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Submitted via email to:
PensionsConsumerJourneyCFI@fca.org.uk and PensionsConsumerJourneyCFI@tpr.gov.uk

28 July 2021

Call for Input: Pensions consumer journey

I am writing on behalf of the **Association of Consulting Actuaries (ACA)** in response to the above-named call for input.

The ACA is the representative body for UK consulting actuaries. Our members are all qualified actuaries – mainly Fellows of the Institute and Faculty of Actuaries. Members provide advice to thousands of employers and pension schemes with assets exceeding £1 trillion, including most of the country's largest schemes as well as thousands of smaller arrangements.

We consider this call for input a helpful step in the right direction towards helping pension scheme members to make sense of their pension arrangements and to make good decisions at the right time.

Our comments on specific questions raised in the consultation are set out below.

We hope that you find the contents of this letter of assistance. We would be happy to discuss them further if that is helpful. In that event, please contact me on 07557 031198 or at tessa.page@mercer.com.

Yours sincerely

Tess Page
Chair, Defined Contribution Committee
On behalf of the Association of Consulting Actuaries Limited

Association of Consulting Actuaries (ACA) response

1. *Is this understanding of the consumer journey an appropriate foundation for regulatory policy making? If not, what other elements of the journey should we be considering and how might the changing nature of retirement and working patterns in the future shape the support required?*

Yes, we believe that the stages and touchpoints set out provide a helpful foundation overall.

It should though be noted that in contrast to other "consumer journeys", in the case of workplace pensions there is typically no active "purchase" point and the journey does not involve conscious decision-making. It is quite possible for an individual to be auto enrolled into a workplace pension at a contribution rate that has been decided by the employer (taking into account auto enrolment requirements), investing in a default investment option that has been decided by someone else. This might be very reasonable, and the quality of default investment options has improved over time, but ultimately the individual can be a "passive consumer".

In our view this strengthens the need for access to guidance earlier in the journey – the "mid-life MOT" has an important place here but so too does an "early life plan" to ensure that the right decisions are made early on, particularly in relation to savings rates. The need for ongoing guidance throughout the journey, not just at the touchpoints is also important. Whilst the touchpoints / stages outlined are appropriate for the "general" journey, each individual will have their own personal key stages (e.g. marriage, having children, working abroad, divorce), and support on personal needs is critical.

One further concern is the disparity between workplace pensions and personal pensions. The starting point of the consumer journey set out in the call for input presents the reality for workplace pensions, but for personal pensions the crucial "starting up a pension" stage will need better support, absent action to include the self-employed in auto enrolment.

The ACA's 2020 Pension trends survey[1] highlighted the risks in relation to ineligibility for auto enrolment, with 11-15% of employees of survey respondents' ineligible for auto enrolment, plus 'gig economy workers' (engaged by 59% of employers responding to the survey). Again, without the crucial "starting up a pension" step, there is no subsequent journey for individuals.

2. *Have we identified the correct overarching harms in the consumer journey? If not, what others are there?*

Yes, at a high level. Within the three harms identified, we also highlight the following risks:

- Tax considerations may not be taken into account when individuals save and withdraw benefits from pensions.
- Consumers may fail to plan holistically and / or see pensions as less attractive than other long-term savings vehicles, including property investment. Seeing pensions "in a box" rather than through the lens of broader financial planning risks confusion and misses the opportunity for savers to take plan on a more rounded basis. This is related to the lack of recognition by consumers that the pension is **their asset** – too often it's not seen as part of their assets and therefore leads to a 'planning gap'.

[1] The *ACA 2020 Pension trends survey* was conducted in the summer of this year and attracted 281 responses from employers of all sizes, running over 500 different schemes. Statistics are as at 31 July 2020 when data for the survey closed.

3. *Have we identified the main behavioural biases which influence saver engagement with pensions? If not, what others are there?*

Linked to the point above, we consider mental accounting bias to influence engagement – the tendency to compartmentalise money into separate categories rather than considering financial arrangements as a whole.

The other behavioural bias is that pension planning is always on the "to do list for tomorrow" – it simply is never a priority until it's too late.

4. *Have we identified the right structural issues impacting pensions and do others also have a material impact? How can the pension consumer journey be improved to address poor outcomes caused by structural issues?*

Yes, although within the employment category we also highlight migration patterns and the impact on pensions when individuals live and work overseas.

5. *Are there other barriers to engagement that we have not identified? Are there solutions to the barriers to engagement that regulators, industry or others should consider?*

We consider the issues to be well-covered in the call for input overall. As noted, pensions dashboards will be important in addressing some of the issues around individuals having a consolidated view of pension saving. That said, it will be vital for information presented to be "actionable". Simple practical barriers such as the requirement to print a paper form to change contributions act obstacles, and a "click to act now" option will help to tackle this.

The perceived inflexibility of pensions would also be helpful to consider. In our 2020 Pensions Trends Survey, 62% of employers surveyed believed that more flexibility would increase employee saving. Clearly, this would require Government policy change and highlights the need for the consumer journey strategy to be set in the wider context of Government policy and benefits. These aspects may not be regulated but remain crucial to the journey.

A signification barrier to consumer engagement with pensions continues to be complexity – not only perceived complexity, but actual complexity, which has arisen from pension and tax policy changes over many years (contributing to a lack of trust and fears that the "rules will change again"). This is arguably the root cause of the three barriers identified to engagement. In our view, this should be recognised as a barrier in its own right.

Finally, the other key barrier to engagement is, quite simply, interest. As stated above, pensions is always on the "to do list for tomorrow". There needs to be recognition that the majority of individuals have no interest in pensions until it's too late.

6. *What data do you use to monitor and improve engagement by different cohorts of consumers? How can we encourage the pensions industry to use behavioural insights and biases to engage consumers?*

Monitoring of engagement levels by trustee boards and governance committees has typically focused on:

- Contribution rates (in particular, the proportion of members who have increased their contributions above the level at which they were auto enrolled
- Engagement with investment choices (e.g. use of self-select fund range)

- "Open rates" on electronic communications.

These metrics can provide a helpful baseline but are (by their nature) DC metrics. In our experience there is fairly limited monitoring of engagement levels of DB scheme members, other than for tracking the effectiveness of member options exercises such as pension increase exchange and transfers.

Insights from the pensions dashboards, once available, would help to support industry-wide insights and shape communication strategies and regulatory policy. Some key indicators might include the extent to which individuals are aggregating savings into a single arrangement, use of investment pathways, and benefit choices at retirement (including use of member options for DB schemes, in time – we believe the initial focus of dashboards should be on DC).

Equally important is the intelligent segmentation of the data, so that future engagement programmes can be targeted to a particular cohort, location, occupation etc. i.e. it's important to drill down into the statistics and extrapolate what it means. The quality of data storage and "usability" remains mixed, with more established schemes often struggling with years of legacy data held on different systems and in different formats.

Finally, take-up of Pensions Wise guidance is a useful measure.

7. *What learnings from other industries could the pensions market use to drive the use of technology as an engagement tool and what would stakeholders find useful for regulators to do to facilitate innovation, for example creating a panel or additional TechSprints?*

We have no detailed comments to make on this point but point to the success of digital solutions (accelerated during the pandemic) in healthcare and telecommunications. 87% of UK citizens aged 55-64 (a crucial planning time for retirement) use a smartphone, as do 65% of those aged over 65. For those aged 16-34, the figure is 98%. (Source: Statista, 2021).

8. *What guidance and support do employers need when picking a workplace pension for their employees and is more required?*

Most medium to large employers how have multi-year histories available for their workplace pension provision. For these employers, the challenge is not necessarily selection but rather evaluation of their current arrangements to assess whether it remains fit for purpose.

Such evaluations are typically well-supported by advisers (again, for medium to large employers) but there are challenges for smaller employers in this respect. Lack of easily available comparable information on different pensions vehicles hinders basic assessment of costs and quality.

Additionally, DC governance regulations have driven a focus on compliance and "input based" approaches, with the Chair's Statement and value for members process taking up governance time and resource, at the potential expense of more rounded assessments that genuinely pose the question "would our members be better off in another scheme?" We are supportive of efforts by the DWP to address this on a more practical level by requiring smaller schemes to benchmark their arrangement against alternatives[2] (one of which must be capable of taking on the smaller scheme).

[2] https://www.gov.uk/government/consultations/improving-outcomes-for-members-of-defined-contribution-pension-schemes

Employers need assistance in understanding what features /requirements are most important to them and their employees - too often the only factor considered is cost. Whilst this is clearly important, other factors such as governance, engagement strategy and investment all drive outcomes, and the ability to consider these and weight them appropriately would help better workplace pension selection.

Finally, we advocate for placing greater obligation on pension providers (enforced by trustee boards and independent governance committees as appropriate) to publish information on scheme performance and costs in a consistent, transparent and comparable way.

9. *What help do employers and firms need to be able to give appropriate support to members and how can we encourage employers to share appropriate Money and Pension Service guidance?*

There is broad support across ACA member firms for the automatic booking of Pension Wise sessions (with an option to opt out). Many employers do prompt members in this respect, but we believe that an auto enrolment approach would deliver a far higher take-up.

We welcome the joint TPR and FCA Guide for employers and trustees on providing support with financial matters without needing to be subject to FCA regulation. This helps to remove some of the psychological barriers associated with being seen to “promote” or “advise” individuals.

10. *Are there areas of regulatory overlap between TPR and FCA causing problems for the consumer journey? If so, what would mitigate these?*

We see the principal challenges here to be around consistency of approaches to communications and engagement tools, and in particular the growing vocabulary associated with pensions. Bearing in mind that individuals typically accrue a series of different pensions over a working lifetime (including the state pension), receiving communications that each use different but related language can cause confusion. For example, one scheme may refer to a “pension pot”, another a “retirement account”, another “your DC fund”, and so on.

Working to common goals and with a consistent language would support better understanding of pensions and an easier interface for individuals when considering their different pension arrangements.

We would be happy to discuss our answers further if that is helpful. In that event, please contact Tess Page, Chair of our DC Committee, on 07557 031198 or at tessa.page@mercer.com.

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