Isio DC Insights Blog

Auto enrolment a decade on

Celebrating 10 years of AE and the impact on Defined Contribution

January 2022

A time to celebrate

2022 marks a huge milestone for the UK DC pensions industry, as auto enrolment celebrates its 10th birthday. In this short thought piece we reflect on how the past decade has reshaped the DC market, share our party plans to celebrate this significant milestone, and look ahead to what the future might hold.

Isio's party planning checklist

Guest list – it's all about the members
A party is nothing without the guests, and in pensions the special guests are definitely the members. Since the dawn of auto enrolment employers have worked hard to get the pensions party started, but there's a lot more work to be done now the guests have arrived.

Picking the perfect present – gifts that members might unwrap over the coming years

- **Simplified benefit statements and pensions dashboard:** Like birthday cards in the post, members receive their benefit statements once a year. The government has long championed the need for greater simplicity, enabling members to fully understand their pension benefits to make informed decisions. Could simplified benefit statements and the long-awaited pensions dashboard be the answer?

- **Giving the gift of cash:** Total minimum contributions have already quadrupled since 2012, but with the average UK pot size at just over £60k at retirement (equating to less than £3k per year) – there is a long way to go before DC members can afford a comfortable pension. We hope to see a strong focus on improving minimum contribution rates going forward.

- **The latest tech gizmos:** Using technology to facilitate engagement through transactional apps and automated guidance, which also educate and improve member understanding. With providers heavily investing in their tech offering, we expect propositions will continue to evolve.

- **Make sure there's something for everyone in those gift bags:** With wellbeing and inclusivity high on the agenda for many organisations, it's important to recognise that employees' priorities depend very much on the individual, and their stage of life. We believe it's crucial to consider DC pensions in the context of wider savings and benefits to help people make the right choices for them.

DC in 2022 – a decade of auto enrolment

c.£500bn
of private sector DC assets

25m
members

£25bn
contributions per year

isio.

Budget planning – spending money on the important areas

The introduction of the 0.75% p.a. charge cap in 2015 had a huge impact of driving down default strategy charges, with average member fees now below 0.5% p.a.

The charge cap has clearly met its objective, but we expect broader value for money considerations to play a key role going forwards. However, in practice it will be challenging to move away from quantifiable and easily comparable charges figures into a more holistic approach to measuring value.

Selecting your venue – Master Trusts often come out top

While Master Trusts might not be suitable for every scheme, their streamlined governance and economies of scale have proved popular, with 19 million members investing £50bn of assets across 36 Master Trusts. Additional disclosure requirements for small schemes from 2022 could further accelerate this trend.

Looking ahead there's potential for games of musical chairs as we see further consolidation in the provider space; and pass the parcel as employers consider transitions between Master Trusts in search of the best solution for their members.

Baking the birthday cake – improving the recipe for growing pension pots

The past 10 years have seen huge changes in investment strategy, with annuity targeting defaults replaced by flexible retirement strategies following pensions freedoms in 2015. Following the introduction of FCA pathways last year we should also see a greater focus on at-retirement as more DC members approach decumulation.

While plastic party plates and cutlery are replaced with compostable alternatives, sustainability has also been a key trend in DC – particularly in climate focused equities – but we believe there's more to do here. This looks set to last with the roll out of TCFD later this year and we expect will also broaden out into other non-climate ESG considerations.

The icing on the cake would be greater take up of illiquid investments, with various consultations and initiatives like the Long Term Asset Fund aiming to overcome some of the challenges of accessing these investments. In many cases the icing hasn't even been made (let alone set!) but 2022 could be the year we see meaningful progress in the private markets space.

Our leaving gift

As we blow out the candles on the birthday cake, it's clear to see the huge impact auto enrolment has had on the DC pensions industry. With the number of members and assets under management set to grow further over the coming years, this pace of change is likely to continue.

Here at Isio, our DC consultants can help you navigate the latest developments and understand what the next decade might bring for members. For an initial free consultation, please contact your local DC expert.

Happy birthday auto enrolment!

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Source:
Average pension pot UK: What is a good pension pot? - The Telegraph
Pension charges survey 2020 – summary - GOV.UK (www.gov.uk)
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