Living the dream?

Aon DC and Financial Wellbeing Member Survey 2018

Many employees have an unrealistic view about how to plan for tomorrow whilst faced with the reality of managing day-to-day financial challenges. Do yours need help?

AON
Empower Results®

DREAM

Unless otherwise indicated, all sources are the Aon DC and Financial Wellbeing Member Survey 2018.

Dreaming of financial peace of mind

This year, Aon has extended its annual defined contribution (DC) research beyond employees' pensions and examined their current financial health, as well as their expectations for retirement. What we have found is compelling.

Our research is based on a nationwide survey, conducted in conjunction with Ipsos during 2018, of over one thousand full-time UK employees with access to DC plans through their employer.

On the whole, employees are optimistic about their finances, but their perceptions and reality often do not match up.

54%

have a positive view of their financial situation

13%

rate it negatively

Although most people are positive about their current financial situation and the majority say they feel confident about making financial decisions, they do face challenges, including debt.

60%

have some form of debt excluding a mortgage

Around a third did not think they could come up with £1,000 in an emergency, those in the mid-career are least likely to be able to do so. Almost half of the people we asked do not have a retirement plan. Most, including many who are approaching retirement, do not know what level of savings they will need to retire.

The reality is that for most people, retirement will be later in life than previous generations and more flexible.

53%

still expect to be working at age 67

Just 31%

expect to retire fully from work at retirement age

Our research shows that retiring in your 70s, or sometimes even not at all, will become increasingly common.

- How will this change the way people plan their retirement incomes?
- How can we persuade them to plan at all?

Across the age ranges it is apparent that there is an appetite for better information and advice from employers.

66%

would like some form of help to improve their financial situation

"If I could go on an under-30s planning course for retirement, telling me 'this is what you should be doing right now', then another one before I got to my 40s, and then before retirement, that would be really helpful."

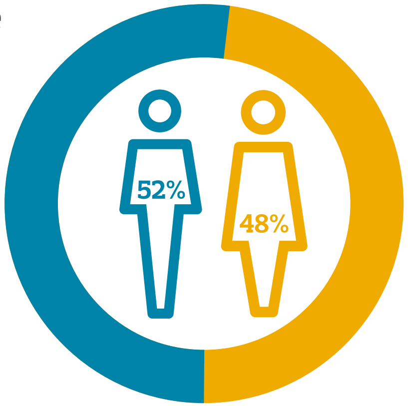
Are you ready to support employees in choosing the right options for a changing world?

Together, we can help employees to make their aspirations a reality.

Our research is based on a nationwide survey conducted in summer 2018 of over one thousand full-time UK employees with access to DC plans through their employer. It also includes real life experiences from participants in our DC pension and financial wellbeing focus groups.

Who were the survey participants?

Gender profile



Age profile

Early career	Mid-career	Approaching retirement
31%	38%	31%
18-34	35-49	50+

Income profile

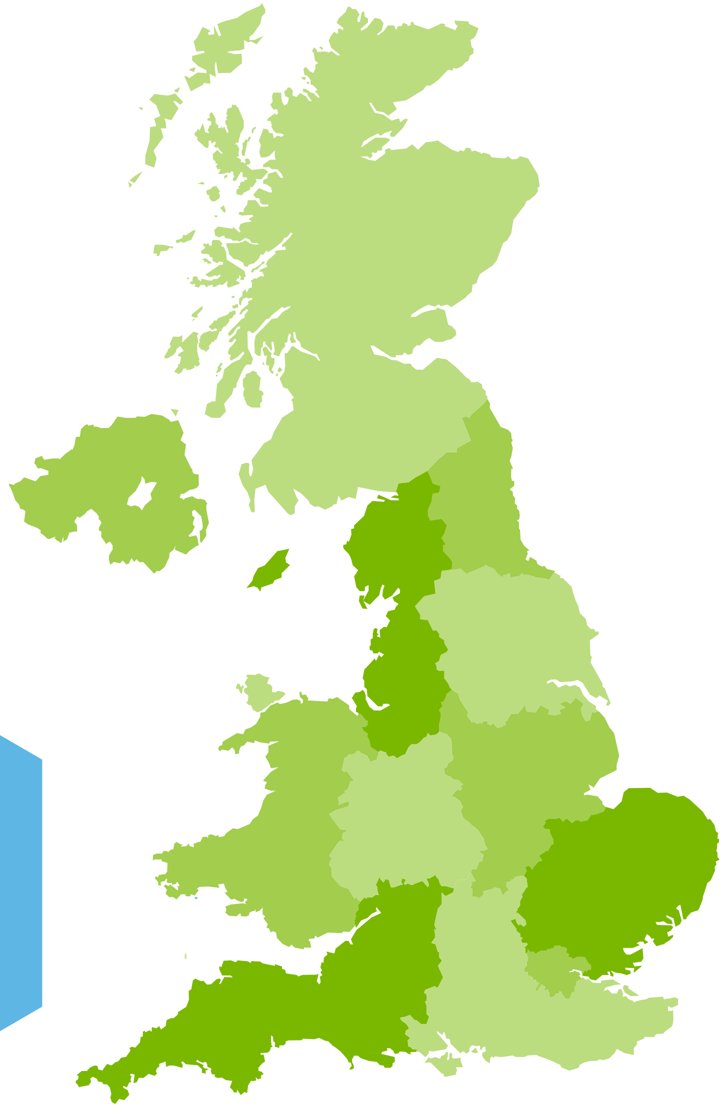
35%	44%	13%
Low-income (<£25K)	Middle-income (£25-55K)	High-income (+£55K)

Regional profile

Scotland	8%
North East England	4%
North West England	11%
Northern Ireland	2%
Wales	4%
West Midlands	9%
East Midlands	7%
East of England	11%
London	14%
South East England	13%
South West England	9%

What can the UK learn from overseas?

We have replicated the survey with employees in the US and Canada and will follow up this UK report with an international version in early 2019.



Real people, real challenges

Currently, employees feel confident about their financial health, but are they living in a dream world?

While it is natural to daydream about retiring, our research shows that at the moment, most employees just do not give the reality of their retirement, or their overall financial wellbeing, enough thought. Although most people are positive about their current financial situation, especially early on in their career, and 72% say they feel confident about making the financial decisions that affect their future, more than a third find dealing with money stressful and overwhelming (50% of early career employees), 59% do not feel they are saving enough for their long-term needs and 40% say that right now they are just 'getting by'. Debt is a problem for some, and the reality is that around a third of early and mid-career employees say they cannot come up with £1,000 in an emergency. And almost half of our respondents do not have a plan for retirement. There seems to be a disconnect between employees' optimism about their financial wellbeing and their actions.

Optimism vs reality

72% feel confident making financial decisions that affect their future

59% feel they are not saving enough for the future

36% have unpaid credit card debt each month

What is more, over 50% of employees believe they review their retirement savings at least every 6 months – but only 25-30% are registered to actually view their funds online.

Some eye openers...

24% of all employees feel nothing will make a difference to their financial situation

28% say nothing is preventing them from saving more

37% of people approaching retirement still do not have a plan

Make it happen

You have a great opportunity to help employees plan and make financial wellbeing a reality.

How we can help:

- Develop an overall financial wellbeing strategy
- Improve understanding of your people through surveys, focus groups and data analytics
- Target support where it is most needed

Find out more...

Managing personal finances in today's complex world

Many factors are coming together in the UK to make it increasingly challenging for employees to manage their finances.

Increased savings allowance (eg, £20,000 ISA Limit) and an increase in the different products available to individuals (eg, LISAs)

Increased number of options for the way in which individuals can access their defined contribution pension in the UK

Student debt is rising in most developed countries around the world and is taking years for young people to clear

Housing costs and mortgage deposits are rising around the world creating 'generation rent' without housing security

More complicated tax allowances on pensions, such as the tapered annual allowance, and greater inheritance values, due to high house prices

Increasing awareness of the impact of stress on employee productivity, absence and engagement and a willingness by employers to take action

Workers approaching retirement have more pension options to contend with than previously. In 2015, the Government gave pension scheme members more flexibility on how they can access DC savings, meaning they are likely to need greater support to make appropriate decisions. We are also seeing individuals taking a more phased approach to their retirement from work (see the **Aims and ambitions** section).

These factors mean that financial wellbeing is becoming a key priority, not just for employers who may be considering the impact on their employees and on their bottom line, but also for trustees recognising that engaging with pension saving cannot be effective for workers of any age, if it is considered in isolation.

"Why should I consider putting some money away for something 40, 50 years down the line, when I want my money now to be able to live my life?"

What is financial wellbeing?

Financial wellbeing is a key part of an individual's overall wellbeing, which also includes physical, mental and social wellbeing.

Aon defines financial wellbeing as a person's ability to confidently manage financial life today, while preparing for the future and anything unexpected along the way.

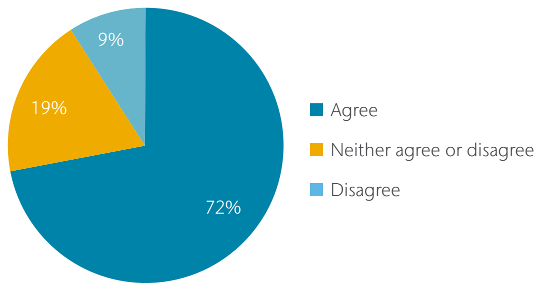
Attitudes to finance

Generally, we found that respondents felt confident in managing money and in their ability to make decisions for the future.

54% rate their financial situation as good or very good

13% rate their financial situation as not good or poor

I am confident in my ability to make decisions about my financial future



Younger workers are most likely to have a budget that they follow each month

Attitudes to finance

Looking at the detail, we found the situation was not always as positive as people first thought.

Only 4 in 10

think that they are saving enough for their long-term needs, with those in their mid-career least likely to think they are saving enough

1/2

in the early part of their career thought that dealing with money was stressful and overwhelming

1/4

in their early career found it difficult to understand financial matters – far more than other segments of the workforce

2 in 10

say they would not be able to come up with £1,000 in an emergency. Predictably, this proportion increases among lower earners: up to 3 in 10

Surprisingly, though, looking at responses across different age groups, it is those in their mid-career who are least likely to be able to find £1,000 for an emergency, compared to younger or older groups.

Bad news

This difference between positive attitudes and some groups who may be struggling with their finances is concerning as poor financial wellbeing can impact on both an employee and an employer.

It has been estimated that financial distress costs UK employers over £1.5bn a year in days lost to sickness absence and presentism*. Employers and trustees are in a unique position; they have the potential to reach and support a large number of individuals and can take advantage of economies of scale, which can enable them to offer services and tools that aim to reduce workforce stress and increase productivity.

Respondents towards the middle of their career felt they were least likely to ‘get by’ financially for at least three months without income compared to other segments of the workforce. This is most likely due to the greater number of financial commitments they face, such as paying for childcare and mortgages. Furthermore, 39% of those who completed the survey felt that outstanding debts were preventing them from saving more for retirement, and three in five were concerned about not having enough money to retire when they wanted to. Can employers or trustees do more for these groups of individuals?

*Source Aegon / YouGov 2018 research

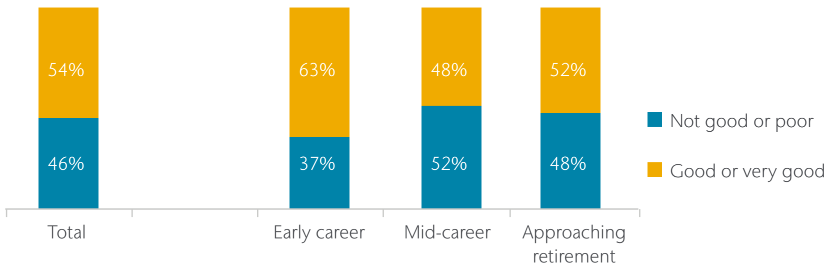
39%

felt outstanding debts were preventing them from saving more for retirement

Optimism vs realism

Despite the complex financial decisions individuals now have to consider, respondents were typically optimistic about their financial situation. Those in their early career were the most optimistic while those in the middle of their career were the least. This suggests a shift from optimism to realism throughout an individual's career.

How would you rate your overall financial situation?



In our view, employers and trustees should consider whether individuals need more support early in their career to help them be realistic from the word go. For example, a typical 25-year-old male would need total contributions of 18% of his salary to achieve a reasonable outcome in retirement. If those in their early career are realistic from the outset about what they need to save, then getting a good outcome at retirement may be more likely. Conversely, an individual not taking action due to the fear that the size of the pension pot needed is unobtainable is not an optimal position either.

Getting engagement on finances – and particularly pensions – is difficult, so a strategy where pensions are part of wider financial wellbeing may be preferable, such as providing general financial education sessions for those at the start of their career or a mid-life financial MOT for those in their mid-career.

Creating a successful financial wellbeing programme

A successful financial wellbeing programme will provide a range of tools, communications and 'nudges' at the appropriate stages of an employee's working life. At Aon, we believe a financial wellbeing programme should include clear objectives and key performance metrics. It should aim to incorporate current initiatives and should develop an employee journey. We use our '4 P's' framework for employee financial wellbeing as set out below.

4 P's framework	Goals	What actions are individuals taking?
Prepare	Build financial knowledge and skills	• While 84% of people felt they had the time to sort out their finances, only 58% of respondents had a budget • Half say they cannot afford to save, but 28% say nothing is preventing them from saving more
Plan	Build a short-, medium- and long-term financial plan	• 40% are just getting by financially • 24% say nothing they do will make a difference to their financial situation • 59% did not feel they were saving enough for long-term needs
Protect	Prepare for the unexpected	• 46% did not have insurance coverage in place for financial protection
Preserve	Understand needs after work and transitioning to retirement	• 37% of those approaching retirement still did not have a plan

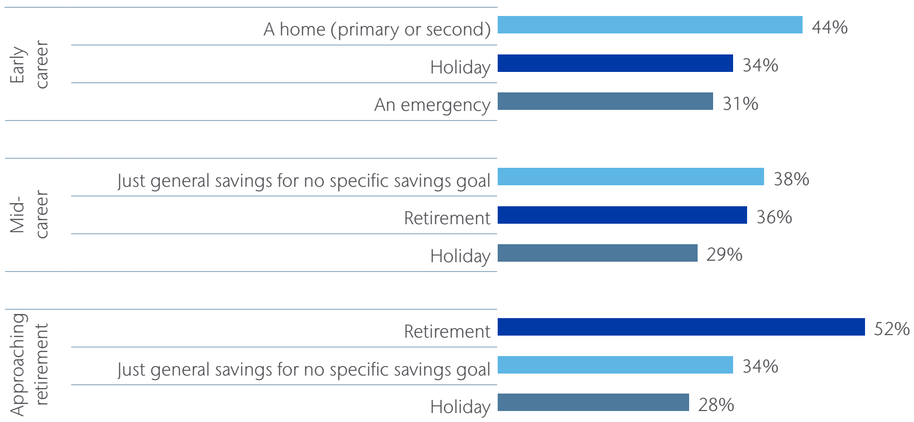
Individuals may be confident in their ability to make financial decisions and manage money, but generally they may not be taking action to meet any shortfalls or to cover risks.

Of the respondents who are not saving for retirement, four out of five say they plan to start saving at some point in the future, but less than half say that this will be within the next year. Without help from their employer to turn plans into reality, some good intentions may remain unfulfilled.

"We are getting married next month, and now we are starting to save for a mortgage. Actually, if I could get to my pension pot now, it would take care of the wedding and the mortgage deposit as it currently stands."

It is important to identify the priorities of individuals in order to understand what support they need. Those at the start of their career focus on saving for a home, holidays and having an emergency fund. However, as an individual progresses through their career, their priorities shift with more focus on general savings for items such as childcare as well as retirement. When devising a financial wellbeing strategy, it is key to consider different segments within your workforce in addition to the population as a whole. This may then drive tailored support for different parts of your workforce at different times.

Are you saving for any specific goals?



Debt challenges

When we looked at the type of debts held across segments of the workforce, some of the findings were not unexpected:

Early career people were the most likely to have student debt

Mid-career people were the most likely to have mortgage debt

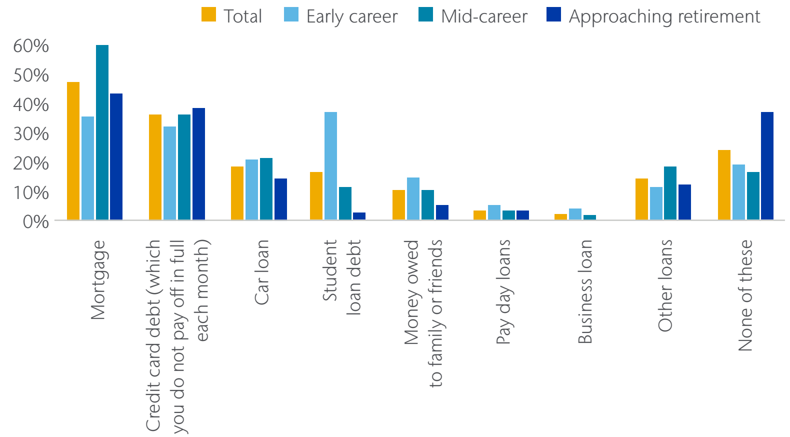
People approaching retirement were most likely to have no debt at all

However, there were some surprises:

- Credit card debt (not paid off each month) was broadly level across all age bands and slightly higher among those approaching retirement
- Those in their mid-career were the most likely to have some level of debt
- Higher earners (over £55,000) were most likely to have a pay day loan, with a shocking one in ten of them admitting to having this type of debt

While the company priorities such as pensions and existing benefits are often forefront in our plans, it is also important to understand what employees' priorities may be and to consider whether support can be offered in those areas.

What types of debts or loans?



In our view, adequate support for individuals comes from understanding their needs and as we have seen, while our expectations can sometimes be accurate, we cannot rely on assumptions alone. There are common themes for all employees, but there is some disparity across different groups and even across different geographical regions and industry sectors.

Seeking greater insight – by holding employee focus groups or workshops, for example – to understand expectations, current knowledge and where individuals go to for help, is one way of understanding your workforce more clearly to better deliver to their needs.

We look at this further in the section **Making financial wellbeing a reality.**

Member workshops

Bringing together different types of workers can help companies to gain insight into employee needs. We believe that a combination of earnings and demographic data, employee surveys and focus groups can help you to develop a good understanding of the priorities of your workforce. This informs the development of strategy and enables the focus of resources where they are most needed. This type of approach can cover financial and broader wellbeing or focus on a specific topic such as pension planning.

Ending up with enough?

Many employees have no idea how much money they will need in the future – is it time for a wake-up call?

Most employees expect their main retirement income to come from their current or former employer scheme (although this dips substantially amongst those early in their career). Despite this, more than half have not set a goal for how much they will need to save before they can fully retire – and this remains high (50%) for people approaching retirement. Over 60% rely on their employers to set the amount that they save into their DC scheme; only 20% take advantage of the maximum matching levels and the same amount admit to not knowing how much their employers contribute. Interestingly, most of those who have set a retirement goal used external services to help them and just a third used resources from their employer. Reassuringly, over half of employees trust that their employers are doing their best for them, but 66% say they would appreciate more help.

Optimism vs reality

59% expect one of their main sources of retirement income to come from an employer plan

20% need more than 50% of earnings in addition to state pension

57% worry about running out of money in retirement

Some eye openers...

1/3 expect their living standard to fall in retirement

Only **5%** use a financial advisor to set saving levels

20% may not know they are in their company pension

Make it happen

Employees would like better tools and communication to help them to take control of their finances. With your help could they be persuaded to set realistic saving goals?

How we can help:

- DC Analytics to understand likely member retirement outcomes
- Financial tools, such as the Aon App or Money Module to help employees budget and to plan for the future
- Simple targeted communications

Find out more...

Ending up with enough?

There are five member decisions across the lifetime of DC pension savings:

1. Stay
Should I stay in the scheme?

2. Pay
Should I pay in more/less?

3. Invest
Should I change where my money is invested?

4. Retire
Should I change my target retirement date?

5. Spend
How should I take my retirement benefits?

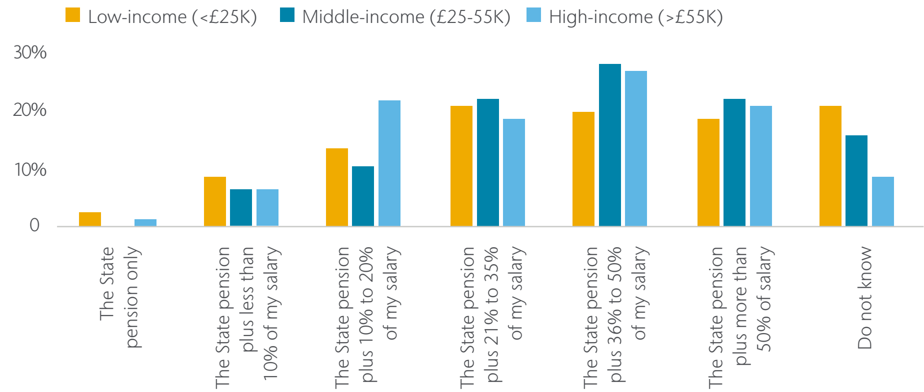
This section focuses on Pay – the all-important contribution decision where members can make a big difference.

To help with this decision, we find people ask:

1. How much will be enough?
2. How much do I need to save to get there?

We asked employees how much they thought they would need to maintain their standard of living in retirement in addition to the State pension. The results varied by income levels as can be seen in the chart below.

What level of pension do you think you will need to maintain your standard of living?



1 in 6

Overall said they did not know how much they would need

1 in 5

In the lower income group did not know how much they would need

So what is the right level?

Various studies have been undertaken to try to understand how much individuals need to save, to date the most comprehensive (in the UK) remains the work undertaken by the Pensions Commission as part of the introduction of automatic enrolment and subsequently updated by the DWP[1]. This research found that the amount of income needed in retirement to 'broadly maintain current living standards' is based on a proportion of pre-retirement income levels and that the proportion varies at different income levels as shown below (rolled forwards to 2018 levels).

Earnings level	Target percentage of earnings required	Target percentage after State pension*
Less than £13,000	80%	<15%
£13,000 – £25,000	70%	25%
£25,000 – £35,000	67%	39%
£35,000 – £56,000	60%	41%
Over £56,000	50%	>41%

*Assumes full State pension of £8,500

[1] Source: Framework for the analysis of future pension incomes 2013

Are employees' estimates in line with these target levels?

We compared what employees in our survey estimate that they need with the target levels set out by the Pensions Commission to see how many were in agreement.

Estimated required retirement income by earnings level

The results clearly show that lower earners tend to overestimate the amount of income required compared to their current earnings level, while higher earners tend to under-estimate how much they will need, based on the Pensions Commission target levels. We think that this shows that people struggle to understand how much they might need.

Could UK employees benefit from a target retirement fund rule of thumb?

Lessons from Overseas

Perhaps the method of considering retirement income compared to salary prior to retirement (replacement ratios) overly complicates matters. A rule of thumb for target pension funds could help. In Australia, they do just that, providing individuals with monetary targets to deliver either a modest or a comfortable lifestyle in retirement.

To have a **'comfortable'** retirement, single people will need savings of

$545,000*

£300,000

To have a **modest** retirement, they will need around just

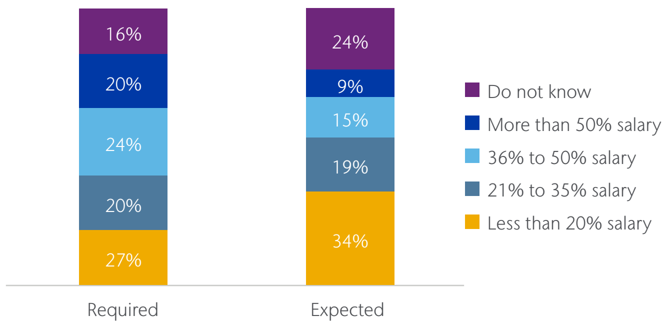
$70,00*

£40,000

*Source: The Association of Superannuation Funds of Australia's Retirement Standard

We also asked people what they expected to receive and compared this to what they said they needed to maintain their standard of living in retirement.

Required retirement income in addition to State pension vs expected retirement income



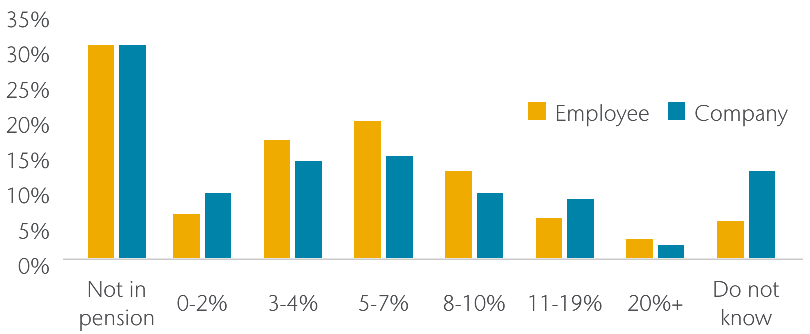
Distressingly, we found that around **a third of workers with a DC pension expect a reduction in their living standards in retirement.** While around a quarter do not know what to expect.

In both scenarios, most pension plan sponsors and trustees will want to take steps to try to improve this situation for these groups of employees. Just 8% expect their pension income to be higher than they need to maintain their standard of living in retirement. Interestingly, around twice as many in their early career expect pension income to be higher than needed, compared to those in their mid-career and approaching retirement. This is one of a number of areas where we have seen early career optimism make way for realism as people get nearer to the point of retirement.

How much are people saving towards their pension?

Most employees are saving somewhere between 3-10% into their company pension with reported company contribution rates along a similar, but slightly broader, range. An area for concern is that one in eight individuals who are members of their company pension do not know how much their employer contributes.

Percentage of salary contributed by employee/company into pension



"I think I first found out about the pension when it came out of my first pay check and realised I was in!"

Do employees know that they are in their company pension?

We found in the previous section that only 36% of individuals say that they are saving for their retirement. When we asked the same individuals about membership of a company pension, this increased to a participation rate of 70%. This shows that many people do not recognise their Company DC pension as their own savings towards retirement.

In addition, while most of our respondents are eligible for automatic enrolment, as seen above 30% reported that they are not in their company pension. This compares with industry wide opt-out rates of just under 10%. This suggests that there could be a significant proportion of individuals who are members of their company pension but may not even realise it. Could this be one of the reasons that auto-enrolment opt-out rates have been much lower than many predicted?

The minimum contribution rates required under auto-enrolment increase over time as part of the planned phased introduction. This survey was carried out in summer 2018 between the second and third increases.

When auto-enrolment was introduced, there was concern about employers levelling down, ie, reducing contribution levels for existing pension members to offset costs for enrolling those not already in the company pension.

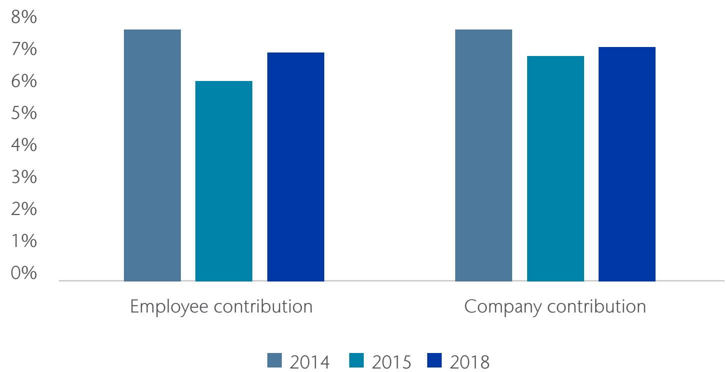
2016 member survey

This showed a fall in average contribution rates. We attributed this to more employees being enrolled into pension saving at lower levels rather than a fall in savings rates for those already in pension arrangements.

2018 member survey

This showed the average rates increasing back towards 2014 levels. This correlates with the increase in auto-enrolment minimum levels and again shows that there does not appear to be a 'levelling down' for those on higher savings rates to compensate for the increase in minimum levels.

Average contribution rate trends



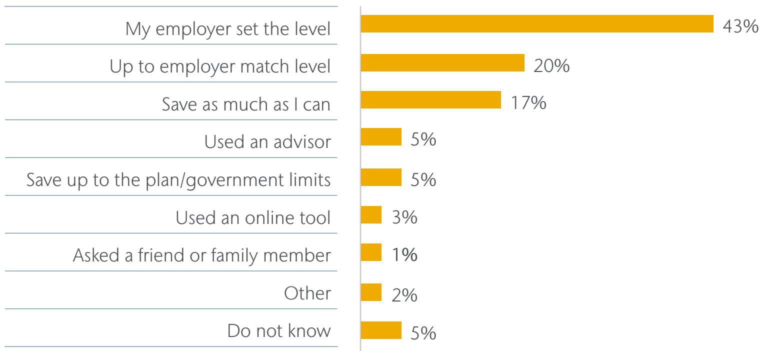
Employer pension rates as the 'anchor'

When deciding how much to save towards their retirement, very few individuals take it upon themselves to set a target to work towards. Around two-thirds rely on their employer, either through the default level or the maximum level of any company matching contributions. This shows just how important it is for employers to set these levels appropriately for their workforce and to consider long-term objectives, eg, workforce management and succession planning, as part of their pension design.

Only 3% **say they use an online tool to set their savings levels**

This will no doubt be disappointing news to providers who invest in producing and upgrading their online models available to pension plan members. Although this does increase to 9% amongst higher earners, more clearly needs to be done to encourage use of tools to help set savings rates.

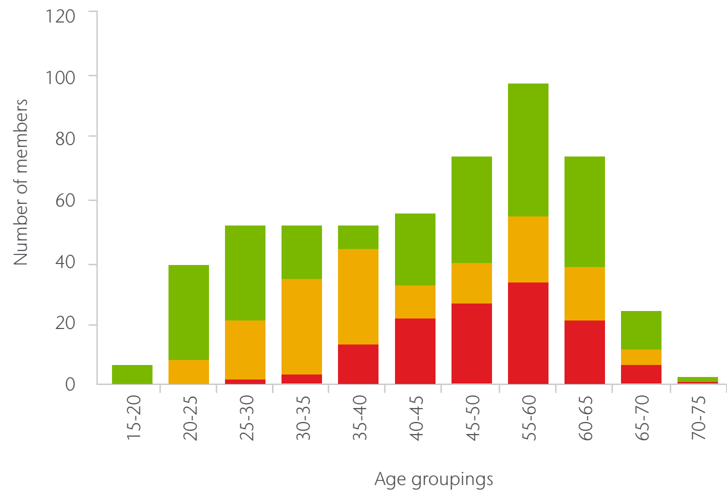
How do you decide how much money to save in the plan offered by your employer?



It can be difficult for employers and trustees to take the lead, but our research shows that it is imperative they do for a large proportion of the workforce. It is important to help employees understand 'how much is enough' and how much they need to save to get there. For those that will not engage, put in place a default structure designed to keep employees on track to deliver at least a modest level of income in retirement.

Our 2017 DC scheme survey found that over half of those running company DC pensions did not know the expected outcome for a typical lifetime member. If those in charge do not know what outcomes members might achieve, how can we expect members to know?

Number of members in each 'RAG' status, grouped by age



An example showing whether projected member outcomes are on track for a scheme using our DC Analytics tool.

Aims and ambitions

The definition of retirement is changing, so what can we do to keep employees' plans on track?

The reality of retirement is that for most people it will be later in life and more flexible – and it would seem that our employees' expectations are largely in tune with this trend. Although most people expect to retire between 62 –70 with very little difference between men and women, only 31% expect to fully retire by 65. Nearly half of employees think they will transition into part time working at some point before retiring fully. 14% say they will carry on working for the rest of their lives. While it is not surprising that higher earners expect to retire fully, this group is also most likely to expect to work forever.

It may come as a shock to many employers to learn that a third of their employees who would be classed as approaching 'traditional' retirement age do not expect to retire until they are 67 or older. As trustees or scheme managers, are you ready to manage this culture change?

Optimism vs reality

79% of non-saving employees plan to start saving for the future one day

52% say they are saving for other goals before they begin saving for retirement

16% want an annuity to provide guaranteed income in retirement

Some eye openers...

just **31%** expect to fully retire at retirement age

53% expect to be working beyond age 67

14% expect to never retire from work

Make it happen

Changing retirement patterns will make managing workforces more challenging, and alongside flexible working patterns, employees will expect flexible incomes. Drawdown schemes are likely to be the most appropriate and employees will need plenty of support to understand withdrawal amounts and tax etc.

How we can help:

- Building an understanding of retirement intentions
- Business planning for the impact of demographic changes
- Implementing flexible retirement income solutions

Find out more...

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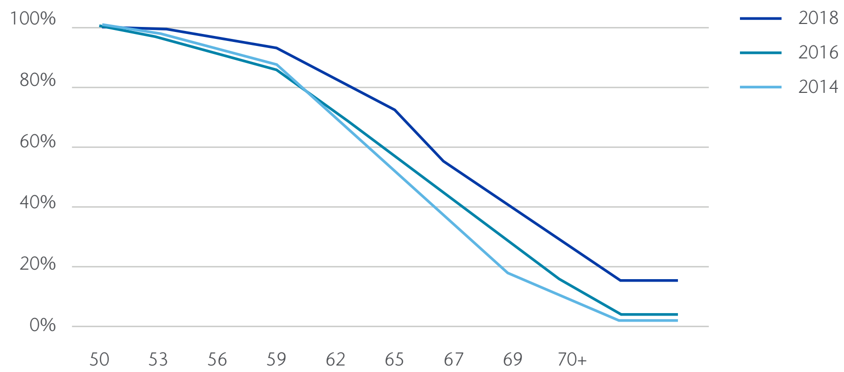
What do individuals hope for their future and what is their vision of retirement?

The transition between work and retirement is becoming less distinct and people are planning to leave employment later in life, if at all.

When do people plan to retire?

Overall, retirement ages are getting later. Expected retirement ages have gone up significantly since our last member survey in 2016.

Still expect to be working at age:

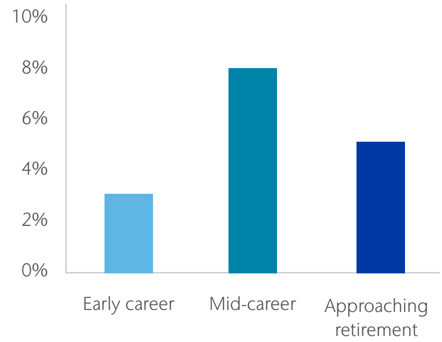


Less than ½ of respondents now expect to retire by age 67

25% expect to be still working after age 70

Those in their mid-career are most likely to be unsure when they will retire. We have seen in **Real people, real challenges** that the mid-career group are also the most pessimistic about their finances generally and in the final section, **Making financial wellbeing a reality**, the least engaged with saving for the future.

Not sure when will retire



Are pension schemes keeping up with later retirements?

Historically, many company pension arrangements have had a default target retirement age of 65 (or lower).

Around half of those in the 'approaching retirement' demographic group say they expect to retire later than age 67 – these are the people we expect to be nearly there.

For DC members, there are some very important reasons to ensure that the target retirement age recorded by the plan administrator is as accurate as possible, especially for those close to retirement.

In nearly all DC arrangements, the default investment will be a lifestyle or target date strategy, whereby the target retirement age triggers the automatic switching of a member's investments. Generally, this is from funds targeting growth in the earlier years into funds usually designed to preserve the value of a member's savings as they approach retirement. If this happens too early, a member could miss out on valuable growth and their savings could be eroded by inflation; too late and a member could suffer from volatility in equity markets and risk losing a significant portion of their savings at a time when they are about to start drawing down on their savings.

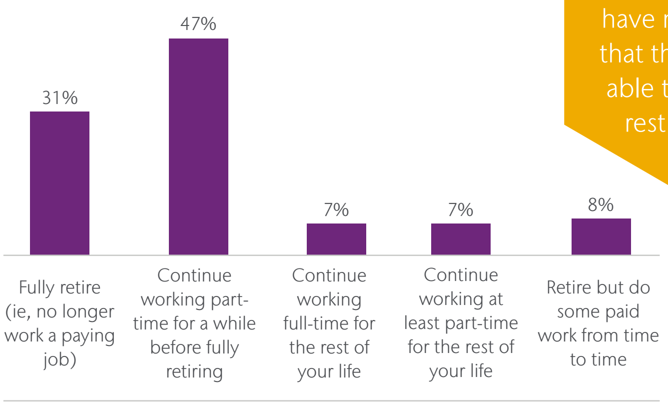
Employers and trustees will need to consider how best to address this. Are we still anchored to 65? We need to get out of this mindset.

Most people do not expect to retire in a single stage

For the majority, our research shows that retirement is no longer a fixed date at which people plan to stop work completely.

There has been a general expectation that more people would take a phased retirement since the removal of the default retirement age back in October 2011. Many employers and pension schemes, however, have yet to see this in practice. A significant reason could be that many retirees from larger organisations have defined benefit (DB) pension income available to them. Often, DB income is taken at a single point in time. When people retire from DB arrangements, their pension income, along with any tax-free lump sum, has often been enough to support them financially, at least until their State pension commences to supplement their income. Our findings show this looks as if it is set to change.

Intentions at retirement age

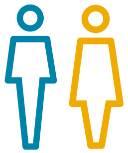


Optimism bias
It is likely that people have not considered that they may not be able to work for the rest of their lives.

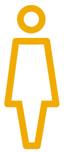
Many employees are now affected by:

- A rise in State pension ages
- An increased reliance on defined contribution (DC) pension arrangements
- Longer and healthier later lives

We believe that these are the main drivers behind our findings showing that those intending to fully retire are in the minority and that 14% intend to continue working either full-time or part-time, for the rest of their lives.

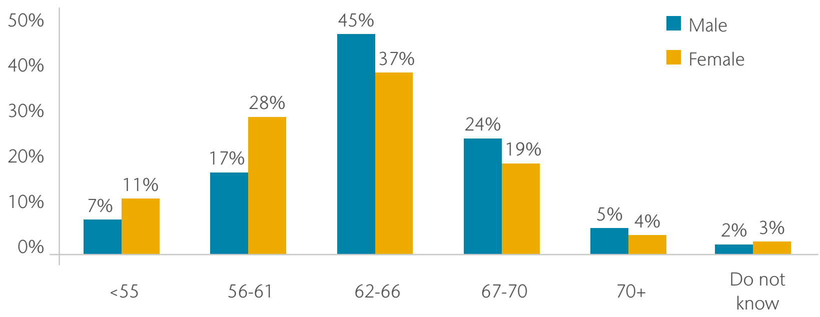


Unlike previous years, we found that men and women broadly expect to retire at the same age



Women are more likely to expect to transition to part time at younger ages than men

At what age do you expect to transition to part time?

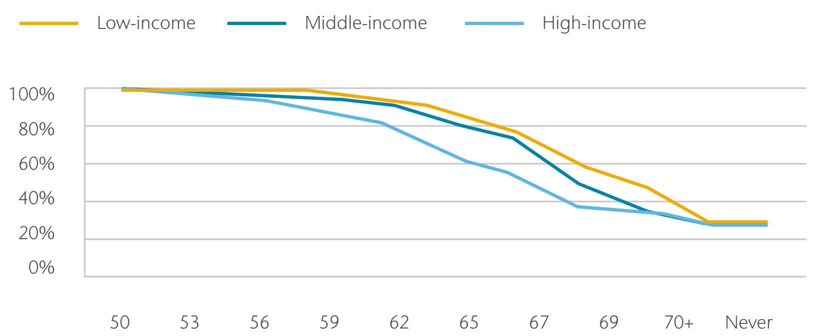


Looking across age groups, those in their early career expect to transition at younger ages. This view is consistent with one of the themes emerging from our research: this group are generally more optimistic about their retirement while those approaching retirement have a more pragmatic, perhaps more realistic, viewpoint.

What about those who plan never to stop working?

We looked at the earnings profiles to see whether financial reasons may be driving the intention to go on working. As can been seen in the chart (below), those on higher incomes generally intend to retire earlier. However, when it comes to those who intend to continue working for the rest of their lives, there is very little difference between the proportions at different levels of earnings, suggesting that this is more of a lifestyle decision. This makes it difficult to predict which members of the workforce are those that intend to continue working based on data alone.

Still expect to be working at age:



Carrying out anonymous employee surveys or holding focus groups facilitated by a third party can provide employers and trustees with valuable insight. This can be a useful way to understand retirement intentions without the risk of falling foul of age discrimination or being seen to push individual employees into revealing their retirement plans. This can then help to build a strategy to support individuals with their pension planning as well as wider work issues; for example, helping employees to avoid physically demanding peak hour commutes or moving to less manual roles if appropriate.

DC retirement flexibility supports flexible retirement patterns

The pension freedoms ‘revolution’ continues apace in terms of how people plan to access their DC funds. Thankfully, for many pension members, the DC retirement flexibilities introduced in 2015 allow them to shape the income from their DC funds in a way that suits them. We classify employees into one of five groups depending on what they would like to do with their DC pension fund at retirement.

The responses to our survey show that, of those that know what they want to do, most are likely to want to use some form of income drawdown, either as a Steady Spender or Flexibility Foremost. These are also the most likely approaches to support a flexible or phased retirement.

Certainty Seeker

16%

Would like the security of a guaranteed income through an annuity

Steady Spender

28%

Would like to leave their money invested, but take regular withdrawals

Flexibility Foremost

15%

Would like the ability to dip into their pension fund as needed in retirement

Early Spender

11%

Would like to be able to access their pension fund as cash

Residual Required

8%

Would like to leave their DC fund invested to provide for long-term care or a bequest

Do not know

21%

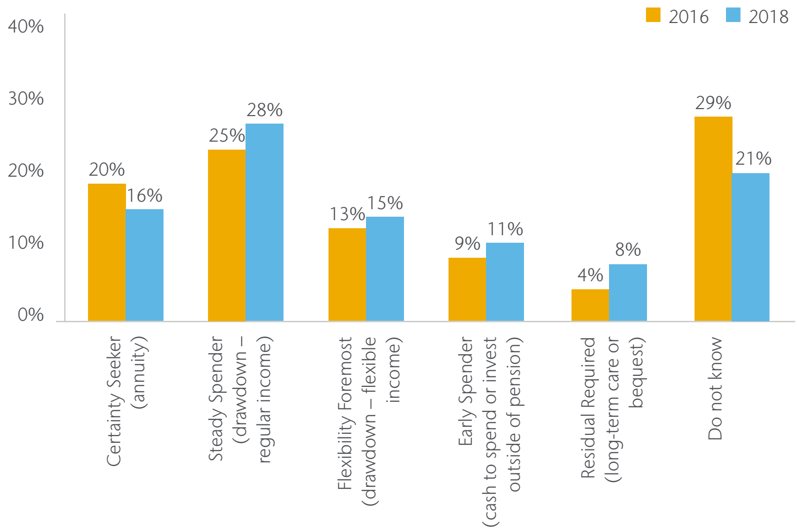
Have yet to decide

Income drawdown is a means of taking regular or ad-hoc withdrawals from a DC pension fund while leaving the remainder invested. This can be beneficial for those looking to continue to achieve inflation protection for their pension savings after retirement, or those who may value the ability to vary the income they receive.

Comparing how individuals intend to use their DC fund to our 2016 Member Survey brings out some interesting trends:

20% The desire for annuities continues to fall (down from 20% two years **16%** ago to 16%)

38% More want to use their DC fund to take regular or flexible income via drawdown (43% vs 38%) **43%** than two years ago



Our 2017 DC Scheme Survey found that most schemes had yet to put in place a drawdown solution. Of those that had, a large number were relying on their current provider for accumulation as the default for the decumulation phase rather than undertaking any wider due diligence.

Aon recently published a discussion paper, **The future of (at) retirement**, which considers the ideal features for a retirement solution, focusing on five central components.

What are people's fears and concerns about retirement?

Employees generally have more than enough worries about their current finances. Helping to remove some of their concerns about their future should be an objective for all those involved in running DC pensions.

The final section of our report, **Making it happen**, looks at what practical steps can be taken to better support employees with their retirement planning in the context of their overall financial wellbeing.

Make financial wellbeing a reality

In this report, we have explored the difference between people's future hopes and their current reality. We have also considered how much they may need to save and how they see their future. We finish off by looking at what we can do, as employers and trustees, to support individuals to help them fulfil their plans and to make it happen.

Optimism vs reality

56% want to know how much retirement income they can expect

55% think their employer scheme is generous or good

42% in early career say debt stops them saving for retirement

Some eye-openers...

42% of early career employees want advice from their employers on retirement

16% want to know if their pension is invested ethically

Only **1%** of employees want information by text

Make the dream a reality

There is a huge appetite for more information on finances and retirement income, and employees would like more support. As a trustee or scheme manager, it is an opportunity to make a real difference to the financial health of employees both now and in the future. You can make dreams of financial peace of mind a reality.

How we can help:

- Develop bespoke education and engagement strategies
- Communicate through the range of channels most appropriate for the audience
- Technology such as the Aon App to extend support beyond the workplace

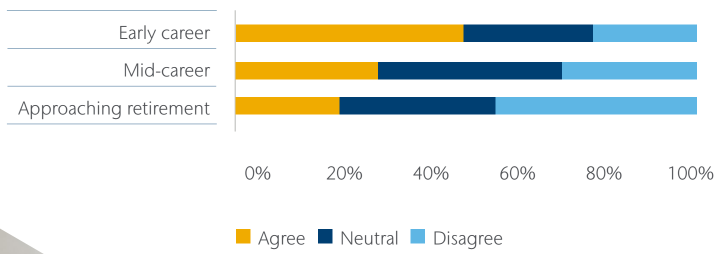
Find out more...

D R E A M

Do people want their employer to help with day-to-day financial matters?

Most individuals in the early part of their careers would like their employer to provide some sort of support on financial topics. As people progress towards retirement, however, the focus turns from day-to-day financial needs to more specific areas.

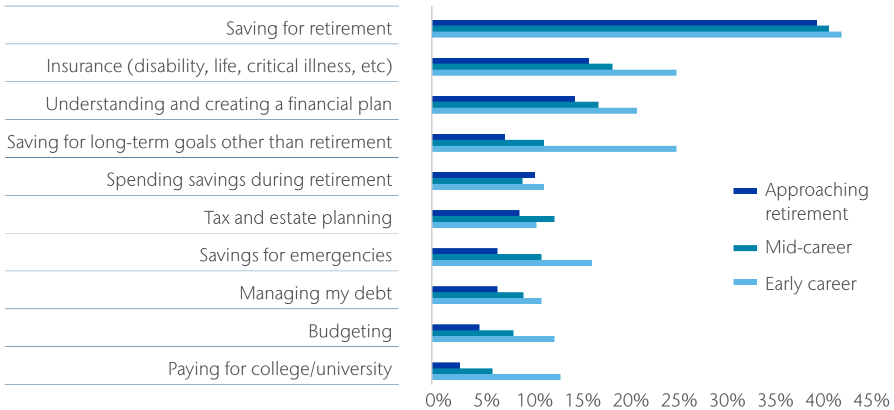
I want my employer to provide me with support to help me manage my day-to-day financial needs



In what areas do people want help?

The area where individuals generally want most support is saving for retirement. Given the increased flexibility around how DC members can take their benefits, this is not surprising for those approaching retirement, but it also holds true across different age groups. This can be an area where employers can work together with trustees of pension schemes and providers.

Which of the following areas of support would you like your employer to provide?



Those in the early part of their career are more likely to want support with saving for long-term goals, different types of insurance, and understanding finance. This echoes and evidences what we found in earlier sections – for example, a quarter of those in the early part of their career found it difficult to understand financial matters. It is clear that this group wants more support.

Another thing that is clear is that individuals at different stages of their career have very different priorities. When developing a plan to support employees on an ongoing basis, it is important to take these differences into account. The next step of a good financial wellbeing or specific retirement planning programme will consider how best to communicate.

Style of communications

We asked people what types of help would be most useful to improve their overall financial situation.

In-person, one-to-one sessions were the favourite option. Tools or technology to track success were also popular, as well as financial products offered through the employer.

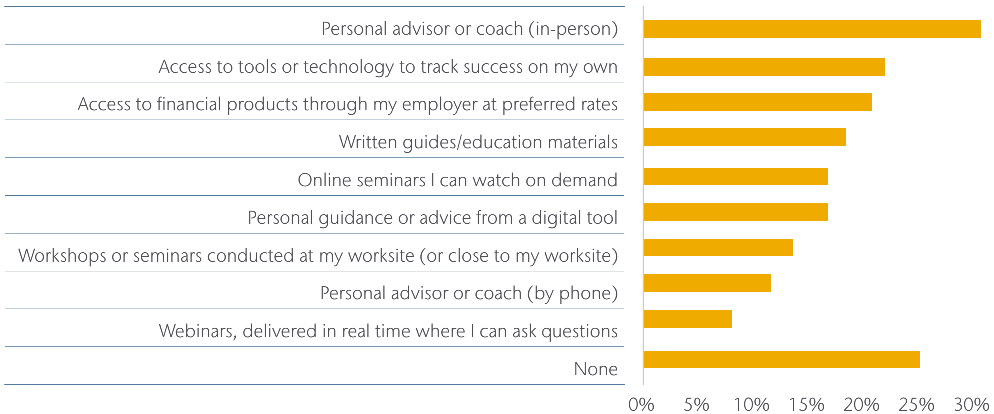
17%

of respondents would like personal guidance or advice from a digital tool

'Robo-advice' has become a popular topic of debate in recent years and this suggests that there might be some demand for this type of support in the future.

Live webinars were far less popular than on-demand online seminars; individuals want to be able to access content when convenient for them. While this is unsurprising, it is crucial to ensure that competing demands do not mean that financial matters do not slip to the bottom of their priority lists.

Which types of assistance to help to improve your financial situation are most appealing?



A focus on retirement

Respondents are keen for their employer to provide guidance on retirement, but trustees can also play a key role in helping individuals understand what to do in retirement.

Half of respondents did not think their company pension plan was trying to optimise their savings for retirement, suggesting a lack of understanding or trust in the employer. This concern was more prominent in those towards the middle of, and later on in, their career. This could be because they understand too late what their outcome will be in retirement, and that they should have done more earlier.

56% of respondents said that they check the amount in their retirement savings at least every six months. This seems disconnected to the statistics we see from pension providers, where only around a quarter of company pension customers are registered for online accounts. This suggests that employees are optimistic about how much they monitor their pension when in fact this does not happen in practice. While the data shows that a significant proportion of respondents were concerned about their retirement, if employers or trustees provide more guidance, care needs to be taken to ensure employees would actually use it.

Trustees and employers will need to consider what, if any, additional support they need to provide employees in this area and how to engage.

57%

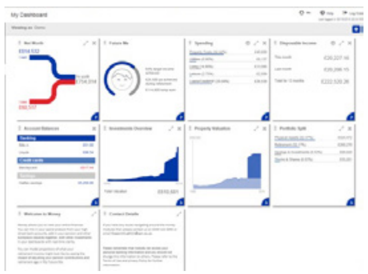
of people are worried about running out of money in retirement

59%

are concerned about not having enough money to retire when they want to

"The biggest thing I struggle with is piecing together all the different bits of pension that I have accumulated everywhere."

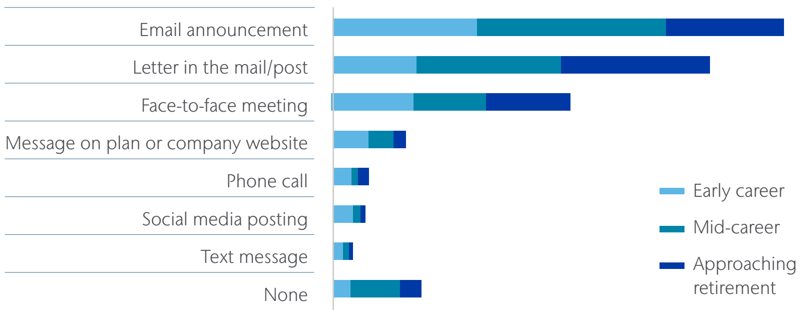
The launch of the pensions dashboard (or multiple dashboards) aims to provide a combined view of all pension savings, including the State pension. But why stop there? In order for individuals to see the full picture, pension savings should be shown alongside other savings and personal wealth, such as property, as well as monthly income and outgoings.



We asked how employees would like to be communicated with about their retirement savings.

Overall the most popular method was email, followed by post and then face-to-face meetings. Using text messages and social media were not popular methods of receiving communications; given the increase in use of technology in everyday life, this was somewhat surprising.

Preferred source for company pension plan information



While the overall top three methods of communicating did not vary by workforce segment, those towards the middle of their career show the greatest preference for email and are far less interested in face-to-face communications. The mid-career group are also the least interested in getting communications about pensions at all, presumably due to the competing demands on their time.

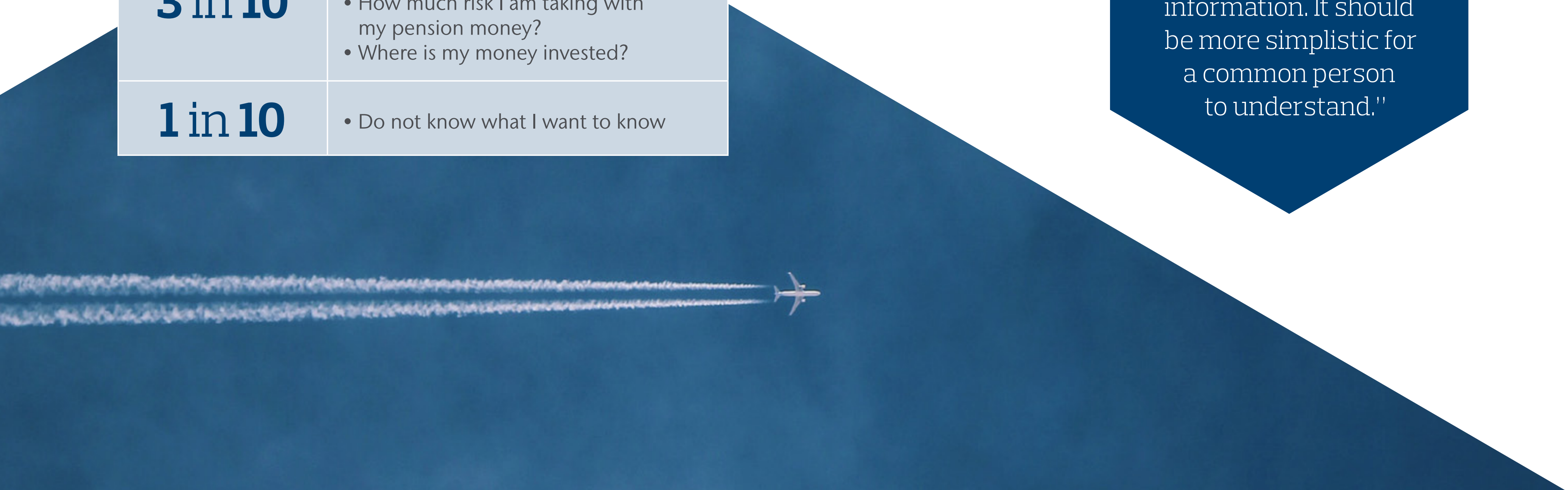
Communicating better

We asked what the members of DC plans most wanted to know about their current pension savings:

6 in **10**	• What annual income I can expect based on what I have saved so far?
5 in **10**	• How much is in my pension fund in total?
4 in **10**	• How much can I expect to get from the State pension and from what age?
3 in **10**	• What are the charges on my pension fund? • How much risk I am taking with my pension money? • Where is my money invested?
1 in **10**	• Do not know what I want to know

The two items employees are most interested in about their current pension savings (what annual income to expect at retirement and how much is in the pension fund) are both items that are included on a member's **annual benefit statement**, but they may not always be easy for members to recognise. This is an area where investing some time can pay dividends in raising members' understanding levels. We have seen two approaches to this: some schemes elect to provide some form of supporting explanation of the current statement; others produce a new, easier to understand benefit statement, within the boundaries of the appropriate regulatory requirements.

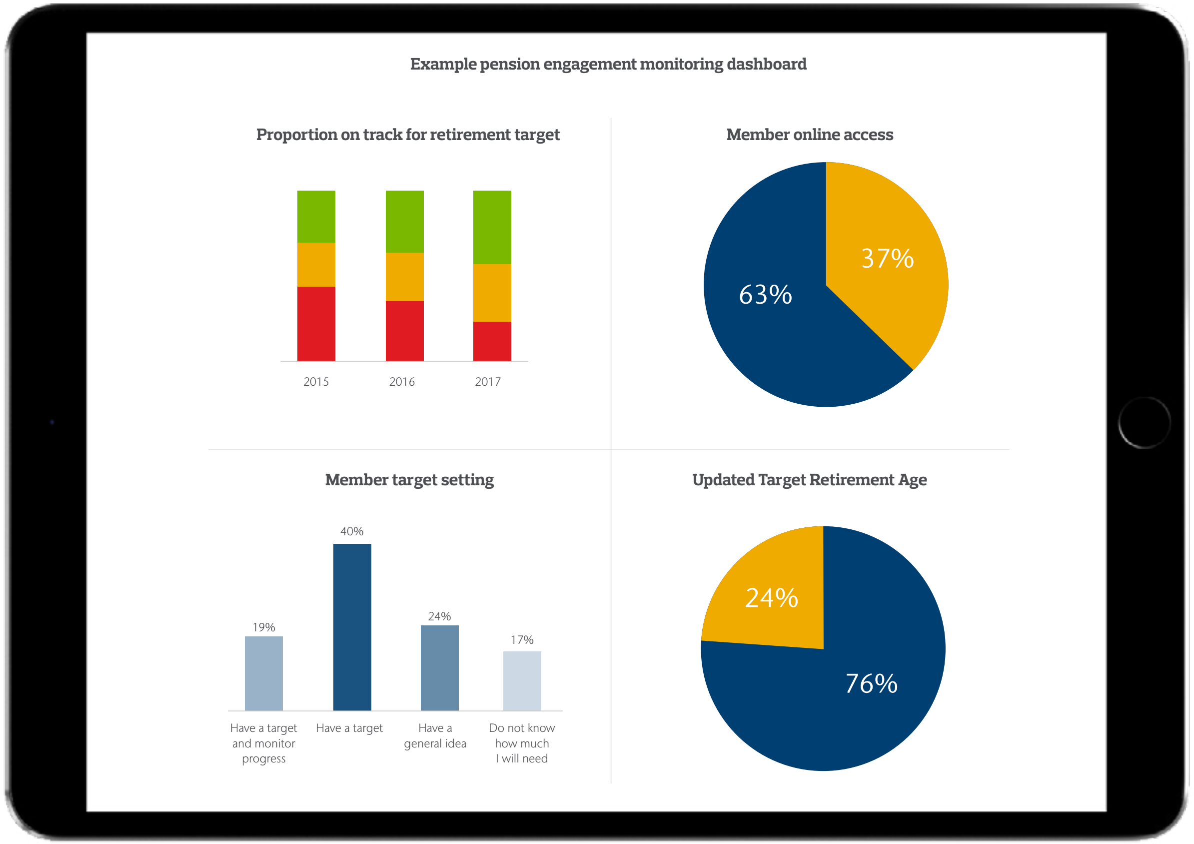
"You really do not understand the pension, because there is so much information. It should be more simplistic for a common person to understand."



Whether helping employees with their pension saving, their financial wellbeing or with their wider wellbeing, it is important to have a strategy in place, with clear objectives about what you are trying to achieve. In this way it is possible to measure success against the objectives to make sure resources are being used effectively. Find out the priorities for different groups, their current situation and how they best like to be communicated with. This will inform not just what support would be most usefully provided, but also how best to deliver it to achieve better outcomes.

It is imperative that measurement is in place alongside any pension and financial wellbeing strategy. These measures should be reportable on a regular basis and allow the employer or trustees to understand how effective their efforts are in delivering in line with their overall objectives.

Make financial wellbeing a reality

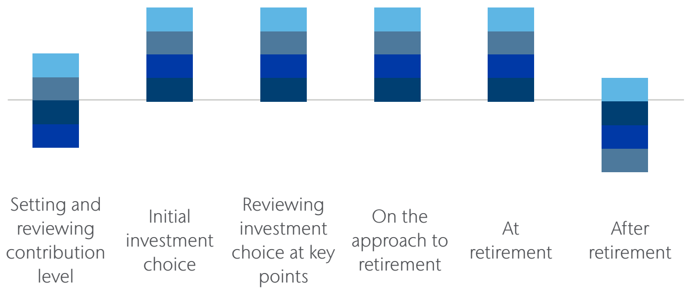


It is also important to keep objectives under review. What made sense in 2015 may not be appropriate in 2019 as demographics and business objectives evolve.

We can help you avoid status quo bias and authority bias by using a questionnaire approach to test the objectives of company stakeholders and pension scheme trustees, using Aon's Viewpoints tool.

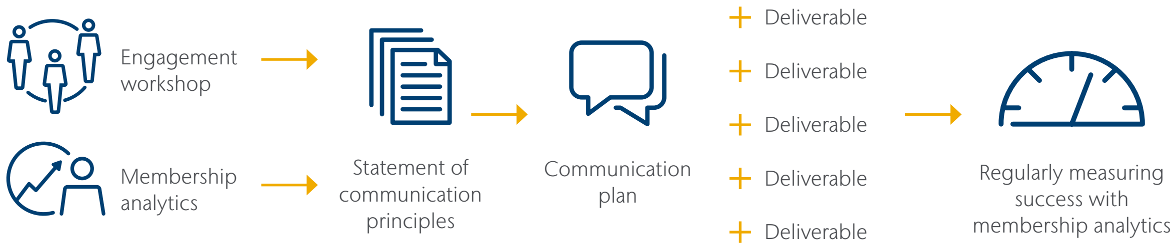
Example Viewpoints output

Where and when is it important to get members to engage?



Our integrated employee engagement model below helps you develop a statement of communication principles. This sets out clearly defined objectives, goals, strategies and data-based measures. It sits alongside other governance tools as a demonstration of adherence to best practice protocols. The resulting communication plan will be the framework for designing, developing and delivering a programme that genuinely influences employee behaviours to help improve outcomes – and meets the measurement requirement by being tracked over time through DC Analytics.

Integrated employee engagement model



Case study

One of our clients in the chemicals sector undertook a review of their company and trustee objectives for their DC arrangement. Their two main priorities were to enable employees:

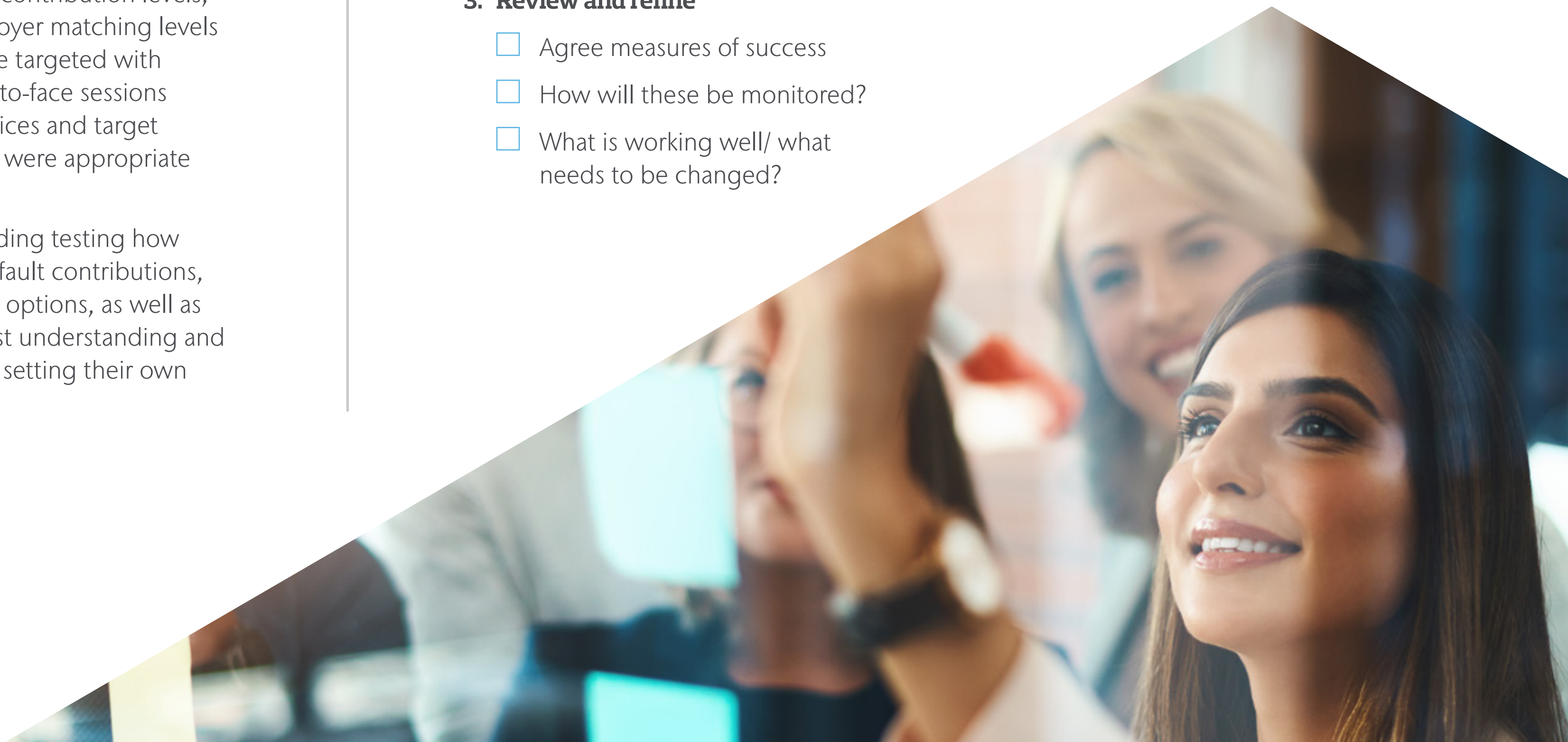
- To take ownership of their retirement planning
- To be able to retire at a time of their choosing

To achieve this, they moved to a more objective-based communications model. This involved segmenting their membership, targeting younger employees with emails and planning tools to engage with contribution levels, including understanding employer matching levels on offer. Older employees were targeted with one-page info-sheets and face-to-face sessions to engage with retirement choices and target retirement ages to ensure they were appropriate for their plans.

Measurement is in place, including testing how many have moved from the default contributions, retirement age and investment options, as well as employee questionnaires to test understanding and measure the numbers who are setting their own targets for retirement.

Making it happen – checklist

1. **Understand your people**
    - ☐ Pension saving levels/targets
    - ☐ Wider financial situation
    - ☐ Retirement aims and expectations
2. **Develop your strategy**
    - ☐ Define/review objectives
    - ☐ What support will be offered?
    - ☐ How will this be delivered?
3. **Review and refine**
    - ☐ Agree measures of success
    - ☐ How will these be monitored?
    - ☐ What is working well/ what needs to be changed?



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Contacts

Sophia Singleton
Head of DC Consulting
+44 (0)1372 733674
sophia.singleton@aon.com

Tony Pugh
Head of DC Solutions EMEA
+44 (0)20 7086 1009
tony.pugh@aon.com

About Aon

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