

Consultation Response

Simpler annual benefit statements

Department for Work and Pensions

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About this consultation

The Department for Work and Pensions (DWP) is considering the introduction of shorter and simpler annual pension statements. This aims to increase clarity of and engagement with pension saving, and this consultation considers aspects of the design and underlying principles. Age UK has responded to a selection of the questions.

Key points and recommendations

- We welcome the simpler annual statements, and hope they will help improve public engagement in pensions.
- There needs to be a balance between consistency across schemes, and providing the appropriate information to help individual savers. A combination of a template-based approach and following certain principles is likely to be needed, alongside tight regulation.
- The DWP and pensions industry should not rely too heavily on engagement alone to improve savers' outcomes.
- This is an excellent opportunity for joined-up policy making across the DWP – most importantly, the aims of the simpler statement can be supplemented by the Mid Life MOT, which is potentially an excellent vehicle for improving retirement planning. The DWP should seize this opportunity to link them together.
- The DWP should aim to roll simpler annual statements out to other types of pension, especially personal pensions, and should set out a timetable to achieve this.
- Pension policy initiatives should always be viewed and evaluated in terms of their ultimate goal – improving member outcomes across retirement when they access their savings. Other issues are a means to this end, rather than the ultimate objective themselves.

Consultation questions

1. 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?

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

Age UK agrees that simpler annual statements will be a helpful tool for improving consumers' understanding of their pension saving, and we broadly support the suggested reforms.

In conjunction with other policy initiatives, they will be helpful for boosting engagement, although improved engagement alone is insufficient to automatically deliver better outcomes. This will require further help for consumers as they navigate the retirement income marketplace.

We see a strong link between the proposed twin objectives and other policy initiatives. Perhaps most notably, the proposed information would form an important part of the Mid Life MOT initiative, launched by the Department for Work and Pensions earlier this year.ⁱ

Our own research has indicated that people consider pensions the most important issue they would like to discuss in this review, with 48 per cent of people polled saying it should be included (ahead of skills and careers, each at 44 per cent).ⁱⁱ We would like to see simpler annual statements provide a gateway to the Mid Life MOT.

The 'third key question' that the consultation document proposes – "*What can you do to give yourself more money in retirement?*". This implies more than just pensions, notably an integral link with earning more income through work. To help people achieve this, the simpler annual statement needs to also nudge people towards appropriate support on improving people's skills and career prospects, both of which are key elements on the Mid Life MOT. Making sure the support is joined up across different areas should be an important aim of the Government, and will help underpin the success of the new statements.

There is also a clear link between pension dashboards and the simpler annual statement. Once up and running, the dashboard will be an obvious port of call for people who wish to look at all their retirement provision in one place and plan for the future. This link should be built into the simpler annual statement design.

2. We would welcome:

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.

We believe that delivering a good balance between consistency across schemes and relevance to individuals will require a combination of a template for core items, together with allowing trustees and providers flexibility for non-core items, while having regard to key principles. However, flexibility should be limited - most savers will have several pensions run by different schemes, and too much variation may be confusing. Ultimately, whatever form is used there should be sufficient regulatory scrutiny to ensure that all statements comply with whatever regime is in place and meet best practice standards.

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

We agree that focussing on occupational and workplace defined contribution schemes is a good starting point. However, there should be a commitment to evaluate the impact of the statements and extend them (or a similar concept) to other types of pension schemes, and it would be helpful if the DWP could set out a strategy or timetable for achieving this.

While we acknowledge defined benefit schemes may be a more difficult proposition and would perhaps require a different offer, personal pensions should be a priority for following suit. Although many personal pension customers may be more engaged than workplace pension savers, there are likely to be many savers for whom receiving a simpler statement would be interesting and useful.

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

The five principles seem reasonable, although clearly their practical application is of key importance. However, we believe there should be a greater focus throughout on the statements' impact on savers' outcomes once they come to access their pensions. Other principles are really a means to this end – the statements are part of a journey to this point and should be viewed as a process rather than a standalone event.

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

We hope that the simpler statement will serve as a useful tool for engaging greater numbers of people in their pension saving.

However, initiatives such as this, while very welcome, are only likely to go so far in improving outcomes for savers. We caution the DWP and the pensions industry not to rely too heavily on simpler annual statements (or other engagement initiatives) as a means of improving member outcomes – which is the ultimate goal. Additional robust action is needed across a range of issues, such as charges, governance and at-retirement decision making.

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

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

Yes, we agree – costs and charges need to be clear and understandable.

ⁱ <https://www.yourpension.gov.uk/mid-life-mot/>

ⁱⁱ Age UK (2017) Creating a career MOT at 50, available at https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/reports-and-briefings/active-communities/rb_oct17_creating_a_career_mot_at_50.pdf