

Navigating the future

Overcoming headwinds

Clear, long-term strategies should keep schemes ready for the future and new regulations.

Findings suggest greater use of master trust schemes are on the horizon, while trust-based schemes need adequate resources or risk being left behind.



Key discoveries

When asked what would be key to the success of DC pensions in the next 20 years, nearly half of respondents think **integration with other savings** will be paramount.

Time and resources needed to run a pension plan. Twice as many respondents now say this is a reason to move governance structure.

Master trust solutions. Around a third of people running own trust schemes expect to migrate to master trust within five years.



Unexpected findings

Less than one in three respondents said better savings rates will be a key to success.

Only 14% of respondents offer the Pension Advice Allowance, although twice as many expect to within two years.

Only 5% of respondents believe that robo-advice will be integral to the future success of DC.



Obstacles

‘Explaining why members’ **projected annuity at retirement is so low**’

‘Any further changes to the **Annual Allowance or tax relief**’

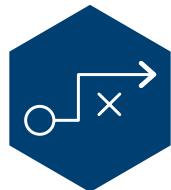
‘Getting members in an old default to **switch into something more appropriate**’

Moving forward

Look closely at your long-term strategy. There are more changes coming and your members will rely on you to steer them around hazards and towards appropriate decisions.

Understand your members and prioritise. What are their biggest issues?

Review your structure. Is your current DC vehicle the optimum way to deliver better member outcomes?



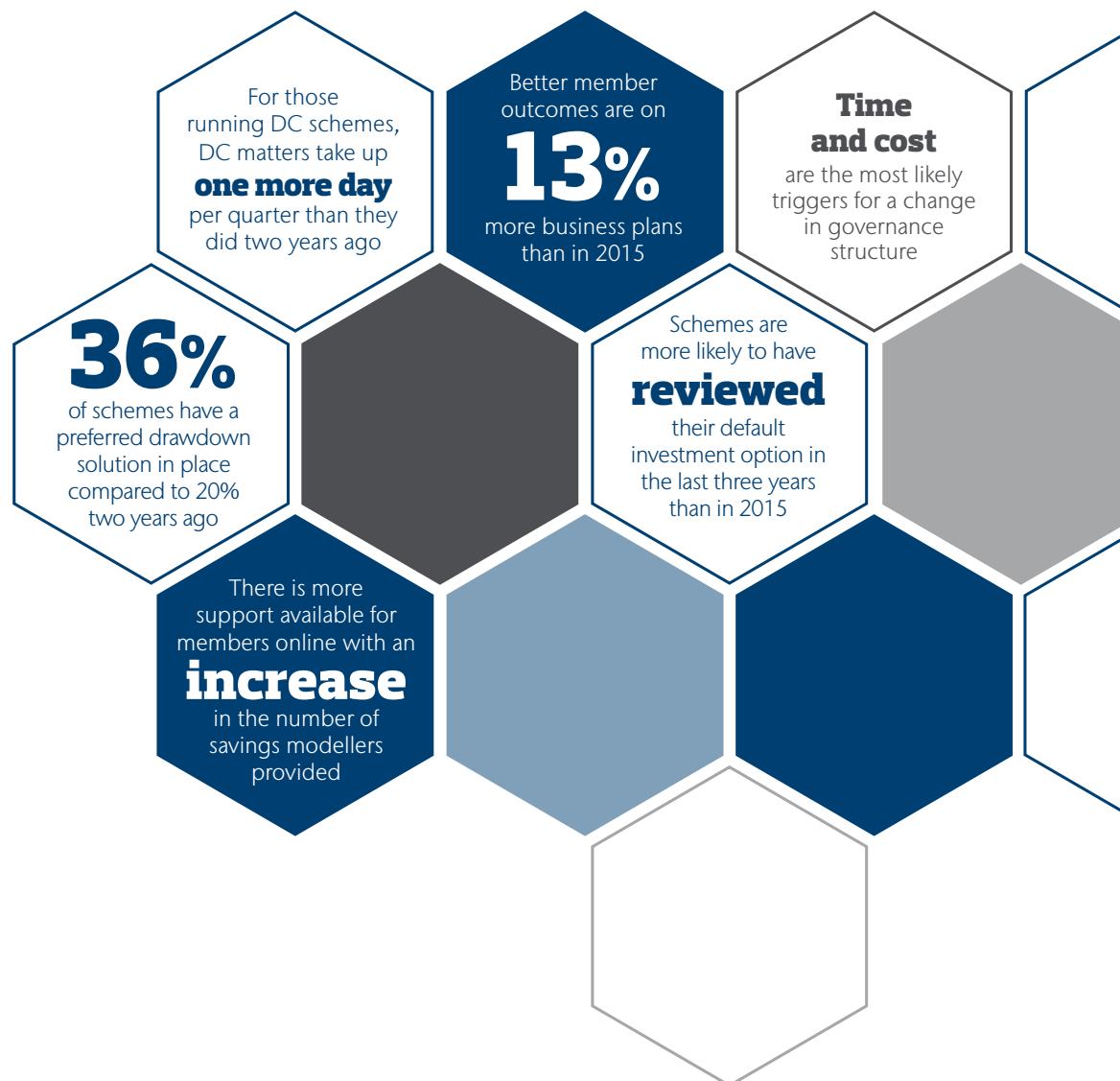
Overcoming headwinds

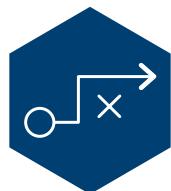
When thinking about the obstacles that those responsible need to overcome when running DC schemes, it is important to look at the progress achieved so far and how schemes will develop in the future.

There has been a trend of ever-increasing regulatory governance requirements for DC schemes in the last few years, with those running them needing to spend more and more time to ensure they remain fit for purpose.

There is also an increased focus on ‘self-service’ style member support, where members have access to online services, such as savings modellers, which are available at any time of day.

More DC schemes have now reviewed their default investment option in the last three years. While this is not a regulatory requirement, the introduction of DC flexibilities in April 2015 resulted in many existing default strategies no longer being appropriate. Alternatives to guaranteed income through annuities, such as drawdown, are becoming more mainstream – over one-third of schemes now offer a preferred drawdown solution.

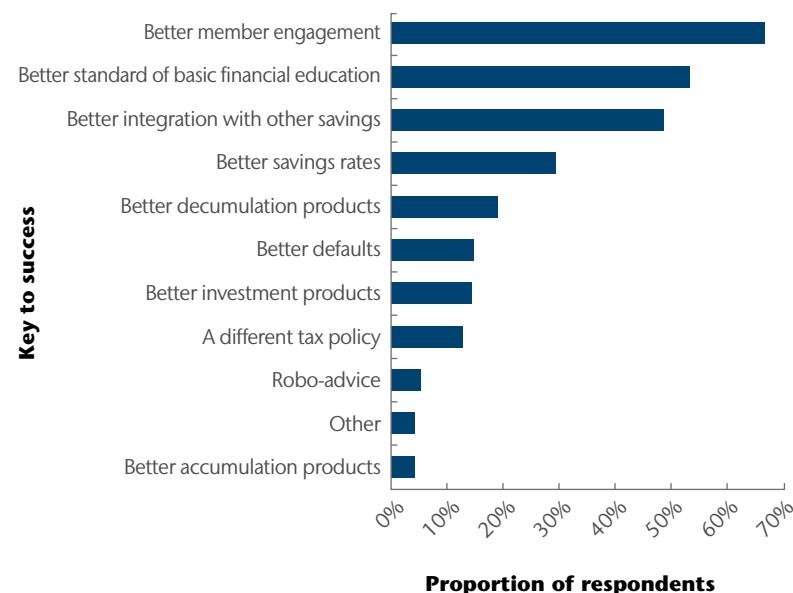




Future obstacles

What do we expect to see in the future? Survey respondents said that the top three items key to a successful DC scheme in 20 years' time are improved member engagement, standards of financial education and integration with other savings. Surprisingly only 30% believed that better savings rates will be key to successful DC in the future.

What will be the key to successful DC pensions in 20 years' time?



Mini-statements

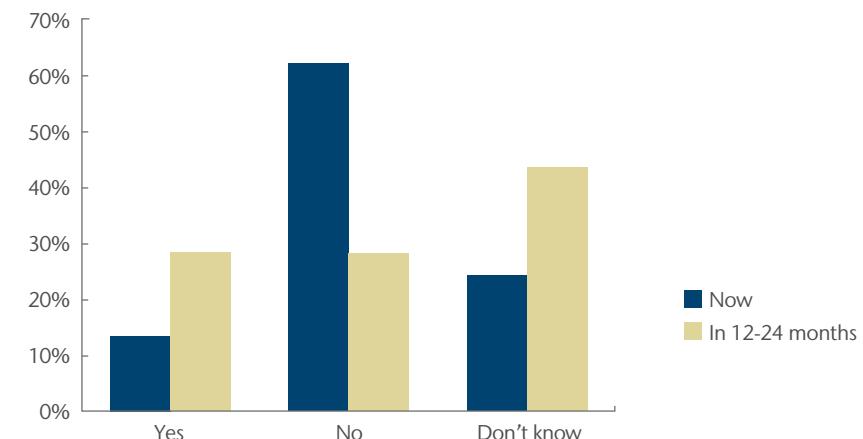
Our mini-statements can help by setting out clear calls to action for members, avoiding information overload.

Engage or default?

Where members need to make a decision and take action, schemes with engaged and educated members who fully understand the implications of their choices will be most successful. A communication journey that is designed with a good understanding of the scheme membership is a step in the right direction, and starting to work on what the journey looks like early is key. Interestingly, while a better standard of basic financial education was one of the top three items key to a successful DC scheme in 20 years' time, only 14% of schemes are offering access to funds for the Pension Advice Allowance and 44% don't know if they will start to in the next two years.

Sometimes however, a default position may achieve better member outcomes – as with people being opted in by default under auto-enrolment. Another example is having a default investment option – most members are not investment specialists so it is important to design a clear strategy with your members' interests in mind.

Is your scheme allowing for advice costs to be taken from their fund?





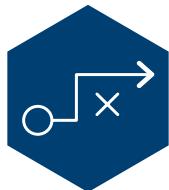
Integration with other savings

Nearly half of respondents thought that better integration with other savings will be key to successful DC in the future. ISA products were one of the most likely to be introduced by schemes in the next 12-24 months. We also believe that an easy-to-use tool where you can see all your savings, including pensions, in one place is vital to help employees understand their pension in the context of their overall finances. During the 2016 Budget the Government committed to introducing a pensions dashboard by 2019, where pension savings can be viewed all in one place. Of the non-savings benefits offered by schemes, life assurance benefits were the most popular, followed by ill health and healthcare benefits.

Aon's Bigblue

Aon's Bigblue Money Module can aid financial wellness, help with budgeting and setting a retirement income target by enabling individuals to integrate and view both their pension and savings in one place. This service is automatically available through The Aon MasterTrust and Bigblue Touch (our GPP solution).





Future of DC structures

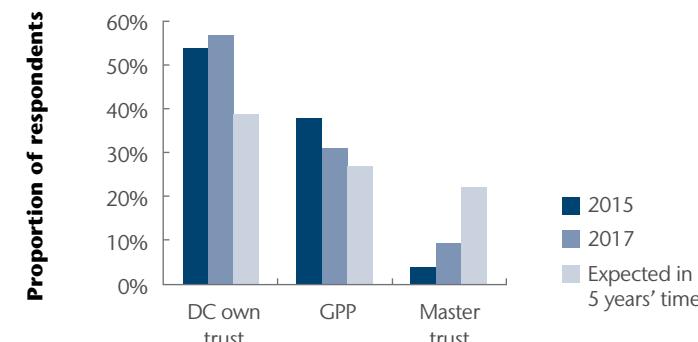
We asked which scheme governance structure will be most popular in the next five years. At present, the majority of respondents' schemes were employer-specific (standalone) trust-based DC schemes, followed by Group Personal Pension plans. The expectation from respondents was that there would be a significant move towards master trusts in the coming years, with around a third of those running their own trust-based schemes expecting to move to master trust in the next five years.

The cost of running a DC scheme and its governance requirements continue to be the key triggers for a discussion regarding whether the current governance structure is appropriate. The time and resources available to run the scheme are now a much greater factor in determining whether an alternative structure is appropriate. This in turn feeds into the level of 'bundling' of services required and which services can be delegated to external parties.

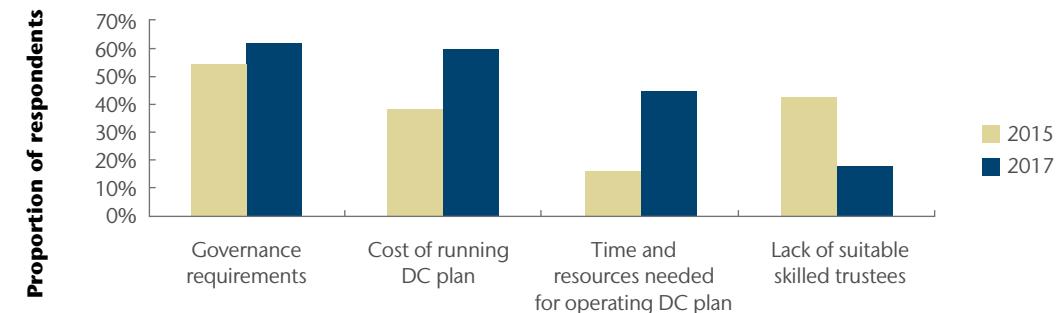
Aon's DC solutions

Aon can help you with the full range of DC pension options - from consulting services, our delegated investment-only and bundled solutions for occupational trust-based schemes, through to our standalone solutions, The Aon MasterTrust and Bigblue Touch, Aon's GPP.

Type of pension scheme used for DC benefits over time

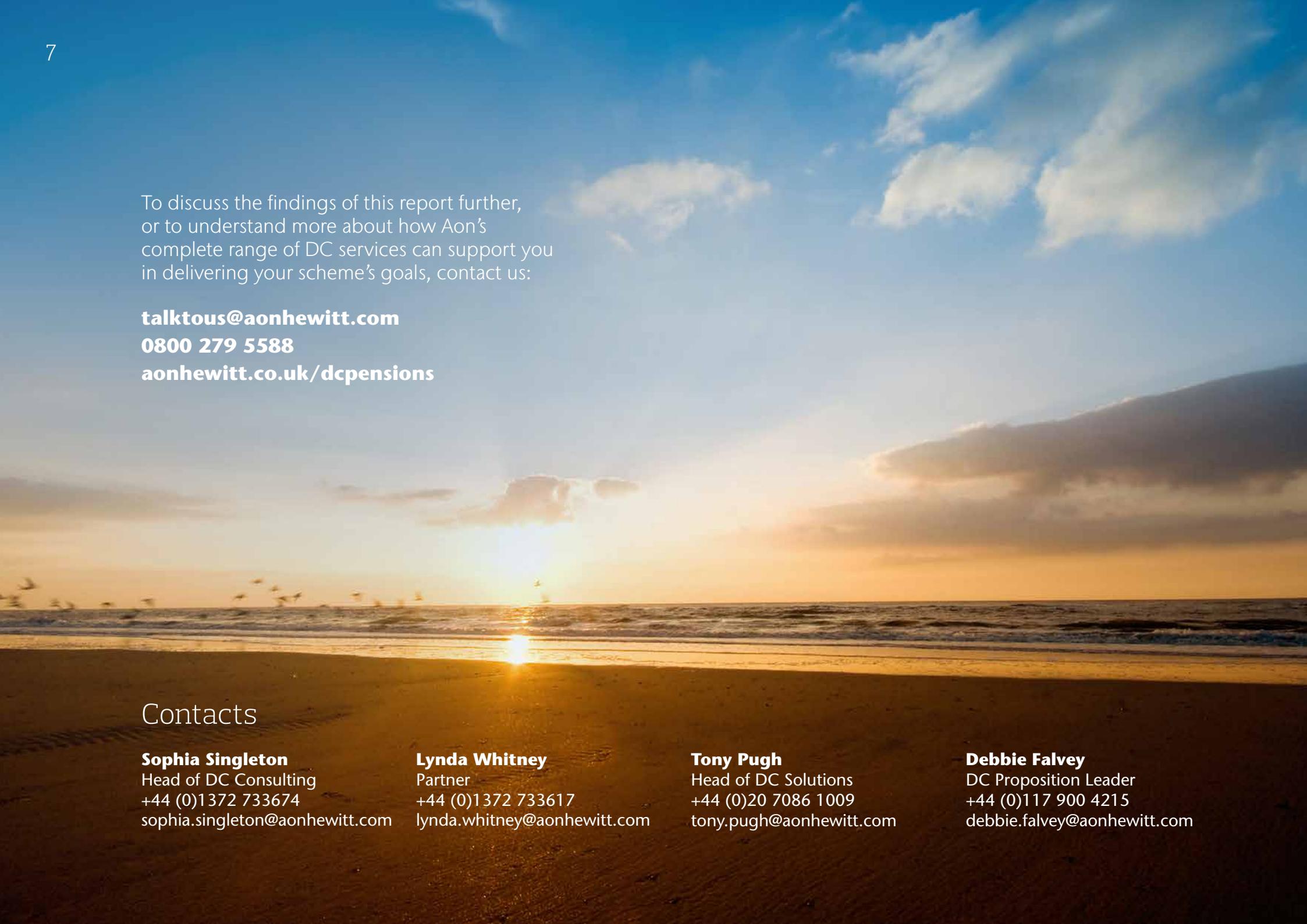


Reasons for changing governance structure over time



25%

of schemes expected to be placed in master trusts in 5 years' time



To discuss the findings of this report further,
or to understand more about how Aon's
complete range of DC services can support you
in delivering your scheme's goals, contact us:

talktous@aonhewitt.com
0800 279 5588
aonhewitt.co.uk/dcpensions

Contacts

Sophia Singleton
Head of DC Consulting
+44 (0)1372 733674
sophia.singleton@aonhewitt.com

Lynda Whitney
Partner
+44 (0)1372 733617
lynda.whitney@aonhewitt.com

Tony Pugh
Head of DC Solutions
+44 (0)20 7086 1009
tony.pugh@aonhewitt.com

Debbie Falvey
DC Proposition Leader
+44 (0)117 900 4215
debbie.falvey@aonhewitt.com

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