Keeping on track in challenging times

Aon's DC pension and financial wellbeing employee research 2021

Investing for the right pension outcomes

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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.

KEY FINDINGS

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.

Speak to your usual Aon consultant, email us at **talktous@aon.com** or contact one of our subject matter experts below:

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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 76% of female respondents 68% of male respondents 63% of over 55’s	2,002 850 1,152 505	
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 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	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.

Investing for the right pension outcomes

KEY FINDINGS

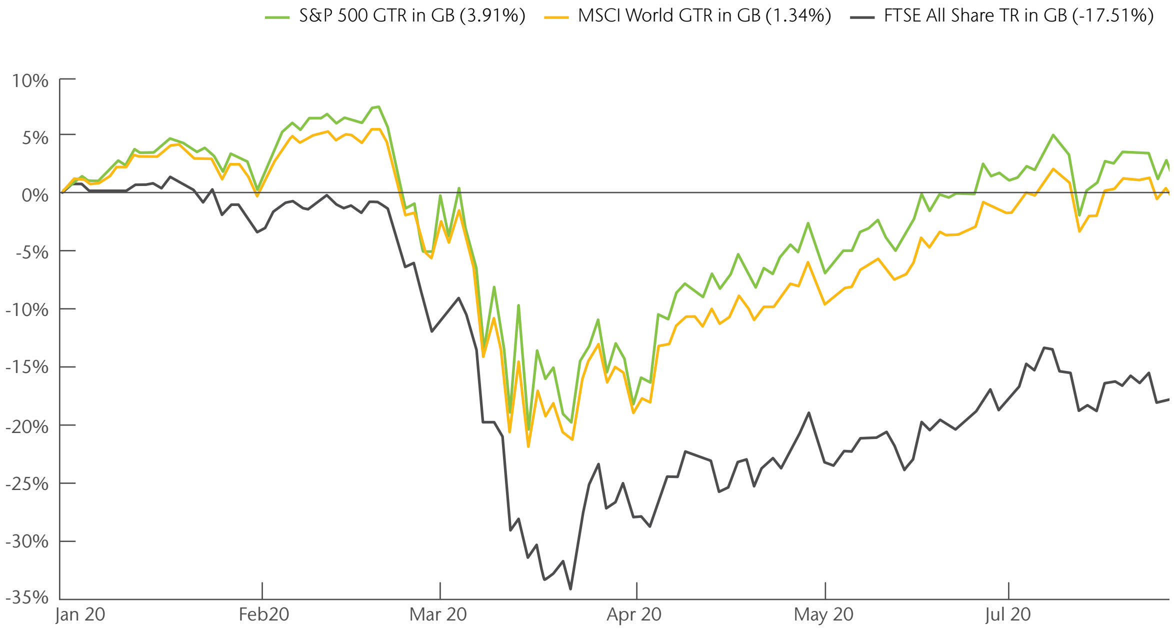
Only
1 in 9
people checked, or plan to check[3], what has happened to their pension savings following what has been described as "the fastest bear market in history"

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?

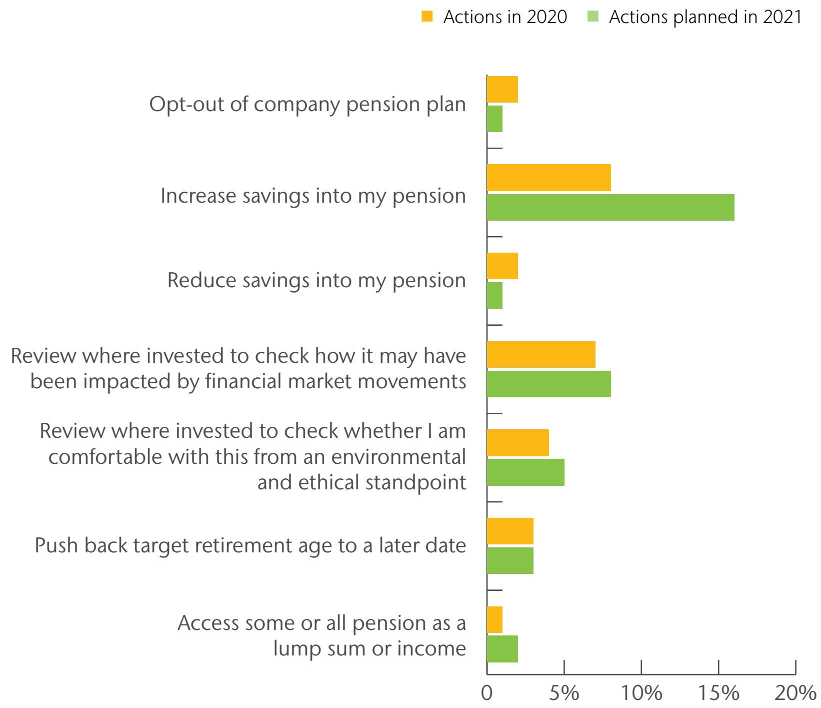
Target Driven Investment is a DC investment approach where the automatic switching of investments as members approach retirement is conditional on actual market performance. It can be summarised in three steps:

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

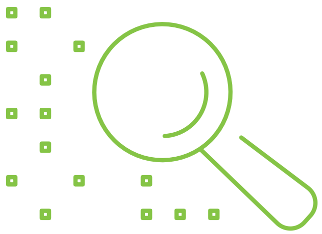
Did this unprecedented stock market turbulence send DC pension savers into a panic?

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

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

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