

# A review of retirement information for DC members

DC members have a number of retirement choices. Do retirement processes help members make the right decisions?

**October 2009**

[www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk) 

## **A review of retirement information for DC members**

DC members have a number of retirement choices. Do retirement processes help members make the right decisions?

# Contents

<b>Foreword</b>	page 4
<b>Section 1: Key messages</b>	page 5
<b>Section 2: Background</b>	page 6
2.1 The legal requirements	page 6
2.2 Overview of the current DC trust-based retirement market	page 7
2.3 Approach to this review of DC retirement literature	page 10
<b>Section 3: Headline findings</b>	page 11
<b>Section 4: Main findings</b>	page 12
4.1 Compliance	page 12
4.2 Standards	page 13
4.3 Take-up of the open-market option (OMO)	page 14
4.4 Defined benefit schemes	page 16
4.5 Review of retirement processes	page 17
4.6 Support for members	page 18
<b>Section 5: Good practice examples</b>	page 19
<b>Section 6: Poor practice examples</b>	page 20
<b>Section 7: Summary</b>	page 21
Appendix 1: Approach to the review	page 22
Appendix 2: 'Good practice' case studies	page 24

# Foreword

**The shifting pensions landscape, increasing longevity and the recent economic downturn have all highlighted the value of making informed decisions about pension savings and retirement income.**

Defined contribution (DC) schemes are becoming a more prominent form of pension provision, and this will see many more individual members bearing a greater responsibility for the outcome of their savings.

There are already over 2.5 million people in DC schemes in the UK and this is set to rise, especially in light of the 2012 reforms when up to 10 million more people will be given access to a pension for the first time. Many are likely to save into DC.

Retirement in a DC scheme is very different from retirement in a defined benefit (DB) scheme. There are far more choices for members to make, and these choices can have a very significant financial impact.

We know that in order for members of DC schemes to make informed decisions about their pension savings and their retirement income, they need help and support from trustees, advisers, providers and employers.

This review of pre-retirement literature from almost 100 DC trust-based schemes is part of our work on increasing this support and guidance through improving standards in administration and governance in the DC market.

The review shows us that there is a lot of good practice in the industry now, and that this is found across a range of scheme types and sizes. However, the results also give us some cause for concern as members are not always presented with helpful and timely information as they approach retirement.

We would urge everyone involved with running a DC scheme to read this report, to look at the information issued from their scheme to members at retirement and ask yourselves some questions. For example:

- \* Are you happy with how many members are taking up the open-market option (OMO)?
- \* Are the annuities being offered to members competitive and appropriate to their needs? Are members with small funds being offered a good deal?
- \* What additional support can you give to members help them make the right choices?

We expect to see compliance with the legislative requirements as a minimum standard and the adoption of good practice as the norm. We will track industry standards in our annual governance survey and will continue to look at how schemes are supporting members as they approach retirement.

**Bill Galvin**

*Strategic development executive*

October 2009

# Section 1: Key messages

## Trustees

Trustees can add real value to the retirement process beyond compliance by, for example:

- \* informing members of their options and the support available
- \* encouraging use of the OMO regardless of fund size
- \* facilitating access to advice on the OMO
- \* monitoring member behaviour (eg if there is a low take up of OMO, exploring the reasons); being proactive and scheme specific
- \* ensuring their scheme retirement process is controlled

The Association of British Insurers' (ABI) template ([www.abi.org.uk/Information/Codes\\_and\\_Guidance\\_Notes/534.pdf](http://www.abi.org.uk/Information/Codes_and_Guidance_Notes/534.pdf)) is a good starting point for a helpful covering letter, and can be used as a sense check for reviewing existing scheme communications.

## Members

Members must be made aware that their choices at retirement can make a big difference to their income in retirement. They should:

- \* seek advice and support
- \* shop around, regardless of fund size, using tools such as the FSA annuity tables ([www.fsa.gov.uk/tables](http://www.fsa.gov.uk/tables))
- \* consider three key factors after they have decided to purchase a retirement income product:
  1. the right type of product (eg annuity/drawdown)
  2. the right type of annuity (eg escalation/level, single/joint life)
  3. the right provider (OMO)

## Scheme insurers

Insurers should recognise that many trustees rely heavily on their material for meeting their retirement disclosure responsibilities and should ensure such material:

- \* is simple and informative
- \* is fair and balanced
- \* encourages the use of the OMO, regardless of fund size
- \* is sent to trustees in time to enable them to start the member communication process at least six months before retirement
- \* reflects best practice

The ABI template is a good starting point for a helpful covering letter.

## Section 2: Background

*Members of occupational pension schemes with DC benefits have to make important decisions at retirement that will impact their income for the rest of their lives.*

*Trustees have the opportunity to help their members through this critical phase by ensuring they are provided with the 'right information and support at the right time'.*

We recognise that often (and particularly for insured DC schemes) the scheme insurer or provider plays a critical role in the scheme retirement process, by drafting retirement material for the trustees to issue through the scheme administrator.

However, it is the trustees who are responsible for providing information to members that enables active and effective decision-making and it is therefore critical that they ensure this information meets the members' needs.

### 2.1 The legal requirements

Any scheme providing DC benefits must offer the open-market option (OMO) to members under the Finance Act 2004<sup>1</sup>.

Within a trust-based DC scheme, the trustees have a legal responsibility for providing specific information to members at least six months before they reach their intended retirement date:

- \* a statement that the member is able to select an annuity
- \* a statement that the member is able to select the annuity provider (where that applies under the scheme rules)
- \* a statement that different annuities have different features and different rates of payment and giving some examples of the different types of annuity that are available, including:
  - level annuities and increasing annuities
  - single life and joint life annuities
  - annuities with or without guarantee periods
- \* a statement that the member should consider taking advice on the most suitable annuities for their needs

These requirements for trustees are set out in the Occupational Pension Schemes (Disclosure of Information) Regulations 1996<sup>2</sup>.

In this report reference to breaches means potential or alleged breaches identified by the Pensions Regulator's (the 'regulator') staff and should not be construed as determinations of the regulator's Determination Panel or findings of a court.

<sup>1</sup> Section 165, 167 and Schedule 28 of the Finance Act 2004

<sup>2</sup> Occupational Pension Schemes (Disclosure of Information) Regulations 1996 (SI 1996/1655)

## 2.2 Overview of the current DC trust-based retirement market

It has recently been predicted that the size of the UK 'at-retirement' market for financial products will grow by over 60% during the next five years to £23.1 billion, from £14.1 billion at the end of 2008<sup>3</sup>.

The ABI reports that 454,000 pension annuities were set up in 2008. The majority of members entering this market have small funds, with the average purchase price being £25,000 and 75% of annuities purchased from the proceeds of funds worth less than £30,000.

*Exercising the OMO can have a big impact on retirement income.*

The OMO is the member's right to choose who provides their annuity.

The difference between rates offered by annuity providers can be significant. The Financial Services Authority (FSA) provides members with a helpful free service ([www.fsa.gov.uk/tables](http://www.fsa.gov.uk/tables)) to compare rates being offered by different providers and see the impact of selecting different annuity features.

The example below from September 2009 illustrates that, through shopping around, a smoker with a £50,000 purchase price from their DC fund could potentially receive a 35% increase in monthly income. The actual increase could be greater, as not all providers' rates are included in the FSA's comparative service.

Male, age 65, single life 5 year guarantee level	<b>Non-smoker</b>	£293 pm	£256 pm	<b>£37 pm</b>
	<b>Smoker</b>	£346 pm	£256 pm	<b>£90 pm</b>

Source: FSA annuity comparison tables ([www.fsa.gov.uk/tables](http://www.fsa.gov.uk/tables))

It is essential that members understand their rights and choices, so that they can make the right decisions based on their circumstances.

We recognise that, at the present time, the annuity market and availability of advice can limit choices for members with small funds.

Members with small funds can still benefit significantly from shopping around and exploring enhanced products that take into account lifestyle/health issues and amalgamating multiple funds. When a fund is small, it is as important for these members to get the best value from the proceeds of their DC funds as it is for a member with a large fund.

*continued over...*

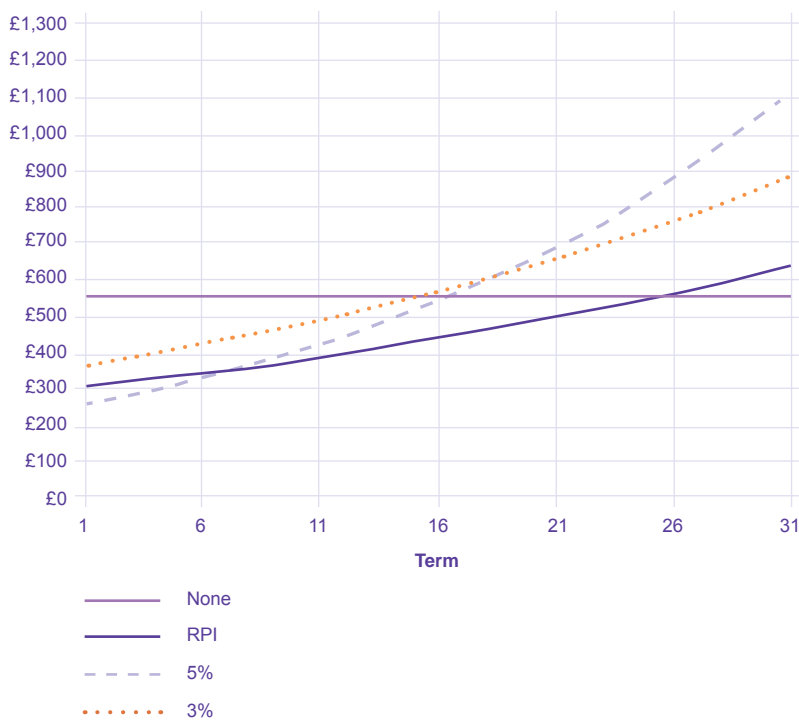
<sup>3</sup> Source: Watson Wyatt

2.2 Overview of the current DC trust-based retirement market *continued*

*The costs and impact of different features can vary dramatically. Illustrating and explaining these costs can be helpful to members.*

Many schemes provide explanations of the different choices. A few take this a step further by illustrating the financial impact of decisions.

We found several good examples of how charts and tables can help the member to make an informed decision. The example<sup>4</sup> below illustrates the income levels of an escalating annuity compared to a level annuity.



Charts such as this are helpful. But members often still value personal advice and support to explain the illustrations.

<sup>4</sup> Source: Hewitt Associates Financial Services Limited

The cost and impact of other choices can also be illustrated in a simple but effective manner as shown in the following examples that came from the same pre-retirement information package as the chart on page 8 of this review.

Spouse's pension	Average annual initial income
0%	£548
50%	£504
67%	£492
100%	£469

Provision for a spouse pension provides an important benefit. Members must understand the impact on income.

Guarantee period	Average annual initial income
None	£548
5 years	£547

Guarantee periods can be relatively cheap.

*The Pensions Regulator expects high standards of pension scheme governance.*

Our 2008 Governance survey suggested that many scheme trustees can do more to ensure that their scheme retirement process is adequate and helpful to members.

We work closely with the FSA in the oversight of work-based pension schemes. In 2008, the FSA reviewed the retirement literature issued for personal pension and stakeholder pension schemes<sup>5</sup>. Our review focused on occupational pension scheme practices.

*continued over...*

<sup>5</sup> [http://www.fsa.gov.uk/pages/Library/Other\\_publications/Pensions/2008/omo.shtml](http://www.fsa.gov.uk/pages/Library/Other_publications/Pensions/2008/omo.shtml)

### 2.2 Overview of the current DC trust-based retirement market *continued*

We have previously taken steps to help influence improvements in DC retirement processes. These include the following publications and guidance:

- 2006 \* **Your retirement choices** member leaflet published
- \* DC module of **Trustee toolkit** issued  
([www.trusteetoolkit.com](http://www.trusteetoolkit.com))
- 2007 \* **How the Pensions Regulator will regulate DC schemes in relation to risks to members** identified decisions at retirement as one of the five key risks facing members of DC schemes  
([www.thepensionsregulator.gov.uk/pdf/conReportDefinedContribution.pdf](http://www.thepensionsregulator.gov.uk/pdf/conReportDefinedContribution.pdf))
- 2008 \* **Retirement options guidance** issued for trustees  
([www.thepensionsregulator.gov.uk/guidance/dcScheme/retirementOptions/index.aspx](http://www.thepensionsregulator.gov.uk/guidance/dcScheme/retirementOptions/index.aspx))
- \* **Effective member communications** guidance issued for trustees  
([www.thepensionsregulator.gov.uk/guidance/dcScheme/memberComms/index.aspx](http://www.thepensionsregulator.gov.uk/guidance/dcScheme/memberComms/index.aspx))
- 2009 \* Statement on **higher standards for DC pensions**  
([www.thepensionsregulator.gov.uk/pdf/DCStatementJuly2009.pdf](http://www.thepensionsregulator.gov.uk/pdf/DCStatementJuly2009.pdf))
- \* **Your retirement choices** member leaflet updated  
([www.thepensionsregulator.gov.uk/pdf/MakingYourRetirementChoicesJuly2009.pdf](http://www.thepensionsregulator.gov.uk/pdf/MakingYourRetirementChoicesJuly2009.pdf))

Following this review, we intend to continue to focus on this important aspect of DC scheme governance and will:

- \* send a copy of this report to the chair of trustees of all DC occupational schemes with 12 or more members
- \* provide the schemes that participated in this review with scheme specific feedback
- \* follow up breaches identified to ensure corrective action is taken
- \* use the findings to help develop our guidance material on matters such as internal controls and feed them into our review of the future regulatory framework for DC schemes

### 2.3 Approach to this review of DC retirement literature

Between June and September 2009, we contacted a random sample of 97 trust-based occupational pension schemes with DC benefits. We sought information on the scheme retirement processes and obtained examples of specific retirement literature issued.

We assessed the information for compliance with legislative retirement disclosure requirements and 'good practice'.

Further information on the approach to the review is included in Appendix 1 on page 22.

## Section 3: Headline findings

### The open-market option (OMO)

- \* 98% of schemes offered the OMO.
- \* Take-up of OMO (approximately one in four members) for members of DC occupational schemes was viewed as remaining low. This figure is based on members who reached retirement in 2008 within the schemes reviewed.

*It should be noted that the three in four members who did not take the OMO includes those who exercised other retirement options such as trivial commutation.*

### Standards of retirement information sent to members

- \* When benchmarked against good practice, over half of the schemes had some scope for improvement in the standards of the retirement information sent to members.
- \* We felt that many schemes could improve the way that members' options are presented and/or review their retirement process to consider whether it encourages members to make an active decision on how they use the proceeds of their retirement fund.

### Compliance with retirement disclosure requirements

- \* Although 30% of schemes had at least one breach of retirement disclosure regulations, only 6% of schemes were non-compliant to a material degree and have been passed to our casework teams for further investigation.
- \* The most common breach amongst the 30% related to the six-month timescale for the issue of information to members as they approach their normal retirement date (24% of schemes breached this requirement). In many of these cases, the relevant disclosures have been made, albeit late.

### Trustees' role in the retirement process

- \* The review highlighted that trustees have the opportunity to do more than comply, as the trust model enables trustees to 'add value' to the members' retirement process. It also introduces a risk that trustees can detract value, particularly when a scheme is insured.
- \* Several schemes provided examples of how trustees facilitate advice and support to their members. We found examples of good quality scheme specific information and how trustees can monitor the choices members are making (or not making).
- \* In some cases, trustees displayed a lack of awareness of their scheme retirement process and requirements. This was particularly the case for 'insured' schemes where trustees often rely on others for the key aspects of the retirement process.

# Section 4: Main findings

## 4.1 Compliance

30% of trustees had breached at least one of the DC retirement disclosure regulations.

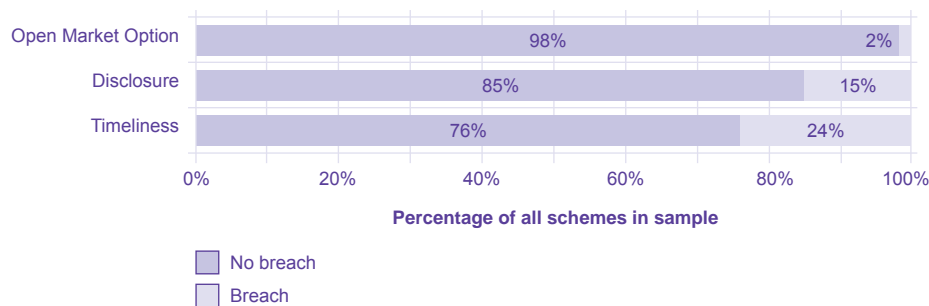
<b>70%</b> No breaches of retirement disclosure information	<b>30%</b> One or more retirement disclosure breaches
--	--

Base: All 94 respondents (48 DC, 38 Hybrid, 8 DB with DC AVC). Occupational pension schemes with 12 or more DC members.

The retirement material provided was assessed for compliance with the DC retirement disclosure regulations. Chart 1 below shows that the most common breach found related to the required information being sent to members too late.

### Chart 1

Compliance with classified elements of the occupational DC pension schemes retirement disclosure requirements



Compliance with retirement disclosure regulations should be viewed as the minimum expectation of standards.

The Pensions Regulator provides a guide designed for members *Making your retirement choices – Think before you choose* ([www.thepensionsregulator.gov.uk/pdf/MakingYourRetirementChoicesJuly2009.pdf](http://www.thepensionsregulator.gov.uk/pdf/MakingYourRetirementChoicesJuly2009.pdf)). Sending this guide to members (at least six months before their intended retirement date) with a covering letter is a simple way to meet most of the trustee disclosure requirements and provide members with helpful information.

However, trustees have the opportunity to add value to their members' retirement process by ensuring that they are provided with clear, informative and balanced material to aid their decision-making process.

We encourage trustees to look at the ABI guidance and their template letter ([www.abi.org.uk/Information/Codes\\_and\\_Guidance\\_Notes/534.pdf](http://www.abi.org.uk/Information/Codes_and_Guidance_Notes/534.pdf)) as a 'good practice' starting point when reviewing the retirement material sent to members of their scheme who are approaching retirement.

## 4.2 Standards

*Three out of five schemes did not have acceptable material or processes.*

We assessed 'wake up' information packs against expectations of 'good practice' in areas such as: description and prominence of the OMO and retirement options, emphasis on seeking advice, use of plain language, explanation of choices (including enhanced annuities) and alternatives to annuities.

Table 1 below illustrates that 37% of schemes had no breaches and provided retirement material that was judged to be acceptable. A minority of schemes were judged to have considerable scope for improvement (4%). These schemes also had multiple breaches of the disclosure regulations.

**Table 1**  
Standards of retirement material compared to compliance

Wake up information pack/letter	Considerable scope for improvement	–	–	4%
	Some scope for improvement	33%	11%	9%
	Acceptable	37%	4%	2%
		No breaches	1 breach	More than 1 breach
Compliance with retirement disclosure regulations				

*Base: All 94 respondents (48 DC, 38 Hybrid, 8 DB with DC AVC). Occupational pension schemes with 12 or more DC members.*

*Almost half of insured schemes had their 'wake up' pack assessed as 'acceptable'*

The majority (77%) of DC schemes in our sample had an insurer. This was particularly the case for schemes with fewer than 100 members.

Insured schemes were more likely to have their 'wake up' information pack assessed as acceptable in terms of the overall standards when compared to schemes without an insurer. Our sample contained a relatively small proportion of non-insured schemes so care is needed in interpreting this finding.

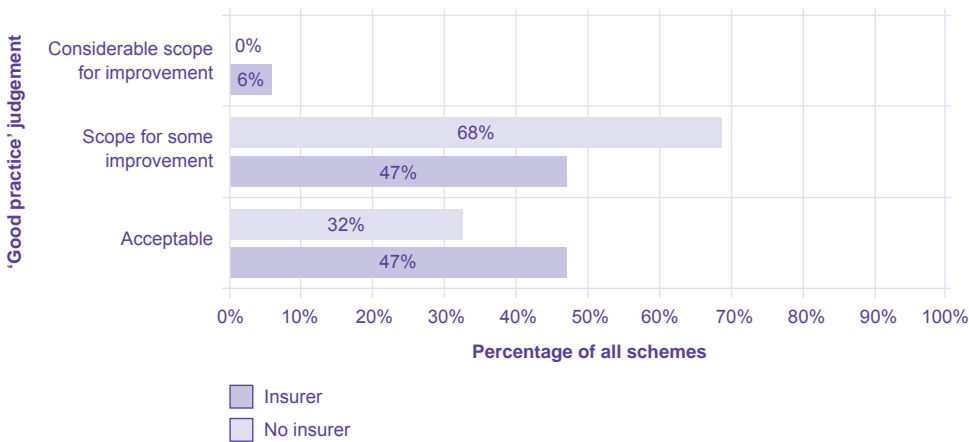
*continued over...*

4.2 Standards continued

Chart 2 below shows that over half of schemes had at least ‘some scope for improvement’ in their retirement pack (53% insured and 68% non-insured).

Chart 2

Standards of ‘wake up’ information pack for insured and non-insured schemes



Base: All 94 respondents (72 Insured, 22 Not insured).  
Occupational pension schemes with 12 or more DC members.

4.3 Take-up of the open-market option (OMO)

*Although virtually all schemes offered the OMO, fewer than one in four DC scheme members in our sample who retired in 2008 took the OMO.*

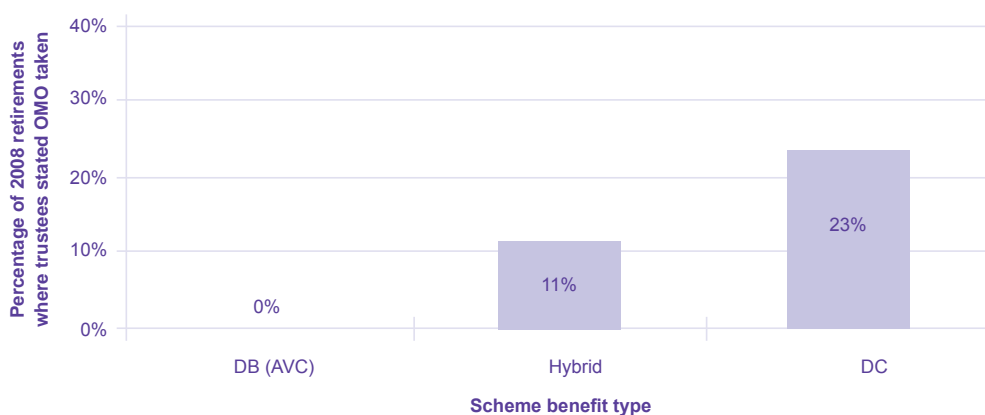
There is no ‘right’ number for the overall take-up of the OMO as it depends on a variety of factors such as the annuity rates offered by the scheme (especially if a guaranteed rate applies) and fund size (ie small funds can often be taken as a trivial lump sum payment).

We do, however, expect trustees to consider the take-up rate that is reasonable for their own scheme, given their knowledge of the membership, average fund sizes, any guaranteed annuity rates and the competitiveness of the annuity rates offered by the scheme.

Chart 3 below shows that the following proportions of members who retired in 2008 exercised the OMO: 23% of DC members, 11% of Hybrid members and less than 1% of DB members with DC AVCs.

### Chart 3

Displays the proportion of members within the schemes surveyed, who retired in 2008 and the trustees stated they took the OMO.



Base: All 94 respondents (48 DC, 38 Hybrid, 8 DB with DC AVC).

Occupational pension schemes with 12 or more DC members.

Note: Section 4.4 explains reasons why OMO take up may be so low for DB (AVC) schemes.

*In some cases, we felt the commercial style of messages within 'information' packs could divert the focus from the open market option and advice statements.*

Where the default process for members is the purchase of an annuity with the scheme insurer, in many instances, this may not lead to the most appropriate form of retirement product for a member. For example, many providers do not offer enhanced annuities. It is therefore critical that a member's right to explore the open market option is conveyed to members in a balanced and fair manner.

Trustees need to ask themselves: are they comfortable with the overall tone and feel of material issued on their behalf? Are they comfortable that it is factual, balanced information that is presented in a manner that will encourage members to make an active decision to consider their options across the market?

## 4.4 Defined benefit schemes

*DB scheme members with additional voluntary contributions (AVC) on a DC basis need to be provided with retirement material that is both DB and DC focused.*

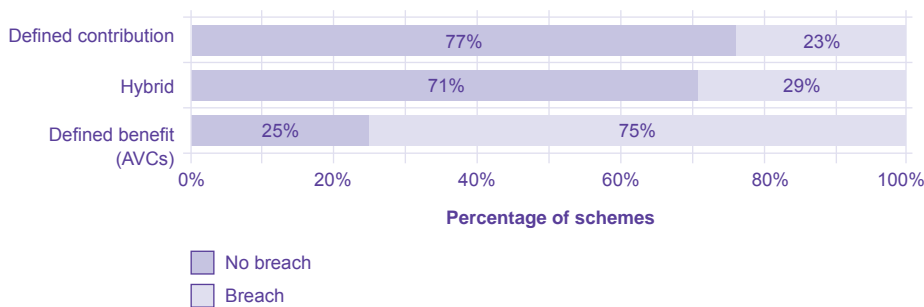
It is common for members of DB schemes to fund their *pension commencement lump sum* (also referred to as *tax free cash*) in whole or in part from the proceeds of their DC AVC benefits.

This is highlighted by Chart 3 on page 15 which shows that less than 1% of DB members in our sample (who retired in 2008) with DC AVC benefits, took the OMO.

Even though it is common for many members to use their DC AVC to fund their *tax free cash*, it is not always the case and at times, members may find it beneficial to use the proceeds of their AVC in another way if they are aware of their full range of choices.

Trustees of DB schemes must therefore recognise that they are still required to inform members of their DC options for the AVC fund. Chart 4 below illustrates that only a quarter of DB schemes, who had members entitled to DC AVC benefits from the schemes, fully complied with the DC retirement disclosure requirements.

**Chart 4**  
Compliance with DC retirement disclosure requirements, by scheme benefit type



*Base: All 94 respondents (48 DC, 38 Hybrid, 8 DB with DC AVC). Occupational pension schemes with 12 or more DC members.*

## 4.5 Review of retirement processes

*A quarter of schemes stated that they reviewed their retirement process during 2009.*

Trustees of occupational DC schemes have responsibility for the oversight of their scheme retirement processes.

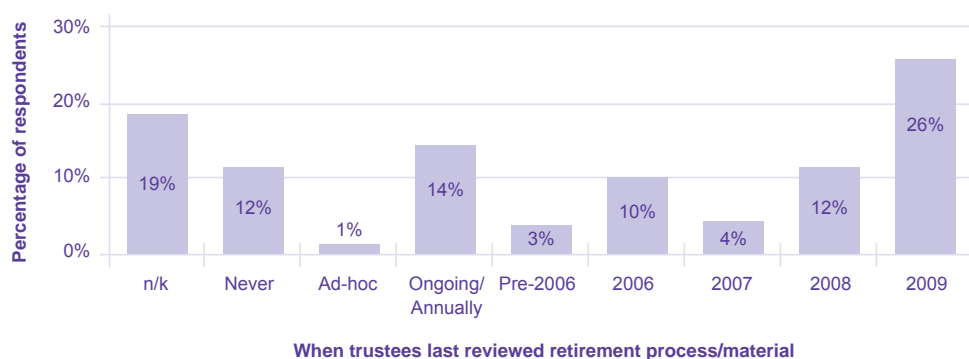
Even when the day-to-day duties are performed by a service provider such as the scheme insurer or administrator, trustees should be familiar with the material issued on their behalf and the critical aspects of their scheme retirement process.

A well-governed scheme will review its retirement process and material on a regular basis to ensure that it remains fit for purpose.

Chart 5 below illustrates that whilst the trustees of one in four schemes in our review stated that they undertook a review of their scheme retirement processes in 2009, a significant proportion of schemes (12%) stated they had never undertaken a review and a further 19% of schemes were not able to tell us if they had reviewed their retirement processes.

### Chart 5

When trustees last undertook a review of their scheme retirement processes



*Base: All 94 respondents (48 DC, 38 Hybrid, 8 DB with DC AVC). Occupational pension schemes with 12 or more DC members.*

## 4.6 Support for members

*Providing members with access to specialist annuity brokers and/or financial advisers can help them make the right decisions at retirement.*

Trustees of over half of the schemes (56%) in the review provided members with access to advice and/or support in the form of a specialist annuity broker or financial adviser<sup>6</sup>. Overall, we view this as a positive step, as it can increase the likelihood that members will be engaged and supported through the retirement process.

Often the cost of this service is paid for by a commission from the annuity provider. In other cases, the employer, trustees or member may pay a fee for providing the service, although the member retains the ability to compare clearly what they are offered by the annuity broker with alternatives, eg their own independent financial adviser (IFA).

Use of a specialist annuity broking service/annuity advice	
<b>Positives</b>	<ul style="list-style-type: none"> <li>* 'Simple' way to provide members with competitive rates from the open market</li> <li>* Impaired/enhanced life annuities are more likely to be identified</li> <li>* Typically provide clear guidance on the annuity process and good disclosure of annuity choices</li> <li>* Some excellent practice with guidance material, web-based tools, phone support and trustee reporting</li> </ul>
<b>Trustee considerations</b>	<ul style="list-style-type: none"> <li>* Trustees must perform due diligence, as they would any other service provider</li> <li>* Members need to understand:                             <ul style="list-style-type: none"> <li>– limitations of any service, particularly if it is broking, rather than full retirement planning</li> <li>– the extent to which shopping is restricted to a panel of providers</li> <li>– whether they are being offered a limited 'shopping' service due to their fund size</li> </ul> </li> <li>* Alternatives to annuity are not always clearly promoted</li> <li>* Members not always clearly told they retain the right to use their own adviser/provider</li> <li>* Ensure data protection requirements are met</li> </ul>

<sup>6</sup> Note: This review's analysis of OMO take-up is based on retirements in 2008. The 56% of schemes that provided access to advice is assessed as at the date of the review (ie mid 2009). It is not possible to contrast data on access to advice with OMO take-up from this review.

## Section 5: 'Good practice'

### Examples of 'good practice'

Examples of activities from the review that we regarded as 'good practice' and may help enable members to make informed retirement decisions.

- \* Trustees clearly displaying that they are in control of the retirement process; they are fully aware of their responsibilities, the legislative requirements and information needs of members.
- \* Members being contacted at least five years before retirement to highlight investment risks and pre-retirement considerations/options.
- \* 'Wake up' pack issued six months pre-retirement issued with short (two-three page) covering letter that explains the key options/choices and potential impact of the choices, with clear signposting to further guidance. This approach is similar to the template letter published by the ABI ([www.abi.org.uk/Information/Codes\\_and\\_Guidance\\_Notes/534.pdf](http://www.abi.org.uk/Information/Codes_and_Guidance_Notes/534.pdf)).
- \* Highlighting the importance of advice and/or providing access to advice.
- \* Explaining the OMO in a clear, fair and positive manner, making clear the potential benefits of investigating the OMO.
- \* Clear, illustrated retirement process; what happens when.
- \* Highlighting the impact of different options in financial terms so members can make an informed choice.
- \* Retirement options forms and process that cover all options with the same degree of simplicity.
- \* Encouraging members to consider their attitude to risk to help them work out which retirement product may be suited to their needs.
- \* Simple health lifestyle screening questions that may lead to full questionnaire.
- \* Informing members about the Pensions Advisory Service (TPAS) online annuity planner ([www.pensionsadvisoryservice.org.uk/tkflow/Flow.aspx?f=TPASOnlineAdvice&template=TPAS\\_Template\\_new&xsl=dtree\\_new](http://www.pensionsadvisoryservice.org.uk/tkflow/Flow.aspx?f=TPASOnlineAdvice&template=TPAS_Template_new&xsl=dtree_new)) and the FSA comparative annuity tables ([www.fsa.gov.uk/tables](http://www.fsa.gov.uk/tables)), both of which are free accessible tools that are easy to use and aid the decision making process.
- \* Innovation in the use of online services to provide interactive, personalised and user friendly planning tools.

See Appendix 2 on page 24 for a selection of 'good practice' case studies.

## Section 6: 'Poor practice'

### Examples of 'poor practice'

Examples of some activities from the review that we regarded as 'poor practice' and may impede members from making informed retirement decisions.

- \* Lack of trustee awareness of retirement process/requirements and ownership/control of the process. This was particularly evident when the review team sought information from trustees of schemes that appeared to 'simply rely' upon an insurer for the retirement process.
- \* Information issued too late to enable a member to seek advice and make decisions before they reach their retirement date.
- \* Two-tiered annuity broking service that provide enhanced service for members with large funds and limited services for members with small funds:
  - members with small fund balances are just as likely (if not more so) to benefit from smoker/enhanced rates if access to such rates is offered
  - if fund balance is small, it is just as important for a member to get best value from the proceeds of their retirement fund
- \* Retirement option forms that do not offer all choices. For example, there may be a simple 'tick box' process to purchase annuity with the scheme insurer, but a lack of clarity and instruction as to how to take the OMO.
- \* 'Wake up' packs that do not clearly alert members to the fact that there are alternatives to annuity purchase at retirement.
- \* Advantages of impaired/enhanced annuities not clearly mentioned.
- \* Not promoting role of advice in the process.
- \* Poorly selected and inadequate range of illustrations that make it difficult to contrast quotes and understand impact of different choices.
- \* Poor record keeping. For example; several trustees/scheme contacts struggled to provide basic information on whether any members had retired in the recent past or were due to retire in the near future.

We are not yet able to publish case studies of 'poor practice'. These schemes are subject to continuing dialogue between the Pensions Regulator and the trustees.

## Section 7: Summary

The review provided a mixed picture of standards and compliance in a critical aspect of the operation of trust-based occupational pension schemes.

This review has also highlighted the importance of effective scheme communications. In particular, good communications can significantly impact the financial outcomes for members at retirement.

Trustees play a pivotal role in the scheme retirement process, even if they – either formally or informally – delegate responsibilities to their insurer, administrator or an adviser.

In these circumstances we still expect trustees to ensure that the process for delivering information to members is carried out to a high standard and that it remains appropriate for all of the members of their scheme – whether active or deferred members, and with large or small funds.

We also expect insurers and advisers to provide relevant help and support for trustees. This is particularly important for small schemes where trustees often rely heavily on others.

Whilst we found some examples of schemes where trustees are adding significant value to their members, a number of schemes submitted material that fell significantly below the minimum standards that we would expect.

This exposes the members of those schemes to the risk of making uninformed decisions about their retirement income. This could lead to the member receiving a lower level of income than if they had been equipped with clear, straight forward and relevant information.

As a minimum, we expect schemes to comply with the retirement disclosure regulations. This can be achieved simply through the issue of the Pensions Regulator's booklet *Making your retirement choices – Think before you choose* ([www.thepensionsregulator.gov.uk/pdf/MakingYourRetirementChoicesJuly2009.pdf](http://www.thepensionsregulator.gov.uk/pdf/MakingYourRetirementChoicesJuly2009.pdf)), at least six months before retirement.

However, our expectations stretch beyond simple compliance. We expect trustees and insurers to focus on good practice and we encourage trustees of all DC schemes to undertake regular reviews of their retirement process and the material that they (or their service providers) issue to members.

The developing market for specialist advice, as well as access to different forms of annuity products, gives members increasing choices and opportunities. This highlights the need for high quality relevant information and guidance and is an area where trustees can add value by facilitating access to that vital advice and support.

# Appendix 1

## Approach to the review

The review was undertaken between June and September 2009 and included a random sample of 97<sup>7</sup> trust-based occupational pension schemes with at least 12 members with defined contribution benefits. The sample included:

- \* 48 Defined contribution (DC) schemes
- \* 38 Hybrid schemes
- \* 8 Defined benefit (DB) schemes with members that had additional voluntary contributions (AVCs) based on DC benefits

Group Personal Pension (GPPs) and Stakeholder schemes were excluded from the review as the FSA carried out a review of these schemes in 2008<sup>8</sup>.

We are publishing this report pursuant to section 89 of the Pensions Act 2004.

For the purposes of this report, we defined a scheme as 'insured' when the presence of an insurer has been reported on the latest scheme return. Chart 6 below shows that the vast majority of DC schemes with fewer than 100 members had an insurer (91%), compared to the larger schemes in the sample where the incidence of schemes with 500 or more members having an insurer reduced to 57%

### Chart 6

Proportion of 'insured' schemes in review by membership band



Base: All 94 respondents (48 DC, 38 Hybrid, 8 DB with DC AVC).  
Occupational pension schemes with 12 or more DC members.

<sup>7</sup> Three schemes from the 97 scheme sample have been excluded from the samples for analysis in the report. This includes two late respondents and one non-respondent.

<sup>8</sup> [http://www.fsa.gov.uk/pages/Library/Other\\_publications/Pensions/2008/omo.shtml](http://www.fsa.gov.uk/pages/Library/Other_publications/Pensions/2008/omo.shtml)

All participants were screened to ensure that they had one or more member that had reached their intended retirement date within the recent past and/or members that were due to reach their normal retirement age within the next few years.

The scheme contact (typically a trustee, pension manager, administrator or adviser) was asked to complete a short questionnaire (13 questions) and provide examples of the following scheme retirement literature:

- \* 'wake up' information pack sent at least six months before retirement
- \* pre-retirement 'reminder' letter
- \* any other information sent to members approaching retirement

Many schemes were able to provide the material requested with relative ease. We received one completed response within two hours of the electronic request.

Several trustees who indicated they were unfamiliar with the scheme's retirement process (either through a lack of awareness or because very few members had reached retirement) referred us to their scheme insurer who we found to be helpful in providing the information on their behalf.

One open DC scheme with 50 members refused to participate in the review on a voluntary basis. We are in dialogue with this scheme and, if appropriate, may consider use of our regulatory powers to obtain information.

The information provided was both assessed for regulatory compliance and 'good practice' in the provision of information. The 'good practice' judgement assessed a number of attributes of the material on a 'Red, Amber, Green' basis. This led to an overall rating of Green = acceptable material, Amber = scope for some improvement(s), Red = considerable scope for improvement(s).

The trustees of schemes that participated in the survey will be provided with scheme specific feedback. Where breaches have been identified, corrective action will be required and/or further information sought.

# Appendix 2

## 'Good practice' case studies

- 'Good practice' case study 1 \* DC
- \* Under 100 members
- \* Insurer

The 'wake up' information pack that is sent to members six months before their normal retirement date was fronted by a well-written two-page covering letter that explained all of the key options in a clear, helpful and balanced manner.

This letter and information pack was prepared by the scheme insurer and issued by the scheme trustees.

A bold statement at the start of the covering letter stated:

*'The decision you make at retirement can make a big difference to how much pension income you receive. By shopping around you may improve the pension income you receive in retirement.'*

The letter also included clear, concise and helpful statements, such as:

*'Different pension providers can offer different types of annuities to suit your circumstances. For example, some other pension providers pay a higher pension income to people who smoke or are in poor health...'*

*'If you don't want to buy a lifetime annuity, there are other options, for example short-term annuities and income withdrawal.'*

The letter clearly signposted additional guidance provided within the information pack enclosed to enable the covering letter to be kept short, simple and effective.

**'Good practice' case study 2**

- \* DC
- \* Over 500 members
- \* Employee benefit consultant and specialist annuity broker

This scheme provided us with an example of an effective retirement process that included a personalised approach, offering informative guidance with sufficient detail to enable members to make an informed choice.

In this case, the administrator contacts the member six months before their intended retirement date with a provisional quote. At this stage the member is also provided with clear information on choices (the key element of the information pack had been crystal marked by the *Plain English Campaign*). The information pack included a helpful retirement process flowchart and a copy of the Pensions Regulator's *Making your retirement choices – Think before you choose* booklet ([www.thepensionsregulator.gov.uk/pdf/MakingYourRetirementChoicesJuly2009.pdf](http://www.thepensionsregulator.gov.uk/pdf/MakingYourRetirementChoicesJuly2009.pdf)).

The member is then referred to a specialist annuity broker who invites them to complete a detailed, but helpful medical/lifestyle questionnaire.

The annuity broker shops a panel of leading and specialist providers and then sends the member a personalised illustration setting out a full range of choices.

The next steps and forms which enable the member to proceed with the purchase of their chosen retirement product are clear and user-friendly.

**'Good practice' case study 3**

- \* DB with DC AVCs
- \* Over 500 members
- \* Employee benefit consultancy

A pre-retirement 'wake up' information pack provided by the third party scheme administrator (on behalf of the trustees) clearly sets out the member's retirement benefits from the DB scheme within a well designed and user friendly information pack. The pack includes an informative illustration of the DC benefits payable from the member's AVC, including using the AVC fund towards the pension commencement lump sum.

The AVC illustration provides information on the OMO, different types of annuity (including impaired/enhanced annuities) and includes a strong recommendation that the member takes independent advice in relation to the OMO.

The retirement options form includes clear separate sections for the DB benefits and the DC AVC benefits. This helps the member to recognise that a separate decision is required over how they draw their DC AVC benefits.

**'Good practice' case study 4**

- \* Hybrid (DB and DC sections)
- \* Over 500 members
- \* Insurer

This scheme produced a succinct and helpful covering letter in a 'wake up' information pack that was based on the ABI's template.

The effective covering letter can help members by raising awareness of their choices, which may lead to more active decision making by the members. Examples of helpful statements in the letter included:

Clear, unbiased and helpful description of OMO at start of the 'wake up' letter:

*'For information on the different types of annuity offered by xyz please see your xyz retirement guide. If you move to another provider you are likely to get a higher income. This is not always the case, but it is always worth checking before you buy.'*

The 'wake up' letter clearly raises awareness of key considerations...

*'If you do plan to buy an annuity, you should consider the following questions:*

- \* *Are you married or do you have a partner?*
- \* *Will they need an income if you die first?*
  - *If so, you may want a 'joint-life' and/or a 'guaranteed' annuity. Make sure you discuss this with your spouse or partner.*
- \* *Do you have a recognised medical condition?*
- \* *Are you a smoker?*
  - *If so, you may be able to buy an annuity that pays more because of these factors. They are known as 'enhanced' or 'impaired-life' annuities.*
- \* *Do you want your income to increase over time or adjust to rises in inflation?*
  - *If you do, think about an 'escalating', or 'index-linked' annuity. These start with a lower income but increase over time.'*

**'Good practice' case study 5**

- \* DC
- \* 100-499 members
- \* Insurer

This insurer of this scheme sends the trustees a useful clear, precise and informative letter that sets out the trustees' legal responsibilities and signposts ABI good practice guidance to consider when they issue the 'wake up' letter to members.

This letter is sent to the trustees at seven months, enabling the trustees time to send the member letter before the six-month deadline.

The insurer also encloses a letter that trustees can send to members. Again, this is well set out, has clear headings and factual messages, signposting the three main sources of free, independent information: the Pensions Regulator (*Making your retirement choices – Think before you choose* – [www.thepensionsregulator.gov.uk/pdf/MakingYourRetirementChoicesJuly2009.pdf](http://www.thepensionsregulator.gov.uk/pdf/MakingYourRetirementChoicesJuly2009.pdf)), FSA (Money Made Clear/ comparative annuity tables – [www.fsa.gov.uk/tables](http://www.fsa.gov.uk/tables)) and TPAS (online annuity planner – [www.pensionsadvisoryservice.org.uk/tkflow/Flow.aspx?f=TPASOnlineAdvice&template=TPAS\\_Template\\_new&xsl=dtree\\_new](http://www.pensionsadvisoryservice.org.uk/tkflow/Flow.aspx?f=TPASOnlineAdvice&template=TPAS_Template_new&xsl=dtree_new)).

- \* Encloses TPR guide with comment ***'Make sure you read it'***

- \* **The OMO**

*'The most important thing is that you can shop around to get the best deal for you, like you would for home or car insurance.'*

- \* **Strong emphasis on accessibility**

(eg letter available in different formats, reminding members that computer access is available free at local libraries)

- \* **Highlights alternatives to annuities**

Reminder pack includes two page guide on the different ways to use benefits from a pension fund

- \* **Advice**

*'We recognise that this is a big decision and we recommend that you take financial advice. Your scheme trustees may be able to arrange for you to speak to your scheme's financial adviser. We want you to get the best value from your pension fund but we can only give you factual information.'*

# How to contact us

## **The Pensions Regulator**

Napier House  
Trafalgar Place  
Brighton  
BN1 4DW

[www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

[www.trusteetoolkit.com](http://www.trusteetoolkit.com)

## **Customer support**

Phone: 0870 6063636  
9am to 5.30pm, Monday to Friday  
Fax: 0870 2411144  
Email: [customersupport@thepensionsregulator.gov.uk](mailto:customersupport@thepensionsregulator.gov.uk)

© The Pensions Regulator, November 2009

You can reproduce the text in this publication as long as you quote the Pensions Regulator's name and title of the publication.

We can produce it in Braille, in large print or on audio tape.

We can also produce it in other languages.