

# Getting engaged

Does widespread inertia mean that engagement is likely to fail or is more innovative DC communication solutions required? **Matthew Craig** talks to the experts.

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In a perfect world, every member of a DC pension scheme would actively choose investment funds to suit their risk preferences, increase their contributions steadily and devour all scheme communications. Unfortunately in the real world, only a small proportion of employees are interested in their DC scheme to this extent. As a result, there is a real danger that many members will not understand, participate in or value their DC pension plan. In which case, many DC members may be sleepwalking to an impoverished retirement, if they neglect what could be their principal retirement savings pot.

So finding ways to engage with

members is vital for DC plans, but this does not make it any easier. As SHILLING Communication Strategic Consultant Neil Strong commented: "Speaking to a young audience about something that is 30 to 40 years away and is not on their agenda is a huge challenge". And Mercer Principal Guy Woodward commented: "Many people don't see the point of a pension. As an industry, we need to move on from glorified visions of retirement with couples strolling hand in hand on a beach at sunset to something more realistic."

In 2010, financial services research specialist Spence Johnson produced a report for the NAPF looking at excellent DC pension communications from around the

world. This identified five key themes:

- Simplification of complex ideas;
- Creative ideas and graphics;
- Call to action;
- Segmentation of audiences; and
- Personalisation of messaging.

These themes resonate with DC communication experts such as Strong and Woodward. Strong commented: "I have seen a lot of communications strategies fail because they take a blanket approach and send out one message for every category of member. You have to target the right message to the right people."

Simplicity is also essential if employees are to become engaged. Woodward points out that few, if any, DC members can expect to hit the investment jackpot. State pensions will provide only the bare necessities and peoples' capacity and willingness to save for a pension has been hit by the economic downturn. "The only way to get the message across is by cutting out the clutter. If you are looking to engage people, you have to get their attention," Woodward said. Strong added: "Real-life shock quotes work quite well; 'if you don't do this, this is what will happen'. In the DC world, it is all about getting individuals to take responsibility for their future."

The imminent arrival of the National Employment Savings Trust (NEST), a new, national, low-cost pension framework, illustrates the scale of the communications challenge. NAPF Senior Policy Adviser David McCourt said: "The target audience



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for NEST is loss-averse, as lots of people in it have not saved before in any shape or form. If there is too much volatility of returns in the first two or three years, a lot of people might say why should I bother? This is partly from a failure to understand that investment involves some risk." So NEST's communications will be kept very simple, with plenty of pictorial messages. "There is a lack of a real financial culture in this country and many people don't understand percentages," McCourt commented.

With the growth of social media, there is growing interest in this for DC engagement strategies. "There is a growing division between how employers communicate internally with staff and how people communicate with others outside their employer," Woodward said. He added that it is estimated that 27 million Britons use Facebook and commented: "We can't bury our heads in the sand; we have to embrace changes like this". However, Strong said: "I am yet to be convinced that social networking on Facebook is any better than well thought-

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out paper-based strategies." He added: "A standard pension communications approach will be rejected on what members see as their own platform; we have to be clever when using social networks. Listen to the members and build targeted communication strategies based on the knowledge and insights gained from that."

As well as using carefully crafted communications to overcome member inertia, scheme design can play a part. Some think target date funds will supersede asking members to make investment decisions over where their funds are invested. AllianceBernstein DC investments director, sales and client relations, Tim Banks commented: "If the success of a DC plan depends on a member's active engagement with investment choices, you are setting yourself up to fail. Members will look

to professionals to do that for them." Banks added: "The difficulty here was best summarised by a CEO in the USA who said of their 401(k) plan, 'we've spent hundreds of thousands of dollars educating the same 5% of the workforce on investment issues.'"

So employers need to think carefully about what they want to achieve with DC communications intended to overcome inertia, what can be achieved and how they should communicate with employees. With the decline of private sector defined benefit plans in the UK, DC is now being taken more seriously by employers as it becomes the predominant form of retirement provision, so more innovative approaches are being developed. But the task of engaging DC member attention, to ensure that as many people as possible enjoy good outcomes in retirement will remain a formidable challenge.

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