



Survey Financial Pension Planning and Communication

January 2020

Inhoudsopgave

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Executive summary

In the past few years, Aon has dedicated extensive time and funds to developing the UPO (Uniform Pension Statement). In 2008, legislation made it mandatory for all pension administrators to use the UPO to inform participants about their accrued pension entitlements. In spite of this, though, it is clear from surveys that the average Dutch employee does not have an adequate level of pension awareness. Pension awareness is the extent to which people are aware of their post-retirement income and understand whether or not this is adequate for their individual situation. If the expected pension income is not adequate, a person with sufficient pension awareness knows the actions they could take to increase it.*

If participants have low pension awareness, the main risk is a high probability of an inadequate pension income. If someone could have made different choices during their working life, their pension income could have been adequate. Participants accrue an employer pension during their service years, attracting returns on their investments and/or interest on this increasing sum until their retirement date. This is why choices made at a younger age have a greater influence on the eventual pension benefit than choices made at an older age.

Our survey asked 1,000 people in the Dutch working population questions about their pension awareness, pension communication and the 2019 Pension Accord. The respondents were equally split by age, gender and income. Asking questions about pension planning, expected and required pension income and resources for increasing pension income allowed us to collect data on pension awareness.

From the survey, it became clear that young people, women and people with low incomes have lower pension awareness. This has a significant impact, on young participants in particular because they

have low awareness while they are accruing the majority of their pension assets. This is due to a lack of motivation in young participants. Once people take an interest in the subject matter, at a later age or even very close to retirement, it can be too late to adjust their pension income.

Many respondents indicate that they frequently receive a financial pension statement, but that it does not provide them with adequate information. This is mainly stated by younger and lower-income people. Due to a lack of financial literacy, they do not always fully understand the pension statement, or do not know whether or not they should or can change anything.

The Dutch pension system is going through major changes. The traditional defined benefit (career average) system is increasingly replaced by a defined contribution system. The difference is that participants should have more opportunities in the future to influence their pension income. The need to ensure participants are informed is more important than ever in order to ensure they make well-considered pension choices leading to an adequate pension income.

In order to increase pension awareness, the employer or pension administrator should tailor its pension communication to its various target audiences. This form of communication should provide participants' current financial information, as well as information on the pension system, and educate the member on achieving an adequate pension income with information tailored to the individual. It is very important that employees have adequate information from a younger age, enabling them to take action to ensure an adequate pension in the future.

* prast, h., & van Soest, A. (2014). pensioenbewustzijn. Netspar.

Introduction

The statutory retirement age has been raised. There is an agreement on reforming the Dutch pension statement. Pension benefit reductions are imminent. There is significant ambiguity among the Dutch population regarding pensions in general. It is clear that much is about to change compared with the past few decades.

This report is about pension awareness. Pension awareness is the extent to which people are aware of their post-retirement income and understand whether or not this is adequate for their individual situation. Pension awareness is mostly dependent on the method or extent of pension communication. These two elements are closely interrelated.

In a survey of the Dutch working population, we collected data from a thousand people. The survey sample was evenly split according to age, gender and income. The questions related to three different subjects: pension awareness, pension communication and the Pension Agreement

One alarming result is that more than half of the respondents feel insufficiently financially prepared for their retirement. Some groups have lower pension awareness in general. Over half (52%) of the 20-30-year-old respondents indicate that they are not yet interested in the subject of pensions. Among respondents with a gross monthly salary below 2,000 euros, 46% say that they do not know their future pension income. 61% of the female respondents feel insufficiently prepared financially for their retirement. Additionally, 37% of all respondents have no idea of the changes to the Pension Agreement and their implications.

The points highlighted above can largely be resolved by changing pension communications. Over a quarter of all respondents (26%) indicate that they receive information, but that they perceive it as inadequate. Previous studies found that this information is too complicated for some people, and that some people are not sufficiently motivated to consume the information they receive.¹ Personalisation of pension communications, for example by customising the messages for age, financial literacy and life events (changes in the participant's personal life with financial consequences), mean that scheme members receive more suitable and therefore more adequate information about their pensions.

¹ Krijnen, J., Beugelmans, M., & Zeelen, S. (2014). Waarom mensen de pensioenvoorbereiding uitstellen. Netspar.

Financial preparation and pension planning

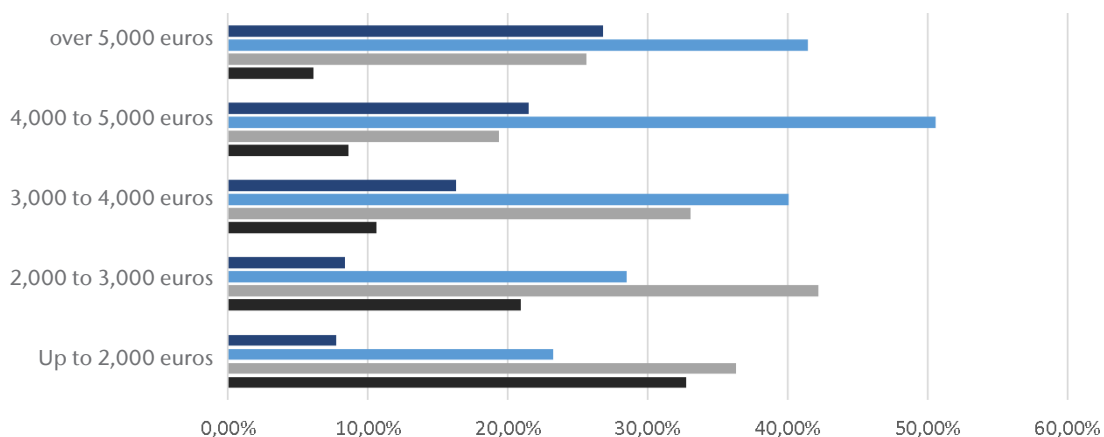
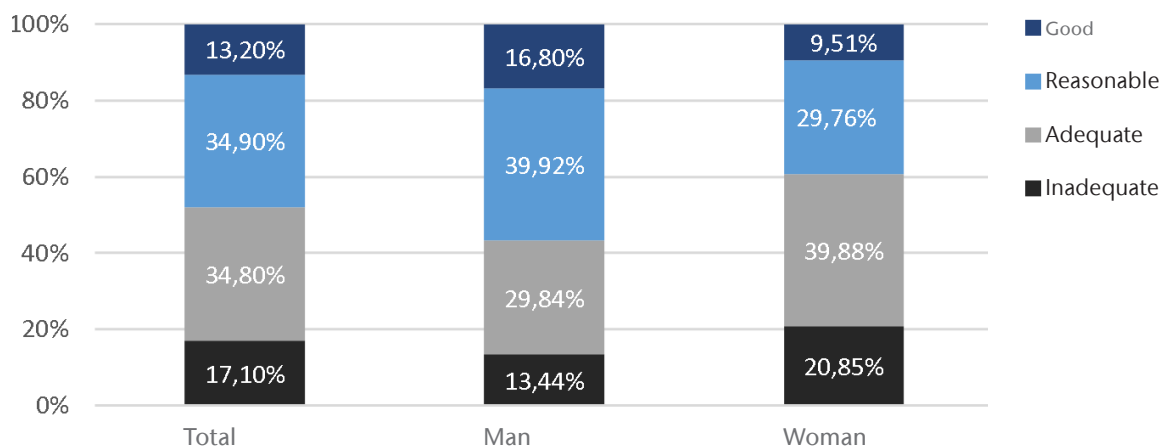
Financial preparation for retirement

The first of the graphic charts below shows that more than half of respondents (52%) feel that they are moderately or insufficiently prepared financially for their pension. Almost two-thirds of female respondents feel insufficiently prepared.

The last chart below shows that the perception of financial preparedness for retirement is related to the respondent's current gross income. 89% of those with a gross monthly salary below 2,000 euros feel that they are moderately or insufficiently prepared financially for their pension. Among respondents with a gross monthly salary above 5,000 euros, only 32% give the same answer.

The survey also shows that respondents feel better prepared financially if they are older, and therefore closer to their statutory retirement age. This could be explained by the fact that people become aware of the importance of an adequate pension as they age.

To what extent do you feel financially prepared for your retirement?



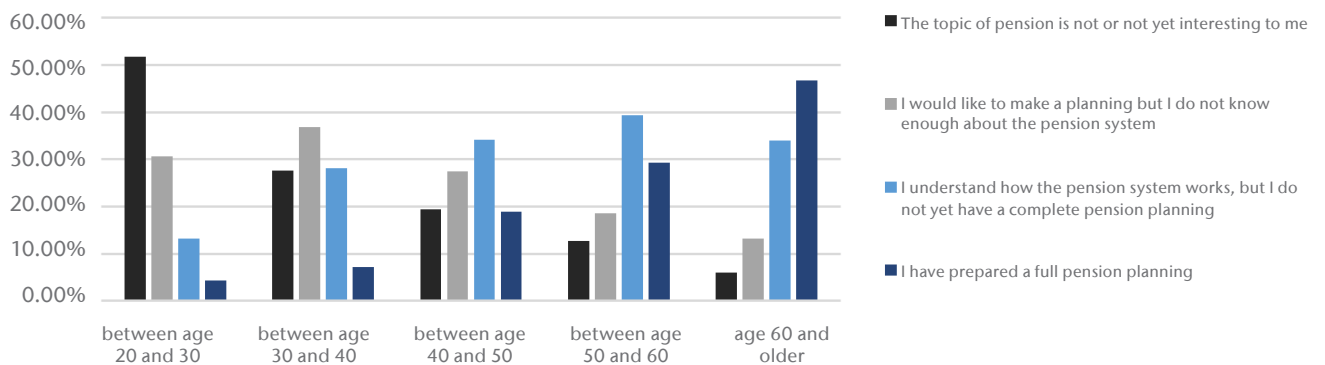
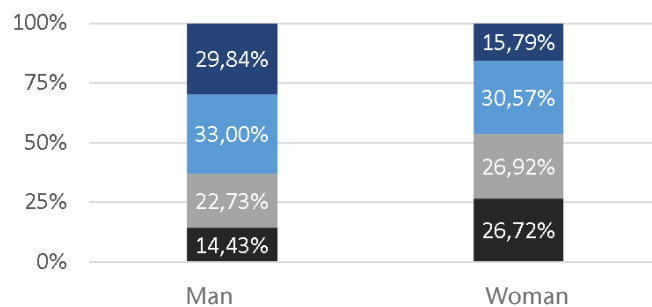
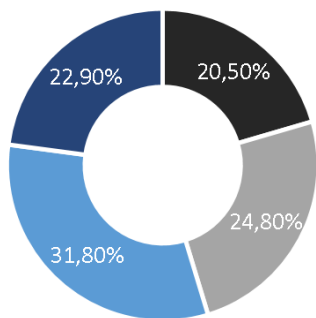
Age plays a key role in pension planning

Financial pension planning is a key tool to ensure an adequate pension. However, 78% of respondents indicate that they have not fully financially planned for retirement. People who have not yet planned financially for retirement can be roughly divided into three categories (in the legend: black, grey and sky blue), divided by knowledge and motivation level.

Among male respondents, a higher percentage (63%) indicate that they have a financial plan, or that they are closer to having a plan, compared with the female respondents. This is not necessarily just because men are better planners. According to previous studies, the fact that men often earn the highest income in the household, and feel responsible for the family's post-retirement income, may play a major role.²

However, age is directly related to the extent of financial pension planning. Just 4% of 20-30-year-old respondents say they have prepared a full financial pension plan, whereas 47% of those aged 60 and over say the same. The diagram at the bottom of this page shows that the extent of financial pension planning among respondents increases with age. This may be in part because older people are more aware of the value of a financial pension planning than younger people, as they are closer to their retirement date.

How much attention do you pay to financial planning for your retirement?



² Raaij, F. v., Huiskes, n., Verhue, D., & Visser, J. (2011). Individual Differences in Pension Knowledge. CASS.

Post-retirement income and sources of income

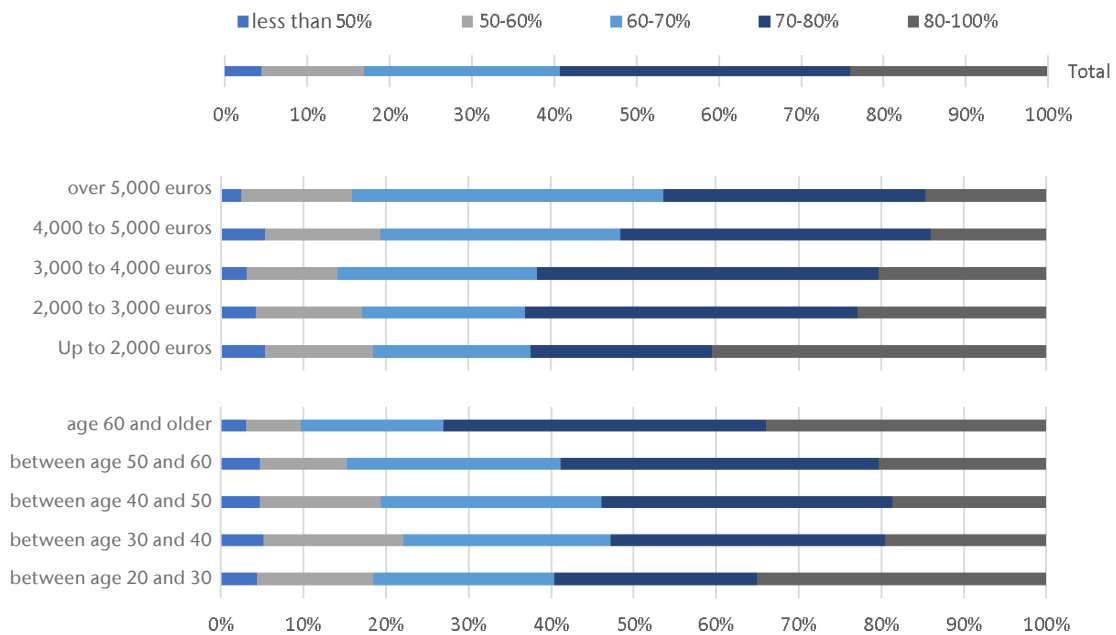
Percentage of final salary

Over half of all respondents (58%) expect they will need between 60 and 80% of their final salary after retirement. 24% expect to need more than 80% of their final salary. A very small percentage (4%) of respondents expect that less than 50% will suffice.

As you might expect, different income groups have different expectations of their required post-retirement income. From the survey, it is clear that respondents with a higher income think they will need a lower percentage of their final salary after retirement compared with lower income respondents.

Age is also a factor. Over a third of respondents (34%) aged 60 or over expect to need more than 80% of their final salary after retirement. This is also the case among those aged 20-30 (35%). Surprisingly, respondents between the ages of 30 and 60 generally indicate that they think they need a lower percentage of their final salary as a retirement income.

What percentage of your final salary do you think you need after your retirement?

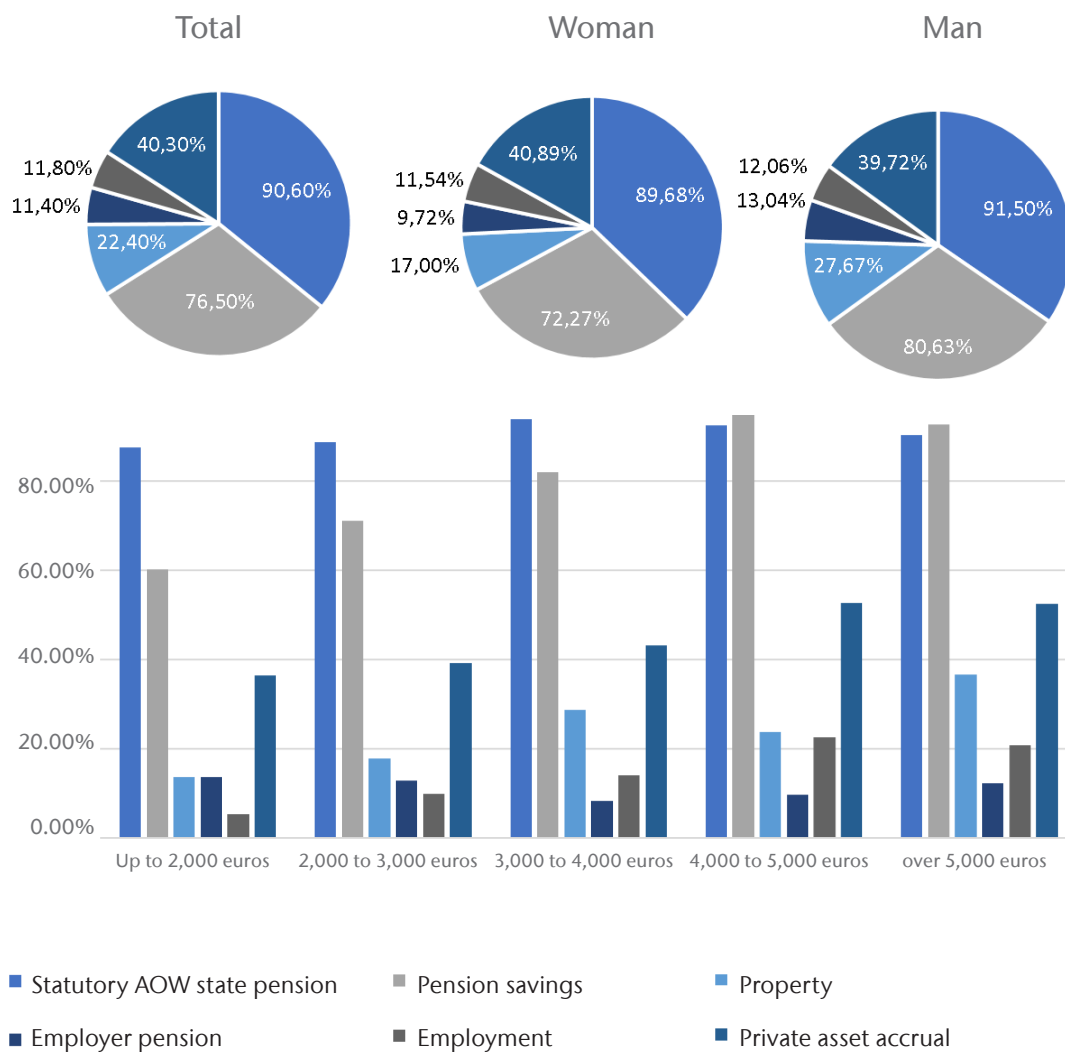


Different forms of final salary

The total income during retirement may consist of several components. Most respondents (91%) believe that they are entitled to a statutory pension benefit (AOW). In fact, as all respondents are Dutch residents they are all therefore entitled to AOW. The fact that not all respondents mentioned the AOW pension benefit indicates that some of the respondents are insufficiently aware of their post-retirement entitlements.

The higher the gross monthly income, more likely it is that the respondent also expects to have post-retirement income from property and private assets. This may be because the higher disposable income higher earners have enables them to invest in alternative forms of pension accrual.

Which sources of income do you have after your retirement?

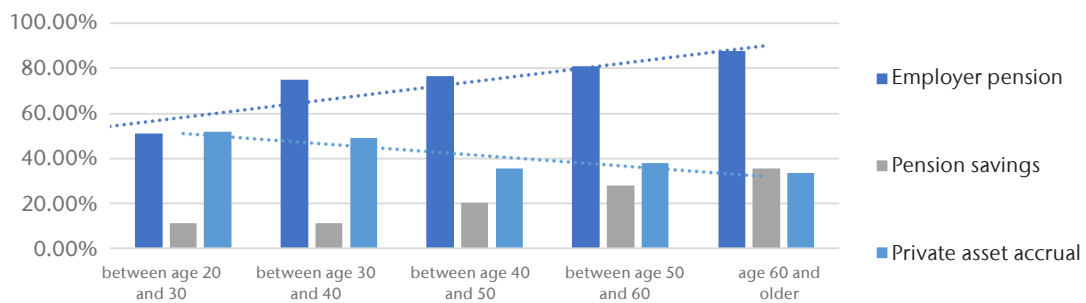


Lower trust in employer pension

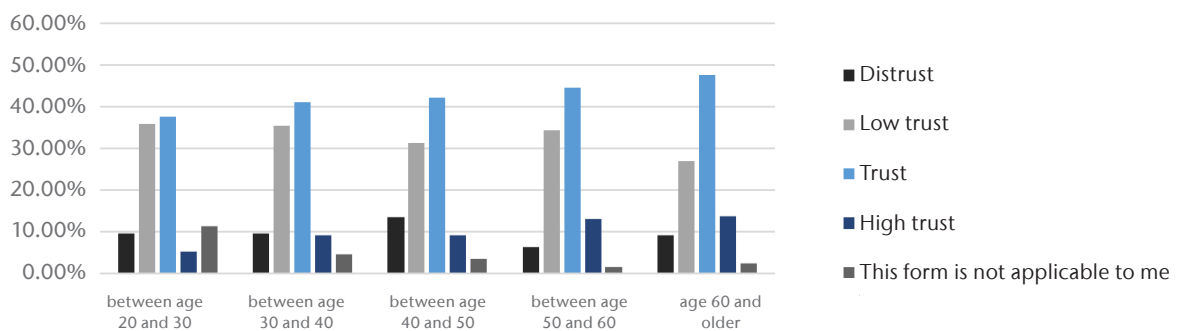
Among respondents aged between 20 and 30, 51% say they receive employer contributions to their pension. This is low compared with those aged 60 and over, 88% of whom say they accrue employer pension. Fewer respondents aged 20 and 30 participate in pension savings with tax deductions (11%) than those aged 60 or over (36%). A higher percentage of young respondents indicate that they accrue private assets (52%) of those aged 20-30 say this, compared to 49% of those aged 30-40 and 34% of those aged 60 and over. Looking at these findings together suggests that older respondents accrue pension in a more traditional way, while younger respondents are more inclined to accrue private assets.

This difference between young and old concerning post-retirement income sources could have its roots in the varying levels of trust that respondents have in the different pension accrual methods. Among respondents aged 20-30, 46% say they have no or little trust in employer pension plans. Among respondents aged 60 and older, this percentage is far lower: 36%. The fact that older people have more trust in employer pension plans may be one reason why a higher percentage of them participate in these plans.

Post-retirement income sources



Trust in employer pension plans



Risk appetite

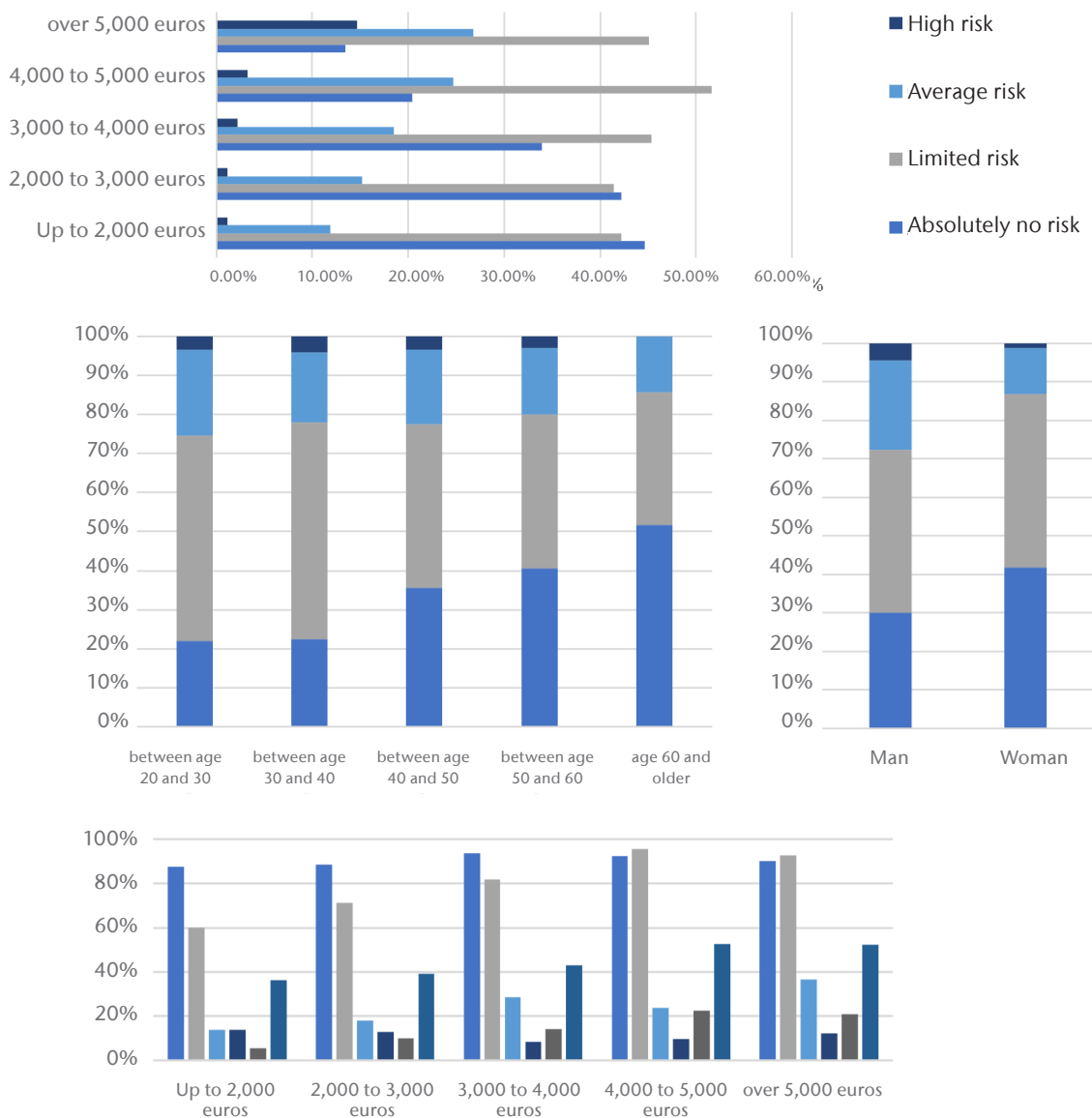
High earners, younger people and men take higher risks

Higher investment risk gives a better probability of a bigger pension pot – but there is also increased potential for reduced outcomes. In general, respondents indicate they want no or very limited risks for their pension savings (80%). Certain groups show higher risk appetites. Among respondents with a gross monthly salary above 5,000 euros, 41% tolerate an average or high investment risk. Among respondents with a gross monthly salary below 2,000 euros, 13% indicates that they are prepared to tolerate an average or high risk in exchange for the probability of a higher pension benefit. This may assume that people with a smaller pension pot are more risk averse as any losses will have a bigger impact.

A random sample showed that older respondents have a lower risk appetite than younger respondents. This may be due to younger respondents having a longer investment horizon.

Furthermore, the survey shows that 42% of women want to take no risk whatsoever. This percentage is lower among male respondents: 30%.

How much investment risk are you willing to take in exchange for a probability of a higher pension benefit?



Pension statement

Pension statement

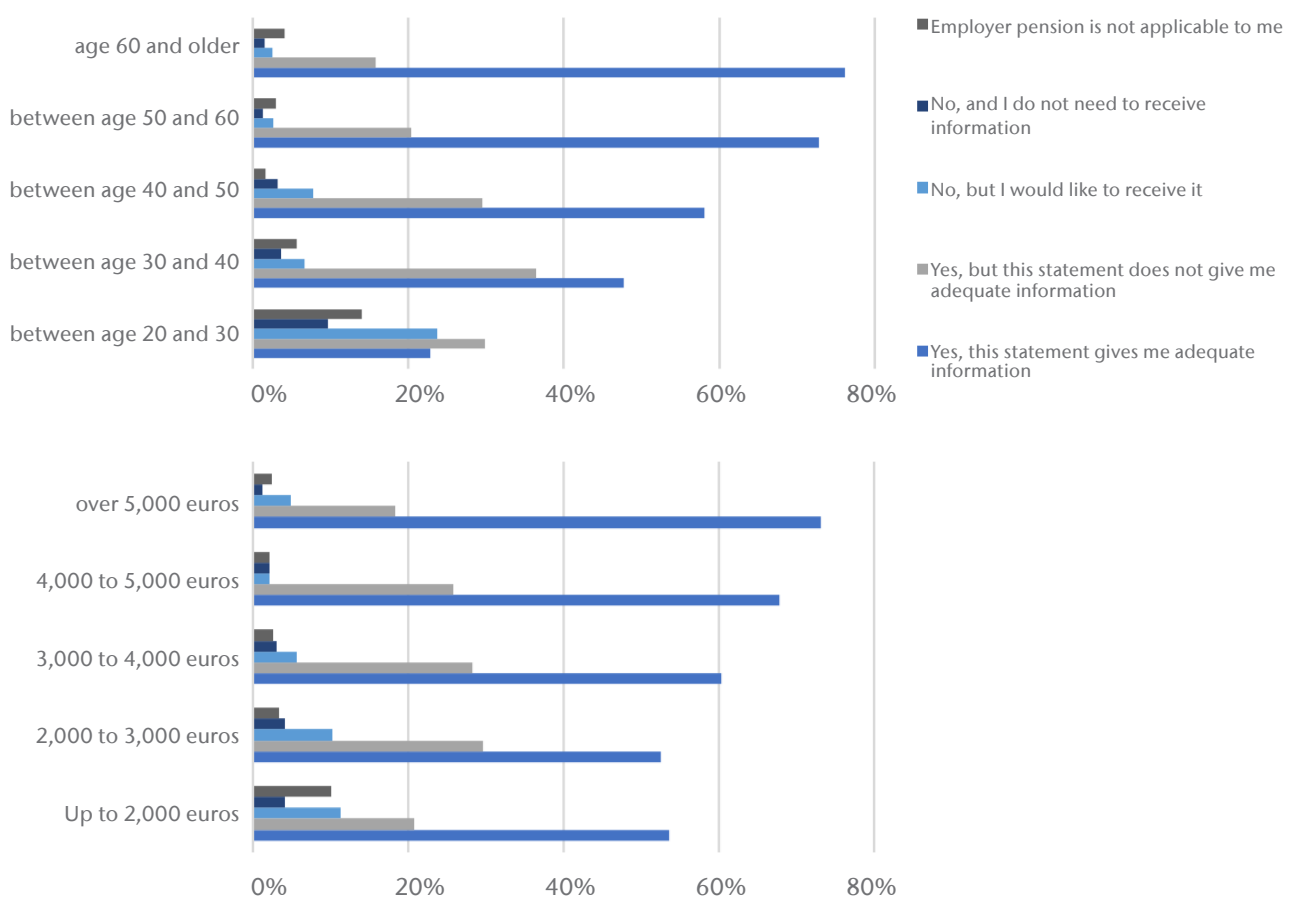
26% of all respondents say they are frequently informed via their financial pension statement. However, this information is not perceived as adequate. There is significant room for improvement by the employers or pension institutions issuing the information in making the information provided more suitable for the participants.

There are two main factors that lead to the information being insufficient:

- The participants do not understand how to read the financial pension statement. This is often due to low financial literacy; as shown by previous studies.³
- It is possible that participants are insufficiently motivated to consume or understand the information.

23% of 20-30-year-old respondents say they are sufficiently informed based on their financial pension statement. Among those aged 60 and over, 76% indicate that they regularly receive an adequate financial statement.

Do you frequently receive a financial pension statement from your employer or a different institution?



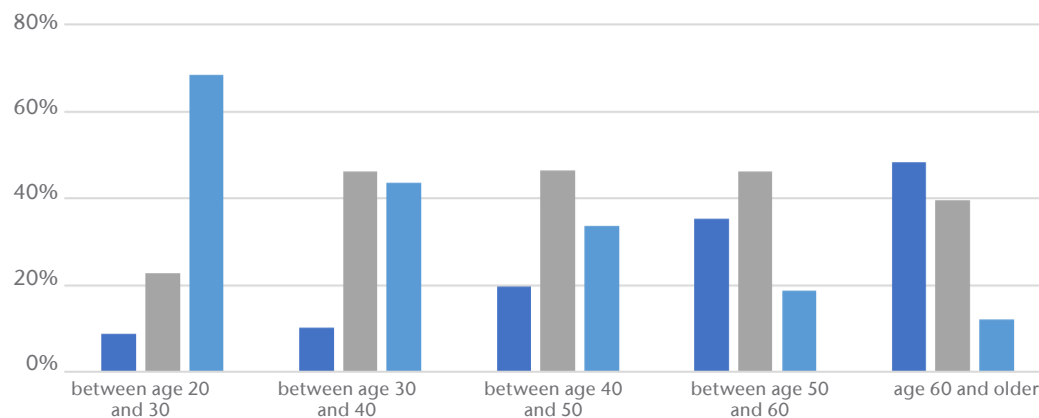
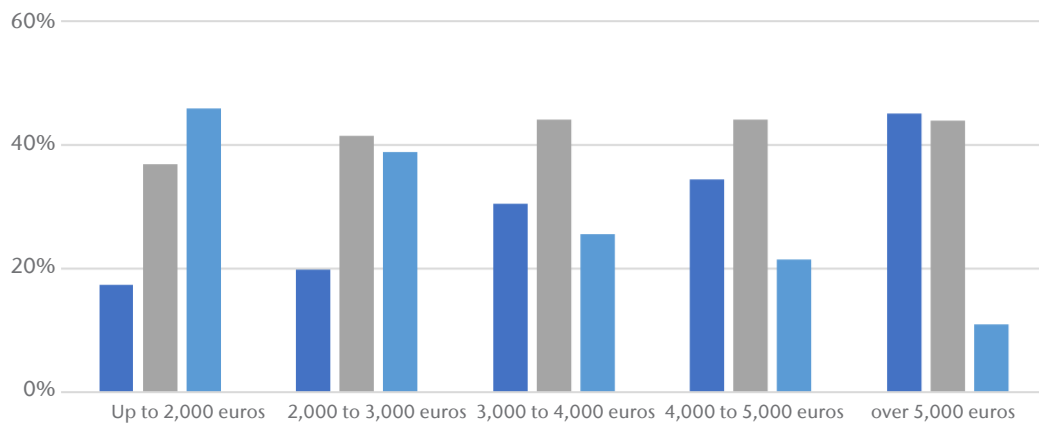
³ Lenz, L., Pander Maat, H., & Nell, L. (2017). Begrijpelijkheid van pensioencommunicatie: effecten van wetgeving, geletterdheid en revisies. Tijdschrift voor Taalbeheersing, 39, 191-208.

Future pension income

Respondents' pension awareness depends largely on their knowledge about the pension system, current and earlier pension plans and their future pension income. 32% of respondents have no idea of the amount of their future pension income. 48% of respondents aged 60 and over know the amount of their future pension income. The younger the respondents, the lower this percentage.

Those in different income categories also have varying awareness of their future pension income. 46% of respondents with an income below 2,000 euros a month indicate that they do not know their future pension income. On average, respondents with a higher monthly income have more knowledge of their pension income.

How much do you know about the amount of your post-retirement income?



- Good, I know the amount of my future pension benefit
- Adequate, I know the approximate amount of my pension
- Inadequate, I have no idea of the amount of my pension benefit

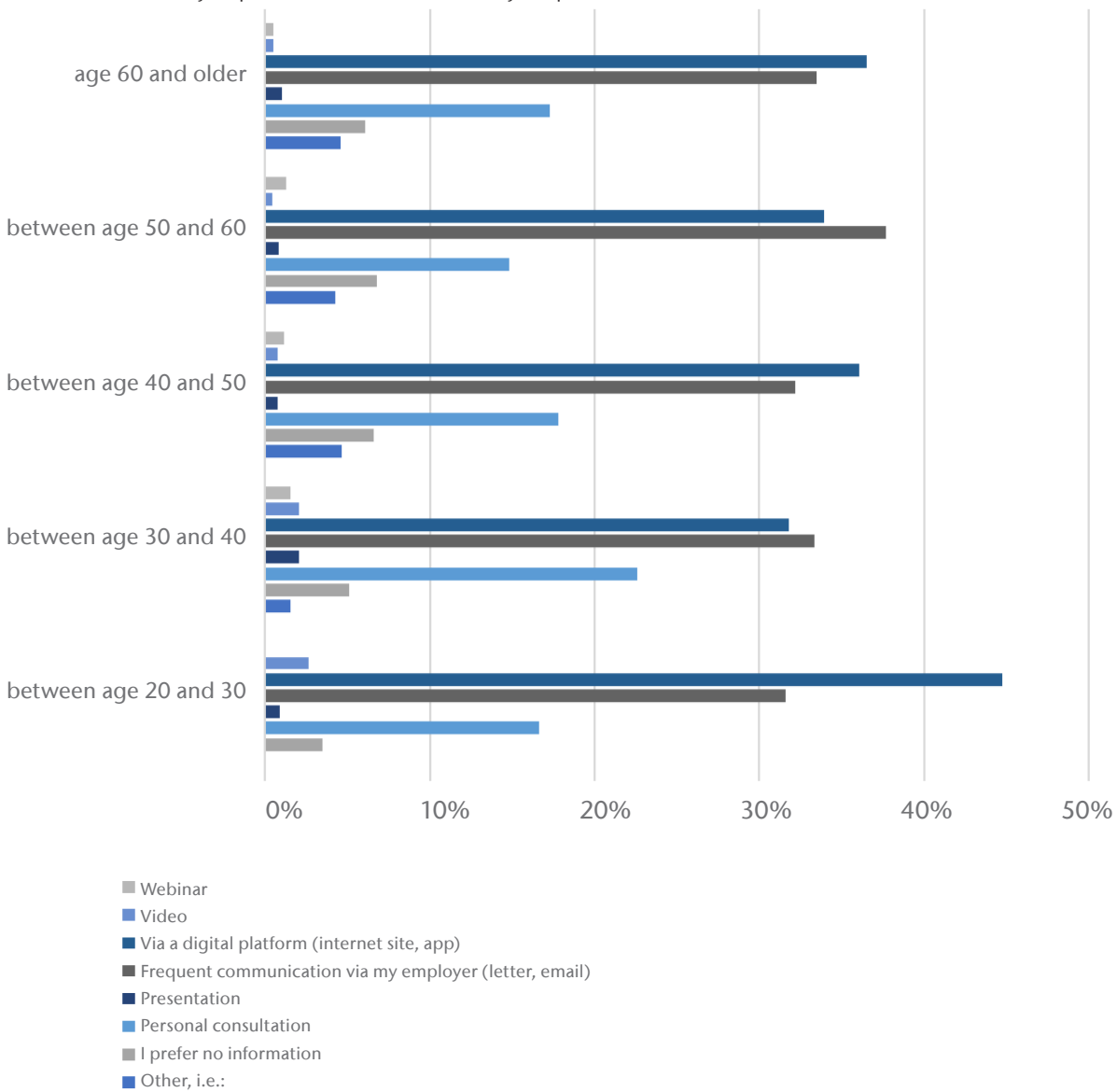
Preferences relating to pension communication

Digital or printed communications

In general, respondents prefer to receive pensions information digitally, like on a website or online portal, or in a letter or email sent by the employer.

Information in a personal meeting is mentioned relatively often (23%) as a desirable communication tool by respondents aged 30-40. People in this age bracket often experience life events such as marriage, buying a house, or having a baby. These events affect their financial situation and planning. This may explain why a relatively high number among respondents aged 30-40 say they like to receive information in a personal meeting.

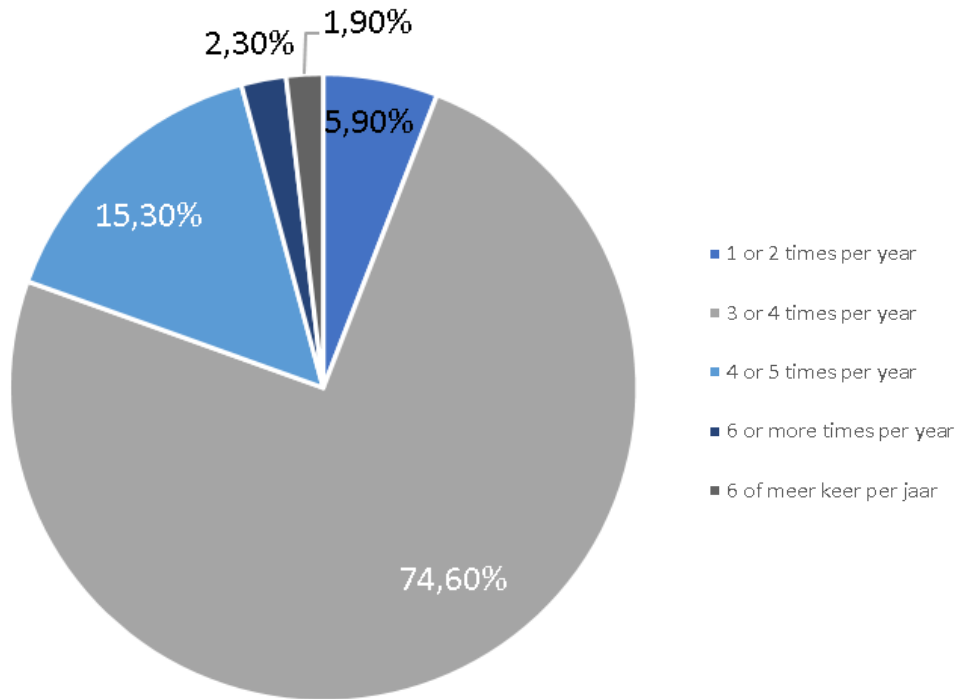
How do you prefer to be informed about your pension?



Number of communication moments

75% of all respondents say they want to be informed about their pension once or twice per year. This is broadly similar regardless of age, income or gender.

How many times per year would you like to be informed about your pension?

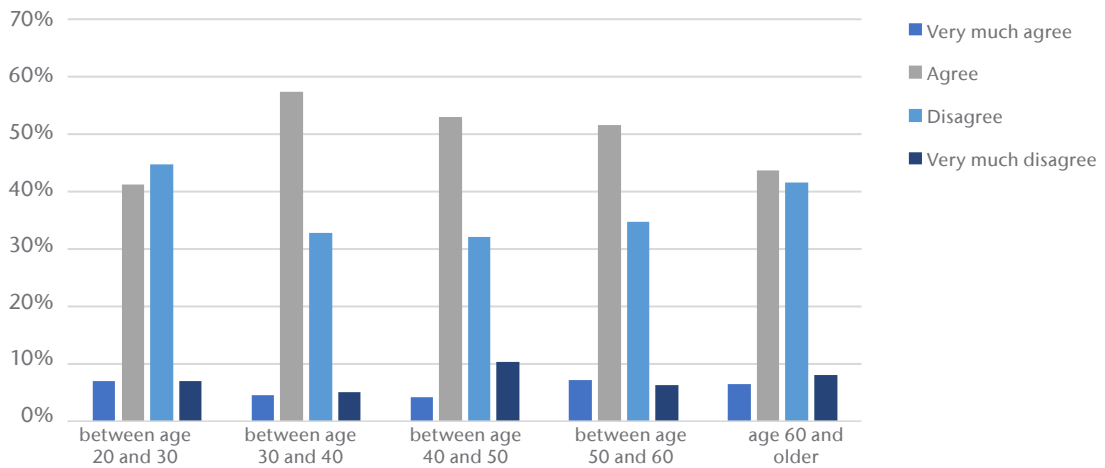


Views on pension provision

Responsibility

Respondents aged between 20 and 30 and those aged 60 and older feel similarly about responsibility for pensions. In both these groups, over half of respondents (52%) feel that their pension is not their responsibility. As shown in the chart below, about 60% of respondents aged between 30 and 60 feel that pension provision is the personal responsibility of the participant.

I think that pension is my personal responsibility

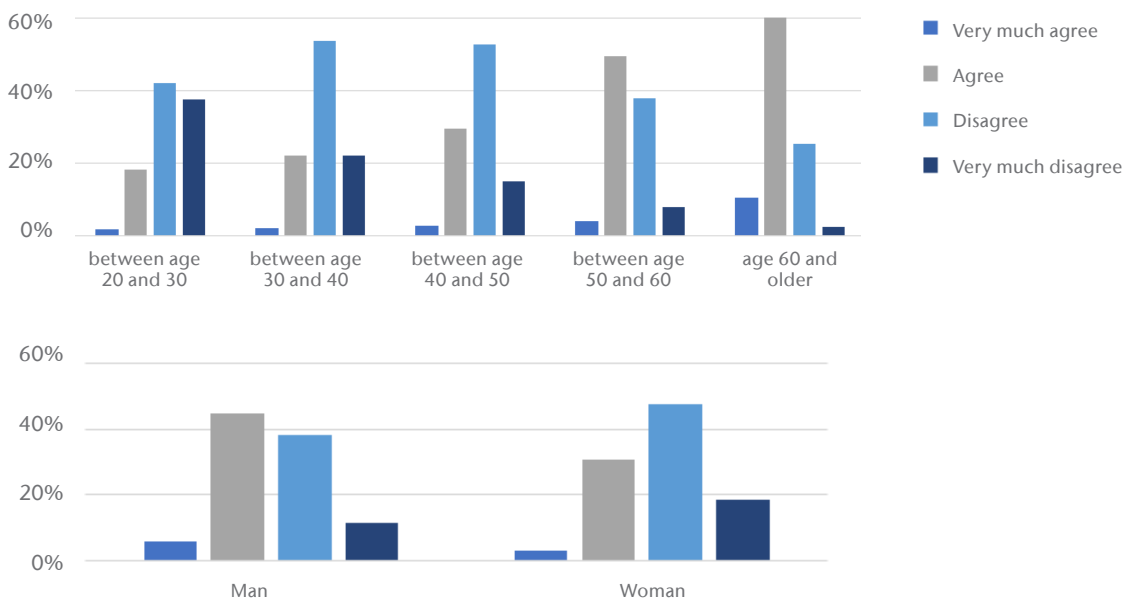


Taking the initiative on pensions information

58% of all respondents say that they do not take the initiative to find out about their pension very frequently. Among male respondents, this percentage is lower (50%) than among women.

On average, respondents become more proactive about looking up their pension information as they age.

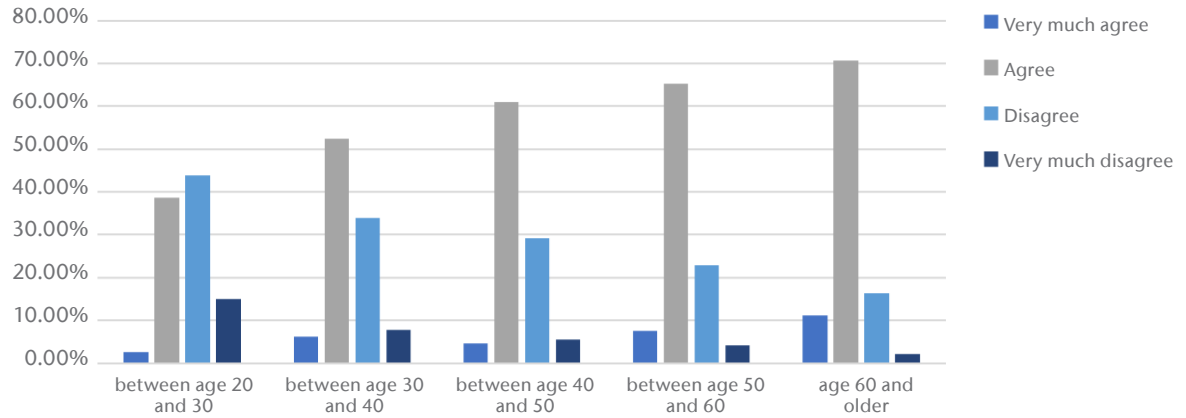
I frequently look up my personal pension information



Adequate information

82% of respondents aged 60 and older say that they receive sufficient information about their pensions. Among respondents aged between 20 and 30, this percentage is significantly lower (41%). Current pension communications are not effective, particularly when it comes to reaching younger respondents.

I receive sufficient information about my pension



Pension Agreement 2019

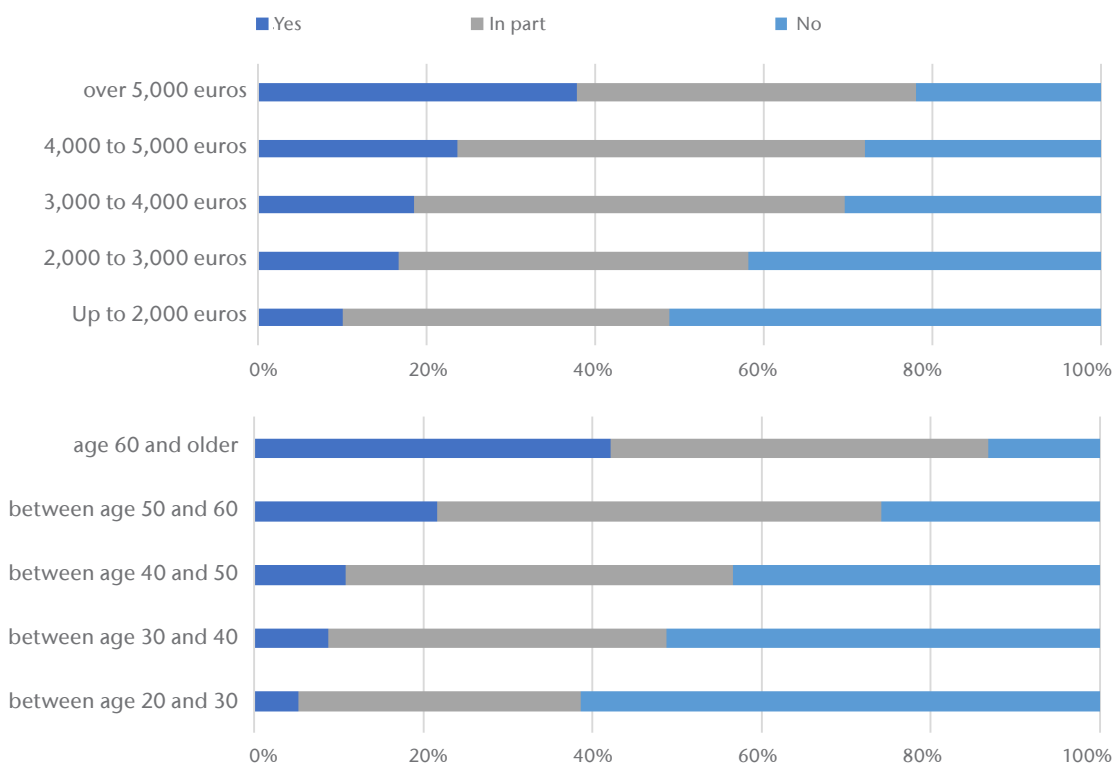
Knowledge of the Pension Agreement

19% of respondents believe they are aware of the changes to be implemented in the Pension Agreement. This percentage varies according to age and income.

Among respondents earning up to 2,000 euro per month, 10% say they are aware of the changes to the Pension Agreement. This percentage is almost four times higher (38%) among respondents with a gross monthly salary above 5,000 euros.

There is a huge difference in different age groups' knowledge of the Pension Agreement s. For example, 5% of respondents aged between 20 and 30 say they are aware of the changes, compared to 42% of those aged 60 and older.

Are you aware of the changes to be implemented in the Pension Agreement in 2019?



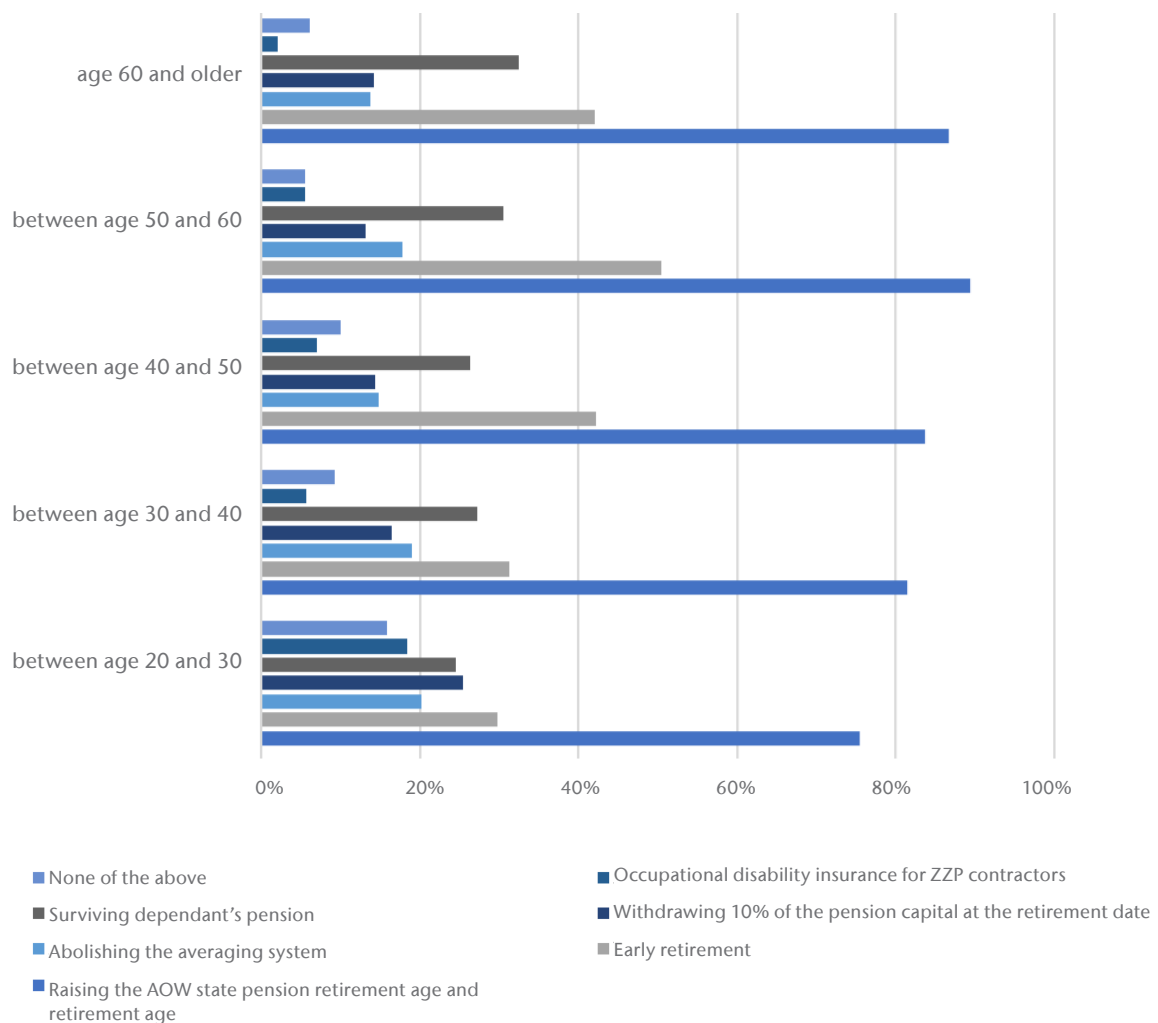
Looking in more detail at the Pension Agreement

Only 15% of respondents aged between 40 and 50 believe that abolishing the averaging system is relevant to them. This is surprising, as this change will disproportionately affect them. A lack of pension knowledge could well be the reason for the low percentage.

Over half of respondents aged between 50 and 60, (51%) say that the early retirement option is relevant. This percentage is higher than in other age brackets.

The random sample shows that 84% of all respondents feel that the development of the statutory retirement age is relevant to them. Most respondents aged between 50 and 60 (89%) say that developments in the statutory retirement age are relevant to them.

Which topics are relevant to you in the new Pension Agreement?

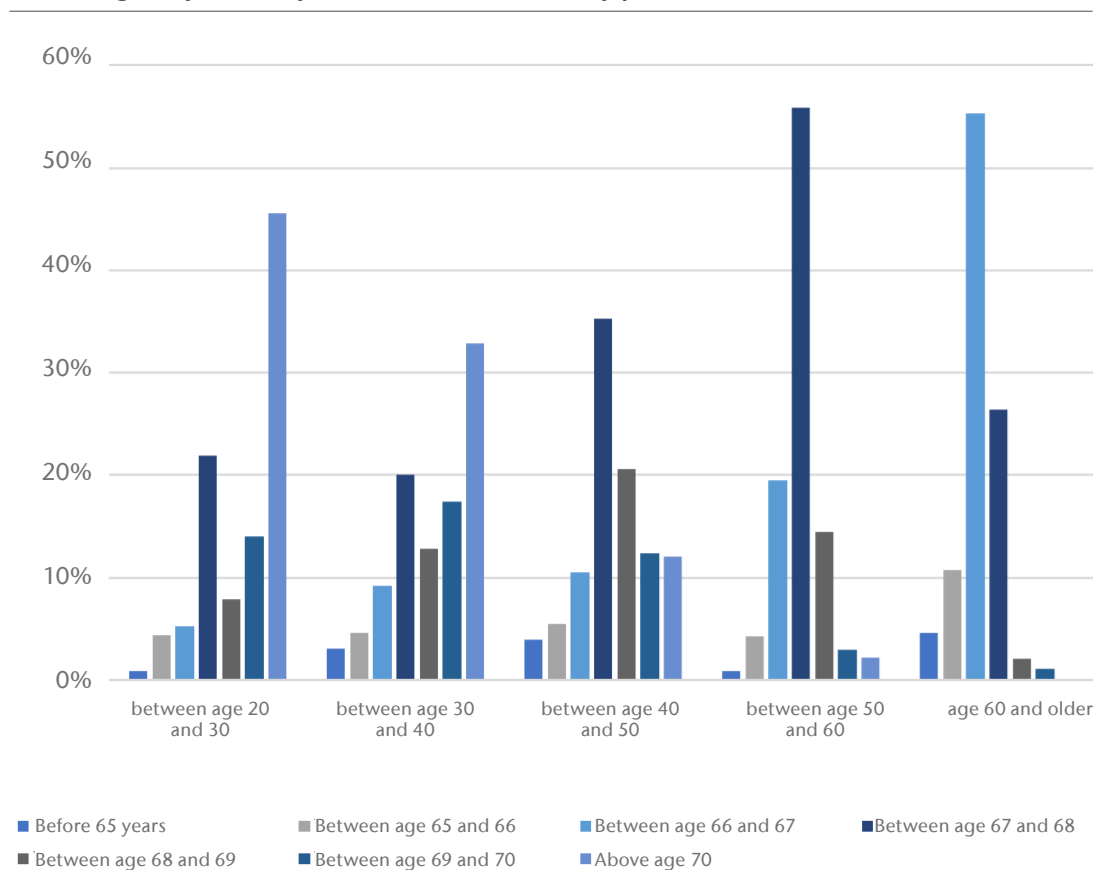


Statutory retirement age

The new Pension Agreement sets out guidelines for the statutory retirement age. These are based on increased life expectancy and are calculated by Statistics Netherlands (CBS). The statutory retirement age is not yet final. Five years before participants are entitled to statutory pension, the final date will be set.

According to current life expectancy projections, only 30% of respondents aged between 30 and 40 would correctly estimate the age at which they are entitled to state pension. 33% of respondents in this age bracket believe that they will not be entitled to the statutory pension after age 70. 37% of respondents in this age bracket incorrectly believe their pension will come into payment before their 68th birthday.

At what age do you think you are entitled to statutory pension?

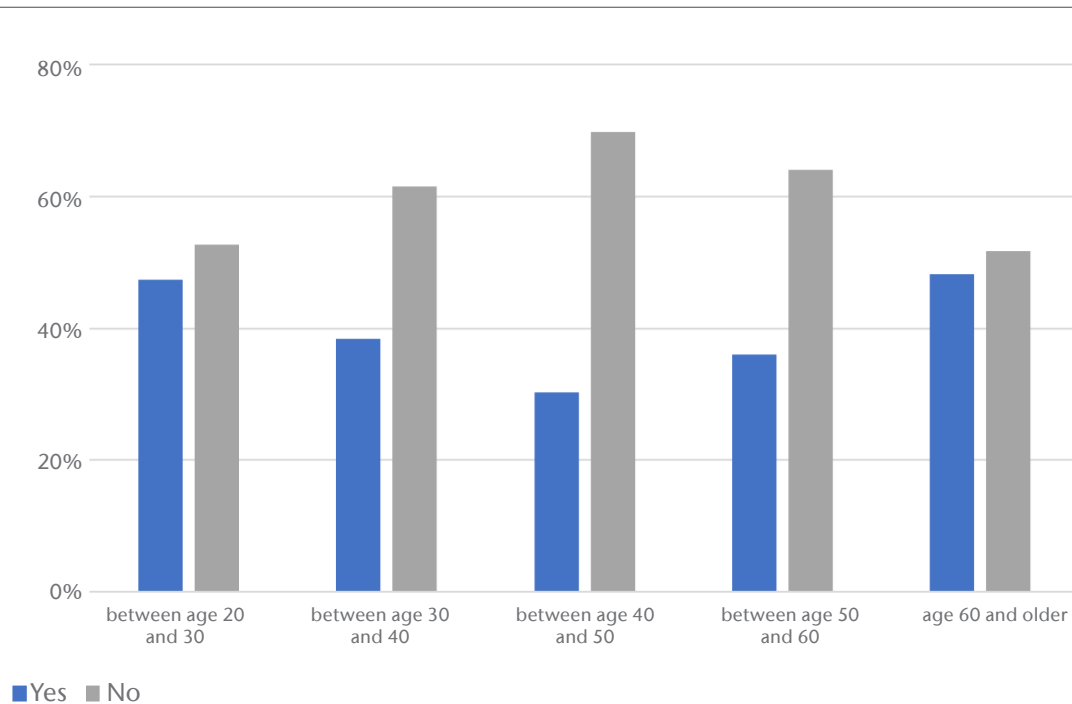


Gap in retirement age

The ages at which an employee is entitled to statutory pension and employer pension respectively have been raised at the same rate as life expectancy in the past few years. However, the age when participants are entitled to statutory pension is not equal to the age they are entitled to employer pension. Participants are entitled to statutory pension before the employer pension comes into payment. Bridging this gap could give rise to financial problems, in particular if participants are not aware that the gap exists.

The chart below shows that 70% of the respondents aged between 40 and 50 know that the state pension age and the employer pension plan retirement age are not the same. In the youngest and oldest age brackets, almost half of respondents think that the two sources of pension income will start at the same time.

Do you think that your state pension retirement age is the same as your employer pension retirement



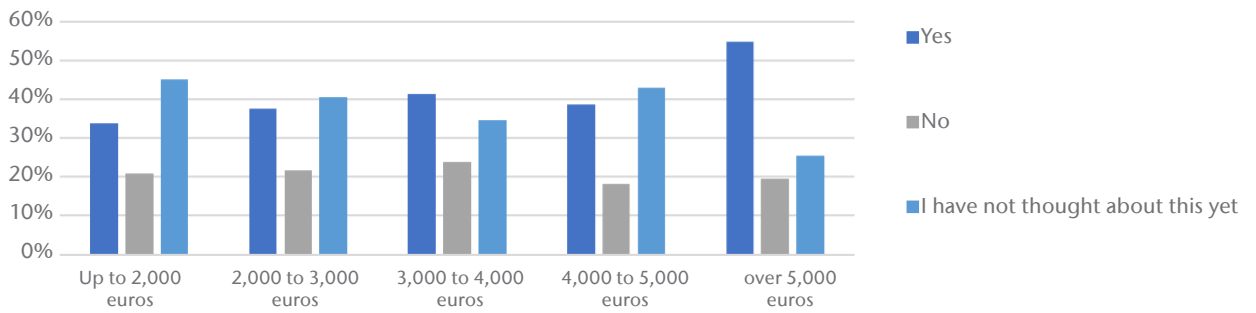
Who makes use of the changes in the Pension Agreement?

Early retirement

Everyone has the option of having their employer pension come into payment at an earlier date. Participants may make this choice to ensure that the state pension and employer pension come into payment at the same time. Bringing the employer pension into payment earlier makes the monthly pension payment from this pension lower.

Among respondents with a gross monthly salary above 5,000 euros, 55% indicate that they want to receive their employer pension before the scheduled retirement date. Of the 1,000 respondents, 391 (39%) have not considered the option of early retirement.

Have you considered early retirement?

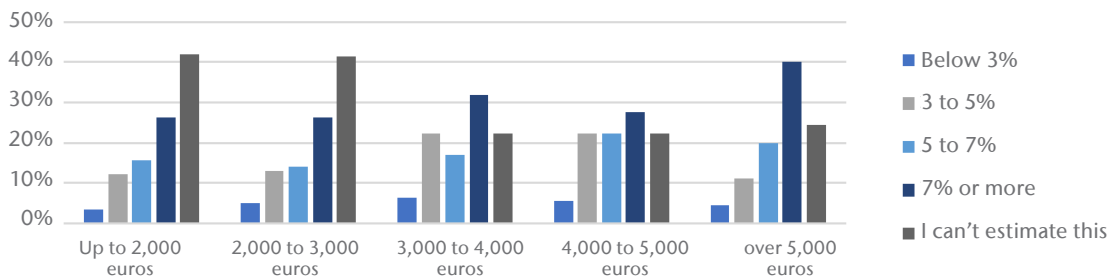


The cost of early retirement

On average, having the employer pension benefit come into payment one-year early results in a 6% decrease in the monthly pension payment. The chart below shows the percentage decrease in the monthly payment. If they receive their employer pension early, as estimated by each share of respondents.

32% of the respondents who want their employer pension to come into payment early are unable to estimate how much this will reduce their monthly pension payment. Additionally, it is clear that many respondents overestimate or underestimate this percentage reduction compared with the actual average decrease of 6%.

If you retire one year early, by what percentage do you think your monthly pension benefit will decrease?

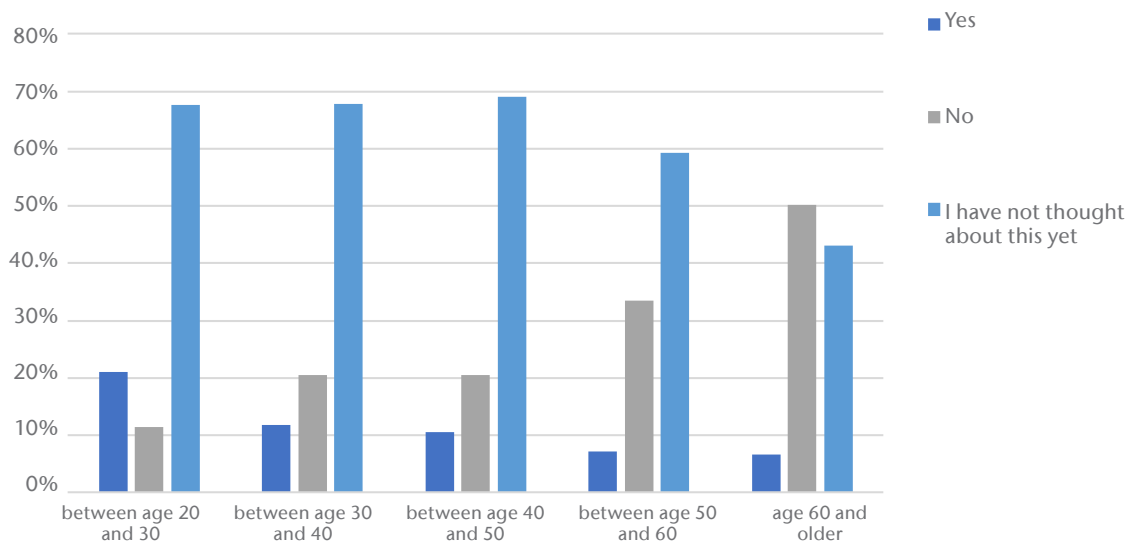


Withdraw 10% pension capital

One of the changes to be implemented in the Pension Agreement is the option of withdrawing 10% of the pension capital accrued in the employer pension plan. This may be useful, for example to repay a mortgage.

Among respondents aged between 20 and 30 say they want to make use of this option; 11% say they probably would not need this option; and most (68%) have not given it any thought. Among older respondents, the percentage expecting to make use of the 10% withdrawal option decreases as they age, while the percentage of respondents who plan not to make use of this option increases rapidly. Among respondents (33%) aged between 50 and 60 say they do not plan to make use of this option.

Do you think you will make use of this option?



Recommendations

A low level of pension awareness results in a risk of inadequate pension.

Employers spend substantial amounts on providing pensions for their employees. However, the employees often do not see the value of this spend.

This is because young employees, in particular, do not have adequate knowledge of the pension system in general. They do not know how their eventual pension income will be made up, and what they can do to increase their total pension income.

The following six recommendations to employers are designed to help them increase their employees' pension awareness. This increased awareness also increases the value of the pension as an employment benefit.

Actions employers can take include:

1. Making employees aware of the way the pension system works (taking into account anything specific to the employer).
2. Providing information about the employer's pension scheme.
3. Providing age-related information, specifically when communicating with younger employees.
4. In the context of individual life events, offer extra information on topics relevant to the event. In particular, this applies to events such as marriage, birth of a child and death of a partner.
5. Communicate how employee choices around pension accrual may influence their eventual pension outcome. Depending on the type of pension scheme, explain how employees can take action to increase their pension accrual.
6. During the last phase of employment, offer pre-retirement advice relating to the financial options available to structure the pension.

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