

# The Trustee toolkit downloadable

## How a DC scheme works 2014

### Tutorial six: Member communications

By the end of this tutorial you will better understand:

- ▶ member communications required by law
- ▶ the reasons why good member communications are key to ensuring good member outcomes
- ▶ the importance of providing accurate, clear, relevant and in plain English

This tutorial is part of Scenario three.

#### Glossary

A detailed glossary of technical terms can be downloaded from the Resources tab when you log in at [www.trusteetoolkit.com](http://www.trusteetoolkit.com)

## Introduction

The Tutorial: 'Good member outcomes' introduced you to the risks that might affect the outcomes for a defined contribution (DC) member. There are two risks applicable to this tutorial. However, many of the risks identified in the other tutorials in this module can also be mitigated by providing the right communication to the right member at the right time. Those risks could be:

- ▶ member makes inadequate contributions
- ▶ member affected by investment/market risk
- ▶ member makes inappropriate investment choices or monitors performance insufficiently
- ▶ member makes poor decisions for pension age

Providing communications which are both effective in ensuring that members have sufficient understanding to make good informed decisions and are legally compliant is an important responsibility for trustees.

This tutorial provides trustees with information on:

- ▶ the key legal requirements
- ▶ how to ensure that your communications are effective

## Legal framework

There are various communications which are required by law. Trustees should monitor these particularly closely.

## Information on joining

Trustees must normally provide members with basic information about the pension scheme (which is sometimes contained in the scheme booklet) within:

- ▶ six weeks if the individual has been automatically enrolled within the pension scheme
- ▶ two months of them joining if they have not been automatically enrolled

You can learn more about this by reading the guide to communicating and reporting at [www.tpr.gov.uk/communicate](http://www.tpr.gov.uk/communicate).

## Annual information

Within 12 months of the end of each scheme year, it is a requirement on almost all schemes for trustees to provide members with:

- ▶ a statutory money purchase illustration (SMPI) which shows a member-specific projected pension (based on assumptions)
- ▶ an annual benefit statement which provides details of contributions credited (before deductions) to the member in the preceding scheme year

## Additional annual information

There is other key information for members that trustees should consider also including with the annual benefit statement. This includes statements that highlight the relationship between member contributions and good member outcomes, information about flexible benefit options and details of the charges a member has paid over the year.

For members that are approaching pension age, trustees could also include information about the government advice service, Pension Wise, and details of the members investments in the scheme.

Where schemes are required to produce an annual chair's statement, trustees could consider sending a copy of the statement or a summary of the key points to members.

## Information on request

Trustees are obliged to provide certain information if members request it, including:

- ▶ for individuals, ad hoc benefit statements and transfer values
- ▶ the trustees' annual report including the scheme's investment report, the chair's statement (if trustees are required to produce one), audited accounts and the auditor's statement
- ▶ the scheme rules or other documents constituting the scheme including the names and addresses of participating employers
- ▶ the Statement of Investment Principles (SIP)

If the scheme has a website or the employer has an intranet then scheme information can be made available to most members in this way. However, there are strict legal requirements, in particular concerning notification, that need to be satisfied and trustees must consider the position of deferred members, who will not usually have access to the company intranet.

## Options as members reach pension age

Trustees must communicate with members as they approach pension age. This can help members understand more about their options and how they can buy retirement products. Trustees must tell such members about the government's 'Pension Wise' service and must also provide a 'wake-up' pack to members at least four months before they reach their retirement date.

## Other legal requirements

There are rules which define what and how to communicate:

- ▶ when a member is divorcing their spouse
- ▶ when a member leaves the scheme
- ▶ following the notification of the death of a member
- ▶ in advance of and when benefits become due
- ▶ when there is any proposal to materially alter the scheme
- ▶ when there is a transfer of member funds that is being made without the member's consent
- ▶ if the scheme winds up (either voluntarily or as a result of employer insolvency)

When communications are being written, reviewed or updated, trustees should be clear about which third party is responsible for checking their compliance with legislative requirements on behalf of the trustees.

Master trusts: Trustees of master trusts must provide certain notifications to members where they are seeking to transfer and wind-up the scheme. See Code of Practice 15 at <http://www.tpr.gov.uk/docs/code-15-authorisation-and-supervision-of-master-trusts.pdf>.

## Working with the employer

As employers are often a trusted source of information for employees, and can play a major role in delivering successful communications, trustees may wish to work with the employer on a co-ordinated approach and in some situations they may wish to issue joint communications from the employer and trustees.

Some scheme changes require the employer to consult formally with the members. In these situations, trustees need to be aware of the employer's communications' plan when they issue their own communications.

**Master trusts:** Trustees are required to notify employers in the event of a triggering event occurring for their scheme. Requirements also apply where the trustees are seeking to transfer members and wind-up the scheme. See section on 'triggering events' of Code of Practice 15 at <http://www.tpr.gov.uk/docs/code-15-authorisation-and-supervision-of-master-trusts.pdf>.

You can learn more in the Tutorial 'Decisions at pension age'.

You can learn more about this by reading the guide to communicating and reporting at [www.tpr.gov.uk/communicate](http://www.tpr.gov.uk/communicate).

## Focus on the risks

Beyond the legal requirements for specific communications, trustees have considerable flexibility. The quality and nature of communications can therefore vary significantly between schemes. Scheme memberships vary but trustees and employers need to be aware that:

- ▶ many members lack the confidence or interest to make decisions
- ▶ there is a tendency towards inertia. Some members can remain in a scheme for many years without making any active decisions about their pot
- ▶ good communications about the pension scheme can assist the employer in attracting, motivating and retaining employees
- ▶ members carry much of the risk in a DC scheme and they make most of the important decisions which affect the ultimate level of their benefits
- ▶ effective communications help members understand their options so that they can make the right decisions for themselves, given their own circumstances
- ▶ members who engage on key issues such as how much to contribute, what fund(s) to invest in, and how to access their benefits, are more likely to achieve a good outcome

## Mitigating the risks

Communications will be effective if they have a clear purpose and provide members with the information they need to make decisions. Trustees should consider what message they want to convey and what actions, if any, they are expecting the members to take. They can then use this information to put in place a communications plan or strategy.

## Accurate

It sounds obvious that communications should be accurate but it isn't as straightforward as it sounds. The reasons fall into four main categories.

### Inaccurate factual information about the scheme

If, for example, mistakes are made when information is included about the current charges or investment objectives then a member may make inappropriate decisions.

## Incorrect underlying member data

Communications which are tailored for specific members, like annual statements, contain the individual's data such as the member's pension pot value, the date they joined the scheme and their expected pension date. If this data is wrong then this will lead to an incorrect SMPI forecast.

## Complex processes underpinning communications

Administrators often carry out complex processes (either manual or using IT solutions) to incorporate the right member data and to collate material for despatch. When these processes go wrong, members may receive wrong information and may even be sent correspondence which was intended for other members.

## Information is not balanced

Sometimes trustees use information which is supplied by providers and which may result in communications which appear to favour one provider or product type. For example, retirement communications which include any promotion of the provider's own annuity product need to be fairly balanced with the availability of the open market option (OMO) and provide information about other retirement options.

You can learn more about this by reading the guide to administration at [www.tpr.gov.uk/admin](http://www.tpr.gov.uk/admin).

## Relevant

Even if communications are accurate, clear and in plain English, if members don't find them relevant then they have not achieved their purpose. Making sure that communications are relevant to the members they are aimed at will increase the number of members who read them and make it more likely that they are motivated to take action afterwards.

## The right information

Producing relevant communications involves knowing members and seeking their views.

Methods that trustees could use to do this include reviewing the employer's existing knowledge and data, checking administration reports for member complaints and call subjects, monitoring particular social media channels, carrying out member surveys, running workshops or setting up a member panel or focus group.

- ▶ Keep the presentation simple.
- ▶ Tailor communications to specific groups, eg deferred members.
- ▶ Use clear signposting so that members can ignore irrelevant information.
- ▶ Use 'tiers' so that the easy to read information and key messages appear first.

## The right time

Would sending information out at a particular time increase readership? (eg when pay rises occur or on a specific day or date).

## The right channel

It's also important to tailor the format of communications to the audience as far as possible.

For example, a younger membership that is known to be technologically savvy might pay more attention to communications sent via smartphone applications (apps) or social media than via direct mail. Alternatively, an older membership might prefer, and therefore be more likely to access, direct mail.

- ▶ Expensive methods are not always the best. Repeating the same message using more than one method and/or over time may be more effective.
- ▶ Electronic methods can be used; scheme websites, email, the company intranet (employees only), webinars and podcasts, mobile devices, text messages. Investment managers often provide information which can be accessed electronically.
- ▶ Roadshows can be useful (either with presentations or by using an information point at which members ask questions).

## Clear and in plain English

Scheme members often find communications about pensions daunting. This puts a responsibility on the trustees to ensure that all communications are 'clear and written in plain English'.

## What is important?

When drafting or reviewing communications, trustees should be aware that:

- ▶ language is very important. Jargon can be off-putting for all members but particularly those with lower levels of financial literacy. Trustees should try to avoid using technical terms and make sure they are consistent in the language they use.
- ▶ understanding the audience is also important

Ask yourself these questions:

- ▶ How financially aware are they?
- ▶ Does the membership have disabilities or impairments that trustees need to take account of when developing communications?

## Effective communications

It is good practice for trustees to read and review all the member communications at least once a year to assess their effectiveness.

Trustees should also consider whether they are making the best use of available technology. For example, interactive tools can be a helpful way to illustrate to members what their benefits might be and to encourage them to save more.

### How can we identify and prioritise which communications to review?

In addition to an annual review of all scheme communications, monitoring helpdesk calls and queries, particularly after a communication has been sent out, can help to identify if there is confusion or misunderstanding about pensions or a communication's content. You can also monitor member feedback or complaints.

### If we don't know what we're aiming for, how will we know when it's achieved?

Define an objective for each communication so that you have something to measure or monitor.

For example, if uptake of the OMO is low even though this may have been the better option for some members you could set an objective of increasing uptake so you can monitor the data following a change in the communication. For some objectives you may need to monitor data over a longer period.

You can learn more about this by reading the guide to communicating and reporting at [www.tpr.gov.uk/communicate](http://www.tpr.gov.uk/communicate).