

The impact of defined contribution asset pooling: International evidence

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The impact of Defined Contribution asset pooling: International evidence

- The Defined Contribution market in the UK
- International evidence
- What could this mean for schemes and members in the UK?

The Defined Contribution (DC) market in the UK

- DC increasingly important
 - 12.8 million active members compared to 6.9 million active members in defined benefit
- Somewhat fragmented
 - 35,000 DC schemes
- Varying size and quality across the market
 - 90% of savers are members of schemes with >5,000 members
 - 90% of schemes have <12 members
- Master trusts becoming more prevalent
 - Introduction of AE
 - 59% enrolled into master trusts
- Members of smaller, older or non-qualifying schemes may benefit the most

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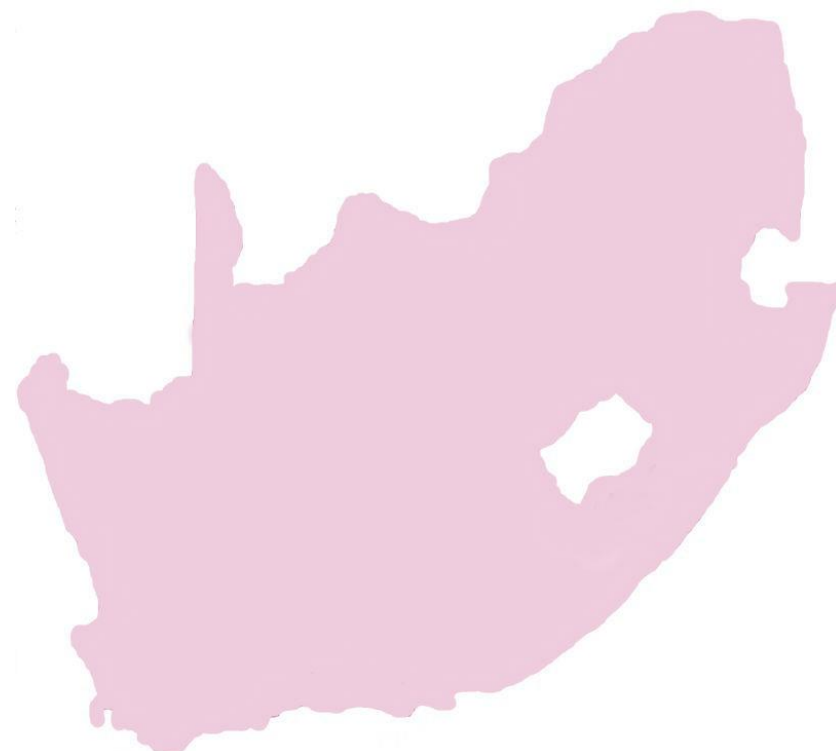
Australia

- 1996 – 2017 4,747 funds have reduced down to 233.
- Assets have grown from A\$262 billion to A\$2,324 billion.
- Funds with more than A\$20 billion assets under management (AUM) account for almost 50% of total assets.
- These larger funds can offer costs 40-55% lower than funds with AUM between A\$5 and A\$20 billion.
- 2001 – 2016 allocation to domestic equities almost halved from 38% to 21%.
- Allocation to alternatives more than doubled from 2% to 10%.



South Africa

- 2005 – 2017 13,000 funds have more than halved to 5,000, only 40% of which regularly receive contributions or make payments to members.
- Although charges are relatively high, some larger funds have benefited from increased scale and achieved charge rates closer to the UK average.
- Larger funds are more likely to be invested in alternatives and private equity, although small schemes reference unfamiliarity with the asset classes as a main barrier rather than insufficient scale.



Mexico

- 11 schemes, each with funds invested according to member age.
- 1998 – 2013 allocation to government securities has fallen from 97% to 51%.
- Average fees have decreased by around 0.7% since 2008.
- No clear correlation between fund size and returns, with largest afore ranked 10th out of 11.



Italy

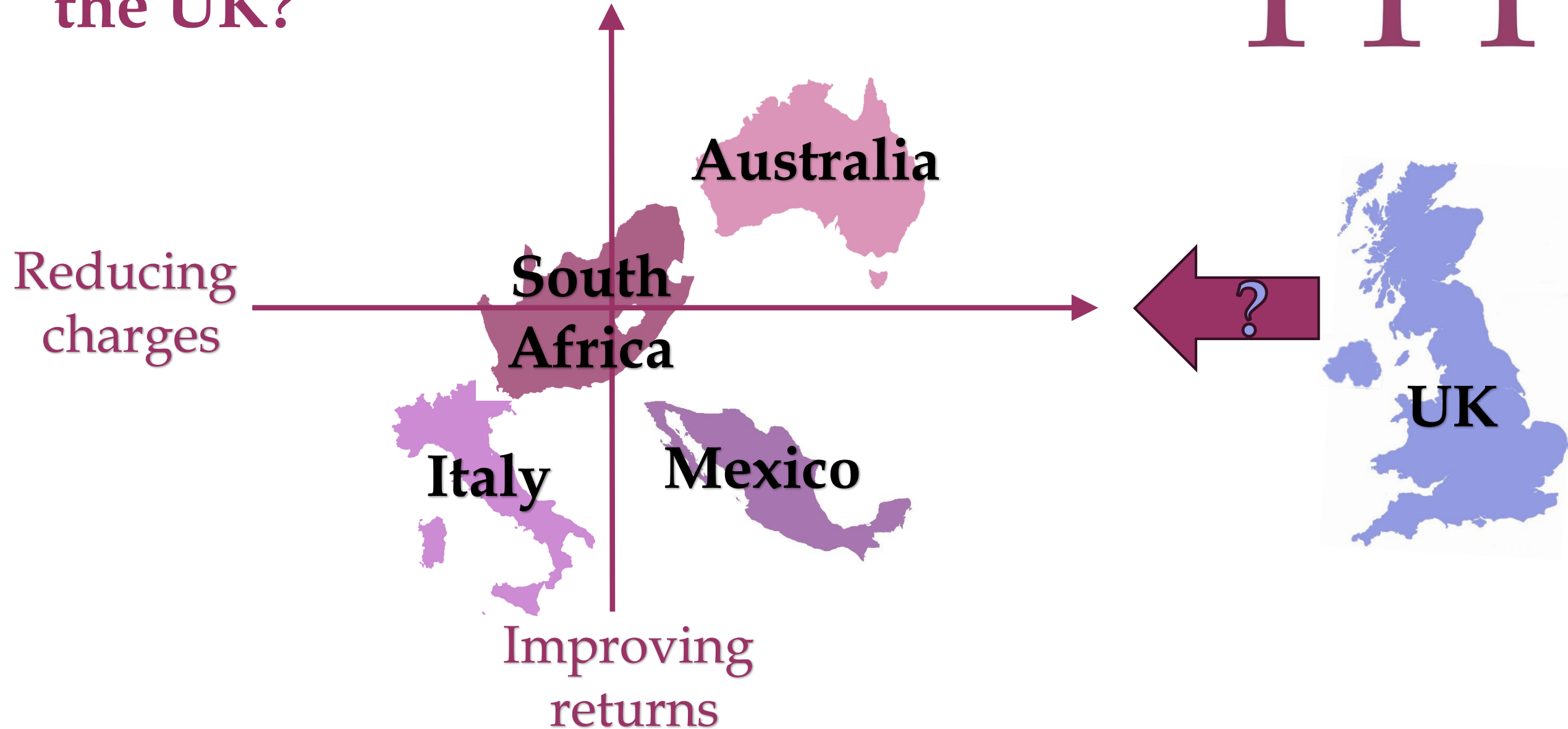
- Highly concentrated market – 12 larger funds, with more than 100,000 members each, make up 50% of the market.
- Average charge 1.42%, but larger funds with more than €450 million AUM charges nearly 0.2% lower than funds with less than €150 million.
- Low levels of AUM in the private sector pensions system as a whole may be limiting schemes' ability to fully access benefits of pooling.



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What could this mean for schemes in the UK?



What could this mean for scheme members?



Niamh

- Median earning female
- Aged 30 in 2017
- Works full-time from age 22 to State Pension age
- Contributes 8% total earnings (with employer)
- 5 year break from paid employment ages 50 to 55

-0.1% charges = +£2,600 (2.7%)

+0.35% returns = +£15,800 (16%)

+1.5% returns = +£60,600 (62%)

What could this mean for schemes in the UK?

- Evidence from overseas somewhat mixed ...
 - In all four countries there is some correlation between fund size and lower charges
 - Evidence of a link between fund size and performance is more varied
- ... there appears to be a direction of travel
- This could lead to better member outcomes
- Scheme benefits are largely down to the implementation of strategies with their increased scale, rather than by virtue of increased scale itself
- What are the potential barriers?
 - Daily pricing?
 - Regulation?

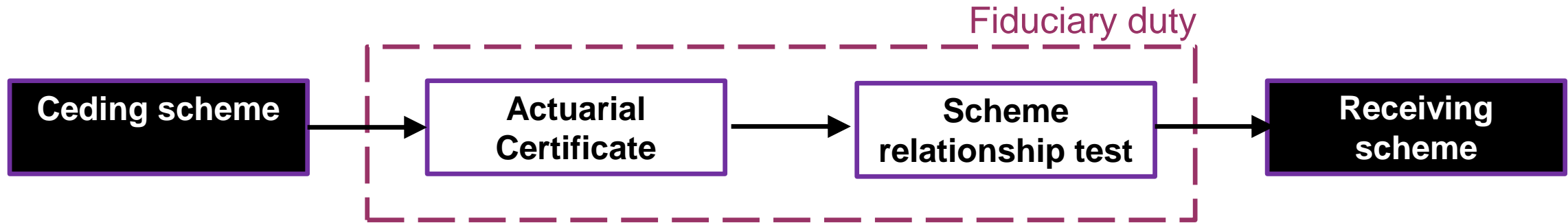
Presenting a Government view:

David Farrar

**DC Policy Lead – Investment, Governance and
Charges**

Department for Work and Pensions

Proposed – DB schemes and benefits with guarantees



Proposed – ‘Pure DC’ schemes

