For Professional Clients Only

# DC Today

## Key Findings

Issue 3 — December 2023

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# Welcome to Our Third DC Today Report

DC Today is our regular pulse survey that tracks how Defined Contribution (DC) savers are reacting to the current economic conditions, including higher interest rates and other cost-of-living challenges and what schemes are doing to better support their members.

This edition of DC Today includes an additional focus on the different types of support that DC schemes are providing to members approaching and at the point of retirement. This is an increasingly important area as DC pension funds become a larger part of retirement savings for many UK workers.

We would like to thank all pension schemes who have taken the time to participate in our DC Today surveys over the last 12 months, with over 250 schemes sharing their views and experiences with us.

We have shown in this report how DC savers' behaviours have changed over the course of the year. A key takeaway from this latest report is that we may only now be starting to see the full impact on pension saving of the cost-of-living challenges faced over the last 12-18 months.

On a positive note, DC schemes are continuing to respond to better help members, with most offering several methods of support for those approaching retirement.

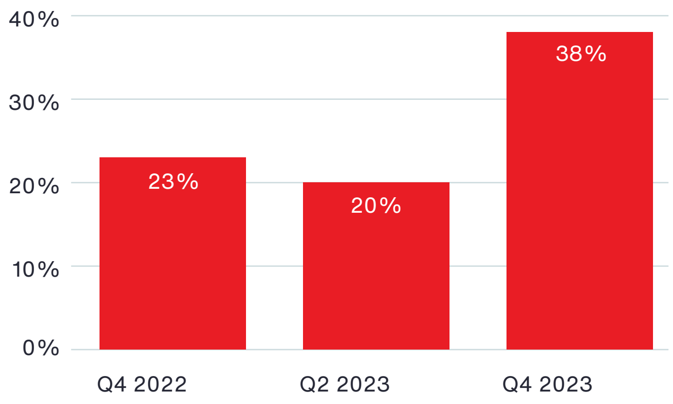
As always, we hope that you find this report engaging and insightful. If you would like to discuss any of the topics raised with an expert from our DC practice please get in touch.

**Ben Roe**
Head of DC Consulting

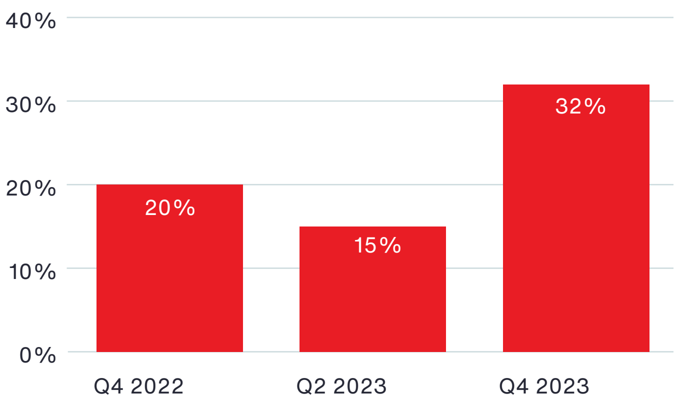
# Changes in Member Behaviour

We asked at regular intervals over the last year whether there had been any changes in the behaviour of members of DC pension plans over the preceding 2–3 months.

## Schemes Reporting an Increase in Requests to Reduce Contributions or Opt Out




## Schemes Reporting an Increase in Requests for Early Access to Retirement Savings



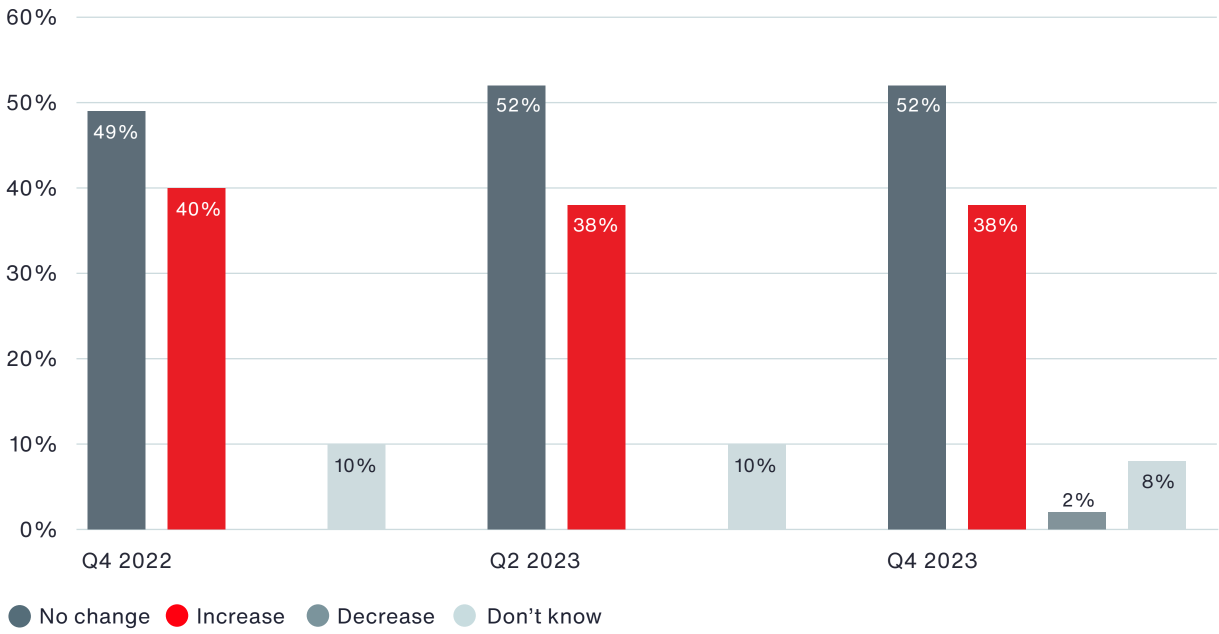

> "
> Requests to cease contributions have been increasing generally since the pandemic.

**We have seen a big jump in schemes reporting their members reducing savings into DC pensions or accessing savings early in our latest pulse survey.**

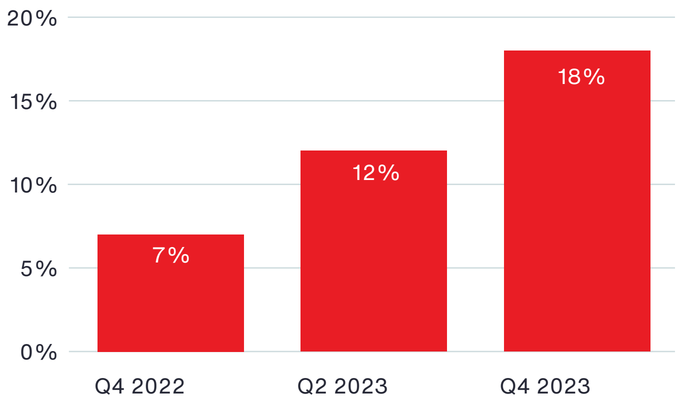
> "
> While cost of living is no longer making headlines, there appears to be an increasing impact on pension saving in the UK. This could be due to the delayed impact of interest rate rises and mortgage deals ending — perhaps because people are slow to realise that they can access additional funds from their pension, or possibly just that people are reaching into pension savings as a last resort having exhausted all other forms of savings.
>
> **Steven Leigh,** Associate Partner and DC adequacy specialist

# Member Concerns About Investment Performance

## Queries Or Concerns About Investment Performance




## Schemes Reporting an Increase in Members Switching Funds




We may have expected queries and concerns about investment performance to fall now that the markets have been more settled following the events of 2022, therefore it is interesting to see these remain high.

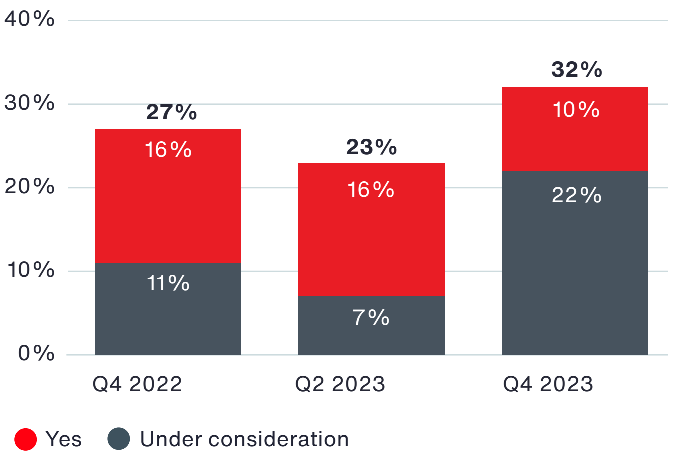
This may be due to DC savers receiving their annual benefit statements and seeing lower investment performance than previous years.

There is some concern in the schemes reporting an increase in members making changes to their investments. Experience shows that there is a risk of members locking in losses by switching out of one type of fund after a fall in value into a fund that has previously risen.

# How Have Schemes Responded?

We asked what actions pension schemes had taken in response to the current economic challenges and market volatility over the last 2–3 months.

## Schemes Offering Additional Flexibility For Members Around Contributions

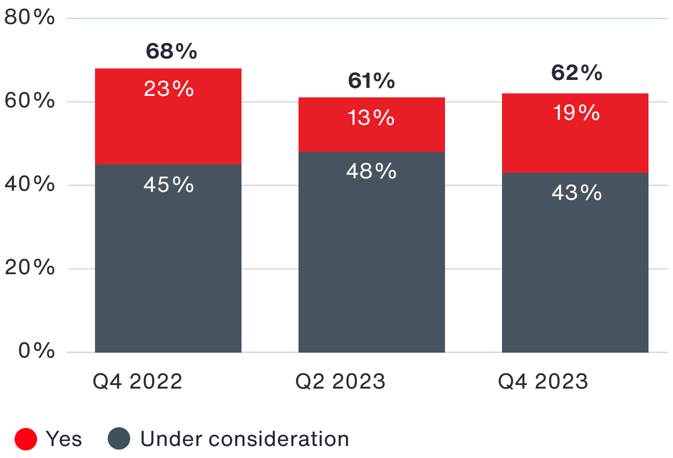



It is positive to see that more schemes are allowing additional flexibility to members. This could be a result of those who were previously considering it, now getting round to implementing these changes.

In addition to this, we are seeing many schemes who answer 'no' highlighting that this is because they already offer lots of flexibilities to members.

> "The company already allows employees a lot of flexibility — they can increase/ decrease at any point.

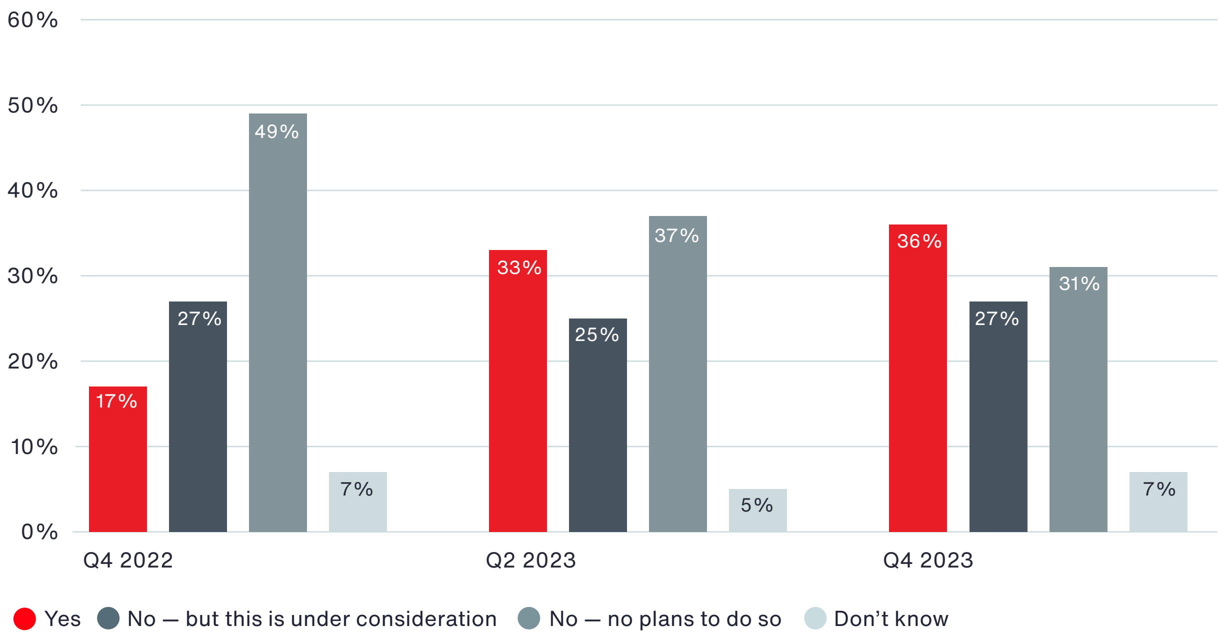
## Issued Additional Communications to Members on Pension matters




Throughout the year, schemes have been issuing or considering additional communications to members. This shows that those running schemes recognise that concerns about investments and the cost-of-living challenges are not just a 2023 problem but likely to continue into 2024. It is important to provide information to members to help them make appropriate choices.

# Focus on Support at Retirement

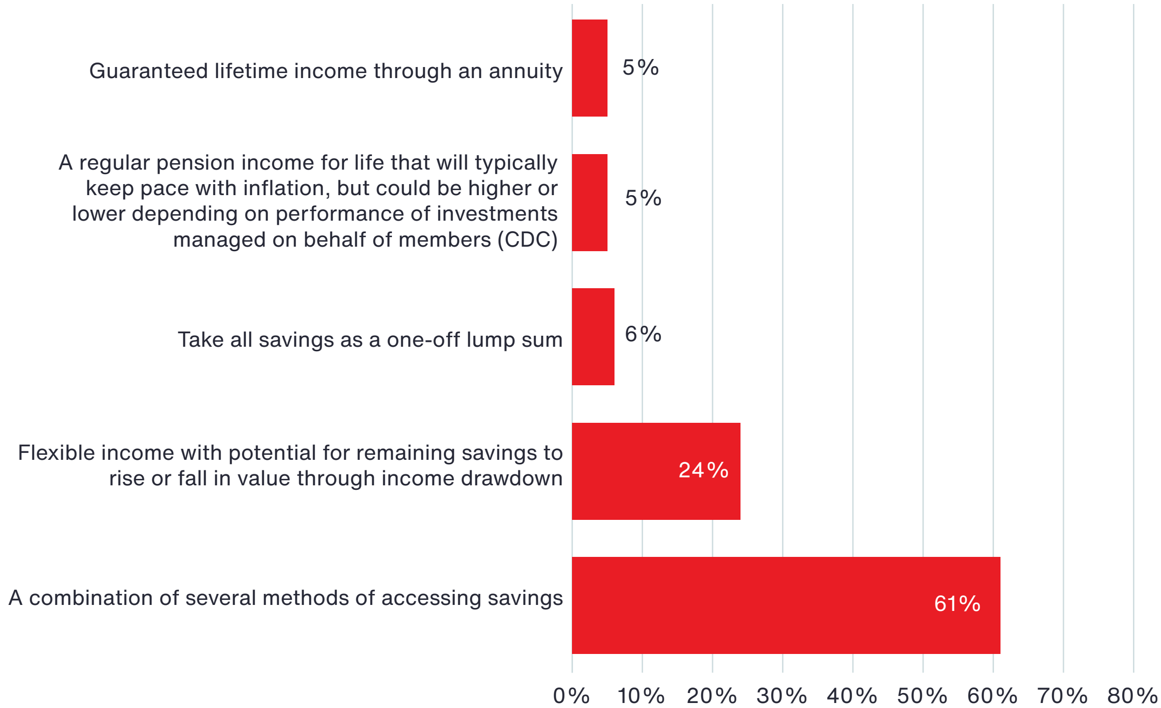
## Have You Provided Additional Retirement Support to DC Members?




There has been a steady increase in schemes providing extra support to members approaching or at the point of retirement. In our latest DC Today survey, 36 percent of respondents have put something new in place and a further 27 percent are considering it. It is recognised as an area where members often need the most help in making decisions. There is no default way to access their DC savings and there are a number of options.

### We asked schemes and sponsors how they expected their members would prefer to access their pension in retirement:

## Expectations of How Members Will Prefer to Access Their Pension in Retirement




61%

of schemes thought members would take their retirement income using a range of methods.



The view that members will take their benefits in a combination of ways was also borne out by the comments made by respondents:

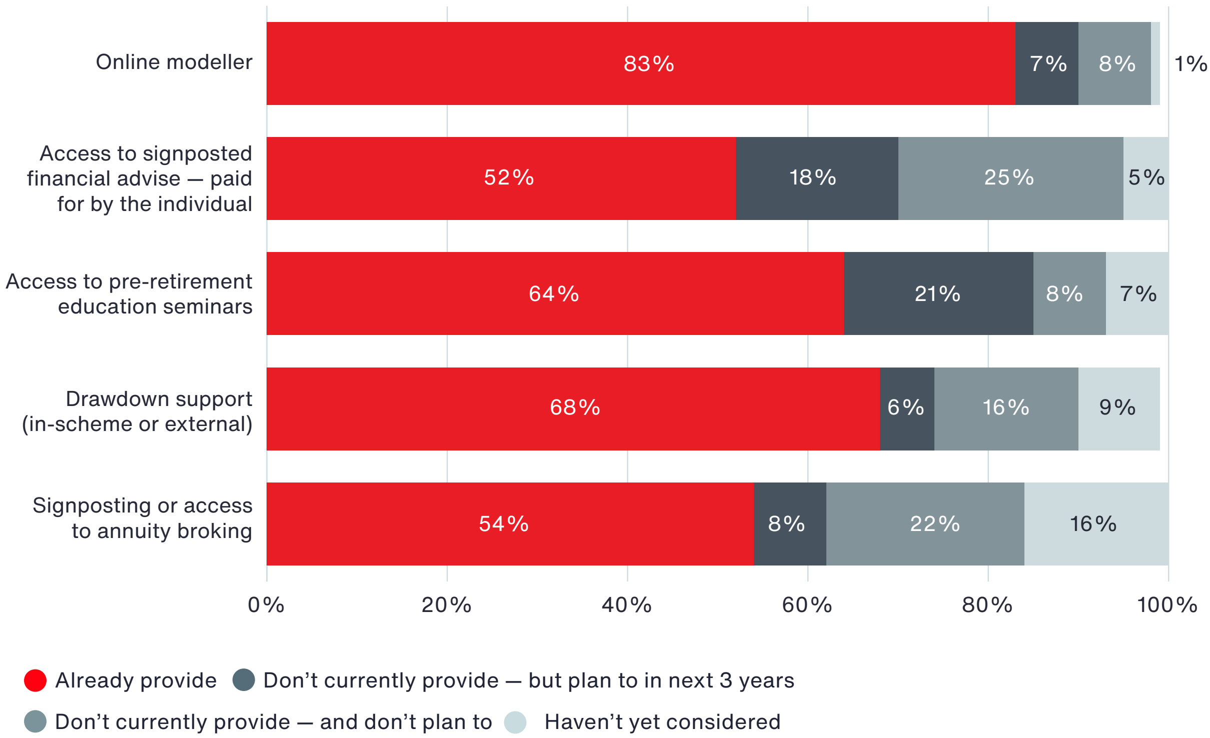
> "Expecting our members to take drawdown, then annuities as they get older.

> "Would expect annuities to become more popular.

> "CDC and cash sum likely to be attractive to members.

# What Retirement Support Do Schemes Provide?

## Support to Members in the Lead Up to Retirement




A majority of respondents, (89 percent) offer at least one of the above types of support for their members. The largest growth area reported is provision of pre-retirement seminars, with 21 percent planning on introducing these in addition to the 64 percent already providing them. These are often used as an introduction to retirement considerations at the start of a member's retirement journey (from age 55), also signposting other sources of support that can be accessed closer to retirement.

DC pension providers will often provide generic seminars across their clients, but it's important to think about specific membership needs; for example, where employees may have both DC and DB benefits to consider.



> We have noticed that our aged 50-year-plus members are telling us they need more assistance to prepare for withdrawal phase.

> It's great to see DC schemes already doing lots in this area and looking to do more. Once in place, the other vital ingredient is to ensure that members have good awareness of the support and can access it easily.
>
> **Richard Cook,** Associate Partner

The other large growth area is in schemes **directing to an Independent Financial Adviser (IFA)**. This supports members to access a reputable IFA at a negotiated fee level. Given the large numbers of IFAs operating and the range in costs and consistency of service, the increase in schemes helping members through this is no surprise.

47%

of those schemes signposting to an IFA said they subsidised the advice in some way.

Many DC pension providers will have an IFA service and so it is important for the sponsor to understand what their members are being offered in this area (and whether they could get better value elsewhere).

“

Access to a IFA is provided by the employer and the first 30 minutes is free of charge.

Many sponsors are making retirement support a cornerstone of their employee financial wellbeing programme, integrating scheme support with what they provide more widely to employees.

The Chancellor of the Exchequer’s Mansion House Speech pushed forwards the agenda for DC schemes to do more to help members with suitable decumulation services, either in scheme or by partnering with another supplier who can offer them.

68 percent of schemes currently **provide support for members going into drawdown** — in the form of either providing a drawdown option within the scheme or signposting to an external provider.

There is a marked disparity in responses by scheme type: 78 percent of mastertrust schemes provide drawdown within the scheme, compared to 55% of Group Personal Pension schemes and only 24 percent of own-trust schemes.

It is more common for own-trust schemes to look to signpost to an external provider given the complexities of managing in-house drawdown. We expect this to be an evolving area for DC schemes over the next few years, as it becomes a requirement for all schemes to support members in the decumulation phase in addition to the current accumulation focused approaches.

# Is Cost-of-Living Support Still on the Agenda?

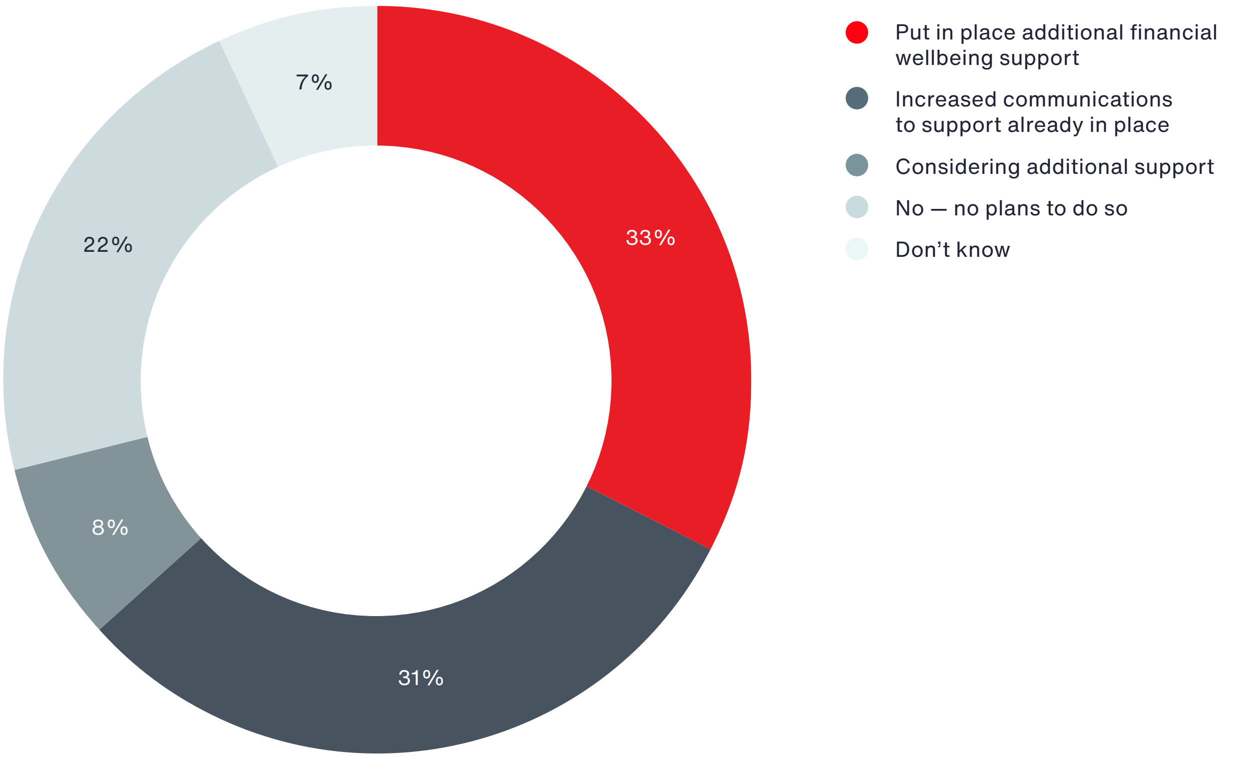
## Around 4 in 10

respondents (41 percent) have provided some form of additional support or are considering doing so.

In addition there continues to be significant numbers increasing the communications around support already in place.

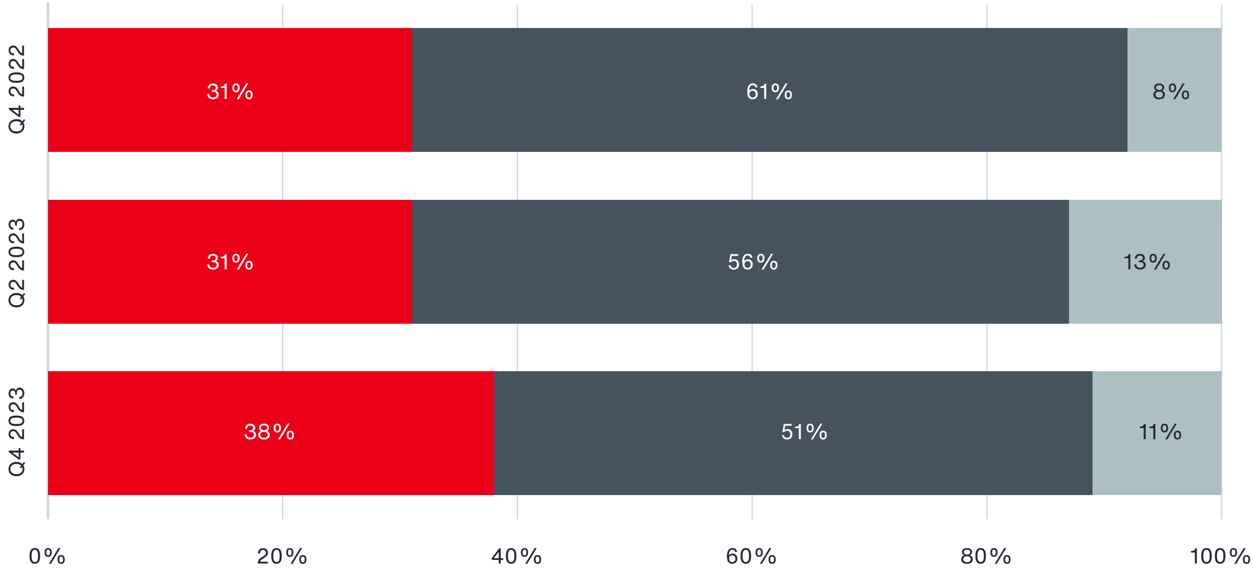
> "The change in behaviour has been entirely due to people facing the cost-of-living crisis. Market volatility and investment performance don't seem to be hot topics for [our] members.

## We Asked Schemes Whether Any Additional Support Been Offered Around Cost-of-Living Issues Over The Previous 2–3 Months.



# Longer-Term Impacts

## Have You Considered the Impact of Recent Market Volatility / Higher Inflation on Member Outcomes?




- Yes — either outcomes generally or by specific groups (e.g. age, gender etc.)
- No, but we will review this as part of usual review cycle
- No — we do not consider member outcomes from our pension plan

Over the course of the year more schemes were starting to look at the impact that recent conditions have had on their members' expected long term outcomes.

We have helped clients consider these in the context of changes to the amount of income likely to be needed for an adequate standard of living in retirement, as well as how to take into account retirement savings from previous periods of employment.

Understanding potential member outcomes allows better informed decision-making across all aspects of DC pensions, including contribution design, investment strategy and communication and support offered.

> "Based on the average fund values within each age cohort, we know that employees will fall short of a moderate living standard if they have no other pension provision.

# What Next?

We have found that pension savings at the end of 2023 are being hit more than ever by the ongoing squeeze on disposable household incomes.

It is encouraging to see that DC plans and employers are continuing to take this seriously and provide new types of support, both around the cost of living and more specifically for employees approaching retirement.

For those running DC plans, continuing to build up an understanding of the position for their own DC savers can inform better decisions on how to better increase value and mitigate risks on their behalf.

Long term, this could be considering the design of your DC plan, including the appropriateness of contribution rates and investment strategy to deliver the returns needed to deliver adequate pension outcomes.

Over the shorter term, consider the pension communications and support provided. Is this likely to be sufficient to help DC savers at the current time, or are there any aspects of pension saving, or groups of members, that could be better served?

To discuss any aspect of this report please speak to your usual Aon representative or contact one of our DC Specialists listed on the next page.

## Actions to Consider:

- Ensure you understand the up-to-date position for your DC plan in relation to member behaviours
- Consider targeted communications to help avoid employees making uninformed decisions
- Review the support provided by the DC plan and the employer for those approaching retirement. Is it sufficient and is it well signposted to provide help to those that need it most?
- Check how the recent economic environment has impacted projected outcomes from your plan

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## Contact Us

To discuss any aspect of this report please speak to your usual Aon representative, or contact one of our DC Specialists below:


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## About

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