

Decision or default?

✓ Lynda Whitney discusses how and when those managing DC schemes should help members make their own decisions

There are only five decisions a member needs to make about their defined contribution (DC) pension. In this article, we explore whether you should educate the member to make the decision or default them into a scheme solution. By recognising your limited resources, this approach can help you decide where to focus.

will arguably have the biggest impact, so it is worth investing the time and resources to get this right. Take steps to understand what the typical retirement outcome looks like – is this enough or are changes needed? Educate the member about the benefits of matching (if available), the power of compound returns over time and make it personal by showing them what difference an

RETIRE

When a member wants to retire is clearly a personal decision. However, you can help by educating them about what they will get from the state pension and when, as well as from your scheme. The best schemes allow members to picture their future self and to consider what outgoings they might have in retirement. This allows a considered decision about when they might be able to afford to retire comfortably.

SPEND

Whether a member is better off with cash, an annuity or income drawdown will depend on personal circumstances. The scheme needs to educate them about the options available, allowing them to explore areas including tax, inflation, their risk tolerance and whether they need benefits for a dependant. The best tools allow side-by-side comparison of annuities (including reflecting their health conditions) with income drawdown. However, once the member has decided on the shape of the retirement income they want, they often still need help. Schemes can assist by negotiating bulk deals with an independent financial adviser or an income drawdown provider.

So focus your communications strategy – and the precious interest of your members – on the decisions where their input will have the biggest impact. For example what they PAY in, when they want to RETIRE and how they want to SPEND their retirement savings.

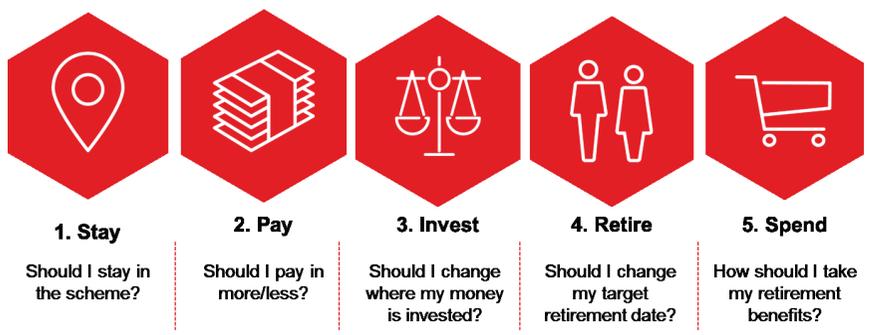
For a copy of Aon's latest DC Scheme Survey visit aon.com/dcpensionsuk



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The five member decisions

STAY

Employer matching of contributions, along with tax relief, mean it is usually in an employee's best interest to stay in the scheme, unless they are a low earner and struggle to afford contributions, or a high earner if there are Annual Allowance or Lifetime Allowance issues. Your responsibility as an employer is to pick a scheme that offers the best value for your employees; not necessarily the cheapest – but the right balance between cost effectiveness and good service. We can help you benchmark your scheme against more than 300 others with data from Aon's DC Scheme Survey 2017.

PAY

The decision on how much to pay in

extra contribution may make. Keep the communications upbeat, as research shows that people take more action in response to aspiration than threats of bad outcomes.

If the employer is really committed to pensions, default members in at the top contribution rate but allow an option to opt-down.

INVEST

Most members do not want to become investment experts. Typically they will follow the scheme default, so spend your time and resources on getting this default right. Keep the other investment choices simple. Where you educate, pick your moments wisely. A member entering a lifestyling phase is more likely to benefit from making a decision about their target outcome.