The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013

The NAPF's response

April 2013

Overview

The NAPF welcomes the Government's objectives of simplifying regulations on disclosure of information for occupational and personal pension schemes. These have been onerous for schemes and have not always supported scheme members in making good decisions about their retirement savings and income. The Government must ensure that any additional regulations do not place extra burdens on schemes who already have to comply with regulations put forward by the Financial Conduct Authority (FCA) and the Pensions Regulator (TPR).

The NAPF supports a less prescriptive and a more principles-based regulatory regime, one where regulations allow for and encourage the efficient running of workplace pensions and support best practices in communicating information to scheme members.[1] The level of information currently provided to members as a result of disclosure regulations often contradicts this aim. Schemes must disclose quite technical details using pensions jargon that may not be clear to the average member and often requires the use of complex concepts that are familiar only to pensions experts. This makes it harder for scheme members to understand their pension scheme, contributions, how their savings are invested and retirement options.

The NAPF agrees that the changes and new regulations proposed by the Government will increase clarity and flexibility for schemes and employers. The NAPF recommends that the Government continue to review regulations on the disclosure of information on a regular basis to ensure that they remain current and applicable to the changing pensions landscape.

About the NAPF

The National Association of Pension Funds (NAPF) is the leading voice of workplace pension provision in the UK. We represent some 1,300 pension schemes from all parts of the economy and 400 businesses providing essential services to the pensions industry. Ten million working people currently belong to NAPF member schemes, while around 5 million pensioners are receiving valuable retirement income from those schemes. NAPF member schemes hold assets of some £900 billion, and account for over one sixth of investment in the UK stock market. Our main objective is to ensure the security and sustainability of UK pensions.

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[1] NAPF, **Spotlight on Pensions: NAPF response**, May 2012

Introduction

1. Good communications should support members to better understand their retirement options, and help them to plan for their retirement. Members need to know how much money to save into a scheme, how it should be invested and what retirement income they are aiming towards. This requires a basic awareness of key concepts in pension saving. Good communications, tailored to scheme membership, will enable individuals to make better informed decisions about contributions, investment options and retirement plans.

2. It is important that schemes get their communications right, and good communications stem from good governance. Communications are necessary to help members make decisions, but good governance needs to be in place when members either do not or cannot make decisions. Schemes should monitor investments and amend default fund design where appropriate. In particular it may be difficult for deferred members to make active choices, and schemes should have good governance in order to uphold their interests.

3. The NAPF promotes good communications through its Pension Quality Mark (PQM). Schemes can gain the PQM if they meet its standards on contributions, governance and communications. The communications standard requires schemes to have high quality communications for scheme joiners, throughout scheme membership and when members approach retirement. More recently, the PQM launched a guide to good communications. The language, clarity, conciseness, delivery method and frequency of correspondence should be considered in the development of good communication practices. The guide is attached as an appendix to this response.

4. Communications are becoming increasingly important as automatic enrolment brings millions of people, especially those on low-incomes, into a workplace pension for the first time. Many members will depend on the information they receive from their scheme or employer when making decisions. Without the right kind of information people are likely to sleep walk in to retirement and may be disappointed that their actual income in retirement is less than what they expected to have received. A recent report co-funded by the NAPF and produced by the Institute of Fiscal Studies (IFS) found that the average individual aged 50 to 64 would need to save at least a further £20,000 in their DC pension to get their expected income in retirement.[2]

5. Trustees and pension managers are most informed about their scheme and scheme members and need the freedom to provide information that is relevant to those whose pension pots they are responsible for, rather than having to concentrate on providing information that is irrelevant but required in regulations.

6. The NAPF, in its May 2012 response to the Red Tape Challenge 'Spotlight on Pensions', highlighted concerns raised by NAPF members on the current disclosure regulations being overly prescriptive, complex, costly, disjointed and being multi-layered (both in terms of UK regulations and EU directives, but also depending on whether a DB or a DC scheme is in place and then whether the latter is trust- or

[2] Institute of Fiscal Studies, **Expectations and experience of retirement in DC pensions: a study of older people in England**. November 2012.

contract-based).[3] The current disclosure requirements, which prescribe what information must be provided to scheme members makes it harder for member to understand their scheme and make decisions about their savings. The current regulations can work to the detriment of member engagement.

7. The NAPF welcomes the Government's proposals which seek to ensure that the information provided to scheme members is relevant, clear and helps build their understanding of their workplace pension scheme. We welcome the removal of duplicate, complex and inflexible requirements that make the administration of pensions onerous on employers and trustees. The regulations and guidelines set by the FCA, TPR and the UK Government need to be clear, simple, adaptable and, where possible, the same requirements should apply to all schemes types and governance structures. The NAPF recommends that the Government takes the different roles, governance requirements and responsibilities of trust and contract based schemes into account when considering adjustments to regulations.

8. **New regulations:** some schemes and pensions professionals may need additional time to prepare for the new requirements set out in the proposed new regulations on lifestyling. Not all schemes have voluntarily brought in provisions that encourage scheme members to think about when they would like to retire and the impact this would have on the asset allocation of their pension. Therefore, schemes that have yet to bring in lifestyling provisions may find it difficult to meet the October 2013 implementation date. The Government should consider extending the implementation date for new requirements to the first quarter of 2014. The NAPF believes that any simplification of current regulations on the disclosure of information should come into effect as soon as possible.

9. **Annual Statements and projections:** the NAPF welcomes the Government's proposals that allow for increased flexibility in the information that is disclosed to scheme members and on the assumptions used to illustrate future retirement income for a given pension pot. The NAPF believes that the Government should introduce as much flexibility as possible in these regulations to ensure that schemes can adapt their assumptions to changes in the economy, annuity rates, life expectancies, State Pension age, member behavior at retirement and the adoption of defined ambition schemes, among other things. This flexibility will ensure that schemes are able to produce statements and projections tailored to their membership and that support good decision making by scheme members as they start receiving more concise and accurate information on their expected income at retirement. It is important that these statements help build members' overall understanding of their pension scheme and pension savings.

10. **Electronic Communication:** the NAPF believes that basic information should be easily accessible. We agree that the regulations on the disclosure of information should be improved so that they allow schemes to adopt new methods of communication as they are developed and that are more widely used by the general population. Schemes may choose to provide hard copies of information to their members but should have the flexibility in the tools they decide to use in communicating with members.

11. **Principles based approach:** the NAPF continues to recommend that the Government consult on bringing in a principles based approach that places trust in trustees and pension managers who are best placed to determine how and what to communicate to their scheme members. There should be clear and consistent guidance from the Government and regulators on how the principles can be met. The principles should

[3] NAPF, Spotlight on Pensions: NAPF response, May 2012

not put schemes in a position where they have to use additional resources and absorb higher costs in order to meet the principles. The NAPF is concerned that the principle proposed in the consultation document may increase the burden on schemes as it suggests that the schemes provide information that is unique to each and every member. If the Government were to further explore a principles-based approach to disclosure, the NAPF would welcome additional guidance to support implementation. It is important that the principles are clear, and guidance can ensure that trustees and scheme managers know exactly how to comply with them.

Consultation questions

1. **Do you agree these amendments meet the overall aims?**

   The amendments proposed in this document meet the Government's overall aims of providing clarity to schemes on regulatory requirements; of providing consistency of requirements across different scheme types; of ensuring the accessibility of information; and having regulations that adapt to the changing pensions landscape.

   Any disclosure requirements should be drafted such that they can continue to be streamlined without extensive changes having to be brought in the future. The NAPF believes that regulations around the disclosure of information need to be less prescriptive and pursued on a principles based approach where trustees are trusted to provide the most relevant information to their scheme members in the format that best suits their membership, its characteristics and needs.

2. **Do you foresee any problems with these regulations coming into force in October 2013, particularly relating to the new provision on lifestyling?**

   According to the NAPF's 2012 Annual Survey, 95% of NAPF members with DC schemes change the asset allocation of the default fund for members who are approaching retirement.[4] Therefore a small number of schemes have yet to voluntarily bring in lifestyling provisions similar to what has been proposed by the Government.

   The NAPF believes that new regulations should not place additional administrative and financial burdens on schemes.

   If the new lifestyling regulations are set to be introduced before parliament rises for summer recess the NAPF believes that schemes that have not had the opportunity to make these changes may need longer than 4 months to prepare to meet the new requirement. The Government is encouraged to delay the implementation date of the lifestyling requirements to early 2014.

[4] NAPF, **2012 Annual Survey,** published January 2013 and available for purchase.

3. **Do you agree with the scope of the consolidation?**

The NAPF agrees that the Government should consolidate regulations for different scheme types where applicable, taking into account the differences in governance structures.

4. **Where our requirements duplicate FSA rules do you agree they should be removed? If not, which provisions should be retained and why?**

The NAPF agrees that the Government should remove duplication and complexity in regulations and requirements, especially where this creates a more prescriptive regulatory environment on the disclosure of information to scheme members. This will reduce some of the administrative burden placed on pensions professionals where they are trying to ensure that they meet all the requirements set out by the regulators, the Government and in European Directives.

5. **Do you consider the new structure of the regulations to be a useful change?**

The NAPF welcomes the proposal to consolidate the disclosure regulations where applicable and to ensure that the language used in the disclosure regulations is simple, clear and consistent. The NAPF agrees that the timings for providing information should be consolidated such that administrative systems can be simplified if schemes wish to make the change. No additional burden should be placed on employers and schemes in new regulations as the current system is already quite prescriptive.

6. **Do you think any changes mentioned in this Chapter (3) will have any unintended consequences?**

We are unaware of any unintended consequences the proposals may have and recommend the Government review the regulations on a regular basis to ensure that schemes and scheme members are benefitting from the change.

7. **Are you content with the changes we propose to make to the basic scheme information which schemes are required to disclose?**

The NAPF agrees that the basic information provided to scheme members should be clear, simple and useful for them to understand. Regulations should be simplified and made less prescriptive where the scheme or employer is required to provide detailed and/or complex information that would discourage interest from members.

The NAPF believes that the wording in the regulations should suggest flexibility and trust in the pension professionals producing pension statements. The NAPF is concerned about the drafting of regulations 6(6) and 8(5) where 'no information is to be given to members… unless it is relevant to the person's rights … under the scheme…' This regulation appears to be inconsistent with the aim of flexibility.

The Government should also look to remove regulations where similar requirements have already been set by the FCA. Regulations also need to be updated to reflect changes in the pension landscape including changes to requirements and guidelines set by regulators on employers and schemes.

8. **Do you agree that this requirement would be beneficial to members and that the wording of this requirement would cover all forms of lifestyling, including target date funds?**

95% of NAPF members with DC schemes change the asset allocation of the default fund for members who are approaching retirement, with almost half moving money into fixed interest investments while 32% choose a cash option. Our research with NAPF members suggests that these pension pots are de-risked for approximately 9 years.[5]

As mentioned in the consultation document, a number of schemes already disclose to members the changes that would be made to how their pension contributions are invested as they get closer to retirement. Members can then opt to have their investment adjusted to the lifestyling option available or they can advise scheme representatives about any decision to delay their retirement.

The NAPF's autumn 2012 workplace pensions survey found that almost half (48%) of all respondents are planning to work in paid or volunteer work past State Pension Age – almost 9 in 10 stating they would continue in paid work versus volunteer work. Three quarters of respondents to the survey stated that they would stay in work because they cannot afford to retire. Two thirds expect to work for 9 years or less past State Pension Age.

It would be beneficial for scheme members if information on lifestyling is provided when they become members of the scheme and then closer to retirement when the lifestyling option becomes available to them.

9. **Do you agree that changes will allow schemes to provide more personalised statements?**

Benefit statements should be improved to ensure that they provide clear, simple and relevant information to scheme members so that they know how much they need to save in order to meet their expected income in retirement.

A recent Institute for Fiscal Studies' report co-funded by the NAPF and ESRC found that at current annuity rates, the average individual aged 50 -64 would need to save at least a further £20,000 in their DC pension to get their expected income in retirement.[6] These findings show that people are optimistic about their income in retirement and are unaware of how their pension translates into a steady stream of income.

In considering SMPI annuity assumptions schemes may want to refer to drawdown as well as annuity purchases as the former is an option for those with larger pension pots. The NAPF believes that SMPIs should be simplified and schemes should have the flexibility to use assumptions that are more relevant to a member's circumstances rather than prescribed in regulations.

[5] NAPF, **2012 Annual Survey,** published January 2013 and available for purchase.
[6] Institute of Fiscal Studies, **Expectations and experience of retirement in DC pensions: a study of older people in England**. November 2012.

With millions of people saving into a pension scheme for the first time, it is critical that the Government improve the communication and disclosure requirements to support people in better understanding their pension and encourage them to build their income for retirement.

10. **Do you think changes need to be made to the timing of the first SMPI to take account of the introduction of automatic enrolment? If so what timing do you think would be most appropriate?**

    The NAPF recognises the concerns raised by the Government around the relevance of SMPIs if these are sent to scheme members before their contributions have been included in to the scheme's administrative system and/or before they start generating a return on investment. This is particularly problematic as auto-enrolment requirements come into effect. The NAPF recommends that schemes be given a 24 month time period in which to provide the first SMPI to a new scheme member. This will ensure that members who have just started contributing into a pension pot are provided with appropriate, relevant and accurate information and projections on the growth of their long term savings. This will also ensure that schemes do not face any additional complexities and administrative burdens in the provision of SMPIs to members.

12. **Do you think the regulations allow for concise statements? If not which elements of the regulations prevent this?**

    The NAPF recommends that SMPI regulations be made less prescriptive and should encourage schemes to provide information that is clear, concise and relevant to the member. Too much detail can often confuse people, overshadowing what members need to know about their pension pots and savings growth, and therefore can discourage informed decision making to achieve the expected income at retirement.

    The NAPF welcomes changes to regulations that allow schemes the flexibility to use annuity assumptions that are more likely to be applicable to the member, including assumptions on the kind of annuity likely to be purchased at retirement.

    The new regulations will allow schemes to provide clearer and more relevant information to members. The NAPF will monitor whether the new regulations will allow schemes to produce more concise statements. The Government should give trustees and pension managers as much flexibility as possible to determine the amount of information that needs to be shared with scheme members in these statements. As mentioned, too much information can be detrimental to the interests of scheme members and the decisions they make about saving for their retirement.

13. **Are you content with the proposed changes in relation to electronic forms of communication?**

    The NAPF believes that regulations should be updated such that schemes are able to provide information to members using the most efficient and effective tools for communication available at any given time. The current method of sending hard copies can be expensive and inefficient and the NAPF believes that schemes should have the flexibility to disclose information electronically. We agree with the provisions in Chapter 4 of the consultation. The provisions support members and schemes in the transition from paper to electronic communication where relevant. We believe that these regulations can still be made less prescriptive so that they can be easily adapted to other methods of communication including mobile applications and texts.

14. **The existing regulations require certain information (such as the constitution of the scheme) to be available for inspection at a reasonable location. Do you consider that this method of communication is still appropriate given the availability of electronic communications?**

    Schemes would benefit from the increased use of electronic communication where appropriate. Some schemes may choose to continue to provide hard copies of information to members and/or at a 'reasonable location' and should have the flexibility to do so.

    The NAPF recommends that the regulations on what is communicated and how it is communicated should be less prescriptive and should allow schemes to make decisions based on the characteristics and needs of their membership and the resources available to them. We would recommend the Government assess the benefit of some of the information to be given on request under Schedule 3 – including paragraph 4 where the information on the constitution of the scheme to be disclosed includes 'name and postal or electronic address of everyone who employs any member of the scheme in relevant employment'.

15. **Do you consider that all the appropriate legislation has been included in the draft regulations?**

    We believe that the appropriate legislation has been considered.

16. **Would you welcome further consideration of a 'principles based' approach to the disclosure of information as outlines in the 2009 consultation?**

    The NAPF continues to call for a more principles based approached to the disclosure of information and would welcome the Government's consultation on this in the near future. The NAPF believes that this principle should be drafted such that it places trust in the trustees and pension managers who are most aware of the needs of their scheme members and should not place additional burdens on them.

17. **We would like views on whether you feel any additional guidance would be useful to support the disclosure regulations and if so the type of details this should contain.**

    The NAPF believes that the Government should align any future guidance for best practice on the disclosure of information with TPR's principles and features for DC schemes and with guidance issued by the FCA. Guidance that is similar but potentially different and issued by a number of regulatory organisations can be problematic for schemes as they will try to meet the provisions set out in all these documents. Schemes may instead benefit from the Government bringing together the guidance available from both regulators into one accessible location. Guidance may also need to be redrafted to ensure consistency and clarity.

    The Government and regulators should also strongly encourage the adoption of guidance issued by the pensions industry and tie these in with the principles for disclosure – this includes encouraging the adoption of the NAPF led *Pension Charges Made Clear: Joint Industry Code of Conduct*[7] and the IMA's guidance on the *Enhanced disclosure of fund charges and costs*[8].

18. Are there any other issues that impact on disclosure that you feel need to be considered?

The consultation document outlines some of the key areas of work being undertaken in pensions by the Government and the pensions industry (e.g. Defined Ambition and the disclosure of costs and charges). These areas and issues are likely to evolve and change. The Government should commit to undertaking a regular review of the regulations to ensure that the impact of new policies and guidance is taken into account and that the regulations are updated accordingly.

[7] NAPF, **Pension Charges Made Clear: Joint Industry Code of Conduct**, published November 2012
[8] IMA, **Guidance on the enhanced disclosure of fund charges and costs**, published September 2012

The PQM guide to GOOD communication

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*Data as at 30 September 2012

Introduction

Good communication should be a fundamental objective for all occupational pension schemes. In a defined contribution (DC) plan it is especially important.

A key feature of a DC plan is that scheme members have to make decisions which will impact on the benefits they are able to draw in the future. Poor choices may be made if all the relevant information is not communicated to them effectively.

Pension schemes also have a legal duty around communications – the disclosure regulations set out minimum requirements for the information with which schemes must provide members. These apply to both trust-based schemes run by the sponsoring employer and to contract-based plans administered by a third party such as a life insurer. The latter are also bound by additional requirements, laid down by the Financial Services Authority.

Additional reasons why pension schemes must prioritise communications:

To comply with their legal duties.

To deliver good recruitment and retention rates – unless schemes are able to communicate their value, they are unlikely to be able to persuade members to join, or to retain members.

To motivate members to plan for their retirement – members who are engaged by their pension schemes are more likely to take an active interest in saving for the future, and to enjoy better outcomes.

To reduce waste and inefficiencies – pension schemes that fail to communicate effectively will spend more time dealing with members' questions and problems. This will have cost implications.

Introduction cont.

To improve the relationship between employer and employee – pension schemes are extremely valuable benefits and employers often choose to offer much more generous arrangements than are required by law. But if members do not understand what their schemes deliver, they will not appreciate this value.

Communication is so important that it is one of the three core standards underpinning the Pensions Quality Mark (PQM), alongside governance and contribution rates.

The PQM, an important initiative from the National Association of Pension Funds (NAPF), is a benchmark that employers can use to demonstrate the value of their schemes to current and potential staff. This guide is not intended to provide a template for schemes hoping to achieve the PQM, but many of the principles will be useful for those that would like to pursue this goal in the future.

Pension schemes sometimes worry that improving the standard of their communications will be difficult and, above all, costly. That does not have to be the case. The best communications material is simple and concise – in short, it gets the message across effectively. And while some schemes will embrace more elaborate solutions using, for example, multimedia tools, it is important not to confuse the message with the channel being used to deliver it. Traditional communication channels can be just as effective as newer methods of delivery.

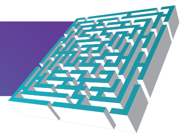
The principles of **effective** communication

Many people consider themselves good communicators, yet misunderstandings in the workplace – and elsewhere – are remarkably commonplace.

It is possible to test the effectiveness of any communications material by asking three very simple questions:

1. Does it have impact?

In other words, is this material likely to grab the attention of those at whom it is aimed?



2. Is it clear?

Will the target audience be able to easily understand the material? Are any elements of it confusing or ambiguous?

3. Is it accurate?

Is the material complete and reliable, or is there a danger that it could mislead those reading it in some way?

If you can honestly answer yes to all of those questions the communications materials you produce will be a long way down the track towards engaging really well with members.

In practice, however, there is always room for improvement – and remember that scheme managers' own views about their communications may not necessarily reflect the views of those at whom the material is aimed. Conducting market research – asking a sample of members what they think – can be a really useful exercise. It is certainly a good idea to try out new material on a number of members – make sure you get a representative sample if the workplace is diverse – before full-scale publication. And existing material should be regularly road-tested too.

Good communicators constantly assess the effectiveness of what they do – and learn from every exercise.

Schemes that provide members with ways to give feedback on what they have received will stand a much better chance of improving in future. Sometimes that feedback may make difficult reading – particularly in instances where schemes have had to communicate bad news – but it should always be welcomed as an opportunity to make things better.

How to communicate

Good communication starts with good planning.

Pension schemes need to begin by identifying their objectives for any communications exercise and ensuring that everyone involved shares that understanding. Once clear goals have been established, it is much easier to think about how they might be achieved.

One important question is how to deliver the message. In the modern workplace, there are all sorts of possibilities and opportunities, but traditional methods of communication can still be effective too. Nor do communication channels have to be mutually exclusive – it will often be appropriate to seek to reach members with the same message in a number of different ways.

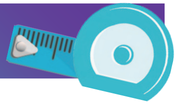
Communication options

- Standardised brochures and leaflets
- Individual or group meetings for staff with pension scheme staff
- Internal and external mail
- Email
- Staff noticeboards
- The company intranet
- Company newsletters
- Printed material provided by scheme administrators.

This is not an exhaustive list – some schemes will communicate in other ways too – or a list where you should always seek to provide all options. But it gives a flavour of the enormous range of options that schemes now have. In practice, the delivery methods pension schemes choose for their communications material will depend on several factors.

Factors to consider when choosing a delivery method

1. The length of the subject-matter



It is always worth breaking up lengthy communications into bite-sized chunks that are easier for people to read. This is easier with some channels than others – replicating a well designed leaflet in an email, for example, isn't always practical.

2. The sensitivity of the message

Sometimes communications will have to be personalised and delivered individually, particularly if confidential information is included.

3. The degree of urgency

If you need to get a message across to members quickly, choose an appropriate delivery method. For example, a staff noticeboard, particularly in a large organisation, is unlikely to be as effective as writing to each member's home address.

4. The need for an individual response

When a response is required, the message needs to be delivered individually. That may be in person, by email or with a written letter. Make it easy for the member to respond – by providing a pre-paid, addressed envelope, for example – and set a deadline for doing so.

5. The nature of the workforce

How and where the company operates is a crucial consideration. There is no point planning a communications exercise around email, say, if half the scheme membership doesn't work using a computer. If operations are spread across many sites, a different approach will be required to what might be effective in a single workplace.

How to **communicate** cont.

It is important that communications are tailored to the audience receiving them.

That will require those responsible for communications – internally or at a contract-based provider – to have a good understanding of the scheme membership. Technical information can be daunting, particularly where it relates to financial matters, and unless it is explained in the most simple terms possible, it's likely that many members will fail to engage. In the worst case, they'll ignore such communications altogether, even if they are required to make important decisions.

Reduce the risk of this happening by designing communication materials with the audience in mind – the needs of those receiving the information, as well as their likely levels of financial awareness and their access to technology. Special provision may also have to be made for members with disabilities or particular impairments. Material may have to be translated into other languages.

As part of this tailoring process, you also need to consider the needs of all members. Some communications material will go to active and deferred members, as well as to those already drawing a pension from the scheme. In other cases, the message will only be relevant to one or two of these groups.

Pension schemes have not always done a good job at communicating with those members who are no longer with the sponsoring employer. But it is vital to work hard at staying in touch with deferred members and pensioners. The Pensions Regulator now requires schemes to show they have procedures for tracking these members, and for tracing any with whom contact has been lost. Tracking down members many years later can be expensive and time-consuming.

Regular newsletters are a useful way to keep in touch with members that move on. They're more likely to engage with such material – remember to include change of address forms, or an online facility where these members can update you with new details.

Above all, pension schemes must always be open and honest in their communications with members, providing a fair and balanced view of the facts in a way that is easily understood.

There should be no possibility of members being misled, and the scheme's legal duties should also be met. But schemes should avoid trying to anticipate every possible wrinkle of detail, in order to prevent communications material becoming too long and technical.

Jargon should be avoided, particularly in an industry that is notorious for its love of specialist terms!

Read all material with an eagle eye before it is distributed and replace any jargon that has sneaked through with plain-English explanations. If there really is no alternative to a technical term, it must be explained in simple language. A glossary of terms may be helpful but ideally a glossary should not be needed! Don't use a glossary as an easy option.

Case study

Taylor Wimpey | pensions

Putting it all together – The Taylor Wimpey Personal Choice Plan (PCP)

The PCP in a nutshell

Type of Plan
DC contract-based

Provider
Scottish Widows

Number of staff in in-house pensions team
4

Number of active members
1,569*

Gained PQM Plus
2011

*as at 31/12/2011

When setting up the Taylor Wimpey Personal Choice Plan (PCP), the Taylor Wimpey Pensions team were keen to make sure that the Plan followed the basic principles of good communication. In particular, they wanted to make sure that the Plan communications had impact, and were clear and accurate.

As well as the routine communications from the Plan provider, each year all Plan members get a Plan magazine, 'The Bulletin'.

This covers information specific to the Plan, as well as news in the wider world of pensions, including possible changes to State pensions and warnings about such things as Pension Liberation schemes. It needs to have impact, so that the members want to pick it up and read it.

'The Bulletin' has a look and feel designed for maximum engagement and impact.

'The Bulletin' uses the Taylor Wimpey pension strapline 'Your Plan: a helping hand for life after work', which sums up the values of all the Taylor Wimpey pension arrangements, making the point that they are a starting point for saving for retirement. But the Plan itself uses the extra strapline of, 'Your benefits in safe hands', to suggest that the benefits are safe – both in the hands of the provider and in the members' own hands.

The front cover of 'The Bulletin' features the Taylor Wimpey logo, to make it clear that the magazine, and the Plan, are connected to the company. This is important when encouraging members to read the information and appreciate the company's support.

'The Bulletin' uses a mixture of lifestyle photos of people, similar to the audience, as well as bright cut-out photos of objects. Both styles of imagery make 'The Bulletin' more attractive while supporting the messages in the text. For example, echoing the sentiments of helping hands and safe hands, the cover of the last issue showed the image of a youngish couple, who could be taken to be Taylor Wimpey employees, relaxing with a cup of coffee, while looking moderately thoughtful. For an article on shopping around for an annuity, a distinctive purse was used to convey the idea of saving pennies.

The style of imagery also echoes the approach taken by the Provider in its communications to members.

The articles are written in line with Plain English principles, setting out clearly what the member needs to consider. This is crucial when covering more complex issues such as investment performance. Wherever possible the articles are written in the active voice, and address the members directly. Jargon is kept to a minimum, and, where unavoidable, is explained in context. For example, the terms retirement and pension are avoided in favour of the concepts of saving for life after work, and providing an income or salary for that time.

When to **communicate**

Pension schemes need to communicate with their members for all sorts of reasons and at many different times.

But there are certain key moments in the relationship when communication is particularly critical – and particularly challenging too. The next three sections of this guide deal with some of the most important of these instances. opportunities, but traditional methods of communication can still be effective too. Nor do communication channels have to be mutually exclusive – it will often be appropriate to seek to reach members with the same message in a number of different ways.

When members join the scheme

The weeks immediately before and after a person joins a pension scheme represent a once-only window of opportunity.

Get communication right at this stage and you will stand a much better chance of engaging members' interest over the long-term, enabling them to take an active role in planning for retirement.

In the short-term, too, communication with joiners is crucial, because this is the moment when they must make some key decisions – on contribution levels and investment choices, for example. New members may be addressing retirement planning for the first time or moving to the scheme from a different type of arrangement at a previous employer. But either way, they need clear, concise and accurate information to help them make good decisions about their scheme membership.

This begins with the scheme information booklet sent to new joiners. It should provide full details of how the scheme works, make it clear what decisions the member now needs to make and explain how to make the outcome of those decisions known.

Designing the scheme information:

- **Scheme booklets tend to be lengthy, so use some of the tricks of publishing in order to prevent members' interest flagging.**

  Breaking text up into small sections will help readers keep going. Attention-grabbing headlines and sub-headings will draw the reader in too. Consider using graphics to illustrate explanations of numerical information, as well as pictures to break up the text. Case studies, featuring real examples of people who have been through the same process, can be effective too.

- **The crucial point to get across to members of DC schemes is that their role is a vital one.**

  Schemes should set out the choices members have to make on contribution rates and investments as clearly and boldly as possible, before providing help with those choices. It is important schemes do not fall foul of the rules governing financial advice, but the differences between types of investment, for example, should be explained carefully. Schemes shouldn't be afraid of talking about risk as well as reward.

- **Technical information can be intimidating – some members may not bother to read it.**

  Schemes therefore need to work hard on communicating key points about charges, contribution rates and investments through easy-to-follow plain English. Aim to be as concise as possible.

- **Many members will want additional information before making decisions.**

  Schemes should direct them to as many sources of information as possible, both within the scheme and elsewhere, and explain the principles of independent financial advice. Provide contact details for organisations such as The Pensions Advisory Service and Unbiased, which offers links to independent financial advisers.

- **Calls to action are really important.**

  Members must not only be told that they need to make decisions but also be given every chance to do so. Forms should be clearly set out and precise instructions on what to do next should be given.

Clear communication in practice

Writing engaging headlines will help draw readers in:

Bad
Pension savers are entitled to claim tax relief

Better
If you save in a pension, you pay less tax.

Bad
Take the open market option when you reach retirement

Better
When you retire, shop around for the best deal before you decide who will provide your pension.

Jargon will confuse members and is likely to stop them reading further.

Bad
In a money purchase pension scheme like ours, your pension fund will fluctuate in value in line with movements on global equities.

Better
In our scheme the value of your pension savings may go up or down in line with the investments we hold.

Bad
On retirement, you will probably need to buy an annuity, but you will be able to exercise the open market option.

Better
When it's time to retire, most people find they need to convert their savings into a pension. This is called buying an annuity. Shop around for the best deal before you decide who will provide this pension.

All of this can be achieved through paper-based scheme booklets and introductory letters. However, at many schemes, there is also scope to provide a great deal of this information online – generally in addition to, rather than instead of, the paper documents.

Using a website, you can provide basic financial modelling tools – ready reckoners on contribution rates and investment returns, say – and direct links to other sources of information. It may also be possible to allow members to complete all necessary forms online, if the scheme's administration is capable of dealing with this level of interactivity.

Automatic enrolment

As pension reforms roll out over the next six years, more and more employers will be required to sign up staff to a workplace pension scheme as a matter of course. But the fact that staff will have to specifically opt out of 'automatic enrolment' to a workplace pension scheme does not reduce the importance of communicating effectively. All of the existing challenges will remain and much of the information will remain consistent.

Employees will have to be given clear instructions on how to opt out should they wish to do so. But it is crucial that this information is communicated carefully. Any material considered to be an inducement to members to opt out – including verbal communications – will fall foul of the law. The Pensions Regulator offers further guidance on auto-enrolment on its website.

Case study

HEINEKEN introduced a defined contribution scheme in July 2011 and Janis Ireland joined as Pensions Governance and Operations Manager shortly afterwards.

Anyone joining the company is now automatically enrolled into the scheme and this is communicated in the offer letter sent to those who make successful applications for jobs at the company. These letters provide details of the company's pensions website, which is part of its HR portal for staff. New joiners then have to specifically opt out of the scheme if they do not wish to become members.

In practice, staff do not formally join the scheme until the first payroll after they have been with the company for 50 days. The intention behind this was to give colleagues time to make changes to the default if they wished to do so.

This may need to change once auto-enrolment becomes law and the final regulation is available. They also receive a welcome pack from Standard Life, the company's pension administrator, which also refers new joiners to the pensions web portal.

All staff, whether members or not, are entitled to access this site and to use its tools, including modelling and projection programmes.

The current take up rate is around 97%

HEINEKEN also runs induction seminars for new joiners every six weeks or so, at which the company's pension arrangements are covered in a specialist session. The pension sessions were introduced last year in an attempt to stem opt out rates which, while low by industry standards were initially a little higher than the company had hoped. The pensions department will also make contact with those who opt out of the scheme, in order to stress the value of the benefits – which include generous life insurance cover and income protection.

The induction seminars are an important opportunity for new joiners to discuss some of the choices they have to make as members of the scheme. These include decisions on contribution rates, investment funds and whether to save via salary sacrifice or not.

> *"Initial indications are that these seminars are proving very successful during engagement. We want participation rates to be as high as possible,"* said Ms Ireland.

> *"We have 25 to 35 new joiners at the company every month and when I first started, we were getting nine or so opt-outs each month, which was higher than we wanted. Now we are down to around three – in some months, there are none at all. The current take up rate is around 97%"*

HEINEKEN is also working hard with Standard Life, the Company's pension provider, to improve the quality of communications sent to members with a particular focus on decumulation for the coming year. For example benefits statements are sent in a standardised format from the insurer, HEINEKEN supplements this with its own leaflets for members, which aims to explain the statements in plain English.

Ongoing **communications**

You should aim to keep talking to all scheme members for as long as they have a relationship with the scheme.

Some of that communication is prescribed – such as updates on fund performance, for example. But regular contact above and beyond the minimum legal requirements will boost scheme retention and encourage member engagement. In the case of deferred members it should also reduce the number of 'missing' contacts, and therefore save on the expense of trying to track down these people. Keeping in touch with pensioners makes sense for similar reasons.

There may also be occasions when you need to contact members because something is going to change. Whether that change is for better or for worse, the scheme has a responsibility to communicate the details to members effectively. It may also have a legal duty to consult on the changes. And where the situation is a difficult one, explaining the change in the clearest possible terms may help relieve tensions.

Annual benefit statements must provide scheme members with a clear snapshot of how their saving is progressing and the level of retirement income they are heading for. While regulation sets out how this data should be communicated, a great deal of latitude remains for schemes to make their statements really effective. Explaining benefits in clear terms with no jargon is crucial, but the annual statement is also an opportunity to encourage members to take action – to consider how much they are investing, for example, and whether they have chosen appropriate funds.

Another reason to communicate with scheme members is to find out what they think about important aspects of the scheme (including the quality of its communication materials). These exercises should be conducted with all categories of members, and can help improve scheme design on an ongoing basis.

Schemes that work hard at communicating with members tend to have lower drop-out rates and more active memberships. But there are a number of important principles to bear in mind:

- **Consider carefully which communication channels are suitable for the message you want to get across.**

  The employer's intranet can be a really useful vehicle, for example, but it won't work for reaching deferred members and pensioners. Company noticeboards will be less effective if many of your staff work from home. Leaflets may work if the message is simple, but you may need face-to-face contact if members are likely to have lots of questions.

- **Technology can be very useful, providing members with facilities that enable them to make much more informed decisions about their savings – and even to execute those decisions.**

  But think carefully about whether all members have access to this technology, or whether they want to engage in this way. Traditional methods of communication will remain important too, for all but a handful of internet-focussed businesses.

- **Whether you are communicating electronically or on paper, think about content and design.**

  Avoid technical language and overly-lengthy content. Make good use of images, including graphical information, wherever possible.

- **Face-to-face meetings with members – both on an individual and group basis – can be a really valuable way to encourage participation and get direct feedback.**

  These sessions can simply be generic pension workshops, designed to explain basic principles, or structured around specific events. Face-to-face communication may involve a bigger time commitment but can be hugely important.

- **If you have to deliver less happy news to members – a proposed reduction in benefits, for example – it's important to work hard on the communication.**

  Members should have changes communicated to them in detail and be given every opportunity to ask questions. If it is possible to highlight additional support that is available to members, so much the better. Above all, do not be tempted to try to hide difficult messages behind confusing jargon – set out costs to members, as well as any other implications, in clear and honest terms.

- **Pension schemes' relationships with departments at the sponsoring employer can help with effective communication – particularly on the timing of certain messages.**

  Encouraging those scheme members who have just had a pay rise to increase their contributions could be effective, for example.

The technology business has decided an online communications strategy suits its membership perfectly.

CSC ePA

CSC appointed new administrators to its pension scheme at the end of 2008 and took the opportunity to revamp its communications strategy shortly afterwards.

The scheme now communicates with ongoing members almost entirely online.

Although this has produced savings, Chris Marshall, Deputy Pensions Manager at CSC, points out that the shift feels appropriate at a technology company in a way that it might not at other types of business.

The communications strategy has changed in another way too: the scheme now talks to members as and when it needs to, rather than feeling obliged to produce regular newsletters and other standardised information that may simply be ignored.

CSC now takes the view that the best way to encourage member engagement is to communicate on a more ad-hoc basis, generally around a specific event that requires some input. These one-off communications, which are all online, might cover a change in investment choices, for example.

Annual benefit statements are also published online and members also have to make decisions annually under the company's flexible benefits arrangements. Again, this is an internet-based communications exercise.

That is not to say that there is no help available. The company's pensions web site, for example, includes a short film providing information about the investment options, as well as an interactive risk tool to help members make decisions. This site also provides links to the scheme's retirement planning service, which offers support to members getting close to retirement.

CSC has taken a similar approach with deferred members, who are now sent postcards each year to inform them that their annual benefit statements are ready for inspection online. Though the company will mail out this information to deferred members who ask for hard copies, such requests are rare.

The stripped-back, online approach to communication has worked well for CSC, which estimates that at least a third of active members now engage with the scheme on a regular basis.

Mr Marshall believes that because the scheme targets members via a channel with which they are very comfortable, and only when it has something specific and important to say, communications are much more likely to be read and acted upon.

> *"There has been a conscious effort to try to break communications down into what is really relevant to people,"* he says.

> *"And we think it's crucial to communicate at the right time too, when people actually need to hear from us."*

An estimated 1/3 of active members now engage with the scheme on a regular basis.

CSC Online Benefits Statement

CSC Investment Film

Time for **retirement**

The choices that members of DC schemes must make continue right up to retirement.

Final decisions are often the most crucial as they seek to secure the best possible income in old age. Retiring members will stand a better chance of making good decisions if the scheme communicates well with them, both in the run-up to retirement and when the time finally arrives.

Schemes should begin letting upcoming retirees know about their options well ahead of their expected retirement date. Communications need to change from the generic to more personalised, detailed information, including illustrations of potential financial outcomes.

Members of pension schemes that have encouraged them to think about retirement well in advance will be more comfortable with the decision-making process. But that shouldn't affect the way you approach communication at this stage – information needs to be just as clear, accessible and accurate as ever. The following points are worth considering:

- **It is crucial that members are made aware of the open market option – their right to buy an annuity from their choice of provider – and the difference that exercising it may make to the value of their retirement income.**

  Members need to have annuities explained to them – that these are the products that will enable them to turn their pension funds into income. And they must be told how to shop around for an annuity and be advised of the value of independent financial advice.

- **Schemes should work hard to talk members through their options step-by-step.**

  Consider the use of graphics, flow-charts and case studies in order to aid the decision-making process.

- **The annuity market is a particularly prolific generator of pension jargon, so be careful about avoiding specialist terms when communicating with members on the verge of retirement.**

  However, it is worth providing definitions of common terms, which members are likely to encounter elsewhere as they exercise their open market option.

- **A well-designed form will cement the principles of the decision-making process for members by helping them think carefully about the choices they have to make.**

  Forms should encourage members to take a step-by-step process to analysing annuity options.

All of this information and communication was once provided to pension scheme members solely on paper. For many members, this will continue to be the way they wish to be informed and advised, but the internet does offer much greater functionality and can help people make more educated decisions about their options. Annuity calculators, for example, are an especially valuable way to spell out the impact of decisions members make about the tax-free cash lump sum, inflation protection, guaranteed annuities and benefits for dependants.

Finally, pension schemes shouldn't stop communicating with members during their retirement.

Many schemes produce regular newsletters for their pensioners, which can be despatched alongside statements and other more mundane communications. Some schemes even organise special events for their pensioner members.

Case study

The personal approach is crucial when members are nearing retirement, the car manufacturer believes.

At Volkswagen Group UK, Group Pensions Manager Roy Platten takes a proactive approach to communicating with members approaching their scheduled retirement date, working with the scheme administrator and the HR department in order to identify those in need of help.

Members are first offered the opportunity to attend a one-on-one pensions surgery with Mr Platten, a year or two prior to their retirement date.

This is an opportunity to begin discussing members' options – particularly around annuity purchase – and to get them to begin thinking about the choices they need to make. These may include leaving the pension fund invested beyond retirement or even continuing to work after beginning to draw pension benefits, as well as more conventional options.
Next, scheme members are invited to attend a full-day retirement-planning seminar run by an independent provider away from the workplace.

The seminars typically cater for around eight or nine members at a time and spouses are invited too. They cover both financial and non-financial issues, though they do not provide personalised independent financial advice.

Six months or so before the member retires, he or she will receive final confirmation from the pension scheme administrator of the benefits that will become payable on retirement. This communication provides detailed information on the annuity choices members have made.

In practice, many Volkswagen members also choose to take independent financial advice, which the scheme welcomes particularly given the many choices to be made during an annuity purchase. The scheme administrator sources annuities from across the market and should therefore be securing the best possible income for each member, depending on their individual circumstances, but members are encouraged to review open market options too.

Overall, the aim is to ensure that there are no last-minute surprises for members coming up to retirement and to help members feel more comfortable about making the change.

"People approach their retirement in very different ways,"

says Mr Platten.

"Some don't feel fully ready to leave while others are more philosophical. A majority are ready to embrace retirement."

Volkswagen also works hard to keep in touch with pensioners even after they have begun drawing their benefits, hosting ad hoc events to which they are invited. These have included Christmas parties as well as invitations to tour new facilities at the company's sites.

Conclusion

All pension schemes have a responsibility to communicate effectively with members, whatever the size of that membership.

Not only is it a responsibility but it is in their interests to do so – at schemes where members are well-informed, participation rates will be higher, engagement will be easier to achieve and the relationship between staff and the sponsoring employer will be stronger. There may be other benefits too – a high-quality pension scheme can be an important recruitment tool, for example.

For trust-based schemes and contract-based schemes alike, the quality of communication should be a very high priority. In the case of the former, trustees will want to ensure the highest standards are maintained. With the latter, the fact that the scheme provider is responsible for communication materials, as is often the case, should not be a reason to ignore this issue. Indeed, the quality of communications and the range of services on offer should be a key factor when employers choose pension providers. And if they are unhappy with communications once arrangements are in place, they should express their dissatisfaction at every opportunity.

Pension schemes shouldn't assume that high-quality communications are beyond them.

The challenge is simply to produce material that has an impact and which is clear and honest. That can be achieved cost-effectively with or without the use of digital technology – the key is what works best for your scheme members, given the budgets available.

Start by planning ahead: identify the material your pension scheme has to produce over the coming years, as well as any additional material it might make sense to deliver. Talk to scheme members about the type of information they'd like to receive and how they'd like to receive it. And consult the scheme sponsor too on what its objectives are.

By working together to improve the standard of communications, pension scheme professionals and other key stakeholders can achieve tangible benefits. Above all, unless scheme members are told about the valuable pension benefits they're getting from their employers (as well as the Government, in the form of tax relief), they won't appreciate them.

By working together to improve the standard of communications, pension scheme professionals and other key stakeholders can achieve tangible benefits.

The PQM guide to GOOD communication

Pension Quality Mark

www.pensionqualitymark.org.uk