The European Commission Green Paper "Towards adequate, sustainable and safe European pension systems"

A response by

The National Association of Pension Funds

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NAPF
Securing the future of pensions

EC GREEN PAPER ON PENSIONS
Response by the National Association of Pension Funds

Executive summary

- The NAPF welcomes the Green Paper. Providing strong and sustainable pensions systems is a key part of developing a prosperous European economy and society.

- Pensions policy remains subject to subsidiarity, and this should be the starting point for work flowing from the present Green Paper.

- There are very diverse systems and traditions of pension provision across EU Member States. Designing a single regulatory system would not only be almost impossible, it would also be undesirable.

- The EU should instead focus on areas where it can make a difference. In particular it should address the key challenge in pensions – that 60 per cent of EU citizens do not have any form of workplace-based pensions. In addition, the EU could make a positive contribution by: sharing best practice in strengthening the adequacy and security of pension provision; linking up national-level pensions tracing services; and developing the EU's own research into current and future pensions policy challenges.

- Policy-makers should recognise that workplace pension funds have weathered the financial storm well and have proved to be resilient. Security should not be seen as being synonymous only with solvency.

- The NAPF agrees that the EU can play a role in strengthening the security of members' pension benefits, but this will require an approach quite distinct from the Solvency II solution adopted for insurance companies. Unlike insurance companies, pension schemes meet their liabilities over the long term and in a reasonably predictable way.

- It would be inappropriate to apply a Solvency II-style regime to pension funds in the UK, where members' benefits are already strongly protected by the employer covenant, by the work of the Pension Regulator and by the Pension Protection Fund.

- It is important to recognise that introducing an extra solvency buffer for pension schemes – in addition to existing funding requirements – would inevitably force more employers to reduce or cease providing pension benefits to their employees, resulting in less generous benefits for scheme members. So although a Solvency II-style regime might – in theory at least – strengthen *security*, it would undermine *adequacy* – contrary to the objectives of the Green Paper.

The National Association of Pension Funds

The NAPF is the UK's leading voice for workplace pensions. We represent all types of workplace pension scheme, including defined benefit, defined contribution, group personal pensions and statutory schemes such as those in local government. Between them, our members:

- provide retirement incomes to nearly 15 million people;
- operate almost 1,200 separate pension schemes; and
- have combined assets of nearly €950 billion.

Our membership also includes over 400 providers of essential advice and services to the pensions sector. This includes accounting firms, solicitors, fund managers, consultants and actuaries.

The NAPF is also a founder member of the European Federation for Retirement Provision (EFRP).

Introduction

The NAPF welcomes the publication of the Green Paper *Towards adequate, sustainable and safe European pension systems.* Providing strong and sustainable pensions systems is a key part of developing a prosperous European economy and society. This is a goal shared by the NAPF.

Inevitably, precise structures of pension provision will vary from Member State to Member State, due to Europe's very diverse traditions of pension provision and labour law. It would be almost impossible – and certainly undesirable – to impose a one-size-fits-all regulatory system on this very diverse landscape of pension provision.

Policy-makers should also recognise that pension funds have weathered the financial storm well. For example, the Pension Protection Fund's 7800 Index, which assesses the aggregate funding positions of the UK's DB schemes, has returned from a deficit of €227 billion in March 2009 to a surplus of €16 billion in October 2010. It would be wrong for policy-makers to propose extra layers of regulation or increased funding requirements in the belief that this would be an effective means of strengthening security for pension scheme members.

Furthermore, policy-makers should note that the risks posed to the European economy by any failure of pension funds are quite different from the systematic and far-reaching risks that arise in the case of failure by other financial institutions, such as banks.

The EU should instead focus on issues where it can make a difference. It should start by recognising that pensions policy remains subject to subsidiarity. The Commission should not become involved in issues that are a Member State competence.

EU priorities could include:

- the overall adequacy of pension provision – with action directed towards the 60 per cent of EU citizens who have no workplace pension provision;
- mitigating the risks to members in defined contribution pensions;
- building better links between national-level pensions tracing services;
- strengthening research and understanding of pensions policy challenges across the EU;
- developing its understanding of the ways in which pensions interact with modern lifestyles and employment patterns; and
- helping to develop ideas for new forms of pension provision where risks are shared between employers and employees. This would help to protect members of DC schemes who currently shoulder all the risks themselves.

1. How can the EU support Member States' efforts to strengthen the adequacy of pension systems? Should the EU seek to define better what an adequate retirement income may entail?

Adequacy is a crucial element in the pensions debate. Against the backdrop of an ageing society, encouraging more people to save more for their retirement should be a key priority for policy-makers at all levels.

However, we believe it would be impossible for the EU to define what an adequate level of retirement income should be, not least because of the very different levels of income required to achieve the same 'quality of life' across Member States. To give just one very practical example, the warmer climate in southern Europe means that pensioners in those countries spend less on domestic fuel bills. So attempting to identify a 'standard' or 'target' figure for retirement income would be neither possible nor desirable.

The EU should instead encourage Member States to find their own solutions to pensions adequacy – a topic explored in a little more detail In our answer to question 10 below.

2. Is the existing pension framework at the EU level sufficient to ensure sustainable public finances?

We share the Commission's concern that the financial and economic crisis has made it harder for all pension systems to deliver their promises. Yet, the crisis illustrates – once more - that a diversified pension system is the best way to protect citizens.

On the one hand, full reliance on a 'pay as you go' system can, in times of crisis, lead to lower growth prospects, less income for government and greater pressure on PAYG systems.

On the other hand, full reliance on a funded system can, in times of crisis and falling financial markets, lead to a severe deterioration in funding levels.

This is why the NAPF takes the view is that a strong pension framework should be built on a foundation of state pension provision plus high-quality occupational pensions. This is the approach we set out in our *Fit for the Future* policy paper.[1]

Furthermore, a vibrant workplace pensions sector can play a crucial role in helping to ease pressures on public spending by reducing reliance on social security benefits.

3. **How can higher effective retirement ages best be achieved and how could increases in pensionable ages contribute? Should automatic adjustment mechanisms related to demographic changes be introduced in pension systems in order to balance the time spent in work and in retirement? What role could the EU level play in this regard?**

While upwards pressure on retirement ages is common to all Member States, many of the other parameters in this debate are not. For example, every Member State will have its own – often very different – arrangements for retirement age and state pension age. Life expectancy varies significantly across the EU. Some schemes choose to retain their pension age but apply a longevity adjustment factor at retirement.

Changes to retirement age should not be seen solely as a matter for pensions policy. Raising pension ages alone will not be effective unless it accompanied by reforms that help people to remain economically active. This will require other policy areas to contribute, such as healthcare systems, further education and retraining. It will be important to remove tax and employment law barriers to working longer.

There may be a case for establishing automatic linkages between life expectancy and pension ages, but, given the wide variation in life expectancy across Europe, the best approach is to allow Member States to decide for themselves whether (and, if so, how) to put such systems in place. We do not believe this is a matter to be addressed by the EU.

4. **How can the implementation of the Europe 2020 strategy be used to promote longer employment, its benefits to business and to address age discrimination in the labour market?**

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[1] NAPF, March 2010, http://www.napf.co.uk/PolicyandResearch/DocumentLibrary/0123_Fit_for_the_future_NAPFs_Vision_for_Pension_0310.aspx

If the EU2020 strategy is successful, more people will be in work and European economic growth will benefit as a result.

Furthermore, higher employment rates should improve the sustainability of state pension systems as more people at work will create extra income and growth. It should also assist in closing the gender pay gap which will be instrumental in helping to close the gender pension gap.

We support the proposal of the European Federation for Retirement Provision that the EU2020 strategy should include a public education campaign to improve the image of older workers and people taking career breaks for periods of care.

5. In which way should the IORP Directive be amended to improve the conditions for cross-border activity?

The Green Paper itself does not provide any evidence that workplace pensions in general, or the IORP Directive specifically, constitutes such a barrier.

However, the NAPF would draw policy-makers' attention to some aspects of the IORP Directive that, in our view, could usefully be reformed in order to promote cross-border activity.

These include Article 16(3), requiring cross-border IORPs to be fully funded at all times, and Article 18 (5), which permits national supervisors to impose more stringent requirements on schemes that operate across borders.

The EU could also pursue a series of non-legislative actions that could promote cross-border movement of labour. For example, people would gain more confidence in working across Europe if they felt that they could easily access any pension entitlements they might build up in the process. Better links between national pension-tracing services could help in this regard. For those Member States without such services, the EU could help by sharing best practice and advice on how to put pensions-tracing systems in place.

6. What should be the scope of schemes covered by EU level action on removing obstacles for mobility?

The NAPF would suggest that the Commission develops a matrix mapping out the different pension schemes in Europe.

Such a matrix would make it easy to identify the schemes between which transfers would be possible. This approach could provide legal consistency and clarity for citizens and scheme sponsors.

7. **Should the EU look again at the issue of transfers or would minimum standards on acquisition and preservation, plus an EU level tracking service for all types of pension rights, be a better solution?**

The NAPF would not support EU action on cross-border pension issues. Only 1.2 per cent of the EU population works abroad. There is no evidence that pensions are seen by workers as a major barrier to transferring across borders, so action in this area does not result in a material strengthening of the Internal Market.

Indeed, we note that even thorough reviews of the strengths and weaknesses of the Internal Market, such as Professor Monti's report *A New Strategy for the Single Market* (May 2010), provide no research or other evidence to justify further EU action in this area.

In principle, there should be a legal right to retain acquired occupational pensions when moving from one job to the next, but the NAPF believes it should be for Member States to decide how this is best achieved for those rights acquired in that state. Transferability is often quoted as the solution to this problem, however we believe acquiring the rights and having them adequately preserved is a much more fundamental issue that needs to be addressed by those Members States that do not do so at present.

We would also caution against requiring the transfer of supplementary occupational pension 'rights', rather than capital. The Commission will recall that its proposal of 2005 failed due to the technical complexities of the transfer of rights approach. Moreover, the proposal interfered with Member States' social and labour laws, since those pension rights calculations are seen by Member States as belonging to the social and labour law applicable to occupational pensions.

We see no case for the EU to establish its own pensions tracing service, as this would involve costly new systems and would duplicate facilities that are already provided at Member State level in many EU nations. The UK's Pension Tracing Service is an effective and successful example, conducting 64,852 successful pension traces in 2007-8. The EU should instead focus on encouraging those Member States without such a service to develop them; the EU could usefully facilitate the sharing of best practice.

8. **Does current EU legislation need reviewing to ensure a consistent regulation and supervision of funded (ie, backed by a fund of assets) pension schemes and products? If so, which elements?**

This is an area in which policy-makers must keep sight of the requirements of subsidiarity. Pensions regulation remains a matter for Member States, not least because the wide diversity of pension systems across the EU would make a single EU-wide approach virtually impossible.

The EC's paper highlights the fact that similar schemes are subject to different regulatory regimes in different Member States. However, tackling this issue

would require so many far-reaching changes (affecting not only pension schemes but also tax and social security systems) as to make it impossible. The complexity and cost would vastly outweigh any benefits.

The NAPF agrees that policy-makers should encourage moves towards risk-sharing in DC schemes, as suggested on p.14 of the Green Paper. The NAPF has proposed the creation of 'Super Trusts' – large multi-employer DC schemes that would provide economies of scale and high-quality governance. These schemes might well have the scale to make some kinds of risk-sharing possible.

The greatest current obstacle to the development of innovative risk-sharing and hybrid schemes is regulation. Too often, rules are designed for an existing model of pension provision and do not 'fit' new models. EU policy-makers must be very careful not to allow new regulations to obstruct innovation.

In fact, the correct policy response to the growth of new types of pension provision should not be to impose extra regulations, but to consider how policy-makers can clear away barriers to innovation.

9. How could European regulation or a code of good practice help Member States achieve a better balance for pension savers and pension providers between risks, security and affordability?

The NAPF disputes the premise behind this question – that the balance between risks, security and affordability is currently out of kilter. No action to alter this balance should be taken unless clear evidence can be provided showing that the current balance is unsatisfactory.

Policy-makers should give careful consideration to the trade-offs between risks, security and affordability. It would be perfectly possible to design a regime that would make pensions more secure, but less generous. We doubt that this is the EC's objective.

One means of ensuring that individual pension schemes get this balance right is to provide high standards of governance. This is why the NAPF places a strong emphasis on trust-based schemes, where members' interest and the long-term health of the scheme are guarded by a board of trustees. If the EU were to decide to develop further regulation or a code of good practice, then good governance should be at the heart of such a policy.

10. What should an equivalent solvency regime for pension funds look like?

The NAPF agrees that the EU can play a role in protecting the security of members' pension benefits, but this will require an approach quite distinct from the Solvency II solution adopted for insurance companies.

The distinctive nature of IORPs

As the Green Paper itself acknowledges, a useful starting point for any consideration of pensions security issues is to recognise the distinctive 'nature and duration of the pension promise'. A study published by the European Federation for Retirement Provision in 2008[2] identified the highly distinctive features that set IORPS apart from insurance companies:

- Unlike insurance companies, pension schemes meet their liabilities over the long term and in a reasonably predictable way.

- IORPs generally have a plan sponsor (usually the employer) to support the pension promise.

- IORPs have a number of built-in flexibilities (for example, the potential to adjust benefits or contributions) that allow them to adjust to changing economic or demographic circumstances.

- Many IORPs target a certain level of pension provision, rather than providing an absolute guarantee of it.

- Many IORPs have a governance structure that ensures strong representation of members' interests.

- IORPS tend to operate on a not-for-profit basis, thereby ensuring that members are not exposed to risks that might arise from activities or decisions pursued in the interests of shareholders.

As this demonstrates, IORPS have distinct *characteristics* and a distinct set of *risks.* It would be wrong to insist that an approach to member protection designed for a different set of risks and products, such as Solvency II, should be applied to IORPs.

Security measures already in place
The existing 'Technical Provisions' requirements of the IORP Directive already require IORPs to hold sufficient assets to enable them to meet their liabilities. In addition to these measures, individual Member States have a range of additional protections in place, and these have been usefully summarised by CEIOPS in the table below.

[2] *IORP Directive – securing workplace pensions*, EFRP, May 2008

Overview of security mechanisms

Security mechanisms	AT	BE	DE	DK	ES	FI	FR	GR	IE	IT	LI	LU	MT	NL	NO	PT	SE	UK	Total
Regulatory Own Funds	Y	Y	Y	Y	Y		Y						Y	Y	Y		Y		10
Subordinated loans			Y	Y			Y							Y	Y		Y		6
Sponsor support – Unlimited	Y				Y	Y						Y CAA	Y					Y	6
Sponsor support – Limited		Y		Y							Y	Y CSSF				Y	Y		6
Sponsor support – Not automatic			Y				Y	Y	Y	Y				Y	Y				7
Guarantee fund			Y				Y											Y	3
Reduction of accrued rights	Y	Y	Y						Y	Y				Y		Y			7
Reduction in future conditional indexation				Y										Y			Y		3
Other security mechanism									Y									Y	2

Source: Survey on fully funded, technical provisions and security mechanisms in the European occupational pensions sector, CEIOPS, March 2008, p.28

No one-size-fits-all model

The challenge of designing a single pan-European set of solvency measures is made particularly difficult by the very different systems of pension provision found across EU Member States.

As CEIOPS has stated:

> *'Funding standards thus need to balance beneficiaries' security and the associated costs. This balance is currently struck at a different security level in each country, mainly reflecting the varying importance attached to second pillar pensions and to pension security more broadly'.*[3]

For example, some Member States, especially the CEEC nations, have much higher levels of state pension provision. Some, such as the UK, have fully developed pension benefit guarantee systems. Others, such as Germany, make extensive use of book reserve systems. There would be major challenges involved in designing a single, EU-wide solvency system that could be successfully applied to these very different situations.

Even among those Member States that have strong traditions of funded workplace pensions, it is easy to see major differences in the way these schemes are run and regulated. There are wide variations in crucial areas such as choice of discount rate, mortality assumptions and inflation protection.

Since a solvency regime would impact almost exclusively on Member States that have extensive funded workplace pensions, it would tend to exacerbate

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[3] *Survey on fully funded, technical provisions and security mechanisms in the European occupational pensions sector*, CEIOPS, March 2008, p.2.

the differences between the pensions systems found across Europe's Member States, thereby making it more difficult to achieve the goal of an effective Single Market.

Strong member protection in the UK
Members of UK pension schemes already have strong protection through:

- the employer covenant (the employer's commitment to pay the members' retirement benefits);

- the work of the Pensions Regulator, which has powers (including approval of recovery plans and the issuance of Contribution Notices) to ensure that employers maintain adequate levels of pension scheme funding;

- the role of the Pension Protection Fund, which compensates members of DB schemes in cases of employer insolvency;

- the Financial Services Authority, which regulates pensions sold directly to individuals, usually on a DC basis.

At EU level, we also have the protection provided by the IORP Directive and the imminent replacement of CEIOPS by the new EIOPA.

So, while recognising that Solvency II is appropriate for the insurance sector, it is not fit for the purposes of pension schemes. This view is shared by the social partners; both the Trades Union Congress and the Confederation of British Industry joined the NAPF, ICAEW and ICAS[4] in signing a joint letter to this effect to the European Commissioners in charge of the Green Paper project:

> *'We would encourage you to recognise that a solvency regime similar to that which is required for some financial services firms is simply not appropriate for pensions schemes that have long-term, predictable liabilities and are backed by a participating employer.*
>
> *The UK already has a very robust system of protection in place for defined benefit pension schemes. Its foundation is the system of a targeted statutory funding level backed by the legal covenant of the sponsor, which has successfully passed a severe 'stress test' during the recent recession. The sponsor covenant is underpinned by the work of the UK's Pensions Regulator, which ensures any funding deficits are removed by sound recovery plans. Finally, we have the sponsor-funded Pension Protection Fund, which provides valuable compensation where sponsors have become insolvent.*
>
> *We see no need to provide an additional layer of protection on top of this structure.'*[5]

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[4] Institute of Chartered Accountants in England and Wales and Institute of Chartered Accountants in Scotland
[5] Letter to Commissioners Barnier, Andor and Rehn, 22nd October 2010

As the table below shows, the UK's combination of strong legislation and robust regulation already meets the requirements of the three Pillars of the Solvency II system. There would, therefore, be no practical benefit to British pension scheme members from extending a Solvency II-style regime to UK pensions. Indeed, it would be likely to be harmful.

Solvency II requirements & existing UK pension scheme regulation					
Pillar I – quantitative		**Pillar II – qualitative**		**Pillar III – disclosure**	
SII requirements of insurers	*Existing UK pensions regulation*	*SII requirements of insurers*	*Existing UK pensions regulation*	*SII requirements of insurers*	*Existing UK pensions regulation*
Minimum capital requirements. Calculation of technical provisions.	Triennial valuations. Recovery plans approved by the Pensions Regulator. Calculation of technical provisions.	Internal governance. Internal risk management – Own Risk and Solvency Assessment (ORSA). Regulator power to impose extra capital requirements if ORSA unsatisfactory	Trustee governance & risk register. The Pensions Regulator's oversight of DB pension schemes. The Pensions Regulator's power to appoint trustees. Pension schemes' internal controls	Transparency. Disclosure. Publication of annual Solvency and Financial Condition Report. Link to IFRS II	Trustees must publish annual report. Disclosure regulations require annual statements to DC members. Accounting standards - IAS 19 and FRS 17.

Impact of an extra solvency buffer

Introducing an extra solvency buffer for pension schemes – in addition to existing funding requirements – would make the provision of defined benefit pensions more expensive. Indeed research conducted by the actuarial consultants Punter Southall in 2007 estimated that technical provisions for a 'typical' scheme could increase by around 90 per cent in the UK and the Republic of Ireland under a new solvency regime, clearly warranting a major increase in funding. In the Netherlands, an increase in funding of 20 to 30 per cent would be likely.[6]

The inevitable consequence of making DB more expensive is that more employers would choose to reduce the benefits under their DB scheme or close them and move to DC provision.

Some schemes would actually find that more demanding solvency requirements would hasten the sponsoring employer towards insolvency, with the scheme passing into a pension benefit guarantee system.

[6] *Solvency Funding in Pension Schemes*, Punter Southall, January 2008, p.22 and p.31.

So there is a risk that, while a solvency regime might – in theory at least – strengthen *security*, it could undermine *adequacy* – contrary to the objectives of the Green Paper.

Policy-makers should also take account of the potential impact on the macro-economy. A Solvency II-type regime would incentivise pension schemes to take further steps to derisk by shifting investment from equities to bonds.

This would reduce the funding available for business development and innovation, thereby undermining the prospects for economic growth and running counter to the objectives of wider EU macroeconomic policy.

Furthermore, since a solvency regime could demand a higher level of funding (and almost certainly an equal one) than would be required for transferring the pension scheme to the insurance market through a "buyout", it seems likely that there would be some increase in the number of schemes proceeding to buyout. This in turn would accelerate the shift away from investment in equities and towards investment in bonds, exerting downwards pressure on bond yields and, therefore, further increasing the value placed on pension schemes' liabilities.

Impact assessment
Any equivalent solvency regime would first need to be subject to a rigorous impact assessment – as set out in the Green Paper. This should not just assess the direct costs, such as higher contributions from the sponsoring employer; it should also assess indirect effects, such as the impact of higher funding requirements on the employer's willingness to keep the scheme open to future accrual.

11. Should the protection provided by EU legislation in the case of the insolvency of pension sponsoring employers be enhanced and, if so, how?

As the Director-General of DG Internal Market, Jonathan Faull, noted in his comments at the EC conference on the Green Paper on 29th October 2010, there is a need to recognise that no pension system can ever be entirely risk-free, as this would make pensions unaffordable.

The key risks in pension schemes include inflation risk, investment risk, longevity risk and employer insolvency risk. Each kind of pension provision will distribute these risks differently between employer and employee.

In the case of the specific issue raised by the question – insolvency of the employer, in the UK scheme members already have the support of the Pension Protection Fund and we see no case for replicating or adding to this with further systems at EU level.

However, the NAPF's view is that there is room to strengthen the UK's arrangements in this area and we have argued repeatedly that the UK Government should acknowledge that it is the PPF's guarantor of last resort.

There is, however, scope for strengthening the protection for DC members, particularly through better governance, and this is why the NAPF has repeatedly made the case for Super Trusts – large trust-based multi-employer DC schemes where members would have their interests protected by a board of trustees. Such Super Trusts could operate on a European wide basis under the existing IORP directive, if given suitable encouragement at an EU level.

The EU might also be able to make a useful contribution to the emerging debate about new forms of pensions, at both the DB and DC ends of the spectrum, that share risks between employers and employees.

12. Is there a case for modernising the current minimum information disclosure requirements for pension products (eg, in terms of comparability, standardisation and clarity)?

The NAPF agrees that communicating information about pensions in a clear and comprehensible manner is crucial if we are to encourage people to save for their retirement. This is why the NAPF's Pensions Quality Mark, which is awarded to high-quality DC schemes, places a heavy emphasis on assessing the quality of scheme communications. The communications standards required for the Pensions Quality mark are appended to this submission.

The standard of pensions communications has improved markedly in recent years, but there is still scope for further progress. With the Pensions Quality Mark we are aiming to drive up standards of DC provision by using 'carrots' rather than 'sticks'. Imposing extra regulation is likely to generate extra costs that would then be recovered from members through higher contributions or lower benefits.

As our Pensions Quality Mark demonstrates, we accept that there is room to raise standards of communication. But the emphasis should be on principles of good practice, rather than on new regulations.

13. Should the EU develop a common approach for default options about participation and investment choice?

This should not be an area for EU action beyond the sharing of best practice through the Open Method of Co-ordination.

Some Member States do not provide default funds at all and it would be wrong for the EU to intervene to force a fundamental change in the way some Member States provide pensions.

14. Should the policy co-ordination framework at EU level be strengthened? If so, which elements need strengthening in order to improve the design and implementation of pension policy through an integrated approach? Would the creation of a platform for monitoring all aspects of pension policy in an integrated manner be part of the way forward?

The NAPF agrees that the EU can play a useful role in co-ordinating research into pensions and developing common standards for pensions statistics. Understanding trends in pension provision is crucial if we are to develop policies that meet current and future challenges.

The Commission could also usefully strengthen co-ordination of the work programmes of the Economic Policy Committee and Social Policy Committee.

The new EIOPA is about to start work, with a remit that includes setting common standards for reporting to national authorities. The NAPF would suggest that EIOPA should focus on making a successful start to its work before expansion of its remit is considered.

Conclusion

The NAPF welcomes the EC's initiative in seeking to strengthen the adequacy, security and safety of European pensions systems. As this response has explained, many issues remain best addressed at Member State level, although there is scope for the EU to use its position to promote higher standards and to identify areas for action.

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Annex 1
The Pensions Quality Mark Communications Standards

The communication standard sets out the way in which schemes must communicate with their members in order to meet the standard.
To meet the standard schemes must:

- provide employees with initial, on-going and at retirement communications that are clear and engaging so as to enable members
to take decisions about their pension and retirement (C1);

- meet ALL the three standards on initial (C2), ongoing (C3), and at retirement communications (C4); and

- ensure that all written communications also pass a standard on the quality of written communications (C5).

Standard C1: Headline Communications Standard - clear and engaging communications

Employees must be provided with initial, ongoing and at retirement communications that are clear and engaging, and provide the information necessary for members to take decisions about their pension and retirement.

Standard C2: Initial communications

All new employees who are eligible to join the scheme must be provided with helpful and engaging information at the induction/joining stage.

This information must meet BOTH the following requirements:

C2(i) it must explain the benefits of the scheme and how the employee can join; and

C2(ii) where there is flexibility over contributions, it must explain how employees can opt for contributions that meet or exceed the level required by the PQM standard or, where relevant, the PQM Plus standard (A1).

Standard C3: Ongoing communications

The employer or scheme must ensure that ongoing communications are provided to scheme members to maintain their engagement and help them consider any action relating to retirement saving that they might need to take.

The ongoing communications must meet at least one of the following requirements:

C3(i) face-to-face or telephone communications to scheme members, for example through group seminars, one-to-one meetings or a telephone helpline; or

C3(ii) tailored individual information is provided to scheme members, for example by providing online access to the individuals pension account or to a pension calculator; or

C3(iii) generic information for scheme members, for instance through newsletter or written update or through a regularly updated internet or intranet site.

Standard C4: At retirement communications

The employer or scheme must demonstrate that scheme members approaching retirement age receive information and support to help them think about their options, including the Open Market Option.

Standard C5: Quality of written communications

All written communications that are provided to demonstrate the scheme meets standards C2, C3 and C4 must be clear and engaging. Box 2 lists good practice suggestions for making written communications clear and engaging. The written communications provided must demonstrate some of these good practice points.

Box 2: Good practice suggestions for making written communications clear and engaging

- The communication should avoid jargon or technical language that will not be understood by the average employee.

- Documents should be short (1-2 sides), or have the most important key messages highlighted in a short summary section or covering letter.

- Choices must be set out in a clear and simple format that allows employees to compare options and make decisions.

- Communications should encourage scheme members to make decisions and take action where appropriate, such as by reviewing

their contribution level or fund choice, or considering their options on retirement.

- Bullet points, pictures, charts or diagrams should be used where appropriate to make the information easier to visualise and understand.