

HAVE YOUR SAY

Cost versus value

Each month *DC World* asks readers for their views. This month's topic is: What can be done to boost employees' perception of the value of joining an occupational pension scheme?

Phil Bradish
Sales manager
The Pensions Trust

We all want to have sufficient income in retirement but the main problems for individuals are assessing how much income is needed and what steps can be taken now to ensure that there will be sufficient income at the right time. What is clear is that individuals tend to be unrealistic about these matters and can be disappointed with the end results.

The answer to the dilemma lies in education about what an occupational scheme has to offer e.g. benefits, costs, investments, additional voluntary contributions, flexibility and a realistic assessment of what needs to be saved in order to achieve the desired results.

This can be achieved by a meaningful communications programme including group presentations and surgeries for both existing and prospective members, easy to understand literature and documentation, the aim of which would be to improve individual awareness and to provide an incentive for encouraging membership.

Chris Clough
Principal consultant
Lane Clark & Peacock

Joining an employer's DC scheme should be an easy decision, given the potential employer contributions and tax-breaks on offer.

I think two main things are stopping people from joining. First is the bad press that "pensions" has had – although in reality this has almost all

related to benefit security worries in DB schemes.

Second is apathy and personal debt levels, both of which are continually deferring the point at which people become net savers.

People should be shown how much worse-off they are likely to be by starting retirement saving five years late.

Take-up rates in DC schemes remain low. This may be because of a lack of financial literacy in the UK. If people are struggling to run their day-to-day finances, asking them to understand pensions is perhaps unrealistic.

Communication and education when pitched at the right level is the key if we want to change how the average employee saves for their retirement.

Robin Hames
Technical solutions director
PIFC Consulting

In its paper about defined contribution arrangements, the NAPF succinctly summarised the value brought by a board of trustees: a body perfectly placed to assist with "tailoring the service and advice...to best suit the unique needs of the scheme and its membership".

It is incumbent on trustees to grasp the nettle and leverage this perceived advantage.

With a disengaged public, communication must be a decisive factor.

Trustees must tangibly demonstrate their value – the improved returns achieved through their investment process, for instance.

A multi-media approach including e-mails and

text messages may help to reach a younger, uninterested audience. By also encouraging employers to utilise tools such as total reward statements, trustees can help to elevate the scheme's status and give tangible meaning to the benefits which might otherwise be foregone.

Trustees must be both champions as well as guardians of their schemes; if they cannot, where does their future lie?

John Jory
Deputy chief executive
B&CE

Most people appreciate the need to save for retirement – be it in an occupational pension scheme or in their employer's stakeholder scheme – but they want it to be easy for them to do so.

That's why we advocate auto-enrolment. We're piloting a scheme with some large employers at the moment and if it's a success, we hope to roll it out across our membership.

"If you offer a stakeholder pension it's important to make individuals aware of the benefits of saving. A matching arrangement will be seen as a high value employee benefit.

Employers using the construction industry's stakeholder pension, EasyBuild, can match an employee's weekly contributions by up to £10.

"It's also important to get out there and talk to your employee members. Pensions are difficult to explain, and promote, in a leaflet but if you can talk face-to-face you are more likely to be successful."



Rosie Lacey
Client manager
MNPA

Employees' perceptions are influenced in different ways from personal experience through to what they see, hear or read. Indeed the press, in pursuit of newsworthy stories, can often influence perceptions negatively with "scare factor" headlines potentially undermining the value of perfectly good pension schemes.

To address any negative perceptions, employers should show their commitment to the pension arrangement. For example, a powerful message can be delivered through plan design.

Providing a contribution structure that commits the employer to paying core and matching contributions in return for a level of commitment from the member indicates the employers' willingness to share the burden.

This must be backed up by accessibility and a sensible choice of funds which the member can understand.

Communication is critical and it should be understandable, frequent, supported by interactive modelling tools and roadshows.

This should be underpinned by a staff pensions committee that report into influencers within the company.

Sally Ling
Head of benefits communications
GR Communications

Ideally, the process would start before people become employees. If children and young adults were given a basic financial education, the process of encouraging them to make pension savings would be a great deal easier.

What we can do is to help people to understand how cost-effective pension saving is and how much their employer pays. They also need to have a realistic feel for what level of income they are likely to need in retirement and appreciate how little the state provides. Examples should always be in today's money terms as people can relate to these. Projections and percentages only serve to confuse.

People need to feel that their pension savings are safe – as safe as a building society account – and that they will get value for money when they retire. Making annuities easier to understand and more flexible would also be a big step in the right direction.

David Marlow
Marketing director
Alexander Forbes Financial Services

With all the current focus on the Turner proposals for a National Pension Savings Scheme and auto-enrolment, are the Government making the most of what is already available?

How many employees are fully aware of the significant tax benefits of contributing to either an occupational or personal pension?

An education programme highlighting the beneficial tax relief to be gained on personal contributions could help to stem the current decline in both member participation and payment of additional contributions.

Our own experience of advising employees on the benefit of joining their scheme has indicated that only when individuals have clear, jargon-free details of their scheme, clearly explained, do they fully understand the importance of all the benefits being provided. This could be aided further with clearer tax incentives. It is important to recognise that employees will get more out, the more is paid in on their behalf overall, so therefore incentives for employers to pay more in would also make a big difference.

Neil O'Reilly
Head of DC communication and education
Fidelity International

It's all about communicating the benefits. The key to this is simplicity. Much of the information that is provided to employees is too complex. The reasons for this are numerous – ranging from regulatory and statutory requirements to succumbing to a temptation to demonstrate how much the author knows.

There will always be a balance to strike between (a) providing clear, concise information, in bite-size chunks, using media relevant to the intended audience and (b) cost. Structured programmes of multi-media communication work, including face to face meetings, need to be tailored to the needs of any given workforce.

However, the central message must be along the lines of 1.) you pay £X, 2.) the benefits are £Y pension for you at retirement (or £y benefits for your dependants if you die before getting there) and 3.) your employer pays £Z. In most cases, it will be clear that £Z represents a significant part of the total compensation package.

Paul Sturgess
Operations director for benefit consultancy and actuarial services
Capita Hartshead

The key to getting employees to value the benefits of employer sponsored pension arrangements (be they occupational or contract based) is for them to understand the real cost of providing pension benefits.

The Victorian adage was that one should save 10pc of income throughout one's working lifetime to provide for retirement. Few people do that even today. Of course now it costs a lot more than it did then, as life expectancy is so much greater.

Employers, governments and providers have to find ways to get the population to understand the sums of money that they need to save. Thus communication should graphically indicate what benefits are likely to be and how that compares with what they need to be comfortable in retirement – "the savings gap".

Projected benefits should graphically illustrate how much of the projected benefits emerge from the employer and how much from the member. Simple isn't it... I wish!

Gary Tansley
Consultant
Hamish Wilson & Co

The secret lies in clear and fair communication, assuming the scheme is designed and managed well!

This should be relatively easy to achieve if the sponsor will contribute to the scheme without conditions, there is no DB alternative and the employer won't contribute to a private pension.

Where there is a level-playing-field choice between occupational DC and a private pension, the crucial thing is communicating the value added by the trustees, who are focused on members' interests. (The sponsor plays a role in this too, of course.) This starts by showing collective purchasing power has been used to obtain tangible benefits, like lower charges or access to independent professional advice.

More value can be shown by describing the process used to determine the types of funds and managers offered, not forgetting the process for reviewing these. The key is therefore getting employees to appreciate both the economic advantages and "comfort factor" provided by the trustees' governance of the scheme.

NEXT QUESTION: "As people tend to have several jobs during their life is there any merit in centralised works council type information to help people? Should DC providers do more to help?"

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