Making DC Pensions More Appealing to UK Investors

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INTRODUCTION

Despite great strides made in recent years through auto-enrolment into workplace pensions, there is still much to be done to ensure that UK citizens have adequate incomes in retirement. According to statistical research from the Financial Conduct Authority, 38% of UK adults with a defined contribution (DC) pension in accumulation have pension assets of less than £10,000. And a worryingly high number of people do not know how much is in their DC pension pot or have only a vague idea of the amount.

For many, if not most people, pensions are often seen as something they should attend to, but there are low levels of awareness over how the pension system works. This is not the fault of pension fund members, because pensions can be complex, shrouded in jargon, and are only one item on most people's financial agendas. And while many have saved more money during the Covid-19 pandemic due to lockdowns, will much of this go into UK pension funds? A rise in post-lockdown consumption spending is expected by many, as people catch up on holidays and socialising with family and friends. Lockdown has also sparked an increase in share trading by many individuals, including young investors. Is this a positive sign for pensions? Perhaps some individuals will take a more active interest in pensions if they make a success of share trading. But this is not guaranteed, and many pension providers will be very wary of pension funds being used to chase a quick profit.

In this report, CoreData has looked at several ways to make pensions more attractive to investors, from offering some eye-catching investments, to reforms to make pensions more flexible, or to make tax relief more understandable for most. Another possible improvement could be to areas such as administration, communication, and the use of technology – where do investors want to see improvements made?

Disruption is now a key feature of business, with insurgent brands positioning themselves against the established providers. Tech-savvy new entrants, using new ideas, can quickly win market share against incumbents who are slow to react and set in their ways. There is potential for this to happen in pensions, notwithstanding the need for scale and trends to consolidation. The findings here point the way for rebel brands, or insurgents, to gain a foothold in DC pensions. Or alternatively, the established players could look at what would incentivise UK investors to save more in DC pensions and make use of this in their offerings.

FIVE TAKEAWAYS

1

Gold over crypto: Investors prefer real assets

Given a choice of possible investments for their pension fund, nearly half of investors would add gold or silver (45%) and then, some way back, buy-to-let residential property (33%) ahead of new ideas such as cryptocurrencies (15%) or medicinal cannabis (18%). But there is a sharp generational divide here, as 40% of Millennials would invest in cryptocurrencies.

2

Investors see unregulated, poorly understood assets as too risky

Asked about their biggest worry about investing in a completely new area, 43% worry it could be unregulated or open to fraud, while 38% worry that the risks involved are not yet understood. Younger investors are also more concerned about press and social media hype over new investments.

3

Many say they are already maximising savings

Nearly half (45%) of respondents say they are already maximising saving and minimising spending, when asked about the FIRE (financial independence, retire early) movement, where individuals save as much as they can in a pension with the aim of retiring by 40. However, Millennials (age 25-40) are most likely to want to enjoy themselves rather than save, or say that they have too many financial demands to save more now.

4

Simpler pensions tax relief would incentivise more people

There is scope to incentivise pension savings by reforming the current system of tax relief. Many investors (36%) say a simple system of the government matching contributions up to a certain level would incentivise them. Younger investors would also like greater flexibility over access to their pension pots; 34% of Millennials want to be able to borrow from a pension fund for any purpose.

5

Investors want better governance and communications

Asked what they would like to see their provider do better in the future, 36% said better governance, with providers driving down charges and working in the interests of all members, and 34% want clearer communication on how their pension is doing and what they will get in retirement.

CONCLUSION

The next ten years are set to be a critical period for UK pensions. With auto-enrolment, more people than ever are now saving into a pension fund. But this does not necessarily mean they will enjoy a secure retirement. DC pensions are relatively simple in that the more money goes in as contributions, then the bigger the eventual fund available at retirement. If people on low or average wages only contribute the minimum amount under the auto-enrolment rules, then they could face poverty in retirement. Pension experts and others, such as the Financial Conduct Authority, are now starting to warn about this approaching problem, but more needs to be done.

One step would be to make pensions more engaging, or to find ways to get individuals to take more interest in their pension fund. Offering a wider range of investments, including the kind of assets many people currently believe are outside the scope of their pension fund, is one way to do this. Other ways to increase pension interest could be to introduce a simpler, more direct system to reward people for contributing to a pension. If the government directly matched pension contributions on a one-to-one basis up to a certain amount, this could spell out very clearly why people should put money into a pension. There is also evidence that younger investors do not like the inflexibility of pensions, which means they cannot access the pension fund until they are at least 55. Other countries allow individuals to access their pension funds earlier in specific circumstances and this is something that the UK could look at. Pension providers could also up their game, with better governance and communications, to restore trust in pension providers; this could also make pension saving more attractive.

Some of these ideas, such as offering access to new investments are likely to happen in the next decade, while others might not. But there is a strong case for pension providers and others to consider how to make pension saving in the UK more attractive if widespread pensions poverty is to be averted in the future.

CoreData

About Us

CoreData Research is a global specialist financial services research and strategy consultancy. CoreData Research understands the boundaries of research are limitless and with a thirst for new research capabilities and driven by client demand; the group has expanded over the past few years into the Americas, Africa, Asia, and Europe.

CoreData Group has operations in Australia, the United Kingdom, the United States of America, Spain, Malta, and the Philippines. The group's expansion means CoreData Research has the capabilities and expertise to conduct syndicated and bespoke research projects on six different continents, while still maintaining the high level of technical insight and professionalism our repeat clients demand.

With a primary focus on financial services CoreData Research provides clients with both bespoke and syndicated research services through a variety of data collection strategies and methodologies, along with consulting and research database hosting and outsourcing services.

CoreData Research provides both business-to-business and business to- consumer research, while the group's offering includes market intelligence, guidance on strategic positioning, methods for developing new business, advice on operational marketing and other consulting services.

The team is a complimentary blend of experienced financial services, research, marketing and media professionals, who together combine their years of industry experience with primary research to bring perspective to existing market conditions and evolving trends.

CoreData Research has developed a number of syndicated benchmark proprietary indexes across a broad range of business areas within the financial services industry.

- Experts in financial services research
- Deep understanding of industry issues and business trends
- In-house proprietary industry benchmark data
- Industry leading research methodologies
- Rolling benchmarks

The team understands the demand and service aspects of the financial services market. It is continuously in the market through a mixture of constant researching, polling and mystery shopping and provides in-depth research at low cost and rapid execution. The group builds a picture of a client's market from hard data which allows them to make efficient decisions which will have the biggest impact for the least spend.

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