





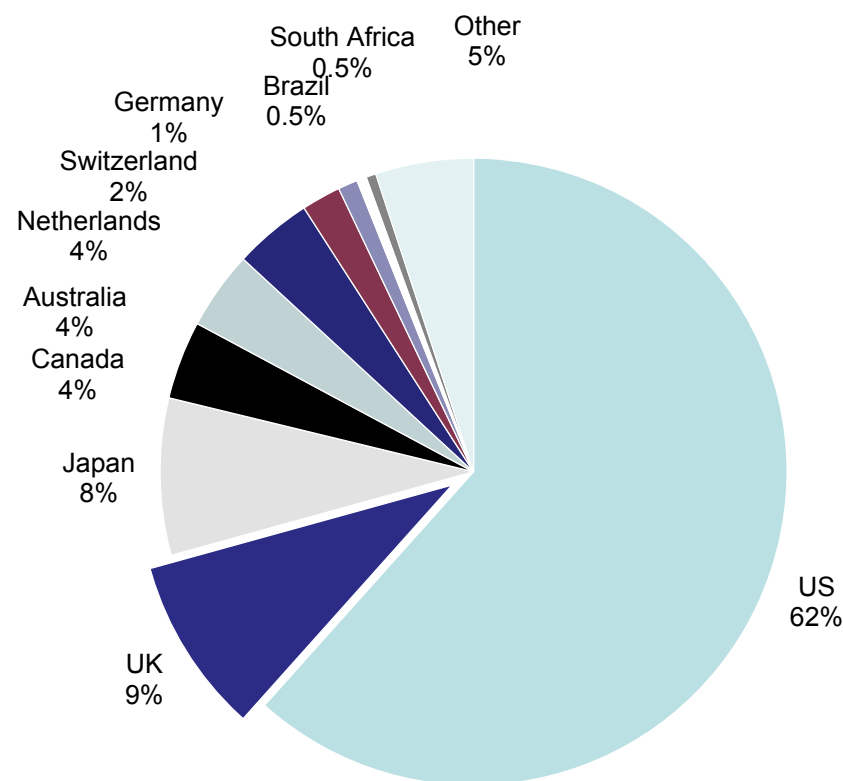
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Getting the UK saving for retirement: the role of  
auto-enrolment and other behavioural  
interventions in boosting retirement savings  
Chris Wagstaff – Head of Pensions & Investment  
Education, Columbia Threadneedle Investments  
9 November 2016



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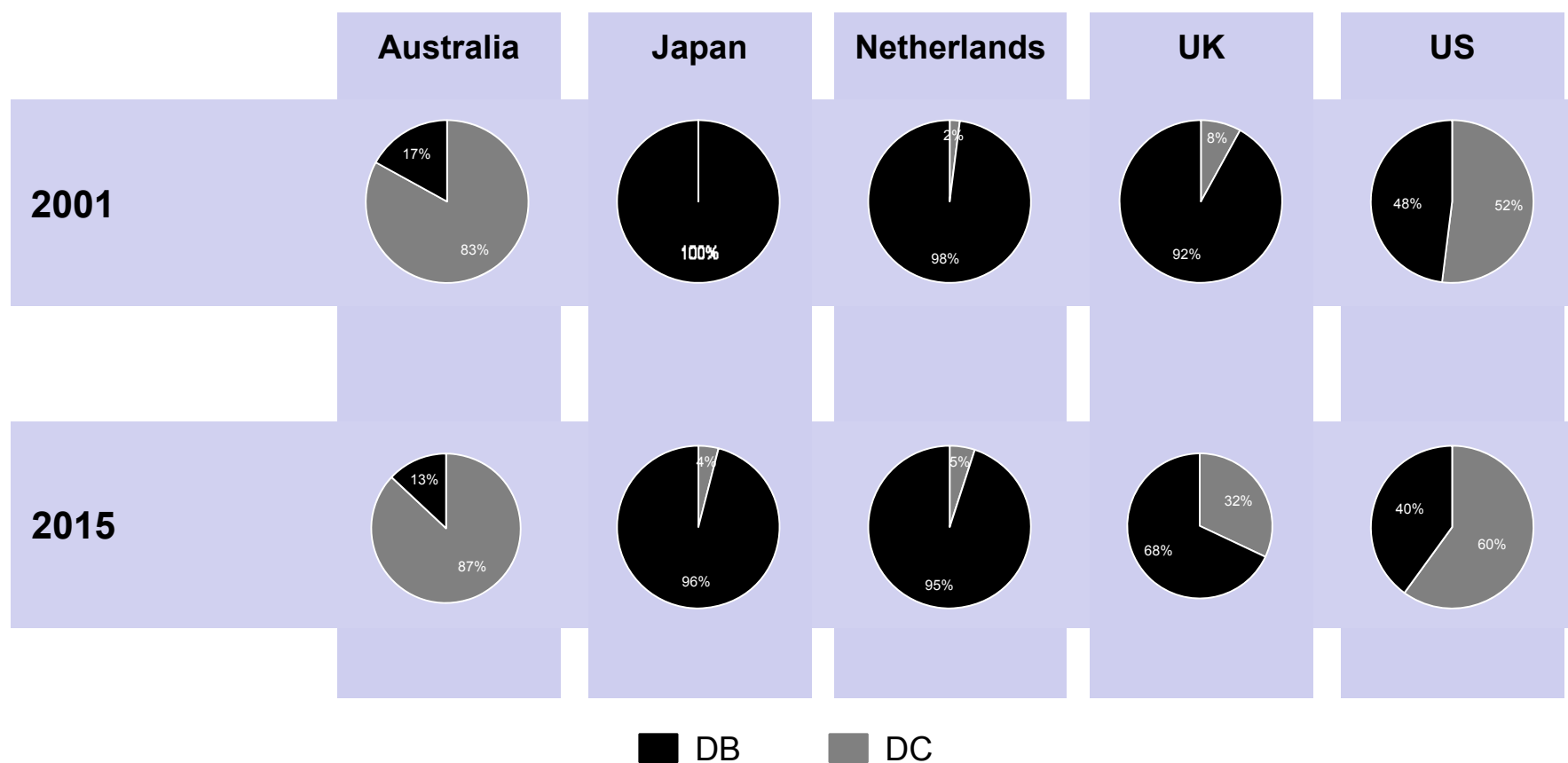
# Global pension assets end-2015



Source: Willis Towers Watson, Global Pension Assets Study 2016. Percentage shares calculated in USD. Global assets = US\$36.12tn.

# The pensions focus in the UK is now firmly shifting to DC

## Occupational DB/DC asset split per country: 2001-2015



Source: Willis Towers Watson, Global Pension Assets Study 2016 and previous editions.



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# The UK has a three pillar pensions system

## **Pillar 1**

State pension

## **Pillar 2**

Workplace pension

## **Pillar 3**

Private pension

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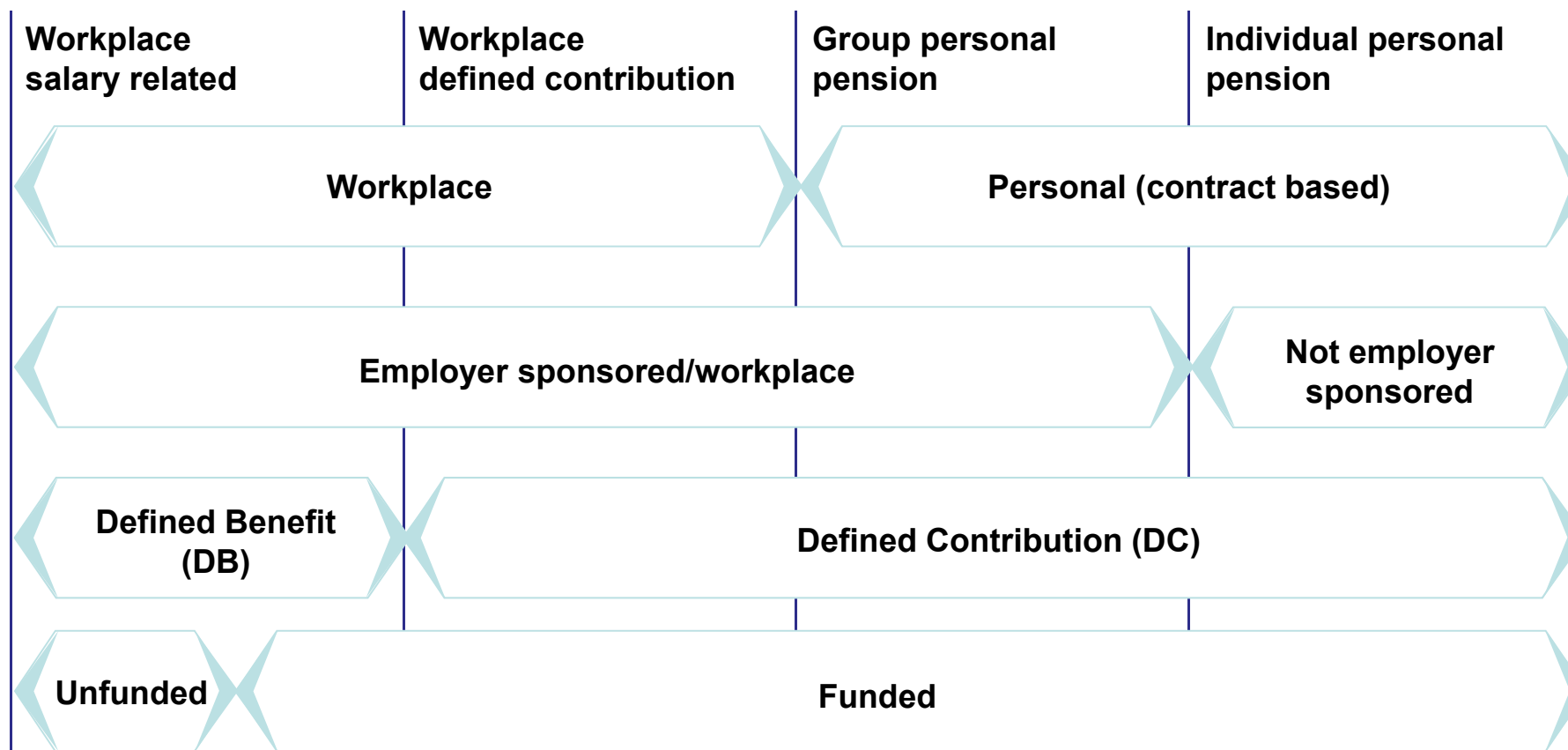
Secure minimum standard  
of living

Maintain current standard  
of living

Individual supplement

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# Workplace and private pension provision in the UK



Source: Pensions Commission 2005.



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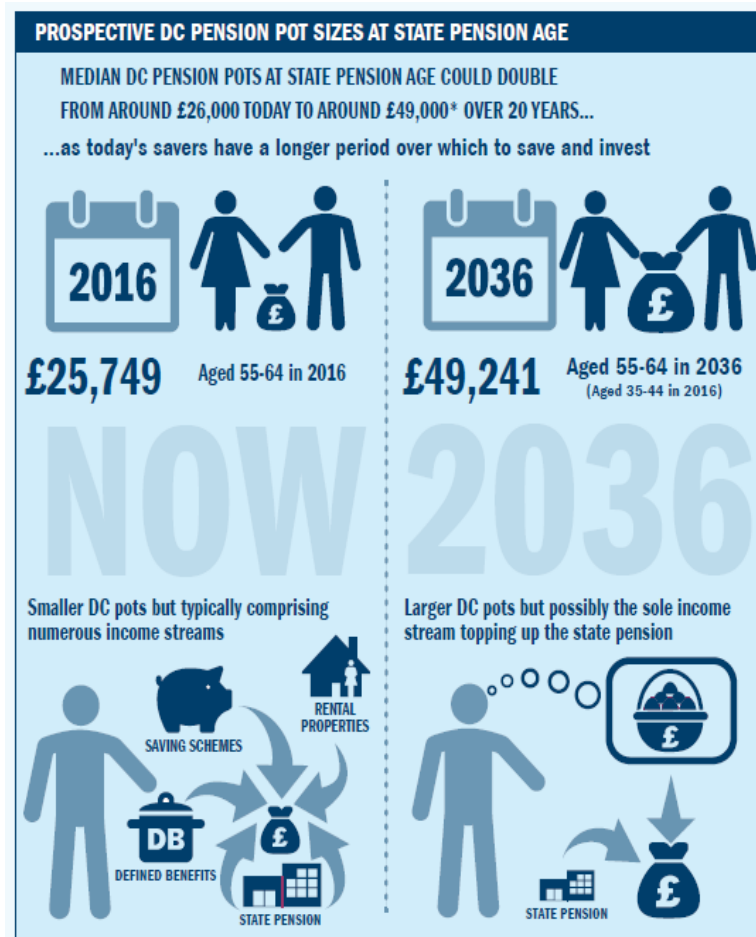
# The challenge...

**“Addressing the inadequacy of retirement provision in the UK  
has arguably become the nation’s number one socio  
economic challenge.”**

Source: Chris Wagstaff, Columbia Threadneedle Investments, July 2016.

Publication: *Mind the gap: Overcoming the cognitive barriers to saving for retirement.*

# The inadequacy of current and projected median DC pension pots for the 55s-64s



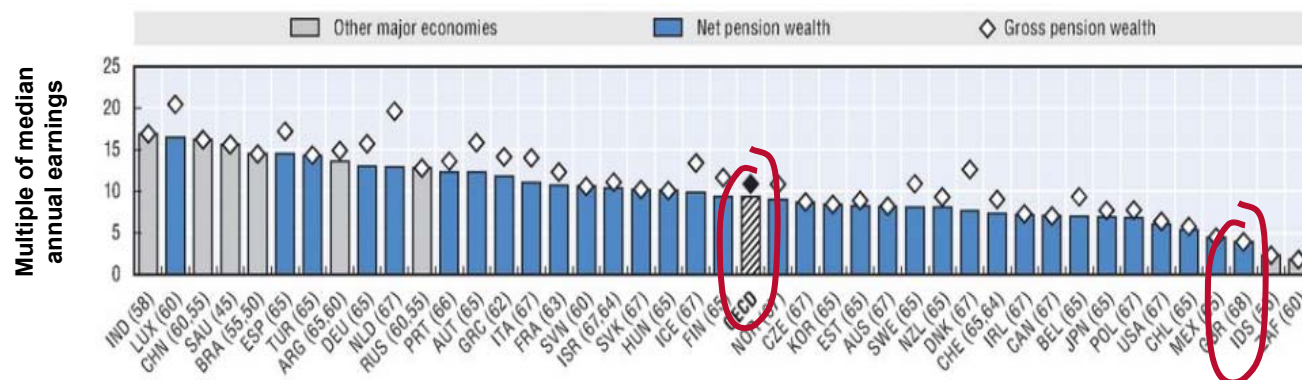
\*In 2016 earnings terms

Source: *The PPI's The Future Book: unravelling workplace pensions 2016.*

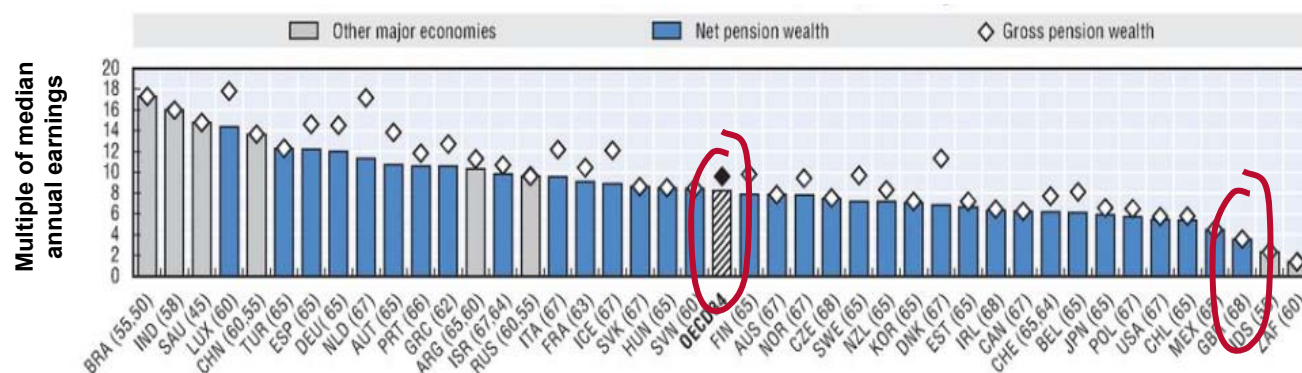


# Pensions wealth trails the OECD average by some margin...

## Gross versus net pension wealth, women, average earner



## Gross versus net pension wealth, men, average earner

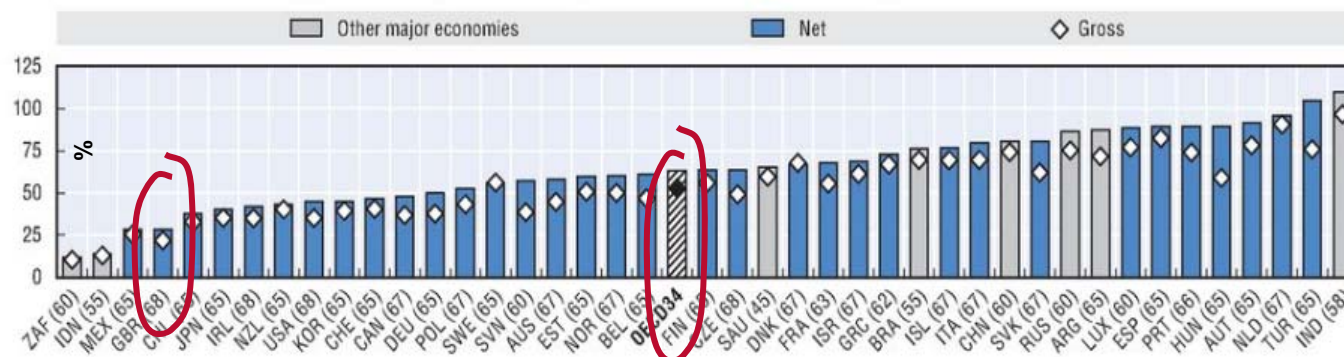


**“Mean pensions wealth <60% OECD average”**

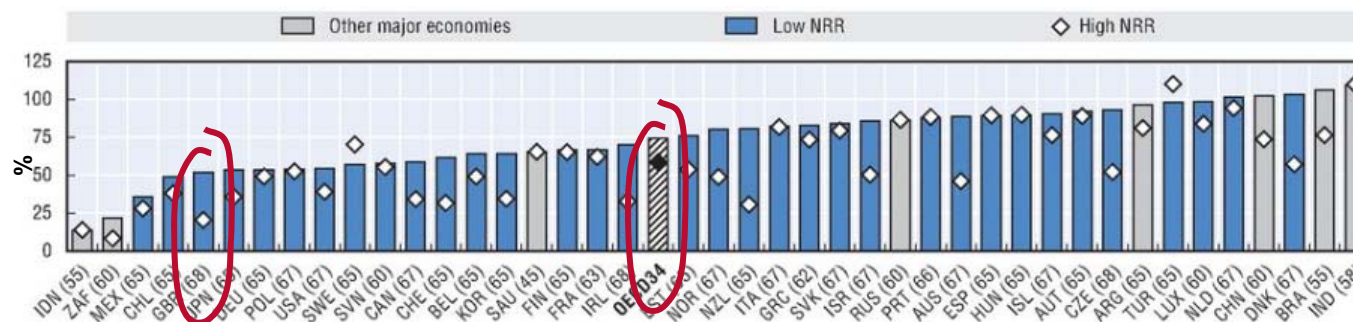
Source: OECD Pensions at a Glance 2015, p151. Pensions wealth expressed as a multiple of the net/gross income of the median earner

# ...as do replacement rates

## Net pension replacement rates: average earners



## Net pension replacement rates: low and high earners



“Net replacement rates trail OECD average”

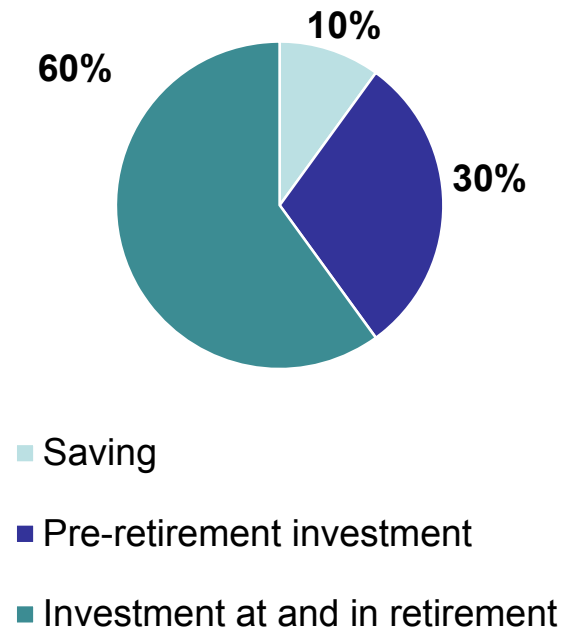
Source: OECD. Op. cit. p145.

# If calamitous retirement outcomes are to be avoided...

- People must
  - Save sufficiently
  - Invest appropriately
  - Successfully navigate at and in retirement risks

## The 10/30/60 retirement rule

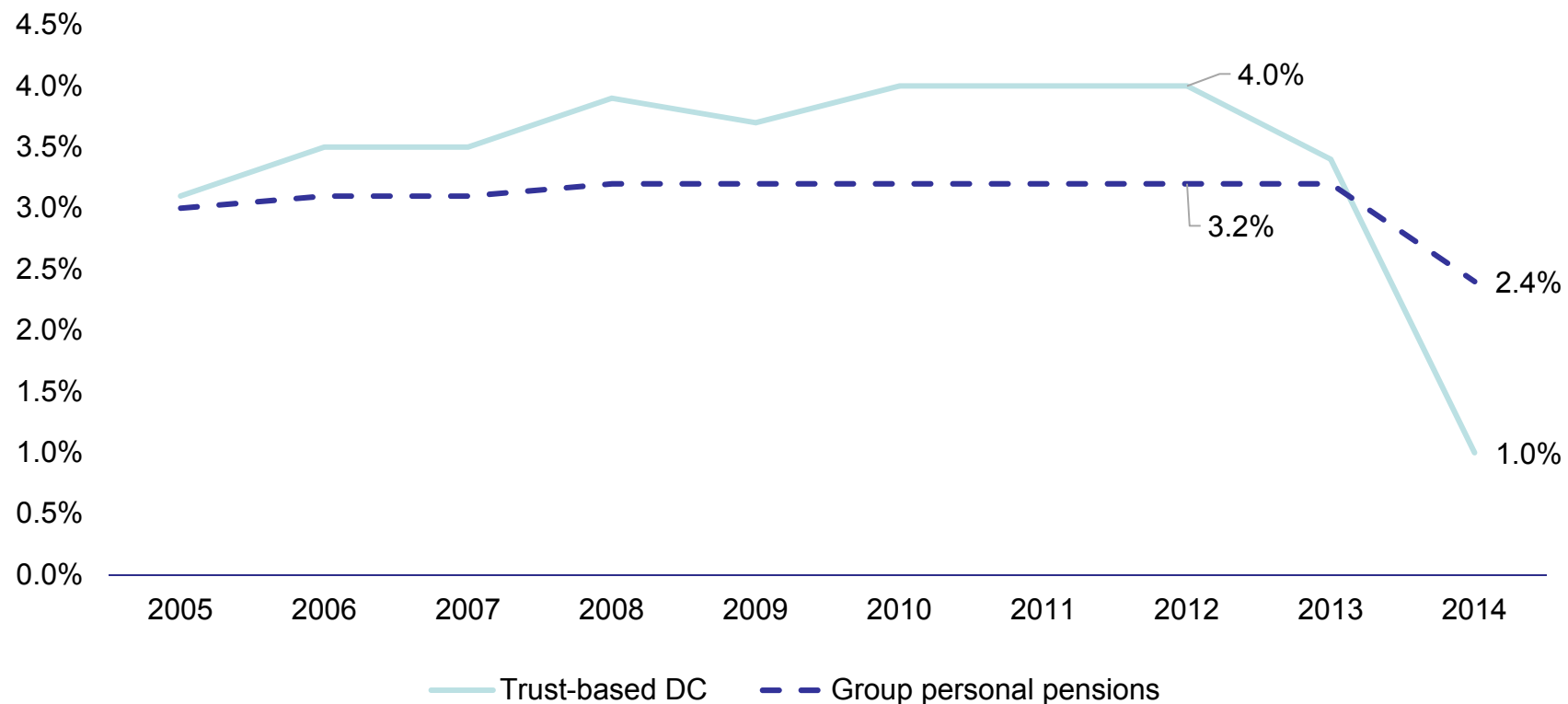
### Stream of income paid out in retirement due to:



Source: Russell Investments, as at July 2015.

# Median employee contribution rates in DC schemes are decreasing

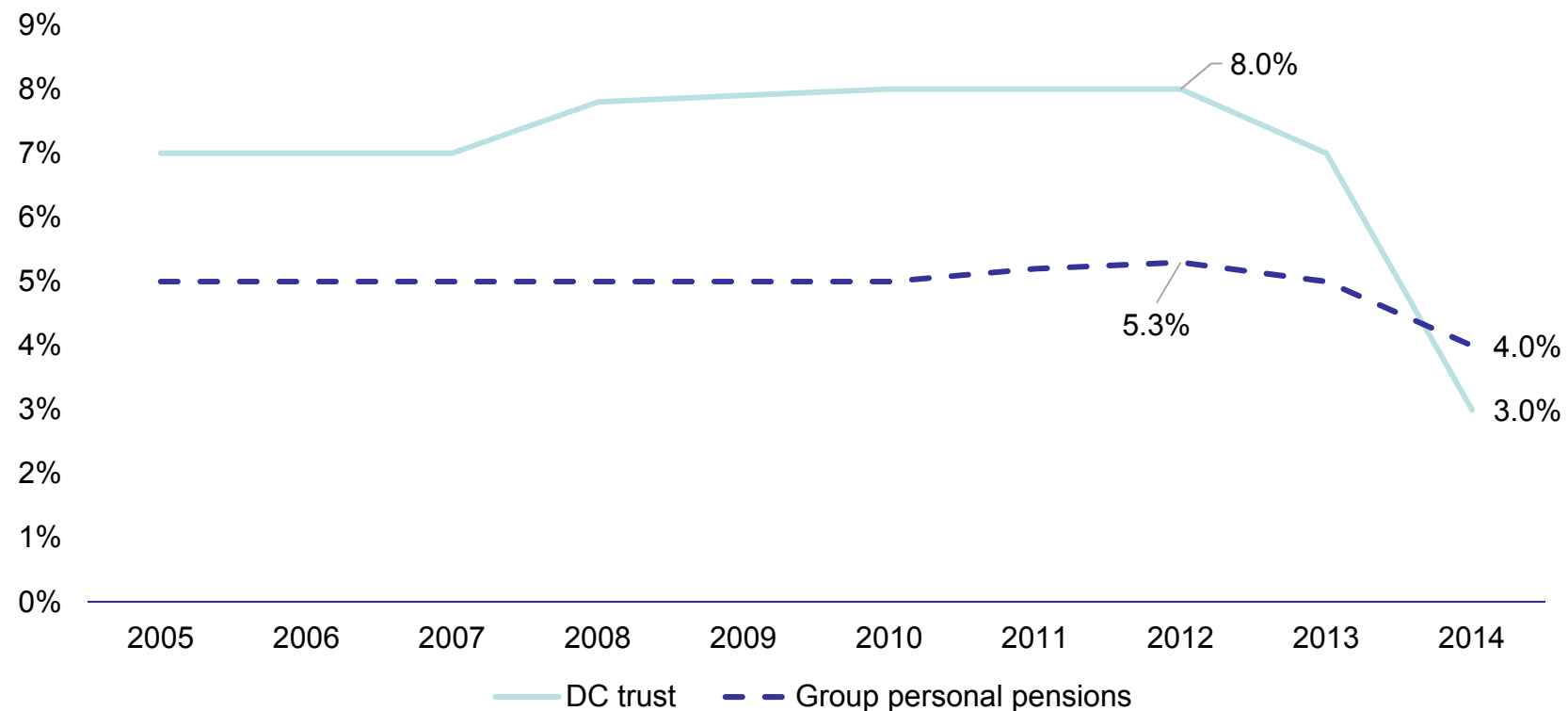
Median employee contribution rates to DC pensions by year



Source: *The PPI's The Future Book: unravelling workplace pensions 2016*.

# Median employer contribution rates in DC schemes are decreasing

Median employer contributions to DC pensions by year



Source: *The PPI's The Future Book: unravelling workplace pensions 2016*.



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This immense challenge is becoming more challenging against the backdrop of five secular trends...

- Increasing time spent in retirement
- State pension age rising
- DB benefits disappearing
- Individuals forced to assume more responsibility for their financial futures
- Continuing prospect of more modest investment returns and yields



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## ...and compounded by the impediments to achieving a good retirement outcome...

- Complexity and multiplicity of decisions
- Low level of basic numeracy and financial literacy
- Lack of frames of reference
- Paucity of guidance
- Unwillingness and/or inability to pay for financial advice
- Inertia
- Lack of trust

**“The result is a deep-seated reluctance to engage with pensions”**



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# Vox pop video





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# Enter... automatic enrolment

- A behavioural *nudge* that harnesses inertia
- Aimed at *eligible* lower and middle income *employees* not contributing to workplace pension scheme
- Phased *staging* into *qualifying* pension scheme
  - Existing employers: October 2012 to April 2017
  - New employers (formed post-April 2012): May 2017 to February 2018
- Opt outs
  - within first month, contributions returned
  - after first month, contributions remain invested
  - can opt back in *once*
  - *automatically* re-enrolled after three years

# The “I’m in” campaign has been hard to ignore



# So too has Workie!



# Age and earnings criteria for auto enrolment

Monthly gross earnings	Age			Weekly gross earnings
	From 16 to 21	From 22 to SPA	From SPA to 74	
£486 and below	Has a right to join a pension scheme			£112 and below
Over £486 up to £833	Has a right to opt in and receive employer contributions*			Over £112 up to £192
Over £833	Has a right to opt in and receive employer contributions*	<b>Automatically enrol</b>	Has a right to opt in and receive employer contributions*	Over £192

Source: tPR.

\*Employer contributions only paid on earnings within band earnings of £5,824 - £43,000 for 2016/17

# Auto enrolment *minimum* contribution rates

	Employer	Employee	Tax relief	Total
To 5 April 2018	1.0%	0.8%	0.2%	<b>2.0%</b>
6 April 2018 – 5 April 2019	2.0%	2.4%	0.6%	<b>5.0%</b>
6 April 2019 onwards	3.0%	4.0%	1.0%	<b>8.0%</b>

Source: tPR. Contributions expressed as percentage of band earnings: £5,824 - £43,000 for 2016/17

# The key statistics

	By end-September 2016
<b>Employers staged</b>	256,888
<b>Employees auto-enrolled</b>	6,732,000
<b>Employees already in workplace scheme</b>	10,160,000
<b>Employees automatically re-enrolled</b>	253,000
<b>Average employee opt out rate</b>	9%
<b>Ineligible employees</b>	6,054,000

Source: tPR Automatic Enrolment Declaration of Compliance Report September 2016



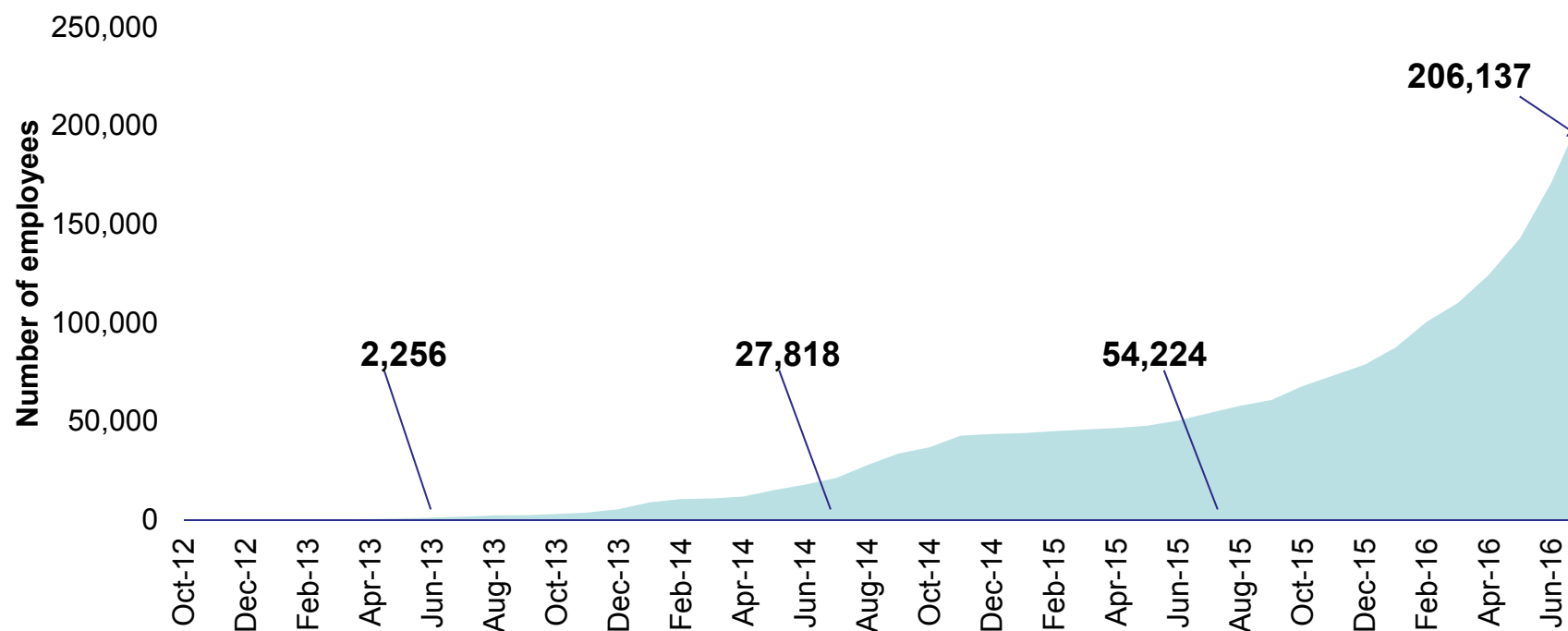
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# Smaller employers are beginning to stage

- The number of employees going through the automatic enrolment process is reducing
- The number of employers going through the process is increasing
- Employees in smaller organisations are more likely to opt out

# The number of employers going through the automatic enrolment process is increasing exponentially

Employers who completed automatic enrolment declarations of compliance by 31 July 2016 (cumulative)

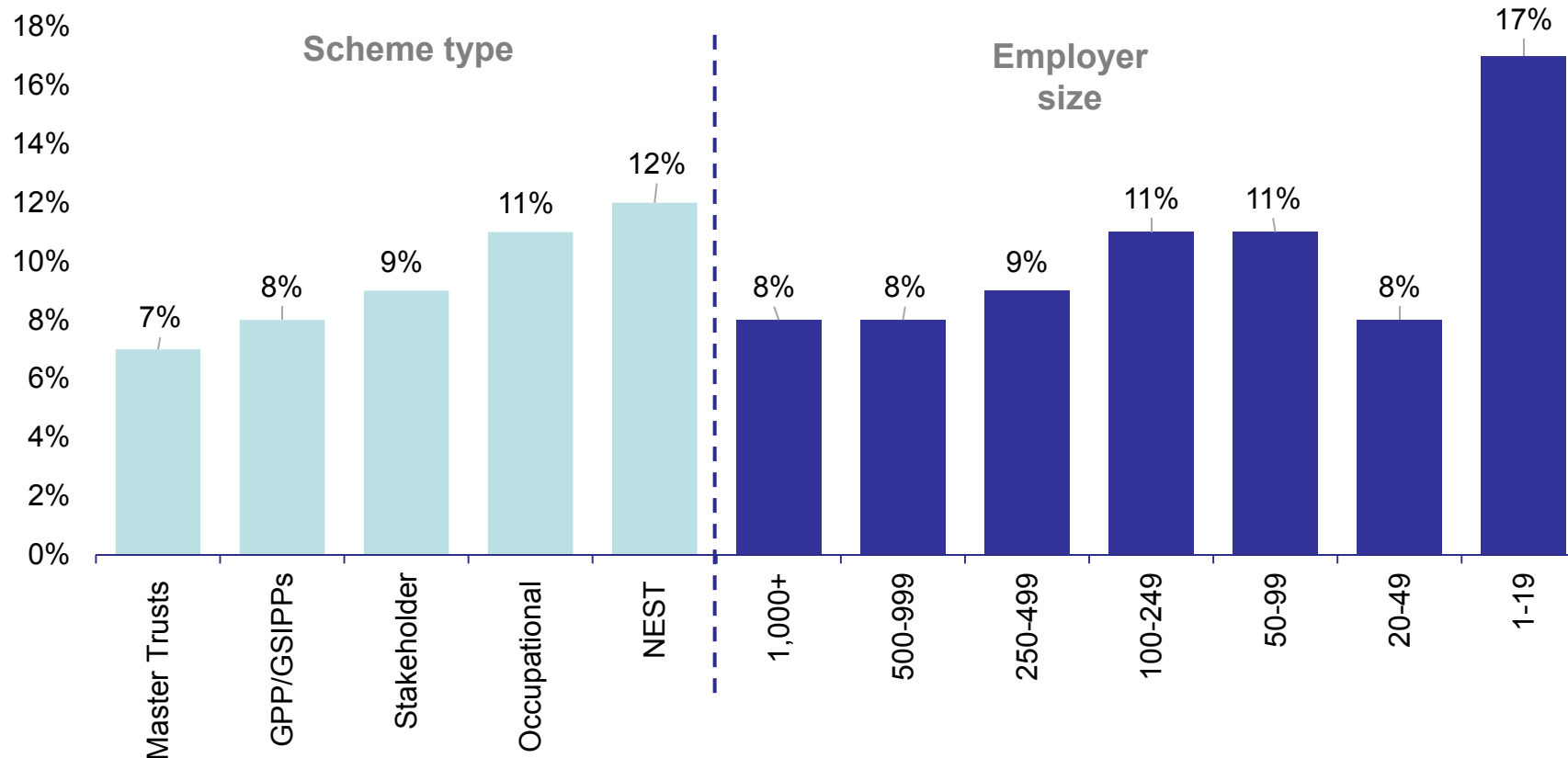


Source: *The PPI's The Future Book: unravelling workplace pensions 2016.*



# Those working for the smallest employers have the highest opt *out* rate at 17%

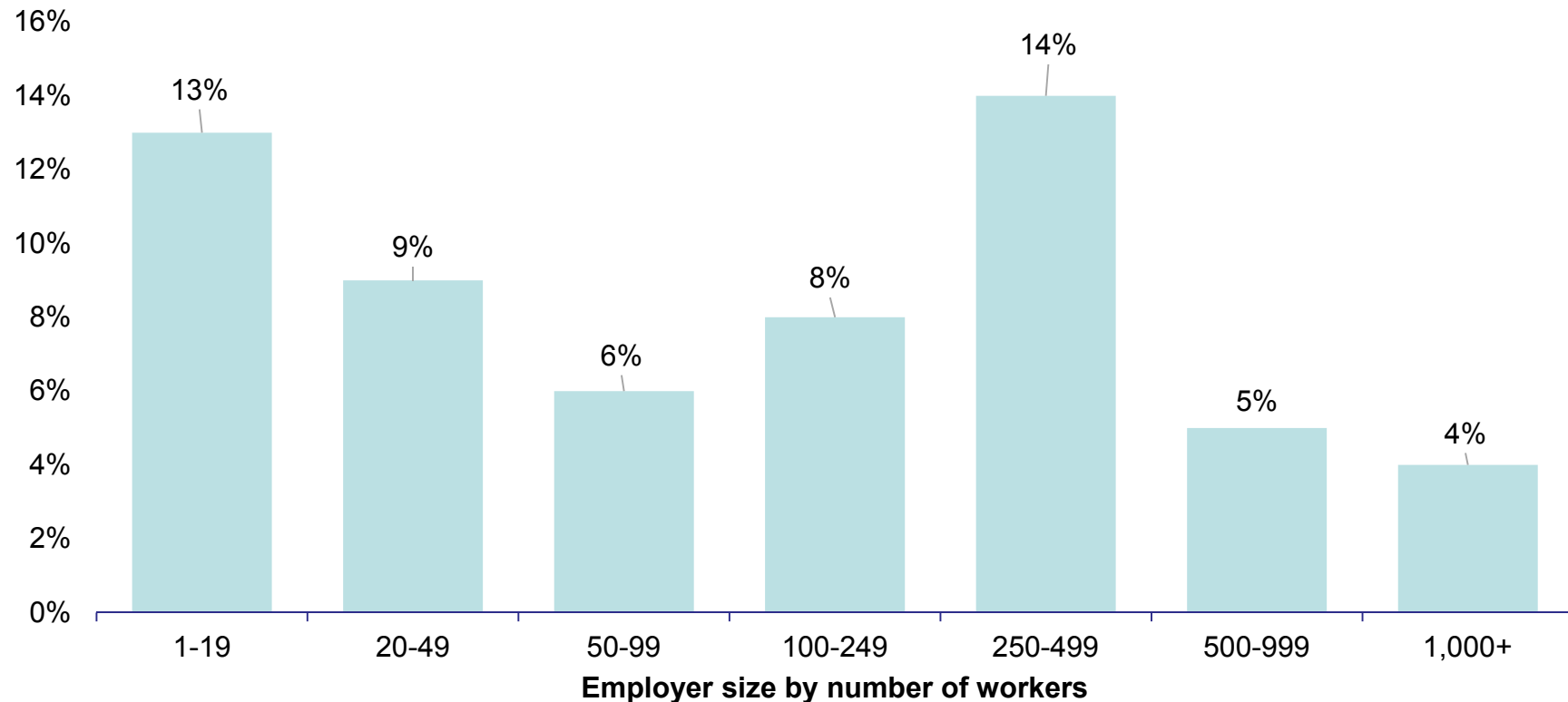
Opt outs by employer size and scheme type (2015)



Source: *The PPI's The Future Book: unravelling workplace pensions 2016*.

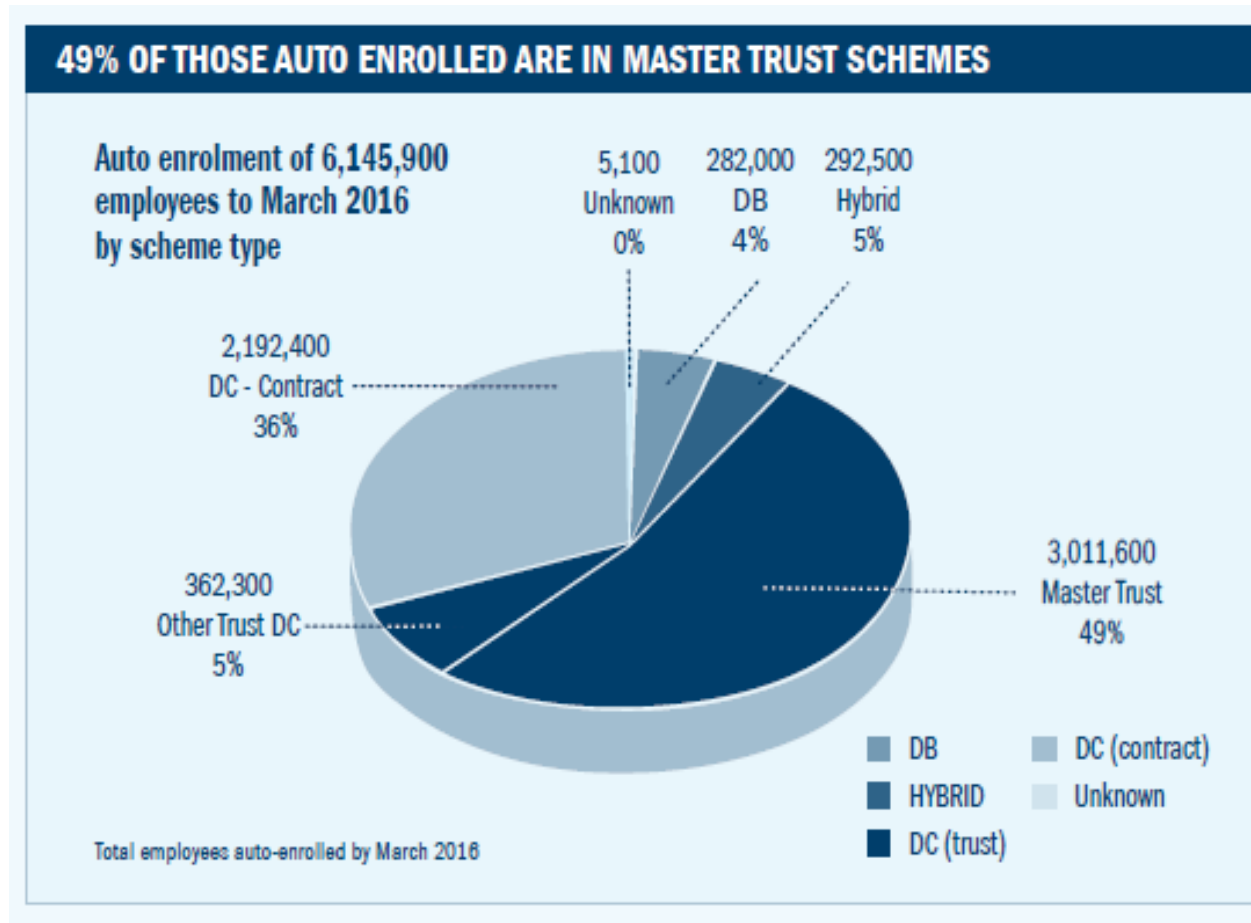
# Opt *in* rates are highest among smaller employers

Proportion of ineligible employees opting-in to pension schemes by employer size, 2015



Source: *The PPI's The Future Book: unravelling workplace pensions 2016*.

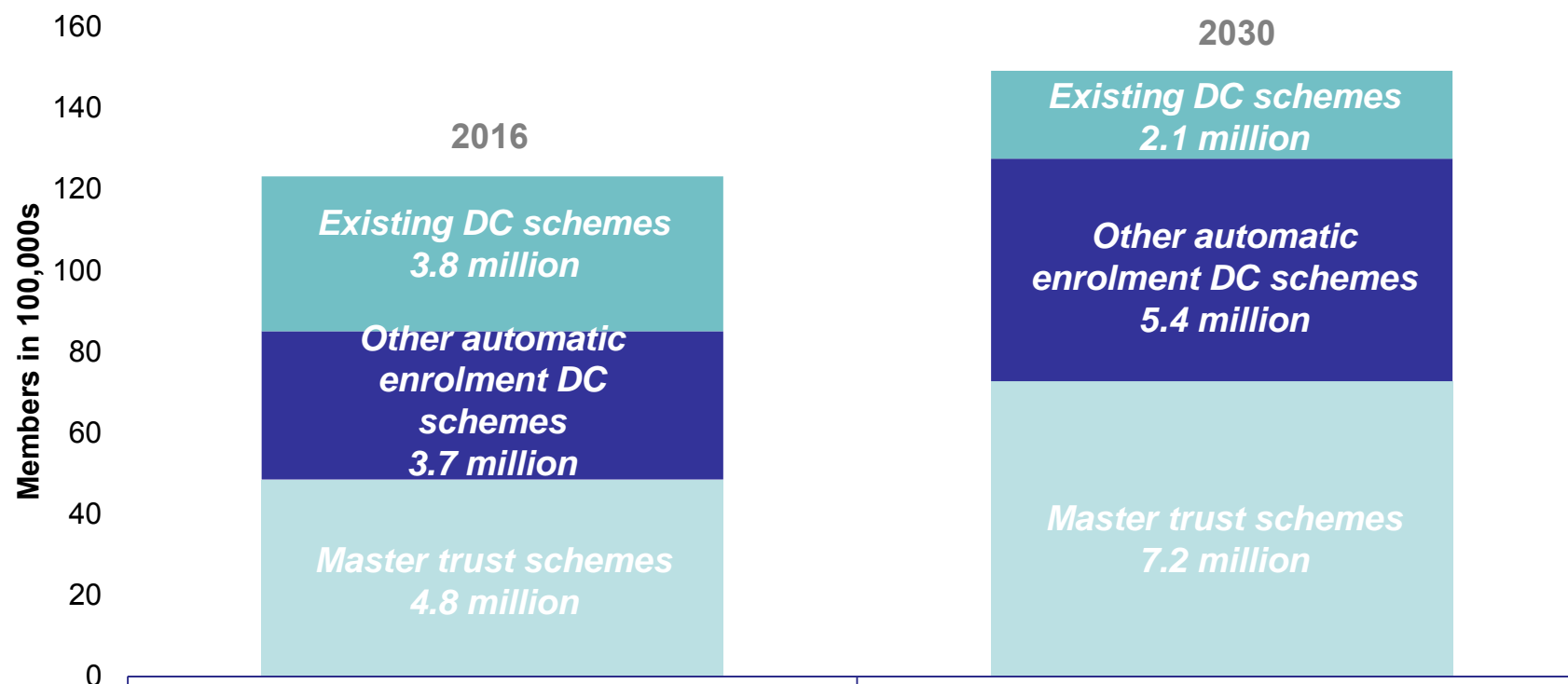
# Nearly 50% of auto-enrolled employees in master trust schemes



Source: *The PPI's The Future Book: unravelling workplace pensions 2016.*

# By 2030 50% of DC scheme members could be in master trust/multi-employer schemes

Workplace DC by scheme members in 2016 and 2030



Source: *The PPI's The Future Book: unravelling workplace pensions 2016.*

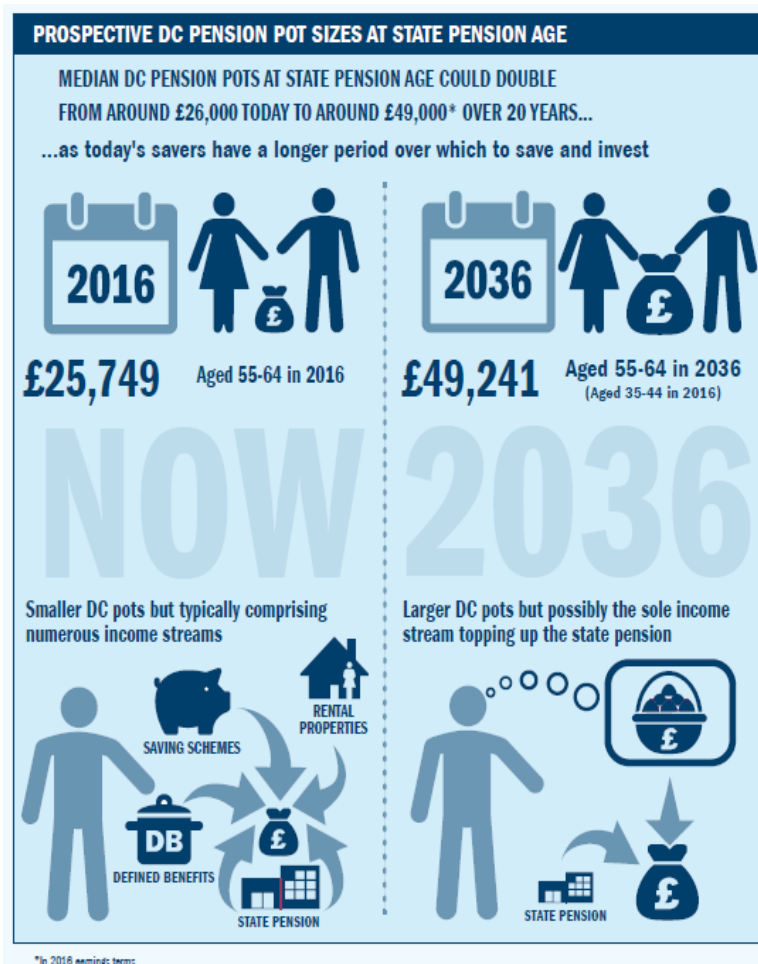


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# More people are saving, bringing the average levels down

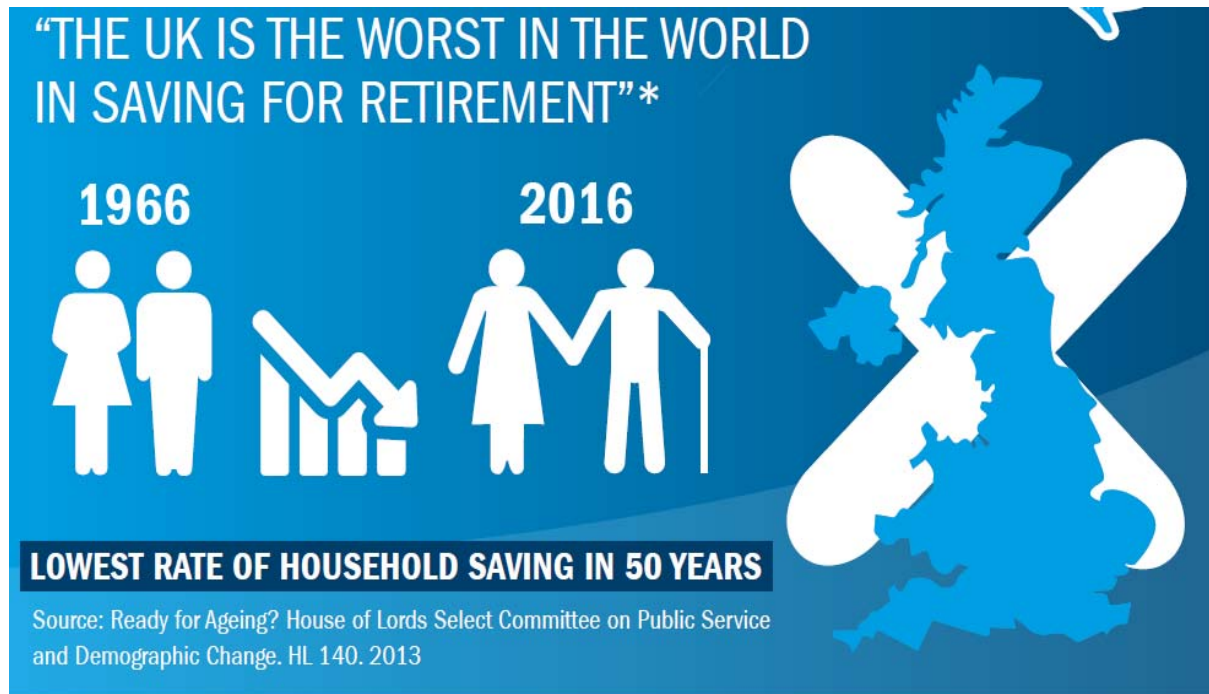
- More people are saving in DC pensions
- The average contribution and pot size has fallen
- Over time, these will rise again

# The inadequacy of current and projected median DC pension pots for the 55s-64s



Source: *The PPI's The Future Book: unravelling workplace pensions 2016.*

# The UK is the worst in the world in saving for retirement



Source: *Columbia Threadneedle Investments*.

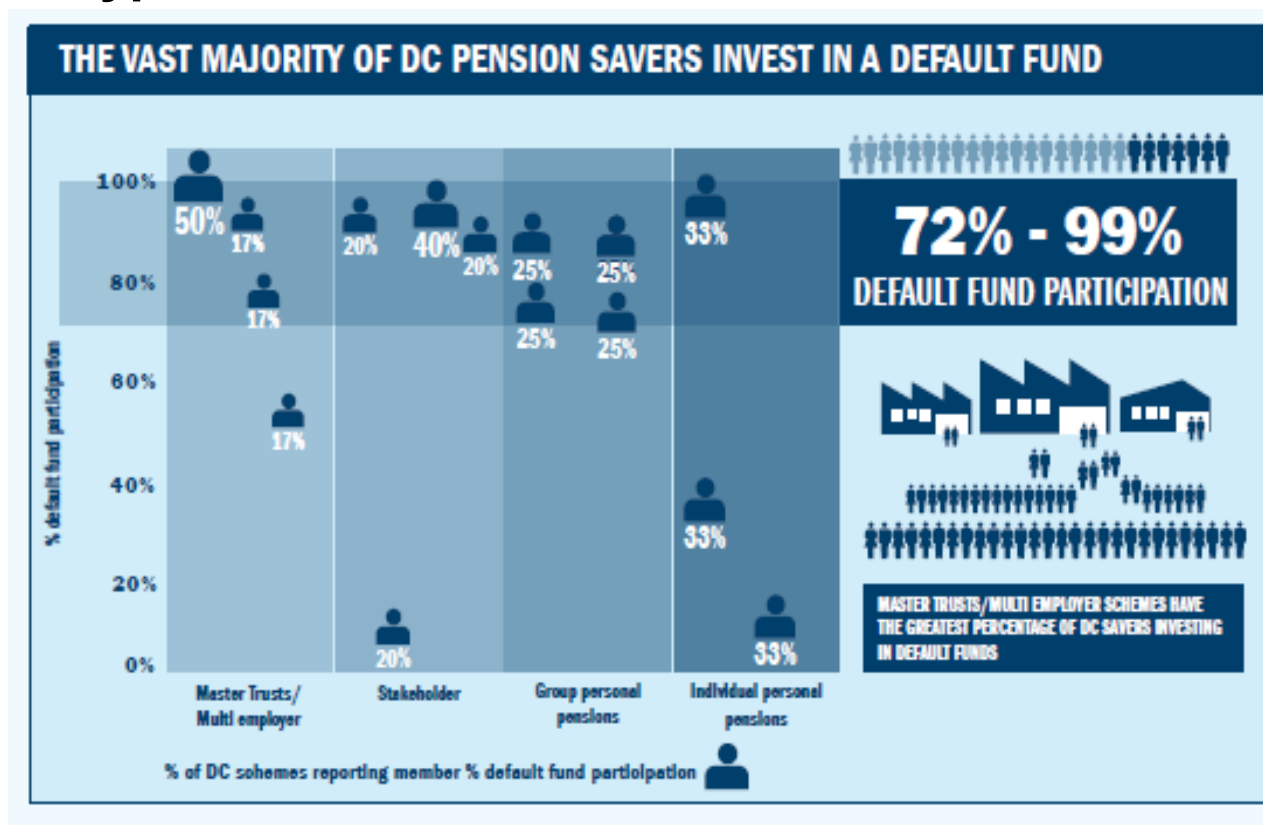


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# Where are these savings being invested?

Half of master trusts report that 99% of membership is invested in the default fund

Proportion of schemes reporting default fund participation levels, by scheme type, 2016



Source: The PPI's The Future Book: unravelling workplace pensions 2016.



# The importance of a fit-for-purpose default fund

## DC DEFAULT FUNDS

Is your default fund fit for purpose?



## WHY IT IS IMPORTANT TO INVEST YOUR MONEY CORRECTLY?

Because up to 10%...30%...60% of the income stream in retirement is attributable to...

10%



PRE RETIREMENT  
Savings

30%



PRE RETIREMENT  
Investment

60%



POST RETIREMENT  
Investment

85%



OF DC MEMBERS INVEST IN DEFAULT FUNDS

But only fit-for-purpose default funds offer the following...



INFLATION PLUS  
RETURNS



LOW VOLATILITY



RESILIENCE IN ALL MARKET  
CONDITIONS



VALUE FOR MONEY

Because of what is found under the bonnet.



DIVERSIFIED ASSETS



DYNAMIC ASSET ALLOCATION



ACTIVE FUND ALLOCATION

Source: Columbia Threadneedle Investments.



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## **How behavioural economics can boost retirement saving**



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# A bag costs 5p, but that's not the point!



# Another example of creating a powerful social norm...



**Brentwood people don't litter  
Brentwood people keep Brentwood beautiful**



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# ...and one that doesn't!



Bin it

#Don't toss it





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# Stick doesn't work...







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... but a gentle nudge often does!





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# Everyday behavioural interventions

## Makeover one brush at a time

A police initiative bringing a splash of colour to an intimidating subway has helped to give youngsters some "ownership" of their community.

Eight schools were invited to take part in the Upminster Community Art Project, which has transformed the underpass running from St Mary's Lane to Dayncourt Gardens. Armed with a handful of paint brushes, pupils were asked to create designs around the theme "what

Hayley Anderson  
hayleyanderson@bt.com

community means to me". Upminster Library, Gaynes Parkway, school canteens and Upminster station are just some aspects of the area immortalised in the mural.

■ Turn to page three for the full story.



■ Hall Mead School students with PC Sarah Morris and PCSO Julie Wade.



## Lick of paint transforms subway

Hayley Anderson  
hayleyanderson@bt.com

From a dark, dingy underpass is a tunnel of colour. Children have helped to transform pedestrian journeys simply by picking up a paintbrush.

The Upminster Community Art Project is a police initiative which has encouraged pupils from eight schools to show off their creative talents. In redecorating part of a subway running from St Mary's Lane to Dayncourt Gardens.

PC Sarah Morris of Upminster's safer neighbourhood team, is hoping the project will bring the community together.

"There has been some low level graffiti in the subway and anti-social behaviour so people can feel a bit intimidated to walk down there," she said.

"But making the area more lively with the project and the mural, I think it would be a good idea to



get all the schools in the area involved to take part in giving it a lick of paint.

"They were more than happy to help with the project and the mural was brilliant."

Upminster Library, Canning

Parkway school canteens and Upminster station are just some aspects of the area included in the mural.

Students from Cooper's Company and Colman School, St Mary's Lane, Upminster decided to volunteer to represent the school's charity work, to participate in the above-mentioned and above it has caused. Head of art, Kate Telford said: "We were approached by police and were more than happy to take part in the project."

"I am glad it's a nice thing for the people to do and for the people in the community."

The initiative is due to be completed next week, with the mural given to finishing touches by officers.

PC Morris added: "We wanted to brighten the area up and to give the youth some ownership of where they live and help them feel part of the community."



Source: Romford and Havering Post, 20 July 2016.





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## The impediments to achieving a good retirement outcome are many and various...

- Complexity and multiplicity of decisions
- Low level of basic numeracy and financial literacy
- Lack of frames of reference
- Paucity of guidance
- Unwillingness and/or inability to pay for financial advice
- Inertia
- Lack of trust

**“The result is a deep-seated reluctance to engage with pensions”**

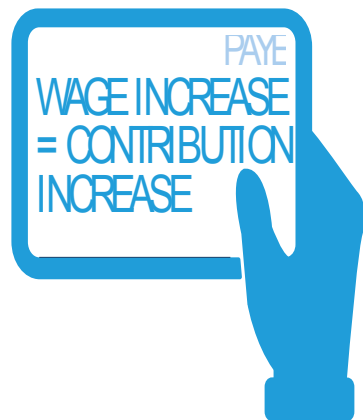


- Present bias and anchoring result in sub optimal levels of saving
- Present bias
  - Spend today rather than save for tomorrow
- Anchoring
  - Minimum contribution levels used as decision making reference points

<sup>1</sup>David Brooks. The Social Animal. Random House. 2012. ISBN 978-1-78072-037-1.

# Overcoming present bias

- Overcome present bias by
  - Visualising our future selves
  - Visualising activities will continue to enjoy
  - Auto escalation of contributions<sup>2</sup>
  - Issuing lottery tickets



## Visualising our future selves<sup>1</sup>

A: Actual Photo of First Author



B: Nonaged Digital Avatar



C: Aged Digital Avata



<sup>1</sup> Hal E. Herschfield, Daniel G. Goldstein, William F. Sharpe, Jesse Fox, Leo Yeykelis, Laura L. Carstensen, Jeremy N. Bailenson. Increasing Saving Behavior Through Age-Progressed Renderings of the Future Self. *Journal of Marketing Research* Vol. XLVIII (November 2011), S23–S37. <http://vhil.stanford.edu/mm/2011/herschfield-jmr-saving-behavior.pdf>.

<sup>2</sup> Richard H. Thaler, University of Chicago and Shlomo Benartzi, University of California, Los Angeles. *Save More Tomorrow: Using Behavioral Economics to Increase Employee Saving*. *Journal of Political Economy*, 2004, vol. 112, no. 1, pt. 2.

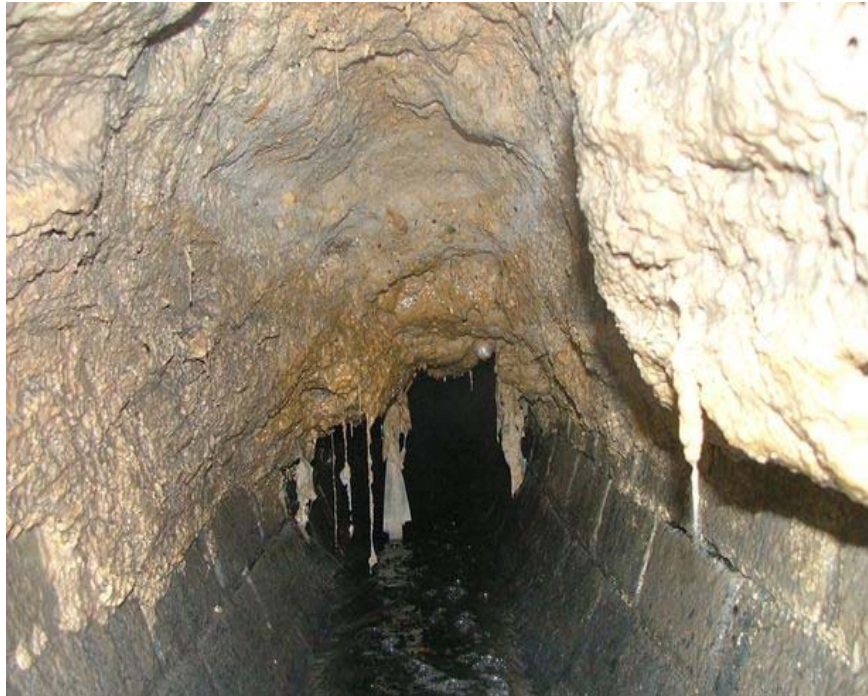
# Overcoming anchoring

- Overcome anchoring to the minimum contribution by
  - Issuing lottery tickets
  - Using simple frames of reference
  - Reframing tax relief
  - Reframing employer contributions
  - Reinforcing positive social norms



**PUBLICISE FAVOURABLE CONTRIBUTION AND COVERAGE STATISTICS THAT SHOW POSITIVE SOCIAL GROUP BEHAVIOUR TO ENCOURAGE OTHERS TO CONFORM TO SOCIAL NORMS**

# Publicising a bad social norm just compounds the problem!



**12,386 cooking fat blockages were cleared from Havering sewers over the past 5 years.**

**Don't pour your cooking fat down the drain.**





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# The conclusion?

**“Although behavioural economics doesn’t have all the answers, applying simple behavioural interventions could not only generate more optimal individual savings decisions but could ultimately lead to a retirement to be enjoyed rather than endured.”**

Source: Chris Wagstaff, Columbia Threadneedle Investments, September 2016.

Publication: *The PPI's The Future Book: unravelling workplace pensions 2016.*

# How harnessing behavioural interventions can boost retirement outcomes – the full story





# What type of pension saver are you?



## THE COMMITTED

You are contributing to your workplace pension and you have chosen what you think is a sensible investment strategy. But are you saving enough and is your choice of pension fund fit-for-purpose?



## THE SUSPICIOUS

You have read so much about banking and investment scandals that you do not trust anyone who says they can help you grow your money. So you keep your money somewhere you believe is 'safe'.



## THE DISENGAGED

You have a deep seated reluctance to engage with pensions and retirement outcomes. You believe pensions are complex and retirement is a long way off, so you prefer to spend today rather than save for tomorrow.



## THE FALSE SECURITY BRIGADE

You make the minimum contribution to your workplace pension scheme in the mistaken belief this is a target savings level and will provide an adequate sum in retirement. You may also invest your retirement savings in your scheme's default fund option believing it is suitable for everyone.





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# Thank you

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