



Consultation Response

DWP consultation on *Simpler annual benefit statements: draft regulations and statutory guidance*

Which? supports the proposed regulations for 2-page annual benefit statements but any schemes making significant changes to the proposed template should have to evidence that their approach works

Which? agrees strongly with the Government that there needs to be a range of interventions to help drive engagement in pensions, utilising different channels and moments. Annual benefit statements are likely to continue to be an important part of how pension schemes engage with consumers in the coming years, even for schemes that offer online services. 58% of adults with at least one defined-contribution pension recall receiving their annual statement and having read it.¹ While this figure could be higher, it highlights that annual benefit statements have significant reach.

Many annual benefit statements remain overly long, complex and difficult to compare between schemes. Just 25% of those who read their statement said they understood it very well.² Greater simplification and standardisation can help to improve standards across the sector and ensure greater comparability for consumers when looking across their different pension schemes. Research on pension wake-up packs, for example, has shown that reducing information to a single page resulted in consumers being ten times more likely to visit the Pension Wise website compared to those receiving much lengthier documents.³

Which? believes that the government's proposed approach will help provide sufficient standardisation between schemes, while enabling some innovation for schemes that are better placed to conduct research and testing among their members to determine the approach that delivers the best outcomes. We would expect most small and medium-sized schemes to adopt the government's proposed template virtually unaltered. For any schemes that do make substantial changes to the proposed template, they should be required to provide evidence that their statements are understandable and comparable.

DWP should also ensure there is a continued programme of research and testing of the mandatory template, so that the template can be improved over time and that it keeps pace with other changes in the pensions industry, such as requirements for pensions dashboards.

¹ FCA (2021), *Financial Lives 2020 survey: the impact of coronavirus*, Figure 7.23, p.169

² FCA (2021), *Financial Lives 2020 survey: the impact of coronavirus*, Figure 7.23, p.169

³ The Behavioural Insights Team (2017), *Improving engagement with pension decisions: The results from three randomised controlled trials*

This evidence would then provide a benchmark for schemes to exceed in their research and testing of their own potential approaches. DWP should also seek to learn from what works among schemes that take alternative approaches.

Two further areas where the proposed regulations should be strengthened

We recommend that DWP builds on its proposed regulations and guidance to:

- **Require schemes to show a personalised pounds and pence figure for costs and charges on annual benefit statements.** Some schemes voluntarily provide this information already, and all income drawdown providers are also required by the FCA to show this information. There is some international evidence that transparency on charges for consumers has had a positive impact on engagement as well as helping to create a relatively high level of consumer trust in the pensions industry.⁴ Better understanding of what individuals pay for their pensions is also crucial to prepare people for when they are confronted with decisions in later life, when people with savings in defined-contribution schemes must make challenging decisions about when and how they access their pension savings.
- **Apply the proposed requirements to all defined-contribution pension schemes, rather than just auto-enrolment schemes.** Issues with engagement are not limited to auto-enrolment schemes, as evidenced by the FCA's findings in its non-workplace pension market study.⁵ While we understand why auto-enrolment schemes may be the priority to begin with, for someone to be able to easily compare all of their pensions information all types of defined-contribution schemes need to be covered.

The broader reforms that the government should continue

We also support the many other initiatives that the government is undertaking or exploring to help provide better pension information to consumers:

- **We support the DWP's work to standardise rules around how pension schemes calculate projections of what an individual's pension savings could be worth.** The use of different assumptions for projections can lead to vastly different projections between schemes, which can mislead people about the potential value of their pension savings. It is an issue that will particularly be highlighted by pension dashboards, which for the first time will bring together information on a person's pension schemes in one place. Currently, different bodies set the rules for projections

⁴ Pensions Policy Institute (2018), *Charges, returns and transparency in DC - what can we learn from other countries?*

⁵ FCA (2019), *Effective competition in non-workplace pensions*

for different types of pension schemes, and within those rules pension schemes are in some cases given significant flexibility over what methodologies they use. There needs to be a single body, with a single standardised approach mandated across the pensions sector. We therefore support the DWP taking responsibility for this crucial area to enable this to happen. We look forward to seeing the DWP's proposals on this later this year.

- **The core data that schemes are required to show on annual benefit statements should be mirrored on pensions dashboards.** This would ensure that consumers are not confused by different data being provided for the same time periods. Consumers should ultimately be able to see a figure for how much they have paid in costs and charges on pensions dashboards, and retirement income projections for all pension schemes should be based on the same assumptions as for annual benefit statements.
- **A statement season could help to drive engagement with pension statements, if there is a coordinated campaign to help raise awareness.** The evidence from Sweden suggests that this approach could have benefits, but it is difficult to compare between countries and to disentangle the effects of the statement season from other factors.⁶ The upfront costs of transitioning to a single statement season could also be significant for some pension schemes. DWP should therefore explore the costs and benefits further. Which? is keen to understand how best to mitigate any challenges for pension schemes, and how best a season can be achieved.

About Which?

Which? is the UK's consumer champion. As an organisation we're not for profit - a powerful force for good, here to make life simpler, fairer and safer for everyone. We're the independent consumer voice that provides impartial advice, investigates, holds businesses to account and works with policymakers to make change happen. We fund our work mainly through member subscriptions, we're not influenced by third parties and we buy all the products that we test.

For more information, contact Alastair Reed, Principal Policy Adviser
alastair.reed@which.co.uk

June 2021

⁶ The Pensions Policy Institute cites survey evidence which found that in Sweden around three quarters of the envelopes are opened by members and around half are read in some part. This compares to 60% of UK adults with one defined contribution pension who recall receiving their annual statement, and 44% who also say they have read it. These surveys take different approaches though, which may explain some of the differences. It is also not clear to what extent the statement season explains these differences. Pensions Policy Institute (2018), *Charges, returns and transparency in DC - what can we learn from other countries?*; FCA (2018), *Financial Lives Survey*, pension accumulation table, table 21