

IN THE PICTURE

WE are sure that everyone will be aware by now that the Finance Act 2004 brought in radical changes to the limits on pensions and their taxation. Pensions consultants up and down the country have been busy running around advising companies and their top-earners, together with trustees, of the forthcoming changes.

But what about those people who are not so readily identifiable as getting caught up in the changes: the people under the pensions manager's radar?

IS IT ALL ABOUT PROTECTION?

If you are lucky enough to have accrued over £1.5m in pension rights, or are likely to before A-Day, then the chances are pretty good that you have already had some form of advice about how the changes will affect you and how best to protect your benefits. This may have considered the following options:

- Taking primary or enhanced protection.
- Taking protection and continuing to accrue benefits, but targeting early retirement.
- Whether it may be advantageous to pay additional contributions before A-Day to enhance the amount that you can protect.

The above list is by no means exhaustive. If you are not fortunate enough to be in the position of having £1.5m in pension rights, but still have a reasonable pension, then the

NICK WESTWELL and PAUL MEREDITH of Lane Clark & Peacock look at the ways tax simplification changes can be communicated to scheme members

advice, other than primary protection not being an option, is less clear. It could even be, as is often the case, that protection of accrued pension benefits is simply not an issue. However, you may still need advice.

OUT OF THE PICTURE?

There is a lot of information flying around but there is one group of individuals who are not, on the whole, on the radar, avoiding the information battery that is knocking down the larger, more visible targets.

The profile of this group might feature some or all of the following:

- Well paid, earning slightly below the current earnings cap – let's say around £80,000 per annum.
- Not near the lifetime allowance at the moment.
- Possibly with a short period of service in their current scheme but retained benefits from previous employment.
- Possibly going to break the lifetime allowance in the future, particularly if they

were to take advantage of the opportunity to pay a significant amount of contributions going forward.

- Relatively young members who have not thought about retirement at this stage in their careers.
- Unaware of their need for advice.

What we are finding is that the advice depends on a number of inputs and these may be known only to the member themselves. For example:

- When are they thinking of retiring?
- What level of contributions do they plan on making in the future?
- Do they have retained benefits that might affect their options?

The difficulty is in targeting this group and then delivering something meaningful and useful to them in the most cost-effective manner. How do we hit these targets?

PAPER-BASED ASSAULT?

Often the first response to a pensions problem is to start producing paper and while putting pensions into plain, readable English can be a challenge, it is not insurmountable.

The difficulty in this case and a good argument for rejecting paper as an option, is that the target population is relatively unknown and the individuals are different to the point that the information may need to be tailored. Someone may be looking at future contributions, another may be interested in looking at early retirement, another may have large retained benefits – all of which will affect what information is or is not relevant.

Trying to cover all bases with "what ifs" could quickly get out of hand. But if you intend a more tailored approach, without an exercise to collect the pieces of data from all the individuals (retained benefit information, retirement choices, expected contributions, etc), you may as well not start.

SEMINARS?

An alternative to a paper exercise, would be to provide seminars to groups of individuals.

The main advantage of holding seminars for individuals is that they allow individuals to identify themselves. Individuals may have the option to raise questions in the seminar and then you can go away and produce whatever is necessary for those concerned. Forcing them to sit down and listen through a presentation on the changes (making sure the room is sufficiently cold and well oxygenated and the chairs not too comfortable) and highlighting the situations under which they might want to consider further advice is a good idea.

The only problem is that you may still end up having to go away and tailor information to

individuals as a seminar is, by design, going to be couched in general terms.

PICK THEM OFF ONE BY ONE?

Individuals can always be given individual advice.

Individual advice is a very powerful way of providing specific advice to individuals and a number of scenarios can be considered in a session. It is also, unfortunately, frequently not the best value for money. And it is a taxable benefit.

SO HOW DO WE DO IT THEN?

It is easy to lose track of the fact that people are used to receiving information through many other forms of media, such as video, interactive computer-based programs, web-based applications, etc. We should not be blinkered in our approaches and should not feel limited to merely standing up and presenting the issues or throwing bits of paper around.

Many consultancies have developed A-Day modellers of one form or another. These are, generally speaking, powerful tools able to consider a range of options. Indeed, we would likely rely on them in producing our individual papers or when sat down providing face to face advice.

However, if we have these flexible modellers surely the best way of providing advice might be to provide a modeller suitable for the employees to use themselves. This approach would allow for the flexibility needed by individuals in terms of the variables identified above (retirement plans, contributions, unknown tranches of retained benefits, etc).

A modeller can be made available to a range of employees and they can identify themselves through playing with it. Indeed, through playing with it, they can identify what their options might be and the implications of a range of choices they may choose to make in the future.

Obviously, such an individual-facing modeller would need to have suitable information, flashy charts, pop-ups, videos, etc, so that the individuals have the information at their fingertips to be able to understand what it is that they are looking at.

One happy result of this approach is that it would help to reduce the burden on the poor, over-worked pension manager (for whom simplification is only the tip of the iceberg given all that is arising from the Pensions Act).

If this means that we are moving away from the conventional world where the information that pension scheme members get is tightly controlled to one where members are more informed about the choices available to them and encouraged to explore the wonderful world of pensions for themselves, then so much the better. ●

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Ward on Pensions in association with Friends Provident featuring Jeremy Ward

Pensions at the cross-roads - Jeremy Ward, Head of Pensions Marketing at Friends Provident contributes to the debate on key issues

THE year ahead is ripe for the government to finally grasp the nettle and create the environment to reverse the trend in the decline of private pension savings. The politicians must show leadership, build on the momentum created and deliver long-term solutions for state pensions, pensions for women and the private system. We need to put an end to the debate on a whether voluntary or compulsory provision is the right strategy to top up state pensions.

Mr Blunkett, newly appointed Pensions Minister and a proven political heavyweight, is already considering radical reforms to the UK pensions system. It is important he does not undermine the work of the Pensions Commission which will deliver its final report at the end of November.

Further, next April the new simplified tax regime for pensions is introduced. Each month this column will comment on a hot topic, we start with automatic enrolment of employees into pensions schemes.

Increasing membership take up of company pension schemes is widely recognised as a major step to plugging the pensions gap. The Pensions Commission alluded to this in its initial report and the Employer Task force on Pensions included the automatic enrolment process in its guide to good practice.

The stark picture is membership levels continue to decline. The latest survey from the Government Actuary's Department (GAD) includes statistics at April 2004 stating only 4.8 million people were accruing private pensions, compared to 6.5m in 1991 and 8.1m at the 'peak' in 1967. Until 1988, employers could make membership compulsory and few would argue that the legislation to ban this has contributed greatly to declining membership.

Automatic enrolment is not a new concept; employees can be automatically included in a



company pension scheme on the basis that an individual can subsequently choose to withdraw. In practice, a very high proportion of employees do not choose to opt-out (due initially to inertia), but over time such members appreciate the value and security of their company retirement benefits.

However the industry has concerns that the process is difficult under the current regulatory regime, particularly for employer sponsored Group Personal Pension Schemes (GPPs) and Group Stakeholder Pensions (SHPs).

The Department of Work and Pensions (DWP) took a positive step in July, issuing guidance notes covering automatic enrolment into GPPs and SHPs. The guidance was agreed by DWP with HM Treasury and DWP consulted with the other key industry bodies.

An Order relating to financial promotions in the Financial Services Markets Act 2000 has caused concerns to employers in promoting their scheme to employees. The Government amended this legislation on 1st July 2005 to make employers' position 'safer', provided they make a financial contribution to the scheme and do not receive a direct financial benefit from the scheme provider.

The DWP says the guidance does not diminish consumer protection and common minimum standards of information must be given to all employees and provided 'in good time' for the employee to be bound by the contract. 'Good time' is not defined but DWP takes this to mean adequate time to pause and reflect, in order to assess suitability before entering into the contract. The DWP guidance is unlikely to provide comfort in all quarters but it is a step in the right direction. Hopefully, automatic enrolment will feature high on the list of the Adair Turner recommendations and can be widely introduced to boost company pension membership.



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