

The Future Book: unravelling workplace pensions, second edition



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We'd like to thank...

**Columbia Threadneedle Investments
for commissioning this report**



The Future Book: unravelling workplace pensions

- What is The Future Book?
- Automatic enrolment update
- DC saving levels
- How are people behaving in the new landscape?
- Questions for the future

What is The Future Book?

The Future Book is:

- 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

The Future Book: unravelling workplace pensions

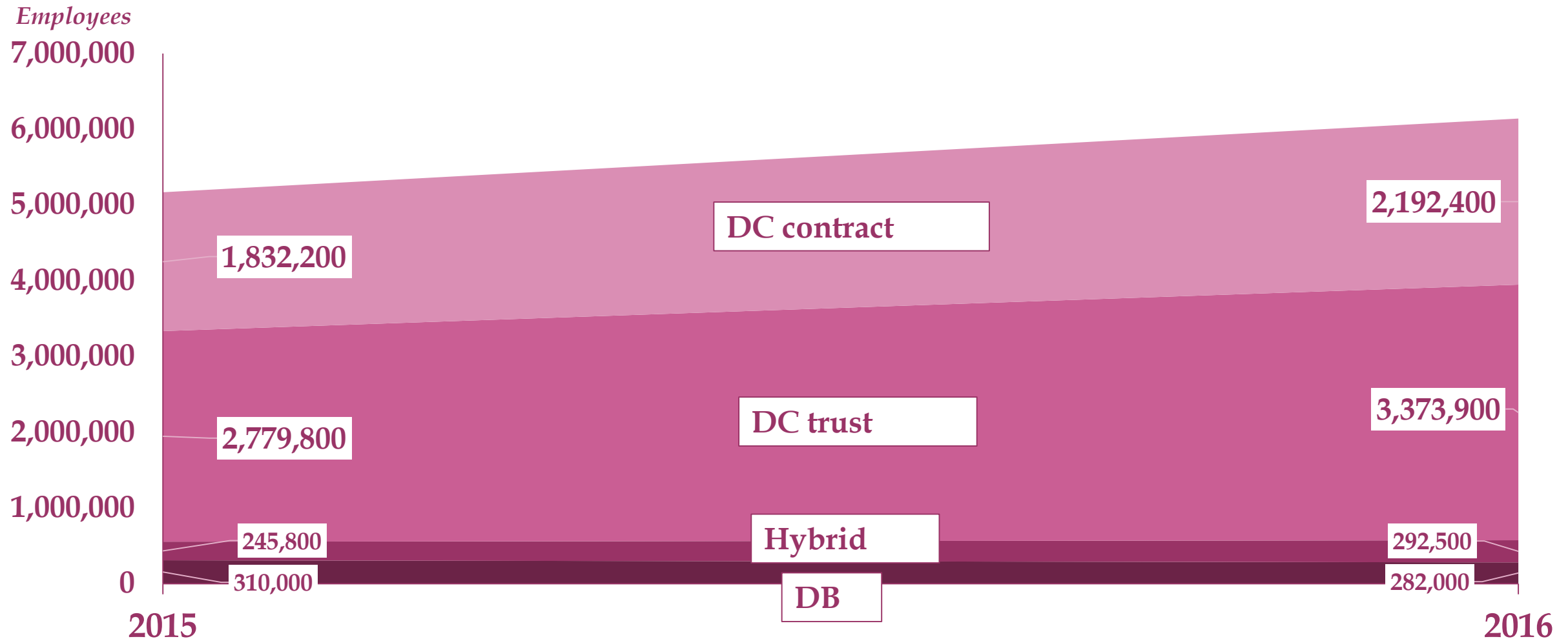
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Smaller employers are beginning to stage

- The number of *employees* going through the automatic enrolment process is reducing
- The number of *employers* going through the process is increasing
- Employees in smaller organisations are more likely to opt out

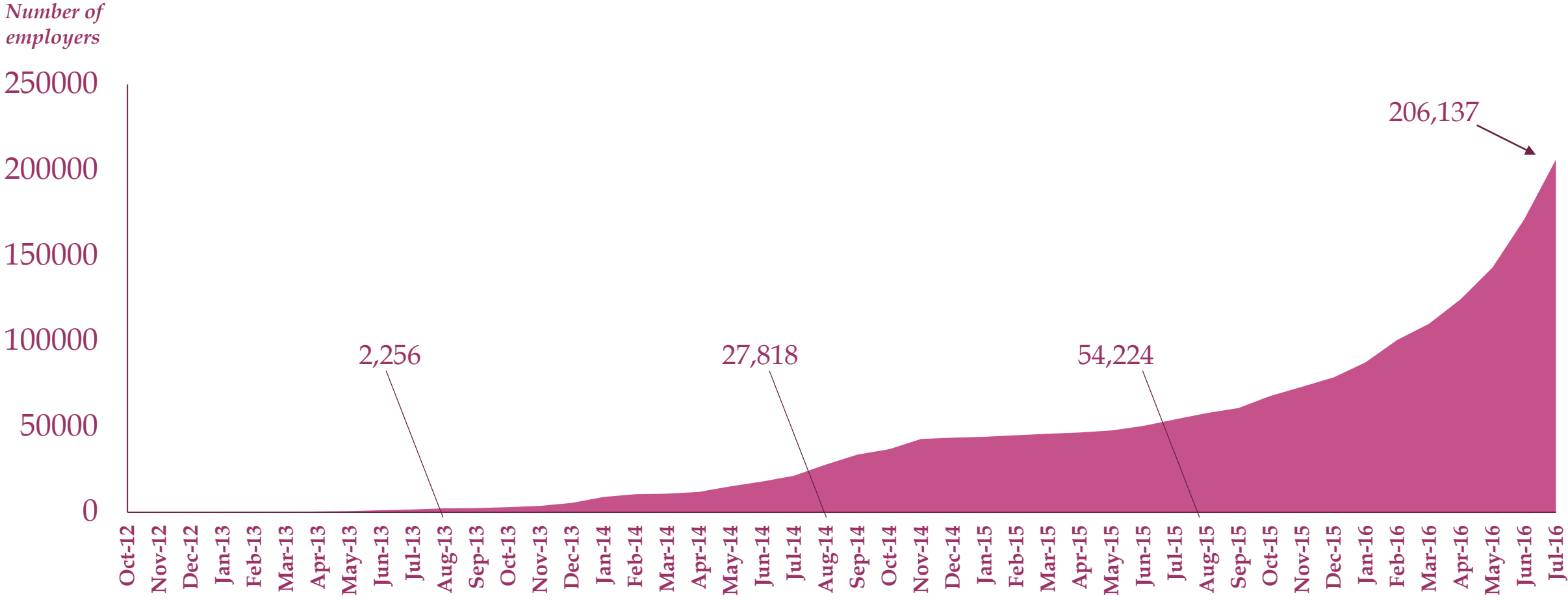
900,000 people have been automatically enrolled since March 2015

Employees automatically enrolled by March 2015 and March 2016, cumulative



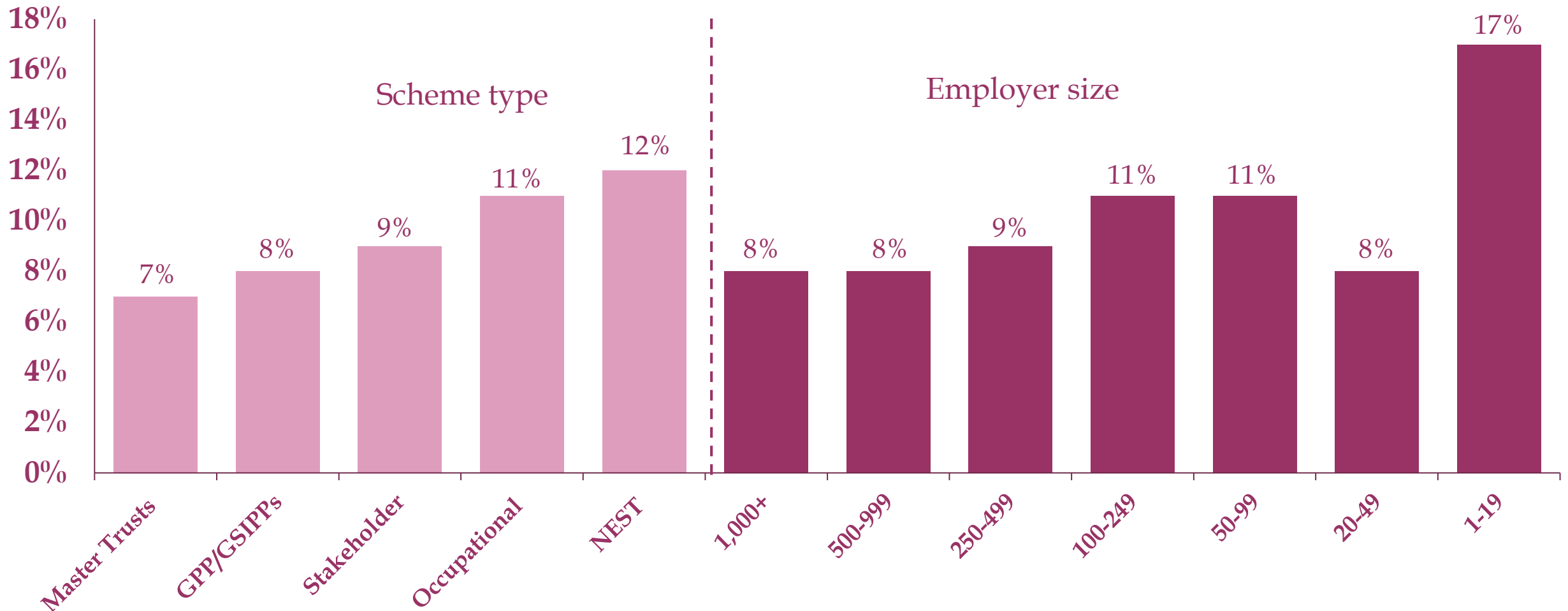
The number of employers going through the automatic enrolment process is increasing exponentially

Employers who completed automatic enrolment declarations of compliance by 31 July 2016 (cumulative)



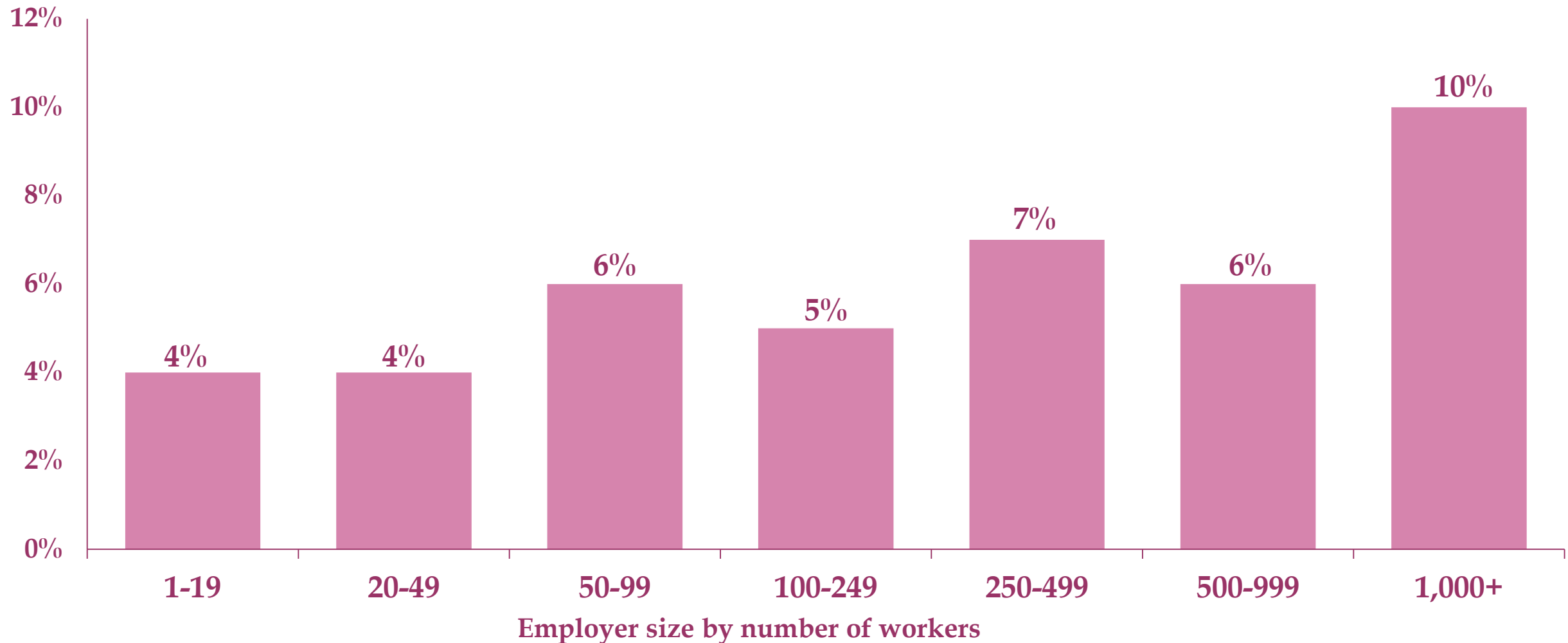
Those working for the smallest employers have the highest opt out rate at 17%

Opt outs by employer size and scheme type (2015)



Workers from larger employers are more likely to leave their pension scheme than workers from smaller employers

Proportion of members leaving pension scheme by employer size, 2015

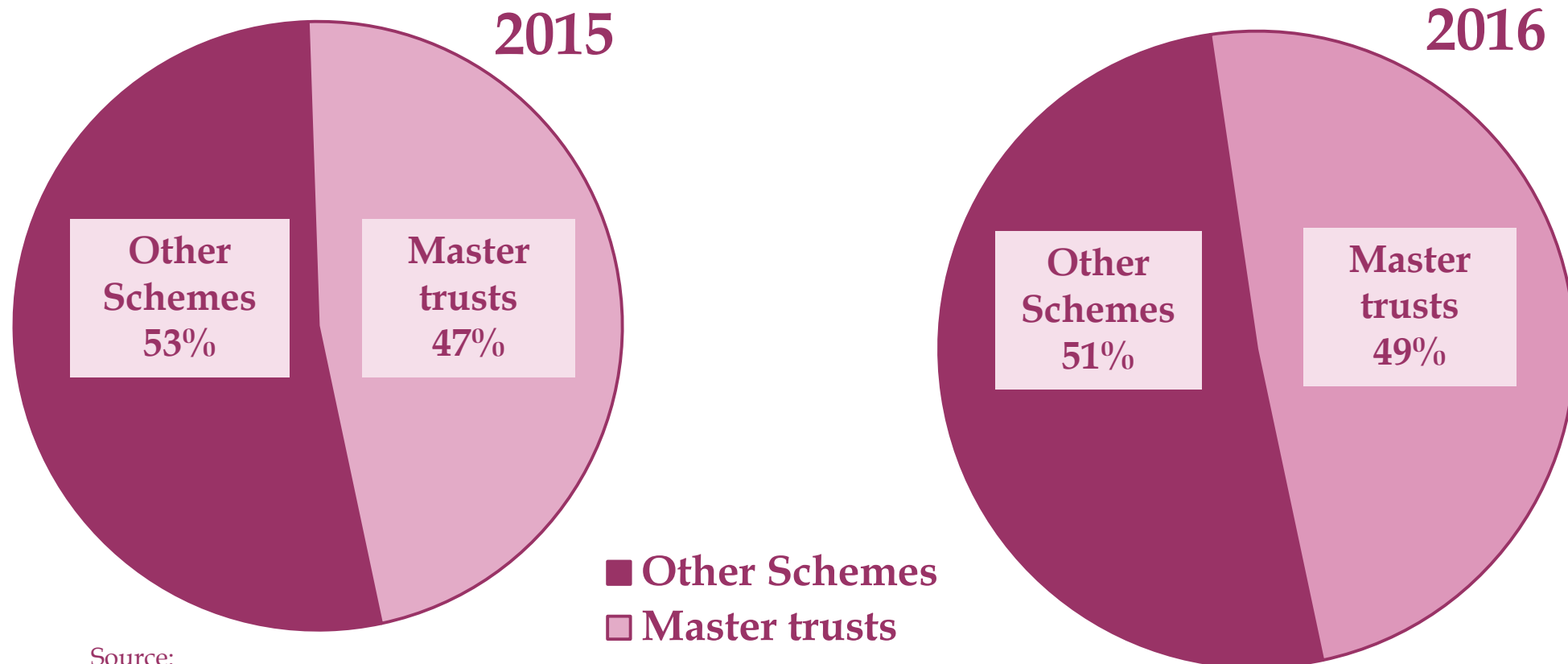


Master-trust enrolments are continuing to rise

- Master-trust enrolments are almost at 50% of automatic enrolments
- By 2030 half of all DC members could be in master-trust schemes

Nearly 50% of people are being auto-enrolled are in master trust schemes

Automatic enrolment by proportion of people to March 2015 and March 2016, by scheme type

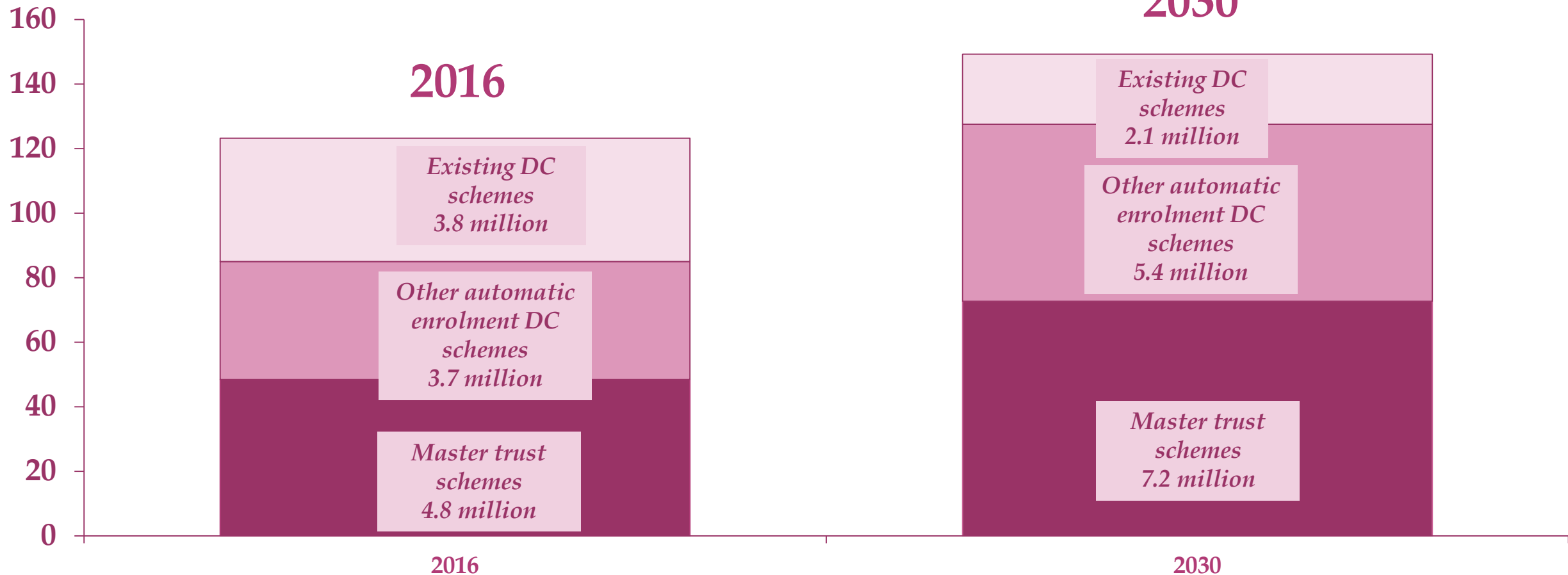


Source:
The Pensions Regulator

By 2030 50% of DC scheme members could be in master trust/multi-employer schemes

Workplace DC by scheme members in 2016 and 2030

Members in
100,000s



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More people are saving, bringing the average levels down

- More people are saving in DC pensions
- The average contribution and pot size has fallen
- Over time, these will rise again

Median employee contribution rates in DC schemes are decreasing

Median employee contribution rates to DC pensions by year



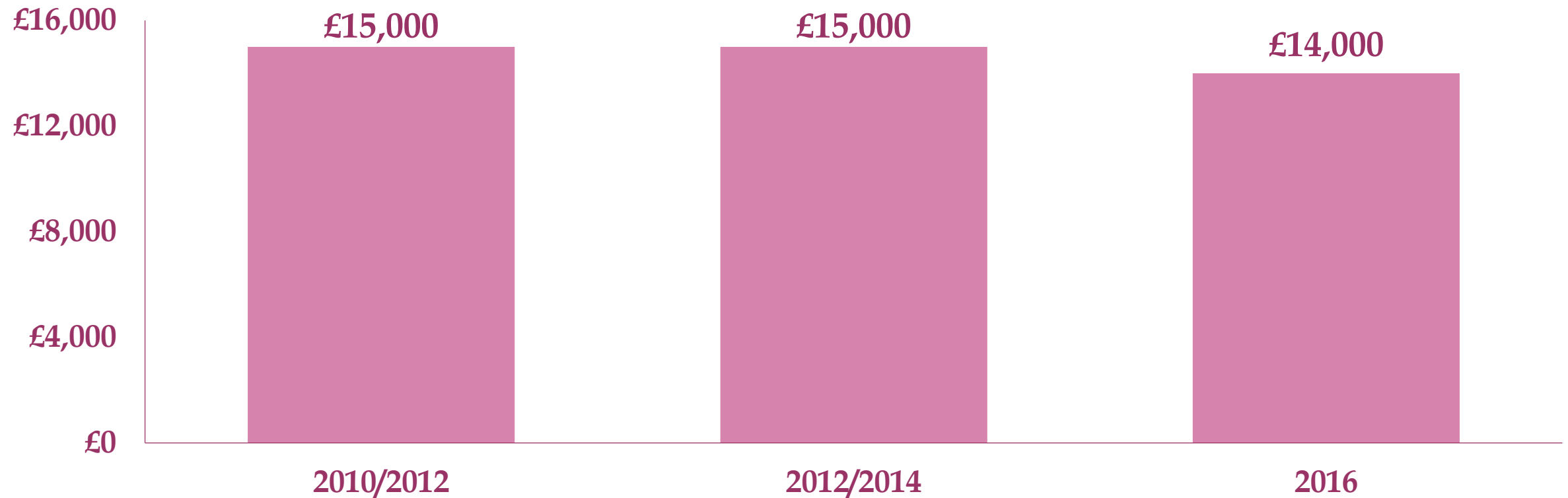
Median employer contribution rates in DC schemes are decreasing

Median employer contributions to DC pensions by year



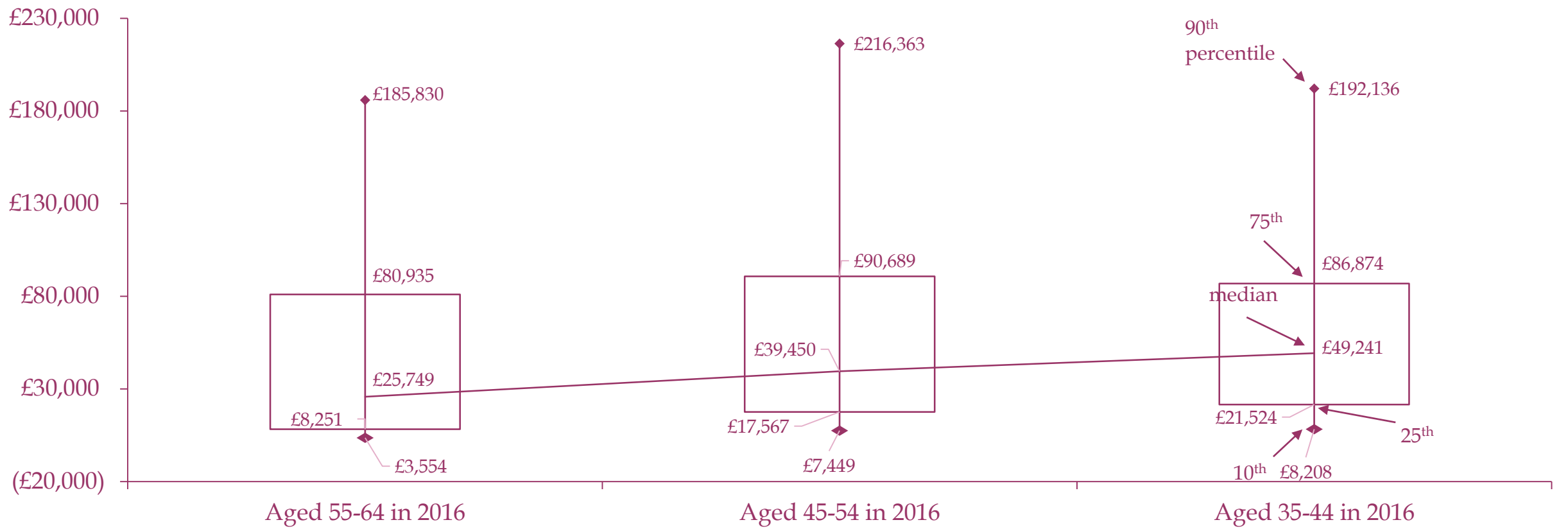
Median pension savings have decreased since 2010/2012

Median DC savings by group in 2010/2012, 2012/2014 and 2016 Great Britain, people aged 16 and over (includes both deferred and active savers)



Median DC pension pots at State Pension age could grow from around £26,000 today to around £49,000 over 20 years

Distribution of pension pot sizes at State Pension age for different cohorts (2016 earnings terms)



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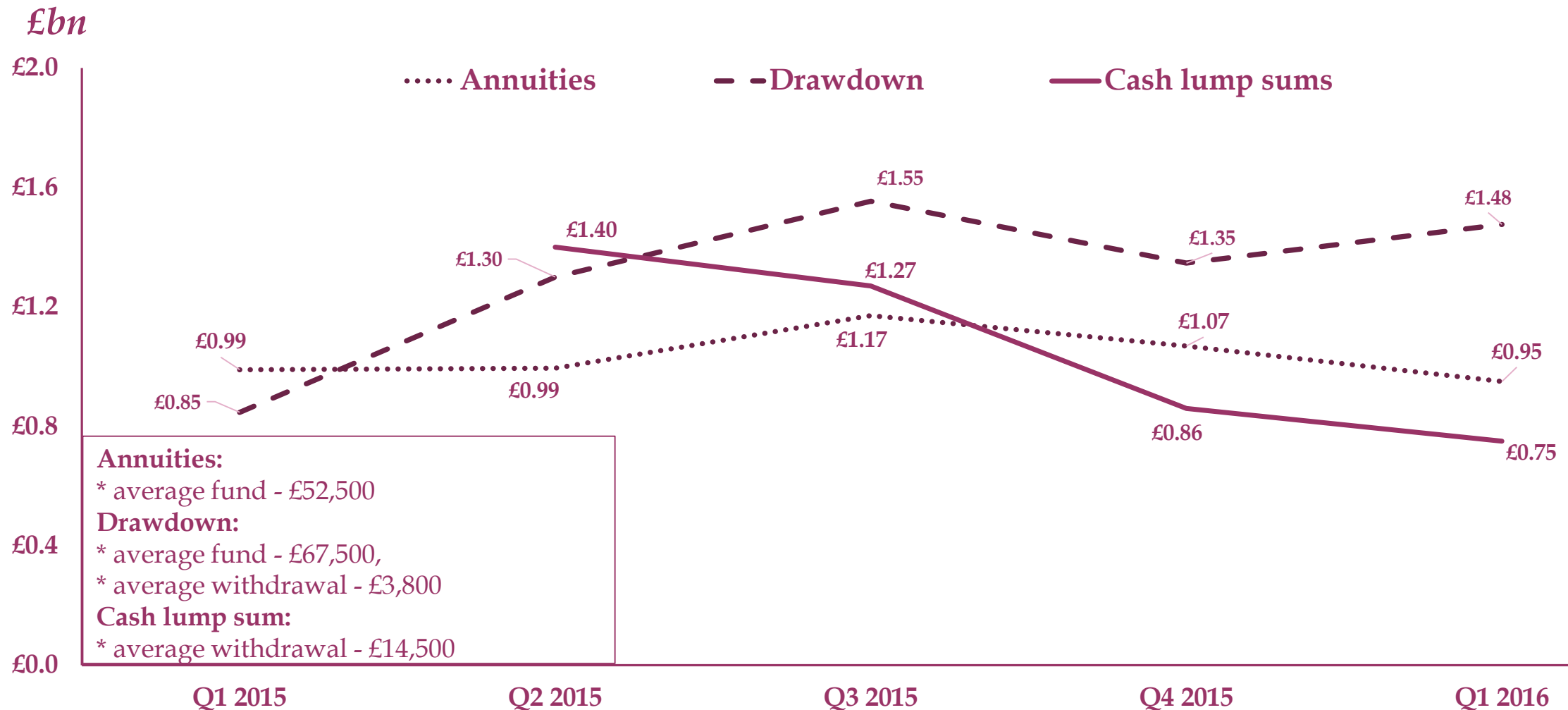
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Lump sums are more popular than drawdown or annuities

- 87,000 people took lump sums in Q1 2016, compared to 23,000 drawdown and 18,000 annuity contracts
- However, the value of funds being invested in drawdown is higher than for annuities or lump sums

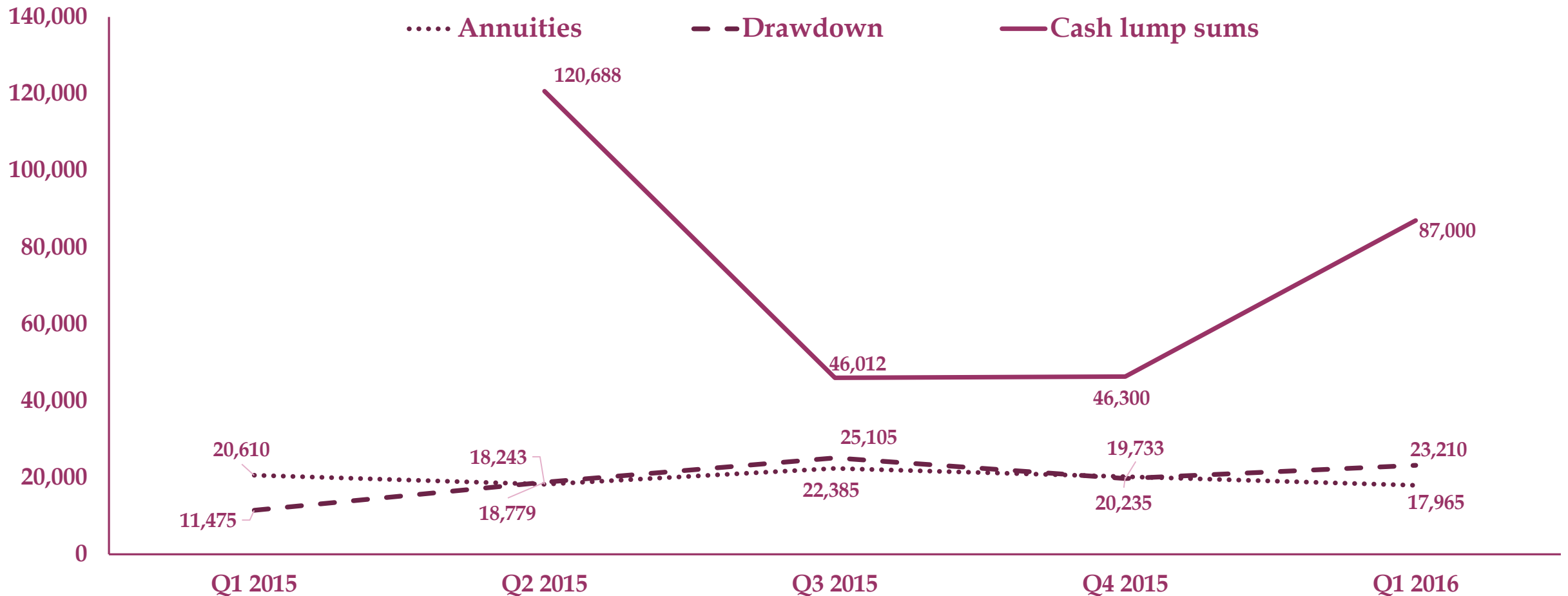
People are spending *more money* on drawdown products than on annuities or through lump sum withdrawals

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



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

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

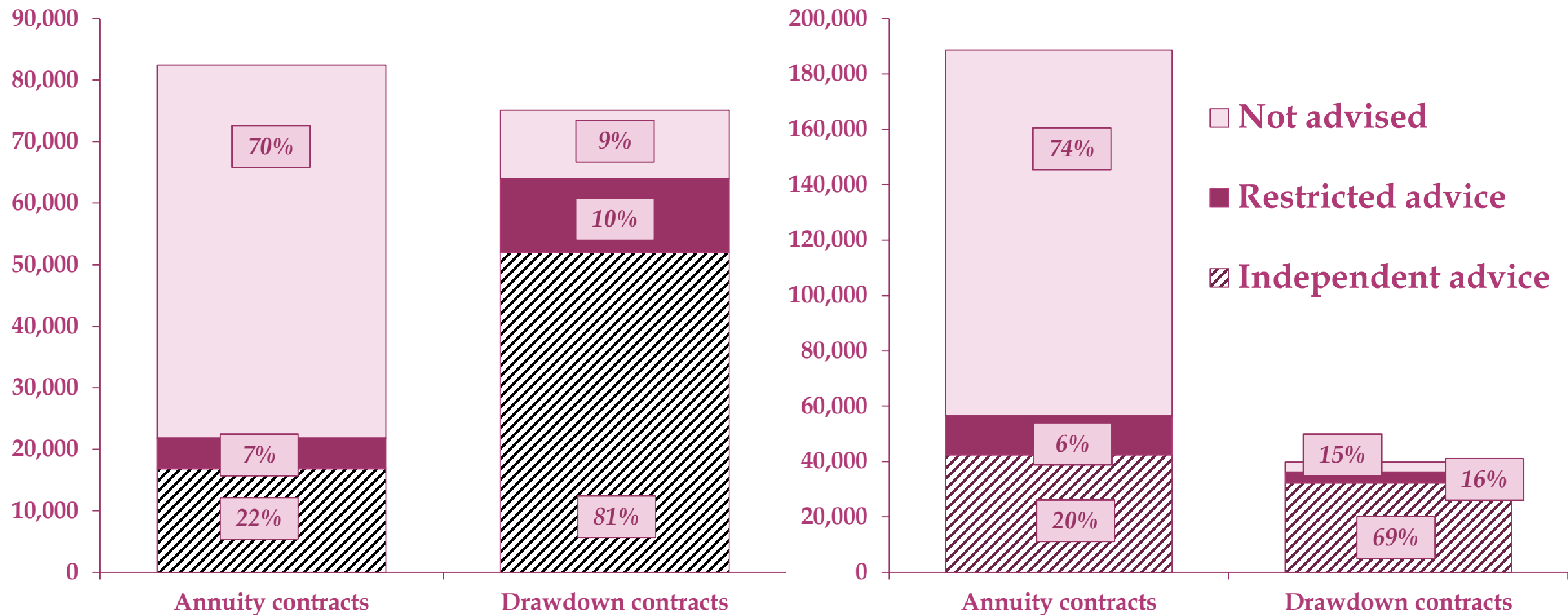


Are people are engaging in riskier behaviour when they access DC savings?

- Fewer people used advice when purchasing annuities or drawdown
- More people are accessing lump sums
- DB to DC transfer requests have tripled from new IFA customers and doubled from existing customers.

Between 2014 and 2015 the use of independent advice fell from 81% to 69% for drawdown sales and 22% to 20% for annuities

New annuity and drawdown contracts sold by ABI members



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Questions for the future

- Are higher opt-outs among smaller employers a significant issue?
- Will the master trust regulatory framework be sufficient to protect the savings of half of our future DC members?
- Are people engaging in riskier behavior when they access DC savings?