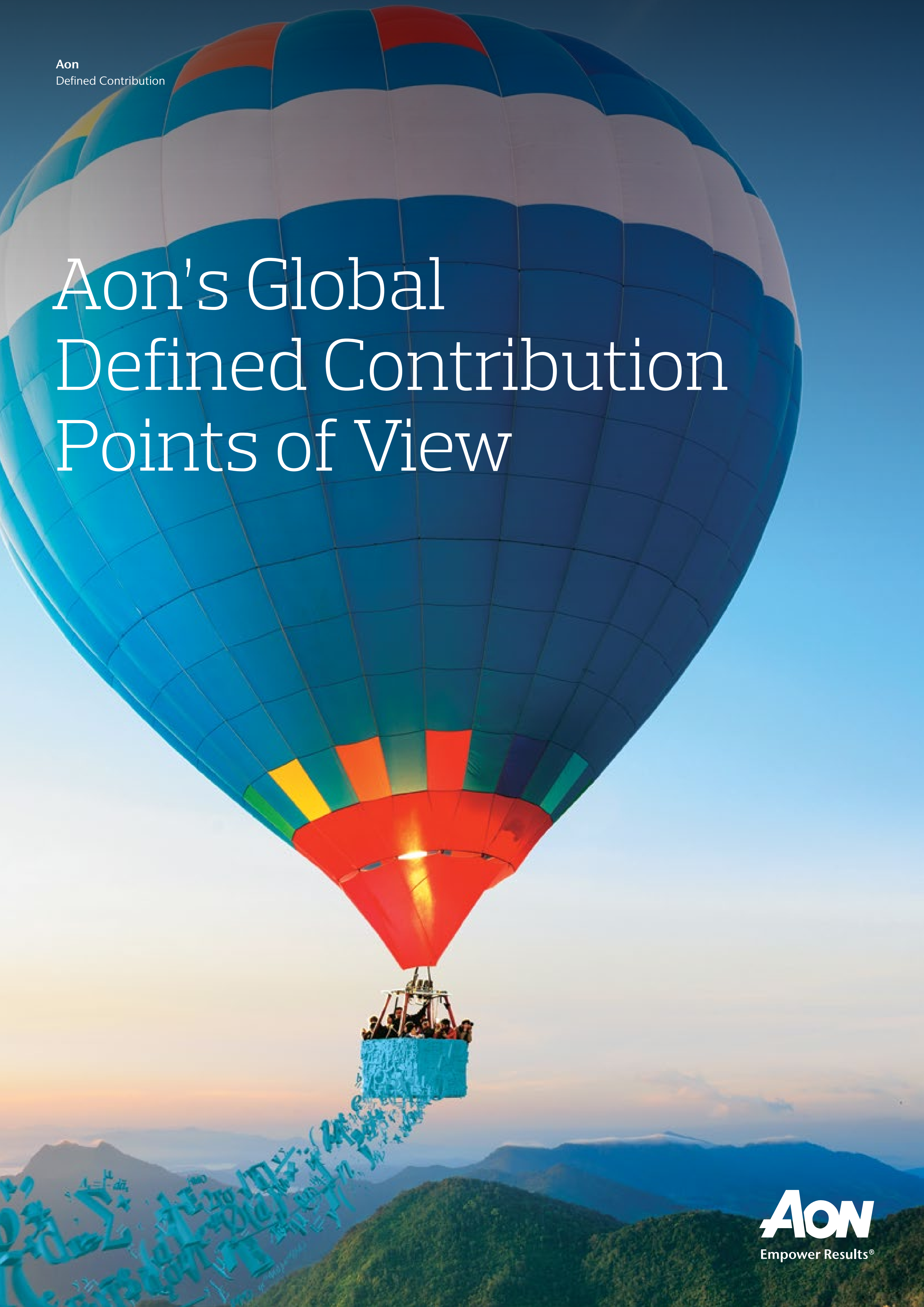
Aon
Defined Contribution

Aon's Global Defined Contribution Points of View



Empower Results®

Aon's Global Defined Contribution Points of View

Around the globe Aon is helping our clients tackle the challenges that come with the growing reliance on defined contribution savings. The regulatory environment, the pace of change and the model of DC pension provision may vary country to country but the underlying challenges are the same; the shift of risk from the State and/or employer to the individual employees, low savings rates, a lack of employee engagement or understanding and the impact of increasing longevity on retirement planning.

> Aon's global DC team has a clear view of the key building blocks and design principles that will have a positive impact on individual outcomes.
>
> **We are pleased to share these with you.**

Smart design

Utilising our understanding of how individuals make decisions to good effect

> Understanding how employees make decisions should influence plan design and implementation models.

1. Adopt plan design that promotes personal engagement

Contributions should be set with a view to providing long-term outcomes that meet individuals' current financial and retirement needs.

- Structures should make it easy for employees to maximise their savings and understand how saving early will improve their outcome at retirement
- Structures that give individuals the added incentive of more money from their employer if they save more themselves, are highly effective at encouraging savings
- Structures should avoid disadvantaging different employee cohorts

Understanding a plan's demographics and monitoring individuals' potential outcomes is key to ensuring success.

As well as the absolute level of contributions being key – making the most of every dollar or pound or euro contributed by both the employer and employee to maximise efficiency of savings is vital and is achieved by:

- Ensuring that charges are no higher than necessary to deliver good value and good outcomes for individuals
- Maximising any tax relief and / or government incentives available

2. Leverage automation and inertia

Inertia should be used to drive positive outcomes – through the use of automated design features, both pre- and post-retirement, such as:

- Auto-enrolment and re-enrolment into the plan
- Auto-escalation of contributions (also known as Save More Tomorrow)
- Default investment strategies (pre- and post-retirement) and
- Default decumulation pathways

3. Drive efficient investment design

Investment strategies need to be tailored to the unique, and evolving, demographic profile of each DC plan.

They should address the risks and objectives at each stage of the savings journey through the use of lifestyle or target date fund structures.

In the transition from accumulation to decumulation, asset portfolios should gradually change to align with the target benefit option selected by each individual.

Strategies should access the full global investment opportunity set to enhance portfolio diversification and efficiency at each stage of the savings journey.

Passive exposures and factor-based approaches offer simple, cost-efficient sources of returns across a diverse range of global regions, indices and asset classes. Selective use of active exposures can enhance outcomes.

Transparency of costs and charges and a focus on the value these represent is key to generating good outcomes and improving individual confidence, understanding and loyalty.

Smart engagement

Recognising the reality of people's circumstances and finances

> Smart retirement plans should recognise that DC pensions are part of an individual's broader financial circumstances and make it easy for them to make good financial decisions.

4. Promote flexibility and choice

One size does not fit all, therefore plans should offer choice and flexibility to empower individuals through:

- A concise outcomes focussed investment menu
- Flexible contribution options
- A full range of retirement solutions

Choices should be presented in a way that employees can easily relate to and understand. They should be supported by a structured decision-making framework which should not only help employees make smart financial decisions about their savings but should also promote financial literacy. This will ensure that they are able to make smarter day-to-day financial decisions and therefore are more likely to be able to afford to make personal contributions.

5. Recognise diverse employee needs and perspectives

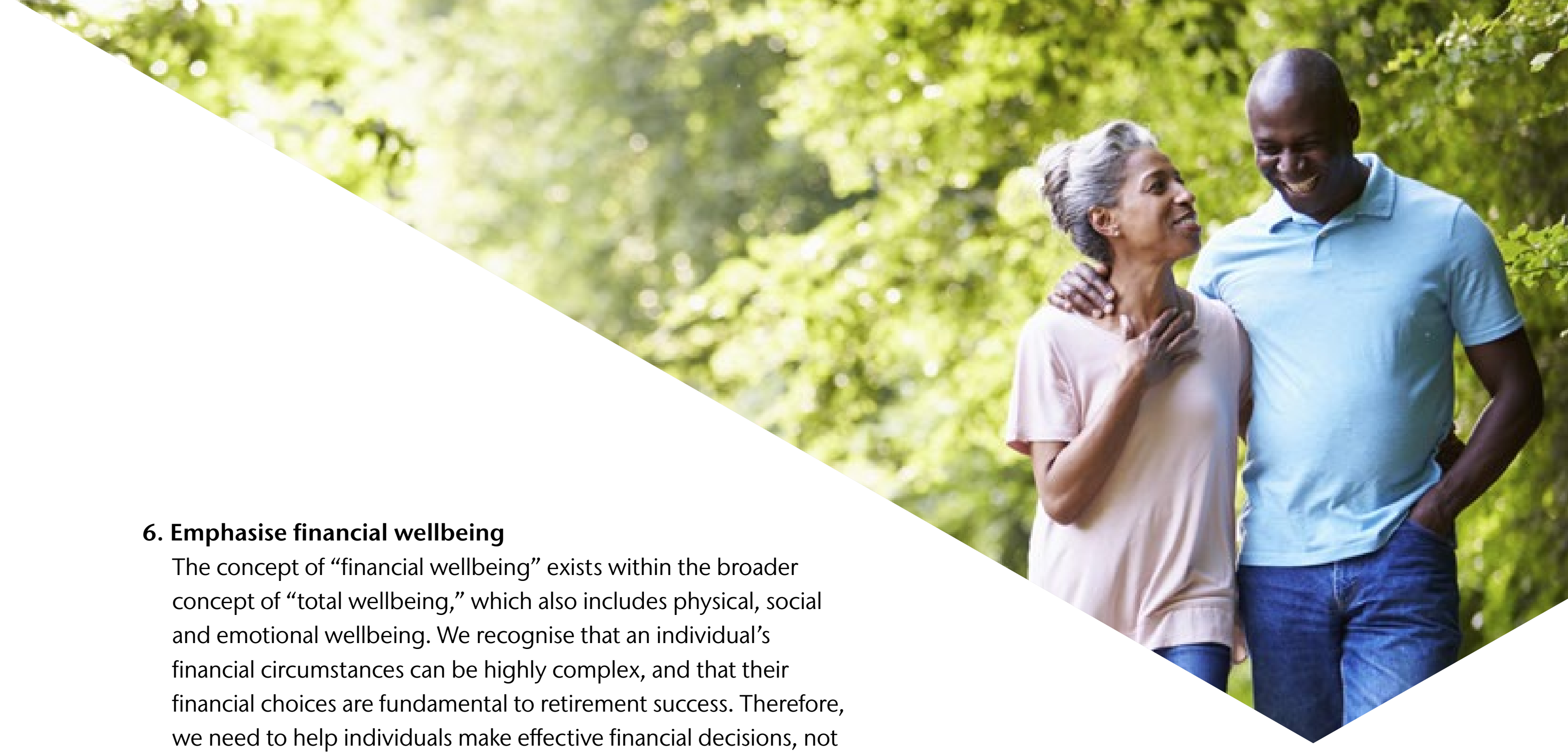
Everyone engages in different ways at different times. They will respond best to an experience and message that resonates with them and their own circumstances. Consequently:

- Communications should be personal, short, simple, segmented, targeted and outcomes oriented
- Understanding your population and segmenting them helps focus on individual experience, behavior and motivations

Recognising many employees are unlikely to pay for financial advice, ensure financial guidance and coaching is available through a wide variety of media to help them understand the key decisions they are required to make in planning for their retirement and the importance of those decisions.

Plans should utilise technology to:

- Enable individuals to set their own target outcome and track progress
- Use 'nudges' to prompt decisions at key points
- Give frequent reminders to review their retirement position
- Support self-service as far as possible
- Engage in ways that are native to individuals' lifestyles and practices



6. Emphasise financial wellbeing

The concept of "financial wellbeing" exists within the broader concept of "total wellbeing," which also includes physical, social and emotional wellbeing. We recognise that an individual's financial circumstances can be highly complex, and that their financial choices are fundamental to retirement success. Therefore, we need to help individuals make effective financial decisions, not just about retirement, but in the context of their broader financial circumstances. As a result, we believe that DC plans should be offered as part of a holistic, employer-supported financial wellbeing program.

At Aon we define financial wellbeing as "the ability to confidently manage financial life today, while preparing for the future and anything unexpected along the way". A smart financial wellbeing program works alongside the employer-provided retirement and other benefits through a suitable range of tools, services, communications, and interventions at each stage of an employee's financial life, both before and through their retirement years.

We summarise the elements of a strong financial wellbeing program into four categories, which are "Prepare, Plan, Protect, and Preserve." Specific topics within the "Four Ps" include, but are not limited to, debt management, emergency funds, budgeting, saving and investing across multiple goals, insurance and other financial protection, transitioning to retirement, and lifetime income solutions.

Bespoke financial wellbeing solutions and tools can generally be categorised as follows:

- **Education** — Basic financial information, workshops (debt management, saving and investing, retirement planning), and financial modeling tools
- **Advice** — Employee assistance programs (financial focus), financial assessment tools, and access to financial guidance/advice or coaching
- **Solutions** — Core financial benefits plus flexible or voluntary benefit options, including insured solutions and flexible DC contributions and/or investments

Smart financial wellbeing programs help employees learn, assess and take action through a variety of media including online, on the phone, in person, or in workshops.

7. Focus on guided decumulation pathways

Where flexible retirement options are available, more and more individuals are looking to remain invested as they transition into retirement; drawing down an income as needed. Many individuals will not pay for or cannot access financial advice and are therefore likely to be ill-equipped to navigate the post-retirement income market. Therefore DC savers need to be connected directly with retirement income products by offering a guided decumulation pathway that delivers:

- Sustainable income
- Flexibility
- Longevity protection
- Robust decision support framework
- The same value for money (including institutional pricing) and quality that employees experience pre-retirement

Individuals should also have access to an appropriate range of alternative options – including annuity purchase, where available.

Smart governance

Make the best use of plan sponsor time and budget

8. Ensure effective governance

Effective governance is an important and necessary ingredient for DC success. Fiduciaries should determine where to spend their governance budget and resources in order to maximise the outcome.

Plans should either:

- **'Get busy'** – dedicating time to getting involved in everything from decision-making to day-to-day operations, utilising Aon's consulting expertise, market reach and breadth of capability or
- **'Get scale'** – utilising Aon's customised DC solutions or
- **'Get out'** – utilising Aon's fully delegated DC solutions (where available)

Find out more

Talk to your local DC team to find out how Aon can bring these principles to life for your plan.

Visit **www.aon.com** to access Aon's DC thought-leadership and global research, along with further information about our DC services.

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

For further information on our capabilities and to learn how we empower results for clients, please visit: http://aon.mediaroom.com.

Registered Office:
The Aon Centre
The Leadenhall Building
122 Leadenhall Street
London EC3V 4AN

www.aon.com

Empower Results®