

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		

Pension strategy and long-term objectives



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



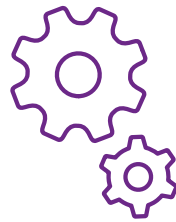
Majority save by following contribution rates set by employer sponsor

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

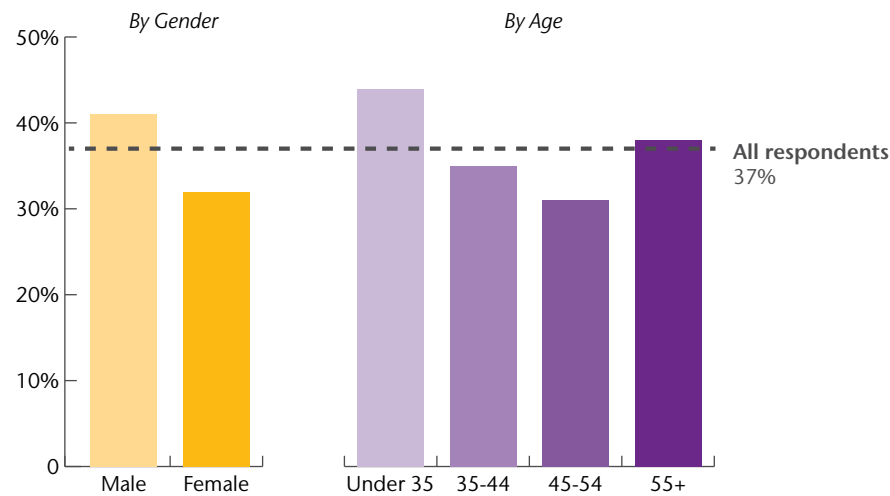
Source: Aon virtual conference attendees June 2020

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 enough¹ 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 this².

% saving enough for long term



2002 UK employees surveyed



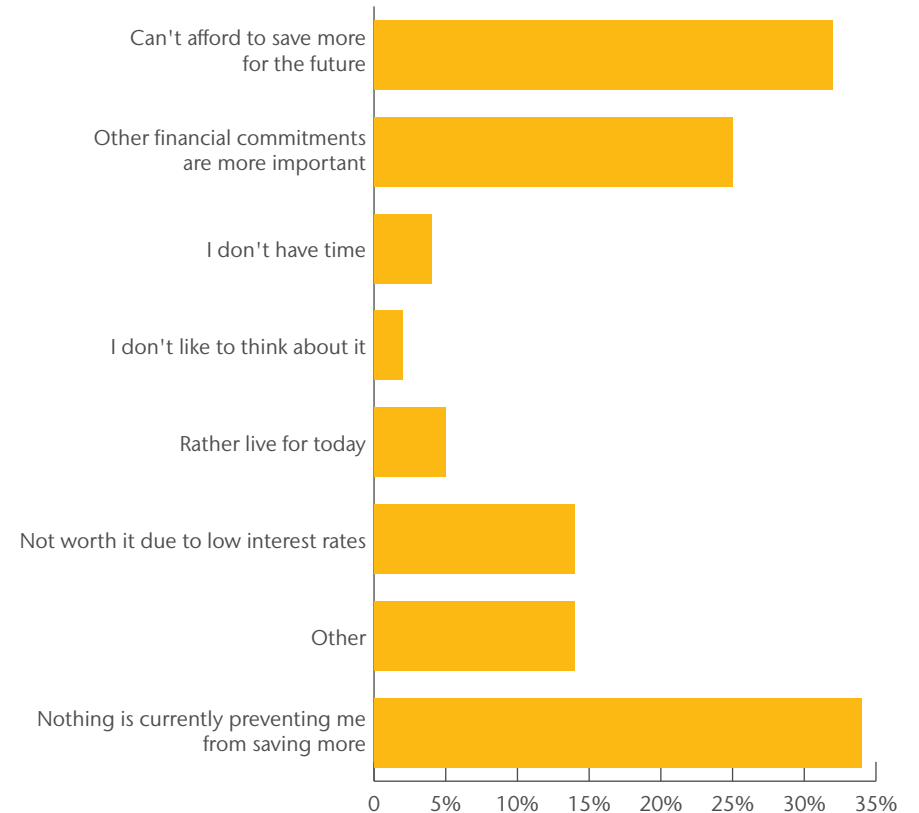
This long-term concern is also reflected in expectations for retirement. Our research found that nearly **nine in 10 individuals expect a shortfall in the income they will have in retirement** compared to the level required to support their desired standard of living³.

What is preventing people from saving more?

In some cases, nothing!

Over a third of people say that they could afford to save more⁴, 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.

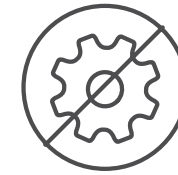
Which factors are preventing you from saving more?



2,002 UK employees surveyed

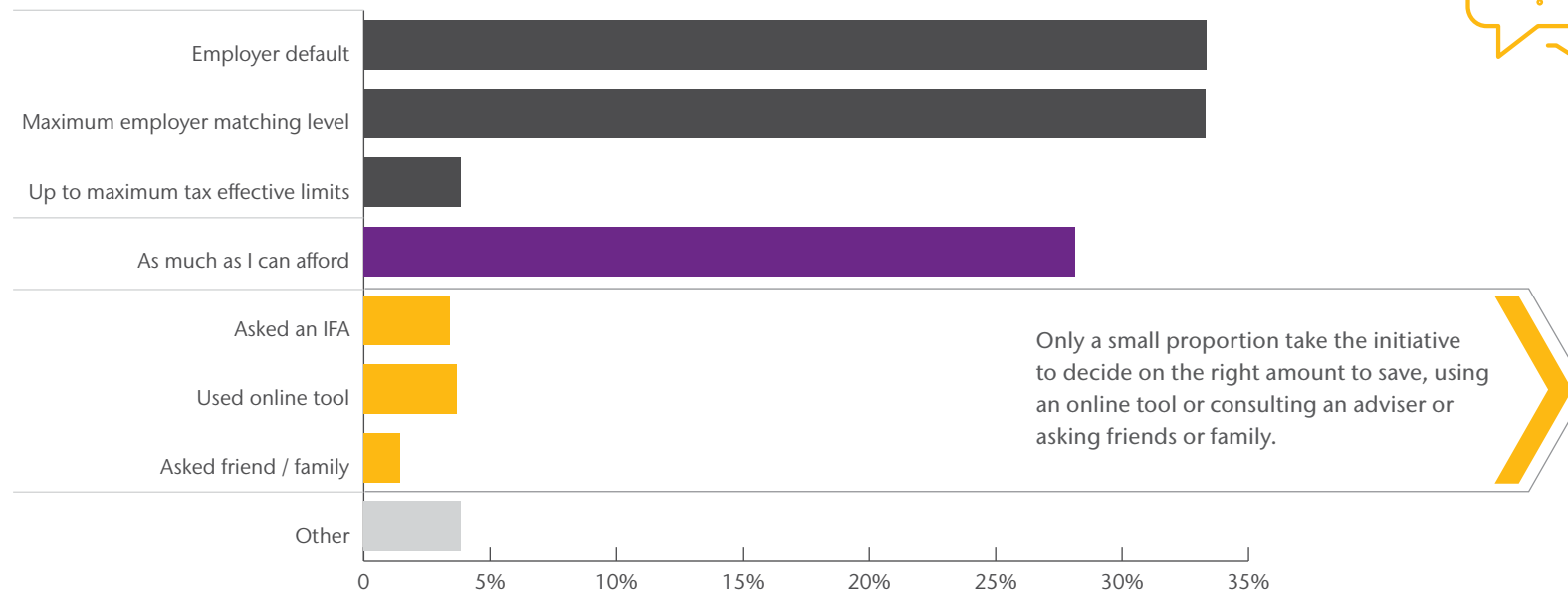
How do people decide how much to save towards their retirement?

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 sponsor⁵ or feel they are restricted on how much they can save by affordability⁶.



33%
base their savings on the employer default

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



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

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

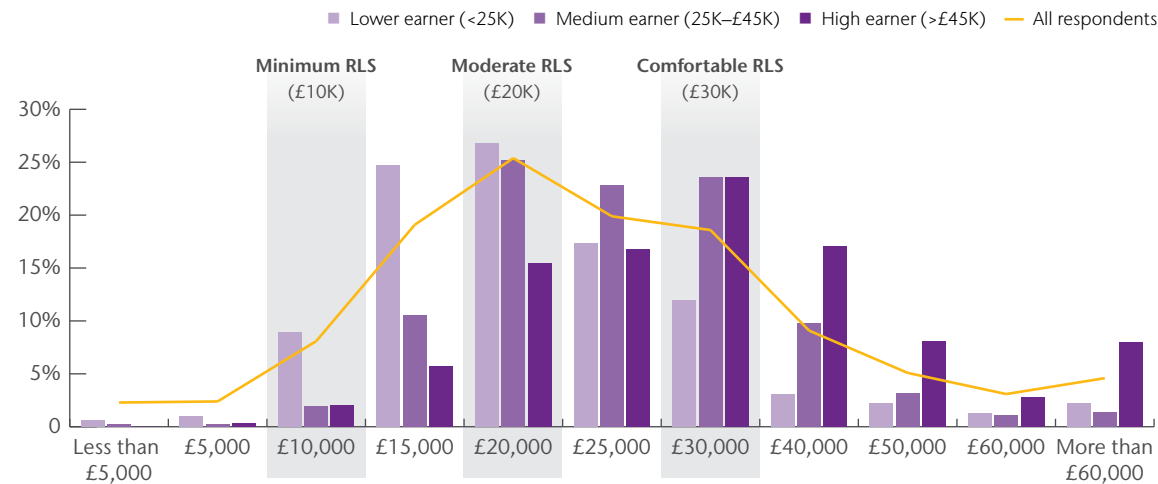
This shows that many individuals are either not making the link between how much they save and whether they will have enough money in retirement, or feel they cannot afford to do anything about it. The expectation from most employees is clearly that their employers will have set an appropriate contribution 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.

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 sufficient⁷. 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

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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