FTSE 350 DC Pension Survey 2020

Steering towards greater member support

June 2020

FTSE 350 DC Pension Survey 2020

Steering towards greater member support

Table of contents

Introduction

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

First and foremost, we would like to convey our thanks to all those who participated in our survey during this unprecedented period. We know the many challenges facing both individuals and organisations. The time that has been spent providing us with this valuable information is much appreciated.

At the time of collecting data for this survey, we were at the very beginning of the COVID-19 pandemic, and it's fair to say that any longer-term effects this will have on Defined Contribution (DC) provision will only be known as time unfolds. The market turbulence will bring the opportunity to 'stress test' current investment strategies, and the challenges we have faced will likely prompt reviews to current practices and provision.

Our 2020 survey reflects relative consistency and stability since our previous survey. The high contribution levels from last year that were driven by the raising of auto-enrolment minimums have been maintained and there is little evidence of major changes in plan design.

A number of key themes have been drawn out of this report which we will explore in greater detail:

Plan design

There has been a slowdown in scheme changes, particularly within the FTSE 100. However, there is still evidence of Plan sponsors looking to consider the vehicle they use for their DC provision and an increased focus on how design elements can support improved member outcomes.

Financial wellbeing

This continues to be an area of growing focus for organisations, and seems to be most prevalent amongst those that have adopted bundled solutions; master trusts in particular.

Investment

Many schemes have already altered their default designs moving towards targeting drawdown or a balanced at retirement outcome. The implementation of ESG has been firmly on the agenda with many looking to incorporate this into the default or seeing it delivered through adding more self-select options.

At retirement

We have seen a steady reduction in pension scheme charges which will have a positive impact for members and the value of their savings at retirement. Our results show that FTSE 350 companies are looking to review the services that are made available to members, particularly in the run up to retirement, thereby further improving member outcomes at the point of access.

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.

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

Gemma Burrows
Director

Contact: +44 (0) 20 3124 6345
Gemma.Burrows@willistowerswatson.com

Roy Edie,
Director

Contact +44 (0) 17 3727 4543
Roy.Edie@willistowerswatson.com

The near-term outlook

Willis Towers Watson

Expected changes over the next two years
(Very/extremely likely)

- Enhance at-retirement options: **27%**
- Default investment strategy: **18%**
- Enhance contribution flexibility: **11%**
- Delivery vehicle: **9%**
- Enhance contribution rates: **5%**

When thinking about the future, enhancements in the at-retirement options are expected with almost 3 in 10 schemes being very or extremely likely to do so. Trust-based schemes are the ones that are more likely to introduce changes in this area, with almost half expecting enhancements, while for contract-based and master trust this number goes down to 14% and 15% respectively.

Almost 1 in 5 schemes are looking to change their default investment strategy. Trust-based schemes are leading the charge with 27% of these schemes being very or extremely likely to do so.

The ‘elephant in the room’ is of course COVID-19 and how the crisis will impact on our economy and the way we live and work in the future.

- *Could we be at a ‘high water mark’ of DC pension provision and could a global slow down put pressure on the contribution levels available to members?*
- *Fiscal tightening seems highly probable and whilst any potential review of auto-enrolment contribution levels now seems unlikely, could the UK government see higher rate tax relief on pension contributions as a low hanging fruit?*
- *Could volatility in financial markets drive trustees and IGCs towards more cautious default investment designs and will the current crisis distract organisations away from addressing the greater environmental and social challenges we face, or prove the impetus to make the far-reaching changes the world needs?*
- *Will we see a further acceleration towards packaged solutions like master trust and contract-based schemes as businesses look to further delegate scheme governance and cut the cost of provision?*

Only time and future Willis Towers Watson FTSE 350 surveys will tell!

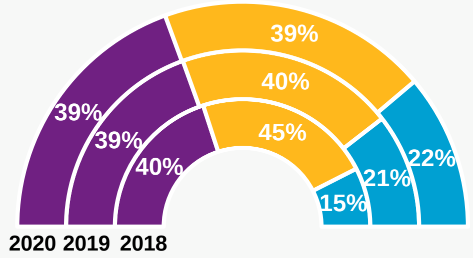
Plan design

The latest results from our 2020 survey show a continued trend in the use of master trust arrangements. The pace continues to be slow but steady. However, it is remarkable to think that master trusts now represent the chosen method of delivery of nearly 1 in 4 companies in the FTSE 350, given it is only a little more than 7 years since they entered the mainstream market. Our expectation is that this trajectory will continue as there is also still a good proportion of FTSE 350 companies that have indicated they are likely or extremely likely to change the vehicle they use in the next 2 years.

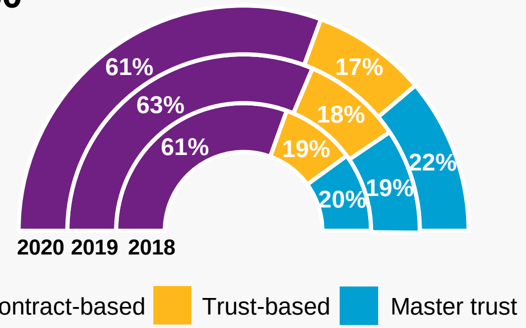
Companies that have chosen to continue to operate their own trust-based arrangement have also looked to make delivery as efficient as possible, with the result that nearly 9 in 10 FTSE 350 DC arrangements are now “bundled”, with investment management and day to day administration undertaken by the same provider regardless of the wrapper under which they are delivered. All of this points to companies looking to modernise the delivery of DC pensions to improve the member experience to and through retirement, taking advantage of options to deliver that experience in a manner and pace that is more efficient and effective than they might be able to achieve alone.

Master trusts gain ground

FTSE 100



FTSE 250



> It will be interesting to see what impact the expected introduction of Collective Defined Contribution in early 2021 has on this landscape. DC design and delivery has changed significantly in the last five years and CDC may well mark a further step forward in plan design.

Simon Hankin, Director, Retirement

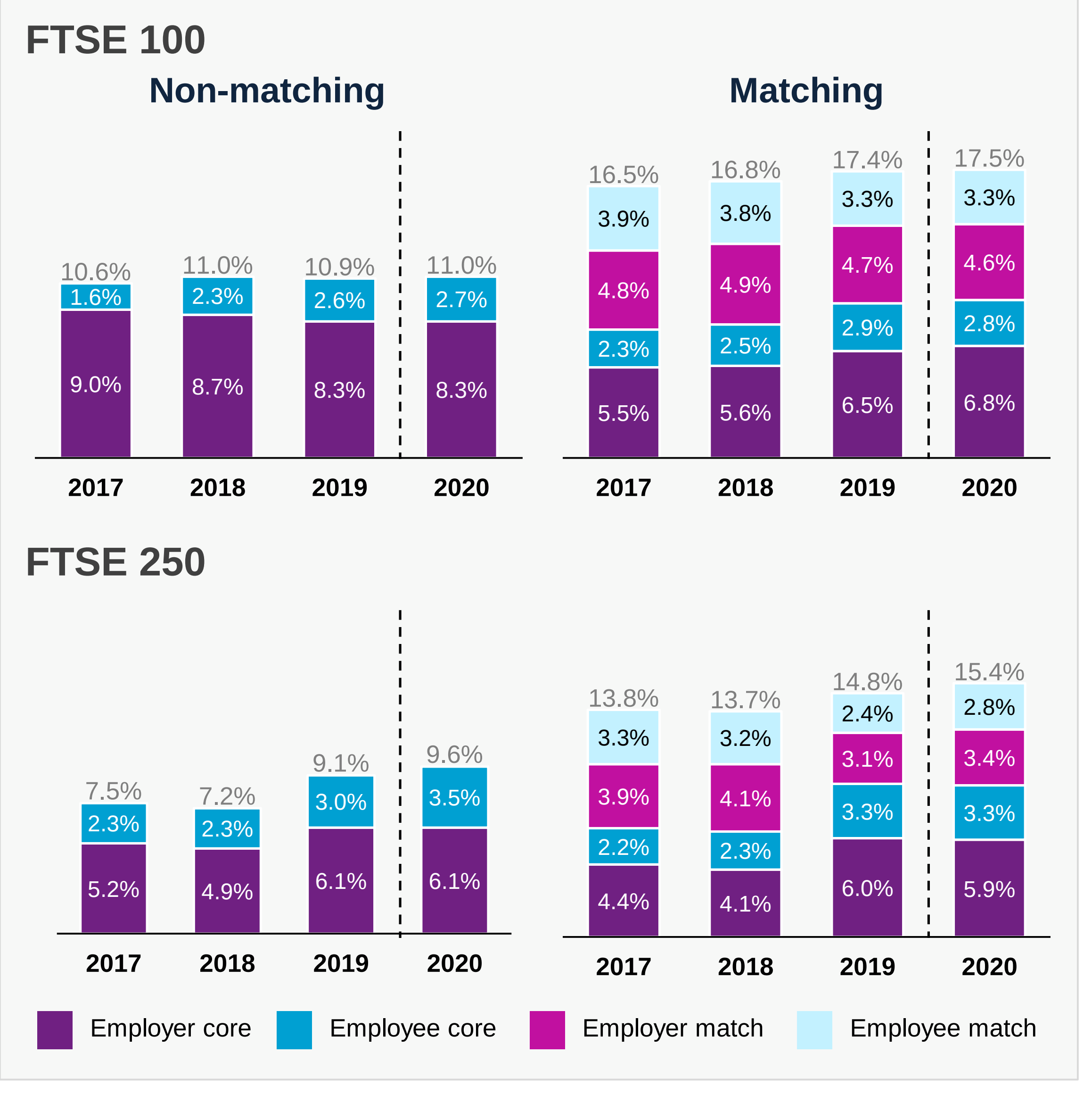
DC vehicle: Changes expected

Schemes **very or extremely likely** to change their DC vehicle in next 2 years

- **5%** of **FTSE 100**
- **13%** of **FTSE 250**

Willis Towers Watson

Average contribution rates



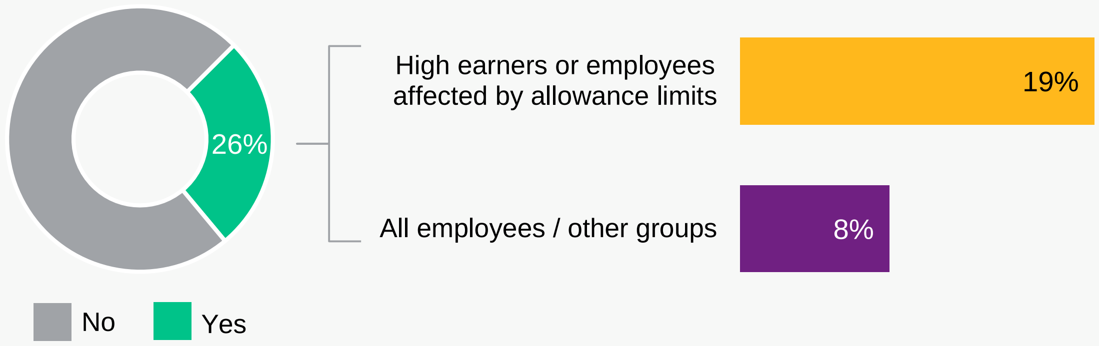
Within the FTSE 100, contributions have stabilised after something of a jump last year. However, the FTSE 250 group continues to show a fairly material upward trend relative to last year. What's interesting though is that nearly 9 in 10 companies use the minimum contribution rate under their own scheme's design as their default entry level. That's not to say all companies are using the statutory minimum design required by legislation, but it does provide anecdotal evidence that unless individuals understand the options available and take action, additional opportunities for increased contributions might be being missed out on.

> "Our experience shows that inertia plays a part in decision making and where companies have used the maximum level within their scheme's design as a default, the majority of members have not traded down. Corporate and household budgets permitting, that could be a key mechanism in improving outcomes for saving for retirement, or support the flexibility to introduce Financial Wellbeing strategies that see pension contributions diverted to alternative savings or for management of debt"

Simon Hankin, Director, Retirement

Alternative savings options

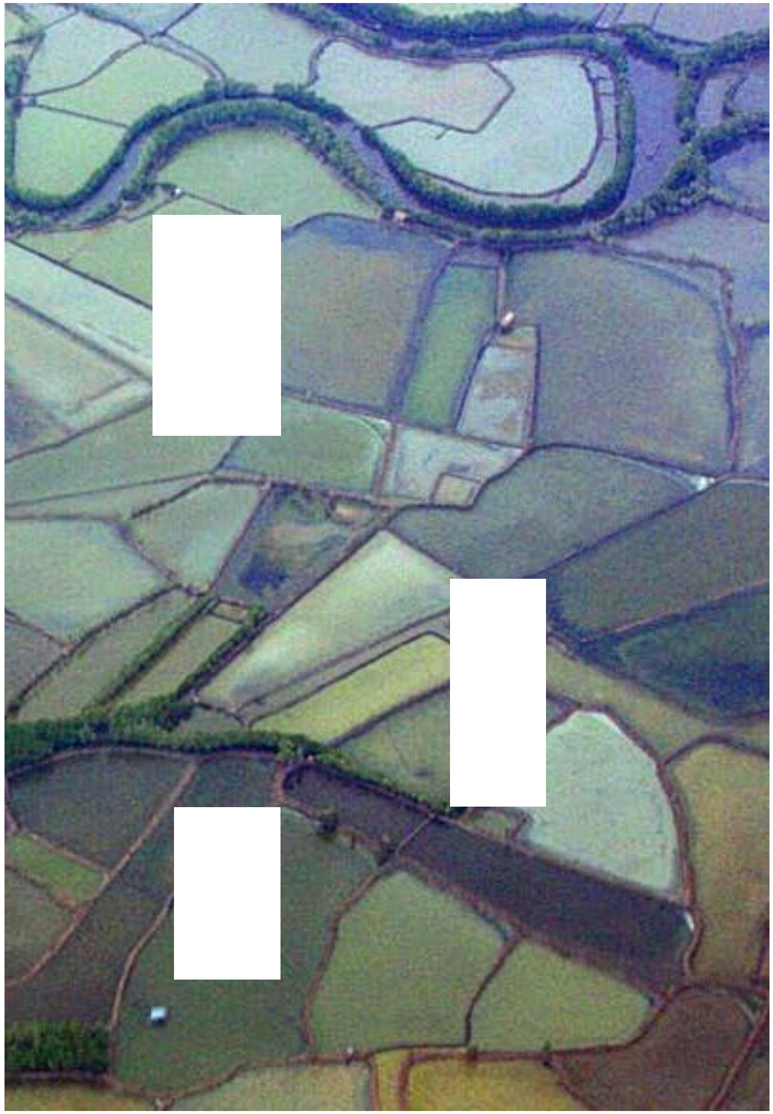
Do you allow members the option of diverting/reallocating their pension contribution to alternative savings options (e.g. ISA, investment accounts)?



Note: 'Don't know' options excluded. Percentages may not add up due to rounding.

The results of the FTSE 350 DC Pension Survey 2020 show that employers are taking some concrete actions to support financial wellbeing. About a quarter of companies offer an alternative savings vehicle alongside the pension scheme (up from 22% in the 2019 Survey). Offering such an option is much more prevalent if a master trust (35%) or contract-based vehicle (33%) is used compared to 15% for own-trust. Furthermore, 11% indicated that they were very or extremely likely in the next two years to change the pension plan design to allow employees to divert some element of the pension contribution to an alternative savings option.

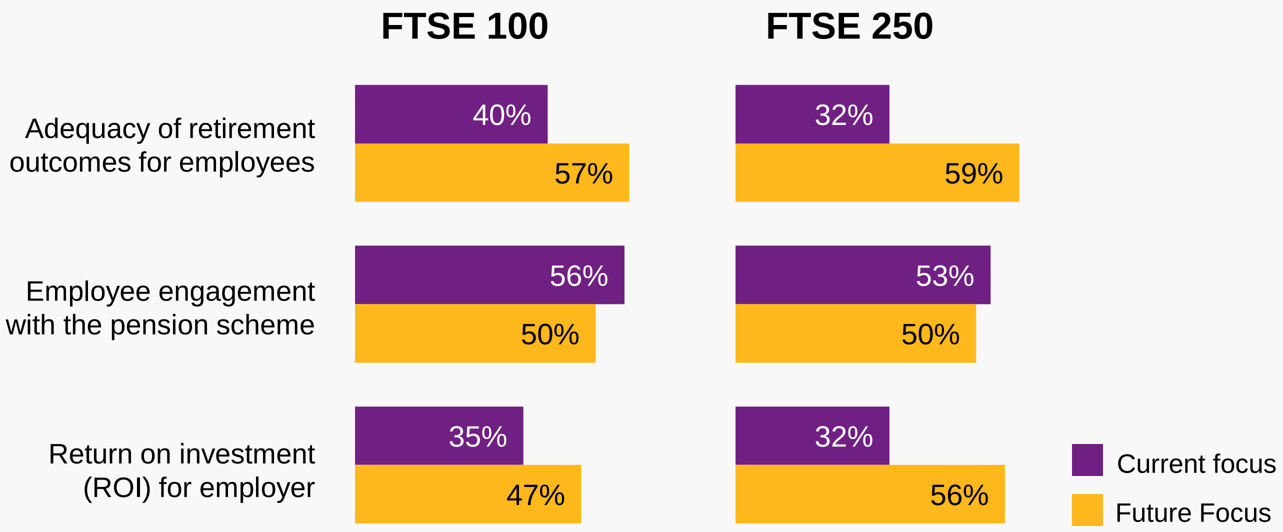
We know that introducing financial wellbeing initiatives is an emerging theme for many organisations. Indeed, this might be an increasing area of focus as the world emerges from COVID-19 with the UK Willis Towers Watson COVID-19 Benefits Survey (April 2020) highlighting that financial wellbeing was a top three priority for employers.



Financial wellbeing

Pension plan assessment

Thinking about the outcomes associated with your organisation's pension plan(s), has your employer assessed any of the following in the last two years? Or does it have plans to do so in the next two years?



Note: Current focus refers to companies that have already assessed the items in the past two years.
Future focus refers to companies that plan to asses the items in the future.

> "It can be difficult to know how to launch a Financial Wellbeing programme, but evidence suggests that using a review of the pension scheme as the catalyst for introducing a wider solution can be effective."

Richard Sweetman, Senior Director, Financial Wellbeing Lead

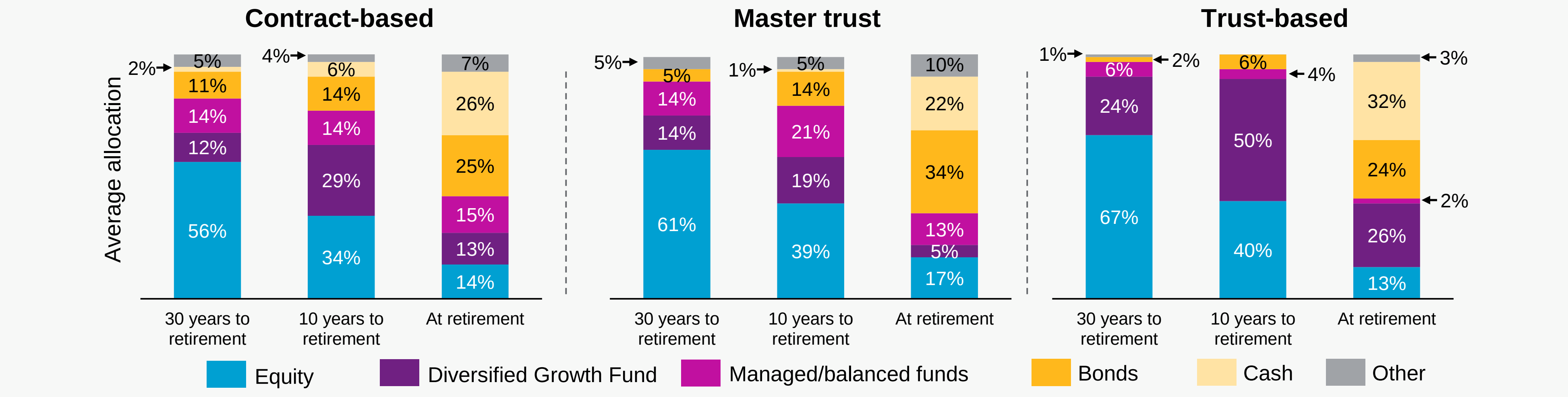
Employers are also interested to measure the success of their financial wellbeing programmes. For example, for FTSE 350 companies, 36% have already taken actions to measure the retirement outcomes of pension scheme membership, while 54% have assessed engagement levels with pensions schemes.

As noted elsewhere in this report, most employers are also looking to improve the support they give employees, and pension scheme members, to choose the right retirement option.

A big component of a Financial Wellbeing programme is communication, engagement and education. Encouragingly, most employers (68%) now offer some element of on-line resources to support financial wellbeing. However, the survey shows that employers with own-trust DC schemes, which includes many FTSE 100 companies, are least likely to provide this level of support. Only 50% of own-trust schemes have on-line financial wellbeing resources. This might be something to address for employers which have decided for good reasons that they wish to retain this choice of vehicle – providing online financial wellbeing support alongside an own-trust pension scheme is no longer insurmountable as technology now exits that is agnostic to underlying platforms and an engagement 'overlay' can be easily delivered for these larger organisations.

Willis Towers Watson

Default fund design: Typical asset allocation



Note: Percentages may not add up to 100% due to rounding

Our survey shows that default investment strategies have continued to develop for all scheme types. Whilst equities continue to be used to deliver long-term growth for members, for master trusts and trust-based schemes, pure equity allocations have fallen year on year, with greater reliance on diversified growth funds.

Closer to retirement age there is a degree of consistency between all scheme types' asset allocations, with some exposure to equities and other growth assets maintained, but with bonds and cash dominating reflecting members' reduced ability to bear investment risk at this point.

There has been a material decrease in the proportion of schemes using a bespoke default strategy year on year (77% bespoke in 2019 vs. 61% in 2020), continuing the trend from previous years.

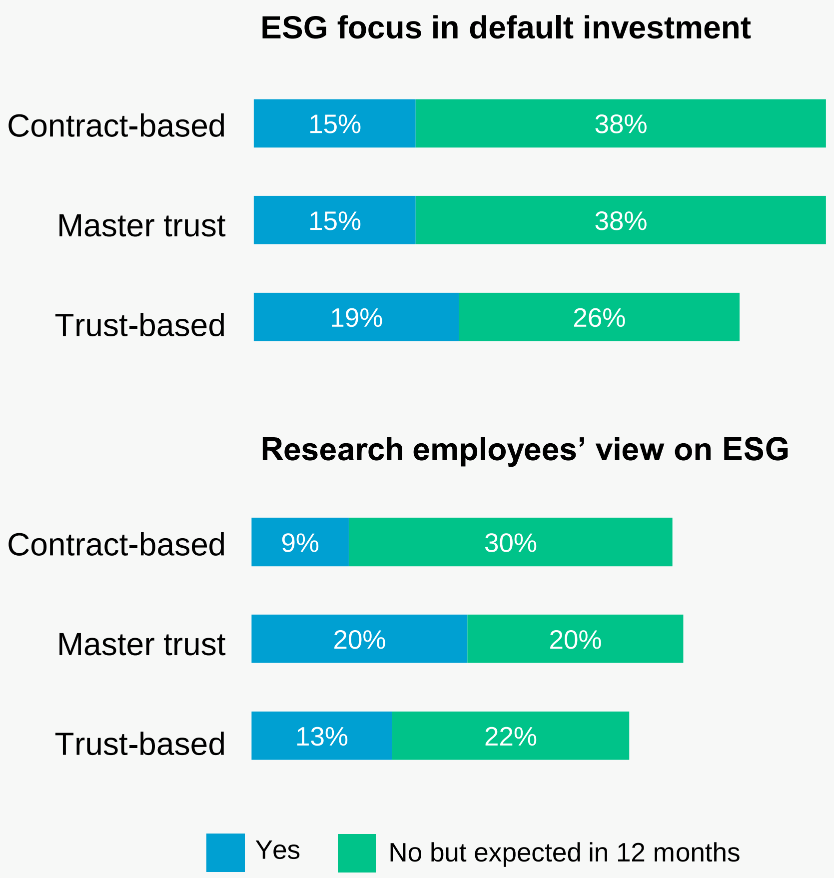
This may reflect the lower governance demands placed on employers choosing packaged solutions, and the outsourcing of administration and investment design to the chosen provider. In addition, the continued trend towards standardised options is further evidence the market may believe providers have improved their solutions, with a number now, for example, enhancing their offerings through considering sustainable investment issues and improving the diversification of their portfolios away from just equities, bonds, and cash.

The proportion of schemes with defaults targeting annuity purchase has fallen materially again, from 21% in 2019 to 15% in 2020, with drawdown-targeting defaults being the predominant replacement. This indicates trustees' and scheme sponsors' conviction members are unlikely to purchase annuities at retirement. We may see further exacerbation of this trend in light of the market events of Q1 2020 which have led to falls in annuity rates, which may further erode members' perceptions of the value of an annuity in retirement.

Investment

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 year?



Note: 'Don't know' options excluded.

Sustainable investment and Environmental, Social, and Governance (ESG) issues are an increasing focus for all scheme types. Trust-based schemes are the most likely to have already integrated ESG factors into default investment design, but a significant proportion of both contract-based and master trust schemes are actively considering this over the next 12 months. Around 4 in 5 schemes have already, or are planning in the short term, to integrate ESG and sustainability into the self-select range.

Schemes which expect to incorporate ESG in the next 12 months are two times more likely to have already, or be planning to, undertake research on their employees' views on ESG (60% vs 24%).

Almost 9 in 10 (86%) of trust-based schemes have already increased ESG oversight of their providers, with the remaining (14%) planning to do this in the short-term. This may partly have been driven by increased regulatory pressures, although many of the schemes in the sample may adopt a best practice rather than minimum compliance approach to these issues. In contrast, only half of scheme sponsors for contract-based schemes and more than two thirds of employers using master trusts have or plan to increase ESG oversight of their providers.

27% of trust-based schemes are very or extremely likely to change default investment strategy in the next two years, compared to only 14% of contract-based schemes and 14% of master trusts reporting the same. This may simply reflect that many trust-based schemes are approaching their third triennial reviews since the introduction of pensions freedoms in the next two years.

> "With greater media and regulatory focus on these issues it is increasingly likely employees will want to make their views known to the scheme's sponsors and this may represent a good opportunity to increase engagement."

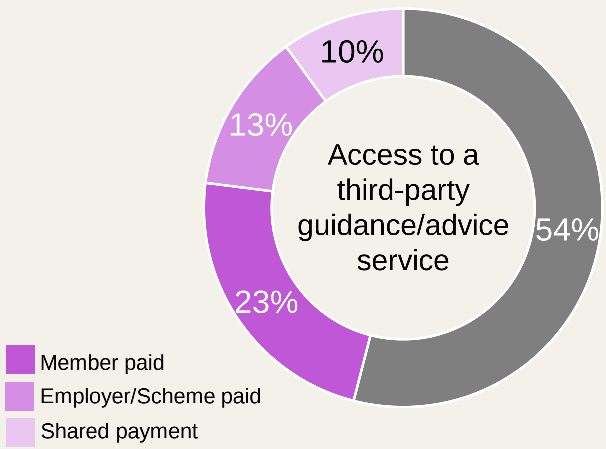
Henry Parker, Associate Director, Investment

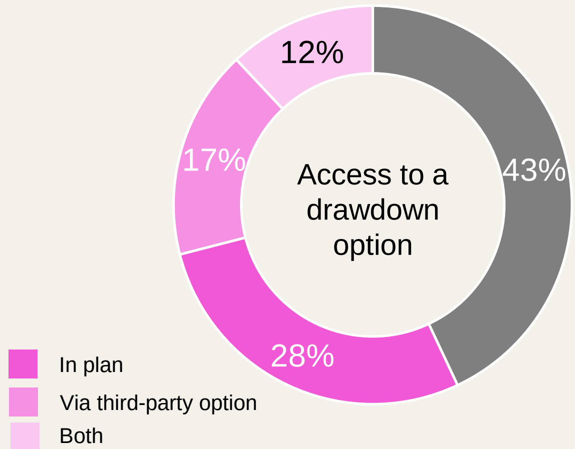
The majority of schemes in our survey offer some support to members approaching retirement – this is through a combination of a bundled provider's own proposition and the appointment of a third-party service. A notable change this year is the growth in the number of own-trust schemes offering facilitated access to a nominated third-party drawdown provider perhaps in recognition of the continued popularity of this option for retirees.

Although around a third of trust-based schemes allow access to a member paid advice service, few have so far made the £500 pension advice allowance available to fund this. It would appear that many employers and trustees are therefore missing out on providing access to financial advice by taking full advantage of this tax efficient option.

At retirement support for member *(% Yes)*

	Contract-based	Master trust	Trust-based
Use our provider's support proposition	97%	75%	58%
Access to annuity broking service	28%	41%	80%
£500 pension advice allowance	37%	35%	13%
Access to a third-party guidance/advice service	53%	61%	30%
Access to a drawdown option	65%	61%	45%





Note: 'Don't know' options excluded.

At retirement support

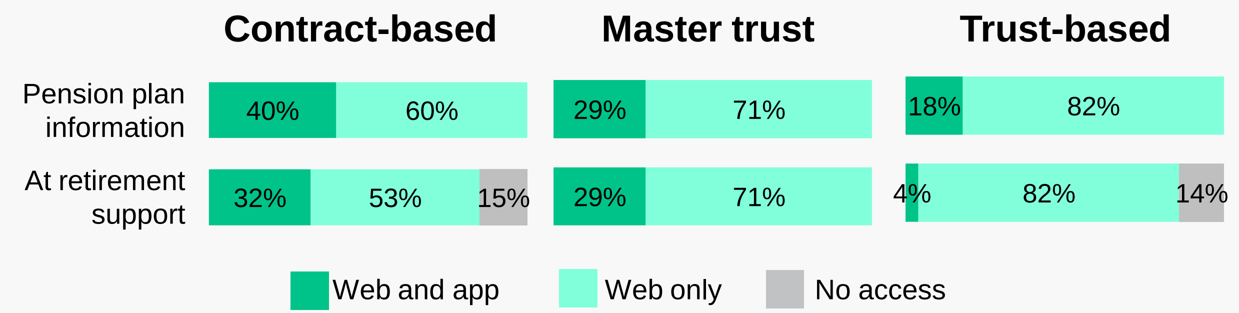
At retirement support: Changes expected

Schemes **very or extremely likely** to enhance at retirement support

- **33%** of **FTSE 100**
- **20%** of **FTSE 250**

Online support

Which of the following forms of online support does your organisation provide to members (web or via an app)?



> Implementing the right retirement journey for members is key to supporting them in obtaining the best outcome for their savings. Many schemes are looking to enhance retirement journeys in the near future to help members successfully navigate the many decisions they need to make as they start to draw on their retirement savings.

Anne Jones, Director, Retirement

It is encouraging to see that so many schemes are planning to enhance the retirement support they offer members. This appears to be the top area of focus with over 1 in 4 companies in the FTSE 350, either very likely, or extremely likely to make changes in the short term.

The FCA’s review of retirement outcomes highlighted the challenges members face in choosing their own benefits. Contract-based providers are now required to provide far more support, but we see many companies looking to supplement this even further. Many trustees are also looking at new ways to help members get the best value from their savings.

The increased use of apps to support members alongside web tools aids members in being able to access the information how they want and when they want.

About the survey

Willis Towers Watson

This year's survey covers 224 of the FTSE 350 companies. This represents 90% of the eligible companies in the FTSE 350 Index as at the end of 2020. 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.

Limitation of Reliance

In preparing this report we have relied upon information supplied to us by third parties which by necessity, may have been shortened or abbreviated. While reasonable care has been taken to gauge the reliability of this information, we are unable to guarantee the accuracy or completeness of that information, and we cannot therefore be held liable in this regard, including as to the misrepresentation of information by third parties involved.

This report is based on data/information available to us at the date of the report and takes no account of subsequent developments. This report is intended to be used for general marketing purposes and is not a substitute for specific professional advice. It may not be modified or disclosed to any other party without our prior permission, except as may be requested or required by law. This report is not intended by us to form the basis of any decision by a third party to do or omit to do anything.

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:

Gemma Burrows,
Director
T +44 (0) 20 3124 6345
Gemma.Burrows@willistowerswatson.com

Roy Edie,
Director
T +44 (0) 17 3727 4543
Roy.Edie@willistowerswatson.com

About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 45,000 employees serving more than 140 countries and markets. We design and deliver solutions that manage risk, optimise benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas — the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.

willistowerswatson.com/social-media

Towers Watson Limited (trading as Willis Towers Watson) is authorised and regulated by the Financial Conduct Authority in the UK.

WTW273069/0719

willistowerswatson.com

Willis Towers Watson