PRESS RELEASE

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PENSIONS POLICY INSTITUTE

PPI

DC default investment strategies could better meet the needs of some members by seeking higher returns or reducing volatility" says Pensions Policy Institute

On the 2nd of February 2022, **The Pensions Policy Institute (PPI)** published **Could DC pension default investment strategies better meet the needs of members?** authored by Bob Collie, PPI Research Associate. The report, sponsored by **Association of Investment Companies,** explores the extent to which Defined Contribution (DC) default investment strategies could be redesigned to better meet the needs of certain groups of scheme members.

Daniela Silcock, Head of Policy Research at the PPI said "Defined Contribution (DC) scheme default investment strategies determine how the contributions of millions of pension savers are invested. They provide a service to those who cannot or do not want to choose their own investment strategy, one that involves judgements about the balance between risk and reward and does not levy unduly high charges on members. However, default investment strategies are inherently broadbrush as they are required to meet the needs of many people and are generally designed with the "typical" member in mind."

"This report, **Could DC pension default investment strategies better meet the needs of members?** explores whether members with certain characteristics might benefit from more focus on returns, or risk management, than members who fit the typical profile."

"The inherent nature of defaults make it difficult to target variations at particular people, but there are potential strategies, for example, using existing data on members, such as pot size, to provide prompts about using non-default investment strategies or gathering more data on members in order to make DC default investment strategies more tailored or to provide prompts. In addition, judicious investment into illiquids and alternatives could, in some cases both enhance returns and reduce volatility, benefiting the whole membership."

"However, these strategies will require extra time and resources. In seeking to implement them, it is important not to lose the benefits of default strategies, in particular, the low cost and simplicity of the safety net that they provide for those with low financial capability. As scheme managers look to provide a better service to a greater number of members, the benefits of defaults must be kept in mind."

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Notes for editors

1. **We are an independent educational research charity: 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, 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. News and other information about The PPI are available at www.pensionspolicyinstitute.org.uk and via Twitter: @PPI_Research.

2. This report is kindly sponsored by **The Association of Investment Companies.** Sponsorship 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.

A Pensions Policy Institute report

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