ITV Defined Contribution Plan (DC Plan)

Vodcast transcript: **Make a statement**

October 2020

CHRISTINE JACKSON: Hello, everyone, thank you for joining us. I'm Christine Jackson, and I'm responsible for pensions at ITV, and I'm delighted to be joined by James, from Willis Towers Watson, who I'll ask to introduce himself. Hi, James. Please will you tell us a little about yourself and your role in relation to ITV and the DC Plan.

JAMES MOULAND: Hi, Christine, thanks. I'm James Mouland and I'm a chartered financial planner with Willis Towers Watson. A big part of my day-to-day role is to work with companies to help their members understand pension arrangements. And that includes the investment and retirement options within those pensions.

CHRISTINE: Thanks, James.

We sent you a benefit statement a few weeks ago, and we asked you to send us questions on Slido. We were really pleased with the amount of questions that we received. So, thank you to everyone who contributed. Given the range of the questions, we're going to respond to them in two or three sessions. And today, the focus is to answer your questions around the benefit statement. We're going to pick up a lot of the points that you raised on Slido as we go through the vodcast, and we've also prepared a take-away leaflet covering the key points too. So, let's get started on making a statement.

James, we send members a benefit statement every year, and it's a good prompt for members to think about their retirement savings. What information is on the statement the members should be focusing on?

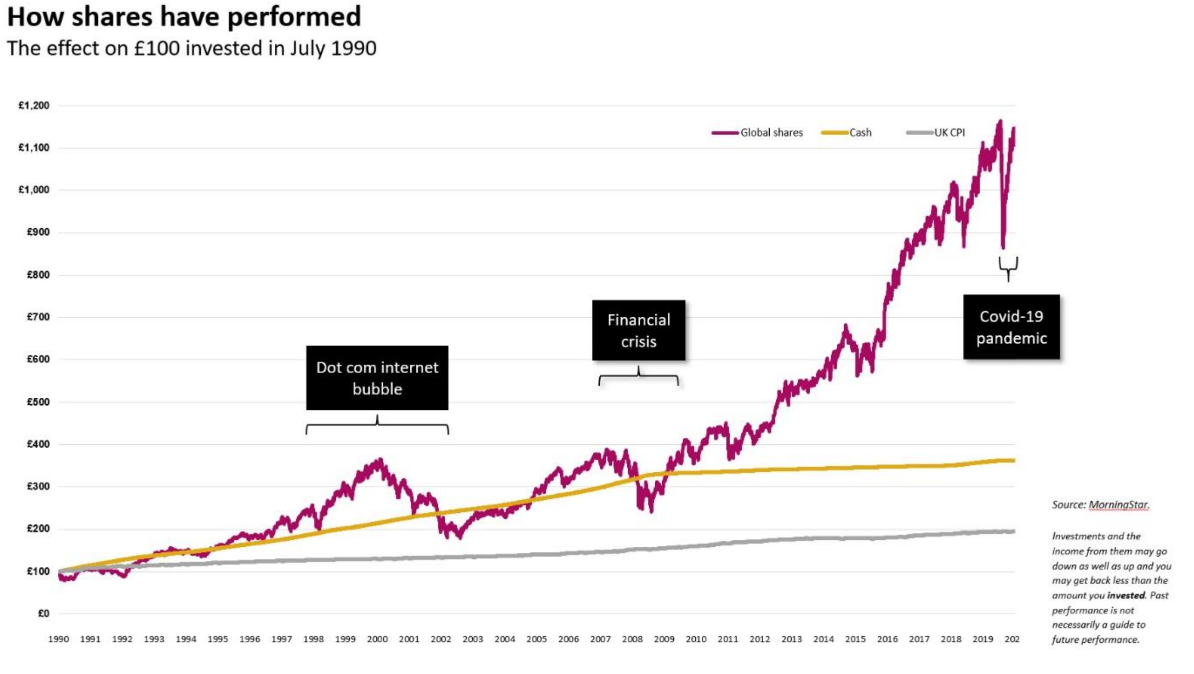
JAMES: Well, the statement does have quite a lot of information, but there are some key things that members can focus on, and these are the value of the savings, so that includes: how much those savings have changed over the past year, the statement also shows how much you and ITV have paid in during the last year, and it also shows the contribution choices that you've made. It shows you the core contributions being paid by you and by ITV and also whether you're paying any extra contributions on top. It also shows how your savings are invested at the effective date of the statement. So, for example, if you are in the hands off or the hands on strategy and details of the investment funds that you're actually in.

So, like I say, there is a lot of information in the statement, and it can seem really, really daunting, but exactly as you said, Christine, those are the key things to focus on. And getting the yearly statement is a prompt just to review how those retirement savings are building up. Look at the investments and the contribution choices that have been made.

CHRISTINE: One of the first figures that members probably look at is the value of their savings. This year, some members may have seen negative investment returns and the savings will have gone down overall. Can you explain why that's happened?

JAMES: Sure. I think the first thing to remember is that the benefit statement is just a snapshot of values on one day. So, the day for this benefit statement is 31st March 2020. And that was shortly after the COVID-19 pandemic led to global lockdowns and the uncertainty that that caused to the global economy. We did see some sharp falls in investment prices over February and March, and that was because of the uncertainty. We do expect there to be short-term rises and falls in investment markets. They are a natural part of the investment cycle, and so we do expect them.

The chart we can see here shows how global stock markets have performed over the past 30 years, because when we're thinking about pension savings, it is important to remember that they are for the long term, and so you need to think with a long-term focus. Most members of the DC Plan will have some or all of their savings in stock markets around the world, and that's why it's useful to see how these perform over the long term. And what we can see here is that there are occasional falls in markets, but these falls do generally recover when things become less uncertain. Remember, as well, the Plan has a whole range of different investment options to choose from, not just shares.



And also, the final thing to say on that is, if you're still contributing, you're actually buying investments when the price is lower. So, actually, you get more for your money with your regular contributions, and what that means is that you can benefit from the recovery in investment values over time. So, although it doesn't feel like it at the time, adding money when markets have gone down can actually be a good time to invest for the long term.

CHRISTINE: And have values recovered since March?

JAMES: There's been a really strong recovery in a lot of investment markets since March, but I think instead of saying that they fully recovered, it's probably more accurate to say that some sectors of the economy have done really, really well. So, things like health care and technology, but other sectors of the economy are not doing quite so well. So, things like airlines, travel companies, retailers and some car manufacturers. It's fairly clear what's leading to this – lockdowns and working from home led to a lot more people using technology more than they ever have before, and that's helped them to stay connected with colleagues and customers. And also, there was a huge increase in online retail sales earlier in the year as well. What we have seen, though, is a lot of people avoiding travel, so they're avoiding international travel, traveling for work, there's more stay-cations at the moment, so they're not going on as many holidays, and what that's obviously doing is having a negative impact on the airline and travel sectors.

The other important thing to remember is that you can actually check your latest fund statement by looking online, fund value, by looking online, and I'd really encourage everyone to do that, because those people who are investing in stock markets are likely to have seen quite a strong recovery in their values since the end of March, when the statement was produced.

I think one other thing that we've seen as well, a lot of people have mentioned on Slido about the income figure at retirement also looking quite low in the statement. And it's important to understand there that the statement needs to show an income figure based on certain set assumptions. And that includes the assumption that you buy a guaranteed income for life at retirement, which is, at the moment, very expensive. But what we do know is that a lot of people will actually take their savings at retirement flexibly, so they won't buy guaranteed income for life, but they'll take their savings in a more flexible way, and therefore they'll have the choice over the amount of pension savings that they take out in any one year.

CHRISTINE: So, James, hopefully, people will go online and they'll see that the values of their funds have recovered, but if there's another drop, like the one in March, what should members be thinking about?

JAMES: I think it's really important to think actively about personal circumstances, but I also think that it's important to remember that, you know, day-to-day information that we get from news sources, so, as an example, on the development of the pandemic, while it's really good in keeping us up to speed with the developments, it's fairly unimportant when we're thinking about long-term investments. And by all of that, I mean that it's best to avoid making hasty decisions. So, it's always good to think about what's right for you. But I would say, don't make changes just for the sake of it. Changes do become more important when you get closer to retirement, and that means within the last sort of 5 years or so, approaching the point at which you want to take your savings.

I think the key thing to remember when you're thinking about investing retirement savings is really to make sure that the contributions are put to work for you, and then leaving them alone for long enough to allow them to provide those longer-term returns. I would add here, and we always say it, it's incredibly difficult, actually, probably impossible, to time markets consistently. What that means is that some people could risk moving out of investments at the wrong time, whereas remaining invested and carrying on paying their monthly contributions would probably mean that they do better than if they made several frequent changes to their savings. So, really, if the aim is to grow your savings, which it usually is for most people over the longer term, it really is about focusing on long-term performance and not the returns that you see in any one individual year.

Another question, a popular question on Slido, was "How safe are my contributions?" And what we see is that when people ask that question, they can mean one of two things. Firstly, it could mean, "Can my savings go down in value?" And, as we saw earlier, we would expect savings to go down as well as up in the short term, but saving with a long-term outlook would mean that you can focus on those longer-term returns.

Another thing people can mean when they ask, "How safe are my contributions?" is, "Could I lose everything?" And I think here, it's really important to remember two things. First, investments in the DC Plan are really well diversified. What that means is the performance of any one investment won't have a dramatic impact on your savings overall. And second, the savings themselves are held on your behalf by the trustees of the DC Plan, and that means that they're held for your benefit and completely separately from ITV.

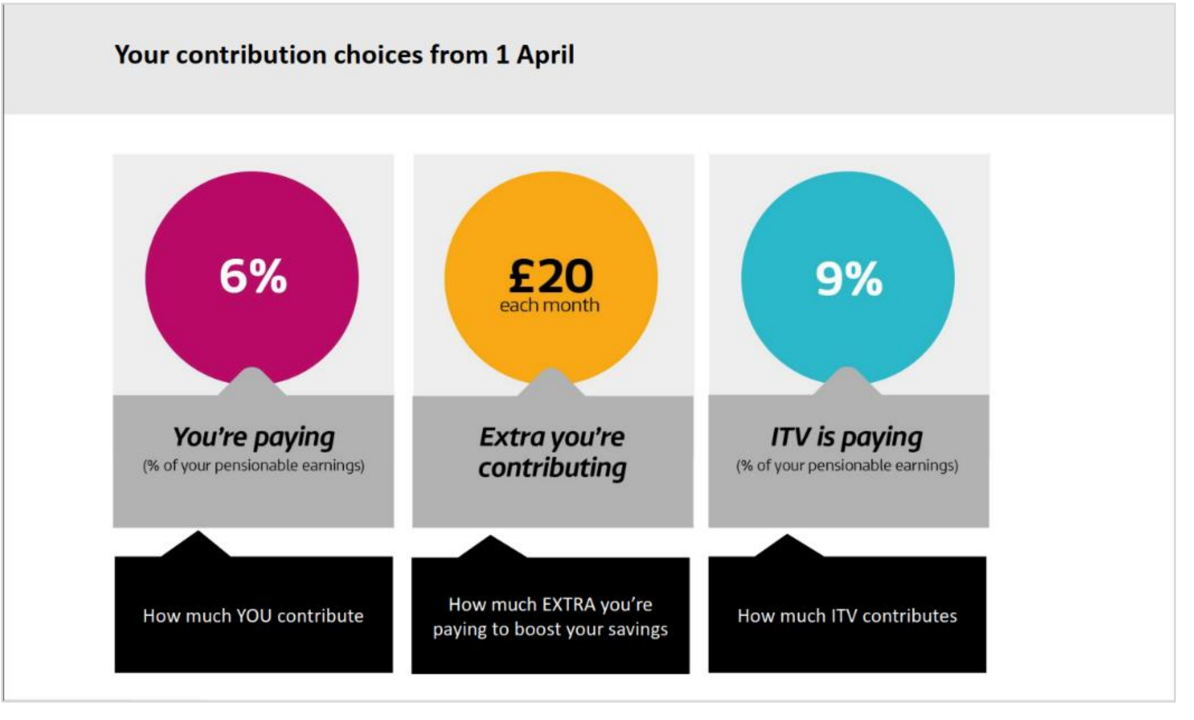
So, Christine, there, I've mentioned one of the trustees' responsibilities, which is obviously to hold the savings on behalf of members. Do you want to add anything else here about the role of trustees and especially around monitoring investments?

CHRISTINE: Yes, James, very happy to pick that up. So, the Trustees take advice in selecting the investment managers that they offer to members, and they also consider suitability of the range of investment options that are available, and that recognises the diversity of our members and their different needs and requirements. The Trustees obviously regularly monitor the performance of the investment managers, and as you've emphasised as you were talking, Trustees take a long-term view in relation to investment performance. So, if performance is in line with what they expect, they won't actively intervene for the natural part of the investment cycle and therefore to be expected. They're never welcome, but they're definitely part of what we would expect to see.

And then, ultimately, the Trustees will make changes to funds so that they can think about the impact on members. If they're concerned about the suitability of the fund, the longer-term performance of the investment manager, or if the investment manager has deviated the investment strategy that they were appointed to deliver. So, they will make changes, but they, again, as you mentioned, they're not going to act hastily. They'll be thinking about it with a long-term lens.

James, one of the things that you referred to earlier was the importance of contributions for members and something that they should be focused on. What does the benefit statement tell members about their contributions?

JAMES: Yes, that's right, Christine. I personally think that contributions are actually probably the most important aspect of retirement saving, so it's definitely something that's worth looking at. What the statement shows is the contribution rate that's been chosen from the 1st of April 2020. It shows whether you've chosen to pay extra contributions, and it also shows the contribution rate that ITV is paying into the Plan as well.



CHRISTINE: And what things should members be thinking about when they're deciding how much they should contribute?

Well, the first thing is thinking about, if possible, maximising the company match, if they can afford to do so. What a member would need to do to maximise the company match is to pay 6%, and then 9% would be paid by ITV. So a total of 15% would be invested at that point.

If you're thinking about saving more, then thinking little and often really works. That means thinking about increasing the contributions maybe 1% at a time, over time, so that you can get used to paying the higher contributions. It's about taking advantage of tax relief available, so remembering that you don't pay tax on the contributions that you pay into the Plan and also it's about being flexible. So, remember that you can change your core contribution rate twice a year, and also, you can change your extra contributions from month to month.

CHRISTINE: The key factor for most members when they're deciding how much to contribute is whether it's affordable. What sort of things should they think about in relation to that?

JAMES: That's exactly right, again, and I think, if you can't afford to pay the 6% needed, as I mentioned just now, to get the highest contribution from ITV, then paying something is better than nothing. As I mentioned, think about gradually increasing it over time. You probably get used to the contributions if you just increase it gradually until you're at the maximum. The problem with that, though, is there's no right or wrong answer. It's honestly about just saving as much as you can as soon as you can, and remembering that it's never too early. And also, it's never too late to start saving. Really, honestly, though, the sooner you start, the more time your savings will have to grow for you.

Especially at the moment, think about the current situation. We know that COVID-19 has affected everyone differently, and that includes with their finances. We know that some people are struggling. We also know that some other people have more spare money at the moment. So, just as an example, if they're saving on travel costs or saving on holidays, so what they might be looking to do is to put some of that spare money to good use and possibly pay some extra contributions into their retirement savings for a while, not necessarily permanently, but for a while, where they've got these savings. It's remembering as well that you're not locked into your contribution choices, as I say, so you can change these over time, based on your own affordability and your own circumstances.

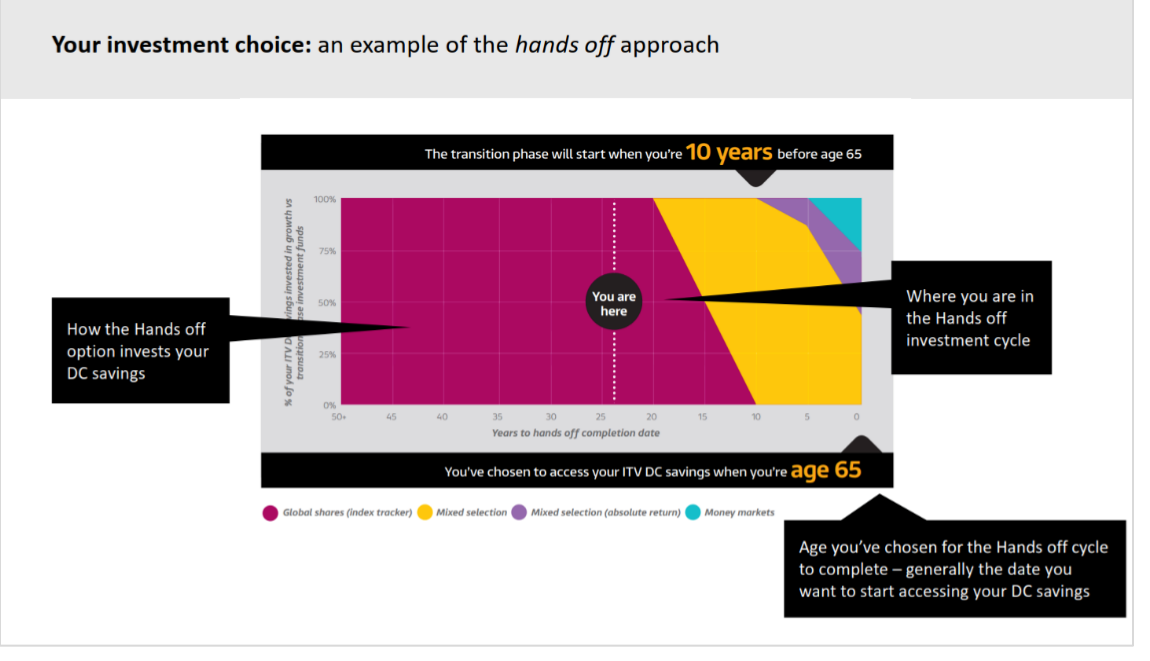
CHRISTINE: And thinking about circumstances, I know when members talk to me, one of the things that they worry about is that they can only afford to pay small amounts extra each month. So, maybe £20, £30. Is it worth it?

JAMES: Any extra contribution is worth it, absolutely. Over the long term, investments earn compound returns, and what that means is that the investments earn returns, and then these returns earn yet more returns. And that can have a really, really big influence on the overall size of savings at retirement, especially over the longer time periods. So, yeah, I mean, it's always worth saving whatever you can afford, even if it is only £20, £30 a month. Tax relief helps, like I say, and you may not miss the extra contributions in your take home pay after a month or two. And so just as an example, if you wanted to save an extra £40 a month that would only cost you about £1 a day after tax relief.

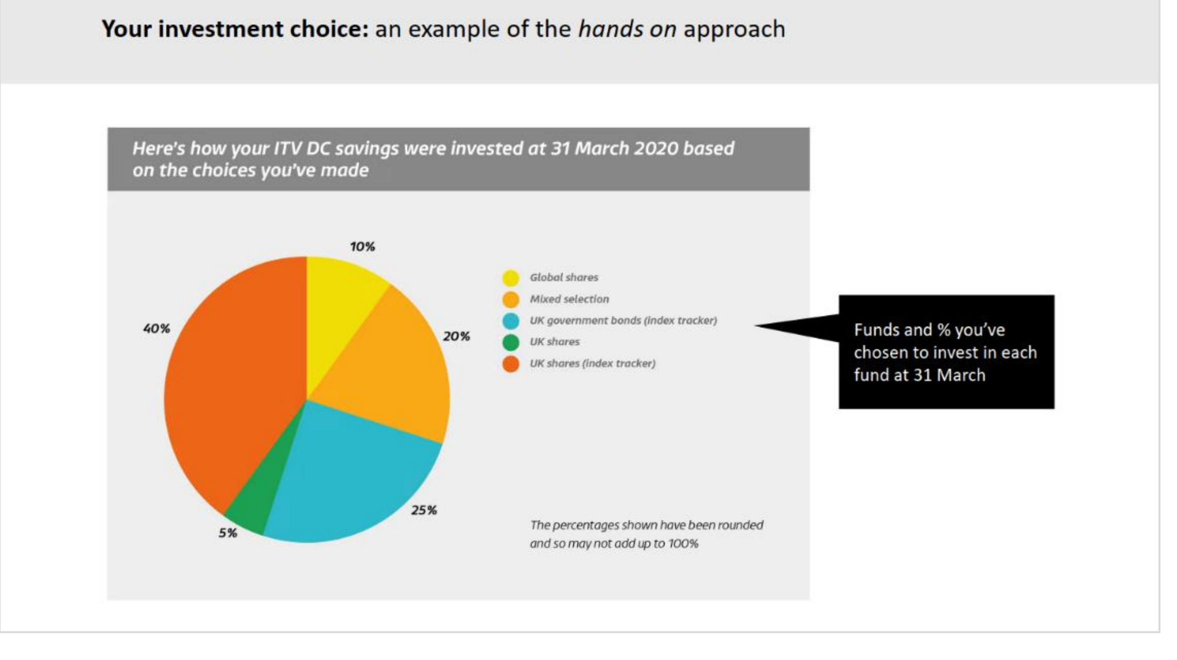
The problem as well here is the answer to how much you will need to save is actually different for everyone. So, it's really important to see the big picture. And what that means is thinking about all of your savings. So, savings in the DC Plan, in any other pensions you've got, also from a household perspective – if there's more than one of you saving for retirement, and also, remember your State pension, so remember that you're going to get a pension from your State pension age. And I would honestly encourage everyone to get a State pension forecast online to understand how much that's going to give and when you can expect to get it.

CHRISTINE: So I think most people will have a real sense about contributions and how much they can afford to save. One area I think members feel a lot less confident about is investments. Everyone's familiar with the concept of earning interest on the savings accounts, and some members may have cash ISAs, but a lot of people don't know much about investments. What information does the benefit statement contain about investments?

JAMES: What the statement shows is the decisions that you've already made with investments, so it shows how you've decided to invest savings from the 2 approaches that are available. First of those is hands off, which is the pre-packaged investment strategy. And if you're using the hands off strategy, then the statement will also tell you how your savings are invested and how these will change in the future.



The second approach is hands on, which is the pick-your-own approach, and if you've chosen hands on, there'll be no changes made to the investments automatically, and you'll need to make changes yourself. Some members could be investing through both, so they could be investing through hands off and hands on if they've got different savings pots. So, for example, their core contributions could be invested in one way, and then the extra contributions could be invested differently.



It's also important here to remember that you can change between hands off and hands on, and you can do that at any time.

And the other thing that's important is your investment choice. It is an important decision, so it will influence how much your savings are worth at retirement. And just as a reminder as well, there's a video which covers the investment options on the DC Plan website. You can find the video by going to the About section and then looking in the Investing section.

CHRISTINE: And, hopefully, the video will be really helpful, but I know from conversations I have with members that they're often concerned about making bad decisions.

JAMES: I think that's right, and again, it is just a case of remembering you can change your mind if you want to. So, as I mentioned earlier, I'd encourage people not to make changes just for the sake of it. Again, it's about focusing on the long term, but it does become more important to think about those possible changes closer to retirement, especially for those who are invested in the hands on approach. So, when you're closer to retirement, which again, as we said earlier, maybe within the last 5 years or so, you might want to invest in a way that sees less of the rises and falls that some markets have seen this year. But again, it's important to remember to allow your savings to be put to work for you and also just to provide them with the time to do the work and provide the long-term returns that they're capable of.

It's also about taking time to build your knowledge, so it'll help to make sure that you don't make any hasty decisions with your investments. And then, after you've reassessed, it's about sticking to your long-term plan, rather than trying to guess what to buy and when, when to buy and sell it. Building up retirement savings does take time. I think that that's one thing we're all aware of. So, really, a review just once or twice a year, or if your circumstances change in the meantime, is usually enough.

And finally here, it's about remembering what investing is aiming to do. So, again, as a member of the DC Plan, you're aiming to grow your money by as much as possible, and you're investing in a wide range of different companies across lots of different industries and with a global reach. What this means is that your savings are really, really well diversified.

CHRISTINE: Again, I'm obviously a big believer in people building their knowledge, and just a reminder to everyone that the Pensions team are happy to talk through the options available to you, although, of course, they can't give individual financial advice. But if you've got any questions on investment that you'd like us to consider, submit them on Slido, because we'll be doing a separate vodcast on investing.

Thanks, James. That's everything that we wanted to cover on the vodcast. But, to summarise, what would you say are the key takeaways from what we've been talking about today?

JAMES: I think one of the most important things is not to be put off. So, you know, don't make hasty decisions around investment changes, but take the time to build your knowledge. Check up the savings value online, so, you know, you might be surprised how those savings have changed since the statement was produced. And again, I've said it a number of times, but that's because it's really, really important – focus on the long term. We always say it with retirement savings, and that's because it is so true. We saw earlier how investments have behaved over time, over a long time period, and that shows that there are short-term dips, but it also shows the recovery from those periods of uncertainty. So, again, it's important to give your savings enough time to perform over the longer term.

CHRISTINE: And I agree, James, I will definitely second that it's important to think about the long term, and I think that when you receive your benefits statement, it's also a really good time to think about your current finances and how they differ from when you made the choices that are reflected on that statement, and to remind yourself of how you're investing. And maybe this is the moment where you go online and you check the current value of savings by going onto the website and then logging into your account.

Well, that's it for the moment. If you have any other questions you'd like us to cover, get in touch via Slido. I'd like to say a big thank you to everyone who sent in questions, and also to James for helping me explain more about your benefit statements.

We both hope you found this vodcast useful and that it's given you things to think about. As I said at the start, we've produced a takeaway leaflet which will give you a summary of the key points. And there's lots and lots more information on the website. I'll say it again, keep adding questions on Slido, and we look forward to you joining the next vodcast. Big thank you to you, James.

JAMES: Thanks, Christine. It's been really great being able to join you today.

CHRISTINE: Thank you very much.