



# Is 12% the new 8%?

A report on the impact of 'lower for longer' investment growth rates on defined contribution pension pots and how investors, providers and government should respond

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## Executive Summary

Since 2012, more than ten million people have been automatically enrolled into a workplace pension. The vast majority of these have been 'pot of money' or 'Defined Contribution' arrangements, where the individual builds up an investment fund to be used in later life as they see fit.

When they start out as pension investors, workers can have little idea how their investment pot will grow in the decades to retirement. To give them some idea of their potential future pot, members are issued with projections according to rules set by regulators. As this paper shows, pension providers have considerable freedom over how these projections are produced and different regulators have different rules as to the assumptions that underlie these projections. One recommendation of this paper is that work to standardise these projections should be completed as soon as possible.

But a key feature of these projections is that they should represent a realistic estimate of how the pension pot is likely to grow, taking account of the mix of assets in which the fund is invested. To ensure projections are realistic, every 4-5 years the Financial Conduct Authority conducts a review of investment return assumptions and the last three reviews

(conducted in 2007, 2012 and 2017) have shown steadily declining real returns. Future returns on equities (shares) are assumed to have dropped by around a quarter over the decade, after taking into the account the impact of inflation whilst future real (inflation adjusted) returns on corporate bonds are now assumed to be close to zero, having been in the 2-3% range a decade earlier.

In this paper we analyse what these falling future returns mean for pension investors.

We consider an illustrative worker, automatically enrolled at age 22 and on a typical wage for someone in their twenties. We assume that they and their employer contribute into a workplace pension at the statutory minimum rate of 8% of a band of 'qualifying earnings'.<sup>1</sup> We find that if returns had been in line with the assumptions in the FCA's 2007 review, the pension pot of this worker would build to around £131,000 in today's money. But using the most recent return assumptions from the 2017 review, the pot would now only be expected to build to around £85,000 - more than a third lower.

To put it another way, a worker today would need to save half as much again - around 12% - as the worker who started work a decade ago, to achieve the same pension pot. And this result does not take account of the further declines

<sup>1</sup> In 2021/22, qualifying earnings are those above a floor of £6,240 per year.

in returns which have happened since the 2017 review, which would be likely to further reduce the expected pension pot.

The policy implications of this result are profound.

When the automatic enrolment minimum contribution rate was being set in the run-up to 2012, an 8% minimum rate was deemed adequate. A decade of falling returns since then means that simply to stand still relative to those original assumptions, a minimum contribution rate of 12% would be required.

Arising from this, our report reaches a number of conclusions and makes recommendations for individual investors, for pension providers and for government and regulators.

These include:

### Conclusions for individuals

- > The future returns on your pension is a crucial component in how much money you will have at retirement. It is important to use the latest and most realistic assumptions and not rely on old forecasts of investment growth;
- > It is vital to keep your contribution rate under review; a pension started now could be expected to yield a pot one third lower than would have been expected a decade ago; this would require a contribution rate half as high again to get back to the same expected final pension pot;
- > Use the many free tools that are available to get an idea of how different growth estimates could change your retirement, or speak to an adviser
- > Understand the role of inflation and the crucial difference between 'real' (post-

inflation) rates of return and 'nominal' rates of return;

- > Think of yourself as an investor: look under the bonnet, the mix of assets in your fund really matters for future returns. Equities are the main asset class that will give you real returns (after inflation). 'Adventurous' fund selections, usually one of the options you will be offered, should have a higher mix of equities.

### Conclusions for providers

- > Make a simple projection tool available to your clients
- > Ensure future returns can be varied in the projection within reasonable bounds
- > Be clear about real vs nominal returns
- > Be clear that other fund options are available, if that's the case, and return forecasts may be different for each

### Conclusions for government and regulators

- > Ensure that the projections that investors receive are on a consistent basis and do not depend on which regulatory body set the rules; in particular, projections in the proposed pensions dashboard for different types of pension should be on a consistent basis
- > Ensure that projections are clear on how and whether the impact of inflation has been taken into account;
- > Take steps to increase consumer awareness of realistic assumptions around potential rates of return and the impact of higher contributions, particularly to younger workers;
- > Encourage standardisation of projection tools



# Introduction

For decades, millions of workers had no need to worry about what was ‘under the bonnet’ of their pension. They enjoyed guaranteed, salary-related pensions where the management of their pension fund was someone else’s problem. These workers could plan for their retirement with confidence and a degree of certainty.

But for workers in the private sector, all of that has changed. We are in a new age of individual responsibility. Only around one million private sector workers are building up new rights in a salary-related pension scheme. At the same time around ten million workers have been newly enrolled into workplace pensions which are overwhelmingly ‘pot of money’ type pensions. In these arrangements (known as ‘Defined Contribution’ pensions, in contrast to the old style ‘Defined Benefit’ pensions), the worker builds up a pot of money with contributions from the employer. This money is invested in a range of assets and builds up a fund which can be used at retirement. The main options for the fund are to secure a guaranteed income (an annuity) by handing the pot over to an insurance company; to draw on the fund in chunks or as income to fund retirement, or to take the whole lot out in one go, usually at some point from age 55 onwards.

A key consequence of this shift from salary-related to ‘pot of money’ pensions is that the

worker is much less certain what the future will hold. This is for two main reasons:

- > They do not know to what extent the investments in their pension will grow in the period up to retirement and therefore how large their pension pot will be when they retire;
- > They do not know what income that future pot will generate

The focus of this paper is on the first of these unknowns – how does the individual investor plan for retirement when they don’t know how their current pension pot will grow in future? Knowing the likely size of your pension pot could help to inform key decisions such as when you can expect to retire, whether to downsize, whether you are likely to have funds to pay for care costs and so forth.

At first sight, the answer might seem obvious. Pension providers are required by law to provide projections both when you take out a product and each year thereafter.

Unfortunately for the investor, things are not quite as simple as this.

There are three main challenges:

- > Projections rely on assumptions. The

assumptions behind the projections an investor sees at the point of investing into a new product will often be different from the subsequent projections received annually as part of a statement; one type follows rules set by the Financial Conduct Authority and can include a 'low/middle/high' estimate of the future size of your pension pot; but the annual statement you receive follows rules set by the Financial Reporting Council and generally provides a single figure, worked out on a different basis;

- > The people who provide your pension have some freedom over the assumptions they make about how your pension pot will grow; this means that someone with two identical pots from two different providers may get two statements with different projected figures;
- > Assumptions change over time; the world of the 1970s and 1980s with double digit inflation, interest rates and returns is a world away from the current situation of low (or negative) interest rates and returns; the assumptions which underlie the statements you receive change, even over

relatively short time periods, so you cannot assume that an old statement still gives a realistic indication of the actual likely size of your pension pot at retirement.

For all of these reasons, understanding what your pension pot is going to be worth at retirement can be a minefield.

The purpose of this document is to help you navigate that minefield.

We explain the current rules about the information that you get about your pension and how to make sense of it. We then look at how the assumptions made about future investment growth have changed over time and why you shouldn't rely on old forecasts around your pension. Next, we examine some survey evidence about the returns that investors themselves expect their investments to generate and we consider the role of online calculators which investors might use.

We conclude with recommendations about how this whole process could be improved so that investors are in a better position to plan for their future.



# 1. The current rules – what forecasts can you expect to receive and how are they constructed?

When you take out a personal pension, the pension provider has to tell you about the product in something called a ‘Key Features Illustration’. Under rules set down by the Financial Conduct Authority (FCA), these include projections of how your pension is likely to grow. You will be provided with three numbers based on a ‘high’, ‘middle’ and ‘low’ assumption as to how your pot will grow.

You would not routinely get projections of this sort again, although there are other specific occasions when you might also see low/middle/high projections according to FCA rules<sup>2</sup>.

Once you are a member of a pension scheme you should receive an annual statement<sup>3</sup> which also includes projections of how it is expected to grow. However, the rules for this statement are determined by a different organisation - the Financial Reporting Council (FRC). Crucially, they are different to the ‘key features’ information which you have already received.

In a recent consultation<sup>4</sup> on how to make pension statements simpler, the Department for Work and Pensions summarises the

problem:

*56. Due to these different regulatory requirements, a member could receive a projection in the Welcome Pack that would be different to the projection in their first annual statement which they may receive shortly after.*

*57. Differences include:*

*• 3 projections under [FCA rules] with the investment return assumption for the intermediate projection capped at 5% pa, whereas [FRC rules] requires a single projection on a ‘best estimate’ basis.*

*• relatively higher projected pensions under [FCA rules] compared to [FRC rules] requirements, particularly for younger members, due to higher assumed salary growth and lower assumed [CPI based] inflation assumptions under [FCA rules].*

Although DWP has consulted on whether these assumptions should be standardised, it is unclear if/when any changes will be made.

<sup>2</sup> Some firms choose to provide FCA regulated projections to consumers in addition to annual statements.

Providers may also choose to offer a projection if a member makes a change to policy and they want to give them enough information to help them understand the consequences of the change.

Similar illustrations are required when consumers first access their funds and in some circumstances throughout retirement.

<sup>3</sup> Known in the jargon as a ‘Statutory Money Purchase Illustration’ or SMPI

<sup>4</sup> [Simpler annual benefit statements - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/simpler-annual-benefit-statements)

In the meantime, people will continue to get inconsistent projections.

The next two sections summarise the different ways in which these two types of projection are constructed.

#### **a) 'Key Features Illustration' – High/Middle/Low projections' based on FCA rules**

Under rules set out by the Financial Conduct Authority (FCA), when you are considering taking out a personal pension you should be given forecasts of how your pension is likely to grow<sup>5</sup>. Because there is no single right answer to this question, FCA expect the provider to give you a mid-range estimate, but also a 'high' and 'low' projection. In simple terms, the idea is that you can be reasonably confident that the outcome should fall somewhere between the low and high estimates.

One important point (to which we will return) is that providers are expected to strip out the effects of inflation, so all growth figures are \*over and above\* the amount needed just to keep pace with rising prices.

At present, having constructed a 'central' estimate, providers have to supply a 'high' estimate for returns that is 3% above the central estimate and a 'low estimate' that is 3% below. This means, for example, that if the central estimate is 2%, the low estimate will be -1% and the high estimate will be 5%.

The central estimate is obviously very important, but, within limits, providers have considerable flexibility on the approach they take.

The key rules for providers in producing these projections are:

- the intermediate rate of return must "accurately reflect the investment potential of each of the product's

underlying investment options";

- the forecast rate of return for each underlying investment option must not exceed 5%;
- the provider must use assumptions set out by the FCA on future rates of earnings growth and inflation;

Providers would be expected to 'treat customers fairly' and not just make up numbers for how much the different assets in their pension will grow. But there is a risk that asset managers might be biased and have great confidence in their ability to invest better than average. This could lead them to have over-optimistic numbers in their projections, and consumers would have no real way of knowing if this was the case.

#### **b) Annual statements ("Statutory Money Purchase Illustrations")**

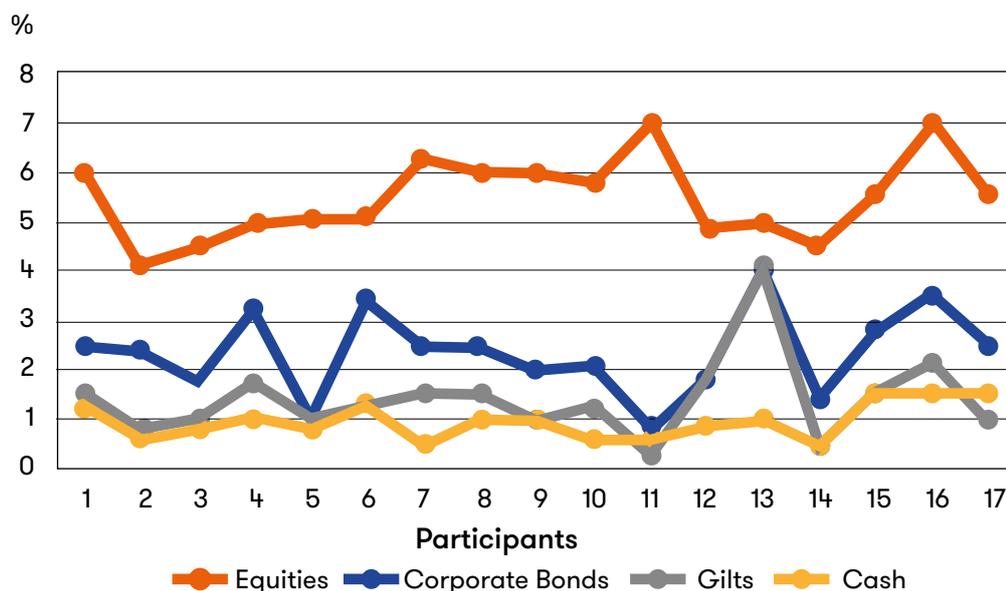
Unlike the FCA rules, the Financial Reporting Council (FRC) requires providers and schemes to give a single 'best estimate' figure for the rate of return they are likely to get, and these form the basis for annual statements. As noted above, FRC rules are also currently based on slightly different assumptions to FCA projections. For example, the FCA currently assumes future inflation will be 2.0% whereas the FRC rules use an inflation rate of 2.5%.

There is currently no maximum rate of return which providers can use when making projections, they simply have to provide a "best estimate". However, estimates for the rate of return for different types of investment do vary considerably between pension companies and schemes.

FRC have published some research which shows for seventeen (anonymous) firms how

<sup>5</sup> These rules are set out in a document called the *Conduct of Business Sourcebook (COBS)*, Section 13 Annex 2. See: [COBS 13 Annex 2 Projections - FCA Handbook](#)

**Chart 1. Assumptions about annual real returns for main asset classes for statements issued after 6th April 2020**



Source: Financial Reporting Council 2020 ([AS-TM1-accumulation-rate-survey-FINAL.pdf \(frc.org.uk\)](https://www.frc.org.uk/AS-TM1-accumulation-rate-survey-FINAL.pdf))

the rate of return they use for different asset classes can vary, and this is shown in Chart 1.

As the chart shows, the annual real rate of return on shares (equities) used by different providers has ranged from around 4% to 7%, whilst the assumption on corporate bonds have ranged from just under 1% to around 4%. As we discuss in more detail later in this paper, these differences can clearly have a big impact on the size of pot you can expect to have at retirement.

To sum up:

- > You may receive projections about your future pension at different times and based on different assumptions
- > Your initial ‘key facts’ document will include a low/middle/high assumption for the return you can expect

> Your annual statement will include a ‘best estimate’ of likely returns, but providers have considerable flexibility about the assumptions they make

**c) What about inflation and what about charges?**

There are two other important points to be aware of when interpreting figures in pension statements. These are especially important when trying to compare the rates of return quoted in these statements with rates of return you may see quoted for other financial products which may be on a totally different basis.

**i) Inflation**

A crucial factor to understand is the way in which rising prices are treated in all of these projections.

Assuming that we expect prices to rise over

time, your pension pot needs to grow at least as fast as prices just to 'stand still' in terms of your standard of living. It would be quite misleading if your statement showed a huge future pension pot which could make you feel rich when most of that growth was going to be eaten up by rising prices. So both the FCA and the FRC expect providers to strip out the effects of inflation and report only on investment growth *\*over and above\** the rate of inflation. These forecasts with inflation stripped out use what are called 'real' rates of return, whereas those that take no account of inflation are called 'nominal' returns.

FRC rules<sup>6</sup> currently include an inflation assumption of 2.5%. This means that if the cash value of your investments was expected to grow by 2.5%, the 'real' return shown on your statement would be zero – all you have done is keep pace with rising prices and you are not better off 'in real terms'.

However, one important thing to bear in mind is that many other rates of return that you will see quoted on other products *\*do not\** strip out the effects of inflation. For example, if you see a rate of return quoted on a cash ISA, this is a *\*nominal\** return. To compare this with the return on a pension you would need to make a deduction for inflation. So, for example, if a cash ISA pays

a 'headline' rate of return of 0.5%, and inflation is currently 2.5%, the 'real' return is actually negative – minus 2%. It is

the -2% you need to compare with your pension statements to see which investment is likely to produce the better return.

## ii) Charges

It costs money to run an investment portfolio and the level of charges will depend both on which provider you choose but also on what kind of assets are held in the fund. As a saver, the number of most interest to you is likely to be the actual amount in your pot at retirement and this will be net of the costs and charges associated with running your pension.

The way in which charges are deducted varies slightly between FCA rules and FRC rules, but the basic idea is that the final estimated pot figure that you see on your statement will be net of the costs of running the pension.

Again, if you are comparing your pension with some other form of investment, you need to make sure that you have included all the costs and charges associated with that other investment in order to make sure that you are comparing like with like.

<sup>6</sup> Para C.2.7 of [AS-  
TM1-v-4-2-FINAL-  
Oct-2016.pdf \(frc.  
org.uk\)](#)

## 2. How have the assumptions changed over time?

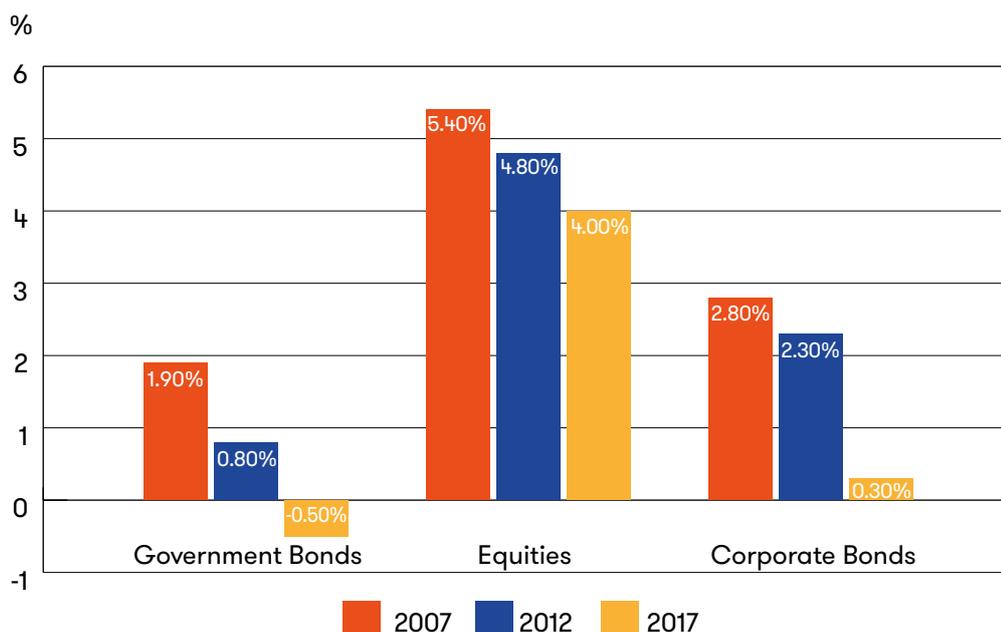
As discussed earlier, the world has changed a lot since the era of double-digit inflation and double-digit interest rates which characterised much of the 1970s and 1980s. Not surprisingly, the assumptions which are made about how pension pots will grow have also changed considerably. Even over relatively short time periods, the assumptions made can change considerably.

One example of this is the periodic reviews

the FCA (and the Financial Services Authority before it) undertakes into its assumptions about investment growth for different types of asset. Key reviews were published in 2007, 2012 and 2017 and even over that relatively short period of time these reports show considerable declines in how rapidly assets are expected to grow.

Chart 2 shows data from these reports for three main types of asset and how the expected future real rate of return on each

**Chart 2. Changing FCA/FSA assumptions on real rates of annual investment growth for different assets**



Source: Reports by PwC for FCA/FSA – midpoints, rounded to one decimal place

**Table 1.** Weighted average real rate of return on an illustrative pension pot based on growth assumptions in a) 2007, b) 2012 and c) 2017.

	2007	2012	2017
Weighted average rate of return	4.2%	3.5%	2.4%

has fallen over time. In each case the figure given in the table is the midpoint of the range of expected outcomes.

In just a decade, the expected real rate of return on government bonds has gone from a positive figure (+1.9%) to a negative figure (-0.5%). The expected real return on equities has fallen by a quarter, whilst the expected return on corporate bonds has all but disappeared.

To give a simple illustration of how these changing assumptions affect the information which investors would see, we consider a simple pension portfolio which is invested 60% in equities, 20% in corporate bonds and 20% in government bonds. Table 1 shows what the ‘weighted average’ rate of return would be for such a pension portfolio based on the return assumptions contained in the reports of 2007, 2012 and 2017.

Whilst the differences shown in Table 1 may look relatively small, the compounded impact over a lifetime of pension saving could be very substantial.

To illustrate this, we consider a hypothetical individual who has just been enrolled into a

workplace pension for the first time at the age of 22. The assumptions we make are:

- > The person earns £22,437 per year<sup>7</sup>;
- > The worker and employer together contribute the statutory minimum 8% of ‘qualifying earnings’ into a workplace pension<sup>8</sup>;
- > The annual management charge on the pension is 0.48%<sup>9</sup>;

Table 2 shows how the pot would have grown if investments were yielding the 4.2% rate implied by the 2007 report, and also the size of the pot based on the 2.4% rate of return implied by the 2017 report. All figures are in current prices and strip out the effects of inflation and earnings growth.

Table 2 shows in very clear terms how much difference an apparently small variance in annual rates of return can make when compounded over a lifetime. At age 65, the rate of return assumption from the 2007 report would have generated a projected pension pot of £131,298, but the most recent set of assumptions would point to a

<sup>7</sup> This is the average wage for the 22-29 age group in the 2019 Annual Survey of Hours and Earnings, the last to be conducted before wage data was affected by ‘furloughing’;

<sup>8</sup> Qualifying earnings in 2021/22 is the slice above £6,240 per year.

<sup>9</sup> This is the average charge in workplace pensions according to the latest DWP survey;

**Table 2.** Size of illustrative pension pot at different ages based on real rate of return of a) 4.2% and b) 2.4%

Age	4.2% return	2.4% return	Difference
40	£32,433	£27,442	-15%
60	£103,895	£70,947	-32%
65	£131,298	£84,604	-36%
70	£164,077	£99,595	-39%
75	£203,286	£116,052	-43%

pot of £84,604: more than one third lower.

To put it another way, to get the same expected £131,298 pension pot would now require a contribution rate half as high again – around 12% - compared with the original 8%.

Other research reinforces this message around falling returns for different generations. Research from Credit Suisse<sup>10</sup> and the London Business School shows that “Baby boomers” have experienced strong equity returns of 7.1% above inflation per year since 1950, but their grandchildren are likely to experience real returns of just 3% per annum on equities going forward.

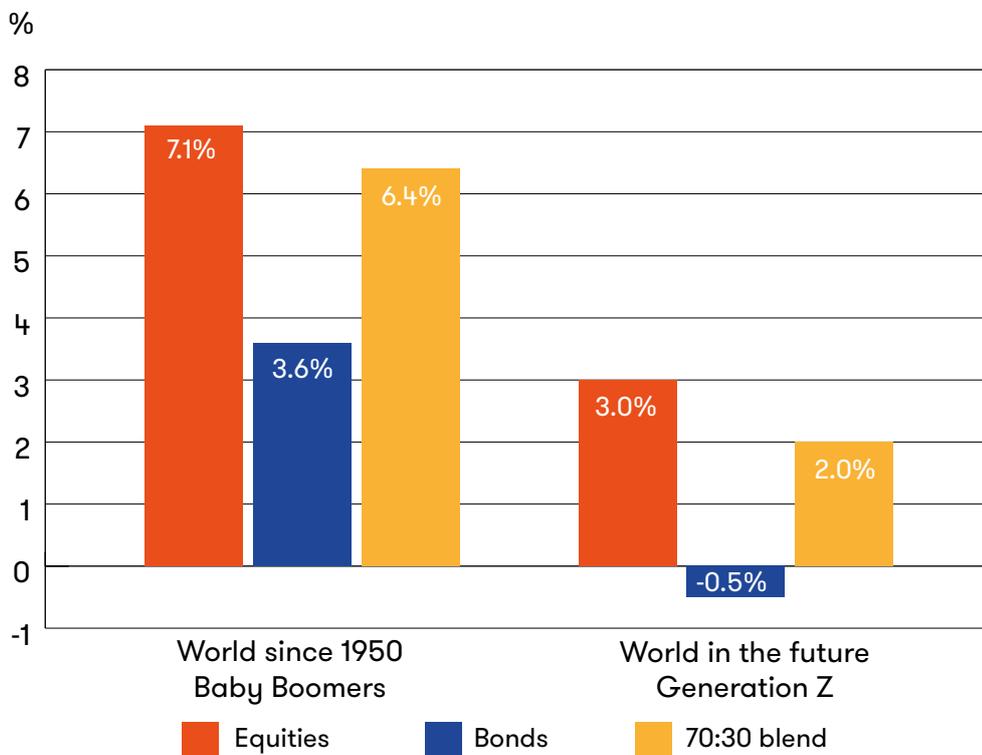
### Charges

Another key point is charges. Investment returns have fallen dramatically in a decade as we have shown, but many providers’ charges have not fallen. This means that charges could be eating up far greater a proportion of investment returns now than they were a decade ago.

Estimates by LCP show that for a typical balanced portfolio up to 60% of the returns could be eaten up by charges today, compared to 30% a decade ago.

So far, we have considered rates of investment growth projected in line with assumptions

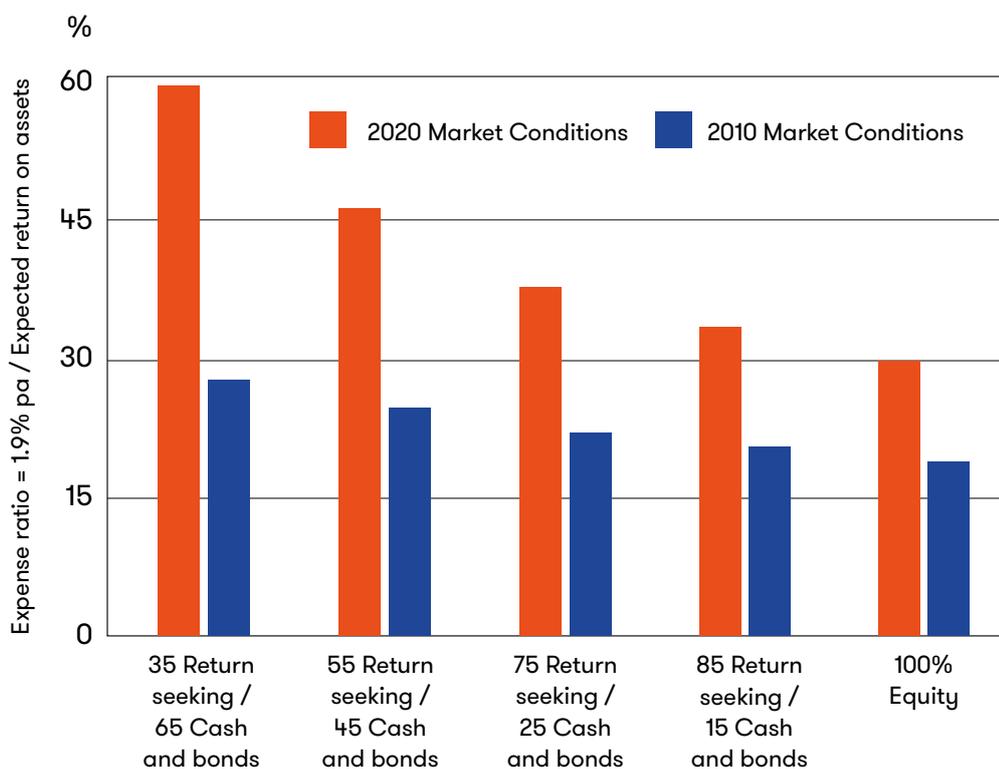
**Chart 3. Real rates of returns for different asset classes for a) ‘baby boomers’ and b) Generation Z**



Source: Credit Suisse / London Business School

<sup>10</sup> [Credit Suisse Global Investment Returns Yearbook 2021]

**Chart 4. Cost of running an illustrative investment strategy in drawdown with a total expense ratio of 1.9%pa as a proportion of the long-term expected return**



Source: LCP calculations

laid down in law by regulators and based on expert advice. An interesting question however is whether consumer expectations match the assumptions which are being made on their behalf when projecting their pensions. In

particular, if investors spent many years of their adult life seeing high rates of return, there could be a risk that they wrongly carry over these expectations into the new era of lower interest rates and lower returns.



### 3. Are investors realistic or do they have ‘great expectations’?

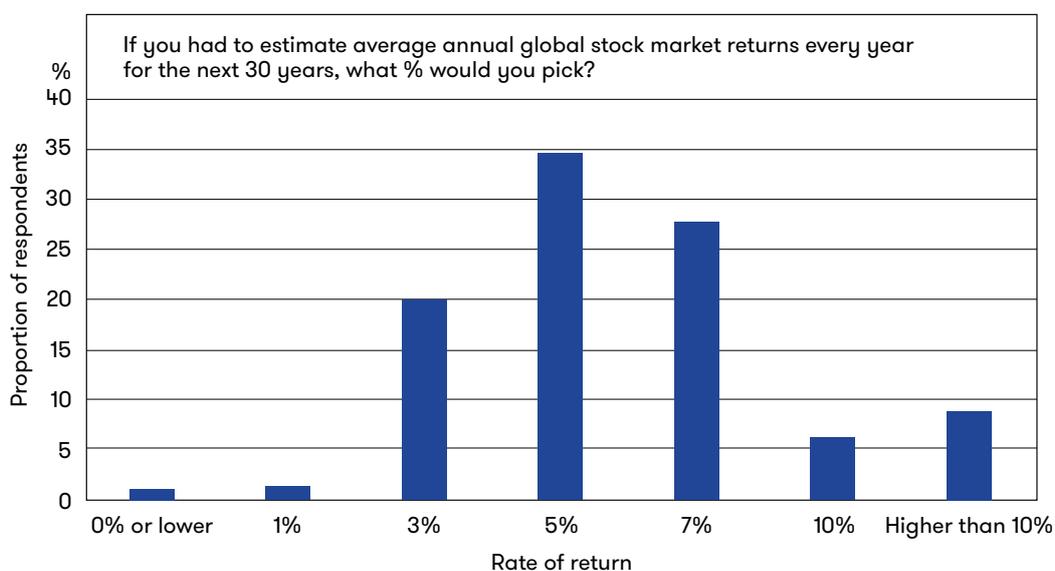
To explore this issue further, interactive investor polled more than 2,600 customers in mid-March 2021 to find out what they thought the average annual growth rate<sup>11</sup> would be from the stock market for the next 30 years.

Chart 5 shows that the most common answer was 5%. The mean response is however higher than 5%, showing more optimism than caution.

The fact that around 1 in 8 investors is expecting returns of 10% or more is a cause for concern and probably does indicate that some people are still living in the world of earlier decades when double-digit returns were more common.

At first sight, a typical expected return of 5% looks optimistic compared with the sorts of rates of return which people see on their statements.

**Chart 5. Consumer expectations of rates of return on global equities - ii consumer research**



Source: interactive investor

<sup>11</sup> Whilst the question did not mention inflation, we assume that those who responded to the survey did not strip out inflation before answering the question, so these are expectations for ‘nominal’ rates of return.

But there are two key reasons why the two numbers are not directly comparable:

- > These figures are just for equities, whereas statement figures will reflect a more diversified mix of assets, many of which will have lower expected returns than equities;
- > In the minds of respondents, these are likely to be 'nominal' (ie pre-inflation) returns, whereas statements are based on 'real' (ie post-inflation) returns;

It is interesting to compare these consumer

expectations for equity returns with those produced by leading asset managers. These are summarised in Table 3.

If we were to add back in an inflation assumption of 2%, this implies nominal equity returns in the range 5% to 6.6%, which suggests that the typical consumer is, if anything, probably erring on the side of caution when it comes to their expectations. But we should remain concerned about those shown in Chart 3 whose expectations are at the higher end of the scale.

**Table 3.** Projected real rates of return on equities – selected forecasters

	Real annual returns – future projection	Notes
Credit Suisse	3.0%	Global equity
Blackrock	4.6%	30 year return. Mix of UK and global equities – assumes inflation of 2% p.a. <sup>12</sup> December 2020
AQR	4.4%	Medium term return. Mix of US, other developed and emerging market equity December 2020 <sup>13</sup>
JP Morgan	3.1%	10-15 year forecast. Global equity. Real return calculated assuming 2% inflation. <sup>14</sup>

<sup>12</sup> <https://www.blackrock.com/institutions/en-gb/insights/charts/capital-market-assumptions>

<sup>13</sup> <https://www.aqr.com/Insights/Research/Alternative-Thinking/2021-Capital-Markets-Assumptions-for-Major-Asset-Classes>

<sup>14</sup> <https://am.jpmorgan.com/content/dam/jpm-am-aem/global/en/insights/portfolio-insights/itcma/itcmafull-report.pdf>



## 4. Projections based on online tools and modellers



A key question for investors is ‘how much do I need to save for my retirement?’. Given the uncertainty over future rates of return on investments (as well as many other factors), it is impossible to say for certain. But there are a number of helpful online tools and modellers which allow you to specify your goals, your intended retirement date etc. and they will then tell you how much you need to save to achieve those goals by that date.

Examples of widely used tools include:

- **Money Advice Service** ([Pension Calculator – Work Out Your State Pension Age, Pension Credit, Contributions & Pots and more \(moneyadviceservice.org.uk\)](https://www.moneyadviceservice.org.uk))

This site asks for your current age and your planned retirement age plus your current earnings, pension savings to date and current rate of pension contributions. It assumes that your goal is to maintain your standard of living into retirement and therefore calculates a target retirement income (eg 60% of your pre retirement salary). It deducts an assumed state pension figure and then shows whether you are on course for your target income both at your target retirement age and at state pension age (which may be different). The user cannot change the rate of return assumption, which is set at 5%.

- **Which?** [Pensions Calculator \(Pension calculator - how much money you'll have - Which?\)](https://www.which.co.uk)

As with other sites, the Which? site asks for information about how much you have saved so far, how much you are contributing into a pension, how old you are and when you want to retire. This is used to estimate a pension pot at retirement and a potential income which that pot could generate. The site assumes nominal investment growth of 6%, inflation at 2% and charges at 0.75%, and these assumptions cannot be changed by the user. The site does however show results for growth of 4% and 2%.

These sites are helpful in that they encourage people to think about the sort of income they might need or want in retirement, the age at which they want to retire and how much they might need to contribute in order to achieve their goals.

However, in terms of our analysis so far, there may be some points for such sites to consider:

- The sites vary in the extent to which they are clear about how / whether inflation is reflected in the results; as we have seen, this can make a huge difference to what the figures mean;

> The rate of return assumptions on most of these sites cannot be varied; although the default assumption (usually 5%) is broadly in line with current regulatory assumptions around nominal returns, the actual return which a saver can get will

depend on their own investment mix; there could perhaps be an option for investors to input the rate of return from their own latest statement (adjusted for inflation) to get a more relevant projection;



## 5. Conclusions – making sense of this new world

More than ten million people are now actively contributing into Defined Contribution or ‘pot of money’ pensions. When they take out a pension, they receive a projection of how that pot is likely to grow and then each year they receive an update. As we have seen, even these two types of projection are carried out according to different rules and are not strictly comparable, though work is underway to try to iron out differences.

Focusing on annual statements, the current rules are designed to give investors a realistic expectation in today’s money of the potential size of their pension pot reflecting where their money is invested and how much is being charged to run the pension.

In light of our findings, we make the following recommendations for investors, providers and regulators:

### Conclusions for individuals

- > The future returns on your savings are a crucial component in how much money you will have at retirement. It is important to use the latest and most realistic assumptions and not rely on old forecasts of investment growth;
- > It is vital to keep your rate of return under review; a pension started a decade ago could yield a pot one third lower than previously expected; this would require a savings rate half as high again to get back to the same original pension level
- > Use the many free tools that are available to

get an idea of how different growth estimates could change your retirement, or speak to an adviser

- > Understand the role of inflation and the crucial difference between ‘real’ (post-inflation) rates of return and ‘nominal’ rates of return;
- > Think of yourself as an investor: look under the bonnet, the mix of assets in your fund really matters for future returns. Equities are the main asset class that might be expected to give you real returns (after inflation)

### Conclusions for providers

- > Make a simple projection tool available to your clients
- > Ensure future returns can be varied in the projection within reasonable bounds
- > Be clear about real vs nominal returns

### Conclusions for government and regulators

- > Ensure that the projections which investors receive are on a consistent basis and do not depend on which regulatory body set the rules;
- > Ensure that projections are clear on how and whether the impact of inflation has been taken into account;
- > Take steps to increase consumer awareness of realistic assumptions around potential rates of return;
- > Encourage standardisation of projection tools

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