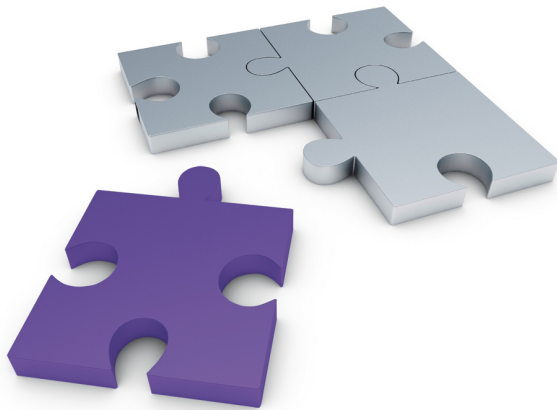


Talking to your employees about pensions

A guide for employers



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If you have at least 5 employees, by law you must offer them access to a pension scheme. You can meet this legal requirement by offering:

- an occupational pension scheme;
- a personal pension scheme that you contribute to; or
- access to a stakeholder pension scheme (see www.stakeholderhelpline.org.uk).

From 2012, all employers will have to enrol their employees into a pension scheme and pay into that scheme. For more details of these requirements, see The Pensions Regulator's website at www.tpr.gov.uk/pensions-reform

This guide is for you if:

- you are an employer;
- you already offer, or are considering offering, a pension scheme to your employees; and
- you want to know what help and advice you can give about your scheme.

The guide covers all types of work pensions (that is, pensions that employers offer to their employees). It is produced jointly by The Pensions Regulator and the Financial Services Authority (FSA).

The main purpose of this guide is to highlight that there is a lot you can do to help your employees make decisions about their pension, and that this help can benefit you and your employees.

In difficult economic times, pensions are not always the main thing on everyone's mind. This guide focuses on things you may want to do voluntarily, often at little or no cost, to help improve the value that you and your employees get from your pension scheme.

We know that some of the words and expressions used in connection with pensions can be confusing, so this guide includes a jargon buster (see page 20) to explain some of the important words.

At a glance

- As an employer, there is a lot you can do to promote your pension scheme and help employees who have questions about the scheme.
- To answer most of your employees' questions you can get information about the scheme from the trustees or the pensions company. You are allowed to pass this information on. Your pension adviser may also be able to help. And lots of free information is available from independent organisations.
- You should avoid giving financial advice (see page 8) as you may not have the financial planning expertise or the knowledge about your employees' overall personal and financial circumstances.
- This guide is designed to give you guidance on how you could give your employees information. We have provided some answers to common questions to help you.

Question... Why should I bother giving my employees information about pensions? It's too much hassle and too risky.

Answer... You could also benefit from helping your employees. Potential benefits include:

- employees will recognise the value of the scheme as part of the employment package you offer;
- your employees will have a better understanding of pensions, which will lead to better retirement planning on their part and easier workforce management for you;
- employees in defined contribution (DC) schemes will have a better understanding of how their decisions – like how much to contribute, what investment funds to choose, how to draw their benefits at retirement – will affect the size of their retirement fund; and
- it could avoid problems arising further down the line as a result of misunderstandings now.

Question... What can I tell my employees about my pension scheme?

Answer... You can tell them:

- how they can join;
- how much it will cost them;
- how much you, the employer, will pay towards it; and
- what benefits the scheme provides.

You can also do the following.

- Give them documents from the scheme or pensions company.
- Explain the tax reliefs that are available and the limits on pension contributions you make to their pension.
- Refer them to **The Pensions Advisory Service (TPAS)**, an independent organisation that gives members of the public information and guidance on pensions. Their website at **www.pensionsadvisoryservice.org.uk** provides general information on occupational, personal and stakeholder pensions.

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Question... What can I tell my employees about my pension scheme? *continued...*

- Refer them to the **Consumer Financial Education Body's (CFEB's) 'Moneymadeclear'**TM service at www.moneymadeclear.org.uk or 0300 500 5000.
- Use the guidance on stakeholder schemes, as given on The Pensions Regulator's website at www.tpr.gov.uk/stakeholder-faqs
- Suggest that employees consider seeing an adviser authorised by the FSA. (See **Sources of help for you and your employees** on page 17 for information on how you can help your employees to find an adviser if they do not already have one.)

Question... What can I tell my employees if they ask me whether it is a good idea for them to join the pension scheme?

Answer: You cannot tell your employees whether or not it's a good idea, but you can do the following:

- Give them the facts about the scheme and pensions in general. For example, if it is a defined contribution scheme, tell them:
 - how much money they and you have paid into the scheme
 - how the investments have performed
 - how much of this money has been used to pay any charges – this will influence the value of their fund at retirement; and
 - that their fund at retirement is used to provide their pension income.
- Tell them whether you pay a contribution to the scheme, how much you pay, and that if they choose not to join the scheme, they lose out on this contribution from you.

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Question... What can I tell my employees if they ask me whether it is a good idea for them to join the pension scheme?
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- Point out that they receive tax relief on their contributions to the scheme, and explain the positive effect this has on the amounts actually being invested into their pensions.
- Organise a presentation about the scheme. If your scheme's provider does not offer this, **CFEB, TPAS or PENSIONS FORCE** (the **National Association of Pension Fund's** (NAPF) information service) may be able to visit your workplace, normally free of charge. See **Sources of help for you and your employees** on page 17 for their contact details.

You may also have scheme documents and other resources which may help an employee arrive at a decision. For example, you can pass on projections produced by the scheme showing what benefits may be paid.

Remember that whether or not it is best for an employee to join your scheme will depend on their personal situation. You probably won't have enough information about your employees' individual circumstances to tell them whether or not it is a good idea for them to join. The CFEB's **Moneymadeclear™** service may be helpful in this case.

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Question... How can I make sure that I am not breaking rules on giving financial advice?

Answer... You normally need to be authorised by the FSA to give professional financial advice on investments, including personal and stakeholder pension schemes. So you should avoid giving financial advice and focus instead on giving the facts and generally promoting the scheme (see the next question).

Financial advice is when a professional adviser assesses a person's circumstances and recommends financial products that are suitable for them. The FSA regulates the financial advice that can be provided on what are called 'regulated investments'.

Stakeholder and personal pensions, including group personal pensions, are regulated investments, but FSA regulations only apply if the advice is given by way of business. This is unlikely to apply to most employers.

Occupational pension schemes do not count as regulated investments, so advice on these is not regulated. However, most employers should still avoid giving financial advice on any type of pension scheme for the reasons mentioned above.

Providing wrong, inaccurate or incomplete advice could mean your employees lose out and leave you potentially liable.

(A small number of occupational pensions are regulated by the FSA, but these are not taken account of for the purpose of this guide.)

Question... How far can I go in promoting my scheme?

Answer... You can do the following:

- Give your employees the facts on your pension scheme.
- Pass on any promotional material produced by the pension company.
- Pay a financial adviser to give your employees information and advice. (The cost of this advice, up to £150 an employee each tax year, is not classed as a benefit-in-kind for employees as long as it relates only to pensions and is not general financial and tax advice, so they will not be taxed on it.) You can claim the cost of financial advice as a business expense if that advice is provided only for the purposes of your business.
- Look at the guidance on effective communication for ways of passing on information. That guidance is given on The Pensions Regulator's website at www.tpr.gov.uk/effective-member-communications
- Promote your occupational scheme in other ways (for example, produce your own communications, arrange presentations for staff, have sessions for members with questions about their scheme).

If you communicate promotions for your personal or stakeholder scheme (or contract someone else to do so) you must:

- make a contribution to the scheme;
- tell your employees in writing how much you contribute;
- not receive any direct financial benefit for promoting the scheme;
- tell your employees that they can get advice from a professional financial adviser authorised by the FSA; and
- if someone is contracted to communicate the promotions for you, tell your employees in writing what remuneration they will receive for doing so.

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Question: Do I need to be authorised by the FSA or The Pensions Regulator before I can offer membership of my pension scheme to my employees?

Answer... No, as long as you are not receiving any direct financial benefit (including any commission, discount, remuneration or reduction in premium) for offering a pension scheme. In other words, if you are only offering the pension scheme to employees as part of their employment package, and you are not receiving any commercial benefit, you do not need to be authorised by the FSA.

Question: How can I help my employees when they ask me which investment funds to choose for their pension?

Answer... You can do the following:

- Give your employees descriptions of the funds available, including the charges that apply to the funds. The pension company that set up the scheme will often be able to give you this information.
- Point employees to the information on the CFEB's **Moneyadeclear™** service at **www.moneyadeclear.org.uk** or **0300 500 5000**.
- Mention the guidance on making fund choices, as given on The Pensions Regulator's website at **www.tpr.gov.uk/pension-fund-choices** and on the TPAS site at **www.pensionsadvisoryservice.org.uk/online-planners**
- Suggest that employees consider seeing a financial adviser authorised by the FSA.

You will probably not have the expertise to give an individual advice on their investment choices, and you may get it wrong. Good practice is to give your employees as much information as you reasonably can to help them to make properly informed choices.

Question: What about other financial questions? For example they might ask:

- whether it would be best to increase their mortgage repayments, to pay it off earlier, rather than paying into their pension;
- whether they should top up their occupational pension with a stakeholder or personal pension, or by paying additional voluntary contributions (AVCs);
- whether they should transfer from another scheme to your scheme;
- how much they should contribute to the pension scheme to get an adequate income in retirement; or
- whether they should reduce or suspend contributions.

Answer... These decisions are really for the employee to make based on their own financial circumstances. You may not be able to answer these types of questions, and nobody expects you to. The main thing to remember is that you will not know the detail of an individual's financial circumstances or their expectations for the future. So you are unlikely to be in a position to give them personalised advice. However, you can:

- give your employees the facts (for example, how much you as employer will pay in);
- point employees to other sources of help, such as the CFEB's **Moneymade clear**TM service at www.moneymade-clear.org.uk or 0300 500 5000 or the TPAS website at www.pensionsadvisoryservice.org.uk; and
- suggest employees consider seeing a financial adviser authorised by the FSA.

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Question: What can I say if an employee asks me how much the scheme costs?

Answer... You can do the following:

- Tell the employee about the contributions paid by them, and by you as the employer.
- Pass on information about what the scheme charges are (for example, investment and administration charges) and how these are paid (for example, by you as the employer or by the members). All of this information should be in the scheme literature.
- Point employees to the guidance on the TPAS website at www.pensionsadvisoryservice.org.uk, if your scheme is a group personal pension scheme or stakeholder pension scheme, and use the guidance on The Pensions Regulator's website at www.tpr.gov.uk/dc-schemes-guidance

Question: What could I be doing when employees approach their retirement dates?

Answer... When an employee approaches their retirement they often have to make important decisions, so support at this time is extremely valuable. For defined contribution (DC) schemes in particular, the scheme or pensions company must tell the member they can buy an annuity (which pays them an income for the rest of their life) from the insurance company of their choice and they don't have to take the one offered by the scheme. This is called the 'open-market option' (OMO) and means they can make sure they get the best deal.

To help your employee, you can do the following:

- Arrange for your adviser or pensions company to hold face-to-face or group meetings to tell employees about their retirement options.
- If the employee has a DC pension, let them know that they can choose who provides their annuity and encourage them to shop around to get different quotes.

Question: What could I be doing when employees approach their retirement dates? continued...

- Tell your employee about the annuity comparison tables on the CFEB's **Moneymadeclear™** website at **www.moneymadeclear.org.uk**. Provide a copy of **Your guide to retirement** and the range of printed guides produced by CFEB.
- Tell the employee about the TPAS annuity planner tool, which helps members choose the right type of annuity, on the website at **www.pensionsadvisoryservice.org.uk**
- Suggest the employee considers seeing a financial adviser authorised by the FSA.
- Consider providing access to an adviser. The cost of this advice (up to £150 an employee each tax year) is not classed as a benefit-in-kind for employees, as long as it relates only to pensions and is not general financial and tax advice.
- Remind members about information available from the pensions company (including information on the pension company's website and any website the scheme has).
- If the employee is a member of an occupational DC scheme, make them aware of the leaflet on retirement choices, available on The Pensions Regulator's website at **www.tpr.gov.uk/dc-schemes-retirement-choices**
- If you offer an occupational DC scheme, you could review the guidance on The Pensions Regulator's website at **www.tpr.gov.uk/dc-schemes-retirement-options** and consider what strategies you might want to put in place to help your employees through the retirement process.
- If you offer an occupational DC scheme, consider providing a service that offers members a competitive annuity.

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Question: What kinds of things can I say if a member asks me how safe their money is in the pension scheme?

Answer: If your scheme is an occupational scheme you can do the following:

- Explain that the scheme has trustees to look after it and that these include people nominated by the scheme members. The scheme's assets are held separately from the business assets and the trustees must have relevant knowledge and understanding. (The Pensions Regulator's codes of practice give trustees guidance on how to run the scheme.)
 - Mention that the scheme is covered by the Fraud Compensation Fund (FCF), which was introduced to provide compensation to occupational pension scheme members who suffer a loss as a result of dishonesty.
 - Tell members about the complaints procedures your scheme has in place, and about the **Pensions Ombudsman (PO)** and TPAS, who can help members who have difficulties with their scheme.
- If your scheme is a defined benefit (DB) scheme, also explain that it is covered by the Pension Protection Fund (PPF), which pays a certain level of compensation if an employer goes bust and there is not enough money in the scheme to pay benefits. Details of the fund are given on the website at www.pensionprotectionfund.org.uk

If your scheme is a group personal pension scheme or stakeholder scheme, you can do the following.

- Explain that as the pension company running the pension scheme is authorised and regulated by the FSA, it must conduct its business in line with requirements set by the FSA. This means that it must have enough resources available, and proper controls in place, to manage your employees' pensions properly in good times and bad, and pay benefits when they are due.

- If the pension company goes bust, the **Financial Services Compensation Scheme (FSCS)** would be able to offer protection – either by arranging to transfer the pension fund to another pension company or by offering a certain level of compensation. More information is given on the FSCS website at www.fscs.org.uk/what-we-cover/questions-and-answers
- Mention that if a firm authorised by the FSA is involved in advising members, they could be protected by the FSCS if things go wrong and the advice was bad (see the website at www.fscs.org.uk/what-we-cover/questions-and-answers). You could also tell your employees that the CFEB has issued a **MoneyMadedclear™** printed guide on making a complaint.
- Tell employees about any arrangements you have for looking after the scheme. For example, you, some colleagues or your adviser may meet every so often to check that the scheme is working well.

Or you could consider introducing an arrangement like this to give members greater peace of mind. The Pensions Regulator has produced guidance on this for employers – see **Sources of help for you and your employees** on page 17.

If your scheme is a DC scheme (occupational, personal or stakeholder) where the value of the funds can rise and fall, you can do the following:

- Suggest that members check what type of fund they invest in and decide whether it is appropriate for their circumstances (for example, many schemes offer a range of funds with different levels of risk), and explain that it is important that members regularly review the funds they are invested in.

Also see the question **How can I help my employees when they ask me which investment funds to choose for their pension?** on page 10 of this guide.

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Question: Who regulates my pension scheme?

Answer: This depends on what type of pension scheme you have.

All occupational pension schemes are regulated by The Pensions Regulator. Group personal pension schemes and stakeholder pension schemes are regulated jointly by The Pensions Regulator and the FSA.

The FSA focuses on regulating the pension companies as well as how the schemes are marketed and sold to employees.

The Pensions Regulator focuses on payments made by the employer and how the scheme is run (for example, making sure records are up to date).

Sources of help for you and your employees

You and your employees can get help and advice from the following:

Your scheme or pension company

You'll have their contact details in your scheme literature.

A financial adviser

You can refer your employees to one of the following organisations.

IFA Promotion

Website:

www.unbiased.co.uk

Personal Finance Society

Phone:

0208 530 0852

Website:

www.thepfs.org

Institute of Financial Planning

Phone:

0117 945 2470

Website:

www.financialplanning.org.uk

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Sources of help for you
and your employees continued...

The Consumer Financial Education Body (CFEB)

CFEB is the new independent body established by the FSA. CFEB is responsible for helping consumers understand financial matters and make informed choices by providing free, impartial financial information and advice. This is available through the **Money made clear**TM service (online, in print, over the phone (0300 500 5000) or face-to-face.

The **Money made clear**TM website at www.moneymadeclear.org.uk also has comparative tables, including one on annuities, where members of defined contribution schemes can put in their details and shop around for the best deal when choosing who pays them a pension when they retire.

CFEB offers a free financial education programme delivered free in the workplace. For more information, email workplace.team@moneymadeclear.org.uk or see www.cfebuk.org.uk/our-work/workplace/index.shtml

A list of printed guides from CFEB is available at www.moneymadeclear.org.uk/publications. Further information about **Your guide to retirement** is available at www.cfebuk.org.uk/our-work/retirement/how.shtml and online at www.moneymadeclear.org.uk/retirement

Department for Work and Pensions (DWP)

The DWP publishes a range of free pension guides on its **Pension Service** website at www.thepensionservice.gov.uk

You can find information about stakeholder schemes on the DWP website at www.dwp.gov.uk and on The Pensions Regulator's website at www.tpr.gov.uk/stakeholder-documents

Sources of help for you
and your employees continued...

PENSIONSFORCE, the National Association of Pension Funds' information service

This service offers presentations, normally free of charge, aimed at helping employees plan and save for their retirement. Their website is at www.napf.co.uk

The Financial Services Authority

The FSA is the financial services regulator set up by the government to regulate financial services and protect your rights. It sets standards that financial services firms have to meet and can take action if they don't. The FSA regulates most types of financial services firms, such as banks, building societies, credit unions, insurance companies, financial advisers, stockbrokers, and mortgage and insurance sellers. It has a register of firms it regulates.

The Pensions Advisory Service (TPAS)

This is an independent voluntary organisation. Their website (www.pensionsadvisoryservice.org.uk) has a lot of guidance for members of pension schemes, including useful information on choosing an annuity at retirement. They also offer presentations on pensions issues, normally free of charge.

The Pensions Regulator

The Pensions Regulator is the UK's regulator of pensions offered by employers. It has guidance for employers on its website at www.tpr.gov.uk/employers

- For guidance on making sure your personal or stakeholder scheme is running well, visit www.tpr.gov.uk/guidance-employer-engagement
- For guidance on your role relating to occupational pensions, visit www.tpr.gov.uk/employers/employer-role-running-a-scheme

Jargon buster

Helping to make sense of pensions

Additional voluntary contributions (AVCs)

Extra contributions that an employee pays into a pension scheme to boost their pension.

Annuity

An annuity uses a member's pension fund to provide an income when they retire.

Defined benefit (DB) scheme

A pension scheme where the benefits the member receives are linked to their earnings. This is sometimes called a final salary scheme.

Defined contribution (DC) scheme

A pension scheme where how much the member gets when they retire depends on how much they and you pay in, how well the investments do, and the rate at which they can buy an annuity when they retire. This is also called a money purchase scheme.

Occupational pension scheme

A pension scheme, with trustees, set up by an employer. These may be either defined contribution (DC) schemes or defined benefit (DB) schemes.

Open-market option (OMO)

The right a member of a DC scheme has to shop around at retirement to choose which pension company they buy their annuity from.

Pension provider

The organisation which runs a pension scheme. These are usually insurance companies.

Personal pension

A DC contract between an individual person and a pension provider.

Stakeholder pension

A type of personal pension where the maximum charges are limited by law.



The Pensions Regulator

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