

## ***Workers set to lose £9bn in misallocated pension savings, study finds***

New research from management consultancy and behavioural science experts Decision Technology (Dectech) finds that £9bn of the money invested in auto enrolment default funds will be wasted each year from 2019<sup>1</sup>.

Dectech's *Damage by Default* report highlights that the default funds into which people are automatically entered cannot meet their varying needs. As a result, it estimates each employee stands to lose out on additional savings of £700 a year from 2019 because they do not actively engage with their pension savings.

The firm is calling for the Government, pension providers, and employers to act now in order to overcome the engagement challenge and ensure employees get the best outcomes from their retirement savings.

Henry Stott, Director at Dectech, said: "Our findings show that the one-size-fits all approach to auto enrolment that has been adopted to date is damaging the futures of millions of people. Yes, auto enrolment has successfully managed to get more people saving into a workplace pension, by using people's tendency towards apathy to discourage them from opting out. But that same apathy is leaving people invested in the wrong funds and so they are missing out on vital money in retirement. Unless engagement is improved, auto enrolment will do little to solve the UK's retirement finance crisis.

"While we're pleased the DWP has included engagement as one of the key themes of its auto enrolment review, it's concerning that much of the narrative is focused on contributions rather than fund choice. We estimate people could increase their income in retirement by an average of £180,000 if they left the default and chose a more appropriate fund in which to invest their money. It's clear that more work is urgently needed to address the apathy problem and reduce the waste of savings."

Dectech's study finds that of the 61% of people who are aware they have a workplace pension, 80% remain in the default fund. The overwhelming majority of these people (95%) have never tried to change their fund, while 91% do not know where their funds are being invested and 80% do not know how much is in their pension pot. A third (33%) do not know who their pension provider is.

Henry Stott added: "Our research has exposed what is truly an epidemic of apathy around pensions. By failing to properly engage with their pension, employees are likely to retire with a much smaller pot than they could have had. As a result, millions of people will miss out on their dream of a secure and rewarding retirement. But employees are blissfully unaware they could increase their savings with very little effort by simply choosing to move their pension out of the default fund. The Government, pension providers, and employers all have a role to play in driving this message home."

Dectech's report uses research and insights from behavioural science to recommend steps that would reduce the waste of savings:

- **Government** should communicate how much money employees are throwing away by remaining disengaged. It should also emphasise that default funds are not recommendations and better options may be available.
- **Pension providers** should identify employees who have not made an active choice about where to invest and send tailored communications to highlight how much they stand to lose by relying

on the default fund. They should also make it as easy as possible for customers to compare different funds and choose the ones which are best for them.

- **Employers** should select pension providers whose funds best suit the needs of their employees. And they should prompt staff to review their pension annually, so they can continuously re-evaluate whether their needs are being met by the funds they are invested in.

The *Damage by Default: The Flaw in Pensions Auto Enrolment* report is available online here: [http://www.dectech.co.uk/behavioural\\_science/briefs/dectech\\_damage\\_by\\_default.pdf](http://www.dectech.co.uk/behavioural_science/briefs/dectech_damage_by_default.pdf)

**ENDS**

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#### **Notes to Editors**

1. The figure of £9bn is based on Dectech's research into people's preferences for alternative funds. In an online survey 938 employees were given the opportunity to select their own fund by choosing a preferred level of risk and being provided with a range of expected incomes at retirement based on market conditions. On average, respondents chose funds that were 11% riskier than the average default fund, and these self-chosen funds were deemed 29% more valuable than the default. Based on number of employees contributing to an auto enrolment pension and total contribution levels, Dectech therefore estimates that of the £43bn that will be invested in default funds each year from 2019 onwards, around £9bn, or £700 per employee, will be wasted.

#### **About Decision Technology**

Decision Technology (Dectech) is an innovative research consultancy that specialises in helping businesses and policymakers understand and manage customer decision-making, from acquisition through to retention and all the points in-between. It applies insights and techniques from behavioural science, such as randomised controlled field trials and online behavioural experiments, rather than traditional market research surveys. It is a member of the Market Research Society and the Management Consultancies Association.