

How do you measure up?

For professional clients only



What are
the current
strategic
trends?

SECTION 1

Get the measure

Q. What are the current strategic trends in DC pensions?

In this section, we explore how DC schemes measure up against others and also how they measure against their own aims and objectives. Do schemes have the information they need to do this accurately or are they shooting in the dark?

4 in 10

schemes' main aim is to offer a pension in line with the competition while only **3 in 10 aim to deliver a sufficient pension**



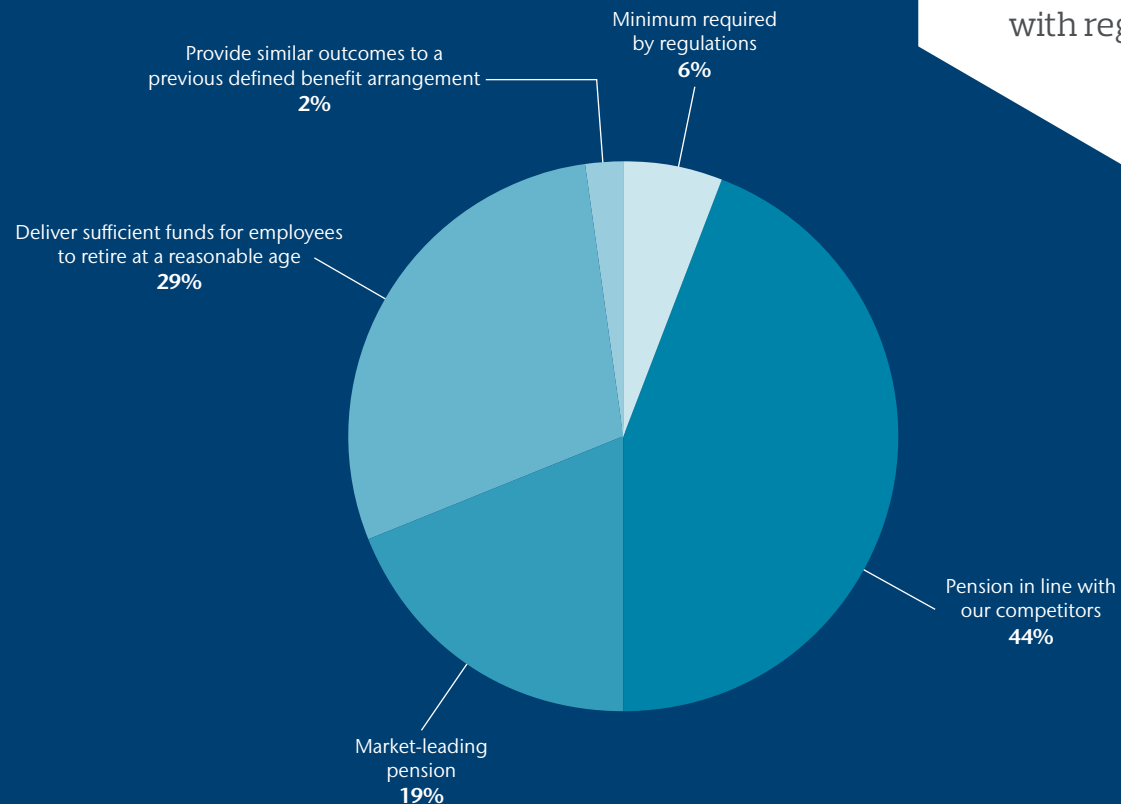
Value for members and **better member outcomes** are objectives for around three-quarters of DC business plans

1 in 3

schemes do not measure progress against their objectives

We asked schemes how they would best describe their main aim for their DC arrangement. While all schemes are trying to provide a pension for employees in retirement, we found a range of views on how to approach retirement provision.

- The most popular response was to offer a pension broadly in line with the competition, ie, to use what is offered by others as a benchmark. The rationale for this approach is often to seek to retain employees by offering a similar level of benefits to other employers. However, there is limited evidence to show that employees leave or stay with an employer due to pension benefits alone.
- The next most popular response focuses on outcomes. A challenge with this approach is to reach consensus on how much is a sufficient retirement income, with only 2% saying that they aim to replicate benefit levels that were provided under a previous defined benefit (DB) arrangement. We consider the question of what an adequate level of retirement saving could be for members in [Section 3 – Fit for the future](#).
- Around one in five respondents want to set themselves apart by offering a market-leading pension. In practice this could mean very different things to different people, so it is important to define what market-leading looks like.



1 in 20

say they do nothing more than aim to comply with regulations

Q. Which of these objectives are in your scheme's business plan?

It is not a surprise to see that over seven in ten schemes have 'delivering value for members' and 'improving member outcomes' as objectives. This is similar to our research in 2017 and aligns with The Pensions Regulator's guidance on DC. However, it is how schemes work towards meeting these objectives that is really important.

What is perhaps more of a surprise is that fewer than four in ten aim to increase the take-up of higher contribution rates by employees. Could concerns over the costs to the sponsor be an issue? We found that very few sponsoring employers are considering the long-term

impact of insufficient retirement savings on their future workforce profile. As such, many employers are heading towards an ageing and more potentially more expensive workforce.

One objective found to be less popular than in our previous research is that of improving scheme governance. This may be due to improvements over the preceding two years, meaning more schemes are comfortable with the governance arrangements they have.

Just under a third of respondents include specific objectives relating to investment returns. This may be because investment

objectives are not included in the business plan, rather than being reflective of schemes not taking an interest in their investments. For trust-based pension schemes these objectives are usually covered in the Statement of Investment Principles and could cover measures such as volatility and growth targets,

benchmark tracking or downside protection. In [Section 4 – Made to measure](#), we consider DC investments in more detail.

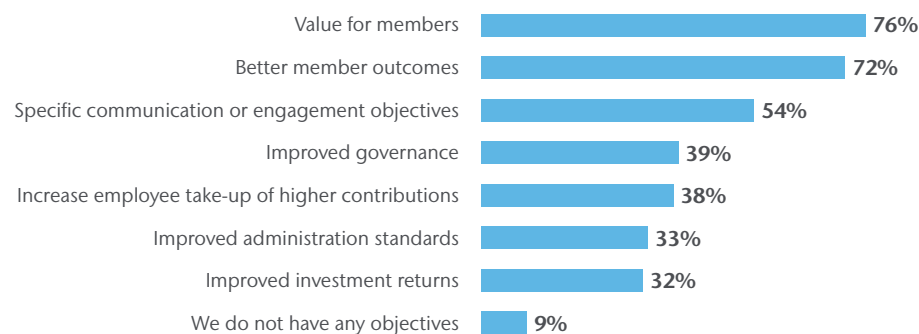


Making sure your objectives are aligned

It is important to take into account the views of all stakeholders when setting objectives to make sure everyone is pulling in the same direction. For example, if the HR team has an objective to encourage employees to contribute more to take full advantage of higher matching company contributions, but the finance team has an objective to minimise increases in benefit costs, there will be a conflict between different parties.

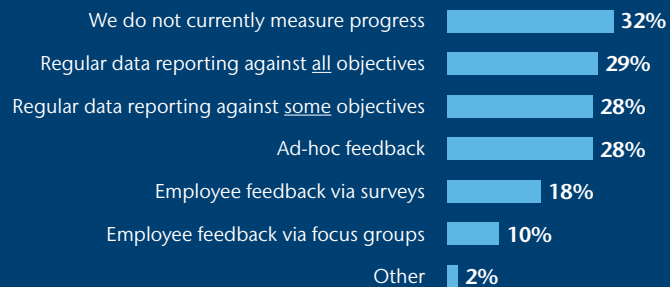
(In this instance it would be perhaps more sensible to consider a change to the contribution design, so that members can be encouraged to save more while costs can be controlled for the sponsoring employer.) Aon's [Viewpoints Discover tool](#) was designed to help groups of individuals to understand the range of positions and reach consensus.

Which of these objectives are in your scheme's business plan?



Measuring progress against objectives

What approaches are used to measure progress against objectives?



Collating data and ad-hoc feedback were the most popular methods of measuring progress towards objectives. It was somewhat surprising to see that nearly three in ten respondents say that they receive regular data reporting against all of their objectives, given that this number includes those with objectives, such as improved governance standards and specific communication or engagement objectives, which can be difficult to assess with quantitative measures.

Only
2/3

of schemes measure
progress against
objectives



Quick win

- ✓ For each objective in your business plan include one or two practical actions which will help work towards it.
- ✓ Consider objectives used by other plans and whether they could be appropriate for you.
- ✓ Consider sensible measures you can put in place to use information already available to monitor your objectives.



Longer term

Consider other useful measures of progress towards your objectives, both quantitative and qualitative, and consider how to source the information that would be needed on a regular basis.

Measuring tools

Collecting the right data to measure progress towards objectives can be difficult. Aon's Well One app provides a wealth of (anonymised) data on the finances, health and wellbeing of individuals, teams and the wider business using simple health scores. Analysing data from four areas – physical, emotional, social and financial – Well One can bring focus and clarity to strategy and communications while enabling healthy behavioural change for employees.

<https://www.aon.com/wellone/>

Aon point of view

While it may seem important to benchmark with the competition in the short term, we strongly believe that the objectives of a DC pension should focus on providing employees with sufficient funds to be able to retire at an age with which they and the employer are comfortable.

The leading DC schemes and employers are helping employees to understand how much they will need in retirement and how to get there. By using financial aggregation tools such as Aon's Well One Money, they can bring together DC pension funds with wider savings and other assets to provide employees with the full picture.



What is the biggest challenge over the next two years?

There is a range of different challenges ahead for DC schemes over the next few years. While each scheme is different, a number of emerging themes can be seen in our 'responses word cloud'. The remaining sections of our survey report cover what others are doing in some of these areas and include our own insights on how to measure up today and in the future.



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