

Attain Consulting Limited – submission to the Green Paper on Pensions

Chapter 9: Issues regarding defined benefit and defined contribution pension schemes

Questions for Consideration

2. How can we ensure that savers understand that the level of contributions, the length of time the contributions will be made and the return on investments will influence the level of benefits in a DC Scheme?

In the world of Defined Benefit Plans, the industry has traditionally been dominated by pension specialists and experts, where the use of jargon is commonplace and the compliance requirements are complex. Members have not been recognised as key stakeholders and their needs have tended to fall to the bottom of the agenda. With the increasing trend to close DB Plans to new entrants and to introduce more Defined Contributions Plans, members now have to take a more active role in planning for their retirement. As a result, their levels of understanding and knowledge of pension matters need to be addressed and member communications and education has to come more to the forefront of the pensions industry's agenda.

If most people know they should have a pension plan, the questions are why do they not join a plan, maximise their contributions and make active investment choices? Why don't they review these decisions at different stages in their lives? The simple truth for many people is that they do not understand how pension plans work and the role they have to play in planning for their retirement.

To begin the process of learning and understanding, the starting point has to be to consider adequacy and risk return issues from a member's perspective. People are fearful about things they do not understand and therefore tend to procrastinate and do nothing. This fear of appearing ignorant is compounded by the overload of information pension providers send to members.

In Ireland, members typically receive no information all year from their employer, union, trustees or providers and then they get a 10 page Benefits Statement in the post. The document is written more from a compliance perspective and is less from the perspective of educating members about the value of their benefits and the impact of decisions they make or do not make. Plan design and fund selection also means there are often many investment funds to choose from. Trustees tend to concentrate on meeting the needs of members who are already engaged and educated about their pension plan. For the majority of members, this information overload creates a 'blind spot' where their ability to make appropriate decisions about contributions levels and investments choices is compromised because of the sheer volume of information provided to them.

The word 'pension' for many people denotes old age and something which is a long way in the future. To ensure savers understand contribution levels and investment returns, members need to be engaged by pensions communications. What information is delivered to members and how they receive it are important components in engaging members. The content of information needs to place more emphasis on the use of Plain English. The format needs to be more creative and eye catching. Messaging needs to be more succinct and regular so that members can understand the relevance of information they are receiving and what, if anything, they need to do with it.

How the information is delivered to members also has a bearing on its impact. Using already established effective communications channels within organisations should be the starting point. Segmentation of the targeted audiences means we need to recognise that younger people tend to use different media to receive information than pensioners. Information and education needs to be delivered via integrated multimedia channels.

To educate members about how a Defined Contribution Plan works, we need to move away from making people feel somehow guilty or inadequate for not planning for their future. The approach needs to be more about providing them with information and knowledge so that they can make informed decisions for themselves based on their personal objectives rather than simply telling them the 'right' thing to do. Presentations once a year lasting a couple of hours which cover the A – Z of pensions do not increase members level of knowledge and confidence in making decisions. In fact, it could have quite the opposite effect. Key messages delivered face to face in shorter more interactive seminars on a more regular basis will have more impact on member behaviour and attitudes. Follow up in-depth information needs to be available for example online to allow members to research and find out more in their own time. Tools to project future benefits and to model different scenarios are very powerful ways to make contributions levels and investment choices real and personal.

The format and content of Annual Benefits Statements also need to be totally revamped to address the imbalance between compliance and education. A one page document with key messages which provides reference to where other information is available would provide more meaning and relevance for members. From members' perspective, even the use of the term 'Disclosure' itself creates negative connotations. It suggests that this is something that the other stakeholders really don't want to tell them but they have to. It implies it is an onerous obligation rather than an opportunity to educate members about the value of their benefits and decisions they need to make about contributions levels and investment choices. Perhaps the industry could adopt more member friendly terms such as 'Employee Engagement' or 'Employee Education'.

Member communications and education should become part of the social partnership agenda because employers and unions have a common goal in ensuring members have adequate incomes at retirement. At an industry level, National campaigns should move

away from a once a year event to more regular advertising and marketing of key messages. At corporate level, employers should view pension communications and education as part of their overall employee engagement programme. With these changes of approach, the quality and frequency of communications and education should ensure savers understand that the level of contributions, the length of time the contributions will be made and the return on investments will influence the level of financial security they will enjoy in retirement.