Reflect and regroup

Seven ways to assess if your pension scheme is fit for purpose

Auto-enrolment deadlines meant that many businesses chose their pension provider under time pressure. Now's the time to look at your approach ahead of future changes, says Sophia Singleton, Partner and Head of DC Consulting at Aon.

All but the newest companies have now passed their pensions auto-enrolment staging date. For many businesses, complying with the regulations meant a 'rush to the line' to make sure they had a scheme in place and didn't fall foul of their deadline.

That left little space to think about how well the scheme might perform longer-term, or whether it was really aligned with the needs and profile of the workforce. With more time to reflect and with many new provider choices available in the market, it is now a good time to evaluate whether your scheme is really fit for purpose and to prepare for the future.

The minimum contribution rates required under auto-enrolment are set to rise from next year, reaching 8% by April 2019. This is a golden opportunity to help employees understand and value the contribution their pension saving makes towards longer-term financial wellbeing. But to make that happen, scheme design, communications and governance must all be fit for purpose. Here are seven pointers to help you assess how well your pension scheme is performing:

> **"Now is the time to evaluate whether your pension scheme is meeting the needs of your employees and business"**

1. Do you have the right approach?

Most auto-enrolment schemes work in one of three ways: as an in-house trust-based scheme, as a group personal pension (GPP) or as a master trust. Are you comfortable with the approach you currently take? If you have an in-house scheme, do you have sufficient resource and quality of governance? If you work with a GPP or master trust, is it meeting your business and staff needs while taking the burden of running the scheme off your shoulders?

2. Do you know your scheme numbers?

Is your scheme giving you the right data? Do you know the level of active decision making or whether everyone uses default contribution rates? Do you know if your members are on track for a comfortable retirement or will they be a future HR problem when they can't afford to retire? Do you know whether actions you have taken have improved expected outcomes or reduced risk for members?

3. Can you manage contribution rates effectively?

Encouraging staff to pay more into their pension, and making matching employer contributions, will maximise their long-term savings. Does your provider enable you to create and update a matching structure, and are employees able to quickly and easily increase their contributions? Can you use techniques such as 'save more tomorrow', where employees pledge to automatically increase their savings in the future?

4. Is there real freedom for over-55s?

Employees aged over 55 now have much more control over how they use their retirement savings. Can your staff access those freedoms with access to an annuity, flexible drawdown, cash withdrawal or a mix of these?

5. Is the default fund suitable for your workforce?

Most employees will invest their contributions into the default fund. That means the default must be robust and well suited to the workforce, generating adequate returns while offering risk management should markets fall. How is your provider handling growth and risk, and how is this communicated to you?

Some scheme members may want investment options other than the default for financial, ethical or religious reasons. Does your scheme give them that choice, and if so, are those options still managed well in terms of the balance between risk and returns?

6. Are scheme charges and costs good value for money?

All default funds must work within a 0.75% charge cap, covering both administration and investment costs. Is your scheme managing those charges efficiently, to make the most of members' money? Many schemes actually pay less than the 0.75% cap. Are they taking advantage of economies of scale, such as new delegated DC investment options, to bring charges down as far as possible?

7. Can you work together to get communications right?

Good pension communications need teamwork between the provider or the scheme and the employer. You will know your workforce better than any third party, but the provider will be able to contribute in-depth pensions and savings knowledge. Can you work with your provider to tailor savings messages to different groups within your workforce? Is information about the scheme clear and suitable for your staff? Can communications and supporting tools help members set savings goals and track progress towards them?

Now is the time to evaluate whether your pension scheme is meeting the needs of your employees and business. Taking a long look at the way you run your scheme — a governance review — can be a great way to dig deeper into some of these seven pointers and make sure that you have the right arrangements in place to help your employees really save effectively for retirement.

To find out more contact **talktous@aonhewitt.com** or visit **aonhewitt.com/dcpensions**

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