HYMANS ROBERTSON

Sixty second summary

DC savers and the economic impact of coronavirus

Michael Ambery
Head of DC Provider Relations

Darren Baillie
Risk & Modelling Consultant

The dramatic drop in equity markets from the impact of Covid-19 compounded by the crude oil price war in the last week has been followed by a global response of DON'T PANIC. The same message could apply to pension savers. Helping them see why this is the case could help soothe nerves.

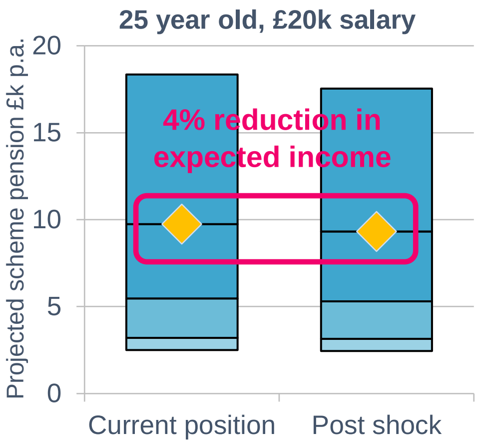
Potential impact on DC savers

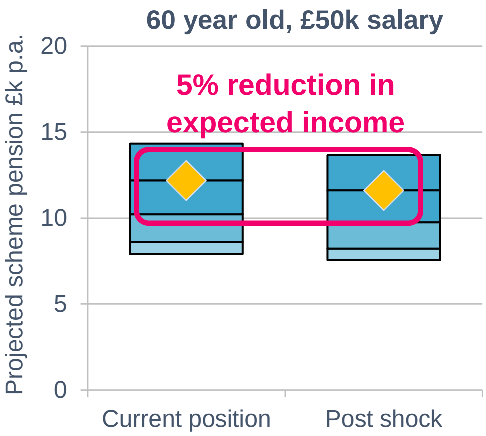
The fall in equity markets has inevitably reduced expected retirement incomes but for young members in the early years of their savings journey, their chance of achieving a target income could remain relatively unscathed; our analysis shows that a young saver earning £20k p.a. and setting aside total contributions of 10% of salary each month maintains a c.70% chance of achieving their Guided Outcomes target.

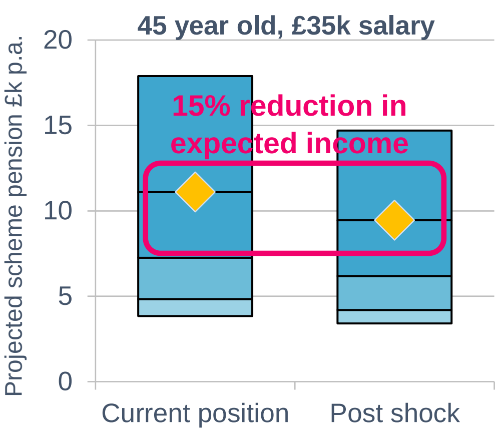
For those close to retirement, a lower risk investment strategy could have at least partly insulated their fund from the equity market decline, so any negative impact may be more modest than perhaps first feared.

The impact on mid-career savers may be more significant due to the combination of reasonably large pot sizes and heavy exposure to equity markets but the situation is not irretrievable.

These charts show the range of projected pensions for three typical DC members before and after a large equity market fall:







Have default investment strategies worked under stress?

Typical default strategies have generally passed this live test. Those closest to retirement with least time to recover should have been protected from the full force of the weakening equity market. Of course, if members have self-selected or over/under saved in the past, this will affect their position.

What are the key messages to communicate to DC savers?

Confidence in saving is paramount and preventing rash decisions is important. Market shocks happen from time-to-time. They're anticipated, and the way investment defaults are constructed demonstrates that. Tailored messages may help savers understand what it means for them and what to do next:

Early in their career: Pension saving is for the long-term and it's important to stay confident in your regular saving. A few economic shocks and recoveries are likely to happen between now and when you retire. Over the long-term, this one is unlikely to have a big effect on your pension.

Mid-career: The time you have left between now and retirement should be long enough to recover from the recent market falls. You have the choice of weathering the storm or considering saving more or retiring later if you're concerned about staying on track.

Close to retirement: Because your investments have been gradually moving to less risky assets as you approach retirement, your savings should be less susceptible to recent events.

What else can help DC savers?

Our Guided Outcomes technology allows us to address different questions to help your members understand their options:

- How big a market "bounce back" is needed to get back on track? How long could that recovery take?
- To get back on track, how big might an additional contribution need to be?
- Are there other options to get back on track, like retiring later?

About the assumptions behind our analysis

The table below shows our calculations for sample members with a 10% total DC contribution rate, based on different ages and salaries and assuming they retire at State Pension Age (as currently defined).

We've assumed members 1 and 2 are currently invested in 100% equities but member 3 is in the lower risk phase of a lifestyle strategy with an allocation of 25% to equities. The market shocks we have applied are intended to be broadly representative of recent market moves and their approximate impact on DC members' pots; of course, markets are constantly changing, and different members will be impacted in different ways.

Sample member	Age	Salary	Service	Total contribution rate	Market shock applied	Reduction in projected pension
1	25	£20k	5yrs	10%	25%	4.4%
2	45	£35k	25yrs	10%	25%	14.9%
3	60	£50k	40yrs	10%	5%	4.6%

Please contact your Hymans Robertson consultant for more information.

London | Birmingham | Glasgow | Edinburgh T 020 7082 6000 | www.hymans.co.uk | www.clubvita.co.uk