

What should trustees be doing now there is a legal requirement to give retirement risk warnings to members?

From 6 April 2016, trustees of occupational pension schemes must provide any member who has flexible benefits (broadly speaking, those that are not defined benefits) with a generic risk warning about the various options available to them when making their retirement choices.

Communicating about the new flexibilities

In April last year, the world of pensions was opened up, with individuals with flexible benefits given a wider set of options at retirement.

Numerous disclosure requirements were imposed on trustees, intended to ensure that individuals are provided with sufficient information about the options offered to them. However, these did not go so far as requiring risk warnings to be provided.

To assist trustees with their communications, the Pensions Regulator published guidance on 'Communicating with members about pension flexibilities'. This sets out good practice for occupational schemes, including giving examples of generic risk warnings, but does not constitute a statutory requirement.

Why has the requirement to include retirement risk warnings been introduced?

Concerns had been raised that individuals in occupational pension schemes would not fully understand the consequences of their decisions about their flexible benefits without further warnings to explain the potential implications. This was in contrast to the personal pension arena, in which providers of contract-based schemes have been required to give personalised retirement risk warnings to members since the new flexibilities were introduced.

To attempt to level the playing field in March this year the government confirmed that, following consultation, regulations requiring occupational schemes to provide risk warnings to members would come into force on 6 April 2016.

What are the new requirements?

The generic retirement risk warnings:

- **must** set out the characteristic attributes and features of an annuity, lump sum and drawdown pension (if they are available from the scheme directly)

- **must** set out the factors that may affect the appropriateness of these options for a member, e.g. the impact of health status and lifestyle choices, whether a member has dependants, is in debt or in receipt of means-tested benefits
- **must** be given alongside a statement asking the member to note the importance of reading the warnings and accessing pensions guidance or independent advice.

When should the risk warnings be given?

Retirement risk warnings must be given when a scheme provides a member with the means to apply to access their benefits. For example, at the point a member is provided with application forms in hard copy or electronically, whether this is at the time the member receives their information on retirement options, or subsequently.

Trustees do **not** have to send out the generic risk warnings:

- on a transfer out of the scheme. Instead, the government is working with the regulator to update its 'Scorpion' pension scam literature to include additional information on the possible risks around transfers, or
- if they choose to provide more personalised risk warnings based on additional information they obtain from their members.

New guidance

Guidance on the new statutory requirement for risk warnings has been included in the regulator's guide to communicating and reporting, which was published in draft in April. The guide is to be read alongside the revised DC code, which is due to come into force in July 2016.

Action by trustees

Trustees of occupational pension schemes will need to:

- review their retirement communications
- update the communications as necessary to include the generic risk warnings. ▣



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