Defined Contribution Investment Forum

Identifying new ways to engage with savers in Defined Contribution Pensions

March 2013

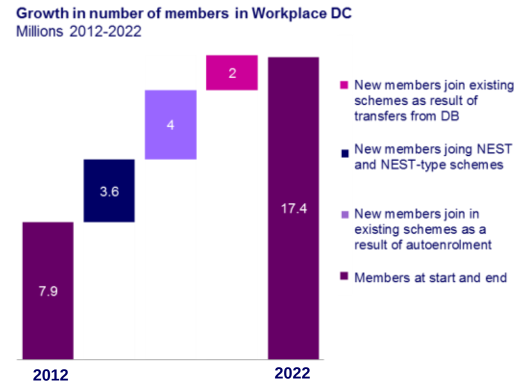
Is there demand for a new type of DC pension?

- Within Defined Contribution (DC) Pensions, there is a growing need for thinking about new ways to engage with savers.
- The DC Investment Forum (DCIF), which promotes investment excellence in DC pensions in the UK, has produced this paper to investigate one of the possible new approaches: *that some funds could be built around a "social" objective*
- In research to explore this idea, 77% of respondents favoured a social investment fund over a conventional fund. 44% of respondents still preferred their chosen social investment fund *even when they were told they would receive an 8% smaller pot at retirement*
- Could this be a new investment approach for DC schemes to consider?

Introduction

The consumer is King in DC pensions

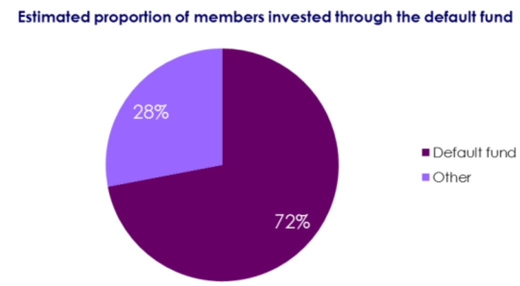
Auto enrolment, the emergence of NEST and the closure of Defined Benefit (DB) schemes will, according to one estimate, result in 9.5 million more savers joining defined contribution (DC) schemes over the next 10 years. This represents a shift in investment decision making responsibility from the DB trustee board to the individual member.



Source: Spence Johnson DC Market Intelligence 2013

An alternative to the default

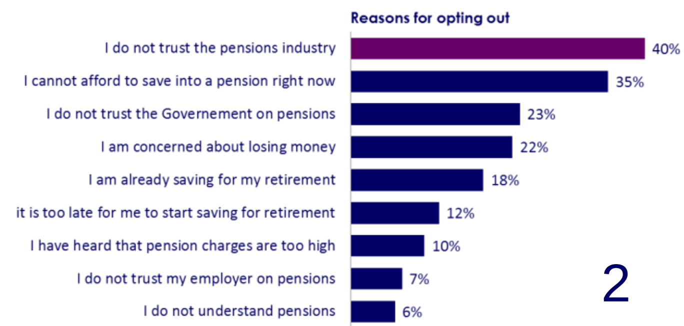
Most DC members – 73% across all DC schemes according to one estimate - select the default fund they're offered. But is this 'one size fits all' approach really what consumers want? We pose the question: is there an opportunity for a new type of pension fund that better reflects the values of its audience?



Source: Spence Johnson DC Market Intelligence 2013

The pensions industry faces widespread distrust

Distrust of the pensions industry is currently the most powerful driver for people opting out of auto enrolment. The pensions industry must therefore find a way to reengage its customers if it wishes to raise contributions to levels that will sustain a comfortable retirement.



Source: NAPF Workplace Pensions Survey 2012

Research objectives

With the pensions community looking for a solution to low consumer engagement with their retirement savings the DC investment forum has commissioned this research to try to better understand how the DC savers of the future may want their DC investments managed. The objectives of the research were:

1. To assess the appeal of ‘Social Investment’ funds amongst potential contributors to Defined Contribution pension schemes
2. To measure to relative appeal of different types of ‘Social Investment’ funds
3. To evaluate the appeal of ‘Social Investment’ funds relative to that of Conventional funds at differing return levels
4. To measure how the appeal of ‘Social Investment’ funds varies across the profile of potential contributors

The research was commissioned from Movement Research

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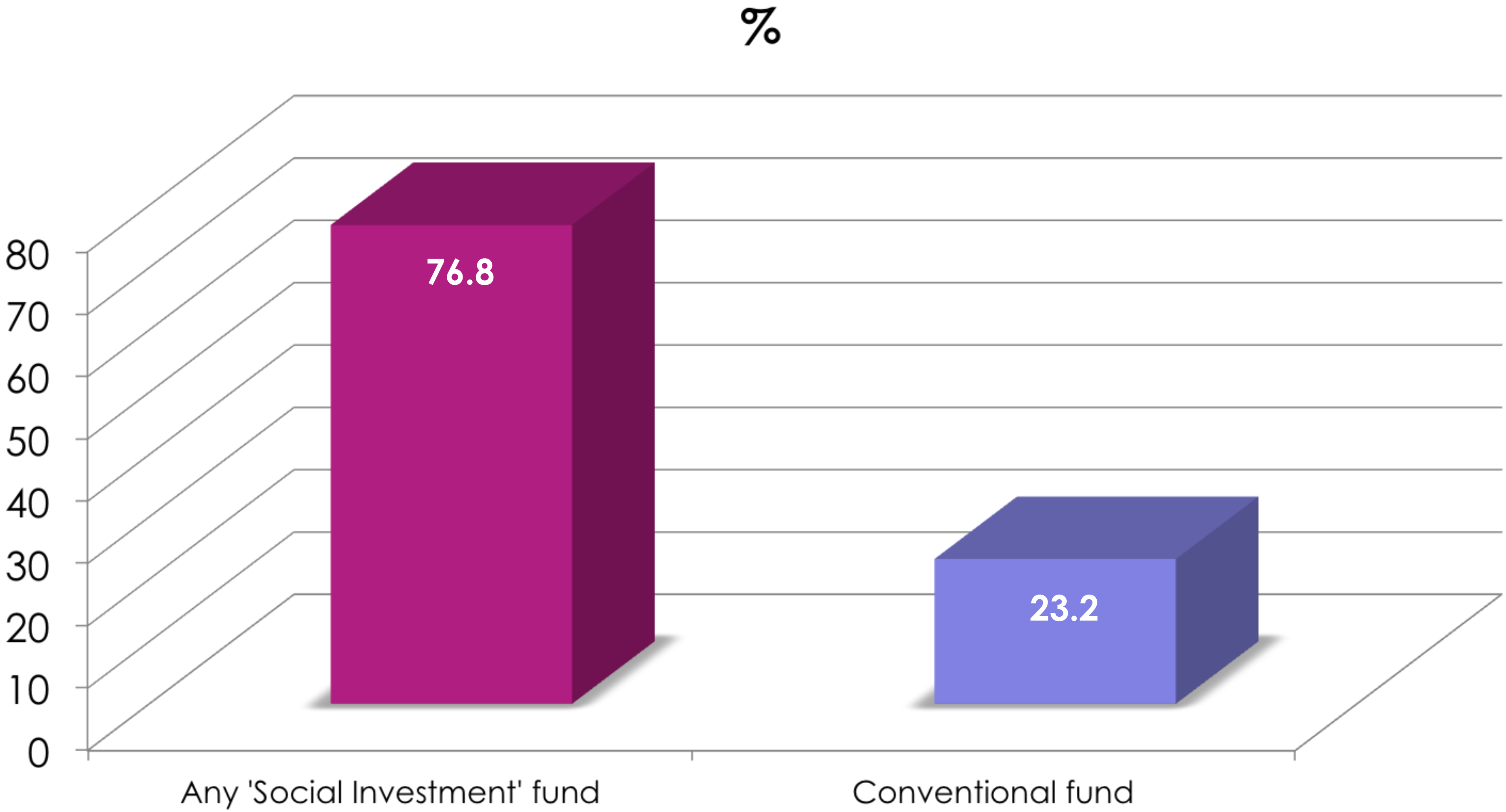
Summary of research findings

Considerable respondent interest in social investment funds	There was considerable interest from the respondents for social investment funds as an alternative to conventional funds. 77% of respondents favoured a social investment fund over a conventional fund.
Messages of sustainability are the most appealing	Respondents were more receptive to funds geared to sustainability than funds supporting the local community or small businesses.
Nearly half of respondents chose social investment funds even when outcomes were lower than conventional funds	Nearly half of respondents (44%) still preferred their chosen social investment fund even when they were told they would receive an 8% smaller pot at retirement. Over 30% of respondents still chose their social investment fund even when outcomes were much lower (18% lower).
Different demographics favour different social investment funds	Different consumer segments favoured different social investment funds. Respondents who favoured funds for local communities were more likely to be younger and female. The local businesses fund on the other hand found interest from an older and more male audience.

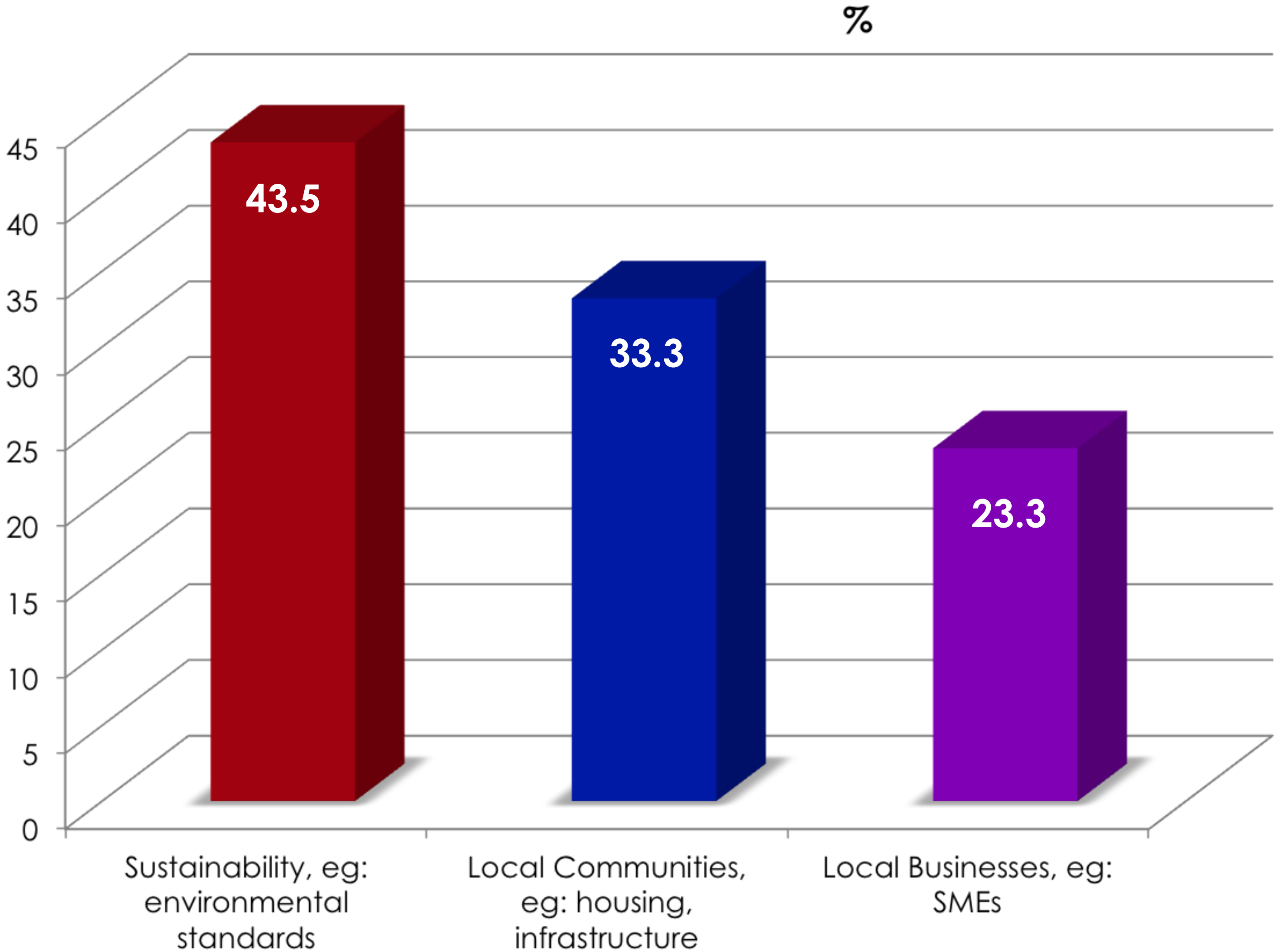
Research findings

More than ¾ of those surveyed would prefer to contribute to a 'Social Investment' fund than to a Conventional fund at the same rate of return



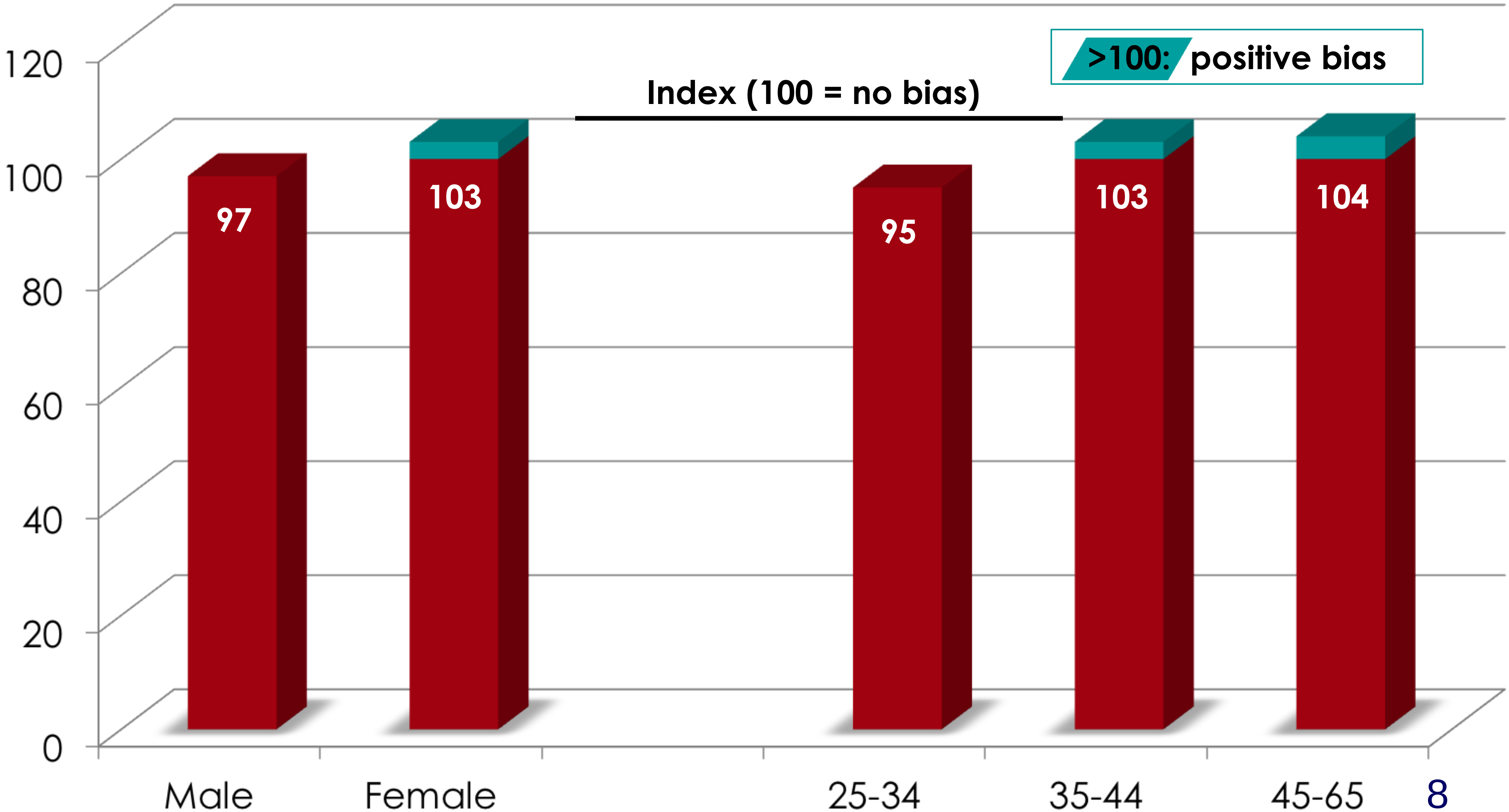
BASE (1004): All respondents

However, there are big differences in the appeal of different types of Social Investment funds



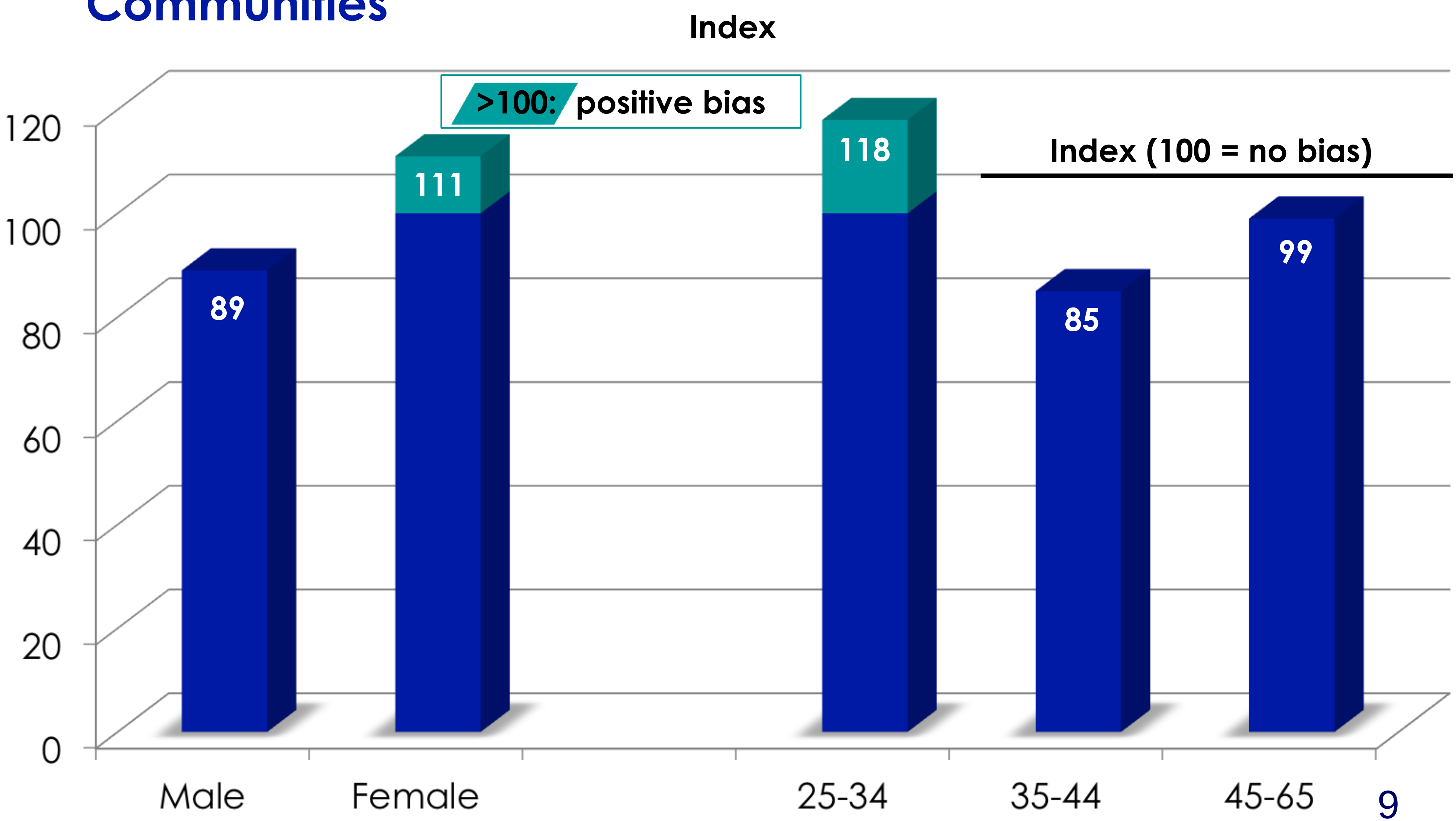
BASE (771): All those preferring to contribute to any Social Investment fund

And the different types of Social Investment funds vary significantly in their appeal by sex and age: Sustainability



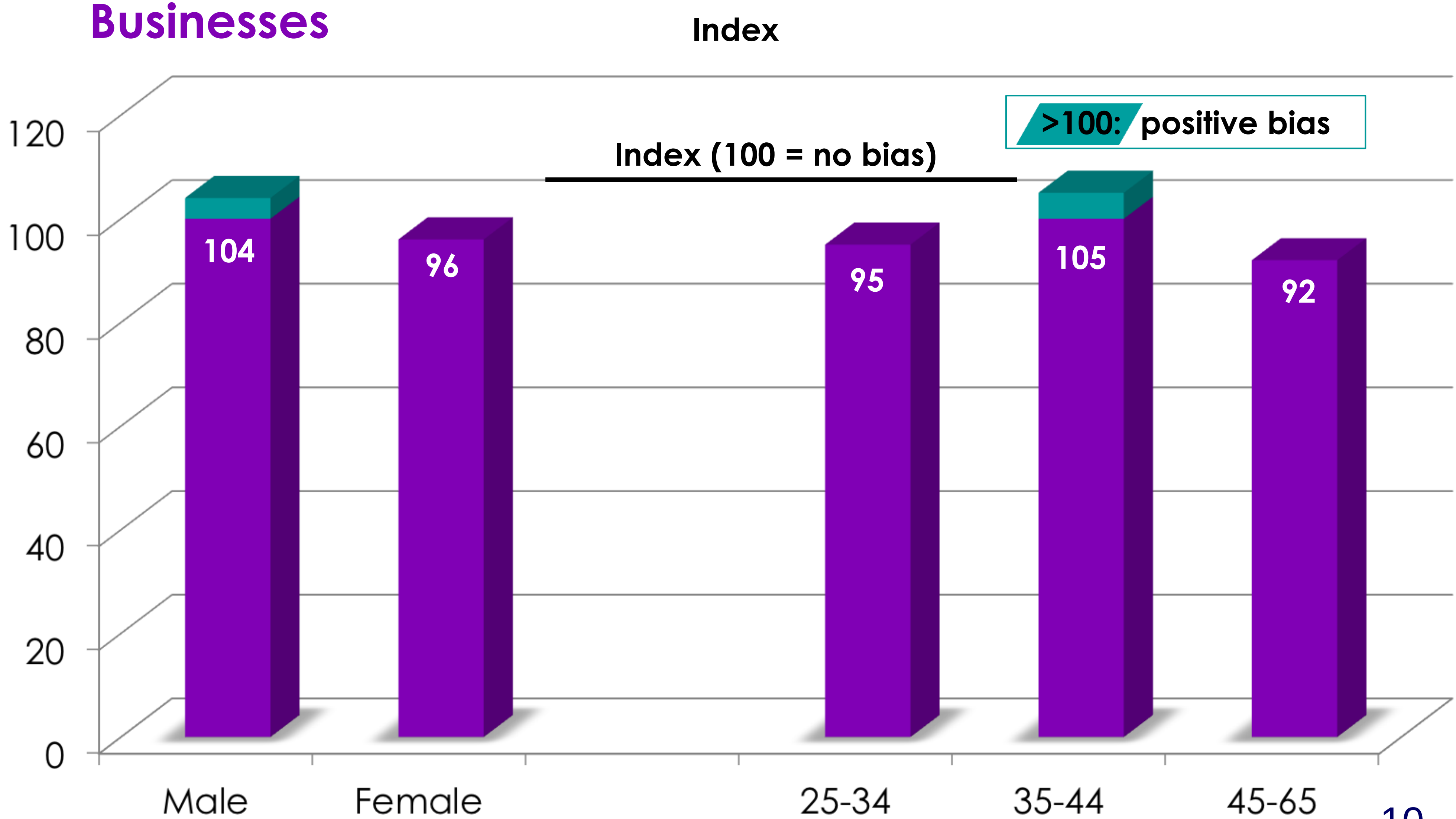
BASE (335): All those preferring 'Sustainability' to other Social Investment funds

And the different types of Social Investment funds vary significantly in their appeal by sex and age: Local Communities



BASE (256): All those preferring 'Local Communities' to other Social Investment funds

And the different types of Social Investment funds vary significantly in their appeal by sex and age: Local Businesses



BASE (180): All those preferring 'Local Businesses' to other Social Investment funds

The most notable demographic bias in appeal is for a **'Local Communities' fund**

- There is a strong bias **female** and an even stronger bias towards **25-34** year olds
- *Does this reflect a response to the 'housing' element of this fund, given the crisis in affordable housing for young people?*

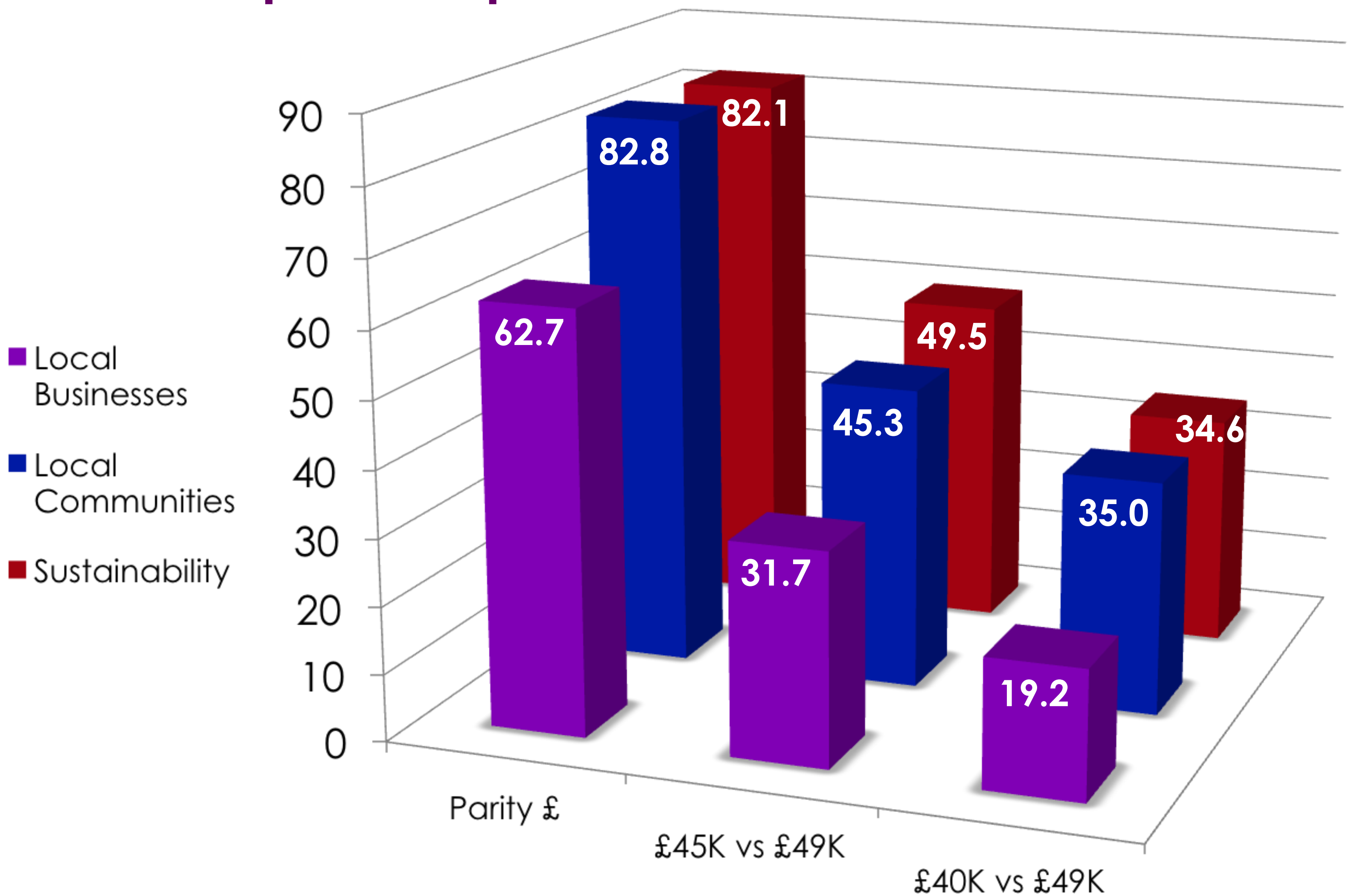
In contrast, a **'Local Business' fund** has greater appeal to **men** and to those aged **35-44**

- *Is this because of the mention of 'SMEs', reflecting a greater entrepreneurial aspiration amongst men, and amongst those who feel they have enough experience but are still young enough to start up their own business?*

A **'Sustainability' fund** has a more even appeal across demographics, although there is a slight bias **female** and **older**

- *This may reflect the greater environmental consciousness other research has shown amongst women once they have children*

However, the appeal of contributing to a Social Investment fund significantly declines when it gives a lower final pension pot



BASE: All those preferring respective Social Investment fund to Conventional fund

Although 82% of those whose favoured type of 'Social Investment' fund is a **'Sustainability' fund** would prefer to contribute to it vs a Conventional fund when they give the same final pension pot, this falls when the 'Sustainability' fund gives a lower final pension pot

- However, **nearly 1/2** would *still* prefer to contribute to a 'Sustainability' fund when it gives a final pension pot 8% lower than a Conventional fund
- And, **over 1/3** would still prefer to contribute to a 'Sustainability' fund when it gives a final pension pot 18% lower than a Conventional fund

This decline in appeal is more notable for a **'Local Business' fund**

- **Less than 1/3** would still prefer to contribute to a 'Local Business' fund when it gives a final pension pot 8% lower than a Conventional fund
- *Might this reflect a lower level of commitment to 'social investment' on the part of those favouring this type of fund?*

Appendices

The Defined Contribution Investment Forum

Purpose and Belief

The Defined Contribution investment forum (DCIF) is a group of organisations formed to exchange ideas and developing initiatives to promote investment excellence in Defined Contribution (DC) pensions in the UK.

The DCIF consists of investment firms and selected other industry participants who believe that members in DC pension schemes deserve the best possible investment services, to help them meet their retirement objectives.

The members are particularly concerned to promote the widest variety of investment techniques in DC schemes, including both active and passive investment approaches.

Members believe that at present there are many DC schemes which do not give members adequate or indeed any access to such excellent investment services. Unless DC schemes are encouraged to change the way they invest, many members will fail to meet their retirement objectives. This outcome can be avoided if action is taken now.

Activities

In order to promote investment excellence in DC pension schemes, DCIF will carry out a range of initiatives such as presenting the industry with papers, arranging seminars and debates, and in other ways acting to raise DC investment standards.

Research methodology

The research was based on an online survey of 1004 potential contributors to DC pension schemes.

The research undertaken by Movement, a strategic brand communications consultancy in January 2013

- Sample of **1004 potential contributors to DC pension schemes**
- All:
  - aged 26-65
  - B, C1
  - work for a company that runs pension scheme for staff
- None:
  - working directly for a Public Sector employer
  - knows they have a ‘final salary’ pension
- **Sample analysis breaks**
  - **age:** 22-34; 35-44; 45-65 (quota for 1/3 in each segment)
  - **sex:** male/female (quota for 50:50 ratio)

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How the funds were described

- **'Sustainability' fund**: invests a proportion in companies and programmes focused on sustainability, eg: companies that meet recognised environmental considerations
- **'Local Communities' fund**: invests a proportion in initiatives benefiting local communities, eg: housing, infrastructure
- **'Local Business' fund**: invests a proportion in initiatives benefiting local businesses eg: SMEs (small/medium size businesses)
- **Conventional fund**: invests in shares from businesses in a wide range of other sectors, such as banks, manufacturing, mining, oil and gas, etc.

Questionnaire

- Legislation has been passed which means that, depending on how big the company you work for is, every working person who does not have a pension plan will be legally required to start one within the next 4 years. The scheme will work by deducting some money automatically from your salary each month to go into your pension fund, to which will be added a contribution from your employer and from the government.
- You will be given the opportunity to choose the type of fund that your pension contributions are paid into. If you don't want to make a choice, that's OK and your money will "by default" be put into the type of fund that is most commonly used for pension contributions: one that invests in shares from businesses in a wide range of sectors, such as banks, manufacturing, mining, oil and gas, etc.
- However, you could choose to put your pension contributions into a fund where a proportion was invested in a different way. This survey will explore how interested you would be in having your pension contributions paid into more typical types of funds vs some alternative options.

Q1

- Assuming that each of the following funds delivered the *same* return (ie: that the value of all of them would be the same when you came to retire), which one of the following 3 types of funds would you prefer your pension contributions to be paid into?

a) A fund that invests a proportion in companies and programmes focused on sustainability, eg: companies that meet recognised environmental considerations

b) A fund that invests a proportion in initiatives benefiting local businesses eg: SMEs (small/medium size businesses)

c) A fund that invests a proportion in initiatives benefiting local communities, eg: housing, infrastructure

Q2

- Assuming that both of the following funds delivered the *same* return, which one would you prefer your pension contributions to be paid into?

a) (INSERT WHICHEVER OF THE FUNDS WAS SELECTED AT Q1)

b) A fund that does not invest in such things and only invests in shares from businesses in a wide range of other sectors, such as banks, manufacturing, mining, oil and gas, etc.

IF ANSWER b), CLOSE INTERVIEW. IF ANSWER a), CONTINUE TO Q3

Q3: ASK ONLY THOSE WHO WOULD PREFER TO INVEST IN OPTION a) AT Q2

- What if you knew that these 2 funds would deliver different returns, which would you choose?

- If the fund that (INSERT THE FUND SELECTED AT Q1) gave you a pension 'pot' on retirement of **£45,000**, but the fund that does not invest in such things and only invests in shares from businesses in a wide range of sectors, such as banks, manufacturing, mining, oil and gas, etc. gave you a pension 'pot' on retirement of **£49,000**, which would you choose?

a) The fund that (INSERT THE FUND SELECTED AT Q1) (£45,000 pension 'pot')

b) The fund that does not invest in such things and only invests in shares from businesses in a wide range of sectors, such as banks, manufacturing, mining, oil and gas, etc. (£49,000 pension 'pot')

IF ANSWER b), CLOSE INTERVIEW. IF ANSWER a), CONTINUE TO Q4

Q4: ASK ONLY THOSE WHO WOULD PREFER TO INVEST IN OPTION a) AT Q3

- What if the fund that (INSERT THE FUND SELECTED AT Q1) gave you a pension 'pot' on retirement of **£40,000**, but the fund that does not invest in such things and only invests in shares from businesses in a wide range of sectors, such as banks, manufacturing, mining, oil and gas, etc. gave you a pension 'pot' on retirement of **£49,000**; which would you choose then?

a) The fund that (INSERT THE FUND SELECTED AT Q1) (£40,000 pension 'pot')

b) The fund that does not invest in such things and only invests in shares from businesses in a wide range of sectors, such as banks, manufacturing, mining, oil and gas, etc. (£49,000 pension 'pot')

CLOSE