

Engaged employers and informed retirement choices – key to good outcomes for members of defined contribution (DC) pensions

A statement by the Pensions Regulator

The impact of the current economic downturn on asset values and retirement incomes reinforces the importance of the roles and actions of those responsible for the design and delivery of workplace pension schemes. Trustees, providers, advisers and employers all have important parts to play in helping members achieve good outcomes from their pension saving.

This statement - which is targeted at trustees and employers and builds on our current guidance - sets out how the Pensions Regulator ('the regulator') aims to enable informed member choices at retirement, and improve the quality of employer engagement in DC pension provision.

These two aspects of DC pension provision are our current areas of focus due to the impact of the downturn on members approaching retirement and the imminence of the 2012 reforms. Our overall approach to the regulation of DC pensions is outlined on our website.

Retirement options and processes

A key priority is to ensure trustees and providers are enabling members retiring today to make the right choices. Members must be aware of all their options in order to make informed decisions. In particular, trustees and providers are required to offer the open market option giving members the right to buy their annuity from the provider of their choice.

We have a particular focus on the standards of pre-retirement processes and member communications of trust-based schemes. The Financial Services Authority (FSA) has a similar interest in relation to contract-based schemes. We have produced a guide jointly with the FSA which sets out the respective roles of the two regulators in relation to workplace contract-based pensions¹

¹ <http://www.thepensionsregulator.gov.uk/docs/TPR-FSA-guide-on-regulation-of-contract-based-schemes.pdf>

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Increasing employer engagement

Another priority is to encourage employers to engage responsibly with the pension arrangements they provide to their employees. Our aim is to improve employer engagement with minimal additional burden and so to encourage a greater level of appreciation by employees of the value of their pension and the importance of retirement planning.

We will be providing guidance for employers on how and what they can tell their employees about the pension they offer, as well as explaining how the right governance structures can be put in place for workplace pension schemes.

What is the Pensions Regulator doing?

...on retirement options in trust-based schemes

Good progress has already been made in improving retirement options for members and the processes to support them. We recognise the good work that many trustees, employers, providers and advisers are doing in this area.

However, we know from our research that only a third of trust-based schemes have reviewed their retirement processes in the last year, and the same number have not reviewed them for over three years. Some schemes have never looked at their retirement processes².

We therefore believe more can be done to improve member outcomes.

- * To help trustees ensure their pre-retirement literature is of a good standard, we have updated our member leaflet on retirement choices. This describes the range of options available to a member approaching retirement, including annuity types and other alternatives.
- * We are also reviewing the retirement processes and literature in a sample of trust-based DC schemes. Where we find shortcomings we will expect trustees to make improvements and, if appropriate action is not taken, we will use our enforcement powers if necessary. We will report on our findings later this year.
- * Our *Trustee toolkit* provides education and information for trustees of DC schemes, to help them meet their statutory requirements for knowledge and understanding. We will continue our efforts to ensure that those running DC trust-based schemes have the necessary knowledge and understanding, and we will update the toolkit as new risks and issues emerge.

² Our 2009 governance survey will be published later this year. In addition, a review by the FSA of the pre-retirement literature given to members of personal pension schemes found inadequacies in 40% of the literature. The FSA has addressed these issues with personal pension providers and improvements have been made.

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...on employer engagement with their pension provision

Employer engagement is central to good DC provision. Where employers take an active interest in the pension they offer they can encourage employee take-up and motivate employees to think about their retirement plans. By enabling employees to save for their retirement, employers can help to cultivate a committed workforce.

- * We know that some employers are anxious about engaging with their workforce on pensions. Our research tells us that employers have concerns about their liability and are nervous about giving information and support. We are working with the FSA and will be publishing a guide later this year to help employers provide pension information and support to their employees.
- * We encourage trustees, employers, providers and advisers to ensure they have clearly defined responsibilities for the governance and management of occupational pension arrangements. This includes responsibility for regularly monitoring charges, reviewing scheme administration and investment options, producing effective member communications, and checking that the scheme continues to meet the needs of their workforce. In trust-based schemes the trustees have the lead responsibility for these activities. In contract-based arrangements we encourage employers to work closely with their provider and adviser, and consider establishing a governance committee or making other arrangements to help with these tasks. We have produced guidance on voluntary employer engagement to help with this process.

Pensionwise, our online information resource, can assist employers in understanding the key issues that should be addressed in their pension provision and how best to engage with their scheme.

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Our long-term DC focus

The pension reforms being introduced in 2012 will require all employers to enrol their employees into a qualifying workplace pension. For many employers this will be the first time they have offered and contributed to a pension. In our preparations for 2012 we are focused on making it as easy as possible for employers to comply with their new duties while ensuring there is a robust regulatory framework for all types of workplace pensions.

We will continue to work with all of our stakeholders to promote high standards in DC schemes to achieve good outcomes for members and increase confidence in pensions.

We have today published our first analysis of the DC trust-based landscape, giving a snapshot of the current shape of DC provision.

We encourage trustees, employers, providers and advisers to use our online resources, and to contact us if they have concerns about their scheme. Find out more at: **www.thepensionsregulator.gov.uk**

Other useful links:

www.fsa.gov.uk

www.abi.org.uk

How to contact us

The Pensions Regulator

Napier House
Trafalgar Place
Brighton
BN1 4DW

Customer support

Phone: 0870 606 3636

9am to 5.30pm, Monday to Friday

Textphone: 0870 2433123

Fax: 0870 2411144

Email: customersupport@thepensionsregulator.gov.uk

www.thepensionsregulator.gov.uk

www.trusteetoolkit.com

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