Institute
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of Actuaries

Pensions Dashboards: Working together for the consumer

IFoA response to the Department for Work and Pensions

28 January 2019

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We strive to act in the public interest by speaking out on issues where actuaries have the expertise to provide analysis and insight on public policy issues. To fulfil the requirements of our Charter, the IFoA maintains a Public Affairs function, which represents the views of the profession to Government, policymakers, regulators and other stakeholders, in order to shape public policy.

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Pensions Dashboard Team
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28 January 2019

Dear Sir/Madam

Institute and Faculty of Actuaries response to Pensions Dashboards: Working together for the consumer

The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the Department for Work and Pensions (DWP) on the topic of pensions dashboards. The IFoA believes strongly in the transformative potential of the dashboard project and we are pleased that the government has committed to help facilitate its delivery.

Summary of response

Recent developments in the UK pension system have forced individuals to take increasing responsibility for their retirement saving. It follows that planning to try to ensure ensuring adequacy of retirement provision for the general public will be an increasingly important consideration for this and future governments. It is in everyone's interest for the population to be saving for their retirement, both so that individuals can sustainably fund their later lives and so that they may reduce their future reliance on state provision.

Any tools that help individuals better understand their pension savings would be welcome, and using pensions dashboards to display all of an individual's savings in one place is a step in the right direction in this regard. But dashboards should be seen as the first step towards a bolder plan for communication that aids financial education and truly engages savers with retirement planning. The provision of pensions dashboards will do little to achieve this aim in isolation, and we believe significantly more promotion by the government, employers and pension providers is needed to raise the profile of retirement planning and increase engagement.

Society has much to gain from an improved savings culture, and as such the government has a responsibility to play a central role in making this happen. It therefore makes sense for the government to make a strong contribution the centralised infrastructure both in financial terms and as a coordinator, and for the Single Financial Guidance Body (SFGB) to take the leading role in delivery. Any successful commercial dashboards built upon this infrastructure should pay their fair share towards an overall funding settlement. Funding aside, we see a clear need for the government and pensions industry to cooperate to make pensions dashboards a reality and a success, so that savers can eventually benefit from them. There will ultimately be tangible benefits for both industry and Government in achieving this aim.

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We support the government in aiming for universal coverage from dashboard infrastructure in order to give savers a complete picture of their potential retirement situation. Incomplete data could damage public trust in the pensions industry and therefore we do not believe legislation or regulation should exclude any types of scheme. Including all schemes will, however, be a complex undertaking, and could impact the speed with which a 'whole package' dashboard can be delivered. The government may also need to provide support for smaller and older 'legacy' schemes, the trustees of which may reasonably argue that the costs of providing information for the dashboard are not in the financial interests of their members.

Consistency will be key to making the dashboard a success – in how data is collected and presented, between different types of DB, DC, CDC, insured arrangement and state pensions. What appears on the dashboard must also be consistent with other pensions communication from trustees, providers and advisors. The IFoA has completed a research report on this topic, due to be launched later this year, and we would be happy to share this with DWP as the policy develops.

Answers to specific consultation questions

I. What are the potential costs and benefits of dashboards for: individuals or members?; your business (or different elements within it)?

It is accepted that individuals are not currently doing enough to plan or save for an adequate retirement income. Engaging individuals to plan and to save for their retirement is the most pressing challenge in the current pensions landscape, and, to the extent that pensions dashboards could encourage more saving and less reliance on state benefits, they will be of benefit to individuals and society as a whole.

There is likely to be significant benefit to financial advisers who seek to use the dashboard as a tool to encourage clients to "shop around" for different pension arrangements or investments, or to increase contributions. Indeed, encouraging shopping around in pensions could be a clear benefit to customers as well. The government and FCA have expressed concern about a weak competitive environment in the pensions market, both before and since the introduction of the pensions freedoms (a policy aimed at remedying this). Pensions dashboards could help create a more competitive environment, especially in relation to existing and legacy holdings.

A dashboard could also significantly reduce the time spent by advisors searching for a client's information, which would in turn bring down costs and potentially make advice a more viable prospect for more people. In a complex pensions environment, which increasingly passes the responsibility for complex decision making to individual savers, widening access to regulated advice could be of significant benefit to customers.

Overall, the costs of the project will depend on the specific data requirements, and also on how ambitious an output the first phase of the project intends to produce. The benefits for pension providers will depend on what potential there is to monetise the software in future. At this early stage, the benefits to the pensions industry are largely unknown, but any benefits seem unlikely to be spread evenly across schemes or providers and some will see little benefit (legacy DB schemes, for example). [1]

[1] We have interpreted this question as being about the impact on both individuals and businesses, and as such have answered based on the pensions industry where many of the IFoA's members work. We do not perceive there being particular costs or benefits of this policy to the IFoA as an organisation.

Our specific thoughts on the costs and benefits to individuals and the pensions industry are summarised below:

<table>
<tr><th colspan="2">Individual</th></tr>
<tr><th>Costs</th><th>Benefits</th></tr>
<tr><td>Should be none directly, but indirectly any costs on providers or schemes will ultimately be borne by savers. Any funding by government will ultimately come from individuals through taxes or levies on products/schemes paid for by increased charges.</td><td>Greater visibility (and ultimately accessibility) of pension benefits in a central, consistent and simple way. This enables greater understanding throughout life and facilitates ability to plan for retirement. Ultimately dashboards can be a springboard to helping change and improve retirement modelling and planning tools as well as integrating pensions more easily into wider wealth management planning. This stands to benefit individuals as well as employers, some pension providers and the Government.

Dashboards should also shine a light on differences in fees and fund performance and help aid competition in the market.</td></tr>
<tr><th colspan="2">Pensions industry</th></tr>
<tr><th>Costs</th><th>Benefits</th></tr>
<tr><td>Costs of data supply to a dashboard will inevitably be passed on from pensions providers/administrators to scheme trustees/managers and/or scheme members indirectly. We assume the dashboard will be established such as to facilitate efficient provision and transfer of data, and thus this cost should not be significant for larger providers.

Smaller/in-house providers may find this more difficult, and may see the work required to improve data quality as a hidden cost.

For entities that wish to set up their own dashboard this will be done through choice and the cost of implementation and maintenance will be borne by them. Reasons for doing so will be that there is a perceived commercial benefit or potentially for paternalistic reasons. As such the cost for this should be largely disregarded as a consideration at this stage. However, potential future charges (if any) for using the central dashboard data/infrastructure may influence the cost of setting up and running a full dashboard. This needs to be balanced against the desire for innovation pan-industry.</td><td>Members with access to information about pensions that they can trust is a boost for the whole industry. Demystifying pensions for the masses is an opportunity to engage individuals with retirement saving, stimulate demand for pensions products and advice (which is easier to give with greater accessibility to information) and meet wider socio-economic goals in terms of savings. In turn this can generate greater funds which will have a long-term investment horizon.

Commercial dashboards will offer platforms for industry players to sell their products to savers.</td></tr>
</table>

II. Do you agree with: our key findings on our proposed architectural elements; and our proposed architectural design principles? If not, please explain why.

The architecture diagram at a high level makes sense. It is aligned to expectations and seems likely to work in practice.

The concept of putting the individual at the heart of process is essential. We would also support the further concepts of ensuring data is secure, accurate and simple to understand, and putting the individual in control of access to their data.

Regarding the aim of simplicity, we suggest that the potential to layer information should also be considered, such that individuals can access the highest level information about their pension initially, but can access (or provide access to their adviser to) more when needed. The information provided also needs to protect members, i.e. the data needs to meet the above criteria *and* be sufficient such that it doesn't drive negative behaviour/poor decisions.

Consistency of data collection, presentation and communication should also be considered as a key design principle. This will be essential to ensure that the many variations in scheme design are easily understood alongside each other. Consistency will be key to making dashboards a success. There will need to be a consistent approach to how data is collected and presented, between DB and DC, between different DC pots and state pensions. Other less common types of benefit such as CDC and hybrid should also be considered, noting that it may be more difficult to provide data in a standard form for such schemes. What appears on any dashboard must also be consistent with other pensions communications from providers, trustees and advisors, and must include appropriate risk warnings to ensure individuals do not make poor decisions based on the information presented to them.

III. Is a legislative framework that compels pension providers to participate the best way to deliver dashboards within a reasonable timeframe?

Yes. Compulsion won't necessarily help to deliver a dashboard per se, but we agree it will be needed to achieve the aim of universal coverage, which we support. A partial coverage dashboard (without a plan for full coverage) could damage public trust in the pensions industry and potentially in pensions more generally.

Including all schemes will be a complex undertaking and could impact the speed with which a 'whole package' dashboard can be delivered. Trustees of older legacy schemes may also perceive that taking part in the dashboard will not be in the overall financial interests of their members, particularly if they also face disproportionate costs to make their data fit for inclusion. Members of older and smaller legacy schemes arguably have the least to gain from the development of pensions dashboards, whilst these schemes are also likely to have the most work to do (at the most cost) in this regard. Therefore the government may need to consider providing support for these schemes.

IV. Do you agree that all Small Self-Administered Schemes (SSAS) and Executive Pension Plans (EPP) should be exempt from compulsion, although they should be allowed to participate on a voluntary basis?

Whilst the cost for small schemes will be proportionately higher, having an exclusion for any type of scheme will erode the value of dashboards and the public's trust in them. It is the smaller schemes, particularly those that are "manually" administered, that are the hardest for individuals to keep track of and hence potentially the most important to include. The dashboard will only be fully successful and useful if participation is compulsory and enforced – for all schemes.

V. Are there other categories of pension scheme that should be made exempt, and if so, why?

As above, if the dashboard is to meet the government's stated aim of universal coverage, no schemes should be exempt. However, if any types of scheme are made exempt, it will need to be made clear to individuals which schemes are not included in order to maintain public trust. We do not see much merit in schemes being exempt but permitted to participate on a voluntary basis, and this would also introduce additional complexity.

If a staged approach to implementation is taken, the government could ask those schemes compelled to provide complete data only in later stages to at least provide identities from the outset . An early user dashboard interface could for example show the full benefit details of pensions with those schemes already supplying data, but also show the existence of a pension with a scheme not yet supplying data. This would give individuals assurances that even early dashboards were displaying all their pensions.

VI. Our expectation is that schemes such as Master Trusts will be able to supply data from 2019/20. Is this achievable? Are other scheme types in a position to supply data in this timeframe?

Whether schemes can supply data by 2019/20 is clearly dependent on what data is required, what technology is required to provide the data, what sort of output the government expects to produce in this initial phase and how quickly all those decisions can be taken.

By limiting the data required to the data that schemes already hold, it will be much simpler and efficient to get the dashboard up and running. It also means the dashboard will hold data that members have already seen, although of course the simplicity of this statement belies the reality that different types of schemes will already hold different data and present it to members in different ways.

For trust-based schemes and their administrators, the ability to set up new data extracts and transfer processes may be one of a number of other competing priorities they face in the current changing policy and regulatory landscape. For example, scheme return data changes from time to time, the Pensions Regulator sometimes makes significant individual information requests and a new DB funding code of practice could potentially change expectations of trustees from 2020.

VII. Do you agree that 3-4 years from the introduction of the first public facing dashboards is a reasonable timeframe for the majority of eligible schemes to be supplying their data to dashboards?

This is a question for providers, trustees and administrators, but we recognise there will be challenges for them, as set out in question VI.

VIII. Are there certain types of information that should not be allowed to feature on dashboards in order to safeguard consumers? If so, why? Are there any other similar risks surrounding information or functionality that should be taken account of by government?

Basic factual information about an individual's pension rights should not be kept from the dashboard. However, where information is potentially confusing or could lead to a poor decision (e.g. a defined benefit cash equivalent transfer value quote), it will be essential for the communication around it to be appropriate. Significant thinking will need to go into how this information is prescribed and displayed. This is clearly an issue that extends beyond pensions dashboards to all pensions communication.

In terms of functionality that delivers non-factual information e.g. a projected benefit at retirement which is based on assumptions and cannot be predicted with certainty, this will pose different problems. Again, care needs to be taken around the regulation of this to ensure consistency between providers and/or commercial dashboards. Where different answers to the same question are possible, this could lead to individuals making choices based on assumptions which, whilst reasonable, are simply more optimistic than others. This could lead to future problems (mis-selling etc.). Where certainty of outcomes differs (for example between DB, DC, hybrid and, in future, CDC schemes) it will be important to communicate consistently, and probably in a prescribed manner, about the relative risks and assumptions.

This issue stands to become problematic after a ‘core’ dashboard has been developed, if firms attempt to create their own versions of the dashboard and potentially add additional features not covered by the core offering. This will need to be regulated to ensure that firms are not able to manipulate information (inadvertently or for more nefarious reasons) to make certain products or schemes look more attractive to individuals.

IX. Do you agree with a phased approach to building the dashboard service including, for example, that the project starts with a non-commercial dashboard and the service (information, functionality and multiple dashboards) is expanded over time?

Yes. The IFoA has advocated a centrally-run dashboard in order to secure public trust in the tool. The new Single Financial Guidance Body (SFGB) seems like the appropriate place for this to be housed; the SFGB should help to provide legitimacy to the dashboard, and vice versa. Housing a dashboard in a place with obvious links to further financial information should help to maximise its effectiveness as a tool to improve financial capability. The dashboard should be supported by information and other tools that help individuals maximise their understanding of their financial situation and plan accordingly. It should also signpost to guidance and regulated financial advice where necessary.

X. Do you agree that there should be only one Pension Finder Service? If not, how would you describe an alternative approach, what would be the benefits and risks of this model and how would any risks be mitigated?

Yes. This will be aligned with the current regulatory framework if it sits within or under the Pensions Regulator. We do not see any benefit to the individual or stakeholders of having to choose between multiple pension finder services.

XI. Our assumption is that information and functionality will be covered by existing regulation. Do you agree and if not, what are the additional activities that are not covered?

No. It’s not immediately clear how schemes will be compelled to provide the information required. We do not believe existing pensions regulation covers the full breadth of what would be required to make dashboards a reality. Again, it will be important for these issues to be addressed in advance in order to avoid future problems.

Assuming that there is sufficient regulation to ensure provision of data, there are potentially issues in the following areas with current regulation regarding the disclosure of pensions information:

- Risk –risks are communicated through individual disclosures (e.g. funding statements for DB schemes, investment strategy/choices for DC pensions etc.), but there isn’t a way in which different scheme types can be consistently compared in a sensible and understandable risk framework. This might need to include risks such as investment, sponsor/scheme covenant, mortality, inflation and annuity market risks.

- Options – currently full details of all retirement options do not have to be disclosed to individuals as part of regular disclosures. There is a question over how an individual can plan without information on decumulation options, tax free lump sums, early/late retirements, guaranteed annuity rates etc. Whilst assumptions can be made for some of these, others are scheme specific and general statements could mislead individuals.

- Assumptions for projections – a successful dashboard will need to indicate what a member will actually receive at retirement, but this may require a number of different illustrations (as is currently the case for SMPIs).There needs to be careful consideration of the best way to illustrate outcomes whilst still allowing for the specifics of an individual's own circumstances.

- Timing – Whilst DB benefits are relatively unaffected by timing of statements, DC benefits can be extremely volatile due to market conditions (both assets and potentially annuity prices). It would seem prudent to ensure that data is being provided at a consistent date to enable meaningful assessment of an individual's position. It may even be appropriate to move towards real time generation of fund values/projected benefits to solve this issue, although this could drive individuals to make decisions based on sudden fund value shifts that might not be in their interest over the long term. It would also impose more complex data collection and transfer requirements on providers and trustees and does not seem to us to be necessary, at least in the early years of the dashboard.

- DB transfer values – there is currently no ongoing requirement to disclose DB transfer values. There is an argument that for transparency, DB and DC benefits should have the capital/fund values displayed alongside projected pensions and suitable risk assessments, but again it should be recognised that this will impose additional burdens on providers and trustees.

- Partial benefits in payment – currently there is no consistent requirement across scheme types for benefits in payment to be displayed alongside or consistently with benefits that are not currently in payment. This will need to be addressed to ensure that individuals have a clear understanding of their total retirement income at any particular retirement age.

XII. Do people with protected characteristics, or any customers in vulnerable circumstances, have particular needs for accessing and using dashboard services that should be catered for?

As with all financial services communication, care should be taken to ensure that those with limited access to the internet or other IT infrastructure are not put at a material disadvantage by not being able to access dashboards. We would expect the SFGB to consider how a non-commercial dashboard should address the needs of vulnerable individuals.

XIII. The Department has proposed a governance structure which it believes will facilitate industry to develop and deliver a dashboard. Do you agree with this approach? If not, what, if anything, is missing or what workable alternative would you propose which meets the principles set out in this report?

We agree with the proposed approach, although it would need to be clear to whom the Chair is accountable. Ideally this would be DWP (rather than SFGB) to give the group sufficient credibility across the industry.

XIV. What is the fairest way of ensuring that those organisations who stand to gain most from dashboard services pay and what is the best mechanism for achieving this?

As mentioned in our answer to question I, the State, and broader society will have much to gain from the introduction of pensions dashboards if they have a positive impact on savings rates. Encouraging a strong savings culture in the UK, which we believe a successful dashboard will help to do, will be key to ensuring the public is adequately prepared for retirement, and in helping to reduce reliance on State benefits. The government will therefore have a crucial role in facilitating their delivery, in coordinating the project, setting data and communication standards and maintaining a centralised dashboard through the SFGB, all of which will come at some cost to the taxpayer.

The consultation states that: “Funding is one of the most complex areas that the Department has considered during feasibility. The Written Statement, laid on 4 September 2018, made it clear that the majority of funding should come from the pensions industry, while recognising that some costs will still fall to government.” However Guy Opperman’s statement from 4 September did not mention funding, only that there would be an ‘industry-led dashboard, facilitated by government’. It is still not clear how this balance will be struck.

There will be some incentive for the pensions industry to make a financial contribution to the dashboard project where it can be monetised in some way. However, differing commercial interests will make it difficult for industry to collaborate on a single vision. There is therefore a need for continued leadership from government in delivering the dashboard project, irrespective of funding.

If the government is considering imposing a levy for the centralised dashboard, we believe a fair charging structure could be achieved by charging based on a low, flat, ongoing fee to develop a commercial dashboard on the centralised infrastructure. This could be topped up with a ‘per hit’ fee charged as popularity of products goes up. Successful commercial dashboards should pay their fair share so that they are not are profiting at the expense of the individual, who will effectively be paying the levy whether benefiting from the technology or not.

Whatever the eventual funding settlement, the government is most likely to be successful in engaging industry support if it is asked to pay (through either a levy for pension schemes/providers or an access payment for organisations hoping to build on output from the dashboard for commercial gain) for something that has been developed and proven to be effective (or is in development and is clearly going to be effective). The development of strong centralised infrastructure in the initial development stage will therefore be crucial to the project’s ongoing success.

XV. Do you have any other comments on the proposed delivery model and consumer offer?

When developing the dashboard we would encourage the government to be mindful of interdependencies with other ongoing policy initiatives in DWP and across other government departments, for example the ongoing work on CDC, standardised projections and the Lifetime ISA. In particular, dashboards could be a useful tool for aiding the implementation of the Midlife MOT. We would support any such initiatives that encourage individuals to take a holistic view of their finances, and a pensions dashboard could form a crucial piece of this puzzle. Considering how these initiatives might influence the design and implementation of dashboards at the design stage should help to prevent time-consuming and potentially costly reverse engineering at a later stage.

Should you wish to discuss any of the points raised in further detail please contact Catherine Burtle, Senior Policy Analyst (catherine.burtle@actuaries.org.uk / 0207 632 1471) in the first instance.

Yours sincerely,

John Taylor
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