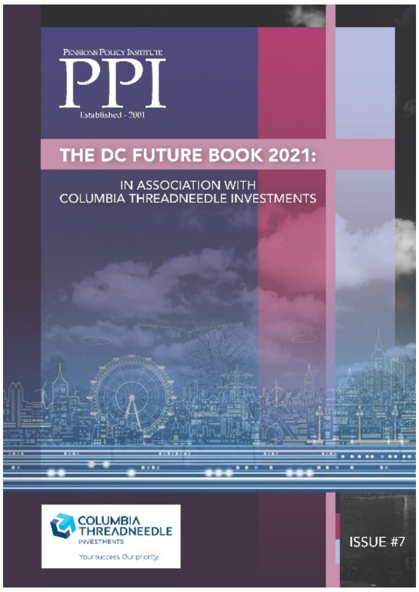
PPI Launch Event

The DC Future Book 2021

Launch write up:



The Pensions Policy Institute (PPI) held a policy seminar on 23rd September 2021 to launch The DC Future Book, sponsored by **Columbia Threadneedle Investments.** This report is the seventh edition in the Future Book series. The DC Future Book is an annual compendium that sets out available data on the DC landscape alongside commentary, analysis and projections of future trends. As well as tracking changes and trends in DC data over time, each year we also put a spotlight on an area of particular interest within the DC landscape.

The event was run as an online seminar with the key findings presented by lead researcher Lauren Wilkinson (PPI) and responses from the sponsors Chris Wagstaff (Columbia Threadneedle Investments). Toby Nangle (Columbia Threadneedle Investments) gave an overview of the investment outlook and aspects of CTI's investment strategy. Responses from the panel members include Andrew Brown (Columbia Threadneedle Investments), Sir Steve Webb (LCP & PPI Governor) and Louise Sivyer (The Pensions Regulator).

Around 60 people attended this event, representing a broad range of interests within Government, the investment industry, the pensions industry and the third sector attended the seminar. Chris Curry (PPI) chaired the event.

Presentation of key findings and responses to the report

Chris Wagstaff, Head of Pensions Investment & Education, Columbia Threadneedle Investments welcomed the attendees to the event on behalf of the report sponsors, Columbia Threadneedle Investments. Chris Explained why the DC future book is important as a reference document and as a potential catalyst for change in the pensions industry. Chris placed a particular interest on how Chapter Four looks at the impact of COVID-19 on DC investment markets.

Chris Curry, Director, PPI, introduced the report. Chris gave a brief overview of the DC future book, citing how Chapter Four is extremely topical. The topical nature of the report would hope to encourage discussion at the event. Chris then introduced Lauren Wilkinson, Senior Policy Researcher, PPI to present the findings of the report.

Lauren Wilkinson, Senior Policy Researcher, PPI, presented the key findings of the research. She thanked the contributions of both PPI and CTI towards the report. Lauren highlighted the way in which the long term nature of pension investments has meant that the impact of the pandemic on DC schemes has been small relative to the larger economy. However, it is still important to discuss ways of increasing resilience in future to better cope with unpredictable future crises.

Lauren outlined those positive trends associated with automatic enrolment have continued, with increasing numbers having been automatically enrolled and re-enrolled.
Trends of increasing opt-out rates resulting from the pandemic may need to be monitored going forward.

As a result of increases in minimum contributions and more time spent contributing under automatic enrolment, median DC pot sizes have increased. Lauren noted that the latest figures does not fully show the impact of the pandemic. She then discussed the latest changes in purchases of retirement products, with much fewer DC pension pots being accessed in 2020 compared to previous years. The changes highlighted could be a temporary effect due to the pandemic.

Lauren discussed lessons which could be learnt from the experiences and reactions of DC schemes to the COVID-19 pandemic. These include:

- An emphasis on the importance of health and labour practices
- The potential opportunities in investment
- The role of lifestyle strategies
- The variability between assets classes during the pandemic

Lauren concluded that DC schemes have seemed to be resilient during the pandemic. Given the landscape is now more stable, DC schemes may now carry out reviews of their investment strategies in light of their experience of the pandemic. Building resilience in the system can help protect from future unpredictable crises.

Chris Wagstaff, Head of Pensions Investment & Education, Columbia Threadneedle Investments, presented the sponsor's response to the research. Chris highlighted two key points from Chapter One. The need to revisit the future trajectory of State Pension age and the viability of means testing the State Pension. And the nature of contributions rates in DC schemes being a poor substitute compared to DB schemes.

Focusing on those ineligible for auto-enrolment, Chris discussed the benefits of removing the age of eligibility and removing the lower earnings threshold for Automatic Enrolment. He addressed the low level of minimum contributions and whether it is time to calculate contribution rates from the first pound as opposed to band earnings. Chris encouraged further monitoring of current Automatic Enrolment opt out rates as the full impact of the pandemic is not fully reflected in figures included in this year's edition. The sub-par median pot sizes are concerning. This may change due to potential increases in pot consolidation from the Pensions dashboard. Chris highlighted the concerns over the low numbers seeking independent financial advice, as well as 3,000 individuals transferring from DB and DC despite being advised not to by financial advisors.

Chris commended the quick response from governments and central banks for avoiding a global calamity for DC pension savers. He reiterated the need for continued monitoring due to the presence of unforecastable shocks in the future.

Toby Nangle, Global Head of Asset Allocations & Head of Multi Asset, EMEA, Columbia Threadneedle Investments gave an overview of the investment outlook and aspects of CTI's investment strategy. Toby discussed the experience of being an active asset allocator during the pandemic.

The hit to financial markets has been brief with evidence suggesting that members of DC scheme have not changed their plans. Asset allocations for Diversified growth funds, which act as a default fund, are adjusted to provide the best returns during the pandemic. Riskier assets were bought which gave better returns. These were then sold off as the market stabilized later during the pandemic. Toby emphasized how the riskier assets which portfolios invested into were also of higher quality (from stronger companies) and decreased exposure to the economic cycle.

Toby concluded by stating the potential benefits of active management to the overall fund size over the additional fees charged due to active management.

Panel discussion and Q&A

The following points were raised in the discussion, chaired by Chris Curry with a panel consisting of Lauren Wilkinson, Sir Steve Webb, Andrew Brown, and Louise Sivyer. This session was held under the Chatham House Rule and the views expressed do not necessarily reflect the views of the Pensions Policy Institute or panellists.

- Attitudes of retirees on advice at retirement: Retirees are unaware of the information an advisor can provide. Once they receive any advice, there is a positive impact on them. There needs to be a balance between the value of financial advice against of the cost of receiving it. The cost is generally perceived to be too expensive for most people.
- Outlook on DC pension savings as interest rates are likely to increase: We could see an increase in average pot sizes, but this may stagnate in the future. Further monitoring would be needed. Making use of tangible asset classes which would give long term returns are needed, alongside better diversification and better governance. Having really good risk management plans will help. This would include better liquidity assets in case money is taken out of the scheme.
- Safeguards on advice given on transfer values: Not enough customers value the financial advice given. Costings and pricing on transfer values should be transparent for customers giving them a better appreciation of the transfer value.

- Consumer engagement: A lot more is needed to be done with engagement. If engagement improves, more IFAs will be needed as more retirees seek advice. The role of the Pensions Dashboard would need to be considered for the topic of engagement.
- The potential of a mass market advice model and Robo-advice: This would be a good way to engage with younger savers. There may be a need for more education and research to determine the financial decisions people will be making. Engagement has been an issue for as long as 15 years. Encouraging tech giants such as Google to talk about pensions would probably make better progress in tackling issues associated with engagement.
- The potential of auto-appointment: Individuals must first see the value of it. The frequency of appointments must be considered on the guidance services. This could start making guidance the norm, normalising pensions to the general public. This could be implemented by setting up auto-appointments 5 years before retirement, before people have made their decision on accessing their money. It might be better to focus more on education in schools as opposed to auto-appointment. Appointments should be set up based on the individual instead of pension pots as an individual may have many pension pots. There is a role for employers to set up appointments, but they need the motivation to do so. There needs to be an increased importance to pension benefits. However, employers may not be suitable to organise appointments.
- The suitability of investment management reporting and the use of default funds for younger members: Need to understand the behaviour of younger individuals who may not know they have a pension. Therefore, they may not understand a suitable pension strategy early in their accumulation.