PENSIONS POLICY INSTITUTE

PPI Policy Seminar

Consumer engagement: barriers and biases

The Pensions Policy Institute (PPI) held a policy seminar on the 8th of February 2017 to launch the first in a series of reports exploring consumer engagement with pensions and financial products. The main sponsor of this report is Pinsent Masons. The research series is being sponsored by the Association of British Insurers (ABI), LV=, Pinsent Masons, State Street Global Advisors (SSGA), The Pensions Advisory Service (TPAS), Institute and Faculty of Actuaries, The Pensions Regulator (TPR), The People's Pension, and USS.

The first report explores the reasons behind people's decisions and the lessons that can be drawn from behavioural economic theory for policy-makers, particularly in relation to engagement in pension decisions.

Around 80 people were present for the launch. Attendees included representatives from the pensions industry, trade bodies, unions, politicians and other stakeholders.

Paul Lewis, Freelance Finance Journalist and Presenter, BBC MoneyBox Live chaired the seminar, welcomed attendees and made introductions.

Carolyn Saunders, Head of Pensions and Long-term Savings, Pinsent Masons LLP explained the need for a report like this. In light of the shift from Defined Benefit (DB) to Defined Contribution (DC) schemes, there is an even greater need to consider how to help people achieve better outcomes from pensions, and indeed how people understand these outcomes.

Paul Lewis asked the following questions before introducing the next speaker: 1) How equipped are consumers to make these types of decisions? 2) Are they equipped to undertake these decisions?

Lauren Wilkinson, Policy Researcher thanked Pinsent Masons for sponsoring the report and then presented a summary of the research findings.

Carolyn Saunders responded to the research and made the following remarks: There were many interesting insights and observations related to behavioural issues. Engagement is important and there needs to be a better understanding that there are alternatives to default options. An example was given of the USA where, in relation to auto-enrolment (AE), people tend not to change from default options. This report, as well as subsequent reports, will be very important in terms of improving understanding of (and breaking through) engagement barriers.

Elisabeth Costa, Principal Advisor, Head of Consumers, Energy and Sustainability, The Behavioural Insights Team gave a behavioural economist's perspective on the findings. This report is a very serious reflection of key issues related to better outcomes for consumers. Regulated markets are "open", and in many ways there are few barriers to switching from default options under DC schemes. Behavioural market failures come from the idea that we are all perfectly rational actors. Two key points to consider from the report:

1) When discussing irrationality, this is meant in economic terms. In fact, heuristics and rules of thumb are important in navigating many areas of daily life.
2) Ambitions should not be to make people perfectly rational actors. The aim should not be to remove inertia but instead to harness it. Default schemes are relevant to this.

Moving forward, behavioural interventions should be piloted before rolling them out. Behavioural mechanisms are not a silver bullet. Interventions used should work in line with other regulatory mechanisms. It is important to remember that pension providers face challenges to implementing behavioural interventions. Potential solutions include exploring combining pensions with shorter term savings plans/schemes.

Philip Brown, Head of Policy, LV= gave a provider's perspective on findings. There appears to be a lot of potential for engaging with consumers. At the moment, most of the engaging is done in response to the regulatory requirements rather than something that consumers need. ISAs are an example of a product that seems relatively straightforward to understand for consumers as there are no charge caps, and pensions appear more complex. It is quite difficult to impart these complexities to consumers. The biggest challenge is in ensuring consumers get advice, understand the value of this to them and are able to easily access advice. Communication and language are key. In line with this, it is important to work with inertia and not against it.

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:

- One barrier to using these findings is that providers are fearful of getting it wrong for a few bad cases. It is important to work with the consumer and the pensions dashboard is a great way to do this. It can help consumers work at understanding adequacy and stimulate them to think about contributions. The pension dashboard can help consumers visualise and forecast. However for even greater potential, it can be paired with other behavioural mechanisms.

- How can consumers be persuaded to contribute more to their pension schemes? It is important to help people relate better to their older self. Reference was made to a project on people wearing make-up to see what they will be like when they are older. This can potentially help work through cognitive and psychological barriers.
- Engagement may not be for everyone, such as the socially excluded. In terms of people on low incomes, they tend to already be good at budgeting and it may not be realistic for them to contribute more on a regular basis. Consumers like these may have more present concerns. For some people with mental health problems, engaging them using tailored policies that work with their conditions is a possibility.
- What about potential cases of pension dashboard mis-selling? It is important to think about data standards and the accuracy and relevance of data. Furthermore, there is a wider issue of the industry being more transparent and being honest about mistakes.
- How can people outside DB "trust" what they may or may not receive? It is important that there is transparency on behalf of the providers. Confusion can also lead to lack of trust and providing relevant information is central to this.
- There is a need to understand differences between sub-groups of consumers. There is potential for providers to use the data that they have regarding pensions to conduct sub-group analyses to evaluate the impact of communications methods and behavioural interventions. Despite efforts to improve understanding of consumer comprehension, there is still a need for more research in this area.
- In systems where pension saving is compulsory, this seems to engender a culture of engagement. However, it is important to consider this, especially if consumers are wanting choice.
- It is important to think about how to raise people's financial capability so that they are able to make suitable choices. This can be considered in terms of improving capability at the individual level but also at the sub-group/cultural level.
- Automatic enrolment has been very successful. In line with this, it is important to make increasing contributions easier and more engaging.