PENSIONS AND LIFETIME SAVINGS ASSOCIATION

FACING THE FUTURE:

UK Workplace Pension Schemes Survey 2020

October 2020

INTRODUCTION

THIS 2020 SURVEY PROVIDES THE VIEWS AND INSIGHTS OF OVER 120 SENIOR STAFF WORKING IN WORKPLACE PENSIONS ACROSS THE UK, FROM A RANGE OF SECTORS AND SIZES.

The survey is unique in the insight it provides into the workplace pensions sector. Alongside indicators such as economic outlook and regulation, it provides key insight into areas of future decision making – such as future trends and challenges and technology. The results offer a deep understanding of the issues affecting the UK pensions sector and pension savers today and shines a light on the outlook ahead.

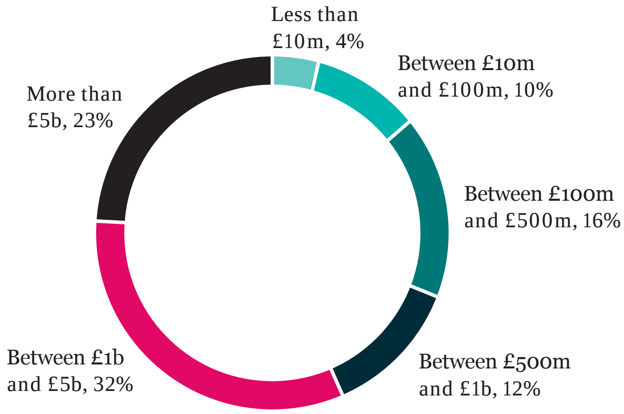
ABOUT THE PLSA

Our mission is to help everyone achieve a better income in retirement. We work to get more people and money into retirement savings, to get more value out of those savings and to build the confidence and understanding of savers.

We represent the defined benefit (DB), defined contribution (DC), master trust and local authority pension schemes that together provide a retirement income to more than 30 million savers in the UK and invest over £1.3 trillion in the UK and abroad. Our members also include asset managers, consultants, law firms, fintechs and others who play an influential role in the governance, investment, administration and management of people's financial futures.

ABOUT THE RESEARCH

The research was commissioned by the PLSA and conducted independently by IFF Research. It was conducted in August 2020 and comprised 129 interviews with PLSA members who represent a wide range of scheme types and sizes. More than half came from schemes with AUM greater than £1 billion.



Respondents were senior representatives of schemes (e.g. CEOs, Heads of Pensions, Directors, etc). The research used a mixed-methodology approach consisting of an online survey and telephone survey. Tables and analysis were provided by IFF research and the report was produced by the PLSA.

EXECUTIVE SUMMARY

THE UK WORKPLACE PENSIONS SECTOR IN 2020

- **Pension participation**: The introduction of automatic enrolment in 2012 means more people participate in a UK workplace pension than ever before. Around three quarters (77%) of UK employees are members of a workplace pension scheme, up from just under half (47%) in 2012.
- **DC and DB pensions**: Growth of DC pensions has continued with automatic enrolment and there are a total of 18.2 million members who are in DC schemes. More than 4 in 5 employers are automatically enrolling their employees into DC master trust schemes. By contrast, there are just over 10 million members in private sector DB Schemes, around half of which are closed to new members.
- **Pension wealth**: Total private sector pension wealth in Great Britain was £6.1 trillion in April 2016 to March 2018[1] (42% of total wealth), up from £3.6 trillion (34% of total wealth) a decade ago. Four-fifths of active pension wealth (i.e. where people are regularly contributing) is held in occupational DB pensions, a proportion that has remained largely unchanged over time.
- **Contribution levels**: More employers and employees are contributing at a higher rate (likely driven by the increased automatic enrolment minimum threshold limits introduced in April 2019), but there remains a strong contrast between DB and DC contributions. For private sector DB schemes, the average total contribution rate was 25.6% of pensionable earnings, split between members (6.4%) and employers (19.2%). For private DC schemes, in 2018 the average total contribution rate was 5.0% of pensionable earnings, split between members (2.7%) and employers (2.4%).[2]

ECONOMIC OUTLOOK

- **Growth prospects**: 76% of PLSA members said they were not expecting to see economic growth in the UK over the next 12 months. More than half (53%) of survey respondents expected the economy to grow again in the next three years. This proportion rises to three quarters (74%) over five years.

DESIGN OF THE PENSION SYSTEM

- **State Pension**: Most pension funds (63%) believe that the level of the State Pension (with the triple lock annual increases), is currently about right.
- **AE contributions**: Automatic enrolment has been a huge success in getting most employed people saving for retirement. However, just 3% of those with only defined contribution pensions are likely to achieve the required pension income identified by the Pensions Commission. More than three-quarters (76%) of PLSA members surveyed said that the current contribution level of 8% under AE is too low.
- **Drawing money out – the Pensions Freedoms**: Two fifths (43%) of members said that the Pensions Freedoms should be reformed, most often through the provision of better guidance and advice (30%), being better regulated (20%) and through controls on how much can be withdrawn (11%).

1 Pension wealth in Great Britain: April 2016 to March 2018, ONS, December 2019

2 Pension wealth in Great Britain: April 2016 to March 2018, ONS, December 2019

KEY CHALLENGES

Our survey found two key challenges for the UK workplace pensions sector in 2020:

- **Covid-19**: A third of survey respondents (33%) said they were concerned the coronavirus would lead to a drop in pension contributions as companies fail and employment becomes less secure. This could see a substantial rise in the number of workplace pension schemes moving to the Pension Protection Fund (PPF).
- **Regulation**: The majority of PLSA members (71%) considered current regulation of the UK pensions system to be too burdensome, while a quarter (26%) felt that current regulation was about right. Over the last 12 months, the changes to TPR's supervisory approach was considered to be the most impactful regulatory change on pension schemes (36%).

FUTURE TRENDS FOR WORKPLACE PENSIONS: THE NEXT FIVE YEARS

- **Consolidation**: The most anticipated trend in the pensions industry over the next five years was the consolidation of the industry: 48% of members said this was the most significant future trend.
- **The role of technology**: 50% of members we surveyed were currently investing in technology for pensions schemes or planning to do so over the next 12 months. Improving saver engagement (42%) was the most anticipated impact of technology on the sector over the next five years, while improving understanding of pensions was the second most anticipated impact.
- **Addressing climate change**: Over a third (36%) of survey respondents identified climate change and ESG investments as another major trend. The most common reasons given were because it was felt to be an important cause for society (particularly climate change) and because such investments can offer high returns.
- **Pension saver engagement**: One of the biggest issues facing the UK is how to better engage individuals to save for and plan their future. Over half (53%) of respondents identified the pensions dashboard as the initiative most likely to be effective in improving member engagement. The mid-life MOT (26%) and PLSA's Retirement Living Standards (24%) were identified as other effective initiatives that could increase pension saver engagement.

CONCLUSION

Despite the uncertainties created by Covid-19, pension schemes are facing the challenges of the future: engaging with the trend towards consolidation; seeking ways of harnessing new technology to help savers understand retirement income; and taking steps to deal with climate change.

THE UK WORKPLACE PENSIONS SECTOR IN 2020 – AN OVERVIEW

GREATER PARTICIPATION

More people are able to participate in a workplace pension than ever before. Around three quarters (77%) of UK employees are members of a workplace pension scheme, up from just under half (47%) when automatic enrolment began in 2012.[3]

The introduction of auto-enrolment in 2012 paved the way for a huge increase in workplace pension participation bringing it up from 55% of eligible employees (10.7 million people) at the start of AE to the current level of 88% today (19.2 million people).[4] There is higher coverage in the public sector (92%) compared to the private sector (86%) and among full time employees (89%) compared to part time employees (83%) [DWP, June 2020]. There has also been a significant growth among non-eligible employees with an increase from 16% in 2012/13 to 32% in 2018/19 [TPR, 2019].

Around 30% of UK adults (15.1 million people) are not retired and are currently not saving into a pension (FCA, 2020). Some of these people do not work or have an income from employment, some are working but do not meet the eligibility criteria for automatic enrolment, i.e. between the ages of 22 and 65 and earning £10,000 per year from a single employment.

DB TO DC CONTINUES, INCREASINGLY IN MASTER TRUSTS

DC growth has continued with automatic enrolment, within which there has been continued strong growth in master trust membership with more than 4 in 5 employers automatically enrolling their employees into such a scheme [PPI/TPR, 2019]. They now account for around 16.6 million memberships out of a total of 18.2 million.[5]

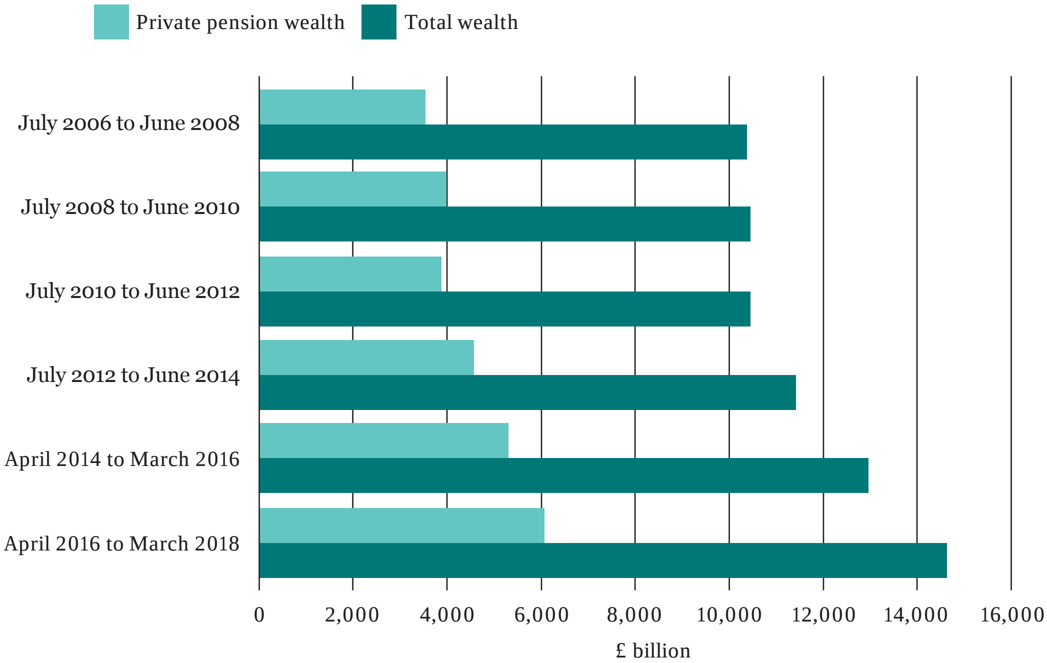
As at end March 2019, only 11% of DB/hybrid schemes remained open to new members and 44% of memberships are in schemes which are closed to new members.[6] From an overall total of 10.1 million members in private sector DB schemes, there are just over 1 million active members, 596,000 are in open schemes and 503,000 in schemes closed to new members.[7] There is a significant difference between the public and private sectors: the latter having only 10% active memberships compared with 37% of those in public service schemes.[8]

3 Employee workplace pensions in the UK: 2019 provisional and 2018 final results, ONS, March 2020
4 Workplace Pension Participation and Savings Trends of Eligible Employees Official Statistics: 2009 to 2019, Department for Work and Pensions, June 2020
5 The Pensions Regulator Scheme return data 2019-2020 February 2020
6 Purple Book 2019, Pension Protection Fund, January 2020
7 Purple Book 2019, Pension Protection Fund, January 2020
8 The DB Landscape: DB pensions 2019, The Pensions Regulator, January 2020 https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/db-pensions-landscape-2019.ashx

PENSION WEALTH GROWTH

Total private pension wealth in Great Britain was £6.1 trillion in April 2016 to March 2018[9] (42% of total wealth), up from £3.6 trillion (34% of total wealth) a decade ago.

Aggregate private pension wealth and aggregate wealth (inflation adjusted), Great Britain, July 2006 to March 2018

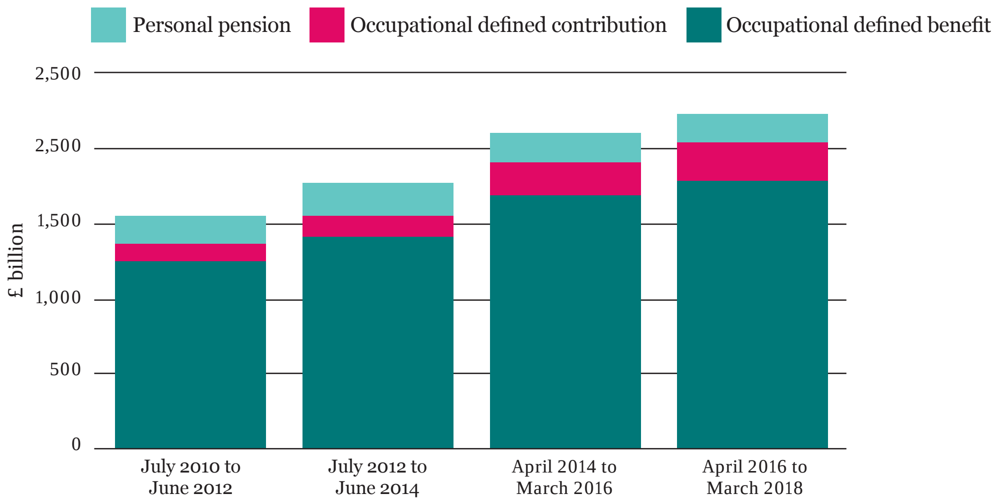


Source: Office for National Statistics - Wealth and Assets Survey

The majority of pension wealth is held within DB schemes. Currently, four-fifths of active pension wealth (i.e. where people are regularly contributing to either an occupational defined benefit or defined contribution pension) is held in occupational DB pensions, a proportion that has remained largely unchanged over time.[10]

9 Pension wealth in Great Britain: April 2016 to March 2018, ONS, December 2019
10 Pension wealth in Great Britain: April 2016 to March 2018, ONS, December 2019

Breakdown of aggregate active pension wealth by pension type, Great Britain, July 2010 to March 2018



Source: Office for National Statistics - Wealth and Assets Survey

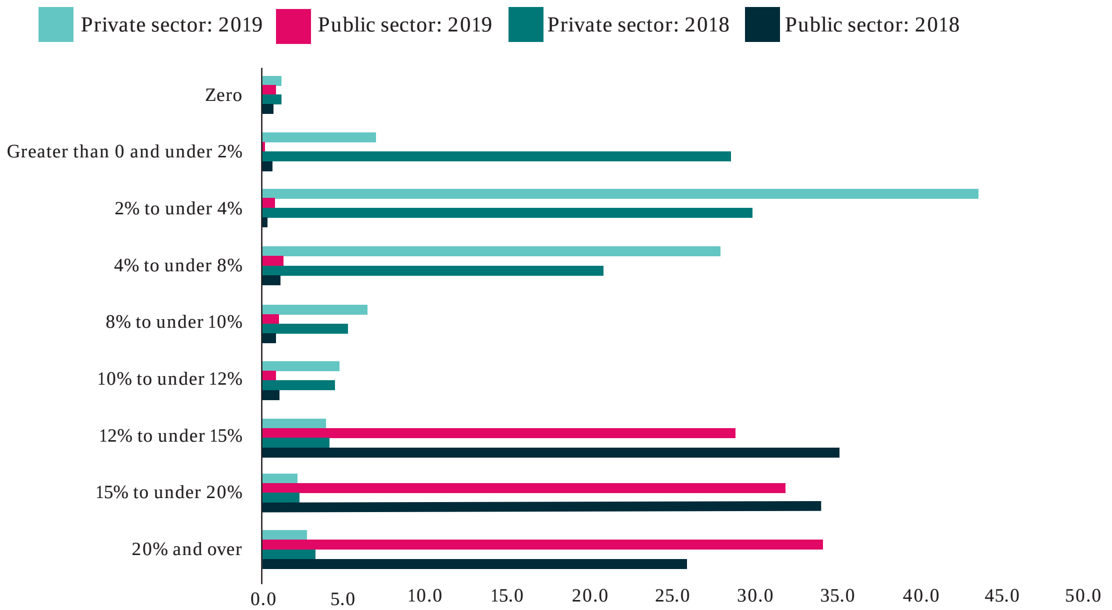
DISPARITY IN CONTRIBUTION RATES ACROSS SCHEME TYPES

Data from 2018[11] shows that for private DB schemes, the average total contribution rate was 25.6% of pensionable earnings, split between members (6.4%) and employers (19.2%). For private DC schemes, the average total contribution rate was 5.0% of pensionable earnings, split between members (2.7%) and employers (2.4%). More recent data shows that there have been increases in the proportion of employees with DC pensions contributing at higher levels. In 2019, 78% of employees with DC contributed at least 3%[12] into their workplace pension, up from 37% in 2018. There has also been an increase in the proportion of employees receiving employer contributions of between 2% and 8% and a decrease in the proportion receiving under 2% (down from 35.7% in 2018 to 8.8% in 2019).

11 Occupational Pension Schemes Survey, UK: 2018, ONS, June 2019
https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/pensionssavingsandinvestments/bulletins/occupationalpensionschemessurvey/2018

12 Annual Survey of Hours and Earnings 2019 (provisional), ONS, March 2020.
NB: Contribution rates are not calculated as a percentage of qualifying earnings but as a percentage of pensionable earnings, hence the ASHE contribution rates are not directly comparable with the automatic enrolment minimum contribution legal definitions.
https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/datasets/summaryofpensionresultsannualsurveyofhoursandearnings

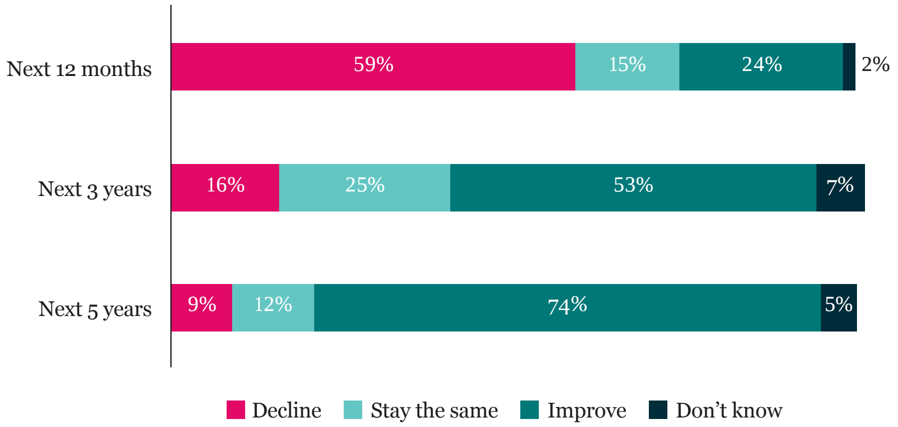
Employees with workplace pensions: percentages by banded rate of employer contribution and sector, UK, 2018 and 2019



SURVEY RESULTS

ECONOMIC OUTLOOK

Perceptions about the future growth of the UK economy



Base: All members (129)

The coronavirus pandemic has had a major negative impact on the UK economy, affecting every sector in one form or another. The enforced lockdown of the economy as the government sought to halt the spread of the virus is likely to leave deep economic scars.

The government has provided unprecedented support for businesses, public services and individuals. This stimulus has been vital to protecting lives and livelihoods over the last six months, but it cannot continue forever and it comes at a huge financial cost that will likely be felt for many years.

Recession, insolvencies, job losses and stock market volatility are all but inevitable. What isn't so clear is how long the impact of Covid-19 will last.

Against this backdrop, it is unsurprising that 76% of PLSA members said they were not expecting to see economic growth in the UK over the next 12 months.

Mirroring their expectations for economic growth over the next 12 months, most members (61%) were not confident that the UK would meet the aggregate forecast of 6% growth in 2021. Only 15% were confident.

Opinions are divided over how long it will take the economy to begin to recover. More than half (53%) of survey respondents expected the economy to grow again in the next three years. This proportion rises to three quarters (74%) over five years.

How pension funds should be used to invest

With around £2.5 trillion in assets, pension schemes will undoubtedly play a role in the post-pandemic recovery, providing capital to businesses and governments via equity and bond markets and paying out retirement benefits to be spent in the economy. As policymakers search for further innovative ways to repair the economy in the coming years, questions are being asked about how pension funds, as investors of very long-term capital, can contribute.

Just over half of PLSA members (53%) surveyed agree pensions should be encouraged to help create growth in the UK economy through investments in infrastructure. Airports, ports, roads, tunnels, railways, utilities, sewage plants and energy installations; even social infrastructure like affordable housing, hospitals, prisons and courts can play a role in the recovery.

But the reasons PLSA members gave for choosing to invest in infrastructure were not just because it is good for the economy (28%). They also said infrastructure investments were a good use of assets (25%), stable (20%) and a good fit for long-term investors (20%).

Investing in infrastructure however was not the most popular option chosen by respondents. 55% agreed pension funds should focus primarily on seeking high returns for members. The most preferred option was addressing climate change. 64% of respondents surveyed agreed pension funds should be used to help tackle climate change and other ESG issues. Only 12% disagreed.

DESIGN OF THE PENSION SYSTEM

State Pension

Encouragingly, most pension funds believe that the level of the State Pension (with the triple lock annual increases), is currently about right (63%). Its current value of just over £9,000 is not very far below the "minimum" desirable income level of £10,200 identified by the PLSA's independently managed research for the Retirement Living Standards. It is important to note that this minimum is not only the amount needed for food, shelter and essentials, but also covers money to fully take part in society, with amounts for leisure expenditure and socialising with friends.

Saving Levels

However, the survey is less sanguine when it comes to the current level of pension contributions and whether they will be adequate for retirement. Recognising that just 3% of those with only defined contribution pensions are likely to achieve the required pension income identified by the Pensions Commission, adequacy is a policy question that continues to pose a significant challenge to the industry and government.

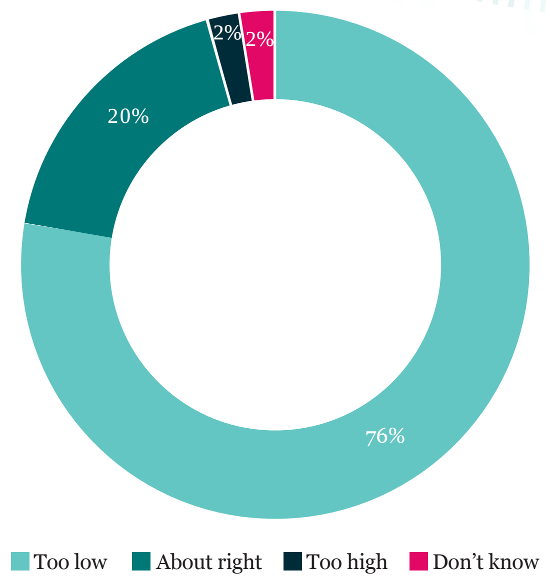
More than three-quarters (76%) of PLSA members surveyed said that the current contribution level is too low.

The PLSA advocates for increasing auto-enrolment contributions from 8% to 12% by 2030 while taking into account the affordability of higher contributions and widening the scope of automatic enrolment.

Automatic enrolment has been a huge success in getting most employed people saving for retirement but more must be done to ensure people are saving enough to have an adequate retirement income.

Structurally, PLSA members expect the availability of defined benefit schemes to new members to decline over the next five years, with 26% identifying the future of DB in the public sector as a major theme for the coming years.

Do you think the (AE) current contribution level is...



Base: All members (129)

Drawing money out – the Pensions Freedoms

There are concerns among the PLSA membership that the current rules for accessing pensions in (or near) retirement – known as the Pensions Freedoms – are having a negative impact on pension adequacy. Two fifths (43%) of members said that the Pensions Freedoms should be reformed, most often through the provision of better guidance and advice (30%), being better regulated (20%) and through controls on how much can be withdrawn (11%).

One member said savers are unable to comprehend the scope of their retirement planning decisions without specialist advice.

Too often the complexity results in people 'choosing not to choose' or taking a decision that may not be in their best interests. This can have significant negative consequences for their retirement living standard.

In a bid to address the problem, the PLSA has developed proposals for a new solution designed to protect people who don't engage with or fully understand the financial choices they face when they move towards semi- or full retirement.

At the heart of the proposal is a call to establish a new regulatory regime that will require pension schemes to support their members when making decisions about how to access their pensions – including by offering or 'signposting' to products. The proposed framework would entail minimum standards for member engagement and communications, products and scheme governance in relation to decumulation. These standards would help protect savers by maintaining the quality of a scheme's offer and providing a safety net to protect savers against the worst consequences of inaction.

The proposed framework is designed to support all savers, and protect people who don't engage with or fully understand the choices they face when they move towards semi- or full retirement.

KEY CHALLENGES

Asked to consider major challenges for the pensions industry over the next five years, PLSA members overwhelmingly said two things: the economic challenge posed by Covid-19 (31%), and regulatory change (36%).

Covid-19

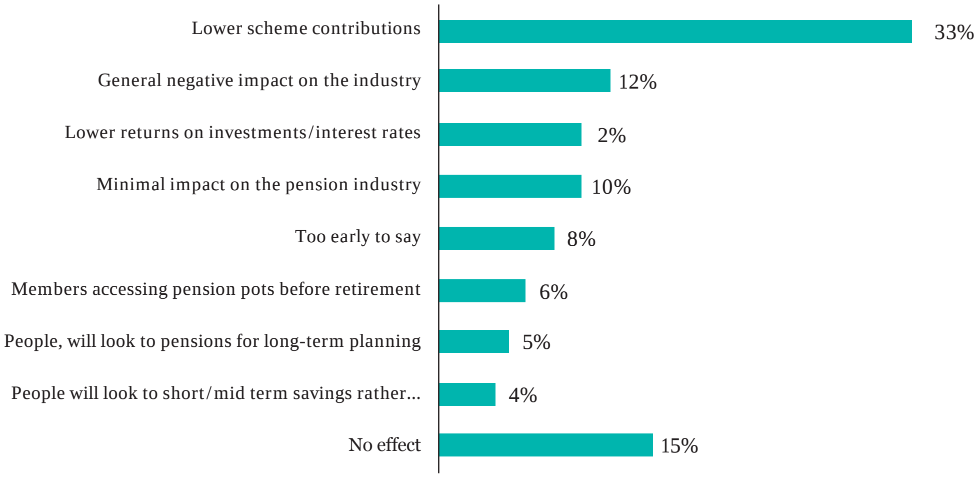
The extent to which the lasting effects of Covid-19 will dominate discussion at trustee boards deserves further examination.

A third of survey respondents (33%) said they were concerned the coronavirus would lead to a drop in contributions as companies fail and employment becomes less secure. This could see a substantial rise in the number of workplace pension schemes falling into the Pension Protection Fund (PPF).

One respondent said as those in defined contribution schemes become concerned about their job security, they may seek to put their money in easier to access places such as ISAs or savings accounts. One in ten (10%) respondents expected Covid-19 to lead to lower investment returns.

Not everyone was pessimistic though, with 15% saying coronavirus would have no effect on pension schemes.

Impact of Covid-19 on pension savings



Base: All members (129)

Regulation

High quality, effective regulation is essential to ensure a safe and secure system and give pension savers the confidence to save in the first place. The pace of change in pensions and the wider financial services sector is significant so it's more important than ever that regulations evolve to ensure they're relevant and appropriate for the industry they are regulating. There has long been a debate in the pensions sector, as with other financial services industries, about the balance of regulation. A passive approach risks causing harm to savers and could damage consumer confidence. However, allowing innovation and creativity is essential for a healthy functioning market and it is important that compliance costs don't become so prohibitive that they lead to higher saver costs or act as a barrier to innovation or new market entrants.

The majority of PLSA members (71%) considered current regulation of the UK pensions system to be too burdensome. A quarter (26%) felt that current regulation was about right. Only 4% of members felt that there was a need for more regulation.

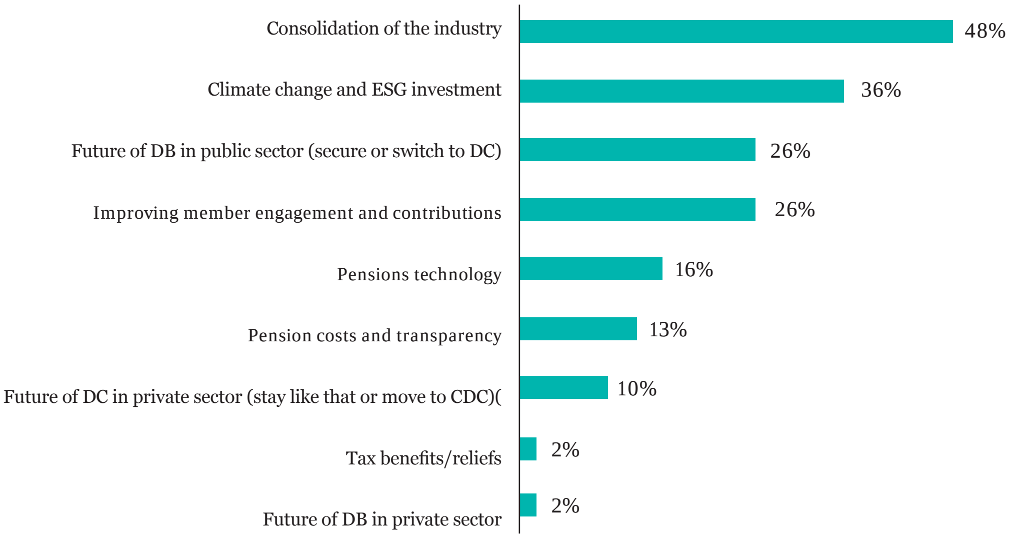
The most common suggested change to the current regulation of the UK pensions systems was simplification of rules (14%) and a general reduction in the amount of regulation (12%).

Over the last 12 months, the changes to TPR's supervisory approach was considered to be the most impactful regulatory change on pension schemes (36%).

Looking ahead over the next three years, the DB Funding Code (27%), the RPI/CPIH change (16%), and ESG rules (14%) were expected to be the regulatory initiatives that would have the most impact. The largest 100 scheme members were more likely to identify the DB funding code as the most impactful regulatory initiative (55%) compared to other PLSA scheme members (21%).

FUTURE TRENDS FOR WORKPLACE PENSIONS: THE NEXT FIVE YEARS

Significant trends over the next 5 years



Base: All members (129)

Consolidation

The most anticipated trend in the pensions industry over the next five years was the consolidation of the industry (48% of members said this was the most significant future trend). It is widely expected that assets under management continue to grow and as funds undergo value for money assessments they will seek out greater economies of scale. This will lead to fewer but larger pension funds in the future.

The PLSA seeks to increase the quality and performance of workplace pension schemes and large schemes tend to score highly on these tests. The PLSA welcomes the current trend towards consolidation. However, smaller schemes may also deliver some or all of these benefits. So scale should not be pursued as an end itself.

Nevertheless, the PLSA has played a major role in the development of defined benefit Superfunds, an idea pioneered in 2017 through the PLSA's DB Task Force. We estimate they could increase security for 11 million members.

Additionally, the PLSA has always been a keen advocate of master trusts and, having played a part in the development of a strong authorisation regime for them, the PLSA will continue to argue for an effective regulatory regime to safeguard millions of automatic enrolment savers.

The role of technology

Pensions technology has a huge potential to change the pensions industry and how individuals engage with their retirement savings. Just as technology is transforming other industries, technology has the potential to revolutionise the way pensions work, how the industry works and, crucially, how to better engage with and communicate with savers. Big data, better collaboration, opaque investment, investment analytical tools, cost transparency and personalised retirement planning journeys all have the potential to transform the industry and customer experience for the better.

Not surprisingly therefore, half (50%) of members we surveyed were currently investing in technology for pensions schemes or planning to do so over the next 12 months. Improving saver engagement (42%) was the most anticipated impact of technology on the sector over the next five years and the top reason for investing in technology (reducing costs was second at 14%), while improving understanding of pensions was the second most anticipated impact.

More than a quarter (26%) of PLSA members think improving member communications will be a major trend. This is likely to be accelerated by the creation of the Pensions Dashboard, which will for the first time allow savers to see all of their pensions in one place online.

Achieving better retirement incomes for everyone requires savers to actively engage and understand the consequences of their pension saving decisions has been a major policy priority for the PLSA in recent years.

PLSA work in this area includes the Retirement Livings Standards – a quantifiable view of spending that helps the industry communicate people's likely lifestyle needs in retirement and help them understand the impact of savings decisions. The PLSA is also playing a proactive role in the development of the Pensions Dashboard so people have the tools to help them understand their savings.

Addressing climate change

Climate change was also identified by PLSA members as one of the key trends over the next five years. Over a third (36%) of survey respondents identified climate change and ESG investments as another major trend.

Under rules that came into force on 1 October 2019, trustees of schemes with more than 100 members are required to outline their approach to engagement and voting of their shares in investee companies, as well as including ESG and climate change considerations in their investment decision making.

And by 2022 the 100 largest occupational pension schemes will be required to publish climate risk disclosures to Task Force on Climate-Related Financial Disclosure (TCFD) standards.

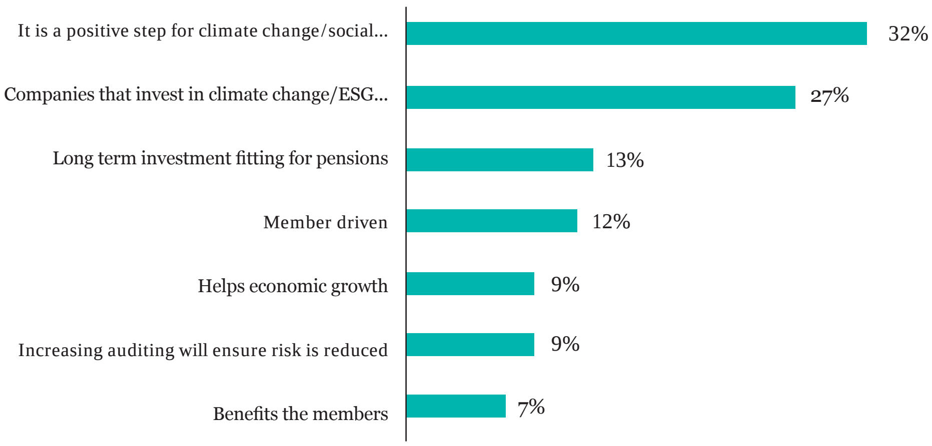
Institutional investors are also under increasing public pressure to hold the directors of the companies in which they invest individually accountable on how well they manage climate change risks.

Climate change poses a systemic risk to nearly every sector and every business. As part of a wider Investing for Good policy programme, the PLSA is already exploring what can be done to help more pension funds invest further in a climate aware way.

The PLSA has also provided a suite of guidance to help schemes get up to speed with the administrative burden and to comply with the new regulations.

Among survey respondents that agreed that pension schemes should be used to help combat climate change and other ESG issues, the most common reasons given were because it was felt to be an important cause for society (particularly climate change) and because such investments can offer high returns.

Why pensions should be used to help combat climate change & other ESG issues



Base: All those who agree that pensions should help combat climate change and other ESG issues (82)

Pension saver engagement

One of the biggest issues facing the UK is how to better engage individuals to save for and plan their future. Savers' engagement with their retirement savings is too low: workers don't know how much they have saved, nor do they know how much they need to save to get the lifestyle they want in retirement. Since its introduction, automatic enrolment has seen over 10 million people newly saving or saving more for a pension in the UK. This is a genuine success story. However, at the current contribution rate of 8% of automatic enrolment band earnings the majority of savers are unlikely to have the standard of living in retirement they expect. When asked, over the next 5 years, which initiatives could be the most effective in improving member engagement, over half (53%) of respondents identified the pensions dashboard. The mid-life MOT (26%) and PLSA's Retirement Living Standards (24%) were identified as the next two most effective initiatives.

CONCLUSION

Covid-19 has led to great uncertainty about the future strength of the global economy, how deep the UK recession will be and how long the recovery will take. This uncertainty is borne out in this survey which shows that attitudes are mixed when it comes to predicting the impact of the virus on the industry and the economy.

What is certain is that the big questions the pandemic has raised about pension contribution rates, the performance of investments and what role pension schemes play in supporting the economy, will continue to influence pension policy. Are auto-enrolment contributions enough to ensure pension adequacy for people in retirement? What is the appropriate amount of government support, either via the State Pension or pension tax relief? Are we doing enough as an industry – and do we have the system we need – to help people make better decisions about accessing their savings when they approach full or semi-retirement?

The survey has shown that the pensions sector is ready to engage with these issues.

Pension schemes are facing the future – engaging with a trend towards consolidation, seeking ways of harnessing new technology to help savers understand retirement income, and taking steps to deal with climate change.

The PLSA is committed to bringing the industry together to find solutions to tomorrow's challenges. Our Retirement Living Standards help savers picture their future and understand their retirement spending needs, our Investing for Good work stream is assisting schemes address the challenges of climate-aware investing, and our forthcoming proposals on DC Decumulation are aiming to increase the quality of information and guidance savers receive when they need it at the end of their retirement journey.

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