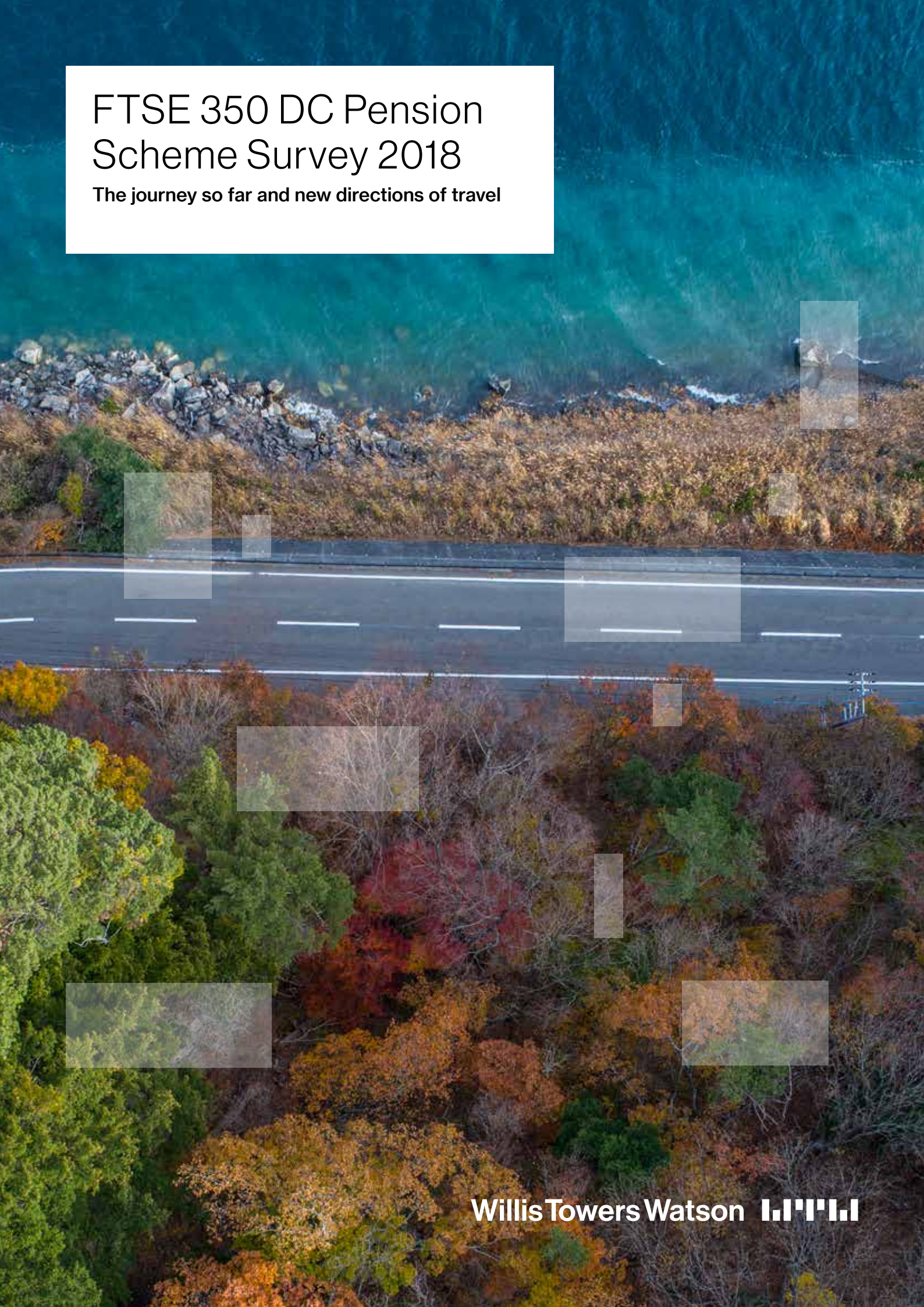
# FTSE 350 DC Pension Scheme Survey 2018

**The journey so far and new directions of travel**



Willis Towers Watson

# FTSE 350 DC Pension Scheme Survey 2018

## The journey so far and new directions of travel

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# Foreword

## This is the thirteenth edition of our FTSE DC Pension Scheme Survey, and the fourth to include the FTSE 350.

In this edition, we have looked back at the defined contribution (DC) pension journey over the last 10 years, and also look ahead to some new directions of travel.

Many organisations have made, and continue to make, significant changes to their DC pension arrangements. Although organisations are at different stages in the journey, for leaders in DC pension provision, current developments can be summarised as follows:

- What's ongoing – reacting to pension freedoms
- Current focus – review of the delivery vehicle and ensuring that the plan design is compliant with (fully implemented) auto-enrolment rates by 2019
- New directions – a focus on member support and engagement, and interest in wider financial well-being initiatives

We believe this survey report gives 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. Using our extensive database, we are able 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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# Executive summary

## DC is maturing

**99%**
**of FTSE 350 employers only offer new hires DC provision**

**Over the past 10 years**
**FTSE 100**

- Contributions to DC arrangements have increased four-fold
- Average scheme funds under management have grown five-fold

**FTSE 100 median annual contributions**

2008 **£5 million**
2018 **£22 million**
x4

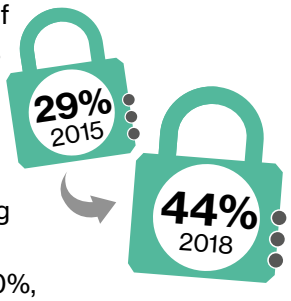
**FTSE 100 median DC plan assets**

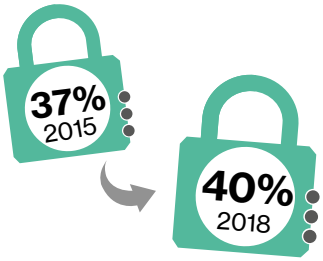
2008 **£36 million**
2018 **£179 million**
x5

## DB hard closure has continued

The picture for hard closure of defined benefit (DB) schemes continues the recent trend.

Since **2015** the number of **FTSE 100** companies closing to future accrual for existing members has increased by 50%, from **29%** to **44%**.



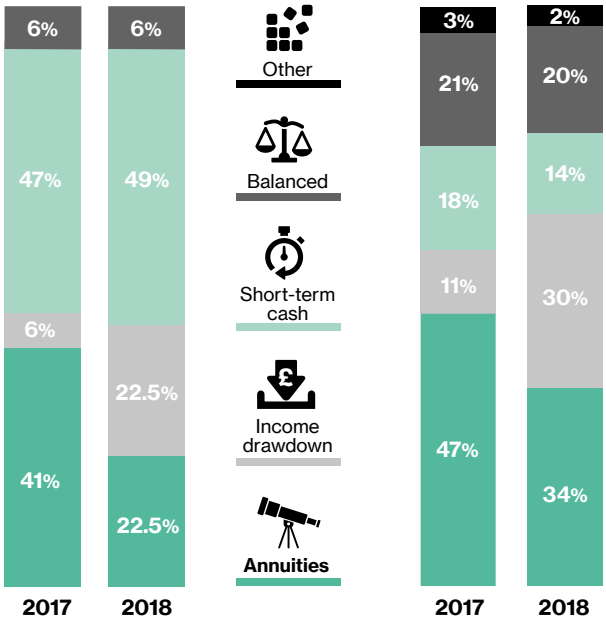




For the **FTSE 250** the change is less dramatic but the survey shows a higher proportion of companies only offer DC at **70%**.

For the first time, more than half of **FTSE 100** companies now only offer DC to all staff, for **FTSE 250** companies the percentage is more than two-thirds.

## Investment strategies continue to evolve

Following the introduction of pension freedoms in 2015, schemes have increasingly moved away from targeting annuities.




**Use of master trusts increases X2 since 2015**

From **8%** of schemes ▶ to **18%** of schemes

**33%** of companies with trust-based schemes are planning to review their delivery vehicle in the next year

## Contribution design

Continuing the trend from previous years, flat rate contribution structures available to all employees dominate with **74%** of **FTSE 350** schemes using this design.

**49%** of **FTSE 100** companies enrol more employees than required by auto-enrolment legislation, whereas only **26%** of the **FTSE 250** do likewise.

## Overall contribution rates have remained stable. For FTSE 100 companies with a matching design the average maximum overall contribution rate is 16.8%.

The vast majority of schemes auto-enrol members at the lowest rate available. Typically, this means that if members do not 'opt-up' to take advantage of the matching opportunity they will miss out on nearly half of the employer contributions available.

## Employers and trustees recognise the need for enhanced member support

The majority of trust-based schemes offer members access to a third-party guidance and advice service.

Conversely, three-quarters of contract-based arrangements use the provider's support proposition.

## Financial well-being

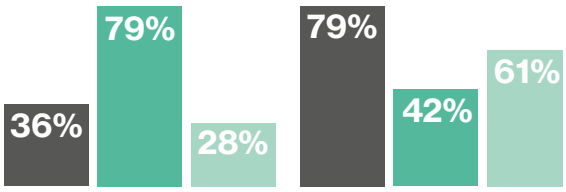
**18%**

companies with a financial well-being programme in place

**35%**

companies planning to put a programme in place over the next three years

**1/3** companies considering introducing a workplace ISA




- Access to third-party annuity broking services
- Use provider's support proposition
- Access to a third-party guidance service

**Average annual management charge (AMC) for the default fund in FTSE 100 arrangements is 0.36%**

# The last 10 years

The Willis Towers Watson FTSE DC Pension Scheme Survey looks at the pension provision of the organisations that constitute the index when the data is collected. However, over time, the constituent companies do change, due to mergers and acquisitions or through some merely dropping out of the index.

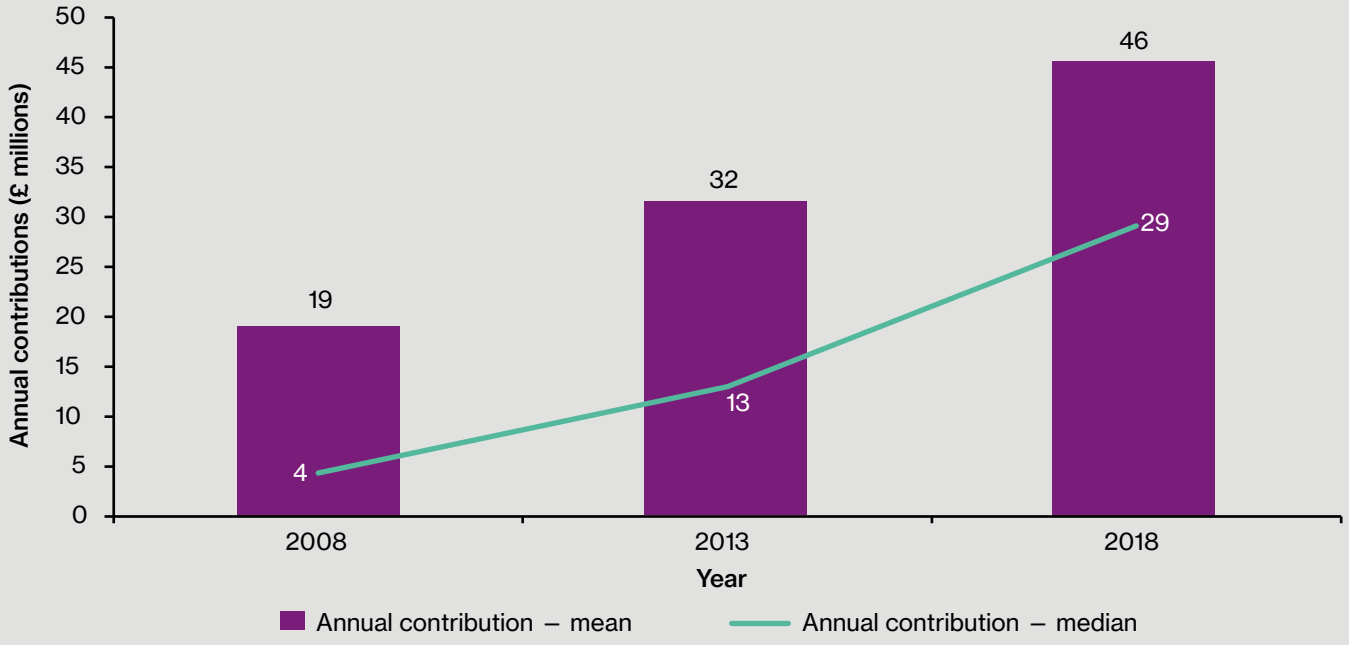
For this edition of the survey, we have looked at the changes made to DC pension provision of the companies that have remained in the FTSE 100 Index over the period from 2008, 2013 and 2018. Although the earlier data is not as rich as the most recent surveys, this analysis provides a picture of how companies pension provision as evolved over the years, but removes the 'noise' caused by the changes to the constituents of the index.

There are 53 companies that were constituents of the FTSE 100 in 2008 who remain in the survey in 2018.

## Size of schemes

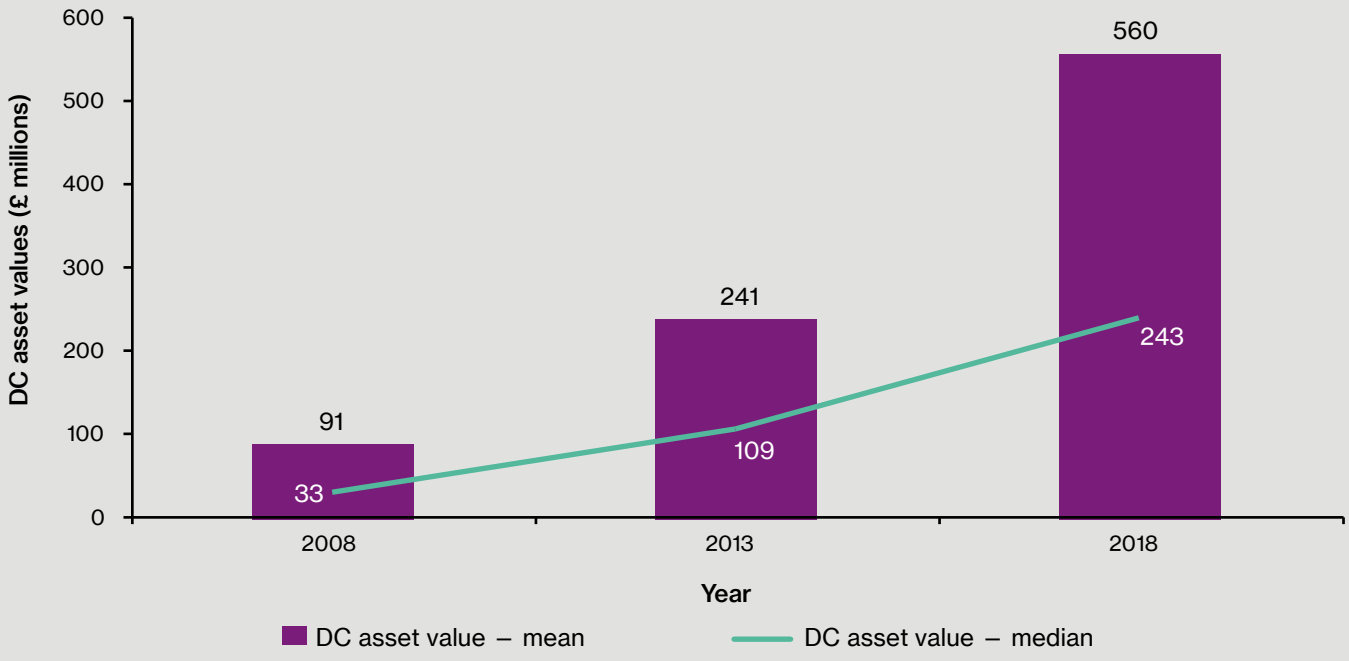
The financial commitment to DC pensions has increased nearly seven-fold, with the median annual contribution increasing from £4 million to £29 million.

Figure 1. **Average annual contributions**



Perhaps unsurprisingly, given that long-stayers in the FTSE 100 are likely to have the larger schemes, the median value of DC assets has increased from £33 million to £243 million. As DC schemes become larger, and become a material consideration for organisations, the role of good governance and oversight becomes increasingly important.

Figure 2. **Average size of assets under management**



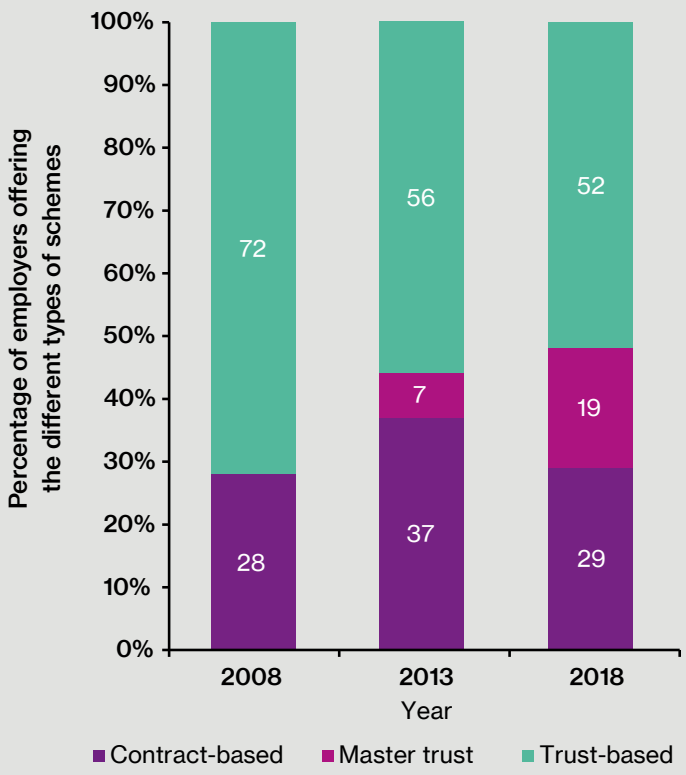
## Plan design

Over 95% of companies offer DC to new entrants, an increase from 72% in 2013.

Nearly a half of companies (46%) have 'hard closed' their DB scheme, an increase from just 16% in 2013.

The number of companies offering contract-based schemes has remained stable, but this hides some interesting dynamics – between 2008 and 2013 some companies switched from own-trust to contract-based schemes. From 2013, both contract-based and own-trust schemes have been replaced by master trusts. This may suggest that, for some organisations, outsourcing of pension provision is a long-standing objective – in the past this was done by using a contract-based arrangement, but more recently using a master trust is seen as a more effective approach. Furthermore, some companies have made a more recent decision to outsource for the first time by moving to master trust.

Figure 3. **Type of scheme used**

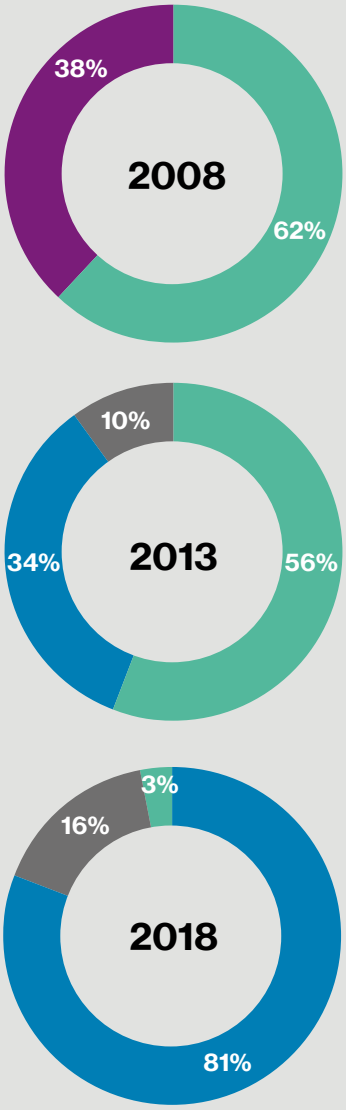


## Investment

Schemes are offering more 'pre-packaged' investment options for members. In 2008, 62% of schemes offered only one lifestyle design – by 2018 this had reduced to just 3%, with 81% of schemes offering two or three alternatives.

Figure 4. **Number of 'pre-packaged' options in place**

**Percentage of schemes**




- One option
- More than one option*
- Two or three options
- Four or more options

*Note: In 2008, 'Two or three options' and 'Four or more options' are included in 'More than one option'.

Investment strategies have evolved. The use of diversified funds has increased, with less reliance on pure equity funds, particularly closer to retirement. Use of diversification has increased, following the developments in DB schemes.

**49%**

the average pure equity content at the end of the growth phase, compared to **67%** in 2013

Headline charges paid by members (AMC) have remained very stable, with the median charge remaining at 0.30% between 2013 and 2018. However, the mean charge has fallen from 0.37% to 0.33%. This is despite investment funds arguably becoming more sophisticated (and hence more expensive) and some schemes moving to a bundled environment.

Member charges are unchanged over the period, but may be offering better value.

### What does this show us?

- DC pension provision is now a significant cost for employers and schemes are now sizeable, so getting the right delivery vehicle and governance structures in place is more important than ever.
- Outsourcing of delivery to varying extents is a noticeable feature, with some employers having an appetite to delegate many aspects to third parties, either through contract-based schemes or master trusts.
- Own-trust remains a viable option, with the majority of companies in the sample deciding that currently they are happy to retain the existing scheme delivery approach. There may be several reasons for this. Some schemes may be DC sections of much larger DB trusts, others may be large enough to be self-sufficient and some employers may like the control and ability to tailor the scheme that own-trust provides.

# What's ongoing

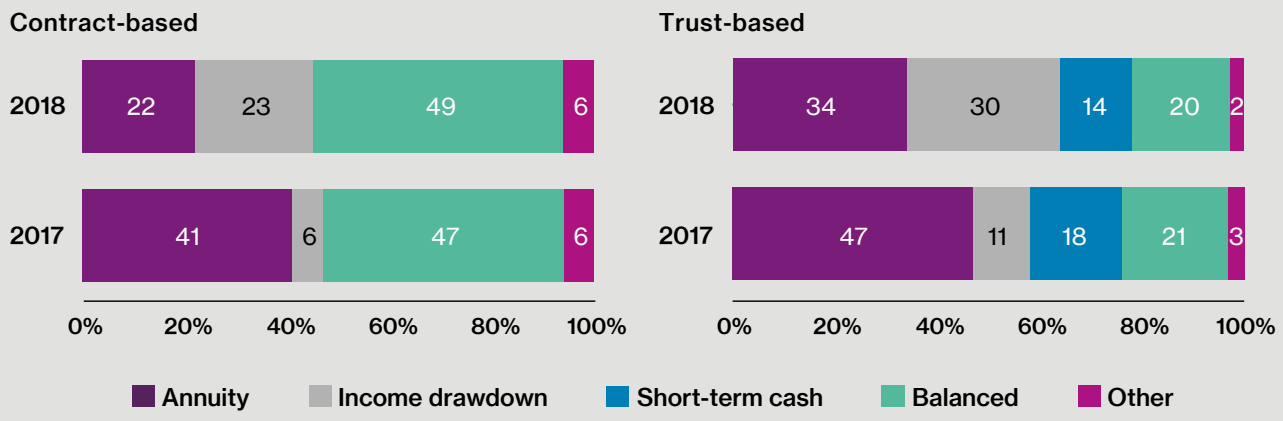
## Pension freedoms

The re-shaping of default option designs to reflect pension freedoms has accelerated. Fewer than a quarter of contract-based schemes now target annuity purchase in the default option, compared to a third of trust-based schemes.

The number of schemes targeting income drawdown at retirement has seen a material change – increasing three-fold from 11% of trust-based schemes in 2017 to 30% in 2018. For contract-based schemes, the change is even more stark – increasing from 6% in 2017 to 23% in 2018.

Figure 5. **Target outcome of the default option**

**Percentage of schemes**




Many trust-based schemes undertook a review of investment strategy in 2015 or 2016, and so the statutory triennial review will be due in 2018 or 2019. Consequently, we may see even further change to default strategies in the next year.

Where a scheme is delivered through a 'bundled' product, there is often the choice between designing a default option specific to the particular scheme in question or using the provider's standard 'off-the-shelf' approach. When the 'off-the-shelf' option is used, this is almost twice as likely to have a 'balanced' approach compared to when a bespoke design is used.

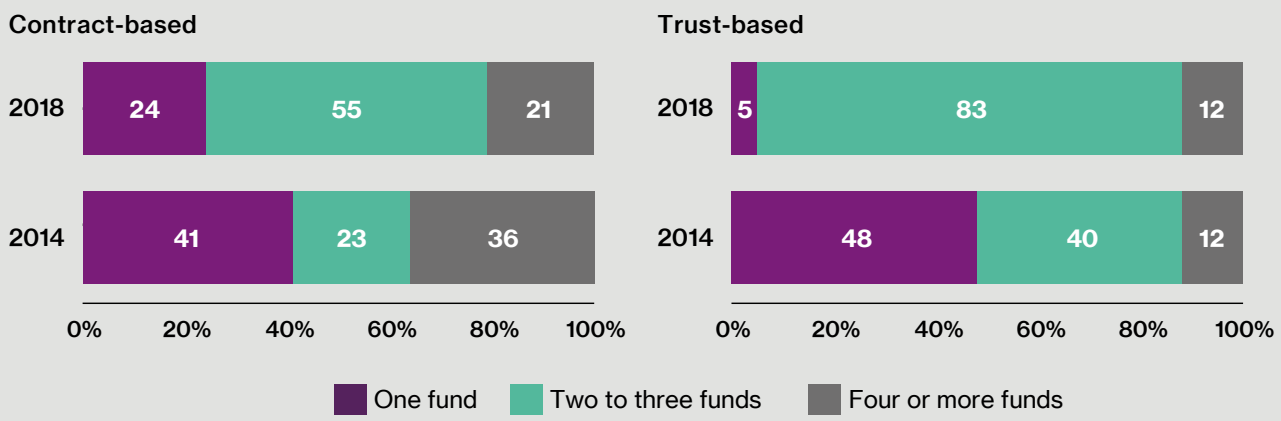
46%

proportion of defaults having a balanced approach when a provider's default is used, compared to **25%** if a bespoke design is used

In addition to the default option, the vast majority of schemes now offer alternative lifestyle approaches for those members who wish to target an alternative outcome. The most common number of alternatives is two or three – together with the default, this implies that most schemes have options covering the three main alternatives – short-term cash, annuity and income drawdown.

Figure 6. **Number of lifestyle funds offered**

**Percentage of schemes**




The vast majority of schemes still set a lifestyle strategy with a default retirement age of 65. This is despite the forthcoming changes to State Pension age and pension freedoms meaning that solutions that have a smooth transition 'to and through' retirement may be more appropriate.

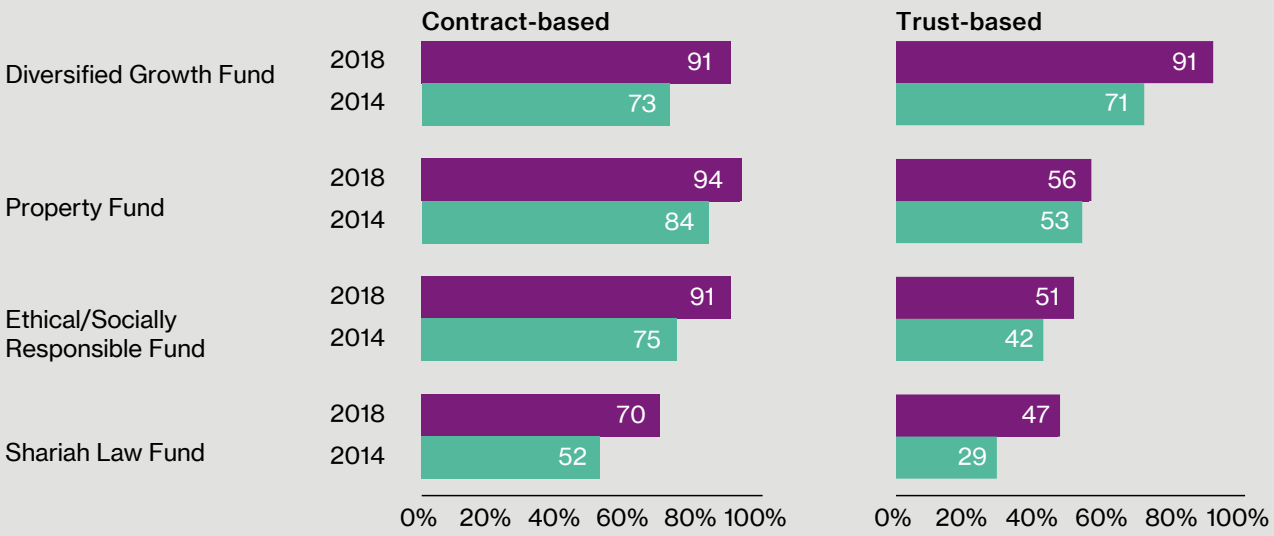
Conventional lifestyles that end on a predetermined date may need to evolve into 'to and through' solutions as pension freedoms become embedded in scheme designs.

## Self-select investment options

The number of schemes offering a more diverse and specialist range of funds continues to increase. The majority of schemes now offer members the option to invest in a Diversified Growth Fund, Property Fund, Ethical/Socially Responsible Fund or a Shariah Law Fund.

Figure 7. **Types of self-select funds offered by schemes**

**Percentage of schemes**



However, trust-based schemes lag behind contract-based and master trust schemes in some areas, with fewer than half offering an ethical/socially responsible and Shariah option. Of growing importance and interest is how schemes should incorporate ESG (Environmental, Social and Governance) issues into the default option. A few leading schemes have done this to some extent already, but they are very much the exception. However, it is anticipated that reflecting sustainable and responsible investment in the default will be on many schemes' agenda in the near future.

Opportunities to access socially responsible investments is of growing interest to many DC members, so schemes may need to reconsider their approach in this area.

# Current focus

## Delivery vehicle

As in the last couple of surveys, the trend towards moving to master trusts is in further evidence.

Furthermore, a significant number of organisations are either planning or considering doing a review of delivery vehicle in 2018. Those with own-trust schemes are more than twice as likely to be planning a review as those with a contract-based arrangement.

Figure 8. **Type of vehicle used**

**Percentage of companies using the different types of vehicle**

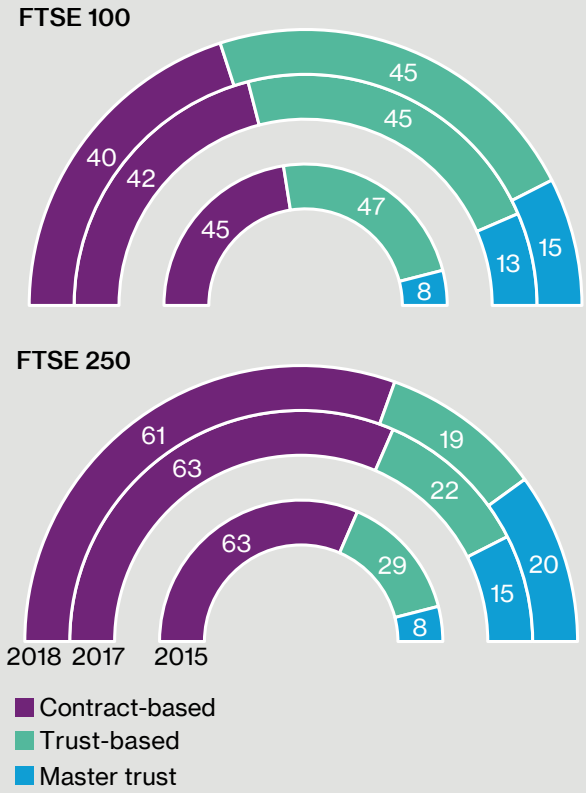
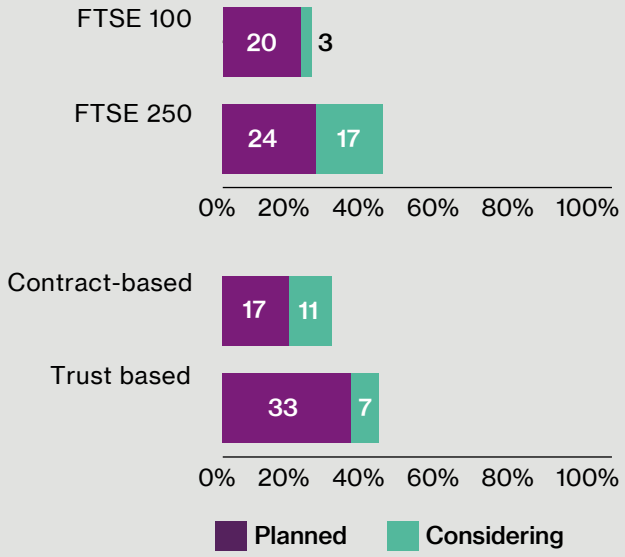



Figure 9. **Review of DC vehicle**

**Percentage of companies that plan to review their DC vehicle (contract-based, trust-based, master trust) in the current year or next year**




Those that have introduced a master trust may have also taken the opportunity to review other aspects of the design. Although a relatively small sample, master trusts demonstrate updated and more innovative investment strategies. For example, exhibiting more diversity of asset classes in the accumulation phase of the default and more packaged lifestyle options for members to select. Interestingly, the split between bespoke and 'off-the-shelf' defaults is about 50:50.

Reviewing the delivery vehicle also provides an opportunity to reflect on other aspects of the scheme design, such as investment strategy and member support.

One of the reasons often cited for moving to a master trust is that governance can be outsourced. However, employers will need to be confident that the governance arrangements of their chosen provider are robust and sustainable. The survey results reflect some evidence that this is the case – a higher proportion of master trust clients, compared to contract-based clients, 'agree' or 'strongly agree' that they understand the actions the fiduciary is taking (whether that be the master trust trustees or the Independent Governance Committee [IGC]). Similarly, master trust clients are more confident that the master trust trustees have significantly improved the day-to-day operation of the scheme.

70%

the proportion of master trust clients who agree or strongly agree that they understand the actions the trustees are taking. **50%** - the proportion of contract-based clients saying the same thing about the IGC

36%

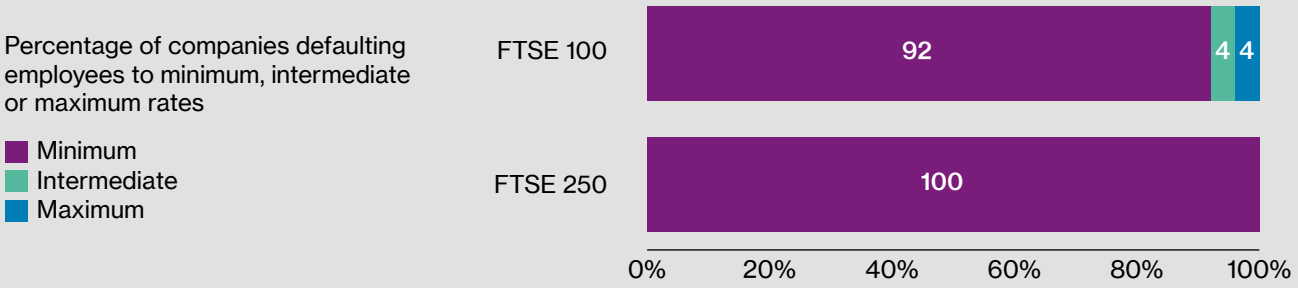
of master trust clients agree or strongly agree that the trustees have improved the day-to-day running of the scheme. **12%** - the proportion of contract-based clients saying the same thing about the IGC

## Auto-enrolment

Design structures and contribution rates have remained largely unchanged from the 2017 survey. Three-quarters of schemes have a flat rate contribution design, with a matching element being most evident. For FTSE 100 companies, a member taking advantage of the full matching opportunity might expect (on average) an overall contribution of 16.8% is being paid into their pension account. For FTSE 250 companies the figure is 13.7%.

The majority of schemes only enrol new employees as required under the eligibility conditions set out in the legislation – 63% of FTSE 350 employers do so. However, the survey shows that the vast majority of employers enrol employees into their pension scheme at the minimum contribution rate available under the scheme design.

Figure 10. **Default contribution rates**




This means that, on average, the default contribution rates on joining the scheme are unlikely to be compliant with auto-enrolment legislation when the minimum rates escalate over the next year. Under the legislation, for DC schemes that calculate contributions on basic salary only, the overall contribution needs to be 9% from April 2019. The survey shows that for FTSE 100 companies the overall contribution rate at the point of enrolment is approximately 8.5%. For FTSE 250 companies it is even lower at 6%. This might mean that many employers need to review their enrolment policy, or maybe more radically amend the contribution design and rates.

Figure 11. **Default contribution rates**

**Average default contribution rate**

| **Default rates** | Employee | Employer |
|---|---|---|
| FTSE 100 | **2.5%** | **5.9%** |
| FTSE 250 | **2.3%** | **3.6%** |

To remain compliant with auto-enrolment legislation, many employers may need to review their contribution design or default enrolment policy.

2 in 3

employers have recently reviewed or are planning to review contribution rates in the next 12 months

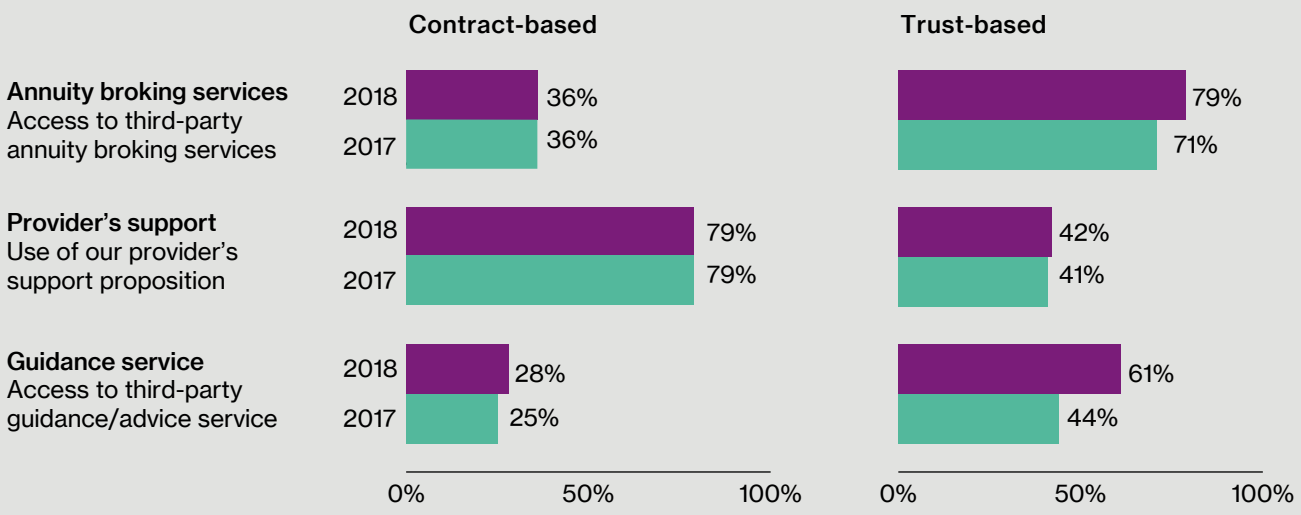
# New directions

## Member support

It is recognised that in order for employees to maximise the value they receive from their DC pension scheme they need an appropriate level of support. This is no more evident than 'at retirement'.

The survey shows that although all schemes appear to have some degree of member support in place already, and this has increased from the 2017 survey, about half are nevertheless either reviewing this provision or planning to do so in the next year.

Figure 12. **Types of member support at retirement**
Percentage of schemes offering support (some schemes may offer more than one type)




58%

FTSE 350 schemes already reviewing, planning to review or considering a review of 'at-retirement' member support services

This might be because they are dissatisfied with the current provider's services, or may be that they arrangement was put in place some time ago and has not kept pace with market developments. For example, the use of technology and online resources, supplemented by helpline support or one-to-one advice, is gaining some momentum.

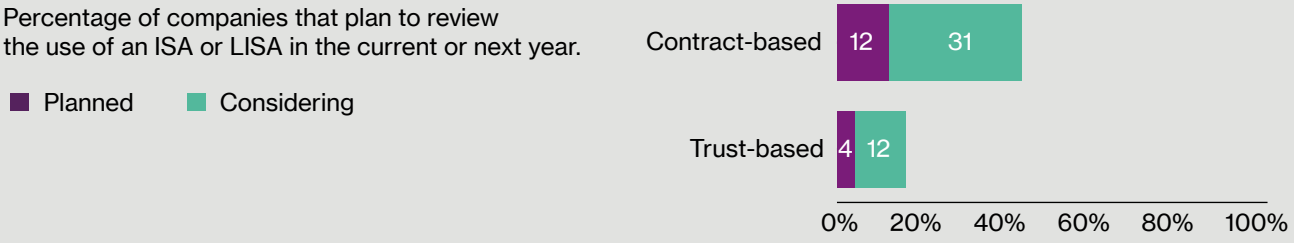
## Financial well-being

The whole area of financial well-being is attracting interest from employers, reflecting that employees have many competing financial priorities and pension may not necessarily be the most attractive, or relevant, benefit for all groups.

Although ISAs and Lifetime ISAs (LISAs) have the highest profile in this area, Willis Towers Watson is helping clients introduce a wider suite of benefits and options, including: general investment accounts, workplace loans, debt consolidation vehicles and mortgage drawdown facilities.

Figure 13. **Reviewing the introduction of an ISA or LISA**

Percentage of companies that plan to review the use of an ISA or LISA in the current or next year.




# 18%

companies with a financial well-being programme in place, **35%** companies planning to put something in place in the next three years

(Willis Towers Watson Benefit Trends Survey 2017, Western Europe Edition)

# 1/3

of employers considering whether to introduce an ISA/LISA option

When planning a financial well-being programme, there are a number of steps that should be followed:

**Data –** what do you know about your workforce? Consider undertaking demographic analysis or obtaining insights directly from the employees.

**Design –** are the current benefits supporting the needs of your employees? What are your principles around flexibility and choice? What is emerging market practice?

**Content –** what does a good programme look like? How do you choose providers? What's the likely cost going to be? Do you need a new delivery platform?

**Implementation –** how do you build knowledge and understanding? What communication/engagement media and activities are required?

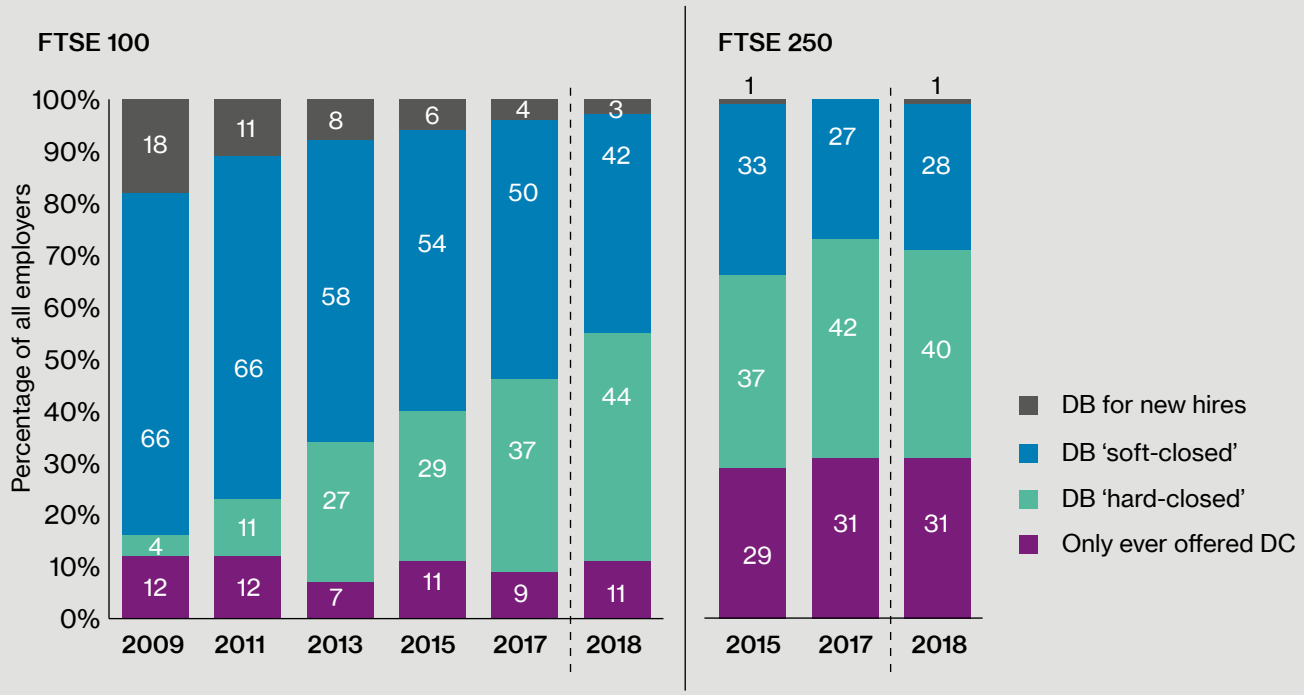
**Governance –** how do you ensure the continued effectiveness and efficient delivery of the programme? What oversight and monitoring processes are required?

# Survey results – selected highlights

We have set out below some of the headline results of the survey

**For the first time, more than half of FTSE 100 companies do not accrue any DB liabilities.**

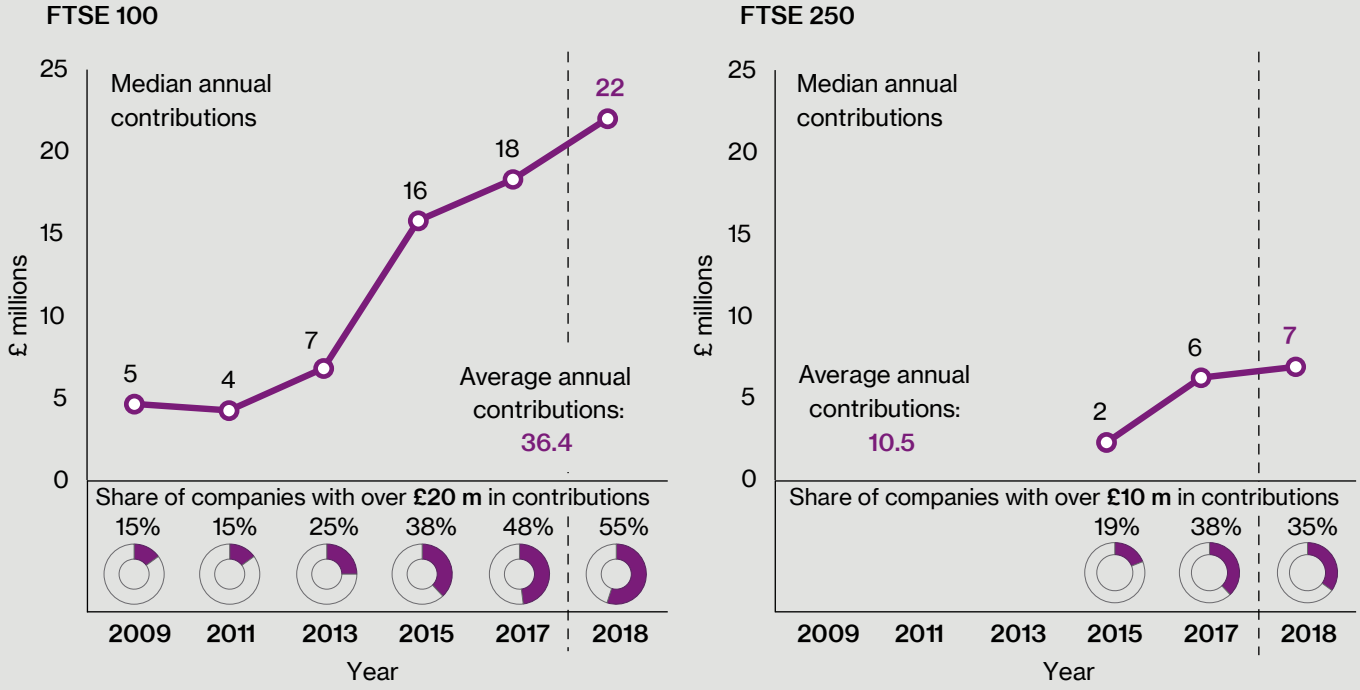
Figure 14. **FTSE 350 employers by scheme status**




# 99%

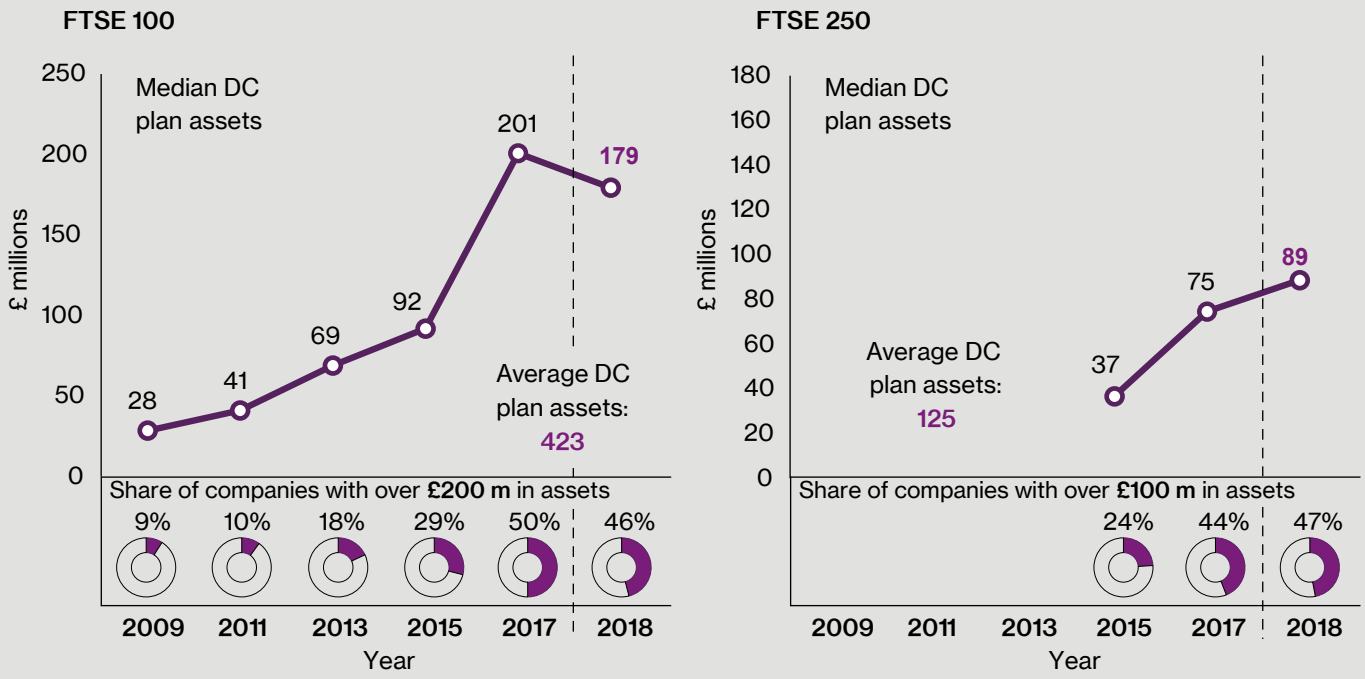
FTSE 350 companies that enrol new employees into DC

Figure 15. **Average contributions**




The change in the constituent companies has resulted in a lower median asset value in the 2018 survey.

Figure 16. **Average assets under management**



## Contribution structures and rates remain stable

74%

schemes with a flat rate contribution structure

Figure 17. **Average contribution rates**

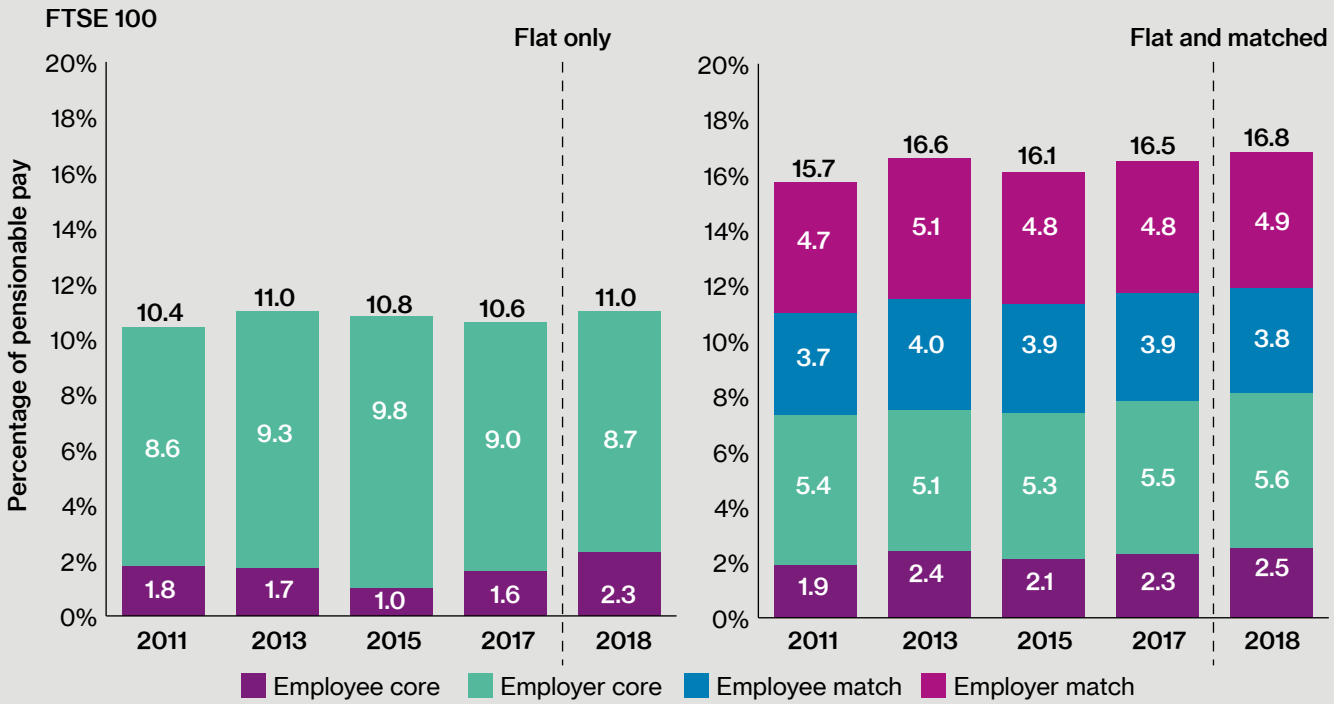
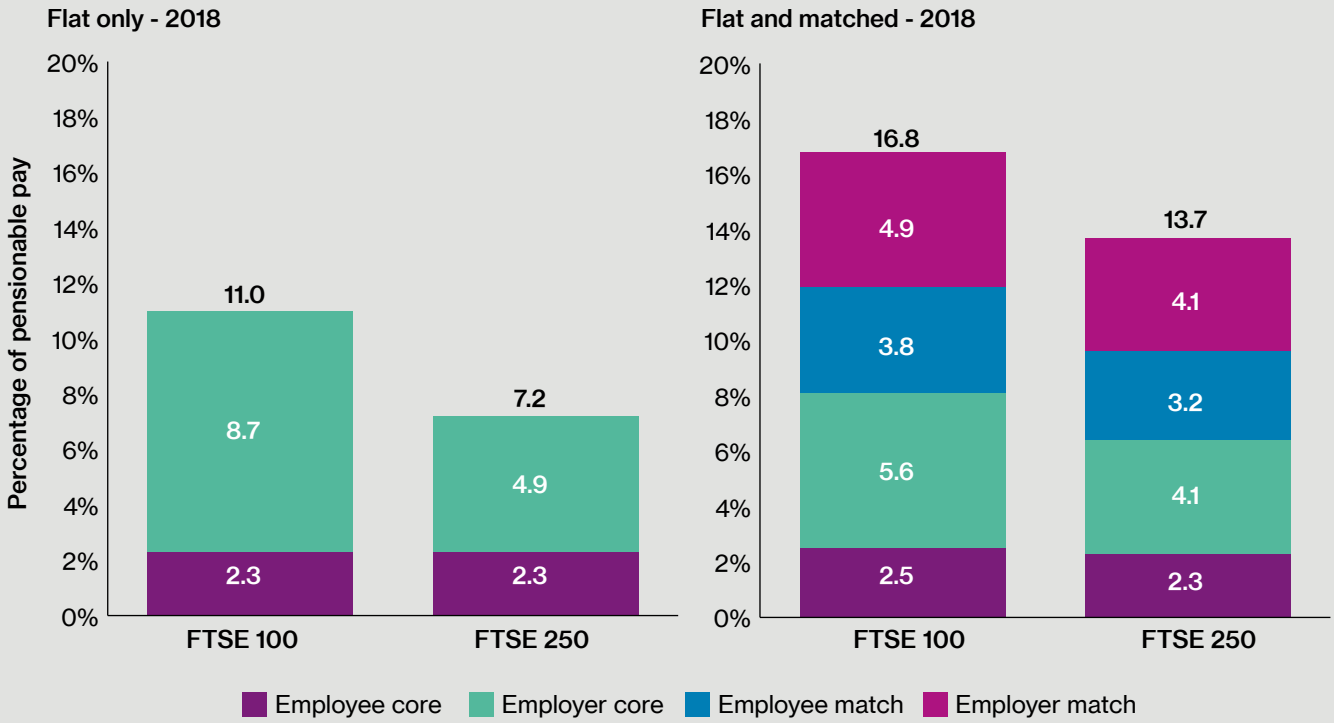
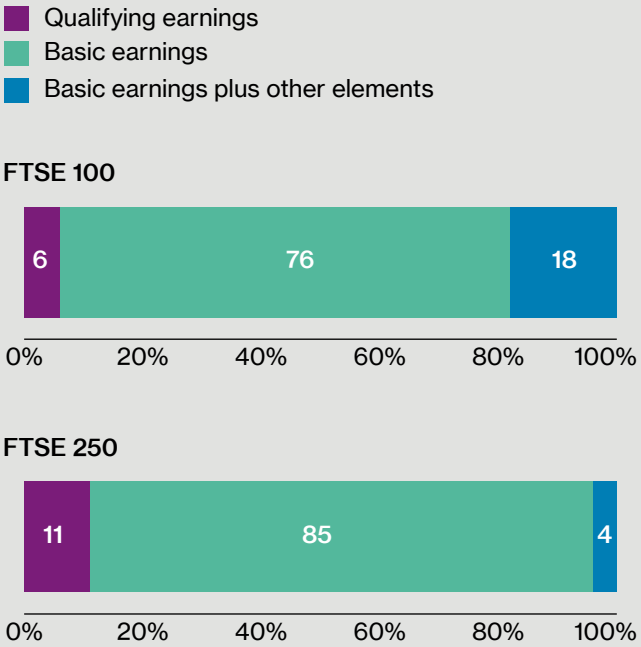



Figure 18. **Average contribution rates**



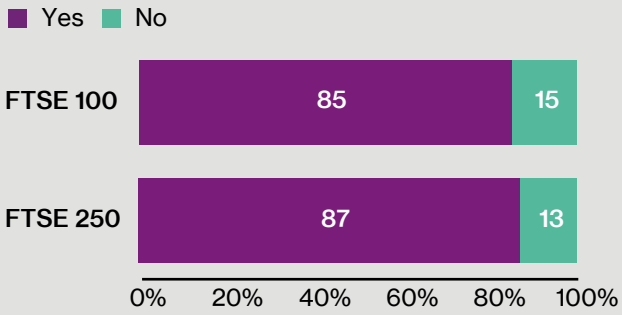
## Basic earnings continues to be the most preferred definition of pensionable pay

Figure 19. **Definition of pensionable pay (percentage of schemes)**




## Salary sacrifice remains popular

Figure 20. **Schemes using salary sacrifice (percentage of schemes)**




## Investment strategies continue to evolve

Driven by legislative change and market conditions, investment strategies have evolved radically over the last two years.

Lifestyle and Lifecycle Investment Strategies are designs that initially invest in asset classes and funds that are expected to have the greatest potential for growth when the member of the DC pension scheme is younger, although this does come with greater risks. As the member approaches their chosen retirement date, typically between 10 and 20 years from retirement, the accumulated fund is gradually switched to lower risk assets. By the time the member is very close to retirement date, the fund will be invested in asset classes that are appropriate to their desired option for taking the benefits – this might be: annuity purchase, income drawdown or short-term cash – or indeed a combination of these options.

Figure 21. **Funds used in the growth phase of the default fund (average proportion of the different asset class funds used in the default fund)**

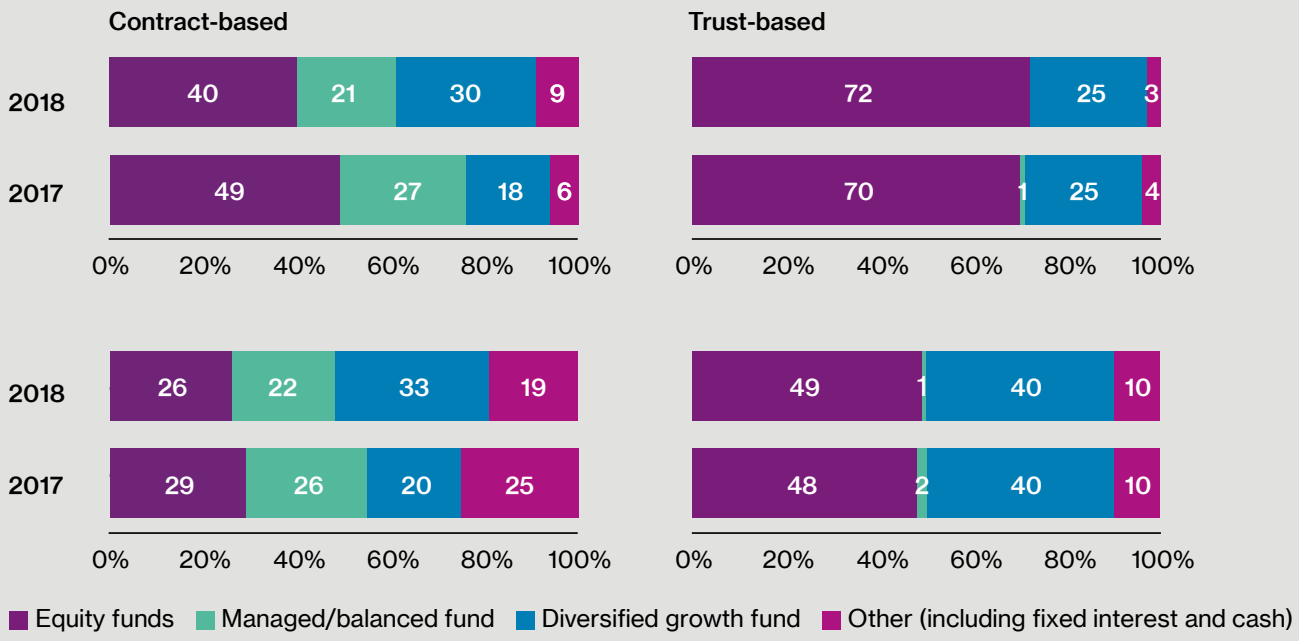
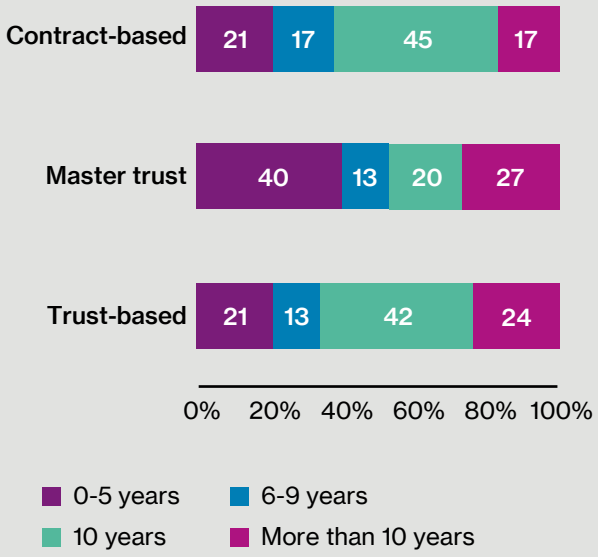
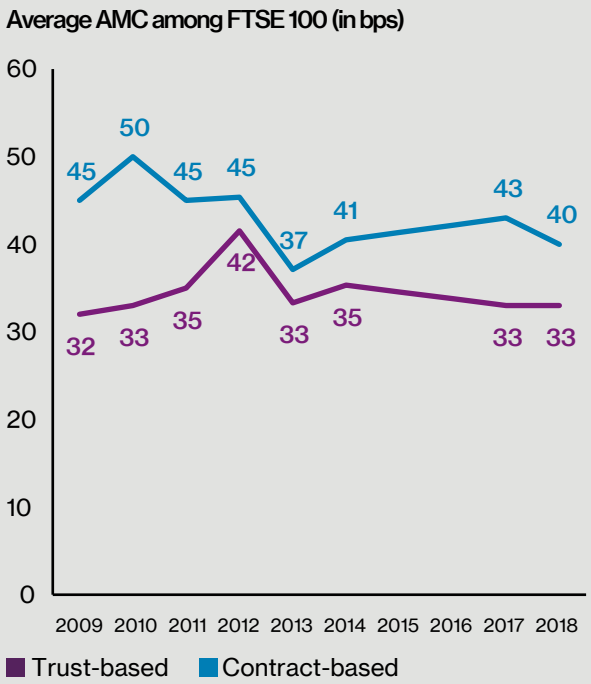


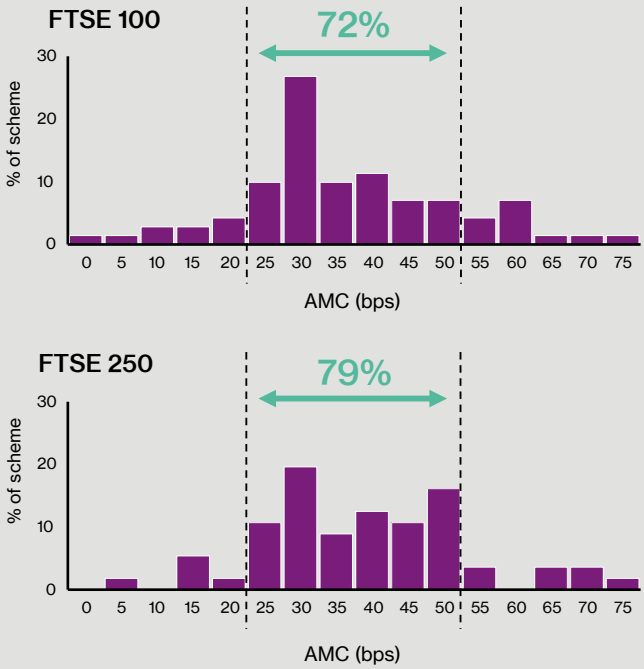
Figure 22. **Switching period used in the default option (percentage of schemes)**




## Charges have remained broadly flat.

Figure 23. **Average AMC (basis points [bps])**



## Oversight and governance of continuing importance

Figure 24. **Trustees that have completed a code of practice (percentage of schemes)**

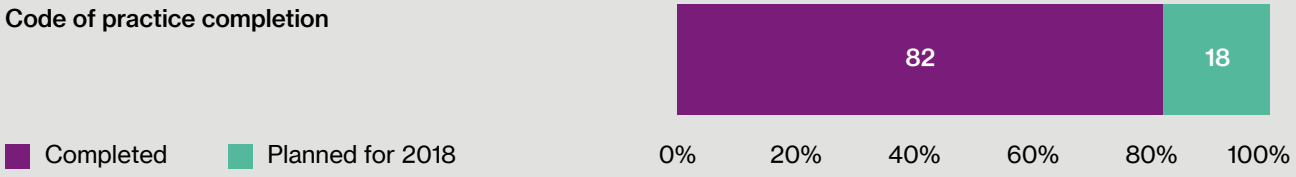



Figure 25. **Actions arising from the assessment (percentage of schemes)**

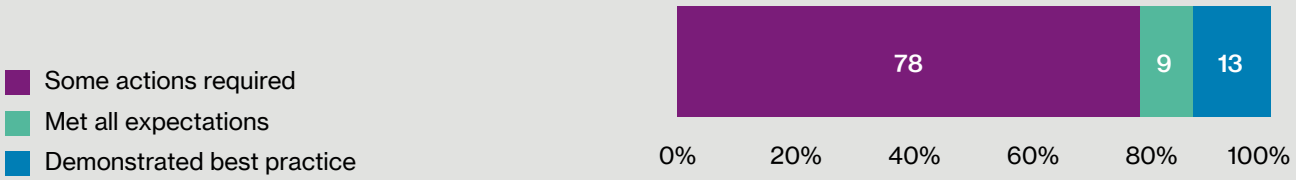
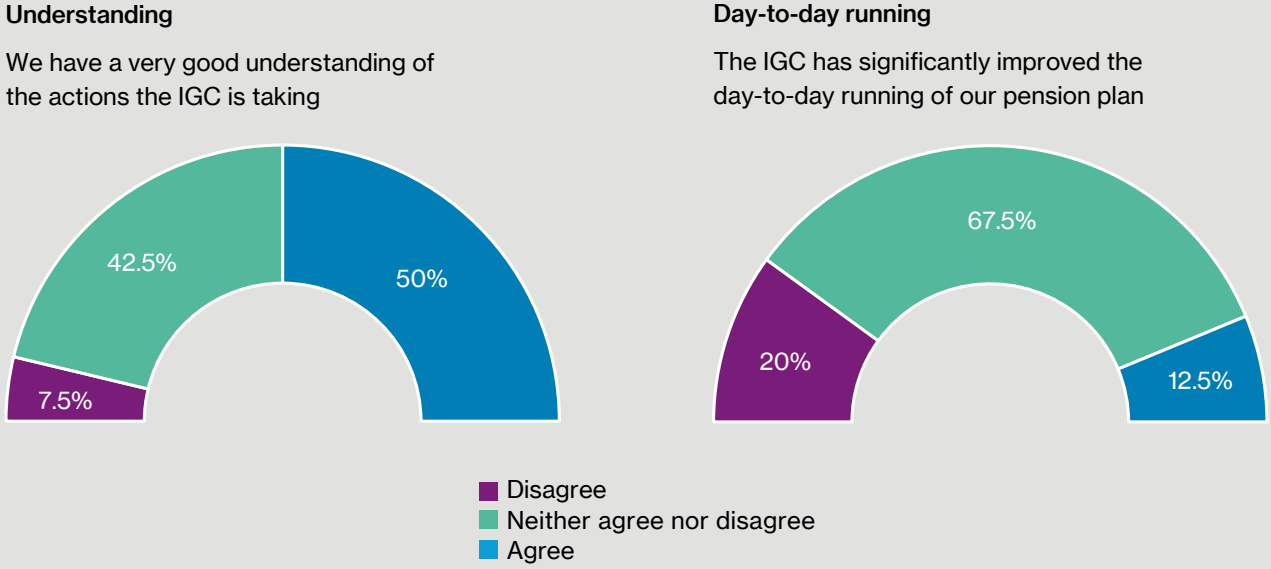
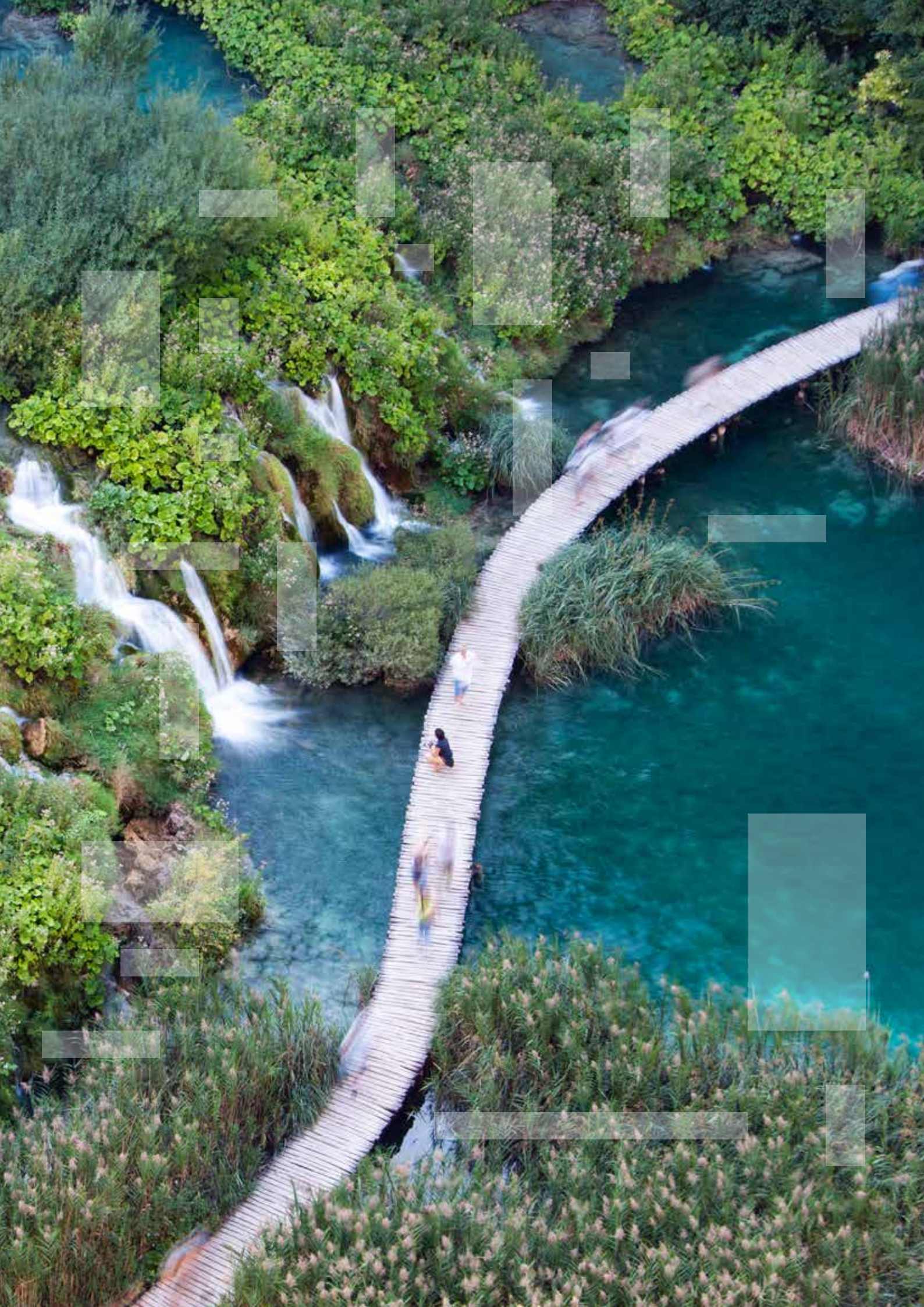



Figure 26. **Understanding of contract-based scheme governance (percentage of schemes)**





# About the survey

This year's survey covers 97 of the FTSE 100 companies and 259 of the FTSE 350. This represents 90% of the eligible companies in the FTSE 350 Index as at the end of 2017. This excludes investment trusts and overseas companies that form a 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.

## Limitations 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 the 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 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

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We would like to thank all those companies that took the time to participate in the survey.

This report has also been produced using research undertaken by several Willis Towers Watson associates, in particular Jonathan Gardner, David Mitchell, Ignacio Scasso and Oliver Holland.

We thank them for their hard work and efforts in analysing the data and compiling this survey report.

## 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 over 40,000 employees serving more than 140 countries. 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.

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