

Aon's 2021 Global Defined Contribution (DC) Retirement Study

Stock Market Report

333.49	341.94			894.72	897.99	946.97
	865.23	511.91			168.09	855.26
353.73	186.70	652.39	468.85	484.98	467.19	374.16
		818.85		189.03	387.90	337.90
308.64	334.39	397.90			165.16	485.41
391.61		188.19		494.56	553.73	148.55
881.01	203.80				224.98	189.89
	910.83	392.32			816.07	430.61
		594.01			498.69	651.41
221.21	615.86				392.73	392.23
616.52					984.47	821.25
702.92	868.78	619.84	368.00	72.87		188.99
477.36	128.12	558.73				607.80
328.28		394.47				289.53
						731.44
					152.12	731.99
						265.80
						592.51
						427.57



Executive Summary

Globally, total retirement savings have now exceeded USD \$50 trillion. The OECD reports that most of these assets are now in Defined Contribution (DC) savings¹, and the proportion continues to increase as DC becomes the dominant way in which individuals save for their retirement.

Around the globe Aon is helping our clients tackle the challenges that come with the growing reliance on DC savings. The regulatory environment, the pace of change and the model of DC retirement provisions may vary from country to country, but the underlying challenges are the same: the shift of risk from the State and/or employer to individual employees, low savings rates, a lack of employee engagement and/or understanding and the impact of longevity uncertainty on individuals' retirement planning.

Aon has asked employers across the world about their approach to delivering DC savings to employees in a series of detailed local market surveys.

Our research shows that employers globally want to ensure their DC plans offer optimal value for employees and deliver better retirement outcomes. To support this, they recognise the importance of increasing employees' engagement with the plan through improved communication and broader financial wellbeing strategies and design features. DC plans need to reflect members' unique circumstances and provide them with the options, guidance and education they need to define and achieve their desired retirement outcomes.

Governance continues to be a key focus for employers. Many have already taken steps to manage their governance risks through outsourcing some or all plan functions. This is borne out by the increased trend towards delegation and use of multi-employer solutions in a number of key markets. Nonetheless, it remains crucial for employers to regularly review the operating model for their global DC plans, to ensure they continue to meet the company's objectives, are locally compliant and, critically, deliver the best possible outcomes for members.

The following chart summarises some of our key global findings regarding employer objectives:

Employers' global objectives for their DC plans



1. Source: OECD Pension Markets in Focus 2020



About this survey

At a global level, we consider the following three principles essential to managing effective DC plans and achieving a positive impact on individual outcomes:

① **Smart Design**

It is important to understand how employees make decisions and support this through automated design features, innovative contribution structures and efficient investment strategies (including an effective default investment approach).

② **Smart Engagement**

DC retirement plans should recognise diverse employee needs and perspectives and promote flexibility, choice and financial wellbeing to support members with making optimal financial decisions. Communications should use a multi-media approach where possible and be targeted to ensure they are relevant to the recipient and prompt appropriate actions.

③ **Smart Governance**

To maximise efficiency, DC retirement plans should make the best use of the plan sponsor's time and budget through effective governance and monitoring processes and well-managed operational risk exposure.

In this report, we examine the findings of Aon's recent local employer DC pension surveys to compare the different challenges and approaches taken by employers around the world with regards to ensuring Smart Design, Smart Engagement and Smart Governance in their DC plans. This represents the views of over 500 employers globally, covering over 2 million employees and assets under management in excess of USD \$400 billion.



Smart Design

SUMMARY

To achieve long-term DC plan success, employers acknowledge that they need to motivate employees to save sufficiently for a timely, comfortable retirement. Assessing plan competitiveness is critical, both to ensure the best use of limited budget and to support the attraction and retention of talent. However, it is clear that employers across the globe need to focus more on supporting employees to define and achieve their desired retirement outcomes.

There are several possible approaches to this:

① **Leveraging automation and inertia**

Automatically enrolling employees into the plan leverages members' inertia to improve participation rates and savings. The earlier employees can join a plan, the longer they have to make contributions and invest their savings, which in turn will boost their retirement income.

Likewise, using inertia and automation can be a powerful tool in enhancing employee contribution rates to optimise retirement outcomes, as explained overleaf.

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② Encouraging engagement through appropriate contribution structures

A matching contribution design incentivises employees to save more, while focusing the employer's spend on employees who are most engaged with the plan. It also provides flexibility for members to choose and change their contribution rates; however, encouraging members to maximise their contributions remains a challenge, as they often do not pay the maximum to receive the highest employer match. In addition, data shows that members rarely pay more than the maximum match, implying they (incorrectly) believe this to equate to an adequate benefit.

Where employees are automatically enrolled into the plan, one option to help increase savings is to raise the default contribution rate, albeit at higher cost to the employer.

In addition, to increase retirement readiness, employers could consider automatic escalation of contributions where allowed and provide the option for employees to make additional voluntary contributions to the plan.

Automated features can prompt employees to save and protect those with minimal interest in financial matters, however it is important that employers combine this with increased financial education to continuously drive employees to engage and help them take better control of their financial futures. This is discussed in the next section, where we consider Smart Engagement.

③ Driving efficient investment strategies

It is important that members have access to investment options which suit their individual situations and risk appetites.

Adopting a default investment strategy helps members who are uncertain about how to invest. Typically, a default investment strategy is comprised of lifestyle or target-date funds, which automatically shift from a more growth-focused or risky asset mix to a more defensive asset mix as the individual member approaches retirement. It is common for the majority of members to remain invested in this default strategy, making it critical for employers (and/or trustees) to take the time to choose the most appropriate default option for their plan and their workforce and keep it under regular review. As sophistication increases, employers can segment their workforce to align the default strategy to the different needs of different groups.

The range of additional self-select investment funds varies across the globe. Some believe that offering a high number of funds allows more members to tailor their own strategies to their needs. Others believe that this practice increases the complexity of plan governance and may disengage members. Increasingly, DC investment strategies are also incorporating responsible investment options (or Environmental, Social and Governance "ESG" -related funds) to support companies' business strategies, member demands, engagement initiatives and local regulatory requirements.



KEY FINDINGS

① Leveraging automation and inertia

- a. In **Canada**, more than 50% have plans with automatic features, such as automatic enrolment to encourage early participation.
- b. In **Cyprus**, 50% of plans have voluntary enrolment rather than opt-out enrolment, resulting in reduced participation rates.
- c. In **Ireland**, where auto-enrolment is not yet used, more than 25% of employees are not members of their company plan and only 35% of DC plans allow employees to join on starting employment.
- d. In the **UK**, less than half of private sector workers had a pension in 2012, but the figure has now reached around 90% as a result of auto-enrolment.
- e. In the **US**, almost 80% have already designed their plan to include automation with features like automatic enrolment and/or automatic contribution escalation to encourage early participation and higher savings levels.

② Encouraging engagement through appropriate contribution structures

- a. In **Australia**, 19% of employers offer superannuation above the legislated minimum superannuation guarantee rate (which is increasing to 10% from 1 July 2021 and incrementally to 12% by July 2025).
- b. In **Canada**, whilst half of employers do some work to assess whether their employees are on track to meet retirement goals at least once every three years; more than one-quarter never do this, with the remainder doing it only occasionally.
- c. In **Cyprus**, the key objective of 40% of DC plans is to deliver sufficient funds for employees to retire, but 2/3 of sponsors do not know what level of benefit outcome their plans are likely to deliver.
- d. Over 50% of employers in **India** have introduced the voluntary National Pension Scheme (NPS) as a flexible benefit within their compensation structure, to help enhance retirement savings adequacy. The NPS enables employees to choose their asset allocation and fund manager selection, provides access to different asset classes (including equity) and low charges, and encourages portability, transparency and favourable tax treatment.
- e. In **Ireland**, 49% of plans now use matching contributions, although many members are leaving “free” money from their employer on the table by not paying the maximum to receive the highest employer match. In addition, around 40% of employers reviewed their default contribution rates/contribution structure/expected benefit levels at retirement more than 3 years ago or not at all.
- f. In **Japan**, 43% of employers allow employees to contribute. However, only 22% of plan participants make use of this option. In the Netherlands, 3 in 10 are not aware of the level of benefit expected for their employees at retirement.
- g. In **Singapore**, 22% provide top up contributions for CPF eligible employees and 50% offer retirement benefits for non-CPF eligible employees.
- h. In **Spain**, two-thirds of employers do not know what the replacement ratio would be for a lifetime member of their plan and fewer than 10% aim to increase the take-up of higher contribution rates by employees.
- i. In the **UK**, a matching contribution design remains the most prominent plan design, with around two-thirds of respondents offering members the option to increase their contribution levels and receive higher company contributions. Fewer than 4 in 10 aim to increase the take-up of higher contribution rates by employees and, surprisingly, two-thirds do not know what the expected replacement ratio would be for a typical lifetime member of their plan.
- j. In the **US**, knowing that savers may cluster around the contribution level they need to get the full match, about 1 in 5 employers use the plan matching formula as a design anchor to encourage higher employee savings by spreading the match over a higher employee savings rate. Similarly in **Canada**, about 1 in 3 employers adopt this approach.

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3 Driving efficient investment strategies

- a. In **Canada**, 68% of Capital Accumulation Plans offer target date funds as the default investment option, although only 26% have formally incorporated ESG factors into their investment-decision making process.
- b. In **Cyprus**, only 20% offer a choice of investments for members and only 1 in 10 assess their range of investment options against ESG criteria at the moment.
- c. In **Hong Kong**, Mandatory Provident Fund plans are required to offer a default investment strategy which provides automatic de-risking as members approach retirement age.
- d. In **Ireland**, lifestyle is now the standard default option for 77% of plans and typically comprises 3 different lifestyle funds. In addition, 70% of employers offer 6+ investment fund choices and 19% of plans are bringing in ESG fund options. Overall, 80% of respondents considered offering a good range of investment options a priority.
- e. In the **Netherlands**, DC plans typically offer 3 different lifecycle funds with varying risk profiles from which employees can choose. In addition, 41% offer 6-15 self-select investment options to members. Around 35% include ESG funds in either their lifecycle funds or within the self-select investment options.
- f. In **Singapore**, less than 30% provide investment choice for members and less than 15% have a default fund option.
- g. In **South Korea**, around 4 in 5 employees typically invest in principal and guaranteed investment products; those who choose to invest in market performance linked products instead typically opt for bond balanced funds (where the investment in equity is limited to a maximum of 40%).
- h. In the **UK**, the most common approach is to offer three lifestyle or target date options. In addition, 45% of plans offer 21 or more self-select investment options to members, while 42% offer between 6-15; within the self-select investment options, around 2 in 5 plans offer one or more ESG funds to their members.

> How Aon can help

The global DC landscape is continuously changing to reflect new legislation and employment trends. With the coming of age of DC plans, many companies believe it is time to assess the competitiveness of their existing plan structures and what their competitive position means for employees' retirement outcomes. Aon's **DC Scorecard** is a high-level diagnostic tool, designed to help employers quickly benchmark the key features of their DC plans around the world and determine where improvements can be made to benefit members and the company. It is offered as a global version covering all DC plans, and with a more detailed DC scorecard available for key countries.

It is also important that DC investment funds (in particular the default fund) are aligned with members' needs, not just in terms of how DC benefits will be taken at retirement, but also in terms of appropriate target levels of investment risk and return. Aon's **Global DC Tracker** is a simple, analytical tool that enables companies to benchmark their global DC investment funds against 3 key performance metrics: returns, expenses and responsible investments (ESG). It also provides an estimated value of lost opportunities (including lost returns and/or excessive fees) to enable employers to take quantifiable actions to improve member outcomes and reduce unnecessary spend.



Smart Engagement

SUMMARY

Individual circumstances shape an employee's view of retirement. With attitudes, lifestyles and technology continuously evolving, it is more important than ever to motivate members to take action to become more involved in their retirement plans and equip them to make educated and appropriate decisions.

A successful strategy focuses on:

① **Supporting employees' financial wellbeing through effective member services**

Across the globe, employers are keen to spend more time communicating with members and focusing on improving members' engagement and understanding of their DC plans.

When it comes to saving for retirement, some employees like things to be done for them, while others prefer a more individual hands-on approach. For the hands-on group, retirement modelling tools, convenient

account apps, and easy access to information all help to support retirement readiness. Those looking for more employer support can benefit from automatic features, as well as additional communication efforts targeted to their situation. Many of these employees need help setting a retirement savings goal and visualising how appropriate investment and contribution choices can aid them in reaching that goal.

One flaw of many communication programmes is that they are too generic.

A more effective approach is to segment employees by financial life stage and provide personalised, short, simple and outcome-oriented communications and education that are relevant and targeted to each segment. Where communications are action-oriented, giving employees immediate access to the tools they need to use to take those actions is essential, otherwise inertia sets in and levels of activity decline.

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It is also important for employers to proactively assess whether their communication programmes are meeting employees' financial needs. A lot more can be done in this area at a global level – whether through monitoring employees' behavioural statistics (e.g. participation and contribution rates), tracking usage of the financial wellbeing tools in place, conducting surveys and focus groups to better understand employees' needs and preferences, or tracking individuals' retirement readiness.

② Promoting flexibility and choice at retirement

Many employees are starting to break out of traditional retirement patterns by delaying retirement or partially retiring. As a result, flexibility is key – enabling members to have greater control over the choices they make as they ease into retirement.

Not only is it important to help employees build the necessary savings to leave the workforce when they want through flexible contribution options and efficient investment strategies, but employees also need support in managing their savings through retirement. This includes providing access to a range of cost effective decumulation options, where allowed, to support members' individual situations.

KEY FINDINGS

① Supporting employees' financial wellbeing through effective member services

- a. In **Australia**, benefit utilisation and/or engagement is measured by 42% of employers; measures include percentage of employee uptake, the frequency of access/usage, and the cost savings to employees. 58% of employers collect informal feedback on their benefit offerings.
- b. In **Canada**, nearly 8 out of 10 employers offer modelling tools and around half provide more personalised or targeted communications based on demographics. Over 55% of employers track employee engagement by monitoring behavioural statistics or use of retirement planning tools, although fewer than 20% are tracking individuals' retirement readiness.
- c. In **Cyprus**, only 20% encourage employees to save at an appropriate level and none of the employers measure levels of engagement with their benefit and wider wellbeing programmes.
- d. In **Ireland**, the use of videos/podcasts has jumped from 4% in 2016 to 25% in 2020, indicating that plans are embracing new technology to communicate with members. However, 80% still provide in-person presentations to members, showing they believe there is still an appetite for face to face communications in this digital age.
- e. In **Japan**, 42% of employers provided employee presentations over the last 3 years, but only 9% provide such presentations annually. 23% of employers use e-learning to provide DC investment education.
- f. In the **Netherlands**, 1 in 3 provide employee presentations and 1 in 4 communicate through websites/intranets.
- g. In **Singapore**, 22% of employers are already executing their financial wellbeing strategy, while 50% of employers are currently developing one. Close to 70% of organisations are likely to offer financial education via webinars or other media in the next 1-2 years.
- h. In the **UK**, 1 in 3 plans communicate targets to their employees to encourage them to save at an appropriate level. However, 50% of plans do not measure members' engagement with retirement and financial programmes and only 25% measure this on a regular basis.
- i. In the **US**, employers provide a variety of financial wellbeing tools including modelling tools (80%), online calculators (around 70%) and targeted communications based on demographics (around 60%). Over 4 in 5 employers tracks employee behavioural statistics and about 7 in 10 monitor usage of employee retirement planning tools to assess engagement; more than half also review individuals' retirement readiness.



② Promoting flexibility and choice at retirement

- a. In **Australia**, further DC innovation lies ahead in the space of retirement income solutions, following a recent review of the retirement income system. This is likely to include further guidance for members around effective retirement strategies and assisting them with optimising retirement income through the efficient use of their savings.
- b. In **Canada**, almost half of surveyed employers allow participants to leave some money in the plan or take partial distributions during retirement, and over 25% say that they have implemented decumulation options with variable lifetime payments, or plan to do so in the next year.
- c. In the **UK**, a flexible drawdown or mixed target approach for the default investment is offered by almost 2 out of 3 employers, although a surprisingly high 1 in 5 plans still offer an annuity target as their default investment option.
- d. In the **US**, almost 3 out of 4 employers allow participants to take partial distributions during retirement, and about another 60% include plan distribution options that pay out over a fixed number of years.

> How Aon can help

Many employees struggle to appreciate and engage with the benefits they receive from their employer, let alone from the State. Aon can assist with delivering clear, concise and interactive communications to enable employees to understand the value of all the benefits they receive, with well-targeted messaging to prompt action where necessary. This can also support the company's business strategy by ensuring a consistent approach to employee benefit communications across countries.

Collecting the right data to measure engagement with retirement and financial programmes can also be challenging. Aon's **Well One** app provides a wealth of (anonymised) data on the finances, health and wellbeing of individuals, teams and the wider business using simple health scores. Analysing data from four areas – physical, emotional, social and financial – **Well One** can bring focus and clarity to strategy and communications while enabling healthy behavioural change for employees.



Smart Governance

SUMMARY

Robust plan governance is critical for effective DC risk management. However, many employers across the globe struggle to devote sufficient time to ensuring effective governance processes are in place and find keeping up with changes in compliance a major challenge.

There is an increasing trend towards delegating DC plan management responsibilities to reduce employers' fiduciary risk. In Europe, this trend has been accelerated by the introduction of the IORP II legislation, which will considerably increase the governance burden and costs for many employers. By delegating specific plan functions (like administration or investment) or moving to a master trust or multi-employer structure, employers are able to free up more time to focus on key areas of concern (such as member communications) as well as general oversight and strategy.

Employers should regularly review whether their current operating model for the plan meets their objectives, is locally compliant and delivers the best possible outcomes for their members. While some good efforts have already been made in this area globally, employers should focus on ensuring that ongoing monitoring processes are in place for the key aspects of their DC plans (design, investments, administration, communication, vendors, risk management) in order to optimise value for members and the company.

KEY FINDINGS

Leveraging automation and inertia

- a. In **Canada**, 57% of employers are delegating at least some of the responsibility for investment selection and management. Almost 60% would also consider moving their workplace retirement savings plan into a broader pooled arrangement to benefit from greater scale and lower investment and administration costs.
- b. In **Cyprus**, 40% of respondents expect to move to a multi-employer solution within 5 years, with governance and time required to run a DC plan being the key triggers.
- c. In **Ireland**, 44% of plans now use delegated investment and 45% of respondents will consider using a master trust in the next 12 to 24 months.
- d. In **Japan**, 2 out of 3 employers have never reviewed the investment selection, and less than 20% of employers made changes to the fund range over the last 3 years.
- e. In **Spain**, 50% of employers delegate full responsibility for investment decision-making to a third-party.
- f. In the **UK**, over a third do not delegate any investment decision-making responsibility to a third-party investment professional. However, of those currently running their own trust-based plans, 1 in 6 expect to delegate more over the next 3 years and around a third expect to move to master trusts in the next 5 years.
- g. In the **US**, nearly half of employers currently delegate at least some investment selection and management, and 1 out of 5 want to spend less time on administration.



> How Aon can help

Aon provides multi-employer retirement solutions in various markets around the world. These solutions enable companies to partially or fully delegate their pension governance to professionals, while benefiting from access to world-class investments and creative member communications to enhance member outcomes.

From an ongoing perspective, Aon has the technology to help multinational companies proactively manage the risks and identify opportunities in their global DC plans. Supported by a suite of consulting services, we can deliver a series of real-time data-driven insights and analytics on the plans, helping to optimise global DC governance and reporting, while ensuring the plans remain compliant and competitive.



Contact Us

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About Aon

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