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# The Future Book: unravelling workplace pensions, third edition

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# We'd like to thank...

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## for sponsoring this report

# The Future Book: unravelling workplace pensions

- What is The Future Book?
- Automatic enrolment update
- Trends in access to savings
- The role of default funds in the new landscape
- Questions for the future

# What is The Future Book?

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The Future Book is:

- An annual publication
- 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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# The automatic enrolment staging process is nearly complete

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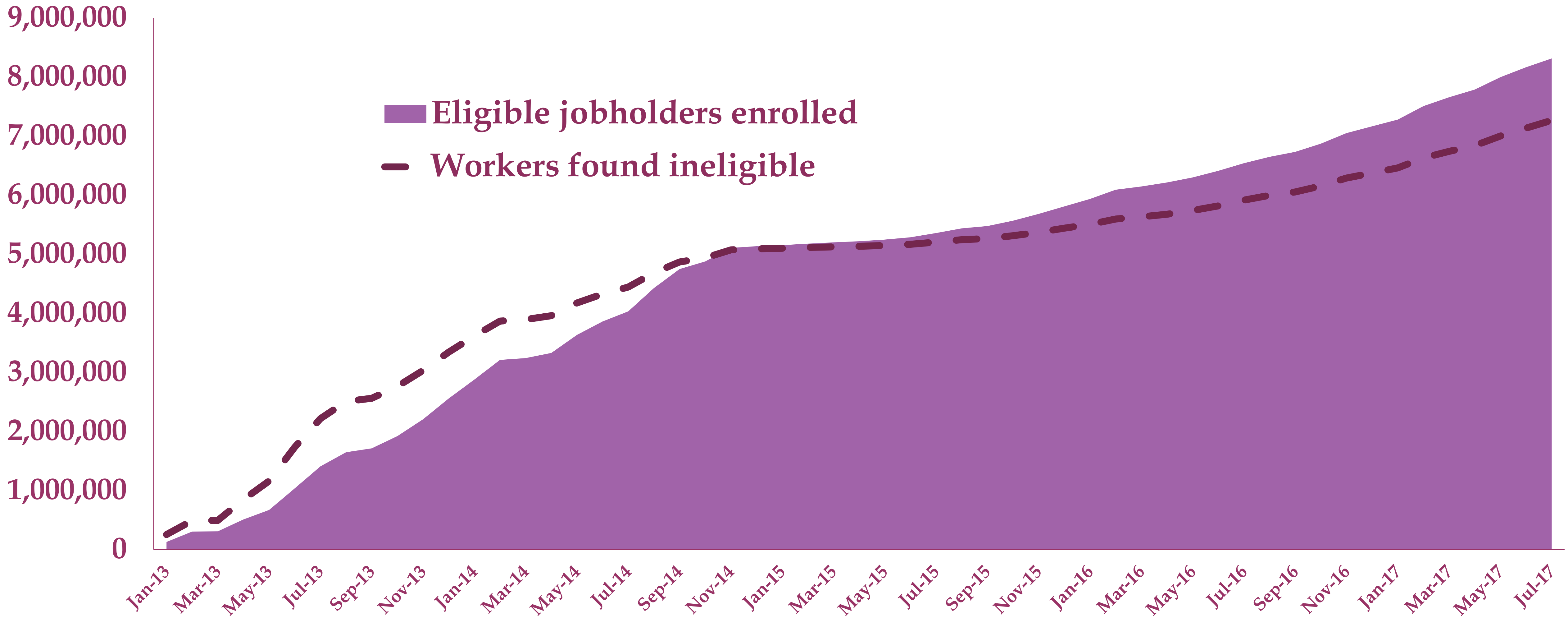
- All complying employers will be automatically enrolling eligible employees from February 2018
- By July 2017:
  - 8.3 million auto-enrolled (at employer staging date) 470,000 re-enrolled
  - 7.3 million found ineligible
  - c. 700,000 employers staged
  - 12% of employers in receipt of a penalty notice (up from 3% in 2014)

# 8.3 million employees were automatically enrolled and 7.3 million were found ineligible by July 2017

Cumulative numbers of eligible jobholders automatically enrolled and workers found ineligible (since January 2013) by month



# 469,000 employees had been automatically re-enrolled by July 2017

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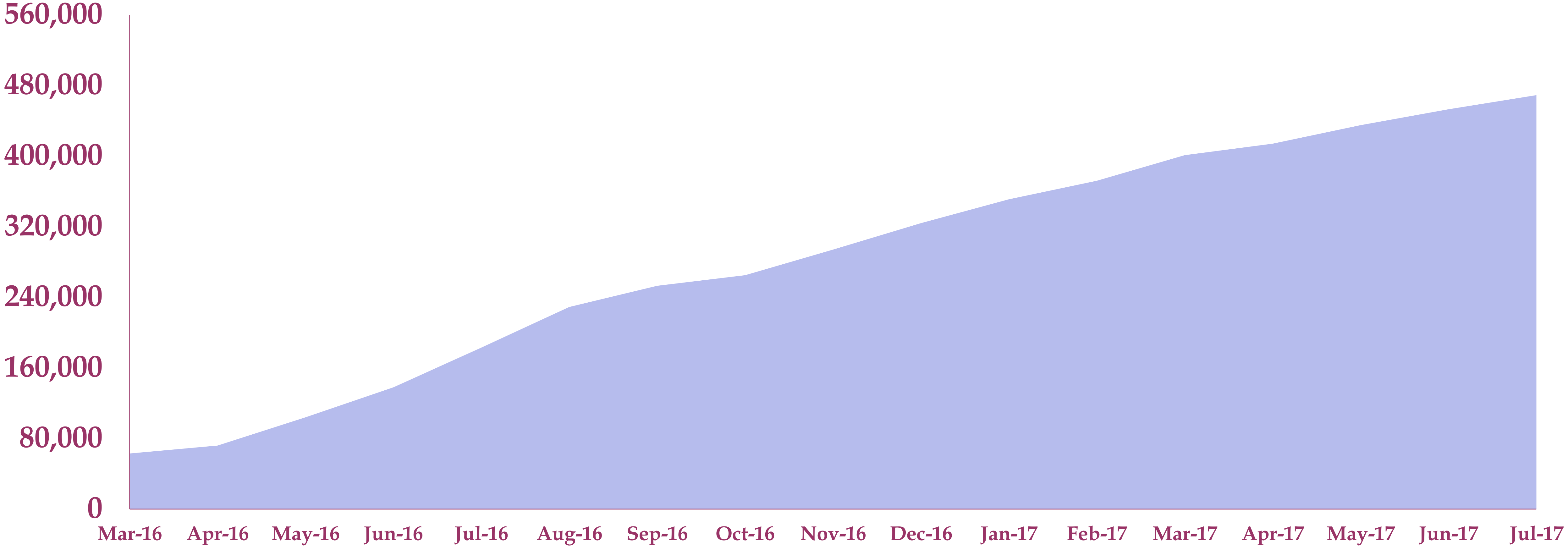
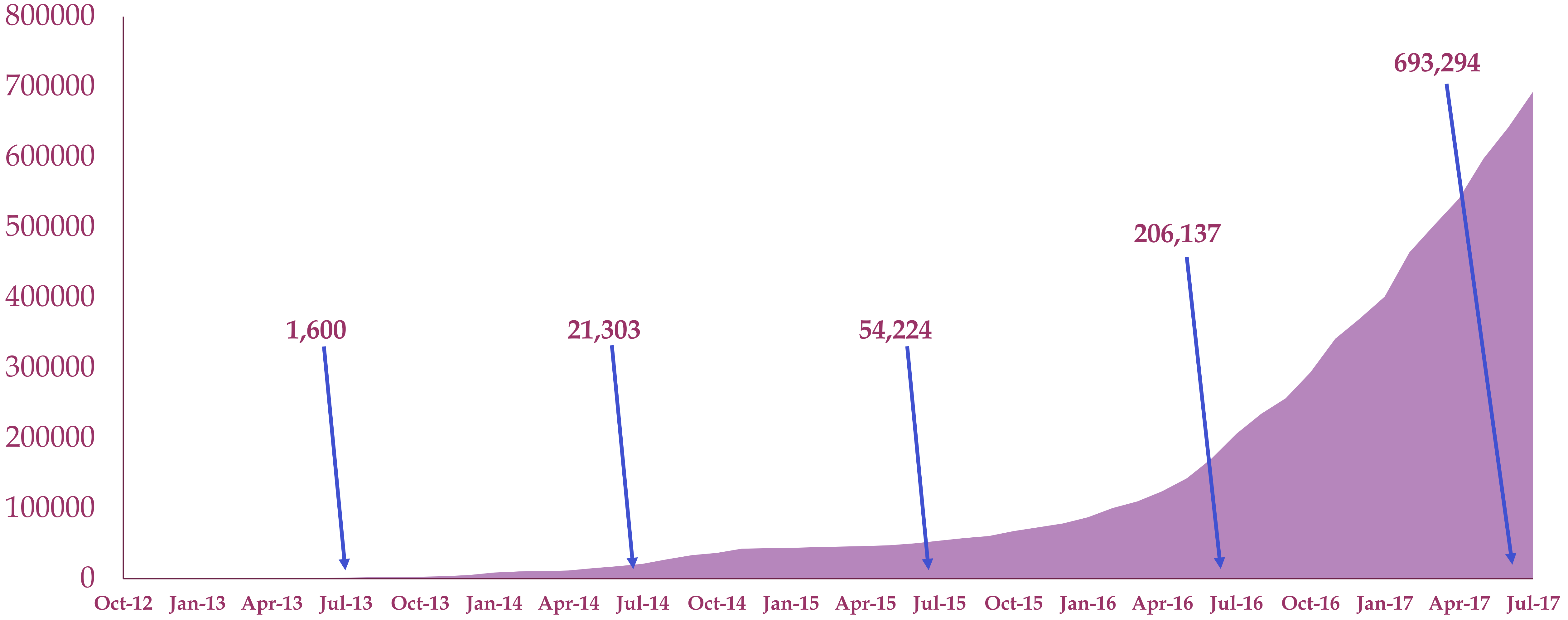
## Cumulative numbers of eligible jobholders automatically re-enrolled (since March 2016) by month



# The number of employers going through the automatic enrolment process is increasing exponentially

## Employers who completed automatic enrolment declarations of compliance by July 2017 (cumulative)



# Automatic enrolment: the unknown and the unexpected...

- How many people are automatically enrolled after the employer staging date?
- What is the prevalence of blanket automatic enrolment (for both eligible and ineligible workers)?
- How will contribution increases affect participation?
- How many contribution cessations are due to job churn and how many to other reasons?

# Persistence is currently around 77%

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- Around 77% of eligible employees saving for three out of the last four years
- The figure has remained fairly steady, though most auto-enrollees will not have had a chance to build up three out of four years
- As automatic enrolment matures we would expect to see the proportion saving persistently rising (assuming opt out rates remain steady)

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# People are still buying annuities



- Around 80,000 annuities and around 80,000 drawdown contracts being bought per year
- Annuity sales are lower than drawdown sales and may continue to drop in the future
- The use of lump sums is still variable with an average withdrawal of £14,000
- The use of independent and regulated advice as a proportion of sales is falling for both annuities and drawdown

# More people are withdrawing money through cash lump sums than through drawdown or annuity products

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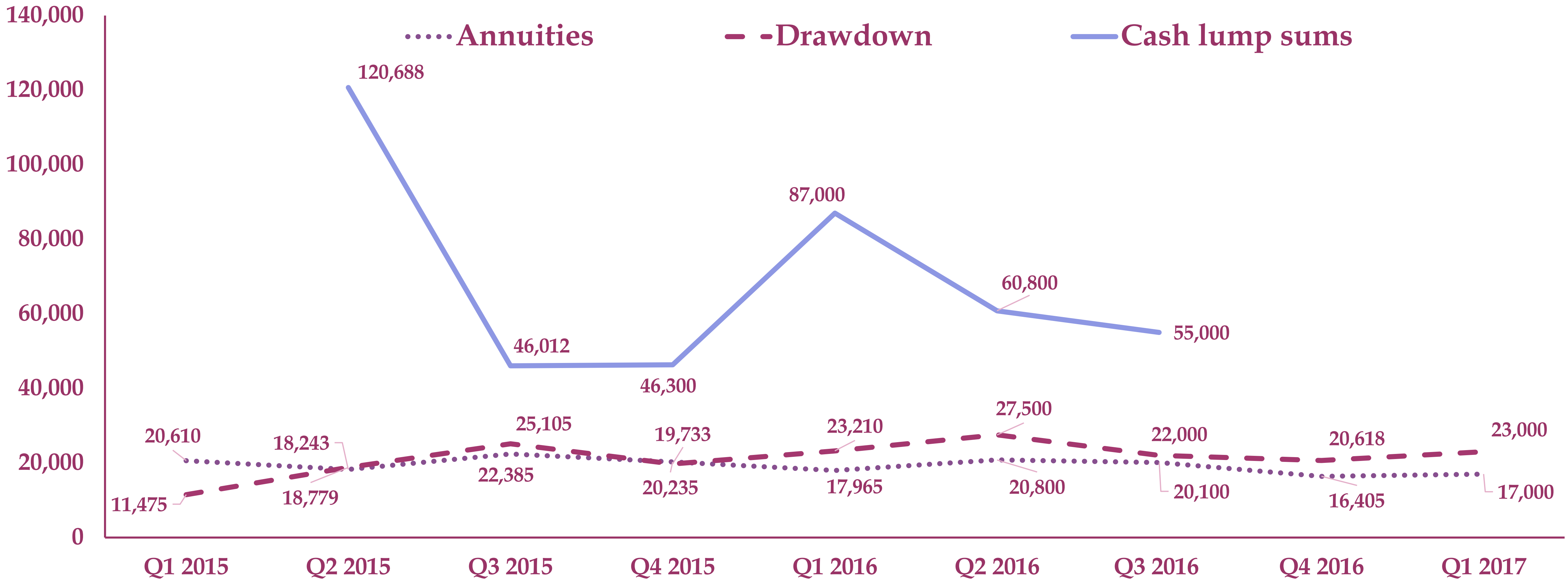
## Numbers of drawdown and annuity purchases and cash lump sum withdrawals by quarter, ABI members



# People are spending more money on drawdown products than on annuities or lump sum withdrawals

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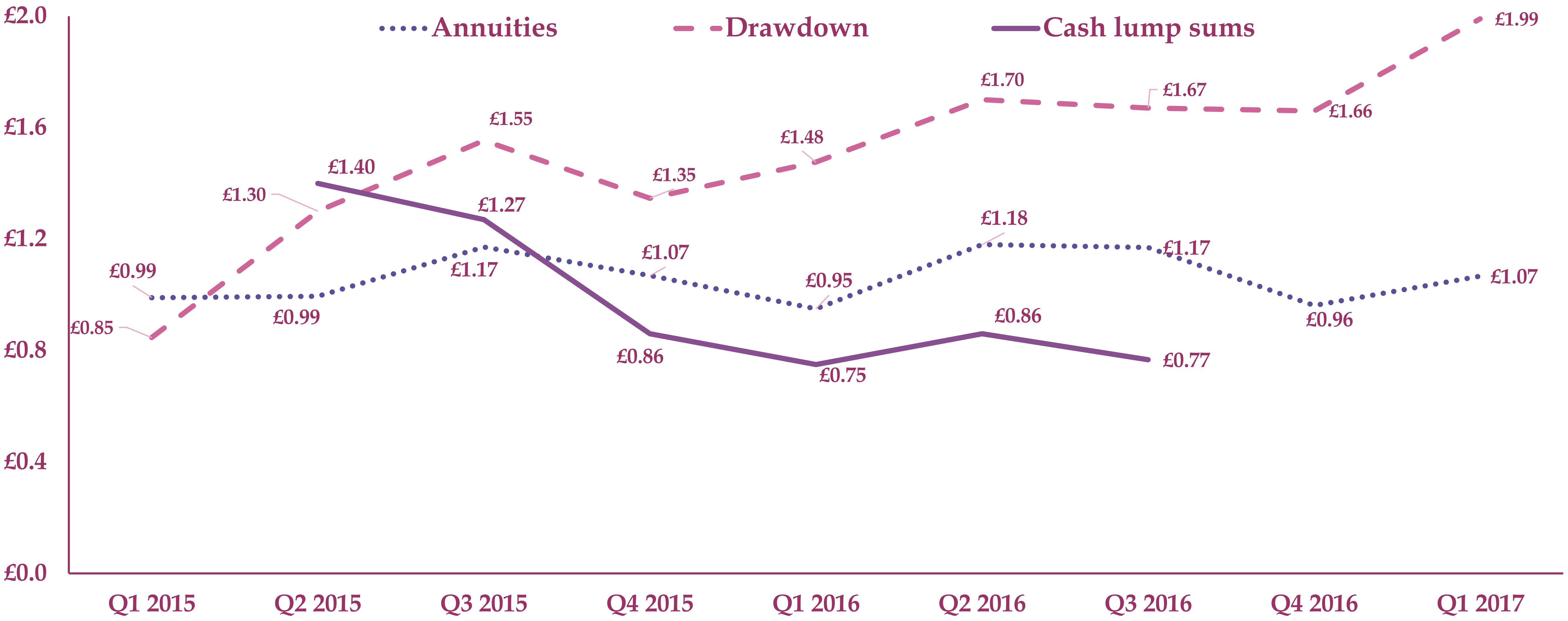
## Value of retirement income products and cash lump sum withdrawals by quarter (billions), ABI members



# The proportion of people using independent or restricted advice when entering drawdown is decreasing

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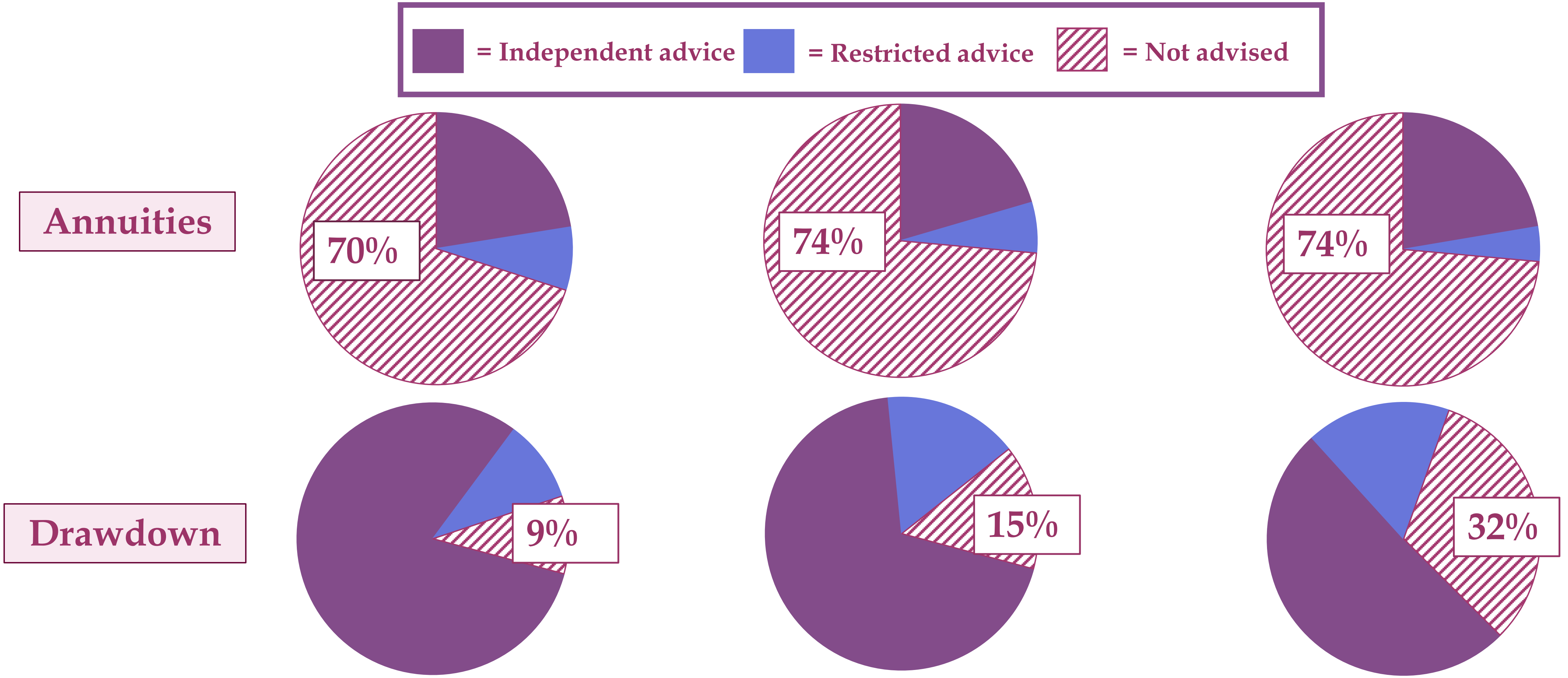
## New annuity and drawdown contracts sold, 2014-2016, ABI members



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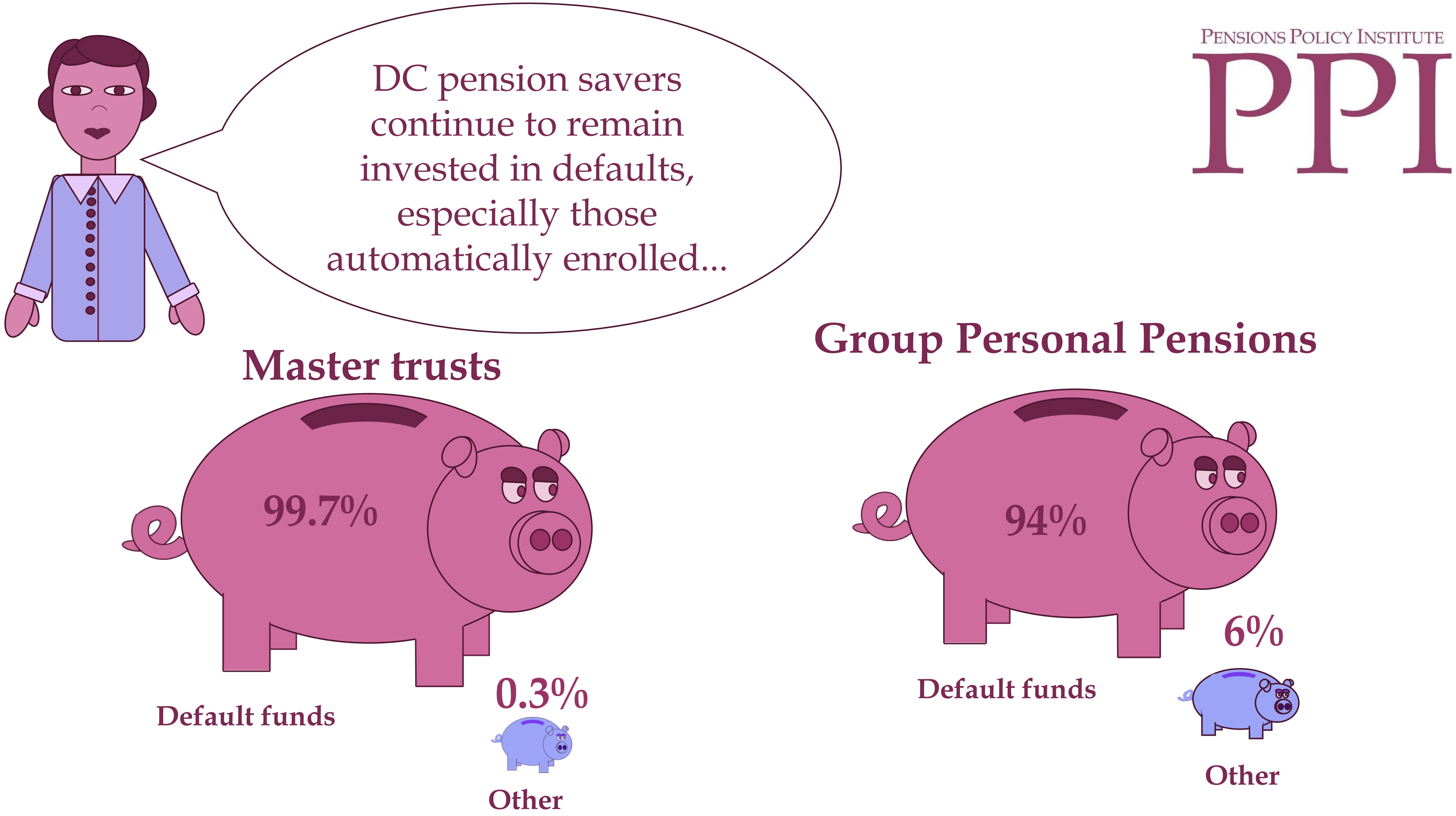
DC pension savers continue to remain invested in defaults, especially those automatically enrolled...
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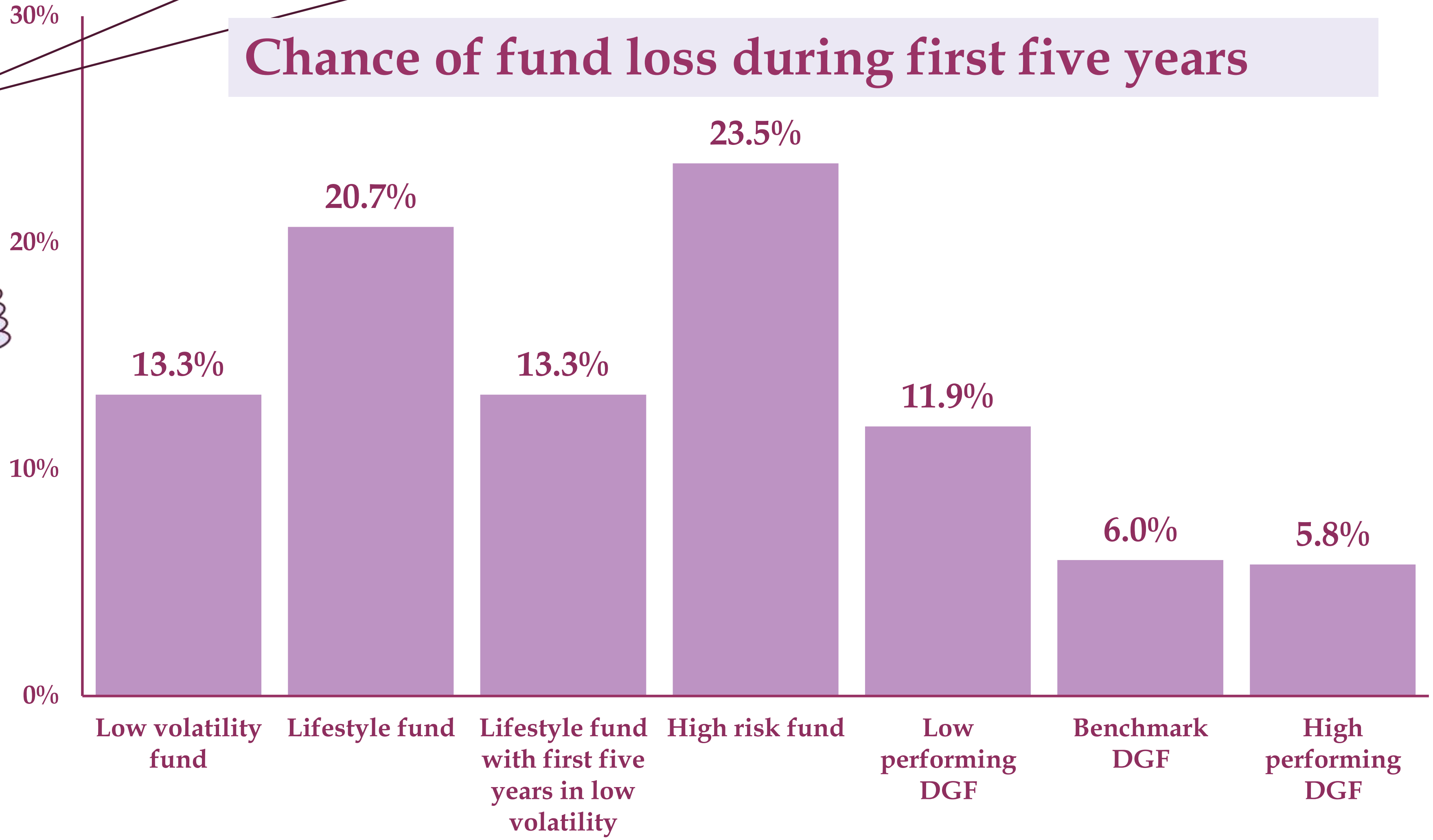
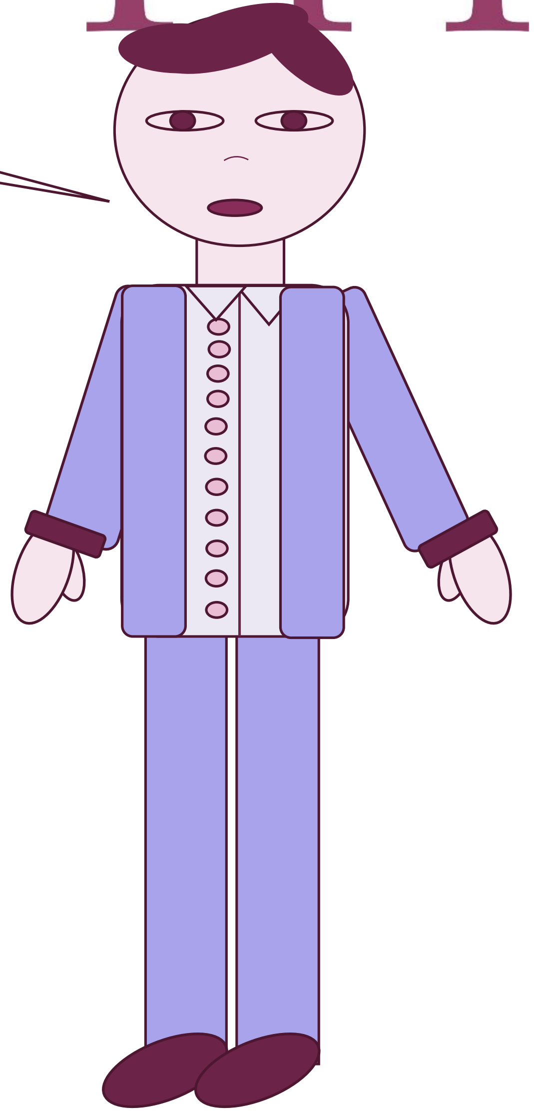
Master trusts
99.7%
Default funds
0.3%
Other
Group Personal Pensions
94%
Default funds
6%
Other

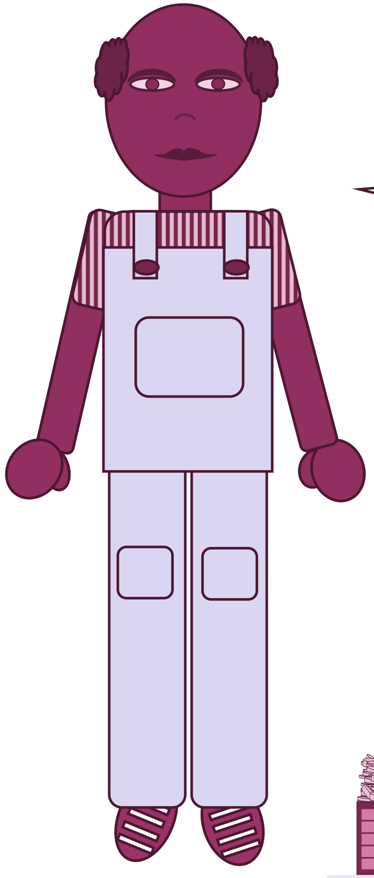
Diversified funds are least likely to experience a loss within the first five years…

…and are least likely to deliver very low returns…

**10th 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)**



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

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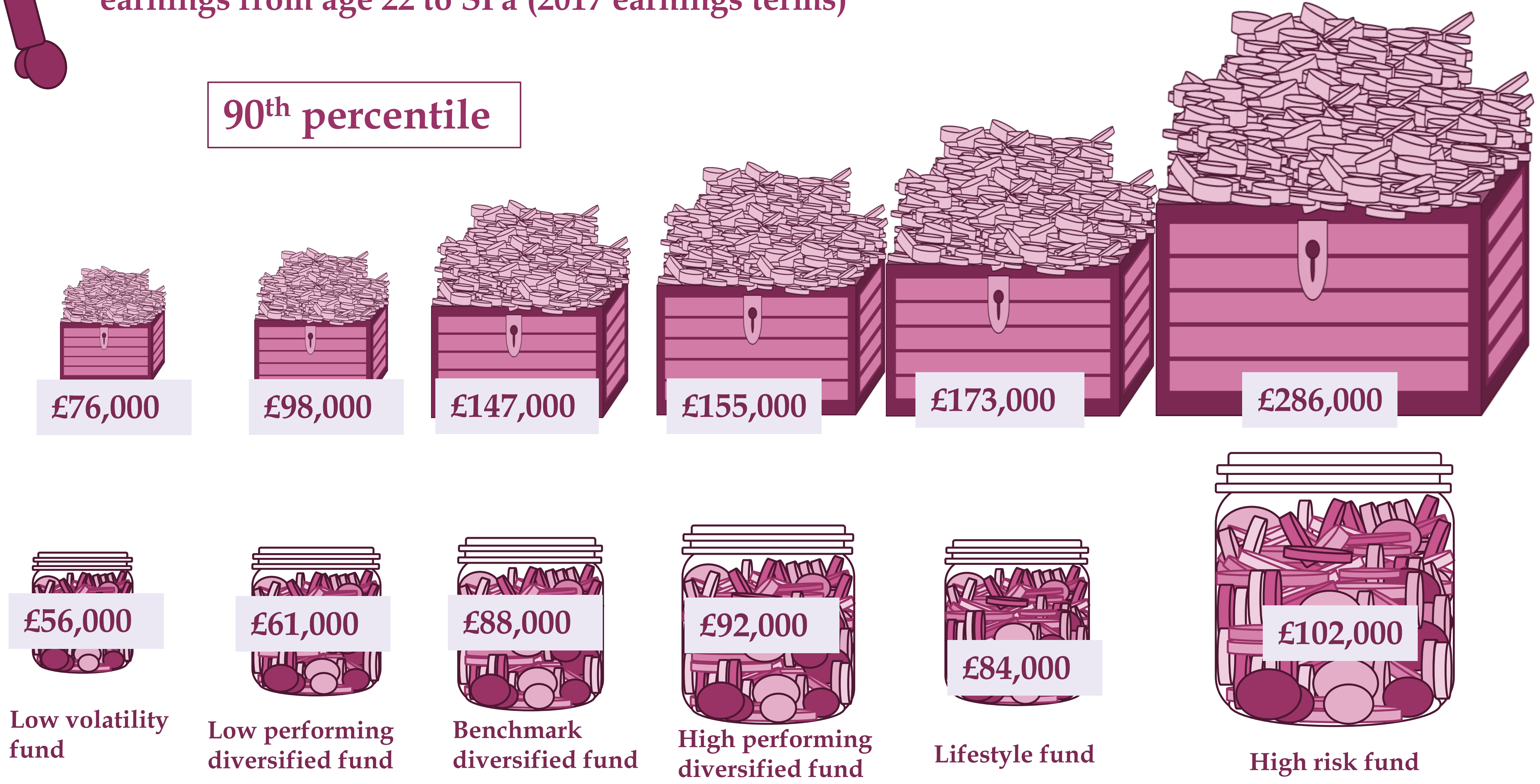
**Pot sizes at State Pension age for a median earning woman contributing 8% of band earnings from age 22 to SPa (2017 earnings terms)**

90th percentile



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# Questions for the future



- How will contribution increases affect participation rates?
- Do small employers receive sufficient support to comply with automatic enrolment?
- Can default funds be structured in a way that suits people with different needs and characteristics?