

At - Retirement Options and the Guidance Guarantee

CHAIR:

1. Jonathan Watts-Lay (JWL)

Director at WEALTH at work, a leading provider of financial education and advice in the workplace.

PANEL:

2. Lynda Whitney (LW)
Partner at Aon Hewitt.

3. Sarah Smart (SS)
Chair of the Pensions Trust.

4. Roger Cooper (RC)
Head of Trustees Services at Pi Pension Trustees.

5. Brian King (BK)
Consultant at Law Debenture and Chair of the PMI Trustee group.

6. Gerry Degaute (GD)
Pension Fund Trustee Director at Law Debenture.

7. Skip McMullen (SM)
Independent Trustee working with a number of schemes ranging in size from about £100 million to £5 Billion.

8. Lesley Alexander (LA)
CEO of the HSBC UK Pensions Trust.



Last month, Jonathan Watts-Lay, Director at WEALTH at work, hosted a gathering of pension experts to discuss the impact of At Retirement Options for members of workplace pension schemes, and the new responsibilities for trustees in light of the Guidance Guarantee.

JWL: Has anyone got an example of what trustees have done well for members at the point of retirement?

SM: We have made a lot of changes geared towards improving member certainty on what the outcome will be. So, in part that's about the structure of the funds that people have, the way they are delivered to the members, and the knowledge they get from that. We totally rebuilt the way the whole of the administration investment platforms are actually delivered to the members. It's all done via the internet or intranet, other than the Statutory Money Purchase Illustration (SMPI). So it's really about making tools

and information available so that they can form a better view of what their outcome might be.

JWL: Are there any obvious areas for improvement?

LW: I think SMPI is one of the areas where we haven't done as well as an industry; it's supposed to be helping people to understand what they are going to get, and it really doesn't succeed in that aim.

LA: We've got a lot of people in small schemes that get nothing more than just that piece of paper that's required to tick the box to say that every year

they have had a communication about their DC saving pot. It's complicated and doesn't reflect the real world in which they are saving, or what will happen in retirement.

RC: Most communication is written with protecting the author - in terms of the caveats that are there. We need to think much more about who's receiving the information, and what they need to know.

JWL: What will make it more interactive and meaningful to scheme members?

RC: Getting them interested, because there is incredible disengagement from pensions. We've been doing work on a pension liberation case. The victims are people who didn't understand the options available in their existing scheme. But someone took the trouble to talk to them and explain to them how they could help and they thought: "Oh actually someone's taken the trouble to engage with me properly."

LW: We've got people retiring today with £20k pots. What is a £20k pot set of options going to look like? It's going to be the person who wants to retire a couple of years early compared to the state pension age. And that £20k pot will pay them a couple of years' worth of state pension. That's material, that's meaningful for them. Where if that £20k pot was annuitized they'd have taken £5k as their tax free cash, which they would have valued, and they would have then £15,000 converted to an annuity - £15 a week, and that would have been meaningless to them.

RC: There's a need to engage with the employer, it's not just the trustee's responsibility. It's in the employer's interest for its workforce to make provision for their retirement; whether it's adequate or not depends on their ability to save.

JWL: Looking at the Guidance Guarantee, what do you think should be covered?

SM: It's not an advice guarantee, it's a Guidance Guarantee. In a way, it's going to be a conversation with somebody who is relatively competent to speak about these sorts of issues.

LW: I think you can give people some basic decision trees to answer a relatively short list of questions. Then say: "Which of these people feel most like your

situation?" Then they are very clear it's generic, it's guidance and it is not advice. And I think that it is important that people understand that. Tax has changed radically with the Budget, and at the very least we are going to have to deal with that. And we are going to have to deal with people's total sources of income against tax in order to make any sense of it.

SM: I like the idea of here is example A, example B and example C. And: "Who do I most look like?" And getting some interest going: "Do I actually want to look like that? Yes or no I don't? I don't want to be in that position, I want to do better".

RC: It needs to start at square one - base information about what the heck an annuity is. What are the implications if you take an annuity from a tax perspective? And you know, what is a pension? I'm sorry, I know it sounds a bit Janet and John, but there is an incredible lack of understanding.

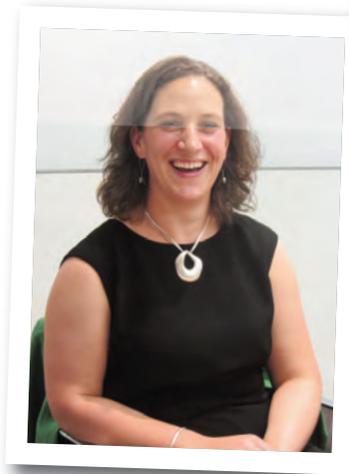
JWL: Are trustees and providers the right people to deliver the Guidance Guarantee?

RC: The reality is that the provider is not going to be interested in being in that market if they have got to provide a gold-plated Guidance Guarantee to members who they're not earning money from.

LW: Trustees are certainly very worried about what it is they will be required to do, and in a lot of cases, when you're talking about mid-size schemes, who is going to do it for them? Because the reality is they are probably going to have to outsource that.

LA: So does that bring us to the question of whether there is a place in this for a public service organisation to deliver this Guidance Guarantee? And then rely on other organisations that are fully accredited in some way by the government to deliver that higher standard. ►





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JWL: The Guidance Guarantee is not regulated advice as we understand it. And people might not have a single decision, it might be a series of decisions. So, does that mean that regulated advice should become much more prominent?

LA: Well I am glad that you raised that, as my trustee board is very concerned about the framework around the Guidance Guarantee. Because the financial services industry has been guilty sometimes of mis-selling products, and consumers are equally as guilty for mis-buying products from time to time; they see many weaknesses around the Guidance Guarantee about where is the buck going to stop?

SS: Frankly, some of the regulated advice I have seen has been awful. I think that there is a whole mountain to climb in terms of advice.

LA: I would completely accept it if I believed that there was going to be a complete discharge for the trustees, that having delivered the advice via a third party or something there was not going to be any kind of comeback on them in a few years' time because individuals have made poor decisions. Even if they did everything right and got signatures on the dotted line, how do they protect themselves?

JWL: Let's look ahead to April next year – what is the one thing that you would do differently?

LW: Tax guidance – it's not going to be about pensions, it is going to be about tax.

RC: I think it is about looking at the different categories of membership that we have in the scheme(s) and looking at solutions to help them make an informed decision.

BK: I would agree with that across trustee boards, it would depend on how much money they have got to spend and what they can do, tax has to come into it.

GD: A review on the investment strategy and communications to members, so they can realise how the world is changing in terms of how they can take their pots.

SM: We have to go back and look again at what the default fund is structured to do and what product is appropriate, in terms of annuities or not. Or whether a draw-down product is more appropriate? But it is all linked to member communications.

LA: We are going to put much more effort into engaging our members earlier on in the process, and helping them understand the implications of the decisions that they make on what would be their outcomes at retirement.

RC: One of the things that we have not discussed today that I think might change priorities is the outcome of the debate about defined benefits to defined contribution transfers. I think that outcome will actually dictate what we focus on if we are trustees and face questions about transfers into defined contribution.

SS: We already obviously do a lot of work on looking at what our membership is like to inform our default option, and we will also be asking our membership what they think they might be doing in retirement, hopefully throughout their journey, so that can inform our default option.

Full roundtable discussion can be found on our website at www.pensions-pmi.org.uk/about-us/knowledge-and-research/

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