

Aon Pension Conference 2018

# Making DC work for a diverse membership



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# Executive summary

We need to support the range of different individuals within our DC plans to ensure they get most from the scheme in terms of their own outcomes, and also so that the scheme works for the sponsor in terms of helping transition employees into retirement in an orderly and dignified way.

While it is important to understand outcomes for a “typical member” we need to have an understanding of the outcomes on an individual member basis to help target resource in the places where it is most needed. This may be in the form of increased contributions, changes to the investment design, default target retirement age or communications aiming to change member behaviours

## Why is this important?

Our DC scheme survey showed expected retirement outcomes of less than 40% of salary in around two thirds of schemes where this information was known. This level of income may not be enough for employees to be able to afford to retire. It also can disguise that for some groups of employees their likely retirement outcomes could be a lot lower at their target retirement age, meaning that they need to work until a much older age before they can afford to retire.

Similarly research published by the Pension and Lifetime Savings Association (PLSA) in their report “*Retirement Income Adequacy: Generation by Generation*”, showed that 13.6 million current workers are at high risk of failing to achieve an adequate income in later life

## What does this mean for those who manage/govern a pension scheme?

In the not too distant future many employers will need to face up to the challenge of having a large number of employees who may wish to retire, but do not have sufficient pensions to enable this.

Likewise trustees have a duty to act in the interests of the members and beneficiaries of the scheme and to undertake their duties in relation to the DC Code of Practice, including areas of investment governance, communications and assessing value for members.

# What should those who manage/govern a pension scheme do?

We all know that inertia is a key issue in the pensions landscape. Inertia can be a good thing, for example with auto-enrolment, but it also means we need to take care in setting our defaults and to check their impact on our diverse range of members.

We need to target our resources to get members to focus on the decisions they actually need to make and accept that the rest of the time as scheme trustees or managers we need to Do It For Them, by getting the default right across the range of different types of members.

- **Understand your membership**
  - Who are your members and what do they need?
  - How do you work towards meeting these needs?
- **Make your defaults smarter**
  - Does your default contribution design provide sufficient projected outcomes to allow scheme members to be able to afford to retire?
  - Is your default investment working hard enough and is it aligned to your members?

- **Use positive, focussed messaging**
  - Ensure you have a communication plan in place
  - Check your overall objectives align with your communications plan
  - Consider as part of your communication;
    - **Why are you communicating?**  
e.g. encourage employees to contribute more
    - **What is the message you are communicating?**  
e.g. save more to allow you to retire earlier and receive 'free money' from your employer
    - **Who are you communicating to?**  
e.g. employees on lowest contribution rates
    - **How are you going to communicate?**  
e.g. Posters followed by personalised emails
    - **When is the most appropriate time?**  
e.g. Around time of pay rises
  - How do you measure whether your communications are effective?

**Make sure your DC pension works for all your members!**

## What are the solutions?

Aon's teams can support you at every stage, whether it is with helping you to understand your demographics and set and meet objectives, or with the provision of specific tools or products for the key elements of your DC arrangement.

A selection of some of our relevant tools and services are described briefly on the following pages.

# Understanding DC membership

## DC Analytics

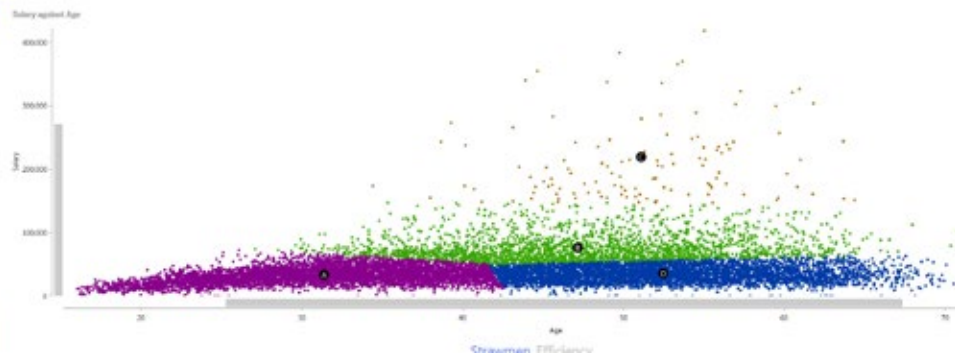
Dive into the detail of your members, are they all on track? Where are the shortfalls? Where should you focus? Using this tool we can help you to create

representative members for your scheme and examine the impact of actions over time.

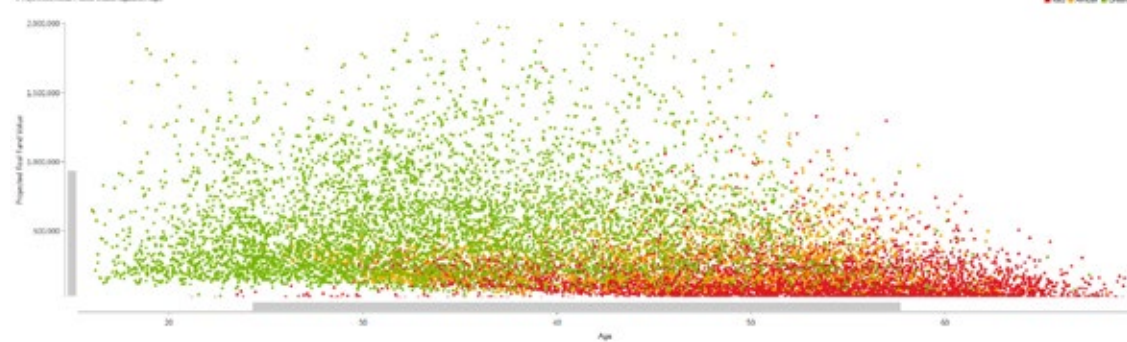
## DC analytics

### Membership Analysis

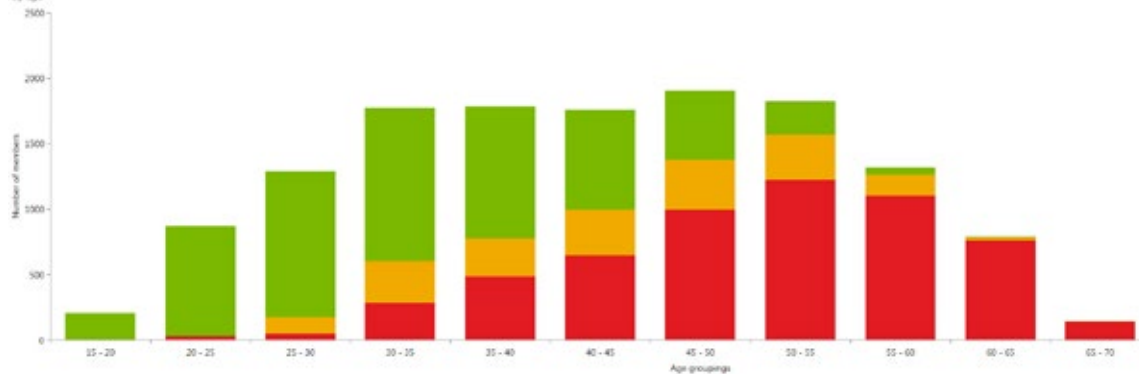
DC analytics > Membership Analysis



Projected Real Fund Value vs age



Number of members in each age group, grouped by age



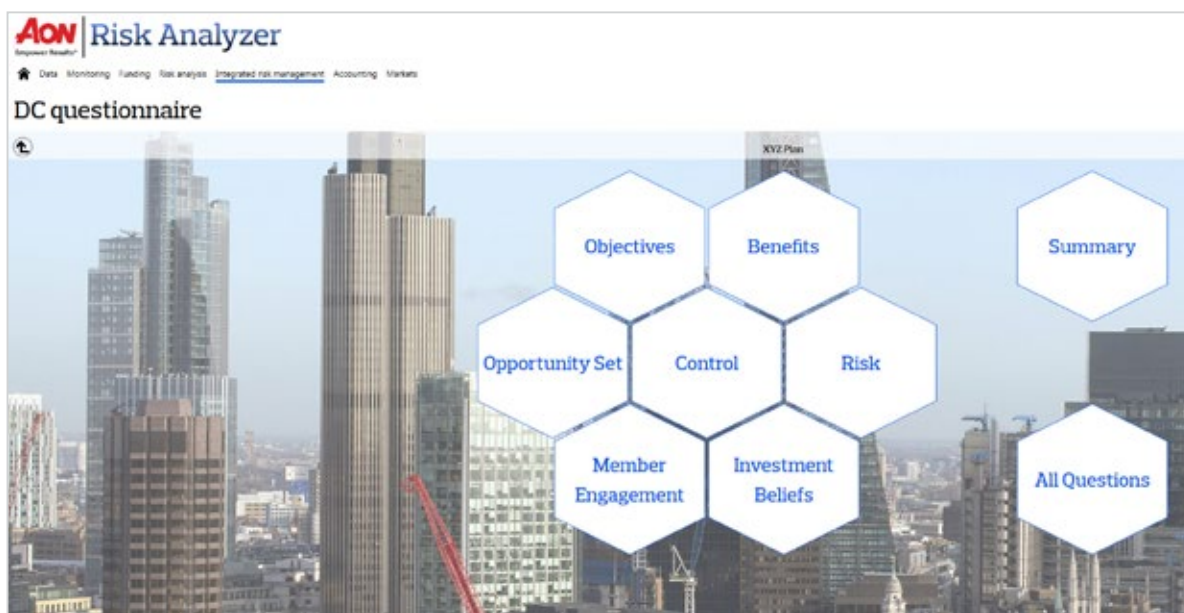
For illustrative purposes only

# Setting your DB or DC Objectives

## Aon ViewPoints

This tool can help by seeking out the views and priorities of those running the scheme, helping to set the direction. The starting point is a questionnaire that all stakeholders can individually complete whether they are in HR, Finance, are pension trustees, or a GPP governance committee. By seeking out responses from all involved with the DC arrangement by way of individual questionnaires it can help avoid herding,

groupthink or a single authority voice dominating others' thinking. It ensures that different viewpoints are identified. These different viewpoints can then be explored in a workshop that debates the output, resulting in a clear set of common objectives to enable you to focus your efforts on areas that are important to members.



This screenshot displays the results section of the questionnaire. It features three pie charts on the left, each corresponding to a question: 'For self-select options we should:', 'Types of fund management for the default', and 'Greater value can be added through:'. To the right of the charts are legends for each question, using color-coded squares to represent different response categories. On the far right, there is a 'Comments' section with a text area containing several bullet points.

**For self-select options we should:**

- ☐ Mitigate risk
- ☒ Wide range
- ☒ Member demand
- ☐ Don't know

**Types of fund management for the default**

- ☐ Active
- ☒ Active/passive
- ☒ Passive
- ☐ Don't know

**Greater value can be added through:**

- ☐ Strategic
- ☒ Tactical
- ☒ Devol
- ☐ Combination
- ☐ Don't know

**Comments**

- Your current investment strategy implies:
- Members should be offered multiple lifestyle strategies in line with freedom of choice with the underlying investments being managed on a passive basis
- A broad range of self-select options should be made available with a mixture of active & passive funds
- Multi-asset/diversified growth funds that are more active/tactical in nature are preferred

# For contribution design

## Aon 2017 DC scheme survey

From meeting the legislative criteria for auto-enrolment, to benchmarking contribution rates with peers or modelling projected member outcomes for your employees to ensure adequacy for retirement, we have unparalleled experience in DC design to help deliver to your scheme objectives.



7 < >

## Plotting the course for contributions

Companies need to ensure that they meet the mandated increasing auto-enrolment contributions in 2018 and 2019. More widely, employers need to consider the future workforce planning implications of inadequate DC contributions.

It is up to employers to get their plans on track. But many are held back by not having a clear idea of what they will do.



### Key discoveries

Many trustees and scheme managers need guidance – from our survey over half do not know how much their members are likely to receive when they retire.

**41% of schemes** need to alter course and increase contributions before April 2019.

**The average default company contribution rate has fallen to 6%,** but this varies significantly across different sectors.

**Of those who knew, 2 in 3 respondents** expect their lifetime members to get a replacement ratio of less than 40% of salary.



### Unexpected findings

**1 in 4 schemes** offer a maximum company contribution level in excess of 13% pensionable salary.

**Many respondents** are worried their members will opt out when auto-enrolment increases.

**Only 10% of respondents** whose schemes need higher minimum contribution levels intend to let employees opt back down to a lower rate.



### Obstacles

**'Integrating auto-enrolment** staged increases into existing contribution structures'

**'Keeping members in the scheme** when the phased contributions increase in April'

**'Funds too low** to consider retirement due to low contributions'

## Moving forward

**Make sure your scheme is auto-enrolment ready** and communicate any changes.

**Know your outcomes.**

Consider contribution design including **auto-escalation.**



# For DC investment

## Aon's Delegated DC Service

Aon's Delegated DC Service brings together the best of Aon's DC and investment expertise, to position trust-based schemes for investment success and better member outcomes. This is achieved by providing schemes with greater access to investment expertise than trustees normally have time to provide, strong governance structures and a broader range of investment options for members.

Trustees work with Aon's DC investment experts to develop their investment strategy, set their scheme objectives, as well as determine a glide path. Aon then implements this strategy on behalf of trustees, working with Aon's experienced delegated investment team to deliver that strategy effectively.

## Investment Consulting

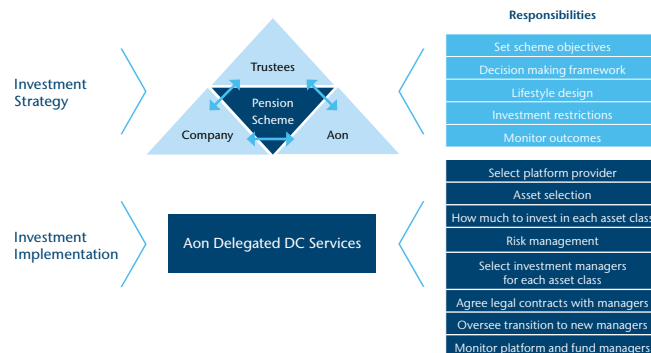
Aon supports institutional decision makers with their investment challenges. We partner with CIOs, trustees and sponsors to help them find their unique path through the complexities of investment.

All of our solutions are designed to drive better outcomes, meet clients' specific goals and match their circumstances. Specialisms include:

- **Investment Strategy** — we listen to every scheme we work with and deliver a tailored strategy based on their individual investment beliefs, objectives, timescales and risk appetite.
- **Asset Allocation** — our team's global coverage and 130 years of combined experience gives us unique insights into mid-term as well as long-term approaches to investment.
- **Risk Management** — our combined investment and actuarial expertise, backed by risk analytics, support clients to achieve the right risk/reward balance for their scheme.
- **Global Investment Management** — Aon's global manager research team is 100% focused on delivering in-depth, quality research and ongoing monitoring of fund managers and their products.



What does delegated investment look like in the trust-based world?





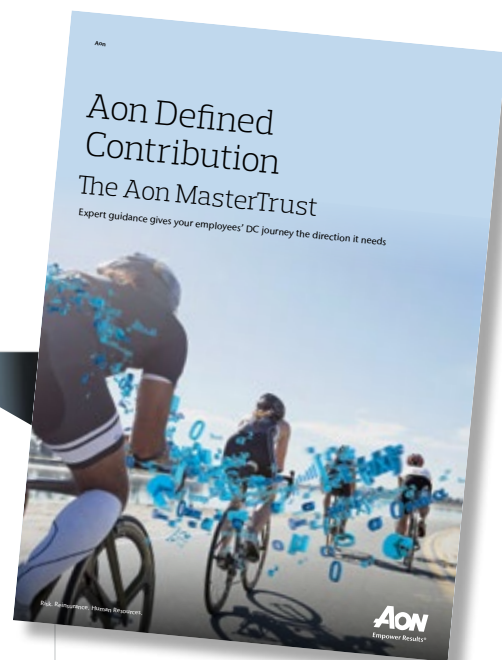
# For bundled DC Investment and full governance

## Aon MasterTrust

The Aon Master Trust incorporates robust investment design, intuitive technology tools, efficient administration, as well as strong member engagement and communication tools that can help members plan effectively for their retirement.

The Aon Master Trust has a fully independent and experienced trustee board, offering governance and operational oversight, to give you total reassurance that your members are looked after – now and in the future. The professional structure of the Aon Master Trust enables it to comply fully with regulatory requirements for protecting members and makes this a simple process, with real-time performance and monitoring reporting for employers.

The transition to retirement can present members with challenges – especially in terms of accessing their money in a flexible, tax-efficient way. The Aon Master Trust offers retirement income services to accommodate flexible drawdown options and to make the financial path to retirement as smooth as possible.



## The Aon MasterTrust

The Aon MasterTrust provides an opportunity to access a professionally-managed occupational pension scheme. It supports employers to meet their pension governance and performance responsibilities and to deliver better outcomes for their members.

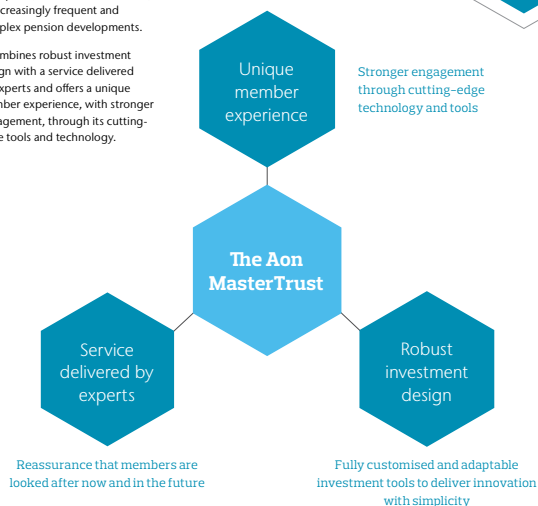
It can also help minimise administrative workloads and costs and position employers to respond, now and in the future, to increasingly frequent and complex pension developments.

It combines robust investment design with a service delivered by experts and offers a unique member experience, with stronger engagement, through its cutting-edge tools and technology.

The Aon MasterTrust supports employers to address their challenges and concerns around cost, risk, time, investment design and pensions freedom. It draws on our UK and global expertise and knowledge of how to design the most advantageous investment structures, of how to engage members effectively and to help them make the best possible pension and investment decisions.

### Our services

The Aon MasterTrust draws on a combination of Aon's expertise in DC within the UK and globally, our market-leading investment expertise, and credentials in building strong governance frameworks. We offer a service delivered by experts and our expert guidance positions schemes to deliver better outcomes for their members – now and in the future.



# Member insight

## Aon DC member survey

Our 2016 DC survey explored the views of over 4,000 DC members to understand what they are looking for from their DC scheme and how those running schemes can match their objectives with the goals of their members.



# Allow for diversity

**Ask yourself,**  
how are you  
adapting your  
offering to meet  
these needs?

**THE NEED TO KNOW**

Expectations vary depending on what people want to do with their DC pot – **are they a Steady Spender, a Certainty Seeker or Flexibility Foremost?**

**Most under 55s**  
would look to their employer or online resources for guidance, but over 55s feel they will make their own decisions

**Lower earners (< £20,000)**  
have a higher dependency on what the employer puts in place

**23% of 55-64 year olds**  
still do not know what they expect to do with their DC funds

**The demographic make-up of schemes varies significantly.**

This inevitably means that people have vastly different expectations and requirements. From annual salary, to ambition and goals, to gender and age, there are a lot of considerations.

Things that might **SURPRISE YOU**

Millennials are twice as likely to seek advice online than those over age 55

More women answered 'don't know' than men, for all but two questions, suggesting they are less confident in making decisions

More men want to make decisions for themselves than women. More women seek support from employer, family and friends

**"I believe that my generation won't get to retire as people do today."**

**Steps to take right now**

- 1 **Tailor information** so it is relevant and personal
- 2 **Help members to set their own goals**
- 3 **Help members to explore** their own circumstances through modelling
- 4 **Create the flexibility** to cope with different circumstances ie, range of investment strategies, range of at-retirement choices.

**Discover more**

**READ ON** to find out more about how to tailor your plan and its communications.

**G** Gain trust

**O** Offer support

**A** Allow for diversity

**L** Look and clear

**S** Strategy

# For DC communications

## Developing a strategy

There are always limits on time and resources available, so it's important to have a DC communications plan with clear objectives aligned to your overall scheme plan and to have defined targets and measures of success.

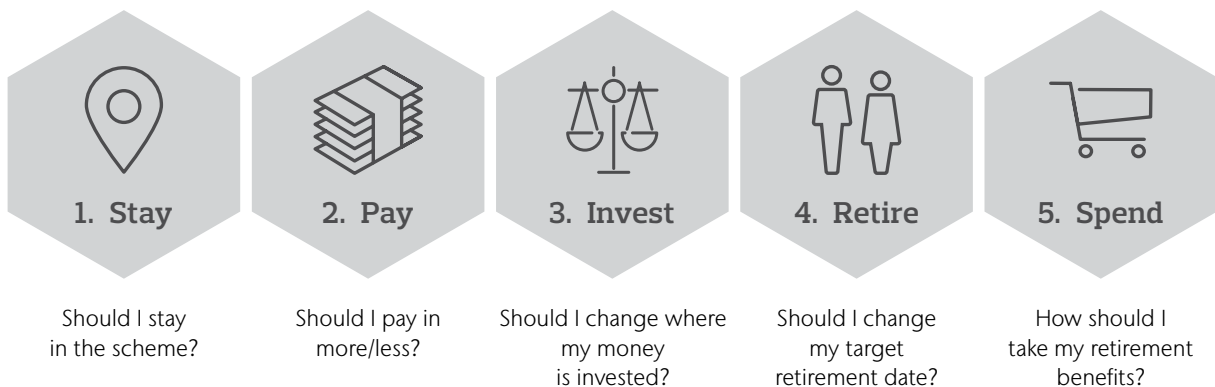
## Understanding the individual

Communications have more impact if they're talking about peoples' real experiences and aspirations. We can help you to map your employees' financial journeys, and segment your workforce so the information is always relevant and to-the-point, whether it's a simple email, or an invitation to a retirement roadshow.

## Financial Wellbeing

Money worries play a big part in stress – so giving people the knowledge and tools to keep their finances under control can have a direct influence on sickness and absences. Every workplace, and every team, is different. So don't just assume what your people need; take the trouble to find out. That starts with surveys and also includes face-to-face focus groups, enabling us to pick up on non-verbal signals about how people are really feeling, to understand your employees and help build an informed business case for support.

## Member decisions



## Mini-statements

A more easily digestible way of communicating to members how much income they might receive at retirement and what difference that they could make by increasing their contributions now.

Lauren Smith | Employee ID Number A0000

**XYZ Company Pension Scheme**

**Are you on course to receive the pension you are aiming for, Lauren?**

On 1 January 2014 your projected pension at retirement at age 60 was:

Based on your Scheme service to retirement date, it may be appropriate to target pension of X% of your pay*.	£0,000 a year
This gives a projected pension of:	£0,000 a year
The gap between what we project and the target is:	£0,000 a year
To help you reach this target, you could consider paying an additional contribution of X% of pay, which for you will be:	£000 a month

\* Consider if this will provide the lifestyle you'd like when you retire. See your latest benefit statement for details.

**Think about**

- \* You may also qualify for a State pension at State Pension Age. Under the latest Government proposals, based on a full National Insurance contribution history, the pension will be worth £7,700 a year, payable from your State Pension Age of 66.
- \* If you do not want to pay extra contributions, you could still achieve your target pension if you retire later – see estimate that you would need to retire at age 60 to get your target pension.
- \* The Trustees have made assumptions about your Scheme membership in communicating targets for pensions. Their targets are based only on your membership of Scheme and do not take into consideration other pensions you may have.

**Our next monthly pension clinic is on XX Month. It will focus on retirement savings and the steps you can take to build up the value of your pension account.**

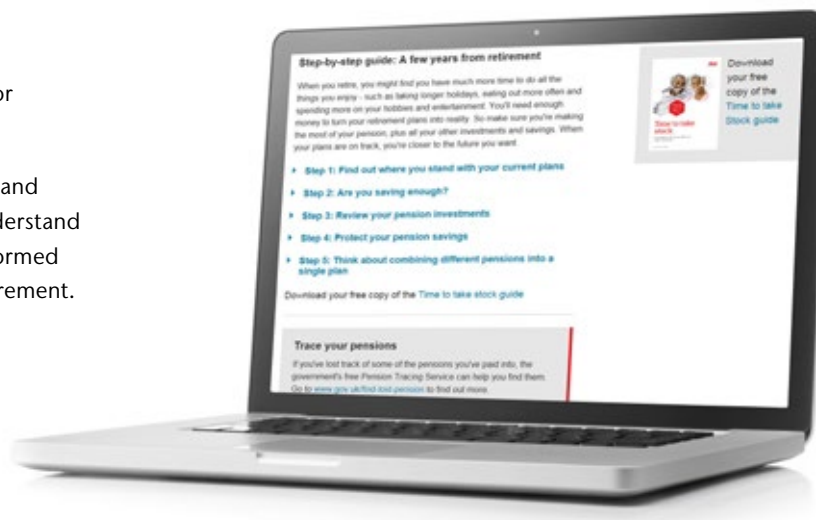
**Save the date and watch out for your e-invite.**


# Retirement support

## Aon's Retirement Service

Our DC retirement service provides access to education, guidance and advice as required for members approaching and at-retirement.

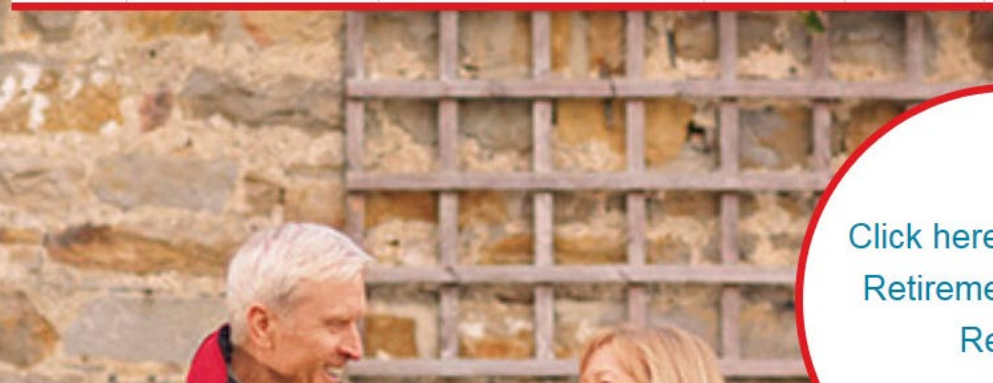
A combination of online tools, printed guides and face to face contact enables employees to understand the choices available to them and to make informed decisions on how to use their DC funds in retirement.





Helpline: 0800 107 0392


[Home](#)
[The retirement journey](#)
[Getting an income in retirement](#)
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Click here  
Retirement Options  
Report

## Welcome to the Aon Retirement Service.


We think you're about to retire, choose where you are below.



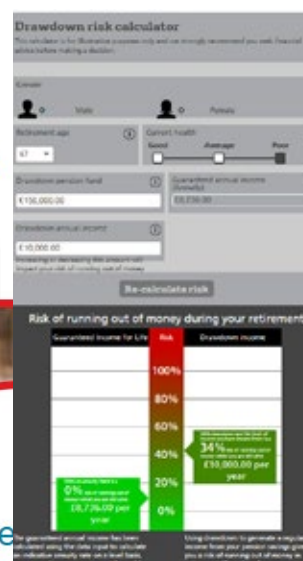
I am a few years away from retirement



I am about a year from retirement



I am ready to retire



# Contacts

For more details please contact your Aon consultant or email;

**Steven Leigh**

+44 (0)7920 213 471

[Steven.Leigh@aon.com](mailto:Steven.Leigh@aon.com)

**Sophia Singleton**

+44 (0)7852 897 589

[sophia.singleton@aon.com](mailto:sophia.singleton@aon.com)

## About Aon

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

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

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