



Simpler annual benefit statements

IFoA response to the Department for Work and Pensions (DWP)

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 32,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers.

Key points

The IFoA is supportive of the proposal to simplify the information scheme members receive about their defined contribution (DC) pensions. In a world where individuals will be increasingly reliant on DC savings to fund their retirement, they are also asked to shoulder the risks associated with this type of saving, including the risk that they do not save enough for an adequate retirement income. In this situation people must be well equipped to understand their savings so they can make informed decisions about how to manage their money. We welcome the Government's ongoing commitment to exploring communications that help to do this, including this initiative and pensions dashboards.

This simplified communication should not result in a levelling down of the quality of information scheme members receive. There should be clear signposting towards more comprehensive information that members can easily access, including both the Money and Pensions Service and a list of qualified financial advisers. Standardising a longer document of additional information could also simplify the process for both members and schemes.

The key to making this type of communication work, alongside other communication, will be consistency of the core information. This core information could be mandated, with an option for schemes to tailor their statements with additional information provided separately as they see fit. More broadly, the pensions industry must take an omni-channel approach to communication going forward, and consistency of information between these channels (e.g. a simplified annual statement and pensions dashboard) will be crucial to ensure customers trust the pensions system.

We agree in principle with the choice of assumptions to underpin these statements, and keenly await further detail on how these assumptions will be set, particularly if responsibility for setting the assumptions is moved as proposed, from the Financial Reporting Council to the DWP.

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

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Q1 - We would welcome your views on this twin ambition:

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? Yes/No?

1. Yes, we support the overarching ambition of this initiative and its place within the Government and pensions industry's broader strategy to engage members with their pensions. Setting out the questions the statement will look to answer is also a sensible approach and the questions proposed should give people a good starting point for the purposes of planning their retirement.
2. It could however be beneficial to link these questions with some widely accepted quantitative assessments. For example in relation to the question "*How much money could you have when you retire?*" a link to the PLSA's Retirement Living Standards could help provide people with an idea of what this number could mean for their potential quality of life in retirement. The IFoA has also recently published research that could help people answer the question "*What can you do to give yourself more money in retirement?*". Our report Savings Goals for Retirement gives people an understanding of how much they might need to save in order to meet each of the PLSA's living standards.¹

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

3. Consistency of information, not just between providers, but across all communication media, will be key to ensuring that people understand and trust pensions, but also that they are then equipped to take action to improve their retirement prospects.

Q2 - We would welcome

a) 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.

4. There could be some advantages to smaller schemes in terms of a reduced administrative burden if a standardised template could be adopted for annual statements. Larger schemes might find it more difficult to tailor their communications if they are too constrained by a standardised statement. Many will have spent time, effort and money to make annual statements consistent with other scheme communications and their members will be familiar with these statements. Additionally, providers and Third-Party Administrators are likely to have their systems set up to produce their own template statement. The extra costs associated with introducing a new template will ultimately be passed on to scheme members.
5. It will be important that core data and text presented in a simplified annual statement is 100 per cent consistent across all schemes. However, schemes could still be given the opportunity to make the additional information that sits alongside their statements bespoke. This of course needs to be balanced with the desire for simplicity, but annual statements can be used to communicate any number of important, scheme/provider specific information, in a document that might be the single most important (and therefore read) for most members annually.
6. We would therefore expect, if adopted, a sufficiently long implementation period to ensure all customers receive the new standardised template at the same time (within reason) to avoid confusion.

¹ Institute and Faculty of Actuaries, *Savings Goals for Retirement*, October 2019 <https://www.actuaries.org.uk/news-and-insights/public-affairs-and-policy/ageing-population/adequacy/savings-goals-retirement>

Q3 - Our intended scope – does this make sense or should the scope be broadened, or narrowed?

7. The proposed scope, to exclude DB schemes for the time being, makes sense from a practical perspective as the content will differ. It does not however make sense to exclude non-automatically enrolled (AE) DC scheme members, not least because some schemes will have AE and non-AE members. A more appropriate test might be whether members currently receive a statutory money purchase illustration (SMPI) – if they do then it seems logical to replace this with a new simpler DC benefit statement. We note that the proposal is to initially encourage adoption rather than mandate it. Establishing the clear boundaries of what is inside and outside scope will be more important if standard statements are mandatory.
8. That said, dashboards will need to find a way of presenting DB and DC benefits in a consistent and comparable way to be meaningful to the significant proportion of the population with a mix of both types of benefit. One of the key challenges that the dashboard project faces is translating the two benefit types into a common taxonomy that will enable easy comparison between them and a greater understanding of member's overall savings position.
9. The work that informs the development of dashboards could therefore be used to bring all pension communication into a more consistent form. Extending the simpler statement to members of DB schemes, and non-qualifying DC schemes (if not already in scope), should therefore be seen as an eventual aim of this initiative.
10. The Government and regulators might, in the meantime, consider providing guidance to DB schemes about their benefit statements, to enable any changes to be consistent with the direction of travel for DC schemes. DB schemes should be expecting to have to transition to something more consistent on a voluntary basis, and should be offered some help to do so.

Q5 - Do you agree with these principles, or are there other or additional principles that you think we should consider?

11. Yes, we agree.

Q6 - What do you think are the advantages or disadvantages of this simpler statement?

12. The current template is focussed towards group personal pension (GPP) customers, but in reality members are spread across a variety of different pension vehicles including GPPs, sole-trust DC arrangement, hybrid trust, DC Master Trust. As such, an approach that isn't overly prescriptive is preferable to ensure schemes have sufficient latitude to tailor the information that sits alongside their statement as appropriate to their membership.
13. For example, scheme specific information may need to be added. An introductory paragraph may also be required, plus signposting to other benefits (especially if the DC is part of a wider hybrid arrangement).

Q10 - Is there any information you think is currently not included, or signposted, in the statement in 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?

14. Giving people a benchmark by which to measure their progress, as mentioned in our answer to question 1, could help give people a more complete understanding of their situation and what it might mean in practice. Linking to the PLSA's retirement income targets and the IFoA's related saving goals could be a way of doing this.

15. We would also argue that charges are not given enough prominence on the example statement. They are alluded to in section one, but do not appear explicitly. We discuss this further in our answer to question 16 below.
16. The income conversion references annuities, which are no longer a popular choice for people when they reach retirement. It is of course very difficult to assess potential drawdown income, but as it stands the conversion could give a misleading impression of the income that could be available in retirement. Default decumulation strategies are being slowly developed, and the income shown needs to reflect that direction of travel.
17. More broadly, a simplified statement template like this is closer to a one-size-fits-all approach and may need to better reflect the possibility of wider choices/outcomes.
18. The conversion also does not mention anything about the tax that will be levied on pension income. As this is a significant area of confusion amongst the public, we would strongly recommend that the point is covered.

Q11/12- We would welcome your views on a design principles-based / descriptor-based approach:

19. A principles-based approach would be harder to manage for smaller schemes if they are left to do their own thing in their own way, although initially it might help to avoid compliance expenses. This kind of approach could also undermine the objective of improving consistency of information.
20. A descriptor-based approach seems to be a good compromise between a fixed template and the proposed principles-based approach. It would be preferable in terms of ensuring consistency between schemes, which should not be lost as a key objective of all these strands of work.
21. If either of these two approaches is taken it would still be worthwhile for the Government to provide a non-mandatory standard template to help schemes and promote consistency.

Q13 - 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*
22. There will naturally be inconsistencies in schemes' tendency to adopt the simpler statement. It would seem that those for whom the benefits of adopting are less clear, or the process more onerous, will be less inclined to adopt the statement voluntarily. If voluntary adoption has not been successful to date, this is a sign that mandating the approach in some way could be necessary.
23. A tiered approach to adopting the statement could possibly be adopted where, by default, schemes should adopt the descriptors (or standard template) on a 'comply or explain' basis. For those schemes with a good reason for having a slightly different approach e.g. communications strategy that has been made bespoke for a complex scheme utilising member feedback, this should be taken into account.
- b) where responsibility for maintaining a template; design principles or descriptors for voluntary use should lie: with government or industry.*
24. Given the diverse nature of the pensions industry, and its existing competing priorities, the Government, probably via the Money and Pensions Service, would be best placed to take responsibility for maintaining a template. Whoever owns the template needs to ensure there is a long lead-in time for any changes, which should be as infrequent as possible, and that there is appropriate consultation with the pensions industry. Any template will also need to be complemented

by strong governance. The template should also draw on existing industry work to adopt simplified language, for example the ABI's Making Retirement Choices Clear framework², so that common terms are used across the board.

25. The template should be developed having regard to the different types of pension arrangement that exist and sufficiently signpost members so that they consider their benefits from *all* schemes and the State Pension, plus their wider financial situation when considering plans for retirement.

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

26. Mandating an approach to the core information contained in statements may be the best way of ensuring true consistency between different scheme communications. It would also help to bring these communications into line with what will be shown on dashboards, participation in which will be compulsory for all schemes. However there must be flexibility built into any new rules.
27. A mandated approach will need to be accompanied by help for schemes that gives them an idea of not only what is required of them, but the overarching aim of changing their statements. This could mean giving schemes practical advice, like a standardised accompanying guide for the statement, but also sufficient time to implement the policy and clarity about what needs to be included on the statement. If the Government does pursue a mandatory system with penalties for non-compliance, then it should include a transition period during which any unintended consequences are addressed.

Q16 - (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?

(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?

28. Most research agrees that people currently have a generally poor understanding of how their pension pot is invested, and how schemes' charging structures work. Others have completed extensive research about the best way to show these charges, in percentage or monetary value³. Percentages are less well understood by the general public than monetary amounts, but they do have the advantage of allowing people to easily compare the charges of two separate providers. It is important that, however they are presented, charges should not come as a surprise. It is likely that scheme members, particularly those who have been automatically enrolled and thus had little proactive engagement with the scheme at the time they were enrolled, will not understand the scheme's charging structure.
29. If the size of the charge (or its very existence) does come as a surprise, this could prompt people to engage and take action. It is right that schemes should be transparent about their charges and ensuring they are as clearly presented as possible will help to achieve this. There are also examples of trust-based schemes who pick up the fund charges whilst members pay only the transaction costs, indicating the need for some flexibility in how the statements display charges

Q17 - Do you agree with these proposals? If not, why not?

² ABI, Making Retirement Choices Clear: A guide to simplifying language on retirement options, November 2016, <https://www.abi.org.uk/globalassets/sitecore/files/documents/publications/public/2016/pensions/making-retirement-choices-clear-nov-2016-1.pdf>

³ Boring Money, *Financial Communications Are Broken*, November 2019, <https://www.boringmoney.co.uk/media/5205/financial-comms-are-broken-nov2019.pdf>

30. The IFoA has no strong view on who should be responsible for setting the assumptions, as long as they are considered carefully by a well-resourced team and informed by consultation. There should also be a mechanism for an automatic, periodic review of the assumptions, even if only to ratify the status quo. We await the detail of the DWP's later consultation on the more specific issues associated with this.

“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”***

Q18 - Do you think these are the right assumptions for providing simple, comparable estimates? If not, why not?

31. Broadly yes, we agree with the proposed assumptions. However we would suggest that the DWP reflects on the adoption of a level annuity assumption. The fact that it is currently common practice does not, in itself, justify its use as a planning assumption. If retirees are making a conscious planning choice because they are content that real income declines as their health deteriorates, then it is probably a reasonable planning assumption. Conversely, if they are choosing level annuities because they give a higher initial rate, and not considering the implications thereafter, then it is not a sensible planning assumption. Many individuals will live for over 25 years after retirement and the impact of inflation could be significant.
32. The use of RPI-linked annuity may be a more natural choice for individuals looking to maintain a standard of living throughout retirement. However, such products are much more expensive (as measured by the impact on the initial rate) - but this may reflect the relative scarcity of appropriate matching investments, rather than the inherent cost of providing an inflation-linked income. Moreover, it is debatable whether the pattern of income produced is actually a good match for expenditure throughout retirement.
33. Given the materiality of this assumption for the initial income amount, we propose that the DWP investigates beyond current buying practices by engaging with financial advisers and the Money and Pensions Service on which vehicle is a better planning assumption. In any case, we would expect individuals to become more engaged as they approach retirement, developing their own, bespoke financial plan that will supersede the assumptions contained within the simplified statement.
34. Prior experience suggests that customers do not understand multiple/stochastic projections so we would agree with the proposal to include a single proposal only at this time. Having said that, there is a greater question around how to support better understanding of outcome variability so that people understand that their pension could be worth £X, but it might be as low as £Y. This simplified statement is supposed to be high level, easy to read, and including scenarios is likely to jeopardise that. There should continue to be a way for people who wish to understand what the assumptions underpinning this document are, but it shouldn't over complicate the body of the statement.

Q22 - 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.*

35. We welcome the DWP's approach to this review of communication for DC members, in particular the ongoing attempts to ensure that initiatives like this one are not viewed in isolation. Ensuring that members receive consistent, trustworthy and useful information and communications from the pension providers will be a key part of ensuring they can engage effectively with the broader retirement planning. We have long argued that dashboards have the potential to fundamentally change the way a generation of savers engage with their pension pots. Giving careful consideration to how annual statements might fit with the information available on dashboards will be part of this.

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.*

36. Simpler statements need to be devised in line with the requirements of pensions dashboards. The pensions industry needs to be thinking omni (not multi) channel going forward to enable individuals to engage with and manage their retirement savings in the best way possible. At the heart of that are consistent principles, data and assumptions.

37. Clearly the more prescriptive the heart of a simpler statement is, the easier this is to make happen. The IFoA also sees no reason why a 'core standard with flexibility to build on' approach cannot work for all pensions communications. Without it we won't be able to generate the foothold required with individuals to make them trust, purchase and engage with retirement savings products.

Q23 – *We would welcome your views on:*

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?*

38. A pensions 'statement season' could help to improve engagement, and act as a way of promoting the existence and value of the new statement. More broadly, complementing the new statements with a public awareness campaign will be important to ensure that scheme members are not confused when the statement they receive from their provider looks different from previous years.

39. Moving to a seasonal approach for pension annual statements might be complicated by the fact that in the UK different schemes have different year-end dates, and annual renewal processes which rely on salary increase data are tied to a specific date in the year. This would mean inconsistency between how up-to-date different pension statements from different providers are at a given time. The information on some statements could therefore be many months out of date by the time it is circulated.

40. As we have argued with dashboards, any statement should include information about people's State Pension entitlements alongside their occupational or private provision. For many people the State Pension will constitute a large proportion, if not a majority, of the income they have to fund their retirement. If a simpler statement, or a dashboard, is to provide a truly complete picture of someone's future retirement prospects the State Pension must also be included.