Helping your members achieve their goals

Defined Contribution Member Survey 2016

Welcome to GOALS

Defined Contribution Member Survey 2016

This year, Aon has focused its annual Defined Contribution (DC) pension research on the members themselves.

This research has reconfirmed just how important employers and schemes are to pension savings, and the vital role they play in members' futures.

But persuading members to save more and think ahead is as difficult as ever. By encouraging members to focus on their future **GOALS** we believe that we can help to improve member outcomes.

In collaboration with YouGov (yougov.co.uk) we conducted a nationwide survey of members of DC schemes to understand their views about retirement income, planning for their retirement and pension concerns. The survey was conducted in June 2016 and produced responses from 2004 members.

This research builds on the 2014 member survey we undertook in collaboration with the Cass Business School and the 2015 research with DC schemes and employers.

G Gain trust

Employers are the most important factor when it comes to where, and how much, members will save. It is therefore imperative to keep their trust at all times.

O Offer support

More people than ever are joining pension schemes but they are saving less. Ongoing support and communication can help to change this.

A Allow for diversity

Members have vastly different expectations and requirements. It is important to tailor not just the scheme itself, but the support offered.

L Loud and clear

Most people just want to know how much income they will get at retirement. So how do you help them focus on the big picture and the decisions they need to take?

S Strategy

Aon can help you set the strategy for your DC plan, exploring the characteristics of your members and their needs. We can help you find the right solutions to deliver better outcomes for your members. Contact us on **0800 279 5588** or **talktous@aonhewitt.com**.

Headline statistics

43% strongly follow the employer's lead

2/3 still want income in retirement

"I'm only 28 so I don't really think about retirement at the moment."

G

Millennials understand pensions the least, but have the highest trust

When asked about pensions, more women answer **'don't know'** than men

A

Lower earners follow employer's guidance more

"Will I have to work longer than I would have liked?"

62% will rely on their company pension financially

O

Average contributions have fallen from **15%** in 2014 to **12.7%** in 2016

1 in 10 say nothing is stopping them from saving more

"Am I making the right choices for my retirement?"

Less than half expect to retire by 65

51% of people value flexibility to change their mind

L

Do you have a clear picture of your DC plan's goals?

S

"Pensions are a massive unknown to me."

Millennials are twice as likely to seek advice online

1 in 4 have no idea what income they need to maintain standard of living

"I have no idea if I have saved enough money or not."

Discover more

Read more of the research findings, with expert analysis and suggested actions for employers and trustees, **HERE.**

G Gain trust

Ask yourself, are you gaining your members' trust – and keeping it?

Employers are absolutely central to pensions savings

Members trust you to tell them where to invest and how much to save. Members' futures, ambitions and goals are quite literally in your hands.

THE NEED TO KNOW

Company pensions are still a **main source of income when people retire.**

62% say that the company pension is one of their main sources of financial support for retirement

60% of people follow what is offered by their employer when choosing where to save

43% of people say they do whatever their employer puts in place when asked about their approach to pensions savings

18–34 year olds are the least likely to understand pensions, but have the highest level of trust

Things that might SURPRISE YOU

8%

Buy-to-let is a main source of financial support for only 8% of people

55% of people will rely on the State Pension as one of their main sources of retirement income.

Only 9% of people are influenced by a specific goal when deciding where to save – yet having a goal is proven to help people understand more, and save better. Are you helping members set goals and achieve them?

But do they know this is only £8,000 per year? And that is only if they have a full NI record.

"Am I making the right choices for my retirement?"

Steps to take **right now**

1. **Do it for them** where you can, because a lot of people will follow your lead
2. **Get the default right**
3. **Consider auto-escalation** – it works in the US; could it work for your members?
4. **Consider default option for retirement spending**
5. Where members must engage, **show them what they need to do.** They trust you to help them

Discover more

Relating pensions savings to members' futures can help them to take a **greater interest and more responsibility**.

READ ON to discover how you can make this happen.

Gain trust

"Am I making the right choices for my retirement?"

Your DC scheme is at the heart of members' retirement planning. They see it as a main source of financial support in retirement, it strongly influences where they save and how they approach pension savings.

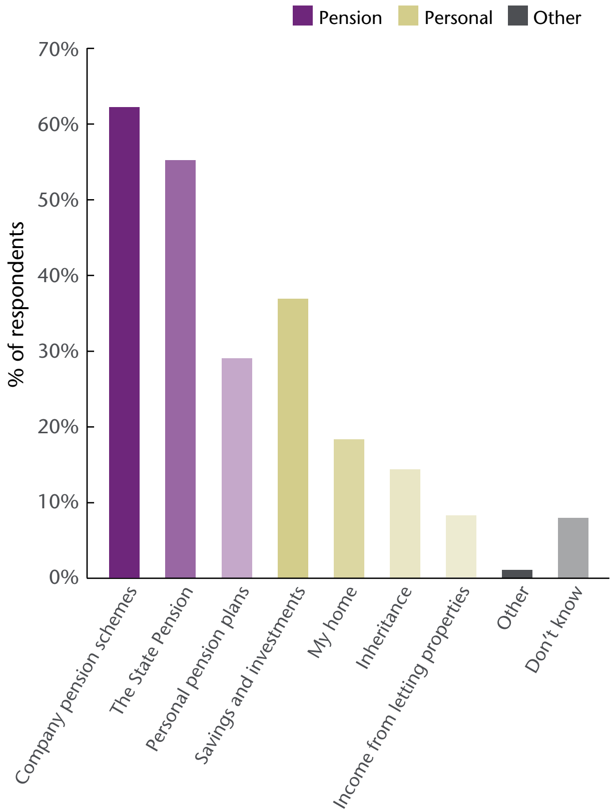
The pension scheme comes top as one of the main sources of financial support but is closely followed by the State Pension. Personal savings, property and inheritance are much less likely to be a main source of financial support. Unsurprisingly, the State Pension comes top for the lower earners (<£20,000 pa) but even among them, 50% see their company pension scheme as a main source of financial support in retirement.

1 in 12 people do not know what their main sources of financial support will be when they retire. Worryingly this is still the case for 1 in 30 in the 55-64 age group.

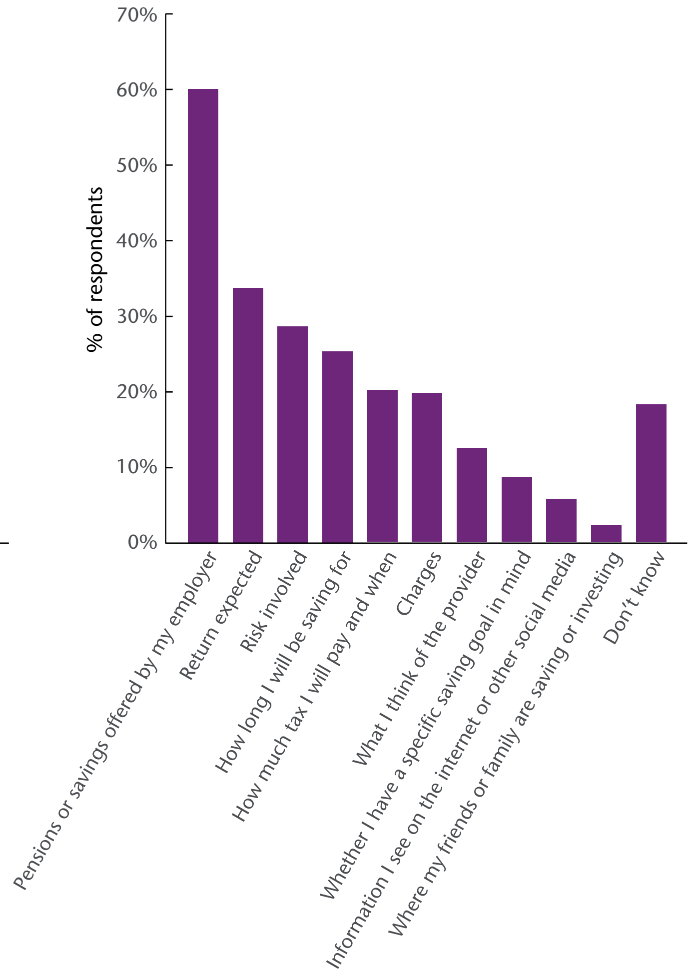
Employees trust their employer's guidance on where to save for a pension, with 3 in 5 taking that into account when choosing where to save. In contrast, only 1 in 5 say they take the level of charges into account in deciding where to save, although in the industry we know that this is important. We also know that the tax relief is a key benefit of saving into a pension, but only 1 in 5 think about tax when deciding whether to save into a pension or other long-term savings.

Only 9% of people are influenced by a specific goal when deciding where to save – yet having a goal is known to help people understand more and save better.

Which of the following will be your main source(s) of financial support once you retire from all paid employment?



What factors do you take into account in choosing where to save for your pension or for long term savings?



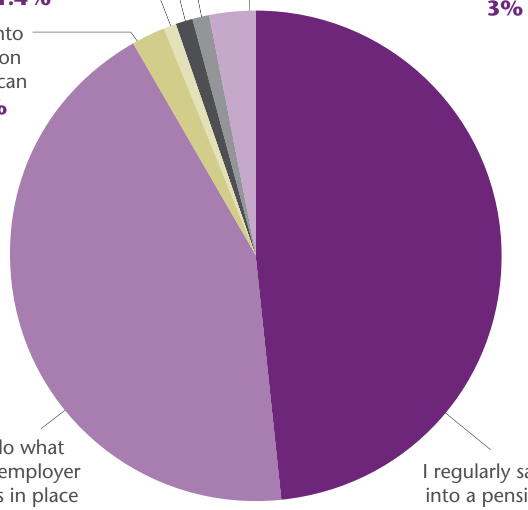
G Gain trust

"There's a bewildering range of decisions to be made"

Although someone could describe saving regularly into their company plan as either 'I regularly save into a pension' or 'I do what my employer puts in place', it is interesting to see who chose the first phrase and who chose the second phrase.

Lower earners (<£20,000pa) and women were more likely to say that they follow what the employer proposes. (This is covered in more detail in 'Allow for diversity')

Which of the following statements most closely matches your approach to your pensions saving?



When people explain what stops them saving more into pensions, 12% do not understand pensions and 9% do not trust pensions. This varies significantly by age – younger members understand less but trust more, compared to their middle-aged and older counterparts who have lived through many changes to the pension regime.

Looking at this another way, the figures mean that 88% of people understand pensions enough that lack of understanding is not a block to saving. And 91% trust pensions enough for trust not to be a block which, when compared to the negative publicity pensions often receive in the media, for example, is a very positive finding.

Age	18-34	35-44	45-54	55-64
Do not save more into pension because of a lack of understanding	17%	13%	8%	5%
Do not save more into pension because of a lack of trust	6%	10%	10%	10%

Given the trust that your employees place in their company DC pension plan, you need make sure the things you do for them, you do well. As we will see later in the survey, members do want the plan to help them and they will follow your lead. So where you can you need to 'do it for them'. Doing it for them can include:

- The benefit structure and the default contribution rate. Consider not only the initial default contribution rate but also auto-escalation.
- The default investment strategy.
- Offering default retirement options such as a preferred drawdown provider or an in-scheme drawdown option.

When you are doing it for them, you need to understand your own plan membership. For example, what you do for a group of low-paid workers with limited external savings and a greater reliance on the State Pension might be very different to the ideal default for a group of workers who have only recently stopped accruing Defined Benefit (DB) pension benefits. And you need to have the governance structures in place to manage and monitor your solutions.

Auto-escalation: The US experience

Under auto-escalation, members agree when they join that they will pay more later. Auto-escalation is the automatic increase to contributions when set age or service milestones are reached.

In a 2015 study carried out by Aon in the US*, 81% of participating employers offered auto-escalation. It is estimated that 47% of employees with auto-escalating DC plans will retire with enough assets to cover their projected needs, compared to only 22% of the full career-contributing members covered by the survey overall.

*2015 'The Real Deal' report

Where members need to make decisions, they trust you to help them. In the next section we discuss what support members want you to offer.

O Offer support

THE NEED TO KNOW

Members are joining schemes but are **saving less than ever before**

37% of people are saving
< 5%
of their annual salary into schemes

Another 48% are saving
5–10%
of their salary

Communication is important, and people expect a mix of paper and online

The vast majority of employees **believe they contribute broadly the same as their employer** – again, suggesting the influence of employers

More people than ever are joining schemes. But are they saving enough?

Once again, employers are integral.

Ask yourself, how can you educate your members on what they need to do now, in order to secure their futures?

Things that might **SURPRISE YOU**

In 2014 employees were saving 7.5% of their salaries; this has now dropped to 6% as more people have joined on the lowest auto-enrolment rates

A typical 25 year old man needs to save **18%** of salary to achieve a reasonable outcome

Less than half of people expect to have retired by 65, and in the last 2 years expected retirement age has increased by ½ a year.

1 in 3 people who want to stay invested after retirement are willing to pay for drawdown advice

"I have no idea if I have saved enough money or not."

Steps to take **right now**

1. **Show the implications** of the member's current choices and tell them when things change
2. **Facilitate flexible retirement** Make sure the DC scheme responds when member retirement plans change. But remember this is also about more than just pensions
3. **Make implementing decisions easy**

Discover more

It's important to start **encouraging members to think further ahead**.

Provide support for members to help them to understand where they are heading and how to improve their own outcomes.

FIND OUT HOW over the page.

O Offer support

"I don't know when I will retire, if I will ever be able to truly afford to or how pensions really work."

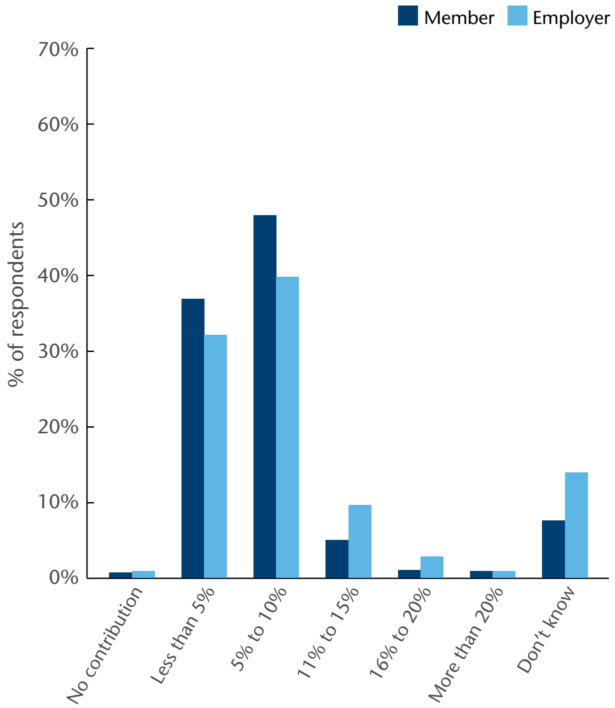
With auto-enrolment, we have encouraged more members to join pension plans, but they are not saving enough.

This does not mean that there has been a 'levelling down' or that individuals are choosing to save less, just that those who were not saving anything before have often started with low contributions from both their employer and themselves.

As more members have joined at auto-enrolment minimum rates, the average contribution rate has been pulled down from a combined 15% of salary in 2014 (7.5% employee and 7.5% employer) to 12.7% of salary in 2016 (6% employee and 6.7% employer).

A worrying 1 in 7 does not know what their employer is paying in for them and 1 in 12 does not know what they are paying. Note that a typical 25 year old man needs to save 18% of salary to maintain their standard of living in retirement, if they are starting with no retirement savings but expect to get a full State Pension in addition and want to retire at age 65.

What proportion of your salary do you and your employer currently contribute to the pension scheme you are paying most into?



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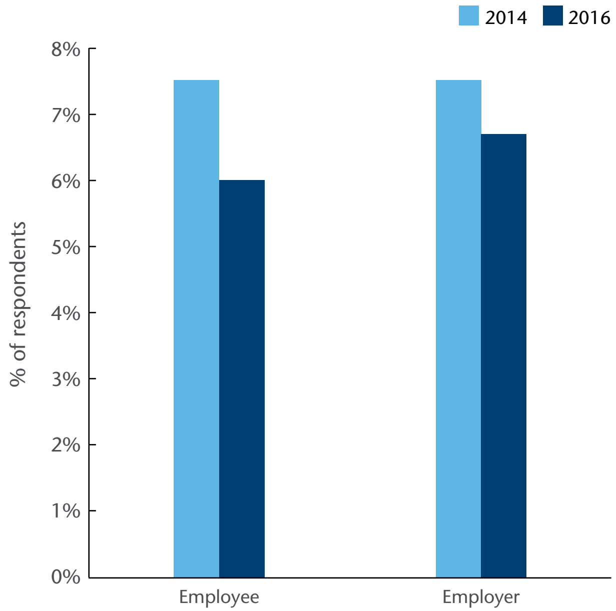


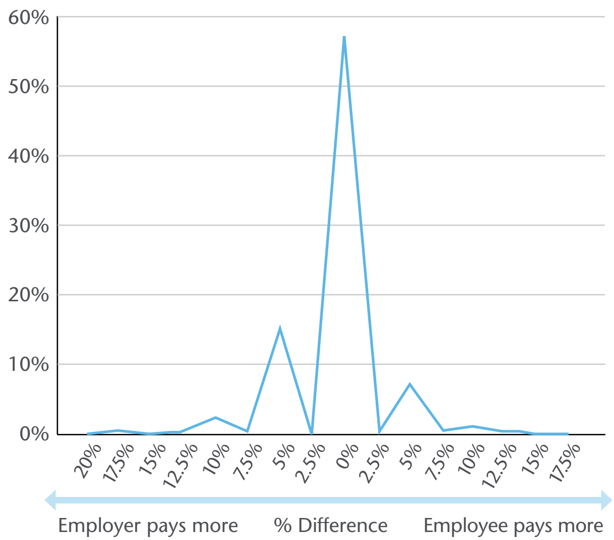
G Gain trust
O Offer support
A Allow for diversity
L Loud and clear
S Strategy

O Offer support

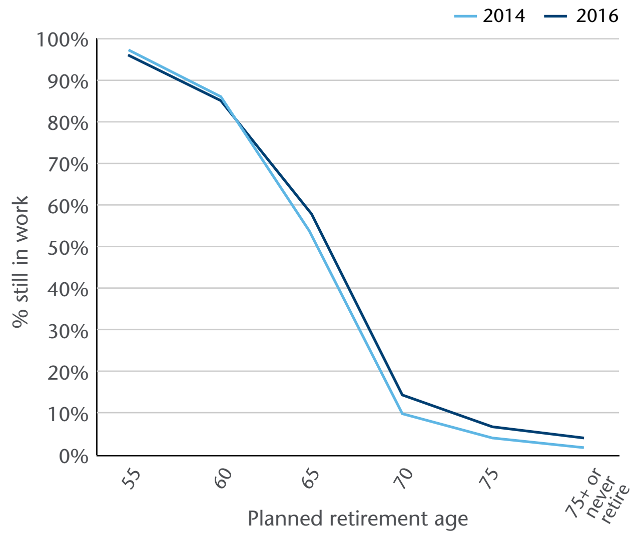
When looking at contributions, employees again tend to follow what their employer offers.

The majority of people pay the same as their employer. This will be a mixture of people getting matching contributions and those who use the amount the employer pays in as a guide to what they should contribute.

What proportion of your salary do you and your employer currently contribute to the pension scheme you are paying most into?



At what age do you expect to retire fully from all paid employment?



In the last two years the age at which people expect to retire has increased by half a year. In pension planning terms, this is quite a significant change in a relatively short period of time, perhaps recognising that the message about the State Pension age increase has started to be absorbed.

Less than half of people now expect to be retired by age 65. However, this expectation varies significantly by age, with only 45-54 year olds thinking they are as likely to retire by age 65 than after age 65.

The question is, do you offer your members the support they need to understand how to reach their target retirement age with sufficient funds to retire?

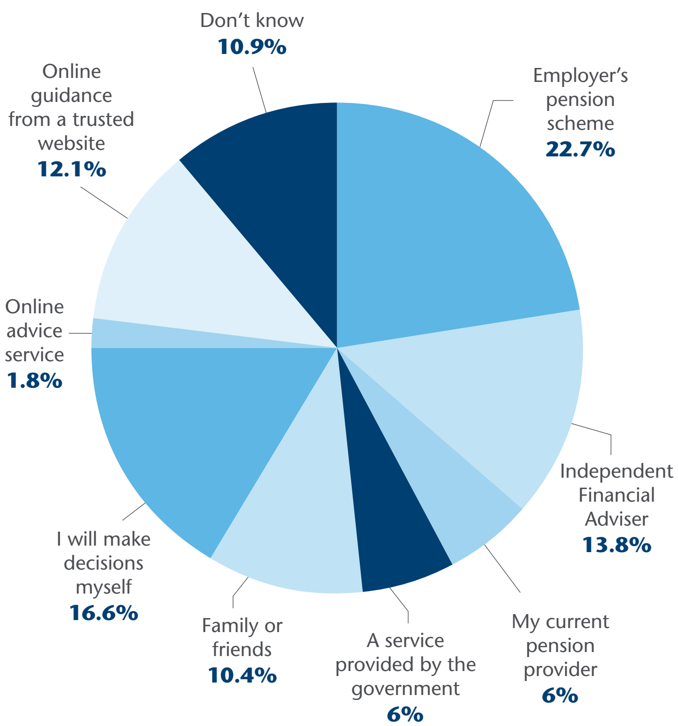
Age	18-34	35-44	45-54	55-64
Expect to retire by age 65	**40%**	**44%**	**50%**	**31%**

1 in 5 people expect their pension scheme to be their main source of guidance. Although 1 in 4 expect to do it themselves or with the guidance of family and friends, this group will also still need support from the plan. Only 14% expect to pay for guidance from an IFA.

19% of younger people (aged under 35) are likely to seek advice online – more than twice the 9% of older people (aged 55-64). 25% of older people (aged 55-64) are likely to be confident to make the decisions on their own – twice as likely as the 12% of younger people (aged under 35). (We look at this in more detail under 'Allow for diversity')

O Offer support

Which source of advice or guidance do you think you are most likely to use to help you make decisions about your pension savings in the future?

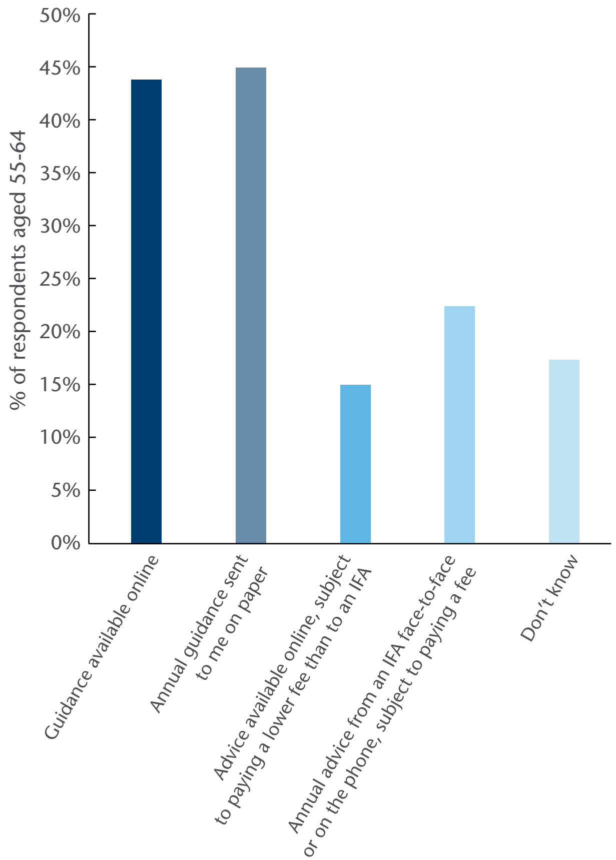


We asked respondents about the support they will need on one of the more complex areas – ie, what to do if they decide to leave their money invested after retirement. It is interesting to see the variety of support different respondents want.

For example, although they want guidance and information available online, they also still value receiving a paper statement. 22% expect to use an IFA to keep them on track while 15% would be comfortable with robo-advice. In total, 1 in 3 is willing to pay for advice. Plans should therefore not underestimate the range of tools they would need to offer to support members. This support is important because many people expressed the fear of "running out of money."

> "I worry about the cost of living and medical expenses vs my available funds."

If you keep your pension fund invested, what support will you need to keep you on track?



A 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.

A Allow for diversity

When thinking about your DC plan, you need to allow for the variety of members you have and their different expectations and needs.

This survey gives you some ideas about how requirements differ by age, gender or salary level, but you will then need to apply this to the range of members in your plan.

Of those who know what they expect to do with their DC funds, two-thirds of members still want income in retirement – whether they are the 28% of Certainty Seekers who are willing to buy an annuity or the 35% of Steady Spenders who want to keep their money invested but to use drawdown steadily.

The 19% who want Flexibility Foremost want income drawdown and expect to dip in and out as they need it. The Early Spenders who expect to take it as cash represent 12%.

Only 6% expect to leave their money invested with a Residual Required to cover the costs of long-term care or to provide a bequest. But 29% do not know what they expect to do; even in the 55 to 64 age group, 23% do not know. Looking on the bright side, by age 45, 75% feel they do know what they want to do.

Certainty Seeker **28%**

Steady Spender **35%**

Flexibility Foremost **19%**

Early Spender **12%**

Residual Required **6%**

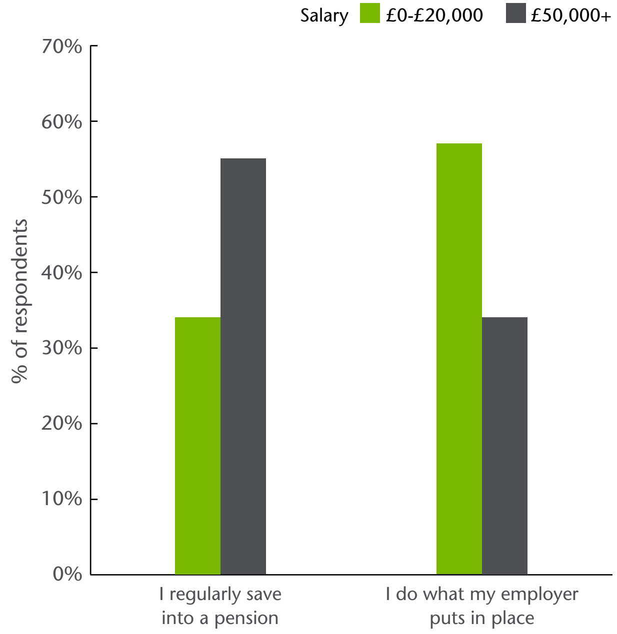
You cannot necessarily predict what people will want to do with their money at retirement. It is often argued that lower earners (<£20,000) are more likely to want to take cash and to rely on the State Pension as their stable income. But when we asked this question, 57% still wanted to either be Certainty Seekers or Steady Spenders.

This shows that there is a strong preference or culture in the UK for taking an income in retirement, whether that be via an annuity – Certainty Seeker – or regular drawdown – Steady Spender. These make up the majority, almost two-thirds.

We asked the same question two years ago, and interestingly the group wanting income (and specifically those looking at annuities) has decreased a little and the Flexibility Foremost and Early Spender groups are up a little. This suggests a small shift from income to cash. As an industry we need to make sure this trend does not go too far.

We need to make sure that individuals are not overly attracted by early cash, at the expense of not having enough to live on in later life.

Which of the following statements most closely matches your approach to your pensions saving?



A Allow for diversity

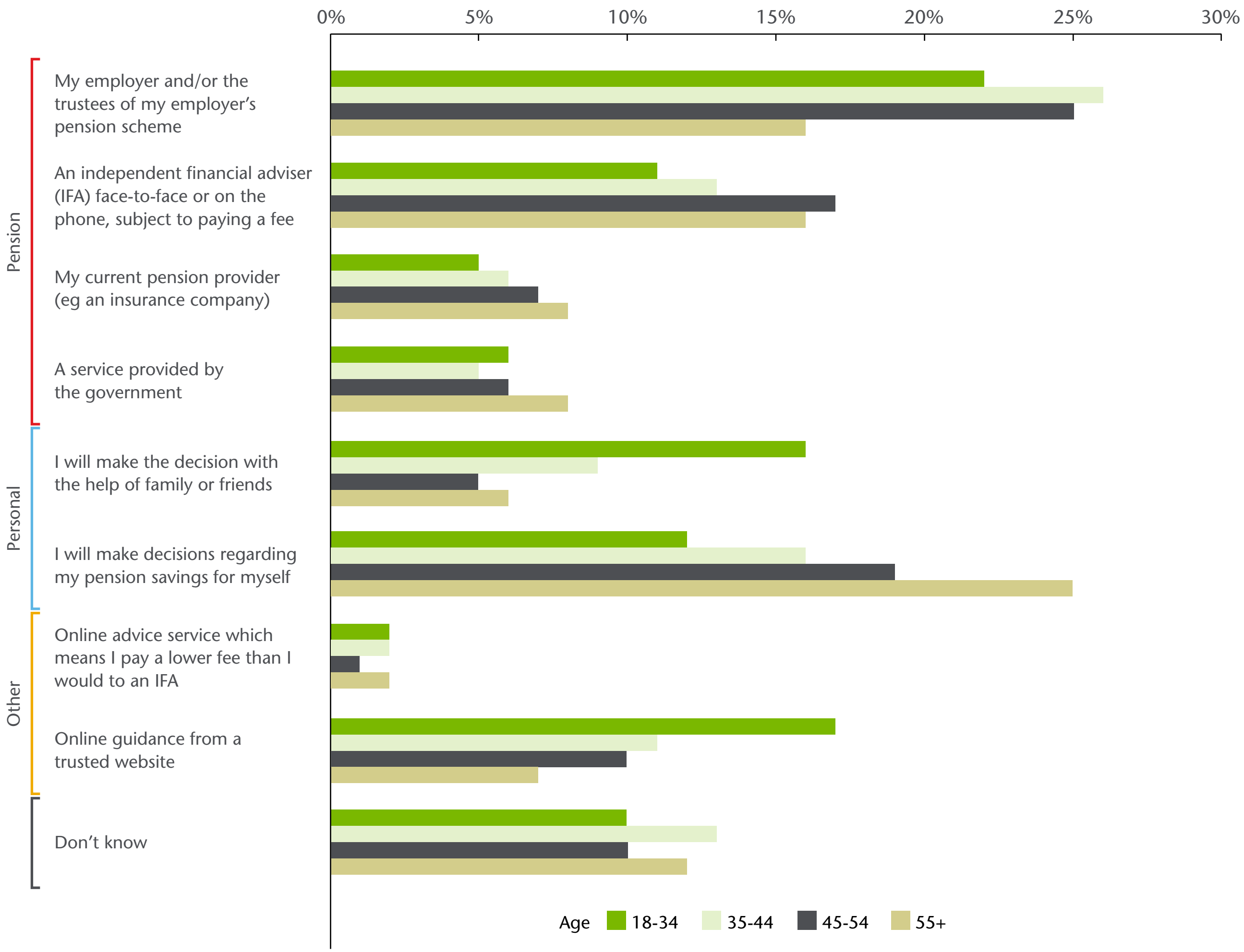
The biggest difference between higher and lower earners was in relation to how reliant they were on the employer. The lower earners (<£20,000) were more likely to describe their approach to pension savings as 'doing what the employer puts in place'.

The lower earner group were also more likely to say they did not understand pensions; to not know how much they or their employer contributes; to not to be willing to pay for advice; and to say they would not look at information if we sent it to them. So defaults become particularly important if you have lots of lower earners.

Younger members were also less likely to be willing to pay for advice, and less likely to want to make decisions on their own. So again they will be looking to you for support.

"I'm only 28 so I don't really think about retirement at the moment."

Which source of advice or guidance do you think you are most likely to use to help you make decisions about your pensions savings in the future?



A Allow for diversity

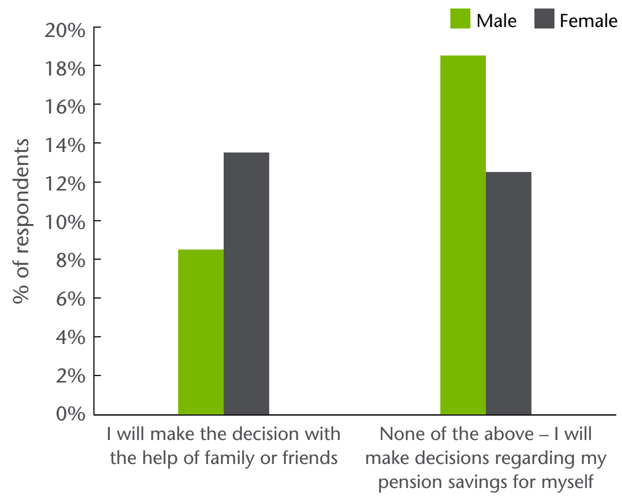
There was also a significant difference between how men and women answered the questions.

Twice as many women (1 in 5) are willing to admit that they do not know what their employer pays into their pension scheme for them. Over 10% more women say their approach is to do what their employer puts in place. In all but two questions, women answered ‘don’t know’ more frequently than men. Women appear to be less confident about making pensions savings decisions, and they are looking for support both from family and friends and from you.

Despite the equalisation of pension ages, women still expect to retire on average six months earlier than men. This could be a combination of the hangover from when women’s State Pension age was five years younger than men – although it could also be a practical point that women are typically younger than their husbands, so if couples want to retire at the same time then women will tend to retire younger. This is a particular challenge for their savings as they are also expected to live longer.

The combination of retiring six months earlier and living three years longer means that to have the same income per year they need to save 15% more than men ie, an extra 2-3% of salary more than men to make up for these differences alone.

Which sources of advice or guidance do you think you are most likely to use to help you make decisions about your pensions savings in the future?



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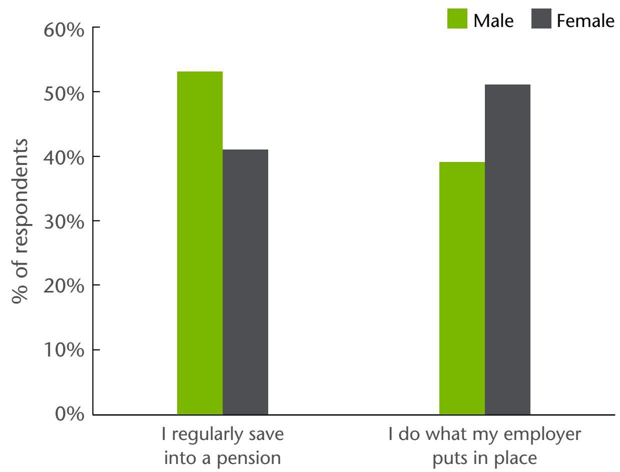
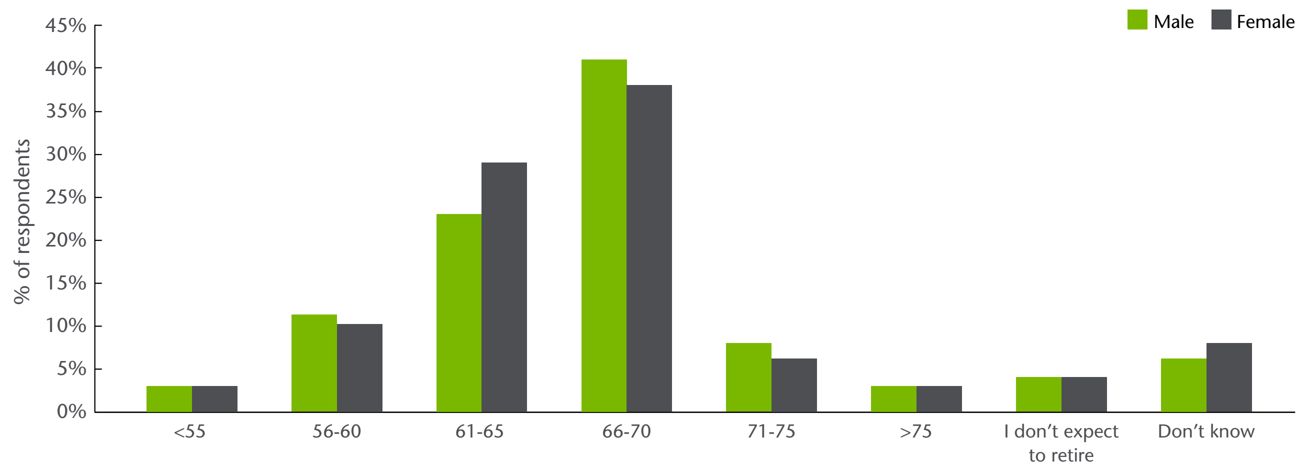


At what age do you expect to retire fully from all paid employment?



A Allow for diversity

The fact that your members are looking for different things means that you need to make a range of information and modelling tools available.

For example, in our 2015 survey, schemes said they typically use five or six different methods to communicate with their members. It is also about tailoring information so that it is relevant. For example, there is no point in telling members about the detail of tax limits that they are never going to hit.

As we describe in 'Gain Trust', it is also about helping members to set their own goals and to answer simple question like:

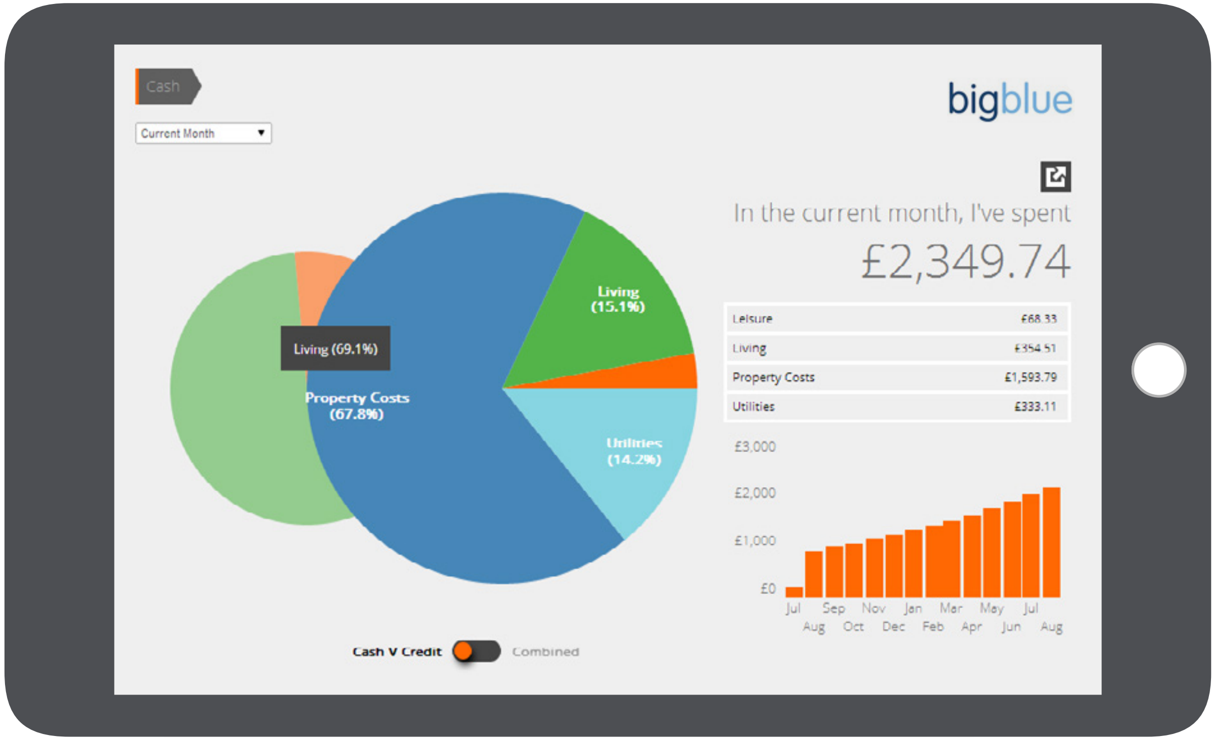
– What age do you want to retire at?

– What do you want to get at retirement?

– How do you expect to take your benefits?

– How much can you afford to save now?

And then showing them whether that all stacks up, allowing them to see the impact if they change one of the key variables. You can help members to work through the decisions they need to make – and their implications – by providing them with decision trees that show step-by-step the choices they need to make, and giving them tools that model their personal circumstances so that they can see what it means for them.



It is important that the information they get is personal to them wherever possible and that they can see themselves in examples they are given – do they see them as 'someone like me' or as a theoretical pensioner with pipe and slippers?

Utilising internal employee networks can be another way of targeting your messages to different groups of members – for example new graduate groups, women's networks, LGBT networks.

You also need a plan which provides the flexibility for members to cope with a range of different circumstances but that can also cope with the changing circumstances of the members themselves over time. For example, is your range of investment choices and retirement options flexible enough to cope if your members' circumstances change?

L Loud and clear

Ask yourself, how can you help?

More people may be enrolling in pension schemes, but their engagement is often minimal.

It is important that people make the key decisions. But how far should they 'look under the bonnet?' They need clear and concise information, which does not overwhelm or overcomplicate. Members focus mainly on the amount of income they will receive, and are not interested in the details.

THE NEED TO KNOW

Most people simply want to know what their annual income will be when they retire. Many are uninterested in risks or charges.

People know they need to save more, but many are more focused on paying off debt or their mortgage rather than increasing pension savings

1 in 10 say nothing is stopping them from saving more, we just need to give them the nudge

52% of people value flexibility to change their mind, especially in their drawdown product – they do not want to be locked into anything

Things that might **SURPRISE YOU**

1 in 4 people have no idea what income they need to maintain their standard of living

1 in 3 people have no idea what retirement income they can expect to get

7 in 10 lower paid workers (< £20,000) overestimate how much they need to maintain their standard of living

4 in 10 high earners underestimate how much they need to maintain their standard of living

"What if I save for years and don't get back what I put in?"

Steps to take **right now**

1. **Do it for them where you can,** because they do not want all the detail
2. **Focus on the principles**
3. **Communicate change clearly** eg, do not let increasing auto-enrolment contributions put members off
4. Keep the message to members simple **and action-orientated**
5. **Set pensions in context of broader savings** when communicating with members – if we help manage other financial issues, pensions will follow
6. **'Nudge' people to save more**

Discover more

The biggest fear that people have is whether they will have **enough to maintain their quality of life.** You have to be honest and speak with clarity.

READ ON to discover how.

L Loud and clear

"I am worried I won't be able to retire early enough because I won't have enough money."

When looking at what they have saved so far, people's focus is the amount of income they will get from both the DC plan and the State Pension.

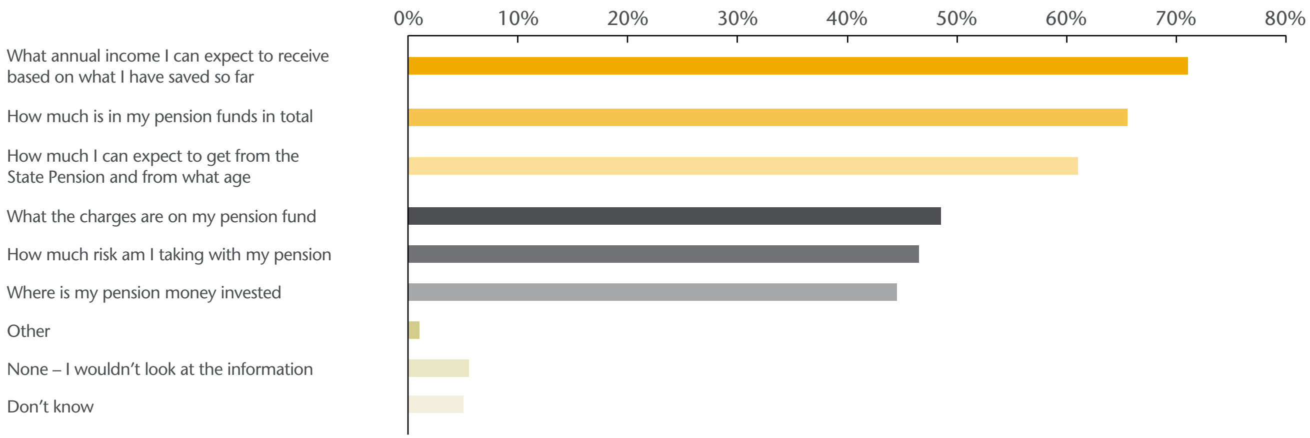
There is some interest in charges, risk and where the money is invested, but these are lower down the priority list. 1 in 20 was honest enough to admit that even if we sent them information, they would not look at it.

We asked a similar question but focusing on future savings. Again, the information required was about 'what will I get?' – ie, pot size and income. Some respondents did focus on understanding what would happen if they increased savings, or in a drawdown scenario, how long their money would last.

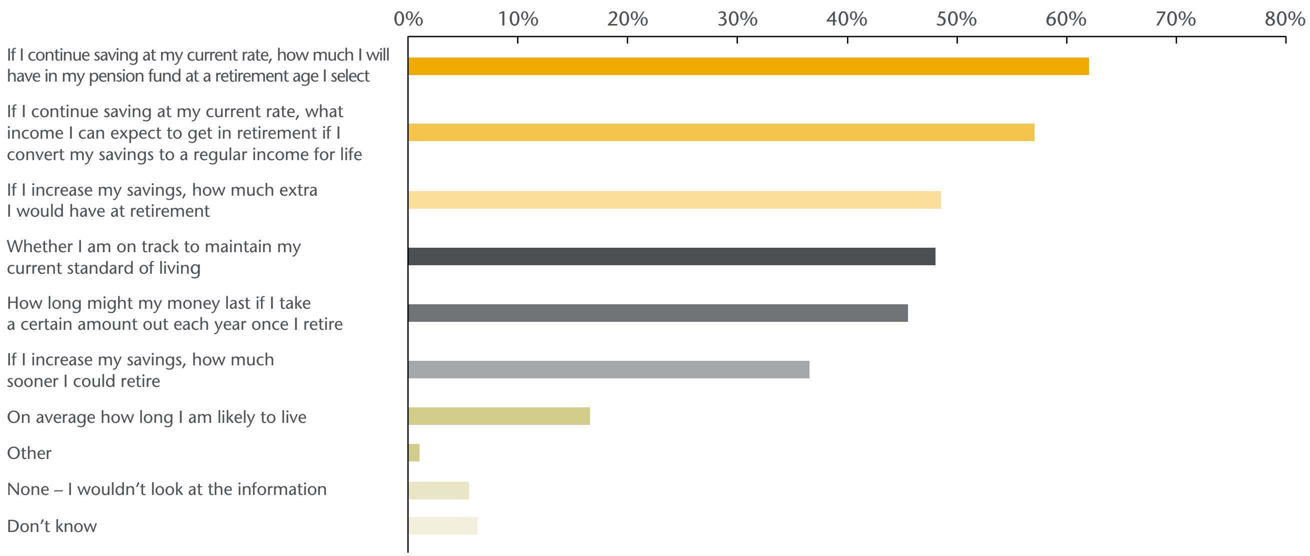
Taken together, these two questions show us what members want from the Pensions Dashboard. They want information that integrates all their pensions and tells them what income they will get. Some want to look at a little more detail. And we have to remember the 1 in 20 who will not look at it whatever we do.

So we need tiered information that is complete and easy to access. We would also argue that it should allow them to move easily from understanding to action – so that if they decide to change their contributions or target retirement date they can do so there and then.

What information do you want to know about your current pension savings?

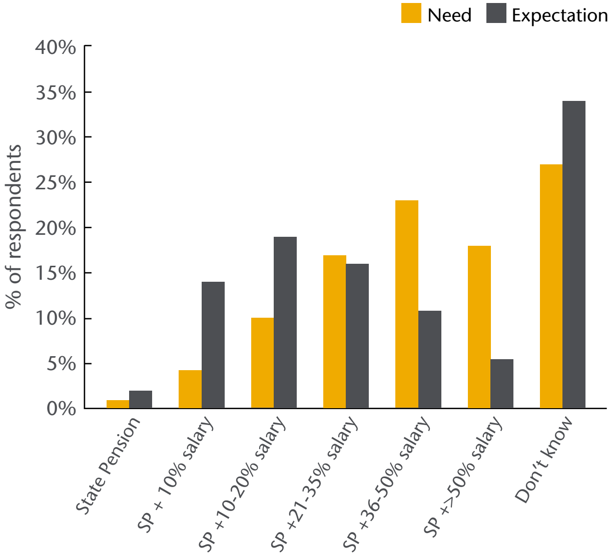


What information do you want to know about what your pension will be in the future?



L Loud and clear

Relative to your salary, what level of pension do you think you will need to maintain your current standard of living and what do you expect to receive?



This shows that most people do know they should be saving more to maintain their standard of living in retirement and we need to harness this desire.

We also have to help the 1 in 4 who has no idea what income they need to maintain their standard of living to set that goal. And the 1 in 3 who have no idea what retirement income they expect to grasp this better.

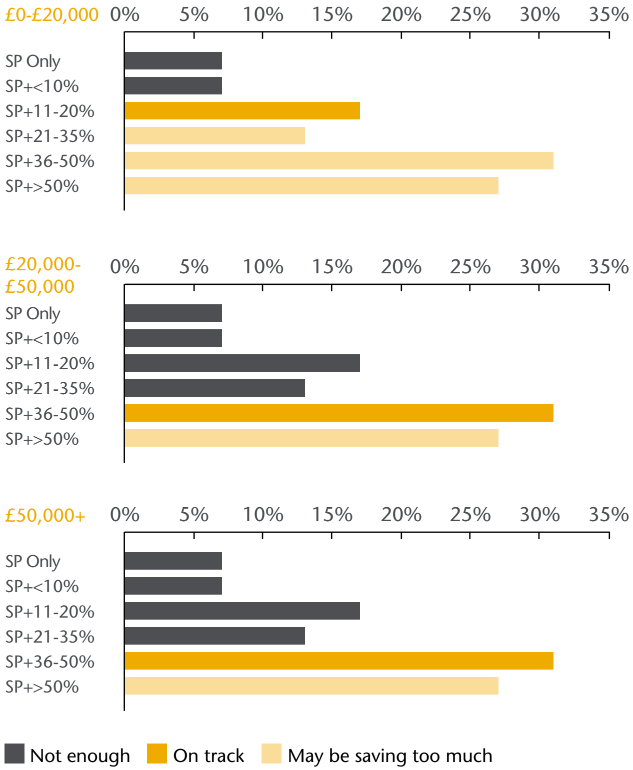
This chart shows whether people have a good understanding of what they might need to maintain their standard of living. *DWP's Framework for the analysis of future pension incomes* (2013) showed that lower earners needed a higher proportion of income to be maintained into retirement in a higher replacement ratio. This is because, for example, they may still be renting rather than owning their own property. However, the State Pension makes up a much larger proportion of what they need.

So someone earning, say, £12,000 needs perhaps an 80% replacement ratio, so £9,600, but if they receive the full State Pension of £8,000 then they only need to save enough to provide 13% of salary in addition. In the survey 26% of the earners below £20,000 thought they would need greater than 50%. If a £12,000 earner got 50% on top of a full State Pension, they would earn more in retirement than when in work!

We think that 7 in 10 of these lower earners overestimate how much they might need and risk setting themselves a target they believe is unobtainable – as a result, they risk not trying, when a realistic goal could be in reach. This is why it is important to show them their own State Pension position in case they do not have enough years for a full State Pension, and to show them what it might take to maintain their standard of living. In contrast, 4 in 10 high earners on more than £50,000 risk underestimating what they need to maintain their standard of living.

We would be surprised if the 5% earning over £50,000 who said they thought the State Pension plus 10% of salary was enough would really want to live on £13,000 a year. However this analysis risks ignoring other savings, so again, tools and education need to be flexible enough to look at members' whole financial position.

Relative to your salary, what level of pension do you think you will need to maintain your current standard of living?



G Gain trust
O Offer support
A Allow for diversity
L Loud and clear
S Strategy

Loud and clear

> "I live in fear that the government will change the rules yet again."

We asked why people did not save more into pensions when it is clear from the earlier question than many want to do so.

Many feel they cannot afford it or need to prioritise paying the mortgage or paying off debt. For this group, in orange in the chart, broader financial education and tools to help debt management may be more helpful than pensions information. Looking at the black bars in the chart, we can tackle a lack of understanding easily and hopefully also tackle the lack of trust with transparency, although some of this lack of trust may be endemic. There is also the 1 in 10 who says nothing is stopping them. This group we can nudge. Are they taking up the full matching? Could we use auto-escalation? Read more about this in the 'Gain trust' section. Can we use what we know about them to provide timely reminders at different points in their careers?

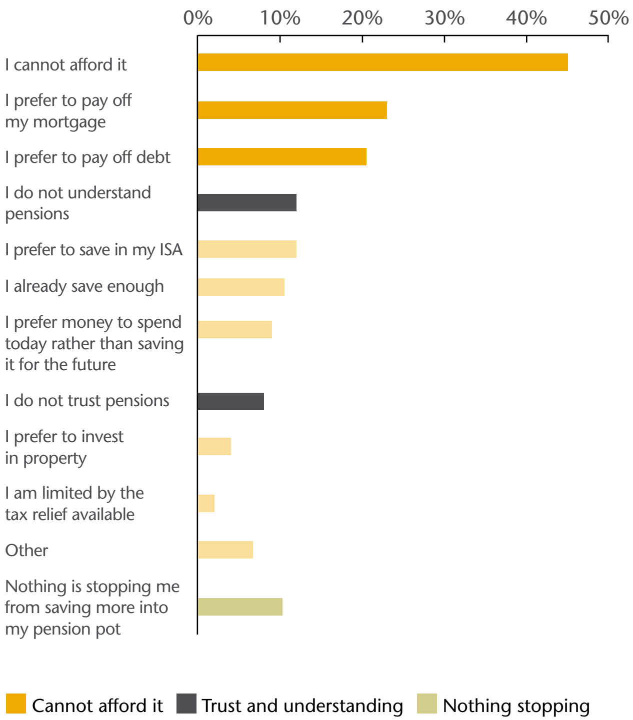
Based on what information members want and the challenges they face, this shows us that members want you to do a lot for them, and they do not want all the details. They want communication that focuses on the principles and does not 'look under the bonnet'. Principles should stick to high level themes like:

– What income do they want? Or what lifestyle do they want to maintain?

– When do they want to retire?

– Why pensions? Explaining the basics of eg, the benefits of matching contributions and why they should continue saving when auto-enrolment contribution rates increase

Which of the following statements best describes what, if anything, is stopping you from saving more into your pension pot?



Where there is change, as there inevitably will be in pensions, that change must be communicated clearly. It is important that as auto-enrolment minimum contribution rates rise over the next few years, this does not put people off but is a positive nudge to help them to save a bit more. You need to keep the message to members simple – but also make it easy for them to take action. Something as minor as needing another password to make a change can be enough of a barrier to make people 'just leave it for another day'.

It also shows that pensions should not be treated in isolation in communications. Some members need to focus on other areas of their finances first. Others need to set their pensions decisions in the context of broader savings and the State Pension in order to make rounded decisions. So you need to think about how pensions fits into broader financial education and financial wellbeing. Ensure that any tools take on board State Pension and other savings too. They also need to consider support beyond pensions, delivering some online or face-to-face support for basic financial literacy, debt management and so on.

S Strategy

Members want solutions that enable them to make decisions and implement them easily.

Employers and trustees should also think about how the strategy works for them.

THE NEED TO KNOW

You need to **have goals for your DC plan** and measure against those goals

You need to **know what choices your members are taking actively** and which they are defaulting into

Things that might **SURPRISE YOU**

12-20

Most trustees are now spending 12-20 days a year on DC matters*

57% of schemes and sponsors wanted to improve member outcomes but only 16% monitored against target member outcomes*

68% would not know how much a member who stayed in their DC plan for their whole career would expect to get*

We have seen that your DC scheme is **at the heart of your members' retirement savings,** but as every scheme and member is different, so are their needs.

Aon can offer a complete range of DC services for employers or trustees **helping you to set the right strategy to deliver better outcomes for your members.**

*from Aon's 2015 DC scheme survey

Ask yourself, what should I focus on to add most value?

"I'm concerned there won't be a State Pension and I will have to work longer to compensate."

Steps to take **right now**

1. **Decide where you add value** and what can be delegated
2. **Decide how much you want to buy** as a bundle
3. **Decide what you are not going to do** but how you can still support members eg, a preferred drawdown route

Discover more

Whatever decisions you make about independence or delegation and bundling **we can provide an implementation solution.**

CLICK HERE to learn more.

S Strategy

Whenever we are thinking about the best strategy for each scheme, we need to remember how members think about retirement.

We asked members what their biggest fear was about retirement. Some of the key words that came back are shown in the word cloud to the right.

There was a lot of fear of not having enough money to maintain their current lifestyle, so we can use this fear to help nudge members with financial education and easy tools to improve their outcomes. It reminds us that real people have to make complex decisions. Pensions is just one part of the jigsaw of retirement which mixes health, wealth and lifestyle decisions.

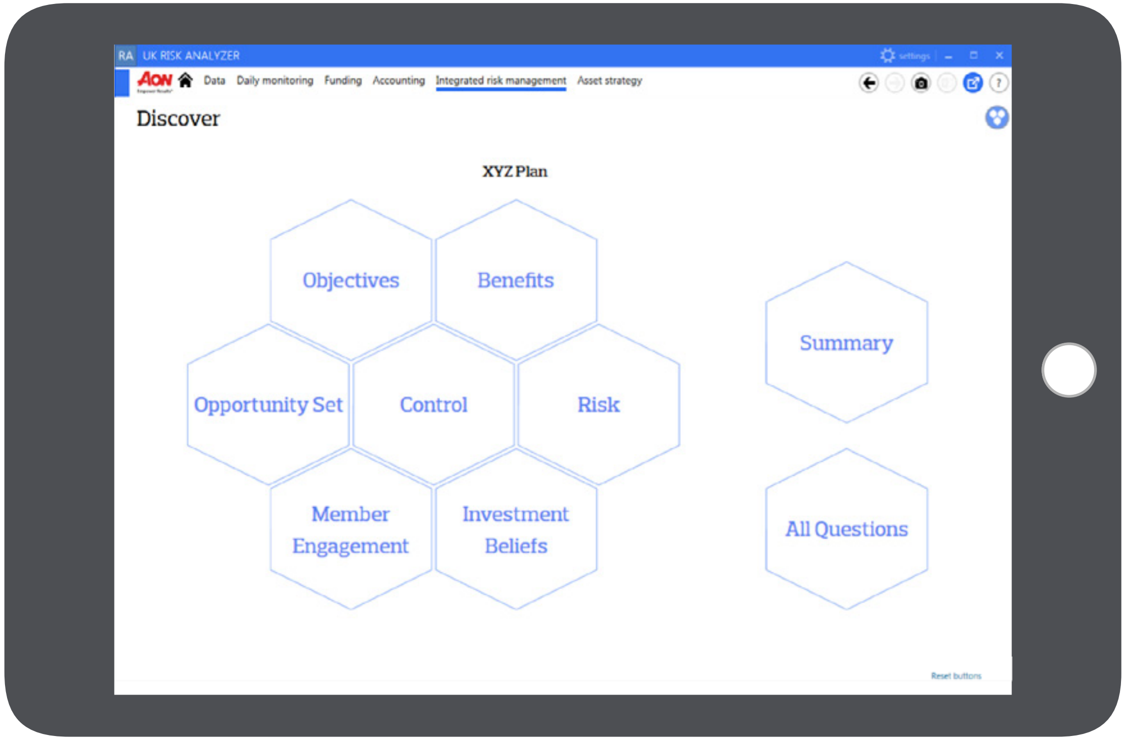
Lonely
Pension
Government
Old
Family
Poverty
Fund
Change
Not comfortable
Retirement age
Not enough
Insufficient
Long
Money
Lack
Income
Health
Lack of enjoyment
Pay
Finances
State pension
Support
Lifestyle

Strategy

We know that your DC plan is key to your members' retirement savings, but how you deliver what they need will depend on your resources and circumstances.

We think it is important to consider what your DC goals and objectives are before trying to answer the question about what type of solution or product is right for you and your members.

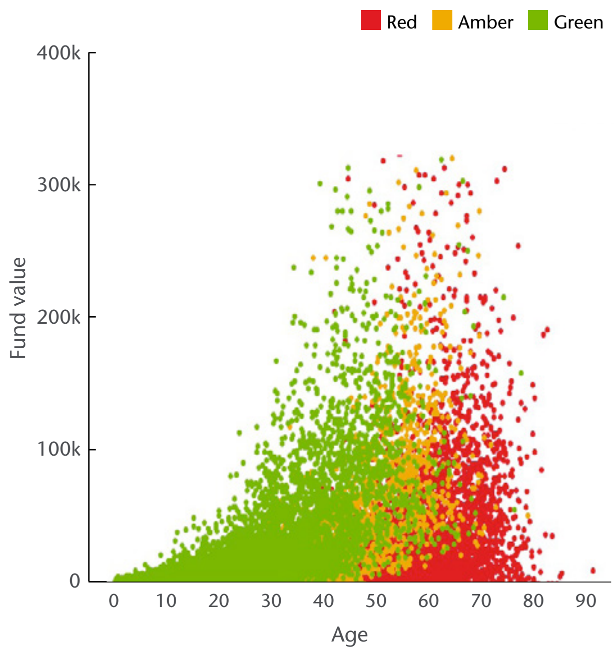
So if you are taking stock, consider using our DC Viewpoints Discover module (part of our Risk Analyzer suite) to help understand your goals for your DC plan.



You also need to have an understanding of whether your members are on track to maintain their current standard of living – and you need to monitor whether this has improved or worsened over time.

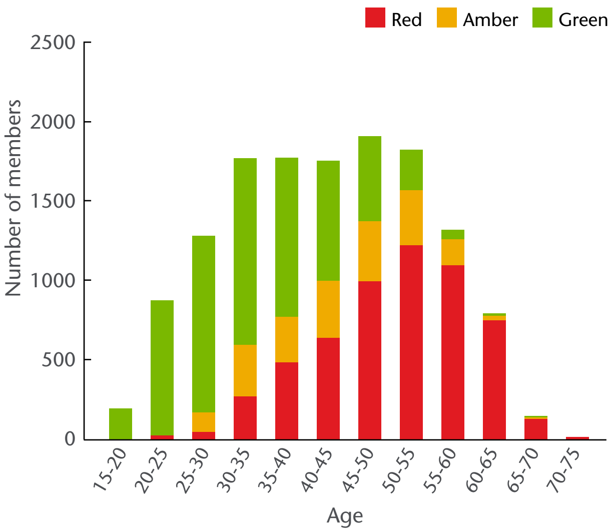
Once you have set the target replacement ratio, you can quickly see from a RAG chart like the one below whether your members are on track. Our DC Analytics allow you to split this analysis by a range of potentially key variables such as by salary level, by site, by contribution level, by investment strategy, etc.

Fund value against age

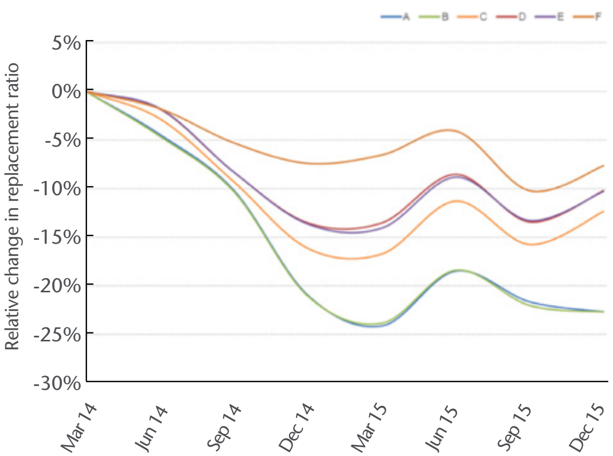


S Strategy

Number of members in each RAG Status, grouped by age



Change in Projected Drawdown Outcomes



At the start of this section, under "steps to take right now", we challenged you to consider where you add value for members.

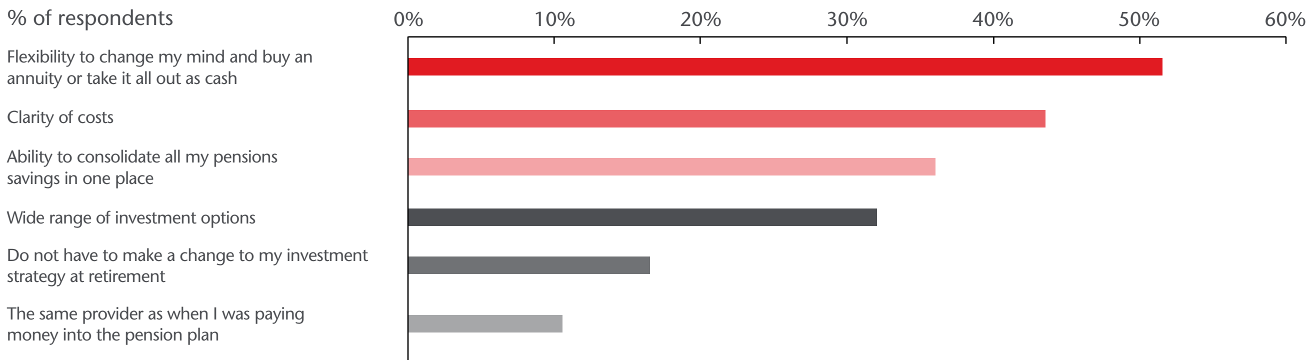
We recognise that for most plans, this does not include managing income drawdown through a member's retirement, given the complexity of doing this. We looked at what members wanted in an income drawdown product – and the key to this was the flexibility to change their mind.

52% of respondents who thought they might leave money invested wanted this flexibility. People do not want to be locked into a decision; perhaps this is one reason for some people's dislike of annuities. So how can you add value to members who want income drawdown?

- Encourage members to review which lifestyle strategy they are in, say five years before retirement
- Consider reviewing drawdown providers and selecting a preferred drawdown provider, where you can add value by negotiating better terms for your members than are available on the retail market. Members recognise that they may need to change provider when they retire, with only 10% saying that retaining the same provider was something they were looking for. Consider whether a master trust solution, with an in-built drawdown option, would suit members better.

When undertaking any of these steps bear in mind that people may want to change their plans at any time.

What are you looking for in a product that leaves your pension fund invested after you have retired?



S Strategy

We also challenged you to consider where you can add value or what can be delegated – and to decide how much you want to buy as a bundle.

At Aon, we recognise that you will have different resources and skills available so the answer to this question will depend on your needs. We can therefore provide you with any DC pension option on the spectrum from our range of consulting services, our delegated investment only and bundled solutions for occupational trust-based schemes, through to our standalone solutions, The Aon MasterTrust and Big Blue Touch, Aon's GPP.

Two big governance decisions

1. How much bundling?

A GPP bundles all of administration, platform, and communication strategy into a single product. In contrast, occupational trust-based DC schemes can choose how much to bundle and how much to buy based on the services they find most suitable for their scheme. Master trusts are more likely to be able to buy services in bulk.

2. How much delegation?

Again, a GPP represents a high level of delegation to the provider of the relationship between the member and scheme. In contrast, an occupational trust-based DC scheme does not need to delegate that much. They usually delegate day-to-day administration, and may choose whether or not to delegate investment structures. The master trust is a compromise that allows significant delegation but also allows more control, particularly around communication.

Aon's Delegated DC Services

Most involved ← → Fully outsource

	Investment only	Bundled	The Aon MasterTrust Integrated Pensions Freedoms	Bigblue Touch GPP Integrated Pensions Freedoms
	Scheme trustee board	Scheme trustee board	Aon appointed independent trustee board	No trustee board
Aon Managed Funds	✓	✓	✓	✓
Aon integrated technology	–	–	✓	✓
Member administration services	–	✓	✓	✓

Check you are taking steps towards your DC GOALS

We have designed this short checklist to help you identify the areas you need to focus on. Use it to determine where you are currently and the steps you need to take to achieve your GOALS.

G Gain trust

Most people see their employer and employer's pension scheme as main sources of retirement information and financial support. And the vast majority trust and understand pensions enough for lack of trust or understanding not to be a block to saving. You need to capitalise on this to help improve your members' outcomes. 'Do it for them' where you can, because a lot of people will follow your lead. As an employer, trustee or scheme manager have you:

- Reviewed your membership and understood what they need? ☐
- Reviewed your default investment strategy? ☐
- Considered auto-escalation? ☐
- Considered a default retirement option and/or preferred drawdown provider? ☐

O Offer support

There is much you can do to support – or 'nudge' – your scheme members into taking positive pensions action.

- Does your typical 25 year old pay a total contribution rate of 18% of salary? ☐
- Do you show your members the implications of their current choices? ☐
- Are they likely to meet the goal of maintaining their standard of living? ☐
- Have you reviewed the support you offer members at retirement? ☐

A Allow for diversity

Your membership will be different to all other schemes. Your members will also be varied, with a range of pension, investment and communication needs. Your pensions education and guidance needs to take this into account.

- Can your members easily set their own goals? ☐
- Do you segment your membership and tailor information? ☐
- What tools do you offer? And do members use the tools you provide? ☐
- Do you use different approaches to get information across? Paper, online, seminars, videos and internal employee networks can all help. ☐

L Loud and clear

You need to make sure key pensions messages are going in – and make it easy for members to make pension decisions. Are you using all the tools at your disposal to ensure members take notice and know what they need to do?

- Does your communication focus on principles and actions? ☐
- Have you clearly communicated any change, like auto-enrolment minimum contribution increases? ☐
- Do members have access to a pensions dashboard where they can see all of their pension savings? ☐
- Can they see their pensions in the context of their entire savings? ☐
- Can they transact online? Is the sign-on process simple? ☐

S Strategy

You need to work out the objectives of your DC plan before you can choose the right product or solution for your members. Make sure you have a clear strategic plan.

- Do you integrate pension decisions with broader financial management for members? ☐
- Do you have a clear picture of your DC plan's goals and objectives? ☐
- Have you reviewed where you add value or what should be delegated? ☐
- Have you reviewed what you want to buy in a bundle? ☐

To discuss of 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, email **talktous@aonhewitt.com** call 0800 279 5588 or visit **aonhewitt.co.uk/dcpensions**

About Aon

Aon plc (NYSE:AON) is a leading global provider of risk management, insurance brokerage and reinsurance brokerage, and human resources solutions and outsourcing services. Through its more than 72,000 colleagues worldwide, Aon unites to empower results for clients in over 120 countries via innovative risk and people solutions. 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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