employee benefits

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Damian Stancombe | head of workplace health and wealth
Barnett Waddingham

The wider journey

Pension strategy must take today, tomorrow and 'one day' into account

How we look at pensions is starting to change. No longer is a pension perceived as an isolated occurrence that we must focus on and save for; instead, we now look at how it sits within the wider saving journey travelled by employees. This includes today's needs, which sadly start with debt for many, as well as the aspirations for a brighter tomorrow, and that 'one day' when the work is finally done.

The way we retire, if indeed we do, is also evolving. 'Portfolio career' lifestyles, in which individuals balance several part-time jobs rather than one full-time commitment, look set to permeate into our golden years.

Employers are also realising that, while legislation compels them towards helping employees save for the 'one day', they can make an immediate gain by supporting them in dealing with today.

Helping to relieve financial stress is a crucial part of empowering an employee to be more productive, but it does require enlightened education, not simply relying on the crutch of product.

Here is the crux of it: a pension is not a retirement strategy, it is a vehicle. Too many organisations make the simple mistake of thinking that because they have a workplace pension in place, they have a workplace retirement strategy.

Yes, auto-enrolment has helped place employees in pension saving schemes, and apathy has kept them in, but it has not educated or enlightened them about the 'why', or indeed the 'how much?'

Perhaps this is a good thing. We have created so much confusion and mistrust around pensions that trying to engage employees might in fact lead to them switching off, or indeed out. Something is surely better than nothing, even if it is caused by apathy rather than a drive to save.

While this is arguably acceptable when it comes to the wealth-accumulation stage, 'pension freedom' has moved the pinch point. In the days before auto-enrolment, getting people in was the complicated bit; now, it is explaining the absolute plethora of choices at the point of access.

If education is ever required about appropriate decision-making, it should be before employees access their pension, and should not be based on apathy, but instead focused on how they want to lead their lives when retirement comes around. After all, these individuals have worked for possibly 50 years to get to this point.

It is, therefore, surprising that Employee Benefits' Pensions Research 2018 has uncovered that only 42% of organisations find that employees want guidance at retirement following pension freedoms, when a lifetime of saving can be imploded by a few errors at a point of access, not least by creating a tax charge at the highest marginal rate, spending the lot too early, or dying the richest person in the cemetery. eb

Editor's comment

Kavitha Sivasubramaniam | editor
Employee Benefits

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Several years on from the introduction of pensions auto-enrolment in the UK, half of this year's research respondents claim that the initiative has either increased, or will increase, costs for their organisations. This is a 13% rise from last year, showing the significant financial impact the legislation is continuing to have on businesses.

Another area which has been affected by auto-enrolment is employer communications. More than a third (36%) of those surveyed have introduced, or plan to introduce, wider communications around pension saving because of the legislation. Overall, three-quarters stated their organisation has undertaken a pensions communications exercise in the last year, highlighting the importance of providing valuable information about the savings vehicle.

On retirement, uncertainty about how to make the best decisions when accessing pension benefits is the biggest concern for employees. This worry was identified by more than half (54%) of those surveyed, compared to 41% in 2017, although this is down from 60% in 2014.

With the Lifetime individual savings account (Lisa) still in its infancy, perhaps unsurprisingly the majority (78%) do not currently offer one and just 3% do, although a further 6% intend to. Interestingly, of those that do currently offer Lisas, four in five (80%) think employees will treat it as an additional savings vehicle to pensions, while 60% feel that it will be viewed as an alternative.

Looking to the future, most of those surveyed (85%) believe it is too early to tell what the impact of Brexit will be on pensions. This figure has risen significantly from last year, when 39% said this was the case.

Three in 10 respondents believe Brexit will have no impact, compared to one in 10 who felt this way in 2017. Of those who do believe the UK leaving the EU will affect pensions, 17% think it will improve employee engagement in retirement planning and 14% believe it will encourage staff to increase pension contributions.

When it comes to further developments in the pensions arena, the Autumn Budget 2018, announced in November, revealed that the government will shortly be implementing legislation to make pensions cold calling illegal.

In addition, an extra £5m in funding in 2019-2020 will be invested to help bring the pensions dashboard to fruition, so watch this space. eb

CENTAUR MEDIA

Editor Kavitha Sivasubramaniam kavitha.siva@centaurmedia.com **Deputy editor** Jessica Bird jessica.bird@centaurmedia.com **Acting features editor** Katie Scott katie.scott@centaurmedia.com **Contributor** Alison Coleman **Director of commercial and events** Helen Curl helen.curl@centaurmedia.com **Business development manager** Shaun Weeks shaun.weeks@centaurmedia.com **Business development manager** Ian Mehrer ian.mehrer@centaurmedia.com **Divisional managing director** Steve Newbold **Production** The Press Association

Employee Benefits Wells Point,
79 Wells Street, London, W1T 3QN
E: eb.editorial@centaurmedia.com
T: 020 7970 4000, Subscriptions 020 7292 3719
W: www.employeebenefits.co.uk
Twitter: @EmployeeBenefit

Key findings

The survey, which was carried out in September 2018 among readers of employeebenefits.co.uk, received 246 responses. As a result of rounding, percentages may not add up to 100.

68%

of respondents report that between 1% and 5% of their workforce will be at or nearing retirement in the next 12 months

50%

of respondents state that auto-enrolment has either increased, or will increase, costs for their organisations

42%

of respondents' organisations offer cash as an alternative to pension contributions for staff who reach their annual or lifetime allowance limits

55%

of respondents' organisations offer group personal pensions as their primary scheme

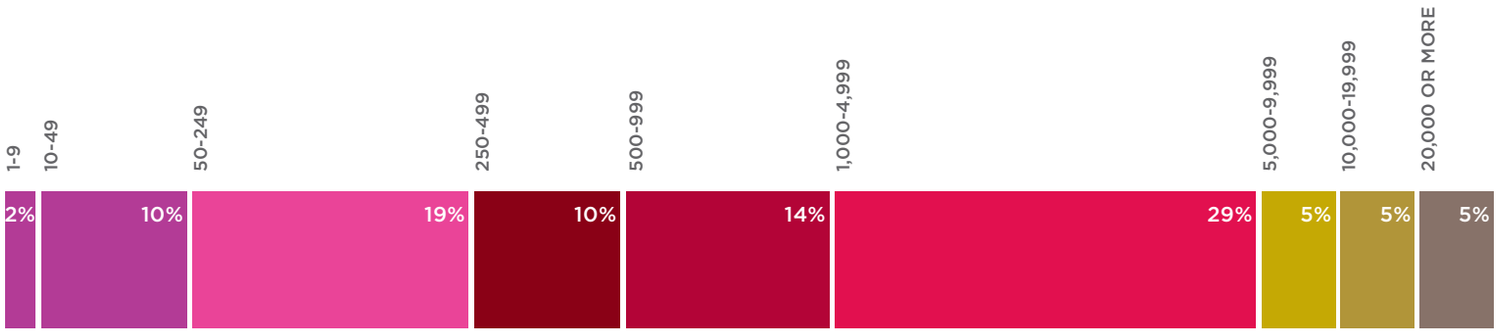
48%

of respondents report that their organisation has 90% or more of their workforce as active members of their primary pension scheme

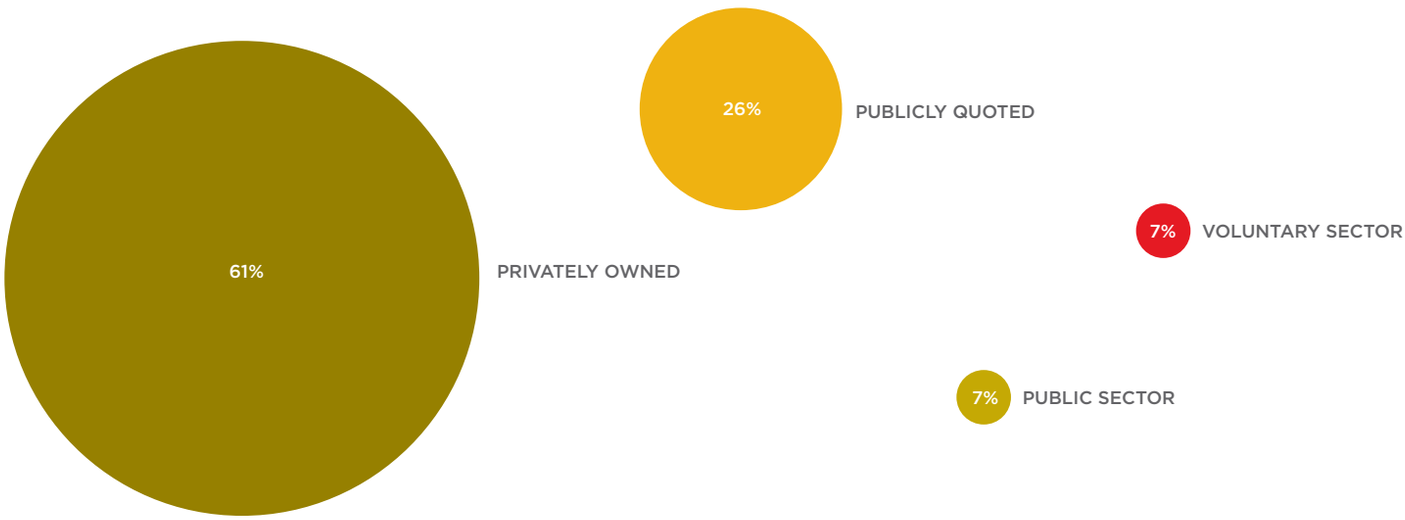
75%

of respondents state that their organisation has undertaken a pensions communications exercise in the last year

Number of employees in respondents' organisations



Organisation type



Scheme type

Group personal pension plans continue to be the most commonly offered primary scheme

Katie Scott | acting features editor
Employee Benefits

Group personal pension (GPP) plans continue to be the most commonly offered primary pension scheme, with more than half (55%) of employers providing them, showing a 10% increase since 2017.

Trust-based defined contribution (DC) plans have remained popular, offered by 14% of employers in 2017 and 2018. Master trust schemes such as the National Employment Savings Trust (Nest) are offered by 8%, which is similar to the 9% that did so in 2017.

Defined benefit (DB) schemes, on the other hand, are dwindling. Final salary DB schemes that are closed to new members are provided by 3% of respondents this year, showing a 4% decrease since 2017; likewise, career average DB schemes are the primary pension arrangement at 3% of organisations surveyed in 2018, compared to 5% last year.

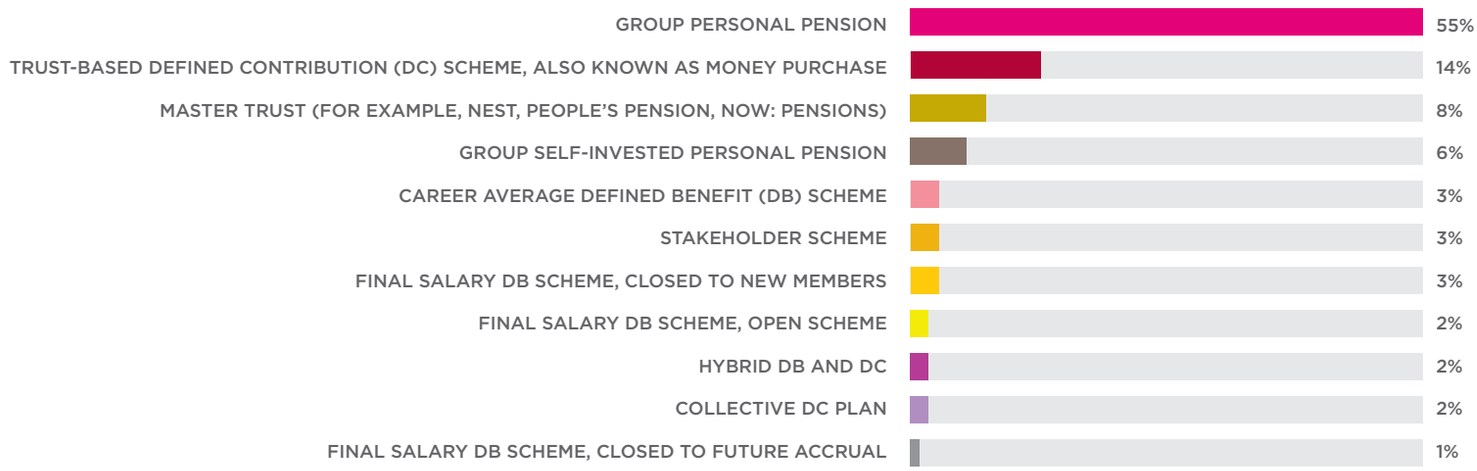
Around a third (36%) of respondents offer a secondary pension scheme for their employees. For 11% of employers, this comprises a final salary DB scheme, which is closed to new members, while 7% operate a final salary DB scheme that is closed to future accrual. A GPP is offered as a secondary pension arrangement by 8% of respondents in 2018, and 3% provide master trusts.

Of those respondents who operate a DB arrangement, 27% have no plans to make changes to the scheme or how it is managed, but 16% are looking to close it to new entrants and future accrual, while a further 16% are currently devising a liability management strategy.

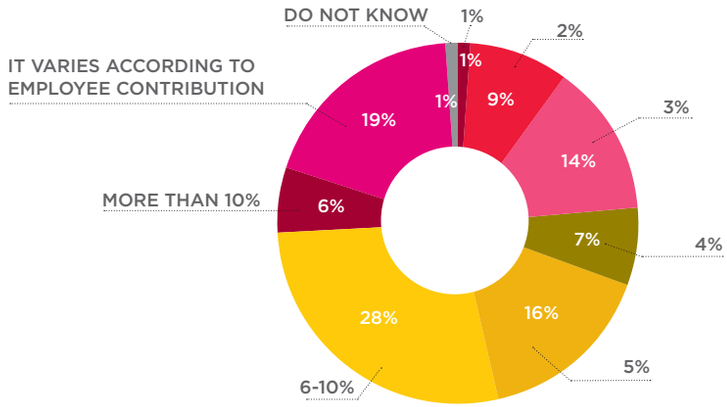
More than one in 10 (11%) respondents wish to close their DB scheme to new entrants, but keep it open to future accrual.

Auto-enrolment has ensured that pension membership remains high. In 2018, 48% of respondents have 90% or more of their workforce as active members of their primary pension scheme, while 22% have between 80% and 89% of their staff as active members. eb

Types of pension scheme offered as a primary plan by respondents



Repondents' pension contribution rates for the majority of staff



Government reforms

The demand for guidance and education continues to grow

Jessica Bird | deputy editor
Employee Benefits

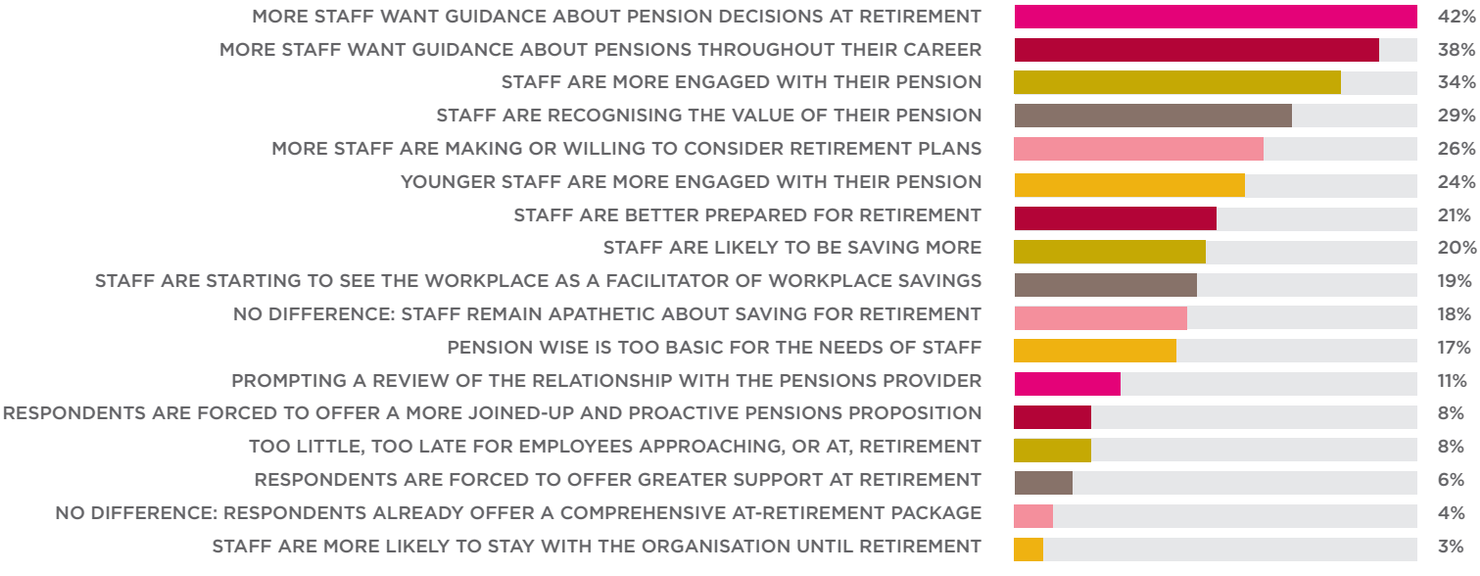
The added choice offered by the introduction of pension freedoms in 2015 has consistently caused employees to look for guidance from employers. The trend has strengthened this year, with employees asking for guidance at retirement at 42% of organisations compared to 33% last year, and throughout their career at 38% compared to 26% in 2017.

Engagement also remains strong, being cited as one of the top effects of pension freedoms by 34%, while staff recognising the value of their pension has risen by 9% since last year.

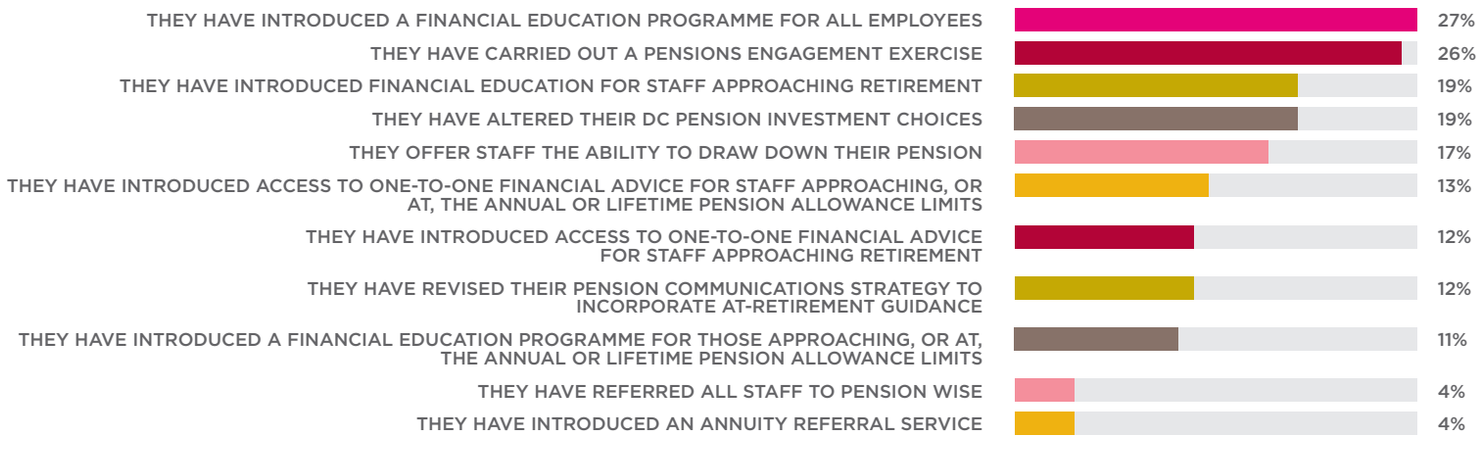
The introduction of financial education for all employees continues to take the top spot when it comes to changes made due to pension freedoms, growing in popularity by 8% and moving in front of last year's other top choice, which was carrying out a pension engagement exercise.

The proportion of respondents providing employees with one-to-one financial advice when approaching annual or lifetime allowance limits has more than doubled, from 6% in 2017 to 13% this year, again showing the trend of increased guidance and education.

The top ways pension freedoms are impacting staff and organisations



The changes respondents have made in their organisation in response to the pension freedoms

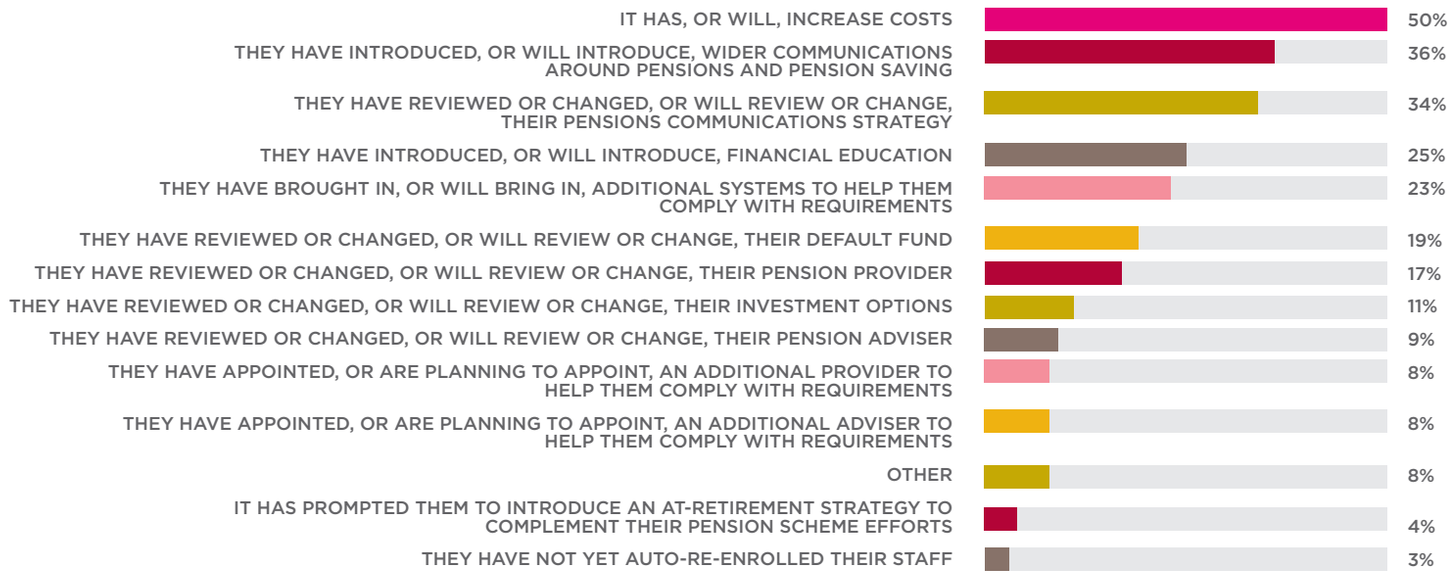


This year, the question of how auto-re-enrolment is affecting organisations was expanded to include options that had previously only been asked of a specific set of respondents. These relate to particular changes or reviews that might have been undertaken. Among these expanded options, the most popular answer is that organisations have changed or reviewed, or will change or review, their pensions communications strategy, which garners 34% of the overall response. This option takes the third spot overall.

Otherwise, the top options here remain relatively unchanged, with the statement that auto-enrolment either has increased or will increase costs for organisations strengthening its lead, rising from 37% in 2017 to 50% this year. Introducing a wider pension and pension saving communications strategy continues to come second, being chosen by more than two-thirds (36%) of respondents.

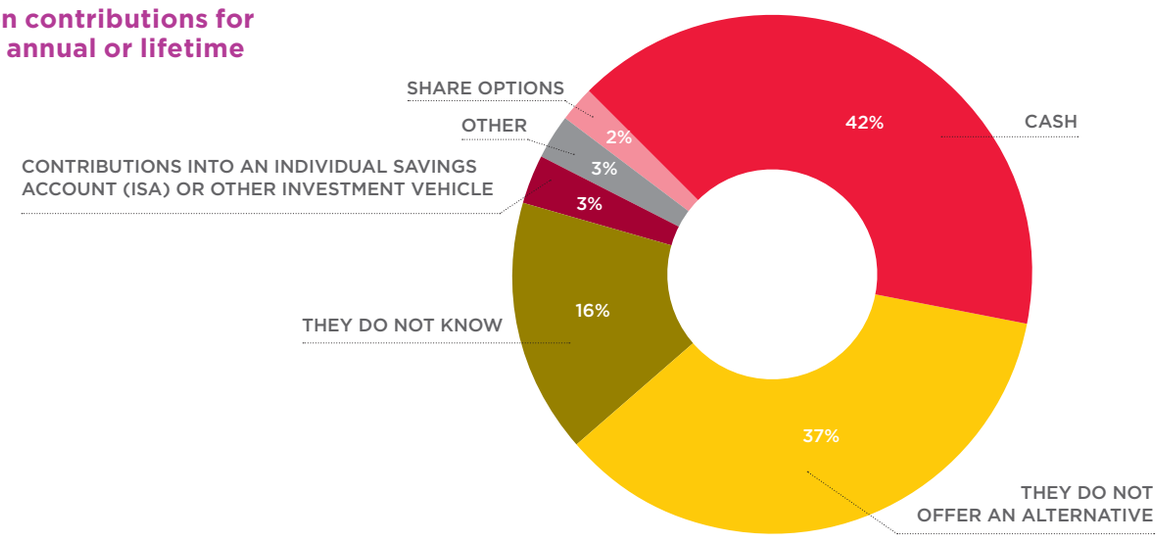
Reviewing or changing default funds or investment options have both reduced substantially in popularity, losing 20 percentage points each this year, while reviewing or changing pension provider was selected by only 17% of respondents, compared to 33% of those asked previously. This might indicate that last year's figures reflected a flurry of activity, as a considerable proportion of UK employers experienced auto-re-enrolment for the first time, which may now have plateaued.

How pensions auto-re-enrolment is impacting respondents' organisations



The introduction of annual or lifetime allowance limits in April 2016 has led to an increasing number of employers offering cash as an alternative to the extent that, with 42% of the response, this has outpaced last year's top answer, which was not offering anything. Providing no alternative still far outstrips the remaining options, though, at 37%, a drop of only 2% since last year. eb

What respondents offer as an alternative to pension contributions for staff who reach their annual or lifetime allowance limits



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Financial health

Money worries, physical wellbeing and mental health are all intrinsically linked

Darren Laverty | author, speaker and financial wellbeing consultant
Secondsight

Financial wellbeing is not a new phenomenon in the workplace. For years, organisations have searched for ways to ensure staff are financially sound. More recently, however, we have seen the focus shift from simply offering pensions and other benefits, such as life insurance and income protection, to providing fully-fledged financial wellbeing programmes. We have also seen this develop from a 'nice to do' into a 'must do'.

It is not difficult to understand why. According to *Employee financial wellbeing: why it's important*, published by the CIPD in January 2017, one in four workers report that money worries have affected their ability to do their job, while 40% state financial worries have caused them stress.

When we consider health and wellbeing, traditionally this has covered physical and mental health, but we are seeing more than ever that financial health does not exist in isolation and is instead linked extensively to overall physical and mental wellbeing.

Financial anxiety within a workforce can also have a dramatic effect on productivity, as employees are likely to spend most of the day worrying about or trying to fix their money problems. Failing to provide adequate support can also see the loss of good staff who chase small wage increases in the hope it will improve their situation.

To make financial wellbeing a success in the workplace, organisations must have a clear strategy and understand what it is that their employees need. Without fully understanding this, any financial wellbeing intervention is purely guesswork, and it is difficult to measure its effectiveness.

In fairness, however, getting to the heart of the issues staff are facing can be problematic; quite simply, talking about money problems is still a taboo subject, even today.

Nevertheless, there is something employers can be sure of: if it has reached a point where there are signs of financial stress in the workplace, then often the problem is much worse than it seems. So, it is vital management takes the time to find out what these issues are.

So, what is the answer? First, organisations need to find out which tools will have the greatest impact for their workforce. This can be done through face-to-face interviews and anonymous surveys. What is important is that employers determine what information and help people need, and how and when they want it to be delivered.

Once an organisation has this information, it can start to map out a strategy to improve the financial wellbeing of its workforce, using the most appropriate tools for its own staff.

To an employer, having a strategy means one thing: no longer taking a shot in the dark and hoping that it pays off. For an employee, it means that they are catered for and that they are given helpful information, relevant to them.

It is important to set a strategy in place for at least one, and preferably two, years in order to assess properly whether it is working. Also, it is worth pointing out that many financial issues people face cannot be solved with a quick fix. Problem debts, for example, can take years to clear. Employers should be mindful of this when settling on their approach.

Developing a financial wellbeing strategy does not need to be complex; it is a simple case of listening to the workforce. If employers do this, then there is a very good chance that they will have served their staff well. eb

Financial education

Specialist financial advisers are increasing in popularity among employers

Jessica Bird | deputy editor
Employee Benefits

The number of organisations offering financial education to all staff has reduced slightly this year, dropping from 41% to 36%; nevertheless, this is still part of an overall positive trend, showing an increase on the 32% that did so in 2015.

A further positive indication, albeit a relatively passive one at this time, is that the proportion of respondents who have no plans to offer financial education in the future has decreased by six percentage points this year, while the response that organisations are considering offering it has taken the second to top spot, rising from 18% to 26%.

Among those respondents who offer financial education, face-to-face delivery has held steady as the most popular method, being selected by almost two-thirds (62%) of those surveyed this year. However, while one-to-one sessions continue to be popular, the use of intranet sites has surpassed this as the second most frequently used, gaining 16% on last year. A 7% increase of the use of online tools and modellers suggests that technology-based methods of communication may be becoming equal to face-to-face approaches.

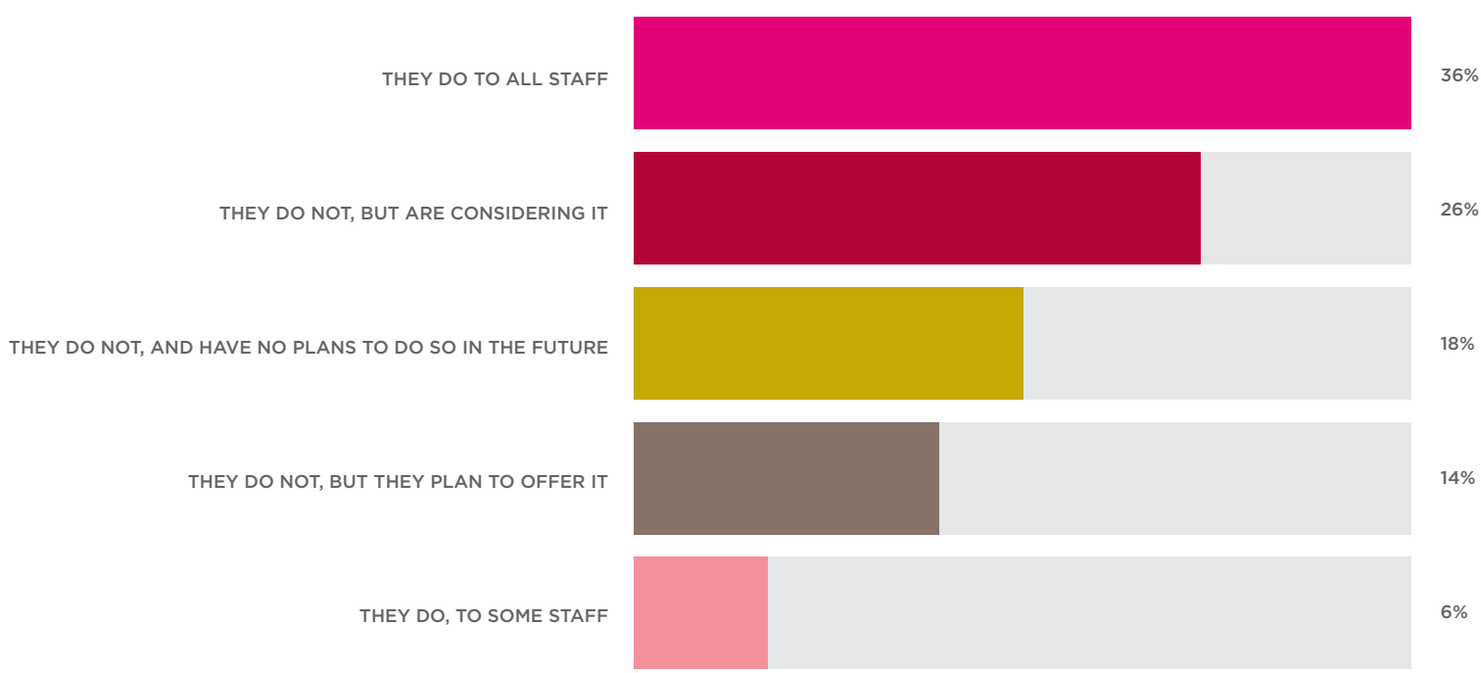
Alternatively, the fact that promotional literature, including posters and desk drops, joins one-to-one sessions with 45% of the responses this year suggests that this may have more to do with an increase in creativity around financial education than it does a propensity to rely on technology.

There have also been some substantial changes when it comes to the providers of financial education. Although the largest proportion (35%) continue to do this in-house, the gap between this and other options is closing.

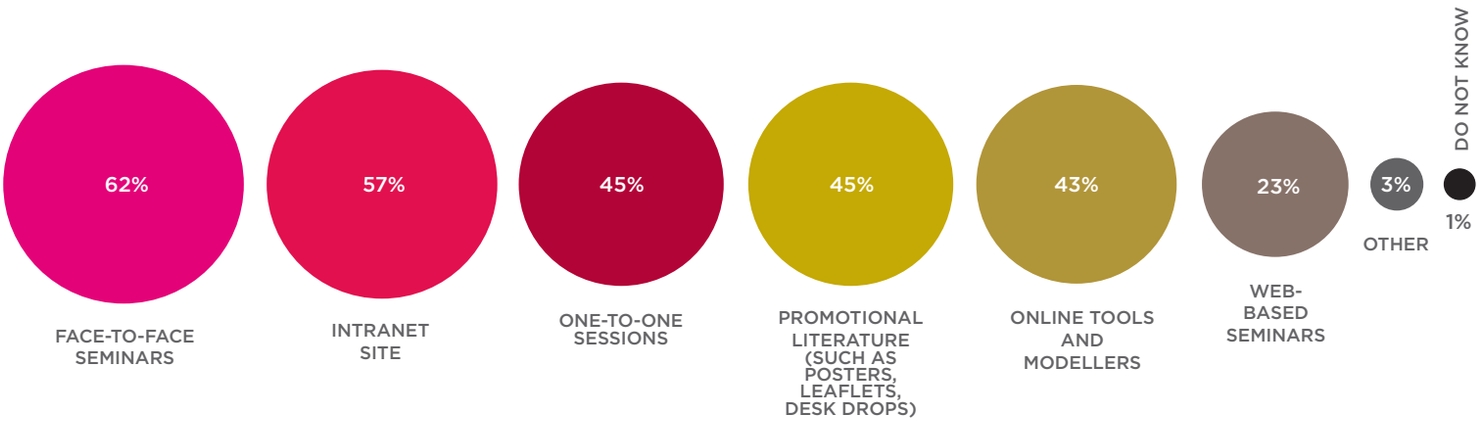
Respondents are increasingly turning towards pensions providers (33%) and away from benefits consultants (27%).

Most notable, however, is the 17% increase of organisations that use specialist financial education providers from last year, making this the third most popular option in 2018. eb

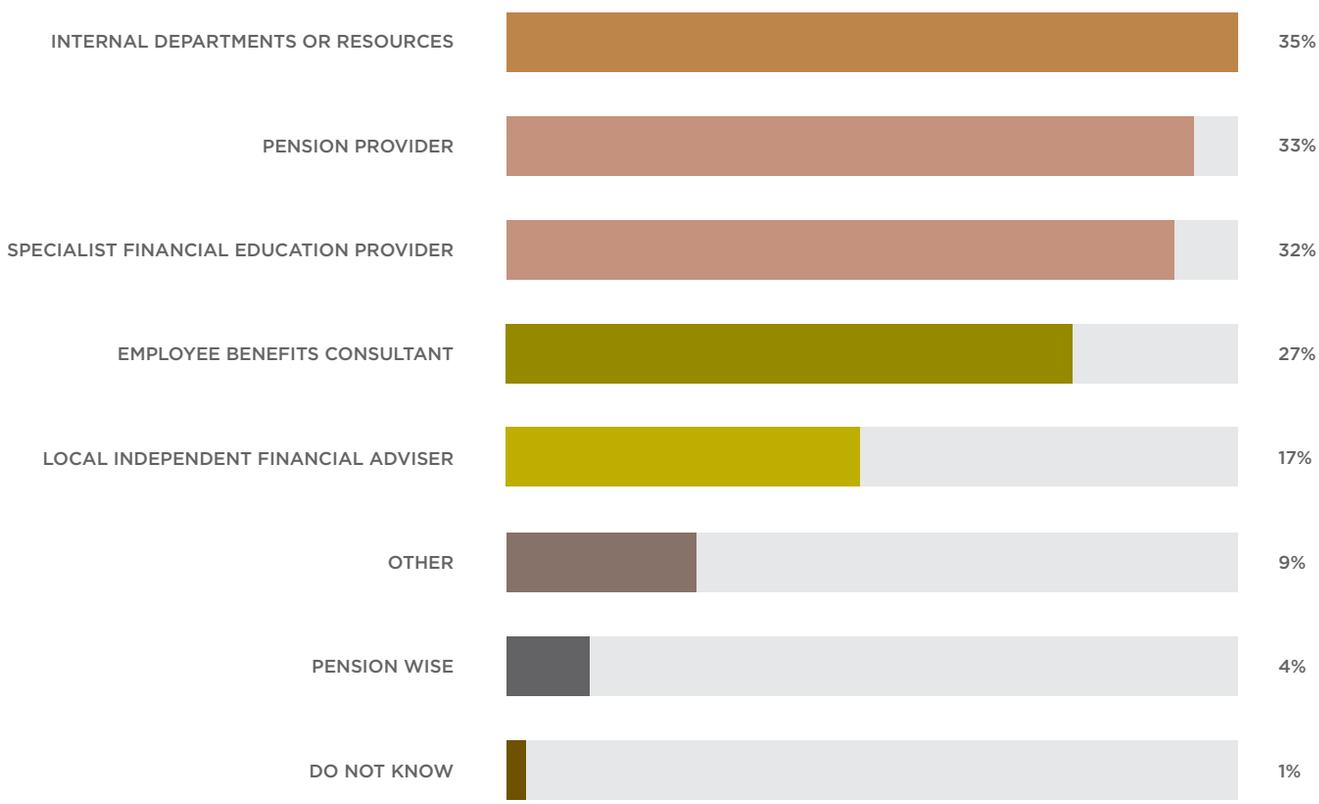
Do respondents' organisations provide financial education?



The tools respondents use to deliver their financial education strategy



The providers of respondents' financial education



At-retirement support

Employers view providing at-retirement support as part of their duty of care

Katie Scott | acting features editor
Employee Benefits

At-retirement support is becoming an increasingly pertinent issue, as 29% of employers stated that between 6% and 10% of their employees will be at or nearing retirement within the next decade. Two-thirds (34%) stated that between 6% and 10% of their workforce will be at this life stage in five years' time, and more than two-thirds (68%) have between 1% and 5% of employees who will be at or nearing retirement in the next 12 months.

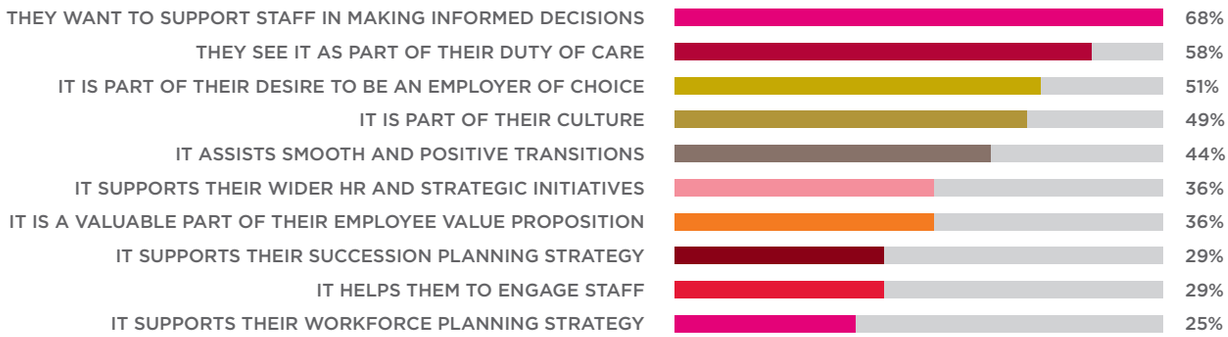
However, only around two-fifths (39%) of employers offer at-retirement support. This is consistent with previous years, as 40% of respondents provided this support in 2017, 46% did so in 2016, and 45% in 2015.

Of those employers that offer at-retirement support, assisting staff in making informed decisions is still the primary driver for the majority (68%). Beyond this, 44% of the respondents wish to ensure that employees have a smooth and positive transition out of the workplace; this is a 14% increase since 2017.

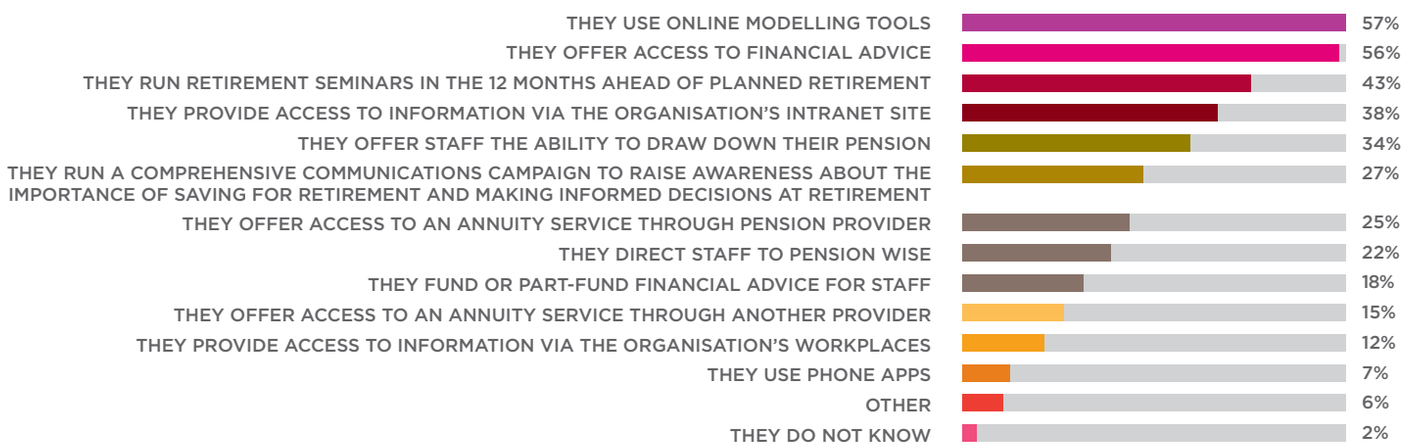
Goals centred around motivation and retention have grown this year, as just over half (51%) of the respondents want to support employees at retirement as it ties in with an ambition to be an employer of choice, a driver which has increased by 12% this year, meanwhile, 15% stated that it helps them to retain talent.

In a wider sense, more than half (58%) view providing at-retirement support as part of their duty of care, and just under half (49%) do this because it is part of

Respondents' attitudes to supporting staff at retirement



How respondents support staff approaching retirement



their organisational culture. Of those who do not provide this support, the key reasons are lacking the resources (34%) and lacking the budget (30%).

When it comes to methods of providing support, financial education and awareness campaigns have seen huge leaps in popularity since 2017; 57% of employers in 2018 support staff at retirement using online modelling tools, compared to 36% of employers that did this in 2017.

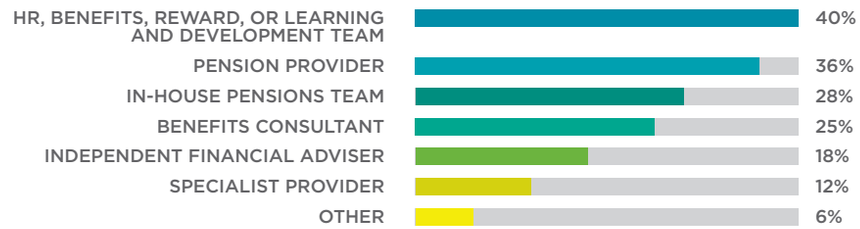
Respondents are also increasingly offering seminars in the year prior to a planned retirement, with 43% of employers doing this in 2018, versus 31% in 2017.

More than a quarter (27%) of employers in 2018 are running comprehensive communications campaigns about saving for retirement and making informed decisions; this is a 12% increase on those that did so in 2017.

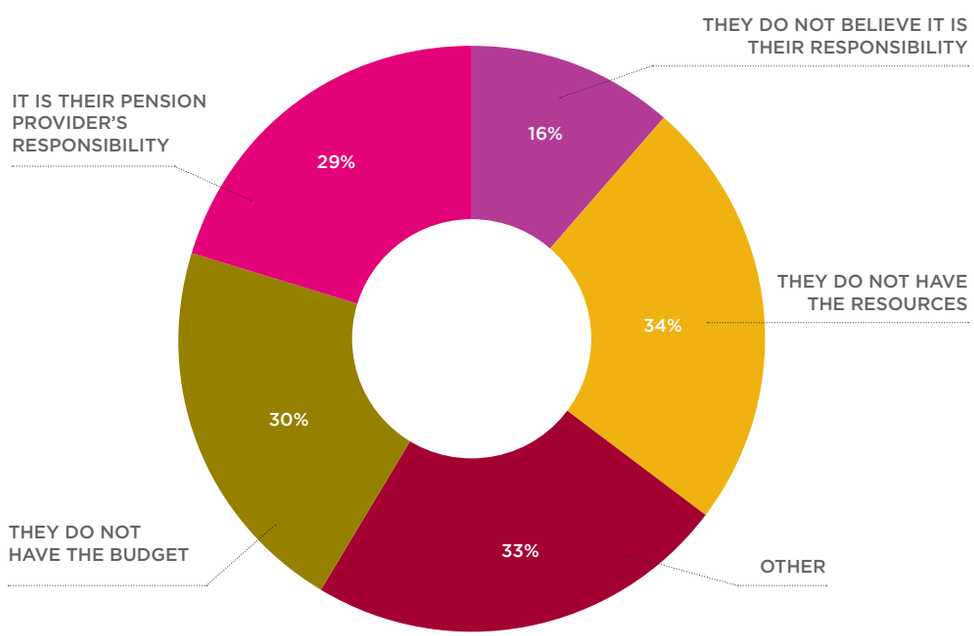
This building focus on communications and guidance might be the reason that fewer employers are offering access to financial advice, with 56% doing this in 2018, compared to 61% in 2017.

The largest proportion of employers (40%) place the responsibility for providing at-retirement support at their HR, benefits, reward and learning and development teams. Despite this, an increasing number of respondents rely on providers, as more than a third (36%) believe their pension provider is responsible for offering this type of support, an 11% increase on last year, while 25% look to benefits consultants, and 12% rely on specialist providers. The proportion of respondents whose in-house pensions teams deliver at-retirement support has decreased by 6% this year. eb

Who is responsible for providing at-retirement support at respondents' organisations



Respondents' reasons for not providing at-retirement support to staff



Communication

Pensions communications are high on employers' agendas

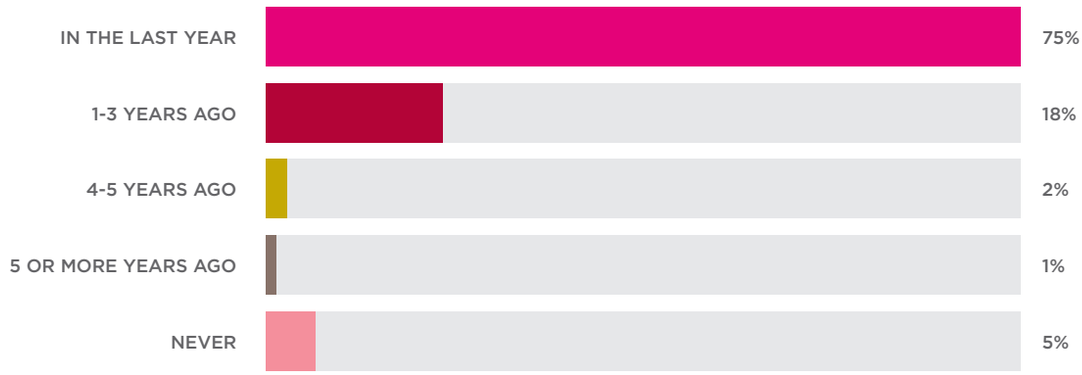
Kavitha Sivasubramaniam | editor
Employee Benefits

The majority of respondents recognise the importance of sharing pensions information with their staff, with three in four (75%) having undertaken a communication exercise in the last year. This is considerably higher than the 58% who said the same in 2017, and but only a marginal increase on 73% in 2016.

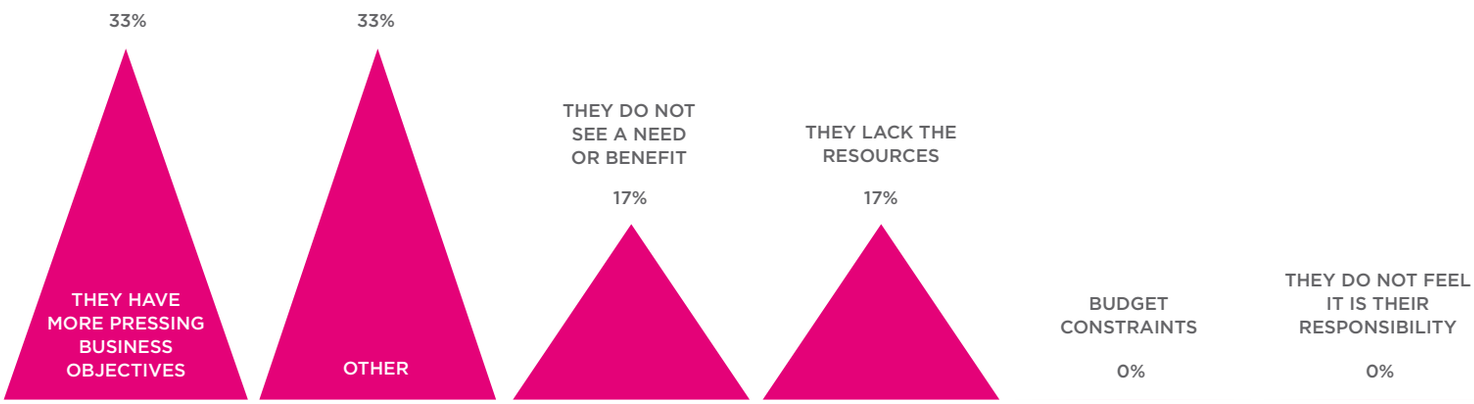
Almost a fifth (18%) have conducted a pensions communication exercise within the last one to three years, while 3% did so four or more years ago. Just 5% have never undertaken pensions communications.

Among those who have not conducted pensions communications exercises within the last five years, or at all, budget does not appear to be a restraining factor. Instead, for a third (33%) of respondents, there are simply other, more pressing, business objectives that have taken precedence. Alternatively, 17% do not believe there is a need for or benefit to communicating about pensions, while the same percentage say they lack the resources to do so. The reasons stated for not providing communications have remained relatively steady, year on year, but a particularly notable change is that the proportion of respondents who stated that they did not feel this was their responsibility has dropped from 10% in 2017 to 0% in this round of research. eb

When respondents' organisations last undertook a pensions communication exercise



The main barrier to organisations conducting a pensions communication exercise, either at all or more frequently



The future

Uncertainty about how to make the best decisions when accessing pension benefits is a key concern

Kavitha Sivasubramaniam | editor
Employee Benefits

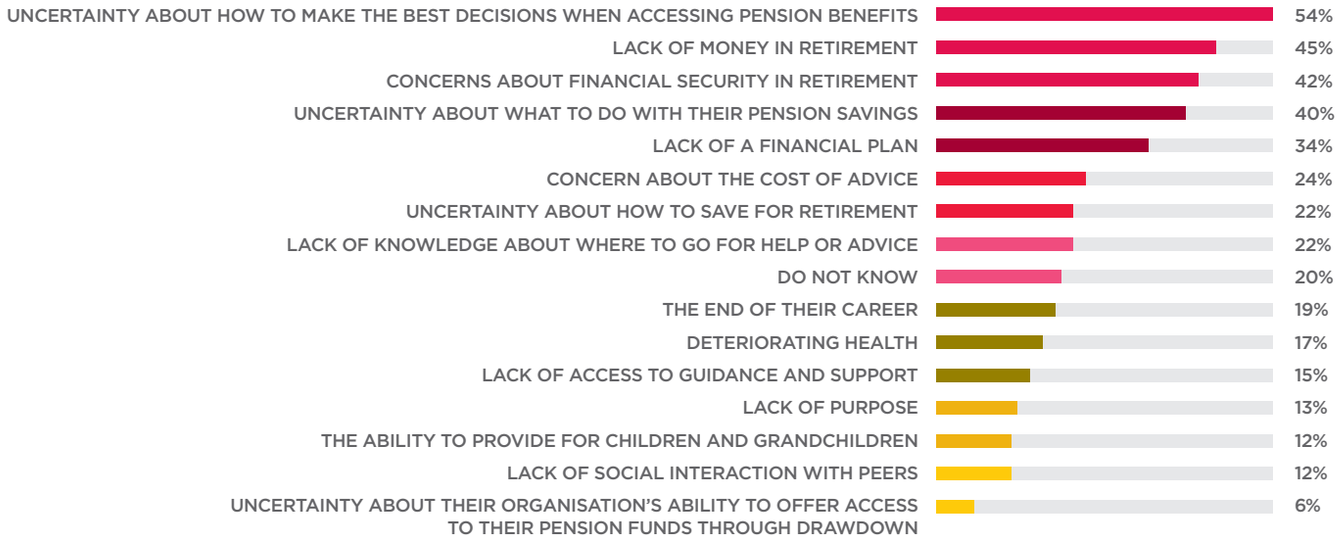
This year, uncertainty about how to make the best decisions when accessing pension benefits topped the list of employees' concerns regarding retirement, cited by 54% of respondents. This is up by 13 percentage points from last year's research but has shown an overall decrease of 6% since 2014.

A lack of money in retirement is the next most common worry (45%), closely followed by concerns about financial security (42%).

Four in 10 respondents (40%) identified uncertainty about what to do with pension savings, which is broadly in line with the results in 2016 (41%) and 2017 (39%).

Lowest on the list of concerns for respondents were: lack of purpose (13%), lack of social interaction with peers (12%), the ability to provide for children and grandchildren (12%) and uncertainty about their organisation's ability to offer access to pension funds through drawdown (6%). Worryingly, one in five (20%) respondents admitted to being unaware what retirement concerns affect their workforce.

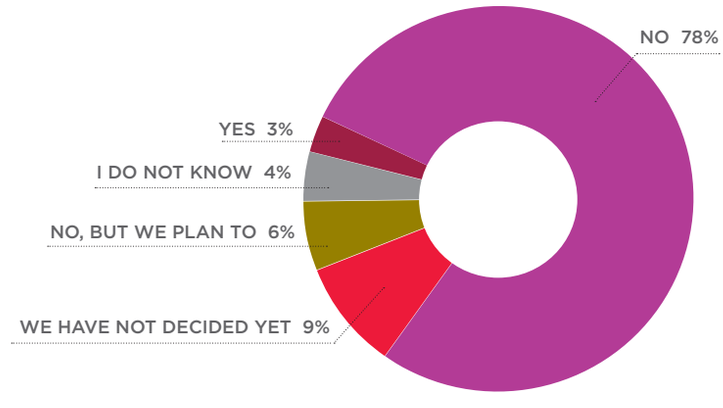
What concerns respondents' staff the most regarding retirement



Most respondents (78%) do not currently offer a Lisa. Only 3% offer one, although a further 6% plan to. Interestingly, of those who do currently offer Lisas, four in five (80%) believe staff will treat it as an additional savings vehicle, while 60% feel that employees will see it as an alternative to pension savings.

Although 80% of respondents stated that it is too early to tell what impact the Lisa will have on pensions savings, and 60% feel that it may have no impact on staff, a further 60% see the Lisa as an indication that the UK is moving closer to a US model, in which, for example, employees are responsible for arranging savings, and employers make contributions to their personal savings plans.

Do respondents' organisations offer a Lifetime individual savings account (Lisa)?



How respondents believe the Lifetime individual savings account (Lisa) will impact pensions

	AGREE	DISAGREE	N/A
IT WILL INCREASE EMPLOYEE ENGAGEMENT WITH RETIREMENT PLANNING	20%	60%	20%
STAFF WILL INCREASE THEIR PENSION CONTRIBUTIONS	20%	80%	
EMPLOYEES WILL BECOME DISENGAGED FROM RETIREMENT PLANNING		100%	
STAFF WILL DECREASE PENSION CONTRIBUTIONS		100%	
STAFF WILL OPT OUT OF THEIR WORKPLACE PENSION SCHEME		100%	
THE LISA WILL HAVE NO IMPACT ON STAFF	60%	20%	20%
STAFF WILL SEE THE LISA AS AN ALTERNATIVE TO PENSION SAVINGS	60%	40%	
STAFF WILL TREAT THE LISA AS AN ADDITIONAL SAVINGS VEHICLE TO PENSION SAVINGS	80%	20%	
IT SIGNALS THE BEGINNING OF THE END OF WORKPLACE PENSIONS		80%	20%
IT SIGNALS THE BEGINNING OF THE END OF WORKPLACE SAVINGS		80%	20%
IT IS AN INDICATION THAT THE UK IS MOVING TO A US MODEL OF SAVINGS	60%	40%	
IT IS TOO EARLY TO TELL	80%		20%

An overwhelming majority of respondents (85%) believe it is too early to tell what the impact of Brexit will be on pensions. This has more than doubled since last year's survey, when 39% said this was the case.

Almost a third (30%) of respondents believe Brexit will have no impact, a substantial increase on the 11% who felt this way in 2017. Of those who do think Brexit will affect pensions, 17% believe it will boost employee engagement in retirement planning and 14% think it will encourage staff to increase their pension scheme contributions. eb

How respondents believe Brexit will impact pensions

	AGREE	DISAGREE	N/A
BREXIT WILL INCREASE EMPLOYEE ENGAGEMENT IN RETIREMENT PLANNING	17%	58%	26%
BREXIT WILL ENCOURAGE STAFF TO INCREASE THEIR PENSION SCHEME CONTRIBUTIONS	14%	68%	19%
BREXIT WILL LEAD TO EMPLOYEES BECOMING DISENGAGED FROM RETIREMENT PLANNING	13%	63%	24%
BREXIT WILL MOTIVATE STAFF TO DECREASE THEIR PENSION SCHEME CONTRIBUTIONS	13%	71%	17%
BREXIT WILL MOTIVATE STAFF TO OPT OUT OF THEIR WORKPLACE PENSION SCHEME	11%	69%	20%
BREXIT WILL HAVE NO IMPACT ON STAFF	30%	45%	25%
IT IS TOO EARLY TO TELL HOW BREXIT WILL IMPACT ON PENSIONS	85%	8%	7%

Making a choice

How to encourage active decision-making surrounding pension investments

Katie Scott | acting features editor
Employee Benefits

NEED TO KNOW

- **Employees can self-select their pension fund, rather than remaining invested in the default option; this can help staff better tailor investments to their personal circumstances.**
- **Financial education around available pension fund options can help employees make informed, active investment decisions.**
- **Communications should be clear, simple and feature a mix of different mediums.**

Research by financial services firm Hargreaves Lansdown, published in August 2018, shows that workplace pension scheme members who actively choose their own investments can reap 4.75% more annual returns than those who do not make investment decisions.

Case study | DAC Beachcroft

Using financial education to encourage active investment choices

DAC Beachcroft, which has 2,230 UK-based employees, held a pensions roadshow at its Bristol office in September 2018, in conjunction with Scottish Widows.

This enabled employees to book one-to-one consultations and attend a presentation on fund performance and available investment plans.

Sarah Young, head of reward at DAC Beachcroft, says: "People are beginning to get more interested and beginning to understand. [They] want to look at what the investments look like and decide for themselves. We're certainly trying to ensure that everyone's got as much pensions education as they can possibly take."

DAC Beachcroft also conducted mini pensions roadshows, webinars and one-to-one financial advice across its 11 operating sites in the UK throughout September and October 2018.

This builds upon financial education measures implemented in 2017, which included roadshows at all UK sites, provided by Thomsons Online Benefits, as well as presentations and access to one-to-one financial advice throughout September and October. This was followed by the creation of an online pensions pack in November 2017, which featured frequently asked questions, material from the roadshows, and

a link to an interactive pension modelling tool. In January 2018, the firm also held general financial wellbeing education through provider Nudge.

By August 2018, 9% of members of the workplace pension scheme were not invested in the default fund; this equates to 189 employees. Of this number, 93 employees were invested in more than one fund, 85 employees were invested in one fund and 11 were invested in another lifestyling approach.

"We're trying to achieve that overall employee engagement in [pensions], so [employees are] actually making a decision, whether that's to go into the scheme, opt out of the scheme or go further and make their own individual investment choices. That engagement is the really important piece of the puzzle," concludes Young.

Considering the improvement this might make to employees' retirement outcomes, how can employers support and encourage staff who wish to make active decisions?

WHY SHOULD EMPLOYEES SELF-SELECT?

Employees who self-select their pension fund can tailor their investment choices to their personal circumstances; they might take into consideration, for example, investments they already have, such as a defined benefits (DB) pension pot.

Phil Farrell, partner at Quantum Advisory, says: "There's a common misconception that the default investment strategy is a recommendation or an endorsement from the employer or the trustee board. For some individuals, it may be a very good match. But for some, it may be a very bad match. [Default funds] are not a member-specific investment strategy."

Active decision-making can also have a ripple effect on employees' general engagement with their pension, encouraging them to increase their contributions by stopping them from being passive.

However, it is not necessarily during accumulation that decision-making has the greatest impact, notes Emma Douglas, head of defined contribution (DC) solutions at Legal and General Investment Management. "Active decision-making [comes] into its own closer to retirement, because then it really helps to know what [employees are] going to do with the money [and] when they think they're going to retire," she says.

But can active decision-making really bolster retirement outcomes? Douglas says: "It's a dangerous premise to say that active decision-making is always going to be better, but clearly there will be cases where members know their own circumstances better than any set of trustees, ›

Case study | RSM

Encouraging risk-profiling to engage employees with pension investments

Audit, tax and consulting organisation RSM created its defined contribution (DC) pension scheme in 2010 without a default investment fund, encouraging active decision-making among its 3,600 UK-based employees.

RSM's online joining process encouraged staff to utilise a risk-profiling tool, provided by Aviva. This aligned with the available investment funds, including five bespoke lifestyle funds that were created solely for RSM staff. These were identified as: defensive, cautious, moderate, diversified and adventurous.

Roger Sheldon, pensions manager at RSM, explains: "We enabled people to engage at a level that suited them. They could say 'I've got my risk profile, I'll just pick my RSM fund that matches my risk profile', or 'I'll look at a wider batch of stuff', or 'I want to look at everything.'"

After the auto-enrolment regulations were implemented in October 2012, RSM used its cautious fund as its default. Still keen to encourage decision-making, though, RSM does not proactively promote the default, instead pushing the continued use of the risk-profiling tool. It also provides education, including bite-sized webinars via the online joining process.

"Anybody who wants to join our scheme before the auto-enrolment process kicks in has to make [an investment] choice," says Sheldon.

"Our scheme is open from day one to everybody, so auto-enrolment is at the back end of the processes, to catch those people that don't engage."

Later this year, RSM will introduce a new communications tool, provided by Lane Clark and Peacock (LCP). Sheldon explains: "This will enable us to communicate to people who are, for example, in the default fund and are auto-enrolled, and encourage them to look at their risk profile and pick an appropriate fund."

To date, around 2,000 employees have engaged with the pension scheme and made an investment decision. This compares with the 990 staff who were automatically enrolled in July 2018.

"If [employees] are engaged in pensions from day one, [they] start to understand the benefit, [they] value the benefit, [they] have more involvement in managing that asset and [they are] likely to put more in as well. It's not just whether that choice is the right one in terms of investment, it's that they have made a choice [at all that] is the key for engagement," Sheldon concludes.

so there's always a place for it. But, I wouldn't say it's something [employers] have to actively encourage in DC. It's there, it has a place, but it won't always improve outcomes."

FINANCIAL EDUCATION

Regular financial education is key in preparing employees to make their own pension investment decisions. This should start with detailing what the default fund is and how it is invested. Then, employees can understand their current financial situation, and consider whether they wish to make changes for the future. Employers could additionally consider paying for staff to receive financial advice.

Nathan Long, senior pension analyst at Hargreaves Lansdown, says: "If [employers are] looking to engage people, [they] need regular touchpoints [and] to continually drip-feed information to individuals, instead of expecting people to consume, understand and act upon information once every 12 months."

Long recommends encouraging employees to have online access to their workplace pension: "Our analysis shows that where people are online, they tend to be far more savvy with their finances."

Financial education could also include tools that work out employees' predicted retirement expenditure; this can help pinpoint what funds would best suit them in achieving their retirement income goals.

CREATING CONFIDENCE

Providing financial education is, therefore, an important stepping stone in improving employees' financial confidence. This can impact whether employees want to make an active decision around their investment.

"If [employers] give [staff] the confidence [by providing] them with quality information, and [employers are] able to provide a shortlist of some of the best investment funds that are available, then absolutely it's possible for people to choose wisely and to improve upon the returns that they would get from their default fund," Long explains.

Farrell agrees: "[Employers] need to furnish people with the tools to make them feel comfortable to make a decision."

COMMUNICATIONS

Clear, simple communications tailored to different employee cohorts are vital. Karen Bolan, head of engagement at AHC, says: "It is important to give [employees] all the information they need, but in a way that's accessible for them."

This can include, for example, interactive videos and animations, online information and tools, social media, face-to-face member surgeries and presentations or paper-based communications.

Employers can also use environmental, social and governance-concerned (ESG) funds within their communications approach. "A hidden communication superpower [is] talking to people about investments that align with their principles," Douglas explains. "People are interested in stories about what their money is doing. Is it helping build the world they want to retire into?"

ACTIVELY CHOOSING THE DEFAULT

An active decision does not necessarily require employees to exit their pension's default fund.

Long explains: "If people have actively reviewed what's available, what the default fund is, and they understand how it's invested, and they conclude [the default fund is] suitable for their circumstances, then that's a good outcome, because they are engaged with their pension." eb

> "People are interested in stories about what their money is doing. Is it helping build the world they want to retire into?"
>
> EMMA DOUGLAS, LEGAL AND GENERAL INVESTMENT MANAGEMENT

Viewpoint

Dianne Day is client director at Independent Trustee Services

Most UK employees saving into traditional defined contribution (DC) pension schemes do not make investment choices; instead, they choose to leave their money in the hands of trustees. From my experience, across the UK, around 80% to 90% of workplace pensions are in default funds, but other self-select choices are available.

A pension is a long-term investment, and trustees design default options to reflect the retirement time horizon of the workforce. When constructing default retirement pots, trustees seek advice from investment experts to assess a suitable level of risk.

A well-designed default should be diversified, monitored regularly, and adjusted as investment conditions change.

Given the careful consideration behind default funds, why would members choose self-select options instead? It is usually for one of three reasons.

First: the quest to achieve better returns. Members who are highly confident in their own investment skills may decide that they want more control.

Having observed how the individual investors behave in volatile markets, this is a high-risk approach that very few people get right consistently.

Second: people, fundamentally, have different attitudes towards risk and time horizons. Some members might opt for shorter investment periods, at the expense of growth potential and purchasing power, during retirement due to inflation.

Other members seek more risk than the default, believing that specific investment markets, such as emerging markets, offer the best prospects for returns. In the long-term, this might be the best option, but volatility should be considered.

Third: every member's financial circumstance is unique. One challenge for today's DC trustee is that we can only see the investment pot held by each member in our pension scheme.

The rest of the member's financial life, including other pots, savings, property, inheritance or some early retirement plans, is hidden.

Members may have very good reasons for selecting the investments they have, but obtaining good financial advice is important, so that risk and time horizons can be taken into consideration.

Ever-changing landscape

How can employers stay on top of industry changes and ensure employee engagement?

Alison Coleman |
freelance journalist

NEED TO KNOW

- **Staying informed about regulatory changes around pensions ensures employers can respond quickly and in an educated fashion.**
- **The multitude of regulatory changes over recent years mean that employers and trustees may be focusing more on keeping pace than developing effective long-term strategies.**
- **Organisations can engage their employees in managing pensions change, by making individuals responsible for keeping up to date with developing regulations.**

From the introduction and implementation of auto-enrolment and pension freedoms, to the latest developments regarding master trusts and annual authorisation, the pensions industry has experienced a multitude of regulatory changes in recent years.

How can employers ensure that they keep pace with the seemingly ever-changing pensions landscape, and avoid succumbing to regulatory fatigue?

AN EVOLVING INDUSTRY

One of the most significant changes over the past six years has been the phased introduction of mandatory employer contributions into a qualifying workplace pension scheme through automatic enrolment. The next, albeit not necessarily final, change to minimum employer and overall contributions is scheduled for 6 April 2019.

Additionally, as of 1 October 2018, new rules require master trusts to apply annually to The Pensions Regulator (TPR) for authorisation to continue operating; master trust providers have until 31 March 2019 to submit the first application.

Employers may face considerable challenges if their master trust either does not apply for authorisation to continue to operate by 1 April 2019, or applies and fails to get authorisation from TPR, says Anne-Marie Winton, partner at ARC Pensions Law.

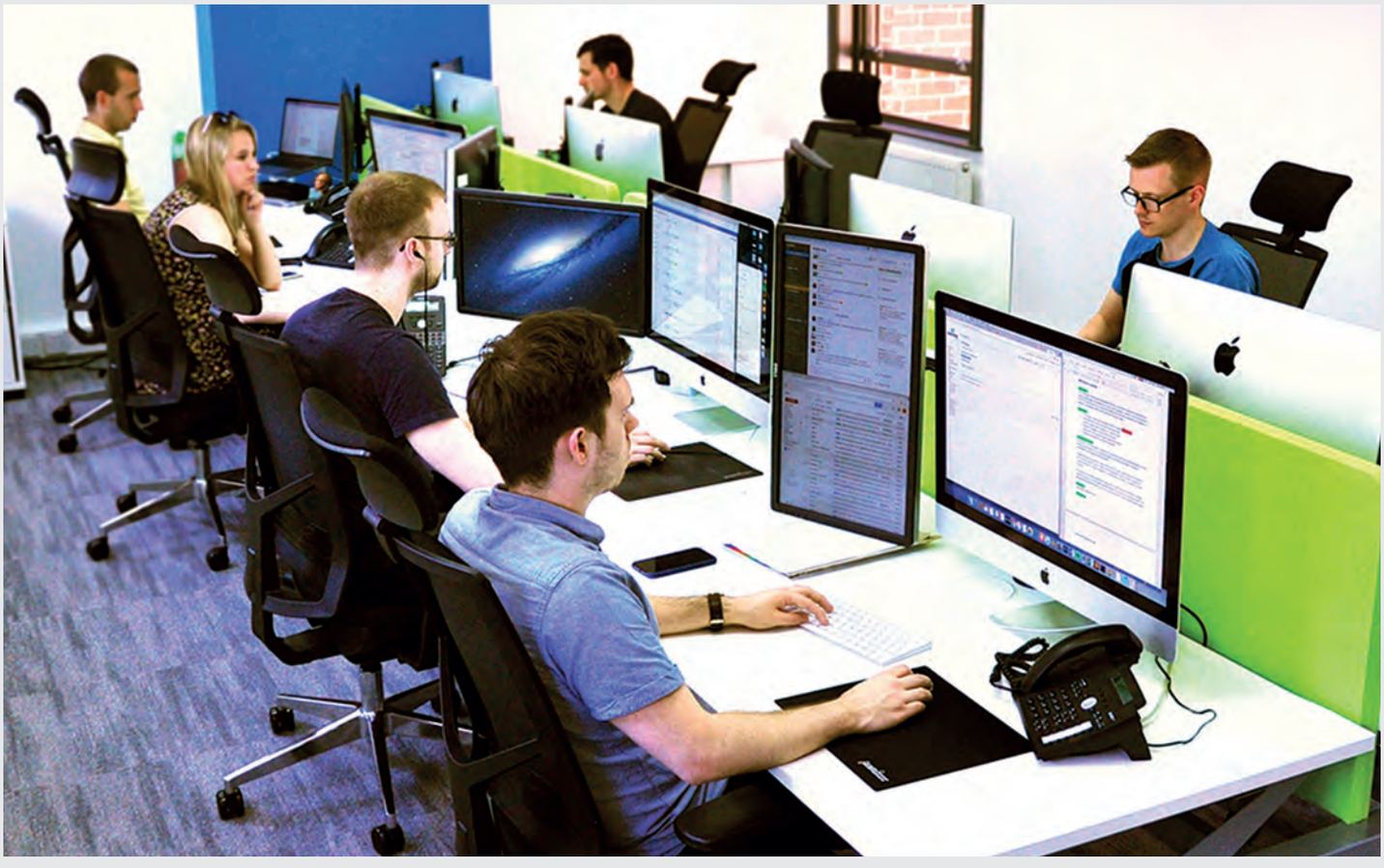
Tom Partridge, partner in the pensions advisory practice at Deloitte, agrees: "This poses a number of new challenges. [While] most trusts anticipate a significant timeframe to prepare applications, some are yet to consider the additional resourcing and different skill sets that will [be] required to meet the task at hand."

Pension freedoms, which took effect in 2015, are another example of regulatory change and the sector taking time to implement practical, scalable solutions, adds Debbie Falvey, defined contribution (DC) proposition leader at Aon.

"Change fatigue around DC means that employer and trustee time and attention are taken up ensuring they are keeping up with the change and not in good, long-term strategy work," she explains. "It would be good to have a period of stability so we can focus on the real issues, such as increasing contributions beyond auto-enrolment minimums,

Case study | Evoluted

Using a local accountancy firm to keep abreast of pensions change



Sheffield-based digital marketing organisation Evoluted specialises in bespoke web development and digital design. It was founded in 2006 and currently employs 27 staff.

The organisation originally implemented a group stakeholder pension scheme for employees, but with the introduction of auto-enrolment in October 2012 came a slew of challenges revolving around communication and keeping employees up to date, says Ash Young, managing director at the company.

As is the case for many small and medium-sized organisations, Evoluted had no in-house dedicated pensions expertise. Nevertheless, it was able to rely on a skilled accountant to provide help and support when it came to staying on top of changes to the regulatory landscape of workplace pensions.

"We have worked with the same firm of accountants since our business was launched," explains Young. "They offered to support us in managing the new pension regime as an additional service. They asked for our input to design and choose an appropriate scheme and have been very proactive, particularly in keeping us informed of any changes around employer contributions. However, we already contribute above the maximum required by the scheme."

Evoluted, in addition, does not have a dedicated internal HR position. Therefore, the responsibility for communicating any pension changes to individual employees, as well as what these mean and how they might affect pay, falls instead to the directors.

"This makes it even more important to be working with the right professionals who can offer the support as and when we need it," adds Young. "Working with a good local accountant has been key to keeping things running smoothly for us. Without access to that expert help, it would be incredibly difficult for us to stay on top of any changes ourselves."

getting DC members to take ownership of their retirement planning and choices, and recognition that wider financial education might be the key in managing debt levels and increasing savings rates."

EMPLOYEES AT THE FOREFRONT

Smaller employers without access to pensions expertise and support could find the task of keeping pace with change more onerous. One solution could be to give ownership to a particular employee to stay engaged with regulatory changes, suggests Peter Bradshaw, director at Selectapension.

He says: "Another option for smaller employers is to ask their [business] accountant to take ownership of responsibility for regulatory changes, while employers themselves can network and join local business groups, such as Chambers of Commerce, to share experience and knowledge of their regulatory responsibilities."

Either way, being informed and staying on top of changes is key.

Keenan says: "By staying up-to-date with regulation changes, employers can make sure they are well read and able to respond quickly and in an informed way.

"Employees value employers [that have] financial wellbeing as part of their packages and so this is an important issue in the increasingly tight war on talent in the UK." eb

The pensions employee experience

What is the current pensions landscape, and what is on the horizon for the industry?

Lesley Alexander | vice president
The Pensions Management Institute

At The Pensions and Lifetime Savings Association's (PLSA) conference this year, the key theme centred on engaging employees with their workplace pensions.

Outside of the interested few, this can undoubtedly be an uphill struggle. However, if we do not address the under-saving culture in the UK, we will be faced with an ageing population with insufficient money to help them through later life.

The introduction of auto-enrolment into a workplace pension was a step towards solving this problem, and in April 2019, contribution rates for employees are due to step up again. While auto-enrolment has been a seemingly successful social experiment in harnessing natural inertia, the next increase in contributions will have a meaningful financial impact on many employees.

Against a backdrop of Brexit, this may feel like small fry, but post-Brexit there will be a drive to recruit and retain more skilled employees. A well-designed pension scheme forms a key element of a total benefits package that will attract the best candidates. It makes sense to spend some time and effort demonstrating this real value to staff.

Linked to this is the simplified annual statement, a helpful step forward for ordinary people saving into workplace pensions. It is hard to believe we have taken this long to realise that a simple, attractive two-page statement is more likely to be read and get traction than a long, dull, impenetrable jargon-filled communication. So, employers' next annual benefit statement might need to look quite different compared to what went before; this can only be a good thing if it means employees actually paying attention and taking action if needed.

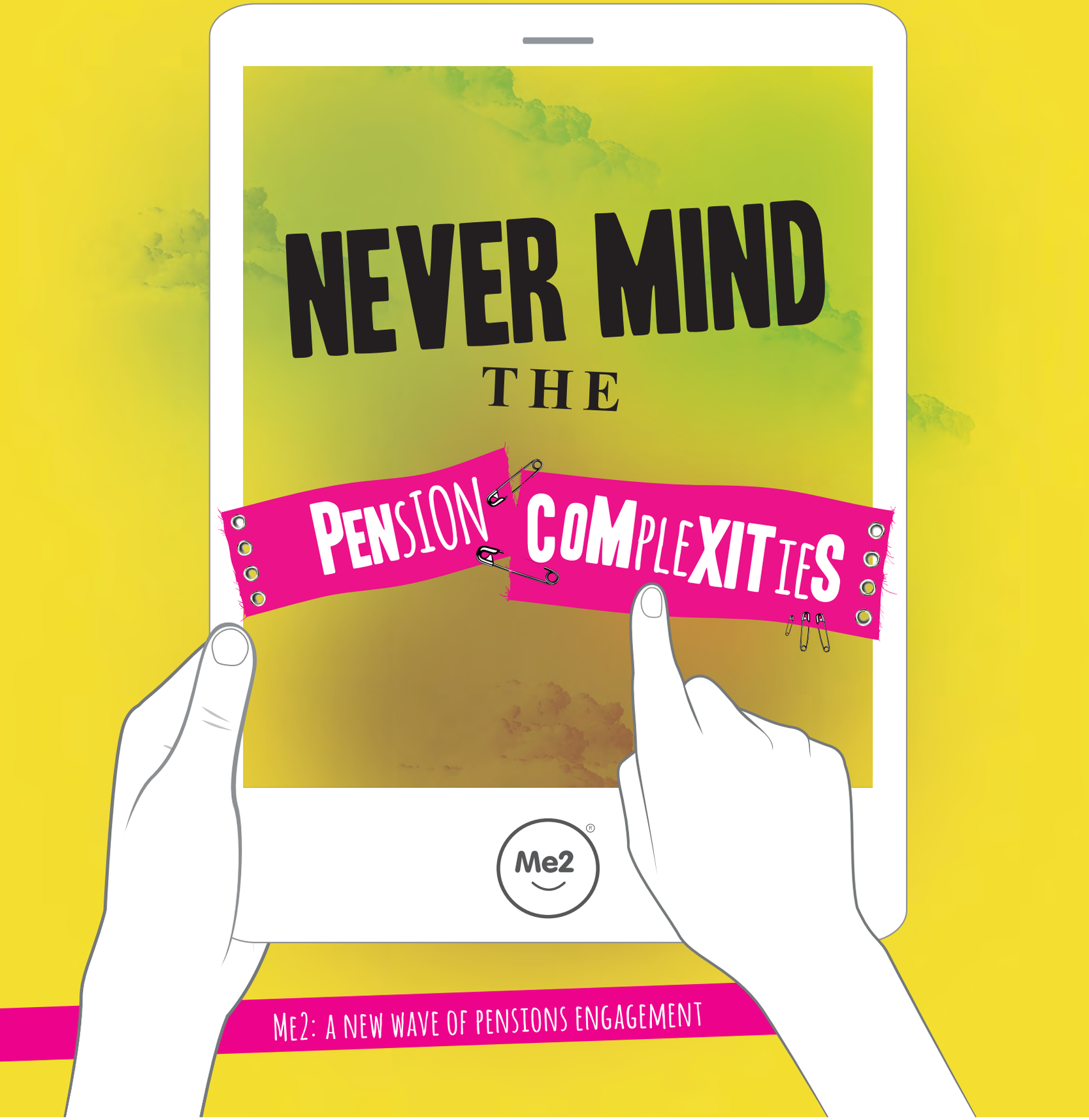
This is a good start; however, we still need to press on to make the pensions dashboard a reality, so that everyone can access and manage their retirement savings on one online platform.

This work requires a focus on the data we are holding for employees. The Pensions Regulator (TPR) is doubling down on its efforts to force pension scheme trustees and sponsoring employers to get their data into shape.

This is particularly important at the other end of the employee journey. Those approaching retirement are facing challenges over how they take their benefits. Freedom and choice mean that such decisions are more varied and complex than before, especially for employees with benefits in defined benefit (DB) schemes. It is easy to assume that these members are well taken care of, but these are the individuals most likely to be vulnerable to scams and poor advice, specifically when it comes to transfers.

In October 2018, The Financial Conduct Authority (FCA) issued new guidelines for all organisations involved in pension transfers, with the aim of providing greater protection for consumers. The FCA is also working with TPR to ensure that pension schemes are properly communicating the risks of transfers to their members.

Faced with an almost constant stream of regulatory initiatives, the focus for employers will be on the employee experience. Get that right and employers can reduce the risk of those approaching retirement making poor financial decisions and help younger, financially stretched employees see the value of putting enough money into their long-term savings to avoid disappointing their expectations. eb



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