

PPI Policy Seminar

Consumer Engagement: lessons from overseas

The Pensions Policy Institute (PPI) held a policy seminar on the 24th June 2017 to launch the second report in its consumer engagement series, *Consumer Engagement: lessons from overseas*. The event was hosted by State Street Global Advisers.

The report explored different international examples of consumer engagement with pensions, drawing out the lessons that these examples may have for consumer engagement in the UK.

Around 50 people were present for the launch. Attendees included representatives from the pensions industry, DWP and other stakeholders.

Alistair Byrne, Head of Investment Strategy, European Defined Contribution, State Street Global Advisors welcomed attendees and introduced the seminar.

Morten Nilsson, PPI Governor and CEO, NOW pensions chaired the seminar and introduced the research.

Priya Khambhaita, Senior Policy Researcher, PPI presented a summary of the report's findings, focusing on the five key lessons that the UK may be able to learn from engagement approaches overseas.

Deborah Cooper, Partner, UK Retirement, Innovation Mercer, representing the Institute and Faculty of Actuaries gave a response to the findings with respect to the wider economic environment.

Richard Edes, Head of Risk & Research, The Pensions Regulator gave a regulator's perspective on the findings.

Alistair Byrne presented a provider's perspective on the findings.

Morten Nilsson introduced a panel discussion. The panel members opened with a short commentary before taking questions and discussion points from the floor.

The following points were raised during the question and discussion session with the panellists and the audience. They do not necessarily reflect the views of the Pensions Policy Institute, the panel or the organisations they represent:

- **How can the success of behavioural approaches be measured?** Having clear objectives is important in measuring the success of such approaches, and may include measuring increases in coverage or the extent to which the target group has been engaged. Increased pension freedoms have further complicated the task of measuring the effectiveness of policies aimed at increasing engagement and improving outcomes in pensions, as this can no longer simply be assessed on the basis of adequacy of income which is more complex to determine for those with drawdown rather than an annuity. It is important to be wary of measuring the success of these approaches by the level or frequency of activity, as these may not translate into a better outcome necessarily; for many individuals defaults may deliver the most optimal outcomes.
- **When is the most appropriate time to engage with individuals?** Engagement generally increases at times when individuals are able to access their money, rather than during the accumulation stage. For example, there has been an increase in active decisions regarding DB to DC transfers. There may also be a role for engagement and guidance at the mid-career point. Employers have a wealth of information on their employees and could use this to time pension scheme communications strategically to increase results.
- **For some younger individuals, retirement income is seen as a distant and intangible benefit. In what ways could engagement approaches help to change this perception and increase engagement with retirement saving decisions?** Many young people do engage in positive saving behaviour, for example saving for a house deposit, further education or travelling. However, many view retirement as too distant an event and do not connect with the tangible benefits of saving towards a pension in the same way as the tangible benefits of saving for something more immediate, such as a house deposit. Introducing saving vehicles, such as the Lifetime ISA, that incorporate pension saving with more immediate saving goals could help to make the benefits of saving more tangible for young people. However, these sort of products may also complicate the process and may not actually increase the size of pension pots.
- **What is the impact of regulation on engagement approaches?** It is important that regulation has clear objectives, according to which its effectiveness can be measured. There should also be clarity in regulation, as much as possible, as differing interpretations of regulation may discourage providers from implementing novel engagement approaches. Excessive regulation may act as barrier to implementing these approaches, in particular by complicating moves to online platforms and app based engagement.
- **Could some form of auto-escalation be introduced to increase the positive outcomes resulting from auto-enrolment?** To some extent, auto-escalation

has occurred for those automatically enrolled, as minimum contribution levels will continue to increase until at least 2019, however this only constitutes auto-escalation for the first cohort of auto-enrolees, as individuals who are enrolled after the minimum contribution rate has increased to 8% will contribute at this level from day one. There may be a role for a system that automatically escalates contributions to coincide with pay increases, or alternatively, some form of age banded contribution levels.

- **What is the role of defaults in engagement approaches, and how can a 'good' default be determined?** Defaults are likely to become increasingly important as some individuals who have been auto-enrolled will reach retirement without having engaged actively with pensions decisions. Defaults may have a lower take-up rates in the decumulation stage, as there is generally a wider spread of needs than within the accumulation stage, but this does not negate the important role that defaults may have for some individuals during this stage of pension decision-making.
- **How do behavioural approaches and 'nudges' compare to compulsion in terms of outcomes?** Automatic enrolment has illustrated the power of nudges, with opt-out rates lower than predicted prior to its implementation. If opt-out rates continue at this level when contribution rates increase, then 'nudging' technique is effective.