Keeping on track in challenging times

Aon's DC pension and financial wellbeing employee research 2021

Empower Results®

The fundamental purpose of pension provision is to ensure people are financially supported at a time in the future when they no longer earn or generate enough income through their day-to-day work.

While this may sound simple, the reality is not so straightforward, especially at a time when people's lives and financial security may have been affected in many other ways.

To explore the reality of defined contribution (DC) pension provision and wider financial wellbeing today, Aon and YouGov surveyed over 2,000 employees across a wide range of age groups, incomes and industries.

The resulting report — which also draws on wider Aon and external research, as well as the views of Aon's DC experts — provides an insight into the current financial position and pension planning of the UK's employees. Some of the headline findings may be surprising or even shocking and should not be ignored.

When talking about people's finances we need to be mindful of the economic and personal impact of the times we are all currently living through.

Nearly **40%** **of our respondents were directly impacted by employment changes during 2020**[1]

Over **1 in 4** **were put on a period of furlough**[2]

1 in 6 **had reduced hours and or reduced pay**[3]

1 in 35 **had been made redundant and subsequently found new employment**[4]

The detailed breakdown of the response data used for the findings quoted is provided at the end of this document.

The retirement savings gap is getting **worse not better**

1 in 4 think they will **never** be able to **retire**[5]

This is a huge increase from the one in seven who expected never to retire from work when we asked the same question in 2018. Around half of employees expect to continue in work past age 68[6].

Employers need to up their game on communicating their **financial wellbeing support**

Just **15%** of employees believe their employer offers a **good level of support** with their financial wellbeing[7]

Around one in three say their employer offers no support in this area and one in six do not know what support (if any) is available. We know from our 2019 research — *'How do you measure up?'* – that companies are doing more than ever in this area — but clearly the message is not getting through.

People are **not checking** how their **pension investments** are performing

Despite the unprecedented volatility in markets and widespread reporting of how this could impact workplace pensions, only 7% said they checked to see how their pension investments had been affected by market movements in 2020. Only 8% say they plan to do so over the next 12 months[8].

Proof, if needed, that it is **vital for schemes to manage investments** on members' behalf

Most people need the basics such as **simple rules of thumb** rather than complex tools

71% **have not set a goal** for how much they need to save before they can retire[9]

This is higher among female respondents than male (76% / 68%)

It is still high for older respondents, as 63% of over 55s have not set a goal

The most popular type of support requested is guidance on how much to save to be able to retire on an adequate income.

There is a serious issue with **retirement affordability**

87% are **expecting a shortfall** in retirement income[10]

Most people aim to address this by either planning to save more in the future or accepting a lower quality of life in retirement. Working longer also features highly. 11% have no idea how they will address the expected shortfall[11].

Schemes need to do more to help people plan. Employers will need to understand the impact of people staying in work for longer

This report is split into five sections exploring a range of key themes, each including a checklist of potential actions:

- Pension strategy and long-term objectives
- Financial wellbeing
- Investing for the right pension outcomes
- Communications and engagement
- Getting retirement right

We hope you find the survey results interesting and useful. We would be happy to talk them through with you, to put them into context for your own employees and pension scheme members. We can also help you to understand where you and your employees need to take action to ensure their retirement savings remain on track.

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Breakdown of survey response data in this section

Footnote	% response	Number of respondents	Notes
1	38.1% employment affected	2,002	
2	26.9% put on period of furlough	2,002	
3	15.3% had reduced hours and/or pay	2,002	
4	2.9% had been made redundant since Jan 2020	2,002	Only current employees surveyed so this excludes those made redundant and still out of work.
5	24.7% of respondents	1,385	Excludes 'don't know' responses.
6	51.4% of respondents	1,385	Excludes 'don't know' responses.
7	15% of respondents	2,002	28% of respondents said their employer offers an average level of support, 11% not a very good level, 30% no support and 16% do not know what support is offered.
8	7% of respondents have checked between Jan and Oct 2020, 8% of respondents plan to check within the next 12 months	2,002	
9	71% of respondents have not set a goal	2,002	
	76% of female respondents	850	
	68% of male respondents	1,152	
	63% of over 55's	505	
10	13% of respondents do not expect a shortfall	1,586	Excludes employees who responded 'don't know' to how much they think they will need in retirement.
11	21.3% plan to save more in future	1,386	Excludes employees who responded 'don't know' to how much they think they will need in retirement and those who do not expect a shortfall.
	20.5% will make cut backs to standard of living in retirement		
	18.6% plan to retire from work later		
	10% do not know how they will address the shortfall		

Pension strategy and long-term objectives

KEY FINDINGS

Just
37%
felt they were currently **saving enough** for their long-term needs

Over
1/3 of people say that they **could afford to save more**

Majority save by following contribution rates set by employer sponsor

Considering pensions strategy and long-term objectives

Pension schemes have had to deal with a lot of substantial challenges during 2020, including adjusting to remote working for administration and decision making, as well as navigating the turbulent investment markets.

In some cases, this has left those running schemes unable to focus on anything but the short term. For others it has accelerated their thinking about alternative structures that they anticipate may be better at coping with the unexpected.

1 in 4
sponsors considering changes to the way DC plans are run

Source: Aon virtual DC conference attendees June 2020

1 in 7
sponsors looking to make cost savings impacting DC plans

Source: Aon virtual DC conference attendees June 2020

How many DC plans have reconsidered their objectives following the events in the first half of 2020?

4 in 10
Focused only on short-term actions

3 in 10
Reviewed but not taken any action

1 in 10
Do not have any objectives

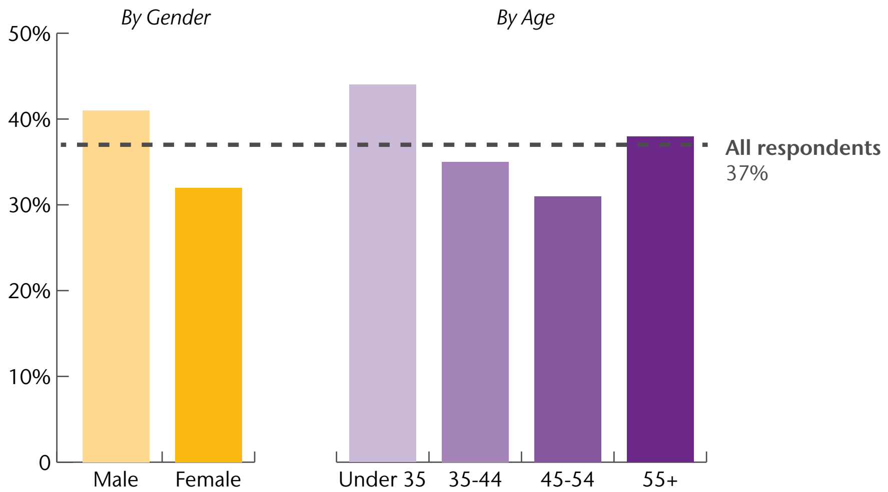
Source: Aon virtual conference attendees June 2020

What about individuals' retirement planning?

Looking longer term from an individual employee's perspective, our research found just 37% felt they were currently saving enough for their long-term needs.

Interestingly, men are more likely than women to feel that they are saving enough[1] and, surprisingly, those under 35 are the most likely to feel that they are saving enough for the long term. Those aged 45–54 are the least likely to think this[2].

% saving enough for long term



2002 UK employees surveyed

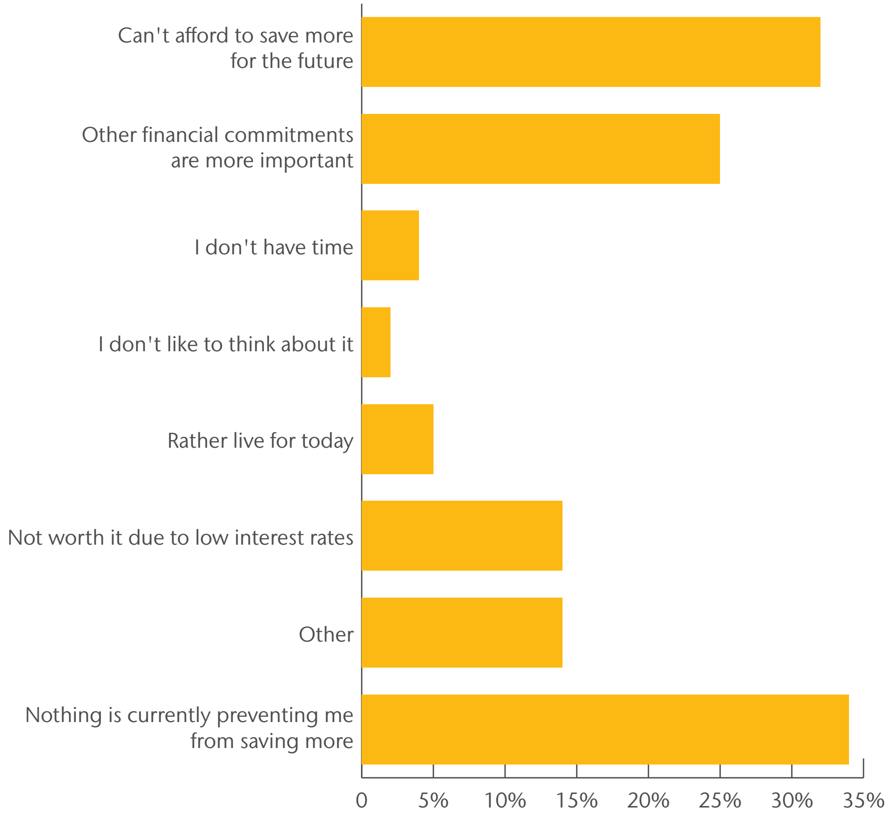
This long-term concern is also reflected in expectations for retirement. Our research found that nearly **nine in 10 individuals expect a shortfall in the income they will have in retirement** compared to the level required to support their desired standard of living[3].

What is preventing people from saving more?

In some cases, nothing!

Over a third of people say that they could afford to save more[4], while 14% say that they do not think saving is worthwhile when interest rates are so low. For people falling into either of these groups, it may be that simply facilitating and communicating the benefits of saving more into their pension, compared to other savings options, could help them build up enough for a comfortable retirement.

Which factors are preventing you from saving more?

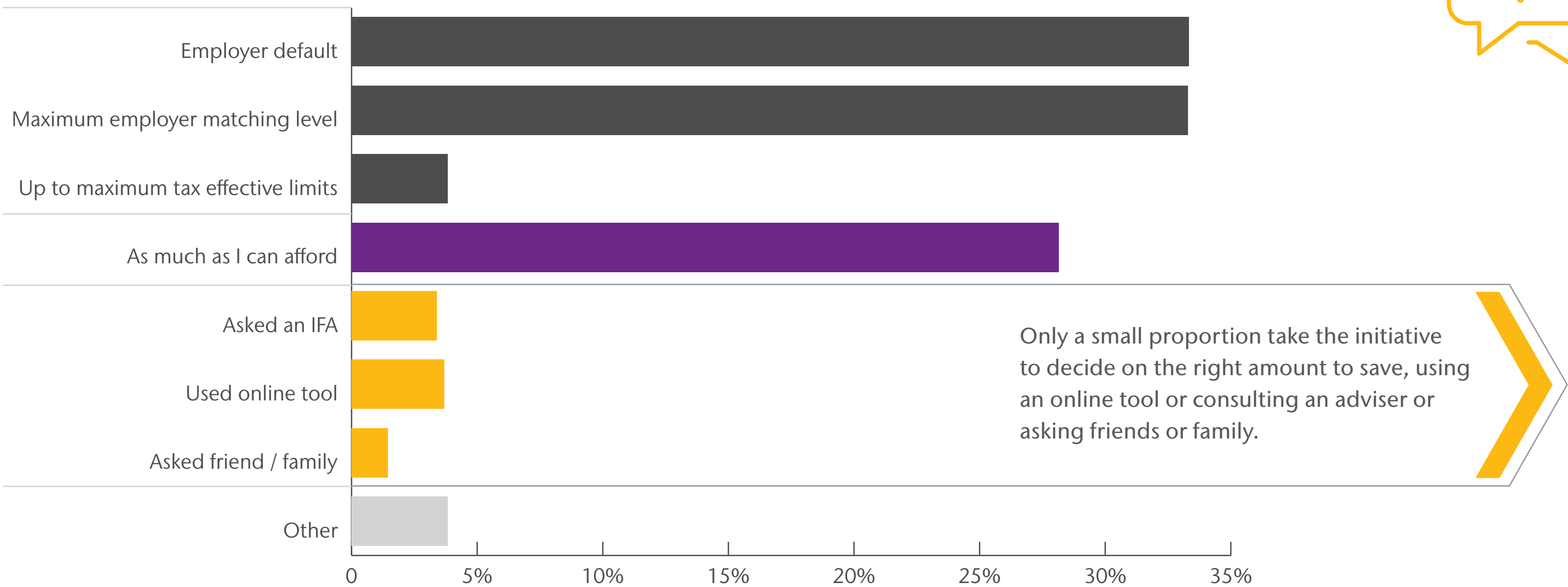


2,002 UK employees surveyed

How do people decide how much to save towards their retirement?

We found that very few DC plan members base how much they save on how much they think they will need to achieve an adequate savings pot. The majority follow the contribution rates set by their employer sponsor[5] or feel they are restricted on how much they can save by affordability[6].

How do you decide how much to save into your workplace pension?



1,176 UK employees contributing to a DC pension, excludes 'don't know' responses

This shows that many individuals are either not making the link between how much they save and whether they will have enough money in retirement, or feel they cannot afford to do anything about it. The expectation from most employees is clearly that their employers will have set an appropriate contribution level. This lack of personal responsibility could leave many workers unable to retire, causing issues for pension scheme sponsors — companies — which will need to deal with an ageing, disgruntled and potentially less productive workforce in years to come.

33% base their savings on the employer default

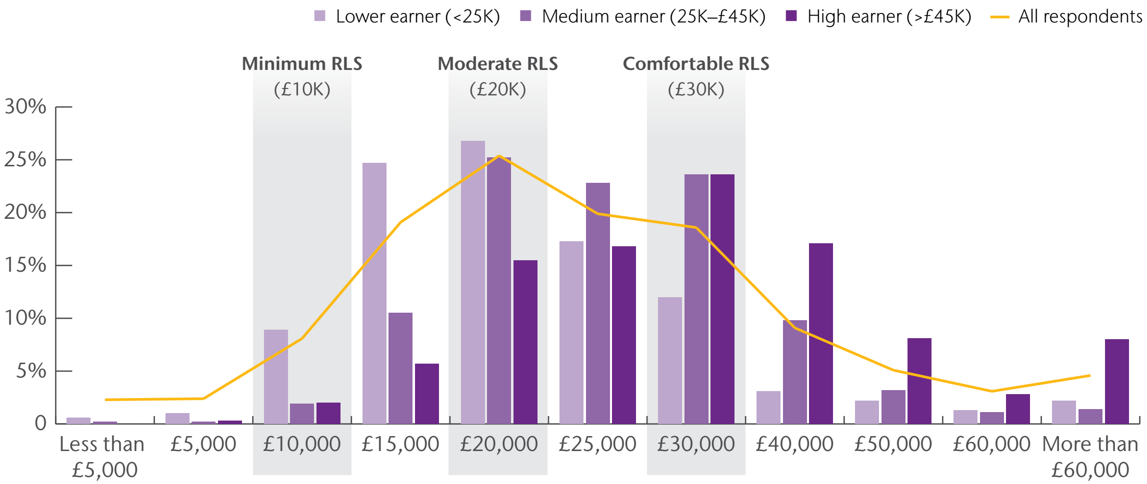
Only 8.5% ask for advice from a consultant, friends or family or use an online tool to help decide how much to save

How much income do people need in retirement?

The PLSA and Loughborough University Retirement Living Standards have been broadly welcomed by the pensions industry. These are a useful rule of thumb to help individuals understand how much annual income they might need to attain a defined lifestyle in retirement. There are Minimum, Moderate and Comfortable levels defined at approximately £10k, £20k and £30k per year respectively (for a single person living outside of London).

Our research allowed us to test to what extent these proposed target income levels align with individuals' expectations by asking them to consider how much they would need in retirement.

Annual income needed in retirement (in today's money)



1,583 UK employees, excludes 'don't know' responses

Comparing our results to the three Retirement Living Standards levels, among all respondents, the Moderate level (approx. £20,000 per year) was the most popular choice. Around 25% said that this is the right level of income to meet their needs in retirement and a further 25% said that a lower level of income than this would be sufficient[7]. There is a clear relationship between earnings and expectation of the level of income needed in retirement. Pension schemes looking to help their members achieve an adequate retirement income target, need to consider the appropriateness of different targets for different groups.

How Aon can help

A key step is to determine which segments of the workforce are on track for an adequate retirement and which are not. You can then take targeted action for those who need to save more. Aon's DC Analytics tool can do this by looking at the likelihood of your members achieving an adequate level of income in retirement, taking into account outcomes from your workplace pension, expected State pension and pensions from previous employments.

If the majority of your people are not on track, and given that the contributions 'lever' has the most impact, do you need to re-think the contribution structure? Where affordability of employee contributions is a challenge for a joiner to your DC plan, consider an auto-escalation approach to employee contribution levels, perhaps timed to coincide with a pay review date. In that way members' savings levels can gradually increase over time. In the chapters on **Investment** and **Communication and Engagement** we consider other 'levers' to help get people back on track.

Would a different delivery model for DC help provide better outcomes for members as well as meeting the sponsor's cost and risk management objectives?

There is a trend in the UK to increase the level of outsourcing, with many DC plans moving towards a Group Personal Pension (GPP) or more recently, to a master trust structure. This in part is because an outsourcing approach can free up time and the resource required from a trustee board or sponsoring employer to run the DC plan — and instead allows them to focus on areas where they can add more value.

Does your current DC vehicle offer the best way of delivering everything your members need as well as fulfilling the objectives of the sponsor?

How Aon can help

Aon's Viewpoints Discover approach allows you to assess the relevance and appropriateness of your current strategy by gathering the views and beliefs of key stakeholders via an anonymous online questionnaire. This helps gather views across a wide spectrum of interested parties, encourages engagement and avoids 'status quo' bias by challenging whether the strategy the scheme currently has is still fit for purpose in a fast-changing environment.

Aon also offers a full suite of delegated DC options including The Aon MasterTrust and a Group Personal Pension solution (BBT). These provide an integrated DC pension and financial wellbeing solution, enabling employers to focus on key strategic issues and running their business, while Aon manages the day-to-day operation of the DC pension for members before, during and after retirement.

Actions checklist:

- Review your overall pension objectives including how they fit with wider corporate plans
- Understand whether your pension scheme design results in your pension members being on track for retirement
- Consider whether your current pension scheme structure best delivers to your objectives

Breakdown of survey response data in this section

Footnote	% response	Number of respondents	Notes
1	41% of male respondents compared to 32% of female respondents.	2,002	Respondents who 'agree' or 'strongly agree' that they are saving enough for their long-term needs.
2	44% of respondents aged under 35 compared to 31% aged between 45-54.	2,002	Respondents who 'agree' or 'strongly agree' that they are saving enough for their long-term needs.
3	87% of respondents expect a shortfall in retirement based on their current path.	1,586	Excludes employees who responded 'don't know' to how much they think they will need in retirement.
4	34% of respondents state nothing is preventing them from saving more.	2,002	
5	33% of respondents say employer set level, 33% of respondents say maximum employer match as factors in deciding how much to save.	1,176	Employees who are currently contributing to a DC plan, excludes 'don't know' responses.
6	25.4% of respondents save as much as they can afford to.	1,176	Excludes employees who responded 'don't know' to how much they decided how much to save.
7	23.8% of respondents selected £20,000, 25.5% of respondents selected an amount less than £20,000.	1,583	Excludes employees who responded 'don't know' to how much income they would need to maintain their standard of living in retirement in today's money.

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Defined Contribution Pension Plans

Financial wellbeing

KEY FINDINGS

1 in 2
rate their financial situation as **not good**[1]

Those in their **mid-career** are more likely to not have money left over for saving[2]

1 in 3
are not confident in their ability to make decisions on their financial future[3]

1 in 5
in their early or mid-career are too busy to sort their finances[4]

Financial Wellbeing

The COVID-19 pandemic has shone an intense spotlight on workforce resilience in a way we have never seen before. Leaders are now far more aware of the fragility and dependence of businesses on a healthy and financially well workforce. Smart, strategic investment in the health and wellbeing of your workforce is more than good housekeeping, it is part of what makes a business thrive.

If we focus on financial wellbeing, it is clear that people do need help — and particularly those in their mid-career.

From our results, **only 15% of employees think their employer offers an above average level of support with their financial wellbeing**. Nearly half say their employer offers no support or they do not know what support is offered[5]. This often does not mean that there is no support in place; for example our 2020 survey of DC schemes, ‘How do you measure up?’, showed that while over 75% of employees have access to financial education and planning tools, many do not know where to go for that help.

Only
15%
think their employer offers an above average level of support

> "You need to guide employees to the right support for them as they won't find this themselves"
>
> Urike Ziler, Head of HR for Allianz Germany, Aon's Rising Resilient report (p35):

How can you bring the different parts of your financial (and wider) wellbeing support together so that individuals can easily find and access the support they need?

There are a range of options, from an interactive PDF on an intranet site, to a personalised dashboard, or even an app which can nudge members to take action. No matter what method you use, a complementary communication strategy is needed for members to be aware of what they need to do and where they need to go.

Interactive PDF

This can be put on an intranet site summarising the financial wellbeing support offered. A printed version could also be posted to home addresses or displayed in workplaces.

Dashboard

A page on your intranet that brings all your financial wellbeing support together in one place. This can range from a static microsite to a personalised dashboard.

App

Accessing support through a mobile device is an effective way to nudge people to action, and can include coaching delivered by artificial intelligence (AI), personalised tips and guidance for specific needs.

Where Aon can help

At Aon we have developed tools such as our Well One app to help you bring together your financial wellbeing (and wider) support to improve awareness and utilisation. We also have vast experience of running successful communication campaigns to engage employees with the support being provided.

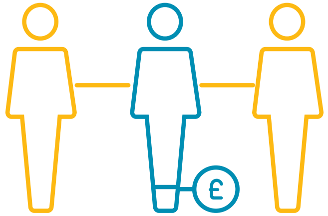
You may already have lots of support in place, but does this meet the needs of your workforce? Collecting and analysing the data you have available and looking at this holistically can help you to determine what is working and what is not, and to change your support appropriately. It can also help you to determine where to focus your efforts and can feed into your wellbeing strategy.

1 in 4

cannot come up with £1000 in an emergency

Almost 1/2

do not have a set budget they follow each month[7]



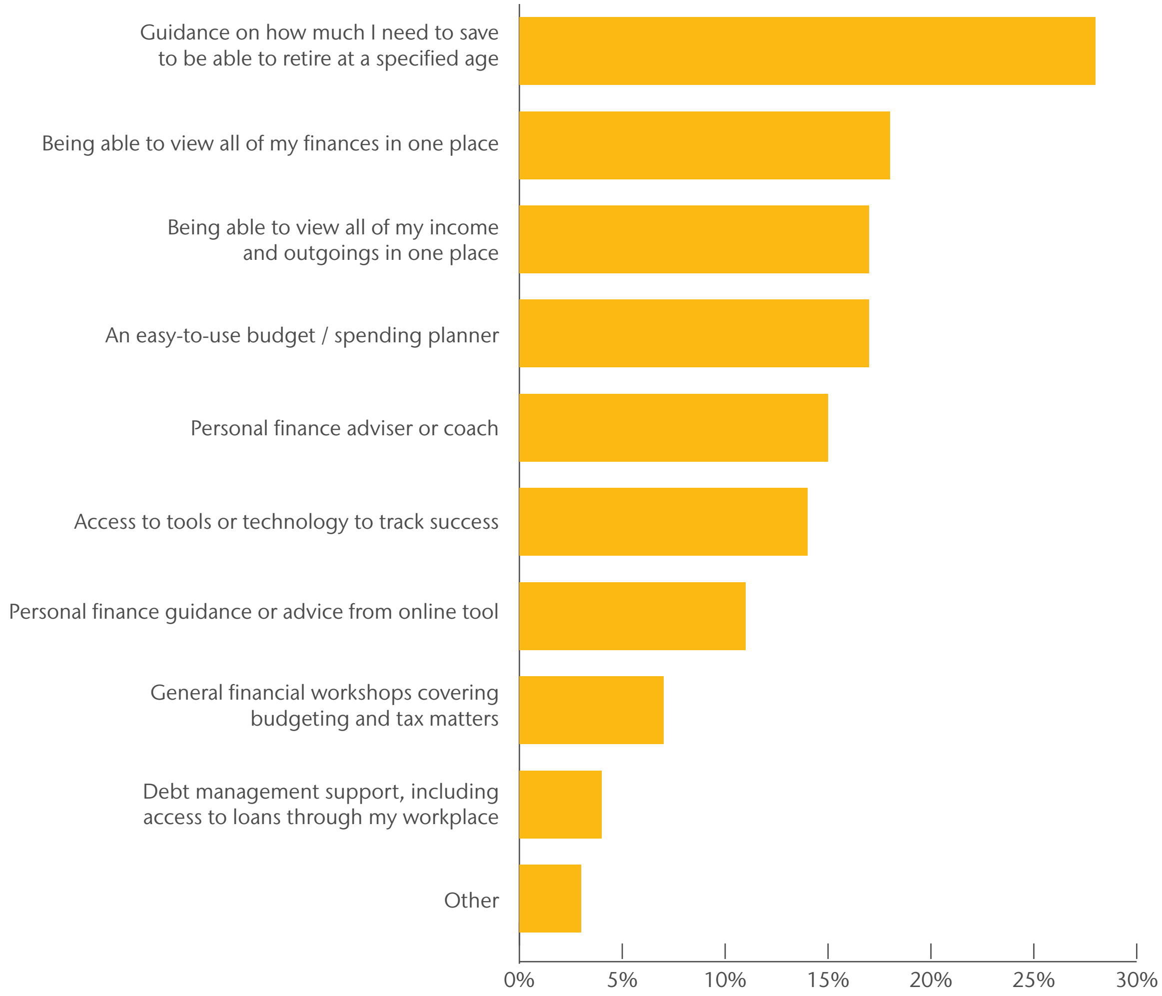
People in their mid-career are most likely to have credit card debt which they are unable to pay off in full each month[8]

We asked respondents what would best help them manage/improve their current personal financial situation. The most popular responses were guidance on how much to save for retirement[9], followed by being able to view all current finances in one place, as well as monthly income and outgoings[10]. From our work in this area we find that it is common to start by offering general financial education as this is fairly straightforward and can be an impactful way to reach employees who do not know how to get help.

Where Aon can help

- Aon offers a free financial wellbeing gap analysis to determine if there any areas where you are not currently providing support. You can complete the survey here to receive a free report and meeting to discuss further.
- Aon's financial wellbeing scorecard has a modular approach for employers to analyse what support their employees need and whether their benefit design currently meets those needs.

Which do you think would best help you manage and/or improve your current personal financial situation?*



**Respondents were able to select up to three options.*
2,002 UK employees

Where Aon can help

- Aon's Well One Money is an easy to understand personalised app that provides guidance on projected retirement savings and shows all your finances in one place. It highlights key areas of a user's finances with income/expenditure graphs, pension overviews, discounts based on a company's benefits package tailored to individuals' actual spending habits and budget summaries. The app is also fully integrated within Aon's DC solutions, the Aon MasterTrust and BBT (our GPP).
- If you decide to put in place additional benefits, Aon has a range of services available or preferred providers to help you implement a tried-and-tested solution. We have researched the options in the market for you, to save you the time and expense of doing the same.

An effective way to determine if there are any gaps in your current financial wellbeing offering is to perform an audit of the support you have compared to the options typically available.

Make certain to include checks on the accessibility of the support you offer in your audit to ensure inclusivity for all employees in your approach. This could be accessibility of the technology or inclusive visual images. To learn more about Diversity and Inclusion in pension schemes, see our Practical Diversity & Inclusion Guide for Trustees.

Actions checklist:

- Understand the usage of the support currently offered
- Assess whether there are any gaps or duplication in your financial wellbeing support and refine your offering appropriately
- Ensure your support is well communicated and can be easily accessed

Breakdown of survey response data in this section

Footnote	% response	Number of respondents	Notes
1	49% of respondents neutral or negative response to rating their financial situation.	2,002	
2	37% of respondents aged 35-44 do not have any money left over after my outgoings to save any / more money.	2,002	Compares to 31% aged under 35, 32% aged 45-54 and 30% aged >50.
3	29% of respondents neutral or negative.	2,002	
4	18% of respondents aged under 35 or aged 35-44.	983	
5	15% of respondents described employer financial wellbeing support above average level. 30% stated employer offers no support and 16% do not know what support is offered.	2,002	
6	24% are not sure that they could come up with £1,000 in an emergency.	2,002	
7	47% of respondents do not agree with statement that they follow a set monthly budget.	2,002	
8	35% of respondents aged 35-44.	2,002	Compares to average of 29% across all age groups.
9	28% of respondents.	2,002	
10	18% of respondents view finances in one place, 17% of respondents view regular income and outgoings in one place.	2,002	

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Defined Contribution Pension Plans

Investing for the right pension outcomes

KEY FINDINGS

Only

1 in 9

people checked, or plan to check[3], what has happened to their pension savings following what has been described as "the fastest bear market in history"

Just

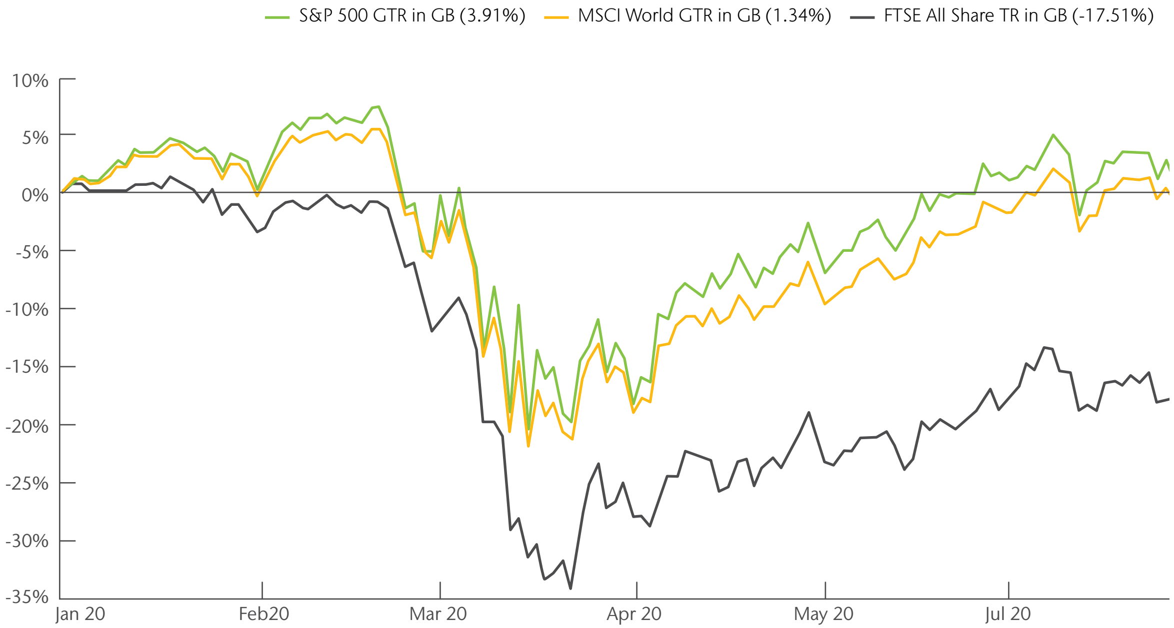
4%

have checked where their pension is invested to see if they are comfortable with this from an environmental and ethical standpoint

Investing for the right outcomes

To say that 2020 was an interesting year for investment markets is putting it mildly to say the least. Over February and March 2020, equity markets experienced the fastest and sharpest falls in history. While global share prices recovered by the end of the second quarter, some sectors or geographies did not fare so well.

Equity markets 1 January 2020 to 31 July 2020



Source: Financial Express Analytics

The future of default DC investment?

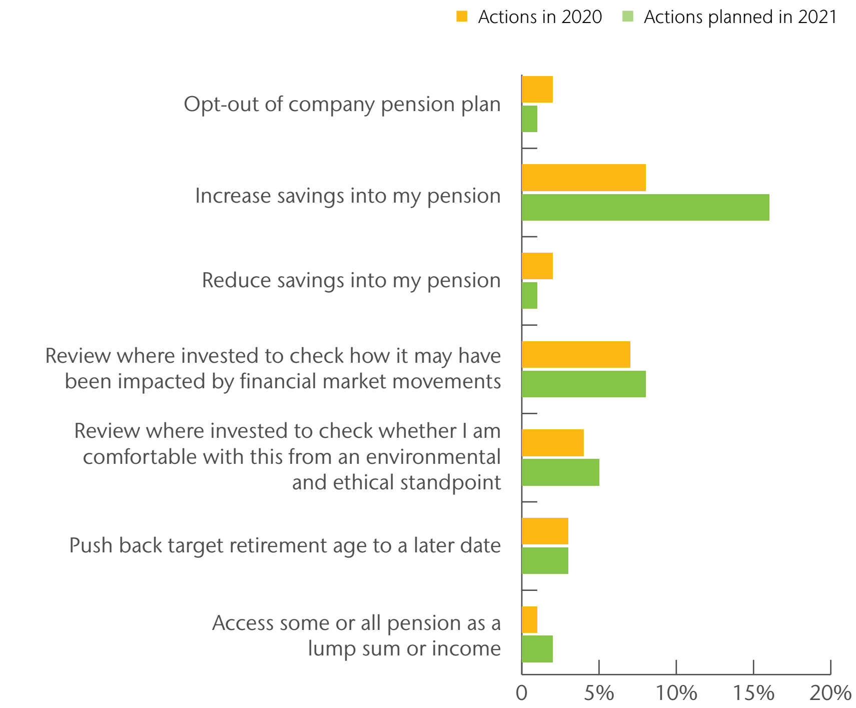
Target Driven Investment is a DC investment approach where the automatic switching of investments as members approach retirement is conditional on actual market performance. It can be summarised in three steps:

1. Target member outcomes agreed
2. Default investment designed to achieve target returns at each stage to meet outcomes
3. Automatic investment switching in the approach to retirement driven by whether performance is ahead of or behind the return target

Did this unprecedented stock market turbulence send DC pension savers into a panic?

The short answer is no. Our research found that only 7% checked their pension investments to see if they were impacted.

Recent or planned interactions with pension saving



2,002 UK employees

Only **7%** checked their pension investments to see if they were impacted

There are some interesting numbers underlying this, for example almost twice as many males as females said that they had checked to see if their pension savings had fallen[1]. Younger individuals were more likely to have checked then those closer to retirement[2], but this was still a very small proportion.

We also explored whether being asked the question might prompt people to go and check. Again, the answer was in the main no — only 8% say they plan to check within the next 12 months and over half of these are the same people who reviewed their investments in 2020.

This means less than 11%, or one in nine people checked[3], or plan to check, what has happened to their pension savings following what has been described as **the fastest bear market in history**.

We also observed that individuals put on the furlough scheme or those moved to reduced hours — despite potentially having more time — were less likely to have checked their pension investments than those whose employment status was unaffected[4]. There were mitigating circumstances of course, with more focus on other issues including immediate financial, health and family challenges.

> This emphasises more than ever how vital it is for a DC pension scheme's default to take care of investments on behalf of members.

To ESG or not to ESG?

Investing in line with ESG (Environmental, Social and Governance) principles, also known as Responsible Investing, is a topic that has garnered more column inches, webinars and podcasts than almost any other in pensions over recent times.

- **The Pensions Regulator** is driving schemes to be more transparent about their investment policies and how these are being met.
- **Corporate sponsors** are also understandably becoming increasingly concerned that their pension arrangements invest employees' savings in way which does not conflict with the sponsor's own Corporate and Social Responsibility policies. Organisations such as Make My Money Matter are focusing attention on this area and are calling for all organisations to align their pensions with their values.
- **Members** — Just 4% have checked where their pension is invested to see if they are comfortable with this from an environmental and ethical standpoint and only 5% plan to do so in the next 12 months. Interestingly, older individuals are just as likely to have checked as younger ones, so this not a 'millennials only' issue[5].

However, we know from a study undertaken in conjunction with the Cambridge Institute[6] that if individuals are given the choice between two similar funds, they would choose to invest their own money in the one with better ESG credentials. This was found to be the case even if they thought they might get a slightly lower return — which as we know need not be the case. In fact, many ESG-type funds have fared better in 2020's market turmoil than their non-ESG equivalents.

So again, the onus is on those running schemes to do this on behalf of their members. Taking the 'easy option' of offering some form of ESG self-select option and expecting members to do it for themselves will increasingly not be enough.

On a positive note, very few individuals opted out of pension saving last year and even fewer say that they plan to opt out in 2021. Despite the challenging financial conditions, far more people have increased pension contributions than have reduced them.

The Pensions Regulator

is driving schemes to be more transparent about their investment policies

If individuals are given the choice between two similar funds, they would choose to invest their own money in the one with better ESG credentials

How Aon can help

ESG Viewpoints

It is important that those running pension schemes are able to clearly state what their policies are on environmental, social and governance matters in relation to the investments they are responsible for. Aon's ESG Viewpoints tool asks the right questions and enables all stakeholders to share their views to achieve consensus.

ESG Dashboard

This pulls together the relevant data and measures to give pension schemes an increased understanding of their investment manager approaches as well as checking that managers are carrying out responsibilities well. The data collated can be used to engage with investment managers, evidence how a pension scheme measures up against its stated ESG policies or to report to members.

Aon Managed Global Impact Fund

Aon is proud to have launched the Aon Managed Global Impact Fund, which aims to generate capital growth over the long term while investing in way that has a positive social and environment impact.

Aon's delegated solutions including The Aon MasterTrust and BBT (our GPP), are leading the way in implementing a Target Driven Investment approach as well as integrating ESG principles within the default funds and offering access to the Aon Managed Global Impact Fund.

Actions checklist:

- Is your default investment approach designed to achieve appropriate targets for your pension members?
- Are your policies on ESG clearly defined?
- Does your pension scheme, particularly the default option, invest in line with these policies?
- Could delegating your DC investments be a more effective way of delivering investment solutions to your members?

Breakdown of survey response data in this section

Footnote	% response	Number of respondents	Notes
1	8.5% of male respondents reviewed to see if pension investment impacted by financial markets compared to 4.5% of female respondents.	2,002	
2	8.2% of respondents aged <35 compared to 6.0% of respondents aged >55.	2,002	
3	10.4% unique respondents reviewed investments in first 10 months of 2020 or plan to review in following 12 months.	2,002	
4	3.9% of respondents on furlough and 3.7% of respondents with reduced hours checked compared to 7.9% of those with no employment changes in 2020.	2,002	
5	4% of respondents across all age groups checked if they are comfortable with pension investment from an environmental and ethical standpoint.	2,002	
6	University of Cambridge Institute for Sustainability Leadership (2019). Walking the talk: Understanding consumer demand for sustainable investing.		

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Defined Contribution Pension Plans

Communications and engagement

KEY FINDINGS

71% have not set a goal for how much they need to save in order to retire

1 in 3 say there is nothing preventing them from saving more

61% of DC plan members base how much they are saving into their pension on what is offered by the employer[4]

Communications and Engagement

Communicating in the right way is crucial in helping pension scheme members understand when they need to take action.

A huge 71% of employees have not set a goal for how much money they will need to save before they fully retire, with this figure even higher for females[1] and those in their early career[2]. It is evident that focused and clear communication is needed in DC pensions.

Where to focus your communication

87% are **expecting a shortfall** in their retirement income[10]

The most straightforward way for people to improve their pension outcomes is to save more, and the earlier the better.

Respondents are anchored to their employer default or maximum matching contribution levels when choosing how much to save as described in the first section of this research 'Strategy and long-term objectives'.

Nearly half of respondents say that either nothing is stopping them from saving more or they are put off saving because of low interest rates[3]. This is a significant proportion of people that could be targeted to put more into their pension savings.

Having a clear strategy with measurable objectives in place will enable you to determine the success of any campaigns that you run.

To determine where to focus your communication efforts, it is important to make use of the sources you have. For example, have you sought feedback from the individuals that your communications are aimed at? Can you run focus groups? Or can you access data on projections to look at which pension members are not on track for a reasonable outcome at retirement?

Where Aon can help

- At Aon we have helped many employers and pension schemes to define their communication strategy and to set measurable objectives for achieving improved outcomes for employees and pension scheme members.
- Retirement adequacy analytics can be used to determine if there are any key groups of members who are not on track for a certain standard of living in retirement to help focus your resources.

A range of methods

It is important to use a variety of methods to communicate; what works for one person may not have the same impact on others.

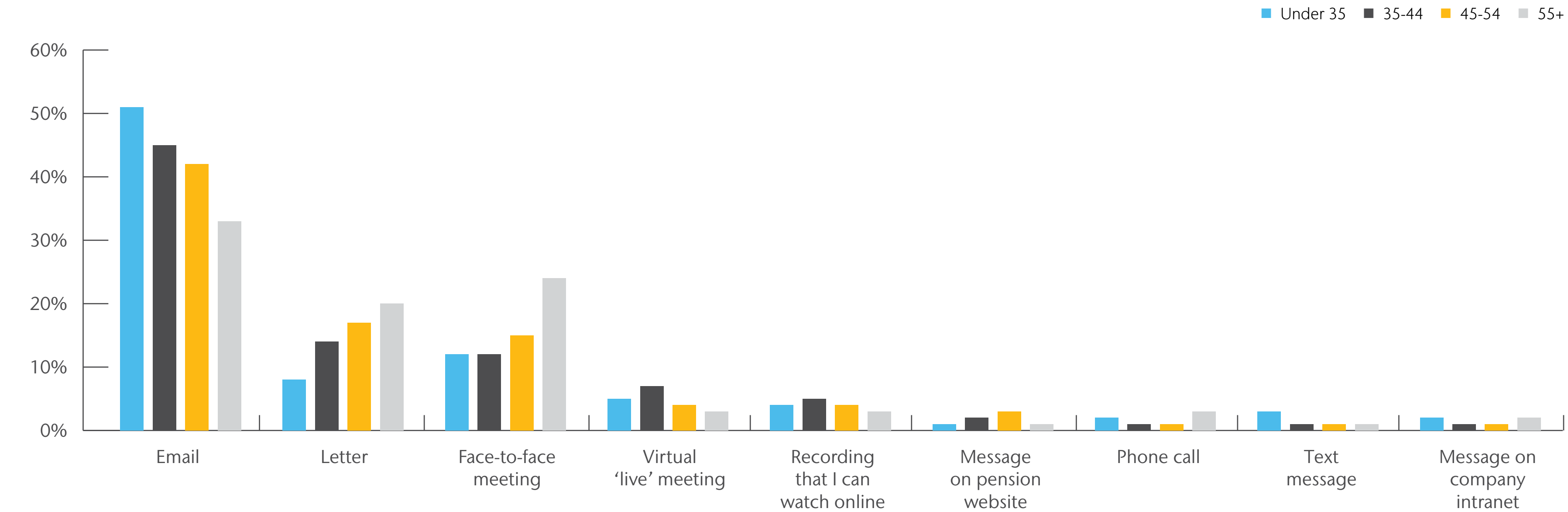
The most popular communication method for all respondents was email, followed by face-to-face meetings and letters. In the current environment, with many working from home, bite-sized communication can work well — and employees may pay more attention to their post than in the past. There are clear differences across age ranges, with over 55s more likely to prefer a face-to-face meeting or a hard copy letter than younger age groups.

Videos have also become more popular, with over 80% of consumers in the US and UK saying they consume more content since the outbreak, with broadcast TV and online videos being the primary mediums across all genders and generations*.

**Source: https://www.visualcapitalist.com/media-consumption-covid-19/*

It is important to use **a variety of methods** to communicate

Preferred method of receiving information on pensions and benefits



2,002 UK employees

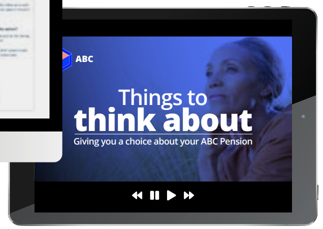
How Aon can help

Our communications practice can support you in producing engaging communications which bring results for your workforce.

Interactive PDF / presentations / personalised communications

Modellers

Videos



Communication campaign

Dashboards

Actions checklist:

- Use data and employee feedback to set your communication objectives
- Ensure clear information and support is delivered across a range of channels
- Review success measures to enhance your communication programme over time

Breakdown of survey response data in this section

Footnote	% response	Number of respondents	Notes
1	76% of female respondents have not set a goal, compared to 68% of male respondents.	2,002	
2	79% of respondents aged <35, compared to 71% average.	2,002	
3	34% of respondents say nothing is stopping them from saving more and 14% of respondents say low interest rates prevent them from saving.	2,002	
4	31% of respondents say employer sets the level and 30% save up to maximum employer matching level when asked how they decided how much to save into pension.	1,269	UK employees who are members of a DC pension arrangement.

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Defined Contribution Pension Plans

Getting retirement right

KEY FINDINGS

1 in 3 expect to work to age 70 or beyond

70+

3 in 10 do not know how they will access their **workplace pension savings**

Nearly 6 in 10 expect to access their workplace pension using drawdown

70% want support from their employer on what to do when they reach retirement age

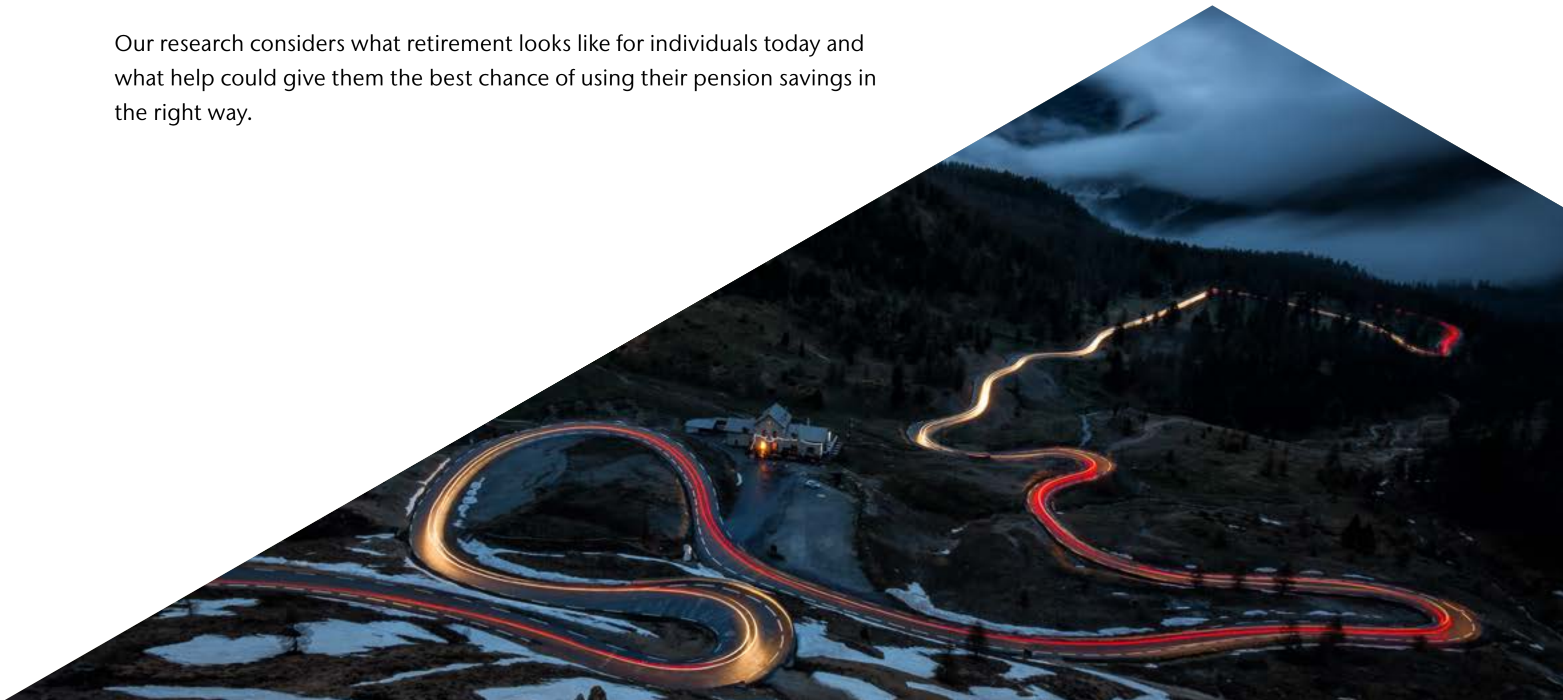
Getting retirement right

We are experiencing a fundamental shift in the way that people move from the world of work into retirement. This is no longer a one-off event at a specific age, but increasingly a phased move taking place at ever older ages.

Fewer than **3 in 10** people say they now expect to fully retire at 'retirement age'[1].

For DC pension savers, accessing their savings is likely to be the single biggest pension risk they face. One bad decision could wipe out many years of careful saving and even a sub-optimal choice could end costing thousands over the course of someone's retirement.

Our research considers what retirement looks like for individuals today and what help could give them the best chance of using their pension savings in the right way.

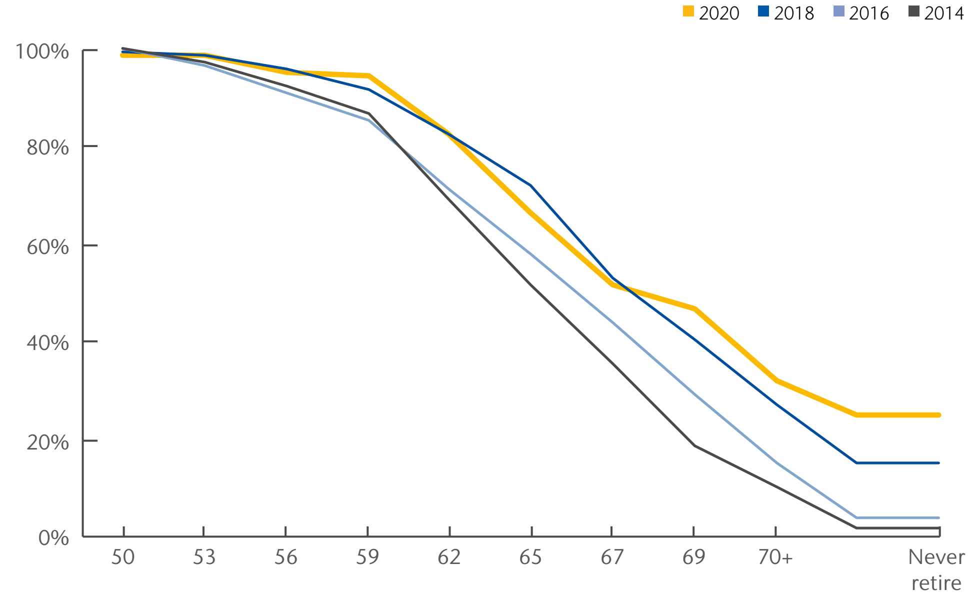


When is retirement?

The age at which people think they will be able to stop working is continuing to increase at a rapid pace. In our survey, one in three of those that expressed a view, now expect to work to age 70 or beyond[2].

This may in part be due to the phased increase in the age people receive their State pension, which hit age 66 for the first time in 2020. Affordability also has a big part to play, as we found that one in four expect to never be able to retire[3] (up from one in seven in 2018).

Expecting to still be working at age



1 in 3
expect to work to age 70 or beyond

1 in 4
expect never to be able to retire

A big implication of this for pension schemes is whether the default retirement age under the scheme is aligned with member behaviours. If there is a mismatch this could mean that any automatic switching of savers' investments is happening at the wrong time. This could lead to individuals receiving lower returns and ultimately a lower pension than would otherwise be the case.

For employers there are considerations around potential challenges and benefits of an older, more experienced workforce. If the trend continues at the current rate, within the next ten years we could see over 50% of people needing or wanting to carry on in work past age 70, although health factors may mean this is not always practical.

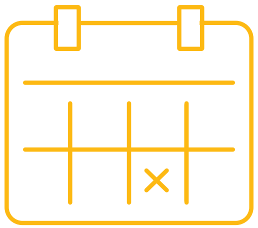
How Aon can help

- DC analytics to understand what proportion of people may be on track for adequate retirement at different ages
- Analyse your DC investment design to understand whether the implications of members retiring later make the current design inadequate
- Review your current retirement support and communications against the changing retirement landscape to help you understand whether you are getting retirement right for your employees

What does retirement look like?

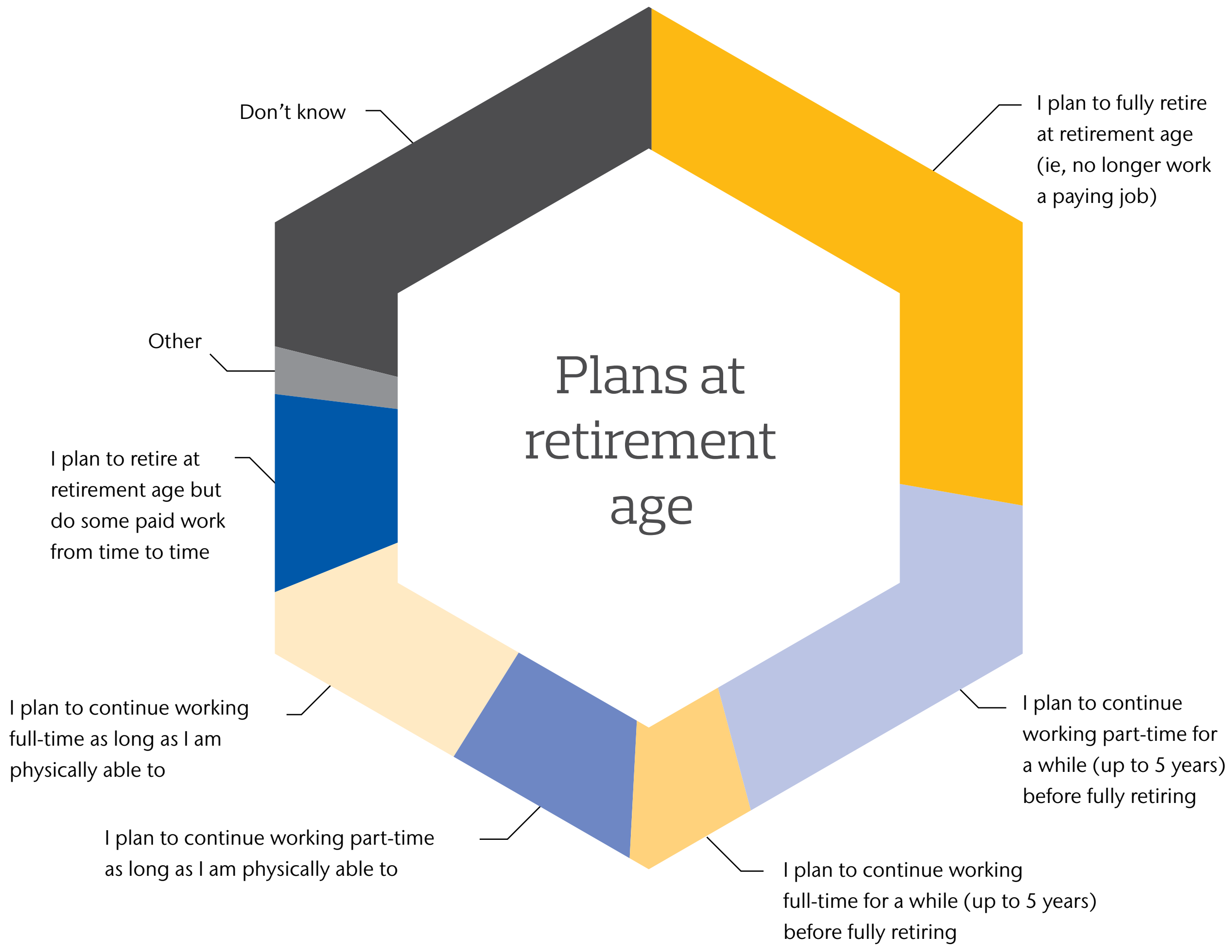
Most people now expect to continue working in some form into their retirement, with only around a quarter expecting to fully retire at a specified point in time.

This is likely to continue the push towards offering flexible retirement solutions, including income drawdown, where individuals are not required to start to access all of their workplace pension at once.



Only
28%
plan to fully retire at retirement age

Plans at retirement age



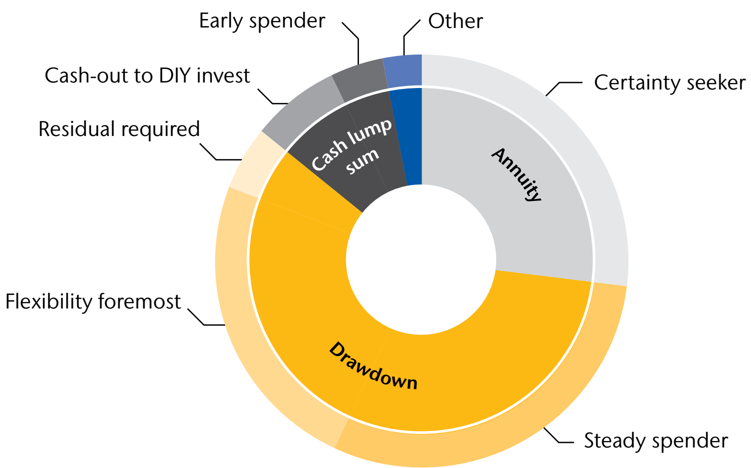
2,002 UK employees

How will people use their workplace pension savings in retirement?

Around 3 in 10 individuals[4] say they do not know how they will want to access their workplace pension savings. This is perhaps not surprising given the range of different plans they have for their retirement age.

However, even as people get nearer to retirement over the age of 55, more than two in 10 still say they do not know[5]. This is more concerning because by this age most DC default investment approaches will have started automatically switching pension savings, aiming towards a particular outcome. Some pension savers may even start to access cash lump sums without fully understanding the consequences over the long term. Targeted education and guidance about retirement options more than 10 years from retirement could help, as well as pension scheme investment designs which incorporate flexibility that allows people to make decisions closer to the age they retire — and without suffering undue financial detriment.

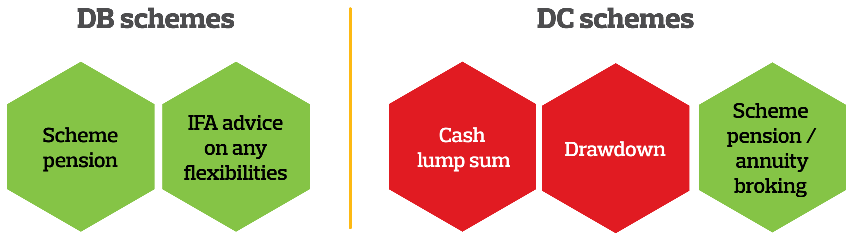
How workplace pension will be used at retirement



1,319 UK employees with workplace pension, excludes 'don't know' responses

For those who have a plan for how to access their workplace pension, using drawdown is the most popular choice as shown in the gold segments of the above chart. Nearly six in 10 people expect to access their workplace pension in this way[6].

Where is the advice gap?



Aon expert view

"In DC pensions, we have not seen advice services being offered to members at retirement to the same extent as for defined benefit (DB) schemes. Some of the largest DC schemes have had annuity broking services in place for a number of years, but only one in four of those scheme members that have a plan, expect to take their pension fund as an annuity — so these services may no longer be fit for purpose.

DC members are not currently compelled to receive financial advice before using their pension savings in a flexible way, unlike DB members. Where members are going down the drawdown route, many remain with their existing provider. In the FCA Retirement Outcomes Report, nearly 90% of consumers not taking advice opted to stay with their existing provider when accessing drawdown.

We also know from our 2020 DC scheme research, *'How do you measure up'*, that only a third of DC schemes have a preferred drawdown solution in place, and most of these use whatever their current DC provider makes available. Similar to the annuity mis-selling issues of recent years, there is a risk that the most convenient solution may not be the one that provides the best outcomes.

We believe that a retirement support framework is essential to help people maximise their pension savings and a small change, such as help in finding a financial adviser, can help individuals to reduce any income gap post retirement."

Ben Roe
Senior partner and head of DC consulting

Is there an appetite for support at retirement?

We found that there is. 70% of people want support from their employer to help them decide what to do with their pension savings when they reach retirement age, including:

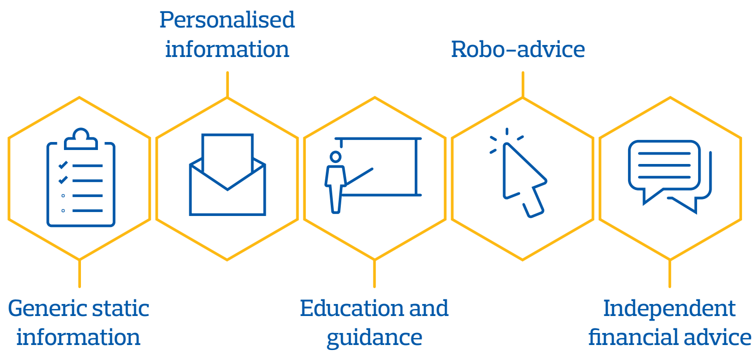
- Setting out all the options available if taking pension savings within or outside of the workplace pension arrangement
- Help to decide which method of accessing pension savings is most suitable
- Help to find the best fixed pension income or flexible withdrawal options available, including how funds should be invested while taking withdrawals
- Help to understand the tax implications of the different options

6 in 10 would prefer this type of support to be made available online

3 in 10 in person

1 in 10 over the phone

There is a spectrum of retirement support that can be made available, now including some new 'robo-advice' solutions to fill the need for those who would like a personalised recommendation but cannot meet the cost of traditional face-to-face advice. The best pension outcomes will be achieved by offering the right type of support for individuals.



Actions checklist:

- Understand how and when people in your pension scheme plan to retire and the implications of this in relation to what will be needed for their pension provision and more widely for workforce planning
- Review what retirement support and communications you already have in place and whether this is appropriate
- Fill any gaps between what is needed and what you have to help your people to get the most from their pension savings

Breakdown of survey response data in this section

Footnote	% response	Number of respondents	Notes
1	28% of respondents plan to fully retire at retirement age	2,002	
2	32% of respondents expect to retire past age 70	1,392	Excludes 'don't know' responses.
3	24.6% of respondents never expect to retire	1,392	Excludes 'don't know' responses.
4	28.3% of respondents do not know how they will access their workplace pension at retirement	1,841	Excludes those who do not expect to ever have a workplace pension.
5	22.4% of respondents aged >55 do not know how they will access their workplace pension at retirement	431	Excludes those who do not expect to ever have a workplace pension.
6	42.1% of respondents want to access their workplace pension in a manner requiring drawdown	1,841	Excludes those who do not expect to ever have a workplace pension.

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Defined Contribution Pension Plans

About Aon

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