For Professional Clients Only

DC Today

Key Findings

Issue 2 — June 2023

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Welcome to Our Second DC Today Report

DC Today is our regular pulse survey that tracks how DC savers are reacting to the current economic conditions, especially at present around the increasing cost of living challenges and what schemes are doing to better support their members.

Following the unprecedented turmoil seen in UK bond markets in late 2022 and continued high inflation into 2023, this edition of DC Today includes an additional focus on changes that DC schemes are making to how members savings are invested.

We received responses from 120 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.

We can see from the analysis of the responses set out in this report that there continues to be some significant impacts on members' behaviours as well as evidence of schemes responding to better support members with saving for their retirement. While there has been additional focus on investment, schemes are not necessarily making changes in the areas expected.

We hope that you find this report engaging and insightful, if you would like to discuss any of the topics raised with an expert from our DC practice please get in touch.

Ben Roe
Head of DC Consulting

Future Issues of the Survey

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

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

Observed Changes in Member Behaviour

Participation and Savings Rates

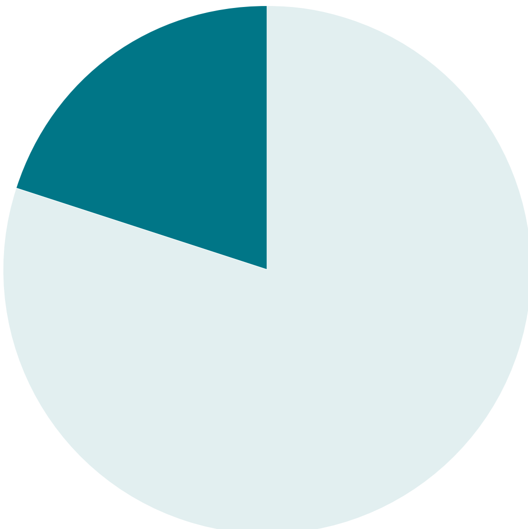
We asked whether there had been any changes in the behaviour of members of DC pension plans in response to the current economic challenges and market volatility over the last 2–3 months.

The big news is that the trends seen in the latter part of 2022 towards members reducing contributions and accessing pension savings earlier have continued into 2023.

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

20%

of respondents said there has been an increase in the last few months.



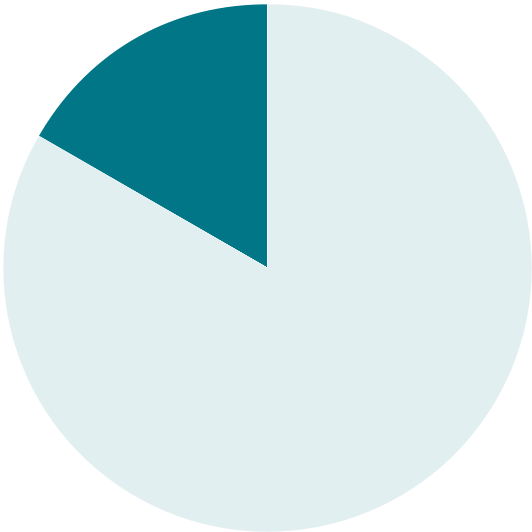
This is a similar level to our last report covering Q4 2022 where 23% reported an increase in opt outs or contribution reductions.

Just 2% of schemes reported a decrease in opt outs and reductions in contribution levels over Q1 2023.

Requests for Early Access to Pensions Savings

i.e. Before Retiring From Work

15%
of respondents said there has been an increase in the last 2–3 months.



Again this is at a similar level to our previous report.

This shows a worrying trend with over 30% of respondents reporting an increase in requests to reduce or opt out of pensions and / or increases in those seeking to access pension savings while remaining in work.

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

23%
of respondents either have or are considering allowing new contribution flexibilities.

We are continuing to see a significant proportion of respondents have either implemented additional flexibility for member contributions or are considering implementing these changes.

It is encouraging to see a number of respondents providing members with flexibility to change their contribution levels. We have also seen some employers allowing members to pause their personal contributions but maintain their company contributions.

Allowing for additional flexibility around contributions helps to minimise impact on members' retirement savings and can encourage members to temporarily pause contributions instead of opting out completely.

> "Our plan is already highly flexible, that is anyone can join/leave/change the level of own contribution via salary sacrifice anytime.

Issued Additional Communications to Members

Almost half (48%)

of respondents said additional communications have been issued — a further 13% were considering doing so.

It is reassuring to see respondents are continuing to issue additional communications. This can help boost member confidence in their pension scheme and reduce the risk that members will make ill-informed decisions without understanding their available options and the potential implications.

> “
> Our pension provider has increased activity and communications to our colleague population and we have an in house financial adviser and promote his services often.

Focus on DC Investments

Member Concerns Persist Over Investment Performance

38%
of respondents reported an increase in member queries or concerns about investment performance over the first quarter of 2023.

Despite the positive performance of most asset classes used by DC schemes over the first quarter of 2023, there are still a large number of schemes reporting an increase in member queries and concerns (38%). Interestingly, this is relatively unchanged from the 43% reporting an increase in our last report carried out in Q4 2022, highlighting the continuing focus for DC savers.

Over the past 12 months many DC savers are likely to have experienced negative performance regardless of where they are invested. Particularly badly affected were those invested in UK fixed income, for example some long duration government bonds were down 30% over the year to Q1 2023.

These types of assets are often used in default investment designs as members approach retirement, therefore members in this position may have experienced a negative impact to the value of their pension savings with a shorter term to recover than those further from retirement.

More Investment Switching

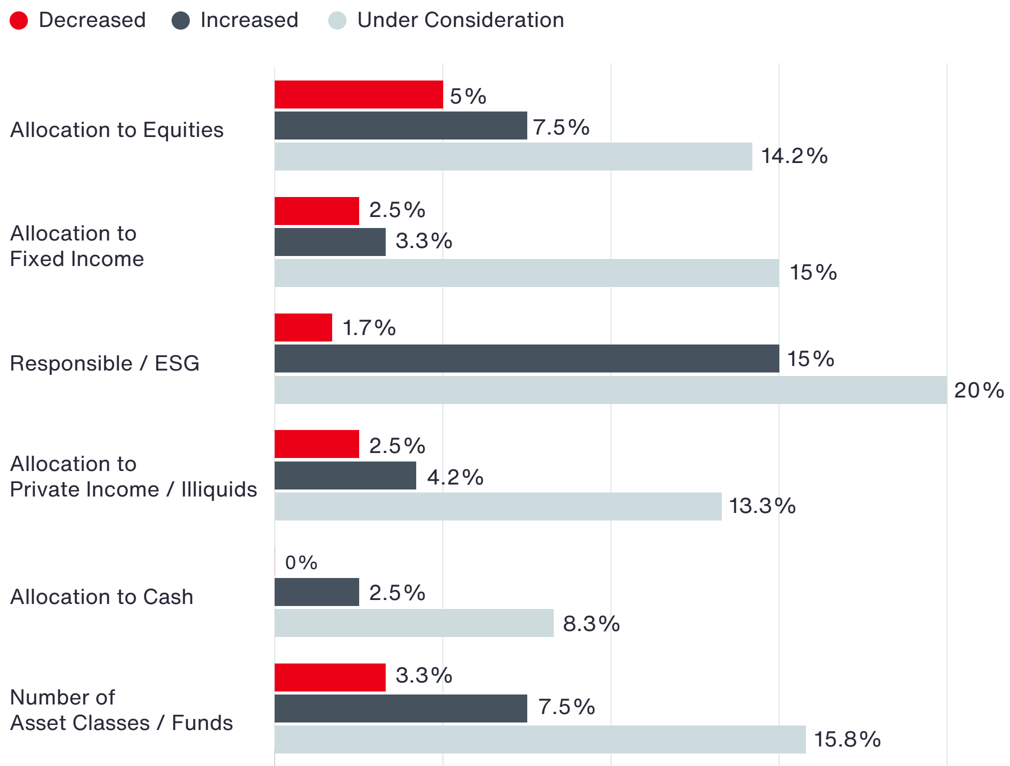
12%
said there has been an increase in members switching investments in the last 2–3 months. This is up from 7% over the previous period.

There is a risk that many people will react in a non-rational way when faced with falls in the value of their investments. This can result in DC savers switching out of an asset class at the least optimal time and 'locking in' losses in value.

This is an area that we have regularly seen covered in additional communications with an aim to help people avoid making uninformed decisions around their investments.

Are Schemes Making Changes to their Investment Design?

We asked whether the pension scheme or sponsoring employer has made changes to their investment strategy in response to the current economic challenges and market volatility.



> It's good to see that schemes are taking the opportunity to engender pride and improve engagement for members in their DC savings by increasingly integrating ESG opportunities into their investment strategy.
>
> **Chris Inman,** Head of DC Investment

A significant proportion

of pension schemes (53%) have either made or are considering making changes to their investment strategy in response to current economic challenges, but there is no clear consensus on what changes to make.

Despite high levels of market volatility in 2022, and outperformance in the energy sector (which is typically underweight in many ESG / responsible investment funds), there remains a focus on increasing allocations to ESG within DC investment strategies over and above making changes to the asset types used.

With all the talk and focus from the government regarding private markets it's somewhat surprising to see that it hasn't really been a focus for many schemes, and some are actually reducing their allocations. Maybe all the fanfare over the new long term asset funds (LTAFs) has been overrated?

We were also surprised not to see more DC schemes considering changes to their fixed income allocations following the significant volatility and sell-offs during 2022. At a minimum we would hope that the common UK bias and exposure to long duration holdings would be under consideration by DC schemes.

Looking forward, we could see more respondents in the future considering an increase in their allocation to cash due to market uncertainty, higher yields on offer and increased long term return expectations.

> We are looking at our lifestyle funds to review the alignment with a changing market.

What Further Support are Schemes Offering?

Additional Retirement Support

33%
of respondents have provided additional support — a further 25% considering doing so.

Since our first survey, we have seen an increase of 7% in the proportion of respondents providing additional retirement support.

A number of respondents have reported that they provide a range of seminars to support members. In addition to this, we are also seeing more offering access to Independent Financial Advisers, expert support to answer retirement questions and 1-to-1 support sessions.

Providing additional support at retirement can help ensure DC savers are aware of the potential impact of any decisions they are making and help to reduce the risk of significant detrimental impact on their retirement income or of them falling victim to pension scams.

> “Retirement support was always planned and we are increasing webinars and sign posting to our administrators.

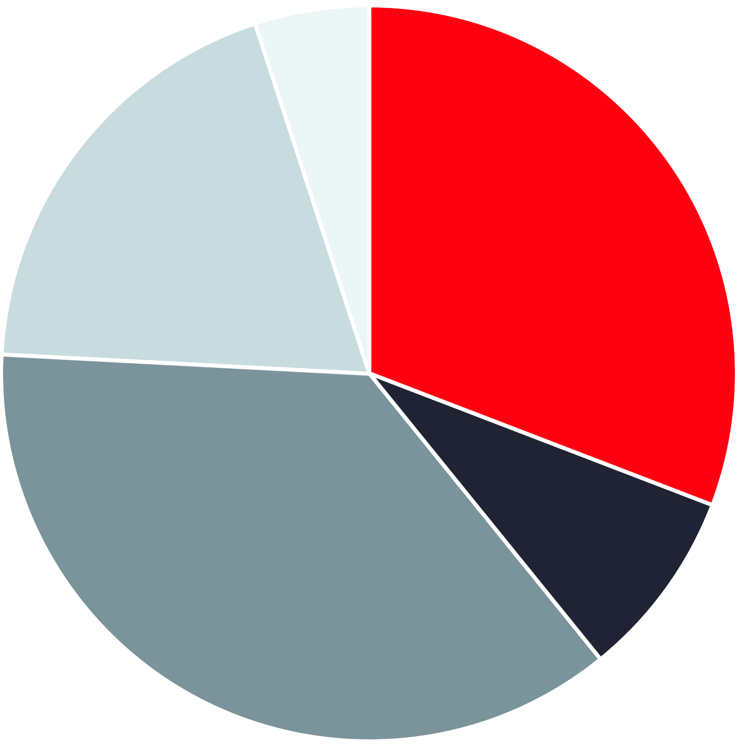
Wider Support Around Cost Of Living Issues

Around 4 in 10
respondents (39%) have provided some form of wider cost of living support or are considering doing so.

In addition there continues to be significant numbers increasing the communications around support already in place.

> "We have always run member seminars — we have however now implemented one to one financial support sessions, but much broader than just pensions.

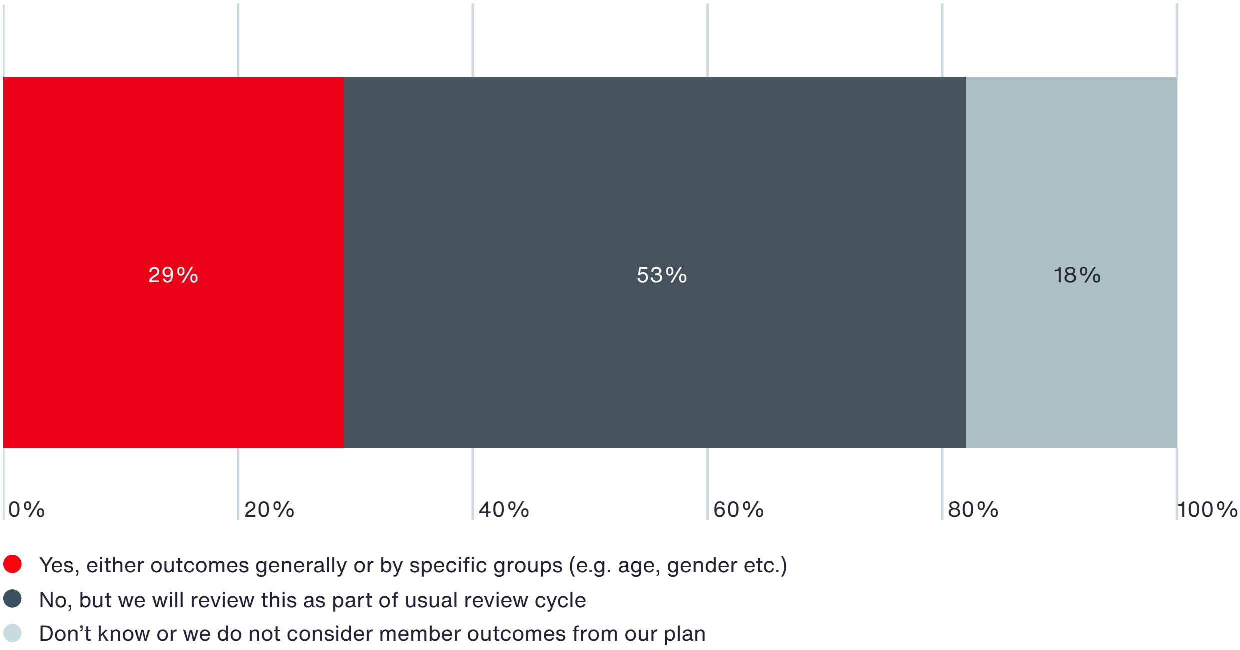
Has Any Additional Support Been Offered Around Cost-Of-Living Issues?



Yes — we have put in place additional financial wellbeing support	31%
Under consideration	8%
Increased communications around support already in place	37%
No plans to do so	19%
Don't know	5%

Longer-Term Impacts

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



Just under a third

of respondents (29%) have considered the impact of recent market volatility and higher inflation on member outcomes outside of their usual review cycle.

Changes in the projected pension outcomes can be different for different groups. For example, those closer to retirement, higher and lower earners, or differences between male and female DC savers.

Understanding likely member outcomes allows better informed decision making across all aspects of DC pensions, including contribution design, investment strategy and communication and support offered.

"

[We have looked at] the impact on what a reasonable standard of living is based on typical contributions into the plan and these being inadequate.

What Next?

It is clear that attitudes towards pension saving continue to be impacted by the current economic challenges experienced by many individuals.

The first step for those running DC plans is to build up an understanding of the position for their own DC savers. Decisions can then be made on how better to provide support to increase value and mitigate risks.

Long term this could be considering the design of your DC plan, including the appropriateness of contribution rates and investment strategy to secure the returns needed to deliver adequate pension outcomes.

Over the shorter term, consider the pension communications and support provided. Is this likely to be sufficient to help DC savers at the current time, or are there any aspects of pension saving, or groups of members, that could be better served?

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

Actions to consider:

- Ensure you understand the position for your DC plan in relation to your own 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:

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About

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