Aon's UK DC Pension Tracker fell over the quarter (July to September) suggesting that the expected living standard in retirement provided by DC savings were lower than at the end of the previous quarter. However, this masks a more complex picture for the different age categories.

This quarter’s highlights
The PLSA released updated PLSA/Loughborough University Retirement Living Standards in October ('the Living Standards'). These included more money for eating out, a higher personal grooming budget and the inclusion of a Netflix subscription among other changes that included updated prices. Allowing for these updates means members need to have a higher retirement income to be considered ‘comfortable’.

This re-assessment of the living standards has made each standard harder to achieve. If we compare the old standards with the new, the ‘Comfortable’ living standard amount has increased by 1.8%, the ‘Moderate’ has increased by 3.0% and the ‘Minimum’ has increased by 6.8%. The larger increase in the minimum standard (through inflation and through what standard of living is considered to be minimum) will particularly affect the lower paid.

Reduction in expected returns on growth reduces expected benefits
A reduction in the return assumptions for ‘growth’ assets (such as equities) since the previous quarter impacted all members - but the younger members in particular. This is because, the younger members have the longest time until retirement and their investments were expected to return less each year for the remaining 35+ years to their retirement.

The DC Tracker fell steeply from 62.8 to 58.4 over the quarter and is now lower than it was at the start of the year. This suggests members are, on average, expected to have a lower standard of living in retirement than they were expected to have at the end of the previous quarter.
This was offset slightly by the increase in expected returns on ‘defensive’ assets, such as corporate and government bonds, (which benefits members near retirement more) and continued strong investment returns over the quarter. Older members will have started to de-risk in the run up to retirement and so have less growth assets compared to the younger members and more defensive assets which have not seen the same reduction in expected return.

Positive returns over the quarter

Separately, actual investment returns over the quarter were positive which (in isolation) increased the expected retirement incomes for all members. This was more beneficial for the members with the larger DC pots already built up (the 40- and 50-year-old members).

While the younger members also benefited from this, their existing fund value is relatively small and the majority of their benefits are still to be built up in the future so it had less of an impact on the overall retirement benefits for them. For the younger members (30- and 40-year-old) this was more than offset by the lower expected future investment returns.

Mixed position for members

The decrease in the Aon UK DC Pension Tracker over the quarter masks differences between the different sample members:

- Older members’ (the 50-year-old and 60-year-old) expected retirement incomes were broadly flat over the quarter. Their DC tracker scores fell mainly as a result of the update to the Living Standards meaning a higher income is required to achieve the same standard of living.
- By comparison, the youngest member (30-year-old) expected to see a decrease in their retirement income (in real terms) of around £1,000 p.a. This is primarily due to the reduction in future expected returns.
- The 40-year-old expected to see a smaller, but not insubstantial reduction of around £500 p.a.
- Overall, the oldest member is expected to be the worst off in retirement, with a retirement income between the minimum and moderate standards of living (noting they may have DB benefits elsewhere which are not included in this projection).
- The younger three members are all expected to achieve between moderate and comfortable standard of living in retirement.
Disclaimer
The Aon UK DC Pension Tracker is intended to provide a high-level commentary on changes to the DC savings market. Nothing in this paper should be considered advice and it should not be used as the basis for making any retirement or investment decisions.

Any member outcomes quoted are illustrations of a potential future benefit. Actual benefits received by the sample members, or any other DC saver, will depend on the actual contributions, investment returns and market conditions over the period to retirement and beyond. They may be higher or lower than the figures quoted.

The calculations of projected member outcomes set out in the Aon UK DC Pension Tracker, are all the work and methodology of Aon Solutions UK Limited. The PLSA/Loughborough University Retirement Living Standards have been used as input parameters to these calculations and methods.

The PLSA/Loughborough University Retirement Living Standards
The PLSA/Loughborough University Retirement Living Standards are the property of and are provided by the Pensions and Lifetime Savings Association and Loughborough University.

Further details about the standards can be found on their website:
https://www.retirementlivingstandards.org.uk/

Media contacts

Colin Mayes
Aon
+44 (0) 7801 748138
colin.mayes@aon.com

James Hartwell
Kekst CNC
+44 (0) 7870 487532
aon@kekstcnc.com