

**PENSIONS AND  
LIFETIME SAVINGS  
ASSOCIATION**

# **SIMPLER ANNUAL BENEFIT STATEMENTS FOR WORKPLACE PENSIONS: PUBLIC CONSULTATION**

**20 DECEMBER 2019**



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## **ABOUT THE PLSA**

We're the Pensions and Lifetime Savings Association; the national association with a ninety year history of helping pension professionals run better pension schemes. With the support of over 1,300 pension schemes and over 400 supporting businesses, we are the voice for pensions and lifetime savings in Westminster, Whitehall and Brussels.

Our purpose is simple: to help everyone to achieve a better income in retirement. We work to get more money into retirement savings, to get more value out of those savings and to build the confidence and understanding of savers.

## INTRODUCTION

The PLSA supports and welcomes the Simpler Annual Benefit Statement (SAS) project and intent. It is key to ensure members have access to information about their pension saving information – and that this should be presented in a consistent and simple way in order to achieve the overarching goal of engagement and understanding.

The PLSA has been promoting the Simpler Annual Statement template as an example of good practice. We hosted the launch of the Simpler Annual template at our Annual Conference 2018, it features in our publication, *Hitting the Target*, and is hosted on our website alongside the technical guidance. PLSA also co-chairs the Cross Industry Steering Group on the SAS.

Many of our members like the template as an engagement tool, and 85% of respondents to our membership survey have said they would like to adopt it on a voluntary basis. But there is also an appetite for some elements of flexibility. Our members would like to be able to adapt the statement to the specific scheme membership and respond to research findings; to align with other scheme engagement strategies based on research with their members; and incorporate wider pension benefits and total reward packages, and include more interactive online tools.

Therefore, in order to achieve a higher adoption rate and reach more savers, PLSA developed the descriptors, as a more flexible way of delivering the objectives underlying the SAS template of simplicity and consistency.

We are also therefore very keen and are committed to further work to encourage and support the industry to voluntarily adopt the SAS template, descriptors and design principles, but would not support mandation at this time..

A voluntary approach enables a number of the advantages as outlined above – but we also feel that, looking at current fin-tech developments and wellbeing packages, there are more far reaching and innovative ways of achieving the shared objectives of greater engagement and understanding.

- The dashboard/s development may overtake the annual benefit statement as the primary form of engagement with members – and will provide key information about pension savings, in a simple and consistent way. Our Generation AE research indicates scheme members would like information provided on a self-service basis. We know our PLSA members are keen to start preparing for dashboard/s and are currently awaiting the data standards decisions. This feels like the most appropriate focus of attention in terms of any significant systems and IT changes needed to provide information to scheme members in a uniform and specified way;
- There are a number of schemes already doing innovative things such as using interactive tools and animation videos to explain key facts but also enable engagement with some of the key questions the simple annual benefit statement is aimed at helping to answer – we think it is important to not detract attention and resources from those approaches which mandating a more prescriptive way of doing things could risk doing.

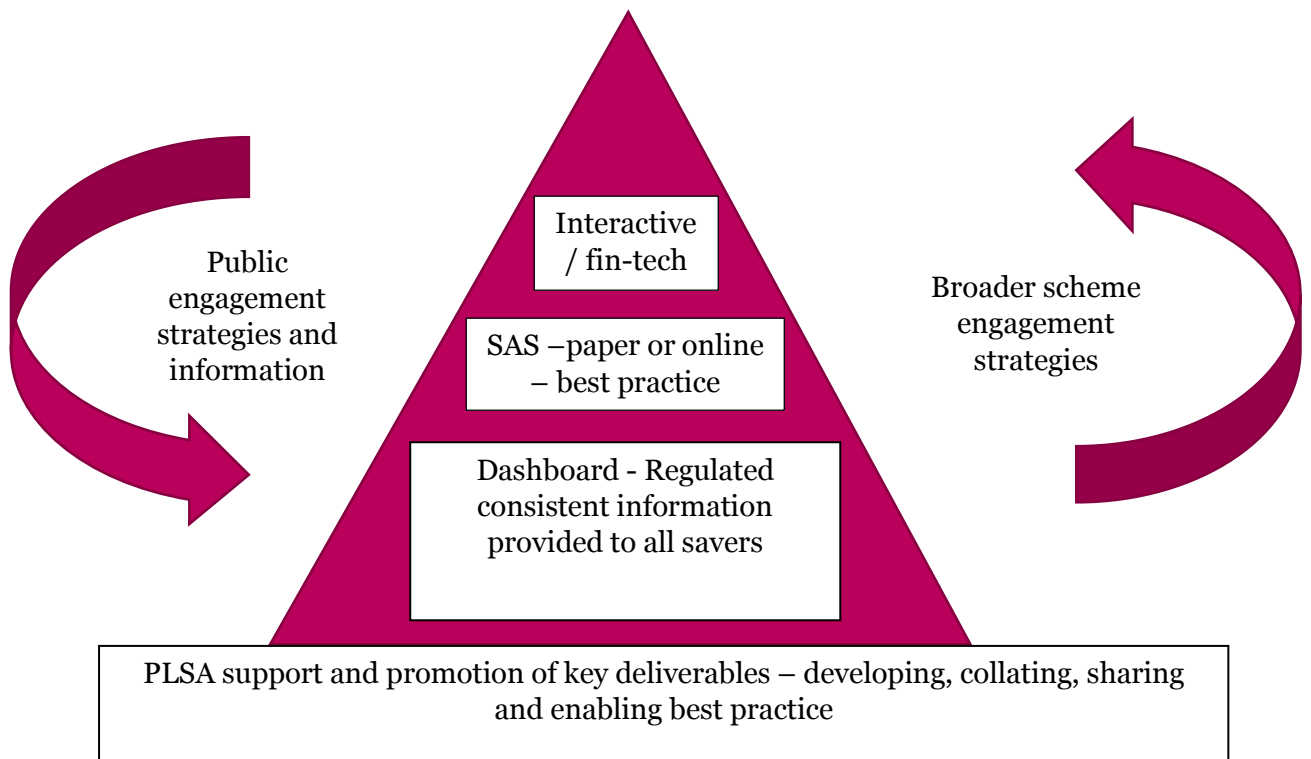
- With a more interactive and fin-tech based approach comes a better understanding of what achieves engagement as well as provision of information – this should be a key focus for industry including how to target members with more personalised information and prompts that a paper based template may not achieve.

PLSA has already carried out preparatory work to implement a promotion strategy. The consultation process has allowed us the opportunity to survey our membership and demonstrated that there is an appetite to adopt on a voluntary basis. The PLSA has an excellent track record in setting standards and getting pension schemes to adopt, as can be seen with our Pensions Quality Mark, Cost Transparency Initiative and most recently with our Retirement Living Standards. If government were to settle on a voluntary approach to adoption, it can be confident that the PLSA would promote and drive this forward with other stakeholders.

On the other matters in the consultation –

- we broadly support the approach to the standardised assumptions – and have welcomed being able to participate in the working group. We think further discussion is needed however on the annuity assumptions and how the investment assumptions are articulated.
- we would also support the including costs and charges on the benefit statement.
- on the coloured envelope and statement season –schemes are increasing sending out electronic statements and some already harness a particular time period to maximises impact. Other organisations spread the statements over the year. In these circumstances a shift to a seasonal basis, could lead to significant seasonal resource demands or negatively affect the impact on engagement.

In conclusion - PLSA and our members are keen to support the project and many are enthusiastic about voluntarily adopting the template and the descriptors. We propose maximizing on that appetite over the next year, in the anticipation that the dashboard will overtake this form of information provision, and provide a very specific and regulated consistency going forward. Rather than funnelling scheme regulatory focus onto a mandated template or descriptors for the annual benefit statement, we believe our proposed approach will still deliver consistency and simplicity and ultimately engagement. Voluntary take up will also enable schemes to further develop additional fin-tech that more targeted information and engagement specific to their schemes membership needs.



## CONSULTATION RESPONSE

### **Question 1 – Simplicity, consistency, and engagement ambitions**

We are very keen to support the twin ambition of consistency and simplicity – and believe this will help to build understanding. Consistency becomes increasingly important in a world where people will have more than one employer and more than one pot. Building this information around the three key questions also brings a focus that we support as good practice.

We think going forward the dashboard will be a key component of building this provision of information and in a simple and also consistent format – all provided in one place and accessible to members on demand.

A key question remains – as to how far this will create greater engagement. We know from industry statistics<sup>1</sup> that engagement with the statement increases as individuals approach retirement. This suggests it is the proximity or urgency of a life event that prompts greater engagement, rather than necessarily solely the format.

However, this should not deter from encouraging simplicity and consistency in annual benefit statements – but it may be that other forms of communication secure greater engagement – such as through more interactive and fin-tech services and offerings.

### **Question 2 - Relationship with wider communication materials and engagement approaches**

We believe for those schemes that have not already simplified their annual benefits statement, the descriptors will make it much easier to do so as very little design/compliance work will be involved.

Where schemes have already invested in research and design work to improve their communications with members (including video statements and easier to read but not two page statements), we feel it is unnecessary to disregard this work and this is why the PLSA prefers a voluntary approach to adoption.

Some schemes with different types of benefit have also ensured they communicate to savers in one document in relation to all their benefit types, and some wrap up pension communication with total rewards packages. The proposed three approaches wouldn't necessarily cater for this. Switching approaches to adopt or comply with a requirement to deliver the template or descriptors could come at considerable cost and potentially damage existing levels of engagement currently achieved.

In the next couple of years, the dashboard will enable consistency – which will also come at a cost. But in the mean-time voluntary take up of the descriptors could achieve a great deal. The cost will vary across schemes and also depend on the schemes third party administrators and providers.

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<sup>1</sup> The FCA's Financial Lives Survey shows that 52% of those with one or more DC schemes remember receiving and reading their annual benefits system, with 41% either not remembering whether they have received or not reading their statements. People remember receiving and reading their statements the closer they get to retirement as the figure climbs to 71% for 55 to 64 year olds.

### **Question 3 - Scope**

To achieve the focus on consistency we would suggest that the scope described on the consultation documents may be too narrow. For example, inclusion of personal pensions will be important to give DC savers a consistent view across a number of schemes.

Similarly, although DB and Public Sector schemes are out of scope, they should also be encouraged to produce more concise statements and to make them clear to understand and jargon-free.

### **Question 4 - Statement Length**

The PLSA supports shorter statements and are promoting the two page Simpler Annual Statement template as an example of good practice. In the descriptors we also indicated that the key information across the three sections should fit into a two page statement.

We do however appreciate that not all demographics will engage with two pages in the same way and that some schemes have found that their members like concise statements but prefer slightly longer than two pages.

A check across a sample of our members showed that around half of them already have statements that are either 3-5 pages. 85% of that sample were very likely or likely to adopt the template or the descriptors (at two pages long), on a voluntary basis.

All the approaches indicate a two page format – if schemes are able to append additional information to inform the member of key other information than this would enable a uniformity of structure and content in first two pages, and enable scheme flexibility to add other things after that key information has been imparted up front.

### **Question 5 - Principles**

We broadly agree with the principles you outline – we think the primary driver or objective should be the evidence base for improving engagement, which we think needs further work. The outcome of that evidence needs to then be considered in the light of the other principles – such as extent to which any one approach allows for sufficient flexibility for:

- future regulatory changes;
- innovation in communication tool and technology;
- delivers value for members (including cost implications); and
- how far it should and does allow for personalised and accessible statements

In addition – we think additional factors should include:

- the extent of flexibility for schemes to focus on the needs of their members in terms of the form and timing of communications;
- fit with wider engagement strategies;
- fit with wider communications – i.e. including communications regarding other pensions benefits and wider total reward strategies;
- and a measure of what type and extent of engagement is being sought from this annual statement compared to wider engagement approaches.



## **Questions 6 – 10 - A simpler statement template**

The statement template provides all of the information that most savers are likely to engage with - in 2 easy to read pages, and the three sections give the statement an easy to follow narrative.

We think the layering is helpful – i.e. so that some savers can just glance at information in the circles and understand what is going on with their pension, whilst others can look to the bank statement format in section 1 or explanatory notes for further information, and still others can follow signposting for even more in-depth information about investments.

If it is mandated, the disadvantages are that the template becomes too prescriptive for schemes that have other good examples of engagement and that the template is not able to adapt quickly enough to innovation and changes in regulation.

## **Question 11 - A design principles based approach**

The design principles work well in tandem with the template and descriptors as part of a voluntary approach to adoption. They may however be slightly too high level to, by themselves, achieve the consistency the project is aiming to achieve.

## **Question 12 - Descriptors**

We believe that the descriptors would deliver simplicity and also greater consistency in annual benefits statements – in comparison to the design principles and compared to current practice. The descriptors are based on the template, and we believe they provide enough information about expectations on structure and content to generate sufficient similarity and familiarity for savers who have several schemes. They also enable a degree of flexibility for schemes that the template does not, and so enable more schemes to adopt more quickly and evolve over time, and potentially be more responsive to changes in regulatory approaches.

We know a number of our members are keen to adopt the descriptors or the template (on a voluntary basis) – up to 85% of our survey respondents. We also know that once we have a key set of adopters that can help influence others. There are third party administrators and providers who provide services to a number of schemes – so adoption can grow over time with targeted promotion. This will help drive costs down. Costs will vary though according to a number of factors including: level of variation to current practice; other changes in train in individual schemes; and whether these data points align with the awaited dashboard data standards.

## **Question 13 - Achieving change – mandate or voluntary approach**

We have surveyed our membership and see strong support for adoption of the simpler annual statement template or descriptors on a voluntary basis (85% of respondents). We believe that using the Simpler Annual Statement template as an example of good practice and coupling this with the descriptors as guidance for adoption is the best approach.

If voluntary adoption is the outcome of the consultation, PLSA are happy to be the body to both promote and support the maintenance of the material – we have a good track record in delivering standards and initiatives that gain good uptake in the industry (PQM, CTI, RLS).

The advantage of this approach is the group could also look at widening the scope of simpler annual statements to cover other pension schemes and other points of the retirement journey, such as decumulation. It would also be able to respond to other regulatory changes and adapt to wider change in the landscape such as the pension dashboard and other fin-tech solutions.

We do not support mandating because we think there is some way to go to maximise voluntary uptake and achieving consistency and simplicity through a voluntary approach focusing on the descriptors and template. Our surveys with members would indicate there is appetite to adopt on a voluntary basis.

The major disadvantage in mandating the simpler annual statement or any of the approaches is that other good examples of engagement by pension schemes could be cast aside. Some of our members have created innovative statements, video statements and digital engagement that could be lost in a mandated approach.

We think the voluntary approach is a more efficient and effective way to achieve change and secure best value for members, compared to a mandated approach. This is due to a combination of the significant appetite to adopt on a voluntary basis, comparative costs to schemes and the Regulator, and the ability to maximise on the opportunities to build on wider good practice. For some schemes with different types of benefit, and where they have wrapped up their pension communications in online communications and also into wider total reward summaries, mandating could be very expensive and potentially lead to a worse outcome in terms of engagement.

#### **Question 14 – 16 – Costs and charges**

We agree information on costs and transaction charges should be included in the annual benefit statement. In principle this is the right thing to do. A pounds and pence figures would seem an intuitive way, from a saver perspective, to receive the information, and putting this in to context of fund performance, % of AUM etc. would be helpful to reduce the risk of poor decision making. We think this needs further work with industry to make sure any figures used are both accurate and understandable.

#### **Question 17 - Standardised Assumptions**

We support DWP taking over these assumptions, and we agree with the majority of the assumptions. There are three elements where we feel more consideration should be given..

DWP propose to use a single life annuity. TM1 and COBS rules currently allow both to be quoted – so we propose that this should remain unchanged. We think this flexibility for schemes to decide which to use is important. For example, using a joint life annuity in the assumptions where the scheme knows this relevant to the individual, starts getting people thinking about their household income. In other circumstances where that information is not held, a single life annuities will be relevant to all recipients and joint life annuities may not be. Discussion about annuities and other decumulation options is something that should be dealt with in other scheme communications, rather than the annual benefit statement – but for the purpose of assumptions we think the option should remain open to schemes.

DWP also propose that the annuity assumptions are on a level basis – TM1 and COBS rules also currently allow for either inflation linked and flat rate annuities to be used – we also think that this flexibility for schemes should be retained.

On investment returns – we would also expect to see a standardised projected growth rate for alternatives, as this asset class is being used more in the default investment strategies of pension schemes.

### **Question 19 -21 - Costs of implementing the options**

Mandating of the template, descriptors or design principles would bring the highest cost – especially for those schemes with different types of benefit, and where they have already incorporated their pensions communications with wider total rewards packages – and we would need to question whether this would be an improvement for those savers in this circumstance.

Also the timing of implementation will affect costs – the dashboard is something we are very committed to and will also require certain data standards, which may involve reconfiguration of IT system and admin by schemes – those data standards are yet to be confirmed.

The statement season would also attract certain costs which again would vary across schemes – those which need to re-align from current practice, and those relating to resource for peak activity due to scale of the operation to send out and also cater for incoming enquiries.

### **Question 22 - Impact on innovation and Pension Dashboards**

We believe in a voluntary approach to adoption via the descriptors, and we believe that this would allow for greater alignment with digital innovation.

There are a number of schemes already doing innovative things which we would not want to be detracted from or for innovation to be limited by mandating a more prescriptive alternative way of doing things. This include for example schemes who wish to focus on their specific audiences and who have researched the best way of reaching their members, and those who wish to achieve more engagement as opposed to a focus on the provision of information.

The voluntary approach to adoption of the proposals regarding the principles, descriptor or template, will also enable greater agility to respond to the development of the dashboard than a mandated regulatory approach. Given there will be strict requirements in relation to the form and content of data that schemes will need to provide to the dashboard, it would seem sensible to press on with a voluntary approach and review success of that in line with the confirmation of the data standards required for the dashboard – this will give schemes one key focus for any systematic reviews need of their IT systems and data provision.

The dashboard/s development may overtake SAS as the primary form of engagement with members regarding the basic information about their savings, in a way our Generation AE research would indicate members would like it – on a self-service basis. We know our PSLA members are keen to start preparing for dashboard and this feels the most appropriate focus for attention in terms of providing information to scheme members.

### **Question 23. Orange envelope and statement season**

We are not convinced that there is a sufficient evidence base to say that this would work. We also think this might not be the channel to focus on given the shift to online communications.

Pension Wise tested prompts to take up pensions guidance on orange paper and this didn't result in a significant uptake. Orange envelopes worked well with the Swedish State Pension, but we are not clear whether it was simply the coloured envelope that created this engagement.

There are also some challenges around the security risks this could pose if it is obvious that certain coloured envelopes contain private financial information.

Currently many pension schemes tend to send their statements out throughout the year and this allows them to smooth out resourcing for operational and customer services roles. If there were a statement season this may involve hiring more staff on a seasonal basis and extra cost as a result. These costs could be balanced out if there were evidence that this would work, but we are yet to see this evidence.

Our concerns are that this could add extra costs for schemes with little evidence of creating better saver engagement. There may also be better alignment to life moments taking place by using birthdays or anniversaries of scheme start dates. We would want to see a better evidence base before taking an absolute view on something that ultimately could result in a cost to the saver.

It is important to note that other schemes time their statements in a way that is personalised to their savers – either particular patterns in particular work force or industry – or significant to the individual or scheme. This could also be lost by mandating statement seasons.

With the introduction of pension dashboard/s, where savers will be able to access their statements at anytime of year, the timing of statements around one season would be out of kilter to this.

### **Question 25 - Equality Act**

It is important to maintain the option of paper statements for those that are otherwise digitally excluded and those who may become digitally excluded in the future.

It is important that work is carried out with consumer and disability groups to ensure that statements work in all formats, e.g. braille, extra-large print, read-out loud.

It is important to keep the adoption strategy voluntary to mitigate for changing requirements of savers with protected characteristics, who are currently under-pensioned.

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