PENSIONS POLICY INSTITUTE
PPI

Pensions Consumer Journey: Call for Input
Response from the Pensions Policy Institute

1. Response

1.1 This is the Pensions Policy Institute's submission to the joint TPR and FCA call for input on the pensions customer journey.

1.2 The Pensions Policy Institute (PPI) promotes the study of pensions and other provision for retirement and old age. The PPI is unique as it is independent (no political bias or vested interest), focused and expert in the field, and takes a long-term perspective across all elements of the pension system. The PPI exists to contribute facts, analysis and commentary to help all commentators and decision-makers to take informed policy decisions on pensions and retirement provision.

1.3 This submission does not address all the specific questions in the consultation, neither does it seek to make policy recommendations. Rather, the response points to relevant research that the PPI has conducted. The PPI Consumer Engagement Research Series, which can be accessed via the links below, contains evidence pertinent to key aspects of the consultation, specifically around the key challenges faced by schemes and others involved in encouraging greater engagement with pensions among the general public.

Consumer engagement: barriers and biases (February 2017)
https://www.pensionspolicyinstitute.org.uk/media/1820/20170208-ppi-consumer-engagement-barriers-and-biases-report-final.pdf

Consumer engagement: lessons from overseas (May 2017)
https://www.pensionspolicyinstitute.org.uk/media/2738/20170524-ppi-consumer-engagement-lessons-from-overseas-report.pdf

Consumer engagement: the role of policy through the lifecourse (July 2017)
https://www.pensionspolicyinstitute.org.uk/media/2640/20170719-consumer-engagement-the-role-of-policy-through-the-lifecourse.pdf

PENSIONS POLICY INSTITUTE
PPI

2. Summary

2.1 There are many reasons for people not engaging wholly with their pensions

People's life experiences and family and social influences often have an impact on decision-making which can lead to less optimal outcomes. Financial decisions can involve a variety of options and vast amounts of complex information, and this complexity can cause confusion and work against people making informed choices.

For example, people may rely heavily on past performance and experience, ignoring expected future returns and risk factors. Others may be risk averse and feel that the risk of not choosing a default option is too great despite evidence to the contrary.

2.2 Behavioural interventions can be a useful tool in helping people make better decisions

There is a range of approaches that have been taken by policymakers and practitioners in other fields that enable people to make decisions that could help them to achieve better financial outcomes. Behavioural interventions have been used successfully in public health campaigns around organ donation, alcohol and smoking and could be considered as a means of encouraging people to engage more with their pensions alongside other legislative and regulatory measures.

2.3 Behavioural interventions are most effective when they are applied during 'teachable moments'

'Teachable moments' are when an intervention is relevant to the individual's current circumstances. They may occur at different times during people's lives, but often happen at key transitions, such as moving house, changing jobs and other times when people are faced with financial decisions.

To ensure that teachable moments are effective, the behavioural interventions employed should take account of the demographics of the audience, such as its level of knowledge, any relevant cultural attitudes, income, gender and age. This will require a more holistic and flexible approach to ensure the most appropriate level of intervention and support for people.

While behavioural interventions can be used to help people to achieve positive outcomes, people may still make poor decisions perhaps because of low levels of financial capability or social exclusion. Exploiting teachable moments can also involve reducing negative behavioural cues that can play an important role, alongside positive cues, in helping to reduce harm and promote positive outcomes from long-term saving. Default pathways can also often be helpful to people who lack the experience or agency to make successful decisions.

2.4 Other countries have developed initiatives aimed at increasing engagement

Some countries have adopted a broad financial wellness approach to engagement which can see smart interventions at teachable moments. This approach takes a holistic approach to an individual's financial status throughout their life. This could include pensions, debt, mortgages, savings and investments and payment for care and enables people to better understand their finances.

A more holistic financial wellness approach could include the use of awareness campaigns and events and the use of clear objectives and messages. Where such interventions have proved successful, there has been a multi-agency approach, with messages and advice coming from a variety of sources, including Government, pension providers, employers, trades unions and advice services. Alongside this, simple and easily accessible technology can also play a role in driving people's engagement with their pensions.

2.5 Flexibility and co-operation between agencies are important in encouraging engagement

People's ability or willingness to engage with pensions will vary throughout their life course, with different levels of financial capability, understanding or interest. Lessons can be learned from successful programmes in other countries. The following table suggests ways in which engagement might be optimised at different life stages.

Life stage	**Financial capability confidence and aptitude**	**Support needs**	**Optimal engagement**
Childhood - ages 18 and younger	Capability – low Confidence – low Aptitude - high	Education laying ground work for future capability, confidence and behaviour.	Financial education provided by family and/or school.
Young adulthood – ages 18 to 25	Capability – low, varying Confidence – low, varying Aptitude – med to high	Managing debt, competing financial priorities, whether/how much to save.	Personalised, simple, practical education, peer or organisation led (face-to-face, phone, webchat) implemented during key transitions.
Adulthood – ages 25 to 55	Capability – low to high Confidence – low to high Aptitude - decreasing with age	Managing debt, competing financial priorities, financial planning for the future.	Personalised, support, advice or education, peer or organisation led (face-to-face, phone, webchat) which takes into account differences in culture, income, gender and financial capability.
Pre-retirement –	Capability – higher on average	Ensuring saving goals are being met, decisions around leaving work,	Personalised, specific, practical advice, support and information which takes

ages 55 to SPa	Confidence – highest of any age group (73% - very confident) Aptitude - decreasing with age	accessing and using savings, planning for uncertainties (e.g., future needs such as care etc.).	into account varying capability, explains the implications of options and makes clear that people do not have to access pension savings at age 55.
Older age – ages SPa and over	Capability – decreasing with age, particularly over age 75 Confidence – high on average Aptitude - decreasing with age particularly low over age 75	Sustaining income through retirement, preparing for changes in need, avoiding scams and fraudsters.	Organisation or peer-led (face-to-face, phone, webchat or group education) support, advice or guidance which assumes lower than average levels of financial capability and numeracy and potential cognitive decline, especially for those over age 75.

For further information or if you have any additional questions please contact:

Mark Baker
Senior Policy Researcher
Pensions Policy Institute
mark@pensionspolicyinstitute.org.uk
www.pensionspolicyinstitute.org.uk

PENSIONS POLICY INSTITUTE
PPI

About the Pensions Policy Institute.

We have been at the forefront of shaping evidence-based pensions policy for 20 years.

The PPI, established in 2001, is a not-for-profit educational research organisation, with no shareholders to satisfy– so our efforts are focussed on quality output rather than profit margins. We are devoted to improving retirement outcomes. We do this by being part of the policy debate and driving industry conversations through facts and evidence.

The retirement, pensions and later life landscapes are undergoing fast-paced changes brought about by legislation, technology, and the economy. Robust, independent analysis has never been more important to shape future policy decisions. Each research report combines experience with independence to deliver a robust and informative output, ultimately improving the retirement outcome for millions of savers.

Our independence sets us apart – we do not lobby for any particular policy, cause or political party. We focus on the facts and evidence. Our work facilitates informed decision making by showing the likely outcomes of current policy and illuminating the trade-offs implicit in any new policy initiative.

Our Vision:

Better informed policies and decisions that improve later life outcomes

We believe that better information and understanding will help lead to a better policy framework and a better provision of retirement income for all.

Our Mission:

To promote informed, evidence-based policies and decisions for financial provision in later life through independent research and analysis

We aim to be the authoritative voice on policy on pensions and the financial and economic provision in later life.