Aon Defined Contribution Scheme Survey 2017

Navigating the future

Setting the direction

Aon

Empower Results®

Setting the direction

Take the first step

What time do you have available this week to support your DC pension scheme?

With the industry changing so fast, defined contribution (DC) pension plans need constant care and attention.

By keeping an eye on where pension plans are now, trustees, employers and scheme managers can better ensure they are fit for purpose, and ready for the future.

Key discoveries

Many trustees and scheme managers need more time and resources if they are going to keep their plans ahead of legislative changes, technological changes and new employee expectations. We have found HR and finance managers have the least time, with about a quarter considering a move to a master trust solution to allow professionals to take the helm.

1 in 5 respondents are held back from managing pension issues, either by their regular job demands, a lack of resources or budget, or the increasing complexity of schemes.

8 in 9 schemes have a business plan in place to help prioritise better outcomes and value for their members.

30% have not reviewed their provider in over three years.

Unexpected findings

Only 1 in 3 business plans include 'Increased employee take-up of contribution options' as a goal.

Fewer schemes have specific communication goals than two years ago.

1 in 5 respondents commit less than one day per quarter to DC pension issues.

Obstacles

'Regulation is becoming **overbearing**'

'**Continuous** legislative changes'

'**Costs** of running the scheme'

Moving forward

Ensure you have a practical plan in place focussed in the right areas to **meet your objectives.**

Review your platform provider at least **once every three years.**

If you cannot dedicate enough time, **find someone else who can.**

Setting the direction

In 2012, the Government introduced auto-enrolment to encourage people to save towards retirement. Since then we have seen DC members being given more choice over how they take their benefits, and more regulation. The Pensions Regulator's focus is on better member outcomes and there is increasing focus on offering value for members. There is also more choice in the governance structures available. These are all important factors to take into account when setting the direction for your DC scheme.

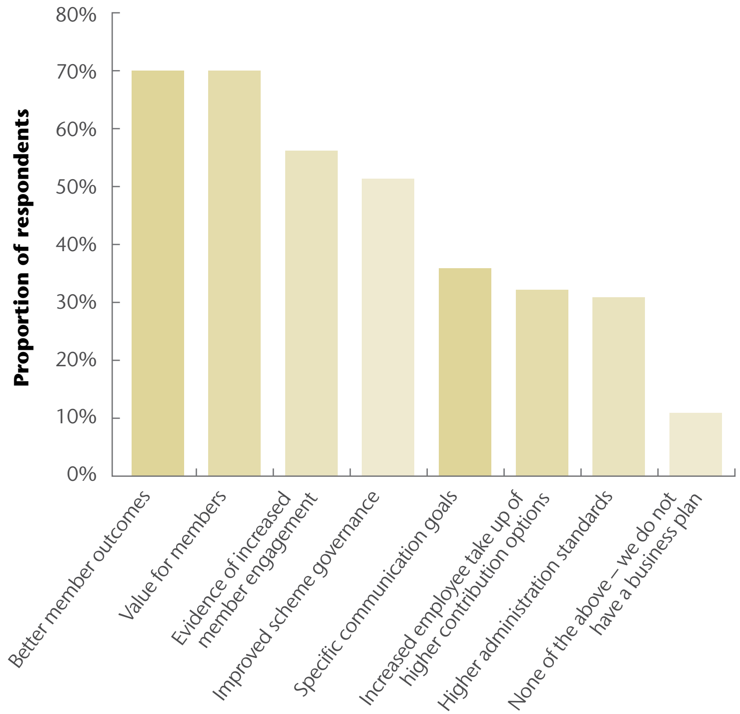
Identifying objectives

Pursuing 'better member outcomes' was jointly top of respondents' objectives in their business plan, and 13% higher than our previous survey results in 2015. This was tied with 'value for members'. While this suggests a move in the right direction towards the Pensions Regulator's objectives, there were still one in nine respondents where business plans were non-existent or in need of review, and 30% of respondents were not prioritising member outcomes.

Surprisingly only one in three had 'increased employee take-up of contribution options' on their business plan, despite the widely held view that DC scheme contribution rates are generally too low to achieve an adequate retirement income. There are also fewer schemes with specific communication goals than two years ago. We believe that all schemes should have a business plan, set objectives for their DC scheme and then monitor progress against objectives. From our experience, truly effective business plans are often produced by the scheme governors and employer together.

Our DC Viewpoints Discover module (part of our Risk Analyzer suite) can help by seeking out the views and priorities of those running the scheme, helping to set the direction. By starting with a questionnaire it can help avoid herding, groupthink or a single authoritative voice dominating others' thinking. It helps to ensure that different viewpoints are identified and to enable you to focus your efforts on areas that are important to members.

What objectives are on your DC business plan?



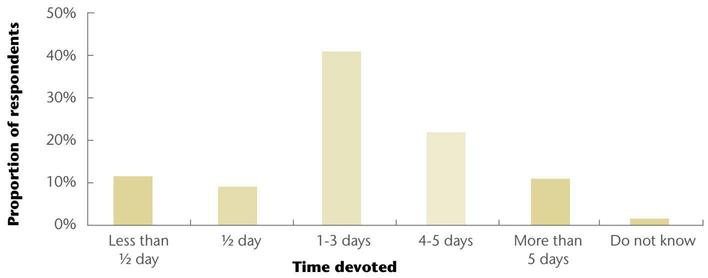
Devoting the time

A successful scheme needs the time and resource required to meet its objectives; however one in five respondents spend less than one day per quarter devoting time to DC matters. Given the changes in the DC landscape, should more time be devoted to DC?

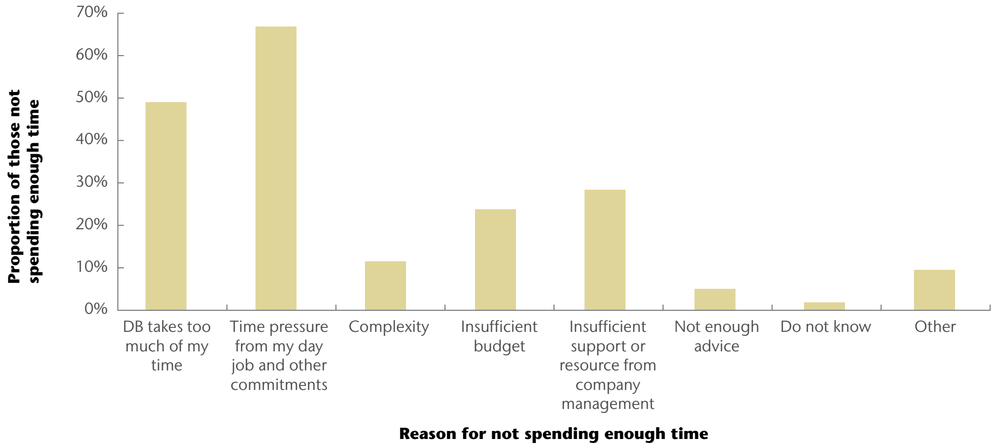
In general, respondents from smaller schemes and company managers had the least time to devote to DC. Pensions managers and secretaries to the trustees felt the least comfortable with the amount of time they were spending on DC matters, with time pressure from the day job cited as the main reason. We conclude that more support may be needed for those running DC schemes to ensure that there is a sufficient level of oversight.

Of our survey respondents, 30% had not reviewed their provider for over three years. While there is no requirement for the provider to be reviewed, the default investment option should be reviewed at least once every three years to ensure it remains appropriate for members. Once the direction has been set, devoting time to ensure that objectives are met is important.

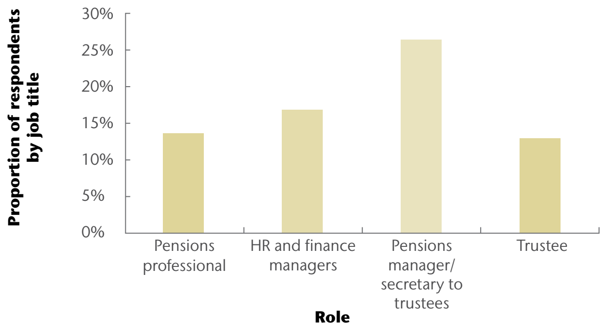
How much time do you devote to DC matters per quarter?



What prevents you from spending more time on DC matters?



Respondents not happy with the amount of time spent on DC matters



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Strategies to deliver objectives

Part of setting the direction is determining the strategy to deliver your objectives for your DC scheme. The scheme governance structure in place will influence this strategy.

We have found that in order for this structure to be successful, a significant amount of time and resource is needed to keep on top of the day-to-day running and regulatory requirements.

While this works well with the right resources in place, those running DC schemes may also consider the alternatives. There is a range of options. Group Personal Pensions (GPP) continue to be popular – 30% of respondents use this governance structure for their DC scheme. The number of master trusts in the UK has also increased significantly in the last few years; almost 10% of respondents are now using this structure to meet their objectives.

Two big governance decisions

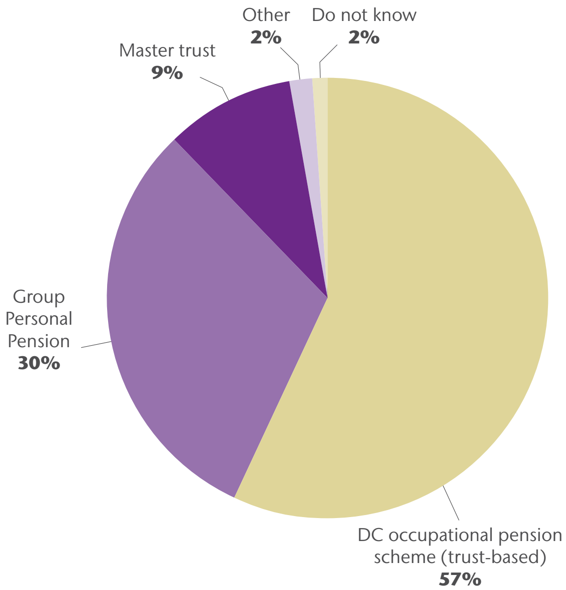
Get busy or get help

Many schemes choose either to 'get busy' (dedicating more time to getting involved in everything from decision making to day-to-day operations) or 'get help' (delegating aspects of their scheme management to professionals).

While some services, such as administration, are commonly delegated, the majority of time devoted to DC is in house or outsourced to various providers, who can be purchased on a best of breed basis. Those running schemes should decide where you can add value and what perhaps would be better to delegate. Did you know for example, that you can choose to use a fiduciary management approach to investment in DC as well as DB?

For those that do not have the resource to commit to running a plan, it is possible to fully outsource to a GPP or master trust.

What type of arrangement do you use to provide your main DC benefits?



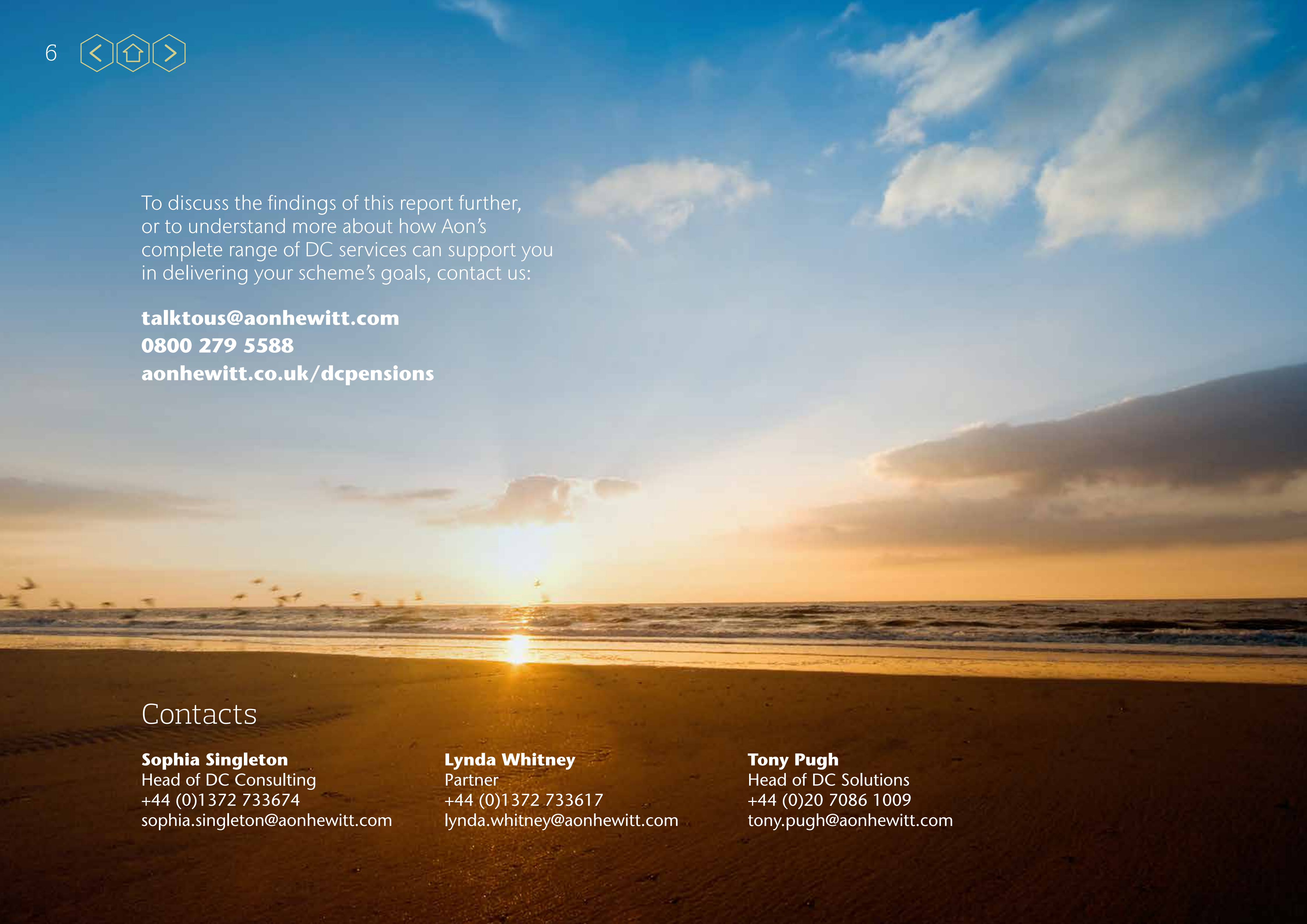
Jargon busting

Master trust

A master trust is a multi-employer occupational pension scheme where each employer has its own section within the master trust arrangement. Employers access the master trust via a participation deed. There is one legal trust and therefore one trustee board. The trustee retains decision-making independence on the provision of services, eg, funds, administration features, communication tools. The decisions over benefit and contribution levels typically reside with the employer.

Group Personal Pension

A GPP bundles all administration, platform and communication strategy into a single product. The employee has a direct contractual relationship with the pension plan provider, usually an insurance company. There is no requirement to have trustees with this type of arrangement and the legal responsibilities for the employer would be limited to establishing the scheme and operating the payroll facility for contributions. Best practice would see some additional responsibility assumed by the employer, typically via the establishment of a committee to oversee the governance of the arrangement.



To discuss the findings of this report further, or to understand more about how Aon's complete range of DC services can support you in delivering your scheme's goals, contact us:

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