# expert insight

## INDEPENDENT TRUSTEE

PMI EXPERT PARTNER

### Words matter

We were discussing improving member outcomes in the office the other day. What, we asked ourselves, were the three things that would make the biggest difference to members in achieving a sustainable retirement income?

I was tempted to say "Firstly, increased contributions, secondly, increased contributions, and thirdly, increased contributions", but that would be easy and glib.

Having said that, for all the great work done on defined contribution (DC) governance, risk management and driving down charges in recent years, the simple fact remains that people still aren't saving enough for their retirement. So for me, the single thing that will make the biggest difference to an individual's retirement is persuading them that they need to save early and save often. We need to improve the UK's saving habits. It doesn't all have to be saved in pensions. There has been a lot of discussion about whether or not the new Lifetime ISA is a good idea or a bad idea. For me, there is a relatively simple test to apply. If the LISA increases the overall savings levels in the economy then it will have been a success. If all it does is re-distribute savings from one tax-advantaged savings product to another then it will have failed.

Secondly, I think trustees and providers need to look at their member communications, and in particular their 'at retirement' **communications**. How we present information to members can influence their behaviour. Consider the following research, which can be found in the snappily titled "Does the framing of retirement income options matter?". As part of a behavioural study, produced for the Financial Conduct Authority (FCA), individuals were presented with a number of options worded in particular ways, for example:

1. The retiree invests £100,000 in an account which earns £500 each month for as long as he lives. He can only withdraw the earnings he receives, not the invested money. When he dies the payments will stop and the investment will not pass to the estate
2. The retiree can spend £500 each month for as long as he lives in addition to the state pension. When he dies there will be no more pension

You will have worked out by now that both of these options serve as a description of an annuity. In the study, Option 1 was described as having an investment framing and Option 2 as having a consumption framing. Individuals were then asked to choose between spreading their pension pot to age 85 or age 100 and the above options (amongst others). 75% preferred the annuity when it was described as in Option 2, but only 32% preferred the annuity when presented with the Option 1 description.

The lesson is that words, and how we present them, matter. Trustees and providers need to ensure that the information they provide to members about their options is not only clear but free of unintentional bias. When was the last time you, as a trustee, reviewed your, or more likely your adviser's, 'at retirement' member communications?

Thirdly, members don't need guidance and they don't need education, they need **advice.** I could fund a very comfortable retirement if I had £1 for every time I have heard someone from our industry complain that the general populace is financially illiterate – if only everyone spent their time boning up on the nature of collateralised debt instruments and the swap yield curve, then the retirement problem would magically go away. Individuals need to be able to access good quality impartial financial advice at the point of retirement. The industry needs to develop an advisory model that is affordable for most individuals – the recent consultation on allowing individuals to access £500 of their DC pot tax-free to be used to obtain advice, may help in this regard.

A look at the open market option – basically this is the right the member of a DC arrangement has to secure their pension with a provider, other than the one they have built their pension pot with – illustrates my point. The industry has run a guidance, information, awareness campaign in recent years aimed at encouraging members to shop around at retirement when buying an annuity, because the difference between the best and worst annuity rate at a given time can be significant.

Statistics from the Association of British Insurers (ABI) show that in 2011 only 45% of individuals took the 'external' option to secure an annuity. By 2013, this had improved to 50%, but by 2015 the number of external annuity purchases had declined to 40%. So education and guidance hasn't served members well in this particular example.

So there you have it – three steps to improving member outcomes. Now let's get on with delivering them.

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