What do DC scheme members really want?

Sophia Singleton of Aon Hewitt shares the results from its new DC member survey, and examines the implications for scheme sponsors and trustees

In September and October 2014, Aon Hewitt and Cass Business School, in collaboration with YouGov, carried out a nationwide survey of DC scheme members. The survey aimed to deliver a better understanding of respondents’ retirement hopes and, in particular, the likely impact of the government’s new pension regulations on these aspirations. It covers over 2,000 members of occupational DC schemes.

The findings make for interesting reading – and have led us to identify key actions that employers should take if they are to meet DC members’ expectations about the future of their pensions.

DC members have realistic aspirations for pension size...

There is a new-found realism among the employees surveyed – especially younger employees – in terms of the level of retirement income they can expect. The idea of a ‘two thirds’ salary pension is gone, replaced with an expectation from most respondents that they will receive an income between one quarter and one half of pay in retirement.

...Schemes need to educate them on the implications of this

While realistic expectations about retirement income are welcome, there is a role for employers and trustees in helping their members to understand the implications of this. While a pension pot in the tens of thousands of pounds may sound generous to a member, scheme sponsors and trustees know that it will not give a lavish retirement income.

Helping to educate members about realistic levels of income and enabling them to make informed decisions regarding their savings levels will be a key challenge for schemes in future. Putting in place tools to engage members with saving – possibly in tandem with benefit design tools such as auto-escalation – can have a significant positive effect here.

Retirement age is expected to become more fluid...

The survey shows a similar realism among members on the subject of retirement age, with the majority expecting to retire at state pension age or later. Many expect to take advantage of new flexible retirement regulations to enable them to carry on working should they find their pension income inadequate at their planned retirement age.

...Employers need to educate and support members on the choices they might make

Schemes, and the pensions market as a whole, will want to look at alternative approaches to dealing with this decumulation issue, potentially drawing inspiration from solutions already tested out in the US and Australia. Adequate member guidance and support will also be key here, to ensure that members understand the potential implications of relying on non-pensions income to fund their retirement.

One size will definitely not fit all in future, with employers and trustees needing to engage with their members as never before.

Retirement income no longer only means pensions and annuities...

Respondents to the survey showed a clear desire for steady, secure retirement income that they will not outlive. In all but name, this describes an annuity: perhaps the ‘death of annuities’ foretold by commentators following the new pensions freedom announcement was premature. There are recognised downsides to conventional annuities, however, with price, compulsion, lack of flexibility and no terminal value all seen as negatives in the current system.

...Employers will potentially face issues around pension, benefits and wider rewards

Partial or flexible retirement has the potential to pose structural problems for employers, not just in pension terms, but in more fundamental matters such as their reward and incentives systems.

As above, businesses that want to ensure their employees have the option of retiring comfortably at state pension age may want to intervene with education or benefit design programmes that maximise pension savings.

To obtain your free copy of the survey, visit aonhewitt.co.uk/dcpensions, call 0800 279 5588 or email enquiries@aonhewitt.com.

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