

news

Running Money Purchase Schemes – Member Communication

Money Purchase member communication presents a significant challenge to trustees and employers alike. Members need to have a broad spectrum of information to be able to participate effectively in the scheme. But trustees and employers must beware giving so much information that members cannot make their own decisions effectively and hold trustees liable. Here we consider how trustees, in particular, can get the balance right.

Legal duty to advise?

What do trustees/ employers have to tell members?

- Trustees owe members a general legal duty to inform them about the rights and options they have under their scheme.
- Employers have a similar duty.
- However, neither trustees nor employers have an obligation to advise members on the appropriateness of the choices they make (unless they adopt one).

Information from trustees

Is the standard booklet enough?

- Trustees must provide a scheme booklet containing certain limited information prescribed by legislation.
- For members to participate effectively in a Money Purchase scheme, they need generic information about contributions, investment options and performance, charges and penalties, retirement options and buying an annuity.

Effective communication

Some simple tips for trustees

- To get the most out of member communication, it is important that the average member can understand what is being said.
- Therefore, Money Purchase scheme communications should be easy to read and to understand for someone who is not "pensions literate".
- Drip feeding attractively presented information is more likely to be read by members than a one-off mail shot containing every detail.

NB: Effective member communication is likely to reduce the risk of mistakes by members and therefore claims. If a claim is made, it will also probably be easier to defend.

Effective communication

The available methods

- Trustees now have a myriad of communication methods available to them to communicate with members.
- Which ones work for your scheme will depend on your members.
- Web-based systems, help-lines and regular member presentations are now commonly used to supplement the more traditional paper communications.

Record keeping

Examples of good practice

- Members will rely on what they are told by trustees, however it is communicated.
- Thus, records should be kept of web specifications, slide presentations and telephone conversations (help-line operators need boundaries within which to work).
- Maintaining records of members who attend presentations and keeping copies of emails is also good practice (and can help in a dispute).

Managing retirement expectations

Will "SMPI's" help communication?

- It is common for Money Purchase members to underestimate the likely cost of buying an annuity at retirement - high expectations of what the scheme will deliver may be dashed.
- Statutory money purchase illustrations are now a reality but they could be a double-edged sword.
- They will give many members a reality check on their likely retirement income - some may re-evaluate their saving, whilst others may think the single illustration figure is guaranteed. A carefully written covering letter should help to minimise risk here.

Conclusions

Where does this leave trustees and employers?

- Money Purchase communication often presents a greater challenge than final salary because members need to make frequent and important decisions based upon the information available.
- Significant resources, time and effort may be needed to get it right for your members.
- But doing so should increase their ability to participate in the scheme more effectively and to realise more fully the value of the benefits provided.

This newsletter was prepared by partners Jane Kola and Paul Phillips who practice in the firm's Investment Unit. If you would like further information about running money purchase schemes please contact Jane or Paul.

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