PRESS RELEASE
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PENSIONS POLICY INSTITUTE
PPI

"Changes to DC pensions generate challenges for default options" says Pensions Policy Institute

The Pensions Policy Institute (PPI) is today publishing the second edition of *The Future Book: unravelling workplace pensions,* a report that sets out available data on the Defined Contribution (DC) pension landscape; projections of the future aggregate value of DC assets; as well as commentary and analysis of current trends. The Future Book is commissioned by Columbia Threadneedle Investments, and is the second edition of an annual publication.

Changes occurring within the Defined Contribution (DC) pension world mean that, in future, retirees will be: living longer; entitled to the state pension later; more likely to reach retirement with DC savings; and, have greater flexibility of access to DC savings from age 55.

Greater numbers of DC savers, coupled with this greater flexibility, will increase the level of risk that people with pension savings face at and during retirement. It is therefore important that comprehensive statistics and analysis of DC pension trends are available to help monitor and inform future policy.

Daniela Silcock, Head of Policy Research at the PPI said "The second edition of the Future Book confirms that following the new freedom and choice reforms, people are accessing DC savings in riskier ways. More people are taking their DC pension savings through lump sum withdrawals than through annuities or drawdown, both of which offer some in-built protections. On top of this, fewer of those who are purchasing annuity and drawdown products are using independent advice; and interest in transferring pension savings from safer Defined Benefit pensions into Defined Contribution schemes has more than doubled."

"While for some people, with very small pots, this behaviour may not carry much risk, those who are very dependent on their DC savings could end up with a lower income in retirement if they make choices unsuited to their circumstances."

"Prior to the new pension freedom reforms, the system for accessing pension savings was governed by various 'default' options. Now, while the saving phase is supported by defaults such as automatic enrolment and minimum contribution levels, there are no longer any default mechanisms for accessing DC savings."

In addition to this, some of the existing defaults within the saving phase, such as the structure of default funds, may no longer be appropriate for all savers. Alongside advice and support, default settings have an important role to play in helping consumers avoid risk and achieve better outcomes in the future. However, it will be difficult to design effective default choices to operate during both the saving and retirement phases, and that will suit people who might do an array of quite different things at retirement, from using all of their savings to purchase an annuity, to withdrawing in lump sums throughout their retirement."

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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.

2. *The Future Book: unravelling workplace pension* is the second 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 3) 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 and with assumptions about variation in employee behaviour. 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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With more than 2000 people including over 450 investment professionals based in North America, Europe and Asia, they manage £320 billion (€451 billion) of assets across developed and emerging market equities, fixed income, asset allocation solutions and alternatives.

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