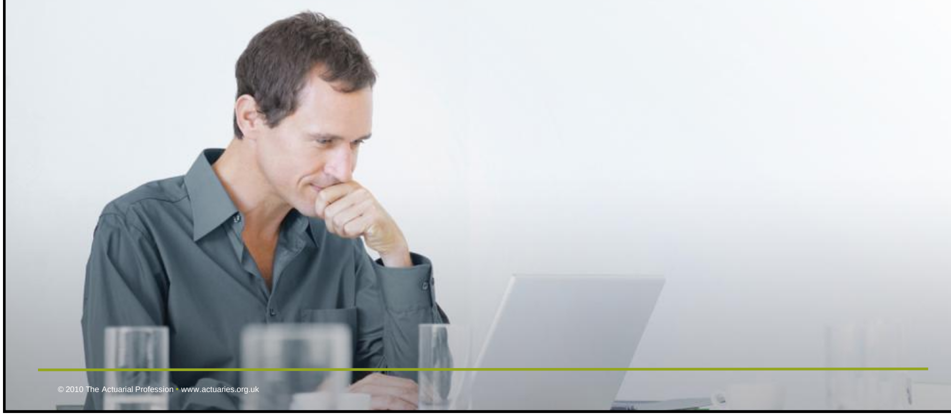
The Actuarial Profession
making financial sense of the future

Communicating with members in a DC world

Malcolm McLean – Consultant, Barnett Waddingham LLP



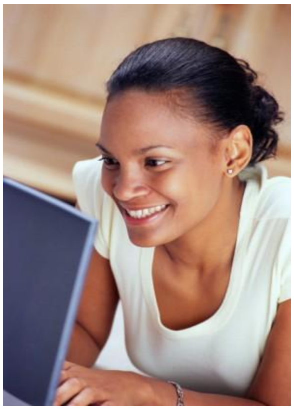
- Everyone agrees that communications are important in pensions but...

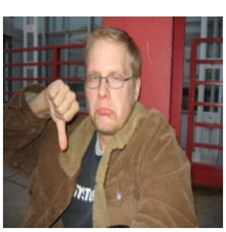
- ... on the whole we're not very good at it

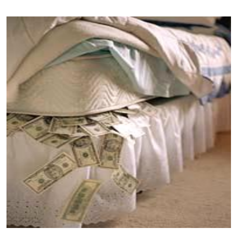
Barriers to Good Communication

- System is over-complicated
- Too many central rules and regulations
- Too much jargon/officialise
- Lack of understanding/awareness of problem
- Fear and desire to "cover our backs"

Members of all ages







Front Office

Role of Admin

Letter sent by Pension Administrator to DC scheme member

Dear Mrs Jones,

You asked for more information as to how a money purchase scheme worked compared to a defined benefit one.

A defined benefit scheme gives you a pension at pension age based on your years of service as a proportion of your final salary. A DC scheme works on a different principle. You and your employer pay money into the scheme which is then invested for you in a suitable investment vehicle This will normally mainly be in equities The accumulated fund is then used to pay your pension benefits. Up to one quarter of the fund can be taken in cash, tax-free, with the remainder used to purchase an annuity for you which is then payable for life.

You will, of course, have an open market option with regard to your annuity and, subject to the agreement of the scheme trustees, the possibility of taking income drawdown

I hope this clarifies the position for you.

Yours sincerely,

Pensions Administrator

At the Core of our Business

- Members have a right to be given information about their pensions in a way that they can understand
- Trustees should satisfy themselves about the standards of customer service their scheme is providing
- Clues can often be gleaned from the number and types of disputes being received

8

- As we move more into a DC world...

9

Letter sent by Pensions Administrator to DB Scheme Member

LETTER SENT BY PENSIONS ADMINISTRATOR TO SCHEME MEMBER

Dear Mrs Smith

In response to your enquiry I am writing to provide you accrual basis your pension

benefit is vested

The original scheme provides pension benefits on a 1/60th accrual basis. On 1 April 1988 the scheme merged with another scheme providing benefits on a 50ths basis. The pre April 1988 benefit is vested and benefits earned after April 1988 accrue on a 50ths basis. The scheme also allowed employees to participate in an added years AVC facility known as additional units.

You left the pension scheme on 30 October 1992. On 30 April 1992 the pension age for female employees was increased to 65. The scheme rules were amended to ensure that the early retirement pension at age 60 would be no less than the deferred pension at 30 April 1992 increased in line with inflation. This process also applies on early retirement.

Vested service

Date joined scheme:	1 October 1978
	30 October 1992
onal units:	1 November 1989
5):	8 May 2006
:	14 years
Potential service to age 65:	27 years 7 months
Number of additional units:	12.333
Vested service to April 1988:	9.5/60 = 15.833%
Additional units:	12.333/50 = 24.666%
Remaining service to age 60:	13.083/50 = 26.166%
Total	66%
No upl	n 66.666%

‘Barber protection’

2. Retireme

In your case the ‘Barber protection’ figures come out higher. The following breaks down the calculation based on a leaving date of 30 April 1992.

15.833% * 9.006.83		=	1426.05
24	3	=	482.96
24	06.83	=	735.50
			2644.51
			399.00
			2245.51

SERPS offset

GMP

P 264.16

R 5.51 – 264.16 * 1.277 = 2530.18

R

D 41.40 + 471.12 = 3001.30

Revaluation

I hope yo

Yours sincerely

Pensions Administrator

- Good communication is vital for the success or otherwise of auto-enrolment/ NEST

"Should I stay in or come out?"

12

"What investment choice should I make?"

13

"How much can I/should I pay in? Will it be enough to get me the level of pension I need?"

Most Common Types of Complaints

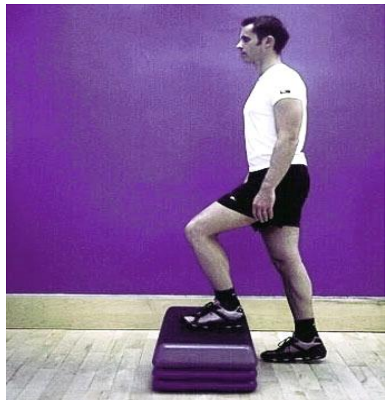
- Delays

- Mistakes

- Ill-health pensions

First Step

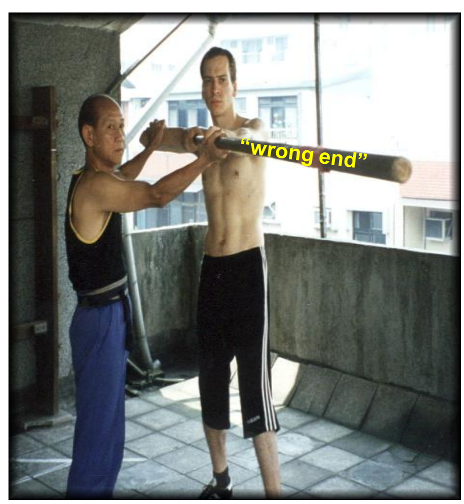
- Consider



whether you have got it wrong or complainant doesn't understand

16

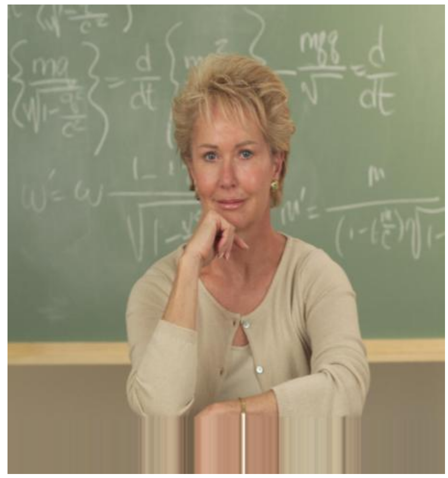
Dispute or Misunderstanding



17

Case study 1 – Elizabeth Rigby

- Scheme A took 4 months to act on request to transfer pension to Scheme B
- Fund value fell by £11,000 in period
- Transfer forms not completed properly
- Scheme A offered distress and inconvenience award of £350
- Is this good enough?



18

Case study 2 – Alan Smith

- Takes early retirement aged 57 NRD 65
- Quoted a pension of £14,000 p.a. plus lump sum of £40,700
- Later told of mistake (3 weeks after finishing work)
- Correct pension £10,400 p.a.
- Case for compensation for financial loss?

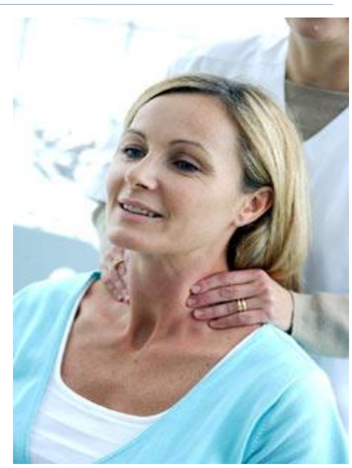
19

Case study 3 – Bill Briggs

- Bill aged 61 agrees to take early retirement – pension £13,000 per year
- Before retirement commenced told of error – pension £10,000 per annum
- Advised early retirement can be cancelled
- Any case for compensation?

Case study 4 – June Andrews

- Miss Andrews asks to take maximum PCLS
- Paid £60,000 on a total pension pot of £200,000
- Money immediately used to clear outstanding mortgage on house
- Later told PCLS overpaid by £10,000 (an unauthorised payment for tax purposes)
- Miss Andrews suggests £10,000 be deducted from balance of her pot
- Is that the answer?



Case study 5 – Jane Heslop

- Jane, aged 36 claims to be suffering from ME
- Consultant's report confirms condition
- Claim for ill-health pension rejected by trustees
- Declined to give reasons but believed to be because they did not accept ME as genuine illness
- Does Jane have a justifiable complaint?

Some basic principles to communicate

- Trustees have a fiduciary responsibility to pay the correct benefits in accordance with the Trust Deed and Rules
- Delays and mistakes can only lead to compensation if they have been a direct cause of financial loss
- Compensation should never do more than put the person back in the position they would have been in had the delay or mistake never had occurred
- The member cannot expect compensation if he/she should have realised that the payment or information given was incorrect
- The member has a responsibility to try to mitigate his/her loss

- And finally...

24

- Be Wary of how you handle Overpayment Recovery Demands

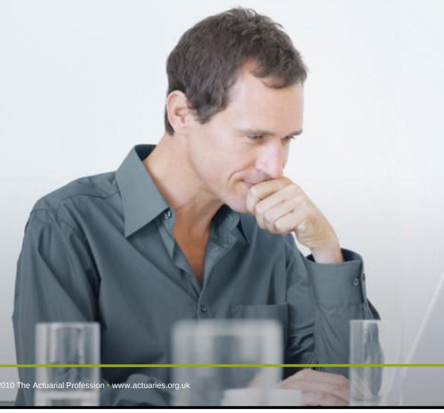
25

- Case A – 75 year old man asked to repay £38,000 for 10 years overpaid pension

- Case B – retired pastor asked to repay £40,000 for 4 years incorrectly paid pension

The Actuarial Profession
making financial sense of the future

Communicating with members in a DC world
Malcolm McLean – Consultant, Barnett Waddingham LLP



That's all, folks