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The risk of pension inattention in a DC world

Economic and Social Research Council

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Executive summary

Many people have defined contribution (DC) pensions that they no longer contribute to but are yet to start drawing from, and the number of people in this position will increase rapidly in future as a result of automatic enrolment into workplace pensions. There has been lots of concern about the likely proliferation of very small pension funds, which are relatively expensive to administer. But there is an important wider issue as well, that 'deferred' pensions that people no longer contribute to might provide declining value for money over time if people do not engage with them.

In this briefing note, we shed light on this issue using data from Profile Pensions. Profile Pensions makes pensions and investment advice available to the mass market and helps individuals to track down and consolidate their old defined contribution pensions. These data relate to a large anonymised sample of its potential customers aged mainly in their 50s who interacted with its services between April 2018 and December 2020.

Key findings

1 Many deferred pensions held by a sample of those in their 50s are in schemes with relatively high charges by current market standards. Pension fees have fallen over time, yet deferred pensions often do not reflect these changing market conditions. The average annual fee for deferred pensions taken out in the 1990s is above 1.1% of fund value, but this falls for pensions taken out in the 2000s to around 0.9% and for those taken out in the 2010s to around 0.8%.

2 This is driven by pensions taken out longer ago being particularly unlikely to have low fees. Among a sample of people in their 50s with deferred DC pensions, four-fifths of pensions started in 2013 were in a scheme with charges of 0.75% or less, compared with only one-in-four of pensions started a decade earlier in 2003 and one-in-nine of pensions started in 1993.

3 In 2016–18, 40% of those aged 40-59 with at least one deferred DC pot were not confident that their income in retirement would give them the standard of living they hoped for. It is therefore particularly important that people obtain the

best possible retirement outcome they can from the contributions they have made over working life.

4 Even the difference between annual fees equivalent to 0.75% and 1.0% of funds can have an important effect when cumulated over many years. For example, for someone aged 50, this can imply a difference of 4.4% in resources at 67 assuming annual investment returns of 7.7% in both cases. For a 50-year-old with a pot of £21,000, this would amount to a difference of £2,000 in today's prices at age 67.

5 Having higher-than-average fees does not necessarily mean a pension scheme is not good value for money. However, investment performance over the past five years is generally similar among those schemes in our sample with higher charges and those schemes with lower charges, showing that the higher average fees among older pensions are not always offset by better returns.

6 Another risk with older pensions is that the portfolio allocation may no longer be appropriate. In our sample, the share of funds invested in equities for deferred pensions started in the last decade was on average 45% among those aged 60 compared with 66% among those aged 50, consistent with people moving away from risky assets in the run-up to retirement. But among pensions started in the 1980s and 1990s, there is no difference in the average equity allocation depending on people's current age; those aged 50 and 60 both have on average over 70% invested in equities. This suggests that for older savers, there is the risk that older pensions are inappropriately invested in riskier investments such as equities. Similarly, we find evidence that the investments made in older pensions are less well matched to an individual's current risk preferences than those in pensions taken out more recently.

7 Many of these issues could be solved with greater individual engagement with pensions, but this is very hard to achieve. Initiatives such as the Pensions Dashboard should help some people engage with their deferred pensions. But this is unlikely to be enough on its own to ensure appropriate investment strategies and value for money. The government and the Financial Conduct Authority may need to continue to look at wider initiatives and regulation to help encourage value for money, particularly for deferred DC pensions.

1. Introduction

Most people need to save for retirement if they want to enjoy the standard of living they hope for at older ages. A full state pension will currently provide a retirement income of around £9,300 each year, but most people will have been used to an income much higher than this during their working lives. The dominant form of saving for retirement is now defined contribution (DC) pensions –pension schemes into which people make contributions, those funds are invested and grow over time, and in retirement the saver can draw down the accumulated stock of funds. This means that for most people their retirement resources will depend directly on their own decisions: how much they saved and how those funds were invested (which will have determined the investment return generated and the fees paid).

These decisions are not simple, and there is ample evidence that many struggle to make complex financial choices.[1] This raises the concern that many individuals will not achieve the best retirement incomes they could given the contributions they have made, because they do not have the knowledge and financial skills to achieve good returns while not taking inappropriately excessive investment risks.

What compounds the problem is that most people will not just have one DC pension over their lifetimes, but multiple pots arising from different employment spells with employers that have different workplace pension arrangements. This means that many people will have multiple funds to keep track of and to manage over their lifetimes, unless they consolidate their pensions (which in itself involves relatively complex decisions with potentially high stakes).

Recent policy discussion has largely focused on the proliferation, since the introduction of automatic enrolment into workplace pensions, of deferred pension pots that are small in value.[2] These are often viewed as particularly problematic because their value can be completely eroded over time by fees and charges, and because small pots are uneconomic for providers. A DWP-facilitated working group was established in 2020 to examine the 'small pots problem', and has made recommendations to encourage the consolidation of small deferred pots becoming the norm in the workplace pensions market (Department for Work & Pensions, 2020).

1 For reviews on this topic see, for example, Hastings, Madrian and Skimmyhorn (2013) or Benartzi, Previtero and Thaler (2011).

2 The concern that automatic enrolment was likely to lead to a large increase in the number of employees with several small pension pots was highlighted by IFS researchers as long ago as 2009 (Emmerson and Wakefield, 2009).

However, it is not only small pots that present problems. There is a much wider issue about the consequences of a lack of financial engagement for people's outcomes that applies to those with funds of all sizes. In this briefing note, we seek to draw attention to this issue.

2. How prevalent are deferred DC pots already?

It is already common for people to have an accumulated DC pension – or multiple DC pensions – that they are no longer contributing to. These are known as 'deferred', 'preserved' or 'retained' pensions as they are no longer being contributed to but they are not yet being decumulated. In 2019, there were 10.3 million deferred DC pensions in occupational schemes alone. This figure has increased dramatically following automatic enrolment whereby employers have to enrol most of their employees automatically into a workplace pension. This policy was rolled out nationwide between 2012 and 2018. In 2012, there were only 1.3 million deferred DC entitlements in occupational pensions, so numbers of these pensions increased by nearly eightfold in just seven years.[3]

Here we focus on evidence from a large representative household survey – the Wealth and Assets Survey (WAS)[4] – which allows us to look at how many pensions are held by each individual and how the prevalence and value of deferred DC funds vary across people with different characteristics. The latest WAS data are from 2016–18, and so the proportion of people with a deferred pension pot, and the number of such pots that people have, will already be higher than described here (and are also expected to increase in future as employees will have spent more of their working lives following automatic enrolment). According to the WAS data, in 2016–18, around 14% of individuals aged between 20 and 64 had at least one deferred DC pension. Figure 2.1 illustrates how this varies by age. Over 20% of those in their mid-40s and 50s had at least one deferred DC pension, while 6% had two or more.

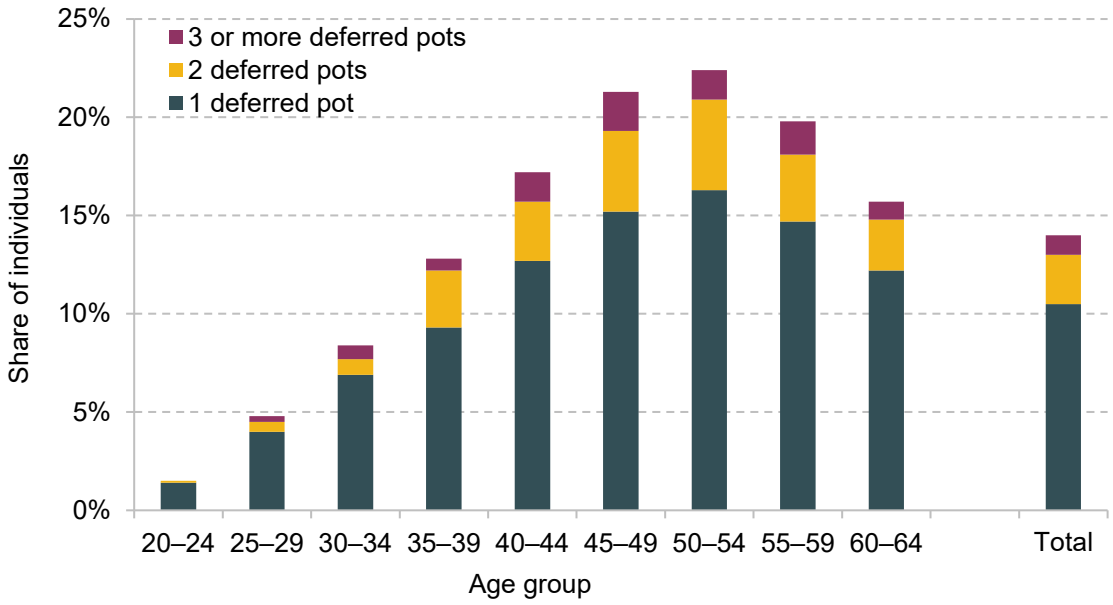
In terms of the value of deferred DC pensions, the median value across all deferred pots held by those aged 20–64 in 2016–18 was £9,000, while the mean was around £34,000. The full distribution of the value of pots is shown in Figure 2.2. Many pots are small, particularly among young people; hence the focus – particularly in the pensions industry – on the likely proliferation of uneconomic small pots in future. But some people hold larger deferred pensions. For

[3] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/pensionssavingsandinvestments/datasets/occupationalpensionschemessurvey.

[4] Office for National Statistics, Social Survey Division. (2020). *Wealth and Assets Survey, Waves 1-5 and Rounds 5-6, 2006-2018*. [data collection]. *13th Edition.* UK Data Service. SN: 7215, DOI: 10.5255/UKDA-SN-7215-13.

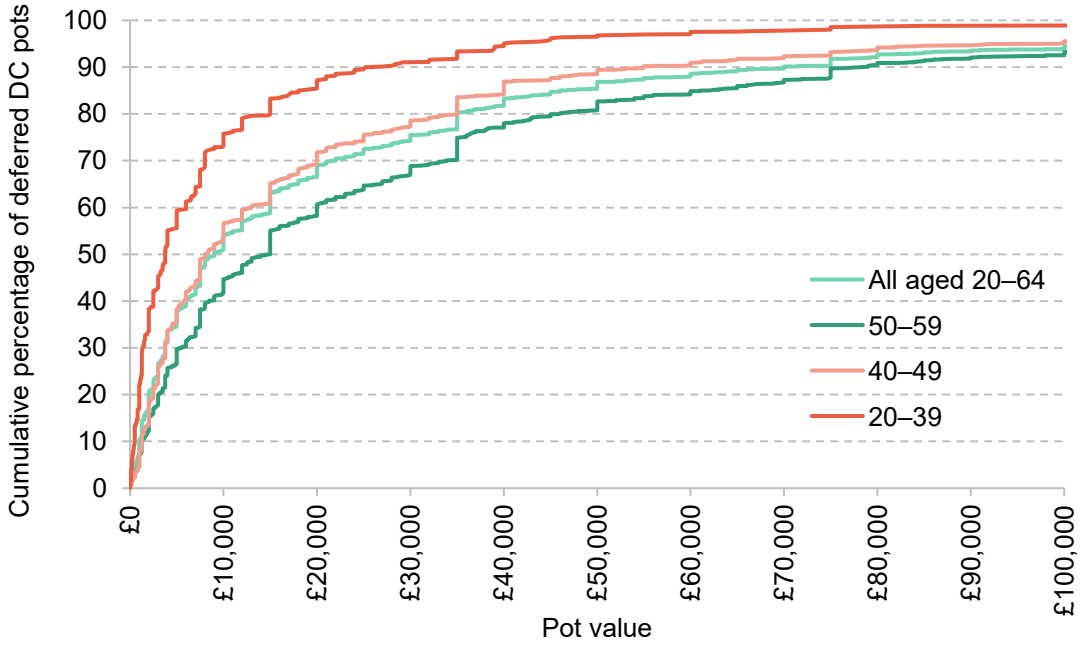
example, among those in their 50s, 20% of deferred pots contained more than £50,000, while 10% contained more than £90,000.

Figure 2.1. Percentage of individuals with deferred DC pensions



Source: Wealth and Assets Survey round 6, April 2016 to March 2018.

Figure 2.2. Value of deferred DC pension pots



Source: Wealth and Assets Survey round 6, April 2016 to March 2018.

Table 2.1. Composition of wealth among those aged 40–59 with deferred DC funds

	Mean wealth (across all aged 40–59 with deferred DC)	Share who have wealth in this form	Mean wealth (among those with wealth in this form)
Retained DC pensions	£53,980	100%	£53,980
Active DC pensions	£28,421	46%	£61,970
DB pensions	£81,963	40%	£204,154
Other pensions	£18,251	5%	£389,985
Own residence	£141,674	81%	£175,091
Other property	£36,142	19%	£195,484
Investments	£18,557	27%	£68,741
Other financial assets	£53,098	77%	£70,639

Note: 'Other pensions' includes pensions in payment and pensions from former partners. 'Investments' includes stocks and shares ISAs and shares excluding employee shares.

Source: Wealth and Assets Survey round 6, April 2016 to March 2018.

These sums might not seem large to those focused on the role of DC pensions in providing a lifetime income stream. If annuitised today, an individual would need a £150,000 pension fund to provide an (inflation-adjusted) income of around £4,000 per year.[5] But they are large in the sense that different choices with respect to the investment of these deferred DC pots can have appreciable consequences in terms of additional pounds of wealth.

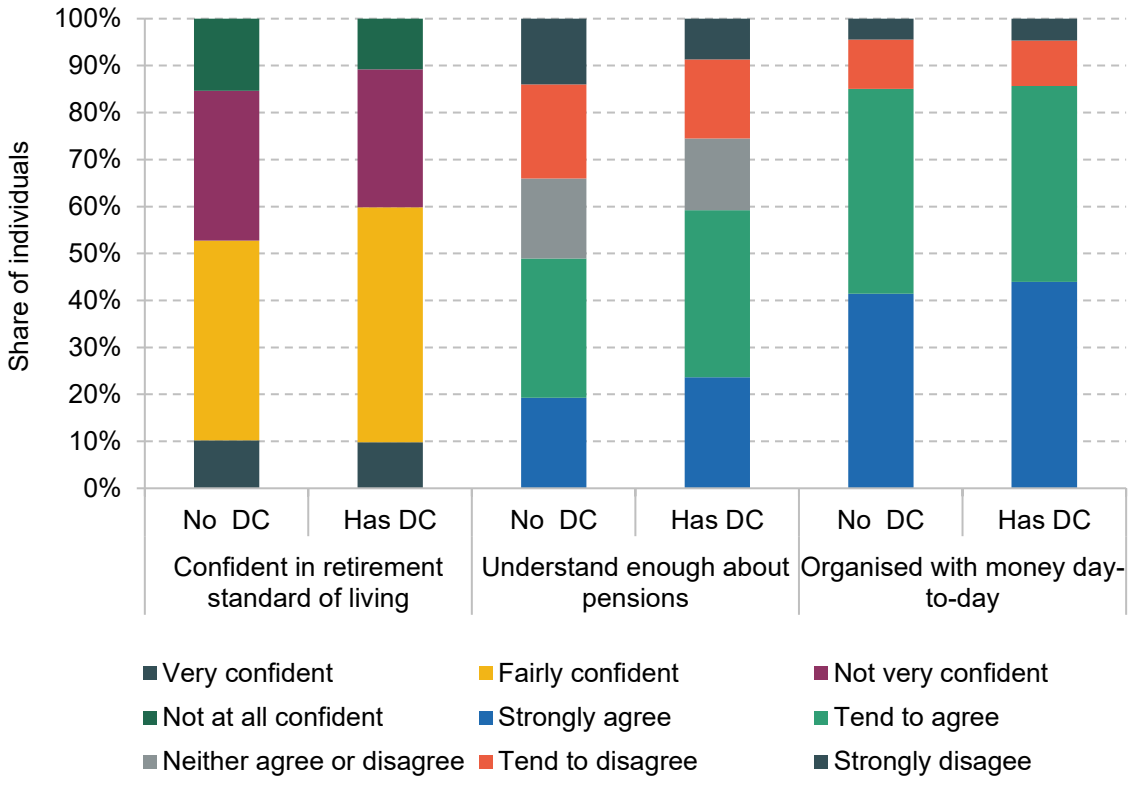
These sums are also large relative to most households' other financial assets. Table 2.1 describes the composition of wealth for those aged 40–59 with at least one deferred DC fund. The mean total amount held in deferred DC funds is around £54,000, compared with around £70,000 held in financial assets (investments and other financial assets). It is striking that only a minority of people hold what might be thought of as other 'complex' financial assets – only 27% hold 'investments', defined to include stocks and shares ISAs (investment ISAs) or shares (excluding employee shares). Most individuals are therefore having to make financial decisions with respect to their pensions that they are not used to taking with their other wealth.

The Wealth and Assets Survey also asks individuals a number of attitudinal questions. Figure 2.3 summarises some indicators of financial acuity for those aged 40–59 with at least one deferred DC pot. (We also provide, for comparison, the same indicators for those who do not have any deferred DC funds, but there are only small differences.) Two-fifths (40%) of those

[5] https://www.moneyhelper.org.uk/en/pensions-and-retirement/taking-your-pension/compare-annuities.

with at least one deferred DC pot were not confident that their income in retirement would give them the standard of living they hoped for. This reinforces the importance of obtaining the best possible retirement outcome from a given amount of pension contributions made over working life. A similar proportion also did not agree that they understood enough about pensions to make decisions about saving for retirement, which highlights the difficulties people face with trying to manage DC pension assets. In contrast, only 14% did not agree that they were organised with their money day-to-day, suggesting that people do find pensions more complicated and perhaps that pensions – particularly deferred ones – are somewhat out-of-sight-out-of-mind.

Figure 2.3. Attitudes of those with and without deferred DC funds



Source: Wealth and Assets Survey round 6, April 2016 to March 2018.

3. What's the problem with old DC pots?

Why are DC pots to which people are no longer contributing potentially so problematic? In the most extreme case, people may forget they have these funds or not know how to access them. In this case, people would not be able to access those savings – at least for a while – and would potentially have lower resources for at least part of their retirement than they should. However, a number of services now exist to help people locate and claim their lost pensions.[6] Furthermore, innovations such as the Pensions Dashboard, which is intended to bring together information on all of an individual's pensions – both state and private – through one online portal, should help reduce the numbers who completely lose track of any pension funds in future.[7]

However, even if people do not completely lose track of their pensions, they may pay less attention to, and engage less with, those pensions they are no longer contributing to. This lack of attention and engagement could result in DC funds being held in schemes with high charges, poor investment performance or an inappropriate investment allocation.

To illustrate some of the points quantitatively, we use detailed and novel data from Profile Pensions. Profile Pensions makes pensions and investment advice available to the mass market and helps individuals to track down and consolidate their old defined contribution pensions. The data cover a large anonymised sample of 18,317 potential customers aged mainly 48–60 who interacted with Profile Pensions between April 2018 and December 2020. The data are described in more detail in the appendix.

Pension charges

Pension providers charge fees to cover the costs of administering the pension and investing the funds.[8] The structure and level of these charges vary across providers and funds, and can (for example) involve components that are a flat fee, that are a proportion of the funds that are being managed or that are a proportion of new contributions made. In fact, the level of charges may even vary across individuals invested in the same pension funds, as charges are sometimes

6 https://www.moneyhelper.org.uk/en/pensions-and-retirement/pension-problems/tracing-and-finding-lost-pensions.
7 https://www.pensionsdashboardsprogramme.org.uk/.
8 https://www.moneyhelper.org.uk/en/pensions-and-retirement/pensions-basics/pension-scheme-charges.

negotiated by employers on behalf of their employees. Workplace pensions that are facilitated by employers therefore typically have lower charges than a personal pension taken out by the individual themselves. It has been argued that the complexity of pension charges – in particular, the variety of charging structures – hampers people's ability to engage with their pensions to ensure value for money.[9]

Over time, the average level of charges on pensions has fallen, as a result of government, industry and regulatory initiatives to increase transparency over charges and improve value for money (Pensions Policy Institute, 2019). For example, stakeholder pensions were introduced in 2001, initially with a charge cap of 1% of funds under management (from April 2005, the cap for new investors was increased to 1.5% p.a. for the first 10 years, falling to 1% after that). More recently, the government has expressed concerns about the charges incurred by those enrolled into default workplace schemes automatically as a result of auto enrolment, and the risk that these people could pay higher costs than those making active choices. A cap on ongoing charges of 0.75% of funds under management (or equivalent in other charging structures) was therefore introduced in 2015 for schemes being used as a default scheme under an automatic enrolment arrangement. Competition has helped drive charges lower still, with members in these schemes facing an average annual charge of 0.48% in 2020 (Department for Work & Pensions, 2021). The average fee in other workplace pensions (which are not subject to the same cap) has also fallen, to 0.53%. (Going somewhat against this trend, however, since 2021 the government has been considering removing performance-based fees from the charge cap, in order to increase the viability of pension schemes investing in long-term illiquid assets.[10] The expectation is that this would result in higher fees but also offer higher returns, thus still representing good value for money for at least some savers.)

An important concern is that older DC pensions, particularly ones that people are no longer contributing to, may not have benefited from these reductions in fees over time. In addition, some older pensions also charge higher fees to those no longer contributing than to those who are continuing to contribute. This issue of poor value for money is one that industry and government have sought to address over the last decade.[11] However, while these actions have been successful at vastly reducing the proportion of schemes with charges in excess of 1% (with a fall in the value of assets in these 'high-cost' schemes from around £25.8 billion in 2014 to

[9] https://www.gov.uk/government/consultations/permitted-charges-within-defined-contribution-pension-schemes.

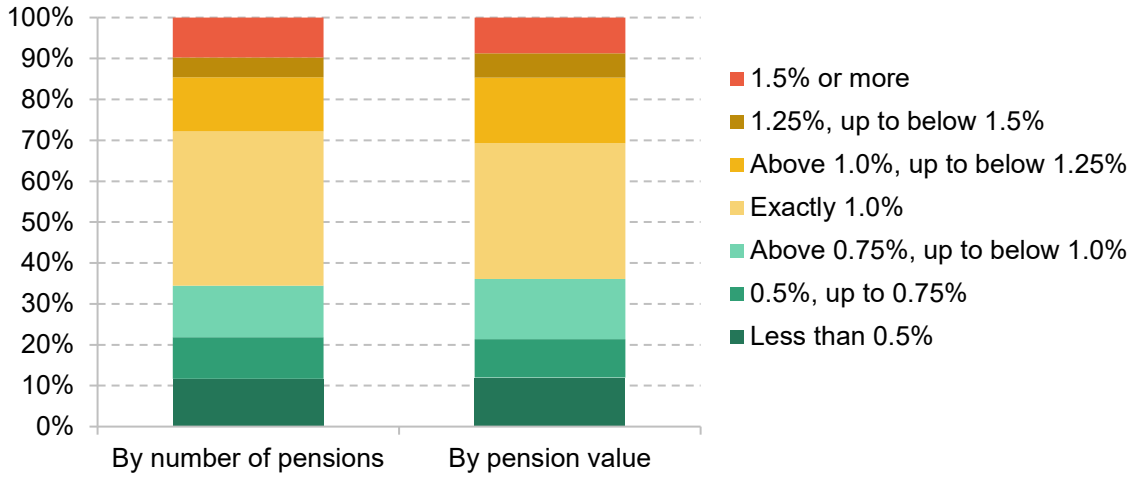
[10] See https://www.gov.uk/government/consultations/enabling-investment-in-productive-finance for the latest government consultation.

[11] An Independent Project Board audited schemes with charges of potentially more than 1% and made recommendations to improve value for money in 2014 (Independent Project Board, 2014). The DWP and the FCA reviewed progress against these recommendations in 2016 (Department for Work & Pensions and Financial Conduct Authority, 2016) and 2017 (https://www.fca.org.uk/news/news-stories/further-success-reducing-pension-funds-costs-charges).

around £0.9 billion by 2017), given that the average level of fees has continued to fall, some schemes with charges of even 1% may no longer represent value for money.

Figure 3.1 describes the distribution of total annual fees for the roughly 28,000 DC pensions held by those approaching Profile Pensions between 2018 and 2020. Many pensions had fees of 1.0% (38% of all plans), while 34% of funds had fees of less than 1.0% including 22% of funds with fees of 0.75% or less. Over a quarter (28%) of funds had fees of more than 1.0%, and a small number appeared to have very high fees (some, but not all, of which is accounted for by flat fees levied on small pots).

Figure 3.1. Distribution of total annual fees across pension plans in Profile Pensions data



Note: Includes 98.5% of pension plans (98.3% by value) where information on total fees is not missing.

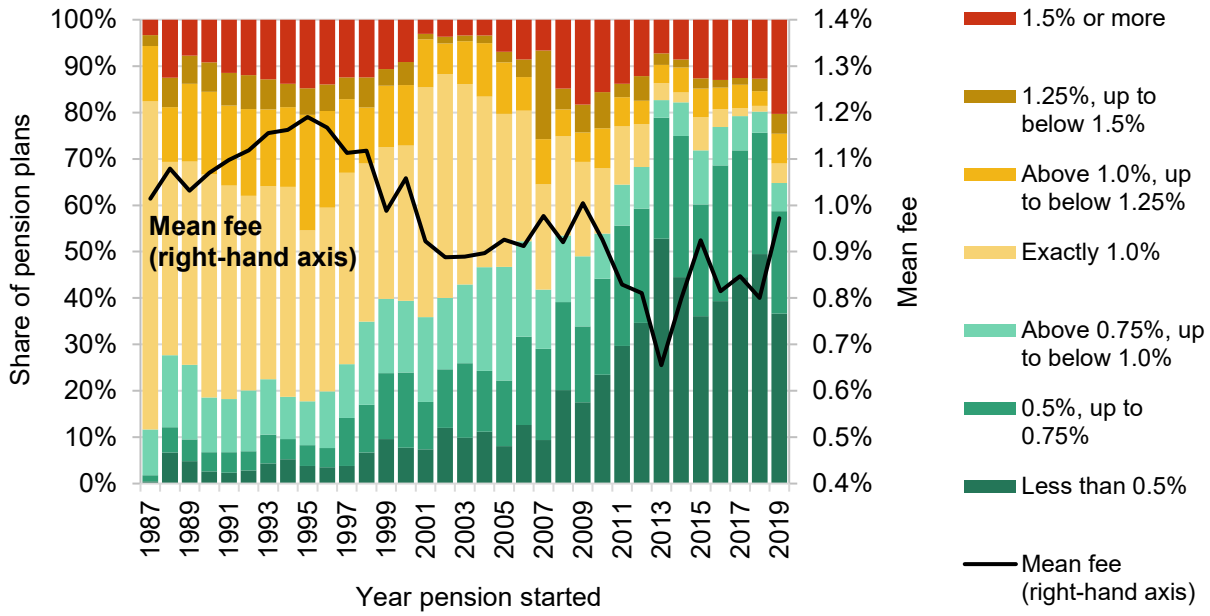
Source: Profile Pensions data, 2018 to 2020.

The people approaching Profile Pensions will not be representative of everyone with an old DC pot. For example, on the one hand they might disproportionately be individuals who suspect that their DC pensions are not offering value for money, though on the other hand they will be individuals who are sufficiently engaged with their pension management to reach out to Profile Pensions. That said, the data do clearly show that there may be significant potential for many individuals with old DC pensions to reduce the charges they pay if they were to move their pension funds to a different provider or plan with fees closer to the current market average. Even moving to a fund charging 0.75% a year rather than 1.0% a year at age 50 could result in someone's fund being around 4.4% higher at age 67 (for someone with a pot of £21,000 at age 50, that would equate to around an additional £2,000 at retirement in today's prices) assuming a nominal investment return of 7.7% in either case.[12]

[12] Median value of pensions held by 50-year-olds in the Profile Pensions data set is £21,095. Assumed annual return of 7.7% each year is based on median cumulative five-year performance for a subset of pensions where performance data are available, and is for illustration only.

It is also very apparent from the Profile Pensions data that there is an important relationship between when someone's pension was first started and their current level of fees. This is illustrated in Figure 3.2. For example, 79% of those whose pension was started in 2013 were in a scheme with charges of 0.75% or less, compared with only 26% of those whose pension was started a decade earlier in 2003 (or 11% of those whose pension started in 1993). The average fee for deferred pensions taken out in the 1990s before the introduction of stakeholder pensions is above 1.1%, but this falls markedly for pensions taken out in the 2000s to around 0.9%, and to around 0.8% for pensions taken out in the 2010s.[13] (For pensions that were started since the introduction of automatic enrolment, the average fee is more volatile. In general, a higher proportion of recently opened schemes have very low fees (less than 0.5%) than among schemes opened in the early 2000s or earlier, but there are also more schemes with very high fees (as a result of a large number of very small funds with high proportionate fees). Figure 3.2 therefore highlights the considerable concern that older pensions in particular are less competitive, may not reflect changing market conditions, and therefore now represent poor value for money because they charge higher fees than pensions opened more recently.

Figure 3.2. Distribution of total annual fees across pension plans

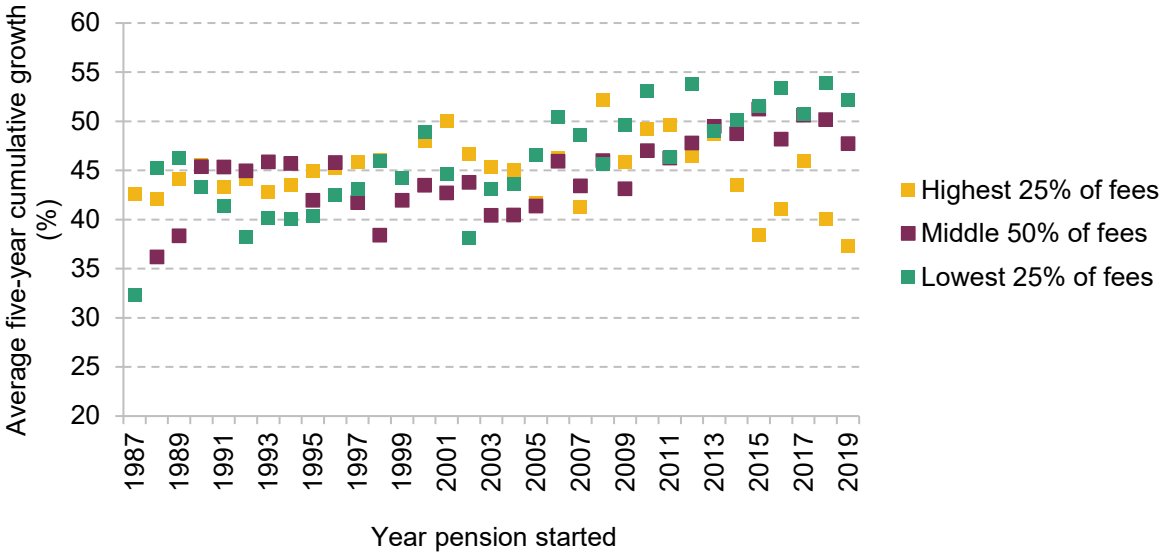


Note: Fees expressed as a percentage of funds. Mean is calculated excluding 1% of pensions with the highest fees for each year of pension starts.

Source: Profile Pensions data, 2018 to 2020.

[13] Moving to a fund charging 0.8% a year rather than 1.1% a year at age 50 could result in someone's fund being around 5.3% higher at age 67 (for someone with a pot of £21,000 at age 50, that would equate to around an additional £2,400 at retirement in today's prices) assuming a nominal investment return of 7.7% in either case.

Figure 3.3. Average investment performance by year pension started and level of fees



Note: Plans are grouped according to how their fees compare with the fees of other pension plans in the data that were started in the same year.

Source: Profile Pensions data, 2018 to 2020.

Of course, it is not always the case that higher charges imply poorer value for money. For example, they could be associated with above-average investment performance, or other benefits such as clearer communication strategies and the quality of customer service. However, it is far from clear why these factors should be truer of pensions taken out longer ago than of those taken out more recently. Indeed, for those funds in the Profile Pensions data where we also have data on investment performance over the past five years, there is little evidence higher fees have generally been associated with better returns, at least over this period. Figure 3.3 shows the average fund performance over the five years up to June 2021 across pension plans grouped according to the year the plan was started, and whether the plan had fees that were in the top 25%, middle 50% or bottom 25% of fees for plans started that year. There is relatively little difference in average performance between those schemes started in a given year with higher fees and those with lower fees. Among plans opened in the 1980s and 1990s, on average those with the highest fees performed very slightly better over the last five years than those with the lowest fees (a mean five-year performance of around 44% cumulative growth compared with 42% cumulative growth), but there is even less evidence of any systematic relationship between fees and investment performance for schemes opened more recently.

Investment performance and equity allocation

Investment performance is key to how much each pound of people's pension savings will be worth by the time they reach retirement. Ensuring that DC pensions are invested in funds with good returns is therefore vital. One might be concerned that sums held in older pensions might

be invested in funds with less good investment performance, as people pay less attention to deferred pensions, and as there is no employer nudge towards funds with better returns or away from poorly rated fund managers. Such a relationship does appear to be suggested by Figure 3.3; however, since the proportion of pensions with matched performance data changes over time, this should not be inferred from these data alone.

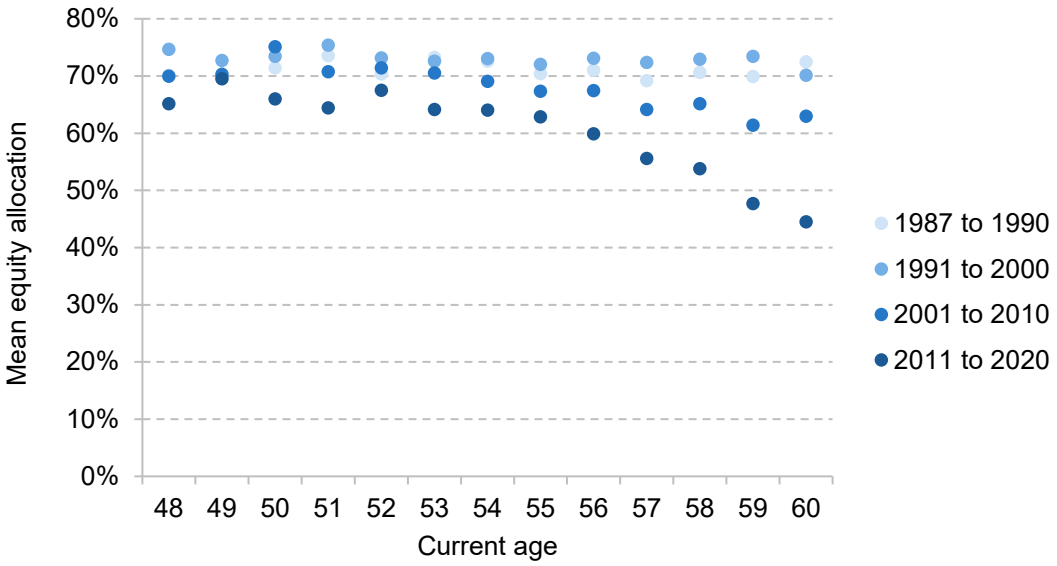
Fund performance depends on investment strategies – in particular, the asset mix of the pension fund(s) someone holds, which should reflect how much risk they are prepared to take in the hope of higher returns. There are good reasons to expect the desired investment strategy to vary over working life. Reflecting this, the default funds of pension provider NEST, for example, have an initial period with a lower risk appetite, then a phase with much higher risk, and then the riskiness of the portfolio is gradually reduced in the run-up to retirement.[14] Another concern with older deferred DC funds is therefore that their portfolio allocation may no longer match an individual's current preferred investment strategy.

For 39% of pension funds in the Profile Pensions data, we have a measure of the weighted equity allocation – the share of the value of the pension that is invested in equities (shares), a relatively risky class of assets. Figure 3.4 shows how the equity allocation in pension plans varies according to the age of the holder and the year the plan was started. For plans started in the last decade, the share of funds invested in equities does decline with age – for example, the mean equity allocation falls from around 66% at age 50 to around 45% at age 60. However, for plans started longer ago, there is much less evidence of this relationship. Pensions stated in the 1980s and 1990s that are currently held by those aged 60 still have an average equity allocation above 70%. This could suggest that older plans in particular are at risk of no longer reflecting people's preferred equity allocations, and for older people may be more invested in equities than they might like. Indeed it is hard to think of good reasons why the decline in share of pension funds invested in equities between ages 50 and 60 should be shallower among pensions taken out longer ago than those taken out more recently.

This view is reinforced by Profile Pensions's own assessments of people's investment preferences. Profile Pensions assesses people's willingness and ability to take risk through a series of online questions. It then recommends an investment approach, ranging from 'conservative' (the least risky), through 'cautious', 'balanced', 'growth' to 'adventurous' (the most risky). Figure 3.5 describes the average equity allocation of current pension plans for those recommended by Profile Pensions to take different investment approaches. Across all plans (the orange points), those recommended to take a 'conservative' investment approach currently have an average equity allocation across their pension plans of 63%, while those recommended to

[14] https://www.nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/nest-retirement-date-funds.html.

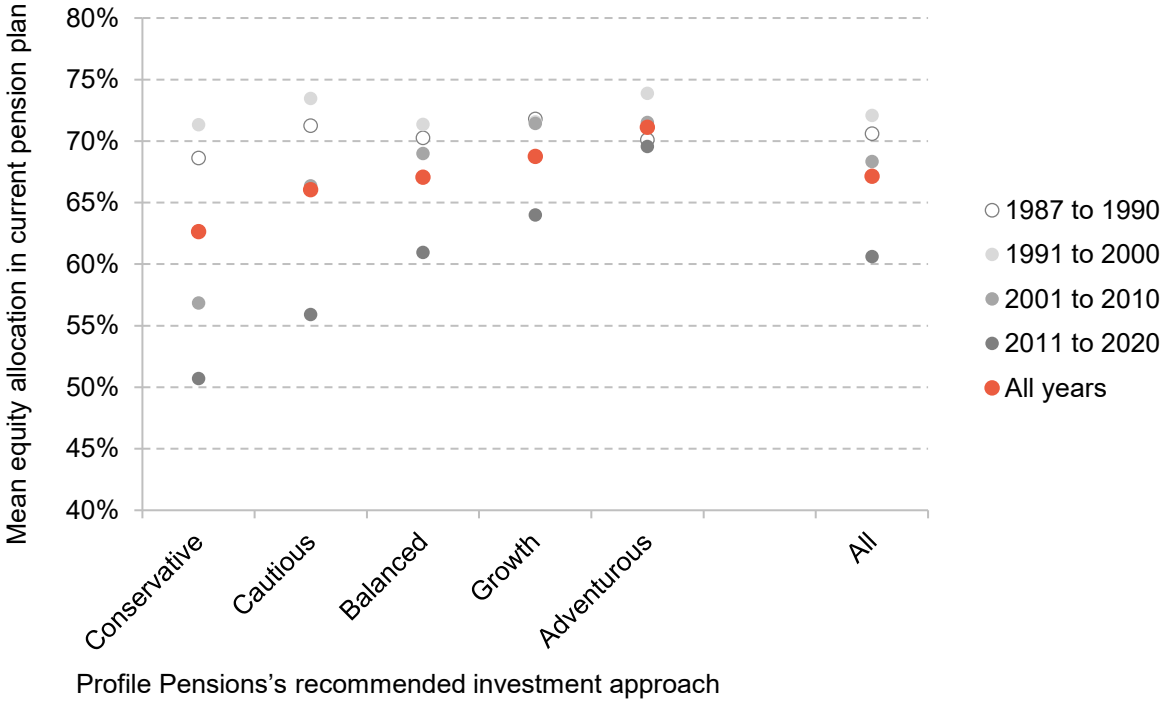
Figure 3.4. Distribution of equity allocation by age



Note: Includes 8,786 pension plans, held by 6,376 individuals aged 48–60, where we observe the plan's weighted equity allocation and the pension was started between 1987 and 2020.

Source: Profile Pensions data, 2018 to 2020.

Figure 3.5. Distribution of current weighted equity allocation, by investment approach recommended by Profile Pensions



Note: Includes 5,310 pension plans started between 1987 and 2020, where we observe the plan's weighted equity allocation, as well as the investment approach Profile Pensions recommended to the individual. These were held by 3,676 different individuals.

Source: Profile Pensions data, 2018 to 2020.

take an ‘adventurous’ approach have an average equity allocation of 71%. This means that those being recommended to have riskier investment strategies are, on average, currently in plans with a higher equity allocation. However, when pension plans are separated according to the date they were started, it becomes apparent that for older plans, there is little relationship between their current equity allocation and the approach Profile Pensions would recommend – for plans opened in the 1980s and 1990s, the average equity allocation is around 70% regardless. Profile Pensions’s assessment of preferences over risk correlates with the investment strategies of pensions taken out more recently but not with those taken out longer ago. This again suggests that the older a pension is, the less likely it is to continue to reflect the holder’s preferred investment strategy – particularly for older people, who might want to start moving out of equities in the run-up to retirement.

4. Conclusions

Many people already have DC pensions that they no longer contribute to, and the number of people in this position will increase rapidly in future as a result of automatic enrolment into workplace pensions leading to more employees having a new pension each time they change employer. There has been lots of concern about the likely proliferation of very small pension funds, which are relatively expensive to administer. But there is an important wider issue as well, that old pensions that people no longer contribute to might start to offer declining value for money if people do not engage with them.

One aspect of this that is already evident is differences in pension charges. Data from Profile Pensions clearly highlight that many people, particularly those who started their pensions longer ago, have funds in schemes with charges that are high compared with current market rates. Of course, higher charges may be justified if they deliver high returns or other aspects of better customer service, but there is little evidence in the Profile Pensions data that pensions with higher charges have delivered better returns over the past five years. The main issue is likely that older pensions are often not affected by the same regulations or competitive pressures as current workplace pensions in particular. This concern has been the focus of industry, government and regulator attention in the past, and the FCA continues to review the effectiveness of the Independent Governance Committees (IGCs) that were set up to scrutinise the value for money of workplace pensions (Financial Conduct Authority, 2020). However, with continued falling pension charges across the industry, it may be time for renewed attention on this issue, and the appropriateness of the de facto yardstick of fees no higher than 1% representing value for money (Financial Conduct Authority, 2020; Pensions Policy Institute, 2021).

There are also reasons to be concerned that deferred pensions, which people are less engaged with, might be schemes with lower investment performance, or may no longer be invested in an appropriate way given changes in their circumstances. In particular, data from Profile Pensions reveal that, among older savers, pensions started more recently on average have a lower equity allocation than is the case for pensions started longer ago, suggesting that for older people the equity allocation in older pensions may no longer best suit their circumstances. Pensions started longer ago also appear less well aligned with individuals' current willingness and ability to bear risk (as assessed by Profile Pensions) than pensions started more recently, again suggesting that older pensions may no longer be invested in the most appropriate way. This potential adverse consequence of low engagement with deferred DC pensions has received very little attention to date.

Many of these issues could be solved with greater individual engagement with pensions – for example, if people understood the charges they were paying on their pensions and the performance of their funds, and shopped around for better deals – potentially involving consolidating their pensions. This is clearly hard to achieve. Technological advances might make it easier. The Pensions Dashboard programme is an important step, helping people to keep abreast of which pensions they have and how much they have in different funds. But it will be important to go beyond that information – for example, providing people with regular and easily comparable information on charges and investment performance – if individual engagement and market competition are really to ensure that people get the best retirement outcomes they can. Even then, the government and the Financial Conduct Authority may need to continue to look at wider initiatives and regulation to help encourage value for money, particularly for deferred DC pensions.

Appendix. Profile Pensions data

Profile Pensions makes pensions and investment advice available to the mass market and helps individuals to track down and consolidate their old defined contribution (DC)pensions. Profile Pensions kindly provided us with anonymised data on 18,317 potential customers who interacted with its online service between April 2018 and December 2020.

Most (86%) of those approaching Profile Pensions are aged 48–60, which is unsurprising as younger individuals will have less scope to have substantial old DC pensions. Within this particular age group, those contacting Profile Pensions are unlikely to be representative. One might be concerned that those contacting Profile Pensions are more engaged with their pensions than many (since they have proactively taken this step to consider their pension saving), or that they are more concerned than most that their current pensions do not offer value for money (leading them to seek pensions advice). It is difficult to do more than speculate about this representativeness.

For some observed characteristics, we can compare the Profile Pensions sample with the more representative sample in the ONS's Wealth and Assets Survey (see Table A.1). Comparing those aged 50–59, those in the Profile Pensions data are disproportionately likely to be male, and on average have a slightly higher number of DC funds each, than respondents to the Wealth and Assets Survey (though, of course, having slightly more past pensions in the Profile Pensions data could reflect some older pensions not being recalled by those responding to the Wealth and Assets Survey). Individuals living in Scotland and the West Midlands appear to be over-represented in the Profile Pensions sample, and those in the South East and London to be under-represented. The distribution of pot sizes overall, however, is encouragingly similar.

Table A.1. Characteristics of those in the Profile Pensions data and the Wealth and Assets Survey

	Profile Pensions data	Wealth and Assets Survey
Male	75%	59%
Only one DC pension	66%	73%
Median pension value	£16,487	£14,999
Mean pension value	£27,978	£44,978

Note: Comparison restricted to individuals aged 50–59. Wealth and Assets Survey data restricted to only individuals who report having at least one deferred DC pension. Pension values are per pension fund, rather than per individual.

The Profile Pensions data contain information on the total fees and charges of virtually all (98.5%) of the pensions held by those approaching its services. Other information is somewhat less complete. Matched historical fund performance data are available for 55% of pension funds. Weighted equity allocation is available for 39% of pension schemes; and for 43% of individuals in our data, we have a measure of the weighted equity allocation for at least one of their pension schemes. We have information on Profile Pensions's recommended portfolio, and can infer which attitude to risk this relates to, for 36% of individuals.

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