



Aon's Global Defined Contribution (DC)

Point of View

Around the globe Aon is helping our clients tackle the challenges that come with the growing reliance on defined contribution savings. The regulatory environment, the pace of change and the model of DC retirement provisions may vary from country to country, but many of the underlying challenges remain the same. These challenges relate to the shift of risk from national State systems and/or employer to individual employees, low individual savings rates, a lack of employee engagement and understanding, volatile investment markets, and the impact of increasing and uncertain longevity on retirement planning.

Aon's global DC team has a clear view of the key building blocks and design principles that have a positive impact on individual outcomes.

We are delighted to share Aon's Global DC Points of View with you.

Looking for more? You can also access **Aon's 2021 Global DC Retirement Study**



Smart design

Utilising our understanding of how individuals make decisions to good effect.

Understanding employee demographics and how employees make decisions should influence DC plan design and implementation models, to potentially improve the resulting outcomes.

1. Adopt plan design that promotes personal engagement & inclusion

Contributions should be set with a view to providing long-term outcomes that meet individuals' current financial and future retirement needs.

- Structures should make it easy for employees to maximise their savings and understand how saving early will improve their outcome at retirement
- Structures that give individuals the added incentive of more money from their employer if they save more themselves are highly effective at encouraging savings, as is shaping design to maximise tax efficiency
- Structures should avoid disadvantaging different employee cohorts and promote inclusion. For example, core contributions and non-matching designs provide contributions for retirement even for those less able to save on their own, providing a more inclusive approach.

Understanding your plan's demographics and monitoring individuals' potential outcomes is key to ensuring success. Typically, competitive design benchmarking is performed relative to industry peers. We recommend that organizations also benchmark their plans against employee financial needs in retirement and then take appropriate action, noting that adequate outcomes are beneficial to both employer and employee, to measure and monitor outcomes.

2. Leverage automation and inertia

Retirement plans should use members inertia to drive positive outcomes – through automated design features, both before and during retirement, such as:

- Auto-enrolment and re-enrolment into the plan, both in terms of savings rates and investments
- Setting the default member contribution rate at an appropriate level to drive positive outcomes
- Auto-escalation of future contributions from the employee
- Default investment strategies (before and during retirement) and
- Default decumulation pathways

3. Drive efficient investment design

Investment strategies need to be appropriate for the unique and evolving demographic profile of each DC plan. They should also enable participants to reflect their own personal beliefs and preferences through the investment range made available.

- Investment menus should use lifestyle or target date default fund structures to address the risks and objectives at each stage of the savings journey, complemented with a streamlined core fund offering.
- In the transition from accumulation to decumulation, asset portfolios should gradually change to align with the target benefit option selected by each individual and facilitate retirement income pathways, with a suitably flexible default for those that do not make any selection.
- Strategies should access an appropriately wide range of public and private asset classes to enhance portfolio diversification.
- Investments should recognize sustainable global practices related to supporting environmental, social responsibility and corporate governance issues consistent with local regulations.

Transparency of costs and a focus on the value to plan members is key to generating strong outcomes and improving individual confidence and understanding. Seek institutional pricing for investment alternatives when possible, to potentially improve expected outcomes.





4. Focus on guided decumulation pathways

Where flexible retirement options are available, individuals are increasingly looking to remain invested as they transition into retirement; drawing down an income as needed. Many individuals will not pay for, or cannot access, financial advice and are therefore likely to be ill-equipped to navigate the income market during retirement. DC plans should support their members with access to retirement income products and offer guided decumulation pathways that deliver:

- Sustainable income,
- Flexibility,
- Longevity protection,
- A robust decision support framework, and
- The same value for money (including institutional pricing) and quality that employees experience before retirement

Individuals should also have access to an appropriate range of alternatives including annuities, drawdown (instalment payments) and lump sum payments where available.

Smart engagement

Recognising the reality of people's circumstances and their behaviour towards money

Smart retirement plans should recognise that DC retirement plans are part of an individual's broader financial circumstances and make it easy for them to make good financial decisions.

5. Recognise diverse individual needs and behaviours

Everyone engages in different ways at different times and has a different relationship with money. People will respond best to an experience and message that resonates with them and their own circumstances. Consequently:

- Communications should be personal, short, simple, segmented, targeted and outcome oriented
- Understanding your population and segmenting them helps focus on individual experience, behaviour and motivations

6. Incorporate coaching and guidance

Recognising many employees are unlikely to pay for financial advice, ensure financial guidance and coaching is available through a wide variety of media to help them understand the key decisions they are required to make in planning for their retirement and the importance of those decisions.

The aim is not necessarily to direct the individual into advice but to enhance understanding, build a sense of control and security around their current financial situation and their long-term savings and retirement goals.

Plans should utilise technology to:

- Enable individuals to set their own targeted outcomes and track progress
- Use 'nudges' to prompt decisions at key points backed by predictive analytics
- Make it easy for individuals to access their account at times and via channels that suit them
- Support self-service as far as possible
- Deliver targeted communications aligned to individual actions taken and observed behaviours

7. Emphasise financial wellbeing

We recognise that an individual's financial circumstance can be highly complex and that their financial choices are fundamental to retirement success. Therefore, we need to help individuals make effective financial decisions, not just about retirement but in the context of their broader financial circumstances. As a result, we believe that DC plans should be offered as part of a holistic, employer-supported financial wellbeing program.

At Aon we define financial wellbeing as “the ability to confidently manage financial life today, while preparing for the future and anything unexpected along the way”. A smart financial wellbeing program works alongside the employer-provided retirement and other benefits through a suitable range of tools, services, communications and interventions at each stage of an employee's financial life, both before and through their retirement years.

Bespoke financial wellbeing solutions and tools can generally be categorised as follows:



Education — Action focused on helping people engage with money, build awareness of their own expectations of money and understand impacts of today's actions on their future self



Advice — Access to financial guidance/ advice or coaching, Employee Assistance Programs (financial focus), and financial assessment tools (including retirement modelling),



Solutions — Core financial benefits plus flexible or voluntary benefit options, including insured solutions and flexible DC contributions and/or investments

Smart financial wellbeing programs help employees learn, assess and take action through a variety of media including online, phone, in person, or in workshops. It is important that plan sponsors measure and reassess the outcomes and effectiveness of these programs to make sure individual financial outcomes are being positively impacted.



8. Promote flexibility and choice

One size does not fit all, therefore plans should offer choice and flexibility to empower individuals through:

- A streamlined investment menu, focused on measurable outcomes
- Flexible contribution options
- A full range of retirement solutions

Choices should be presented in a way that employees can easily relate to and understand. They should be supported by a structured decision-making framework that should not only help employees make smart financial decisions about their savings, but should also promote financial literacy. This will ensure that they are able to make smarter day-to-day financial decisions and take action for their future.

Excessive choices should be avoided as they can result in more complex decision-making and reduced engagement for employees.



Smart governance

Recognizing the need to comply with regulations and manage the plan effectively, through appropriate policies, processes and documentation.

Smart DC plan governance may be viewed as enabling the right people to make good decisions at the right time, in the best interest of DC plan members and their beneficiaries.

Available governance levels can differ around the globe. Thus as well as local DC plans, many multinationals also look towards International Retirement Savings Plans (international DC solutions), particularly where local DC solutions may be either immature, inadequate or in some cases unavailable.

Beyond regulatory compliance, Aon believes that good governance for a DC retirement plan ensures the right people know what they are supposed to do, are doing it at the right time, are reporting on it based on accurate and up to date information and are regularly assessing the situation.

9. Align the right people, clarifying roles and responsibilities

The “right” people will vary by organization, plan and jurisdiction. It may also change over time as circumstances, goals and strategies shift and as legislation evolves. Those involved in plan governance may include board members, a retirement committee, officers or employees in finance and human resources, plan members, delegates and service providers.

A strong governance process should strengthen the independence, diversity and competence of individuals and bodies performing governance roles and ensure that the parties involved in governing the plan have the appropriate collective competencies, motivations and authority to discharge their fiduciary responsibilities.

Retirement savings plans need to clearly document and socialize the allocated roles and responsibilities for all parties involved in plan governance, along with a clear set of objectives and measures. In addition, DC plans should clearly record all decisions. For example, for each governance task, it should be clear who provides advice, reviews issues, makes recommendations and makes decisions. Clarify all delegations in writing.

10. Meet and assess the plan regularly

A governance matrix and other checklists help ensure that decisions are made and are implemented in a timely manner. Activities include:

- Complete all governance tasks on time, with appropriate communication and documentation
- Conduct a sufficient number of meetings efficiently and effectively, dealing with issues as they arise
- Follow codes of conduct addressing possible conflicts of interest
- Ensure plan investments are performing well, making necessary changes quickly and efficiently
- Verify that members understand the plan and are equipped to make informed decisions and are making appropriate decisions

11. Use accurate and up to date information

The reporting and analysis of activity and trends is a critical component of a successful governance structure:

- Each task in a responsibility matrix should incorporate an element of reporting, data provision and documentation
- Service providers and delegates should report their activities on a regular basis including performance against specified service levels and member complaints
- Reviewing the plan and member data to monitor key indicators, to understand how members and their beneficiaries are utilizing the plan benefits
- Regular monitoring of plan management, service providers and delegates, to confirm that responsibilities are being met and members value the plan benefits.





12. Regularly assess the situation

Plan assessments should measure if the plan is delivering for members and their beneficiaries by focusing on quality, value, performance and risks.

- Assessments should review the plan's governance and administration, compliance with legislation, policies and documents, as well as considering the effectiveness of the overall governance structure and processes, to enable decisions that enhance member outcomes.
- This includes focusing on the performance of delegates and service providers in delivering to key performance and risk indicators
- Documentation related to plan governance assessments should create a record that demonstrates the value of the plan to the members and outlines areas of improvement for the plan's fiduciaries to focus on in the coming year.

The Big Picture

Allocating governance responsibilities between internal resources and delegates or retained third party service providers is a balancing act. Plans should either:



'Get busy' – dedicating time to getting involved in all aspects of decision-making and day-to-day operations, utilising Aon's consulting expertise, market reach and breadth of capability, or



'Get help' – utilising Aon's fully outsourced DC Multi Employer or Pooled Employer Plan solutions (where available)



'Get scale' – outsourcing some functions and utilising Aon's customised DC solutions, such as administration and delegated investment management, or

The decision by Plan sponsors / fiduciaries on whether to outsource some or all of their DC Retirement Plan functions should be determined by:

- Their own internal governance resources,
- The degree of control they prefer to maintain over their DC retirement arrangements, and
- A commercial and risk assessment of retaining functions internally versus outsourcing.

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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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