Retirement has changed: how to evolve financial wellbeing to keep pace

The way in which we retire is changing. In the past it was inflexible (you retired when your employer decided you should) and, for many workers, predictable (you knew how much pension you would receive from a defined benefit scheme). It was also short. In 1982, the average life expectancy in the UK was 72 years — just seven years beyond men's default retirement age of 65.

Now, employees can choose when they leave the workforce, and the way they do so. Aon's *2018 DC Pension and Financial Wellbeing Survey* of over 1,000 UK employees even found that 14% of respondents do not expect to retire at all. Around half the respondents say that they intend to work part-time before retiring completely; employers offering more flexible ways of working should help them to achieve that. Meanwhile, increases in life expectancy mean that workers who do choose to retire at 65 could now spend 20, 30 years or even longer in retirement.

Retirement patterns have certainly become more varied and flexible — but in order to take advantage of that freedom, employees also need to be in control of their own long-term financial wellbeing. Extended working lives are only a positive trend if individuals choose to continue in employment because they want to, not because they cannot afford to retire.

That means employers and employees must both become better informed about retirement savings goals, so that they can build and monitor long-term plans with confidence.

Pensions continue to be a cornerstone of planning for retirement. Aon's survey found that 70% of respondents said that they are in their company's pension scheme. That is a positive headline figure and reflects the fact that UK pension scheme membership is now at an all-time high. However, that still leaves 30% who say they are not saving into a workplace pension. Given that average pensions auto-enrolment opt-out rates are just 9%, the disparity suggests that some employees are not actually aware that they have been auto-enrolled into a company scheme.

We also found that two-thirds of employees base their pension contributions on the rates set by their employer, rather than setting their own personal targets. Often default rates are far from enough to enable employees to retire with confidence, especially those based on the minimum under auto-enrolment rule. Most respondents admit that they are not saving enough for their long-term needs.

The fact that so many people pay into their pension at the rate set by their employer shows the influence that employers can have on their employees' retirement planning. That opens up huge opportunities to help employees improve their overall financial wellbeing and build for the long term at work.

Our findings showed that four out of five workers in the early stages of their career said that they want support with financial wellbeing from their employer. It is not just younger employees who are asking for help. Employees of all ages in our survey said that they want support with basics such as the value of their pension fund and knowing when they might be able to afford to retire.

Building up employees' confidence about their retirement needs requires a continued focus on financial wellbeing. While only 13% of respondents rate their current financial wellbeing as poor or very poor, there are ongoing challenges for many in the workforce. One-third said they have credit card debts at the end of every month, and five out of ten said they cannot afford to save as much as they might like. The longer-term effects of that are clear: a third of respondents in DC pensions expect to experience lower living standards when they do eventually retire.

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What can employers do to help?

There is a clear shift happening in the types of support that employees need for planning for the long term. To best help them, there are three key actions employers can take as a starting point:

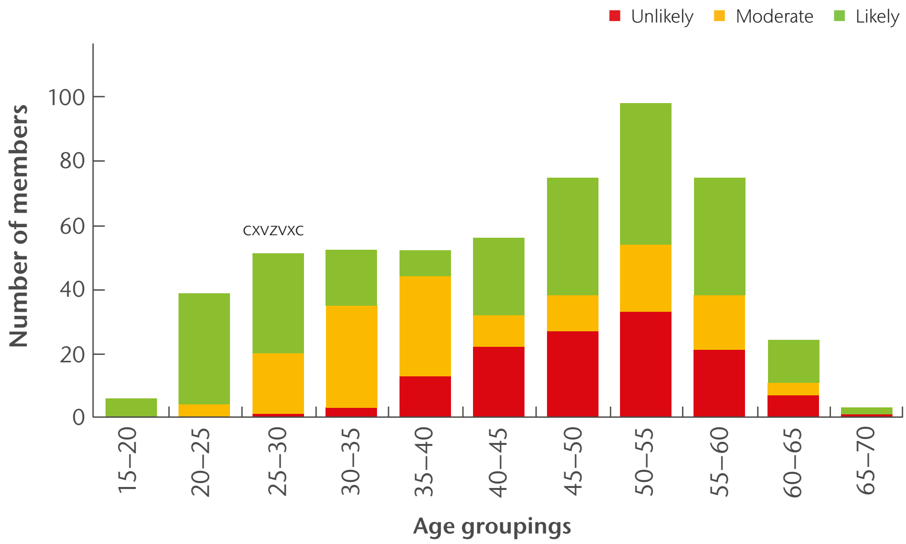
1. Help employees to plan financially

To create meaningful long-term savings, employees need to start planning and saving early. Auto-enrolment has created a starting point for retirement savings, but that is not the same as planning. Help employees to consider their aims and ambitions for retirement and understand what they need to do to achieve them.

2. Monitor progress over time

Achieving long-term goals is much more likely to happen if employees and their employers have regular check-ins to make sure they are on track. Using techniques such as a 'mid-life MOT' can help employees understand if they need to make adjustments. Tools like Aon's DC analytics can help employers test the likelihood of their workers achieving an adequate retirement income based on their current behaviours.

DC Analytics — likelihood of members meeting target retirement income



3. Build peace of mind

There are many studies that show the effect that financial worries can have on individuals' broader wellbeing, including mental health. Helping employees improve their financial resilience by becoming more in control of their money has benefits for today and for long-term savings.

You can request a copy of the findings from Aon's *2018 DC Pension and Financial Wellbeing* Survey **here**.

We're here to empower results

To find out more, contact talktous@aon.com or visit: **aon.com/dcpensionsuk**

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