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**Response by: Which?**

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## Consultation Response

### **The Department for Work and Pensions' consultation on *Pensions dashboards: Working together for the consumer***

#### **Summary**

- Which? strongly supports the government's commitment to facilitate industry to lead the creation of pensions dashboards. We broadly agree with the government's aims, objectives and design principles, and its commitment to take steps to provide State Pension data via dashboards.
- We particularly welcome that the government is prepared to legislate to compel pension schemes to provide their data to pensions dashboards. Large pension schemes, which have the vast majority of memberships, should be required to provide their data in time for the launch of the first dashboard. The government's proposed timetable of three to four years is reasonable if this endpoint applies to the remaining pension schemes.
- Dashboards should at a minimum initially include comprehensive data – including current values, retirement income projections and charges – from all large pension schemes, as well as the government's existing Check Your State Pension service, and a register of membership of all other pension schemes but not necessarily data on an individual's pension savings.
- We agree that the Single Financial Guidance Body's dashboard should be launched first. While we support commercial dashboard providers in principle, there needs to be a robust regulatory framework in place first. We also support a single pension finder service as this will provide consistent information to all dashboards.
- We broadly agree with the government's proposals for dashboard operators to gain the consent of users. However, we do not agree that existing regulation is sufficient to cover what will be shown on pensions dashboards, or to guard against risks arising from commercial providers of dashboards.
- We welcome the government's decision to ask the Single Financial Guidance Body to appoint an independent chair to lead an industry steering group to oversee the dashboard's launch and future development. It is particularly important for the group to have a balance of consumer and industry representatives. Which? would be delighted to be part of this group, to help represent UK consumers. However, the government should clarify who the chair of the steering group will be accountable to.

## Further detail and responses to consultation questions

### **Which? strongly supports the government's commitment to facilitate industry to lead the creation of pensions dashboards [Consultation question 1]**

The pensions and retirement income sector supports 34 million consumers either saving for or taking a private pension in the UK. Decisions on pensions can therefore have a significant impact on the financial well-being of consumers.

The UK pension system has also undergone four key shifts in recent years:

- a new, flat-rate State Pension has been introduced, with increases to the age at which it will be paid;
- employers are now more likely to offer defined contribution schemes than defined benefit schemes, which are typically more generous;
- the government's policy of auto-enrolment has led to around 10 million more people saving into pension schemes, which are predominantly defined contribution schemes; and
- the government's pension freedoms have enabled people to access their pension savings earlier, and to choose from a broader range of options.

As a result of these shifts in government policy and the wider pensions market, many people are now exposed to new responsibilities and risks. Individuals bear the investment costs and risks of the defined contribution pension schemes into which they have been invested by their employers. On average, individuals will also have 11 pension pots over their working lives, as under auto-enrolment employers are each required to provide a pension scheme for their eligible employees. When accessing their retirement savings, individuals, including those who have not previously engaged significantly with their pensions, are having to make retirement income choices that should be taking into account risks such as inflation, longevity and investment returns. Many are continuing to bear such risks over time by not opting for an annuity, which would provide a guaranteed income.

Despite these new responsibilities and risks, people's understanding of their pension savings remains low. There is clear evidence that people do not currently understand their pension savings sufficiently, and this is made worse by the difficulties people have keeping track of their pension pots. For example, Which? research has found that this lack of basic knowledge is even common amongst people close to the age when they can access their pensions:

- nearly half (47%) of those aged over 50, employed and with a personal pension are not confident they know the total amount of money they have saved in their pension pot(s);

- a fifth (21%) say they have never checked how much they have saved in total in their pension pot(s); and
- one in 20 (5%) last checked five or more years ago.<sup>1</sup>

It is difficult to put a value on the detriment to people from such low understanding and engagement. As the government notes, Experian has estimated that the value of lost pension pots alone is around £400m. The wider harm is likely to be considerably greater as it will include inadequate retirement planning and poor decision-making at the point of retirement.

Government has a clear role to help raise understanding and engagement to reduce the detriment suffered by individuals and to ensure they save adequately for retirement. Better engagement can also drive competition if some consumers can be encouraged to shop around and consider moving or consolidating their savings, so long as consumers can be given the necessary information and support to make those choices.

Pensions dashboards are a key part of driving better understanding and engagement. Indeed, providing basic information to members in a comparable online format should nowadays be an essential part of providing a pension scheme. Other measures are also complementary, such as guidance via Pension Wise and the new Single Financial Guidance Body, and better annual pension statements and wake-up packs. No single tool or form of communication will transform engagement on its own. Nor should such measures just be aimed at individual members. Greater transparency for pension scheme trustees and independent governance committees, who act on behalf of members, can also significantly improve outcomes for pension scheme members.

Nonetheless, we do not yet know to what extent individuals will use pensions dashboards. Every effort should be made to design pensions dashboards in a way that makes them accessible, relevant and user-friendly to different individuals. There also needs to be a concerted communications campaign to help build awareness and understanding.

Given the inherent information asymmetries and behavioural biases in pensions, better understanding and engagement alone are unlikely to be sufficient to ensure good outcomes. We have therefore supported legislative and regulatory protections including the auto-enrolment charges cap and the creation of NEST. We recently commissioned research comparing charges for defined contribution schemes across major economies, which found that charges in the UK are currently reasonable when compared with other countries, and that the charges cap has successfully curtailed a long tail of expensive schemes.<sup>2</sup>

To further strengthen protections for consumers, Which? is also calling for:

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<sup>1</sup> Which?, *The pensions dashboard: How can we make sure it works for consumers?*, p.11

<sup>2</sup> Pensions Policy Institute (2018), *Charges, returns and transparency in DC - what can we learn from other countries?*

- 'investment pathways' for retirement income products, as now proposed by the Financial Conduct Authority;
- a cap on charges for non-advised consumers opting for one of these new retirement income investment pathways; and
- greater alignment of regulation and guidance issued by The Pensions Regulator and Financial Conduct Authority across different types of pension schemes to help improve governance and to drive down costs and charges.

### **We broadly agree with the government's aims, objectives and design principles [Consultation question 2]**

We agree with the government's stated aim 'to enable citizens to access their pensions information online, securely and all in one place, thereby supporting better planning for retirement'. We also agree that this aim appears to be widely shared across industry and consumer representatives.

We agree with the government's six outcomes that dashboards can support as a minimum. The proposals we set out here aim to ensure that the initial dashboard is able to support all of these outcomes. We particularly think that an individual needs to see information on all of their pensions, including their State Pension, if they are to achieve many of the government's intended outcomes. Without such information, it would for example not be possible for an individual to fully and reliably estimate their projected retirement income, or to reconnect them with all of their lost pension pots. Incomplete information, while still an improvement on the current situation, could therefore potentially lead to worse outcomes for individuals.

We also support the government's three design principles: putting the consumer at the heart of the process, ensuring individuals' data are secure, accurate and simple to understand, and ensuring that the individual is always in control over who has access to their data. These are rightly focused on improving the individual's experience of the service, and mitigating risks to individuals. It is therefore critical that the consumer voice is fully considered and built into the governance model for the pensions dashboard initiative.

### **The government has rightly made clear it is prepared to legislate to compel pension schemes to provide their data to pensions dashboards [Consultation questions 3-7]**

We strongly agree that it should be compulsory for pension schemes to provide the relevant data to pensions dashboards. A voluntary approach is unlikely to secure complete coverage of pension schemes, and could take years to provide any meaningful coverage. Individuals should simply have a right to access their pension information on all their pension schemes.

As we set out in our report on the pensions dashboard,<sup>3</sup> some pensions schemes may need longer than others to provide data to pensions dashboards. We proposed a staged implementation, with larger schemes providing data first. To ensure that dashboards have sufficient coverage to be useful and reliable services for individuals, as a minimum the Single Financial Guidance Body's initial dashboard should include comprehensive data from all large pension schemes, which have the vast majority of memberships, as well as the government's existing Check Your State Pension service, and a register of membership of all other pension schemes.

We broadly agree with the government's proposed timetable of three to four years as an endpoint for pension schemes to provide data to dashboards. However, the government has proposed that this endpoint should apply to most schemes, with the very smallest pension schemes (Small Self-Administered Schemes and Executive Pension Plans) exempted from providing information to dashboards. We disagree with this and argue it should instead apply to all pension schemes. While the regulatory burden on pension schemes should be proportionate, this would be satisfied if the very smallest schemes are required to provide at least a record of all their memberships. These very small schemes would not however have to provide full data on an individual's pension savings. This would ensure that an individual can see a complete record of all their pension schemes.

**The dashboard should initially show comprehensive information on a person's pension schemes, including current values, projected retirement incomes and how much they pay in charges [Consultation question 8]**

Dashboards should be able to provide answers to basic questions that individuals may have about all of their pensions. For example, how many pension schemes am I a member of? How much do I have in savings? How much could these savings provide in retirement? And how much do I pay for my pensions? Answers to most of these questions are covered in the information already provided by pension schemes to members in annual statements, but this would benefit significantly from being brought together in one place in a comparable format.

The recently developed Simpler Annual Statement, which was developed by an industry group and endorsed by the Pensions Minister, provides a better way to present this information that could be adopted for pensions dashboards. However, we are disappointed that the Simpler Annual Statement does not include information on charges. This information is instead combined with investment returns. It will therefore be impossible for a consumer looking at such a statement to know how much they are paying for their pension.

The government has also stated in its feasibility study for pensions dashboards that including information on charges on dashboards could be inappropriate but has not explained why. It is fundamentally important for consumers to be told how much they have paid for any product or

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<sup>3</sup> Which?, *The pensions dashboard: How can we make sure it works for consumers?*,

service, including their pension. Charges and costs taken can have a significant impact on net returns. An increase in annual fees from 0.5% to 1% would mean the individual having to raise contributions by around 10% in order to achieve the same retirement income.<sup>4</sup> For workplace pension schemes, individual members have little oversight over the scheme. Most are auto-enrolled onto a default selected by their employer and rely on a board of trustees or independent governance committees to ensure that schemes are offering value for money.

Beyond this we see two tangible benefits of including charges on dashboards. First, 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. Indeed, 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.<sup>5</sup>

Second, in later life, members of defined contribution schemes must make challenging decisions about how they access their pension savings and turn these into an income. Such decisions are made more challenging if vital information on how pension schemes function are hidden from individuals when they are saving towards their retirement. More broadly, a paternalistic approach that believes consumers are best served by not knowing how much they pay for pension scheme services is irreconcilable with the objectives of the pension freedoms and the expectations placed on consumers in retirement.

For all but the smallest schemes, we propose that they should initially be required to provide dashboards with:

- pension scheme details;
- entitlements;
- pot sizes;
- current contributions;
- an annual charge figure; and
- a projected retirement income (which would be combined with the State Pension).

Pension schemes should be required to provide further information to pensions dashboards in the future, if there is strong evidence that this could lead to significant benefits for individuals.

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<sup>4</sup> Pensions Policy Institute (2013), *What level of pension contribution is needed to obtain an adequate retirement income?*

<sup>5</sup> Pensions Policy Institute (2018), *Charges, returns and transparency in DC - what can we learn from other countries?*

For the very smallest schemes, we propose that as a minimum they should have to provide scheme details, including contact details. These schemes could be required to provide more detailed information in the future, depending on the user experience of individuals who are members of these schemes.

**We agree that the Single Financial Guidance Body's dashboard should be launched first, followed by a robust regulatory framework to enable commercial dashboard providers to operate by accessing a single pension finder service [Consultation questions 9,10,12]**

We support a government-backed pensions dashboard provided by the Single Financial Guidance Body and in principle we support proposals for commercial dashboards. The Single Financial Guidance Body's dashboard can help to ensure that all groups are able to access a dashboard in a way that best meets their needs. This is likely to require offline access, which is unlikely to be a priority for commercial providers of the dashboard due to the additional costs involved. Offline access could be delivered as a standalone service or offered via one of the Single Financial Guidance Body's existing guidance services.

By enabling an individual to access their pensions data safely and securely via non-government providers, this can help to support take-up and engagement with dashboards by increasing the number of channels that individuals can access this information and increasing awareness. It can also help drive innovation to enable individuals to make the most of the information available via dashboards. This will only be possible if dashboard providers are permitted to provide tools and services using this data, which could include the ability to aim for particular target incomes in retirements based on likely spending, to alter how much they currently save, or to switch or consolidate pension providers.

These potential benefits outweigh the potential risks from commercial dashboards as long as the government requires the provision of a dashboard to be regulated by the Financial Conduct Authority and there is a robust regulatory framework, including covering potential business models. It could take some time to set the regulatory framework for commercial dashboards. We therefore agree with the government that the Single Financial Guidance Body should launch a dashboard first, since the risks from such a dashboard are less significant. The lessons from how individuals interact with this dashboard can then also be used to help refine the regulatory framework for commercial dashboards.

We support the government's proposal for a single pension finder service. Unlike with dashboard providers, the potential benefits of having multiple providers do not outweigh the potential risks. In particular, multiple providers could mean that an individual accessing more than one pensions dashboard would see inconsistent information on their pensions because the dashboard providers use different pension finder services.

**We broadly agree with the government’s proposals for dashboard operators to gain the consent of users, however we do not agree that existing regulation is sufficient [Consultation question 11]**

Which?’s report on the use of personal data found that consumers generally recognise the greater convenience and choice that the digital revolution has brought them.<sup>6</sup> Their attitudes to the commercial uses of data are finely balanced, and they accept the need to share data in return for a clear benefit. However, we also found that people have low awareness of the full spectrum of ways in which data is collected about them, and how that data may affect what they see and the choices they have.

While we support proposals for commercial dashboards in principle because of the benefits that these could help to provide for consumers, the government is right to guard against potential risks particularly on the use of personal data. We agree that in line with the General Data Protection Regulation firms should not be allowed to access an individual’s pensions data for any purpose unless they have specific consent of the user, and that individuals should have the ability to manage any consents, including revoking those consents.

The government should also make clear that:

- firms should be required to proactively ask for individuals to reassert consent to access their data;
- data should only be used in the context for which the user has given consent;
- consent should be informed and clear; and
- third parties given permission to access dashboards should have appropriate security measures in place when accessing data.

In addition the government should amend the Regulated Activities Order to make the provision of a dashboard a regulated activity which is regulated by the Financial Conduct Authority. The Financial Conduct Authority should also introduce detailed regulatory rules and guidance on what information providers can show in addition to the core information provided by the pension finder service, and how they present this information.

For the first time, information on a person’s pension schemes will be presented side-by-side in one place. While most of the information will not be new, it needs to be comparable. Currently, this is not necessarily the case as different bodies set the rules for different types of pension schemes, and within those rules pension schemes are in some cases given flexibility over what methodologies they use and how they present these data. The Financial Conduct Authority, Financial Reporting Council and The Pensions Regulator should introduce common standards, particularly for reporting projections of retirement incomes, and for costs and charges.

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<sup>6</sup> Which? (2018), *Control, Alt or Delete? The Future of Consumer Data*

**We welcome the government's decision to ask the Single Financial Guidance Body to appoint an independent chair to lead an industry delivery group, but the structure for governance and accountability needs to be clarified [Consultation question 13]**

The full extent of consumer benefit will only be felt if decisions on how dashboards will work are carried out collaboratively, with government, industry and consumer organisations involved throughout the entire development process. It is particularly important for the group to have a balance of consumer and industry representatives. Which? would be delighted to be part of this group alongside a range of other consumer representatives to help deliver a system for pensions dashboards that delivers for consumers.

The government has proposed that the Single Financial Guidance Body would appoint a chair of the steering group, which would be representative of industry, consumer bodies, and government. We agree that there should be an independent chair, who can act as the final arbitrator where consensus cannot be agreed between the members of the steering group. However, it is currently unclear who the chair of the steering group would be accountable to. This is crucially important since there are likely to be a number of issues where representatives disagree. The chair needs to justify their decisions and the processes taken to reach them. Before further work commences on pensions dashboards and a chair and steering group are appointed, the government should set out who the chair will be accountable to.

We agree that in the long-term bringing together people's pensions data with their other financial data, including data available via Open Banking, could bring significant benefits to individuals, but that the priority in the short term should be to deliver pensions dashboards. The proposed steering group should in the meantime consider how they can future proof the pensions dashboard initiative to ensure that people's pensions data can potentially be combined with other financial data.

**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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