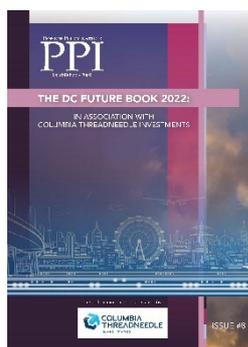


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The DC Future Book 2022: in association with Columbia Threadneedle Investments

Launch Event Write up



The Pensions Policy Institute (PPI) held a policy seminar on 22 September 2022 to launch [The DC Future Book 2022 edition, in association with Columbia Threadneedle Investments](#). The event was also hosted by Columbia Threadneedle Investments. The DC Future Book, now in its eighth edition, sets out available data on the DC landscape alongside commentary, analysis, and projections of future trends. As we see substantial cost of living increases impacting both those of working age and retirees, this year's edition explores the impact of inflationary increases on the DC landscape and investment strategies. It is important that a comprehensive compendium of DC statistics and data is available to allow observation of, and reaction to, developing trends.

Over 50 people representing a broad range of interests within Government, the investment industry, the pensions industry and the third sector attended the seminar.

Michaela Collet Jackson, Head of Distribution, EMEA, Columbia Threadneedle Investments gave a sponsor's welcome to the event. She set out some of the challenges faced by the DC pensions industry and its stakeholders. She discussed how the Future Book can kickstart policy discussion on some key areas of debate in pensions. She welcomed everyone and introduced the chair of the event.

Jonathan Stapleton, Editor-in-Chief, Professional Pensions and Workplace Savings & Benefits (WSB) chaired the event. He highlighted some of the themes explored in the current edition of the Future Book including the risks and complexities facing people retiring in the now and in the future. Johnathan remarked on how the Future book is developing into a longitudinal record of the DC pension landscape. He thanked Columbia Threadneedle for hosting the event and sponsoring the Future Book. He then introduced Lauren Wilkinson to present here results.

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Lauren Wilkinson, Senior Policy Researcher, Pensions Policy Institute presented the findings of the Future Book. She discussed the current trends identified in the report and presented some of the key data including participation rates, contribution rates and how these have developed since the beginning of automatic enrolment. She also discussed the possible impact of the cost of living increases on participation and contribution rates in the future. Lauren then went on to discuss trends in access to savings and the proportion of people taking advice when they are deciding on their decumulation strategy.

Chris Wagstaff, Head of Pensions and Investment Education, Columbia Threadneedle Investments delivered a prerecorded video message on behalf of the sponsor. He noted that DC pensions make something of a poor substitute for DB pensions for members. He noted the success of automatic enrolment since 2012 in getting people to participate in pension saving, while noting that nearly half the working population are ineligible for automatic enrolment. Addressing the inadequacy of current minimum contributions but also noting the difficulty in raising contributions during cost-of-living crisis, Chris suggested some automatic escalation mechanism may help improve outcomes for members.

He then discussed the asset allocation survey, noting continuingly high levels of active management and greater diversification, but with some way to go in embracing governance intensive and illiquid asset classes.

Chris then discussed issues around pension decumulation including the issue of advice, including people transferring dB funds into DC against advice.

Inflation impact on DC investment strategies. Sustained high inflation can reduce DC pots in real terms if investment returns don't at least match the inflation rate. He commented on the possible ineffectiveness of conventional economic policy levers in the face of rising energy costs, global supply chain issues and labour shortages. But he noted the danger of making large scale asset allocation shifts if the current conditions are more fleeting.

Paul Johnson CBE, Director, Institute for Fiscal Studies & PPI Governor delivered the keynote presentation.

Paul took a look over the time since the Pension Commission made the recommendations that have shaped current pension policy, noting how many things have changed in the backdrop to pension saving. This included lower real returns in investments, resurgence of inflation, removal of compulsory annuitisation, collapse in DB pension schemes, and a reduction in levels of home ownership in younger generations. He suggests that this backdrop shift means we should look at the way we approach pensions instead of ploughing on with policies developed in very different circumstances.

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Paul discussed the shift from DB to DC pensions and how it will affect the profile of pensioner incomes. He noted that as individuals with larger proportions of DC pensions retire this will shift the profile from State pension and a guaranteed DB income, to a slightly larger State Pension but a smaller DC pension pot, that may or may not be used for an income. He also noted that current pensioners have a high degree of inflation proofing in their retirement from the State Pension and a DB pension, but this is likely to reduce as DC pensions become more prominent for retirees.

Paul then demonstrated the difficulty people have in making decisions about retirement, he presented data showing that people significantly underestimate their mortality before retirement, but then later in their retirement they start to overestimate survival. He also pointed out that real costs don't tend to reduce as people get older, in fact many spend more.

Paul finished by suggesting that the change in profiles at retirement and the significant change in the societal circumstances lead to a need to reassess the pension policies in place.

Panel discussion and Q&A session

The following points were raised during the panel discussion chaired by Jonathan Stapleton and Q&A session, held under the Chatham House Rule. They do not necessarily reflect the views of the Pensions Policy Institute or all panellists.

The panel consisted of

Andrew Brown, Columbia Threadneedle Investments

Paul Johnson CBE, Institute for Fiscal Studies & PPI Governor

Lauren Wilkinson, PPI

Stephen McDonald, Which?

The following themes of discussion emerged:

Trends in consumer engagement if inflation is high

- Possibility that contributions may fall. But inertia has been seen to be a powerful force, so may stop high rates of opting out. And re-enrolment may bring those who do back in at which point they may be in a better position to afford contributions.
- Post retirement could be gloomier as people feeling under pressure may cash out, particularly those with multiple small pots, this could be a bad decision

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Discussion around consumer advice and options

- There was discussion around the reasons for a reduction in consumers, including the impact of Covid 19 in reducing face-to-face meetings and a lack of recognition of the benefit of advice.
- Also discussed was a choice architecture that could help guide consumer toward a good outcome.
- Member may do nothing or make bad decisions if they are unable to assess all the risk factors at retirement without advice. The possibility of the dashboard helping out was discussed, but it was noted that to make good use of the dashboard requires engagement.

Engagement and automatic enrolment

- The problem of how to get savers more engaged ahead of retirement when the success of automatic enrolment has relied upon inertia.
- The risk that some people who have been automatically enrolled and who have low levels of engagement may have false confidence about the retirement outcomes they are likely to achieve.
- The importance of thinking holistically about finances at and during retirement.

Other topics discussed included

- Tax relief on pension schemes
- Governance issues including Environmental Social and Governance focussed investing Value for money issues and the extent to which trustees and advisors have an obligation to lead the conversation

