Insights
Defined Contribution

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Global Retirement Reality Report
UK Snapshot

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Here are six key insights into UK employers' evolving perspectives on retirement from our 2019 Global Retirement Reality Report (GR3).

Our 2019 Global Retirement Reality Report focuses on pension plan sponsors.

According to official statistics, many retirement savers in the United Kingdom contribute close to the minimum levels as defined by automatic enrolment.[1] We know that for many, this will not be enough for people to live comfortably in retirement. So whilst auto-enrolment has been a huge success, it is no time to rest on our laurels. Defined contribution (DC) plans have certainly shifted the financial risk away from companies to individuals, however, plan sponsors may still feel that the reputational risks remain with the company.

In order to better understand the goals and challenges that plan sponsors face, we held interviews with 195 plan sponsors in five key markets: Australia, Ireland, the Netherlands, the UK and the United States. The survey, conducted in conjunction with YouGov, covered plan sponsors with responsibility for 1.5 million members in total.

This report focuses on the results from our UK respondents and identifies the key findings for plan sponsors, providers, asset managers and policy makers. In places, we have made comparisons with the results from our 2018 Global Retirement Reality Report, which surveyed 9,451 individual DC savers, including 1,603 from the UK.

Key Findings

1 **Do It For Me** Plan sponsors don't want to get into the weeds of plan design. Providers should offer solutions that are easy to implement, understand and monitor, so that sponsors can focus on other company objectives.

2 **Members to Take the Reins** Both plan sponsors and individuals believe that members are responsible for ensuring an adequate income in retirement despite low levels of member engagement. Our results indicate that further nudges can be used to increase participation and savings rates even further.

3 **A Helping Hand** Whilst plan members themselves are viewed as most responsible for sourcing and paying for advice, sponsors recognise that they have some role to play in educating their members. There is an opportunity for asset managers, providers and master trusts to help employers with this through offering pension information and guidance.

4 **I Need Results** Whilst simplicity is key, plan sponsors identified a focus on returns when selecting providers/master trusts. We believe that diversification of asset classes and dynamic building blocks can help limit losses whilst also benefiting in periods of strong market returns.

5 **Doing Good *and* Doing Well** ESG isn't expected to compromise returns. However, sponsors identified limited product availability and higher costs as inhibitors to ESG adoption. Cost-effective solutions, such as smart beta, can help address these challenges.

6 **Changes Ahead** There are various sources of change expected over the next three to five years such as demographics, the competitive landscape and technological advancements.

Survey Methodology

In the first half of 2019, State Street Global Advisors commissioned YouGov to conduct interviews across five countries representing a range of retirement systems. We interviewed 195 DC plan sponsors:

Region	Number Surveyed
Australia	41
Ireland	30
Netherlands	37
United Kingdom	45
United States	42

Our UK sample covered the range of governance structures that are present in the market:

- **Trust-based** — 40% of the sample
- **Contract-based** — 36% of the sample
- **Master Trust** — 13% of the sample
- **Other** — 11%

Results

Our UK report focuses on six key findings specific to plan sponsors, providers and policy makers.

1

Do It for Me Plan sponsors don't want to get into the weeds of investment design.

We wanted to understand what was important to plan sponsors and their organisations.

Plan sponsors often have competing priorities when it comes to overseeing the pension plan and meeting their company's strategic objectives. Our survey found that 67% of plan sponsors were willing to delegate the selection of specific funds in the default, which could reflect their desire to focus day-to-day work on other matters.

Whilst globally most respondents said that "doing the right thing for my retirement plan's members/employees" was most important, the UK and Ireland bucked that trend by placing "recruiting and retaining talent" of greater importance. Whilst most plan sponsors want to go beyond regulatory minimums, it seems that to UK employers, the pension scheme is used as a tool to promote working for the company, and meeting retirement objectives comes second to this.

Please rank the following in terms of importance to you and your organisation when it comes to sponsoring a pension plan

Figure 1
Recruiting and Retaining is Top Priority
% Ranking First

Recruiting and retaining talent	40%
Doing the right thing for my retirement plan's members/employees	24%
Workforce management	18%
Having the best-practice retirement according to local regulations	18%

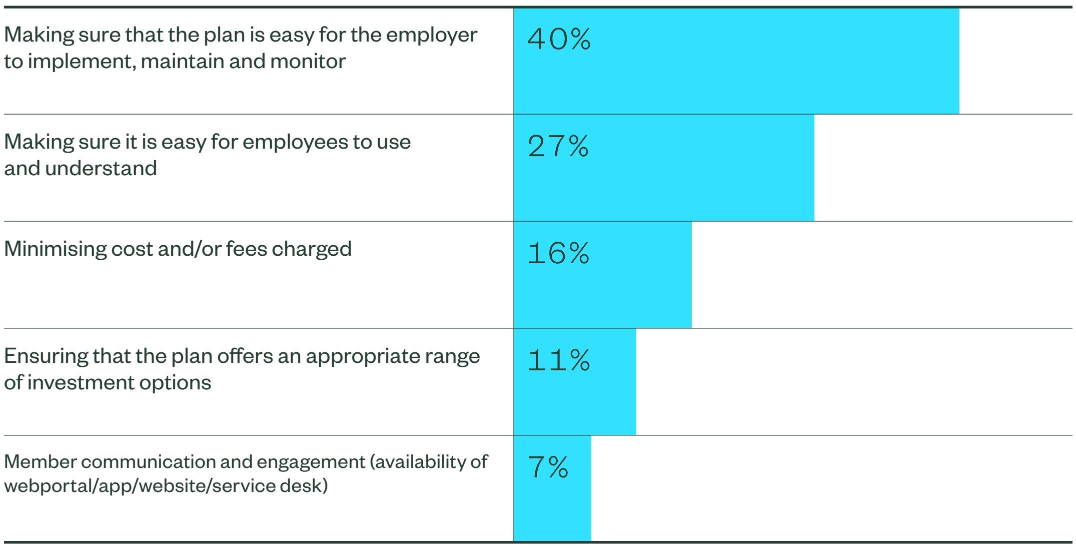
Source: State Street Global Retirement Reality Report 2019. n=45

We were also interested in how plan sponsors expected to deliver on these goals.

When asked about the factors taken into consideration when selecting a provider, the majority of UK plan sponsors said that “making sure that the plan is easy for the employer to implement, maintain and monitor” was most important. In addition, many thought that “making sure it is easy for employees to use and understand” was very important. Surprisingly, minimising cost was of lower importance.

When you think about selecting a provider for your retirement plan, what are your key goals/objectives?

Figure 2
Simplicity is Key
% Ranking First



Source: State Street Global Retirement Reality Report 2019. n=45

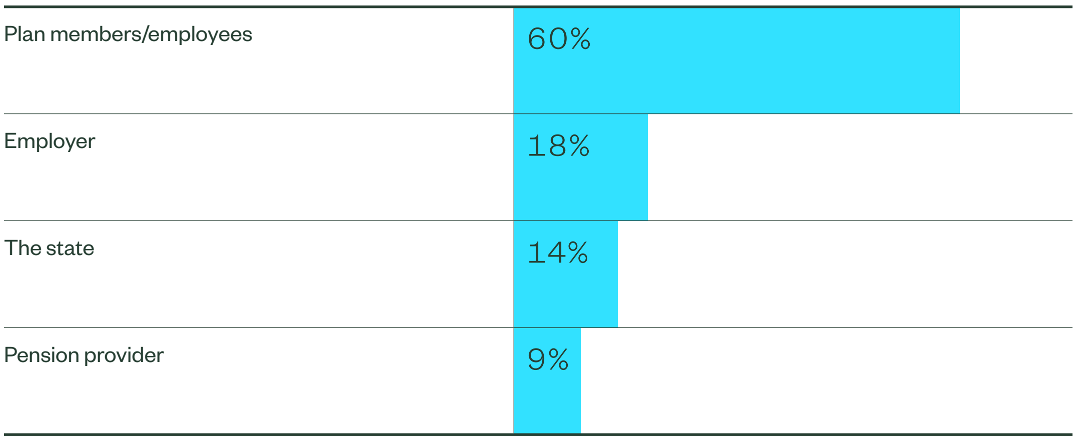
2

Members to Take the Reins The members themselves are responsible for ensuring an adequate retirement income

When asked to rank who is most responsible for ensuring that individuals have an adequate income in retirement, 60% of plan sponsors ranked “plan members” the highest:

Who is most responsible for making sure members/employees have adequate income in retirement?

Figure 3
Members are Responsible for their Retirement Adequacy



Source: State Street Global Retirement Reality Report 2019. n=45

When we asked members the same question in our 2018 Global Retirement Reality Report, 77% ranked themselves as the most responsible for their retirement. It is widely accepted in the UK that individuals bear the responsibility when it comes to saving for retirement, a conclusion different from what we would have reached if we had conducted the survey a few years ago, when defined benefit (DB) plans were stronger. For example, in the Netherlands, where there is still a strong DB system, the majority of plan sponsors in our survey said that the employer was most responsible.

Despite this attitudinal shift, we know that the majority of UK savers still pay the minimum auto-enrolment contribution rates and that engagement in retirement savings is low, reinforcing the need for nudges such as auto-escalation of contribution rates.[2]

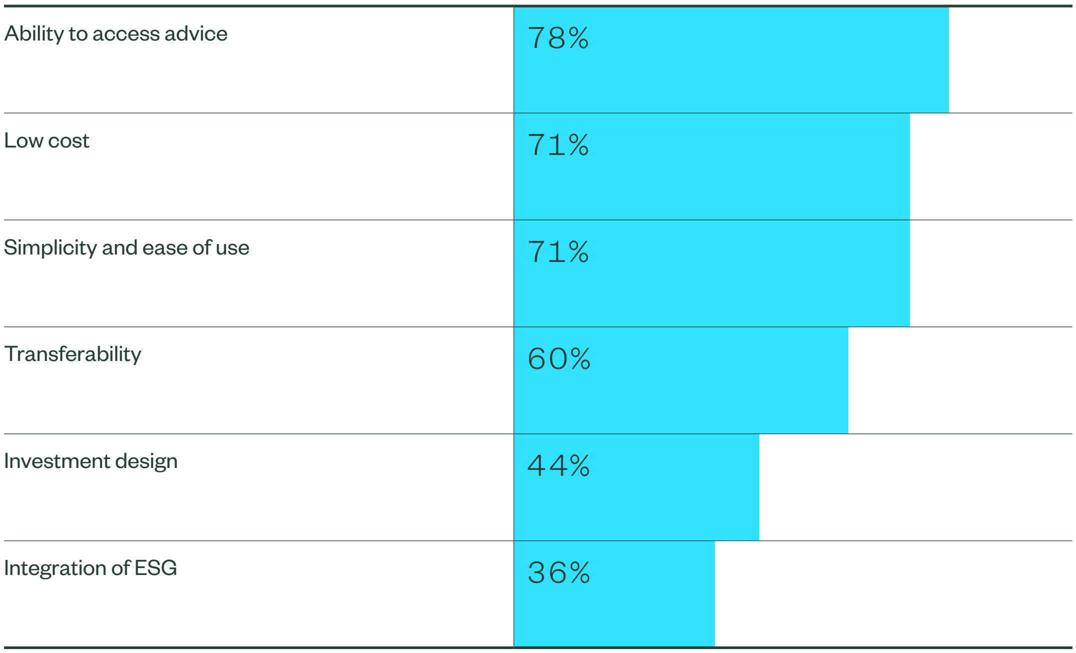
This message is further stressed by the results found in research that we sponsored in conjunction with The People’ Pension; “Understanding Opt-Out Behaviour” study. The researchers held in-depth interviews with 30 people, and found support for more regular re-enrolment than the current mandated three years.[3]

3

A Helping Hand Access to advice, simplicity and cost are expected to be more important to members than investment design

How much do you think that employees/members value the following in a retirement plan?

Figure 4
Access to Advice is Important
% Ranking either Extremely Important or Important

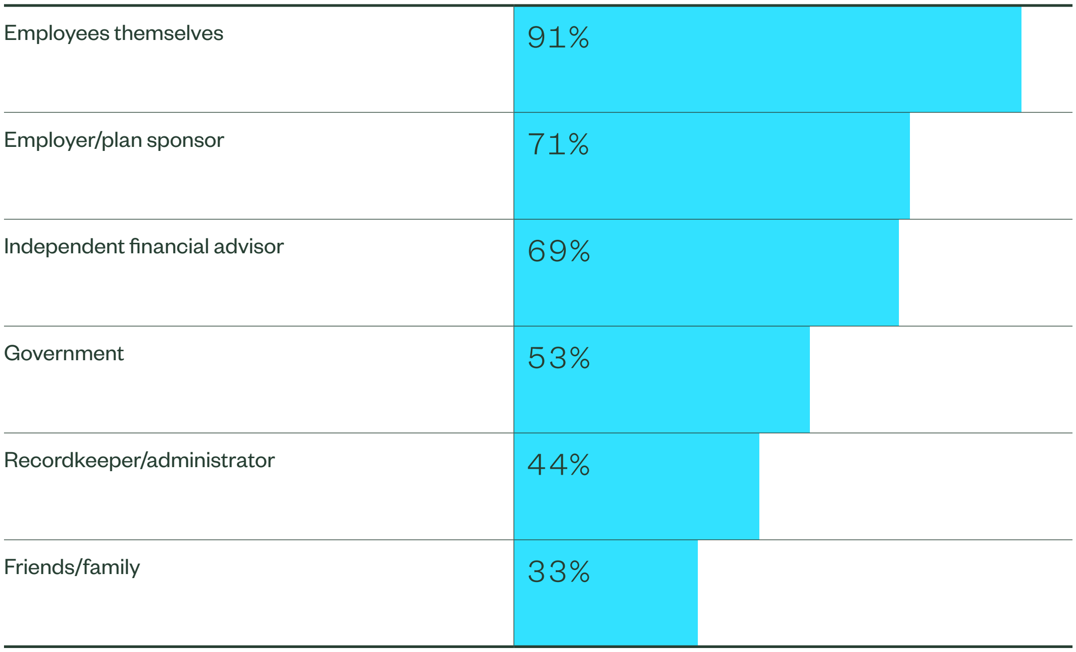


Source: State Street Global Retirement Reality Report 2019. n=45

According to plan sponsors, the ability to access advice is valued the most, with 78% of sponsors surveyed stating that this is likely to be either extremely or very important to their members. Respondents also stated that simplicity and ease of use, as well as low cost would be important. Only 44% of plan sponsors felt that investment design would be important to members.

How much responsibility do you think each of these parties has for providing employees/members advice with regards to their retirement savings?

Figure 5
Members to Source Advice Themselves
% Ranking either Extremely Responsible or Responsible



Source: State Street Global Retirement Reality Report 2019. n=45

Plan sponsors also noted that the employer could play some role: 71% of plan sponsors surveyed this year felt that the employer had full or significant responsibility in providing members advice. Our 2018 Global Retirement Reality Report identified 65% of the UK working population surveyed as wanting their employer to provide consultation and advice with regards to their retirement savings. In addition, 64% of the working population surveyed were either unwilling to pay for financial advice or expected to receive it for free.

When asked what details they would like to receive from their employer, 82% of members surveyed last year wanted to be made aware of all the options, whereas only 41% wanted to be provided with specific recommendations.

Our 2018 member survey revealed that even providing simple education on the options available could go a long way in helping members feel prepared for retirement. In fact, members showed a desire for basic guidance, rather than tailored advice.

Asset managers, providers and master trusts should look to support plan sponsors with providing this guidance through educational sessions/seminars on the different retirement options available to members.

4

I Need Results Return is high on the agenda

When we asked plan sponsors what the key criteria were for selecting providers, investment return was a common theme in their responses:

What are the key criteria that you focus on when selecting a provider/master trust?

“ Security and good **return** for investments”

“ Good investment **returns** and good customer service”

“ Good reputation and **investment record**”

This focus on performance is not surprising, as evidence has suggested that savers are becoming increasingly sensitive to market shocks, placing more importance on protection from falls in value than the potential to increase income.[2]

Large falls in financial markets have the potential to seriously knock the confidence of DC savers and it is therefore critical that scheme defaults include measures to minimise significant drawdowns.

These behavioral insights, along with the recent periods of global market volatility, reinforce the impact of investment strategies that can help manage risks within DC schemes. This could include things like:

1. Strategic diversification across asset classes based on long-term views
2. Dynamic asset allocation based on current market environments
3. Systematic de-risking out of equities closer to retirement

5

Doing Good and Doing Well ESG isn't expected to harm returns

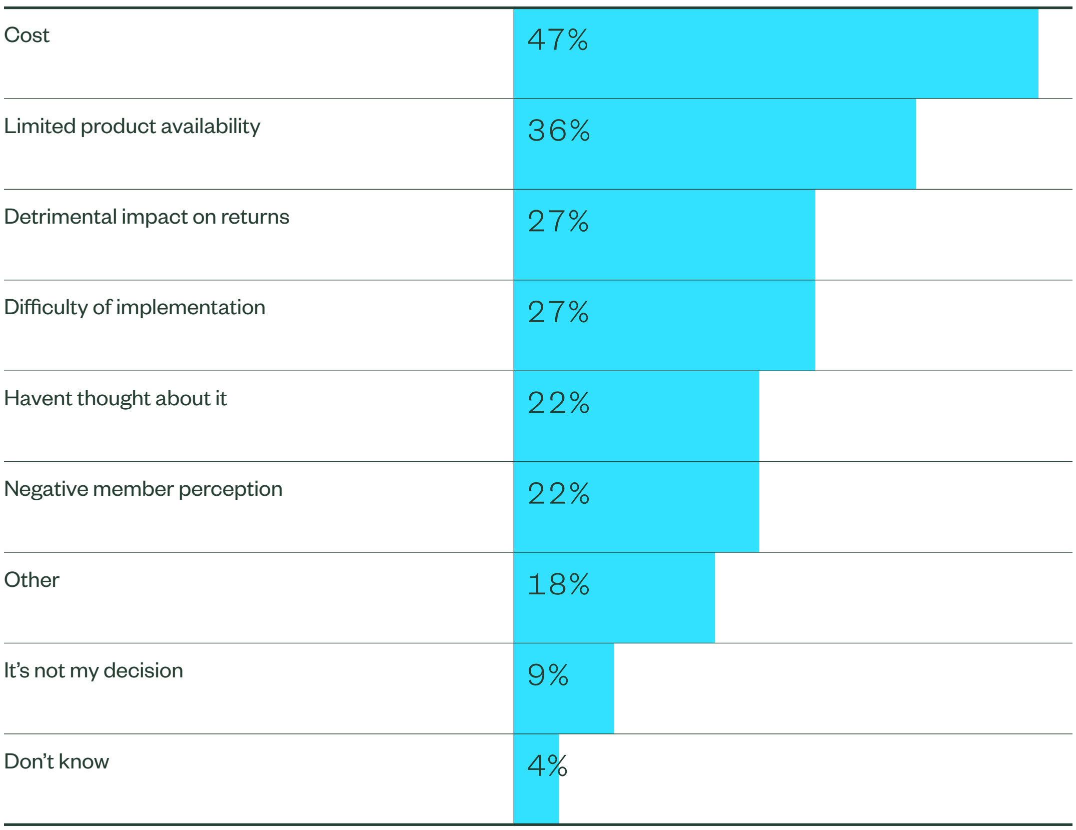
In support of the growing interest in ESG investments that we have observed in the UK, 71% of plan sponsors said they felt that it was important to incorporate environmental, social and corporate governance (ESG) considerations into their plan's investments.

Despite this perceived popularity of ESG-focused investments, we know that in practice many plans have not yet taken the step to incorporate ESG into their defaults.[4]

We asked respondents what the reason for not incorporating ESG so far was.

If you don't incorporate or plan to incorporate ESG in the coming years, what are the main reasons for this?

Figure 6
Cost and Product Availability are Issues



Source: State Street Global Retirement Reality Report 2019. n=45

In the past, choosing values such as ESG or performance was often presented as a zero-sum game (i.e., driving impact came at the cost of better returns). We believe this is a false choice and that a company's environmental actions, social behaviours and governance practices can have a meaningful impact on performance. Our survey indicated that many plan sponsors have also recognised this false choice, with less than a third reporting lower returns as the key reason for not incorporating ESG to date.[5]

Only 22% of UK plan sponsors stated that they hadn't thought about it, which was below the global average of 30%.

Close to half of plan sponsors (47%) attributed not incorporating ESG to cost, and 36% noted limited product availability. This calls for the industry to continue to innovate in products that not only incorporate ESG values, but also offer value for money. We believe a smart beta approach can help achieve these goals. Smart Beta, as used in our Multi-Factor ESG Fund, targets higher risk-adjusted returns compared to market-cap weighted indices, whilst improving ESG scores and lowering overall carbon emissions.

6

Changes Ahead Plan sponsors expect change to come from various sources over the next three to five years

Q: How do you expect the retirement market to change in your industry over the next three to five years?

A: "Increasing realisation that people will struggle to retire comfortably leading to an ageing workforce"

The pensions landscape in the UK has faced waves of change including increasing retirement ages, introduction of auto-enrolment, the charge cap and the emergence of master trusts. We wanted to get the plan sponsors' perspective on how they see both their plans and the industry changing over the next three to five years.

In the UK, the greatest sources of change were thought to be: regulations, demographic factors such as living longer, the competitive landscape and technological advancements.

Conclusion

As the DC market in the UK continues to grow, we are seeing a greater acceptance that responsibility for retirement provision sits with the individual saver more than anyone else. However, plan sponsors still use pension schemes as an important tool for recruiting and retaining talent. We are seeing schemes outsourcing various elements of plan design to providers and master trusts to help meet these goals. The UK results of our 2019 Global Retirement Reality Report were consistent with this backdrop and confirmed that:

1 Plan sponsors are willing to outsource investment design so that they can focus on other organisation priorities.

2 Plan sponsors see the individual as most responsible for ensuring an adequate income in retirement.

Our survey identified a number of areas that asset managers, providers and master trusts can explore to further support plan sponsors:

- Provide solutions that are easy for employers to implement and simple for members to understand.
- Offer member workshops to help improve understanding of retirement options.
- Continue to innovate low-cost ESG products.

Endnotes

1 Office of National Statistics, at record high but contributions cluster at minimum levels," 8 May 2018. https://ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/articles/pensionparticipationatrecordhighbutcontributionsclusteratminimumlevels/2018-05-04.

2 Department for Work & Pensions Automatic Enrolment Evaluation Report 2018.

3 Ignition House 2014 survey for National Employment Savings Trust (NEST). Base=86 respondents. 62 participants placed high importance on "protection from falls in the value of my fund due to stock market movements." Forty-six participants placed high importance on "the potential to increase my income if stock markets increase."

4 Pension Policy Institute, "ESG: Past, Present and Future," October 2018. https://pensionspolicyinstitute.org.uk/media/2398/20181002-ppi-esg-past-present-and-future-report-final.pdf.

5 State Street Global Advisors, "Building a Core with a Conscience ," 31 May 2018. https://ssga.com/blog/2018/06/a-core-with-a-conscience-Integrating-smart-beta-and-esg.html.

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