FTSE 350 DC Pension Survey 2019
Rising to the challenge

August 2019

Introduction

This is the fourteenth edition of our FTSE DC Pension Scheme Survey, and the fourth to extend coverage to the FTSE 350.

The key findings are that DC appears to have gone through its growing pains, has left home and is now facing the future with confidence. But, as no future is certain, it is still learning and developing.

Defined contribution pension provision in the UK has gone through many life stages. Arguably, perhaps understandably, it was conceived and born without too much knowledge or recognition of what "good DC" looked like. In its early years it learnt to walk, rapidly evolving with a focus on contribution design and delivery, including administration and basic investment options. In its adolescent years there was an emphasis on "making DC better", particularly by improving governance, investment and member understanding and putting in place default approaches in various areas to reduce the need for complex decision making. It has now left home, leaving behind its defined benefit parents and making its own way in the world.

This year's survey results show that leading schemes are rising to the challenge and beginning to differentiate in areas that will make delivering long-term sustainable retirement outcomes a real possibility.

In this summary report, we have focussed on current and emerging issues through the following five sections:

Plan design
The ongoing evolution of plan design and delivery of DC

Executive DC pensions
The impact of the Corporate Governance Code on pensions for senior executives

Investment
The incorporation of ESG into investment strategies

Technology
The development of technologies to support the delivery and management of DC pension arrangements

At retirement
How to support members with their "at retirement" choices

We believe this survey report to be the market leader in giving the clearest representation of DC pension provision in the UK. Whilst the results are based on information from some of the largest publically quoted companies in the country, they are relevant to any employer with a DC pension arrangement.

This report covers only the headline results but the underlying data, and our other comprehensive resources, allows us to benchmark and compare DC schemes by industry sector, size and type of scheme.

If you would like further information please speak to your usual Willis Towers Watson consultant, or contact me directly.

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Plan design

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The desire of organisations to review their DC pension arrangements shows no signs of abating. In order of priority, across the FTSE 350 the areas that are planned to be reviewed in the next two years are: investment strategy, at retirement, delivery vehicle and contribution rates.

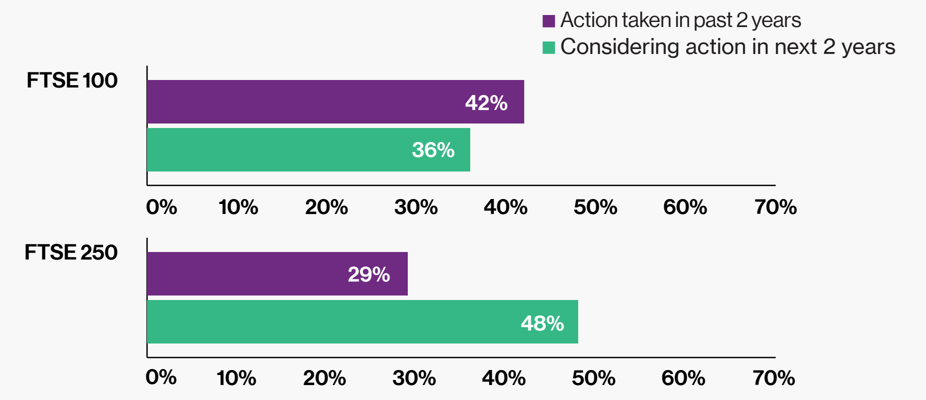
Investment default
54% plan to review

At-retirement options
47% plan to review

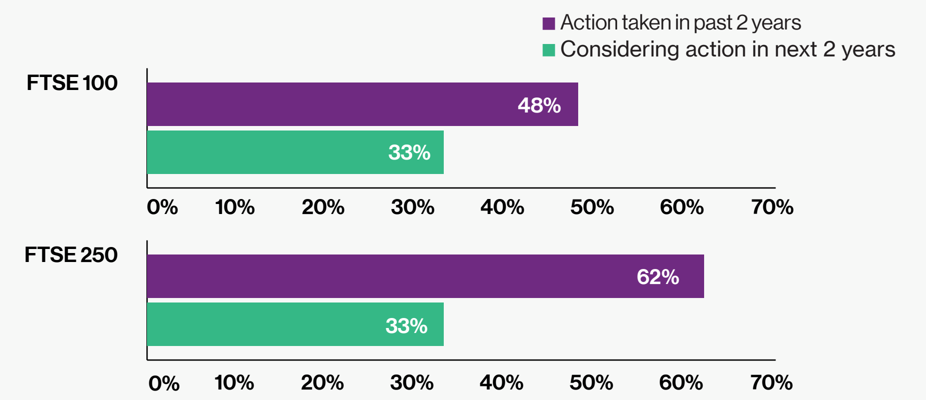
Delivery vehicle
41% plan to review

Contribution rates
33% plan to review

Review of DC vehicle +



Review of Contributions +



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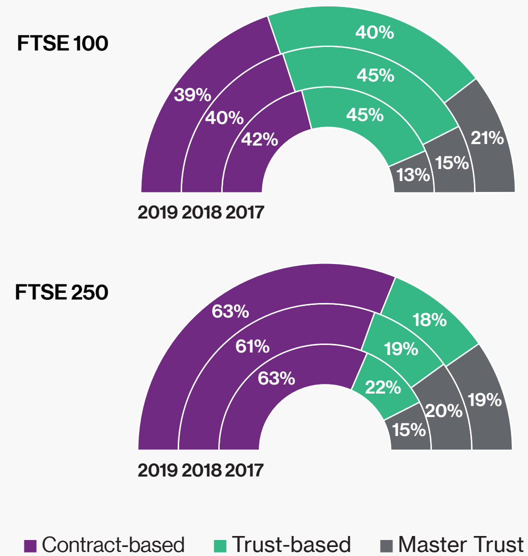
Organisations with contract-based arrangements are those most likely to be planning to review contributions, whereas trust-based plans are most likely to have already reviewed investments and be planning to review at-retirement provision. Employers with a master-trust have made recent changes in all areas except investment, reflecting that some leading master-trust providers are rapidly innovating in areas such as: retirement options and member support. Employers moving to master-trusts may also be taking the opportunity to review contribution design.

Relative to the 2018 survey results, the prevalence of master-trusts continues to increase. Interestingly, the proportion of master-trust in the FTSE 250 is stable, whereas it has increased in the FTSE 100. It is difficult to know the reason but this may be a result of a number of planned cases being in the implementation stage and not fully launched. Looking at the growth in master-trusts more generally, it may be the case that unquoted companies and non-UK headquartered organisations are leading the way. We may anticipate, therefore, that the FTSE 250 may start following this trend.

Master Trusts gain ground



> "Our experience shows that the growth of master-trusts will continue. Many employers are looking to modernise their DC pension provision and for many, moving to a master-trust provides the ability to save money, reduce risk and improve the member experience."
>
> **Fiona Matthews, Managing Director, Lifesight**

Plan design continued

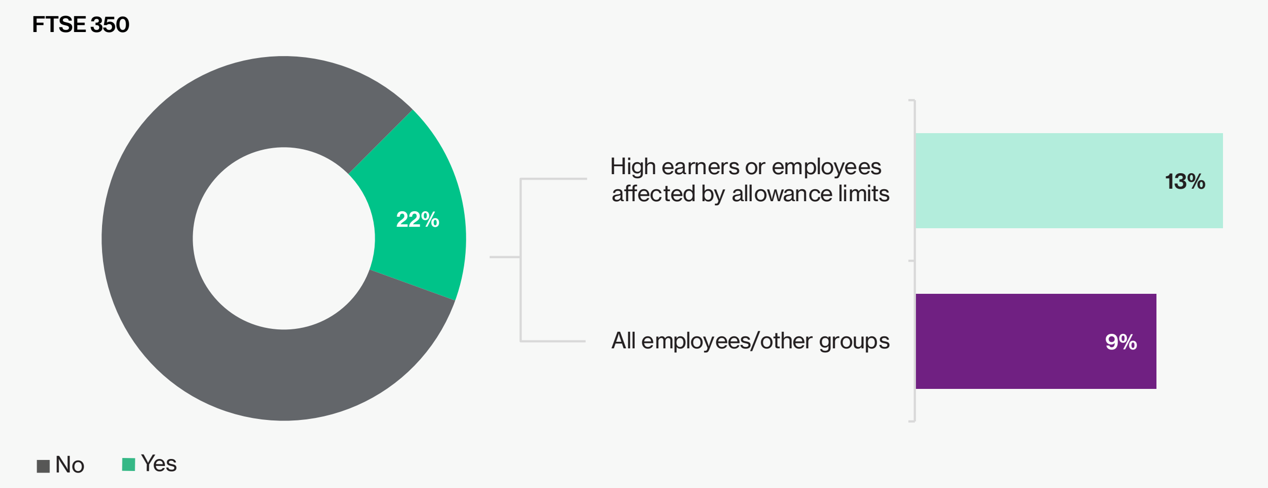
Core contributions +

Contribution rates on joining a pension scheme have increased materially across the FTSE 350 – with average employer rates increasing from 5.2% to 6.7% and employee rates from 2.4% to 3.0%.

This is probably a reaction to the final phase of auto-enrolment coming into force from April 2019 resulting in higher core contributions. For some employers, particularly in the FTSE 250, this has been off-set by a reduction in the matching opportunity available to members.

> “After a period of relative stability in contribution rates, 2019 has seen one of the largest increases for 10 years. It would appear that employers affected by the increases to minimum auto-enrolment contributions have chosen to take on a larger share of the additional burden”
>
> **Rudi Smith, Director, DC Team**
> **Willis Towers Watson**

FTSE 350 pension contribution switch to alternative savings options



One aspect of plan design that does seem to be gathering some momentum is allowing employees to divert some, or all, of their pension contributions, to alternative savings options. 22% of employers now allow this, although for the majority it is only for high earners affected by the annual allowance. A reasonable number (9%) have introduced this flexibility for the whole workforce.

DC remains the dominant pension provision for FTSE listed companies. Indeed, this now only leaves 34% of companies with defined benefit schemes that are open to at least some employees. The advent of Collective Defined Contribution (CDC) might offer an interesting alternative to traditional DB and DC for employers that want to provide benefits for a fixed cost. Willis Towers Watson has created a dedicated team of consultants to advise on this area, accessing the experience of helping to develop the UK's first CDC scheme to be launched and engaging with Government over the new legislation.

> "The DC pension scheme can be the platform from which an employer can build out a broader Financial Wellbeing solution for its employees. Although still a minority, we see the number of FTSE employers allowing access to alternative saving vehicles such as ISAs as evidence that this trend is gathering pace. This often starts with offering this option to high-earners only, but then widens to the general workforce"

Richard Sweetman, Senior Director, Financial Wellbeing Lead, Willis Towers Watson

Executive DC pensions

Around 45% of FTSE 100 companies have reduced pension contributions

The recently introduced revisions to the UK Corporate Governance Code for listed companies makes specific recommendations in relation to Directors' pension provision. In particular, pension arrangements should be aligned with those in place for the wider workforce.

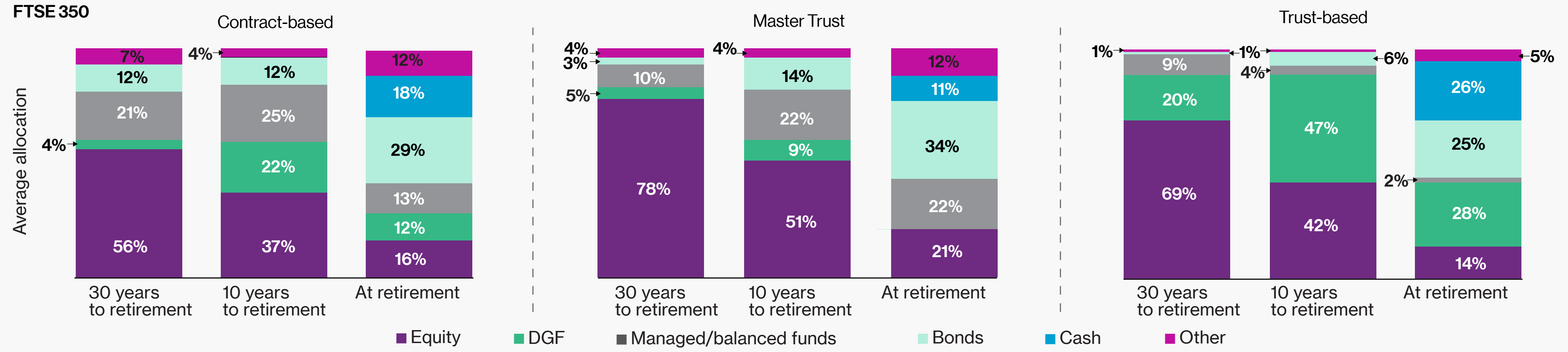
A recent analysis of FTSE 100 companies indicates that 45% of companies have reduced pension contributions for their Directors. The corresponding figure for the FTSE 250 is 30%. In the FTSE 100, of those reducing contributions, 40% have done so for existing Directors and in the FTSE 250 this figure is 30%. Furthermore, looking at the companies that have reduced contributions for new hires, the median pension contribution has reduced to 10% of salary across the whole of the FTSE 350.

Further information about the implementation of the new Code, and other aspects of remuneration policies, can be obtained by contacting Willis Towers Watson's Executive Compensation Team or your usual consultant.

> "Although thus far only a minority of companies have tabled revised remuneration policies for shareholder approval and the new Code only comes into effect for financial years starting on or after 1 January 2019, nearly half have committed to reducing pension contributions for Directors. It would appear that the new Code is having the desired effect of aligning executive pension provision to that of the wider workforce."

Gary Luck, Senior Director, Executive Compensation Team, Willis Towers Watson

Default fund design: Typical asset allocation



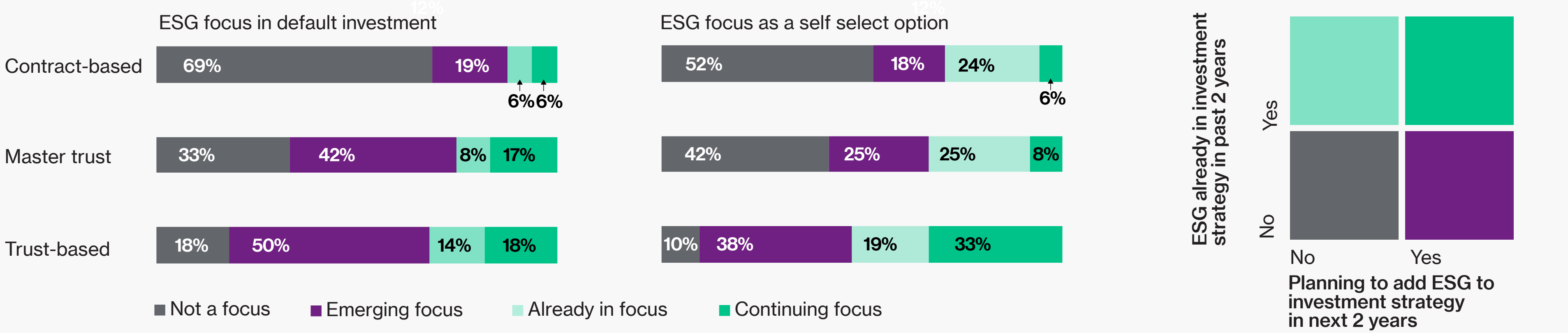
Default investment strategies continue to evolve across all scheme types. In the early stages of the growth phase, equities dominate, with approximately a 65% allocation. Closer to retirement age, 10 years out, this reduces to 40%, but interestingly at-retirement there is still a 15% allocation to equities.

The use of scheme specific, or bespoke, default designs has declined in this year's survey. Does this suggest that employers and trustees are becoming more comfortable with outsourcing or delegating this aspect of pension provision to streamline delivery? It may also reflect a belief that providers and fund managers have developed and improved their solutions.

There has been a marked increase in the number of defaults targeting drawdown. For example, 45% of trust-based schemes now target drawdown, whereas only 21% continue to target annuity purchase.

ESG and stewardship factors in investment strategy

Has your organisation incorporated environmental, social and governance (ESG) and stewardship factors into its investment strategy? Or does it have plans to do so in the next two years



Sustainable investing is high on many scheme's agendas. Across all scheme types, 62% of schemes have either taken some action or are looking to incorporate ESG (Environmental, Social and Governance) factors into the default strategy at some point in the near future, with two-thirds already having added, or considering adding, this as a self-select option. The majority of schemes have indicated that they currently, or are planning to, monitor the provider's or fund manager's policy in this area, but fewer are currently looking to directly influence their behaviours.

> "Interest in sustainable investment, including ESG considerations, has really taken-off, with both employers and trustees looking to incorporate this into DC pension design sooner rather than later. We see this as a positive development, not only in terms of investment outcomes but also by increasingly aligning the pension scheme to its members' views in this area"

Anne Swift, Senior Director, Investment Team, Willis Towers Watson

Member facing tools.

The vast majority of schemes offer an on-line communication portal, including modelling tools. Most are delivered using the provider's standard functionality, whether that be the third-party administrator or bundled provider. However, a reasonable proportion of employers, a quarter, deliver some aspects of this through a bespoke website.

Fewer than a third of employers offer a financial wellbeing portal, although these are most evident where the employer has a contract-based scheme. This is perhaps an area where the importance of having an organisation specific approach is more important. For example, in the wellbeing area, employers will often have multiple service providers covering the various benefits on offer, and one provider's website will not link everything together satisfactorily. Instead, an approach that is tailored, flexible and agnostic to providers may be the way forward.

> "Offering a member-facing on-line portal is only half the battle. The key to success is engaging and motivating the member (or employee in the case of Wellbeing portals) to change their behaviour and take action to improve their position"

Emma Starbrook, Senior Director, Communication & Change Management Team, Willis Towers Watson

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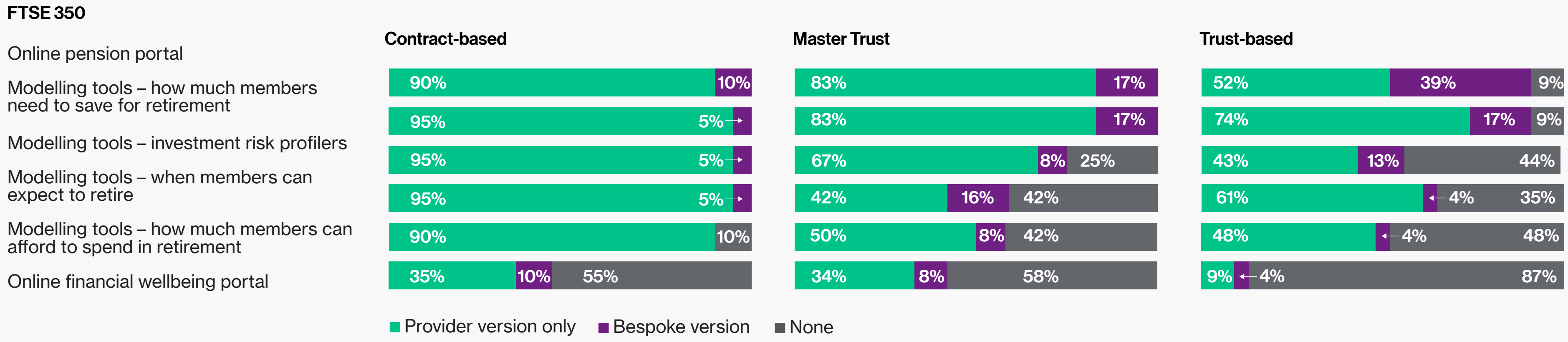
Online Support for members



Employer and Trustee facing tools

It does not appear that pensions has caught-up with the information age. 80% of schemes are still relying on static governance reporting. There is very little evidence of on-demand real-time reporting being used, although we are beginning to see this type of functionality being developed and launched by some administrators and providers.

> "The availability and use of technology to deliver good oversight of DC pension arrangements is not yet common. However, some leading pension administrators and providers do offer this type of real-time dashboard, and in the future the value of this is likely to grow as the importance of good governance increases in line with size of assets and employees' reliance on DC pensions"

Roy Edie, Director, DC Research Team, Willis Towers Watson

Willis Towers Watson

The majority of schemes offer some support to members approaching retirement – this is through a combination of a bundled provider's own proposition and the appointment of a third-party service. A notable change this year is the number of own-trust schemes offering facilitated access to a nominated third-party drawdown provider.

Despite the availability of the £500 pension advice allowance, few trust-based schemes allow this facility – this being despite many more offering access to a member paid advice service. It would appear that many employers and trustees are not taking up the challenge of providing access to financial advice in an accessible way, nor taking full advantage of the tax efficient options available.

At-retirement support for members

FTSE 350	Contract-based	Master Trust	Trust-based
Provider's support proposition	72%	67%	39%
In-plan drawdown	20%	33%	5%
Third-party drawdown option	17%	22%	21%
£500 pension advice allowance	13%	22%	3%
3rd-party annuity broking service	33%	44%	76%
Member paid advice service	11%	39%	21%
Employer paid advice service	7%	22%	11%

“It is gratifying to see the increase in the number of schemes facilitating access to at-retirement drawdown options. However, this can only be fully optimised by wrapping around a comprehensive support service, that is flexible to the individual member's needs. An integrated approach to pre and post retirement guidance and advice, like Willis Towers Watson's Retire Able solution, is one way to achieve this.”

Anne Jones, Director, DC Consulting Team, Willis Towers Watson

This year's survey covers 239 of the FTSE 350 companies. This represents 87% of the eligible companies in the FTSE 350 Index as at the end of 2018. This excludes investment trusts and overseas companies that form part of the index but without a material workforce in the UK.

Most companies assisted by completing our survey questionnaire, while information on others was obtained from within our own organisation or by using details available in the public domain. Consequently, we do not have full data for every single question and graphs are representative only of the data we have for each question.

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Further information

Whilst producing this survey, we have collected a large amount of data. For the sake of brevity, we have not reproduced all of this data here. Indeed, the information collected for this survey is supplemented by our wider database resources. If you would like to discuss the content of the survey, or understand how your DC arrangement compares to a peer group, please contact your usual Willis Towers Watson consultant or:

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