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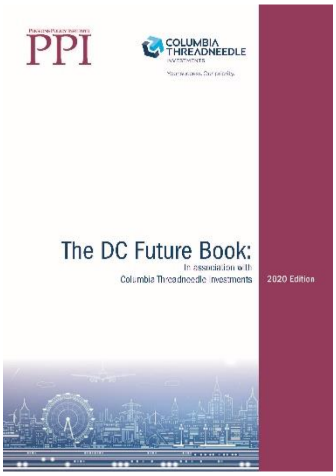
The DC Future Book: in association with Columbia Threadneedle Investments (2020 edition)



Launch write up:

The Pensions Policy Institute (PPI) held a policy seminar on 23rd September 2020 to launch *The DC Future Book: in association with Columbia Threadneedle Investments (2020 edition)*, sponsored by **Columbia Threadneedle Investments, Platinum Supporting Members of the PPI.**
The report sets out available data on the Defined Contribution (DC) landscape alongside commentary, analysis and projections of future trends.

The event was run as an online seminar with the key findings presented by the author Lauren Wilkinson (PPI), responses from the sponsor Nick Ring (Columbia Threadneedle Investments) and responses from the panel, Andrew Brown (Columbia Threadneedle Investments), Gary Smith (Atlas Master Trust), David Farrar (DWP) and Lauren Peacock (ShareAction).

Around 70 people representing a broad range of interests within Government, the investment industry, the pensions industry and the third sector attended the seminar. Elizabeth Pfeuti, Financial Journalist, Rhotic Media chaired the event.

Presentation of key findings and responses to the report

Nick Ring, CEO, EMEA, Columbia Threadneedle Investments welcomed the attendees and praised the DC Future Book for providing comprehensive information on the DC landscape. He discussed the importance of ensuring sustainable investments particularly during the pandemic when health, safety and workers' rights need to be at the forefront of policy and industry decisions.

Elizabeth Pfueti introduced the seminar and guests.

Lauren Wilkinson, Senior Policy Researcher, PPI, presented the key findings from the report. There is a continuation of positive accumulation trends associated with automatic enrolment, with opt-out rates remaining stable, there was an increase in contribution rates, and persistence rates have fallen. Trends in access to DC savings are continuing and full withdrawal remains the most popular option but the most money continues to be spent on drawdown. Between 2018 and 2019 there was an increase in non-advised drawdown sales. Looking to the future, the main area highlighted for focus within DC investment was Environmental, Social and Governance (ESG).

Andrew Brown, Institutional Business Group Director, Columbia Threadneedle Investments welcomed this year's edition of the DC Future Book, which shows how quickly the DC landscape is changing and highlights positive developments as well as revealing gaps. He talked about how longevity could impact people's ability to support themselves through longer later lives. Longer lives could be better supported through changes to the way that contributions are invested, in particular through diversification into less traditional assets such as real estate and private credit. DB schemes have harnessed these types of investments, but DC schemes are struggling to invest in these types of assets as a result of daily pricing.

Market leaders are becoming increasingly aware of how critical ESG is for society and long-term returns. Going forward, ESG analytics should be an integral element of scheme design. Within ESG, members are also beginning to effect change, as many hold strong beliefs regarding responsible and sustainable investments. Showing members how their investments have done good for society and the environment could be a good way to engage members who care about these factors.

Gary Smith, CEO, Atlas Master Trust, congratulated the PPI and Lauren on the usefulness of the DC Future Book. This year's edition highlighted some positive trends, but also showed some areas of concern regarding the sustainability of pension income. The three main challenges are:

1. The role that governance plays - governance of services and member income needs to be strong, independent, member-centric, and not just focussed on protecting benefits but also on improving benefits. Governance needs to be flexible and responsive in order to cope with a daily changing landscape.
2. Restoring and building trust - the industry needs to be more open and transparent and to treat individual savers as equals and adults instead of talking down to them, by being proactive, reaching out and helping to make long-term saving more relevant.
3. Doing the "right thing"- are we finding enough time to focus on the most important areas of scheme management to achieve the best outcomes? We need to balance the discussion and focus on risk management and return, not just on return alone. ESG will be an essential element in all of this. The social impact of investments will be a driving force in ESG and how it is thought about and implemented. We owe it to savers not just to do the right things, but to do things right.

David Farrar, Climate Governance and ESG, DWP made five points about ESG, most of which were reflected in the report:

1. Everyone can do something – the report demonstrates that all schemes have some capacity to engage with ESG. Those in pooled funds or using platforms, for example, have the power to manage, hire and fire asset managers as well as engage with them about their strategies.
2. It doesn't matter that much if investments are active or passive – some considerations are different under either active or passive investment but changing asset allocation and exercising stewardship is still possible under passive investment. Small schemes, using passive investment should ask themselves if they are using all the available tools, for example, monitoring manager behaviour, looking at company voting policies, and

checking whether ESG resolutions are supported, and whether they have any up to date engagement case studies.

3. Lack of evidence of the performance of ESG funds is quoted as a barrier by almost half of schemes, which is disappointing – trustees need to consider ESG related risks and not just stick with traditional risks such as exchange rate etc. It is likely that once many large schemes start properly integrating ESG consideration, others will follow suit. We are likely to be reliant on herding for those unsure to follow the trend.
4. Schemes have concerns about the availability and transparency of data on company behaviour – you don't have to wait for perfect data in order to consider risks, and in fact many companies are disclosing plans and processes regarding climate change which provides important information about their intentions.
5. Schemes can engage widely with Government - not just through DWP consultations but with other government departments involved in sustainability such as BEIS, Department of transport etc.

Lauren Peacock, Campaign manager, ShareAction – discussed how a report recently filed by ShareAction resulted in opportunities for change and engagement. The ShareAction report was filed on Barclays because of their use of fossil fuels. The report requested Barclays to phase out this use and to focus on the use of more sustainable companies. 24% of investors supported the resolution. Schemes could use this opportunity to ask their asset manager if they supported the resolution, and if not, why not. Schemes should be aware of events and developments such as these and use them as engagement opportunities with their asset managers.

Panel discussion and Q&A

The following points were raised during the discussion, chaired by Elizabeth Pfeuti with a panel consisting of Lauren Wilkinson, Andrew Brown, Gary Smith, David Farrar and Lauren Peacock. This session was held under the Chatham House Rule and the views expressed do not necessarily reflect the views of the Pensions Policy Institute or panellists.

The following themes of discussion emerged during the panel discussion and Q&A with the audience:

ESG

- There needs to be more of a focus on guidance and education for trustees, as it is their responsibility to challenge asset managers regarding their ESG consideration. Challenging investors is very hard to do when you don't understand the methodology and process. Even if one or two trustees understand ESG, the conversation could still be very one sided; all members of a board need to understand.
- Most ESG focus is on environmental factors to the neglect of social and governance factors – PPI will be doing research on the extent to which this is the case during 2020/2021.
- In particular, social factors are not well considered, partly because it is more difficult to demonstrate how social factors are financially material considerations.

- Focus on social issues is growing as COVID-19 highlights social inequalities. Growing focus should help increase the access and availability of data on social factors. The increased focus on social issues has led to the growth of social bonds which are making clear social improvements. Ratings need to evolve as social movements bring new issues to light or make gathering data on them easier. More investment in social improvements, such as hospitals and infrastructure should engage members more.
- Would it be possible to let the market establish its own ESG level/process, or would this mean that little gets done?
- ESG means different things to different people and comprises a variety of factors, not all of which will be relevant to all schemes. Asset managers' clients range in terms of beliefs, and there are many different ways to engage, from screening to impact investment. Trustees need to have a set of beliefs which resonate with the trustee board and members; you can't just make a one size fits all approach.
- If each scheme's approach to ESG is individual, how do you say what good looks like? If there is no consensus on what good looks like, the industry will struggle to know how to support schemes.

Automatic enrolment and saving

- People are sleepwalking towards complex decisions that they are not ready for. There needs to be more support, preparation and education to help people engage more.
- Despite the current focus on COVID-19, we can't forget about the importance of ensuring adequacy in pension saving. Policies such as auto escalation and stepped increases need to be explored.
- Families have too much to deal with in the short term to be able to afford much in pension contributions and people struggle to see benefits that are further away in time. Should trustees be more active in helping members to cope with everyday financial issues as well as pensions, and to provide education? Trustees might not be the best providers for this, but employers can play a role in providing financial education.
- Lots of people are pressed financially which is why the automatic enrolment earnings threshold is £10,000. We need to remain mindful that the threshold is there to protect people who can't afford to save.
- The issues around small pots, deferred members and ineligible workers also need to be tackled.

How will COVID-19 impact pensions?

- In the light of the current uncertainty, it is becoming increasingly important for trustees to engage with asset managers and members. It is still unknown how long the pandemic will last and what its full impact will be. These times could lead to systemic changes in the economy and trustees will need to keep up with these on behalf of members.
- Members are more at risk of making adverse decisions and will need more support to avoid these.
- This time is providing an opportunity for schemes to assess how investments are performing during a volatile period.

Trust and engagement

- We need to continue to build trust for individuals in the pensions industry. This should increase engagement and improve relationships between schemes and members. Investing responsibly and open, honest, communication can help to build trust.
- Words such as pensions, defaults, and UFPLS are difficult for people to engage with. Language needs to be reviewed and made more user friendly.
- We need to make retirement saving relevant to the individual saver, so their pensions belong alongside bank accounts and loyalty cards, within the context of the other things that people are managing financially. Schemes have roles to play in effecting this outcome, but everyone, such as employers and policy-makers, can play a role together, to help people make decisions in a more holistic environment.

At retirement decisions

- A large number of people are entering drawdown without advice; is guidance filling the gap? If not, this needs to be looked into as drawdown is a complicated product and people should not be making these decisions without support.
- It's important that members seek advice when it's in their interest, but not everyone needs advice to access drawdown, so it is not necessarily a fail when people access unadvised. The key question is whether it is the right people who are missing out on advice?
- The numbers taking advice have fluctuated a lot after pension freedoms. People don't necessarily understand the implications of taking money out now on income in future and on tax. Is there a role for providers of DC products to help? Can we do something about how increases in liabilities and insurance costs for providers are causing a mass exodus of advisers?
- Advice issues could be ironed out in time when people have larger pots.
- Those taking D B to DC transfers are the real area of concern.

Drawdown/annuity dichotomy

- At the moment, people are encouraged, through retirement pathways, to choose an annuity or drawdown at retirement. Drawdown investment pathways assume people will stay in drawdown and compounds the issue that people don't see using both as a possibility. Could people be given an option of both and how would that be managed and delivered?
- The fund management industry has already done a lot, and launched products soon after Freedom and Choice which allowed access to both, but demand is complicated. There are various routes to investments, and most customers for these types of products come from advisers. The investment strategies are actually there, but they are not being packaged in the right way yet.