

B&CE response: Simpler annual statements: helping members engage

About us

B&CE is the provider of the People's Pension, a not-for-profit master trust which delivers a workplace pension to more than 4.7 million mostly low and medium income savers. The assets of The People's Pension exceed £8bn. B&CE is a not-for-profit provider of straightforward financial products, founded by construction industry employers and trade unions in 1942. We have recently completed the transfer of nearly half a million customers from our legacy contract based DC arrangement to The People's Pension master trust because of the higher governance standards and lower charges of the latter.

Introduction

It is difficult to comment on a proposed reshaping of the annual statement when the pensions sector is on the verge of major changes in disclosure. DWP is right to propose potential improvements in the way that schemes communicate with members. The department has captured the main issues well and the simplified statement shows the required information in a clear manner.

But, the pensions dashboard is likely to change the way that people engage with pensions. Following the announcement that the dashboard project will enable multiple dashboards, it seems likely that dashboards will become prominent features of providers' disclosure strategies and will spur a further move online. Already, in the banking sector, online banking through a browser and banking through an app have largely replaced paper statements as the main way in which people view key information about their bank accounts. 74% of people view their balance through online banking as opposed to 2% through a paper statement.

For these reasons, we feel that interim measures to improve the quality of statements make sense. This should be followed by a full review of disclosure once the dashboard project has made progress. In our response, we advocate voluntary adoption of the simpler annual statement and a revision of the annual benefit statement based on the design principles articulated by DWP. This should bring greater consistency and clarity to annual benefit statements ahead of a full review of disclosure.

We feel that this is the best way to deal with a policy issue that is in transition. The sector is on the cusp of substantial change that we believe will be triggered by the dashboard. This will substantially change how pension schemes engage with members and will further drive engagement strategies online. But there will still be a need for paper based statements. These could be clearer and more engaging. We welcome a discussion on how to achieve that.

Questions

What do we want to achieve?

1. We would welcome your views on this twin ambition:

a. Is it one that you recognise as offering benefits in terms of an individual's understanding of - and better engagement with – their workplace pension saving?

The three questions outlined in the consultation paper capture the main engagement issues well. People need to know how much money they have saved, what this means for their retirement income and what they can do

in order to affect their future retirement income. We note that the third question goes beyond the disclosure requirements but do not disagree with it as an intention.

b. In what ways could consistent workplace pension annual benefit statements offer an opportunity to improve engagement with and understanding of pension provision?

Our experience and research suggests that the ability to improve understanding and engagement through the statement is slight. Research shows that people tend not to remember receiving an annual statement (34% of AE savers do) and those who do, tend not to take any action as a result of receiving their statement. It is an open question to what extent these low figures represent an intrinsic problem with annual statements. But we note also that engagement with pensions is low across the board and not just in relation to the annual benefit statement.

We note that 2% of UK adults use their bank statement (whether delivered online or by post) to check their balance, as opposed to 42% who use a mobile app and 74% who use online banking through a browser¹. While this is an imperfect proxy as people will have more of a need to check their balance from day to day with their current account than with their pension, the preference for online channels is clear. Once people have the online channel, they do not need the statement in the same way.

2. We would welcome

a. views on how annual statements are positioned within your broader member engagement strategy?

TPP has a clear and factual annual benefit statement. The statement covers broadly the same information as the template statement in the consultation document. If TPP has an email address for a member then they receive an annual statement in their online account. If their employer has not supplied an email address then they will receive paper communications with the option to continue opted in to paper communications.

TPP believes in well-designed, clear communications and we aim for clarity and accessibility in our communications with members. We believe we have a communications package that is suitable for our membership. But, automatic enrolment is inherently passive: 16% of our membership do not realise that they are in a pension scheme, despite communications from both us and their employer. We are therefore in a position where we produce and send communications we believe are well designed but we expect low levels of engagement from our membership.

This may change as pot sizes grow. We have experienced a small but significant uptick in the number of people calling our call centre post April 2019. While a minority of these have chosen to opt out or cease contributions, a larger proportion have begun to notice increasing regular deductions from their pay and are correspondingly curious about TPP. This is an interesting and potentially important trend but we are some way away from widespread engagement with retirement saving.

b. views on the implications of requiring trustees and scheme providers to have regard to principles; descriptors or a simpler statement template on other communication materials, including the need for and cost of redesigning approaches.

We agree with the design principles and favour the design principles as the best approach to guide improvements in the statement. This is because we send most of our statements to members digitally, as outlined above. We think that the simplified annual statement could well be an appropriate communication but are keen to understand how it performs when viewed on screen, rather than on paper. Not every

¹ FCA (2018) financial lives <https://www.fca.org.uk/publications/research/understanding-financial-lives-uk-adults#data>

communication that works well on paper also works well on screen as people tend to take in information from a screen in a different manner to from a page.

c. evidence/user testing about how to improve engagement/understanding which you have used to support your wider communications.

No response.

Which pension schemes are in scope?

3. Our intended scope – does this make sense or should the scope be broadened, or narrowed? How can we achieve simplicity and consistency?

The intended scope for the measure is appropriate.

4. We would welcome your views on the length of statements:

a) Short statements of two pages in length have been proposed. What evidence can you provide where the adoption of this approach has been beneficial? In what ways? For whom?

TPP has a two page statement. It is possible to place the relevant information on two pages provided that the only benefits being offered are pure money purchase and there are no other complicating factors. That might include particular complexities in the way members' funds are invested.

For trustees and scheme providers:

b) Are your statements typically longer, or shorter, than two pages? How many pages are your statements in total?

TPP's statement is two pages long.

c) What strategies have informed the design and length of your annual statements? What feedback, if any, has been sought? What changes have been made to improve the usability of statements? What future changes are planned?

We believe that we have a clear and usable statement. We do not intend to update our statement at this time.

5. Do you agree with these principles, or are there other or additional principles that you think we should consider?

We agree with the DWP principles.

A simpler statement template

We would welcome views on:

6. What do you think are the advantages or disadvantages of this simpler statement?

The simpler statement is clear and we have seen evidence showing that it improves member recall of key pensions information. It is a good quality paper communication.

We note that the decumulation assumption is open to question, especially for those with very small pots for whom an income might not make sense. We are also unsure how it will be read on screen, as part of a task flow, outside of a research exercise. This matters to us as we deliver the majority of our statements digitally, something that enables us to keep our cost to scheme members low.

From trustees and scheme providers, we would welcome views on:

7. If you are intending to adopt this simpler statement, what is your anticipated timescale and, if you are varying the statement, where will you make changes?

We are not planning to adopt the simplified statement at this time, although we support voluntary adoption.

8. If you do not intend to adopt this simpler statement on a voluntary basis, what barriers or issues have informed your thinking? For example:

- Not workable for your scheme?
- Implications for your other communications/products for savers?
- Additional information that customers have requested that is not included in the statement? Insight from user-testing and evaluation?
- Considerations around the needs of different groups?
- The costs of switching? Please specify.
- Value for members?
- Other?

Although we support voluntary adoption of the simplified statement, we do not intend to adopt the simplified statement at this stage. This is for two reasons. First, we would need to understand much better how it works with our membership and, particularly, how it works online. Second, we anticipate that dashboard will revolutionise disclosure in pension schemes. We argue elsewhere in this response that there should be a review of disclosure once sufficient progress has been made on the dashboard project. It would make sense for us to review disclosure once we have a clearer idea of the statement within future post-dashboard communication approaches.

9. If you consider that the simpler statement is not workable for your scheme due to regulatory requirements, please explain how it would need to be varied or amended to meet those whilst still remaining within two pages.

We think that the simpler statement complies with regulatory requirements.

10. Is there any information you think is currently not included, or signposted, in the statement attached at Annex A that would support the ambition to inform members and enable them to make retirement planning decisions? If so, what additional information do you think needs adding or signposting?

We see the simpler statement as complete.

A design principles based approach

11. We would welcome your views on a design principles based approach:

a. To what extent would such an approach deliver both simplicity and consistency?

We believe that the principles articulated by the DWP in the document will lead to simpler, more consistent statements.

b. Given what we say about the aim to drive simplicity and consistency, are the principles described above the right ones? If not, how could they be improved? Are there alternative or additional principles that would better achieve our aims?

We think that the principle set is reasonable and that schemes will be able to use them to improve their annual benefit statements.

c. What barriers exist to adoption of the principles, and to what extent can they be mitigated? For example: design cost; member preferences; regulatory implications?

We believe that the barriers to adoption of the principles would be comparatively slight as they are simple and high level.

For trustees and scheme providers:

d. To what extent do your existing statements meet the principles set out above? What other principles, if any, inform your approach?

We believe that our current statement is close to consistency with the DWP principles and would be consistent without a significant re-design.

e. Would you adopt principles on a voluntary basis, and to what timescale? If not, what factors would preclude this?

We believe that our statement is already consistent with the DWP principles.

Descriptors

12. We would welcome your views on a descriptor-based approach:

a. To what extent do you think such an approach would deliver both simplicity and consistency?

This approach would deliver a higher degree of consistency, but not necessarily simplicity than the design principles approach. As with other more prescriptive measures, we believe that the right time for prescription would be after a full review of disclosure.

b. Given what we say about the aim to drive simplicity and consistency, are the descriptors described above the right ones? If not, how can they be improved? Are there alternative or additional descriptors that would better achieve our aims?

The descriptors are sensible. We do not have concerns about the descriptor based approach, we have concerns about prescription ahead of the impact of the dashboard on disclosure becoming clear.

c. What barriers exist to adoption of descriptors? For example: design cost; member preferences; regulatory implications?

For TPP the barriers to adoption relate less to cost and more to the opportunity cost of overhauling the annual benefit statement.

For scheme trustees and providers.

d. To what extent do your existing statements meet the descriptors set out above?

TPP's current statement is consistent with the descriptors, save for the section on what members could do to increase the size of their pension pot.

e. Would you adopt descriptors on a voluntary basis, and to what timescale? If not, what factors would preclude this?

We do not have plans to adopt descriptors on a voluntary basis.

Achieving change

13. We would welcome your views on:

a. the advantages/disadvantages of reliance on the voluntary adoption of a simpler statement template; design principles; or descriptors

Although we do not plan to update our statement at this time, we support voluntary adoption of the simpler statement. Our main concern at this stage is overhauling a major aspect of our approach to disclosure ahead of the delivery of the pensions dashboard. The dashboard is likely to revolutionise the way that schemes and providers communicate with members and savers. We are not keen to devote time to overhauling the annual benefit statement ahead of understanding in more depth what the implications of dashboard are for the workplace pensions sector. For that reason, we advocate a review of disclosure requirements once the dashboard project is further advanced and it will be possible to look at disclosure in the round.

b. where responsibility for maintaining a template; design principles or descriptors for voluntary use should lie: with government or industry.

We are agnostic on this point. We would only form a view if it were suggested that industry take responsibility for something that is either mandatory or quasi mandatory.

c. The advantages/disadvantages of mandating an approach through statutory guidance.

Our concerns about mandating an approach relate to timing and not to the principle of mandating a particular approach to the statement. A mandatory approach to the annual benefit statement could be a sensible outcome from a wider review of disclosure.

Presentation of costs and charges: helping members identify what they've paid

We propose to include individualised member pounds and pence costs and charges information on the annual benefit statement.

14. Do you agree with this proposal and its scope? If not, why?

We think this is a sensible move over the medium term. The pensions sector needs to be able to tell members what they are being charged. It is unusual for an organisation offering goods or services not to be able to give a transparent price.

15. (a) What preparation is necessary by schemes to display information in this way? Would a phased approach, starting with large schemes, be beneficial?

Schemes do not already do this because it is difficult and potentially expensive. On the transaction costs side, schemes are only just gaining good access to transaction cost data at the level of the fund with a three to six month lag. This is not the same as transaction cost data at the level of the individual. It would be possible to estimate the level of transaction costs that an individual had paid from annualised fund level data but this would remain an estimate and would only approximate the true figure. We are a considerable way away from accurate individualised transaction cost data.

Presenting a pounds and pence charge figure would be easier but there are still technical complexities. TPP takes the AMC daily, meaning that systems need to be re-configured to record the AMC as it is taken. The

administrator then needs to keep a running total of the charge taken. This is not impossible for schemes to achieve but would require significant changes to administration systems.

(b) Do you think there are any risks to members by doing this? If so, do you have any evidence or suggestions of how these have been or could be mitigated?

It is important that pension schemes are able to talk about price. But it is not enough to talk about price on its own as the amount something costs is only one part of figuring out whether that thing is value for money or not. It is important that any communication to members that shows what a scheme costs them is able to devote comparable space to showing what that money has bought. Otherwise, members may assume that the money taken from them in charges is taken for no good reason. This is not likely to help build trust in the sector. It goes without saying that the flip side of this is that schemes must genuinely offer good value for money.

16.(a) Do you agree with separate reporting of charges and transaction costs? Do you think other data, such as the percentage of funds under management these charges represent, should be presented alongside?

Schemes should be able to contextualise costs and charges with information showing what those costs and charges pay for such that an assessment of value for money can be made. Over the longer term, value for money metrics should be developed by the sector, as per the PLSA's report "Hitting the Target". This would help explain what costs and charges pay for.

(b) Do you think approximate or averaged charge and transaction cost figures should be permitted for charges as well as transaction costs. Could this impair saver confidence and decision-making, and if so, how would that risk be mitigated?

In the short term, the use of approximate or averaged transaction cost figures is likely the only practical way forward. Schemes have only recently begun to receive transaction cost data at the fund level. Until schemes are in a position to request data at a much more granular level then it will not be possible to provide fully accurate individual level data.

Assumptions: helping members identify if their savings are on track

Ownership and alignment

We propose DWP should take on ownership of the assumptions underpinning the annual benefit statement from the FRC. We propose to use a mixture of statutory guidance and regulation to set out assumptions We propose to align assumptions for the SMPI with those set by the FCA for KFIs, except where we identify good reasons for taking a different approach.

17. Do you agree with these proposals? If not, why not?

We agree that DWP should take ownership of the assumptions but disagree with the approach taken. We suggest that further work is needed, especially regarding the equity assumption. We are concerned that a single equity assumption will encourage providers to use figures at the upper end of the range in order to ensure that their products compare favourably with those of their competitors. A high end estimate may be appropriate in respect of some categories of equity but not in all. The assumptions set should address this issue before the dashboard project develops any further.

Assumptions

We've proposed the following assumptions for legislation and DWP statutory guidance on the annual benefit statement:

Inflation assumptions

Salary growth rates

Investment growth rates

Annuity assumptions

25% tax free lump sums

Number and basis of projections

18. Do you think these are the right assumptions for providing simple, comparable estimates? If not, why not?

We see the need for a single set of assumptions that should underpin calculations in the ABS. We note that DWP taking over ownership of the assumption set from the FRC will effectively lock DWP into using existing government targets and forecasts. It is hard to see DWP's inflation forecast deviating from the inflation target given by HMT to the Bank of England, for example. Given the overall success of inflation targeting as a means of managing inflation, we do not see this as an issue at this time. But it should be noted for the future.

We are more concerned by the values suggested, in particular the equity assumption. This is for two reasons, first, equity covers a wide spectrum, from developed world large cap to developing world micro cap. The expected volatility from each of these is different and it is hard to subsume each within a single "equity" category.

Second, we think that a range up to 7% is not the right figure. This is because schemes and providers, once the dashboard is a reality, will have a commercial incentive to use figures at the upper end of the range in order to ensure that their investment solution compares favourably with those of their competitors. That may come at the expense of accuracy. One way to resolve that could be a greater range of equity assumptions reflecting the wide range of categories of equity, paired with fixed assumptions rather than a range.

This area would benefit from further thought in relation to both issues. There is no time pressure on this and it is important to design something that works for the annual benefit statement and also for the dashboard.

Costs of transition

Simpler annual statements

19. We would welcome your views on:

a. The possible initial costs of moving to each of the three options in terms of redesign and delivery of existing statements. Do you have plans to update your statement, and if so, when do you currently plan to do that? To what extent, could these changes be incorporated into existing or planned work?

We do not plan to update our statement at this time.

b. For each of the options, is the ongoing cost of providing the information required anticipated to be lower, or greater, than with existing statements?

We anticipate the cost of providing the information to be similar.

c. What do you anticipate will be the one-off and ongoing impact of redesigning your statements (and associated materials)? Where costs are incurred, would you expect them to be absorbed, passed on to employers, or passed on to individual members.

Unlike other providers we only issue a single statement. The costs of redesigning our statement are therefore lower than for others. The main issue for the People's Pension is the opportunity cost of working on the annual statement. Time and resources spent updating the statement is time that cannot be spent improving another aspect of the scheme.

As a non-profit that does not distribute a surplus, we have no option but to pass any costs incurred to members. This makes us reluctant to develop the scheme in ways that are not clearly in the interests of the scheme membership.

d. What are the cost implications for established and future research and evaluation approaches?

A simple test and learn approach intended to understand comprehension of a new statement, based on in-depth interviews would cost somewhere between £20,000-£30,000 per wave. If the design of the statement were fit for purpose in the first instance, it might only require one wave of interviews. If not, it would likely require further waves of research to refine the statement.

e. Where you have developed simpler statements on the basis of feedback from recipients, do you have any cost/benefits analysis or research which shows: - the impact on individuals in terms of the time spent/saved on reading the statement or through increased understanding of the content and/or of increased saving in response to any call for action to save more?

No response.

f. If you have adopted the simpler statements at Annex A do you have any cost/benefits analysis or research which shows the impact on individuals in terms of the time spent/saved on reading the statement, understanding of the content, and/or of increased saving in response to any call for action to save more?

No response.

20. We would welcome your views on the initial and ongoing costs of incorporating information on costs and charges into annual statements.

As we noted earlier, schemes will need to build the functionality to record the AMC as it is taken and keep a running total. Schemes will need a means of getting individual level costs from asset managers. We assume that asset managers will simply pass the cost of achieving this back through to the customer in the AMC. It is difficult to give an estimate for either figure but anticipate this being a mid-sized IT build for a large scheme with corresponding costs.

21. We would welcome your views on the initial and ongoing costs of adopting the standardised approach to assumptions set out in paragraphs 64-65 above.

We would see the costs of adopting the standardised assumptions as slight. We do not feel, though, that the proposals are ready for implementation and suggest that the equity assumption in particular requires further work.

Impact on innovation and Pension Dashboards

22. We would welcome your views on:

- a. the relationship between each of the options presented in this document, and the flexibility to respond to or harness future innovations in the way that people receive and access information, whether in hard copy or in digital form.**

No response.

- b. the relationship between each of the options presented in this document and the future development of Pension dashboards, including data standards. The implications for schemes on a need to amend/update their data for Pension dashboards alongside any future requirement to simplify their pension statements.**

The way that information is best presented on screen is very different to the way that it is best presented on paper. This is particularly true if information is presented on a mobile device as opposed to a traditional desktop PC and browser. There are numerous differences but, especially with mobile, the volume of text may need to be reduced and the layout of the information substantially altered.

We would anticipate dashboards adopting a “blank piece of paper” approach when it comes to displaying pensions information. Obviously, dashboards will present much the same information but we anticipate that it will be presented in a different manner to the simplified statement.

How can we encourage people to open statements?

23. We would welcome your views on:

- a. what are the potential benefits or downsides of using a single, standardised, colour of envelope when sending statements to members in terms of driving engagement?**

We are not aware of any research on the matter. We suggest that if the DWP intends to pursue this approach then it conduct research into the proposal. It seems plausible that it would require not just a single standardised envelope in order to drive greater awareness but a massive co-ordinated marketing campaign intended to raise awareness of what the coloured envelope signifies and contains. It seems likely to us that any benefits to the Swedish model of engagement derive more from a large annual marketing exercise than from the orange envelope approach by itself.

- b. what the benefits of a ‘statement season’ would be in terms of raising awareness of the importance of statements and pension saving for individuals, and as part of normalising pension saving?**

We deliberately avoid having a statement season for logistical reasons. It is not practical to send hundreds of thousands of statements at once and we do not believe that there are benefits to the simultaneous sending of statements. This is why we send statements shortly after a member’s birthday.

We further note that in February this year the Swedish Pensions Agency announced that it was considering withdrawing the orange envelope approach in favour of an approach geared to driving people to the

minpension.se website (the Swedish pensions dashboard). A spokesperson told Radio Sweden that “you get much better information on the website, you get information adapted for your age and you also get the forecast for your total pension”².

c. how a ‘statement season’ might operate, including in terms of length and scope?

We disagree with the idea of a statement season. We do not believe that any benefits from such a season are likely to outweigh the considerable operational costs.

d. what might the opportunity and/or downsides, be for example, in terms of delivery and management of a ‘statement season’ for providers, the advisory community and others?

We do not believe that a statement season would lead to an increase in engagement but it is worth considering what would happen if it were successful. The most likely consequence would be the overloading of call-centres and other ways in which providers engage directly with members. This is one of the reasons why TPP’s phases distribution of statements through the year.

e. how a seasonal approach to statements sit with communications that are personalised to the needs and preferences of individuals?

No response.

f. other approaches that could be effective, based on user research and/or international experience related to pensions or other sectors?

No response

Further evidence, analysis and research

24. We would welcome any further evidence or analysis which you would like to share about the issues under discussion in this consultation and which can inform the development of simpler annual benefit statements.

No response

Equality Act

25. As part of this consultation we would therefore welcome views on the impact of each of the options for simplified annual pension statements on protected groups, and how any negative effects may be mitigated, including the impact on disabled people and the provision of information in alternative formats.

In our response to the consultation on the pensions dashboard, we highlighted the need for a dashboard that reaches WCAG level 3. Any online delivery of the statement will need to meet a similar standard.

² <https://sverigesradio.se/sida/artikel.aspx?programid=2054&artikel=7155189>