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Date: 20 December 2019
Response to: Department for Work and Pensions' consultation on 'Simpler annual benefit statements'

Consultation Response

The Department for Work and Pensions' consultation on 'Simpler annual benefit statements'

- Which? strongly supports the Department for Work and Pensions' (DWP's) aim to help individuals engage with their pensions by making annual benefit statements simpler. Which? supports the option proposed by DWP for a mandatory template, which would improve standards across the sector and ensure greater comparability for consumers when looking across their different pension schemes. We also recommend that any new requirements apply to all defined-contribution pension schemes, rather than just auto-enrolment schemes.

- Some flexibility in how some schemes present information, which is often via digital statements and may benefit from innovation in the future, could lead to even better outcomes if schemes have clear evidence as to what works best for their savers. We therefore propose that schemes would be able to use a different approach to the mandatory template if they can evidence, through research and testing, that this provides better outcomes than the template. As well as raising a person's awareness and understanding of their savings held with that scheme, schemes should have to evidence that savers are able to understand and compare information across their other pension savings.

- Which? strongly supports the DWP's proposal to require pension schemes to show each saver personalised pounds and pence costs and charges information on annual benefit statements. However, rather than providing separate figures for costs and charges, consumers should be shown a single price, as this is by far the most important and relevant piece of information for most savers. Schemes should also have to warn savers where assumptions and averages have been used to provide a representative personalised figure.

- We support the DWP's proposal to take ownership of the rules around how pension schemes calculate projections of what an individual's pension savings could be worth, so that these rules can be standardised.

- The core data that schemes are required to show on annual benefit statements should be mirrored on pensions dashboards so there is consistency in the information that consumers see across different channels. At the earliest opportunity, dashboards should therefore include a standardised figure for the costs and charges paid by the saver for each of their pensions, and a standardised retirement income projection.

- A statement season, as happens in Sweden, could help to drive engagement with pension statements, if there is a coordinated campaign to help raise awareness. But given the lack of compelling evidence and the need for pension schemes to transition to any new timetable, which may require them to amend their reporting period, the DWP should conduct a detailed cost-benefit analysis.

DWP should introduce a requirement for all defined-contribution pension schemes to use an annual benefits statement template – unless schemes can evidence that their approach provides even better outcomes

Which? strongly supports the DWP's twin ambitions for simpler annual statements: to help individuals understand how much they have in their pension pot, and how much money they could have when they retire. Annual pension statements are already an important part of the many ways that pension schemes try to engage savers. 44% of adults with one defined-contribution pension recall receiving their annual statement and having read it.[1] While this figure could be higher, it highlights that annual benefit statements have significant reach.

However, engagement with pension savings remains low overall, with the consequence that too many people think about retirement planning too late in their careers. So it is crucial that government makes the most of pension schemes' obligations to provide savers with an annual statement. Greater simplification and standardisation of pension information can significantly raise people's awareness of their pension savings and help them to seek further information and guidance, as shown by research on pension wake-up packs, which are sent by pension schemes to those approaching retirement. For example, in 2017 the Behavioural Insights Team experimented with a one-page 'pension passport', which consolidated essential information from the usual 50-100-page pack onto one side of A4 paper. Those receiving the one-page version were around ten times more likely to visit the Pension Wise website compared to those receiving the usual wake-up pack.[2]

The FCA separately concluded that wake-up packs were 'largely ineffective at stimulating more informed consumer decisions, primarily because of their length and complexity'.[3] The FCA now requires all wake-up packs to include a single page summary document that includes key information. Providers determine how best to present this information. Despite these improvements in the information sent to people approaching retirement, many annual benefit statements remain overly long, complex and difficult to compare between schemes.

Government already sets legal requirements as to *what* information has to be included in annual statements, but schemes are not directed *how* to present this information. Of the DWP's three proposed options to improve how schemes present information, we prefer the option of a

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[1] FCA (2018), *Financial Lives Survey*, pension accumulation table, table 21
[2] The Behavioural Insights Team (2017), *Improving engagement with pension decisions: The results from three randomised controlled trials*
[3] FCA (2018), *Retirement Outcomes Review: Proposed changes to our rules and guidance*, p.41

standardised template to the less prescriptive options of principles or descriptors. If DWP mandated all schemes to use a template, it would help to ensure that all schemes meet minimum standards and improve comparability between pension pots. This is especially important as the vast majority of schemes are relatively small. Of around 31,900 trust-based defined-contribution schemes, around 29,900 have fewer than 12 members.[4] Since the FCA has also found that the non-workplace pension market suffers from issues of lack of consumer engagement, any new requirements should be mandatory for all defined contribution pension schemes, rather than just workplace pension schemes that qualify for auto-enrolment.

Nonetheless, some schemes may be better placed to determine precisely how to present information to engage their savers, and how to evolve this over time. This may particularly be important for digital statements, which schemes are permitted to provide to savers as long as they allow them to opt for paper statements and they notify them each time they provide a digital statement. Some pension providers have invested significantly in research and testing with their savers, and some have introduced personalised videos to provide information for an individual's annual benefit statement. Individual schemes may also want to add important information that is relevant to their savers – such as details of environmental, social and governance factors – which may not be part of a mandatory template.

We therefore propose that schemes should be required to follow a single template unless they can provide evidence that their scheme's approach provides better outcomes. As well as raising a person's awareness and understanding of their savings held with that scheme, schemes should have to evidence that savers are able to understand and compare information across their other pension savings. DWP should ensure there is a continued programme of research and testing of the mandatory template, so that the template can be improved over time and that it keeps pace with other changes in the pensions industry, such as requirements for pensions dashboards. This evidence would then provide a benchmark for schemes to exceed in their research and testing of their own potential approaches.

Which? strongly supports the DWP's proposal to require schemes to show personalised costs and charges information in pounds and pence, but this should be a single figure

Consumers should be told how much they pay for their pensions, just as they are told for other goods and services. Which? therefore strongly supports the DWP's proposal to require schemes to show each saver personalised costs and charges information in pounds and pence on annual benefit statements. However, rather than separating out costs and charges, consumers should just be shown a single price as it is the total cost that is most important to savers.

Consumer awareness and understanding of the pension charges they pay is generally very low. The FCA's Financial Lives Survey found that of those with defined-contribution pensions, 71%

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[4] The Pensions Regulator (2018), *DC trust: presentation of scheme return data 2017 - 2018*, File 1: Schemes, Tables 1.1 and 1.8

of respondents were not aware of any charges incurred on their pensions.[5] Of those with more than one defined-contribution pot who were not aware of charges incurred on their pension savings, 70% of these respondents did not know how they would find out what charges they paid for any of their schemes.[6]

Better understanding of charges among consumers is unlikely to alter most savers' decisions, but it could still lead to better outcomes. Some parts of the pensions industry have suggested that showing consumers information on actual pension charges may prompt them to make worse decisions, such as reducing or stopping their pension contributions. However, the wider evidence on the lack of engagement and the prevalence of inertia in pensions suggests that this is unlikely. It is more likely that a small number of activist scheme members will find engagement with scheme trustees or independent governance committees easier and this could lead to benefits for other members. Which? has recently commissioned research comparing charges for defined contribution schemes across major economies, which found that transparency for consumers has had an impact on engagement in some countries, as well as helping to create a relatively high level of consumer trust in the pensions industry.[7]

Some people would particularly benefit from acting to secure better value for money while they are saving for retirement. For example, the many different charging structures permitted under the charges cap for auto-enrolment can potentially lead to a wide range of outcomes. The Work and Pensions Committee found that with a 5% annual return for 40 years, a dormant pot of £300 could be worth anything from £1,720 to £0 depending on the permitted charging structure.[8] Without being shown a personalised charges figure, this dramatic effect of charges would be hidden from consumers, who might put a poor outcome down to poor investment returns. Understanding what charges they pay could help some of these people to switch or consolidate dormant pension pots.

Better understanding of what individuals pay for their pensions is crucial to prepare people for when they are confronted with decisions in later life, when people with savings in defined-contribution schemes must make challenging decisions about when and how they access their pension savings. There is currently a fundamental inconsistency in government policy that promotes freedom of choice at retirement, but which allows vital information on how pension schemes function to be hidden from individuals when they are saving towards their retirement. This inconsistency is to the detriment of consumers when they come to exercise their choice.

The Pensions Regulator has already said it is best practice to show charges on annual statements 'ideally expressed in pounds and pence, as well as a percentage'.[9] Yet very few

[5] Financial Conduct Authority (2018), *Financial Lives Survey*, pension accumulation weighted table, Table 29
[6] Financial Conduct Authority (2018), *Financial Lives Survey*, pension accumulation weighted table, table 31
[7] Pensions Policy Institute (2018), *Charges, returns and transparency in DC - what can we learn from other countries?*
[8] House of Commons Work and Pensions Committee (2019), *Pension costs and transparency*, p.10
[9] The Pension Regulator's guidance sets out that they 'consider it best practice to include in the annual benefit statement… information about the charges a member has paid over the year, ideally expressed in pounds and pence, as well as a percentage'.

schemes do this. Although the pension industry's Simpler Annual Pension Statement provides a much simpler and improved template, it does not include costs and charges information.

From August 2020 the FCA will require providers of personal or stakeholder pension schemes to provide consumers in decumulation with annual information on all the costs and charges the consumer has paid on their pension pot. Not all contract-based schemes offer decumulation products, but the FCA estimates that this requirement will affect around 180 firms and cover approximately 10 million savers who are currently in the decumulation phase. Extending this requirement to cover people saving into personal or stakeholder pension schemes is therefore unlikely to be onerous, since many of the firms providing these schemes will soon be providing this information for customers in decumulation. In any event, the principle for providing costs and charges in this manner has been set, and should be extended to cover all stages of a member's participation in a scheme.

Providing personalised costs and charges information is likely to be more challenging for the thousands of smaller trust-based pension schemes, which are regulated by The Pensions Regulator. The FCA's rules for decumulation allow some flexibility, which could be replicated for accumulation to ensure that scheme's can meet their requirements to the vast majority of members, while providing flexibility for special cases which prove more challenging. In particular, under the FCA's rules if firms have taken reasonable steps but are still unable to comply with the requirements then they can provide a consumer with a reasonable estimate or provide a written statement to explain what costs and charges are not included in the figure provided. Where this is the case for annual statements, or where firms use assumptions or averages, pension schemes should have to warn savers.

We support the DWP taking ownership of the rules around how pension schemes calculate projections of what an individual's pension savings could be worth

The use of different assumptions for projections can lead to vastly different projections between schemes, which can mislead people about the potential value of their pension savings. It is an issue that will particularly be highlighted by pension dashboards, which for the first time will bring together information on a person's pension schemes side-by-side in one place. While most of the information will not be new, it is even more important for information on dashboards to be comparable.

Currently, different bodies set the rules for projections for different types of pension schemes, and within those rules pension schemes are in some cases given flexibility over what methodologies they use. There needs to be a single body, with a single standardised approach mandated across the pensions sector. We therefore support DWP taking responsibility for this crucial area to enable this to happen.

The core data shown on annual benefit statements – including a single costs and charges figure – should be mirrored on pensions dashboards

The core data shown on annual benefit statements should be mirrored on pensions dashboards so there is consistency in the information that consumers see across different channels. Consumers should therefore be able to see how much they have paid in costs and charges on pensions dashboards, and retirement income projections for all pension schemes should be based on the same assumptions as for annual benefit statements.

DWP should explore the costs and benefits further of a statement season

A statement season, as happens in Sweden, could help to drive engagement with pension statements, if there is a coordinated campaign to help raise awareness. The evidence from Sweden suggests that this approach could have benefits, but it is difficult to compare between countries and to disentangle the effects of the statement season from those of the simpler statements that are already provided in Sweden.

The Pensions Policy Institute cites survey evidence which found that in Sweden around three quarters of the envelopes are opened by members and around half are read in some part.[10] This compares to 60% of UK adults with one defined contribution pension who recall receiving their annual statement, and 44% who also say they have read it.[11] These surveys take different approaches though, which may explain some of the differences. It is also not clear to what extent the statement season explains these differences. The upfront costs of transitioning to a single statement season could also be significant for some pension schemes, particularly if schemes had to standardise their reporting periods. DWP should therefore explore the costs and benefits further.

About Which?

Which? is the largest consumer organisation in the UK with more than 1.3 million members and supporters. We operate as an independent, a-political, social enterprise working for all consumers. We are funded solely by our commercial ventures and receive no government money, public donations, or other fundraising income. Which?'s mission is to make individuals as powerful as the organisations they have to deal with in their daily lives, by empowering them to make informed decisions and by campaigning to make people's lives fairer, simpler and safer.

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December 2019

[10] Pensions Policy Institute (2018), *Charges, returns and transparency in DC - what can we learn from other countries?*
[11] FCA (2018), Financial Lives Survey, pension accumulation table, table 21