

Keeping on track in challenging times

Aon's DC pension and financial wellbeing
employee research 2021



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 2020¹



Over **1 in 4** were put on a period of furlough²



1 in 6 had reduced hours and or reduced pay³



1 in 35 had been made redundant and subsequently found new employment⁴

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 68⁶.

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 wellbeing⁷

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 months⁸.



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 retire⁹

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 income¹⁰

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 shortfall¹¹.

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:



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	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		

Getting retirement right



1 in 3

expect to work to age 70 or beyond



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

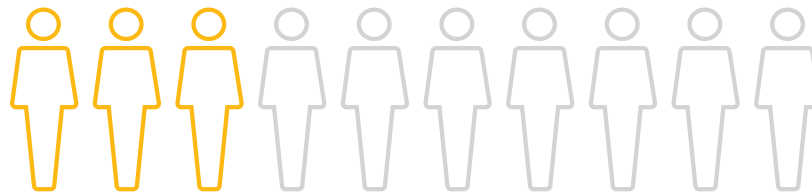


70%

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.



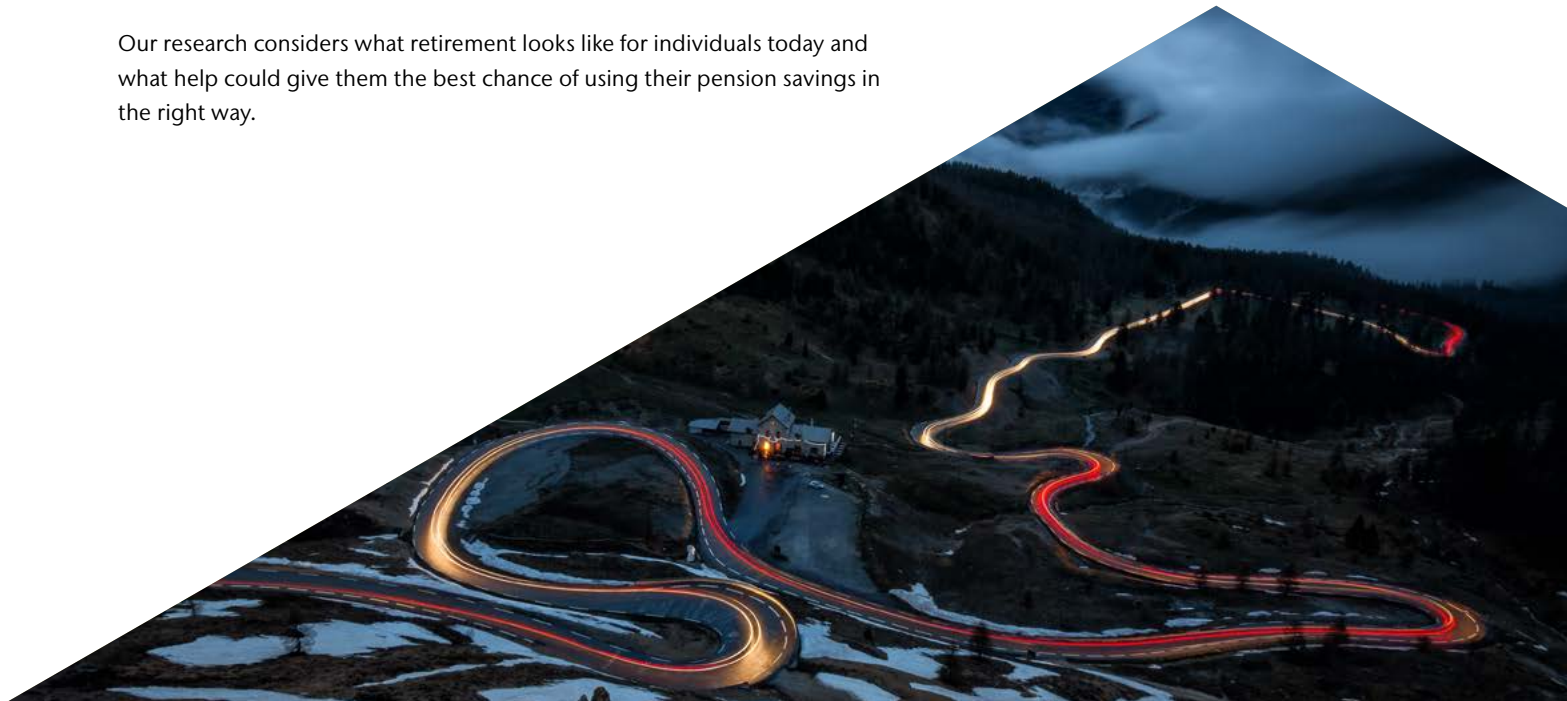
Fewer than

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 beyond².

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 retire³ (up from one in seven in 2018).

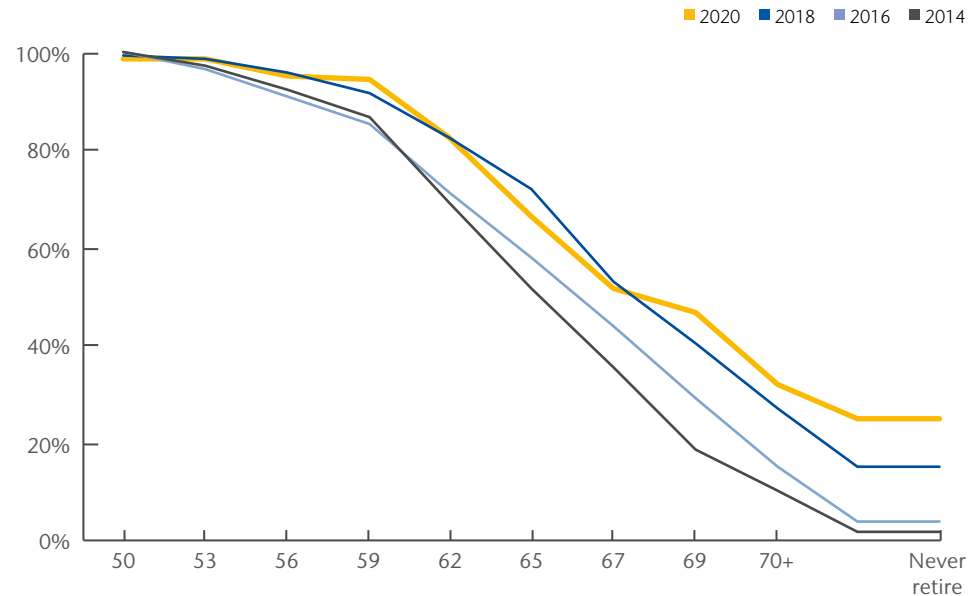
1 in 3
expect to work to age 70 or beyond



1 in 4
expect never to be able to retire



Expecting to still be working at age



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.

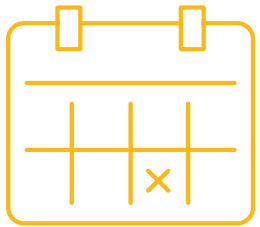
How Aon can help

- 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?

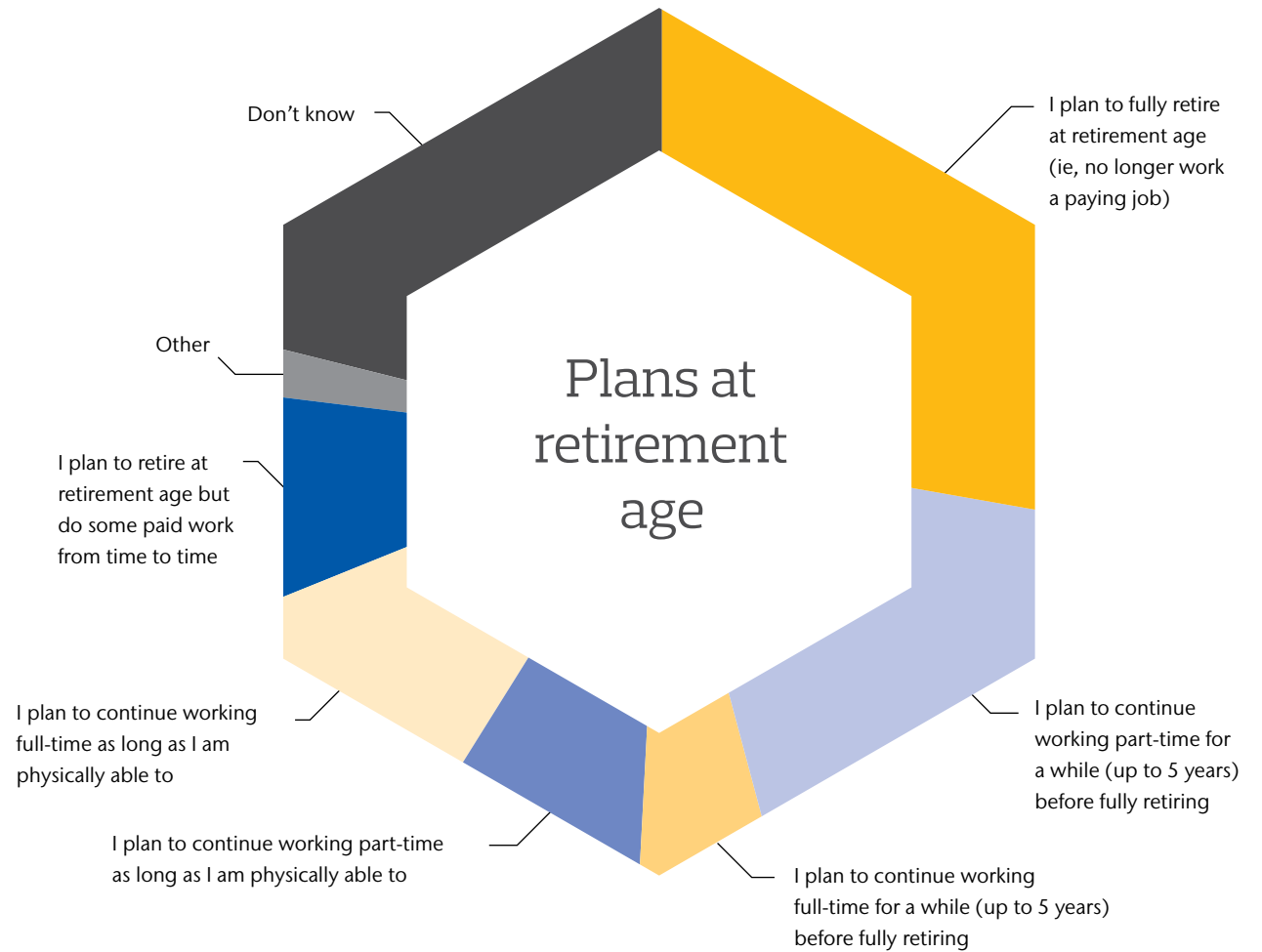
Most people now expect to continue working in some form into their retirement, with only around a quarter expecting to fully retire at a specified point in time.

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



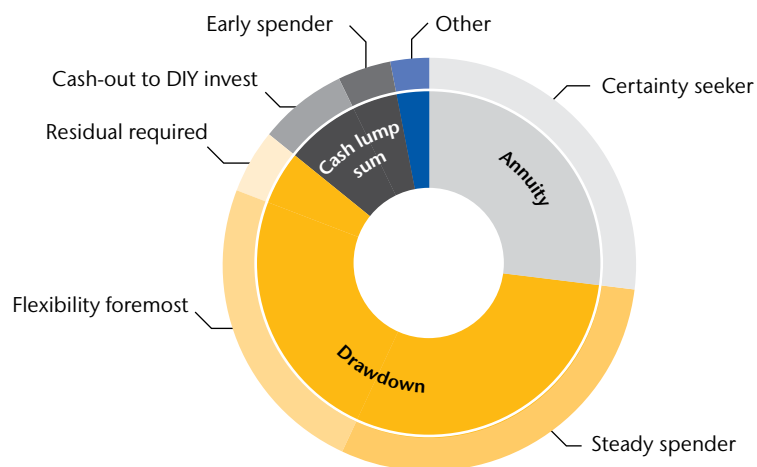
2,002 UK employees

How will people use their workplace pension savings in retirement?

Around 3 in 10 individuals⁴ 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 know⁵. 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.

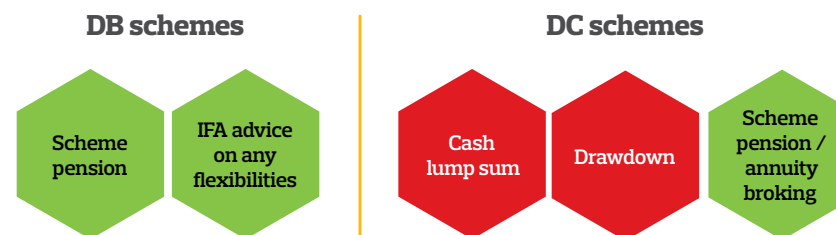
How workplace pension will be used at retirement



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 way⁶.

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.

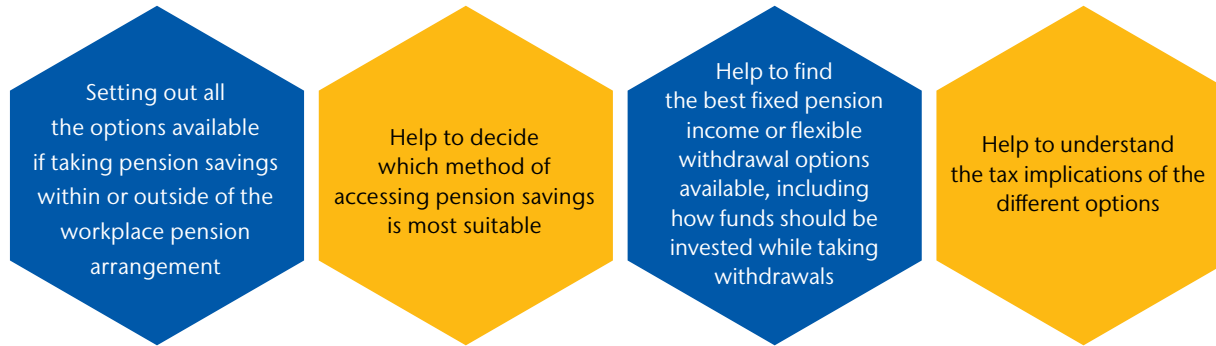
We believe that a retirement support framework is essential to help people maximise their pension savings and a small change, such as help in finding a financial adviser, can help individuals to reduce any income gap post retirement.”

Ben Roe

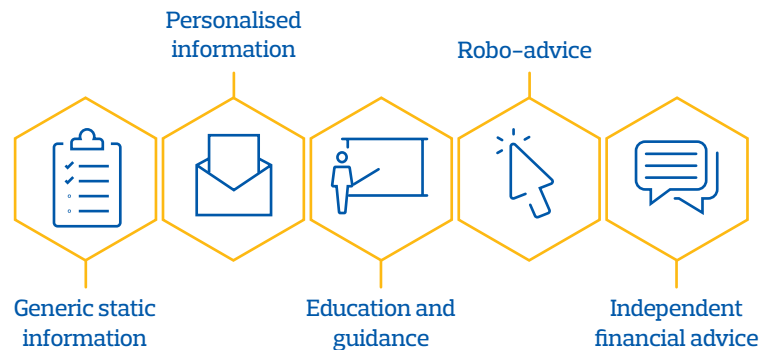
Senior partner and head of DC consulting

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:



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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