

Issue 107: Do your DC members know their retirement options?

The Pension Regulator's recent report, a continuation of the initiatives started in 2006, reviews the extent and quality of retirement literature currently offered to DC members. It alerts trustees to the importance (and legal requirement) of ensuring that they are offered access to clear guidance on the use of the open market option (OMO) at retirement.

Of the schemes surveyed, the Regulator finds that while 98% of them alert members to the availability of an OMO, over half have scope to improve the quality of information released when benchmarked against good practice. This trend is echoed in Hewitt's latest DC survey, which identified that the majority of schemes still only provide members with annuity quotes from the host DC provider. Even if members receive guidance on their other options, the single-provider quote often encourages them to take the easy route, and accept what is on offer without investigating further.

The potential pitfalls associated with coordinating DC retirements are well known:

- Trustees need to be sensitive to a member's issues and aspirations associated with retirement, a life-changing event where the choice and shape of future retirement income represents one of the most important financial decisions made.
- Many trustees are wary of releasing information to members that might break the rules that govern annuity purchase, which is an FSA regulated process. Although more schemes now offer access to an annuity broker (paid by the company/trustees), many remain wary of doing so either on the grounds of cost or because of the concern that poor advice might subsequently reflect badly on them and the scheme. This means that all too often, in the absence of well designed retirement guidance, members passively buy an annuity with the host DC provider - in doing so they and the trustees run a significant risk (see below).
- At the point of retirement, funds need to be crystallised and released in a timely and efficient manner, bearing in mind that annuity rates offered on the open market are usually only guaranteed for 10-14 days.

The range of options now offered by different annuity providers is wide ranging. This makes it imperative that members of DC schemes are made aware of the different types of annuity and different providers to encourage them to choose an annuity which will suit their needs. Trustees who do not give members sufficient information to make the right choices run a serious risk of having a complaint and/or a claim for compensation made against them if, at a future date, members discover that they could have bought a larger pension, or one more suited to their needs, had they been given the right guidance.

Using real-time data from the Hewitt Annuity Online * system, the table below highlights the current percentage difference between the best and the worst standard rates available in the market, based on the following assumptions:

- Purchase price £50,000
- Nil escalation
- No guarantee period
- 50% spouse's pension

	First Life 55	First Life 60	First Life 65	First Life 70
Male	16.92%	17.17%	17.80%	18.39%
Female	17.68%	17.33%	18.16%	18.55%

(* source: Hewitt Associates Financial Services Limited as at 29/10/09)

The compound annualised effect of this income differential is significant - and these rates take no account of potential further enhancements that may be available due to medical conditions (e.g. a smoker with high blood pressure and cholesterol levels).

Using real time data from the whole of the market, our system helps both trustees and members through the annuity process in the approach to retirement in a cost effective, compliant and efficient manner. Embedded in the system is the **Online Annuity Assistant** which helps members to understand what impact a particular annuity shape will have on their retirement income, before the formal annuity purchase takes place. The extract below shows how different assumptions about escalation, additional guarantees and a spouse's pension can be assessed.

In this way trustees can be satisfied that they have provided robust and compliant information and guidance (without offending FSA rules) to allow members to take a clear view of the options available.

Comparator | Non-Protected Rights fund

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Details taken from original report (October 27, 2009)

Total Fund Value	Total PCLS Deducted	NPR Fund for Annuity	Assumed Inflation (RPI/LPI)	Your Date of Birth	Your Spouse's Date of Birth	Do You Smoke?
£80,000.00	£20,000.00	£60,000.00	2.50%	11-11-1949	27-10-1952	Yes

Annual escalation

0 3% LPI RPI 5%

[Find out more >](#)

Payment guarantee (yrs)

0 5 10

[Find out more >](#)

Spouse's pension (%)

0 50 67 100

[Find out more >](#)

Best Rate [Exploring escalation >](#)
£4,303.61 p.a.
[Find out more >](#) [Select and proceed](#)

Income Projections	Annual	Cumulative
10 years	£4,304	£49,036
20 years	£4,304	£86,072
30 years	£4,304	£129,108

Annual escalation

0 3% LPI RPI 5%

[Find out more >](#)

Payment guarantee (yrs)

0 5 10

[Find out more >](#)

Spouse's pension (%)

0 50 67 100

[Find out more >](#)

Best Rate [Exploring escalation >](#)
£3,066.36 p.a.
[Find out more >](#) [Select and proceed](#)

Income projections	Annual	Cumulative
10 years	£4,001	£35,152
20 years	£5,377	£82,394
30 years	£7,226	£145,884

Annual escalation

0 3% LPI RPI 5%

[Find out more >](#)

Payment guarantee (yrs)

0 5 10

[Find out more >](#)

Spouse's pension (%)

0 50 67 100

[Find out more >](#)

Best Rate [Exploring escalation >](#)
£2,572.47 p.a.
[Find out more >](#) [Select and proceed](#)

Income Projections	Annual	Cumulative
10 years	£3,356	£29,490
20 years	£4,511	£69,123
30 years	£6,062	£122,386

If you have any questions on this Spotlight or would like a demonstration of the Hewitt Annuity Online System please contact your usual Hewitt contact or [Philip Audaer](mailto:Philip.Audaer@hewitt.com) (+44 (0) 20 7939 4369 (philip.audaer@hewitt.com)).

If you would like to receive these bulletins by e-mail, please contact spotlight.enquiries@hewitt.com

