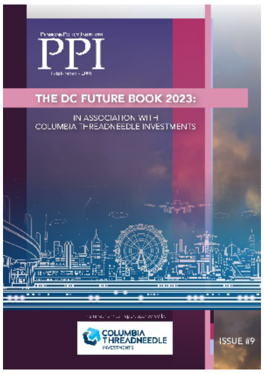
The DC Future Book: in association with Columbia Threadneedle Investments.
Tuesday 26 September 2023

Pensions Policy Institute PPI

PPI Launch Event Write Up

The DC Future Book 2023

Overview



On Tuesday 26 September 2023 the PPI hosted a launch event for this year's edition of **The DC Future Book: in association with Columbia Threadneedle Investments.** The event was attended by circa 60 people representing a cross section of the industry. Parts of the event were held under The Chatham House Rule.

This award-winning annual publication sets out available data on the Defined Contribution landscape alongside commentary, analysis and projections for future trends.

Since its launch in 2015, the DC Future Book has become an invaluable source of DC thought leadership. As well as tracking changes and trends in DC data over time, each year The Future Book also puts a spotlight on an area of particular interest within the DC landscape including thought pieces from industry and academic professionals.

Each year the PPI undertake the DC Asset Allocation Survey. The DC Asset Allocation Survey, the largest of its kind, collects data on size, charges and asset allocation across the DC universe. Data from the survey is presented (anonymously) in the DC Future Book. The data gathered from this survey is a critical component in developing our understanding of the DC landscape. As far as we are aware this is the only survey of this magnitude conducted in this area. The data supplied allows us to better understand not only the current DC landscape, but also what the future trends might look like and areas where greater support may be needed to improve the future of this landscape.

The event was chaired by **Jonathan Stapleton, Editor, Professional Pensions and Workplace Savings & Benefits.**

Research Findings

This year's DC Future Book was the ninth instalment in an increasingly irreplaceable series. The Future Book continues to be a key resource for anybody interested in the world of DC Pensions. This year's edition highlights the challenges likely to be faced by today's young savers when they reach retirement. The release of this year's edition is timely and topical following the recent announcement that the Government's new Auto-enrolment bill, which will see the age at which people are automatically enrolled into a workplace pension lowered from 22 to 18, has recently received Royal Assent.

Lauren Wilkinson, Senior Policy Researcher, PPI, presented the key findings of the report:

- **The implications of Automatic Enrolment for young people**: being the first generation to start their careers under the Automatic Enrolment policy, the adequacy of Automatic Enrolment is examined in the cases of people who spend their entire career being automatically enrolled, as opposed to other generations for whom automatic enrolment was only one phase of their career and whose effectiveness is overshadowed by the other pensions (or lack thereof) that they accumulated throughout their career. This year's Future Book explores the adequacy of a future pension of a young person who spends their entire career automatically enrolled at minimum contribution rates. Other factors that affect young peoples' retirement expectations are explored, such as being perhaps the first generation that will still be paying off their mortgages when they retire, and climate change.
- **Automatic Enrolment Ineligibility:** this year is the first year in which the number of people found ineligible for Automatic Enrolment was roughly equal to the number who were found eligible. Coupled with the timing of the Automatic Enrolment bill that will bring more people into eligibility, this year's Future Book also explores the implications and potential inequalities of who is being brought in to, and left out of, automatic enrolment.
- **Low contributions:** contribution rates remain stagnant at the minimum levels required by automatic enrolment. These contributions will need to increase, either by increased voluntary contributions or policy intervention, for DC pensions to provide an adequate standard of living in retirement as the majority of someone's private pension income.
- **The cost of living:** people are drawing down earlier than anticipated, and/or in larger amounts, in a way that may not be sustainable. This appears to be a result of the cost of living crisis. A surge in opt-out rates has not been observed yet, but this may be more apparent in next year's data.

Chris Wagstaff, Head of Pensions and Investment Education, Columbia Threadneedle Investments, expanded on the findings of the report in a wider context:

- The changing nature of the working world: with the increased prevalence of low paying jobs, as well as the rising cost of living, pension inadequacy remains one of the greatest socioeconomic challenges of our time. DC Pensions are still a poor replacement for DB Pensions, being less generous and relying more on personal responsibility. This instalment of the Future Book shows that DC is still yet to replace the shrinking DB market, with the projections of adequacy levels for the newest generations of DC savers.

- The growing focus on asset allocation: the PPI had a great response to it's asset allocation survey, and asset allocation is a topic with increasing importance as savers become more concerned with ESG investing, and policymakers become more concerned with Value for Money. The Future Book shows that the assets contained in the DC world have continued to grow, and the trends in investment strategies and vehicles.

Mark Fawcett, CEO, Nest Invest, spoke about the implications for industry of this instalment of the Future Book:

- The issues that matter to young people: the Future Book shows that young people will live longer than those currently retiring, and they will face higher housing costs. The retirement needs of those people just starting their careers will be very different to those for whom the retirement product market is currently designed. Although longevity is plateauing, young people will live much longer, and will spend more on housing once they are retired. In response to this, NEST has created new portfolios which focus on growth and longevity protection. This range of portfolios enables NEST to change a saver's glidepath according to their needs.
- Less predictable working patterns: with changing working patterns, a higher cost of living, and a possible drop in employment with jobs being replaced by Artificial Intelligence, savers may be more likely to have gaps in their saving activity. This is very different to the old culture of pensions, where people contributed steadily throughout their entire career, and had less choices to make as a result. Industry will have to engage these savers and refrain from offering one-size-fits-all solutions. The Future Book lends insight into these more complex lifecourses that the industry would need to be sensitive to. Mass customization, enabled by Artificial Intelligence, would allow savers to make decisions that suit their individual saving ability during working life.
- New opportunities for innovation: with higher targets for investment returns, DC funds can look to new industries and alternative investments, such as illiquids. These could offer the increased investment return that would make pension saving attractive to young people who may need to be shown that they will be able to retire.

Panel discussion and Q&A discussion

The panel consisted of:

- **Andrew Brown – Columbia Threadneedle Investments**
- **Dr Hayley James – Centre for Personal Financial Wellbeing (Aston Business School)**
- **Des Healey – Department for Work and Pensions**
- **Lauren Wilkinson – Pensions Policy Institute**

The discussion continued under the Chatham House Rule.

During the panel discussion, the key themes that emerged were employee, employer and provider engagement; the nuances of when and why people might increase or decrease their contributions; and the role investment can play in generating value for money, both in terms of alternative investment vehicles and in terms of better tailoring investment strategies to meet the needs of modern savers and retirees.

Within the theme of engagement, some challenging questions were posed:

- How can employers step up to increase pension awareness among their employees?
- How can employers be encouraged to choose the best pension schemes for their employees, rather than the cheapest?
- And, as for policy makers and the industry, what are the nuances of the finances and careers of modern savers?
- Is there a disconnect between the one-size-fits-all messaging towards potential savers, which fails to understand the multitude factors that influence decision-making?
- And finally, the nature of engagement itself was questioned – what does engagement actually mean? Is it necessarily better for a saver to be engaged?

In terms of employers, it was suggested that while it could be helpful to have employers do more to make saving attractive to their employees, ultimately increasing engagement is simply hard and the product itself must be attractive – it must reflect the needs and saving capacity of the employee in order to encourage them to contribute significant amounts of money.

In terms of policy makers and industry, this same theme of understanding the nuances of savers' lives was raised:

- Attention was drawn to factors identified in the Future Book, such as precarious work, home ownership and childcare, which could all contribute to a life of varying contribution rates to which current pensions messaging may appear insensitive.
- Suggestions were made that certain trigger events, like buying a house, could be moments to provide more targeted pensions promotion.

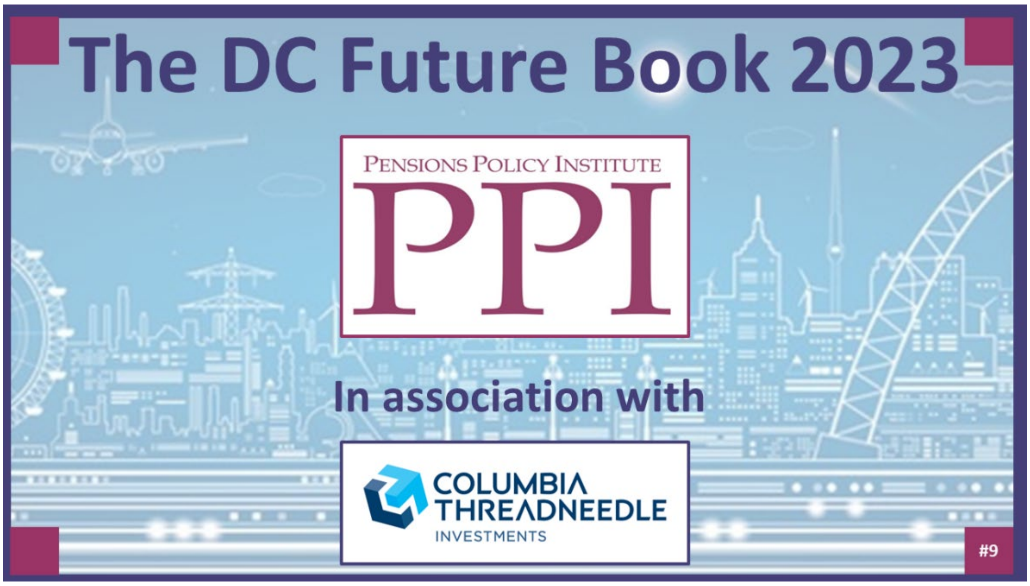
Finally, in terms of the nature of engagement itself, the discussion turned to the evidence that engagement among savers actually leads to better decisions:

- It emerged that there is some evidence that this is true, although there are nuances to this assertion: for example, the consequences of higher levels of engagement are different between men and women. However, there was general agreement that engagement and financial literacy need to be higher.

- As for the definition of precisely what engagement is, attention was drawn to the PPI's spectrum of engagement.[1]

As for the role of investment, there was discussion around different innovations and alternative investments:

- Attendees highlighted the lack of understanding of illiquids among trustees.
- Further points were raised surrounding the need to update the understanding of the lifecourses of modern savers. The ability of technology to provide mass customization, coupled with the increasing complexity of the lifecourse of a working individual, provides an opportunity to provide investments that accommodate a saver who may not contribute evenly across their whole life in the same way that somebody from a previous generation would have been more likely to do.
- Participants also highlighted the disconnect between investing for accumulation and decumulation; a greater capacity for illiquids in the decumulation phase, geared towards gradual drawdown rather than large, sudden withdrawals early on in retirement, was highlighted.



[1] PPI (2023) **Briefing Note 136: What is the role of engagement in pensions?**