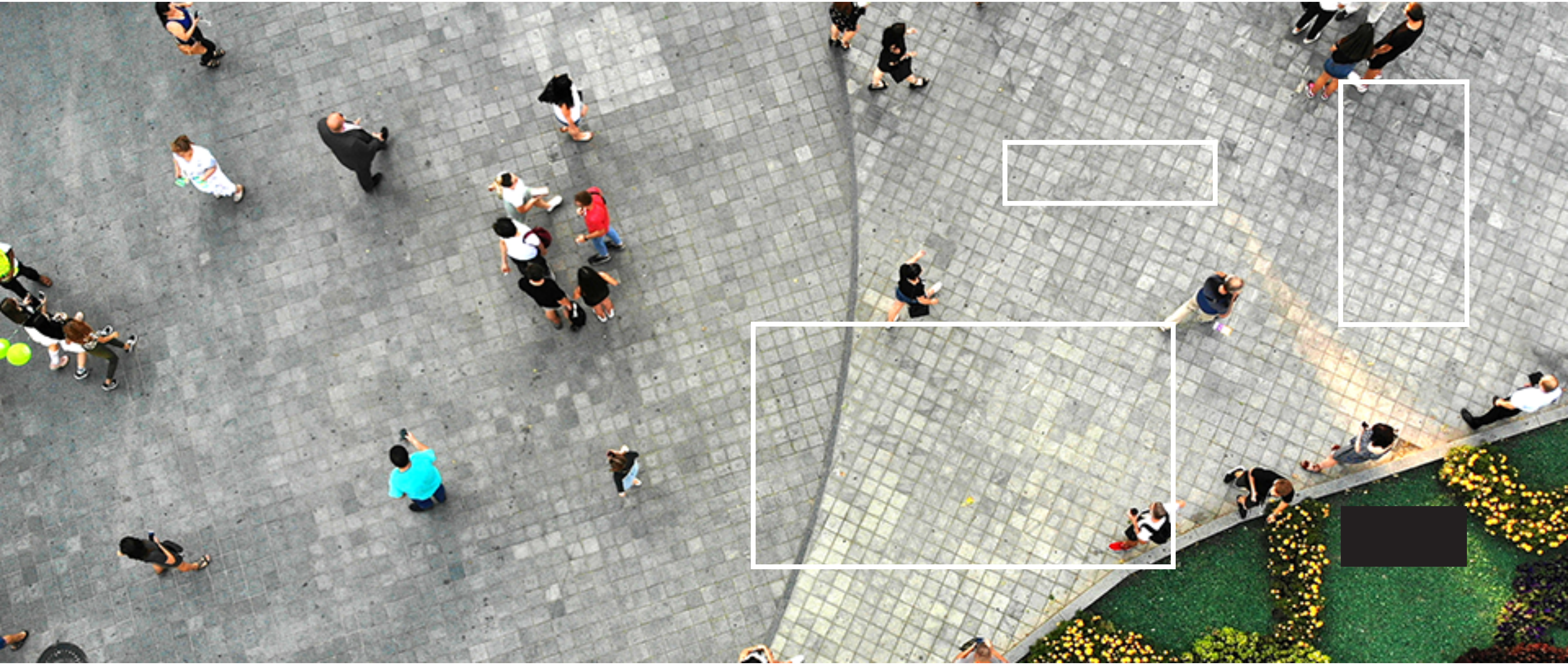
FTSE 350 Defined Contribution Pension Survey 2021

Looking after members through turbulent times



Introduction

It has been a remarkable year and we would first like to thank those who have participated in this, our 16th edition of the FTSE 350 DC survey. Organisations have faced many challenges and we appreciate the time spent helping us to collect these valuable insights.

When undertaking this year's survey, we wanted to see whether the pandemic had affected companies' commitment to DC provision. There was concern that we might see a reduction in benefits and commitment as organisations grappled with maintaining financial stability and workforce planning. Far from showing this, this year's results reveal that organisations share a compelling desire to improve member outcomes and enhance the support they provide to them.

"There was concern we might see a reduction in benefits and commitment as organisations grappled with maintaining financial stability and workforce planning. Far from showing this, this year's results reveal that organisations share a compelling desire to improve member outcomes and enhance the support they provide to them."

Plan design

We do continue to see consolidation, however the pace this year has slowed, perhaps as a consequence of organisations taking stock and focusing on the immediate issues arising from the pandemic. The results show a clear intention to continue reviewing how DC is provided, with many companies looking to review both vehicle and provider over the next two years. While the move to outsourcing of provision is continuing, formalisation of the role of oversight committees to monitor the appointed providers is also increasing.

Contribution levels have remained stable and we have not seen the reduction many anticipated as a fallout of the pandemic. Indeed, even though a majority of companies project pension contributions remaining at about the same level in the short term, 16% say they intend increasing contributions within the next two years, indicating the importance employers place on DC provision.

Financial wellbeing

There has been an accelerated focus on financial wellbeing, with the DC arrangement integral to plan design and delivery. This has led companies to consider greater flexibility around contributions and also to view the delivery of support, tools and education as a constituent part of the overall strategy.

Investment

There is an even stronger emphasis on environmental, social and governance (ESG) factors, with many plan sponsors intending to integrate these into the main default investment strategy in the immediate term. When we asked what the objective for this was, the main response given was to ensure consistency with the corporate's ESG policy.

Governance

Although the trend towards the outsourcing of pension provision looks set to continue, there is clear evidence that companies with master trust and contract-based arrangements take the ongoing monitoring and oversight of these arrangements very seriously. In particular they want a clear set of objectives for their schemes and typically set up a governance committee to monitor the scheme and assess whether the objectives are being met.

At retirement

Plan sponsors continue to focus their efforts on the point of access and there are many opportunities for improving the support and experience of members as they approach retirement. We expect this to be a key focus for organisations in the short term, with 59% citing the support available at retirement as a top priority for improving value for members.

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

Plan design

WillisTowersWatson

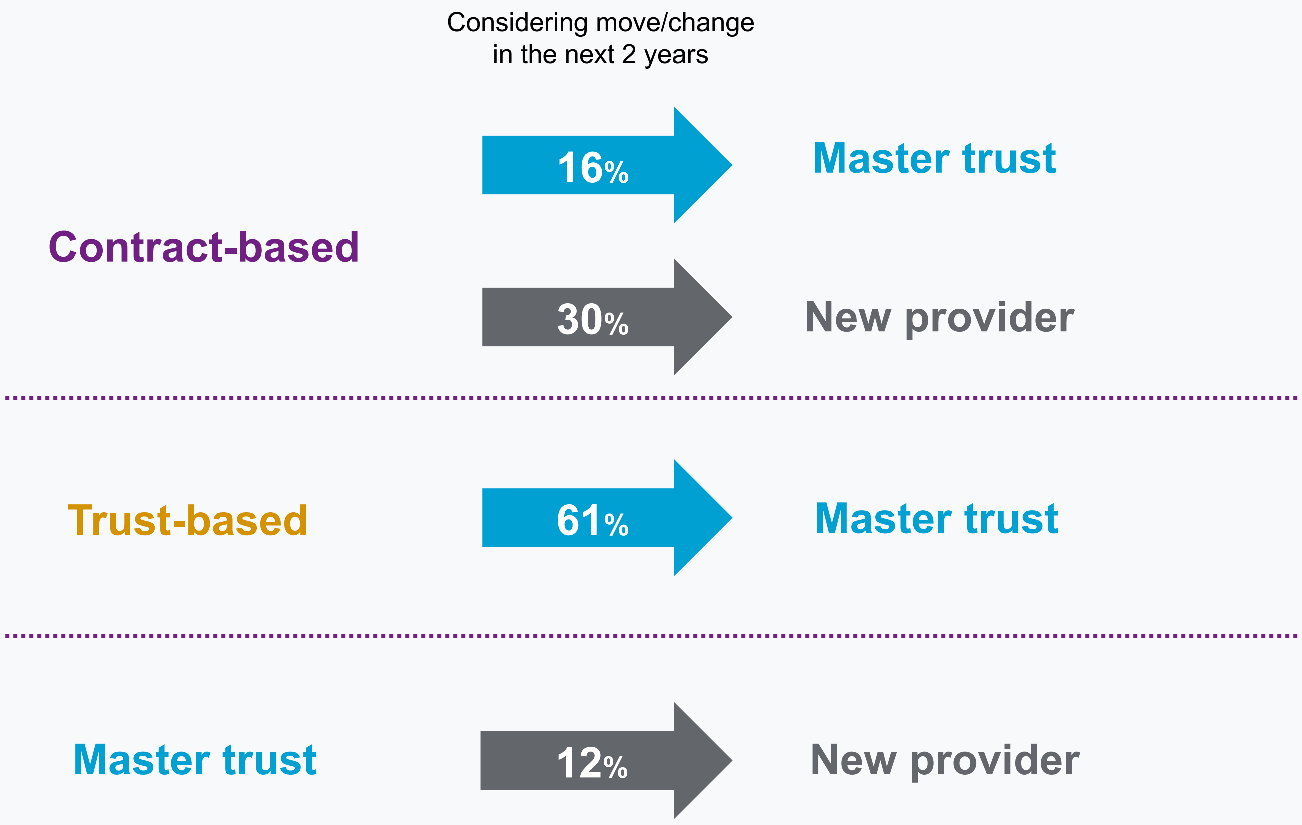
Simon Hankin
Director, Retirement

The results show that organisations place employee outcomes and wellbeing at the top of their agendas. When it comes to plan design, they have a wide range of considerations to weigh up.

For example, we see in Figure 1, 61% of employers running their own trust-based arrangements indicate that moving to a master trust is a consideration in the next two years. Against a backdrop of only 10% of trust-based schemes now delivering DC in an unbundled manner, this points to a continued trend of seeking both operational efficiency and potentially more efficient and effective support for member retirement saving, both during accumulation and decumulation.

It is also very interesting to note that a secondary master trust market may now start to emerge, beyond the initial move away from trust-based schemes, with survey responses pointing to a potential shift from a contract-based arrangement to a master trust and from one master trust to another. This is not a trend we have seen in our previous surveys, which have historically pointed to a relatively stable contract-based market.

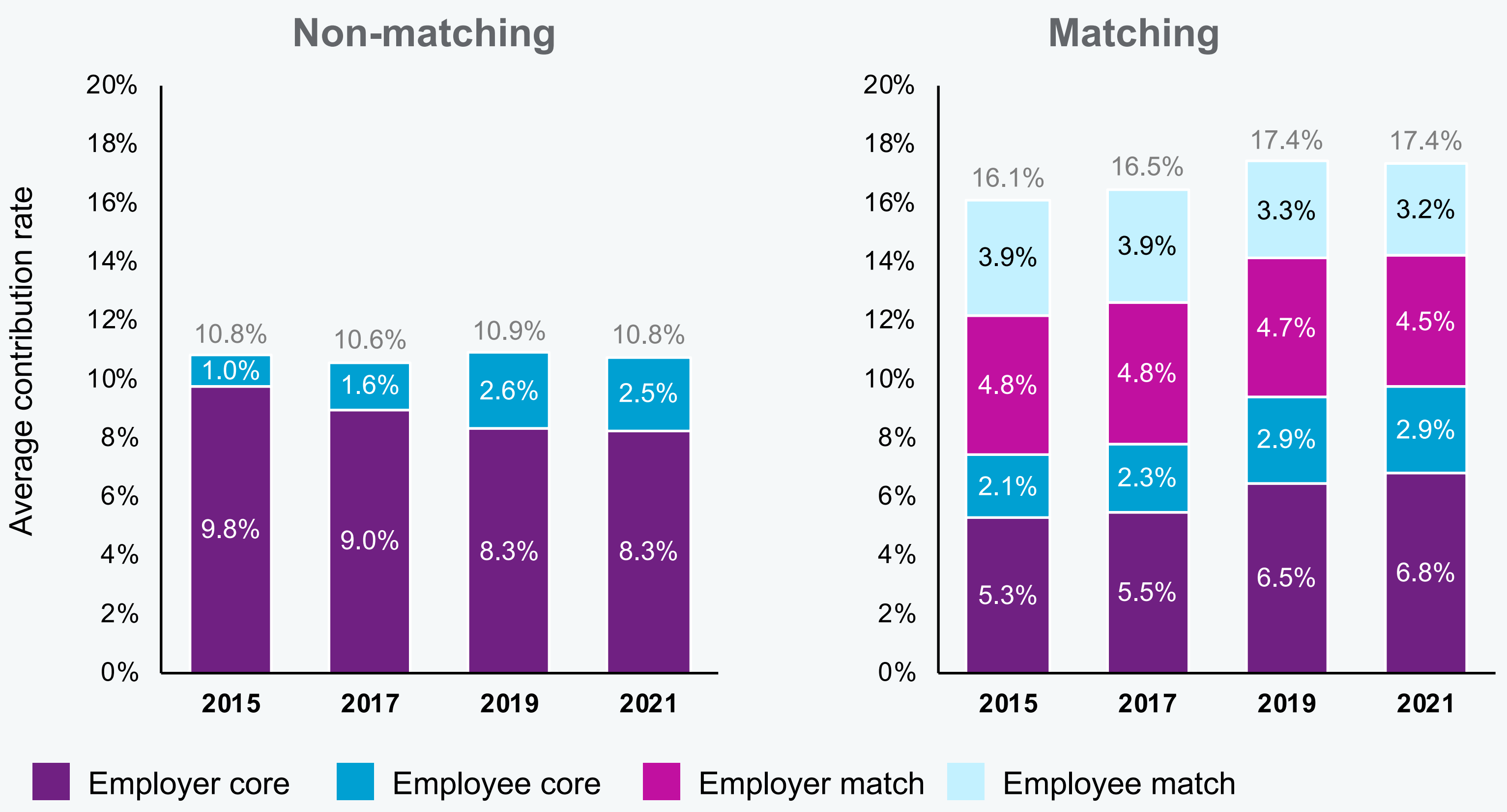
Figure 1 - Review of DC vehicle



“This years survey provides some interesting insights we’ve not seen before – the possibility of a secondary master trust market emerging and wider savings options and flexibility being opened up for all.”

More recently overall contributions levels have remained stable (Figure 2), following a rise in averages in 2019 which was driven by the last phase of increased automatic enrolment contribution levels.

Figure 2 - Contributions to FTSE 100 pension schemes have stabilised



*Data from 2015 to 2017 is uniform rate only while from 2018 onwards includes all contribution structures. Percentages may not add up due to rounding.

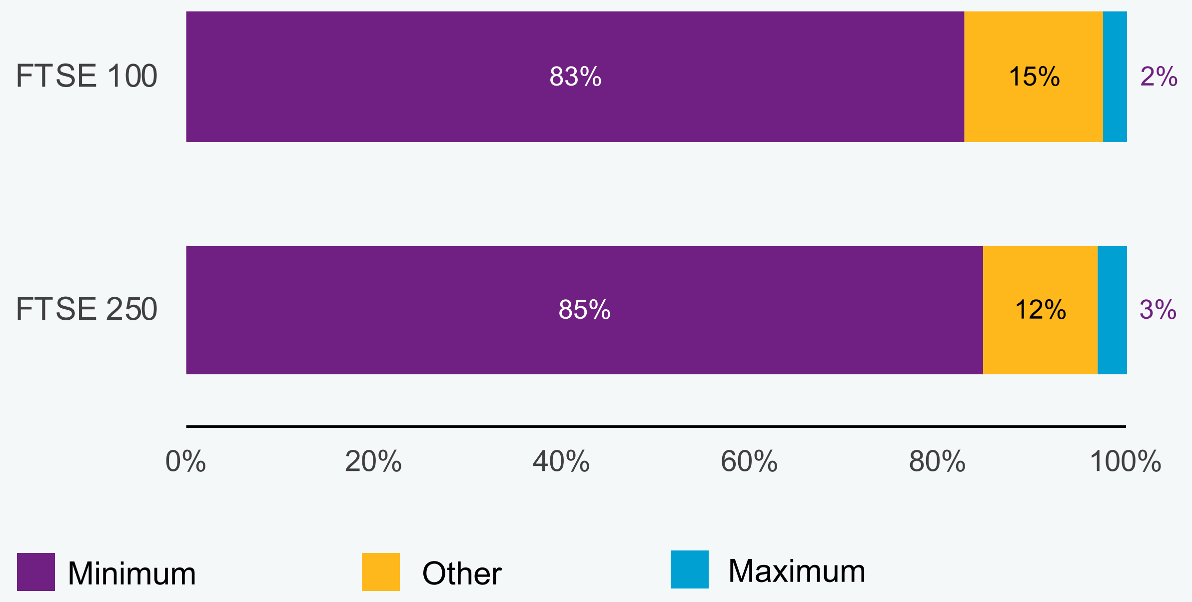
Source: FTSE 350 DC Pension Scheme Survey, various years

However, we've seen again that, where encouraging employee retirement savings is concerned, less than a fifth (20%) of companies enrol members at a contribution rate in excess of the minimum level that exists within their particular contribution structure. There may therefore still be work to do in overcoming inertia in decision making so individuals understand and, where possible, take advantage of more valuable contribution rates to improve their own outcomes.

It will be important to uncover what lies beneath the surface of all this. Changing the method of delivery of pension benefits or switching between providers are not decisions to be taken lightly, but are the concepts of retirement and a pension actually now relics of the 20th century? Will companies develop a more holistic approach, enabling employees to save for the short to medium-term rather than just the long-term, with solutions for a broad spectrum of expected life and career stages? We have clients who already provide saving options appealing to all their employees – and we are strong advocates of thinking and looking beyond the traditional.

Figure 3 - Default contribution rates

Share of companies with matching contributions structures defaulting employees to minimum, intermediate or maximum rates



Sample: Companies with matching contributions structures.
Source: FTSE 350 DC Pension Scheme Survey, 2021

Financial wellbeing

Willis Towers Watson

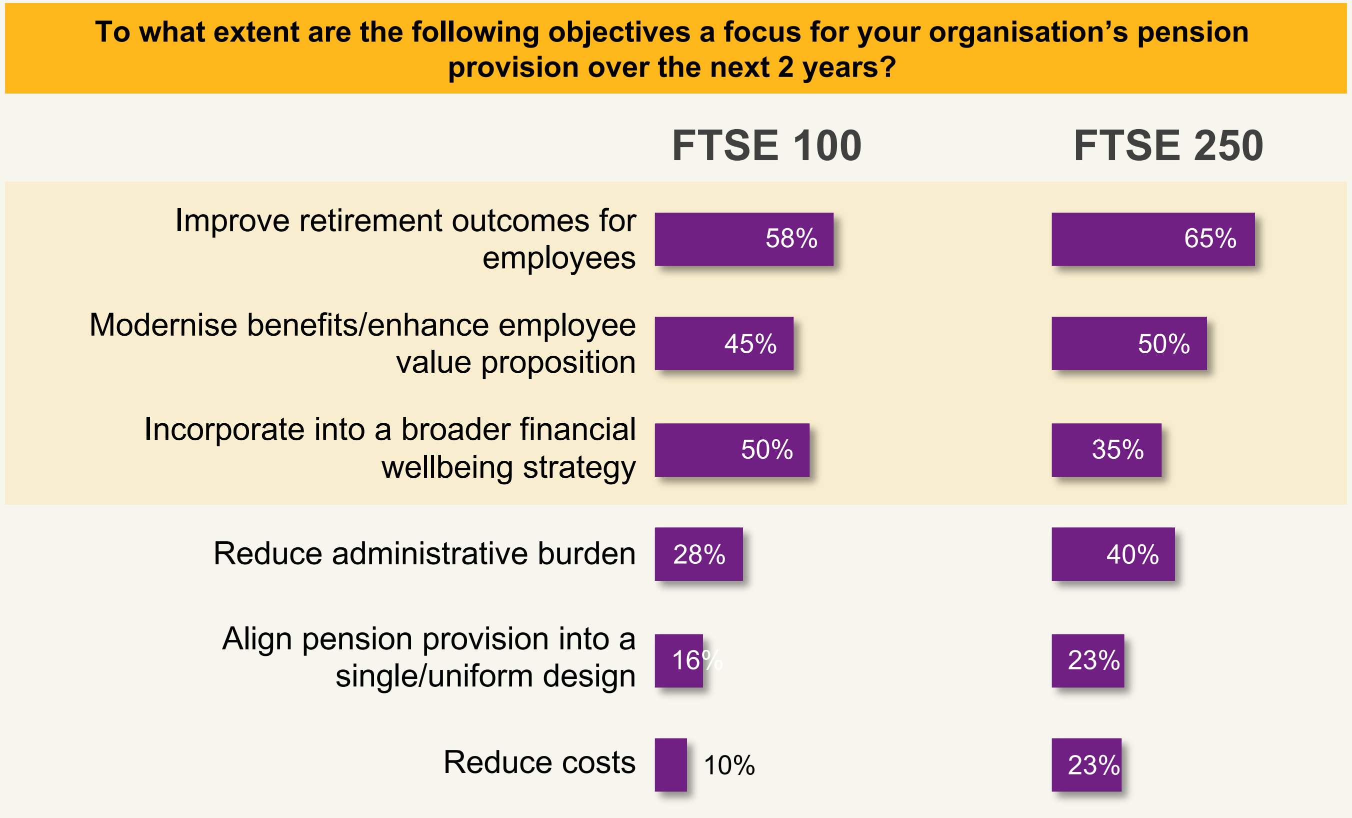
Richard Sweetman
Senior Director, Retirement

The results of the survey support other evidence that financial wellbeing is high on the agenda for many organisations. Furthermore, many respondents are using the DC pension scheme as a catalyst for change or as a key component in the delivery of a financial wellbeing programme.

Across the FTSE 350, incorporating the DC pension scheme into a broader financial wellbeing strategy is a top-three priority for the organisation's benefits provision. Linked to this is the aspiration of improving employee pension outcomes and modernising the wider employee-benefits programme, both of which are also a focus for organisations in the short-term. Interestingly as seen in Figure 4, for larger organisations in the FTSE 100, the aim of integrating pensions into a financial wellbeing programme is more important – 50% of FTSE 100 companies have this as a focus compared to 35% of FTSE 250 companies. Possibly this is because they have already taken action to improve the DC pension scheme and wider benefits.

In Figure 5, we see organisations that have moved to a master trust appear much more likely to focus on improving employee financial wellbeing by incorporating pensions into wider benefit programmes than those with trust-based schemes.

Figure 4 - Improving retirement outcomes is the main focus



Note: Percentages are "4/5 Major focus". Source: FTSE 350 DC Pension Scheme Survey, 2021

Of those surveyed, 47% of those with master trusts say this is their focus against 30% of those with trust-based schemes. This may be because those with master trust schemes feel that they have already switched to a more up-to-date and effective pension delivery vehicle in order to improve retirement outcomes and modernise benefits.

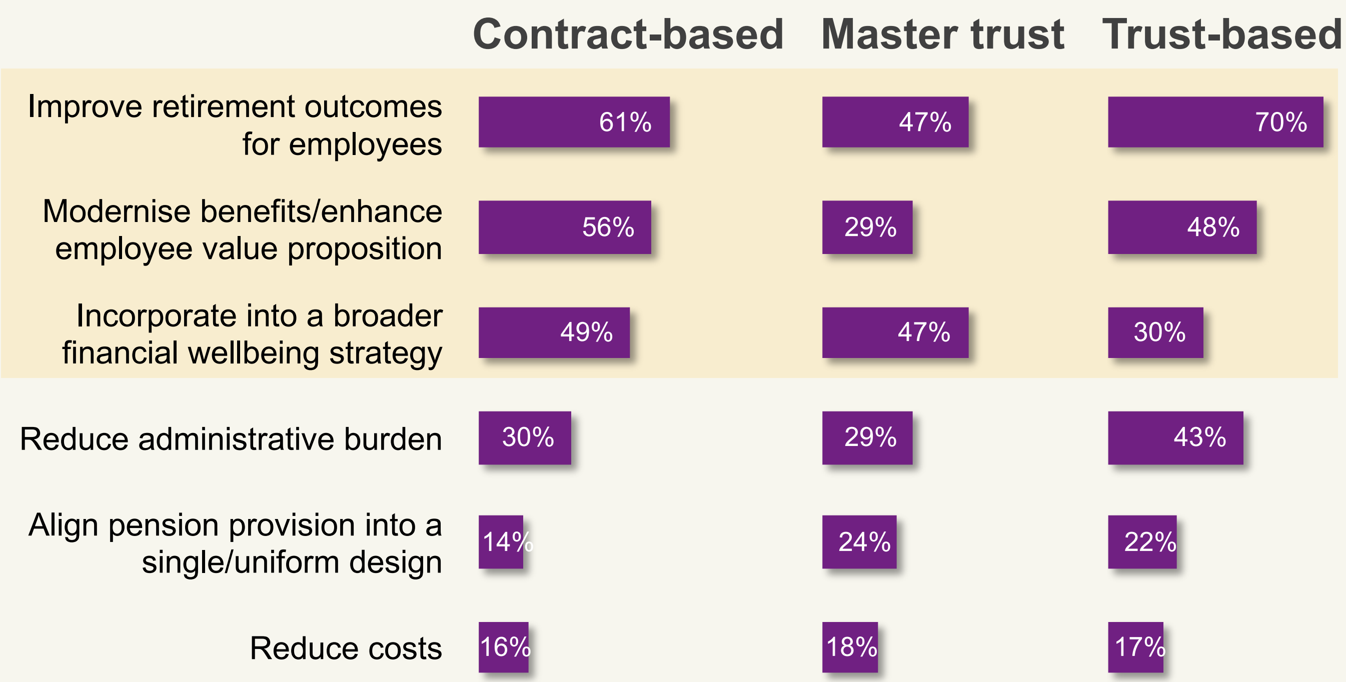
In contrast, those with trust-based schemes retain an emphasis on improving member outcomes –70% for trust-based versus 47% for master trusts. It is difficult to know with certainty why this is the case, but it may be that for these schemes it is the trustees who are controlling the agenda and looking at the whole membership, including deferred members. Whereas for those with a master trust or contract-based scheme, the employer places more emphasis on active employees.

Interestingly, those employers with contract-based schemes have an interest in enhancing all three areas, as Figure 5 illustrates, possibly because they feel the incumbent provider is failing to deliver adequate support.

An integral part of supporting employees and pension scheme members with financial wellbeing is providing them with educational support and tools. The survey demonstrates that employers have recognised this and have a clear intention of enhancing these interventions – it is a leading priority in delivering value for members over the next two years. This response applies across all sizes of company and all types of schemes, with more than two-thirds of respondents saying that improving tools and educational materials is a focus.

Figure 5- Improving retirement outcomes is the main focus (continued)

To what extent are the following objectives a focus for your organisation's pension provision over the next 2 years?



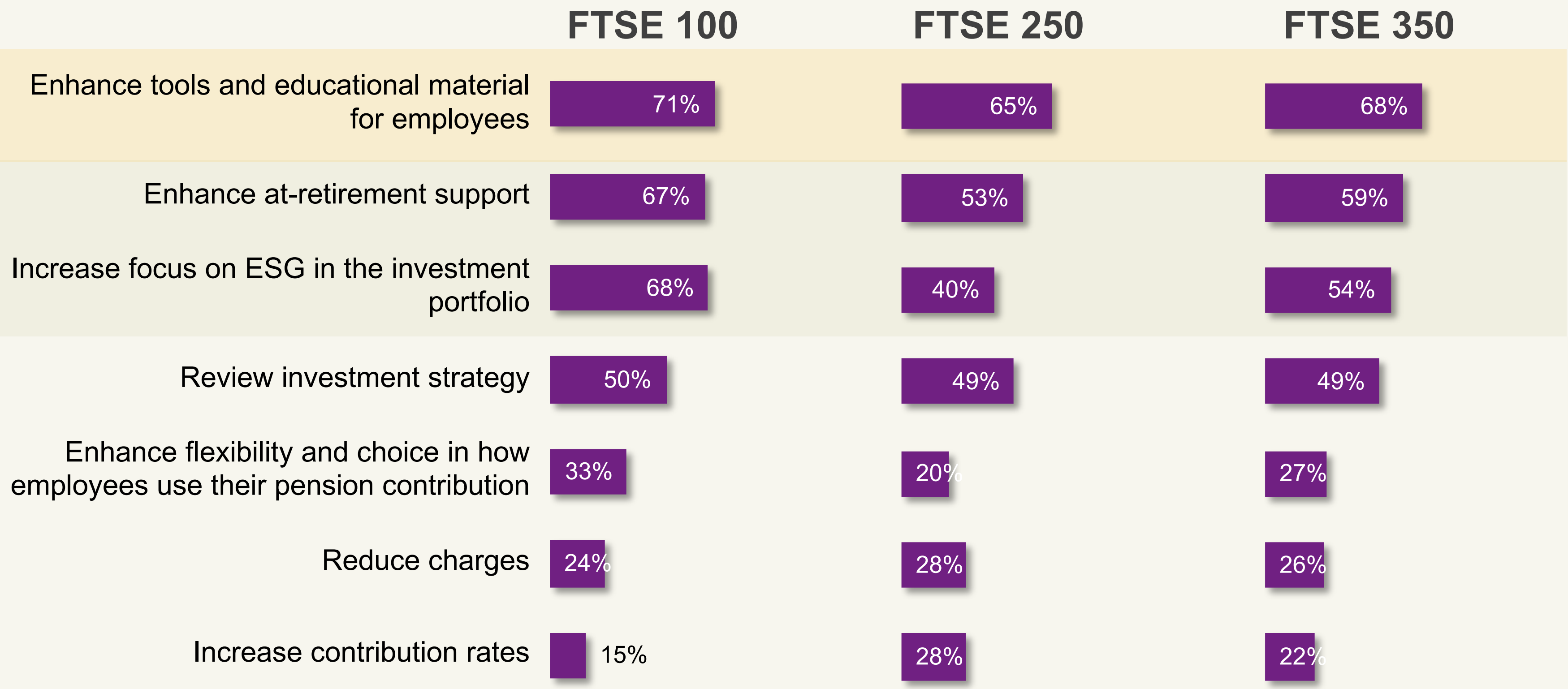
Note: Percentages are "4/5 Major focus". Source: FTSE 350 DC Pension Scheme Survey, 2021

This emphasis on employee education and support confirms the findings of the Willis Towers Watson Future of Financial Wellbeing Survey 2021, which also found that this was the number one priority for enhancing existing financial wellbeing programmes over the next two years.

“68% of companies plan to enhance tools and educational materials for members.”

Figure 6 - Employers are looking to enhance employee support with educational material and at-retirement support

To what extent are the following a focus for your organisation to deliver greater value to members over the next 2 years?

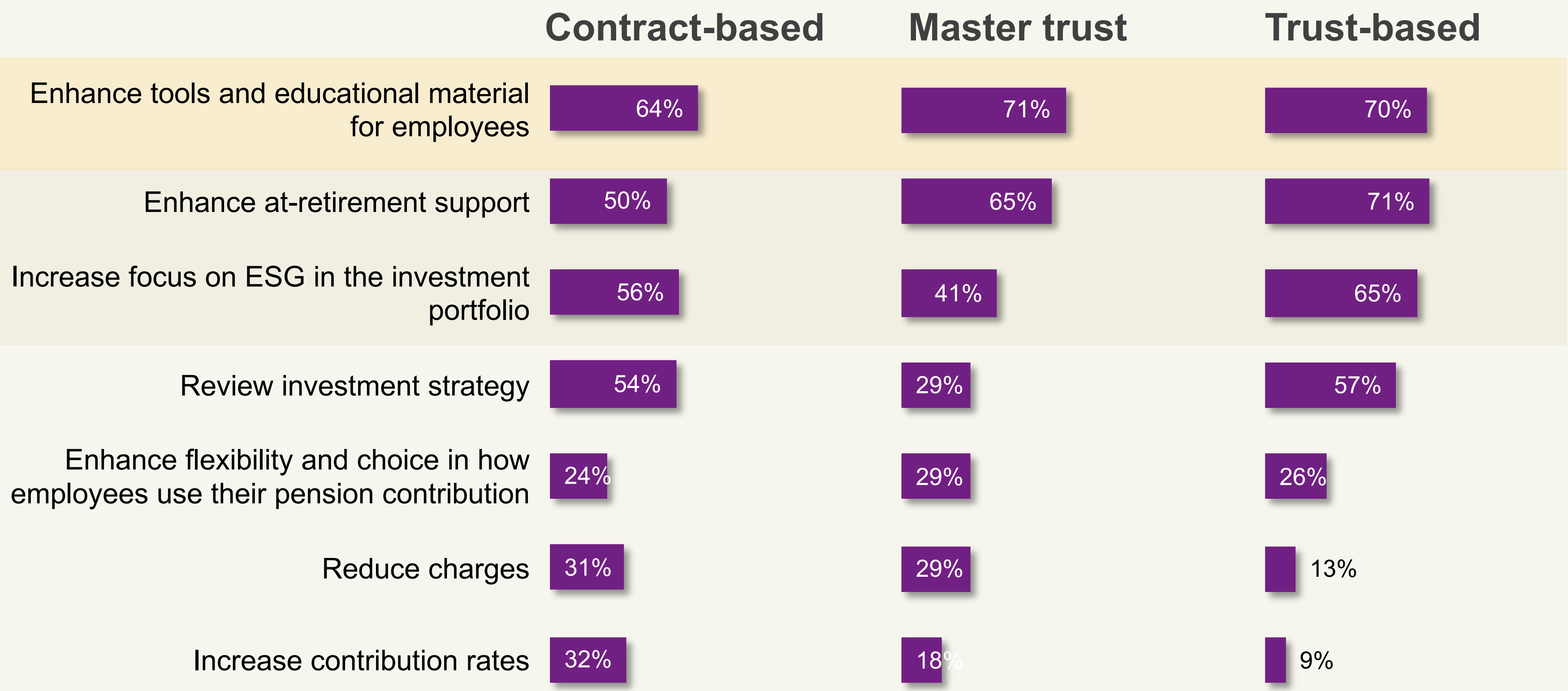


Note: Percentages are “4/5 Major focus”.
Source: FTSE 350 DC Pension Scheme Survey, 2021

“The survey illustrates that financial wellbeing is an emerging focus for employers, particularly as we emerge from the pandemic. Importantly, while there remains a focus on wider wellbeing, this will not come at the expense of retirement savings. Defined contribution pension arrangements should form a core part of any financial wellbeing programme, supplemented with flexible options that allow employees to personalise their outcomes.”

Figure 7 - Employers are looking to enhance employee support with educational material and at-retirement support

To what extent are the following a focus for your organisation to deliver greater value to members over the next 2 years?

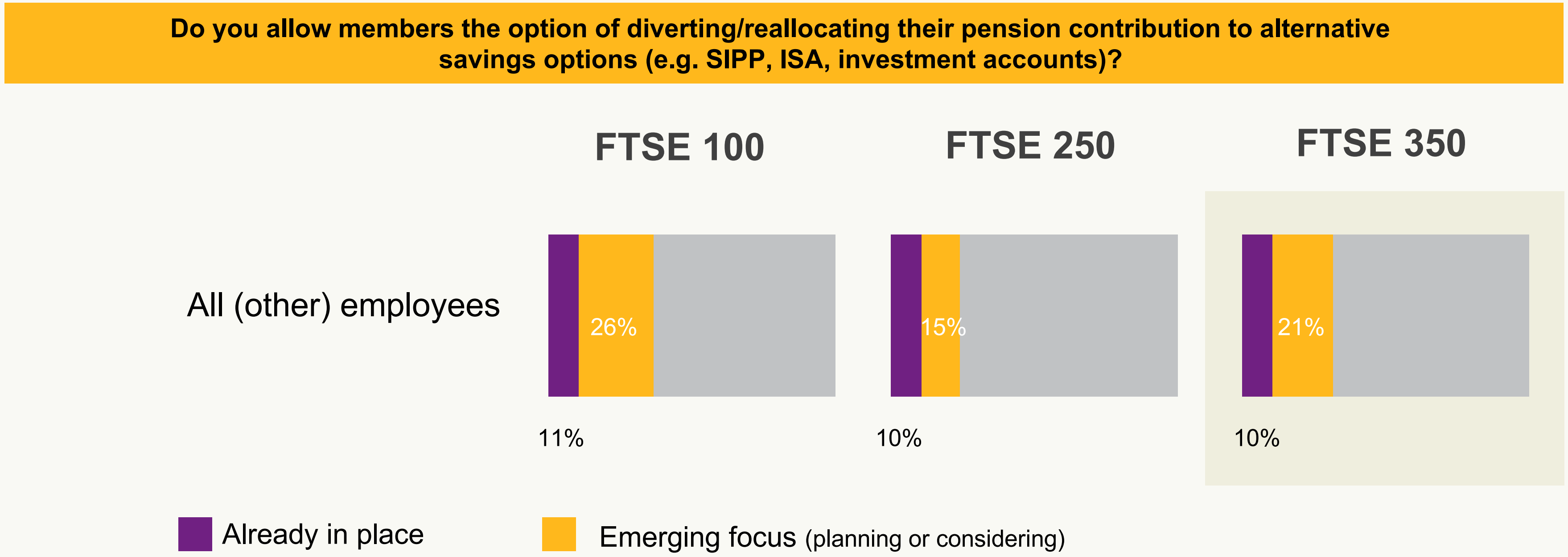


Note: Percentages are “4/5 Major focus”.
Source: FTSE 350 DC Pension Scheme Survey, 2021

Finally, reviewing DC pension plan design is also on the agenda. While the importance of maintaining pension savings is reflected in the level of contributions paid, it is also recognised that some employees may have other financial priorities. The survey found that the number of employers offering a plan design allowing members to flex their pension contribution and possibly re-direct some funding to an alternative savings vehicle could triple over the next two years – from 10% of employers to 31% (Figure 8).

Identifying different employee needs in this way, and facilitating flexibility, is key to any successful financial wellbeing programme.

Figure 8 - The use of flexible contributions across the workforce looks set to increase significantly



Source: FTSE 350 DC Pension Scheme Survey, 2021

Investment and ESG

Andrew Hope
Director, Retirement

Investment designs across all scheme types continue to be refined based on how DC members are expected to access their savings beyond retirement.

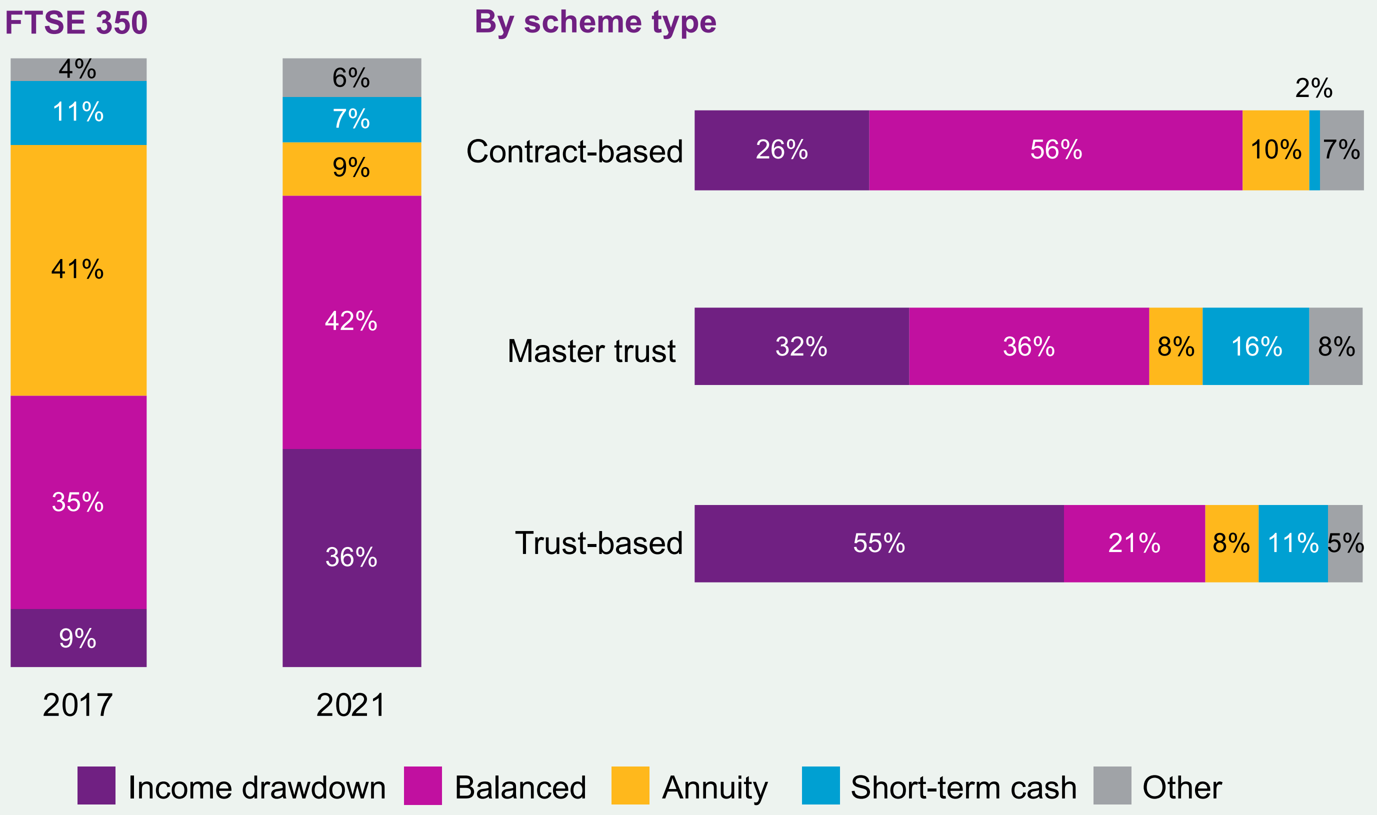
Investment design increasingly focuses on environmental, social and governance (ESG) factors, with ESG integration into default designs likely to become the norm over the coming years.

Default design

It's seven years since Pension Freedoms revolutionised the retirement landscape, introducing new flexibilities around how benefits are accessed. How DC members will access their savings after retirement continues to be a key consideration in investment design for all scheme types.

Our survey found (Figure 9) that 78% of default investments are now either targeting income drawdown or a more balanced withdrawal approach (up from 44% in 2017).

Figure 9 - Funds targeting drawdown and balanced approaches dominate



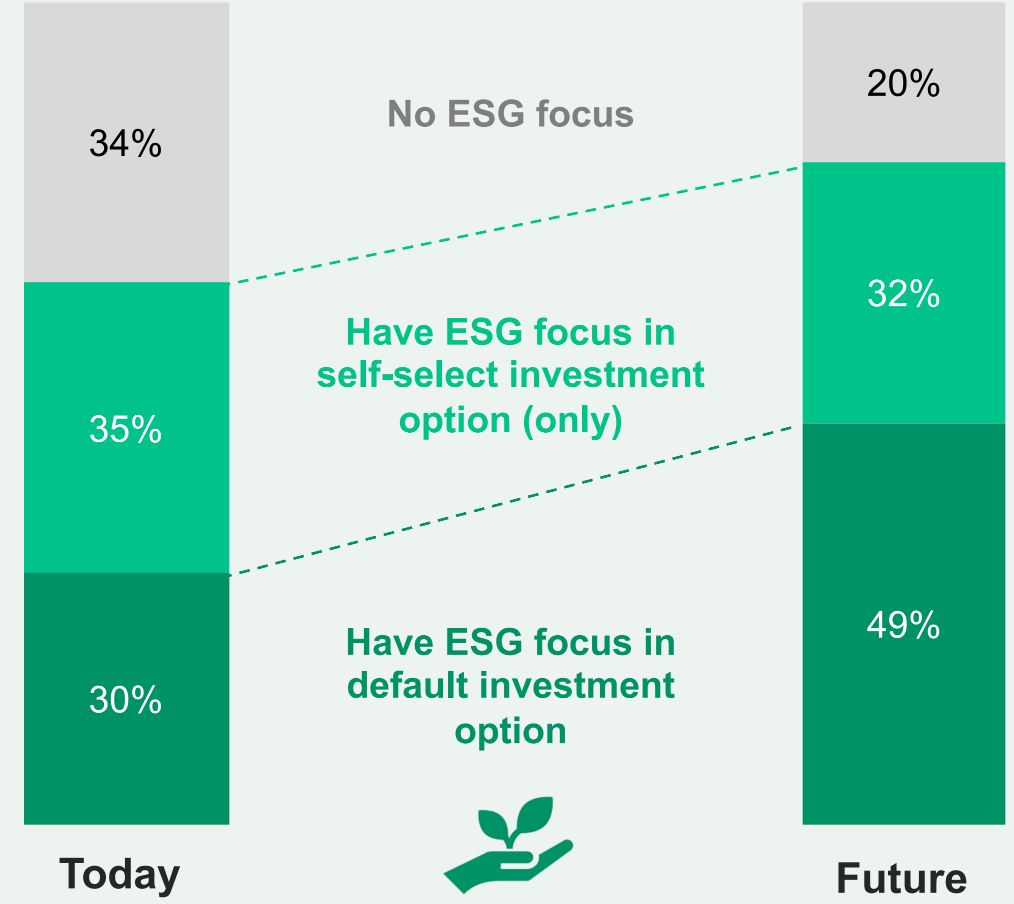
The proportion of contract-based (56%) and master trust arrangements (36%) targeting a balanced approach was much higher than those within trust-based arrangements (21%). This perhaps reflects the fact that trust-based arrangements are better able to design bespoke investment solutions to meet the specific needs of their membership. Trustees now have several years of retirement decisions to help inform these bespoke designs (Figure 9).

In comparison, employers using contract-based or master trust arrangements are more likely to rely on the provider's packaged investment solutions. These designs need to cater for a much wider population and therefore tend to be broader in terms of the options they target at retirement.

Environmental, social and governance (ESG) integration

Figure 10 proves that ESG continues to gain significant focus across all scheme types, with 65% already integrating ESG into their investment range. Within two years it is expected that almost half of schemes will have blended ESG into the default option, demonstrating the commitment of plan sponsors to making it easier for members to take these important investment factors into consideration.

Figure 10 - ESG focus in investment options continues to grow



Note: "Future" assumes schemes "planning" to add ESG focus, will do so. Percentages may not add up to 100% due to rounding. "Don't know" was excluded.
Source: FTSE 350 DC Pension Scheme Survey, 2021

This is driven by (Figure 11):

- **R**eputation **-** our survey showed that nearly three-quarters of respondents cited consistency with corporate policies as a key factor for ESG integration.
- **R**egulation **–** there has been increased regulatory pressure on schemes to consider ESG, with the largest schemes soon being required to report on climate risks and opportunities. Within our survey, 57% of schemes were focusing on ESG due to regulatory pressure.
- **R**isk and return **–** 37% of schemes were influenced by the potential for increased investment return. Our survey also identified ESG integration as one of the key ways of improving value for members.

Engaging with ESG

Schemes are increasingly aware that ESG can form an important aspect of engaging with members with 41% of schemes identifying engagement as one of the factors driving the focus on ESG. Campaigns such as Make My Money Matter are raising awareness of the importance of responsible investment within the pensions industry.

We also found that schemes of all types plan on surveying their membership to understand their views on ESG, with trust-based schemes showing greatest interest (more than two-thirds, 68%, have already undertaken a survey or are at least considering it). Where schemes have undertaken member surveys these have often provided significant opportunity for engagement. For example, results from other surveys have shown that members are often willing to contribute more into their pension when they know their savings are being invested responsibly.

Figure 11 - Consistency with corporate ESG policies is the main driver for a bigger focus on ESG

To what extent are the following ***influencing*** *factors in the move to focus on ESG?*

Note: Percentages are “4/5 To a great extent”. “Don’t know” was excluded.
Sample: Companies that are at least considering ESG focus as default or self-select option
Source: FTSE 350 DC Pension Scheme Survey, 2021

[James Colgrave](#)
Senior Director, Retirement

This latest survey reveals that 61% of the FTSE 100 and 82% of the FTSE 250 now participate in either a master trust or a contract-based pension scheme. We expect these numbers to increase as the Pensions Regulator introduces its new governance requirements through the proposed singular modular code. We will continue to monitor this trend through future surveys.

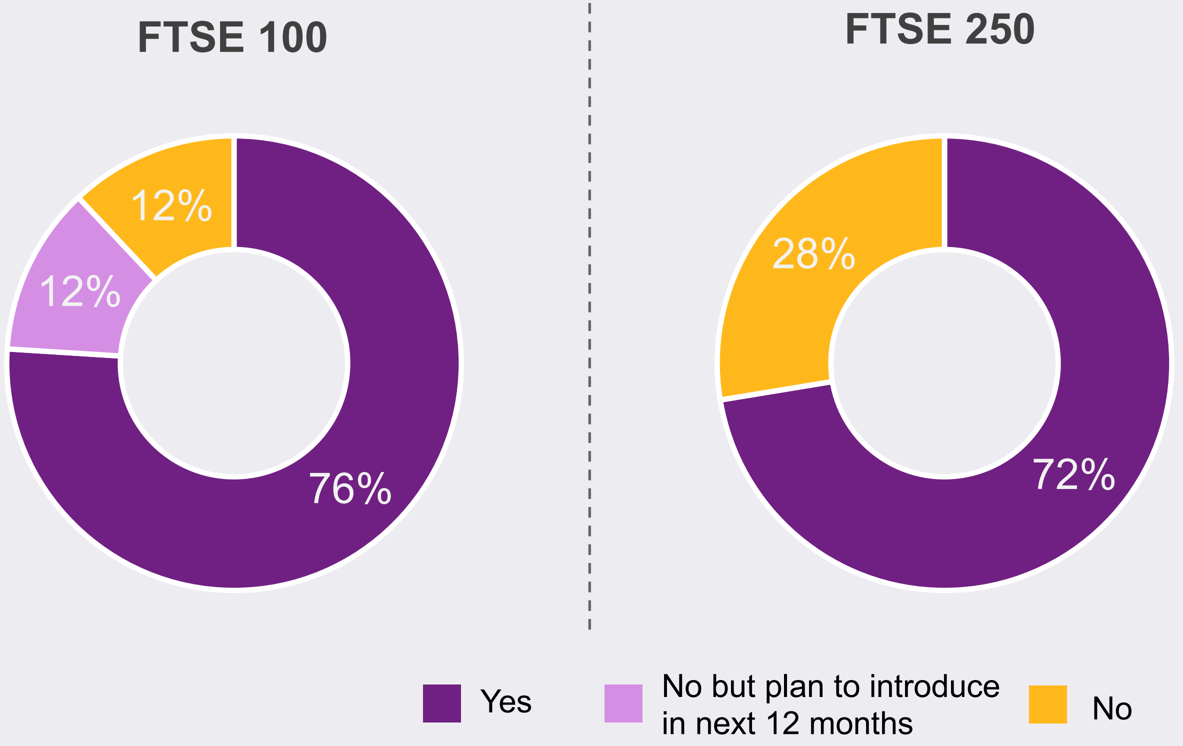
Given the growing number of employers and scheme sponsors moving towards master trusts, and with the already established market for contract-based schemes, it is reassuring to see that 88% of FTSE 100 and 72% of FTSE 250 companies using these vehicles are, or will soon be, operating DC governance committees (Figure 12).

These committees typically aim to provide effective oversight from a strategic and corporate perspective. Although master trusts and contract-based plans operate with their own trustee boards or independent governance committees (IGCs), their oversight will inevitably be generic and will not always focus on specific issues that may be important to the sponsoring company and its employees.

Figure 12 - Most companies have or plan to have a DC governance committee

Do you run a DC governance committee?

Sample excludes trust-based schemes



Note: "Don't know" was excluded.
Source: FTSE 350 DC Pension Scheme Survey, 2021

For many, the move to a master trust or contract-based scheme will be the first experience of outsourcing a core benefit for their employees. However, while aspects of the DC pension plan are left with the master trust trustees or contract-based provider, the survey results show that employers are reviewing the schemes against a set of objectives, ensuring that the company complies with its auto-enrolment obligations and delivers value for money for both sponsor and members (Figure 13).

Looking at the future focus column in Figure 13, it is interesting to see that nearly half of those with master trusts and contract-based schemes plan to undertake a gap analysis to identify if at-retirement support meets employee requirements and over half of companies plan to review the objectives for their pension provision. That may be to ensure that the governance committee has appropriate focus and perhaps also to consider alternative savings options alongside pensions. This suggests a move to a more strategic approach and away from monitoring the day-to-day operational performance of providers.

We believe that governance committees for master trust and contract-based schemes are not about attempting to replicate a traditional trustee model. Rather, they are concerned with adequate and proportionate oversight of the ongoing contribution spend and agreeing a set of objectives against which the DC arrangement can be monitored.

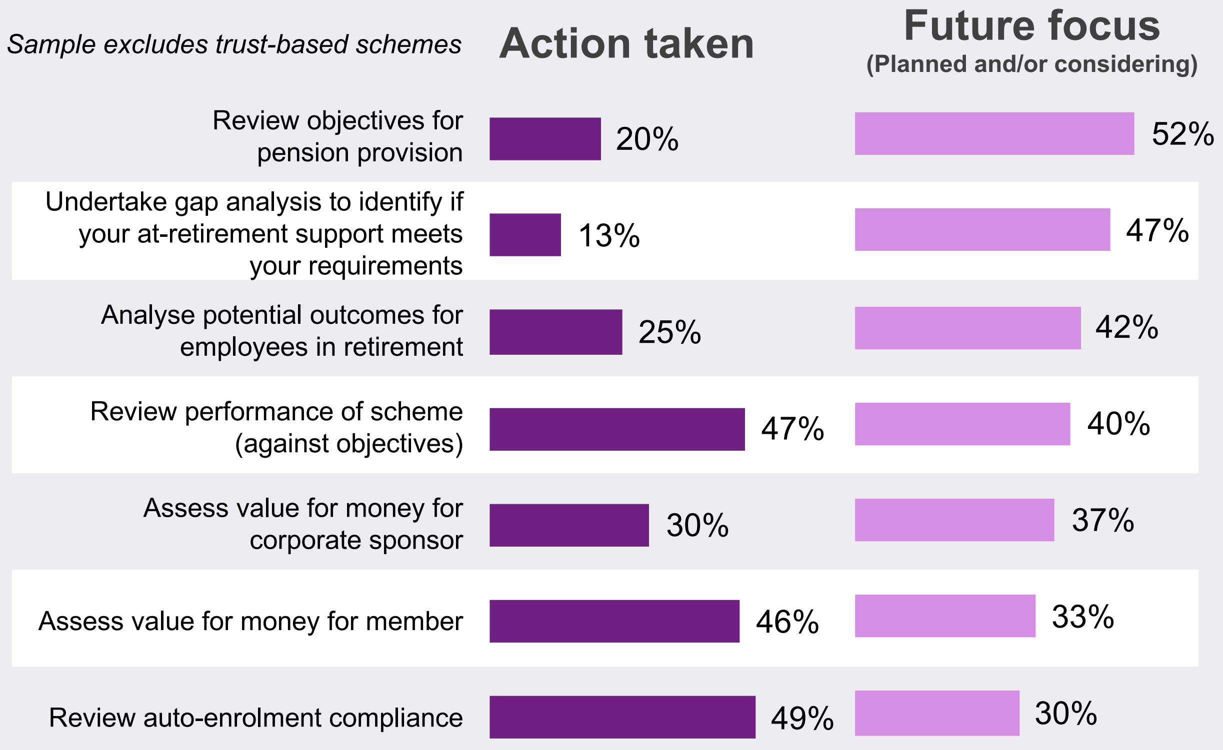
With this employer oversight, members of a DC pension scheme can benefit from:

- A pension provider that is held to account by the employer
- A joined-up communication strategy between the employer and pension provider
- A well-designed investment strategy that appropriately caters for the membership
- Competitive charges that have been negotiated by the employer

Despite the move away from trust-based arrangements, governance is here to stay. That's reassuring given the growing legislation in the US against employers who have failed to adequately oversee their pension arrangements, leading to some poorly designed and expensive pension plans. It seems that most UK companies have recognised that risk and have identified the need to take appropriate action.

Figure 13 - More than half of companies with master trusts and contract based schemes are considering a review of objectives

Has your organisation undertaken a review of any of the following with regard to your pension scheme(s) or does it plan to do so in the next 2 years?



Source: FTSE 350 DC Pension Scheme Survey, 2021

At retirement support

James Mouland
Director, Retirement

It is reassuring to note that sponsors are committed to improving retirement outcomes for employees, with this being the highest priority area for those companies surveyed. Respondents plan on achieving this objective through enhancing the support available at retirement, with some 59% giving this as a priority for the next two years, a significantly higher number than in last year's survey (Figure 14).

In part, this may be a response to the pandemic, which has highlighted the importance of having the right level of at-retirement support in place for members to help them make well-informed decisions at the right time.

There is heavy reliance on providers' off-the-shelf retirement propositions with some 70% of respondents relying on them (Figure 15). While this is entirely understandable where members are paying for that support through the scheme's charges, it is still important for sponsors to ensure that the proposition is adequate for its needs and to look for areas where further enhancements could be sourced elsewhere. If a provider doesn't offer support, or if that support is limited to the provider's own products, this service can be provided separately via a third-party.

Figure 14 - The main objective for employers is improving retirement outcomes

Pension provision
Top 3 objectives

1. Improve retirement outcomes for employees **62%**
2. Modernise benefits/enhance employee value proposition **47%**
3. Incorporate into a broader financial wellbeing strategy **43%**

Value for members
Top 3 priorities

1. Enhance tools and educational material for employees **68%**
2. Enhance at-retirement support **59%**
3. Increase focus on ESG in the investment portfolio **54%**

Note: Percentages are "4/5 Major focus".
Source: FTSE 350 DC Pension Scheme Survey, 2021

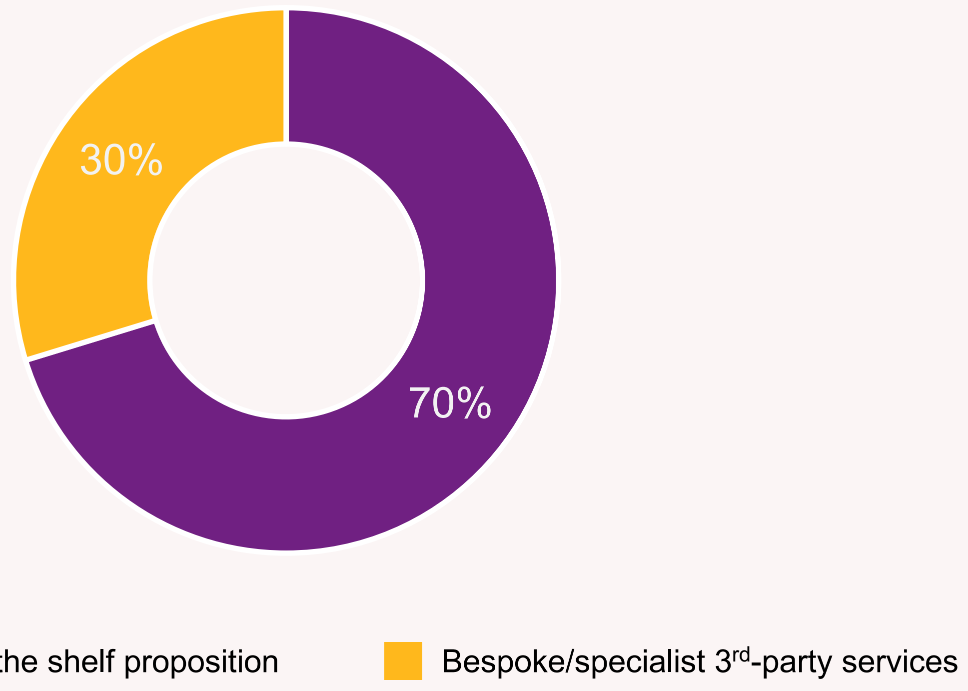
Trust-based schemes show high use of annuity broking services (83%), whereas fewer (50%) offer access to a drawdown option. Not surprisingly, given the complexity of managing drawdown options in-house, the most common option for trust-based members was provision via a third party (43%). The numbers using a third-party drawdown provider have continued to increase from last year's survey and this is a trend we expect to continue as sponsors seek to fill in gaps in their support (Figure 16).

An increasing number of contract-based and master trust providers have developed drawdown solutions with the result that these arrangements now have high levels of access to drawdown options, the majority in-house. This can be convenient for members, though it remains important for sponsors to be satisfied that their chosen provider remains suitable for the drawdown option as well as during the accumulation phase.

Despite the growth in digital support and guidance it is recognised that many employees still value financial advice when it comes to making retirement decisions. Across the survey, almost a quarter of participants partially or fully fund access to an adviser while 35% offer access where the employee pays (Figure 16). Providing access to advice and guidance at retirement can be extremely valuable as members navigate an array of options and tax implications. This can complement the provision of access (or facilitated access) to the full suite of options available to members at retirement.

Figure 15 - Almost 1 in 3 companies are providing bespoke retirement support for their members

What best describes the retirement support services you provide employees?



Note: "Don't know" was excluded.
Source: FTSE 350 DC Pension Scheme Survey, 2021

Only about a quarter of participants allow members to take advantage of the £500 pension advice allowance. As this is a no-cost option for employers and tax efficient for members, it is perhaps surprising that take up remains stubbornly low. In part this is down to providers not offering the functionality, but it is also hard for advisers to deliver holistic retirement advice at that level of fee. Nevertheless, provision of advice has been given a boost by the recent TPR/FCA guidance for employers and trustees on providing support with financial matters without needing to be subject to FCA regulation. This provides welcome clarity on what sponsors can and can't do.

Overall, we can see that sponsors have already made progress in supporting members at retirement and they remain committed to continuing to improve the offering. As this is personal to each scheme and its membership, we expect that sponsors will look to identify the gaps they face in their provision and seek to plug in solutions that meet their needs and budget. Measuring the effectiveness of the support will also help sponsors satisfy themselves that this is a contribution towards improving member outcomes.

Figure 16 - Trust-based schemes focus on access to annuity support at retirement

Source: FTSE 350 DC Pension Scheme Survey, 2021

About the survey

This year's survey covers 229 of the FTSE 350 companies. This represents 95% of the eligible companies in the FTSE 350 Index as at the start of 2021. 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 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.

Contact us

Thank you for reading our report. If you would like to discuss any of the topics raised, please contact your Willis Towers Watson consultant or one of our area specialists below.

Gemma Burrows
Director, Retirement
Gemma.Burrows@willistowerswatson.com

Simon Hankin
Director, Retirement
Simon.Hankin@willistowerswatson.com

James Colegrave
Senior Director, Retirement
James.Colegrave@willistowerswatson.com

Roy Edie
Director, Retirement
Roy.Edie@willistowerswatson.com

Richard Sweetman
Senior Director, Retirement
Richard.Sweetman@willistowerswatson.com

James Mouland
Director, Retirement
James.Mouland@willistowerswatson.com

Andrew Hope
Director, Retirement
Andrew.Hope@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, optimize 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.