Providing in-scheme drawdown: Thomson Reuters case study

Laura Blows speaks to Thomson Reuters' head of EMEA and APAC benefits, Matthew Webb, about how, and why, it was decided to provide a drawdown service within the scheme to members

Please could you provide details of Thomson Reuters' pension scheme?
There is a trust-based DC plan for Thomson Reuters. Currently we have just under 5,000 active employees and just over 7,000 deferreds. We are a touch below £500 million in assets under management. We offer 18 different investment fund choices within the plan. We use the Fidelity platform for this and we use Capita as our administrators. So it's a fairly classic DC plan.

How did you first contemplate offering drawdown within the scheme?
In 2014, when it was first mooted that the pension flexibilities would be available, our company had just come out with a new set of purpose and values. These were trust, partnership, innovation and performance. Our purpose statement is that we are trusted for the decisions that matter most, empowering customers to act with confidence in a complex world.

With that purpose and values in mind, it made us think that we should really look at offering drawdown seriously. So we had our consultant do a membership pot size analysis. This was really interesting; back in June 2014 we had 10,000-10,500 members. Seventy per cent of their pot sizes were below £30,000.

The consultant then made some assumptions in terms of future investment returns and contributions for that population. It found that by the time the members reached retirement, two thirds would have a pot size of over £50,000 and quite a lot with over £100,000. So the pot-size analysis, together with the purpose and values, started to point towards drawdown being quite interesting for our membership.

We did a pros and cons analysis and came up with three reasons why we should be offering drawdown within the fund. Those were cost, continuity and convenience.

On the cost side, we felt it would be more cost effective for members to remain in the scheme, rather than having to transfer out and go into a retail arrangement.

Continuity was with regards to long-term investment and strategy planning, and continued investment in institutional funds.

Regarding convenience, we know how many people default because they don't like to make decisions. Drawdown provides the convenience of the new flexibilities without having to transfer out.

Those were the three reasons that we put forward and it's very much a trustee and company combined approach. So those were the reasons why we wanted to go ahead.

You mentioned drawing up a pros and cons list – what were the cons?
The challenges we considered was administrative complexity. Maybe the cost would be prohibitive, but when we looked into that, cost actually became a pro rather than a con.

Obviously there is the risk of continued paternalism. Also, one of the risks that the trustees were worried about, and to some extent they still are, is the risk of cognitive decline when members get older.

When we looked at the pros and the cons, we felt if the company/trustee can offer this at no additional cost to the company, why wouldn't we? There was no, we felt, insurmountable reason why we shouldn't be providing it.

What was the process for setting up drawdown within the scheme?
We put a working group together of the company and trustee representatives, the administrator, the legal consultant to the trustee and the investment consultant. Then it was really just a matter of working through the regulations and deciding how administratively to put the drawdown option together.

It also involved some policy design and a legal review as to whether rules and trust deeds needed changing. We needed to work through the administrative and communications process, and then decide on whether it would be flexi-access drawdown or UFPLS *[Uncrystallised Funds Pension Lump Sum]* or a combination.

The trustees wanted to make it fairly simplified. For people with large pots who had quite complicated investment strategies, the SIPP route would always be a possibility and maybe preferable for them, but our offering was for people who wanted to keep the access of their retirement savings fairly straightforward and simple.

The cost structure was fairly straightforward. There is a one-off admin cost for going into drawdown and then it's an annual charge. For that members are able to make an annual election and can change that election once a year at no further cost. If they wanted to change it on a more frequent basis, that's when additional costs would start to come in. The membership pot analysis was done in June 2014 and we launched the drawdown option in November 2015, so the process took about 15 months.

Was the company on board with the idea of offering drawdown, or did it take some convincing?
Our company is US headquartered and when you look at 401(k) in the US, they're actually fairly familiar with the idea of drawdown. It's not a new concept for them, so there was no real pushback or difficulty with the company.

Were there any hurdles while putting drawdown into place that maybe you didn't anticipate?
The biggest one was the legal side. There was a real caution from the legal advisers and therefore, the trustees. At the time, in that 2014-2015 period, it was very unknown as to where the regulatory regime was going to go regarding advice. Around April 2015, it was confirmed that the advice requirement for people drawing down from an occupational trust would be a light-touch regime, rather than the full retail, FCA-based advice requirement.

Until that point, there was a real caution about whether, as an occupational trust, we could or should be doing this without formal advice being given to everybody. That would have been a barrier.

A year on from the launch, what have been the benefits of offering drawdown?
Like a lot of DC plans, we don't have a lot of retirees at the moment. It's fairly young, in terms of the membership, scheme. So we don't have lots of people going through that retirement process. Instead, this was, for us, a long-term sustainable policy design.

We were looking at some stats a couple of months ago with the trustees, and of the approximately 30 people who have retired, nobody has bought an annuity directly from their funds since drawdown has been an option.

Of the people that have taken their benefits, I think we've had about two thirds take the UFPLS option and about a third take the flexi-access drawdown option.

There's a bit of a mix between members not taking any funds, and just leaving their money in the pot, and actually drawing down income on a regular basis.

Our view is at the moment these people who are moving into retirement have probably got other retirement benefits as well. They're at that age where this wouldn't be the major part of their retirement funds. Either it's a top up or it's an add on to other DB benefits they have.

Have there been any knock-on effects of offering drawdown?
Yes, a couple of things. The trustees were quite keen that if we were going to put this in place, then we also think about an education strategy. So we worked with a third-party financial education company and put in place a process whereby, as members reach age 50, they're invited to a seminar that explains the options at retirement. More details are provided at age 55 as well.

In addition to that, we introduced a new pension modeller that incorporates drawdown. So for younger people as well, we felt it was important that the modeller includes drawdown as well as the normal things that a modeller includes.

This year the trustee is looking at its default investment strategy, because we feel drawdown will be the default for the majority of members, so the investment strategy has to reflect that.

Thomson Reuters is quite unique in offering this in-scheme drawdown. Why do you think it's still so rare for companies to offer this?
It's an interesting one. I've got a cynical response and a politically-correct response. The politically-correct response is those challenges that we talked about, such as the administrative complexity – why would a plan take that on if it didn't have to? That's an argument, I understand that. Plus members' cognitive decline risk; do we really want members to be responsible for financial decisions into their 80s and 90s?

I think a lot of companies are sat on the fence and the whole master-trust solution looks very attractive to them. Certainly for smaller sized funds, it might make more sense to go down the master-trust route for economy of scale.

But our point was to come looking at this from the members' perspective, looking at what's best for the members. So my view would be that people in positions of responsibility for these funds need to be a bit braver.

Written by Laura Blows

THOMSON REUTERS®