PROFESSIONAL PENSIONS

The future of DC:

Aon's 10-year challenge

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Welcome

In this guide, our experts in different fields consider the key elements of Defined Contribution 'DC' pension provision, comparing it to where it was 10 years ago and how it could look 10 years from now.

Many people retiring today have a combination of Defined Benefit (DB) and DC pension. This, along with the relatively short time frame of many DC plans, means that the majority take DC savings as a lump sum. However, we are approaching 'Generation DC', where DC pensions will be the primary source of retirement funds on top of the state pension.

The two most significant events in the DC world in the last decade have been auto-enrolment and the relaxation of the rules on how individuals can access DC funds, commonly referred to as the 'pension freedoms'.

There is also greater focus from the regulatory bodies, reflecting the significant rise in DC pension participation by UK employees. We now have legally enforceable standards on contribution levels, charges, governance and default investments which were not around just ten years ago.

Where DB pensions often targeted a pension of two-thirds salary in retirement, DC has tended to be more like one-third of salary. The single tier state pension will be worth more in relative terms to lower earners than higher earners. This makes setting an individual retirement target more important. Wider access to drawdown in retirement now means that income can be varied to suit changes in expenditure, but also that it can run out. DC members will need support to help them understand how choices today could shape their future.

Government policy will continue to shape and change the DC landscape. The key thing is how these changes are interpreted and implemented. Trustees, employers, administrators, fund managers, and members may all be looking to achieve different things from DC pensions. There is one common theme; to deliver sufficient funds for individuals to be able to retire.

Sophia Singleton
Head of DC, Aon

CHAPTER 1

Improving member outcomes

By **Steven Leigh**, Senior Consultant, Aon

When employers introduced DC pensions, outcomes were often the last thing on their mind. For some, DC was all about controlling pension costs: they were moving away from costly DB provision and the member would be the one to worry about outcomes. At the other end of the scale, some employers looked to mimic their DB provision with a range of age- and service-related contribution structures which aimed to deliver a specific proportion of earnings at retirement. Unfortunately, changing economic conditions meant that most of the latter types of DC design are now not able to deliver to their original targets.

Auto-enrolment meant that employers understandably became even more focussed on what was being paid into DC, questioning; how much would it cost, how many would opt out, would the existing contribution rates be sufficient throughout the phased rollout of minimum levels? Possibly, how much do our competitors contribute for their employees?

Auto-enrolment has been branded a huge success in terms of the increase in pension coverage; an extra 10 million employees at last count. However, it will only be viewed a success from a future perspective if people have a sufficient level of pension savings to enable them to retire at a reasonable age.

Over recent years, many retirees with DC pensions have also had DB plans from previous service, meaning that the value of the DC element is less critical in their overall retirement planning. This is set to change. The *Aon 2018 DC and Financial Wellbeing Member Survey*[1] found that a third of employees expect their DC pension to be insufficient to maintain their current standard of living in retirement.

The impact of this is that people will need to retire later, or perhaps not at all. This was shown as part of the same research, where Aon found that over 50% expect to retire after age 67, 25% expect retirement from age 70 or later and over 14% (or 1 in 7 people in DC pensions) expect never to retire.

As a result, employers are focusing more on pension outcomes and what they can do to support employees in saving enough for an adequate retirement. This is not just a paternalistic issue; companies also need to consider succession planning and how they would have to adapt job roles and working patterns to accommodate an aging workforce.

50% Expect to retire after age 67

25% Expect to retire after age 70

[1]aon.io/2VBXEcp.

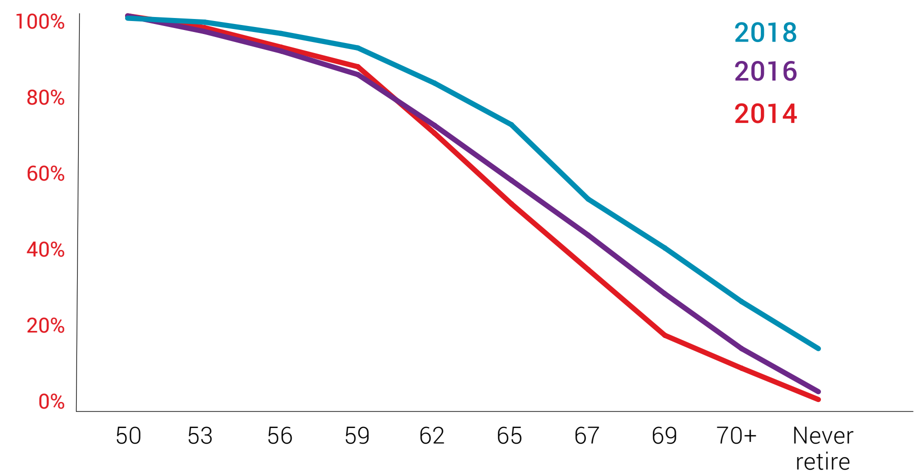
> "Auto-enrolment has demonstrated that we can harness the power of inertia to improve pension outcomes

There are certainly benefits to retaining experience in the workforce, and there is an example of a certain German car manufacturer that has redesigned a factory specifically for employees over 50 (including slower assembly lines, seating and softer flooring). However, there is a difference between those who choose to continue working at later ages and those who simply cannot afford to retire.

So what can be done to ensure employees build up sufficient DC pension savings?

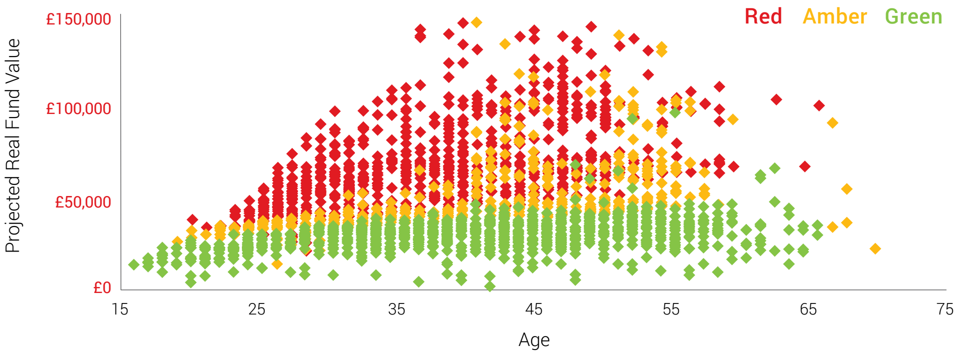
From an employer's perspective, contribution structures can be designed to encourage employees to maximise the amount they save. Auto-enrolment has demonstrated that we can harness the power of inertia to improve pension outcomes. This could be taken further; for example, by defaulting members at the maximum matching contribution rate rather than the minimum and allowing them to opt down rather than up. Another method known as Save More for Tomorrow, which is common in the US and increasingly being used in the UK, is to increase employee contribution rates

Still expect to be working at age

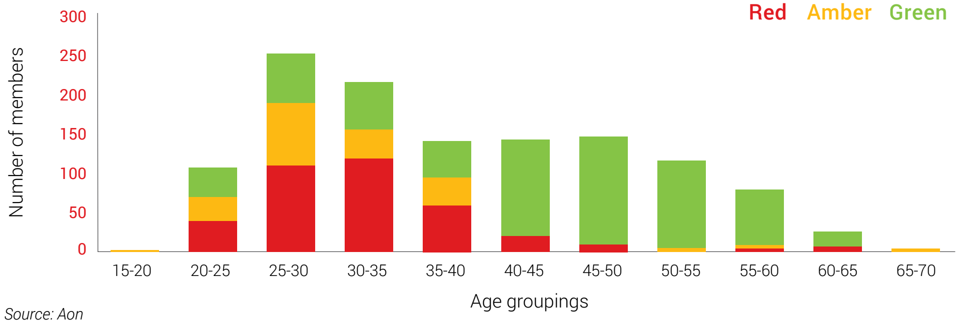


Source: Aon 2018 DC and Financial Wellbeing Member Survey

Projected Real Fund value against age



Number of members in each RAG Status, grouped by age



Source: Aon

automatically in line with pay rises. Both of these examples take the onus away from the employee and have proved very successful, albeit they need the employer to be willing to accept potentially higher pension costs.

The other area, where employers and pension scheme trustees can work together, is to engage members with their DC pensions; to help them to set their own target for retirement, to understand whether they are on track, and to know what changes they might need to make to reach that target.

Tools like Aon's DC Analytics allow trustees and employers to see at a glance which groups of members are on track for an adequate pension. This can help to focus resources on those members who are likely to need the most help.

Over the last 20 years, saving for retirement in DC pensions has become the norm for most employees and employers. The next stage is for all parties to understand the outcomes they are heading towards and to plan out what needs to be done to ensure they will be able to retire.

CHAPTER 2

Effective pension engagement means talking about more than just pensions

By **Karina Klimaszewski**, Senior Consultant, Aon

Most people's financial objectives are simple; they want to be able to sustain their desired lifestyle and do not want to worry about running out of money before or after retirement. However, most people need help. Aon's DC and Financial Wellbeing research found that two-thirds of UK employees would like some form of help with their financial situation and the area most commonly flagged for help is pensions.

The past

When DB pensions dominated workplace pension provision, employers took on most of the risk to ensure that members received enough post-retirement. Since the sponsor shouldered the investment risk and bore most of costs, saving for a pension rarely conflicted with an employee's other financial commitments pre-retirement.

As DC schemes have replaced their DB counterparts, members have been burdened with responsibility for their pension outcome. If they do not contribute enough, or returns on their savings are poor, they could be left with an inadequate retirement pot.

It is no surprise then that just two in five respondents to the *Aon 2018 DC and Financial Wellbeing Member Survey*[1] thought they were saving enough for the future.

A decade ago, pension communications used to be long paper documents issued infrequently. With DC members taking on more responsibility for their pension, they need help to understand the key decisions and communications need to reflect this. This could mean documents with clear calls to action, helping members to see how what they do now can impact their retirement outcomes.

The best schemes now also consider the context in which individuals make these decisions.

> "With DC members taking on more responsibility for their pension, they need help to understand the key decisions

[1] *aon.io/2VBXEcp.*

The 5 decisions for DC members:

Competing financial challenges

Aon's survey revealed that members had competing demands on their finances. Nearly two-fifths (39%) say debt is preventing them saving more for retirement. Around a third of early- and mid-career employees say they cannot come up with £1,000 in an emergency, so could be in real financial distress in the event of an unexpected financial cost, such as a car breakdown or boiler repair.

Whether it is deciding how much to save, when to start drawing on DC funds, or how to draw their funds, the wider financial context for an individual is key to their decision making.

Why should financial wellbeing matter for employers and trustees?

Financial wellbeing is becoming more of a priority for employers as they recognise the potential impact of poor financial wellbeing amongst employees. This can be measured in days lost to sickness absence and presenteeism.

For trustees, engaging with employees is recognised as being vital, with two-thirds of respondents to *Aon's 2017 DC Scheme Survey*[1] seeing better member engagement as being the key to successful pensions. Without understanding members' financial needs and priorities outside of pensions, trustees will not be able to target information and guidance effectively.

How are employers and trustees supporting wider financial wellbeing?

A successful financial wellbeing programme provides a range of tools, communications and 'nudges' at the appropriate stages of an employee's working life. At Aon, we believe a financial wellbeing programme should include clear objectives and key performance metrics. It should aim to incorporate current initiatives and should develop an employee journey. The best approaches include the following elements:

- Audit what support is already available,
- Understand employees, their current situation and needs,
- Work together with stakeholders to bring together what is already available and fill any gaps, and;
- Measure success and refine as needed

The understanding stage is key, not least because our research shows that often our assumptions about what people need may not match up to reality.

We have worked with organisations to help them to develop their engagement strategy across pensions and wider financial wellbeing by using both quantitative and qualitative information to

Integrated employee engagement model

[1] aon.io/2Z4DYjt

33%
Early/mid-career employees say they cannot come up with £1,000 in an emergency

39%
Say debt is preventing them saving more for retirement

agree core principles and measures of success.

Meeting the wide range of member needs and expectations pre- and post-retirement is more challenging than ever. Employers and trustees need to get to know their workforces and understand what they really need. By focusing on employees' specific concerns and nudging them to act, individuals will be better able to take control of their finances. Importantly, pensions should form just one part of a wider financial wellbeing programme so that savings – be they short-, medium- or long-term – prove a success for the entire workforce.

Will the pensions dashboard help?

The launch of the pensions dashboard (or multiple dashboards) aims to provide a combined view of all pension savings, including the state pension. But why stop there?

In a world where accessing your bank account via an app is now the norm, technology can help members to understand their overall financial situation. It can do this by delivering access to financial information, including pensions, in one place. This can help members to understand how their finances interact, including mortgage payments, pensions and other savings.

CHAPTER 3

How should DC investment adapt to a slow-growth future?

By **Chris Inman**, Head of DC Investment Advisory, Aon

DC members face an uncertain outlook. 'Late cycle' worries keep coming back, bringing with them bouts of market volatility, as we saw at the back end of 2018. Amid this uncertainty, there are untapped opportunities. The increasing access to illiquid assets that broaden the investment opportunity set for DC schemes, as well as the potential for responsible investing initiatives to engage savers, will be key to improving member outcomes. Both can be utilised, along with the current DC investment range, in individualised glidepaths, which explicitly target the member's desired outcome.

Why is DC investment in illiquid assets set to increase?

There has been a lot of focus on illiquid assets as the solution to all our problems. While we do believe that their use can help improve member outcomes, we should fundamentally be considering them as a diversification tool, offering wider access to markets and benefits through a number of factors, including lower correlation to equity markets; inflation linked returns; and illiquidity premium. Given the long-term nature of DC savings, illiquid assets are a natural fit but they are not a homogenous group! We see their potential usage differing according to DC savers' varying objectives, for example:

- Explicit inflation-link may be achieved through contractual terms within many infrastructure projects, supporting real long-term growth;
- The relatively high expected return potential through private equity or venture capital portfolios (versus public equity) may particularly benefit members in the 'early career' stage, who typically have a higher risk tolerance and the opportunity to seek higher returns through taking on illiquidity risk;
- Superior downside protection compared to many listed exposures, particularly during times of market stress; and
- A natural income yield, which has potential to form a significant part of an investor's spending needs post-retirement.

Aon believes illiquid assets have a big role to play in DC default funds. We currently create bespoke, outcome-oriented strategies, either standalone or as part of fiduciary solutions, that combine illiquid assets with listed alternatives for liquidity, diversification and tactical asset allocation purposes.

Aon's four-stage approach to responsible investing

Is responsible investing a key investment theme for DC?

The capacity for responsible investment strategies to engage DC savers and engender pride in their pension scheme is an opportunity that should not be missed. Through a considered process of discovering stakeholder beliefs (i.e. those of trustees, company and members) and developing appropriate policies, a successful and engaging responsible investment strategy can be delivered.

This view is supported by DC savers we have spoken to as part of our ongoing research. One consistent message that emerged is that members are surprised to find out that, unless they had specified otherwise, their pension money could be invested in companies and sectors that they oppose. These findings are consistent with those published by the DC Investment Forum (*Navigating ESG – A Practical Guide*)[1] and NEST (*Building new norms*)[2]. DC savers want (and expect) their pension savings to be invested responsibly. Both pieces of research found that when this was the case and tangible 'good news' stories about their investments were shared, most members' impression of, and confidence and pride in, their DC scheme was improved.

Our hope is that while responsible investments are currently considered 'special', as time passes this will just be a normal part of a considered investment strategy.

Smarter defaults – how can individualised glidepaths improve member outcomes?

While the concept of a good member outcome is generally recognised across the pension industry, no clear definition of it currently exists. With the diverse nature of DC scheme members only increasing, greater clarity is needed to aid members in targeting a sustainable level of retirement saving. The PLSA's *Hitting The Target*[3] project is welcome progress on this front.

Aon believes that an individualised glidepath can be constructed for each DC saver, targeting a sustainable level of

[1]bit.ly/2GsmaHP. [2]bit.ly/2VLXori. [3]bit.ly/2ImIXGi

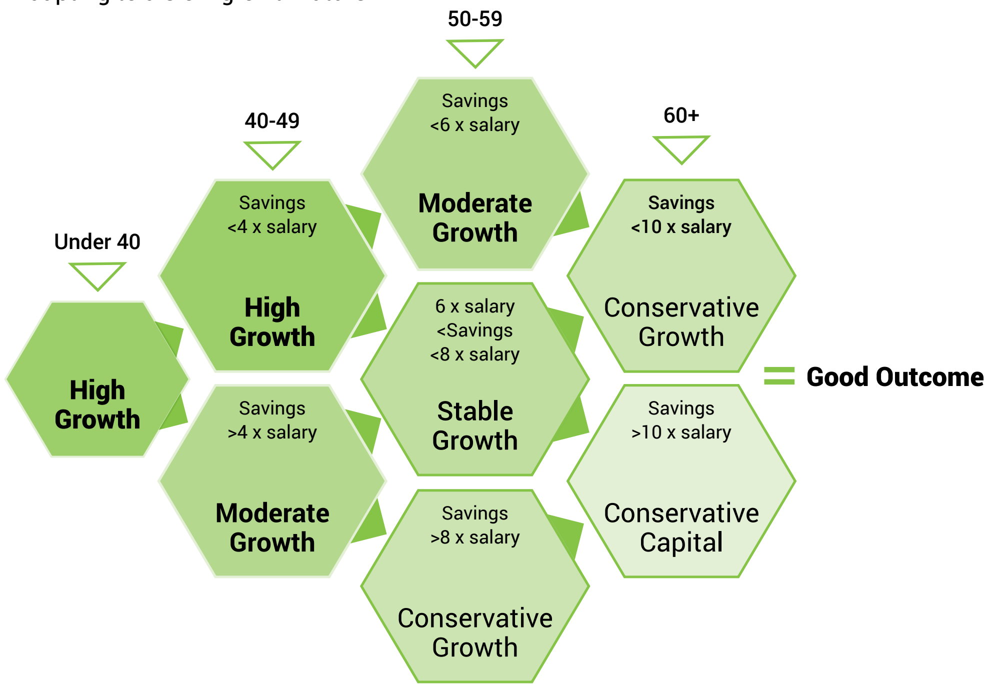
retirement saving using risk-rated building blocks. Key to this is not only a clear definition of what a good outcome looks like, but also the need to avoid the common mistake present in traditional DC lifestyling; de-risking too early and missing out on growth opportunities.

For example, a traditional lifestyle could have sold out of equities in February 2009 (or more recently in December 2018) – just before the market bounce back – simply because the DC saver had become a little older. An individualised approach allows members to 'bank' returns they have accumulated while continuing to participate in market growth when required.

> "While responsible investments are currently considered 'special', as time passes this will just be a normal part of a considered investment strategy

At the heart of this process for DC schemes – and ultimately for members – is a quality investment strategy that gives members access to the full opportunity set and puts them at the centre of the design.

Adapting to a slow-growth future



CHAPTER 4

10 tips to improve your governance

By **Madalena Cain**, Head of DC Governance, Aon

DC scheme governance requirements have evolved at pace since the introduction of pension freedoms. Before then, what constituted 'good DC governance' was not defined or standardised across the industry. As such, coupled with a general lack of understanding of the strong correlation between good governance and good member retirement outcomes, the degree of DC governance oversight would likely have been minimal.

We have seen a huge change in direction over the last four years alone. Unsurprisingly, governance has climbed to the top of scheme agendas, and expectations of members, industry participants and regulators are rising fast. Schemes will need to ensure that they are in the best possible position to deal with what the future holds. In the meantime, here are my top 10 tips on how to improve your governance.

> "Benchmarking enables you to identify best practice standards...and take more informed decisions

1 BE CLEAR ON YOUR OBJECTIVES AND BUSINESS PLAN

If you define what you mean by success, then this allows you to test projects against your measure. For example, do you look at the average member outcome, or do you look to reduce the proportion of members who will fail to meet a target income?

Schemes need a business plan to establish what they need to be doing, when and how. This sets expectations regarding level of expertise, likely time commitment, resource and budget requirements or constraints.

2 TREAT THE CHAIR'S STATEMENT AS A DRIVER FOR CHANGE

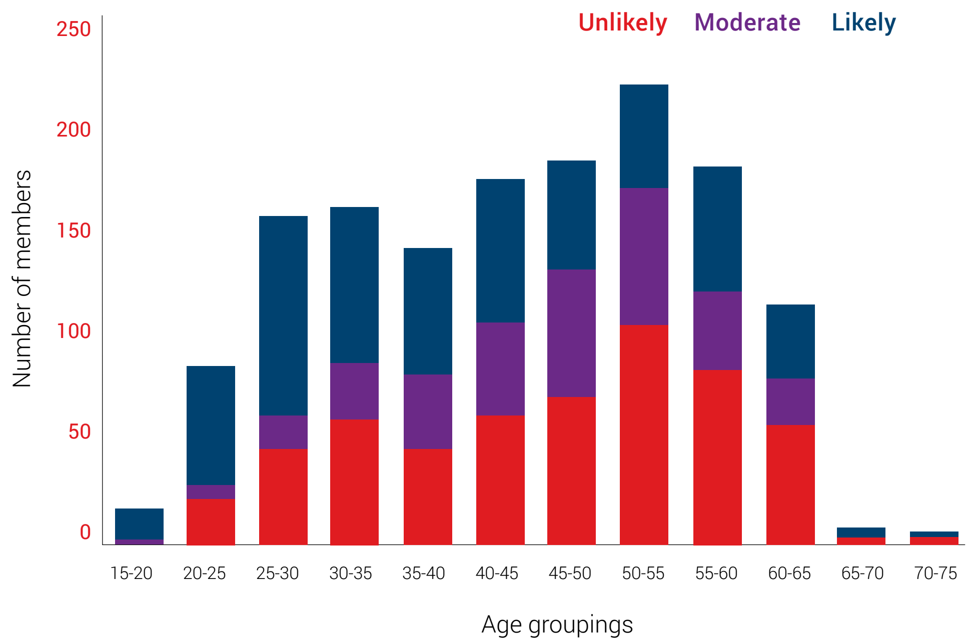
Your DC Chair's Statement should be a record of what you have achieved, but also a driver for future improvement.

3 BE TRANSPARENT

Under disclosure regulations you are now required to publish, on a publicly-available website, core information from the Chair's Statement, including member borne costs and charges. This increased transparency will provide welcome information for schemes to benchmark themselves against and raise standards of scheme accountability, and enable members to make more informed and timely decisions about their pension savings.

Likelihood of achieving target income at retirement

Source: Aon



4 WORK WITH YOUR EMPLOYER

Employers will also have an interest in ensuring their scheme achieves good outcomes for its employees. Together, employers and trustees can deliver the support members need. The *Aon 2018 DC and Financial Wellbeing Member Survey*[1] shows what members are looking for from their schemes.

5 BENCHMARK

Benchmarking enables you to identify best practice standards and your shortcomings, and take more informed decisions. Schemes are required to benchmark at least annually to assess the value they provide to members. This 'benchmarking of value' is still at an early stage, but as schemes publish their data publicly on costs and charges, it should improve.

The best also benchmark against a much wider range of issues; *Aon's 2017 DC Scheme Survey*[2] enables benchmarking against items

[1] aon.io/2VBXEcp. [2] aon.io/2Z4DYjt

such as member communications, quality of administration, investment options and scheme governance. You can also use sources like the PLSA *Pension Quality Mark*[1] (quality of pension schemes); the DWP *Pensions Charges Survey*[2] (Provider charge levels); PASA accreditation standards; and TPR *Trustee Landscape Qualitative Research.*[3]

6 MONITOR YOUR MEMBER OUTCOMES

Once you have defined your objectives, you can then understand and regularly monitor your scheme members against them. For example, the chart[4] shows the likelihood of achieving a target level of income in retirement.

7 REVIEW YOUR DELEGATIONS

Where trustees delegate to third parties, they still retain overall responsibility for those functions, so ensure you have contracts, terms of reference and monitoring in place.

8 WATCH OUT FOR NEW GOVERNANCE REQUIREMENTS

Ensure you have a process in place to spot new regulatory guidance and best practice. For example, have you reviewed your Statement of Investment Principles to show your view on responsible investing?

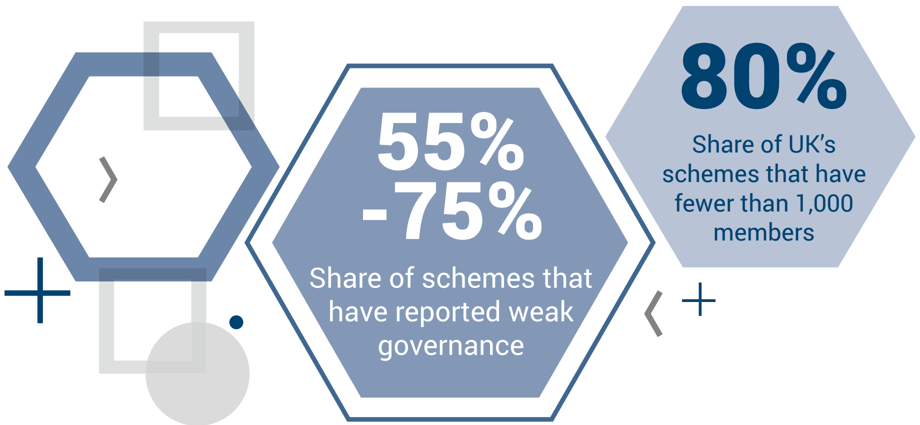
9 STRUCTURE YOUR MEETINGS EFFICIENTLY

Most trustee boards are short of meeting time, so make sure you use time wisely. Concentrate on difficult, long-term items early in the meeting before you are cognitively depleted or get distracted by the immediacy of small items. For more guidance see *Aon's Better Boards research.*[5]

10 IF YOU ARE TOO SMALL FOR GOOD GOVERNANCE, DO YOU TRANSFER?

Around 80 per cent of the UK's schemes have fewer than 1,000 members, and between 55% and 75% of them reported having weak governance. Aon's research indicates that up to a third of the employers of these schemes want to switch to another provider, usually a master trust, seeking better governance and often lower member borne charges.

Throughout, remember that good governance is an input not an output, but that 'Without good governance, you are unlikely to achieve good outcomes for members', The Pension's Regulator.



[1]pensionqualitymark.org.uk. [2]bit.ly/2Gw7YMP. [3]bit.ly/2RF8nQz. [4]p15 Likelihood of achieving target income at retirement. [5]aon.io/2Wt3Hjn

CHAPTER 5

Is there a formula for retirement happiness?

By **Sophia Singleton**, Head of DC, Aon

At its simplest, retirement happiness is based on individuals having enough money to do what they want, when they want, with the confidence to make the right financial decisions when needed.

Over the last 10 years, there has been much focus on providing employees with the tools and support to help them save for a better retirement – i.e. the accumulation phase. But what happens when they get there? The latest Aon research found that over half of employees expect to remain invested through retirement – most likely utilising an income drawdown product. However, *Aon's 2017 DC Scheme Survey*[1] found that over two-thirds of schemes have not yet put in place a drawdown solution. There has been a disconnect between what employees want and what employers are providing.

However, that is starting to change. For many employers, putting in place a preferred solution, or a default drawdown pathway, is the next step needed to engage members and help them to get the right outcomes. But what should such a retirement solution offer to enable retirement happiness? Aon has identified five central components for the ultimate retirement income solution:

Aon's five components of a retirement solution

[1]aon.io/2Z4DYjt

> “Looking ahead, decumulation is the next crucial phase in the maturation of DC schemes

Sustainable income – individuals need a basic level of fairly predictable income to last them throughout their life in retirement. This need not be a wholly guaranteed level of income – most individuals will have a degree of resilience to some small variation in this income, since they will have other sources, such as their state pension. Recent consensus suggests targeting an income of around 3.5% of a member’s DC fund each year.

Investment policy – When we are constructing portfolios that deliver best results for members who are drawing on their DC savings, we need to think about ways to increase the income generated by investment in higher yielding bonds and ‘bond like’ equities, albeit at the risk of higher defaults or downgrades. And the investment solution needs to recognise the very real challenge posed by ‘sequencing risk’ – the order in which investment returns are achieved. In retirement, pound-cost averaging becomes pound-cost ravaging. Because of this, less volatile investment outcomes are required.

Longevity risk management – retirement savings need to last a lifetime. Not significantly longer, unless you want to leave a legacy, but also not significantly shorter. Some form of longevity protection needs to be built into the solution. This does not rule out under-consumption or over-consumption to suit personal circumstances, but any solution should be designed to allow members to convert part or all of their savings pot into a lifetime of retirement income at some point. This will almost certainly involve some form of annuity solution – immediate or deferred, insured or collective – or explicit longevity insurance.

Flexibility – Aon’s research found that 55% of employees expect to continue to work into retirement and 14% expect never to retire fully. Retirement is no longer a cliff edge event and any retirement solution needs flexibility to cope with changes – both changes in working patterns and in spending (such as extra spending on grandchildren, health costs, divorce etc). For many, flexibility means not having to make an irreversible decision.

Decision support – Decision making often comes down to a question of trust – who do individuals trust to take these important, and very tricky, financial decisions on their behalf: their partner, their employer, the product provider, their solicitor – or perhaps a robot? Algorithmic or artificial intelligence solutions are starting to appear – not just modellers to help decide attitudes to risk and drawdown levels, but also annuitisation prompts and consideration of total wealth. As well as taking account of the drawdown and investment policy, decision support frameworks need to consider an individual’s attitude to risk, and capacity for loss. They need to take account of whether the individual has emergency funds or any debts and liabilities – their broader financial wellbeing. And most of all they need to be simple, personal and easy to use.

Aon’s research shows that 57% of employees worry about running out of money in retirement. So the onus is on employers to put the tools in place today, including good quality default drawdown pathways, that will ensure that their employees have a happy retirement tomorrow.

CHAPTER 6

Evolution of DC structures

By **Tony Britton**, Head of UK DC Solutions, Aon and **Matthew Arends**, Head of UK Retirement Policy, Aon

DC pensions are enjoying a period of sustained innovation, partly driven by the growth in the switch to master trusts.

The past

It can be forgotten that Group Personal Pensions (GPPs) started the innovation trend, in the late 80s and early 90s, as they competed for business from clients wishing to simplify their, often costly, ‘own trust’ arrangements. Master trusts have opened the market further by offering a ‘half way house’ between ‘own trust’ schemes and GPPs, enabling a balance of outsourced governance and reduced costs, while allowing employers to retain a little more control. The fact that this is a very competitive market has propelled innovation to a new level.

Initially auto-enrolment triggered a quick growth in lightly regulated master trusts, but this has moved on, as master trusts have had to spend the last nine months or so focusing on the authorisation process. We are already seeing a significant number of master trusts exit the new more strictly regulated market.

> “[Today’s] very competitive market has propelled innovation to a new level

The present

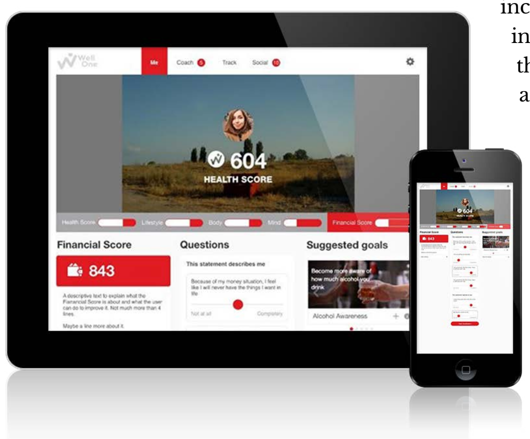
The introduction of pension freedoms has changed the shape of DC, with significantly more challenging considerations for members at retirement around how they may best take their benefits. It is crucial that members look at their holistic financial position, including savings, wider wealth and expenditure, in order to determine the best path. It is no longer adequate for online modelers to look at DC pensions income in isolation; they must also take account of wider sources of income. DC plans also need to consider investment fund choices that work for members ‘to and through’ retirement.

Technology can also address some of the more fundamental, long-standing DC engagement challenges. Historically, younger members have been hard to reach. Research suggests that they are interested in their planning, but messaging is not directed effectively to them. Smarter digital portals are now evolving which direct members towards content appropriate to them, for example segmented by age group.

Taking this further, many master trusts are now developing app-based functionality. Some, including Aon's, have already launched sophisticated apps so that members can quickly and easily view their pensions alongside their bank accounts and savings. The most developed examples go beyond this additional information access, facilitating sophisticated 'nudge' communications which prompt members to review their savings levels and other factors as part of a structured retirement planning approach.

Another developing area is video benefit statements. Done well, these transpose a dry annual compliance disclosure into genuinely engaging, directive material. The next phase is to integrate transactional capabilities to connect up the user experience.

Throughout this debate, it is important to recognise the value of traditional communication methods as a way to educate and encourage members to access the evolving online capabilities. Technology is the future, but it will take some encouragement before all members embrace it.



The future – DC

Pensions will increasingly be integrated as part of broader financial wellbeing support. As described in chapter 2, the wider financial context is key to member decision making and an increasing number of employers will support other forms of member savings options as well as provide tools to help employees aggregate and better manage their personal finances.

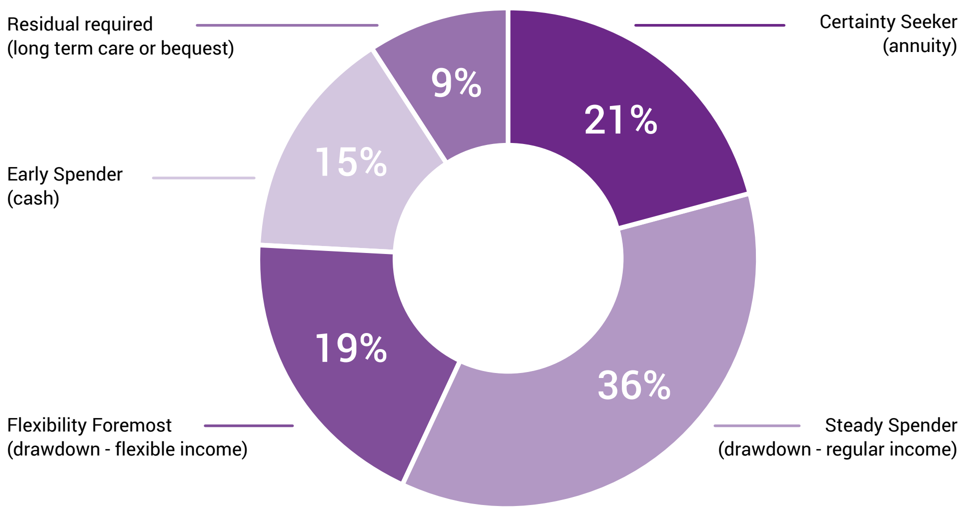
Funds will need to be able to accommodate 'moving target' retirement dates and offer partial income for the increasing numbers retiring in phases. We expect funds to develop to accommodate specialist post-retirement income needs.

Traditionally, demand for retirement income was considered to be linear, but the pension freedoms have exposed a different reality. The idea that retirement income needs to be inflation linked is also under challenge. Retirees often require a higher income while active, with a lower requirement in later, less active years, while recognising the need to accommodate potential costs associated with long-term care.

Today, defaults tend to target drawdown, annuities or cash; a few allow members to target a combination of these. In the future, schemes will develop to support personalised default funds, where members update their retirement aims and objectives and technology automates asset allocation adjustments to their own fund to help them meet their ideal outcome.

Attitudes to taking income in retirement (excludes don't knows)

Source: Aon



The future – Collective Defined Contribution (CDC)

The Aon 2018 DC and Financial Wellbeing Member Survey found that the majority of DC members who have a view want a lifetime income, as 'Steady Spenders' taking regular withdrawals or as 'Certainty Seekers' wanting guaranteed income through annuity. CDC also provides that desired lifetime income by pooling risk across DC members. Importantly, CDC benefits are targeted rather than guaranteed, which means that the average benefit is typically substantially higher than via an annuity.

The DWP has consulted on single employer CDC schemes and we hope the law will change to permit them from April 2020, spurred by Royal Mail pursuing CDC for its workforce.

Aon's consultation response argued that CDC ought to be opened up to master trust, industry-wide and multi-employer schemes so all savers can take advantage. This could happen beyond April 2020, perhaps within three years. In time, CDC could become a common option in master trusts alongside regular default funds, available for all or part of members' savings, and perhaps as a decumulation-only option.

> "Demand for retirement income was considered to be linear but the pension freedoms have exposed a different reality

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