Making the best selection

Clare Bettelley offers four top tips for engaging employees in at-retirement planning

Chancellor George Osborne's Budget 2014 announcement that defined contribution (DC) pension scheme members will no longer be required to buy an annuity, but can instead choose to take their pension wealth as a lump sum, drawdown or as an annuity from April 2015 means employers will have to rethink their at-retirement communication strategies. There are several key matters to consider.

1. Decide what to communicate

Firstly, employers and trustees must decide what to communicate to staff. Jonathan Watts-Lay, a director at financial education provider Wealth at Work, says the Chancellor's announcement will spark renewed interest in workplace savings products and services, creating a more level playing field where pensions are simply one of a range of savings products.

Employers should therefore focus on communicating the workplace savings tools staff can use to invest and draw down their pension. "There will be a lot of debate around what is the most tax-efficient and appropriate way for employees to take their income, which should be a shared consideration for employers and employees," says Watts-Lay. "I think we'll now see a lot of employees juggling between products."

2. Don't forget the basics

Darren Philp, head of policy at pensions provider B&CE, advises employers not to forget the pension basics. "The Budget announcement will change things, but the first 20 to 30 years of saving is all about employees growing their pot and that won't change," he says. "It's all about them contributing early and, hopefully, being in a fund that grows significantly.

"When employees reach a certain point [in their lives], employers can then start entering the at-retirement phase [of communications]."

Communications should encourage staff to think about what living in retirement means, what sort of income they realistically need and what outgoings they expect to have. Matt Duffy, head of online consultancy at Lorica Employee Benefits, says: "It's about employers making sure employees are not hit with a surprise that results in them not having enough money and having to work for another five years."

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3 Consider timing of messages

Pensions advisers have traditionally recommended that employers communicate with staff about their retirement plans between five and seven years before their expected retirement, but changing employment patterns, influenced by the removal of the default retirement age, are fuelling a shift in thinking.

Staff are now considering alternatives to working full-time up to the traditional retirement age, such as a phased retirement.

This evolving approach to retirement requires employers to use a variety of messages in their at-retirement strategies and campaigns. For example, staff planning to work longer may need to restructure their pension fund assets to optimise their retirement income over a longer period. This may require them to remain in riskier assets for longer.

4. Consider incoming legislation

The government plans to spend £20 million over the next two years on an advice service to help DC scheme members identify their retirement plans. But this guidance guarantee will be offered to staff at the point of retiring, so employers must consider communicating ahead of this, which may involve giving staff access to independent financial advice, as well as financial education.

The guarantee of financial guidance is one a range of proposals set out by the government in its pensions consultation paper *Freedom and choice in pensions*, published in March 2014, which is seeking opinions on plans to make the UK pension system more flexible.

B&CE's Philp says employers should take the opportunity to respond to the consultation, which closes on 11 June 2014. "This is a chance to influence the government's thinking," he says ■

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