



PASA CONSULTATION RESPONSE

Simpler Annual Benefit Statements

December 2019

Simpler Annual Benefit Statements Consultation Response

Simpler Annual Statements: helping members engage.

Question 1 - What do we want to achieve? We would welcome your views on this twin ambition:

- 1. Is it one that you recognise as offering benefits in terms of an individual's understanding of - and better engagement with – their workplace pension saving? Yes/No?**

From our experience working with trustees in an administrative capacity we regularly see schemes seeking to provide the information outlined in the consultation in a way which will be understood and valued by members.

- 2. In what ways could consistent workplace pension annual benefit statements offer an opportunity to improve engagement with and understanding of pension provision?**

We believe there are several factors which can affect the value of the statement to the member however two key aspects are as follows:

- The simplicity and clarity of the statement. In this respect we do believe there is value in trying to ensure consistency of the language used across the industry and this should be aligned to the language used on pensions dashboard.
- Timing is also important and currently often the information is out of date by the time members receive their statements. We recognise pensions dashboard has the potential to address this particular need, so we believe it is important consideration is given to the integration and alignment of these two initiatives.

Relationship with wider communication materials and engagement approaches

Question 2 - We would welcome:

- a. **views on how annual statements are positioned within your broader member engagement strategy?**

As administrators we do not determine the broader member engagement strategy but from our work with trustees, we recognise, in many cases, the annual statement forms an important element of the communication strategy but the compliance requirements and the currency of the information provided can impact on realising the benefits from the investment made. Increasingly we are seeing trustees setting up or looking to set up online solutions to address both these points.

- b. **views on the implications of requiring trustees and scheme providers to have regard to principles; descriptors or a simpler statement template on other communication materials, including the need for and cost of redesigning approaches.**

Moving to a position where schemes are required to use a simpler statement would achieve the objective of consistency which we believe is important to scheme members. This would however require investment by trustees as this would not only necessitate changes to the annual benefit statements but also other elements of their capability such as member letters, online solutions etc to ensure consistency.

- c. **evidence/user testing about how to improve engagement/understanding which you have used to support your wider communications.**

PASA is not able to provide comment on this point as typically these types of feedback exercises are undertaken by trustees, sometimes working with their communication consultants.

Which pension schemes are in scope?

Question 3 - Our intended scope – does this make sense or should the scope be broadened, or narrowed?

Our view is the proposed scope would represent phase one but, if simpler statements are introduced on either a voluntary or mandatory basis then these should be phased in in the same way as pensions dashboard and potentially to align with pensions dashboard. Further thought would then need to be given to the implications for some schemes such as DC schemes with a DB underpin.

How can we achieve simplicity and consistency?

Question 4 - We would welcome your views on the length of statements:

- a) **Short statements of two pages in length have been proposed. What evidence can you provide where the adoption of this approach has been beneficial? In what ways? For whom?**

To date, at PASA, we have seen limited take up of the shorter statement although there is more evidence from our in-house membership of a move to simplifying statements along the lines proposed allowing for the bespoke needs of scheme members.

For trustees and scheme providers:

- b) **Are your statements typically longer, or shorter, than two pages? How many pages are your statements in total?**

In our experience statements are typically longer than two pages and a statement four or more pages in length is not unusual due to the need to meet compliance requirements. Some schemes with an existing online capability are taking the opportunity to signpost members to a secure website to meet these compliance needs

- c) **What strategies have informed the design and length of your annual statements? What feedback, if any, has been sought? What changes have been made to improve the usability of statements? What future changes are planned?**

At PASA our focus is on delivery of the statements and consequently we are unable to respond to this question.

Principles to inform our approach

Question 5 - Do you agree with these principles, or are there other or additional principles that you think we should consider?

We agree with the principles set out in the consultation but either the principles or the design objectives should reflect the point made previously about consistency.

A simpler statement template

Question 6 - We would welcome views on:

What do you think are the advantages or disadvantages of this simpler statement?

From a member perspective we believe there is potentially significant member value in the simpler statement and, once implemented, if there is a 'standard statement' then this should become more cost effective and timely to produce. The timing of issue of the annual benefit statements is a key point as currently members will receive their statements, potentially all with information at the same or similar dates, over a 12-month period. Our view is this does not support member engagement and especially with retirement planning. We believe dashboard has the potential to address this point however, as previously referenced, we believe alignment between dashboard and benefit statements is key to success of both.

We would therefore like consideration to be given to what would be done to address both consistency and timing. At PASA we recognise both have implications for administration and so would be very happy to contribute to any initiative considering these points.

Questions 7 to 10

As these questions are aimed at trustees and providers, we have not provided responses and any relevant input is contained in our responses to the other questions.

A design principles-based approach

Question 11 - We would welcome your views on a design principles-based approach:

a) To what extent would such an approach deliver both simplicity and consistency?

We believe the design-based approach has the potential to deliver both consistency and simplicity although the extent to which this will be achieved will depend on the approach taken to compulsion both in terms of adopting the principles and the way in which they are adopted. From our past experiences as administration providers we recognise the challenge of working to a 'standard' and therefore this would need to be carefully thought through. Again, at PASA we would be happy to help with any further impact analysis.

b) Given what we say about the aim to drive simplicity and consistency, are the principles described above the right ones? If not, how could they be improved? Are there alternative or additional principles that would better achieve our aims?

We believe the design principles listed in the consultation are appropriate and we do not have anything further to add.

c) What barriers exist to adoption of the principles, and to what extent can they be mitigated? For example: design cost; member preferences; regulatory implications?

We have already covered a number of the barriers above. From an administrative perspective clarity on the level of mandating the format and content and an understanding of the approach to implementation, which we believe should be phased, will be important. It is also important to highlight, for these changes to deliver the value to member engagement, other elements of the administration will need to change as outlined in our responses to earlier questions.

For trustees and scheme providers:

d) To what extent do your existing statements meet the principles set out above? What other principles, if any, inform your approach?

As this question is directed at trustees and providers, we have not provided a response to this question.

e) Would you adopt principles on a voluntary basis, and to what timescale? If not, what factors would preclude this?

As this question is directed at trustees and providers, we have not provided a response to this question.

Descriptors

Question 12 - We would welcome your views on a descriptor-based approach:

- a) To what extent do you think such an approach would deliver both simplicity and consistency?**

- b) Given what we say about the aim to drive simplicity and consistency, are the descriptors described above the right ones? If not, how can they be improved? Are there alternative or additional descriptors that would better achieve our aims?**

- c) What barriers exist to adoption of descriptors? For example: design cost; member preferences; regulatory implications?**

For scheme trustees and providers.

- 4. To what extent do your existing statements meet the descriptors set out above?**

- 5. Would you adopt descriptors on a voluntary basis, and to what timescale? If not, what factors would preclude this?**

Please review our responses to question 11 as the same views and considerations apply in relation to question 12.

Achieving change

Question 13. We would welcome your views on:

- a) **The advantages / disadvantages of reliance on the voluntary adoption of a simpler statement template; design principles; or descriptors**

In our capacity as administrators we do not believe reliance on voluntary adoption of the simpler benefit statement will deliver the anticipated benefits especially from a member perspective. We believe there needs to be a level of compulsion but further work probably needs to be undertaken with all impacted stakeholders to understand the extent to which the format, content and timing should be mandated to achieve the desired outcomes.

- b) **where responsibility for maintaining a template; design principles or descriptors for voluntary use should lie: with government or industry.**

Our view is, if adoption by the industry is voluntary then the elements listed in the consultation should be owned by the industry.

- c) **The advantages/disadvantages of mandating an approach through statutory guidance.**

We believe there is value in mandating an approach through statute to ensure consistency from a member perspective.

Presentation of costs and charges: helping members identify what they've paid

We propose to include individualised member pounds and pence costs and charges information on the annual benefit statement.

Question 14 - Do you agree with this proposal and its scope? If not, why?

We agree with both the proposed approach and scope.

Question 15:

- a) What preparation is necessary by schemes to display information in this way? Would a phased approach, starting with large schemes, be beneficial?**

The extent of any preparation would vary on a scheme by scheme basis depending on the current approach taken by individual schemes. Depending on the outcome of the consultation our view is a phased approach is likely to be beneficial to all aspects of the implementation of simpler benefit statements. As mentioned previously, consideration could be given to aligning this to any approach adopted for the introduction on pensions dashboard albeit the timing may be different.

- b) Do you think there are any risks to members by doing this? If so, do you have any evidence or suggestions of how these have been or could be mitigated?**

We do not believe there are any risks to members in doing this.

Question 16:

- a) Do you agree with separate reporting of charges and transaction costs? Do you think other data, such as the percentage of funds under management these charges represent, should be presented alongside?**

At PASA our focus is on administration and so we have not provided a response to this question.

- b) Do you think approximate or averaged charge and transaction cost figures should be permitted for charges as well as transaction costs. Could this impair saver confidence and decision-making, and if so, how would that risk be mitigated?**

At PASA our focus is on administration and so we have not provided a response to this question.

Assumptions: helping members identify if their savings are on track

Ownership and alignment

We propose DWP should take on ownership of the assumptions underpinning the annual benefit statement from the FRC.

We propose to use a mixture of statutory guidance and regulation to set out assumptions

We propose to align assumptions for the SMPI with those set by the FCA for KFIs, except where we identify good reasons for taking a different approach.

Question 17 - Do you agree with these proposals? If not, why not?

As these relate to the setting of assumptions we have not responded to these questions. From an administrative perspective the extent to which consistency can be achieved will impact on the ease on both the implementation of changes and the timing of the issue of future statements.

Assumptions

We've proposed the following assumptions for legislation and DWP statutory guidance on the annual benefit statement:

- Inflation assumptions
- Salary growth rates
- Investment growth rates
- Annuity assumptions
- 25% tax free lump sums
- Number and basis of projections

Question 18 - Do you think these are the right assumptions for providing simple, comparable estimates? If not, why not?

As these relate to the setting of assumptions we have not responded to these questions. From an administrative perspective the extent to which consistency can be achieved will impact on the ease on both the implementation of changes and the timing of the issue of future statements.

Costs of transition

Simpler annual statements

Question 19 - We would welcome your views on:

- a) The possible initial costs of moving to each of the three options in terms of redesign and delivery of existing statements. Do you have plans to update your statement, and if so, when do you currently plan to do that? To what extent, could these changes be incorporated into existing or planned work?**

As this question is addressed to trustees and providers, we have not provided a response to this question.

- b) For each of the options, is the ongoing cost of providing the information required anticipated to be lower, or greater, than with existing statements?**

The impact on ongoing costs will depend on the final approach and the extent to which this is mandated. A move towards a more standardised approach has the potential to result in lower ongoing costs.

- c) What do you anticipate will be the one-off and ongoing impact of redesigning your statements (and associated materials)? Where costs are incurred, would you expect them to be absorbed, passed on to employers, or passed on to individual members.**

As this question is addressed to trustees and providers, we have not provided a response to this question.

- d) What are the cost implications for established and future research and evaluation approaches?**

As this question is addressed to trustees and providers, we have not provided a response to this question.

- e) Where you have developed simpler statements on the basis of feedback from recipients, do you have any cost/benefits analysis or research which shows:**
- the impact on individuals in terms of the time spent/saved on reading the statement or through increased understanding of the content and/or of increased saving in response to any call for action to save more?

As this question is addressed to trustees and providers, we have not provided a response to this question.

- f) **If you have adopted the simpler statements at Annex A do you have any cost/benefits analysis or research which shows the impact on individuals in terms of the time spent/saved on reading the statement, understanding of the content, and/or of increased saving in response to any call for action to save more?**

As this question is addressed to trustees and providers, we have not provided a response to this question.

Presentation of costs and charges

Question 20 - We would welcome your views on the initial and ongoing costs of incorporating information on costs and charges into annual statements.

Implementing information on costs and charges would result in a one-off upfront cost to cover system development. Consideration would also need to be given as to whether these changes impact more widely and need to be reflected in other member engagement tools such as online portals to ensure consistency of information.

Assumptions

Question 21 - We would welcome your views on the initial and ongoing costs of adopting the standardised approach to assumptions set out in paragraphs 64-65 above.

At PASA our focus is on delivery of benefit statements and we will work with the assumptions provided by the trustees of our schemes. As outlined previously however the extent to which consistency can be achieved has the potential to positively impact on both costs and timing of annual benefit statement production.

Impact on innovation and Pension Dashboards

Question 22 - We would welcome your views on:

- a) **The relationship between each of the options presented in this document, and the flexibility to respond to or harness future innovations in the way that people receive and access information, whether in hard copy or in digital form.**

From an administrative perspective this is a very broad question and our experience is schemes digital strategy varies significantly depending on a number of factors including size, nature of the membership and available budget. It is our expectation the proposed approach at industry level will continue. Therefore, in recommending or mandating approach we believe there are some key objectives from a delivery point of view:

- Ensuring consistency of message and language across all member communications whether online, paper or when answering calls
- Ensure data is good, and the communications are clear so members value the information they are provided with
- Consider the timing of the availability of information. From our perspective it is currently not just the content of the statements which does not support member engagement but the fact these are not issued within a defined period so it becomes harder for the consumer to collate a timely view of all their pension savings although we anticipate pensions dashboard will address this issue.

As with pensions dashboard we believe consumer confidence in the information provided is key.

- b) **The relationship between each of the options presented in this document and the future development of Pension dashboards, including data standards. The implications for schemes on a need to amend/update their data for Pension dashboards alongside any future requirement to simplify their pension statements.**

We have referenced the importance of there being an overall strategy linking pensions dashboards and benefit statements in our response to a) above. We anticipate the data required for simpler benefit statements will be the same as, or a subset of, the data required for pensions dashboard. It would be helpful if that could be clarified at the point the pensions dashboard data standards are published as this will enable scheme sponsors and providers to put in place a cost-effective data cleanse strategy. As outlined above, consumer confidence in all communications they receive in relation to their pension savings is key.

We covered the importance of data standards in our previous response to the consultation on pensions dashboards and have similarly referenced the importance of this throughout this response.

How can we encourage people to open statements?

Question 23 - We would welcome your views on:

a) what are the potential benefits or downsides of using a single, standardised, colour of envelope when sending statements to members in terms of driving engagement?

We believe implementing an approach, such as an easily identifiable envelope, would be extremely helpful as part of a strategy to improve member engagement with their pension savings. Consideration would need to be given to whether this should extend to our important pension communications such as wake up letters. There is however, the risk of fraud if counterfeit envelopes could be produced by scammers and so further consideration would need to be given as to how this could be done in such a way as to maintain consumer confidence.

Moving to a single envelope system would result in additional costs but should not be difficult from an administrative perspective. Whilst responding on this point, at PASA we see an increasing number of schemes wanting to implement an e-comms strategy but there are two potential barriers which are the constraints within the current disclosure requirements and the ease with which email addresses can be collected, particularly for schemes which were not set up on an e-comms basis. We have previously identified the potential for dashboard to provide administrators and providers with email addresses and we believe this would be a facilitator for improved member communications going forward.

b) what the benefits of a 'statement season' would be in terms of raising awareness of the importance of statements and pension saving for individuals, and as part of normalising pension saving?

As outlined above, although potentially an administrative challenge, at PASA we believe the introduction of a statement season has the potential to benefit members. Implementation would need to be planned carefully and potentially phased but we do not believe the administration should be a barrier to this. It is important to also note that moving to a statement season would need buy in from all stakeholders to the benefit statement process including employers and potentially communication providers. Where the statement season does not align neatly with the relevant Scheme financial year or the point at which the supporting data is made available by sponsoring employers the statement season may have some very practical difficulties. The pension arrangements in scope will, in part, determine the extent to which this can be achieved

over a reasonable timescale. As previously there may be merit in aligning this with the roll out of pensions dashboard. Some schemes are aligning statement output to member's birthdays as these life events often align with moments of truth when members will more readily engage. This approach has some merit but would be at odds with the statement season concept.

c) how a 'statement season' might operate, including in terms of length and scope?

Further research would need to be undertaken before determining the duration of a statement season. At present schemes have their own statement date, often linked to scheme year ends, so some of these would need to be changed to fit in with the statement season to ensure the member receives information which is as up to date as possible. This could give rise however to a situation where a member does not, for example, receive a statement for 18 months whilst dates are aligned which would give rise to a breach of the disclosure regulations. As mentioned previously, PASA would be happy to support any further work required to analyse the impact on schemes of a statement season.

d) what might the opportunity and/or downsides, be for example, in terms of delivery and management of a 'statement season' for providers, the advisory community and others?

We have outlined the potential impact on administrators above.

e) how a seasonal approach to statements sit with communications that are personalised to the needs and preferences of individuals?

f)

We would anticipate the communications issued in a statement season would continue to be personalised to the member. Currently however, a number of schemes take the opportunity of issuing the annual statement to provide further information. This may be generic or member specific for example because pension benefits are included as part of a Total Reward Statement. Moving to a standard statement issued during a statement season may give rise to additional costs if this option is no longer available and results in the need to issue two communications.

g) other approaches that could be effective, based on user research and/or international experience related to pensions or other sectors?

We do not have anything further to add.

Further evidence, analysis and research

Question 24 - We would welcome any further evidence or analysis which you would like to share about the issues under discussion in this consultation and which can inform the development of simpler annual benefit statements.

We do not have anything further to add in response to this question.

About PASA

The Pensions Administration Standards Association (PASA) was created to provide an independent infrastructure which will set, develop, guide and assess administration standards.

PASA will act as a focal point and engage with industry and government to create protocols for understanding good administration - but also appreciates there is no one size fits all. PASA will develop evidential accreditation practices which will allow benchmarking across and between the industry regardless of how the administration is being delivered.

As well as raising the profile of pension administration generally, PASA will focus on three core activities.

1. Defining good standards of pensions administration relevant to all providers, whether in-house, third party or insurers
2. Publishing guidance to support those standards
3. Being an independent accreditation body, assessing the achievement of good standards by schemes (regardless of provider)

There is no organisation providing such services across schemes, yet there is a demand for evidence of service quality from scheme trustees, sponsors, administrators, insurers, scheme members and regulators.

About PASA Accreditation

PASA Accreditation is open to all corporate members of PASA (DB, DC, trust-based and contract-based schemes). PASA Accreditation is granted following an independent evaluation and assessment process, which includes on-site visits and the review of documentation to evidence controls, procedures, process, staff development and contractual positions with clients.

Full details on PASA can be found by visiting www.pasa-uk.com.

Full details on PASA Accreditation can be found by visiting <http://www.pasa-uk.com/pasa-accreditation>



THE PENSIONS ADMINISTRATION STANDARDS ASSOCIATION

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