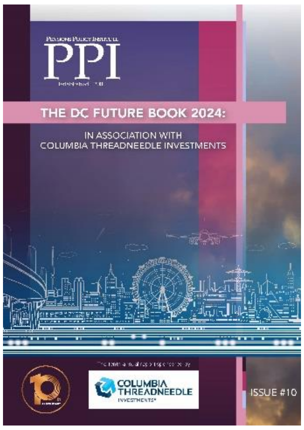
Launch Event Write Up

The DC Future Book: in association with Columbia Threadneedle Investments

Overview



On Thursday 26 September 2024, the PPI hosted a launch event for the 10th edition of the **DC Future Book: in association with Columbia Threadneedle Investments**. The event was hosted by Columbia Threadneedle Investments and chaired by **Jonathan Stapleton, Editor of Professional Pensions**. It was attended by over 60 people representing a cross section of the industry.

This year's report marked ten years of The DC Future Book and highlighted a crucial challenge that today's savers face greater risks than ever before.

The shift to Defined Contribution schemes has brought more individuals into pension saving, but it also means they must navigate more complex financial landscapes and make active informed decisions.

Mike Housden, Chief Commercial Officer, Columbia Threadneedle Investments welcomed everyone to the event.

Shantel Okello, Policy Researcher, PPI presented the key findings from the report. She gave an overview of the past ten years which were categorised by a shift from DB to DC and an increase in the number of active DC savers. She said that we expect more DC savers in future alongside technological advances, and more use of AI. A lot of current policy changes are focussed on mitigating risks and improving investment outcomes.

Shantel covered some DC and automatic enrolment stats and highlighted that:

- The number of ineligible people is now higher than those eligible. This highlights the need to look at policies which increase coverage.
- Opt-out rates have increased as a result of cost of living and other economic crises.
- Contribution rates are still lower than is required to achieve adequacy, though pot sizes have increased.
- Drawdown sales are up, annuity sales are down.
- More people are accessing their DC pots and there may be a surge because of cost of living rises – some people are using DC pots prior to State Pension age to supplement income.
- There is increased investment in alternative assets - in particular more investment in private markets.

Andrew Brown, Institutional Business Director, Columbia Threadneedle Investments gave a response to the research.

- He welcomed the tenth edition of this report series which he has been involved in since its inception.

- He discussed the impact of automatic enrolment on the working-age population, applauded the impact on coverage, but noted that it was worrying to see that there were 11 million ineligible employees. The number ineligible are disproportionately part time workers, many of whom are women, and that this increases the gender pensions gap. There are further concerns about the millions of self-employed people, most of whom are not saving and who are not eligible for automatic enrolment. Alongside this, it is worrying to see how little people contribute and how small DC pots are at retirement. Unless we see increases in current contribution levels, many people will fail to meet the PLSA's retirement living standards.
- Master Trusts are responsible for the retirement saving of most private sector workers going forward, but they have been focussed on price and the majority of assets are invested in passive funds. Members have little reference for what VFM looks like. It will be interesting to see how VFM evolves. Consolidation is not a panacea. We need to keep focussing on investments, private markets, ESG etc. How might LTAFs help? We also need more focus on social factors and their potential financial impact on investments. The biggest change over the past ten years has been Freedom and Choice. It shell shocked industry and how to decumulate is still a puzzle.
- He referenced the thought piece written by PPI intern Rosa Wright and the mention in this about rising house prices and wages not increasing as quickly. Also increases in economic inactivity and mental and physical health problems. 70% of Gen Z plan to work freelance. Gen Z think they will be laid off in traditional roles and be replaced by AI.
- There is a need for a cross-policy approach that intertwines pension savings with home ownership and contribution levels. These issues are pressing and we need to do something.

Steve Webb, Partner LCP & PPI Governor gave a keynote speech.

- The PPI Future Book is a cornucopia of facts and analysis. After it went to press the FCA published a new year's worth of figures on what people are doing. More people are buying annuities, as rates have gone up. 44% are cashing out in full, but numbers doing this have dropped. The use of financial advice has decreased. The FCA advice guidance boundary review is therefore very important. We need to get past the thought that all advisers are crooks. There is some real hesitancy by organisations to tell people when they are making poor decisions because of tax implications etc.
- The debate has moved on from whether 8% contributions are enough. The Government's pensions review needs to think bold and consider whether pensions are the right product to enrol people into. Sidecars might need to be part of auto enrolment. This seems like a helpful way to increase contributions of low earners. Also, if you implement the 2017 Automatic enrolment review proposals, the contributions of someone earning £12,000 per year would be doubled.
- There is a rising risk of private renting, so we need to integrate a housing purchase option rather than having a separate product. LISAs are not a good option; many are in cash and not invested. People with LISAs can't switch investments after age 40 and could be locked into cash for 20 years. Can we in good faith tell people that contributing to a pension is more important than saving for a house deposit?
- If we move up to 12% pension contributions, that could really bring hardship for people. It's actually good that so many people ae excluded from automatic enrolment. We don't want people on £6,000 a year saving into a pension. We need to be more creative than just saying let's increase contributions.
- Turning to Value for Money, the FCA has just under 200 indicators of VFM. There will be an enormous cost associated with generating the required data.

- There are concerns about the push towards investment in illiquids and productive finance. Especially as Value for Money outcomes will be measured through 1 to 5 year returns. Everyone will flock to the middle so they pass all the metrics and are green on a traffic light system. But that removes the impetus to improve. We need rainbow ratings to reward people for being creative.
- What if the public could see a scheme's VFM measure when they were looking where to consolidate their pots? At the moment it's providers with the best adverts that have the most popularity – if we could see the colour coding for these you'd see which schemes were actually good. That would create much better market dynamics.
- There is some real urgency for adequacy, we need to sort it out now. There isn't enough money going in and we need to help people with what they do with it coming out.

Panel discussion and Q&A

The panel included:

- Rob O'Carroll, (Department for work and Pensions)
- Lauren Wilkinson, (PPI)
- Andrew Brown, (Columbia Threadneedle Investment)
- Sir Steve Webb (LCP & PPI Governor)

Rob O'Carroll said - we've done amazingly ten years on from auto enrolment. The numbers of savers and assets growing is brilliant. But despite that there are gaps in coverage, sub optimal saving levels and therefore an imperative urgency for reform. Government's current priorities are around how this market provides VFM for savers. A review of pensions investment is the first part of that broad strategy, alongside extending CDC to multi-employer schemes. It will be important for all the strands to be brought together and sequenced in the best order.

Lauren Wilkinson said - it has been wonderful to be involved in the DC Future Book over the past five years. It's important that we don't forget the key issue of risk passing over from employers to employees, and that the shift from DB to DC means much lower contribution rates. We can't expect to achieve the same levels of adequacy for cheaper costs. Contributions need to increase if we are to see change. It's an exciting time and we are moving into an interesting landscape.

The following points were raised during the panel discussion and Q&A and the discussion was held under the Chatham House Rule

VFM

- VFM, it's hard to disagree with the desire to have a VFM framework, but why is it so over complicated/over-engineered? How can we report on all these data points? A lot of them measure nice experiences for members but not good outcomes.
- We want to move away from focus on costs to more holistic value. There's a trade-off about how much data you need to collect to do that in a valuable way. People should respond to the Government and Regulator if there are improvements that can be made. It is currently a consultation for that reason and it may go through several iterations.
- People are still really focussed on charges so it will be great if VFM can help change this.

HOUSING

- It would be great if phase two of the Government's pensions review can include a focus on hosing. But is there enough in pension pots to set aside money for housing? Are there other options, eg. making it easier to get mortgages, maybe allowing parental guarantees on mortgages? Can we use pension pots to solve the housing crisis?
- There's lots of money in LISAs. Let's incorporate these into a single product. We need to evolve pension products. But these products do need to be more attractive to younger savers.
- It will be helpful for young savers to not have to think about pensions in isolation but have it be part of housing. Many Gen Z are opting out because they want to save for a house and have low levels of faith in the system.
- Can we use a house saving element to increase minimum contribution rates?
- Enable people to get a foot on the housing ladder then figure out how to pay. But if they never get on the housing ladder that's an issue. We need to make that easier.
- If we increase pension scheme investment in housing infrastructure, we are killing two birds with one stone.
- The problem is a housing supply issue. If we allow people to use pensions to buy housing that will just increase house prices and be a transfer of money from young to old. That will weaken the pension system and not fix the housing issue. This needs to be fixed with tackling housing supply.

DISTRIBUTION

- It's great to see median DC pot levels building up, but what about distribution? Is the gap between large and small getting bigger?
- There's definitely a bigger gap growing for the underpensioned and those experiencing poorer outcomes from DC saving are seeing these get worse.

ADVICE AND GUIDANCE

- There are not enough people using pensions guidance or advice. Can we opt them in to some sort of support? We've got to integrate advice into schemes.
- When people get sent to Pension Wise they want to know why organisations are trying to stop them getting their money. But that doesn't mean that people know what to do.
- It's not always bad for people with small pots to cash out, but consolidating small pots into bigger pots makes them less likely to do so. Consolidation is the key to stopping people from cashing out small pots.

PENSIONS POLICY

- There are several regulators and Government departments making decisions that are not joined up. This makes it hard for industry to serve consumers.
- There are technical changes that need to be made and are being made by regulators and Government.
- Do we need a pensions commission? Not all commissions are successful – there were failed commissions on long term care.
- There are fundamental differences overall in pension attitudes, eg, gap between rich and poor. It will be hard to get the cross party consensus which would be required to effect change.

SELF EMPLOYED

- How do we engage the self-employed?
- It comes back to sidecar savings – we need to help self-employed people to engage flexibly and see that they can access liquid savings.
- The nature of self-employment has changed and it's now far more diverse. There are more young people and there are fewer people with their own employees.
- We need to use tax returns to access the self-employed, but if they automatically enrolled them some will opt out. High levels of inertia might mean that while it's a higher opt out rate a lot will stay in because automatic enrolment will help overcome the barriers of being too busy or not knowing what choices to make.

ADEQUACY

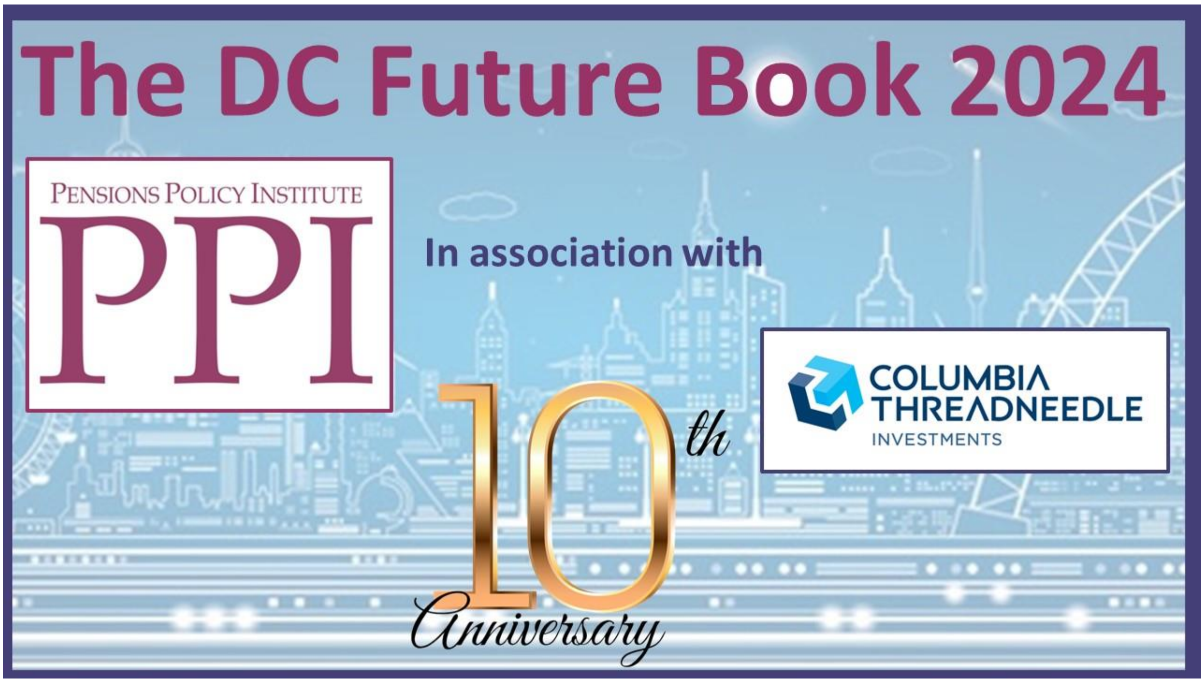
- Future pensioners will experience a big drop in living standards in retirement. A lot of people think they will be okay just because they are saving. How do we help people with engagement and financial literacy? The UK has very low levels of financial literacy. We need to start financial education at younger ages – but that won't help people who are saving too little right now.
- Are people expecting more than their pensions are going to give them? Many people who are enrolled at the minimum rate think it's basically a recommendation. Others bury their heads in the sand. People don't like thinking about getting older or whether they have enough – this is worrying because they often don't face up to it until they are in their 50s.
- Does the Pensions Review need to look at putting up contribution rates as well as implementing the 2017 automatic enrolment review recommendations?
- We are close to implementing the 2017 review recommendations now, let's not reopen the debate; let's get this reform through and then start looking at increasing contributions. What would be great is if the pensions review gave us an actual timetable for pension contribution increases.

PRODUCTIVE ASSETS

- What safeguards need to be in place to protect members under new investment objectives and what can be done to support more investment in private equity? There are risks with any investment and this type of investment will need to be considered on a risk/reward basis.
- The Government is looking to fund UK businesses with pension funds but trustees need to consider member outcomes rather than UK society. There needs to be more of an incentive, or it won't happen.
- Is enough being done on the demand side?

TAX RELIEF

- Is tax relief working to encourage pension saving? Most tax relief goes to higher earners. Higher earners don't need as much of an incentive.
- We need a DB (public sector) tax relief regime which is kept as it is currently and then a different regime for DC. We need to tilt tax relief benefits towards middle and lower middle earners in DC.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