HR
For people-focused business leaders

Guide to workplace pensions

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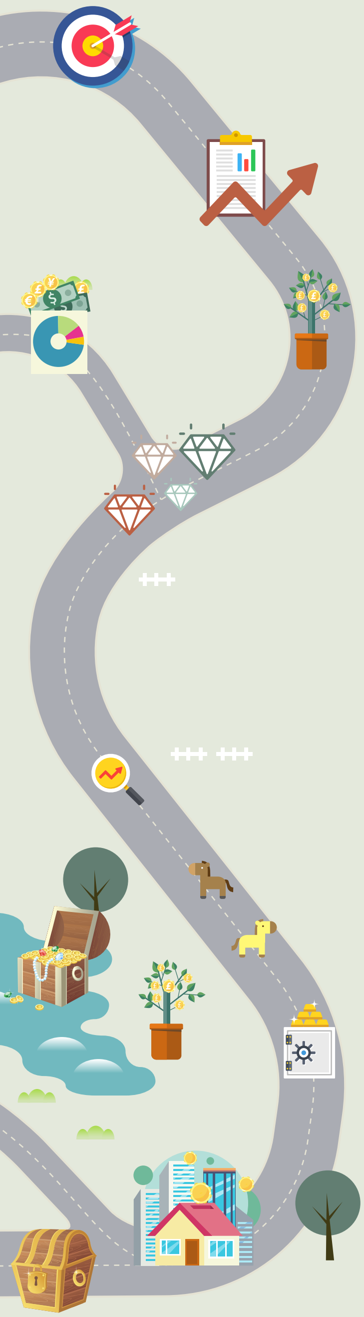
Contributors

Gill Wadsworth
Gill is a freelance financial journalist specialising in pensions and investments. She has 19 years' experience in personal finance, institutional investment, asset management and pensions, and has worked for the *Financial Times* editing several business titles in the FT group. She writes for personal finance and institutional investment magazines and websites including *FTfm, The Economist*, Raconteur, Yahoo Finance, *Financial News, Pensions Expert, Pensions Age,* and *Pensions Insight*.

Peter Crush
Peter is an award-winning journalist specialising in business, HR, and the 'people' aspect of work. He regularly writes for national newspapers, including *The Times* and the *London Evening Standard*, as well as the UK's major HR trade journals, including *Reward, People Management, Personnel Today* and *HR* magazine. Before going freelance in 2010, he was deputy editor of *HR* magazine. Prior to that he worked on *Management Today*.

Maggie Williams
Maggie is a freelance journalist, editor and presenter focusing on pensions and employee benefits. She writes for a variety of national and trade magazines as well as creating content for corporate clients. Before becoming freelance, she was editor and publisher of *Reward, Pensions Insight* and *Engaged Investor* magazines.

Editor's note



I have a confession to make. A guilty secret which I fear you – rightly – will judge me for. Despite being an HR journalist, indeed editor, and despite frequently writing about pensions, I embarrassingly don't know at this point in time either my exact contribution rate, or how much I've saved so far.

Shameful I know. Please don't shout. In my defence, I did once know. In a fit of panic after covering a particularly terrifying report on the average person's current retirement pot deficit, I did decide to up my contribution. I think, keen to take advantage of my employer's generous matched contribution scheme, I upped it to 5%. But the fact I don't know for certain, and that this is still nowhere near the level I'll need ideally to see me comfortably through retirement (or to retire before my 80s), is I know not good.

The psychological – and also very materially real – problem I face is one facing many other young savers. Living in London on a decent but not huge wage, and in a time of soaring house prices, the prospect of securing a mortgage still feels a far-off dream. Saving for this, through my Help to Buy ISA for example, feels like the more immediate priority.

But I do realise the short-sightedness of this approach. Perhaps if someone were able to explain, or rather bring alive, for me in just a bit more detail how I might best balance both priorities…

Which is where HR can come in. Where in the past pensions were much more clear-cut and more of a transactional, hygiene factor in the employer-employee relationship, things are now very different. Where in the past pensions were more a matter for trustees and scheme managers, now there's a clear need for HR to get involved.

In research carried out earlier this year, the CIPD found that 19% of workers have lost sleep over money matters, and 10% had found it hard to concentrate at work or make decisions. Pensions of course only form one aspect of employees' apparently ever intensifying money worries. But with staff already anxious about managing debt, paying the bills and accommodation costs, there's a clear need for financial education that helps them combat these issues, alongside getting to grips with worries around saving for later life.

The other incentive for employers, besides ensuring employee wellbeing and productivity aren't sapped, is of course to ensure that staff are able to retire when it works best for them and the business.

Engaging employees with financial topics won't always be easy. But this is where HR can play a key role, with its expertise on how people tick and bringing L&D topics to life. To be effective here, HR professionals will need to ensure they're up to speed themselves with the many developments currently happening in the world of DC pensions – 'save more tomorrow' schemes, pensions dashboards and so on.

Auto-enrolment has undeniably met with greater levels of success than anticipated. The next challenge is to get employees not just to save something, but save enough. Now if you'll just excuse me, I must go investigate my own pension…

Jenny Roper
Editor
***HR* magazine**

About us

Editor
Jenny Roper
020 7501 6341

News reporter
Beckett Frith
020 7501 6773

Sub-editor
Thirza Tooes

Publisher
Tom Curtiss
020 7501 6729

Sales manager
Hannah Inwood
0203 874 9218

Art director
VeeSun Ho

Event manager
Sam Dewey

Studio manager
Carolyn Allen

Production assistant
Larry Oakes

Production manager
Jon Redmayne

Circulation manager
Chris Jones

Production director
Richard Hamshere

Managing director
Jon Benson

Email
first.surname@
markallengroup.com

Contents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DISCOVER
BETTER DC
built on INSIGHT
Our expertise in Defined Contribution pensions is built on our wealth of market data, renowned consultancy services and our range of award-winning pension solutions.
We can offer the complete range of DC services for employers or trustees, helping you find the right solutions to deliver your aim of better outcomes for your members.
We recognise the challenge of providing more for your members, whilst still achieving value for money. To benchmark your approach, get a copy of our latest DC research to find out what more than 300 UK schemes with over 1.5 million members are doing.
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Partner's welcome

I'm delighted to welcome you to *HR* magazine's guide to defined contribution (DC) pensions.

Paying into a pension may be the ultimate form of long-term saving, but the pace of change in DC over the past decade has been anything but leisurely, as our *2017 Defined Contribution Scheme Survey* shows.

Over that timeframe, one of the most significant changes has been the move away from final salary defined benefit schemes and towards DC pensions, which are now the dominant form of workplace savings. We have also seen a shift away from dedicated pensions teams towards HR professionals becoming increasingly involved in the design, delivery and ongoing monitoring of company pensions.

At its most basic level, a company pension scheme is a legal requirement under auto-enrolment. But there is much more to it than that. Pensions are the mechanism by which employees are able to retire. As such, if they are unable to save effectively for their future, they will have no option but to remain in work. That has knock-on effects for everything from succession planning to staff engagement and motivation. HR teams are at the forefront of making sure both employers and employees feel the benefit of pension strategy.

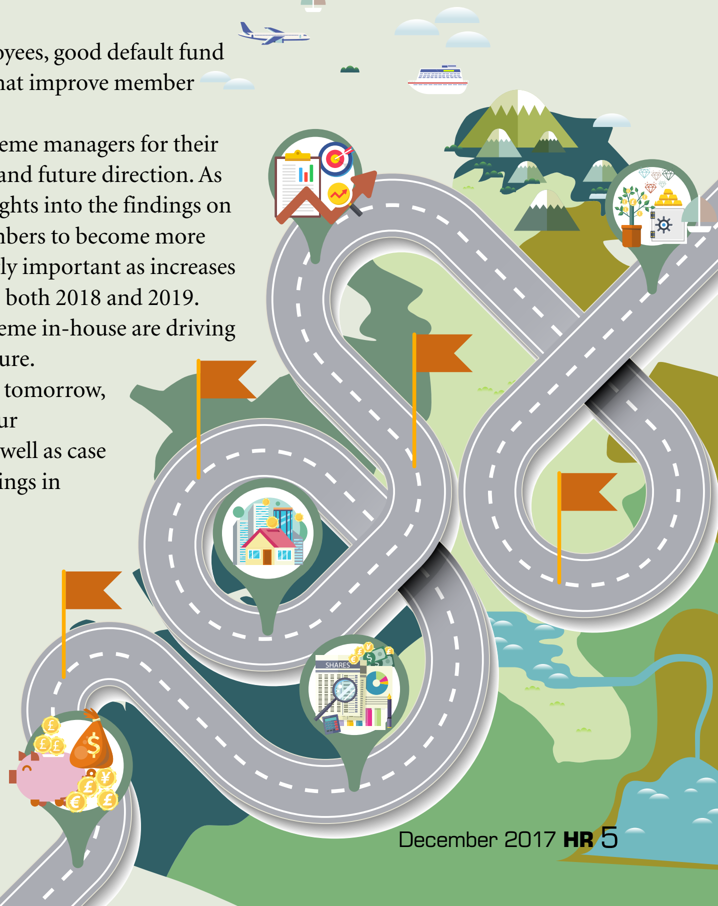
That means the focus of HR, scheme managers, the pensions industry and employees themselves has had to change. Schemes and employers need to help every employee to build the best possible savings pot over the course of their working lives, and pension providers must adapt their offerings to take account of more flexibility at retirement. Crucially, individuals must now take on much more personal responsibility for their own retirement savings.

Effective contribution rates from employers and employees, good default fund investment strategies, robust governance and strategies that improve member engagement are all vital ingredients.

Our 2017 survey asked more than 300 trustees and scheme managers for their views on DC pensions, both in terms of current practice and future direction. As you can see from the infographic on page 10 and our insights into the findings on page 12, respondents are committed to encouraging members to become more engaged with their pensions. That will become particularly important as increases to auto-enrolment minimum contributions take effect in both 2018 and 2019. But the time and resources required to run a pension scheme in-house are driving schemes to explore new models of governance for the future.

This guide not only looks at DC pensions of today and tomorrow, it also provides plenty of practical tips on how to help your employees become more engaged with their pensions, as well as case studies showing how HRDs are managing retirement savings in their workplace. I hope you find it useful.

Sophia Singleton
Partner and head of DC Consulting
Aon



Where are we *now?*

The number of employees now saving into a pension scheme is at an all-time high. HRDs need to continue to support staff on their savings journey, says PETER CRUSH

Who could have possibly imagined employees' awareness of – and attitudes to – pensions could have transformed so dramatically, and so quickly?

It was only six years ago that decades of low engagement in retirement saving were revealed to have reached spectacular lows. Data from the 2011 census revealed membership of employer-provided pensions in the private sector had reached its worst levels since the 1950s – declining from 46% in 1997 to 32% in 2011. Yet a year later came what many have called the saviour of pensions – auto-enrolment and the widespread arrival of direct contribution (DC) pensions.

From almost nowhere (but no doubt helped by foreboding about elderly care costs and the rising life expectancy), by 2015 the number of active DC savers had overtaken defined benefit (DB) members for the first time. And over the summer of 2017, the number of new people contributing to a workplace pension through AE tipped the eight million mark.

"If someone had said in 2009 that there would be seven, eight, even nine million more pension savers by the end of the roll-out of auto-enrolment, everyone would have taken it," admits Tim Gosling, DC policy lead at the Pensions & Lifetime Savings Association (PLSA).

However, as a marker of just how far pensions conversations have come, expectations have clearly been made higher – because he thinks this is no reason to rest on ones laurels. "The conversation is now changing from numbers of savers to how much people are saving," he says. And this means employers' abrogation of responsibility doesn't actually end – if anything, it increases more.

"In theory, new DC arrangements mean decision making has shifted from employer to employee," says Jeanette Makings, head of financial education at Close Brother. "But we shouldn't think lack of opt-outs so far (although this could change with rising contributions – see later) means staff are any more engaged with pensions," she says. "The clear new role for HRDs is to be much more the partners in their employees' financial affairs – and it's not something all of them feel comfortable doing."

> **"The clear new role for HRDs is to be much more the partners in their employees' financial affairs"**

The incentive for HRDs should be that they facilitate staff being able to retire at the age they want to. Employers simply can't afford to have swathes of people still working because they can't retire (with all the disengagement implications this has).

"Auto-enrolment might well be the norm now, but it hasn't solved everything," argues Kate Smith, head of pensions at Aegon. "The big problem that hasn't gone away is that people aren't saving enough – and, in fact, average contributions have been found to have fallen recently. It's still fair to say lots in HR have regarded auto-enrolment as a compliance exercise, when what it really needs to start doing now is talk the longer story about workplace savings."

Just one of the problems she sees is that with auto-enrolment came certain so-called 'freedoms' – such as employees being able to access 25% of their pension pot tax-free – a freedom which if exercised without proper consideration may not leave people as free as they thought in later life. Since 2015, when early access was first introduced, £10 billion has reportedly been cashed in by savers, and of those who took money out early, 50% actually cashed in their entire pension pot. Smith says: "People need to realise 55 is now quite young in pensions terms and if staff blow it, their remaining fund won't last."

Jonquil Lowe, senior lecturer in economics and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personal finance at The Open University, adds: "People tend to underestimate their life expectancy by at least five years. The double whammy is that they also tend to be overconfident about the future, when perhaps they shouldn't be."

Supporting staff through these decisions should be HRDs' new responsibility, argues Sophia Singleton, head of DC consulting at Aon Hewitt – although she accepts employers must now play a difficult balancing act. "In around 2035, we'll reach the tipping point where those retiring will be the most reliant on DC savings," she says. "However, the challenge for HRDs is that they need to act now."

What's worrying, she argues, is that too many employees, if left to their own devices, simply follow the default contribution and investment options provided by employers, so HRDs must understand they have a powerful influencing role, whether they like it or not. She says: "Our data finds employees – rightly or wrongly – look to their employer to tell them what to do. It finds 60% of people will simply follow what their employer tells them, but worryingly 43% say they'll contribute whatever their employer puts in place. In other words, if it's a low contribution – and many firms don't see the incentive of offering more than they have to – most won't increase their contributions."

Notwithstanding the spectre of rising interest rates, leaving people with less disposable income, she accepts "employers walk a tightrope" of not wanting to scare people off by being too heavy-handed about making higher contributions (15% is the common figure quoted for a comfortable retirement – way more than even the 8% combined employer-employee contributions will reach in two years' time), but "neither do they want to be accused of telling them not to save enough."

Lowe says: "There's a certain irony at play too. We've seen a move from DB to DC, which is actually a move from relative certainty to uncertainty, where stock market investment returns are far from guaranteed." He adds: "It's a shame low interest rates have effectively killed DB. As interest rates rise, deficits may close, but by then, most DB schemes will have all but gone."

There are plenty of employees still in DB schemes and rising numbers of employers are offering incentives to transfer out. But this is also fraught with hurdles employers must manage – for instance, any benefits converted to a cash-equivalent transfer value of more than £30,000 will require people to take financial advice first.

But while employers may benefit from this, transfers are not always the right decision for staff to take. "The numbers of people cashing in and moving from DB to DC has not been surprising, because there's an encouragement to take a cash sum that appears huge," says Lowe. Makings adds: "The rule of thumb is that it's only worth it if people have other assets for an income." Will employers be transparent about it?

> **"We still have to bang the drum about pensions, because typically we plan our resourcing around retirement"**

Will employees fully understand such complex matters? The jury is still out.

Proof that nothing is as easy as it seems in this changing pensions landscape is perhaps summarised by Ivan Shearer, HRD at Leyland Trucks. It has one of the few open DB schemes left, but staff don't universally opt in to this either.

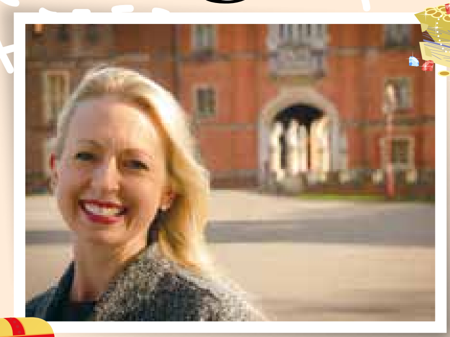
"Even though, in theory, it's a good attraction and retention tool, there are still those who don't take it up. We still have to bang the drum about pensions, because typically we plan our resourcing around retirement." He adds: "As we all know now, you can no longer take people's retirement age for granted. Only a few years ago, it was relatively easy for an HRD to make assumptions about people retiring. No longer is this the case, so the pensions message we give has added importance."

The task ahead for HRDs – to effectively reposition and solidify pensions to staff at a time of shifting sands – is a steep one. Less than three years in, there is already uncertainty – see later – about whether access to pensions at 55 will remain. Some argue the age should go up, in line with the rising retirement age – but even if it does, it will create further uncertainty. There is also the arrival of pensions dashboards from 2019 onwards, where there is already concern employers' IT systems won't be able to talk to, and present, old (in some cases decades-old) pensions pots. Nothing stays still in pensions.

But that's why this ebook, in partnership with Aon, has been written. It will specifically cover some of these, and many other issues. We hope you enjoy this and find the information useful. HR

Engagement advice worth its weight in *gold*

Three HR directors outline the importance of engaging people with pensions with the right conversations and language to encourage them to invest in their future



Sandra Porter, former HRD for Starbucks UK and Clinton Cards, and director at The HR Dept

“The best advice I can give is to not forget pensions will continue to be a challenge. That said, with the right conversations and the right language, they can be less so. At Starbucks, colleagues are mostly very young and, for many, a pension is the last thing on their minds. However, I found these young people were often much more aware than I had expected about the importance of pensions and advice about money, and were grateful of ways information could be made relevant to them. So, talk about pensions and finances in a way they understand. I've often found Millennials conceptualise money very differently. They talk about having a number of different 'income streams' – their salary, but also from selling stuff on eBay and income from a second job or gig-economy-type part-time roles for a bit of extra spending. When someone's salary is just one part of their money stream, employers need to put pensions into this context. If they then use the language of 'investments', it becomes part of their conversation about income types and how money is best acquired and boosted. This is when bosses can present the AE pension as something they don't want to miss. I'd also advocate explaining that if they can push themselves, and stretch as far as they can now, the return on this investment will be worth it.”

Tim Pointer, consultant HR director at Dixons Carphone

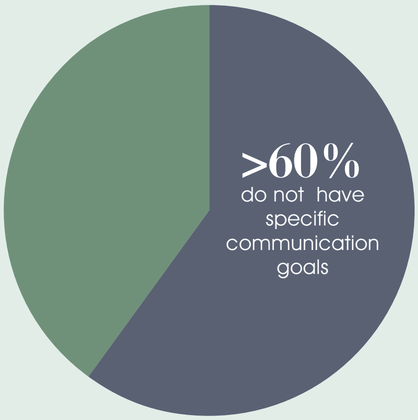
“For me, the key thing I've learned is that you have to engage people with pensions personally. Wading through facts alone isn't the answer; staff almost need a visceral response to pensions to act. For instance, my grandmother is 105; there is a history of ultra-longevity in our family. This is one of the anecdotes I tell staff to encourage them to think about long-term savings. It's essential this personal approach is taken. We've all, as HRDs, become experts at making pensions boring. Pensions should be couched in a much different language – that they are about our future aspirations; and future experiences. That's what turns people on, not compound interest rates. Make pensions more exciting and we can start generating the key emotional responses that are needed. But there's one other consideration too. We also need to understand that we're increasingly talking to a different type of workforce. No one has a job for life now; it means people's money is spread out. I'm the embodiment of this – my pension money is in two different countries, in five different pots. This is the real world people live in now. It's why telling appropriate stories becomes even more important. It's scary how many pensions are lost and unclaimed. So I do think HRDs need to point out the basics. HRDs always point out the consequences of people's decisions – whether it's on the training they take or the career move they make. So it should be no different with pensions.”

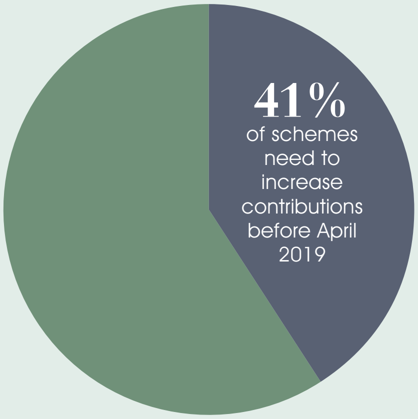
Victoria Scott, European talent and reward manager at Formica

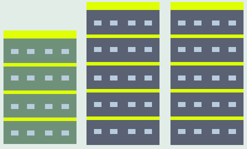
“As someone who first started their career as a pensions consultant, I've seen the transition companies have gone through, from being extremely paternalistic to being much less so. It's not necessarily been a change for the better – because there's been a shift away from responsibility for retirement from employers to employees, yet employees still want some form of direction from their bosses. If working in pensions has taught me anything though, it's that companies have probably become more, rather than less, nervous about speaking about this topic. However, they must resist this fear, because there are other ways they can engage staff about the importance of long-term saving – such as by pin-pointing places staff can go to for advice or providing financial education. It's a fine line that we, as HR professionals, now have to tread with pensions, because you can't give advice, but neither do you want to be accused of not saying or doing the right thing. Because we still have some employees in DB, but have DC for all new members of staff, we try to make the pensions conversation easier by actually paying more than the minimum contribution level for automatic-enrolment. We believe this takes away some of the difficulties around having to engage people into making higher contributions, because the minimum is set, and it becomes normal and accepted.”

Plotting a course for pensions

How do pension fund trustees and managers navigate their scheme challenges?





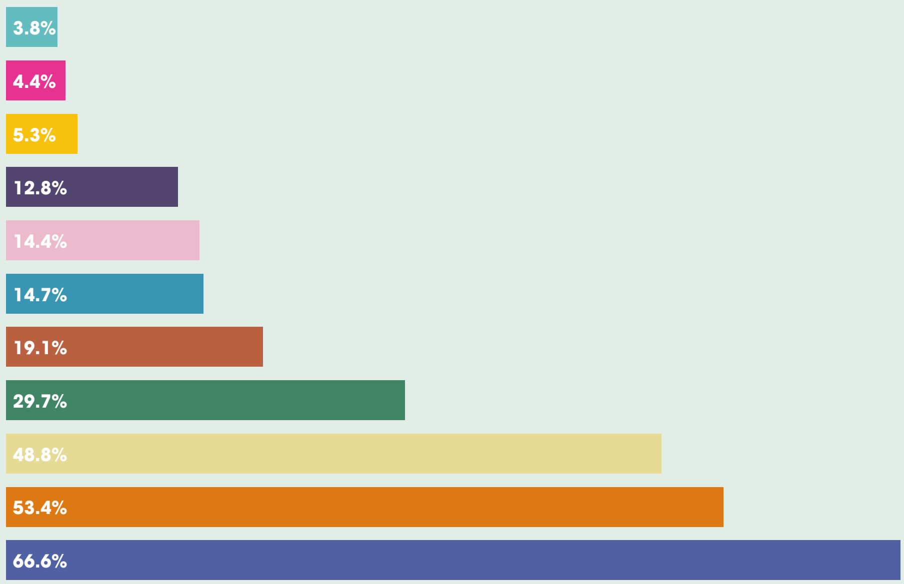


1 in 3 business plans include 'Increasing employee take-up of contribution options'

1/5 commit less than one day per quarter to DC pension issues

2/3 expect their lifetime members to get a replacement ratio of less than 40% of salary

What is key to success for DC pensions in 20 years' time?

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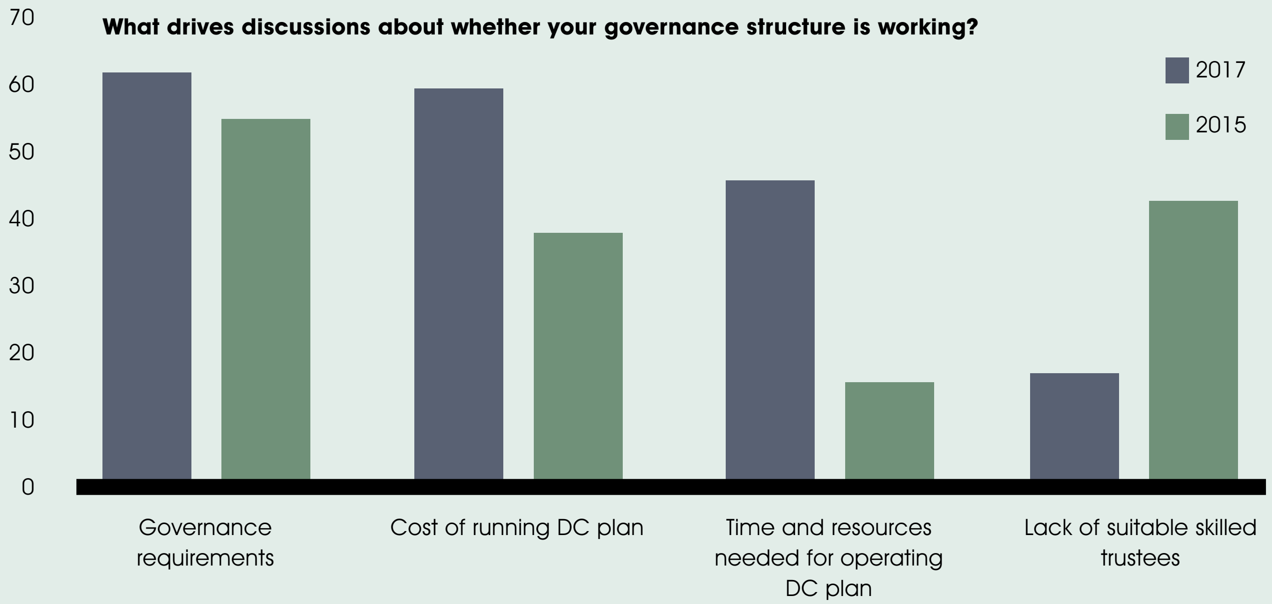
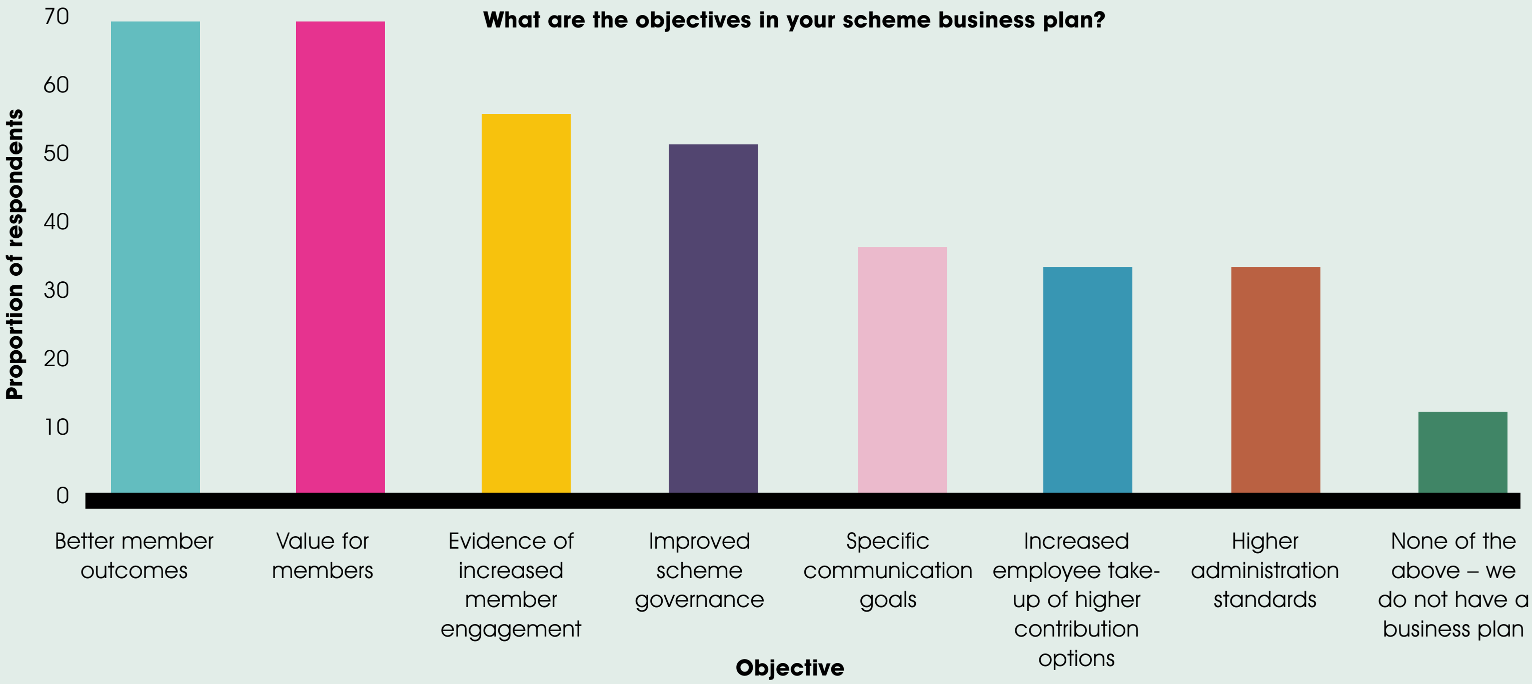

What drives discussions about whether your governance structure is working?
2017
2015
70
60
50
40
30
20
10
0
Governance requirements
Cost of running DC plan
Time and resources needed for operating DC plan
Lack of suitable skilled trustees


What are the objectives in your scheme business plan?
Proportion of respondents
70
60
50
40
30
20
10
0
Better member outcomes
Value for members
Evidence of increased member engagement
Improved scheme governance
Specific communication goals
Increased employee take-up of higher contribution options
Higher administration standards
None of the above – we do not have a business plan
Objective

Direction of travel

Member engagement, scheme design and understanding employees' plans are all high on pension schemes' to-do lists, according to Aon's 2017 Defined Contribution Scheme Survey

Aon's *2017 Defined Contribution (DC) Scheme Survey* explores how pension managers and trustees are handling their roles and responsibilities. It looks at how they are planning for the future, meeting upcoming changes and identifying areas for improvement within their pension plans.

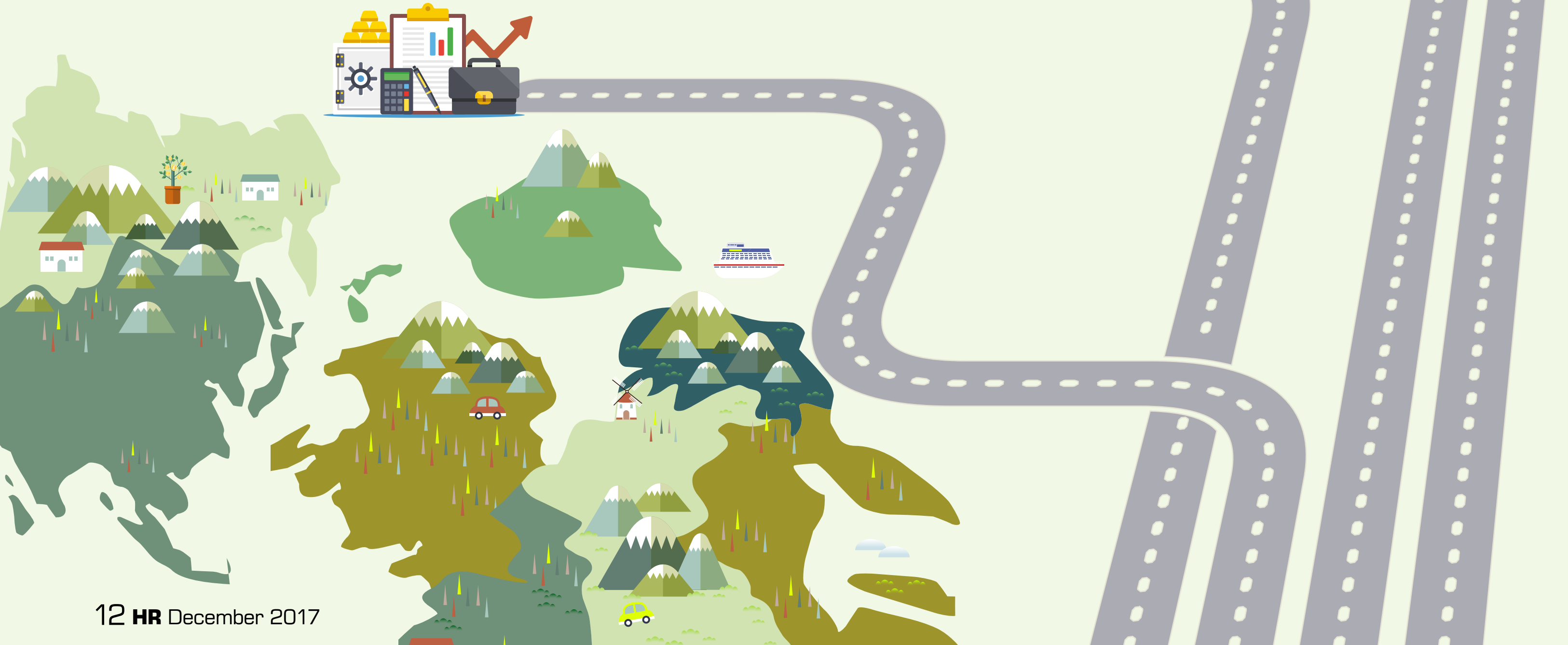
It's two years since Aon last surveyed this audience (in 2015). In 2016, it reported on the views and priorities of DC pension scheme members.

Respondents to this year's survey gave their opinions on what would make a successful scheme in 20 years' time. The top three responses were: improved member engagement, standards of education and integration with other savings. Other clear messages that came from the survey showed schemes still coming to terms with the pension reforms introduced in 2015, which enable members to withdraw funds after the age of 55. The time and resource involved in scheme management is also now a major consideration for trustees and pension managers when planning the future of company pensions.

Member engagement

Communication plays an integral role in both member engagement and standards of education. Aon's survey showed that schemes are now using a wider range of approaches to engage staff than in 2015. The majority of schemes (84%) now use at least one written and one online form of communication, and 70% include some form of face-to-face involvement, which includes presentations and seminars or access to an adviser. As auto-enrolment contribution rates increase over the next two years, the role of communications will become even more important in helping members see the value of increased contributions and ensuring opt-out rates remain low.

When Aon surveyed DC scheme members in 2016, it found that employees on lower salaries tended to overestimate how much they would need to save for retirement, whereas those with higher incomes were likely to underestimate what would be required to maintain their standard of living. Modellers can help to give employees a realistic picture of their retirement



prospects and understand how much they need to contribute to their pension. The good news is that 80% of schemes said they now offer access to some form of modeller, compared to 54% in Aon's 2015 scheme survey. Many of these are 'self-service' tools that members can access online at a time to suit them.

Credible contribution rates are a vital part of scheme design, helping members to save for an adequate retirement, and members opting to save more than the minimum can be an indicator of good engagement. However, the 2017 survey does not paint a particularly bright picture. The average contribution rate has fallen from a combined 12.7% of salary (6% employee and 6.7% employer) in 2016's member survey, to 9.5% of salary in the 2017 survey (3% employee and 6% employer). Also, 41% of survey respondents will have to increase their default contribution rates before April 2019 when the minimum becomes 8% (with at least 3% from the employer).

Many employers still offer generous matching structures to employees who are willing to proactively increase their contributions. A quarter of respondents said their scheme offered a maximum company contribution of over 13% of salary. But this isn't getting through to all employees. Seven out of 10 scheme members under the age of 25 are contributing less than 4% of their salary.

While pensions are likely to remain the dominant way of saving for retirement, nearly half of respondents said that they believed close integration with other savings will be key to the success of DC in future. Around 15% of schemes said they are considering introducing ISAs in the next 12 to 24 months as an additional form of workplace savings.

Retirement options

The retirement option reforms introduced in 2015 have driven significant changes to respondents' default fund designs, engagement strategies and policies for supporting members as they approach 55. These changes are inevitably a work in progress, as there is no long-term trend data for trustees and managers to use as a benchmark when deciding how best to support members. Over time, as employees' DC pension pots become larger, we may also see a shift in the way members decide to use those savings.

After the age of 55, members can opt to withdraw their savings as cash, buy an annuity or continue to invest the money in a drawdown product. At present, industry trends show that many over-55s are withdrawing all of their DC savings in cash. The Financial Conduct Authority's (FCA) July 2017 interim *Retirement Outcomes Review* found that 53% of pensions that have been accessed since the introduction of the reforms have been

"Many employers still offer generous matching structures to employees willing to proactively increase their contributions"

fully withdrawn in cash. This could be because DC pension pots are often small at present, and a relatively minor part of employees' overall retirement savings. The FCA's study found that 94% of those who had fully withdrawn their pot had other pension savings, most commonly from a defined benefit (DB) scheme.

As a result, designing a default fund that supports members as they plan how they will use their savings from the age of 55 is not straightforward. Schemes will have to regularly review the design of their default funds in coming years, paying especially close attention to members' interest in using flexible drawdown. In Aon's 2017 survey, more than 45% of respondents' default funds had three investment options depending on whether the member wanted to withdraw savings as cash, annuity or drawdown – although 25% offered only one route.

When Aon surveyed scheme members in 2016, 53% said that they planned to leave their fund invested into retirement, using drawdown. However, according to this year's research, 46% of schemes do not have a preferred drawdown solution in place, and are not planning to introduce one within the next two years. More than half of those who do have a drawdown solution in place have opted to use their current scheme provider to offer it.

This uncertainty for members means that financial advice could become increasingly important for employees. The government has recognised this and introduced the Pensions Advice Allowance this year. This allows scheme members to withdraw three separate tranches of £500 tax free from their pension pot to pay for advice. However, only 14% of Aon's survey respondents are currently offering scheme members the ability to access their funds in this way, and a further 44% said they were unsure if they would provide this within the next two years. The picture is more positive when it comes to schemes offering financial advice and education in general. One-third of respondents said their scheme already offered this, and a further 15% said they plan to introduce it in the next 12 to 24 months.

Scheme management

Auto-enrolment has made the process of getting an employee into a pension scheme much more straightforward, but it has relied heavily on inertia. Members do not have to make an active choice to join the scheme, don't have to make any investment choices if they pay into a default fund, and can contribute at the minimum rate required for auto-enrolment. While that inertia means employees are at least saving something for their retirement, it puts more pressure on schemes themselves to get the design of contribution rates and default funds correct, and to make sure that the scheme delivers good value for its members.

The way in which DC pensions are run is coming under much greater scrutiny from the Pensions Regulator, and governance demands on scheme trustees have increased as a result. According to the survey findings, DC pensions issues are now taking up a full day more each quarter than they did in 2015. Some of that effort is being spent on reviewing default fund strategies. More schemes in 2017 have reviewed their default in the past three years than had done so in 2015. Making sure that members get better outcomes is also now featuring on 13% more business plans than it did in 2015.

The majority of schemes in Aon's survey are workplace trust-based plans. However, one-third of the respondents who are currently involved with an in-house trust-based scheme expect to move to a master trust within the next five years, with governance requirements, cost, time and resource issues driving discussions about the future. Aon also saw a move towards more 'bundling' and streamlining of services, which should result both in easier management and lower costs.

The *2017 DC Scheme Survey* makes it clear that member engagement is the key to future success. But there is also still work to do when it comes to getting contribution rates right and dealing with the complexities of how members want to use their money in retirement. Many employers and schemes are poised to make decisions on how their pensions will be run in future. But regardless of whether employers opt for trust, master trust or GPP to deliver DC pensions, making sure members save enough and take control of their own retirement must be at the forefront of managers', trustees' and HR professionals' minds. **HR**

Good quality pensions? *Check*

Is your scheme the best it can be?
Take a look at our checklist and see how your pension measures up

Management matters
Are you monitoring your pension provider and ensuring they offer value for members? Even if your pension is provided by a GPP or a master trust, having an in-house management committee is a good way of keeping an eye on progress and ensuring that the scheme is still right for your staff.

Safety first
Pension scams are a reality. How are you making sure that your employees are protected and that their savings are safe from cybercrime? Education can play a part in this, but make sure your pension provider can explain how it is keeping employees' savings safe.

Engage at all ages
Are all age groups involved in pension savings? Different messages might work for different age groups – but don't fall into the trap of assuming everyone of a particular age has the same needs or approach to saving.

Give support
Offering regulated financial advice to employees is a great way of making sure they understand all of the retirement options available to them and can make informed decisions. But there is also plenty that can be done through education or signposting relevant services such as Pension Wise.

Benchmark and measure
Without accurate pensions benchmarking, it's difficult to understand the effect of communication campaigns or other activity. But make sure you are measuring criteria that are appropriate for your organisation.

Link workforce planning and pensions
How are your employees responding to the new pension freedoms that allow them to access savings from the age of 55? Will they want to consider part-time or flexible working after that point? Are your staff considering working beyond state retirement age. And, if so, what impact will this have on career development for younger workers?

Plan for change
The minimum contribution rates for auto-enrolment increase in 2018 and again in 2019. Are you ready for the changes, both financially and in terms of communicating the changes to staff?

Keep retirement options in mind
It's still only two years since rules came into place allowing staff to take money out of their pension from the age of 55. Products to support employees who want to use flexible drawdown are still developing, and the actions that scheme members take will also evolve over time.

Look at the big picture
Pension savings are only one aspect of employees' finances. Better overall financial wellbeing can help employees to feel more in control not just of their retirement savings, but of their money matters as a whole.

Plot a course to pensions engagement

Getting, and keeping, members engaged with their pension savings means going beyond one-size-fits-all benefit statements. GILL WADSWORTH offers some tips

As our introduction to this guide showed, pensions auto-enrolment has been a huge success in terms of encouraging more employees than ever before to join a company pension scheme.

Yet simply joining a scheme – especially if it was the result of auto-enrolment inertia – may not be enough to represent a true victory in the battle to engage workers with retirement saving. Scratching beneath the triumphant headline figures, it is clear that very few savers really are engaged with their plans.

A BlackRock survey of more than 500 UK defined contribution (DC) pension scheme members aged 30 to 69 found just one in 10 could provide an accurate figure for their current balance, while 40% had no idea at all of how much they had saved.

This was no great surprise, given that one in five had never checked the value nor the performance of their DC fund.

The danger here is that many millions of savers will be unaware of just how far short their pension falls from achieving their desired income in retirement.

Matthew Doyle, managing director, Pension Quality Mark at the Pension and Lifetime Savings Association (PLSA), says: "While automatic enrolment is doing a great job of getting people saving, levels remain well below where we need them to be to give people a dignified income in retirement."

Doyle says that with 1.6 million people of the 25.5 million people in employment still at high risk of falling short of a minimum income standard in retirement, "it's essential that retirement saving stays at the top of the agenda".

That has long been a challenge for employers and pension providers. However, recent advances in pension communications are

Top tips for good engagement

- Get to know your workforce – this can be basics such as age and gender splits, salary levels or current pension contribution rates. Other data, such as anonymised feedback from Employee Assistance Programmes about debt issues or staff engagement surveys, can also prove a mine of useful information.
- Personalise the message – even basics such as using a person's name, rather than sending generic information, can have a big impact.
- Use a variety of media to reach different sectors of the workforce – getting to parts of the workforce that do not use technology in their day jobs will require a different approach to communications from those who are constantly online.
- Make it relevant – everyone is individual and will have their own personal circumstances that will affect the way they engage with pensions. Making messages as relevant as possible helps people to engage with what resonates for them.
- Allow the member to take action at the same time they receive the communication – you've got their attention, so take advantage!
- Consider paying for face-to-face advice or seminars – there are some decisions, particularly when employees get close to retirement, that really require face-to-face assistance.
- Include pensions as part of wider financial benefits including shorter-term savings and debt management – pensions then become part of the bigger picture of an individual's savings, rather than something remote and inaccessible.
- Show the outcome from different courses of action – feedback is always important and seeing that actions are making a difference really helps to keep employees engaged.
- Keep the communication strategy under review – engaging pension scheme members is not a one-off activity. Regularly refresh materials and review communications to make sure you are keeping employees' interest.

helping to better deliver the pensions message to the wider workforce.

Get personal

The PLSA released a good communications guide at the end of September, which it claims promotes better interaction between employers and their employees on pensions.

Doyle says there are nine key characteristics of good pension communications: "Understanding the person on the receiving end; ensuring mutual interest and feedback; setting specific objectives; timeliness; conciseness; completeness; persuasiveness; appropriate language; and appropriate media."

Most notable is the move away from blanket communications towards understanding the 'person on the receiving end'.

Peter Strudwick, pensions and benefits partner at LV=, says: "The key to successful communications in pensions is making it personalised, targeted and relevant. You should approach it with the mindset that you're having a conversation with the pension scheme member. Think how you would express an idea if you were talking to someone and then use that approach in your communication exercise."

The only way employers can take this approach is by capturing employee data, either through surveys or by analysing information that already exists as part of pension administration.

Increasingly, employers are able to personalise messages to employees and give them a better idea of how their pension will perform under current contribution rates and the likely impact of making increases.

Martin Parish, area director at Aon Employee Benefits, says: "Using data held by employers, we can look at who is paying the minimum contributions and ask if they are meeting their objectives. We can provide information to high-earners about the tax implications of pension saving."

Make it timely

Strudwick advises against communicating for communicating's sake to avoid swamping employees already saturated with information.

Instead, it pays to pick key times to get in touch. The imminent increase to auto-enrolment contribution rates presents just such an opportunity.

Kate Smith, head of pensions at Aegon UK, says: "Mandatory increases to contributions give employers the chance to talk about the value of paying in more to a pension fund. Rather than talking about the extra the member pays in, we need to focus on the potential value they will get out at the other end."

It may also be beneficial to use the compulsory pension increases to push for even higher contributions, since many employees may be under the illusion that the minimum rates will be enough to fund their retirement.

PLSA's Doyle says: "While the increase to 8% will certainly be an improvement [on current levels], the PLSA believes that for people to enjoy a good income in retirement, minimum contributions must increase to around 12% over the course of the 2020s."

The pension industry is facing an uphill battle when it comes to member engagement. A better understanding of good communications practice and personalisation are having a positive impact, but there is still some way to go before the take up in pension saving equates to widespread engagement with saving for retirement. **HR**

"The key to successful communications in pensions is making it personalised, targeted and relevant"

Dream or dystopia?

Technology, ability to save and the changing nature of work itself will all affect workplace pensions, says MAGGIE WILLIAMS

What was special about 21 October 2015? For lovers of light-hearted sci-fi, it was a landmark day – the 1989 film *Back to the Future Part 2* was set on that date, giving its audience a glimpse of how life might look in 26 years' time.

Its vision of hoverboards, flying cars and shrink-to-fit jackets might not have matched up to reality, but setting fiction in the future is a great platform for asking 'what if' questions, expanding on trends in current society and getting creative about how the world might look in 20 or 30 years' time.

Predicting the future of workplace pensions and savings might not have blockbuster appeal, but charting the path ahead is essential if we are to make sure individuals are able to retire on a good level of income.

As our report shows, pensions practice is evolving at a rapid pace. Simply handling increases to auto-enrolment minimums and understanding the implications of retirement options for the over-55s might be enough to keep HR and pensions managers busy for the next five years. However, changes to the world of work, evolving technologies and a better understanding of what a 'good retirement' looks like should all play a part in any future predictions.

A changing workplace

If pensions are linked to the accumulated wealth of a working life, then their design must respond to changes in employment patterns. According to Department for Work and Pensions (DWP) research in 2012, a UK employee now has an average of 11 different jobs over the course of their working life – a far cry from the job-for-life and final salary pension schemes of the past.

More significantly, even the idea of 'working life' is changing. Professor of management practice at London Business School, Lynda Gratton, predicts that a linear model of education, work, then retirement will no longer hold true in the future. "We will see a multi-stage life, with continual education, portfolio careers and people not wanting to work all the time," she says. "We are shaping our lives differently and that will also affect the design of pensions."

Those major changes to work patterns are already happening, with the rise of the 'gig economy' and self-employment on the increase.

The knock-on effect of this is that many people's finances are now uncertain. Research from affordable workplace loan provider Neyber in January 2017 showed that a quarter of the 10,000 employees it surveyed had income that fluctuated by more than 10% each month. That figure rose to 45% for the 18 to 24 age group.

With day-to-day finances so uncertain, communicating the importance of long-term savings becomes even more challenging. The Financial Conduct Authority's (FCA) *Financial Lives* report, released in October 2017, showed that only 35% of those aged 45 to 54 had given a great deal of thought to how they will manage in retirement. Four in 10 of those aged between 35 and 55 didn't know how much their company paid into their pension, and a third said they had given no thought to how they would manage money-wise when they retired.

If employees are going to create a good quality retirement for themselves, that situation needs to change. But shifting job patterns also mean more complex pension savings. Individuals will accumulate multiple small pension savings pots as they move from employer to employer. Enabling individuals to keep track of what all those short-term savings pots mean for their long-term wealth has been a concern for both the government and the pensions industry.

Harnessing technology

Help is at hand in the form of the pensions dashboard, a project backed by the DWP and developed in conjunction with the Association of British Insurers (ABI). The aim of the dashboard is to pull together the value of all of an individual's pension pots into a single figure, which would also take account of their state pension entitlement. It is due to be delivered in 2019.

"Employees can see and understand the value of all of their pensions in one place. This will help them to feel more secure about their finances and the value of their pensions," says Margaret Snowdon, chair of the Pensions Administration Standards Association and a member of Treasury's Pensions Dashboard Steering Group. "From an employer perspective, it will have benefits too. It will help to take away inefficiency in running a scheme. Data will be better, and HR should see a reduction in enquiries about pensions."

Pat Sharman, UK managing director at KAS Bank, which has recently launched a new pensions fintech division, believes that it could be just the start for technology in pensions. "The pensions industry has been slow on the technology uptake, and innovation is needed if we are to keep up with this pace of development," she says.

While technology can drive a more joined-up approach to pension savings, encouraging people to save more in the first place – and helping them to understand how much they need to save for their retirement – is equally critical. That means putting an emphasis on helping members to become more engaged with their pension. But as former shadow pensions minister Gregg McClymont notes, "engagement isn't enough on its own – it's about the behaviour that it drives". That means increased contributions and a better understanding of how saving more links to a better quality of life after work.

Jane Brydon, HR director at drinks giant Heineken UK, has found that a collaborative approach involving both the company and its employees has benefitted member engagement. Its 2,068-member Flexible Retirement Plan has an auto-enrolment opt-out rate of less than 1%, and a generous contribution structure with a default option of 5% employee contribution, matched with a 10% employer payment. Crucially, it carries out an annual communications survey, and acts on the results to improve the scheme. "We have developed the scheme with our colleagues – through roadshows and individual one-to-one sessions," says Brydon.

As a result of that feedback, Heineken has introduced quarterly pension clinics, which have proved 'invaluable'. The company was recently awarded the Pension Quality Mark's Communications Distinction Award, recognising the quality of its communications and member engagement.

What does 'good' look like?

Companies such as Heineken are creating excellent examples of good practice, but the bigger pension contributions picture is more variable. While auto-enrolment has been hugely beneficial in encouraging more people to save for a pension, even when minimum contributions are raised to 8% in 2019 (broken down to 3% from the employer and 5% from the employee), saving at that level alone won't be enough to provide a comfortable retirement for many. Behavioural techniques such as 'save more tomorrow', where an employee commits to increasing pension contributions as his or her salary increases have proved successful in the US, but have

yet to take off to any significant extent in the UK. And Lifetime ISAs, which can act as a complement to pension savings for the under-40s, have seen very little traction to date.

So how can we frame pensions in a way that makes them relevant to employees and helps them to understand the importance of saving? The Pensions and Lifetime Savings Association (PLSA) has proposed a series of 'national retirement income targets' that could be used as a yardstick to help employees gauge their progress towards retirement.

A similar system already exists in Australia, where the Association of Superannuation Funds of Australia (ASFA) has set Retirement Standards for what it considers sufficient for a comfortable (a good standard of living) and a modest (only able to afford basics) retirement.

The ASFA's website lets individuals enter details of the state that they intend to retire in and whether they are single or part of a couple, then creates a budget, broken down by frequency (weekly, monthly etc). "A lump sum is a disengaging number," says Martin Fahy, CEO of the ASFA. "Breaking it down in this way makes it feel more manageable."

The ultimate aim of pensions has not changed: it's a process of saving during our working life so that we can support ourselves at the point when we no longer want, or are no longer able, to work.

However, individual employees are now required to take more responsibility for those savings than in the past. That means making sure they have the technology to support them, can understand and engage with the need to save – and have some idea of how much money equals a comfortable standard of living in retirement.

By ensuring workplace pension schemes are well run and communicated effectively, HR is in a great position to help staff get a more accurate view of their prospects than *Back to the Future*'s main protagonists. **HR**

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