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# The DC scheme challenge – “know your audience”

Any communications expert will confirm that a golden rule for effective communication is “know your audience”. That requires an understanding of the proposed recipient of the communication, including such factors as their underlying knowledge of the subject matter, their level of interest, and what they will want to gain from the communication.

A common trap for communications with a highly technical content, such as those required for pension schemes, is for authors steeped in the detailed technicalities of the subject matter to assume that the recipient is also. The expert decides what the recipient ought to know and at what level of detail, based upon their own understanding, with “lay” recipients of the communication unable to understand what is being communicated. In such a case the communication will have failed in its purpose.

That outcome is particularly worrying where the information is crucial to inform members’ decisions affecting the security of their financial future, such as in a DC pension scheme. The breadth of issues and the particular needs of the range of involved parties mean that members require a different content and level of detail of information from that required by regulators, trustees, managers and professional advisers (although there will be some overlap).

## The Chair’s statement

Yet strangely, despite the pitfalls being well known, the annual statement required from the Chair of a DC scheme has been treated as a single communication suitable for meeting the informational needs of all the diverse community involved in the scheme, including members.

The unsurprising conclusion that the statement fails in its attempt to be “all things to all men” is one of the outcomes of the DWP’s Post Implementation Review of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (into which the requirement for the Chair’s statement was inserted by The Occupational Pension Schemes (Charges and Governance) Regulations 2015). There is certainly a need to change the requirements around such statements including focussing on the intended recipients, which the Review acknowledges. But this highlights a continuing and wider challenge facing the pensions industry – how to provide effective security of benefits for members under a complex system involving high levels of engagement from them.

The statement itself is necessarily a complex document, attempting to combine operational and governance information on the scheme, at a level of detail required by regulators. Whilst there are

some legitimate queries around whether regulators do actually require all the information, and in the specified format, it is clearly necessary for them to receive extensive information in order to discharge their duties. That detailed oversight process of course also benefits members, who cannot reasonably be expected to undertake such detailed reviews themselves.

An indication of the breadth and complexity of the document is given by the Regulator’s “Quick Guide to the Chair’s Statement”, which runs to some 15 pages! The Review itself quotes industry submissions highlighting examples of the considerable costs involved in producing the statements and recognising that the cost is ultimately borne by members themselves, from already inadequate pots. It is clear that a new approach to the statements is required.

## Positive progress

More generally, the importance of properly-targeted, effective communications is already widely recognised within the DC pension system, and a great deal of effort is being expended to achieve consistently high standards. The pensions industry has been working, with the enthusiastic support of the Government, on developing template annual member benefit statements. These focus on presenting the key information that members need to know in order to take decisions, but in a document short enough and using language clear enough to avoid discouraging members from reading them – a challenging task. A key factor is a strict adherence to a size limit, in this case of one double-sided sheet of A4 paper intended to help members to focus on the key points. The Government’s intention is to mandate their use, in the prescribed format agreed with the industry.

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Despite the potential loss of flexibility to tailor statements to the situations of particular member groups which can result from prescription, it is on balance more beneficial to produce statements on an industry-consistent basis. Members will only have to master understanding of one format for key details. This is important where a future driven by automatic enrolment will result in employees acquiring multiple pension pots over a working lifetime. Individuals will need a picture of their overall pension position and that requires them to be able easily to compare apples with apples.

However here the challenge of balancing presentation with sufficient detail to inform sensible decisions, intervenes again. The laudable objective of presenting all the relevant information on one piece of paper is challenged by the sheer volume of information that ideally should contribute to informing any member decision.

The DWP consultation document on the proposed statements contains a draft template which recognises the importance of providing a range of information to supplement and qualify the headline items. In order to maintain the purity of the statement, it envisages that supplementary information be provided by additional documents. The examples given hint at the volume of additional information that should ideally be considered by the member. There must be some doubt about whether a member would actually access and read that additional information, regardless of where it is contained. Words to encourage members to do so will be difficult to fit within the space allowed in the statement – as will the list itself.

Sometimes the strict adherence to a high-level concept, however well-conceived, does not produce the best outcome – yet another aspect of “know your audience”.

### **Is pure DC “too difficult”?**

Underpinning the communications challenge is the complexity of the subject itself. Although in principle the putting aside of money over a working lifetime to provide an income in retirement is a straightforward concept, as we all know the practicalities involved are not. Those practicalities are an inescapable fact of pension provision which will always need to be addressed and managed. If we expect members of the general public to be closely involved in their own arrangements, then a certain minimum (high) level of detail will always have to be provided, for members to absorb and apply appropriately.

Sadly, despite several decades of trying to achieve a desired level of informed member involvement, progress has been limited. We may have to accept that the objective as currently being pursued is ultimately unachievable.

In practice the “pure” DC system is likely to be dominant for the foreseeable future. The current work streams to improve the effectiveness of communications are making an important contribution and must continue. However, where crucial documents are intended to provide consolidated information in one place to inform complex member decisions it may be necessary to revisit current approaches, particularly on the balance between detail and length.

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### **Time for practical alternatives**

If it is accepted that the “ideal” goals sought for pure DC are not achievable, that would imply that a greater input and level of control from professionals is required. The ultimate example of that is of course the DB system, which is currently successfully paying stable pensions for millions of pensioners.

Given the understandable reluctance of employers to return to old-style DB, a compromise allowing some movement back from requiring significant active input from members sounds sensible.

The Collective Defined Contribution (CDC) basis, which has been widely discussed for more than a decade, but which has yet to gain strong support in the UK, offers a credible way forward. A breakthrough has occurred with the Pension Schemes Act 2021 (where the system is referred to as “collective money purchase”). It contains enabling provisions to allow the Post Office to set up a scheme, but unhelpfully those provisions are limited to the specific design proposed in that case. Those provisions should be widened as soon as possible to enable further new schemes to be established for those that wish to do so. The potential positive contribution from CDC schemes – both for members’ retirement incomes and for the whole country, which needs to ensure pensioner incomes with only modest support from the public purse – should not be ignored.

The reduction in the requirement for informed member decision-making offered by CDC should not be used as an excuse to slacken efforts to improve member communications. However, it would relieve the pressure to educate all members to near-professional standard in order to achieve high-standard decision-making.

Possibly the ultimate manifestation of the principle of “know your audience”?

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