

How employers can get a better deal on Defined Contribution pensions

(For Professional Adviser Use Only)



The current economic climate is having a large and far reaching impact on Defined Contribution (DC) pension schemes. Articles are appearing on a regular basis and, for good reason, many are focused on the plight of the scheme member. However, it is also important to look from the perspective of the employer and ask how they can achieve better value from the scheme they provide for their employees.

Employee pension schemes often represent a huge investment and any comparable expenditure would be under constant review from Financial Directors. However, for some reason, this level of scrutiny does not always apply to Employee Benefits.

Towry Law advises all types of companies, but particularly SMEs who run DC schemes, and suggests they ask themselves the following questions:

- Is the advice we receive on our DC scheme impartial and fee-based consultancy, rather than commission-based product selling?
- Do we and our employees have full transparency of charges?
- Have we provided our employees with suitable investment options, especially with regard to default funds?
- Is there an effective communication programme in place for employees about our DC pension arrangements?

When looking at the first of these questions, it is important to understand the relationship between employers and commission-based corporate advisers. These advisers rely on selling products in order to earn commissions. As the number of new scheme joiners dries up, because new employees are not being taken on, advisers initial commissions will reduce or stop. Coupled with this is the likelihood of claw back of their initial commission as the number of scheme members reduces due to leavers/retirements/redundancies.

It is wrong that an adviser's remuneration is reliant upon staff turnover, as after all it is generally accepted that a pension scheme should be used to reward staff over the long term. As the commission-based adviser sees their income reduce, this is likely to lead to a significant drop in the support they provide to employers. After all, where is the incentive for the adviser to provide additional ongoing support if they are not getting paid for it?

To ensure they are receiving impartial and ongoing advice and support, employers should only use the services of fee-based corporate advisers. A fee based approach provides both clarity and transparency for the employer.

It is also important that employers work closely with their corporate advisers to communicate the benefits of the scheme provided, especially where scheme members are feeling disillusioned as a result of volatile investment returns. Ultimately the employer is responsible for selection of the DC provider and the default fund used. It should be remembered that the vast majority of employees do not have the inclination or background knowledge to make informed decisions regarding fund choice so will opt for the default fund. A poor decision here can have significant negative implications.

Unfortunately most default funds have very limited asset diversification, leading to much greater volatility, and ultimately disappointment for the scheme member. Employees are unlikely to value their pension scheme benefits if they are concerned about investment falls and do not believe the scheme will provide meaningful benefits for them in retirement.

The most appropriate default funds will invest in assets that are likely to perform well over the longer-term, such as equities, and combine these with others to negate the effects of stock market volatility, such as fixed interest, commercial property and other investments. A multi-asset approach will lead to the scheme members having greater confidence in their pension and therefore the employer obtaining better value from their DC spend.

However, offering the best DC scheme in the world is of little benefit if your employees do not realise that. This is why effective and ongoing employee engagement is essential. Employers should encourage their employees to gain additional knowledge of the scheme and then provide the platform to do this through workshops, presentations and one-to-one surgeries.

Many employers fall into the trap of thinking that Information Technology (IT) is the answer to this, but it is only part of the solution. This is a view that can be endorsed by some corporate advisers who earn a set amount from commissions and may be reluctant to take on additional tasks for which they will not be paid extra. There is no doubt that IT helps but it must be seen as part of the process and not a replacement for good old fashioned face-to-face communication.

By addressing the impartiality of the corporate advice they receive, transparency of charges, investment options and employee engagement and understanding, employers can ensure they are receiving the best value for their DC spend.



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