



Association of British Insurers

Good Practice Guide:

Improving customers' retirement experiences

July 2008

Introduction

The aim of this Good Practice Guide is to support companies in improving the service experienced by customers as they approach retirement.

The guide describes ways in which a company can achieve this aim. It gives examples of ways in which the desired outcomes can be achieved, but recognises that the results depend on the circumstances of each case. The guide is intended to help improve customers' experience when deciding what to do with their pension fund (or funds) and to help companies in meeting their objectives in relation to the FSA's Treating Customers Fairly requirements.

The guide is intended as a practical tool on which companies can draw, depending on their own circumstances. It is not intended to be a rigid process checklist, and there is no assumption that the contents of this guide describe the only valid approach. The guide is intended to stand alone, but cross-refers to other ABI guidance and key regulations as appropriate.

This guide replaces all previous ABI Statements of Best Practice (SoBP) for pensions maturities and transfers and the template letters contained within the SoBP.

Guide Contents

The guide contains the following elements:

1. Approaches to key pre-retirement events

The guidance section of the guide is structured as follows:

- Principles
The outcomes each company should work to achieve.
- Good practice
Some effective ways of achieving the desired outcomes.
- Possible approaches
Examples of different approaches to achieving good practice and meeting customers' expectations. Some but not all of these may be contained in existing FSA guidance.
- Example Key Performance Indicators (KPIs)
Intended to help companies identify suitable ways of measuring whether customers are experiencing the outcomes expected. Practical examples are provided which are not intended to be prescriptive. Wherever possible, the use of relevant and readily available management information to produce robust KPIs is described.

2. Pre-retirement 'wake-up' packs

- Background to the ABI template content.
- Appendix A: Suggested template content.

1. Approaches to key pre-retirement events

Principle	Good practice	Possible Approaches	Example KPI
<p>Supply information for customers which is accurate, consistent, easily understandable and not misleading.</p>	<ul style="list-style-type: none"> Write in language which is clear to the customer. 	<ul style="list-style-type: none"> Communicate using active verbs and personalise (<i>we, you</i>) wherever possible. Cross-refer to the Customer Impact Clear Language and Layout Good Practice Guide. Think about your intended reader, include only information that is appropriate to their circumstances or is required by regulation. Use customer research, previous feedback, complaints and any other feedback to shape the design and content of communications. 	<p>Measure customer satisfaction with:</p> <ul style="list-style-type: none"> communications received during the claims/ payment process. the use of plain English rather than jargon. customer research surveys.
	<ul style="list-style-type: none"> Minimise the use of jargon and abbreviations. 	<ul style="list-style-type: none"> Use clear language. Where use of jargon is unavoidable, explain what it means, possibly using signposting or margin commentary. 	
	<ul style="list-style-type: none"> Set out the information in a logical structure, order and format. 	<ul style="list-style-type: none"> Develop effective internal processes and a consistent style guide. 	
	<ul style="list-style-type: none"> Show key information prominently. 	<ul style="list-style-type: none"> Highlight the value of the benefits payable – usually the most important figure for the customer. Highlight risks of not taking benefits immediately. 	
	<ul style="list-style-type: none"> Customer details and illustrated benefits must be accurate. 	<ul style="list-style-type: none"> Take care to maintain the integrity of your/the relevant customer database and coding of the illustration systems. 	
<p>Make it easy for the customer to take their benefits and get help.</p>	<ul style="list-style-type: none"> Prominently display customer telephone helpline numbers and opening times in communications. 	<ul style="list-style-type: none"> Offer customers a range of contact channels e.g. mail, email and telephone. Show helpline numbers in larger font clearly on the front page of customer communications. 	<ul style="list-style-type: none"> Measure customer satisfaction with the simplicity of the process.
	<ul style="list-style-type: none"> Encourage customers to seek further information or financial advice from an intermediary and explain why it is important. 	<ul style="list-style-type: none"> Clearly signpost in communications that the customer may wish to consider seeking further information or financial advice, for example TPAS. Explain this need not necessarily involve payment by fee, and that a commission payment only option may be available. 	

<p>Draw the customer's attention to product features and terms and conditions that may significantly affect benefits.</p>	<ul style="list-style-type: none"> • In quoting all available options draw the customer's attention in good time to particular options that may be to their advantage. • Explain the risks of each option clearly to the customer. 	<ul style="list-style-type: none"> • Regardless of whether the information is provided to the customer or IFA, draw attention to options, for example: <ul style="list-style-type: none"> – the Open Market Option – any MVR-free period • Annuity options <ul style="list-style-type: none"> – any available guaranteed annuity rate – Joint life/single life – Indexed/escalating/guaranteed – Enhanced/impaired – Other retirement income products 	<p>Measure customer satisfaction with:</p> <ul style="list-style-type: none"> • the simplicity of the process. • the use of plain English rather than jargon.
	<ul style="list-style-type: none"> • Draw the customer's attention to exit charges or penalties which may reduce the benefits. 	<ul style="list-style-type: none"> • Draw the customer's attention to features such as: <ul style="list-style-type: none"> – any MVR on early/deferred retirement for with-profits funds – any product exit charges 	

<p>Help customers make an informed decision.</p>	<p>At four/six months before retirement:</p> <ul style="list-style-type: none"> • Send a 'wake-up' pack to the customer, well in advance of the selected retirement date; to get the customer to select their chosen benefit options. • Use the template content below as the basis of your 'wake-up' pack. 	<ul style="list-style-type: none"> • Aim to issue the 'wake-up' pack four months before the selected retirement date. In the case of Occupational Scheme members send the 'wake-up' pack at least six months before the selected retirement date. • Ask the customer to advise if they do not intend to retire/take benefits on the selected retirement date. • Include a summary timetable of what will happen next. • Include the FSA fact sheet <i>Just the facts about your pension - it's time to choose</i> or a firm's-own version. • Include a summary of the types of options the customer will have to choose from between nearer to retirement. • Advise customers of the benefits of a joint life annuity. • Explain the options/potential benefits of: <ul style="list-style-type: none"> – The Open Market Option. – The benefits of annuities. – Include projected benefits and options available (and how to get alternative quotes). – The availability of different types of annuities such as index-linked annuities, joint-life annuities, enhanced/impaired annuities, and other retirement income products. – Health and lifestyle conditions likely to provide an increased income. – The option to defer taking benefits. – Features such as any MVR on early/deferred retirement for with-profits funds. – The option to take a tax-free lump sum and that this option expires 12 months after the chosen pension date. – The option to defer taking the annuity. – The option, if the total of all pension funds is trivial (explain what this means), to take as a lump sum. – The ability to take an unsecured pension. • Clearly signpost in communications that the customer may wish to consider seeking further information or financial advice, for example TPAS. • Request outstanding information/documentation needed to release benefits. • Take reasonable steps to contact customers who do not respond. Cross-refer to the Customer Impact Managing Unclaimed Policies Good Practice Guide. 	<p>Measure customer satisfaction with:</p> <ul style="list-style-type: none"> • the simplicity of the process. • any communication received during the claims/payment process. • the use of plain English instead of jargon. • the ease of understanding correspondence.
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	<p>At six weeks before retirement:</p> <ul style="list-style-type: none"> • Send a follow-up pack to the customer closer to the actual retirement date, from which the customer can select their chosen benefit options. • Ensure follow-up pack material fits with four/six month 'wake-up' pack. 	<ul style="list-style-type: none"> • Aim to issue the retirement/maturity options pack six weeks before the selected retirement date to allow the customer to make an informed decision and to enable them to act. • Include projected benefits and options available (and how to get alternative quotes). For example: <ul style="list-style-type: none"> – The Open Market Option. Emphasise the timescale for exercising this and encourage early action, if appropriate. – The benefits of annuities. – Include projected benefits and options available (and how to get alternative quotes). – The availability of different types of annuities such as index-linked annuities, joint-life annuities, enhanced/impaired annuities, and other retirement income products. – That health and lifestyle conditions are likely to provide them with the opportunity to increase their income. – The option to defer taking benefits. – Features such as any MVR on early/deferred retirement for with-profits funds. – The option to take a tax-free lump sum and that this option expires 12 months after the chosen pension date. – The option to defer taking the annuity. – The option, if the total of all pension funds is trivial (explain what this means), to take as a lump sum. – The availability to take an unsecured pension. • Ask the customer to make their choice of benefits from the available options. • Ask for any outstanding information/documentation that you need to release the benefits. 	<p>Measure customer satisfaction with:</p> <ul style="list-style-type: none"> • the simplicity of the process. • any communication received during the claims/payment process. • the use of plain English instead of jargon. • the ease of understanding of correspondence.
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<p>Pay out benefits with the minimum of bureaucracy/delay.</p> <p><i>N.B. The timescales assume that the company has all the information it needs to complete the claim and is in direct control of the process.</i></p>	<ul style="list-style-type: none"> Review what documentary evidence is required to support the payment of benefits. 	<ul style="list-style-type: none"> Only ask for documentation that is essential. Set out internal service standards at initial contact. 	<p>Measure customer satisfaction with:</p> <ul style="list-style-type: none"> the simplicity of the process. the speed with which the claim was paid. The number of days taken to pay benefits, from acceptance of the quotation. The number of days taken to pay benefits, from the point of receipt of all documents. The average time taken to pay benefits. The number of Open Market Option enquiries. The number of Open Market Options taken.
	<ul style="list-style-type: none"> Develop a flexible process that recognises that customers don't always have documents available. 	<ul style="list-style-type: none"> Consider whether it is reasonable to expect the customer to have retained all documents. For essential documents establish a mitigation plan to help customers gain the relevant information. 	
	<ul style="list-style-type: none"> Set and maintain service performance targets. 	<ul style="list-style-type: none"> Set and maintain targets, even if only internally. 	
	<ul style="list-style-type: none"> Monitor the meeting of customer expectations. 	<ul style="list-style-type: none"> Use regular customer feedback mechanisms (e.g. the Customer Impact Survey) to monitor progress. 	
	<ul style="list-style-type: none"> Calculate the tax-free lump sum accurately and pay it out promptly. 	<ul style="list-style-type: none"> Aim to pay any tax-free lump sum on the selected retirement date or explain any delay to the customer. 	
	<p>Where the customer purchases a pension from their pension company:</p> <ul style="list-style-type: none"> Accurately set up the chosen pension annuity option and start payments in a reasonable timescale. Issue a confirmation of the selected benefit options promptly after the selected retirement date (including pension tax basis and lifetime allowance/charge details). 	<ul style="list-style-type: none"> Aim to set up annuity and start payments on the selected retirement date or explain any delay to the customer. When relevant, issue confirmation of the benefits paid immediately after the selected retirement date. Consider paying interest if the payment is late. 	
	<ul style="list-style-type: none"> In the event of a pensions annuity being bought from another company: <ul style="list-style-type: none"> pass the remaining pension fund (after any tax-free lump sum) to the new provider promptly. the company receiving Open Market Option funds and supporting information/documentation should issue a quotation and set up / confirm benefits promptly. 	<ul style="list-style-type: none"> Aim to pay out tax-free sum on the selected retirement date and pass the remaining pension fund to the new provider or explain any delay to the customer. Make payment to the product provider and supply all required documentation promptly. Issue quotations for the Open Market Option and set up/confirm benefits in a timely manner following receipt of full requirements. When relevant, issue a confirmation of the benefits paid immediately after the selected retirement date. Pay interest if the payment is late, when the delay has been solely within the company's control. 	

	<ul style="list-style-type: none"> Where the customer opts to transfer funds between companies this should be achieved with the minimum of bureaucracy. 	<ul style="list-style-type: none"> Accept electronic documentation. Minimise the number of separate forms/declarations for the customer to sign (e.g. by accepting combined application and authorisation forms). Ensure that correspondence with third party companies is suitably referenced (client name, policy or scheme number etc). Use electronic payment transfers where both parties can accept this. Where some or all of the transfer payment includes contracted out benefits, the transferring scheme should complete and return the relevant contributions agency form within the required timescales. 	
<p>Keep the customer, or their representative, informed about any delays in the process.</p>	<ul style="list-style-type: none"> Advise the customer, or their representative, if the handling of the claim has been, or will be, delayed (e.g. where a task directly in your company's control is taking longer than a customer should reasonably expect or where the total elapsed time since receipt of instruction by the transferring scheme is becoming excessive). Give the reason for the delay and the next steps to resolve it. Pay compensation/interest on payments that are paid after the due date when the delay has been solely within the company's control. 	<ul style="list-style-type: none"> Use the telephone for ease/speed wherever possible. Encourage staff to ask for telephone numbers and preferred hours of contact. Use the telephone to seek additional information if claim documentation is incomplete. Implement a consistent approach to compensation across the business. Refer to standard FSA guidance for late payments. 	<p>Measure customer satisfaction with the speed with which the payment was made once the claim was settled.</p> <p>The number of days taken to pay claims, from point of receipt of all documents.</p>

2. Guidance on pre-retirement ‘wake-up’ packs

Introduction to the template content

The remainder of this document contains template content for the pre-retirement ‘wake-up’ cover letter sent to customers in firm’s four-month ‘wake-up’ packs. It complements the ABI Good Practice Guide on Handling Customer Claims and has been developed with ABI members, drawing on contributions from key external stakeholders including the Government, FSA and consumer groups.

Objective

This guidance has been produced to help firms improve customer communications and, specifically, to ensure customers receive information on their pension fund and retirement options that is clear, concise and easily understood. The full content consists of several paragraphs, highlighting the Open Market Option and other key issues to consider in choosing a retirement income product. This forms a menu from which firms can select paragraphs as appropriate to their customers.

Use of the template content

Firms should use the template content when drafting ‘wake-up’ packs and deciding the content, tone and style of their own cover letters. Naturally, firms will want to tailor the text to fit their and their customers’ circumstances, so we do not envisage this content will be standardised or reproduced exactly as it appears in this guide, nor will the paragraphs follow in the same order. Firms may also produce different versions of their cover letters for different customers to ensure relevant information is provided.

Customers may ignore or be intimidated by a long cover letter. Firms’ cover letters should therefore be as short as possible to encourage customers to read the information given. Firms do not need to include all of the paragraphs outlined in this guidance and should aim to keep cover letters within three pages.

The cover letter should:

- inform the customer that a better alternative to their own product(s) may be available under the Open Market Option;
- recommend they seek financial advice if unsure of their options; and
- signpost additional sources of information that will help them make an informed decision.

This guidance includes key paragraphs for firms to consider when drafting their own wake-up packs. These cover the crucial issues customers must consider when deciding what to do with their pension fund, including:

- Headline message
- An introduction
- The Open Market Option
- The tax-free lump sum option
- Commutation
- Guaranteed annuity rates (where applicable)
- Types of annuities
- Protected rights (where applicable)
- Taking benefits at a later date
- Market Value Reductions (where applicable)
- The Lifetime Allowance
- Timeline
- Additional sources of information

Prominence of the OMO

Firms may alter the order in which the key issues above are covered, with the exception of the headline message. This should appear prominently at the top of the letter to instruct the reader of the potential benefit of shopping around.

Firms must always include the headline message and paragraph three (Types of annuities). Otherwise firms can consider for themselves which of the template paragraphs should be used. A

firm may omit, for example, the paragraph explaining trivial commutation where the pension fund value is above the trivial commutation limit, or the MVR paragraph where this does not apply.

Where a customer is eligible for a guaranteed annuity rate (GAR), firms should always make this prominent and explain the benefits – and the circumstances in which these may be lost.

Enclosures and signposting

Firms should enclose either the FSA booklet *Just the facts about your retirement – it's time to choose* [www.moneymadeclear.fsa.gov.uk/pdfs/pensions_choose.pdf], or their own version of this booklet in their 'wake-up' packs. The combined effect should be to inform the customer of the key issues within the cover letter itself, then signpost the reader to the additional information available in the enclosed booklet. Firms are encouraged to signpost to the specific booklet page numbers where possible.

Occupational schemes

These are subject to specific rules, set by the DWP, which must be reflected in the timing and content of communications issued by firms. Under the DWP's disclosure of information regulations, trustees of an occupational scheme are required to tell members about the OMO no later than six months before retirement.

Firms must adhere to this timeframe for occupational scheme members, and include a copy of the Pensions Regulator's *Your Retirement Choices* booklet instead of the FSA *Just the facts about your retirement – it's time to choose* booklet. Alternatively, firms should ensure details sent to occupational scheme members comply with the DWP's disclosure requirements. For details of the timeframe for occupational scheme communications go to www.thepensionsregulator.gov.uk/guidance/dcScheme/retirementOptions/process.aspx

Advice and further information

Firms should highlight the various sources of information and advice, including details of IFA Promotions, the Pensions Advisory Service online annuity planner, and the FSA annuity tables. Wake-up packs should encourage customers to seek advice if they are unsure of their options, and should also include firms' own customer services details as appropriate.

Management information relating to pre-retirement packs

Firms should consider what management information they should collect in relation to their wake-up packs. This may include:

- the number of retirement income products bought by internal and external customers – i.e. those who saved with the firm itself, and those transferring funds from another provider.
- the number (and nature) of enquiries and complaints received in relation to communications.
- feedback from customers on their experience, and whether they used the OMO to compare their product with those offered by other firms.
- checks on transfer applications to other providers where a GAR is in place, to confirm the customer understands the implications.

Additional guidance is available in the ABI's '*Management information relating to good customer outcomes*' guide www.customerimpact.org/main/guides/managementinformationcustomeroutcomes.aspx.

Customer testing

Firms should ensure wake-up packs are tested on consumers. This will help ensure key messages are understood, identify where improvements may be required and allow for continual improvement of firms' customer communications. Firms may also wish to submit their wake-up packs for assessment by the Plain English Campaign or similar kite-mark schemes.

The ABI will be working with firms to collect key data on OMO usage and customer views on firms' wake-up packs. This will help improve customer experiences and form part of the industry's broader engagement with the OMO Review.

**Association of British Insurers
July 2008**

[1 - Headline message]

Please read this letter carefully. By shopping around you may improve the income you receive in retirement.

[2 - introduction]

Dear x,

We know you are approaching your selected retirement date and this could mean big changes. Sorting out your pension can be daunting and we want to make it as easy as possible for you.

The pension fund you have built up with us won't automatically pay you an income when you retire. You will need to buy a retirement income product that provides you with that income. And to make the most of the money in your pension fund, you should shop around.

This letter contains important information on how you do this. Please read it and keep it safe. The enclosed booklet has more details on the various products that can provide an income in retirement.

[3] Shopping around – buying an annuity

An annuity is a retirement income product whereby you use some or all of the money in your pension fund to provide you with an annual income in retirement. It is the most popular way in which people ensure they have enough to live on for the rest of their lives. If you have built up several pension funds with separate pension companies, you can usually combine them when buying an annuity.

You do not have to buy an annuity from us. The Open Market Option (OMO) is your right to compare what we can offer you with what other pension companies can provide. If you move to another provider you might get a higher income. This is not always the case, but it is always worth checking before you buy.

Once you know what type of annuity interests you, you can then compare the varying levels of income offered by other pension companies. A financial adviser can help you with this. You can also use the Financial Services Authority's free online annuity tables - www.fsa.gov.uk/tables. See page 8 of the attached booklet for more details.

[4] Types of annuities

There are many different types of annuity, each designed to suit personal circumstances such as your health and lifestyle, and whether you want to provide an income for your family or other dependants.

You don't have to buy a retirement income product now. You can leave your pension fund with us or move it to another pension company. You are required by law to secure a retirement income by age 75, or take an alternatively secured pension. See page 9 of the attached booklet for more on these options.

If you do plan to buy an annuity, you should consider the following questions:

Are you married or do you have a partner? Will they need an income if you die first?

If so, you may want a 'joint-life' or 'guaranteed' annuity. Make sure you discuss this with your spouse or partner.

Do you have a recognised medical condition? Are you a smoker?

If so, you may be able to buy an annuity that pays more because of these factors. They are known as 'enhanced' or 'impaired' annuities.

Do you want your income to increase over time, or adjust to rises in inflation?

If you do, think about an 'escalating', or 'index-linked' annuity. These start with a lower income but increase over time.

Details of these and other types of annuities are explained in the enclosed booklet, pages 6-7. The flow chart on page 15 will give you an idea of the type of annuity that might suit you best. A financial adviser will be able to help you decide.

You should also use the online annuity planner www.pensionsadvisoryservice.org.uk. This free service helps you with the decision-making process for converting your pension fund into an income. Alternatively, you can call the Pensions Advisory Service on 0845 601 2923.

[5] Tax-free lump sum option

You can usually take up to a quarter of your total pension fund as a lump sum. This is tax-free. The rest of your pension fund must then be used to buy an annuity or another form of income, with income taxed as you receive it.

The lump sum must usually be taken at the same time you buy your retirement income product, but this may depend on which product you choose. If you don't do so by your 75th birthday, you will lose your right to the tax-free lump sum.

[6] Options for smaller pension funds – 'commutation' [*Only to be used where this is likely to be an option, i.e. pots less than £16,500*]

If the total value of all your pension savings is less than £16,500 (2008/09), you may be able to take it all as a cash lump sum. If you wish to do this, you have to take all payments from all your pension funds within a 12-month period, between the ages of 60 and 75.

See page 13 of the enclosed booklet for further information. If this interests you, please ask us for further details.

[7] Your Guaranteed Annuity Rate (GAR) [*Where applicable*]

Your pension fund has a Guaranteed Annuity Rate option attached to it. This is a valuable option since it often means you would get a higher income from us than you would from another pension company.

There are some conditions that go with your Guaranteed Annuity Rate option. Details of these conditions will be provided to you shortly.

[8] Contracted-out pension restrictions [*Where applicable*]

If you have used your pension to replace the additional state pension (by ‘contracting out’), there are some restrictions on the type of annuity, and the tax-free lump sum, you can take. Further details are given in the enclosed booklet, page 4.

[9] Other pension options

If you don’t want to secure an income with your pension fund now, there are other options. These include short-term annuities, income withdrawal, investment-linked annuities, phased retirement, and alternatively secured pensions. The enclosed booklet provides details, on page 9.

You should consider taking financial advice if you are planning to delay buying a retirement income product.

[10] What is a Market Value Reduction (MVR)? [*Where applicable*]

If you invested in a ‘with-profits’ pension fund, the profits you receive depend on your policy reaching maturity. Every person who removes money from a with-profits fund before it reaches maturity reduces the overall profit available to other customers also invested in the fund. Consequently, a penalty may apply if you take money out before the policy matures. This penalty is known as a Market Value Reduction (MVR).

We only use an MVR if the with-profit fund has not performed well enough to cover the bonuses and increases we’ve already added to your pension fund.

[Firm to detail circumstances when an MVR is applicable]

[11] The Lifetime Allowance [*To be included where firms are unable to confirm the pension funds are unlikely to be near LTA limit*]

If the total value of **all** your pension funds is more than £1.65 million (2008/09), we have to apply a ‘Lifetime Allowance’ charge set by the Government. We strongly recommend that you take financial advice if your total pension funds exceed or are close to this amount.

[12] Timeline – what happens next? [*Firms may use illustrations to convey their process*]

[x] weeks before your retirement date...

We will write to you [x-x] weeks before your retirement date to give you an estimate of the value of your pension fund. We will include some forms for you to fill in and return to us so that we know which options interest you, or if you wish to transfer your pension fund to a different pension company.

Within [x] weeks of your retirement date...

We will give you final details of the value of your pension fund, but you will need to return the forms mentioned above to confirm what you want to do with your pension fund. If you choose to move to another company, we will send you details of the amount we have passed to them.

[13] Getting help and advice

We recognise that this is a big decision, and we strongly recommend you seek financial advice if you feel you need help. This need not involve a fee – many advisers will offer a commission-only service, with no up-front fee. Details of where to go for impartial advice are given on page 20 of the enclosed booklet.

Alternately contact us at... [*Firm to add contact details for further enquiries*]