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"More people are saving as a result of automatic enrolment, but individuals will need to save more if they want to achieve adequate incomes in retirement" says Pensions Policy Institute

The Pensions Policy Institute (PPI) is today publishing *The Future Book: unravelling workplace pensions,* a report that sets out available data on the DC landscape; projections of the future aggregate value of DC assets; as well as commentary and analysis of current trends. The Future Book is commissioned by Columbia Threadneedle Investments, and is the first of an annual compendium of DC statistics

Changes occurring within the Defined Contribution (DC) world mean that, in future, retirees will be: living longer; entitled to state pension later; more likely to reach retirement with DC savings; and, experience flexibility of access to DC savings. Greater numbers of DC savers, coupled with flexibility, will increase the level of risk that people with pension savings face at and during retirement. It is important that comprehensive statistics and analysis of DC pension trends are available to help monitor and inform future policy.

Daniela Silcock, Head of Policy Research at the PPI said "The first edition of The Future Book shows that as a result of automatic enrolment, many more people are saving in private pensions, DC provision has overtaken DB in the private sector, and the use of master trust schemes is also growing. There are currently around four million members of master trust schemes. This could grow to around six and half million by 2030."

"However, The Future Book has also highlighted that while more people are saving in a private pension, saving levels are not yet high enough for many to achieve an adequate level of income in retirement."

"PPI modelling indicates that median pot sizes for those reaching State Pension Age could grow from £14,100, (for those aged 55 to 64 in 2015) to around £56,000 for those aged 35-44 in 2015 (2015 earnings terms). While £56,000 is significantly higher than £14,100, and may sound to many people to be a sizeable pot, it is unlikely on its own to provide sufficient income to support an individual's retirement."

"While many people are saving as a result of automatic enrolment, and the level of DC savings that people reach retirement with will grow in the future, it is clear that individuals will need to save more and for longer if they want to achieve adequate incomes in retirement. It is also clear that when DC savers reach retirement they have a lot of complex decisions to make but have trouble understanding and engaging with pensions and financial services. Policy makers and industry will need to explore how language and scheme communications can be better designed to engage with savers about how much they should be saving and how to access savings in retirement, alongside supporting savers through provision of guidance and advice."

Campbell Fleming, CEO, EMEA at Columbia Threadneedle Investments said "As a global asset manager our role is to invest our customers' hard-earned pension savings to ensure they achieve the best possible financial outcome to and through retirement. We partnered with the PPI to encourage a better understanding of UK workplace pensions, so that investors, policy makers and the pensions community can make better decisions. The Future Book paints the most accurate picture yet of the UK DC market. It is clear that more people than ever are responsible for their own retirement provision and as such are at the risk of making the wrong decisions in the face of complex investment choices and market / longevity risks that are hard to quantify."

"In our view the emphasis is on both employers and employees to consider increasing joint contribution levels. But it is also up to us asset managers and investment solution providers to work with savers, policy makers and pension trustees to make investment choices simpler and more intuitive in order to encourage engagement with pensions early on. Ultimately, if good financial outcomes are to be achieved to and through retirement, we need to help people achieve the required asset growth in the run-up to retirement, and provide the necessary downside protection, inflation-linked returns and sustainable income stream during retirement. I hope that the insight The Future Book provides is a first step towards achieving this goal."

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Key stats from report

Automatic enrolment

By 31 August 2015:
- 57,900 employers had been through the automatic enrolment process
- 5.4 million workers had been automatically enrolled
- 5.2 million workers had been assessed ineligible
- The level of opt out has remained steady at 9%-10%

By 31 March 2015:
- 4.6 million workers were enrolled into DC trust or contract-based schemes
- 2.5 million workers were enrolled into master trust schemes

The Workplace DC Market

In 2010-2012 (Great Britain)

- around 16% of people aged over 16 were actively contributing to a DC pension scheme
- around 9% of people aged over 16 held some deferred DC entitlement
- around 23% of people aged over 16 held some DC entitlement
- The median DC pension pot size was around £15,000.

Member fund choice

In 2015:

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

Contributions into DC schemes

- Overall, the average employer contribution into a DC pension scheme (trust and contract-based) is below 4% of salary and the average employee contribution is below 2% of salary
- The required level of contributions that employers and workers (who do not opt out) must jointly make into a pension will reach 8% minimum contributions on band earnings (£5,824 to £42,385 in 2015/16) by 2018
- A median earner might need to contribute 11% to 14% of band earnings to have a 2 in 3 chance of an adequate income if contributing between age 22 and SPA

Assuming current trends continue:

- By 2030 there could be around 6.6 million people saving in master trust schemes, around 2.1 million in pre-existing DC schemes and around 5 million people in other automatic enrolment DC schemes.
- The median DC pension pot size at State Pension Age could grow to around £56,000 (2015 earnings terms) (for those aged 35 to 44 in 2015).
- The aggregate value of private sector workplace DC assets could grow from around £324 billion in 2015 to around £554 billion in 2030.

Notes for editors

1. The Pensions Policy Institute (PPI) is an educational research charity, which provides non-political, independent comment and analysis on policy on pensions and retirement income provision in the UK. Its aim is to improve the information and understanding about pensions policy and retirement income provision through research and analysis, discussion and publication. Further information on the PPI is available on our website www.pensionspolicyinstitute.org.uk.

2. *The Future Book: unravelling workplace pension* is the first edition in an annual compendium of DC statistics, setting out available data on the DC landscape, projections of the future aggregate value of DC assets, and commentary and analysis of current trends.

3. The modelling uses the PPI suite of models and data from the ONS's Wealth and Assets survey (Wave 3) to explore how the number of scheme members and the value of DC assets may change and grow in future under assumptions that current trends continue and with assumptions about variation in employee behaviour. The report also sets out the potential range of distribution of DC assets in future, under a range of possible future economic fluctuations (based on historical data).

4. This report was commissioned by Columbia Threadneedle Investments.

COLUMBIA THREADNEEDLE INVESTMENTS

About Columbia Threadneedle Investments

Columbia Threadneedle Investments is a leading global asset management group that provides a broad range of actively managed investment strategies and solutions for individual, institutional and corporate clients around the world.

With more than 2000 people including over 450 investment professionals based in North America, Europe and Asia, they manage £320 billion (€451 billion) of assets across developed and emerging market equities, fixed income, asset allocation solutions and alternatives.

Columbia Threadneedle Investments is the global asset management group of Ameriprise Financial, Inc., a leading US-based financial services provider. As part of Ameriprise, they are supported by a large and well-capitalised diversified financial services firm.