Wide variation seen in British target date funds

By Editorial Staff *Thu, Aug 22, 2019*

Here's another instance--along with coverage ratios, fiduciary duties of advisors, and the decline of pensions--where the British and American retirement industries share certain challenges.

There are "huge" variations in outcomes between the default funds offered by leading British defined contribution (DC) providers, according to a report in IPE.com, citing research from the UK workplace savings company Punter Southall Aspire.

The firm's findings were based on an analysis of the growth and consolidation phases of the standard default investment options of nine leading providers in the market as at 31 March:

- Aegon Asset Management
- Aviva Investors
- Fidelity
- Legal & General
- Royal London
- Scottish Widows
- Standard Life Investments
- Zurich

For the growth and consolidation phases, the funds analyzed by Punter Southall Aspire varied across many elements: design and construction, investment risk and volatility, asset allocation strategy, return benchmarks, management, "glidepaths" towards retirement, and performance.

Christos Bakas, DC investment consultant at Punter Southall Aspire, said: "We urge employers to monitor the performance of their pension funds more closely, as default doesn't mean standard, and not all funds are created equally."

In the growth phase, allocations to equities, bonds and other asset classes varied "dramatically" between the default funds, depending mainly on the targeted risk levels and the range of investment tools used, the survey showed.

Over the last three years, the Zurich Passive MultiAsset fund performed best (11.3%), although with higher volatility risk (8.4%) than the other defaults. The Standard Life default fund performed worst (5.4%), but with volatility (5.2%) than the other funds analysed.

Punter Southall Aspire also found that providers with their own asset management arm – Royal London, Standard Life, Fidelity, Aviva, Legal & General – tended to develop more diversified and sophisticated default offerings. But diversity and sophistication also brought higher costs.

With respect to equity allocations, the initial allocations, the changes to allocation and the at-retirement allocation are different for almost every default strategy and depend mainly on the risk levels being targeted and the range of investment tools used," said Punter Southall Aspire, noting that Legal & General did not implement a risk-reducing strategy as members approach retirement and "would argue that it's difficult to predict when members will retire and in fact many members don't know when they will retire."