VAN LANSCHOT KEMPEN

Press release

DC members could potentially increase their retirement pot by an estimated 40% if employers capitalise on DB scheme surpluses

Using DB surpluses to enhance DC member benefits could result in an annual boost of up to £1,000 to UK employees' DC pension contributions.

London, 13 November, 2024

Highlights:

- In aggregate, UK DB pension schemes have, conservatively, around £300 billion in surpluses today on an insurance buyout basis[1]
- Of that £300 billion, it is our view that around £200 billion could be put towards investing productively in a portfolio of long term, diversified, public and private UK focused assets
- Based on modelling by Van Lanschot Kempen, investing surpluses in this way over the next 20 years, could provide more than £500 billion of additional retirement savings to the current generation of the UK's workforce, most of whom sit in DC schemes, in the form of uplifted contributions
- There are roughly 19 million employees in the UK today aged between 25 and 50 years old (the demographic whose pensions are mostly in DC schemes) on an average salary of £35,000 a year[2]
- Using DB surpluses to enhance DC member benefits therefore could result in an annual and inflation protected boost of up to £1,000 to each DC employee's pension contribution (or an increase of 3%)
- This translates into a 40% larger retirement pot for a 25-year-old over the course of their working life

DC pension scheme members could increase their retirement pot by up to 40% if employers aim to productively invest their DB scheme surpluses, according to new research from Van Lanschot Kempen Investment Management.

Based on proprietary modelling, productively investing DB surpluses to enhance DC member benefits could result in an annual and inflation protected boost of up to £1,000 to UK employees' pension contributions.

Andre Keijsers, Head of UK at Van Lanschot Kempen said: "There are over 5,000 DB schemes in the UK. Many of these companies also have DC schemes which creates a dual responsibility to protect the financial interests of their DB scheme members, as well as look after their DC scheme employees who often have an insufficient savings rate. In the latter case, the sponsor might wish to improve their retirement outcomes through increased contributions, but are not able to.

"This can seem quite the conundrum for sponsors, but the reality is that the overall UK DB pension scheme system is in rude health. Rises in gilt yields mean many schemes have more than enough assets to match their liabilities, with ample surpluses which can be reinvested in a number of ways. This includes using DB scheme surpluses today, and in the future, to enhance benefits for current employees who are mostly in DC pension schemes, without affecting the security of their DB scheme members. This would provide a much-needed boost to DC savers who are often projected to have far poorer retirements than the generations that preceded them."

Nikesh Patel, Head of Client Solutions UK at Van Lanschot Kempen said: "Not so long-ago sponsors and trustee boards felt they had limited options and were aiming to transfer their entire pension scheme assets and liabilities to an insurer.

Now, particularly for well-funded schemes, there are more attractive options which include the ability to run on for longer, thereby putting any future surplus to productive use in a risk-controlled way*, and in a manner that works to create additional value for sponsors, DB and DC scheme members alike."

Ends

Notes to editors

[1] Surge in demand for UK pension insurance buy-outs set to bolster second half transactions

[2] Employee earnings in the UK - Office for National Statistics

About Van Lanschot Kempen Investment Management
Van Lanschot Kempen Investment Management is a specialist investment manager with a focused approach and a clear investment philosophy. We believe in long-term stewardship for our clients and other stakeholders. Van Lanschot Kempen Investment Management provides sustainable returns, fiduciary management services, manager selection, portfolio construction and monitoring, alongside a number of actively-managed investment strategies. As of 30 June 2024, Van Lanschot Kempen Investment Management had a total of €112.9 billion in client assets.

About Van Lanschot Kempen
Van Lanschot Kempen is an independent, specialist wealth manager active in private banking, investment management and investment banking, with the aim of preserving and creating wealth, in a sustainable way, for both its clients and the society of which it is part. Through our long-term focus, we create positive financial and nonfinancial value. Listed at Euronext Amsterdam, Van Lanschot Kempen is the Netherlands' oldest independent financial services company, with a history dating back to 1737.

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The usefulness of the models in this analysis or others should therefore be considered in the context of the limitations of any model, particularly with respect to key aspects including but not limited to: i) the amount of weight that should be given to recent levels of market volatility compared to long term historic averages, ii) should future volatility levels be determined by the markets, through observation of derivative prices, iii) past performance should not be a guide, and iv) should the expectation of default risk and recovery rates for debt instruments be based on past data.

Output from any model will vary based on the approach taken around these key assumptions and others. Any modelling assumptions may prove to be incorrect and actual results will differ from the results of the model. The results between different models will also differ, potentially substantially, from that shown in our analysis. As such, recommendations, decisions and advice based on modelling by their nature contain associated (model) risks. We do not make any claims to accuracy and we acknowledge that there are a wide range of alternative underlying assumptions that may be just as valid as those we use. Any modelling assumptions (and the resulting analyses and forecasts) may require modification as additional information becomes available and as economic and market developments warrant. Nothing contained herein may be relied upon as a guarantee, promise, assurance or a representation as to the future.

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