

# **The Future Book:** *2015 Edition unravelling workplace pensions*

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We'd like to thank...

**Columbia Threadneedle Investments**

**For commissioning this report**



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# The Future Book: unravelling workplace pensions

- What is The Future Book?
- Today's DC world
- Tomorrow's DC world
- Arising policy issues

# What is The Future Book?

The Future Book is:

- A response to shifts in pensions world
- A compendium of DC statistics
- A projection of future trends
- A longitudinal study
- A reference document
- A source for debate, discussion, analysis and planning

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# Today's DC world: automatic enrolment

*By 31 August 2015:*

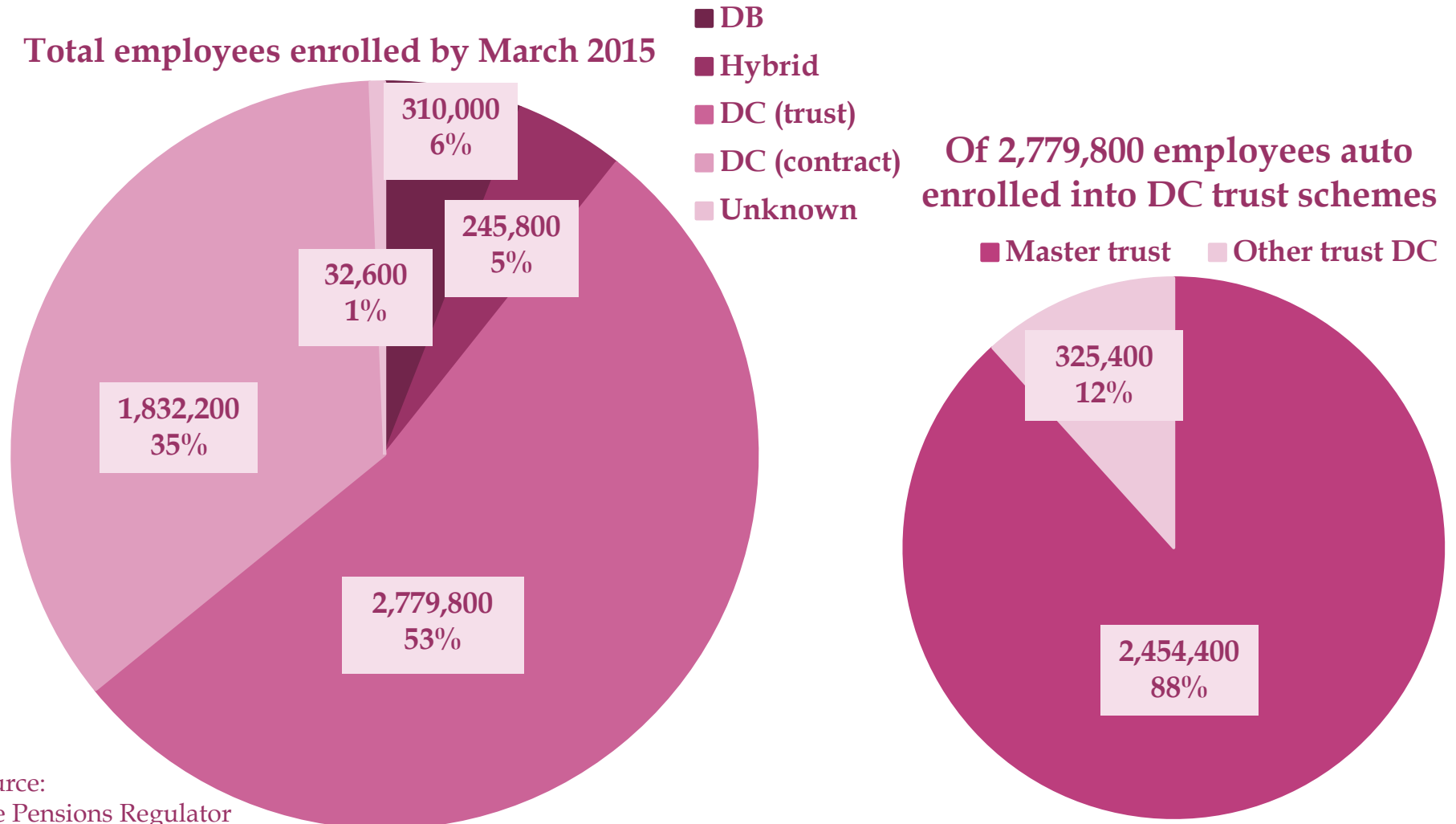
- 5.4 million automatically enrolled
- 5.2 million assessed ineligible
- Opt out remaining steady: 9%-10%

*By 31 March 2015:*

- 4.6 million enrolled into DC trust or contract-based schemes
- 2.5 million enrolled into master trust schemes

# 88% of those auto-enrolled are in DC schemes

## Automatic enrolment to March 2015 by scheme type



# Today's DC world: fund choice

In 2015:

- 99% of master trust members are in default fund compared to around 85% in other workplace DC schemes
- Fewer than 1% of master trust members and 7%-8% of other DC scheme members are in high-risk funds



# Today's DC world: the workplace DC market

In 2010-2012 (Great Britain)

- Around 23% of people aged over 16 hold some DC entitlement
- Around 16% of people aged over 16 are *actively contributing* to a DC pension scheme
- The median DC pension pot size is £15,000

# Median pension savings increase by age

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Median DC savings by age group in 2010/12 Great Britain, people aged 16 and over with any DC savings (includes both deferred and active savers)



Source: Office for National Statistics

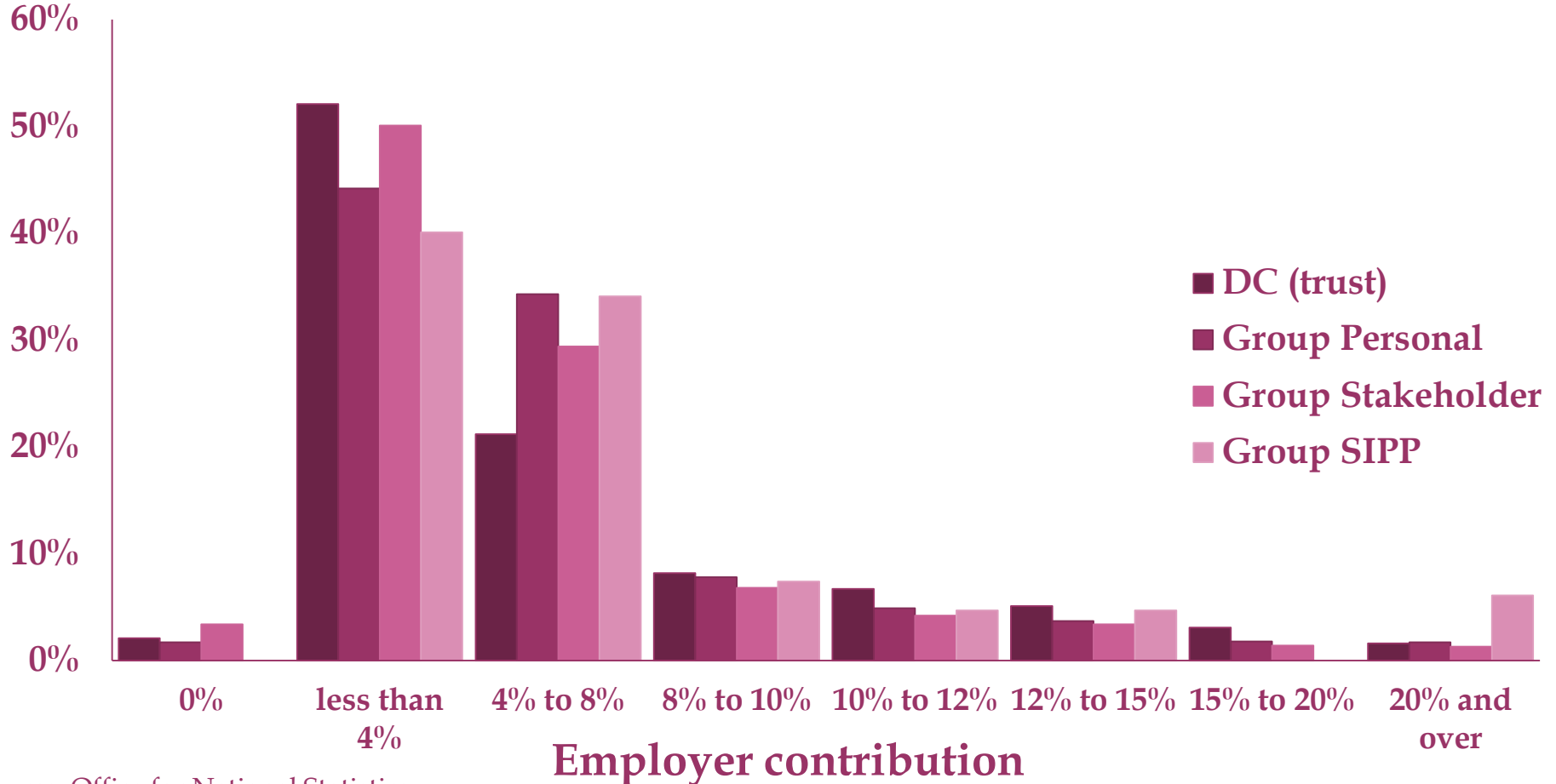
# Today's DC world: contributions into DC schemes

- Employer contribution - below 4% (average)
- Employee contribution - below 2% (average)
- Required contributions reach 8% minimum (of £5,824 to £42,385 in 2015/16) by 2018
- Median earners might need to contribute 11% to 14% (band earnings) from age 22 to have 66% chance of adequate income (assuming state pension triple-lock)

# The majority of employer contributions into DC schemes are under 4% of salary

## Employer contribution as a proportion of salary by DC scheme type (2014)

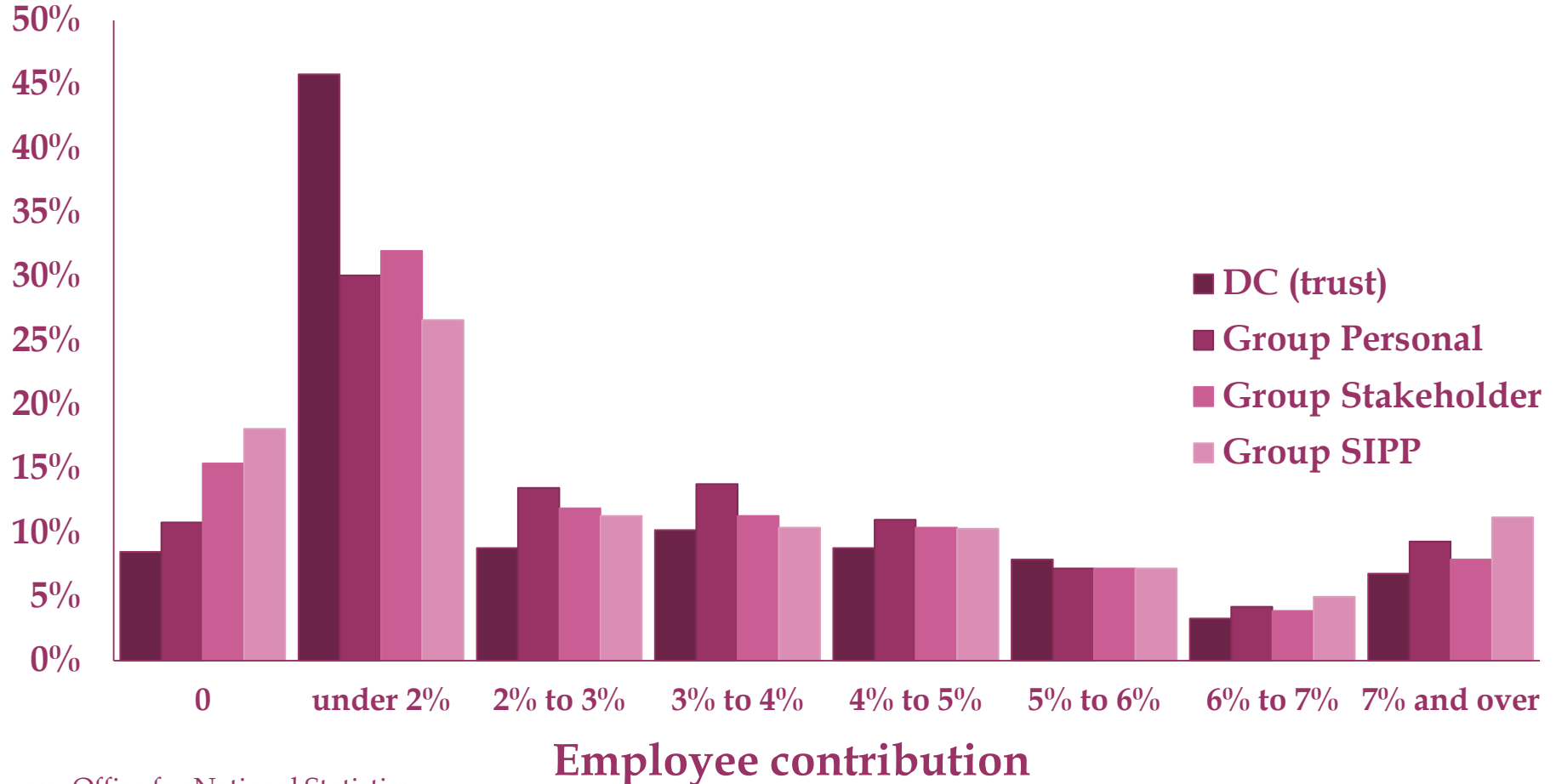
Proportion of members  
(proportion of jobs)



# The majority of employee contributions into DC schemes are under 2% of salary

Employee contribution as a proportion of salary by DC scheme type (2014)

Proportion of members  
(proportion of jobs)

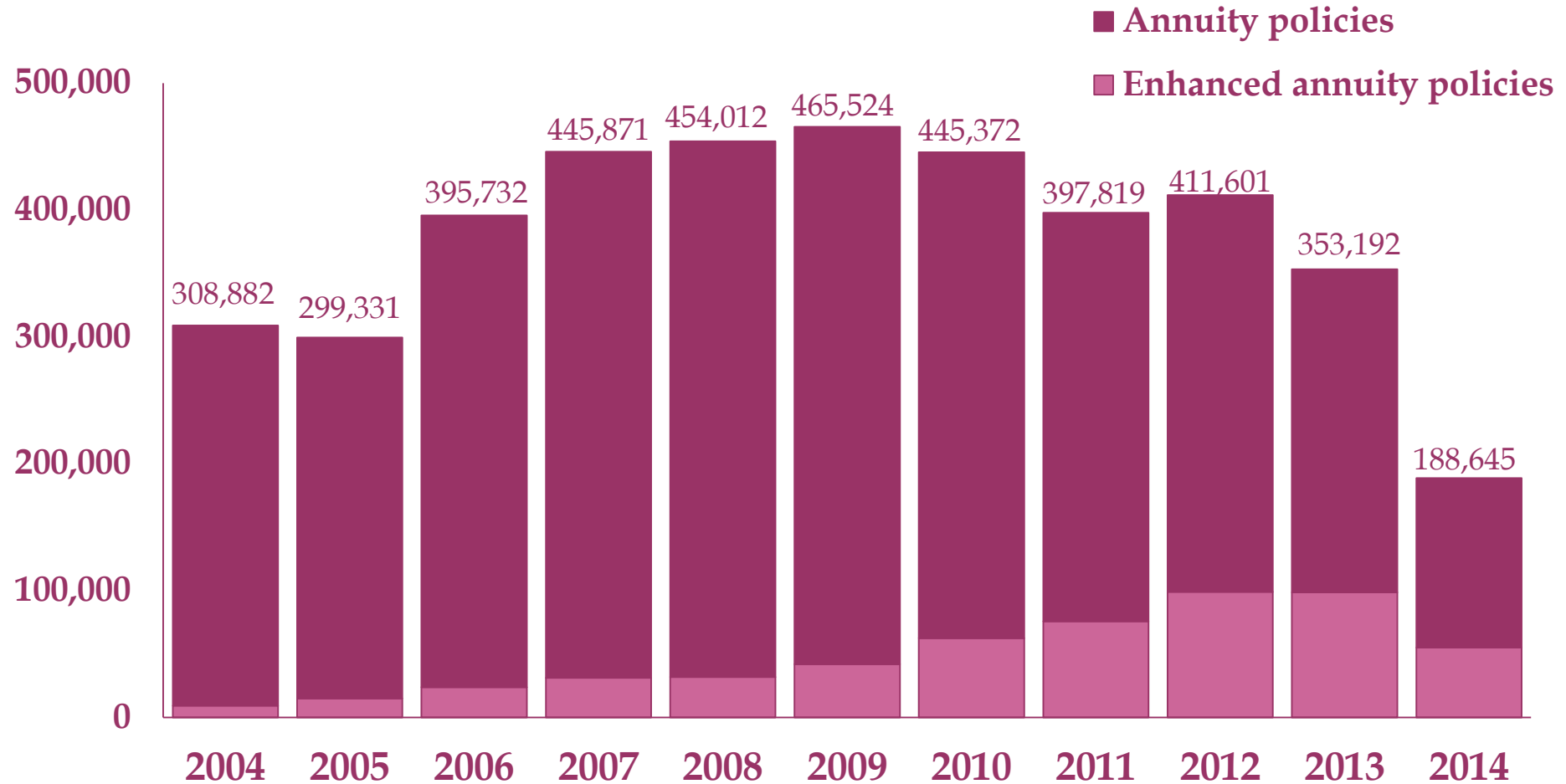


# Today's DC world: Access to DC savings

- Sales of annuities peaked in 2009 at around 466,000
- Overall annuity sales have decreased since 2009 (and since the announcement of Freedom & Choice)
- In 2012 over 90% of DC assets being accessed were used to purchase annuities
- Sales of *enhanced or impaired-life annuities* have been steadily increasing over the last 10 years, prior to a dip in 2014

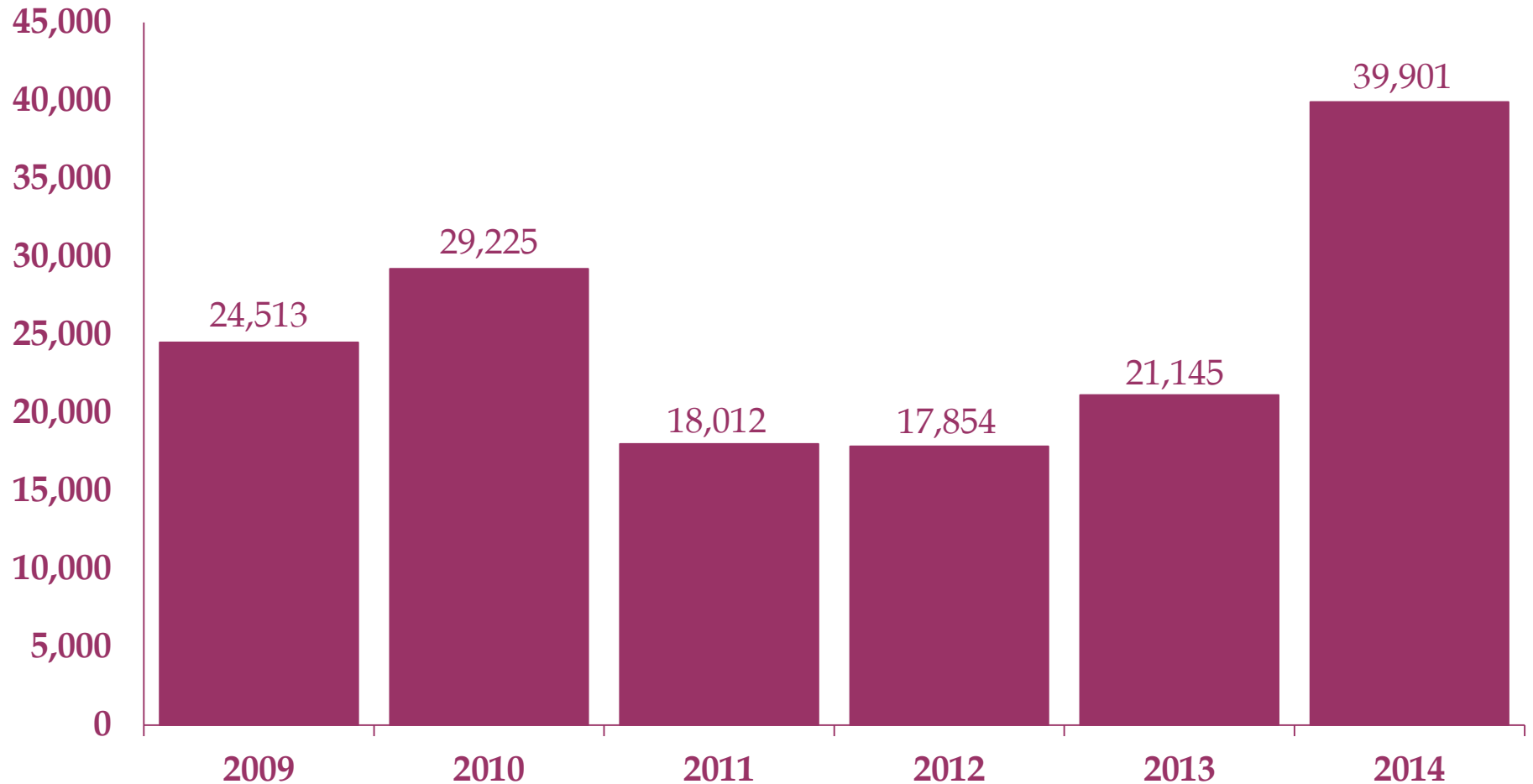
# Overall annuity sales have decreased since 2009, though enhanced annuities sales have increased over the last 10 years

## Number of new annuity policies sold in each year



# Sales of drawdown products increased in 2014

Number of new sales of drawdown contracts by year among ABI members





# Today's DC world: Access to DC savings

From April to June 2015:

- Over 65,000 DC savers withdrew lump sum payments from their savings - total value = £1.3 billion
- Average lump sum withdrawal = £15,000
- DC savers purchased:
  - 17,800 annuities
  - 19,600 drawdown products

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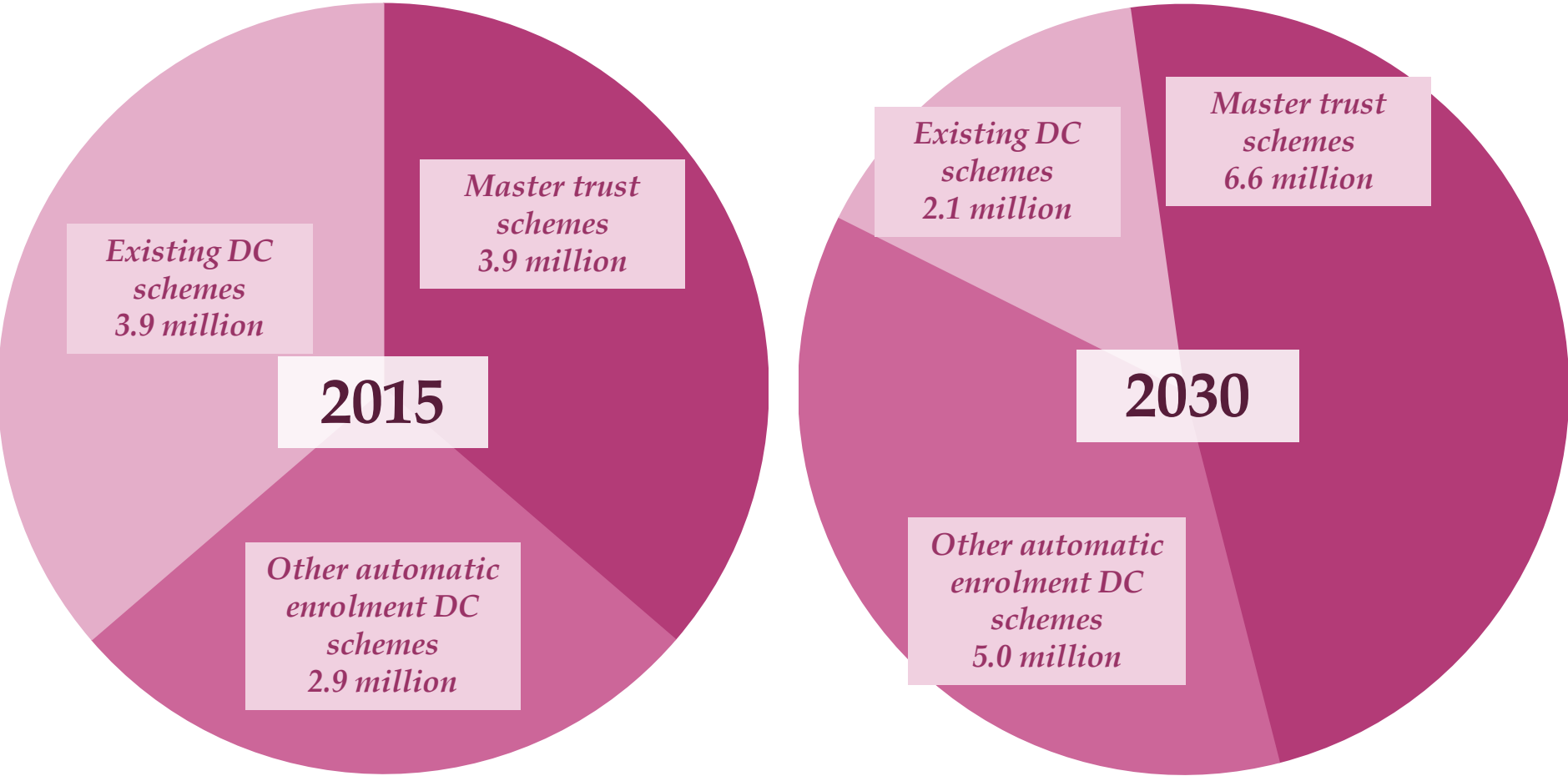
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# Tomorrow's DC world: What does it depend on?

- *Employee behaviour* - participation and contribution levels
- *Employer behaviour* - contribution levels, scheme choice, remuneration decisions
- *Industry behaviour* - charges, investment strategies, default offerings, new scheme development
- *Economic effects* - market performance, inflation
- *Policy changes* - taxation, changes to minimum pension age, new scheme-types, auto-escalation

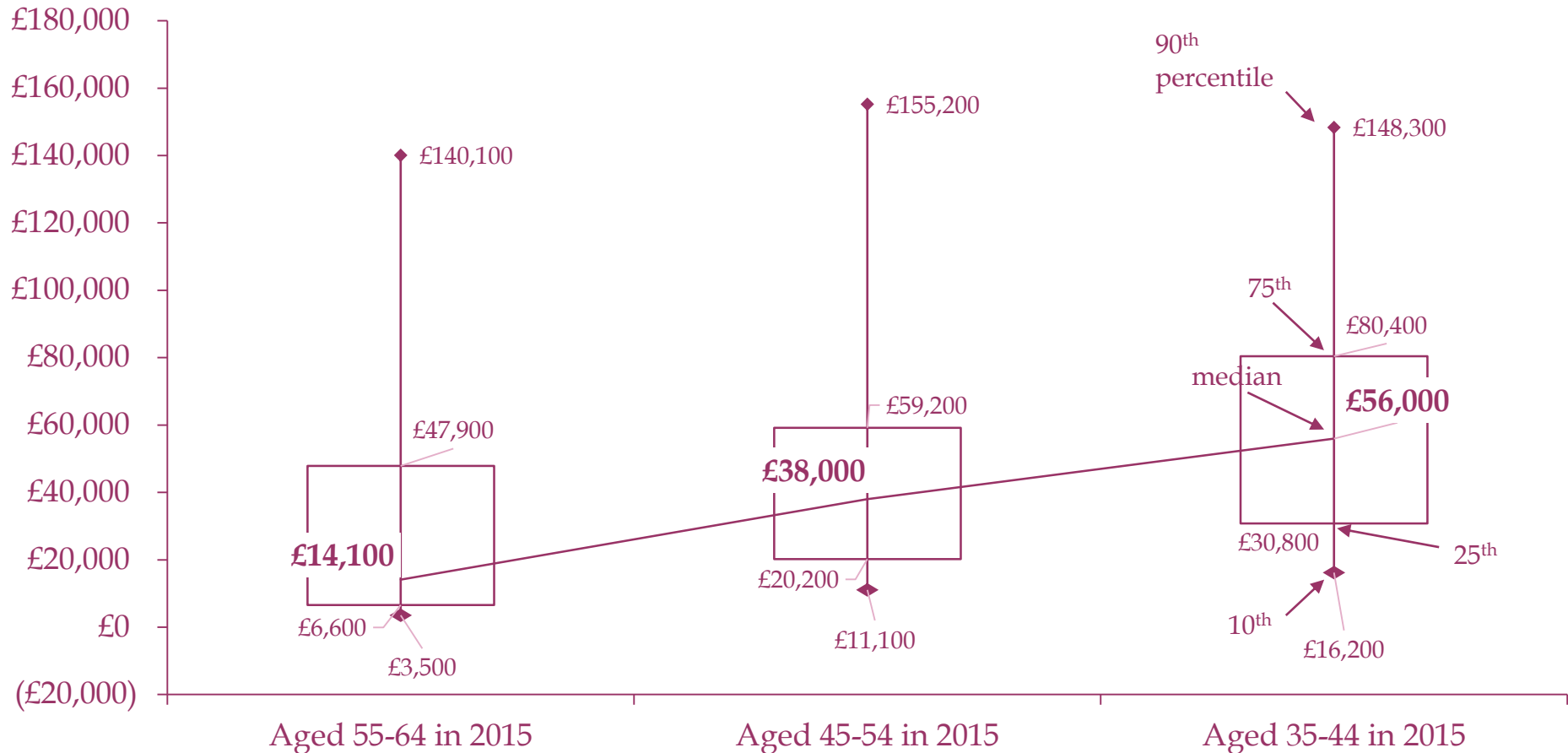
# By 2030 there could be around 6.6 million members of master trust schemes

## Workplace DC by scheme members in 2015 and 2030



# Median DC pension pots could grow from around £14,000 today to around £55,000 over 20 years

Distribution of pension pot sizes at State Pension Age for different cohorts (2015 earnings terms)



# Tomorrow's DC world: median pot sizes

- Median earner might need around £18,000pa
- £18,000 – NSP (at least £7,865) = £10,000pa
- Lump sums: £56,000 / £10,000pa = c. 5½ years
- Annuity: around £3,200 per year = £7,000 yearly shortfall
- If individuals are unable to plug the gap with other savings/income then there is danger of having lower standard of living in retirement than working life

# Tomorrow's DC world: aggregate assets

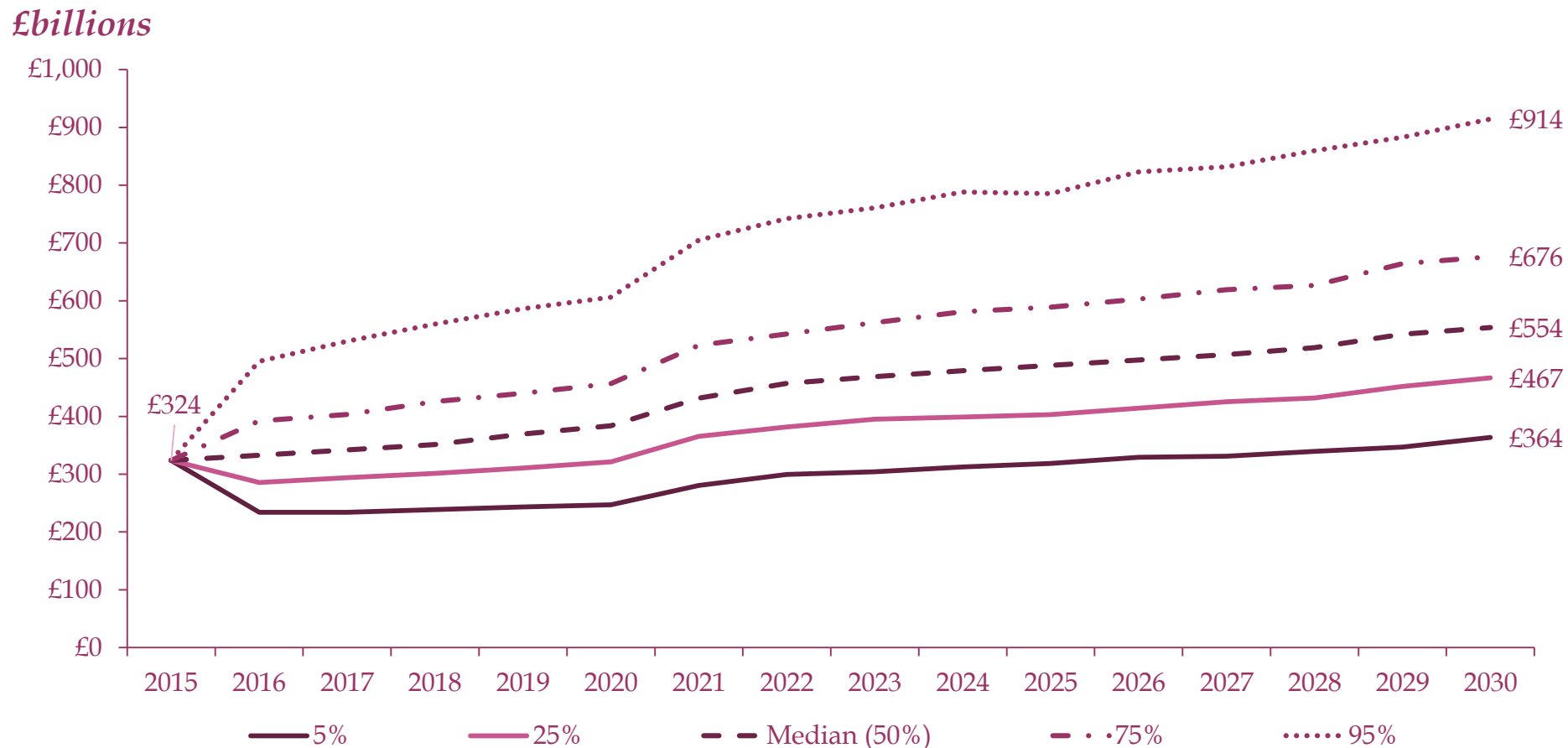
- Around £324 billion today (2015 earnings terms)

Using PPI's Economic Scenario Generator:

- Median outcome by 2030 = £554 billion
- Pessimistic scenario = £364 billion
- Optimistic scenario = £914 billion
- Outcomes don't just depend on economic performance...

# By 2030, aggregate assets in DC schemes could grow to around £914 billion, compared to £364 billion in 2015

Aggregate value of private sector DC assets in the UK, by year, under different possible scenarios of investment return under 1,000 randomly generated scenarios (2015 earnings terms)

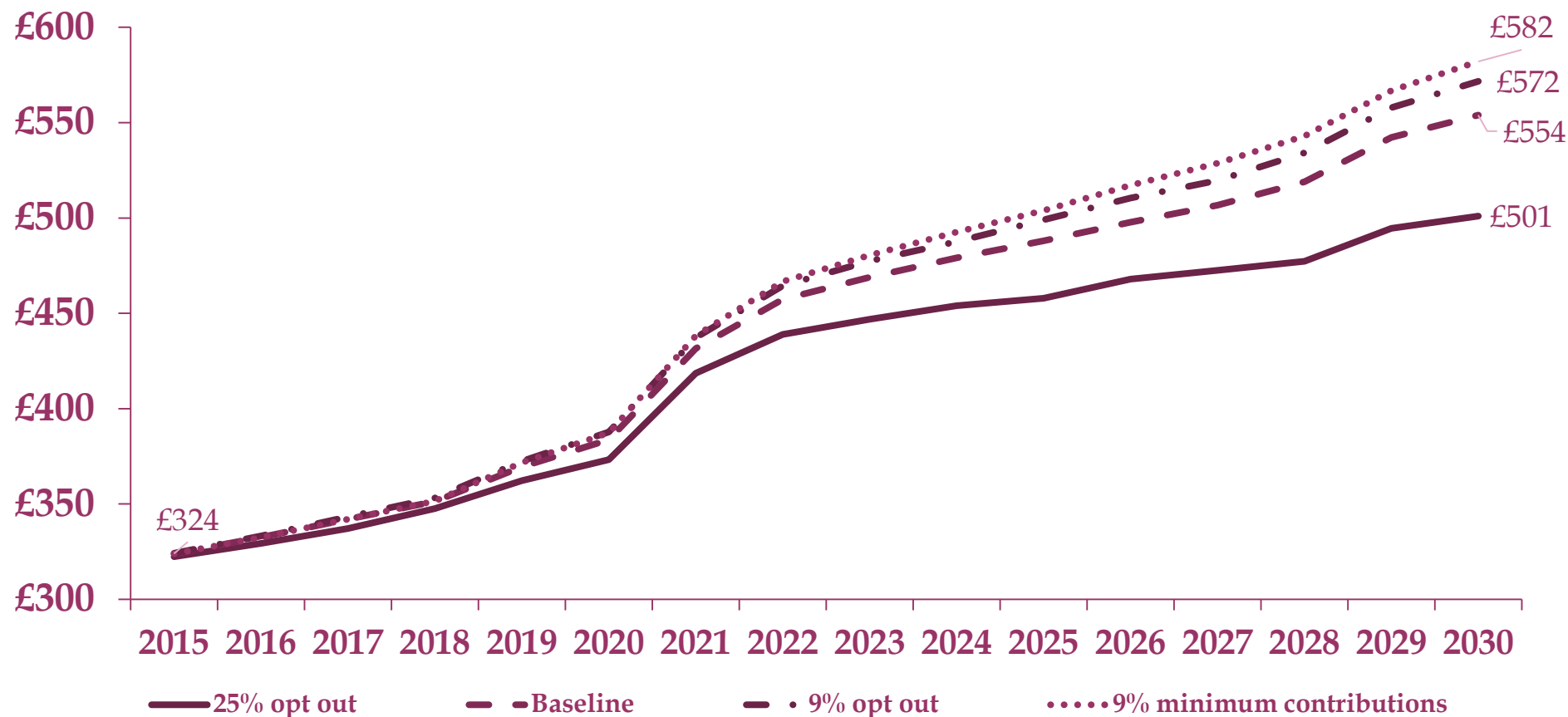




# By 2030, aggregate assets in DC schemes could vary by around £80 billion as a result of employee and employer behaviour, and policy

Aggregate value of private sector DC assets in the UK, by year, under scenarios of opt-out and contributions (2015 earnings terms)

*£billions*



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# Arising policy issues

We've come a long way. But there are many things still to consider, including:

- Saving levels
- Eligibility for automatic enrolment
- Contribution levels
- Complexity and choice
- Advice/ guidance
- Defaults
- Charges and product design