Access all areas

Catherine Doyle explores the developments in store for DC scheme investment following its recent changes

The UK DC pensions sector has been described as the world's fastest-growing market, propelled by the shift away from DB retirement schemes and the use of DC as the main savings vehicle for auto-enrolment. Recent pension reforms in the UK have furthermore thrust the market into the spotlight by granting scheme participants greater flexibility in how they access their savings.

What scheme participants receive when they retire is no longer guaranteed and will depend on the choices they make about how much to save, how to invest and how to make their savings work for them in retirement. This places relatively complex decision-making, fraught with behavioural biases, on individuals with little financial expertise. As a result, the pressure on sponsors and trustees' ability to deliver good member outcomes is mounting, encouraging a debate about how DC schemes can support scheme participants after they retire, typically through the provision of in-plan income solutions. So what does this mean for DC scheme design as we know it?

Income re-focus

DC savings for many members are viewed as a source of wealth creation rather than a primary source of income generation for retirement. This is perhaps a legacy of the pre-budget DC lifestyle strategies, which typically concluded at retirement and involved investment decisions mainly focused on asset value and volatility of returns.

Following the most recent pension reforms, performance measures and mindsets are shifting towards income to ensure savers are best placed to take advantage of the new flexibilities.

Good retirement choices deliver good retirement outcomes

The Pensions Regulator recently outlined six principles that trustees should adopt in order for DC schemes to be capable of delivering good member outcomes. These principles are further underpinned by 31 DC quality features that provide more detail around behaviours, control processes and activities. Although good outcomes have yet to be clearly defined, one can barely argue against the definition of a 'good retirement outcome' as having a long-term and steady stream of income in retirement, adequate enough to sustain a desired lifestyle in the absence of a working salary.

A fit-for-purpose solution

Preserving capital and achieving a smooth retirement journey will always remain in the saver's best interest. A seamless transition from a stable growth strategy in the lead up to retirement, to an income-paying solution that can help mitigate the myriad of risks faced by scheme participants when they retire is aimed at a solution that is fit-for-purpose. This solution will have to remain relevant under changing financial circumstances in the lead up to and through retirement, allowing scheme participant's greater control over their capital for longer so as to take full advantage of the freedom principle. Under the imposed 75 basis points charge cap, protection against any risks faced by scheme participants will need to be built into a strategy. Therefore a fit-for-purpose transition solution would comprise of well diversified, multi-asset solution with dynamic asset allocation capabilities targeting an absolute return benchmark, while providing a sustainable income stream when needed.

Newton's Multi-Asset Diversified Return Fund offers stable growth and capital preservation through seeking investment opportunities across a diverse range of asset classes, including equities, bonds and alternative assets. In the lead up to retirement, a diversified growth fund helps to meet the capital requirements of scheme participants to achieve a steady income in retirement. And in response to income requirements when they retire, Newton offers a fully flexible and global approach in the Newton Multi-Asset Income Fund, which aims to provide investors with a sustainable level of income that is sourced across a wide opportunity set. A sustainable yield, sufficient to meet income requirements, means that investors can be less concerned about the movement of their capital value or its erosion when valuations are low. There can be significant commonality of ideas between the multi-asset income and multi-asset diversified return funds, as both funds draw on Newton's strong pedigree in multi-asset and income fund investing with 30 years' experience in multi-asset investing and 20 in income investing. Although their risk-reward objectives differ, the stock selection process for these funds will take into consideration Newton's long-term thematic-drivers, and whilst asset allocation is important, it will follow a predominantly 'bottom-up' approach, with each security being chosen for its expected risk-return benefits. The significant commonality of holdings avoids 'de-risking' member's capital into inappropriate asset classes or instruments.

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