Media Release

NEW DATA SHOWS DC SCHEMES WERE BROADLY UNAFFECTED BY COVID-19 MARKET VOLATILITY

LONDON, 23 SEPTEMBER 2021: The 2021 edition of *The DC Future Book*, published today by the Pensions Policy Institute in association with Columbia Threadneedle Investments, finds that positive trends in the UK Defined Contribution (DC) pension market have continued despite the backdrop of volatile investment markets due to Covid-19.

However, the unprecedented nature of the market volatility should encourage DC schemes to assess the resilience of their default funds allowing them to derive and implement suitable measures to improve member outcomes.

As an established annual compendium of statistics, *The DC Future Book* provides insight into the current state of DC workplace pensions and their likely direction of travel. Since 2015, the publication has been tracking DC membership rates, contribution levels, pot sizes, auto-enrolment milestones, investment allocation trends and much more.

The newly released data shows that in the 12 months to the end of June 2021:

- Aggregate DC assets have grown from £471 billion in 2020 to £490 billion.
- There are around 13.7 million active members in DC workplace pension schemes, around 8.7 million of these are in master trusts.
- 10.5 million employees were automatically enrolled by 1.87 employers. This is nearly twice as many employees as those recorded in 2015 (5.4 million).
- The number of employees found ineligible for automatic enrolment grew, reaching 10.1 million, compared to 9.8 million in 2020. This is likely to be linked to the impact of Covid-19 and employees earning less, working part-time or being on furlough.
- The median DC pot size stands at £11,400, an increase of £1,800 between 2019 and 2020. This shows a continued positive trend and is due to existing members being enrolled for a longer time. The median DC pension pot size at State Pension a4ge stands at £38,000.

- The number of DC pots accessed decreased by 36% declining from 433,000 in 2019 to 277,500 in 2020. There was a marked fall in the number of pots being fully withdrawn (bottoming at 134,500 in 2020 compared to 252,000 in 2019), suggesting that savers were cautious about accessing savings during a period of volatility. On the other hand, partial withdrawals increased slightly to 232,000 over the last year, compared to 222,000 in 2019.
- Assuming current trends continue, by 2041 there could be 15 million active DC savers. Aggregate assets in DC schemes could grow to around £995 billion and median DC pension pots could grow to around £63,000.

Lauren Wilkinson, Senior Policy Researcher at the Pensions Policy Institute, said: "The long-term nature of pension investments, and the pragmatic approach taken by many DC schemes and savers in response to uncertainty and volatility, mean that the DC schemes have been less impacted than other areas of the economy and society more broadly. However, it remains to be seen what the longer-term impacts of the pandemic will be on investment, employment, policy and individual saving behaviours."

Michaela Collet Jackson, Head of Distribution, EMEA at Columbia Threadneedle Investments, **commented**: "While the Covid-19 pandemic has had a major impact on societies and economies, it did not halt positive trends we have been seeing in the UK DC market for some time, including growth in aggregate assets and median DC pot sizes. Similarly, due to DC schemes' long-term investment horizons and diversified portfolios they withstood the market volatility and protected their members, a large proportion of whom are invested in default funds.

"However, this is not the time for complacency. A prolonged market downturn could have resulted in a far worse outcome for DC scheme members and their nest eggs. We encourage all pension trustees to use the experience of Covid-19 as an opportunity to work even more closely with their advisers and asset managers to assess the resilience of their schemes' default funds."

Valuable lessons include the growing importance of diversification across multiple asset classes, geographies, sectors and the inclusion of illiquid assets. Also, a better understanding of where longer-term returns may be found has allowed more equity-heavy portfolios to benefit from capital recoveries. For example, sectors such as technology and online sales experienced growth.

"The experience of Covid-19 has heightened awareness of Environmental, Social and Governance (ESG) factors, particularly around social issues such as health and labour practices. This shifting emphasis among investors highlights how rapidly ESG issues can evolve, underscoring the importance of trustees being both proactive and flexible in their approach to responsible investment considerations. Reviewing investment strategies is a complex task, but we believe valuable lessons can be learnt to support DC schemes to emerge even stronger post Covid-19", **Collet Jackson concluded.**

To download the full report visit: 2021-09-23 The DC Future Book: 2021 Edition | Pensions Policy Institute

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For media enquiries please contact:

Verena Moench
+44 20 7464 5787
Verena.Moench@columbiathreadneedle.com

Laura Cook
+44 (0)20 7464 5650
laura.cook@columbiathreadneedle.com

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With more than 2000 people including over 450 investment professionals based in North America, Europe and Asia, we manage £430bn / €500bn / US$593bn (as at 30 June 2021) of assets across developed and emerging market equities, fixed income, asset allocation solutions and alternatives.

Our priority is the investment success of our clients. We know investors want strong and repeatable risk-adjusted returns and we aim to deliver this through an active and consistent investment approach that is team-based, risk-aware and performance-driven. Our investment teams around the world work together to uncover investment insights. By sharing knowledge across asset classes and geographies we generate richer perspectives on global, regional and local investment landscapes. The ability to exchange and debate investment ideas in a collaborative environment enriches our teams' investment processes to ensure the best insights are applied to portfolios. More importantly it results in better informed decisions for our clients.

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