


Essential guide to

# **communicating with members about pensions flexibilities**



**Information  
for trustees  
and managers**

April 2015

**The Pensions  
Regulator**

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## Who this guide is for

This guide is for trustees, administrators and advisers of occupational pension schemes that provide flexible benefits.

Personal pension scheme providers should refer to the FCA's recent policy statement (PS15/4): [www.fca.org.uk/news/ps15-04-retirement-reforms-and-the-guidance-guarantee](http://www.fca.org.uk/news/ps15-04-retirement-reforms-and-the-guidance-guarantee) on retirement risk warnings when communicating with members about their retirement options, as well as the FCA's existing rules on disclosure of information.

## Introduction

Changes in the law mean that from 6 April 2015 many members of UK pension schemes which offer DC benefits will have increased flexibility over how they take their pension. These changes in the law will affect members who have flexible benefits, which include money purchase or cash balance benefits. These members will have more options for taking retirement income and fewer restrictions on the amount they can withdraw as cash. There will now be four main decumulation options: lifetime annuity (or scheme pension if offered by the scheme), flexi-access drawdown, taking a number of cash sums at different stages and taking the entire pot as cash in one go.

To help people understand their retirement choices, the government has introduced a free and impartial service called Pension Wise. This help will be available to members online, over the phone or face-to-face. Find out more about Pension Wise and the choices that members have at: [www.pensionwise.gov.uk](http://www.pensionwise.gov.uk)

Where occupational pension schemes or funded public sector schemes offer DB benefits, members may ask about transferring to an arrangement that offers flexible benefits. If this applies, you should read our recent publication about DB to DC transfers and conversions, which can be found here: [www.thepensionsregulator.gov.uk/doc-library/db-dc-transfers-conversions.aspx](http://www.thepensionsregulator.gov.uk/doc-library/db-dc-transfers-conversions.aspx)

In this guide, the term 'trustees' should be taken to also mean 'managers' or 'board of managers' in the case of schemes with no trustee, and directors of a corporate trustee (unless the context suggests otherwise).

This guide focuses on the changes to the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (referred to in this guide as 'the disclosure regulations') as set out in the Occupational and Personal Pension Schemes (Disclosure of Information) (Amendment) Regulations 2015.

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Introduction continued...

This guide provides:

- ▶ information on key changes to the disclosure regulations in connection with retirement communications, and
- ▶ good practice suggestions for communicating with members about their retirement choices.

You may want to check with your advisers about how the changes to the disclosure regulations and this guidance impact on your scheme and how existing requirements under the disclosure regulations continue to apply.

In this guide, we use the term 'affected member' to refer to a member who has both a right to flexible benefits and an opportunity to transfer flexible benefits. In addition, the term 'retirement date' should be taken to include 'normal pension age' in circumstances where there is no retirement date.

## Offering the new flexibilities

You can decide which retirement options (ie lifetime annuity/scheme pension, flexi-access drawdown, taking a number of cash sums at different stages or taking the entire pot as cash in one go) to offer to affected members, although you may also need to consult with or get the consent of the scheme employer(s). If you wish to introduce any of the new retirement options or change your existing options you should take professional advice.

Affected members have an opportunity to transfer their flexible benefits to another arrangement to take advantage of the new flexibilities.

You should make clear to affected members (in the circumstances and form required by the disclosure regulations):

- ▶ which retirement options the scheme does and does not offer, and
- ▶ that they can access options not offered by the scheme by transferring to one that does.

## Making members aware of Pension Wise

From 6 April, where the disclosure regulations apply, you must automatically tell affected members about how to access Pension Wise as part of the information you send out at least four months before the member reaches their retirement date (referred to in this guide as the 'retirement wake-up pack').

You must also make an affected member aware of Pension Wise if they are over or within four months of normal minimum pension age (currently 55), or they meet the ill-health condition and, either verbally or in writing:

- ▶ they ask you for information about taking flexible benefits (or inform you they are considering or have made a decision about what to do with such benefits), or
- ▶ you contact them or they contact you about what they may do with their flexible benefits.

This may mean providing the information to a member more than once. However, you do not have to mention Pension Wise if you are simply sending out annual benefit statements (unless doing so would come within the circumstances explained above). There are some circumstances where you do not need to provide some or any of the below information. You should check these circumstances with your advisers.

You may also need to tell other individuals about Pension Wise in some circumstances following the death of a member or beneficiary. You should check these circumstances with your advisers.

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Making members aware of Pensions Wise continued...

To signpost to Pension Wise, you can either use the standard letter developed by Government (available at: [www.pensionwise.gov.uk/signposting/assets.zip](http://www.pensionwise.gov.uk/signposting/assets.zip)), plus a separate statement that the member should consider independent advice, or develop your own statement. If you use your own communication, this must contain:

- ▶ a statement that pensions guidance is available to help members understand the options in relation to what they can do with their flexible benefits
- ▶ a statement that the pensions guidance may be accessed on the internet, by phone, or face-to-face
- ▶ the phone number and website address at which the pensions guidance may be accessed and details of how the member may access the pensions guidance face-to-face
- ▶ a statement that the pensions guidance is free and impartial, and
- ▶ a statement that the member should access the pensions guidance and consider taking independent advice to help them decide which option is most suitable for them.

The pensions guidance referred to in the bullet points above is the service provided by Pension Wise.

Where you contact a member or they contact you about what they may do with their flexible benefits and you need to tell them about Pension Wise:

- ▶ You may need to provide statements that:
  - the member may request further information about the flexible benefits that may be provided to the member, the member's opportunity to transfer those benefits and the options available to the member under the scheme rules, and
  - this information may help the member to decide what to do with the flexible benefits.
- ▶ You can provide the information about Pension Wise (and the additional statements where required) verbally unless requested in writing.
- ▶ There are circumstances where you don't need to provide this information or elements of this information. You should check with your advisers if these circumstances apply.

## Other new requirements for retirement communications

From 6 April, in addition to signposting Pension Wise, there will be new requirements on the information you send out to affected members as they approach retirement.

Where the disclosure regulations apply, at least four months before an affected member reaches their retirement date, you must automatically provide the information set out below in the retirement wake-up pack. The same information must be given where an affected member asks you for information about taking flexible benefits (or informs you they are considering or have made a decision in relation to what to do with flexible benefits) and they are over or within four months of normal minimum pension age (currently 55), or they meet the ill-health condition.

Instead of the existing information about the opportunity to select an annuity, the information given to affected members must include:

1. a statement of the options available to the member under the scheme rules
2. a statement that they have the opportunity to transfer flexible benefits to one or more different pension providers
3. a statement that different pension providers offer different options in relation to what the member can do with the flexible benefits, including the option to select an annuity
4. a statement that different options have different features, different rates of payment, different charges and different tax implications
5. a copy of the Money Advice Service leaflet **Your pension: it's time to choose** (<https://www.moneyadviceservice.org.uk/en/articles/free-printed-guides#pensions-and-retirement>) or a statement that gives materially the same information
6. an estimate of the value (or CETV if relevant) of the affected member's flexible benefits (if the benefits are 'transferrable rights' in accordance with the disclosure regulations), the date that this was calculated, an explanation that this is not guaranteed and information about any guarantees or features, restrictions or conditions that could affect the value, and
7. a statement that there may be tax implications associated with accessing flexible benefits, that income from a pension is taxable and that the rate at which income from a pension is taxable depends on the amount of income that the member receives from their pension and other sources.

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Other new requirements for retirement communications continued...

Additionally, if relevant, affected members must be given:

- ▶ where they have a right to them, an explanation that they have the right to benefits other than flexible benefits and how they can access information about them, and
- ▶ where your scheme is not a money purchase scheme, a statement confirming their normal pension age and that the value of their flexible benefits is likely to be lower if the member accesses the benefits before normal pension age. You only need to provide this statement if the member is below normal pension age and doesn't meet the ill health condition.

Generally, you don't need to send the information above if you've provided the same information to the member within the last twelve months. However, where a member is approaching their retirement date, you still need to provide the information under paragraph 6 above (even if you have provided information within the last twelve months) and provide a statement that the member has been given information about the flexible benefits that may be provided to the member, the member's opportunity to transfer those benefits and the options available under the scheme rules (in addition to signposting to Pension Wise).

You may also want to consider what you communicate to members where the disclosure regulations don't apply – for instance, some of the information set out in the disclosure regulations may be of use to younger members transferring from your scheme.

You can also continue to use the scorpion leaflet in member communications, alongside the new legal requirements: [www.pensionsadvisoryservice.org.uk/publications-files/uploads/members\\_detailed\\_booklet\\_7\\_page.pdf](http://www.pensionsadvisoryservice.org.uk/publications-files/uploads/members_detailed_booklet_7_page.pdf)



## Timings

Where information is required to be provided to affected members as explained above, the relevant timeframes for providing this information are broadly:

- ▶ Where an affected member is approaching their retirement date, at least four months before that date, or if the retirement date is specified less than four months before the date the benefits become payable, within 20 days of the date the retirement date is specified.
- ▶ Where an affected member requests information about their flexible benefits (or informs the trustees they are considering or have made a decision in relation to what to do with flexible benefits), within two months of the member making the request or informing the trustees.
- ▶ Where there is some form of other contact between trustees and affected members about what they can do with flexible benefits, within 20 days of the initial contact.

The bullet points above set out the legal position. We would encourage you to consider communicating earlier than the legal deadlines where this makes sense.

## Retirement options and generic risk warnings

As explained above, where the disclosure regulations apply, you must tell affected members about the retirement options available under the scheme. We'd also encourage you to provide generic risk warnings in respect of the four main retirement options available to members – whether or not you offer these in your scheme. How you communicate this is up to you and should align with your existing retirement communications, but you may find the example generic risk warning wording on pages 11 to 13 helpful when developing your own communications.

We would encourage you to provide these generic risk warnings at the point a member is required to make a final decision to take their retirement benefits in a particular form or to take a transfer to another scheme or provider in order to take their retirement benefits. This should be after the member has been sent their retirement wake-up pack and even if the member has used Pension Wise, as they may have changed their mind following their Pension Wise appointment or the appointment may have been some time ago (see the example good practice process on page 15 for further guidance).

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Retirement options and generic risk warnings continued...

At the same time as sending the generic risk warnings, we recommend that you ask members to sign a declaration statement to confirm whether they have received Pension Wise guidance or regulated advice, and to confirm that they have read the generic risk warnings. This should help members engage with their retirement choices. How you do this is up to you, but you may find the example declaration wording on page 14 helpful.

You should be careful to avoid giving advice to members (as opposed to providing information). If, having been provided with the generic risk warnings, a member asks further questions about their retirement options be prepared to direct them toward Pension Wise for further guidance and/or an FCA-regulated financial adviser for advice specific to their personal circumstances and their selected retirement option.

## Providing information at retirement – example good practice process

The retirement process set out in the Appendix on page 15 is for illustrative purposes only and is not intended to set out comprehensively all the steps which may be involved.

The retirement good practice process	
<b>Step 1</b>	Member of a relevant age contacts trustee about taking benefits from scheme OR it is four months before their retirement date.
<b>Step 2</b>	Trustee/administrator sends out information required under disclosure regulations, including estimate of valuation, details of options offered by scheme, <b>Your pension: it's time to choose</b> leaflet (or equivalent approved/prepared by us) and signposts to Pension Wise. <b>Trustee does NOT send out an application form for any options offered by the scheme at this stage.</b>
<b>Step 3</b>	Member gets Pension Wise guidance and/or financial advice from an FCA-regulated adviser.
<b>Step 4</b>	Member confirms to trustees that they would like to take their benefits or transfer to another scheme to take their benefits.
<b>Step 5</b>	Trustee/administrator sends out generic risk warnings for four main retirement options and application form for any options offered by the scheme and/or transfer form, along with request for any information needed to pay or transfer the benefits (eg bank details/proof of ID/details of receiving scheme). The application form incorporates a request for the member to confirm whether they have received advice/guidance and to confirm they have read the generic risk warnings.
<b>Step 6</b>	Member returns form.
<b>Step 7</b>	Trustee/administrator processes request as per their normal procedure.

## Generic risk warning text

The text set out below gives some examples of generic risk warnings which could be provided to members at the point of decumulation/transfers in relation to retirement, which you may find helpful. These should be adapted as you see fit, to align with your existing retirement documentation and the specific circumstances of your scheme; however any generic risk warnings you give should cover all the main decumulation options, not just those offered by your scheme.

### Example text for communications to members

#### Pensions guidance

You should seek guidance from Pension Wise ([www.pensionwise.gov.uk](http://www.pensionwise.gov.uk)) or from an FCA-regulated financial adviser before you proceed further, if you have not already done so.

#### Pension scams

If you are taking a cash lump sum from your pension to invest somewhere else, or plan to take income drawdown, be aware that scammers may operate in these markets. You can find out more about how to identify scams here: [www.pensionsadvisoryservice.org.uk/publications-files/uploads/members\\_detailed\\_booklet\\_7\\_page.pdf](http://www.pensionsadvisoryservice.org.uk/publications-files/uploads/members_detailed_booklet_7_page.pdf)

#### Example generic risk warning 1

##### Using your pension to buy a guaranteed income for life (annuity)

People who have a medical condition, are in poor health, smoke or are overweight, may be able to get a significantly higher income through taking an 'enhanced annuity'. These people should consider opting into health and lifestyle questions – and it's important to answer these questions honestly.

People considering this option should think about whether to provide an income for a partner or another dependant on death and therefore whether to purchase a single life or joint life annuity. Compare what, if anything, we offer to spouses or dependants against what's offered by another scheme or provider.

'Level' annuities provide a higher income to start with than annuities that increase but the payments will then stay the same for life. This means that the purchasing power of the annuity income will reduce over time, due to inflation.

You don't have to take any annuity or other pension we may offer – and different providers might pay a higher income. So it's important to shop around. Remember that annuity purchases are a lifetime commitment, so there's no rush to make a final decision.

### **Example generic risk warning 2**

#### **Using your pension to provide a flexible retirement income ('flexi-access drawdown')**

As with every investment, there's the risk that the value of a pension pot can go up and down. People considering this option should think about how much they take out every year and how long their money needs to last. If too much money is taken too quickly, the available retirement income could fall drastically or even run out, especially if stock markets fall.

Charges can reduce the money received. Check whether there are any charges or other reductions to a pension pot when a lump sum is withdrawn. Providers and schemes may also make ongoing charges on any undrawn money, so it's important to consider the impact of these charges. And if you plan to take the cash to invest somewhere else, check what the charges are before you cash in your pension.

Different schemes and providers offer different types of flexible retirement income. Check what kind of drawdown is being offered. Some might have products where part of your income is guaranteed but charges and conditions will apply. People considering a flexible retirement income should consider shopping around – an FCA-regulated financial adviser will be able to help with this.

### **Example generic risk warning 3**

#### **Take your pension as cash in stages**

In most cases, 25% of each amount withdrawn is not liable for tax but the rest will be taxed as income. People considering this option should consider their own personal tax circumstances, and the impact of taking a taxable lump sum on the tax they pay – including the possibility that they may have to pay a higher rate of tax than normal depending on the amount withdrawn. As with every investment, there's the risk that the value of a pension pot can go up and down. People considering this option should think about how much they take out every year and how long their money needs to last.

Charges can reduce the money received. Check whether there are any charges or other reductions to the pension pot when a lump sum is withdrawn. Charges will continue to be taken from any money left in the pension pot, so it's important to consider the impact of these charges. And if you plan to take the cash to invest somewhere else, check what the charges are before you cash in your pension.

Taking cash withdrawals may have implications for people with debt or who may be entitled to means-tested benefits. People who are concerned about this aspect can contact Pension Wise, the Citizens Advice Bureau or the Money Advice Service.

#### **Example generic risk warning 4**

##### **Take your whole pot as cash in one go**

On average, people aged 55 today will live to their mid-to-late 80s. It's important not to underestimate your own life expectancy. People considering this option should think about how to use the money to provide an income throughout retirement.

There will be tax implications if an entire pension pot is taken as cash in one go. These will depend on an individual's personal circumstances. In most cases there will be a tax-free amount available (normally 25%). People considering this option should consider their own personal tax circumstances, and the impact of taking a taxable lump sum on the tax they pay – including the possibility that they may have to pay a higher rate of tax than normal. Some providers and schemes may have charges for taking a pension pot as cash, so check this before committing. And if you plan to take the cash to invest somewhere else, check what the charges are before you cash in your pension.

Taking cash withdrawals may have implications for people with debt or who may be entitled to means-tested benefits. People who are concerned about this aspect can contact Pension Wise, the Citizens Advice Bureau or the Money Advice Service.

## Example of the type of declarations you may want to include in your retirement documentation for members to complete

This does not replace the requirement to signpost to Pension Wise. These should be adapted as you see fit, to align with your existing retirement documentation and the specific circumstances of your scheme. We suggest the declarations are included in other documents that members have to return in order to get their benefits paid or transferred (ie the final retirement options form or request for bank account details or proof of ID), to ensure they engage with the declarations.

Retirement options declaration Please tick the relevant box	Yes/No
I confirm that I have/have not received guidance from Pension Wise.	

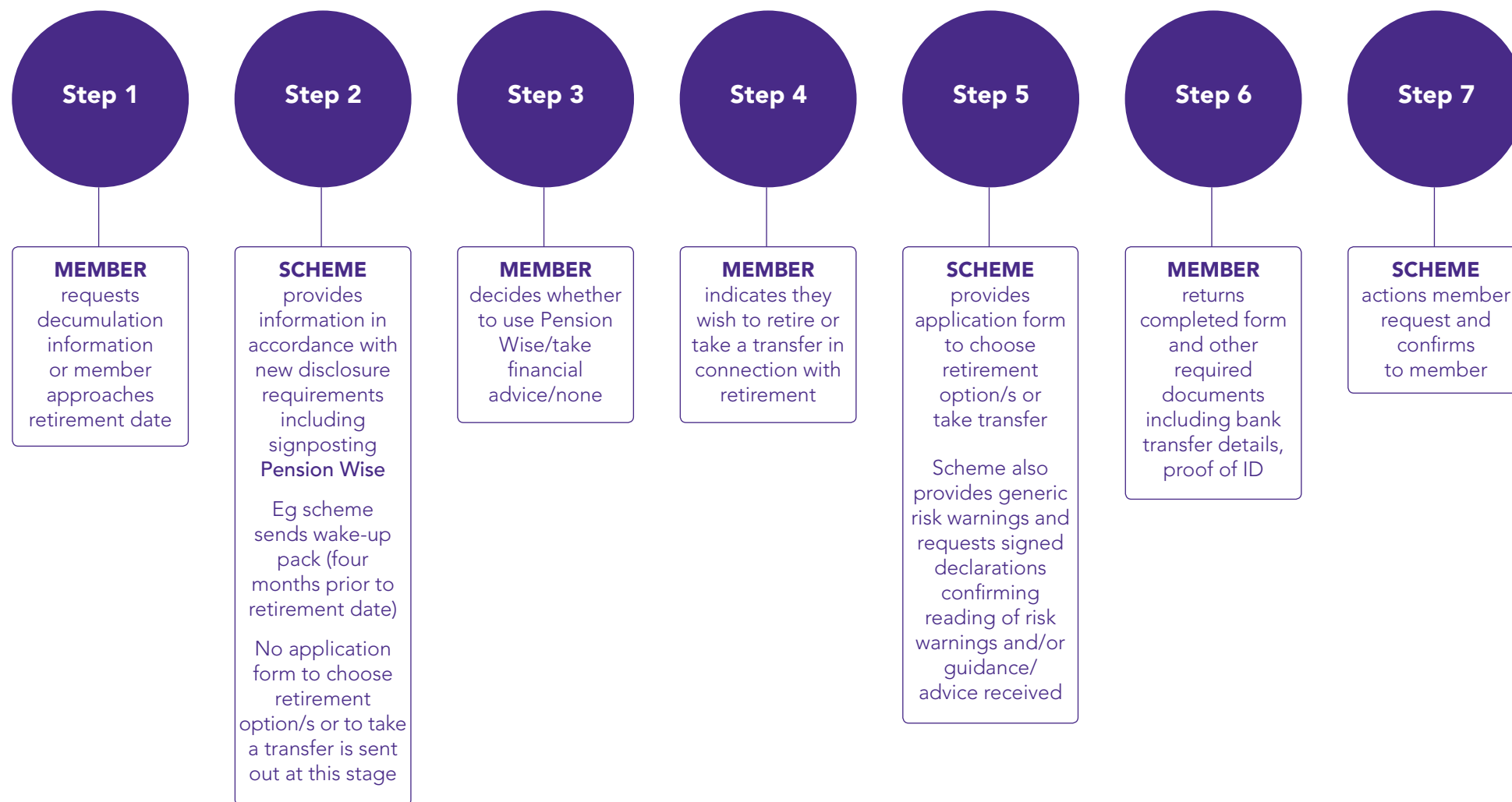
Retirement options declaration Please tick the relevant box	Yes/No
I confirm that I have/have not received advice from an FCA-regulated financial adviser.	

NB: If you have not received Pension Wise guidance or financial advice from an FCA-regulated financial adviser, we strongly suggest that you do this before proceeding.

Retirement options declaration Please tick the relevant box	Yes/No
I confirm that I have read the risk warnings in this document and am happy to proceed with taking my retirement benefits or taking a transfer to another arrangement to access my retirement benefits.	

## Appendix: Retirement communications – good practice process

The retirement process in this Appendix is for illustrative purposes only and is not intended to set out comprehensively all the steps which may be involved.



## How to contact us

Napier House  
Trafalgar Place  
Brighton  
BN1 4DW

T 0845 600 0707

F 0870 241 1144

E [customersupport@thepensionsregulator.gov.uk](mailto:customersupport@thepensionsregulator.gov.uk)

[www.tpr.gov.uk](http://www.tpr.gov.uk)

[www.trusteetoolkit.com](http://www.trusteetoolkit.com)

### **An essential guide to communicating with members about pensions flexibilities**

Information for trustees and managers

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