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## “Current high levels of inflation could be a catalyst for more effective DC investment strategies” says Pensions Policy Institute

The Pensions Policy Institute (PPI) has today (22<sup>nd</sup> September 2022) published the eighth edition of **The DC Future Book: in association with Columbia Threadneedle Investments**. The DC Future Book provides a detailed source of longitudinal analysis across the DC landscape, by which the implications of existing policy can be monitored, and in order to provide a solid evidence base for future innovation.

As well as analysis of key trends, some positive (continued growth in workplace pension participation and average DC pot sizes) and others less so (ongoing volatility in the way DC savers are accessing their pots and an emerging trend towards lower use of advice), this year's edition highlights the need for DC schemes to build greater resilience in order to respond to unexpected challenges that may disrupt existing trends. The report explores the ways in which current high levels of inflation may impact DC investment strategies across a range of asset classes, and how investment decision makers may respond to this challenge.



**Lauren Wilkinson, Senior Policy Researcher at the PPI** said “While the long-term nature of DC investment means that decision makers need to be pragmatic when making changes to investment strategy, if high levels of inflation are sustained, they may need to consider steps that can be taken to introduce greater inflation protection into their portfolios. This is unlikely to mean large-scale, rapid changes to investment strategy – especially considering the costs associated with making portfolio changes and the unpredictable nature of the current landscape. However, given that inflation has now risen to its highest level in 40 years, investors may want to reassess whether their strategy is suitable if inflation remains elevated going forward.

There is an opportunity for those DC scheme investors that are open to exploring a more diversified approach, to get to know their investments in more detail. Any changes to investment strategy need to be approached pragmatically, recognising the long investment horizons and full range of risks faced by the scheme, in order to protect member outcomes. Since the UK last experienced such high levels of inflation in the 1970s and 1980s, there has been a growth in accessible alternative classes that can potentially offer natural, implicit or explicit inflation protection, which may not have been fully explored due to the persistently low levels of inflation experienced up until recently.

From a more holistic and long-term perspective, current high levels of inflation could act as a catalyst for DC investment decision makers to reassess whether their strategy is resilient

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enough to withstand future unpredictable challenges that may realise underlying risks, as currently occurring in relation to inflation risk.”



**Andrew Brown, Client Relationship Director at Columbia Threadneedle Investments** commented: “The last 12 months have seen extraordinary challenges. Between the ongoing effects of the Covid-19 pandemic, the war in Ukraine and additional supply chain constraints, inflation in the UK has reached its highest level in 40 years. Against this background, DC governance bodies should be encouraged to consider inflation protection within members’ default funds. Less liquid real assets such as property and infrastructure can form part of a portfolio to manage this risk but are currently underutilised

within DC investment strategies.

An understanding of the assets classes in which schemes are invested and their differentiated responses to high levels of inflation has become particularly pertinent. The latest edition of *The DC Future Book* is a great source of information to help in this endeavour. We encourage the pensions industry and policy makers to continue to consider advances that provide future retirees with greater financial security.”

[To download this year’s report please click here.](#)

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## Notes for editors

1. **We are an independent educational research charity: The Pensions Policy Institute (PPI)** does not lobby for any particular solution, and we are not a think-tank taking politically influenced views. The PPI is an educational research charity, and have been providing non-political, independent comment and analysis on pensions policy and retirement income provision in the UK for over 20 years. Our aim is to improve information and understanding about pensions policy and retirement income provision through research and analysis, discussion, and publication. For news and other information about The PPI please visit [www.pensionspolicyinstitute.org.uk](http://www.pensionspolicyinstitute.org.uk)

2. **About The DC Future Book** - 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. Since its launch in 2015, the DC Future Book continues to promote a better understanding of the DC market in the UK. During its existence, the Future Book has been recognised by Savvy Investors in their annual awards and has been Highly Commended in the Best Pensions Paper (UK & Europe) in both 2018 and 2020. The DC Future Book has become an invaluable source of DC thought leadership.

As well as tracking changes and trends in DC data over time, each year The Future Book also puts a spotlight on an area of particular interest within the DC landscape.

3. **The DC Future Book** is produced annually<sup>1</sup> in association with Columbia Threadneedle Investments. Sponsorship has been given to help fund the research, and does not necessarily imply agreement with, or support for, the analysis or findings from the project.
4. **Columbia Threadneedle Investments** is a leading global asset manager, entrusted with £492bn<sup>2</sup> on behalf of individual, institutional and corporate clients around the world. We have more than 2500 people including over 650 investment professionals based in North America, Europe and Asia<sup>3</sup>. We offer our clients a wide range of strategies across equities, fixed income and alternatives, as well as specialist responsible investment

<sup>1</sup> [The DC Future Book 2015 - 2022](#)

<sup>2</sup> Source: Ameriprise Financial Q2 2022 earnings release

<sup>3</sup> As at 30 June 2022, Columbia Threadneedle Investments

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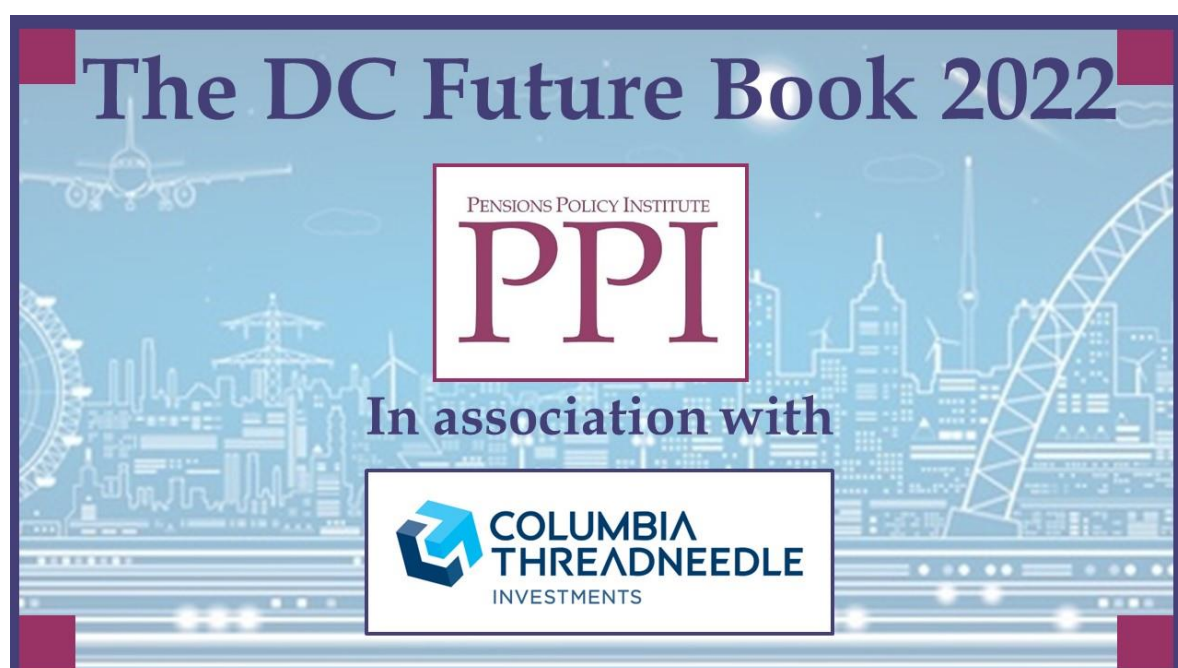
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