

## PRESS RELEASE

EMBARGOED UNTIL 00.01 Thursday 5<sup>th</sup> October  
2017

### “Pension scheme default funds need to suit the needs of people with a variety of intentions and preferences” says Pensions Policy Institute

The Pensions Policy Institute (PPI) is today publishing the third edition of *The Future Book: unravelling workplace pensions*.

This report, commissioned by Columbia Threadneedle Investments, sets out available data on the DC landscape alongside commentary, analysis and projections of future trends.

**Daniela Silcock, Head of Policy Research at the PPI** said “DC pension savers continue to remain invested in defaults, especially those automatically enrolled, with 99.7% of master trust members in their default fund. The majority of default funds in master trust and GPP schemes are lifestyled though this may not be the most appropriate investment strategy for everyone. Some of those planning to continue investing their savings after retirement might benefit more from a fund which prioritises growth even in later years, while a lifestyle fund is likely to meet the needs of those who plan to convert their savings into an income at retirement through, for example, an annuity.”

“As bonds and equities are increasingly being viewed as less secure, DC pension funds, including Master Trusts, are looking more towards diversification by increasing investment in alternatives such as real estate, infrastructure and commodities. There is more focus on the use of Diversified Growth Funds (DGFs) as an alternative for lifestyling. Diversified funds are less volatile and may therefore provide better long-term protection from loss than equity/bond/cash funds. However, DGFs do not provide the same opportunity for high returns as funds more heavily invested in equities and may be less appropriate for those with high risk appetites.”

“Automatic enrolment continues to look successful with opt-out rates at around 9% on average and 77% of eligible employees saving in a workplace pension for at least three out of the last four years. The next big challenges are to maintain these participation rates when minimum contribution rates start to rise in 2018 and to ensure that smaller employers, some of whom are struggling to comply with automatic enrolment, are sufficiently supported so that that employees are not disadvantaged.”

**Chris Wagstaff, Head of Pensions and Investment Education at Columbia Threadneedle Investments** said: “We are delighted to have commissioned the PPI’s *The Future Book* for the third year running. *The Future Book* provides extensive insight into the current and prospective future state of play of UK workplace pensions as well as the challenges faced by those increasingly reliant on their Defined Contribution pension pots in retirement.

“This year the PPI’s research has highlighted how DC default fund design can fundamentally affect retirement outcomes. Crucially, the research found that diversified growth funds only have a 6.0% chance of incurring a loss in the first five years of saving, compared to 23.5% for high risk funds and 13.3% for a low volatility ‘Lifestyle fund’. We know that people with low risk appetites and low incomes are more likely to be put off by losses incurred during the early stage of pension saving and opt out. Therefore it’s crucial that they are provided with an effective default option that is unlikely to incur losses early in their savings journey if we want to avoid compounding the nation’s long-term savings problem.”

**ENDS**

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**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](http://www.pensionspolicyinstitute.org.uk).
2. *The Future Book: unravelling workplace pension* is the third 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 4) 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. 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. Sponsorship has been given to help fund research, and does not necessarily imply agreement with, or support for, the analysis or findings from the project.

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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.

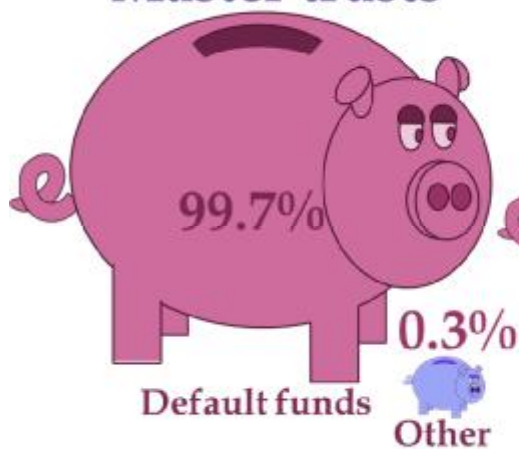
With more than 2000 people including over 450 investment professionals based in North America, Europe and Asia, they manage £363 billion\* of assets across developed and emerging market equities, fixed income, asset allocation solutions and alternatives.

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.

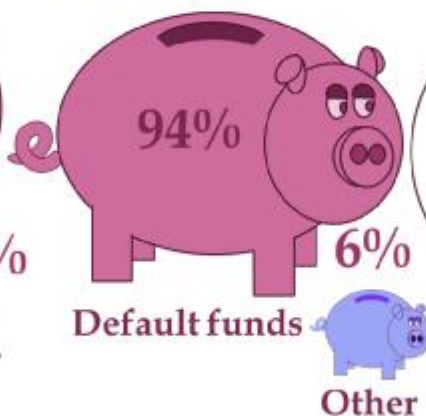
\*As at 30 June 2017

The Future Book is a compendium of current DC statistics and projections of possible future trends. The report is issued annually, the 2017 edition is the third report in the series.

### Master trusts



### Group Personal Pensions

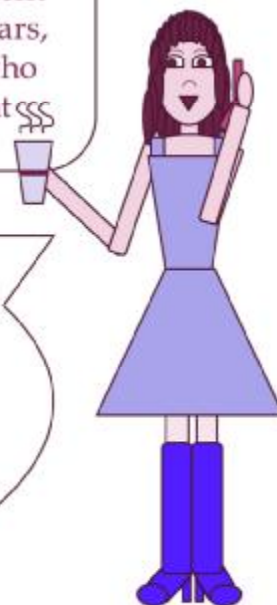


DC pension savers continue to remain invested in defaults, especially those automatically enrolled...



The majority of default funds in master trust and GPP schemes are lifestyled though this may not be the most appropriate investment strategy for everyone. Some of those planning to continue investing their savings after retirement might benefit more from a fund which prioritises growth even in later years, while a lifestyle fund is likely to meet the needs of those who plan to convert their savings into an income at retirement through, for example, an annuity.

Automatic enrolment has brought in over eight million new savers with lower average risk appetites than pre-automatic enrolment savers. Default funds which experience low levels of loss during the early stages of accumulation will be less likely to prompt these members to cease contributing. However, those with higher risk appetites may prefer investments which maximise the chance of gains from the start.





Diversified funds are least likely to experience a loss within the first five years...

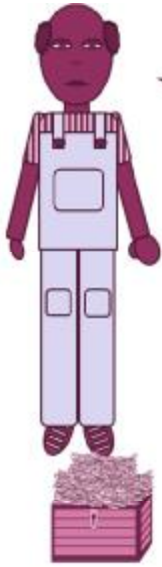


...and are least likely to deliver very low returns...

10<sup>th</sup> percentile pot sizes at State Pension age for a median earning woman contributing 8% of band earnings from age 22 to SPa (2017 earnings terms)



## The Future Book: 2017 Edition unravelling workplace pensions



...but high risk and lifestyle funds provide more opportunity for high returns.

Pot sizes at State Pension age for a median earning woman contributing 8% of band earnings from age 22 to SPa (2017 earnings terms)

90<sup>th</sup> percentile

£76,000

£98,000

£147,000

£155,000

£173,000

£286,000

Median

£56,000

£61,000

£88,000

£92,000

£84,000

£102,000

Low volatility fund

Low performing diversified fund

Benchmark diversified fund

High performing diversified fund

Lifestyle fund

High risk fund

The most appropriate default fund investment strategy will vary between people based on their income level, appetite for risk and how they plan to use their pension savings in retirement. Pension scheme default funds will need to suit the needs of people with a variety of intentions and preferences.



This report was commissioned by Columbia Threadneedle Investments. Sponsorship has been given to help fund research, and does not necessarily imply agreement with, or support for, the analysis or findings from the project.