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Submitted via email to:
pensionstatements.consultation@dwp.gov.uk

29 June 2021

Consultation on simpler annual benefit statements

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

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 welcome the commitment to delivering simpler annual pension statements and the opportunity to comment on the draft regulations and statutory guidance.

As noted in our responses to earlier stages of the consultation process[1], we have been strong advocates of full legislative standardisation of annual benefit statements as the route to consistency and simplicity.

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

[1] https://aca.org.uk/aca-welcomes-simpler-benefit-statements-initiative/

Association of Consulting Actuaries (ACA) response

Draft Regulations

1. *Do you have any comments on whether the draft regulations achieve our policy intention in relation to requiring use of a statement of one double-sided sheet of A4 paper for use by certain defined contribution pension schemes used for automatic enrolment (as defined in the draft regulations)?*

Yes, we believe that the draft regulations make clear the intention, including exceptions where the double-sided A4 sheet does not need to apply.

We are however disappointed that the scope, as defined in the draft regulations, will be limited to qualifying schemes, defined as those under which all the benefits which may be payable are money purchase benefits which are used for automatic enrolment. This excludes defined benefit schemes, hybrid schemes used for automatic enrolment, and defined contribution schemes that are not used for automatic enrolment. Benefits in these excluded schemes benefits will form part of individuals' overall pension savings, and we consider it a missed opportunity not to bring greater consistency and simplicity across schemes. Voluntary implementation may not be enough to prompt other schemes to adopt the new statements.

2. *Do you have any comments on the draft statutory guidance in terms of content or clarity?*

The guidance is very helpful, in particular the template statement. Whilst we recognise that schemes will want the flexibility to use their own branding and certain items of language, there remains in our view great benefit to be gained through consistent presentation of statements to members across schemes (for example, allowing individuals to easily compare the arrangements they may well have in a number of different schemes). Broad adoption of the template provided in the guidance would help to support this.

We acknowledge industry debate on whether the content should be required to include costs and charges, and we are supportive of the work that the Cost and Charge Industry Stakeholder Group is currently undertaking to consider presentation of this information in the future. On balance, we support the fact that the draft regulations and guidance do not mandate the inclusion of such information at this time and in the absence of obtaining insight into how savers may want to see this information presented and how industry can present the information in a cost effective complex free manner. Omitting costs and charge disclosures helps to avoid overloading the reader with a large volume of information and reduces the risk that the individual is distracted from the key messages – which are around saving enough for retirement.

The guidance refers to "layering" additional information intended to complement the shorter statement. We have some concerns that this could lead to sending benefit statements with long appendices, taking schemes back to square one and bombarding members with compliance information. Our preference is for signposting to where additional information can be easily found rather than including additional information with the statement itself. At most a covering letter should be permitted to accompany the statement.

We note that the draft statutory guidance makes reference to relevant schemes and the draft regulations to qualifying schemes. The same definition relating to the type of scheme in scope will need to be identified in both documents to avoid confusion.

Guidance should also be mindful of the output of the FRC's Estimating Retirement Incomes Taskforce, which the ACA is contributing to. The main challenge will be sequencing of the work from this group being available in time for year ends after April 2022 (see also our comments in Q4).

3. Do you have any comments on the illustrative statement template in terms of content or clarity?

We consider that the template covers the key elements an individual needs to review their current pension savings, understand how much money they could have when they retire, and (perhaps most importantly), to understand the steps they could take to improve their outcomes at retirement.

Including both the projected pension pot and the estimated annuity income possible from such a pension pot is again an approach we support. Currently some schemes only show a projected (typically joint life, inflation-linked) annuity which no longer reflects how a pensions saver typically withdraws their benefits. We also support projections being shown in real terms.

A template version tailored for deferred members may also be helpful to avoid a common pitfall of taking an active member communication and attempting to use it with deferred members (for example, including messages to deferred, ex-employee members about "contacting your HR manager" or "increasing your employee contributions").

We support inclusion of a percentage to reflect how much of the Lifetime Allowance has been used up to date. This will allow savers to better manage their savings in aggregate.

Finally, there is no direct mention of assumptions in the template (bar a suggestion to signpost where members can find these). This has created some confusion as the regulations reference information about assumptions (e.g. in Schedule 6, paragraph 17) as does the guidance (e.g. "The information provided about the assumptions that have been used for the illustration should be written in such a way that it can be easily understood by the member"). Our general preference (again, in the interests of simplicity and brevity) would be to make clear that listing all assumptions is not required, but schemes should signpost to where such information can be found.

4. Do you have any comments on the timetable in which it is proposed the regulations will come into effect, including the transitional provisions in regulation 3?

The regulations apply for statements that are issued after 6 April 2022.

In our view this is ambitious if mandated as a blanket approach. For instance, schemes may plan to produce their statements prior to 6 April 2022 under an existing format but for reasons beyond their control (e.g. administration related delays) may need to issue them after 5 April 2022, thus requiring a new format.

Scheme fiduciaries and their administrators and advisers will need to wait for the consultation response and the regulations, because until this point they will not know for certain what has changed. Pension schemes face a gruelling burden of change (including but not limited to GMP equalisation, a new Code of Practice for trust-based schemes, and preparation for the pensions dashboard) and whilst we applaud the introduction of simpler annual benefit statements, a longer gap between the new regulations and guidance being finalised and the introduction of the requirements would be appreciated by schemes.

Our view is that the regulations should be with reference to 'scheme year end', with the first statements being required for scheme year ends after 5 April 2022.

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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