



Department  
for Work &  
Pensions

# Analysing the impact of Private Pension measures on member outcomes

Estimating the impact of July 2023 Pension Package  
and Automatic Enrolment 2017 Review measures on  
member outcomes

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11 July 2023

## Introduction

1. On 10 and 11 July 2023, the Chancellor and Minister for Pensions announced a wide range of pension reforms designed to improve member outcomes and support the UK economy. This builds on the success of Automatic Enrolment which has seen 10.9 million employees automatically enrolled<sup>1</sup>, 88% of eligible employees participating in a pension, and £33bn more (in real terms) being saved into workplace pensions in 2021 compared to 2012<sup>2</sup>.
2. This publication provides high-level estimates of the July package of private pensions announcements and the planned Automatic Enrolment 2017 Review measures<sup>3</sup>. This report builds on a range of analysis estimated by the Department for Work and Pensions (DWP) and a range of modelling from the Government Actuary's Department (GAD). Any estimates are subject to change and considerable uncertainty, particularly as policy details are yet to be finalised. We will continue to monitor and assess the potential impacts. However, this aims to highlight the potential benefits which may arise.
3. The reforms this report consider are:
  - **The 2017 AE Review measures** – Legislation is currently going through Parliament (via a Private Members Bill, supported by Government) which will enable employees to be Automatically Enrolled from age 18 (from 22 currently) and receive contributions from the first pound they earn (from £6,240 currently).
  - **Addressing Small Pension Pots** – Our consultation proposes a maximum pot limit and the creation of a central clearing house to support the delivery of a multiple default consolidator approach to ending the proliferation of deferred small pots.
  - **Designing and delivering a Value for Money Framework** – The government and regulators joint consultation response proposes putting in place a VFM framework to assess performance across investment returns, services and costs, with the aim of helping schemes shift their focus from cost to a more holistic assessment of value for money. This will also seek to include new powers for regulators to be able to wind up or consolidate consistently underperforming schemes.
  - **Decumulation in Trust Market** – Our consultation will seek views on placing new duties on trustees to provide decumulation services or partner with other providers to do so. It is expected this will provide a minimum level of support at the point of access.

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<sup>1</sup> [Automatic enrolment declaration of compliance report | The Pensions Regulator](#)

<sup>2</sup> [Workplace pension participation and savings trends of eligible employees: 2009 to 2021 - GOV.UK \(www.gov.uk\)](#)

<sup>3</sup> This will lower the age threshold to 18 (from 22) and remove the Lower Earnings Limit so earnings are calculated from the first £ compared to £6,240 currently.

- **Collective Defined Contribution schemes** – The consultation response explores the role of multi-employer schemes and how to best provide for schemes offering CDC decumulation products. We largely consider the decumulation CDC impact.

## Investment in productive assets

4. DC schemes currently have a low level of investment in Private Equity - the ONS<sup>4</sup> and PPI<sup>5</sup> estimate around 0% of assets with PLSA estimating around 1%<sup>6</sup> - taking the mid-point, our best estimate is therefore around 0.5% of assets are currently invested in Private Equity. GAD has undertaken modelling to assess the impact increased investment in productive assets could have on investment returns. We recognise that there is a wide range of asset classes that could be described as 'productive finance' but for the purpose of this initial modelling and reflecting the availability of investment returns data we asked GAD to focus on 'Private Equity' asset class. The purpose is to show an illustrative range of projected Defined Contributions (DC) pension fund values using stochastic modelling techniques. This analysis was commissioned by DWP to better understand the impact of a higher allocation to Private Equity on members' pension savings, an important evidence gap.
5. The analysis assesses the impact of a 5% allocation in a DC fund towards Private Equity based on an average earner (£30,000 salary, which increases 3% per annum in nominal terms) and where they have a pension contribution of 8% of their salary. Outcomes are assessed after 30 years; though results do not materially change looking at shorter time periods.
6. There are a number of assumptions made and any modelling is subject to sensitivity:
  - **Baseline** – This assumes a DC fund has a pension asset allocation of 60:40 allocation of equities and bonds. This is a common asset allocation on investments but we recognise DC schemes will have a wider range of asset classes they invest in, for example property, and that allocations may vary considerably between schemes and individuals.
  - **55/40/5 scenario** – This assumes the new asset allocation would replace investment in existing equities with investment in Private Equity, leading to a 55:40:5 allocation between equities, bonds and Private Equity.
  - **60/35/5 scenario** – This assumes the new asset allocation would replace investment in corporate bonds with investment in Private Equity, leading to a 60:35:5 allocation between equities, bonds and Private Equity.

<sup>4</sup> [Funded occupational pension schemes in the UK - Office for National Statistics](#)

<sup>5</sup> [20230309-role-of-alt-assets-in-dc-investments-final.pdf \(pensionspolicyinstitute.org.uk\)](#)

<sup>6</sup> [Microsoft Word - PLSA - Pensions and Growth June 2023](#)

- **Fees** – GAD assume equities/bonds face fees of around 0.25% per annum. For Private Equity, it was decided a reasonable assumption was 1% per annum and further performance fees of 10% for returns above 8%. This is for example, due to the range of risk and return objectives of Private Equity funds and anticipated increased scale of investment in Private Equity by DC schemes, meaning it is likely some schemes may be able to negotiate competitive fees. However, we recognise a fee structure of 2% per annum for Private Equity (and further performance fees (20% for performance above 8%)) is a common charging structure across the Private Equity industry and has been used by DWP when considering the recent Pension Charge Cap reforms<sup>7</sup>. As a result, GAD have also modelled returns using a 2% per annum plus 20% for performance above 8% fee structured to show the impact this could make if fees were higher.

7. The model uses economic projections from Moody’s Analytics to estimate the potential future returns<sup>8</sup>. Figures for equities represent a global index and bonds represent an investment grade corporate bond index.

### Gross Returns

8. Assessing gross returns (i.e. before charges), in the median case, pots could be around 5% higher after 30 years with a 5% Private Equity allocation to replace bonds. Under both allocation approaches the modelling finds that the final pension pots will be greater reflecting the slightly higher returns Private Equity are expected to bring (see Table 1).
9. Private Equity brings higher average returns, but also adds more variance, meaning more risk. However, this is somewhat mitigated by the fact that it also helps support diversification for schemes, which helps balance out returns in downside scenarios. As a result, final pension pots with Private Equity allocations outperform pots without Private Equity in the upside (95<sup>th</sup> percentile) and median scenarios; and deliver similar returns in the downside (5<sup>th</sup> percentile) scenario.

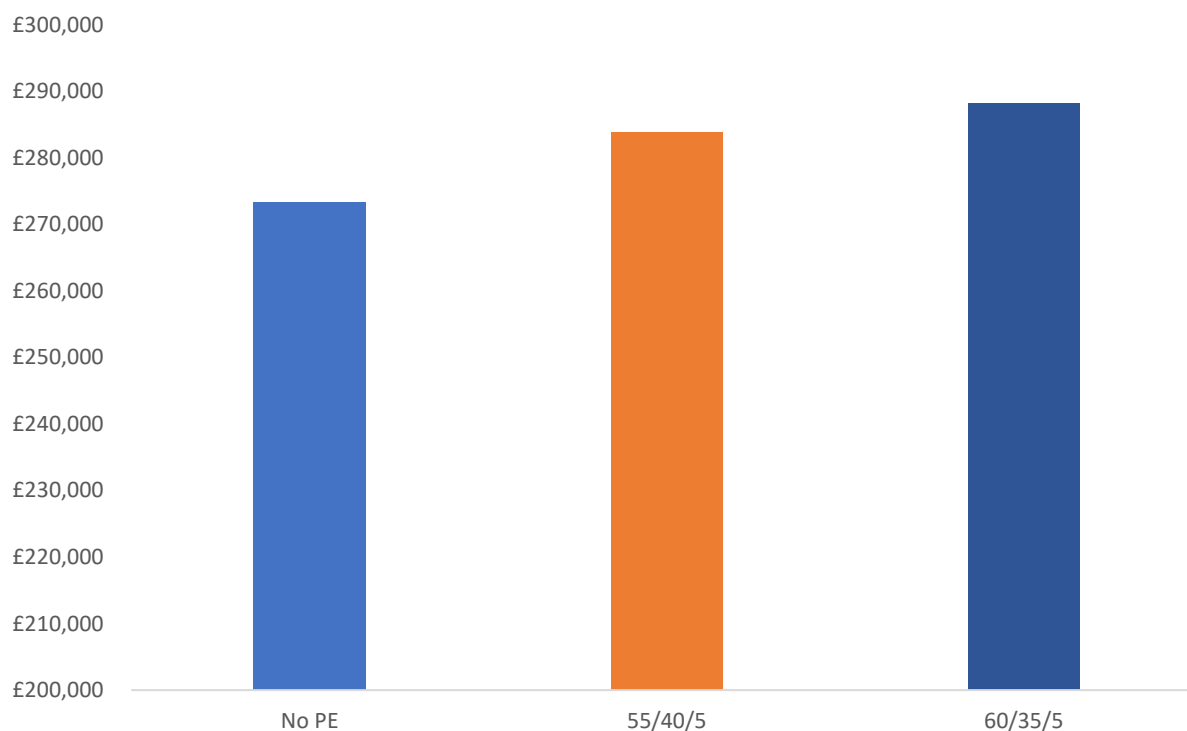
**Table 1 – Pension Pot for £30,000 earner (8% contributions) assessing gross investment returns after 30 years (Nominal Prices)**

After 30 years	Gross Returns		
	No PE	55/40/5 Mix	60/35/5 Mix
5th Percentile	£129,600	£132,600	£129,600
<b>Median</b>	<b>£273,300</b>	<b>£283,800</b>	<b>£288,200</b>
95th Percentile	£762,400	£784,200	£823,300

<sup>7</sup> [Incorporating performance fees within the charge cap - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/incorporating-performance-fees-within-the-charge-cap)

<sup>8</sup> [Scenario Generator \(moodyanalytics.com\)](https://www.moodyanalytics.com/scenario-generator)

**Figure 1: An average earner could see their gross pension pot around 5% higher with an allocation to PE after 30 years**



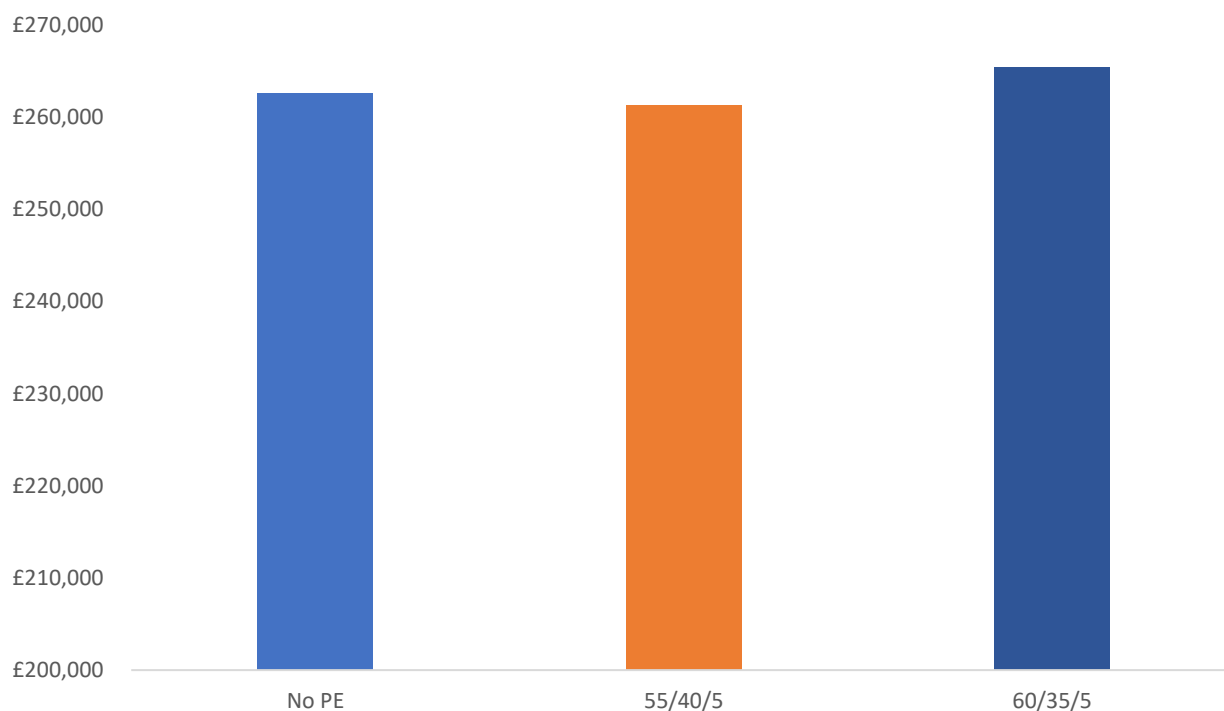
**Net Returns (2/20 Fee Structure)**

- Assessing net returns (i.e. after charges, the outcome members actually see in terms of pot growth), the effect is somewhat mitigated, as the fees and charges associated with Private Equity are assumed to be greater than investment in equities and bonds, lowering the overall return. This is particularly the case when assuming a 2/20 fee structure (2% per annum charge with a further 20% performance fee for returns above 8%).
- There is still a net improvement if the allocation replaces bonds with around a 1% improvement (median case) in the final pension pot (Table 2).

**Table 2 – Pension Pot for £30,000 earner (8% contributions) assessing net investment returns after 30 years (2/20 fees on PE)**

After 30 years	Net Returns		
	No PE	55/40/5 Mix	60/35/5 Mix
5th Percentile	£125,300	£124,500	£121,900
<b>Median</b>	<b>£262,600</b>	<b>£261,300</b>	<b>£265,400</b>
95th Percentile	£728,900	£713,000	£748,700

**Figure 2: An average earner could see their net pension pot around 1% (£3,000) higher (median case) with an allocation to PE after 30 years**



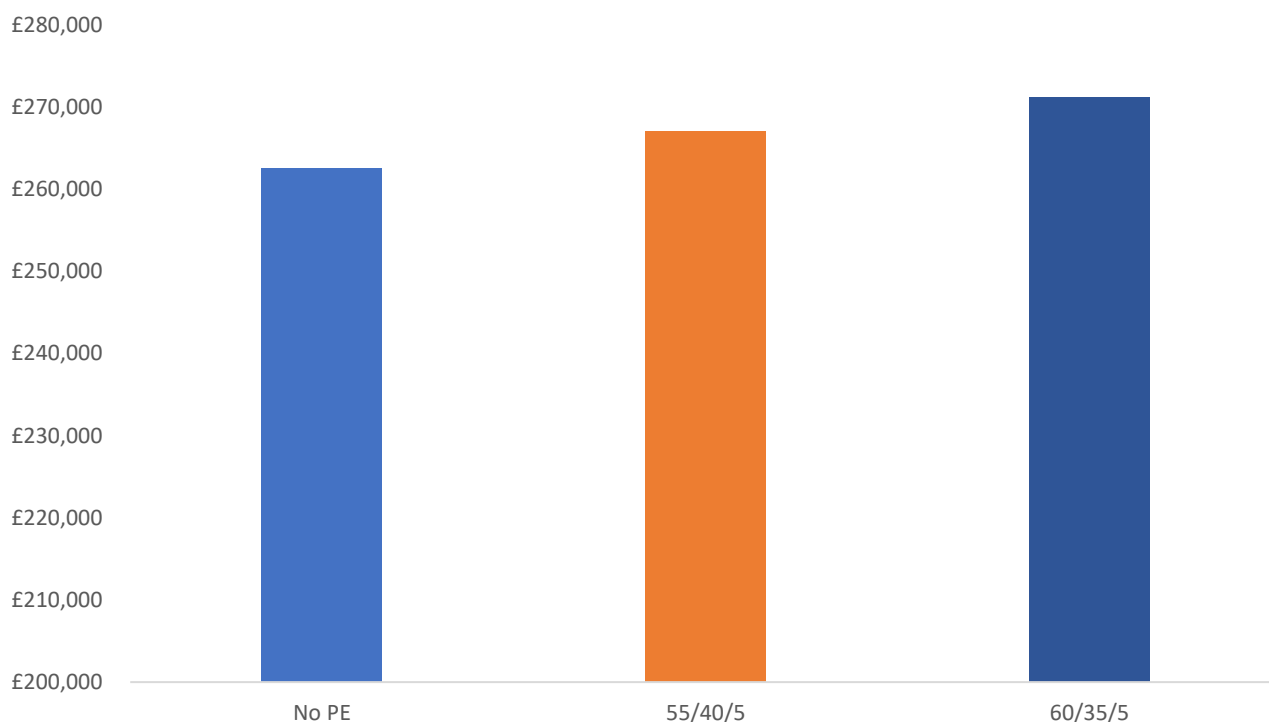
**Net Returns (1/10 Fee Structure)**

12. However, some schemes may be able to negotiate lower fees, particularly as they increase in asset size. GAD have modelled a 1/10 fee structure. As outlined above, this may be a reasonable indicator of the sorts of arrangements large DC schemes may be able to negotiate.
13. The pension pot for the average earner is projected to increase by 3%, or £9,000, over 30 years in the median scenario. This is up from an increase of 1% (£1,000) under the 2/20 fee structure.

**Table 3 – Pension Pot for £30,000 earner (8% contributions) assessing net investment returns after 30 years (1/10 fees on PE)**

After 30 years	Net Returns		
	No PE	55/40/5 Mix	60/35/5 Mix
5th Percentile	£125,300	£126,300	£123,500
<b>Median</b>	<b>£262,600</b>	<b>£267,100</b>	<b>£271,200</b>
95th Percentile	£728,900	£732,300	£768,500

**Figure 3: An average earner could see their net pension pot around 3% (£9,000) higher (median case) with an allocation to PE after 30 years**



### Impacts on savers

14. We use a series of illustrative case studies to review the effect of implementing the overall package of hypothetical individuals. The baseline scenario continues with current AE legislation, where the minimum age for AE is 22 years and the lower earnings limit is £6,240, compared with the alternative scenario implementing the AE review measures and the set of measures outlined in the July Package.
15. The analysis uses the Annual Survey of Hours and Earnings (ASHE) from 2021 and our DWP iPEN<sup>9</sup> modelling to estimate pot sizes in retirement. We assess two case studies: i) median earner; ii) National Living/Minimum Wage earner.<sup>10</sup>
16. Any estimate of upcoming reforms is challenging and will be dependent on market performance, provider and individual behaviour in addition to suitable investment opportunity. We have modelled the impacts of the initiatives separately, and this

<sup>9</sup> iPEN is a model developed by the DWP that estimates the retirement income for hypothetical individuals or couples. It allows the user to assign a work history to each individual and calculates State Pension, state income-related benefits and income received as a result of saving in a private pension. The size of the private pension fund at retirement is estimated using the contributions paid by an individual and their employer along with an assumed investment return.

<sup>10</sup> Both of these cases are an average between a male and female earner. See annex for two further cases which show the difference between a female median earner and male median earner. The key difference being their earnings taken from ASHE (2021).

does not account for possible interactions between them, or behavioural impacts. Our assumptions are:

- **AE 2017 Review measures** will abolish the Lower Earnings Limit (LEL) from the current level of £6,240 so all pension contributions are paid from the first pound of an employee's income and enable saving to start from age 18 (rather than 22). This has the greatest impact on pot sizes<sup>11</sup>.
- **Small Pots** - We estimate there is cross-subsidy in current pricing because of small, loss-making, pension pots in the DC market. A multiple default consolidator model will reduce the number of loss-making small pots, leading to estimated industry savings of up to £225m per year which we expect to be passed on to the member in the form of lower charges<sup>12</sup>. However, given it's a competitive market on price and average Assets Under Management (AUM) charges are already below 0.5%, this is likely to be small. Evidence from industry shows larger pension pots (above several thousand pounds) can lead to lower AUM charges (by around 10 basis points), and the Pension Charges Survey<sup>13</sup> shows a difference of around 10 basis points between small and large Master Trust fees. However, we recognise there may be costs from our reform package for providers too. We therefore assume a modest proportion of the reduction in costs is passed on – a 2 basis points reduction in charges.
- **Value for Money** - The Value for Money framework aims to help ensure savers do not suffer through being in a poor performing scheme and the increased transparency may help support schemes learn from best practise. Over a five-year period, there can be as much as 46% difference between the highest and lowest performing pension schemes<sup>14</sup>. This means that a saver with a pot of £10,000 will have notionally lost around £5,000 over a 5-year period from being in a lowest performing scheme compared to a highest. The VFM framework is still evolving, and performance will be assessed across investment performance, costs and charges and quality of services. As an illustration of the impact, if schemes performing 3ppts or worse below the industry average were either consolidated or improved their performance to match the industry average, the average investment growth across the industry would increase by around 0.3ppts. However, we recognise this is based on a small sample of schemes, is dependent on scheme behaviour, and the final policy position.
- **Private Equity Allocation** - An increased allocation towards PE (and other growth-related assets, such as Venture Capital) may lead to better outcomes, as outlined above by GAD analysis. Many schemes have signed up to the Mansion House Compact striving to increase their allocations to unlisted equities by 2030.

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<sup>11</sup> The case studies are consistent with our Impact Assessment from March 2023:

<https://publications.parliament.uk/pa/bills/cbill/58-03/0255/DWPImpactAssessmentMarch2023.pdf>

<sup>12</sup> Ending the proliferation of deferred small pots, DWP 2023

<sup>13</sup> [Pension charges survey 2020: charges in defined contribution pension schemes - GOV.UK \(www.gov.uk\)](https://www.gov.uk/pension-charges-survey-2020)

<sup>14</sup> DWP calculations on [capaDATA](#) – more detail in Annex B



The above analysis from GAD shows for an average earner, this may translate into somewhere between 1% (net) and 5% (gross) returns after 30 years. We choose the midpoint (3%) reflecting that not all schemes will pay the full 2/20 charge structure and we hope the additional future scale in DC schemes will help drive down charges. This is also broadly consistent with the 1/10 fee structure findings too finding an impact of just over 3% from a 5% allocation in PE. We assume a 3% uplift on the final pension pot to proxy the increase through a higher allocation to PE.

- **Decumulation** - The Financial Conduct Authority (FCA)<sup>15</sup> found a wide-range of charges applied in the decumulation market. By switching from a higher cost provider to a lower cost provider, consumers could save approximately £65 on average. DWP's proposals may result in schemes offering (or partnering) to offer all decumulation services. This should help avoid transfer fees or higher charges from having to move out of a scheme to access a decumulation product. We round the FCA estimate to £100 and for simplicity this is added to the final pension pot.

17. The results of this analysis are shown in tables 4 and 5. This highlights:

- An average earner who starts saving at 18 could see their **pension pot increase by 49%** and by **over £50,000** if saving across their entire their career across all of the measures. The July package could increase the pension pot by 12% and by £16,000, which is worth over £1,000 more a year in retirement. See Table 6 for more detail.
- A minimum wage earner who starts saving at 18 could see their pension pot **increase by 86%** and by **over £40,000** if saving across their entire their career across all of the measures. The July package could increase the pension pot by 12% and by £10,000, which is worth £700 more a year in retirement. See Table 6 for more detail.

**Table 4 – Impact of the July package and AE reforms on a median earner**

	Pension Pot (current earnings terms)	Gain
<b>Median Earner, full work history</b>	£103,800	
With 2017 Review (removes LEL, start at 18)	£138,500	+£34,700
Small Pot impact (lower charges 0.02%)	£139,200	+£700
VFM increase growth (0.3ppts)	£150,300	+£11,100
Allocation to PE (3% uplift)	£154,800	+£4,500
Decumulation Transfer Saving	£154,900	+£100
<b>Total Pot</b>	<b>£154,900</b>	<b>+£51,100</b>

<sup>15</sup> CP19/5: Retirement Outcomes Review: Investment pathways and other proposed changes to our rules and guidance ([fca.org.uk](https://www.fca.org.uk))

**Table 5 – Impact of the July package and AE reforms on a National Minimum/Living Wage earner**

	<b>Pension Pot (current earnings terms)</b>	<b>Gain</b>
<b>NMW/NLW, full work history</b>	£50,200	
With 2017 Review (removes LEL, start at 18)	£83,400	+£33,100
Small Pot impact (lower charges 0.02%)	£83,800	+£500
VFM increase growth (0.3ppts)	£90,700	+£6,900
Allocation to PE (3% uplift)	£93,400	+£2,700
Decumulation Transfer Saving	£93,500	+£100
<b>Total Pot</b>	<b>£93,500</b>	<b>+£43,300</b>

### Retirement Incomes

18. To provide an estimate of what the analysis from the previous section translates into from an income in retirement perspective, we have converted the pension pots into an income stream in Table 6. For annuities, we take a flat-rate annuity for a 65-year-old to convert a pension pot as the closest proxy (rates are subject to change given changing market conditions). We do not include estimates of State Pension income which would further enhance individuals' income in retirement. 4 decumulation options are accounted for:

- **Annuity – No Change** – This estimates the average annual income from the existing AE legislation and assuming no July package by converting the pension pot into an annuity (using latest market prices).<sup>16</sup>
- **Annuity – With AE Review measures** - This estimates the average annual income from the proposed AE review measures by converting the pension pot into an annuity (using latest market prices).
- **Annuity – July package** - This estimates the average annual income from the proposed July package, building upon the AE Review measures, by converting the pension pot into an annuity (using latest market prices).
- **CDC Decumulation – With Change** – This estimates the potential average annual income if a CDC decumulation product was accessed. This is assumed as a 22% uplift on the annuity price (see paragraph 19 for further discussion).

19. CDC decumulation modelling is still being developed and there is currently no UK empirical evidence to draw upon. Most sources from industry and academics agree

<sup>16</sup> <https://www.hl.co.uk/retirement/annuities/best-buy-rates> - as of 27th June 2023

CDC decumulation is likely to produce higher outcomes than annuities but many focus on the gains of CDCs across a lifetime. In those studies that discuss impacts during decumulation, there is disagreement on how large that impact would be. Reporting by the RSA<sup>17</sup> suggests a total increase of 37% (with 22% in the decumulation phase). GAD's modelling<sup>18</sup> for DWP suggested CDC offering retirement outcomes around 39% higher than DC across a lifetime. They suggest this was largely from the decumulation phase because CDC schemes can remain invested in equities when DC schemes de-risk.<sup>19</sup> A CASS Business School report<sup>20</sup> suggests a 20-25% increase in the decumulation period from the growth of assets in decumulation and better value annuities in later life. Although they also note many of the gains could be achieved by a high performing DC scheme. Finally, Willis Towers Watson<sup>21</sup> estimate an increase of up to 50%.

20. To take a conservative approach given the limited evidence, we include the lowest estimate in our modelling – this assumes a 22% uplift on top of an annuity income level. We recognise the impact of CDCs will differ depending on individual circumstances, investment outcomes and scheme design, and we are currently developing the evidence base on CDCs further.

21. As Table 6 shows, the July Package delivers an increase of over £1,000 per annum via an annuity for a median earner.

**Table 6 – Private Pension retirement income for a median earner and National Minimum/Living Wage earner**

	<b>Annuity – No Change</b>	<b>Annuity – AE Review Measures</b>	<b>Annuity – July Package</b>	<b>CDC Decumulation with Change</b>
Median Earner	£7,500	£10,000	£11,200	£13,600
Percentage increase (%)		33%	12%	22%
NMW/NLW Earner	£3,600	£6,000	£6,700	£8,200
Percentage increase (%)		66%	12%	22%

### Collective Defined Contribution pensions

22. The consultation response on Collective Defined Contribution pensions (CDC) explores the role of multi-employer schemes and how to best provide for schemes offering CDC decumulation products. The 2021 Pensions Schemes Act<sup>22</sup> provided the legislative framework to establish CDC schemes. CDC schemes provide more flexibility in occupational pension provision and are seen as a middle ground between DB and DC schemes. For employers, they are more predictable than a DB scheme as there are no potential future liabilities for them to respond to. For

<sup>17</sup> <https://www.thersa.org/globalassets/pdfs/reports/collective-pensions-in-the-uk.pdf>

<sup>18</sup> <https://webarchive.nationalarchives.gov.uk/ukgwa/20100612090708/http://www.dwp.gov.uk/docs/modelling-collective-defined-contribution-schemes-dec09.pdf>

<sup>19</sup> [\[ARCHIVED CONTENT\] \(nationalarchives.gov.uk\)](https://www.nationalarchives.gov.uk)

<sup>20</sup> <http://www.pensions-institute.org/IRRIReport.pdf>

<sup>21</sup> [Collective Defined Contribution - download - WTW \(wtwco.com\)](https://www.willistowerswatson.com/en/collective-defined-contribution)

<sup>22</sup> <https://www.legislation.gov.uk/ukpga/2021/1/contents/enacted/data.htm>

employees, in comparison to DC schemes, they provide more security in later life in terms of a more predictable income for those who do not wish to purchase annuities.

23. CDC schemes could have some wider economic advantages since CDCs are likely to invest in return seeking assets for longer than DC schemes and do not need to lifestyle their investment strategies in the same way. This could include investment in alternative asset classes such as venture capital or private equity.
24. Replacement rates that show retirement income compared with working life income are often higher under CDC schemes than in DC schemes. Research by the Pensions Policy Institute (PPI) found that a mature and stable CDC scheme can produce a replacement rate between 27% and 30%.<sup>23</sup> In contrast, a replacement rate for an individual DC scheme is likely to be between 12% and 21%<sup>24</sup>. Modelling from Aon Hewitt<sup>25</sup> looking at how CDC schemes would compare to DC schemes between 1930 and 2012 agreed, finding CDCs would offer more stable pensions and a higher median income.
25. In terms of overall pensions, research suggests that CDC schemes can provide an income-for-life pension which can be much higher than that from a DC scheme. The RSA<sup>26</sup> collected studies on CDCs including research from Aon Hewitt<sup>27</sup> and PPI<sup>28,29</sup> which showed between 27-37% higher income for members from CDC schemes than from a DC scheme. It should be noted some studies have argued that DC schemes with the same investment strategies as modelled for CDC schemes would generate similar outcomes<sup>30</sup>.
26. Given the emerging evidence and the potential risk of double counting the impacts of CDCs with the other DC policy options we have monetised the impacts for, we have focused only on the decumulation benefit. However, as the review of the literature review outlines above, we consider member outcomes could be further improved through CDCs and continue to invest in the evidence-base to better understand the potential of this pension model.

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<sup>23</sup> <https://www.pensionspolicyinstitute.org.uk/media/2904/20181129-what-is-cdc-and-how-might-it-work-in-the-uk-report.pdf>

<sup>24</sup> <https://www.pensionspolicyinstitute.org.uk/media/2904/20181129-what-is-cdc-and-how-might-it-work-in-the-uk-report.pdf>

<sup>25</sup> [https://www.aon.com/getmedia/a745af28-9106-4e25-a09a-bdf4f5ead150/The-Case-for-Collective-DC\\_update\\_2020.aspx](https://www.aon.com/getmedia/a745af28-9106-4e25-a09a-bdf4f5ead150/The-Case-for-Collective-DC_update_2020.aspx)

<sup>26</sup> <https://www.thersa.org/blog/2019/03/how-cdc-pensions-can-give-better-outcomes>

<sup>27</sup> [https://www.aon.com/getmedia/a745af28-9106-4e25-a09a-bdf4f5ead150/The-Case-for-Collective-DC\\_update\\_2020.aspx](https://www.aon.com/getmedia/a745af28-9106-4e25-a09a-bdf4f5ead150/The-Case-for-Collective-DC_update_2020.aspx)

<sup>28</sup> 2015-11-01 Modelling Collective Defined Contribution Schemes - Pensions Policy Institute

<sup>29</sup> [https://www.thersa.org/globalassets/pdfs/reports/rsa\\_collective\\_pensions\\_in\\_the\\_uk\\_ii\\_nov\\_2013.pdf](https://www.thersa.org/globalassets/pdfs/reports/rsa_collective_pensions_in_the_uk_ii_nov_2013.pdf)

<sup>30</sup> <https://www.pensions-institute.org/IRRIChapter6.pdf>

## Annex A – iPEN cases and assumptions

27. Three further iPEN cases are presented below, showing the impacts of the AE Review Measures and July Package on pension pot sizes and annual retirement income for: a female median earner, male median earner.

**Table 7 – Impact of the July package and AE reforms on a male median earner**

	Pension Pot (current earnings terms)	Gain
<b>Male Median Earner, full work history</b>	£114,300	
With 2017 Review (removes LEL, start at 18)	£149,300	+£35,000
Small Pot impact (lower charges 0.02%)	£150,100	+£800
VFM increase growth (0.3ppts)	£161,900	+£11,800
Allocation to PE (3% uplift)	£166,700	+£4,900
Decumulation Transfer Saving	£166,800	+£100
<b>Total Pot</b>	<b>£166,800</b>	<b>+£52,500</b>

**Table 8 – Impact of the July package and AE reforms on a female median earner**

	Pension Pot (current earnings terms)	Gain
<b>Female Median Earner, full work history</b>	£93,300	
With 2017 Review (removes LEL, start at 18)	£127,600	+£34,400
Small Pot impact (lower charges 0.02%)	£128,300	+£700
VFM increase growth (0.3ppts)	£138,700	+£10,400
Allocation to PE (3% uplift)	£142,900	+£4,200
Decumulation Transfer Saving	£143,000	+£100
<b>Total Pot</b>	<b>£143,000</b>	<b>+£49,700</b>

**Table 9 – Private Pension retirement income for a male and female median earner**

	Annuity – No Change	Annuity – AE Review Measures	Annuity – July Package	CDC Decumulation with Change
Male Median Earner	£8,200	£10,700	£12,000	£14,700
Percentage increase (%)		31%	12%	22%
Female Median Earner	£6,700	£9,200	£10,300	£12,600
Percentage increase (%)		37%	12%	22%

28. The following key assumptions have been made when calculating these case studies. The modelling is known to be sensitive to assumptions made about future economic determinants and the methodology used. The baseline assumptions are:

- a) Each individual saves into a defined contribution scheme with an annual management charge of 0.3% and a contribution charge of 1.8%
- b) Each individual contributes 5% and their employer contributes 3%
- c) Each individual's fund is invested in 65% equities and 35% bonds with real fund growth of 3.73% and 1.73% respectively
- d) Each individual retires at State Pension age of 68
- e) The automatic enrolment earnings trigger, lower earnings limit and upper earnings limit increase in line with earnings over the long-term
- f) Each individual does not opt-out of pension saving
- g) Full time employees work 37 hours per week
- h) Each individuals' earnings increase in-line with average earnings growth. The final pension pot size is reported in 2022/23 earnings using the Average Weekly Earnings growth deflator.
- i) Where earnings have been reported, these are the current (2022/23) values.
- j) The median annual salary for a male working full-time is £31,414 (Source: ASHE 2021)
- k) The median annual salary for a female working full-time is £28,305 (Source: ASHE 2021)
- l) Salaries for individuals on NMW/NLW are calculated by hourly rate x weekly hours worked x 52. This equates to: Ages 18 – 20: £13,160 per year; Ages 21 – 22: £17,730 per year; Ages 23+: £18,278 per year
- m) The individual is born in 2008; they start contributing from 2026

## Annex B

29. Table 10 shows the difference in performance between the highest and lowest performing schemes in relation to investment returns. To convert to net returns, we take a simplistic assumption of an AUM charge of around 0.5% AUM (broadly consistent with evidence across the industry). Over a five-year period, a pot of £10,000 (with no further contributions) invested into the lowest performing scheme would be worth £10,400, whereas invested in the highest performing scheme it would be worth £15,100 – 46% higher. Note, figures are rounded to the nearest £100.

**Table 10 – Difference in performance between pension providers, based on a pot of £10,000 invested for 5 years<sup>31</sup>**

	<b>Annualised returns<sup>32</sup></b>	<b>Less 0.5% fees</b>	<b>Pot after 5 years</b>	<b>Cumulative change</b>
Lowest performing scheme	1.19%	0.69%	£10,400	3.5%
Highest performing scheme	9.10%	8.60%	£15,100	51.1%
<b>CAPA Average</b>	<b>5.05%</b>	<b>4.55%</b>	<b>£12,500</b>	<b>24.9%</b>

<sup>31</sup> DWP calculations from [CAPAdata](#)

<sup>32</sup> 5-year annualised returns for savers 30+ years from State Pension age, as at Q4 2022.