



Annual Defined
Contribution
Roundtable

May 2024

Rethinking retirement

Part 1: Accessing personalised and flexible decumulation strategies

The latest annual Invesco Defined Contribution Roundtable, chaired by Mary Cahani, Head of Defined Contribution (DC) Clients at Invesco, brought together leading industry participants to focus on innovative solutions aimed at improving member outcomes. Compared with discussions in 2023, which centred on identifying challenges for DC members, this year's conversation emphasised innovation and the need for continued collaboration.

With 60% of last year's attendees returning, the roundtable has established itself as a key annual discussion platform. By fostering a collaborative approach with DC pension scheme consultants, investment platforms, regulators, and asset managers, the event seeks to address the evolving challenges in the DC market in the UK.

Key takeaways

1. Introducing blended income portfolios is essential to provide members with greater flexibility and resilience, surpassing the limited options of annuities or cash at retirement, ultimately enhancing member outcomes.
2. Developing personas and robust default solutions can cater to the diverse needs of members, ensuring personalised and effective decumulation strategies and enhancing member engagement.
3. A more comprehensive investment approach that includes diversified real estate and other alternative assets, supported by evolving regulatory frameworks and improved advice, is crucial to address the gaps in decumulation support and improve member outcomes.

The recent Invesco Defined Contribution Roundtable brought together industry experts to discuss the historically overlooked decumulation phase in defined contribution (DC) plans, through the lens of enhancing member outcomes.

This discussion highlighted the need for innovative strategies, personalised approaches, and effective communication to support members as they transition from accumulation to retirement.

The group coalesced around the importance of simplicity. "It's about having a decumulation framework

that allows people to make a few decisions, but then the rest is essentially done for them. This means moving into more of a default world," said George Fowler, Partner at Isio.

"It's a really difficult thing we're asking people to do: moving from monthly salary to a pot of money and understanding how they relate to each other. So we just need to focus on making that easy for members" added Alison Bostock, Director at ZEDRA Governance.

Moving beyond binary choices at retirement

One of the main points of discussion was the necessity to move away from the two options that members currently choose from at retirement: converting their portfolio's value into a drawdown annuity structure or taking cash. This decision often hinges on the value of one's portfolio and the prevailing interest rate environment on the day of retirement, which massively affects member outcomes.

To address these challenges, asset managers are developing innovative retirement income strategies, such as blended income portfolios, to offer more flexibility and resilience.

The conversation underscored the need for the investment industry to frame retirement solutions in ways that resonate more naturally with members' financial realities. This shift in perspective can help ensure that members make more informed and beneficial decisions regarding their retirement incomes.

"Individuals don't think in percentages or yield. They think in normal salaries," explained Georgina Taylor, Head of UK Multi-Asset Strategies at Invesco.



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Personalised approaches and effective communication

The roundtable participants agreed that there is a growing recognition of the need for more personalised approaches to decumulation that reflect the unique circumstances of each member.

“Everybody needs a customised solution, so then the question is, ‘How do we as an industry deliver a customised solution given the limited resource we have?’” said Ian Pittaway, Chairman of the Aegon Master Trust.

Several participants proposed developing personas to measure risk appetite and determine the appropriate allocation of a member’s pot. One solution might be separating members’ pots into cash, income, and growth portfolios to provide a balanced approach when fully individualized solutions are impractical. This method allows for flexibility and can cater to different, and often unpredictable, life events and work arrangements in retirement.

While more options may be beneficial to some members, others may suffer from decision paralysis.

Member communication and education are paramount. However, the industry should accept that members frequently do not engage to the extent necessary, partly because DC pots are often smaller components of their overall retirement savings compared to defined benefit (DB) pots.

Ultimately, we need to have an effective default solution that trustees design for members who, for whatever reason, do not want to engage in the detail,” said Stephen Budge, Head of DC Investment Strategy at Lane, Clark & Peacock.

“Many families are too busy trying to survive and figure out how to pay their gas bills, while hoping that the future will sort itself out,” added Simon Redman, Managing Director and Head of DC and Wealth at Invesco.

Addressing the gaps in decumulation support

The group also noted the significant gap in advice and support available to members once they reach the decumulation phase.

While master trusts provide a strong solution up until retirement, members too often move into suboptimal and expensive strategies. This transition is not given enough attention by the industry and usually results in members not maximising the potential of their retirement savings.

The UK regulatory environment, encouragingly, is evolving to establish a more robust framework for the post-retirement phase. This includes guidelines to ensure greater flexibility and risk management within pension arrangements, accommodating the complexity of retirement planning.

“Ultimately,” said Anthony Ellis, Head of Investment Consultancy at Hymans Robertson, “the biggest problem in retirement is that people aren’t saving enough and aren’t able to retire when they want. There’s got to be an investment return angle to help that. I’m in favour of a more rounded investment return approach.”

The rest of the group concurred that adopting a more well-rounded investment approach — one that may include growth assets and alternatives — is essential. Flexibility of access, combined with strategies such as liquidity pooling to manage longevity risk, can significantly enhance member outcomes.



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Our commitment to DC innovation

At Invesco, we work closely with clients to create bespoke DC solutions tailored to their unique needs. Our wide range of tools allows us to offer a broad set of solutions to various DC scheme challenges, from enhancing passive exposures to integrating alternative investments and managing post-retirement strategies to ultimately improve member outcomes.

As Kate Dwyer, Head of UK Distribution at Invesco, explained, “What’s become clear is innovation is core to developing and designing propositions for the needs of the clients of the

future. We’ve already started to bring some of this innovation to the market, highlighted by the launch of our Invesco Global Direct Property Fund, which provides DC scheme members with access to global direct real estate investments.

Through continuous enhancement and the expansion of our offerings, Invesco is dedicated to delivering exceptional value and improved outcomes for DC plan members.

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

Property and land can be difficult to sell, so investors may not be able to sell such investments when they want to. The value of property is generally a matter of an independent valuer’s opinion and may not be realised.

Important information

Views and opinions are based on current market conditions and are subject to change

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