

DC schemes: dig into detail to improve member outcomes

Ben Roe and Joe Betts analyse Aon's DC and financial wellbeing survey

DEFINED CONTRIBUTION (DC) pension schemes are more focused on adequacy and member outcomes than ever before. But, below the surface, there is more work to do to make sure schemes can really deliver on their ambitions.

Aon's 2022 DC Pension Scheme and Financial Wellbeing Survey gathered insights from schemes holding over £35bn in assets for over half a million members, about their current and future priorities.

We found members' needs are now taking centre-stage. Nearly half the respondents (46%) said their top priority in 2022 is to deliver adequate retirement income for employees. This is a significant shift since our last report in 2020, when just 29% gave this as their main aim. In our 2020 report the top response was offering a pension broadly in line with competitors, and it is good to see the focus shifting away from simply keeping pace with others.

We expect to see this positive trend continue in future, as three-quarters (75%) of respondents also said that delivering better member outcomes is one of their scheme's key objectives.

However, there is still work to do to make these plans become reality. To make tangible and permanent improvements to member outcomes, schemes need to delve deeper into areas of DC scheme design such as adequacy, governance, investment measurement, engagement and at-retirement support.



Aon's DC Pension Scheme and Financial Wellbeing Survey

Adequacy To help them prepare financially for retirement, members need to understand how much they will need and how much of this will come from their workplace pension. However, around two-thirds (63%) of respondents said they didn't know the projected outcome for a typical scheme member at retirement.

For those that do measure expected outcomes, the most commonly used measure is the Pensions and Lifetime Savings Association (PLSA's) Retirement Living Standards, with 22% of respondents using this approach. Trustees are most likely to refer to the Standards, with 28% saying they do this, compared to 18% of non-trustee respondents.

One in 12 (8%) use income replacement ratios to help members plan. Although this is a well-established way of determining adequacy, the PLSA's approach is more accessible and easier to communicate to members.

Governance Many respondents are rethinking governance

structures as part of their drive towards improving member outcomes. Almost half the schemes (48%) in our 2022 research said they are considering a change in structure, compared to around a third (30%) in 2020. A quarter (25%) gave improving member outcomes as their reason for doing so, although the most commonly cited driver was to address the increased governance burden on their scheme (27%).

Investment Our research found that many respondents are not yet making a link between investment performance and member outcomes. Only 15% monitor the performance of their default option against the long-term target returns needed to deliver adequate outcomes. In contrast, 93% monitor the performance of funds against individual benchmarks.

Engagement Eight out of ten (80%) schemes use figures such as how many members access websites or online tools to measure the impact

of their member communications – but this does not always show whether members have taken any meaningful action to achieve their desired retirement outcome. Only around a third (35%) of schemes assess changes in how many members are on track for an adequate retirement.

At-retirement More schemes now recognise that poor decision-making can cause serious damage to members' retirement prospects. Nearly four out of ten (39%) signpost members towards a financial adviser firm for advice, and a further 19% plan to do so within the next three years.

Overall, our 2022 research shows that schemes are intensifying their efforts to improve member outcomes. The challenge moving forwards is to identify specific improvements in governance, investment and engagement that will turn a positive high-level trend into reality for all savers.



Ben Roe, Head of DC Consulting, Retirement, Aon



Joe Betts, Associate Consultant, Aon

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