

Complaint Handling - a Necessary Evil
Or, The Ongoing Effects of Murphy's Law.

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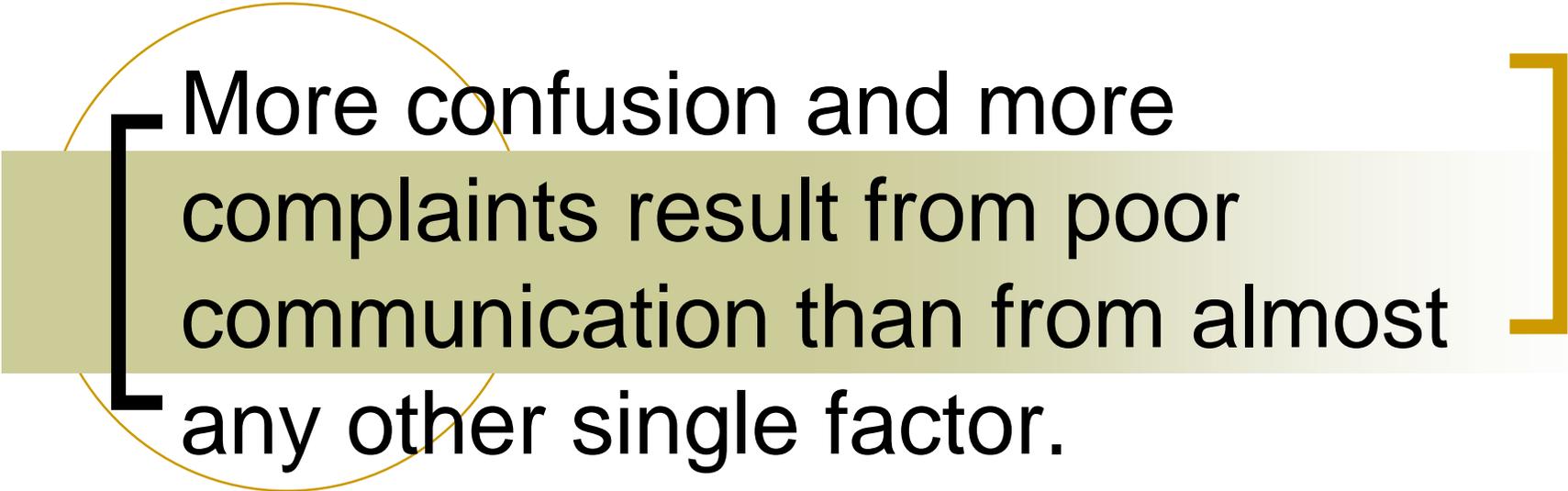
The Pensions Ombudsman

[When a complaint is made....]

- Do you....
 - Lend a sympathetic ear?
 - Attack the complainant?
 - Call in the PI Brigade?
 - Actually look for the facts?
 - Agree that he has a case?
 - Apologise?
 - Refer the complainant to IDR?

[An apology?]

- Remember that sometimes an apology is enough
- Complainants need to feel they are being listened to
- Failure of the scheme /administrator /trustee to reply will escalate the problem
- People who feel they are not taken seriously feel aggrieved
 - And complain to me



More confusion and more complaints result from poor communication than from almost any other single factor.



Perils of Poor communication

(It's the way you tell it.....)

[Compliance with Pensions Act]

- Most trustees and employers are generally compliant, though there are always some problems
- The most common failure is in disclosure of information
 - The requirements are straightforward (if potentially expensive)
 - Meeting them is a problem!

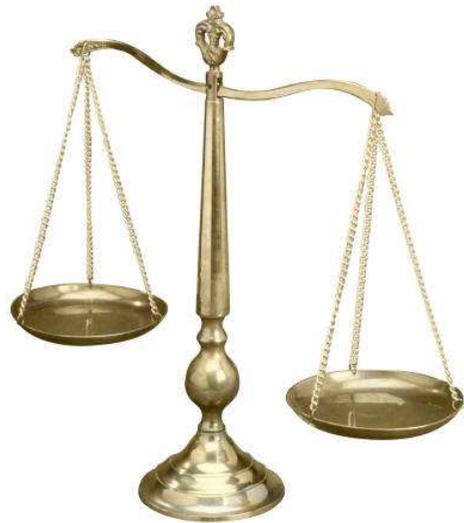
[Disclosure of Information]

- Merely to adhere to the Disclosure Requirements does not represent high quality communication
- Quantity -v- Quality
- Regulation and supervision – small print
- Amount of information required is increasing (e.g., statements of reasonable projection, etc)
 - Legally correct but incomprehensible (boxes all ticked? – we're compliant)
 - What's wrong with English?

[Anything that can go wrong...
....already has.]

■ LEX

MURPHIANA



IN OPERATION

[You told him what???]

- “ Don’t worry, I’ll see you right.....”
- “Options on redundancy include early retirement...”
- “You can retire anytime from age 50 onwards” [consent?]
- “The benefits will increase during payment by 5% compound”

[You....what? continued]

- “Of course you can always have a refund of contributions.....”
- “Transfer to a PRSA? No problem!”
- “This will be kept under regular review”
- “Yes, of course it’s guaranteed”
- “You’ll definitely get tax relief...”

[Perils of Communication]

- “You should keep this booklet in a safe place for future reference.....”
- That’s all they ever do
- The **Golden Rule** of Pension Communication:
Nobody Ever reads the small print, so don’t rely on it

Who's Talking?

- The *perceived identity* [and authority] of the communicator will affect the message received
- Multiple “hats”
 - Which hat is most visible?
 - Quality of the message **received** changes with the hat, e.g.,
 - Chairman of the trustees
 - Member trustee
 - Managing director
 - HR director
 - HR director who is also a trustee
 - to name but a few

[Communicating Options]

- Leaving Service (or communicating with PAO beneficiary)
 - Preserved benefit
 - Transfer to bond
 - Transfer to new scheme
 - Transfer to PRSA

Where does it say that fixed charges, financed by cashing units, may eat away at the preserved benefit? Lots of complaints about this.

The dangers of Cut-and-paste

19 November

Dear Mr Kelly,

I refer to your letter of 24th* instant. I am writing to advise you of your retirement options

Your annual pension is €2876.28, increasing by 3% compound each year.

There is a spouse's pension payable of 67% of your own pension, also increasing at 3%.

Please note that when this annuity ceases on 25/8/07, you are also entitled to a spouse's annuity of €13,846.74

I trust this clarifies the situation [!]

* First danger signal – we forgot to change the date

[Design Flaws]

- Sometimes it's not the administration of the scheme at all, but problems arising from the basic design of the scheme.
- I can do nothing about bad design though there have been some ex-gratia offers to complainants

[Frequent complaints]

- Integration and the way it is applied
 - When pay increase doesn't exceed State Pension increases FPS goes down, but historic contributions on higher rates
 - Contributions based on basic, benefits on pensionable
- Final Pay
 - e.g., three-year average for computing benefits but contributions based on annual pay not averaged
- Contributing for more than 40 years

Some Pitfalls of design – DB examples

- Lack of flexibility – e.g., in death in service or retirement
 - can we divert to non-spouse or same-sex dependant? Not in the public sector –ever
 - Must they have been married before retirement?
 - Have we even thought about separation and divorce?
- Did the actuary assume people would commute benefits?
 - It may not happen now...
- Members contribute for more than 40 years
 - And complain bitterly

Some Pitfalls of design – DC examples

- Same contribution regardless of age at entry
- Employees may bear all expenses
 - regulation now very expensive
- Risk “First Charge” on contributions
 - Depletion of the fund
- Risk of inadequate benefits
 - Results won't be known for years
- Risks of poor communication

[Risk as a First Charge]

- Schemes where risk is a first charge against small DC contributions can be a problem
- Members NEVER understand (and are not told) that increasing risk premiums coupled with inflating salaries will wipe out the contribution in due course
 - And then begin to eat up the accumulated fund
- Can anyone remember an example of this being explained?

[Target benefit - the risks]

- How was the target communicated?
 - Is member still in DB mode?
- Continue the same contribution rate?
 - Won't buy the same benefit, but member thinks it will
- Review or not review?

Some Pitfalls of design – Target Benefit

- Is it clear that the scheme is not a DB scheme (any more)?
- Is it clear that we have changed from DB to “target” – and that “target” means DC?
 - What are expectations now?
 - Do they understand what DC means?
 - Are we clear about reviewing contributions?
 - (Have we kept that promise?)
- In other words, how well have we communicated?

[Complaints!]

- All of these things result in complaints
- How they are handled initially will dictate where and how they finish up
- It's important that the complainant feels s/he is being taken seriously
- Failure to reply is disastrous
- You *really are* better off not hearing it from me.....