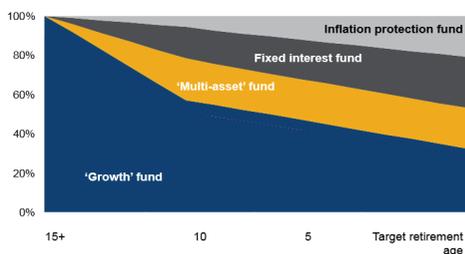


The future of DC investing

Aon's latest DC survey finds the future lies in being made to measure for members

There was overwhelming agreement in our latest UK defined contribution pension survey *How do you measure up* that 'better member outcomes' was a vital focus for DC schemes. Seventy-two per cent of respondents said that it was a key objective within their business plan – an intention that is backed by the regulator. We then had to scratch our heads a little, as 65 per cent of respondents said that they did not know the expected outcome for a typical member within their scheme. How can schemes achieve these 'good member outcomes' if they do not monitor and manage the investment journey?

We can understand the difficulty in doing this, as most glidepath strategies are set with no clear or explicit return objective, eg, there may be several underlying investments as part of the 'growth fund' (as shown in the example below), each with their own aims and objectives. What we do not know is if these underlying aims combine to give us the return a member needs to hit their retirement target. Moreover, if we want to improve the retirement savings of members, current glidepaths have no clear way to adapt in order to reflect



Source: Aon

positive or negative experience. For example, a traditional glidepath could have sold equities in February 2009 (or more recently in December 2018) – just before the market bounce back – simply because the DC saver became a little older.

If only there was an investment strategy that allowed us, on behalf of DC savers, to 'bank' accumulated returns while continuing to participate in market growth when required...

Aon is bringing to market an innovative new investment approach that targets a sustainable level of retirement savings by using risk-rated 'building blocks'. As a first step, we will be using this approach to create a strategy based on understanding different cohorts of members' needs and combining these to determine an overall glidepath within Aon's target date funds. Watch this space!



Source: Aon

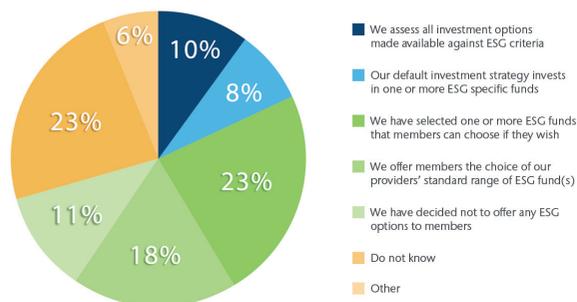
With the investment strategy sorted, we can turn our attention to member communications and experience by focusing on an opportunity to further engage your DC savers and even to engender pride in their pension scheme.

This is exactly what Aon believes the incorporation of responsible investment, aka RI, (or if you prefer environmental, social and governance, or ESG) policies and strategies have the potential to achieve. It can be as easy as

-  No return objective
-  No way to adapt to reflect investment experience

highlighting companies that are using smarter forms of technology to aid agriculture – those innovating in solar and wind technology and even turning plastics and other polluting waste into office furniture.

Approach to Responsible/ESG Investment



Source: Aon UK Defined Contribution Pension Survey 'How do you measure up?'

With so much potential for this approach, we were a little underwhelmed to find that a mere 10 per cent of respondents assess all their DC investments against ESG criteria, while only 8 per cent have investments in one or more ESG specific funds within their default strategy. Our 2019 *Responsible Investment Survey* found that over 85 per cent of UK investors consider RI to be at least 'somewhat important', with a majority of savers saying that they would be more engaged with their pension savings as a result of RI. Schemes that can share 'good news' with their members about how their pension savings are working to make the world a better place – as well being invested to grow – will be able to increase pride and engagement among members.

Our hope is that while these ideas, communications and responsible investments as a whole are currently considered 'special', or even a 'fad', as time passes they will just be a normal part of a considered investment strategy.

If you would like to request a copy of Aon's 2020 DC Pension Survey, please email talktous@aon.com.



Written by Aon principal consultant, Chris Inman

In association with

