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Sixty second summary

Brexit: Keeping members on the right path

What actions should trustees take to support good outcomes for members?

When the UK invoked Article 50 of the Treaty of Lisbon on 29 March 2017, a two-year time period was set to negotiate the form of the UK's departure from the European Union. The UK was set to leave the EU on 29 March 2019, with a transition period scheduled to take place over the next 21 months to December 2020.

Earlier this year, the EU agreed to an extension to the Brexit-deadline, which is now set for 31 October 2019.

In this article, we consider the potential impact of different Brexit outcomes on members, and steps trustees and committees may wish to take to keep members on the right tack.

What are the possible Brexit outcomes and impact on investment markets?

Given the repeated rejection of the negotiated deal, the passing of the initial Brexit deadline, Theresa May's resignation and the nomination of Boris Johnson, the uncertainty around the UK's exit from the EU has increased. The type of Brexit that will be faced by the British people is not clear, although we would currently categorise broadly as follows:

"**Soft Brexit**" - one that markets generally support, and that is considered broadly supportive of the UK's current competitive position. In this scenario, we would expect an uplift to UK GDP growth, modest strengthening of sterling and the expectation of modestly faster interest rate rises in future.

In this scenario, we would expect the value of most members' investments to fall, reflecting sterling strength, and rising interest rates.

"**No-deal**" - immediate disruptive elements to trade and ongoing uncertainty over the UK's competitive position. We would anticipate downward pressure on sterling and prolonged lower interest rates associated with more marked slowdown in growth. A combination of higher expected inflation and a higher inflation risk premium is expected to push real yields materially lower.

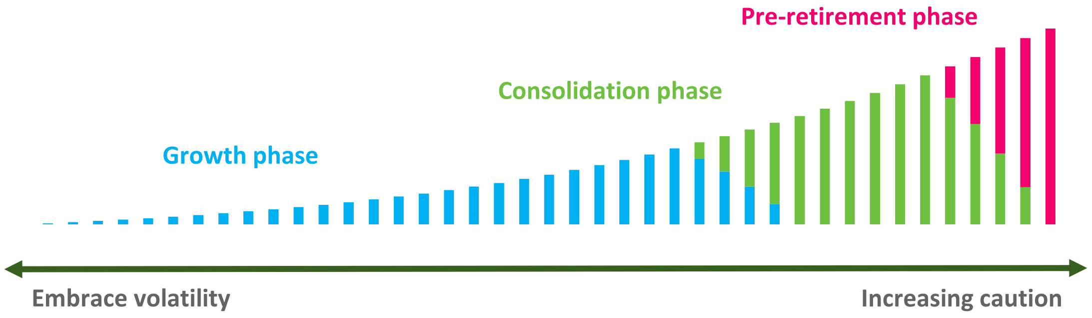
In this scenario, we would expect the value of most members' investments to rise, reflecting sterling weakness, and falling interest rates. The value of UK property investments would be expected to fall in the short term.

"**Ongoing uncertainty**" - the current impasse in parliament over the acceptance of the negotiated deal continues and the UK agrees repeated extensions to the Brexit deadline. The ongoing uncertainty is likely to lead to an ongoing deferral of investment which will lead to a contraction in UK GDP growth and a gradual further weakening of sterling. A deferral of investment and shunning of UK assets would lead to falling UK equity and property markets and credit spreads would widen.

The value of members' investments would be expected to fluctuate by more than average in the short term. Similar to a no-deal scenario, the value of UK property investments would be expected to fall in the short term.

Potential impact on members

Before assessing the potential impact on members, it is worthwhile considering the structure of a typical default strategy. The following chart illustrates a typical 'drawdown' default strategy:



For younger members, whilst different Brexit outcomes have the potential to impact significantly on investment markets, this is likely to be one of a number of economic events this group experiences throughout their journey to retirement. **The overall impact on younger members is expected to equate to less than +/-0.5% per annum for those with 20 years or more until retirement.**

For those closer to retirement, the impact of short-term economic shocks can be significant. We have analysed the potential impact of the Brexit outcomes outlined above on members based on different retirement choices and investment approaches. The results of this, presented as a range of potential impacts relative to retirement choice are summarised in the table below:

Retirement path	Drawdown lifestyle	Annuity lifestyle	Self-select
Cash / drawdown	*Negligible*	**-4% to +3%**	**-3% to +1%**
Annuity	**-4% to +3%**	*Negligible*	**-6% to +1%**

The above highlights the importance of members selecting an appropriate investment strategy relative to their retirement choice. For example, **those on an 'incorrect' lifestyle strategy relative to their retirement choice could be subject to unnecessary risks in relation to different Brexit outcomes**. Those selecting their own investment approach should also be mindful of the risks relative to retirement choice, which could be heightened as a result of Brexit uncertainty.

Importance of keeping members on the right path

It is not possible to predict with certainty which Brexit outcome we will experience, nor the precise impact on members. However, based on the analysis we have carried out on different groups, we believe that members closer to retirement are likely to be subject to an increase in risk. We suggest that trustees and committees communicate with their members on the importance of their investment choices and how these interact with different retirement paths.

Other considerations

We also suggest that trustees and committees seek assurances from their platform providers and investment managers that they have taken steps to ensure no impact of Brexit from an operational perspective, including the ability to trade.

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