Press Release

Contact: Tim Steele
+44 20 7163 5850
Tim.steele@bnymellon.com

Miranda Thomas, Cass Business School
+44 20 7040 5274
Miranda.thomas.1@city.ac.uk

'Dynamic' Strategies Should Replace 'Traditional' Lifestyling of DC Pension Schemes, According to Research by Cass Business School, sponsored by BNY Mellon

Report Found that Dynamic, Outcome-Orientated Strategies Significantly Increase the Probability of Achieving a Desired Pension Target

LONDON, 5 October, 2011 - There is a need for more innovative alternatives to the 'lifestyling' approach typically employed in defined contribution (DC) pension schemes, a recent report from Cass Business School, part of City University London, sponsored by BNY Mellon, has found.

Traditional DC investment strategies adopt a strategy known as 'lifestyling', where investors' pension pots are "automatically and mechanistically" switched out of equities to government bonds in the ten years preceding retirement. The report found that pension schemes that use lifestyling are producing smaller pension pot sizes for savers than ever before.

Cass Business School Professor of Asset Management Andrew Clare, who co-authored the paper with Cass Senior Lecturer Dr Douglas Wright, said: "Our research has shown that the equity bear market and the decline in annuity rates over the last ten to fifteen years has had a devastating effect on the final pensions of DC savers who have relied upon the mechanical lifestyling approach. A more enlightened and more flexible approach to the DC accumulation phase is definitely needed."

Instead, the report finds evidence to suggest that DC pension schemes should adopt a 'dynamic' investment strategy that is "outcome-driven, recognises investors' attitudes to risk and takes a flexible approach to the 'decumulation' phase". In doing do, investors will receive a tailored investment solution and thus a greater chance of achieving pension targets.

Clare added: "The paper challenges the asset management industry to respond with workable products, solutions and technology. These approaches will require the industry to rethink how it engages with scheme members, and challenge assumptions on the key inputs for future product developments."

"Few now dispute that the future of pension provision, not just in the UK but in other developed countries, seems to be the DC model", said David Calfo, Group head of DC strategy, BNY Mellon. "In moving, albeit gradually, from a DB to a DC world, the burden of risk that retirement income will not be at the desired level is shifting from employers and their shareholders, to individuals. It is therefore right to ask whether the investment approach taken to DC pension provision is appropriate".

The key will be to treat people as individuals. Calfo said: "Past and present solutions treat people of a like age and or number of years before they retire as if they have the same income objectives in retirement, and fail to consider how close individuals are to actually achieving their target retirement sum. In practice this means that in most DC schemes two people of the same age, with entirely different retirement income objectives, where one 'on target' and the other significantly 'under target', will have identical asset allocation profiles. This is clearly wrong and something pension schemes need to address to assist individuals to attain financial well being."

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Notes to Editors

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