In a brave new pensions world what will DC members really want?

The survey results reported in this paper provide an invaluable insight into the behaviours, expectations and concerns of over 2,000 members of occupational DC pension schemes. As such, we hope it will be of great value to employers and trustees as they review their schemes against the backdrop of this brave, new pension world.

Two thirds is dead — long live one third

The old expectation of a replacement ratio of two thirds of pre-retirement income is now consigned to the history books (at least for private sector DC members).

One of the key findings from this research is that there appears to be a welcome sense of realism among employees about their retirement prospects. Nearly half of the respondents expect their pension to be between 21% and 50% of their salary; the same proportion expect to retire between the ages of 66 and 70; while nearly one in ten don't expect to be able to retire until they reach their 70s.

Pension expectations – the new reality

Realism about retirement prospects also extends to the way in which DC members are planning to approach retirement.

Only just under half of the sample expected to be able to adopt the traditional approach to retirement, that is, work full time and then retire fully from all paid employment. Just over 40% of our sample expect to ease into retirement by working part-time before they retire, while nearly 5% expected not to retire at all!

The realism about pension prospects is clearly a good thing. However, the clear intention for a significant proportion of members to 'glide' into retirement by gradually reducing their working hours, may present significant challenges for employers. Dealing with this challenge will be easier if employers are aware of the retirement intentions of their employees, and of course these intentions may well be related to the adequacy, or inadequacy of pension provision. Engaging with employees well before retirement plans are put into action, and reviewing retirement provision will help employers manage their workforces more effectively and, simultaneously, help employees achieve their retirement goals.

Annuities are dead ... long live annuities!

Nearly 70% expressed a desire for a "steady, secure income" but only half of these would use their fund to buy an annuity from an insurance company. New products will need to be developed to meet this demand, for annuity-like products ... although probably best not to refer to them as annuities!

Furthermore, we also found that survey respondents do not seem to value 'flexibility' in retirement income very highly and that most do not see being able to leave their pension pot as a bequest as a key concern. We also found that only a very small proportion of respondents (4%) would take that portion of their pension pot in excess of the tax free allowance, as cash. This finding might help to allay widespread fears that people would use the new pension rules to 'cash in' all of their pension fund and potentially blow it in the first few years of retirement.

One size no longer fits all

The results show that we can expect to see members adopting very different approaches to retirement, depending on their circumstances and aspirations.

Add to this the diversity of funding sources, the equally diverse, personal decumulation strategies, and the increase in part-time working means that the search for one solution for all is likely to be a fruitless one.

In the absence of a 'one-size-fits-all' DC pension solution, how can employers and trustees respond appropriately and deliver solutions that meet their own scheme members' changing and diverse needs? How can they deliver targeted communications, investment strategies and ways to encourage pension savings? Importantly, how can they do this in the most efficient and manageable way?

We're here to empower results

To download a copy of the full survey, visit: aonhewitt.com/dcpensions

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The answer may lie in the ability to segment DC scheme memberships. The diversity of members' needs means they are planning to take a variety of approaches to how they fund their retirement:

Certainty-seeker	35% want an annuity so that they can have a secure, stable, guaranteed income for life
Steady spender	35% want the same outcomes as certainty seekers. But, they plan to continue investing their money in retirement to generate this stable income. Essentially, they want an annuity in all but name
Flexibility foremost	15% anticipate continuing to invest and will dip into these savings as and when needed. They are likely to be planning to rely on state pension and other sources of income to support their retirement
Early spender	10% want to take their retirement savings in one (partially taxable) lump sum, or in a series of payments soon after retirement (perhaps to reduce the tax impact)
Residual required	5% want to ensure a significant element of pension savings towards the end of their lifetimes for long-term care or bequest to family

Making decisions on retirement spending

Only 12% of the respondents to the survey said that they would make use of a "web-based government guidance service".

One third of the survey respondents intend to make important decisions about their retirement on their own, or with the help of friends and family. But the very high proportion of DC members that currently invest in their default DC investment option probably indicates that members do not engage much with the investment process prior to retirement.

Another quarter of the respondents said that they would seek the help of an Independent Financial Adviser (IFA). But post Retail Distribution Review (RDR) this market has shrunk and remaining advisers are likely to focus predominantly on individuals with investible assets greater than £150k. Taken together, our survey reinforces the message for employers and trustees to engage more with their scheme members. Providing tools, guidance and education to support their members when they make these potentially, life-changing decisions.

Managing drawdown

When asked how they would like their drawdown pot managed, half of survey respondents indicated that they wished to use the drawdown route, in whole or in part, to invest at least some proportion of their pension savings.

One in five of this sub-sample of DC members indicated that they would like to see their pension investment fund managed within their existing scheme, while around one in six would like to have this fund managed by a pension provider such as an insurance company. However, one quarter of this sub-sample would be willing to have the investments managed under the advice of an IFA, a result that again emphasises that DC members believe that the IFA community will be able to meet their demand. A similar proportion, just over one quarter of respondents, said that they would manage these investments themselves, while a small proportion did not know how they would want these funds invested.

One consequence of managing their DC pots outside of the company pension plan, either with or without the advice of an IFA, could be higher investment management fees. That is, by 'going it alone', DC members may not be able to benefit from the economies of scale that they receive in their existing schemes.

Trustees and employers will need to steer members towards sensibly-priced products and guidance to support members at retirement and beyond.

What does good look like?

Member experience	• Clear, engaging and flexible with a range of tools and support
Administration	• Encourages regular member engagement e.g. acts like a bank account
Investments	• Facilitates consistent investment strategy pre-and post-retirement • Provides a range of investment options to target different forms of benefit
Coverage	• Available to all members irrespective of fund size • Suitable for a range of legacy situations and requirements
Cost	• Leverages economies of scale

These will be the key elements of any provider selection

In collaboration with YouGov (www.yougov.co.uk), Aon Hewitt and Cass Business School conducted a nationwide survey of members of defined contribution (DC) pension schemes. The survey was designed to understand the retirement aspirations of the respondents and, in particular, the likely impact of the government's new pension regulations on these aspirations.