A year in review and looking forward to 2023

Phil Brown looks back at an eventful 2022 and considers what's in store for the year ahead

With war in Europe and political turmoil and economic hardship at home, 2022 was a tough year. Pension schemes and those saving into them were buffeted by the economic impacts of the invasion of Ukraine and the economic fallout of the pandemic. As a result, schemes and savers are now grappling with both generationally high inflation and sharp falls in both bond and equity markets.

In terms of the macro-environment for DC saving, the Office for Budgetary Responsibility forecasts a fall in real household disposable income of 7 per cent over the next two years[1]. This will take household incomes back roughly to their 2013 level. As lower income households spend more of their money on essentials like food – where price increases have been particularly sharp – they will be the worst affected. The government's energy price cap on unit prices will only partially offset this.

This has yet to really pass through into pensions policy or pensions saving. So far, there have been small increases in the opt-out rate from auto-enrolment – from 7.6 per cent to 10.4 per cent between January 2020 and August 2022 – and no increases in the cessation rate[2]. Our own research shows that just 4 per cent of UK pension savers surveyed would consider stopping their pension contributions in the next 12 months. A further 4 per cent would think about reducing how much they save into their pensions over the next year. This is compared to 35 per cent who said there's a possibility they would reduce their holiday spending in the next 12 months. This may change in 2023 but, so far, pensions policy has remained surprisingly resilient. While the cost-of-living crisis has not yet affected the running of auto-enrolment, it has likely seriously affected its future. There is no plan for the implementation of the 2017 review reform package; reducing the age threshold for auto-enrolment from 22 to 18 and removing the lower earnings threshold on contributions. It's hard to see how the government can implement changes to auto-enrolment during an economic crisis of this sort. The government and the wider pensions industry can, though, use the time to prepare the ground for reform once the crisis has passed.

Dashboards project reaching its critical phase

Despite these challenges, the DC sector has made steady progress on other longstanding priorities. 2022 has been the year the DC sector began to really get to grips with pensions dashboards. The trajectory for dashboards is now set with the pensions dashboards regulations approved by parliament[3]. It's now really a case of schemes getting ready to connect to the dashboard system from April.

We expect the same sort of steady progress in 2023. DWP has signalled its intention to publish new value for money metrics that may change how DC schemes and products are judged, initially by pension professionals but ultimately by consumers. We expect a further round of discussion about how and whether deferred small pots should be consolidated. And we expect more activity on the issue of schemes investing in less-liquid assets, following the publication of the Productive Finance Working Group's guides[4] to the issue in late November. DWP has also indicated that it will consult on extending collective DC to multi-employer schemes. Lawyers and compliance teams are going to be busy.

The future remains bright

So, 2023 is set to be another challenging year. We expect to see incremental progress on longstanding pension priorities but in a tough economic and political climate. We are, though, looking forward to seeing a working pensions dashboard and, perhaps, the first attempts to consolidate small, deferred pension pots. It's through this sort of incremental progress that the UK will build better engagement with DC pensions and a healthier workplace pensions market. We remain optimistic about the UK DC sector and the long-term value of workplace pension saving.

Written by Phil Brown, director of policy and external affairs at People's Partnership – provider of The People's Pension

[1] Economic and fiscal outlook - November 2022 - Office for Budget Responsibility (obr.uk)
[2] Ten years of Automatic Enrolment in Workplace Pensions: statistics and analysis - GOV.UK (www.gov.uk) *All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,055 adults, of whom 1,370 had a pension and/or investment for retirement. Fieldwork was undertaken between 11th - 14th November 2022. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+).*
[3] The Pensions Dashboards Regulations 2022 (legislation.gov.uk)
[4] PFWG Guides – Investing in Less Liquid Assets.pdf (theia.org)