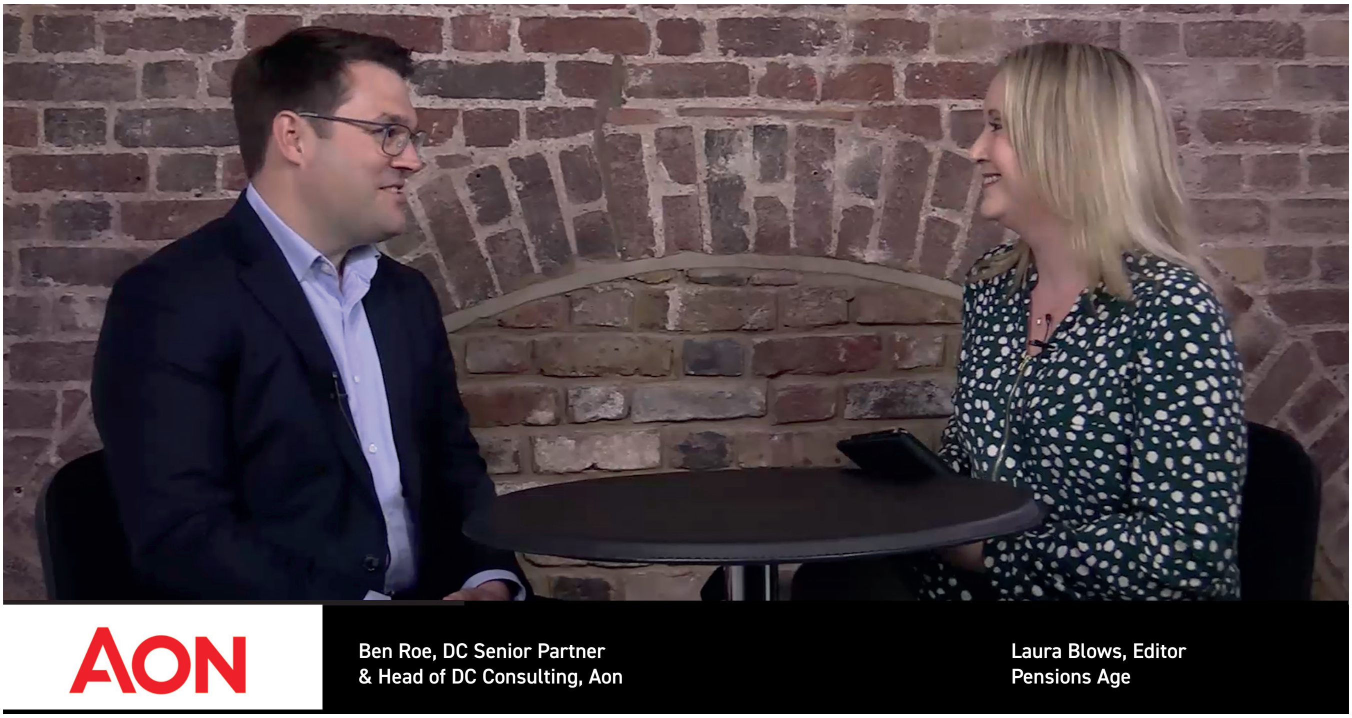

A changing DC market

In our latest *Pensions Age* video interview, Aon DC senior partner and head of DC consulting, Ben Roe, speaks to Laura Blows about the latest changes and challenges within the DC sector

Please could you provide a summary of the DC changes occurring, and what would you say is the outlook for the DC market in 2025 and beyond?
There is a lot of interest in the DC market from both the government and from The Pensions Regulator. The government's focus is around driving economic growth, and trying to do that by investing DC assets in the UK economy.

If we can get good returns from a new asset class, that's good from a member perspective. And, if it helps to drive economic growth, then retirees have a better environment to retire into as well.

Also, if we've got a lot of consolidation happening, and providers looking for scale, that's going to drive even more competition in the market, which is already highly competitive. That in itself, isn't a bad thing, but providers tend to compete not only on product features, but also on cost. So how will that align with investing in private markets, which tend to be more expensive? And how does that align with the government's overall objectives?

Finally, we do see a steady flow of own-trust schemes moving to master trust. So, if there's disruption in that provider market, what will that mean for that flow of schemes? Will some companies or trustees be nervous about moving their scheme at the minute? So, again, could that slow down the consolidation flow and go against what the government's trying to do here?

We need to think whether there are quicker ways to implement the government's desires, for instance for providers to commit to a minimum amount of UK private market investment.

One area of change we have still yet to see is around increasing the scope of auto-enrolment (AE) contribution levels. What changes would you like to occur to AE to ensure DC provides an adequate retirement pot for savers?
I think there is a level of impatience and frustration that's building up in the in the industry around increasing AE contribution levels. That's part of the second phase of the pension review, which has been put on hold.

Fundamentally, taking a step back, we do have a retirement savings issue, so people are not saving enough for retirement, and increasing contribution levels is one way to address that.

Now we do need to be careful about that. Any changes need to be phased in over time. We have got companies that are facing increases in National Insurance costs, so I don't think they would welcome an increase in AE contributions on top of that. But any AE increase will take time to come through, and the sooner we get on with that planning, the better.

The other thing I would say is I think the approach needs to be more targeted and nuanced. What we have at the moment is very simple and straightforward, but if we look at the lowest earners, they're probably saving enough into retirement overall, once you consider their state benefits and their AE contributions as they are today. So, instead of increasing contributions at that level, they're probably better off taking the cash and improving their lifestyle now. I think it would be a good thing to get on with increasing AE contributions, but it does need to be much more of a targeted approach going forward than we've had in the past.

To help improve adequacy, how can pension scheme communications be tailored to different types of pension savers?

It is crucial to provide the right message at the right time to individuals. The issues that somebody who's quite young and early in their career coming into pension saving environment have are very different to somebody who's five years away from retirement.

As an industry, we do target those messages for the different cohorts, but it's very much driven by factors such as term to retirement

What we've been working hard on at Aon is how can we use technology to go a level deeper with that targeting, and driving out messages that aren't just based on traditional factors. Instead, how can we use things like lifestyle events? So, things like if getting married, or having a pay rise, for example, where they might be willing to pay more into pension at that point. It's really about how can we use events to trigger messages and give people the right messages at the right time.

What role does pension comms play with helping to improve savers' financial wellbeing generally?

We can't talk about retirement savings without thinking about how that fits in with someone's overall financial picture. That targeted approach is important; it shouldn't just be about retirement savings. It's got to take into account all of an individual's finances. We're starting to develop ways not only to tailor communications off the life events that I was talking about, but also about what preferences for communications people have. And then if we can tailor the messages so they're more likely to take action off the back of it, that really starts to drive meaningful changes to their financial position.

What about the industry's responsibility? To what extent should employers/trustees want to monitor whether members are on track for an adequate retirement income – and how can they do so?

This is at the heart of DC strategy – it should all be driven around what's happening for your members in the scheme.

We at Aon have got tools that we've been using for a number of years where you can look at what people's levels of savings are, as well as including state benefits and past benefits that they've built up, to see their overall financial picture, and how that looks in terms of their retirement income.

And then once you've got that, this can drive the pension strategy – the company's contribution structure and DC investment strategy.

How can the industry support DC savers making decisions when they reach the all-important retirement stage? For instance, would offering a default retirement option be the best course for members?

They've been defaulted into the scheme. They've not had to make a decision about the contributions or about their investments if they didn't want to.

And then they get to retirement, and they have this huge decision to make, which is potentially life changing. So I think we need to do a lot more around education and guidance building up to that point.

Personally, I'm not a fan of having a default retirement option. In my mind, if we were to go down that route, you would probably end up with annuity purchase, which I don't think is the right outcome for a good proportion of members.

So, for me, it's all about the guidance, the education that people need to make that informed decision. And ultimately, this is an area where I think we need to do more as an industry.

We have a good proportion of our clients that have put an IFA in place to provide that support to individuals. The feedback they get from individuals is incredible. It gives them real comfort about the decision they're making and their retirement journey and plan they have in place.

But ultimately, there is a cost issue around that, particularly for those with smaller DC pots.

Therefore, it's about how, as an industry, we use technology and the advancements that are coming in to really make that support available in a cost effective and scalable way.

This is a shortened and edited transcript. To watch the video in full, please visit pensionsage.com