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Section 1: Introduction

The purpose of these guidelines is to assist trustees of defined contribution (DC) pension schemes and their advisers in deciding on the investment choices to be made available to scheme members. This is one of the most important responsibilities that trustees exercise in overseeing pension schemes. Because schemes differ in terms of their membership size and profile (including, for example by reference to age and proximity to retirement) and other features, these guidelines are not prescriptive. Rather it seeks to identify the issues that trustees need to consider from the perspective of helping scheme members to make decisions appropriate to their circumstances and to maximise retirement benefits for a given level of contribution.

The ongoing shift from defined benefit to defined contribution pensions means that an increasing number of pension scheme members will be relying on DC arrangements to provide their retirement benefits in the future. In this context, it is very important that the investment choices available through these schemes are appropriate and well designed and that members have a clear sense of the risks they face.

At the point of retirement, the value of a DC member’s pension fund depends on a number of factors including:

- Contribution rate (employee and employer) – If the contribution rate is too low it may not provide an adequate fund at retirement.
- Length of contribution period – This is determined by when the member/employer starts contributing and when the member retires. The earlier they start making contributions the more time there is to build up a larger fund.
- Labour market factors including full or part-time employment, breaks in employment and career variations in pay (which, in turn, affect the contribution factors) – If the contribution is a percentage of salary then as the salary decreases so does the pension contribution. This will result in a lower fund at retirement.
- Costs of investment management and of fund administration – Costs reduce the value of the pension fund. The higher the costs the more impact this will have. Trustees should seek to keep charges as low as practicable.
- Investment returns – The investment returns over the lifetime of the investment phase will determine the value of the fund.
- Inflation – Inflation reduces the purchasing power of a given level of savings. If contribution levels are not increased in line with inflation then the value of the contribution decreases as inflation increases.
A number of factors also affect the level of income the DC member enjoys in retirement including life expectancy, inflation (which affects the purchasing power of retirement income), costs (for example those relating to cost of annuity purchase or investment management where the member opts for an Approved Retirement Fund (ARF)), investment returns (again where the member takes out an ARF) and the impact of making provision for a surviving spouse or partner. There is also a timing risk at the point of retirement if a member is obliged to purchase an annuity at a particular point in time.

One of the key decisions that DC members face is how to invest their contributions. As discussed below, investment risk is one of the most significant risks faced by the individual DC member. If the returns on assets are poor, through for example an inappropriate investment choice, there is a risk that the member will not have sufficient assets to fund an adequate income in retirement.

Emerging research in the behavioural finance field would suggest that the majority of individuals may not be equipped to make informed investment decisions. One concern is that people tend to make investments at the wrong time; for example there is evidence of a significant switching into property before the 2007 crash and also of switching out of equities into cash after sharp falls in equity markets internationally in 2008 (with investors then missing out on the subsequent recovery in equities in 2009).

The information on investment options that trustees make available to members is important and trustees have a key role in setting the framework in which members make investment choices.

These guidelines concentrate on the investment duties of trustees. Details of the legal duties of trustees can be found in the trustee handbook, which is available free of charge on the Authority's website.

Schemes with over 100 members should have a Statement of Investment Policy Principles (SIPP). The Trust Deed and Rules will outline what investments trustees can make. In general, trustees are given wide powers under the trust deed and rules in relation to the investments they can make.
Section 2: Why have choice?

There are a number of reasons why investment choice should ideally be made available to DC plan members:

1. Members are investing their own money and are bearing the associated investment risk and, as such, should ideally have some choice as to how to invest their contributions.

2. Some members may have the necessary financial education and skills, tools and time to make informed decisions and should be facilitated in exercising choice.

3. As trustees will generally not be familiar with the financial resources and circumstances of their members, or of their preferences or risk tolerance generally, they may not be positioned to make a well-informed or appropriate choice on members’ behalf.

However, scheme rules may not always facilitate member choice, and a change to the rules may be needed before investment choice can be given.

It is important to consider the range of choices open to members and their presentation and communication. These issues are discussed further in Section 5.

Notwithstanding the above, where DC members are entitled to choose their investments, the evidence from Ireland and elsewhere is that most plan members invest through a default investment strategy. The design and selection of the default strategy\(^1\) is therefore a key issue for trustees and this is addressed in Section 6.

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\(^1\) An IAPF DC investment survey in 2013, covering over 15,000 employer-sponsored DC schemes found that the take-up rate of default strategies amongst active members was 69%.
Section 3: Risk

Introduction
As discussed in Section 1, the retirement income derived from a DC pension plan depends on a number of factors which are subject to varying degrees of uncertainty. The factors or risks that are not amenable to control by the individual (or indeed by regulators or policymakers) include inflation, the risk of spells of unemployment, career wage-growth paths, life expectancy and the rate of return on different asset classes (or investment risk). An additional risk concerns volatility in the cost of annuities for DC plan members who may have to, or may decide to purchase an annuity on a particular date (and again this is a risk that DC plan members may not be able to control).

Given the context of these guidelines, the remainder of this section focuses on investment risk. Investment risk means not knowing what the investment return is going to be. Of course, no investment is risk-free – there is always some possibility, however small, that the return will be less than expected, including that the return will be negative and that capital will be lost. Clearly, some investments are less risky than others. In general, over the longer term, the lower the risk, the lower the investment return that can be expected.

Types of investment risk
There are a number of different types of investment risk that trustees need to bear in mind when deciding on the investment choice to be made available to DC plan members. The main types are as follows:

i. **Market risk:** Market risk has been the major risk that investments have been exposed to and suffered from in recent years. It relates to general economic factors, both domestic and international, that affect returns in particular asset classes (or investment risk). An additional risk concerns volatility in the cost of annuities for DC plan members who may have to, or may decide to purchase an annuity on a particular date (and again this is a risk that DC plan members may not be able to control).

ii. **Inflation risk:** This is the risk that the rate of return on a particular investment or asset class fails to keep up with changes in the general price level and that the real rate of return on the investment is negative (and purchasing power is reduced).

iii. **Interest rate risk:** This is the risk that the value of a security will fall because of a rise in interest rates. This risk is particularly relevant in the case of bonds or fixed income securities (where, as interest rates rise, the price of bonds falls and vice versa). In the case of investment in cash, a fall in interest rates means the investor may lose out and miss out on other investments with higher returns. A particular form of interest rate risk concerns annuity costs, which are determined...
by long-term interest rates; for DC pension scheme members this means that pensions are dearer when interest rates are low and cheaper when rates are high. This means that the point in time at which the annuity is purchased may have a significant impact on lifetime pension income.

iv. **Currency (or exchange rate) risk:** Currency risk arises in the case of investments in assets denominated in another currency. In this situation (say where a scheme invests in UK equities) the return on the investment may be affected by changes in the euro/sterling exchange rate (with the euro return to the scheme declining/increasing to the extent that the euro appreciates/depreciates vis-à-vis sterling).

v. **Liquidity risk:** This is the risk that an investor may not be able to sell (or buy) an investment at close to its fair value and turn it into cash when required. Investments in property or unlisted securities are more vulnerable to liquidity risk than listed bond or equity investments.

vi. **Credit or counterparty risk:** This is the risk that the institution that owes money to an investor (e.g., a financial institution in the case of a deposit or investment product or corporate entity or government in the case of a bond) is unable to meet its obligations. This could occur because the financial institution is relying on some other party which defaults on its obligations and the loss passes back to the investor (referred to as counterparty risk).

vii. **Investment manager risk:** This relates to the risk that an individual investment manager underperforms the average market return for the asset class concerned (or underperforms in relation to the returns achieved by other managers).

**Attitudes to risk**

Different people have different attitudes to risk. Among the factors that can affect risk tolerance are:

- The more assets people have the more risk they might be prepared to take to try to achieve higher returns.
- The longer term the investment, the more risk that may be acceptable, as there is more time to deal with the consequences of any loss.
- Recent investment experience.
- The better that people understand risk, the more likely they are to be comfortable with it.

However, there is always a personal element to risk attitudes.

**Risk mitigation**

The purpose of a risk mitigation strategy is to reduce the volatility of the value of the pension fund.

In broad terms, there are two main approaches that can be taken to manage or deal with investment risk. Firstly, an investor (such as a DC plan member) can use asset allocation strategies; this concerns the allocation of contributions between different asset classes (i.e., cash, bonds, equities, property etc.). These asset classes are discussed further in Section 4 below. Because asset classes differ in terms of their exposure or vulnerability to particular investment risks, the investor can spread their investment across different assets to manage risk.

Secondly, within each asset class an investor can use a diversification strategy by spreading investment in each class across different investment categories or asset sub-classes. For most investors, including DC trustees and members, investing through pooled or investment funds which combine a range of investments within asset classes (or across them in some cases) is the most realistic approach to diversification.

A further diversification approach may be the use of investment strategies based on derivative instruments or hedges that aim to avoid or mitigate a loss e.g. hedging a currency risk. However, these instruments are complex and are not without their own risks.

Inevitably, risk mitigation will produce a pension fund that underperforms the best-performing assets or asset classes (which of course cannot be predicted in advance).
Section 4: Asset classes and investment fund choice

Most pension funds are invested in the following asset classes:

i. **Equities**: Equities are company stocks or shares quoted on a stock exchange. Equities have frequently offered higher returns than other asset classes (such as cash or bonds) but are subject to considerable volatility or market risk. To the extent that investment is in equities denominated in another currency, there is also a currency risk.

ii. **Bonds or fixed income securities**: These include government or corporate bonds which are essentially long-term loans to a government or company. Bond investment returns reflect the price of buying retirement annuities – when the cost of annuities increase, bond prices tend to increase also. Bond returns are less volatile than equity returns but historically over long periods equities have outperformed bonds. Fixed income (as opposed to index-linked) bonds are particularly vulnerable to inflation. Bonds may also be vulnerable to interest rate and credit risk, especially during the course of the current economic crisis.

iii. **Property**: Pension funds can invest in commercial property such as offices, retail outlets, industrial premises or in property related shares. Property investment can be volatile and can be subject to significant liquidity risk.

iv. **Cash**: Cash investment takes the form of investment in deposits and money market funds. While cash is the least volatile form of asset class the returns tend to be lower over the longer-term than other classes and there is a significant inflation risk.

v. **Alternatives**: Alternative assets could refer to any investment outside the above "traditional" asset classes including commodities, infrastructure, unquoted equities and foreign currency.

As noted above, most pension investment is made through the medium of pooled funds based on the above asset classes (although some larger schemes may invest directly in the various classes through for example direct purchase of particular shares or securities.) Thus, most investment managers offer cash, fixed interest (bond), equity and property funds and, in some cases, also offer alternative funds. As well as more general asset class funds, many of these funds may be specific to a particular sub-asset class or sector (e.g., energy or gold in the case of commodities) or region (for example European or US equities).
As well as funds based on particular asset classes, a popular approach for investment of pensions is through a managed fund.

A managed or mixed asset fund is one that invests across a range of asset classes. The typical managed fund offered by investment managers in Ireland invests in the traditional asset classes of cash, equities, bonds and property and aims to diversify investment within these classes. Investment managers often provide a range of managed fund options differentiated by equity content (with funds with a lower equity component often labelled as “cautiously managed”) as distinct from the standard “managed” fund. Managed funds aim to mitigate investment risk by changing investment allocations between the various asset classes, but in practice the extent of such adjustment has been limited.

In addition to managed funds, a number of investment managers offer multi asset funds or diversified asset funds which typically include alternative assets such as commodities.

The above fund types can be managed on either an active or passive basis. Active management means that the investment manager consciously decides on the asset allocation in the fund based on an assessment of the market outlook in an effort to outperform the market. In a passively-managed fund, the fund allocation mirrors that of an appropriate index. For example in the case of a US equity fund, the fund would track the index in that asset class, e.g. the Dow Jones index.

Other fund types now available for pensions funds investment are absolute return funds which seek to achieve a positive return in all market conditions through the use of specialised approaches such as taking short positions (e.g. betting that the price of a security will fall) or derivatives. These funds aim to offer returns in excess of cash returns which is the usual benchmark for these funds. Of course, such funds cannot always produce positive returns but should have lower volatility than equity or managed funds. Whether over the long term absolute return funds can achieve returns compared to equity and managed funds with lower volatility remains to be seen.

All of these funds are generally presented on the basis of a risk categorisation with funds labelled on a continuum ranging from, for example, “low risk”, through “medium” and “high risk”. Another commonly used approach is a numerical risk/reward rating schema where, for example, funds regarded as low risk are rated 1, medium risk funds as 3 and high risk funds as 5.
Section 5: **Optimum number of choices**

Where investment choice is offered, trustees are obliged to provide a default investment strategy option to their members and this is discussed further in Section 6 below.

In deciding how many other investment options to make available to scheme members, trustees should aim to ensure that the suite of funds offered enables members to protect themselves from the various investment risks identified in section 3. This means that the funds offered should cover a range of risks including the main asset classes (equities, bonds, property and cash) or the offering could be a suite of managed funds from lower to higher risk. This would suggest a choice of between 5 to 7 funds (although the optimum number will differ from scheme to scheme). If too few funds are offered, there is a danger that some investment risks are not “covered off”; on the other hand offering more funds may simply serve to confuse members and make it more difficult for them to make a choice. There is no “right answer” as to the optimum choice and the decision should be informed by the membership profile and an understanding of members’ risk tolerance. If trustees are satisfied that members are comfortable with a wider choice, this can be made available.
Section 6: Default strategy

Introduction
The selection and oversight of a scheme’s default investment strategy are amongst the most important investment responsibilities of trustees, given that a majority of members are likely to opt for the default option. The main aspects of these responsibilities are outlined below followed by a commentary on the main types of default strategies currently available in Ireland.

Trustee responsibilities
The following issues need to be addressed in the design, oversight and communication of the default investment strategy:

i. The selection of the default strategy should be guided by an assessment of its suitability for members.

ii. The default strategy should have a clearly-articulated objective that sets out what the strategy aims to achieve in terms of investment returns and member outcomes, having regard to investment risk.

iii. Trustees should aim to ensure that the costs associated with the default option are kept as low as practicable and are competitive generally. While this does not mean trustees must choose the lowest price funds over ones deemed appropriate, they should explicitly consider the effect of charges on members’ investment returns and outcomes.

iv. Trustees and their advisers need to carefully consider the investment strategy that is proposed by the investment manager and its consistency with the overall objective of the default option. In particular, they need to be satisfied as to how the strategy proposes to deal with the different investment risks given the profile of scheme membership.

v. The default fund should have regard to the likely structure of the members’ retirement benefits.

vi. Once selected, the performance of the default strategy should be monitored by the trustees at regular intervals. Also, at least every three years, a full review of the strategy should be undertaken by the trustees and the strategy changed if necessary, though trustees may need to consider the costs of such a change. The review should cover the various aspects outlined above including the continued suitability of the default option and the investment strategy, investment performance and the level of charges. External factors that may have implications for the strategy including changes in the employment structure of the workplace, wider economic developments and legislative or regulatory changes should also be considered.

vii. Trustees should pay particular attention to the communication of the default strategy to scheme members. The default strategy needs to be clearly described to members to include, at a minimum, a statement of the overall objective and information on the effects of charges on members’ returns. It is important that this information is made available in a clear manner that aids member understanding.
Lifestyle strategies

Most DC default investment strategies are variants of an approach known as lifecycle investing. The key feature of this approach is that risk exposure declines as the individual plan member ages.

Traditional lifecycle or “lifestyle” approaches operate on the basis of linking investment risk to the number of years to retirement. In a first phase – often referred to as a “growth” phase or similar and typically extending to the point where the member has 20 years to retirement – investment tends to be concentrated in asset classes such as equities. In the second “protection” or “defensive” phase, the asset distribution is gradually altered to match the profile of likely retirement benefits. In most cases, the switch to less risky assets such as bonds is performed on the basis of a fixed, deterministic “glide-path” rather than on a dynamic basis that takes account of market circumstances or progress towards a targeted level of retirement income.

In Ireland, many pension funds offer separate lifestyle strategies for DC plan members who plan to take their retirement income in the form of an annuity or an Approved Retirement Fund (ARF). In the former case (annuity), the member’s contributions and accumulated fund are gradually “de-risked” into fixed interest or cash funds or a combination of these fund types. In the ARF case, the member’s funds are typically shifted to less aggressive “cautious” or “balanced” managed funds or similar, which include an equity component.

However, it is important to note that lifestyle strategies differ in important respects that trustees need to be aware of in selecting a default strategy for their members. These include:

- The duration of the de-risking phase (i.e. number of years to retirement).
- Asset allocation patterns at the different lifecycle stages.
- The fund types to which the members’ funds are reallocated during the de-risking phase and the pace at which this reallocation is carried out.
- The extent to which the strategies aim to factor in the individual plan member’s expected retirement fund structure (as between a tax free lump sum, annuity and ARF).

A target date fund operates by grouping DC plan members into funds that target their intended year of retirement. For example, the default strategy for the National Employment Savings Trust (NEST) pension scheme in the UK is organised around a series of yearly target date funds with individual members to be enrolled into a fund that targets the year when the member reaches state pension age. In general, the investment approach pursued by these funds is similar to lifestyle funds with the asset mix of the fund changed gradually changed as retirement date approaches. In some cases, the decision on changes to the asset allocation is an active one with the investment manager taking account of market conditions in choosing when to change the fund mix. In other cases, the fund is passively managed with switches affected according to a pre-determined glide-path.

Members will also need to consider what age they intend to retire at. Many members may find that they cannot afford to retire until after their normal retirement age which is commonly 65. Such members may therefore wish to de-risk to a later age. Such members might approach their employer about the possibility of working longer or consider what employment opportunities they might be able to obtain on retirement from their existing employment.

Trustees should also bear in mind that in practice it can be difficult for members to predict their retirement date accurately and some flexibility in investment choice will be needed.

The change in state retirement age and the subsequent rise in retirement age to 67 from 2021 and 68 from 2028 has increased the likelihood of members needing to work after 65.

If members are fortunate and have built up significant retirement assets, retirement may occur earlier and they may wish to de-risk to that earlier age. For these reasons lifestyle options which allow the member to choose the age that they are de-risking to have significant advantages over those which do not offer this choice.
Section 7: **Post-retirement options**

**Member options at retirement**

At the time of writing, a member’s options at retirement are broadly as follows:

- Take a tax-free lump sum, based on years of service, of up to 1½ times final salary (up to a maximum tax-free amount of €200,000) and use the balance of the fund to purchase an annuity (the ‘annuity’ option).

- Take a tax-free lump sum of 25% of the value of the fund (up to a maximum tax-free amount of €200,000) with the balance invested in an Approved Retirement Fund (ARF) and/or Approved Minimum Retirement Fund (AMRF) (the ‘ARF’ option).

To be eligible to purchase an ARF the member must have a guaranteed income of €12,700 per annum or else put up to €63,500 in an AMRF and purchase an ARF with the balance. The initial capital invested in an AMRF cannot be withdrawn but gains over the €63,500 may be. Income and gains of an AMRF are exempt from tax within the fund, but all withdrawals from an AMRF are taxable. When an individual reaches age 75 (unless the ARF income test is met before this), or dies, the AMRF becomes an ARF. At present many members of DC schemes would not have sufficient income or assets to qualify for an ARF.

For many DC members, particularly those with long service and pension assets of less than 1½ times final salary, the ‘annuity’ option is likely to be taken as it may allow a higher level of tax-free cash than under the ARF option. To secure an income in retirement this cash would need to be re-invested.

A member’s preference as between the annuity or ARF option has implications for the extent and pace of investment de-risking undertaken in the lead-in to retirement. It is important that members understand the options open to them sufficiently in advance and make a choice on which option they will take so they can choose the appropriate investment path to retirement.

**Issues for trustees**

It is important that scheme members consider the options available to them when drawing their retirement benefits. As this decision will have a lasting impact the Pensions Authority recommends the trustees give this information up to 10 years (but certainly not less than 5) before retirement and to facilitate, perhaps with employer support, financial information and advice being provided at that point. If employer support is not available trustees should still encourage members to seek financial information and advice themselves.
A well-designed lifestyle strategy will have regard to the form in which benefits are likely to be taken. For instance it would be more appropriate for a member to de-risk to cash and fixed income if they intend to take their benefits under the ‘annuity’ option. However, if the member intends to pursue the ‘ARF’ option in retirement, then they probably are less likely to de-risk to such an extent.

For this reason some schemes might decide to have two lifestyle strategies, one intended to have a de-risking glide path appropriate for the ‘annuity’ option and the other appropriate for the ‘ARF’ option.

Trustees will need to consider which of these should be the default option. In many cases this is likely to be the annuity retirement option. For further detail see the worked examples in the appendix below.
Section 8: Advising members

The provision of financial advice is subject to legal regulation and must only be provided by professionals who have been approved by the Central Bank of Ireland.

However, trustees can provide members of the scheme with some useful information, including:

- Trustees can point out the benefits of saving for retirement, joining a pension scheme and of making additional voluntary contributions.
- Trustees can explain the features of their own scheme and options available to members.
- Trustees can explain the concept of adequacy and indicate the level of savings needed at retirement to provide a given pension income.
- Trustees can explain the different characteristics and levels of risk of the investment choices provided under their scheme. They can provide general investment information to members of the scheme, and can explain to members about risk tolerance and what investment choices might suit different situations. However, trustees cannot provide individual financial advice.

Obviously trustees should never advise on any matters about which they are not competent or have the necessary qualifications. They should also avoid making specific recommendations to individual members.

Some employers will arrange for financial advice to be provided to employees: where this is not available, trustees should point out to members that such advice would be useful particularly in the years approaching retirement. The Pensions Authority provides useful information for both trustees and members which can be found on the Authority’s website.
Section 9: Conclusions

Trustees have an important role to play in setting the framework in which scheme members decide how to invest their pension contributions, a decision with potentially significant implications for members’ incomes in retirement. Trustees need to consider carefully the investment choices they make available to their members and, in particular, the following aspects:

- Trustees need to form a view of their members’ capacity to exercise investment choice.

- In deciding what investment funds to make available to members, trustees should aim to ensure that the funds selection enables members to protect themselves from the main categories of investment risk. In most cases, a limited choice of between 5 to 7 funds should suffice for this purpose. Offering similar types of funds but operated by different investment managers seldom serves a useful purpose.

- A wider range of options can be made available where members seek this or where trustees feel members have the necessary financial knowledge to make sensible choices from a wider menu.

- Trustees need to give very careful consideration to their choice of a default investment strategy given that a majority of members are likely to opt for the default. They need to ensure that the default strategy takes account of the likely structure of members’ retirement benefits.

- The performance of the default strategy and the fund options should be monitored regularly and the investment strategy reviewed at least every three years having regard to the Statement of Investment Policy Principles\(^2\) requirements where they apply.

- Trustees should aim to ensure that the investment options and the default strategy are explained in a manner that enables members to assess their suitability given their individual circumstances.

- It is very desirable that members take detailed investment advice between 5-10 years before retirement. Trustees should seek to make members aware of the importance of this.

\(^2\) All schemes except small schemes (i.e. those with less than 100 active and deferred members) must prepare a Statement of Investment Policy Principles (SIPP). The SIPP is a description of the investment policies of the trustees.
Appendix: **Case examples**

**Investment options in practice – worked examples.**

The following scenarios set out two worked examples of the issues trustees should take into account when they are setting the investment strategy for their scheme. The reasoning of the trustees in choosing the investment strategies for these schemes are for illustrative purposes only and are not intended to be prescriptive. Rather they seek to illustrate what application of the guidelines might mean for a typical scheme.

**Scheme 1**

The first scheme is a small scheme with between 10-15 members. The members earn salaries of between €20,000 to €30,000 per annum. The employer pays 3% of salary into the scheme on behalf of the employees with no matching employee contribution. Despite trustee encouragement few if any members are contributing to an AVC. There is very low, if any, member engagement with the scheme. Two members have recently retired from this scheme and both members drew the entirety of their benefits as a tax-free lump sum.

With this salary band and low contributions being made, it is likely that no members will meet the requirements to pursue an ARF option. Based on their knowledge of the membership, the trustees decided that investment knowledge is relatively low and therefore decided that a smaller number of fund choices is appropriate. In setting the default investment strategy for this scheme the trustees took into account the salary of the employees, the contributions being made to the scheme and the likely value of the fund for members at retirement and decided that the most likely form of retirement benefit would be cash and therefore a lifestyle strategy targeting cash at retirement was appropriate. Because of the likely lack of investment knowledge and the low level of engagement, the trustees decided that the default strategy should be lower risk, as they decided that the tolerance for investment losses would be relatively low. With this in mind, the trustees choose the following fund options as being most appropriate for the membership:

- Default – lifestyle fund, de-risking from a managed fund (split circa 50/50 between equities and bonds) to 100% cash
- Cash
- Fixed interest
- Managed fund split circa 50/50 between equities and bonds
- Equity
Scheme 2

This scheme is a large scheme with 500 members employed in the financial services industry. In this scheme there is a wide salary band reflecting the various roles within the company. The employer contributes 10% which can rise up to 15% if the employee contributes 5%. The majority of employees make the 5% contribution which is matched by the employer resulting in a 20% contribution overall.

There is a high level of engagement from members in relation to the scheme and individual financial advice is available. In this scheme a high number of members also make AVCs.

Based on their knowledge of the membership, the trustees concluded that investment knowledge is relatively high and therefore decided that a higher number of fund choices is appropriate. In setting the default investment strategy for this scheme the trustees took into account the salary of the employees, the contributions being made to the scheme and the likely value of the fund for members at retirement. Because of the higher levels of investment knowledge and the high level of engagement, they decided that the default strategy would be set at medium risk. The trustees identified that there are two likely forms of retirement benefits; the annuity option as well as the ARF option and so decided to offer two lifestyle options with one option providing a glide path to an annuity (the default) and the other option with a glide path to an ARF.

With this in mind, the trustees choose the following fund options as being most appropriate for the membership:

- Default – lifestyle fund, de-risking to cash and bonds
- Lifestyle fund – medium risk fund with an appropriate glide path to post-retirement ARF investment
- Cash
- Fixed interest
- Low risk managed fund (with lower equity content)
- Medium risk managed fund (with medium equity content)
- High risk managed fund (with higher equity content)
- Equity
- Property
- Absolute return fund