A shift in finances

Tony Pugh considers where future retirement income will come from

Less than one-third of individuals expect to fully retire at 'retirement age' according to Aon's latest research, suggesting a change in the way we transition from work in the future. Given this, where do individuals expect to get their retirement income from and how can trustees and employers help?

Has there been a shift?

Aon's *2018 DC Pension and Financial Wellbeing Member Survey* shows that the most relied upon source of expected income in retirement remains the company pension, followed by the state pension. Taken in isolation, there is nothing here to suggest any change to the status quo. Drilling deeper into the numbers, however, suggests that different age groups within the workforce have differing expectations.

Those in their early or mid-career are around 30 per cent less likely to expect the state pension to be one of their main sources of income compared to those closer to retirement. Those in their early career are more likely to expect to rely on other savings such as ISAs or even a lottery win to fund retirement!

It is perhaps not surprising that the early and mid-career workers, who are less likely to have any defined benefit (DB) pension income, are expecting to use a range of sources to provide their retirement income, expecting that their defined contribution (DC) plan and any future state pension may not be enough. This makes planning for retirement more complex for these groups and they may need support with wider financial matters alongside their pension planning.

Having a goal will help

Having enough money in later life is a concern for all individuals, with around 57 per cent of respondents to our survey concerned about running out of money in retirement.

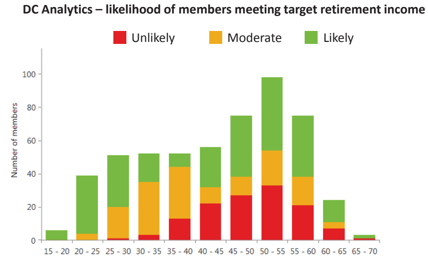
However, with more than half of our respondents not setting a target amount of money they will need in retirement, concerns may be reduced if individuals are supported in making a clear plan and helping them understand whether they are on track.

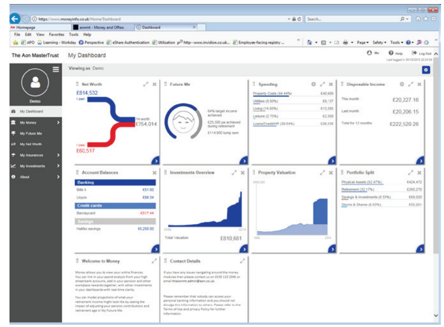
From an employer perspective, employees that have a clear plan and potentially an end date in mind can assist with workforce and succession planning. Conversely, employees may remain in work longer than desired if they have not been able to plan sufficiently to enable them to build up enough pension savings to retire at a time (age) that suits them and their employer.

How much is enough?

The influence of the employer's contribution design on employee saving rates should not be underestimated. Most employees are not basing the amount they contribute on what they think they will need to live on in later life. Our research found that the majority of employees use the employer design, either the default or maximum matching rates, as their guide to how much to save. Far fewer base their savings levels around their own affordability criteria and fewer still are using an online tool or speaking to an adviser to target a specific future level of income.

DC Analytics – likelihood of members meeting target retirement income





It may seem common sense to look to the future, but many respondents could not estimate how much they would need in retirement, and fewer knew how much they expected to receive. Of those that had an idea of both, around a third expected to receive less than they will need to maintain their standard of living in retirement. Education and support is needed to help get employees on track.

Tools like Aon's DC Analytics can help to segment the workforce, enabling employers and trustees to focus on those who are falling behind target for an adequate income in retirement.

Financial aggregation tools, allowing employees to build up a picture of their total wealth, including pensions, as well as understanding their monthly outgoings, can help individuals to build up a picture of their financial needs and financial reality.

While the majority of respondents to our research still think that the employer pension will be their main source of retirement income, it is vital to support individuals in understanding whether this will be adequate, or whether they will need to supplement this, perhaps by working for longer or by taking income from other sources.

To learn more about what employees are thinking when it comes to their financial wellbeing and pensions, visit aon.com/dcpensionsuk to access Aon's latest research report 'Living the Dream?'

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