investment strategy Review process	All member-borne costs and charges	How VFM is assessed	Description of Governance Standards Review of scheme SIP	Confirmation that member transactions are processed promptly and accurately	Statement about TKU activity

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Thank you



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