

Informed choices for working and saving

1 BACKGROUND

Building further on the aims set out in the Green Paper¹ and the "Action Plan"² for encouraging individuals to save for their retirement, the Government published its latest pensions paper on 3 February 2004³. The main focus of the Government's paper is encouraging pension savings by "empowering individuals to make real and informed choices".

The Government's intention of raising pensions awareness and increasing the availability of pensions education is not a new concept as such, as these themes ran through both the Green Paper and the Action Plan. The Government's new paper does, however, flesh out some of these ideas.

2 THE KEY THEMES

The driver behind the Government's paper is the concern that people are not saving enough for their retirement. The three core themes running through the paper are therefore:

- "activating" the current pensions system "to maximise provision";
- educating people about pensions;
- ensuring access to information so that people can make the right pensions choices.

¹ Simplicity, security and choice: Working and saving for retirement (published on 17 December 2002)

² Simplicity, security and choice: Working and saving for retirement, Action on occupational pensions (published 11 June 2003,)

³ Simplicity, security and choice: Informed choices for working and saving (published 3 February 2004)

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3 MAKING THE MOST OF PENSION PROVISION

There has been much said in the press recently about possible Government plans to make membership of pension schemes compulsory. The paper stops short of announcing that. However, concerned that people may “cut themselves out of a pension scheme by inertia alone”, the Government is committed to exploring the following three options for increasing pension participation:

- “Active decisions” - which will require new employees to decide whether or not to join their employer’s scheme;
- Committing to saving in the future - this option would entail individuals committing future potential earnings (e.g. future salary increases) towards saving for a pension;
- “Automatic enrolment” – new employees would become members of their employer’s scheme automatically, subject to an ability to opt out.

The Government makes it clear in the paper that it is “attracted to action on each of these areas”, whether benefits are provided through an occupational or stakeholder arrangement. It even goes so far as to canvass the possibility of requiring new employees whose employer only provides access to a stakeholder scheme to contribute “by default”. It will begin exploring these options from Autumn this year (with a view to taking stock of results “from testing approaches” in Autumn 2005). The goal is to strike a balance between what is good for employees, employers and providers.

Finally, consistent with its proposals in response to the Sandler review⁴, stakeholder pension schemes are likely to “include an element of life-styling” so as to reduce investment risk as individuals get closer to retirement.

⁴ Sandler review of Medium and Long-Term Retail Savings (published 8 July 2002)

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4 RAISING AWARENESS AND EDUCATION

Financial education looks set for an overhaul to ensure that people make the right choices at each stage of their pension financial planning (whether preparing for a career break, deciding when to retire or the type of annuity to purchase).

The Department for Work and Pensions (DWP) is poised to play a key role by establishing an “integrated retirement planning service”. This will offer a number of mediums through which information and advice on pensions can be obtained such as a telephone helpline, leaflets and a new website.

From October 2004, employers will also need to supply information about pensions in job advertisements.

As the Green Paper and the Action Plan indicated, employers will be called upon to share the education burden. With help from the Employer Task Force⁵, the Government is looking to develop “best practice guidance for employers” which will cover issues such as communicating the value of pensions when offering employment and “supporting flexible approaches to retirement”. Other proposals aimed at increasing member education include:

- A requirement in the forthcoming Pensions Bill for employers to provide access “to a decent standard of pension information”.
- The Association of British Insurers (ABI) leading a consortium to devise a prototype “pensions information pack”, which should help alleviate employer concerns over the ramifications of providing financial advice.

⁵ The establishment of the Employer Task Force was announced in the Green Paper and is chaired by Sir Peter Davis, Group Chief Executive of J Sainsbury plc

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- The review of financial services legislation to confirm that it does not throw unnecessary obstacles in the way of employers trying to advise employees.

Various pilot studies into the provision of workplace pensions information will start in Summer 2004.

5 GIVING PEOPLE THE RIGHT INFORMATION

Statutory money purchase illustrations were introduced for defined contribution members from April 2003. From Spring 2005, defined benefit scheme members must also receive annual benefit statements. Combined pensions forecasts (which take account of likely income from both private and state pensions) may also become compulsory. Employers (and pension providers) are currently encouraged to give such forecasts to members but if “a significant number remain reluctant” and research shows that combined pension forecasts do make a difference to savings levels, the Government will legislate. A provision in the Pensions Bill will be reserved for this purpose.

Recognising the need to supply individuals with “the right information...in the right way”, the Government is commissioning new research on effective pensions communication, the results of which will be published by the end of the year. It is also looking to extend its own programme of providing individual state pension forecasts on request, to include “What if” forecasts for those looking to work beyond state pension age. In addition, a web-based retirement planner is on the cards, commencing in Spring 2006.

6 CONCLUSIONS

By the Government’s own admission the agenda put forward in “Informed choices for working and saving” is ambitious. Given the raft of other simplification changes in the pipeline, the timetable is likewise tight with many of the initiatives likely to go live in Spring 2005.

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