

Offering support

✔ Sophie Moore and Richard Cook consider how to support DC members in their retirement decisions

Defined contribution (DC) pension scheme members often do not have to make a single pensions decision during their working lives. They could be automatically enrolled into their employers' schemes, pay default contributions into the default investment strategy and be automatically allocated a default retirement age.

But when they decide to access their savings, members find themselves faced with complex choices that will affect the rest of their lives. They may need to decide how to invest the money in their pension pots, manage the income they withdraw each year, and balance up the risk of living longer than expected with the option of spending money in the years in which they are still active.

Aon's 2021 DC member survey found that members lack the support needed to make these decisions, with one in three saying they are not confident about making decisions that affect their financial future. Research from the Financial Conduct Authority (FCA) provides further proof that members are struggling, leading to poor choices. Of those that enter drawdown without taking advice, a third invest entirely in cash. If they had chosen a mix of assets instead of cash, they could boost their expected pension income by 37 per cent. Members are also reluctant to shop around for drawdown or annuity offers, even though doing so could make as much as a 10 per cent difference to their income.

We found that seven out of 10 DC members say they want support from trustees and companies to help them make these decisions – but in many

instances, the onus is still with members to do their own research.

Regulators, employers and trustees are all starting to take note. The FCA says that “consumers need more support and protection”, and employers are increasingly addressing financial wellbeing in their workforces, including retirement planning. Many trustees want a better understanding of their members' retirement journeys, and to make sure the support, education and guidance they provide matches those needs and market best practice.

How can schemes and employers help?

Schemes and employers can make some simple changes, which may create a big difference for members.

Review communications: The most obvious starting point is to review scheme communications, help and support. These could include signposting services such as MoneyHelper, as well as explaining what help is available from the scheme, employer and third parties such as independent financial advisers (IFAs).

Find a preferred IFA: It can be difficult for individuals to find a reputable and affordable IFA, so employers or trustees can help by sourcing a suitable adviser and negotiating lower fees on members' behalf. An individual looking for advice on their own might expect to pay between £3,000 and £10,000 in fees – but we have seen schemes negotiate this to well below £1,000. Aon's latest 2022 DC scheme survey shows that within the next three years almost 60 per cent of schemes plan to signpost members towards an IFA firm.

Support the Pensions Advice Allowance (PAA): The PAA allows members to take up to £500 from their pension pots tax-free and put this towards the cost of advice. However, not all schemes and providers support the PAA. Our research found that just over a third (37 per cent) of schemes currently allow access, and another fifth (20 per cent) expect to add support in the next three years.

Signpost to a drawdown solution: Our 2021 DC survey, showed that nearly six out of ten members expect to use drawdown to manage their retirement income. But the FCA found startling differences between members' choices depending on whether they take advice. Almost all (94 per cent) who do not take advice, use the drawdown product offered by their DC scheme provider, compared to just 35 per cent of those that do. Trustees and employers can help members by signposting to a drawdown solution, based on quality of service and good value for money. Our 2022 DC survey found that around two-thirds of schemes currently offer or are planning to offer a signposted solution, a significant jump from just one-third in our 2020 survey.

Helping members to make good quality decisions by offering access to advice, appropriate retirement options and clear communications will become more important than ever as the number of employees retiring from DC schemes increases. Trustees and employers must take action now to make sure all scheme members can make the best possible use of their pension savings.



✔ Written by Aon DC Consulting associate partner, Sophie Moore, and senior consultant, Richard Cook

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