Communicating the pensions message

WHSmith pensions manager, Stephen Tiley, shares his tips for maximising the effectiveness of member communication

I have worked in pensions for most of my career, and much of that time has been spent at the 'coal face' – managing and administering pension schemes for employers.

In these roles, part of the job is helping to explain the great deal on offer from membership of an occupational pension scheme or group personal pension (GPP). Too often employers these days don't always have the luxury of an in-house pensions team, and not that many managers are keen to discuss pensions with their staff.

This was recognised some years ago by the Financial Conduct Authority (FCA) issuing a leaflet* explaining what you can do as an employer without contravening the Financial Services Act on giving regulated financial advice.

There is an exemption for employers that don't receive a commercial benefit from the pension arrangements (apart from a happy workforce!) in that you are free to promote membership of GPPs or similar contract-based pension arrangements. Occupational pension trusts are not regulated by the FCA and are treated as company benefits, so they too can be promoted by employers and fall outside the regulations.

Managers need not feel restricted in encouraging membership since they are not giving regulated financial advice as professionals. It goes without saying that it should be generic guidance based on factual information rather than any sort of bespoke recommendation on what investment funds to choose etc, but employers should not shirk from promoting valuable company benefits.

Cost-of-living crisis

Many employees are facing cost-of-living pressures, and unfortunately too often pensions can be seen as a luxury that cannot be afforded in the current climate. Regrettably, some members are opting out of pension schemes. After the success of auto-enrolment, it would be a great shame if this becomes a trend. Inertia can work both ways and it could be almost three years before re-enrolment kicks in – let's hope it's a temporary phenomenon.

Language

Just the word 'pension' or 'annuity' puts many younger colleagues off – one phrase I've 'borrowed' is that 'future spending money' sounds so much more exciting! We love spending money, we just don't like saving that much.

Tactics

Another tactic I've employed is the old spending money routine: Often people will relate to spending money on a holiday – let's say £500 for a two-week holiday. My game plan is to then say how much spending money will you need for a 25-year holiday? How much money do you think you will need to stretch over that long period? Then explain that the best thing they can do is get as much financial help from every employer they work for and get the taxman to help too!

Bear in mind that it's too easy to become 'case hardened' to pensions terminology and slip in some jargon without even noticing it. Just remember to know your audience and then talk to them as if they are 11 years old! That's a good rule of thumb.

Unattainable aspiration

Another tactic I use is to suggest that a target income in retirement (or 'replacement ratio' for pension geeks) seems much more attainable if broken down into how it's arrived at. At first look, it may appear like an unattainable aspiration. By this I mean it is too easy to put people off saving by making it seem an impossible task to save enough to make a meaningful difference, i.e. save enough to buy a decent pension.

Example

For example, Mrs Smith has an income of £22,000 a year and has worked most of her life. She can look forward to a full state pension of roughly £10,000 a year (as at April 2023 rates).

A decent level of pension overall may well be £16,000 a year (let's say) and that is around 73 per cent of her salary at present. I'm ignoring inflation here for ease of communication, but clearly high inflation will soon reduce numbers in real terms so it's worth mentioning that as a note of caution.

So, if we are targeting an additional

£6,000 a year on top of the state pension, let's assume that for a basic pension Mrs Smith will need to have saved around £120,000 (I'm ignoring tax-free cash, but that is of course still an option – at the time of writing anyway!).

If the employer has paid half (for example), then after allowing for investment returns it may well be that Mrs Smith has only needed to contribute around £50,000 gross or £40,000 net, less any NICs savings if paid via salary sacrifice, as many schemes operate under this regime to help their members save more towards their pension.

So asking a colleague to save £40,000 over a number of years is a lot more realistic than trying to aim for what may seem a huge pension pot that just seems unattainable to many modest earners.

The other point worth making is that the earlier you start the better and the eighth Wonder of the World – compound interest/investment returns – can really make a difference. I also explain here that when investments go down in price you get more for your regular contribution – this 'pound cost averaging' effect can improve your risk-adjusted returns. We will also take some investment risk off the table automatically as you approach retirement age if you don't want to choose your own investments. That sounds more accessible than 'Lifestyle Investment Strategy'.

Then you can explain that when they are retired they won't be paying pension contributions, or National Insurance (based on rules at time of writing) – that could be a 17 per cent saving straight away!

They may also have less expenses for things like commuting, lunches at work and associated costs that we take for granted when working but are less likely in retirement. Many will have mortgages paid off by retirement reducing their outgoings substantially, but renters will still have relatively high housing costs.

Low income retired households may receive help through pension credit and housing benefit. Some would say that private pensions or savings will then impact means-tested benefits, but surely it is the responsible thing to do – try and save for our retirement and not be a burden on future taxpayers. If we can save and aspire to be self-sufficient in retirement then surely we should. Retired households will often spend more on heating and so on, so it is not all win-win, but there is that bus pass to look forward to!

Stephen Tiley has been working in pensions for over 35 years and has worked for Thomson Directories, Wincanton, House of Fraser, INVISTA Textiles UK, WS Atkins, Nuffield Health and is currently a trustee and pensions manager for WHSmith.

***https://www.fca.org.uk/publication/archive/fsa-promoting-pensions-employees.pdf**