Financial wellbeing – pensions' friend or foe?

Aon's **Karina Klimaszewski** considers how pensions should be seen as part of wider financial goals

It's tempting to see financial wellbeing as the new employee benefits upstart, threatening to further dilute defined contribution (DC) pensions engagement by focusing employers' and employees' attention onto topics such as debt management and short-term savings – and away from preparing for retirement.

The reality should be quite the opposite. Financial wellbeing can help employees see pensions as a coherent part of their long-term savings plans, help them better understand why they need to save for retirement, and develop a clearer picture of how much they need to put aside in order to achieve the standard of living they want in retirement.

In fact, expecting employees to engage with their DC pension in isolation could even be counter-productive. If people are already worried about their day-to-day financial situation, messages telling them to pay more into their pensions are likely to be ignored at best and cause stress at worst.

Aon's 2018 survey of DC pension scheme members, *Living the Dream?*, found that one in three had unpaid credit card debt every month, and only around a third of respondents could come up with £1,000 should they face a financial emergency. Wider money worries are a barrier to pension saving and as fewer than half of Aon's 2018 respondents said they have a retirement plan, it is clear that employees are not engaging with the power of their pension.

Despite the pressure of day-to-day money worries, employees still need to save for an adequate or better retirement. Traditionally the solution has been to encourage members to increase their

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contributions – and making the most of the 'free money' on offer from matching employer contributions is undoubtedly a positive selling point for pensions. Aon's *UK Defined Contribution Survey 2020* found that around a third of schemes help members to save at an appropriate level through plan design. But for employees who are struggling with more immediate financial worries, the pressure to contribute more could simply feel out of touch, and further deter them from seeing pension saving as an integral part of their financial wellbeing.

Retirement income targets are one approach to help members understand how to make their pension work effectively for them in future. Showing members how much they need to save to achieve a certain standard of living when they retire can make the difference between members seeing their employee pension as part of their wider financial goals and side-lining it as just another source of financial uncertainty. However, Aon's 2020 DC survey found that just one in three schemes currently use targets as a way of communicating pension savings to members.

The Pensions and Lifetime Savings Association launched its Retirement Living Standards in October 2019. Developed in conjunction with the University of Loughborough, the standards

are built around the cost of a basket of goods that would provide a minimum, moderate or comfortable standard of living in retirement. These are a useful, freely available, resource to help schemes communicate to employees about how much they need to save.

Even if targets help members to dispel the uncertainty of how much they need to save for retirement, the perennial challenge of pensions – engaging members – is still as important as ever. Pension saving takes a lifetime, and employees will need to know whether they are on track to hit their long-term targets throughout their working lives.

Members need relevant messages and access to suitable tools that resonate with their current situation and attitude to money, more so than communications based on demographics such as their work role or age profile. Communication requires a variety of different approaches, from annual benefits statements through to personalised videos and apps.

However, very few schemes understand the effectiveness of their pension or financial wellbeing programmes at present. Aon's 2020 research found just 50% of schemes measure members' engagement with retirement and wellbeing programmes. One in five respondents say that they regularly monitor the use of any financial planning tools they provide, and less than 10% regularly calculate whether their members are, on average, on course for an adequate retirement income.

There is now a huge opportunity to help members see pensions as a fully-functioning part of their wider financial wellbeing. By having a target to aim for, retirement saving can become more real. To grasp these engagement opportunities properly, trustees and scheme sponsors must be able to monitor and measure the effectiveness of their scheme communications, carry out regular audits of progress and then base future design and strategy work on those results.

Far from being a threat to pensions, financial wellbeing should help employees understand the vital role that pensions can play in their wider financial lives. Helping employees to understand what they need to save based on realistic retirement targets and then monitoring progress against them, can help every employee gain more control both over today's money and tomorrow's retirement savings.

To request a copy of the full findings from Aon's 2020 DC Survey, visit bit.ly/AonDCSurvey2020

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