

January 2023

DC Today

Key Findings



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Welcome to DC Today

DC Today is our new regular pulse survey that tracks how defined contribution (DC) schemes and their members are reacting to the current economic conditions, with the focus around the increasing cost of living challenges and the impact these are having on DC members' pension savings.

In our first survey we received responses from 132 DC pension schemes in the UK. We would like to thank all those who responded for taking the time to complete the survey and sharing their views with us.

As you will see from the analysis of the responses set out in this report, there have already been some significant impacts on members' behaviours which may intensify as time goes on. On a positive note, we have also found evidence of schemes responding by making, or considering changes to support members.

We hope that you find this report engaging and insightful.



Ben Roe
Head of DC Consulting

Future Issues of the Survey

We plan to issue surveys at bi-monthly intervals so that you can have your say. In addition to the findings from each point in time, we will include data and insights on trends emerging over time.

If you would like to take part in our future surveys, information on how to do so can be viewed at the end of this report.

For schemes that participate in three or more surveys, we will be able to offer you a personalised report to show how your members are reacting across this timeline. This could help shape support that may be best suited to your scheme.

Observed Changes in Member Behaviour

Employee Saving Levels

We asked whether there had been any changes in the behaviour of members of DC pension plans in response to the current economic challenges and the market volatility of the last 2–3 months.

Requests to Reduce or Cease Contributions, or Opt Out of Pension

One in five
of respondents said there was
an increase in the last 2–3 months.

This shows that a significant proportion of pension schemes are reporting a rise in the number of members stopping or reducing contributions. While this increase may be from a low starting point, it is a worrying trend, especially if it continues over 2023. It is important that individuals understand the implications of opting out of workplace pension saving. In the short term while there may be an immediate financial need, people could also be losing out on related benefits such as life insurance linked to pension membership. In the longer term, the missing employer and member contributions could significantly reduce the eventual value of funds available for retirement.

The **Aon UK DC Pension Tracker** suggests that opting out of pension saving for just three years (until automatically re-enrolled) could lead to a significant reduction in retirement income. For example, a typical 30 year old could have £1,500 less each year in retirement.

In order to make up this shortfall, savers would have to pay increased contributions each and every year until retirement.

[Read more about The Aon UK DC Pension Tracker here >](#)

Requests for Early Access to Pensions Savings

One in six
of respondents
said there was an
increase in the last
2–3 months.

It is not just the savings part of the 'pensions journey' where cost of living challenges may have an impact. Around 1 in 6 DC plans said they have seen an increase in the number of requests for early access to pension savings. Employees can usually access their DC pension from age 55 (increasing to 57 from 2028), but can continue in work. There is a real risk that drawing on pension savings early could result in many employees not being able to afford to retire when they planned.

DC Investments

Queries or Concerns About Investment Performance

43%

of respondents said there was an increase in these requests in the last 2–3 months.

The economic conditions over the course of the last year have resulted in lower and in some cases significant negative returns on members' retirement savings across all age-ranges. Those with longer to retirement may be better placed to recover from these lower returns than those closer to retirement. Members at retirement remaining invested and accessing their savings via flexible drawdown will also avoid crystallising any recent losses, unlike those taking their DC savings as a cash lump sum.

“

[There has been] more concern about investment performance than worries about cost of living.

“

Concern is mainly from members close to retirement due to the bond ‘crash’.

An Increase in Investment Switching?

10%

of respondents said there was an increase in the last 2–3 months.

While the results do not specify the nature of the switches being made, it may be a cause for some concern that there has been an increase in switching at a time when the values of a broad range of assets are depressed. Crystallising losses is something that is to be avoided, and making a judgement on the relative rate and amount of any recovery between different asset classes is a very difficult call to make.

Falls in the value of bond assets that are more typically held by members closer to retirement may have triggered some switching activity. This was due to the unprecedented level of volatility in what has until now been regarded as a less ‘risky’ asset class.

How Have
Schemes
Responded?

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.

Allowed Additional Flexibility for Members Around Contributions

26%

of respondents either have or are considering allowing this additional flexibility.

This shows that a significant proportion of respondents have either implemented additional flexibility for member contributions or are considering implementing these changes.

As referenced earlier in the report, one in five of respondents reported an increase in requests to reduce or cease contributions, or to opt out of pension. While this is a worrying trend, the level of support and flexibility offered by employers can help to reduce the impact on members' retirement income.

Some employers have offered a temporary pause in member contributions while continuing to pay company contributions. We have assisted with the automatic enrolment implications of introducing this type of support.

What is key is making sure that there is an easy (or automatic) process to get contributions back up to appropriate levels following any period of reduced inputs.

“

We already had great flexibility and great member communications, so we haven't needed to do anything 'additional'.

Issued Additional Communications to Members

Almost half (47%)
of schemes have issued additional
communications — a further
23% are considering doing so.

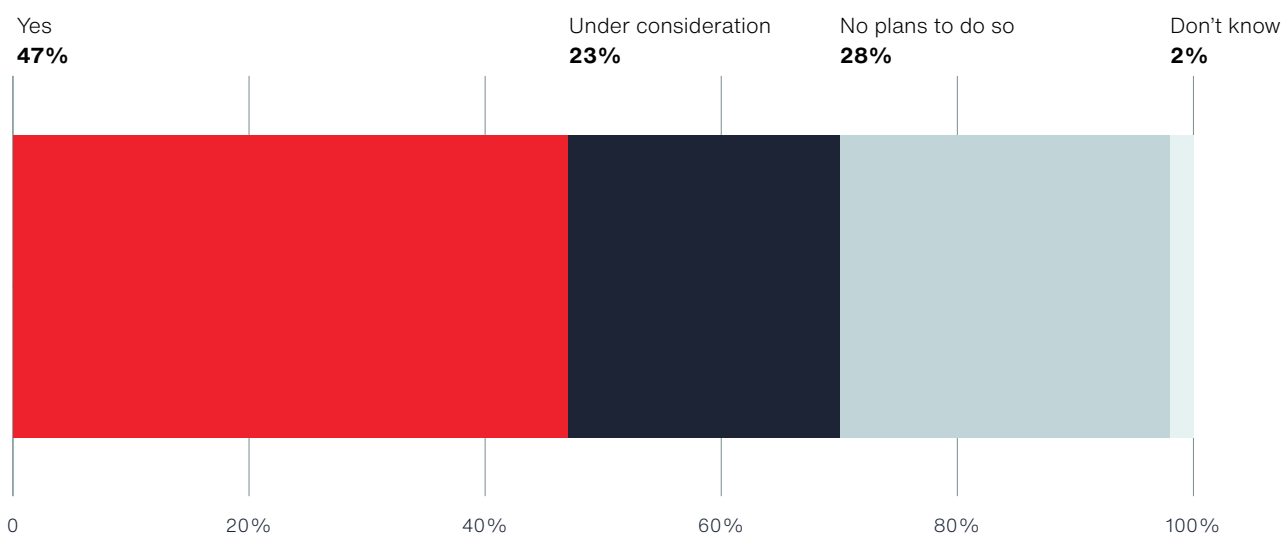
It is encouraging to see so many respondents reporting that additional communications have been issued to members with many more considering doing so. It is important that in times of uncertainty members can be confident that trustees and sponsors are monitoring the situation, taking action where necessary and communicating support options available to members.

Additional communications can also be well placed to remind members of the warning signs of pension scams.

“

There's a balance — better to respond to queries than heighten awareness of pensions access that could deplete pension pot in later life.

Have You Issued Additional Communications to Members on Pension Matters, e.g. Investment Market Volatility?



Making Changes to Investment Design

One in ten are making changes to investment design with a further three in ten considering this.

We recommend that trustees take time to thoroughly consider any changes to investment design with the support of their investment adviser. They should not rush to make 'knee-jerk' changes following periods of volatility.

However, recent moves highlight our long-standing position that fixed income investments are not always as 'safe' as people believe. We believe it remains important to diversify away from a traditional equity/bond portfolio in the approach to retirement.

Offering Additional Retirement Support

20% of respondents have provided additional support — a further 23% are considering doing so.

Encouragingly, 20 percent of respondents have implemented additional support, with a further 23 percent considering offering additional support. The types of support offered to members include offering access to a preferred Independent Financial Adviser (which can be paid for or subsidised), enhanced member communications, or signposting to a drawdown provider for flexible retirement income.

There have been reports of an increase in members considering purchasing an annuity at retirement given the recent improvement in annuity rates. While some schemes would like to flag this change to members they need to be careful not to stray into providing advice. This is one of the reasons we are seeing more DC schemes providing access to impartial retirement advice for their members.

“

We already provide paid for advice at retirement.

“

We are providing financial wellness seminars and revisiting pension options for those members closer to retirement.

Is Any Additional Support Being Provided to Help With Cost-Of-Living Issues?

Nearly half

of respondents are putting additional support in place or are considering it. A further 22 percent of respondents are improving communications about the support that is already available.

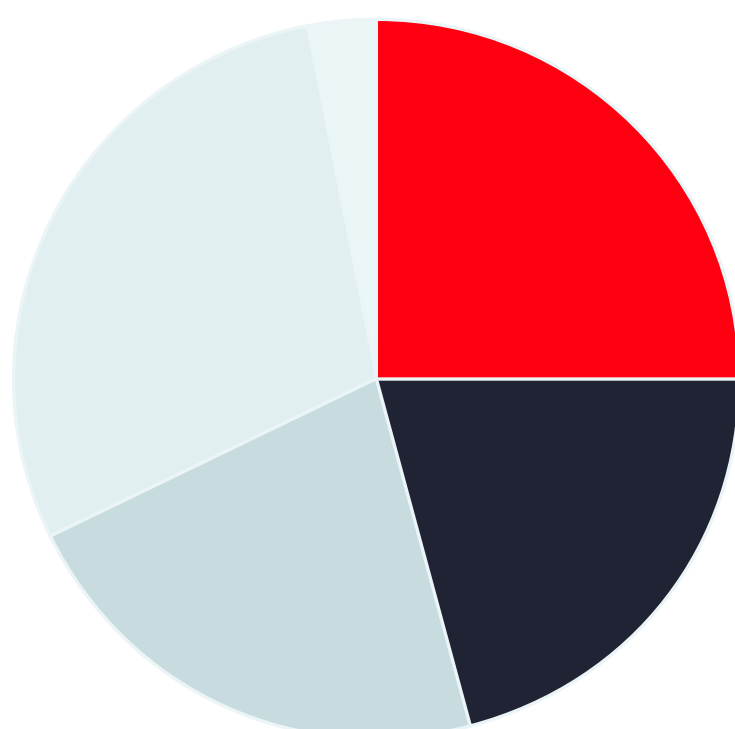
While actions being taken by pension scheme members can help to highlight concerns around the cost of living, several respondents indicated that they are also offering additional wider financial wellbeing support. We are seeing this as an increasing trend and we are supporting many clients in understanding the needs of their employees and developing appropriate support to complement what they are already providing.

“

We are in the process of engaging with a financial wellbeing and retirement specialist to provide additional support to our employees.

“

All employees were given a £500 payment in September to help with the cost of living.

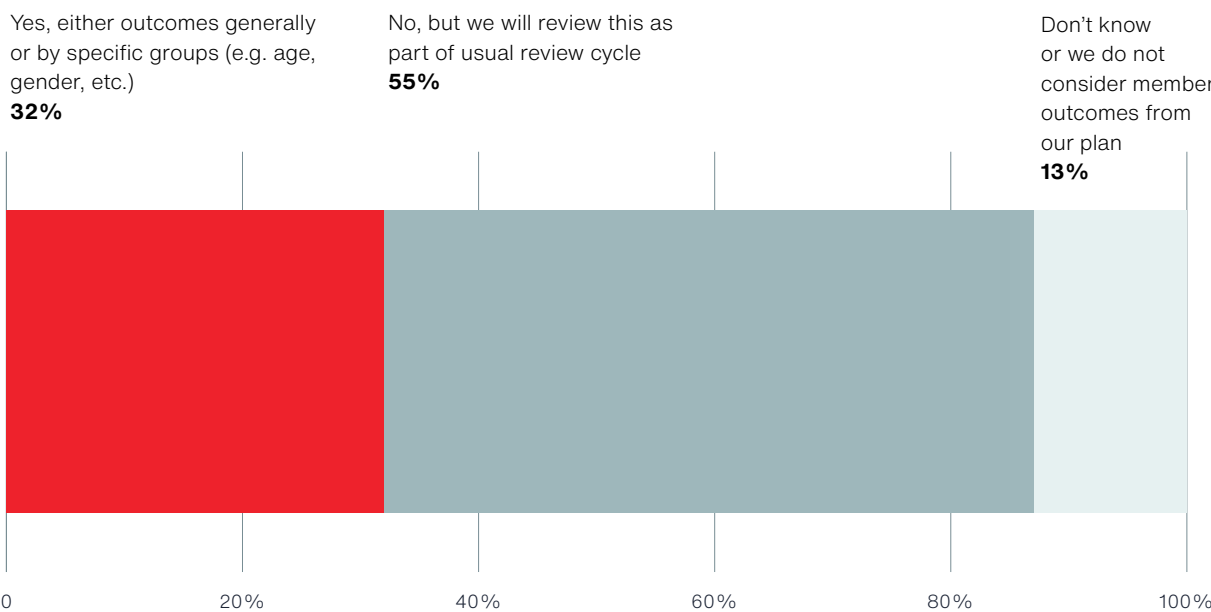


- Yes — we have put in place additional financial wellbeing support 25%
- Under consideration 21%
- Increased communications around support already in place 22%
- No plans to do so 29%
- Don't know 3%

Longer-term Impacts

Longer-term Impacts

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



It is increasingly important to understand projected member outcomes in the current high inflationary economic environment.

The Pension and Lifetime Savings Association has recently revised its Retirement Living Standards — sooner than planned — due to high inflation levels. Therefore, schemes that have previously carried out analysis of member outcomes may find that projected member outcomes are significantly different and not always in the ways they might expect. This reiterates the importance of considering how well your pension scheme is delivering for members on a regular basis.

What Next?

In summary it is important to ensure that members continue to receive the right levels of support through times of economic uncertainty while ensuring that 'knee jerk' reactions are not made following periods of heightened volatility.

The Pensions Regulator has recently issued some [helpful guidance](#) for trust based DC plans much of which can also be applied to other types of DC plans.

Actions to consider:

- Ensure you understand the position for your DC plan in relation to member behaviours
- Consider proactive or reactive communications to help avoid employees making uninformed decisions
- Check how the recent economic environment has impacted projected outcomes from your plan — are people more likely to be retiring later?
- What support is in place? Is it sufficient and importantly is it well signposted to provide help to those that need it most?
- Take part in our next DC Today Survey — See information below

If you would like to participate in the next DC Today survey (which should take less than five minutes), please complete your details via the link below. We will send you a link to the survey when it opens.

You will also receive a collated report shortly after the survey has closed.

[Take Part](#)



Contact Us

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

Ben Roe

Senior Partner and Head of DC Consulting

+44 1727 888 286

benjamin.roe@aon.com

John Foster

Partner

+44 20 7086 9102

john.foster@aon.com

Steven Leigh

Associate Partner

+44 113 394 3424

steven.leigh@aon.com

Karina Klimaszewski

Partner

+44 20 7086 9165

karina.klimaszewski.2@aon.com

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