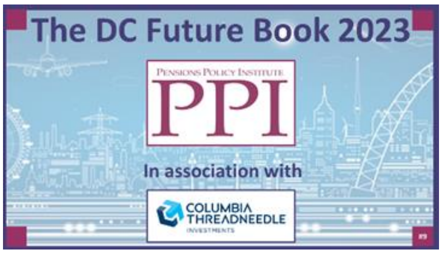
PRESS RELEASE

EMBARGOED UNTIL 0001 TUESDAY 26 SEPTEMBER 2023

PPI

"Young savers will be forced to choose between adequacy and sustainability without policy change" says Pensions Policy Institute



On Tuesday 26th September 2023, **The Pensions Policy Institute (PPI)** will publish the ninth edition of **The DC Future Book: in association with Columbia Threadneedle Investments**. The DC Future Book sets out available data on the DC landscape alongside commentary, analysis and projections of future trends. This year's edition highlights the challenges that are likely to be faced by today's young savers when they reach retirement.

Future retirees are unlikely to accrue sufficient DC savings to achieve both an adequate and sustainable retirement income. Someone currently aged 22, contributing 8% of median earnings through working life, could meet the PLSA's moderate Retirement Living Standard (RLS) for 12 years (around half of retirement on average) or the comfortable RLS for just 4 years (around a sixth of retirement). This means that future pensioners may have to choose between adequacy for a short time or an income that lasts longer (sustainability) but pays out at a lower level. The risk faced by future retirees is compounded by demographic, economic and policy changes that mean they will need higher saving levels to achieve similar living standards to current retirees. Longer life expectancies mean that savings will have to be spread across a longer retirement period, unless working lives can be extended, and lower levels of home ownership are likely to lead to higher housing costs in retirement for future generations.

Lauren Wilkinson, Senior Policy Researcher at the PPI said "Young savers have seen the greatest uplift in pension participation rates as a result of automatic enrolment. However, even with this positive upward trend in participation, most young savers are not on track to achieve positive retirement outcomes unless they make significant changes to their saving behaviour or without policy change. In the current economic climate, increasing individual contribution rates will be challenging for many savers. However other policy options exist, such as increasing the level of the State Pension (reducing the amount people need to save into private pensions), changes to tax relief, or raising minimum employer contribution levels. However, there are trade-offs associated with these potential policy options, not least the cost to Government or employers. Nevertheless, young people are saving within a very different pensions landscape compared to previous generations, with greater individual exposure to risks and significantly lower employer contributions than seen in DB and pre-automatic enrolment DC schemes. Increased participation alone is not enough to deliver positive retirement outcomes, and they will require more support to achieve these."

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Andrew Brown, Institutional Business Director at Columbia Threadneedle Investments, added: "The last 12 months have revealed the extraordinary challenges brought on by current economic uncertainty and rising inflation. Whilst the consequences of the current climate on present living standards have been well documented, less emphasis has been placed on how today's cost of living crisis will affect future retirees. The inadequacy of retirement provision is fast becoming one of the UK's biggest socio-economic challenges.

I expect The Extension of Auto Enrolment (Pensions Bill), which will remove the lower earnings limit and reduce the age for Automatic Enrolment, to positively impact savings and member eligibility. Together with the Mansion House Reforms and Value For Money framework, a focus on diversifying investment strategies and shifting away from a low-cost mindset may further improve member outcomes."

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Notes for editors:

1. **We are an independent educational research Institute: The Pensions Policy Institute (PPI)** does not lobby for any particular solution, and we are not a think-tank taking politically influenced views. The PPI is an educational research charity, and have been providing non-political, independent comment and analysis on pensions policy and retirement income provision in the UK for over 20 years. Our aim is to improve information and understanding about pensions policy and retirement income provision through research and analysis, discussion, and publication. For news and other information about The PPI please visit www.pensionspolicyinstitute.org.uk

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2. **The DC Future Book** is kindly sponsored by Columbia Threadneedle Investments. Funding has been given to help fund the research and does not necessarily imply agreement with, or support for the analysis or findings from the project. The PPI does not make recommendations as to the appropriate direction of future policy, Instead, our work provides **INDEPENDENT** evidence to allow policy development to be well informed.