

**Department for Work & Pensions**

**Simpler annual benefit statements**

**Response from  
The Pensions Management Institute**



Pensions  
Management  
Institute

ACHIEVING PENSIONS EXCELLENCE

## **Response from the Pensions Management Institute to DWPs consultation 'Simpler benefit statements**

### **Introduction**

PMI is the professional body which supports and develops those who work in the pensions industry. PMI offers a range of qualifications designed to meet the requirements of those who manage workplace pension schemes or who provide professional services to them. Our members (currently some 6,000) include pensions managers, lawyers, actuaries, consultants, administrators and others. Their experience is therefore wide ranging and has contributed to the thinking expressed in this response. Due to the wide range of professional disciplines represented, our members represent a cross-section of the pensions industry as a whole.

PMI is focused on supporting its members to enable them to perform their jobs to the highest professional standards, and thereby benefit members of retirement benefit arrangements for which they are responsible.

## **Simpler annual statements: helping members engage**

### **What do we want to achieve?**

*Question 1. We would welcome your views on this twin ambition:*

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

We believe that a simplified statement explaining accrued benefits in a straightforward and accessible style would do much to improve member understanding and increase levels of member engagement.

We also believe that encouraging a consistency of style would help members with multiple pots make informed like-with-like comparisons. This too would significantly improve levels of member engagement.

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

We believe that effective communication requires simple language and uncluttered layout. Conveying key ideas quickly and effectively is important if members are to read them. As some of the later questions recognise, in a digital era, the format of scheme documents (such as benefit statements) is also an important consideration. Integrating scheme documents into the pensions dashboard will be crucially important.

### **Which pension schemes are in scope?**

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

*How can we achieve simplicity and consistency?*

We agree with the intended scope. It would not be appropriate for Defined Benefit (DB) schemes to be included.

*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?*

We are absolutely in agreement with the idea that short statements of two pages are to be preferred if it is hoped that members will read them.

*For trustees and scheme providers:*

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

*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?*

N/A

## **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 are satisfied that the proposed principles are entirely appropriate.

## **A simpler statement template**

*We would welcome views on:*

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

The simpler statement is easy to read and is far more likely to be read – and understood - by members. The greatest difficulty concerns members' decumulation options. The statement assumes that a member will annuitise at a named retirement date when this has already become an unlikely member outcome. Realistically, the statement can do little more than project a fund value at some future date but cannot provide any meaningful guidance about the consequences of different decumulation options.

*From trustees and scheme providers, we would welcome views on:*

*Question 7. If you are intending to adopt this simpler statement, what is your anticipated timescale and, if you are varying the statement, where will you make changes?*

N/A

*Question 8. If you do not intend to adopt this simpler statement on a voluntary basis, what barriers or issues have informed your thinking? For example:*

*- Not workable for your scheme? - Implications for your other communications/products for savers? - Additional information that customers have requested that is not included in the statement? Insight from user-testing and evaluation? - Considerations around the needs of different groups? - The costs of switching? Please specify. - Value for members? - Other?*

N/A

*Question 9. If you consider that the simpler statement is not workable for your scheme due to regulatory requirements, please explain how it would need to be varied or amended to meet those whilst still remaining within two pages.*

N/A

*Question 10. Is there any information you think is currently not included, or signposted, in the statement attached at Annex A that would support the ambition to inform members and enable them to make retirement planning decisions? If so, what additional information do you think needs adding or signposting?*

N/A

## **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?  
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?*

*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?*

*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?*

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

We agree that the principles-based approach is practical. It will encourage consistency of style across different providers and should ensure that statements remain simple and easy to read.

## **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.*

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

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

We believe that the descriptors approach would allow the development of simple and uncluttered statements. This approach would also greatly encourage consistency of style and language.

We are satisfied that the descriptors set out on the consultation document are clearly defined. They are comprehensive and identify everything that a simplified benefit statement would require. The only constraint we can identify concerns the format of the statement: this approach is appropriate for a traditional paper statement but would not be so obviously suited to information provided in an electronic format.

## **Achieving change**

*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*

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

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

We are strongly in favour of schemes providing simplified benefit statements. Such documents are far more likely to be read by members and the information is in a format that members

would find accessible and informative. It is also important to encourage providers to adopt a consistency of style. This will be important when information is provided via a pensions dashboard. Ensuring that there is consistency of style will enable members to make informed and legitimately like-with-like comparisons between their various accrued pension benefits.

## **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 that this proposal is appropriate.

*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?*

*(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 agree that a phased approach would be a pragmatic way of introducing information about member-borne charges and their impact on a member's fund.

We are aware of the difficulties in identifying the various member-borne charges that might apply to a member's fund. The way in which they are applied can be difficult to explain, and expressing the effect of a charge in simple monetary terms may not necessarily constitute an adequate description.

*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?*

*(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?*

We agree that charges and transaction costs should appropriately be recorded separately. We also agree that information such as the percentage of funds under management should also be presented to ensure that members have a fuller understanding of the impact of charges.





## **Assumptions: helping members identify if their savings are on track**

### **Ownership and alignment**

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

We agree that these proposals are entirely appropriate. We are aware that the FRC has argued that it is inappropriate for them to be responsible for the assumptions used in SMPiIs and we would support a transfer of responsibility to the DWP.

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

We do not believe that the costs of redesign would be unreasonable. In any event, as we have noted, schemes will in future be required to provide information via the pensions dashboard and so would need to adopt a common format for the provision of information.

### 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.*

We do not believe that the costs would be unreasonable.



## **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.*

The assumptions used in TM1 have been obsolete for many years and their replacement is long overdue.

## 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.*

*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.*

The dashboard will play a vital role in improving members' understanding about their various accrued pension benefits. The adoption of a simplified and standardised format is essential if information is to be aggregated and presented via a dashboard. We believe that the proposals in this consultation are necessary to ensure that the dashboard is able to operate effectively.

## How can we encourage people to open statements?

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?
- 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?
- c. how a 'statement season' might operate, including in terms of length and scope?
- 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?
- e. how a seasonal approach to statements sit with communications that are personalised to the needs and preferences of individuals?
- f. other approaches that could be effective, based on user research and/or international experience related to pensions or other sectors?

The Swedish experience would suggest that adopting a specific colour for the envelope used has been effective. However, when moving to an era of multiple communication channels, we are not persuaded that this would have so much impact in future.

The obvious problem with a 'statement season' is that the obvious time for a statement to be issued is at the end of the scheme year. This could be at any time of the year, and so adopting an arbitrary date for the provision of statements would not necessarily be appropriate.

In any event, as members become increasingly used to accessing real-time information via the dashboard, the dependency on traditional statements will be far less significant.

## **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.*

No comment.

## **Equality Act**

*Question 25. As part of this consultation we would therefore welcome views on the impact of each of the options for simplified annual pension statements on protected groups, and how any negative effects may be mitigated, including the impact on disabled people and the provision of information in alternative formats.*

We do not believe that the provision of simplified statements would have any particular impact on protected groups.