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A Simpler Annual Pension Statement – Cutting Through Complexity

Launch of the Simpler Annual Statement

Providing people with simple, clear, personalised and consistent information is at the heart of good engagement.

The Simpler Annual Statement, developed collaboratively by an industry group in response to the Government's 2017 Review of Automatic Enrolment, uses these key principles to give people the information that matters most in helping them understand their retirement savings and plan for their future.

Launched on Thursday this week at the Pensions and Lifetime Savings Association (PLSA) Conference in Liverpool, and welcomed by the Government, the FCA, tPR, the Association of British Insurers, the PLSA and many within the pensions industry, the Simpler Annual Statement provides an example of best practice – junking the jargon and cutting through the complexity to help people engage with their savings.

Providers and Schemes send out millions of annual pension statements to people who have contributed to retirement savings schemes. And yet less than 14% read and understand them – this has been described as a 'missed opportunity' in the response to the DWP's 2017 Automatic Enrolment Review.

Some statements are excellent. But others include confusing jargon, and use different words and different numbers in different places. This leaves many consumers feeling confused and turned off, especially if they receive more than one statement.

The 2017 Review found that annual statements offer an important opportunity to enable individuals to engage. But despite the significant resources the pensions industry has invested, statements remain complicated and overlong.

In response to this challenge, a small group came together to produce a best-practice annual statement. It sits on two just sides of A4 and includes the information that matters most to people saving for retirement. It clearly signposts to other detailed information that can sit separately on a website. This reflects legal requirements and can be adapted by providers using their own branding.

The Simpler Annual Statement was tested by Ignition House, who conducted independent research involving over 70 in-depth interviews and a survey of 1000 scheme members.

The research overwhelmingly found that the two-page Simpler Annual Statement is much clearer and easier to understand and that it can be read and understood in two minutes – which was considered a huge positive. The statement clearly illustrates the amount of money someone has saved into their particular pension scheme, the amount their employer has contributed, the tax relief they've benefitted from and the amount of money they have in the scheme. Those researched said that they were much more likely to read the Simpler Annual Statement and consider it alongside their other statements to work out what they've got.

Companies that support the launch of the Simpler Annual Statement include Legal & General, Aviva, Hargreaves Lansdown, Scottish Widows, Smart Pension, Pension Bee, NEST and The People's Pension. They recognise that it will raise the bar for communication across the pensions sector.

The ambition is to achieve widespread adoption over time to help create a consistent experience for consumers and make it easier for people to work out both what they have and how much more they might need to save - which is one of the big hopes for the PLSA's Retirement Income Targets and the Pensions Dashboard.

The Simpler Annual Statement was launched as an example of best practice in this area by Guy Opperman, Pensions Minister, at the PLSA Conference on 18 October.

We are pleased that the PLSA and the ABI will take forward the development of simpler annual statements by the wider auto-enrolment sector and identify what is needed to make sure these can be used alongside other initiatives, such as the FCA's "wake-up pack" requirements, the Pensions Dashboard and the PLSA's Retirement Income Targets.

The Simpler Annual Statement has been developed collaboratively by Ruston Smith (Co-Chair of the DWP's 2017 Automatic Enrolment Review Advisory Board and Chair of the Tesco Pension Fund), Vincent Franklin and Mark Scantlebury from communication consultants Quietroom, Karen Mumgaard and Francois Barker from lawyers Eversheds Sutherland – with the help of many within the industry.

Lesley Titcomb, Chief Executive of The Pensions Regulator, said: *“We’re pleased to see industry come together to design an approach that meets our regulatory expectations and enables members to see key information about their retirement savings clearly and quickly. As more people start to build savings through automatic enrolment it is important that initiatives like this help people understand what they have saved and the importance of future savings to provide an adequate income in retirement. We encourage the trustees of any defined contribution scheme looking to improve its member engagement to take this new format on board as good practice.”*

Alex Roy of the FCA said: *“The FCA supports measures to make pensions more understandable for consumers, and understands the benefits of a simpler annual pension statement. We are always open to ideas which can deliver better outcomes for users of financial services. As such, we have engaged with the working group during the development of the statement and we’re supportive of its aims.”*

“Current annual pensions’ statements can lead to member confusion and massive disengagement. Research shows that they can be a waste of time, effort and money for the providers to produce and a confusing turn-off for members. Where communications are a mess, both industry and members can lose out”. **Vincent Franklin, Quietroom**

“It’s easy to falsely assume that everyone has the time and ability to read, absorb and make sense of their retirement savings on all the bits of paper the industry send them. But we need to get real. People have limited time and are selective in what they choose to read. 43% of people can’t even remember receiving a statement in the last 12 months”. **Ruston Smith (Co-Chair of the DWP’s 2017 Automatic Enrolment Review Advisory Board and Chair of the Tesco Pension Fund and PTL)**

Ruston Smith says: *“We have a responsibility and the ability to help our members achieve the best outcome they can in retirement. By working collaboratively together, and by making statements and other communications we send them simpler, more readable and consistent across the industry is an important step in our journey to engage with them. I’d encourage all providers to support this vital initiative”.*

“Short, simple, consistent statements are what savers ask for, giving them only the information that matters most – with clear signposting for those that want more information and get underneath the numbers. Having listened and learnt from savers, the Simpler Annual Statement has been developed to meet their needs”.

Vincent Franklin says: *“Nearly everyone in a DC scheme gets an annual statement. This makes it a huge opportunity. An opportunity to help people make informed decisions. But people can only make informed decisions if we give them the information they need in a way that they understand – and in a way that’s useful to them.*

“The risks associated with pension investment have been largely transferred from companies to members with the rise of DC schemes. With the postponement of the Pensions Dashboard, it is even more important that consumers are given information that is clear, concise and importantly comparable across all providers – this is the only way they can they really understand what their position in retirement might be.”

“We have been very pleased to support the development of the Simpler Annual Statement with input on legal compliance. Complying with the detailed legal requirements in this area can often lead to members receiving a lot of information that they struggle to understand. There is a real art to ensuring legal compliance whilst producing user-friendly member communications.” **Francois Barker, Eversheds Sutherland**

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NOTES TO THE PRESS RELEASE:

BACKGROUND:

It is a regulatory requirement that every member of a defined contribution (DC) pension scheme receives an annual statement from their provider. However, providers and schemes individually develop and design their annual statements. Some are excellent. But others can include confusing jargon, different words and different numbers in different places, leaving many people feeling confused and turned off.

This means that people who are members of more than one scheme can receive statements that include different words, different numbers in different places based on different assumptions.

A clear message came out of the DWP's findings on engagement from the 2017 Automatic Enrolment Review that annual statements offer an important opportunity to encourage individuals to engage. Despite the significant resources that the pensions industry has invested, however, statements remain complicated and overlong.

Providers can help people by presenting words and numbers consistently and in the same place on the page. This will help people make sense of their statements more easily and add up all their pots. And they will be able to understand the numbers because they will be referred to and described in the same way.

WHAT THE USER TESTING REVEALED AND HOW WE DEVELOPED THE STATEMENT IN RESPONSE TO MEMBERS' NEEDS

To assess its effectiveness, Janette Weir of Ignition House conducted extensive user testing. The methodology and approach has had input from the DWP, The Pensions Regulator and the FCA. The testing included both qualitative and quantitative analysis – involving around 1,000 members.

Download the full research at <http://bit.ly/ignition-sas-report>

Janette Weir of Ignition House said:

"I have been conducting pensions research with members for many years now and I am consistently disappointed by the levels of disengagement we find – which feels wrong and is a huge missed opportunity.

"Large numbers are simply not reading the statements that are being sent because they see them as long, boring, and full of jargon. Even those who do try to read their statement don't really understand it. They are missing vital pieces of information as they can't see the woods for the trees – 42% do not know how much is in their DC pension, 26% don't know how much they are paying in AND 58% say they were unaware that management charges applied."

"So, the Annual Statement is currently a missed opportunity for companies to communicate properly with their members. Worse than that, members taking part in the research told us that their statement is actually contributing to their confusion, making them feel stupid and leading to apathy. We have to fix this for everyone's sake."

The good news is that those researched overwhelmingly believed that the proposed two-page Simpler Annual Statement is much clearer and easier to understand than those they currently receive. It can also be read and understood within two minutes, a huge positive in their eyes. The statement also clearly illustrates the amount of money they've saved into their pension scheme, the amount contributed by their employer, the tax relief, and the amount of money they have in the scheme.

People say this means they're much more likely to read the statement and use it alongside their other statements to work out what they've got. If people can find the amount in their pot more easily, they can know whether they're on track and make better decisions as a result – particularly alongside the PLSA's Retirement Income Targets.

****Simpler Annual Statement – The Member Perspective, prepared by Ignition House, August 2018 – <http://bit.ly/ignition-sas-report>***

Some quotes from Ignition House's consumer research

"I receive a statement every year, but I just open it, close it and chuck it in a drawer somewhere. I don't take in any of it at all." Joe, aged under 35, received last statement but did not read it

Normally you get a long document with stuff that I am not actually concerned about. This is an improvement to what I get now, because it's all on two pages and only takes a couple of minutes to read. It's very simple, but not patronising." Simon, aged 35 and over, read last statement but did not understand it well

"I like the idea of standardized infographic style, the circles of information, it makes it much easier to see how much you have got." Chris, aged under 35, did not receive statement in last 12 months

Why do we need a simpler annual statement?

Millions of people have been 'nudged' into pensions, but we need to enable them to take more ownership, make important choices and plan their future.

Almost everyone in a DC scheme gets an annual statement. This makes it a great opportunity to influence member's behaviour. If we design our statements for everyday people, they'll be more likely to read them, to understand what they have and, as a result, ask good questions and make better-informed decisions.

A dozen pages of impenetrable data and 'small print' isn't useful. It just reinforces peoples' belief that they don't understand the financial world. What's more, your average DC member might have up to 11 employers and pots in their working lives. It's our job to help people make sense of all their pension pots in one go.

The PLSA's Retirement Income Targets, which help people consider how much they'll need in retirement and pension dashboards, which aim to show everything in one place, could help people make sense of what they've got and encourage that ownership.

People don't ask for 'brilliant' communications. They ask for clear, consistent communications written in everyday language.

People don't want to be dazzled, they just want something they can trust.

Some schemes produce excellent annual statements. But members need consistency across all their schemes.

So we've come up with the two-page Simple Annual Statement. It's easy to read, it's easy to understand and it's compliant. It will also be easy for lots of schemes and employers to adopt, so members can compare and combine pots, and get an overall picture of where they stand.

How did we do it?

By using language people understand

Simple verbs can make a big impact. For example, we've used the word 'saved' instead of 'what you have contributed'. This is because 'contributing' usually means you giving money to somebody else – a noble cause. 'Saved' means that the money is still yours. When we tested it with scheme members, they got it straight away.

By changing the emphasis from what's happened in the last year, to what you've given up and what you've now got

In the past, annual statements have focused on what's changed in the last year. That's a strange emphasis for a 20- to 40-year investment product. The most powerful message an annual statement can offer is that there's a vast difference between what you've given up – what you've saved – and what you've gained from the combination of your employer, the government and your investments. It's even more powerful if we deliver that message using words that everyday people would use, not industry words.

That's what someone should have in their minds when they're thinking about whether a pension is a good idea. So we've promoted those figures to big, bold boxes at the top of the page. After that, you can look at the detail of what happened last year.

By using something people understand to explain something they don't

Underneath the headline figures we've got simple lines showing what's gone in and what's come out. In our testing, members said, 'I like this, it looks like my bank account.'

By colour-coding sections

We've made three sections: what you've got now, what that could give you in the future, and what you could do to perhaps give yourself a bit more. People loved this in the research. It makes the statement quick to read – in testing, under two minutes.

People also love the fact that they can focus on what they're interested in. Younger people in particular are really only interested in section one: 'I put in *this* and I've got *this*.' Sections two and three – about what they might have in the future – are less important to many of them. But as people get older, they'll move towards those sections.

By helping people know what to do next

Each section of the statement tells people where to go to make a change or find out more. It gives clear signposting to areas where they'll find more detailed information. It means that we can stop overwhelming people with information and make the experience simpler and easier.

By turning small print into another way to help

We worked with the lawyers and regulators to understand the intention of the regulation, so we can decide what information the statement needs to include and the simplest way to say it – and clearly signpost to more detailed information in a place where it can be presented more clearly for those that want it. It's meant we could cut a statement that might have been 17 pages in the past down to just two.

By challenging the industry to work collaboratively for savers

We need a solution that helps schemes work together. Not by saying, 'This is the excellence that we should aspire to,' but by establishing a good, consistent way of doing things that everyone can achieve.

With the annual statement down to two pages, and the important figures in big, bold boxes, we can build on it and do even better. If people realise we're charging them, we need to justify charges. If people see their investments go down, we need to help them understand why.

As an industry, we're good at thinking about 'our members', but not so good at thinking about people in general – especially people who aren't active members of our scheme any more. This is about helping the industry think about what's best for people in the long-run, beyond the few years that they're your employees, or active members of your scheme. How can we, as an industry, take responsibility and help people over the entire course of their lives?

Eventually, we can use this approach and this language on a dashboard. But we can create a statement now. Let's not miss out on good because great was over the horizon.

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