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What could effective pensions engagement look like?

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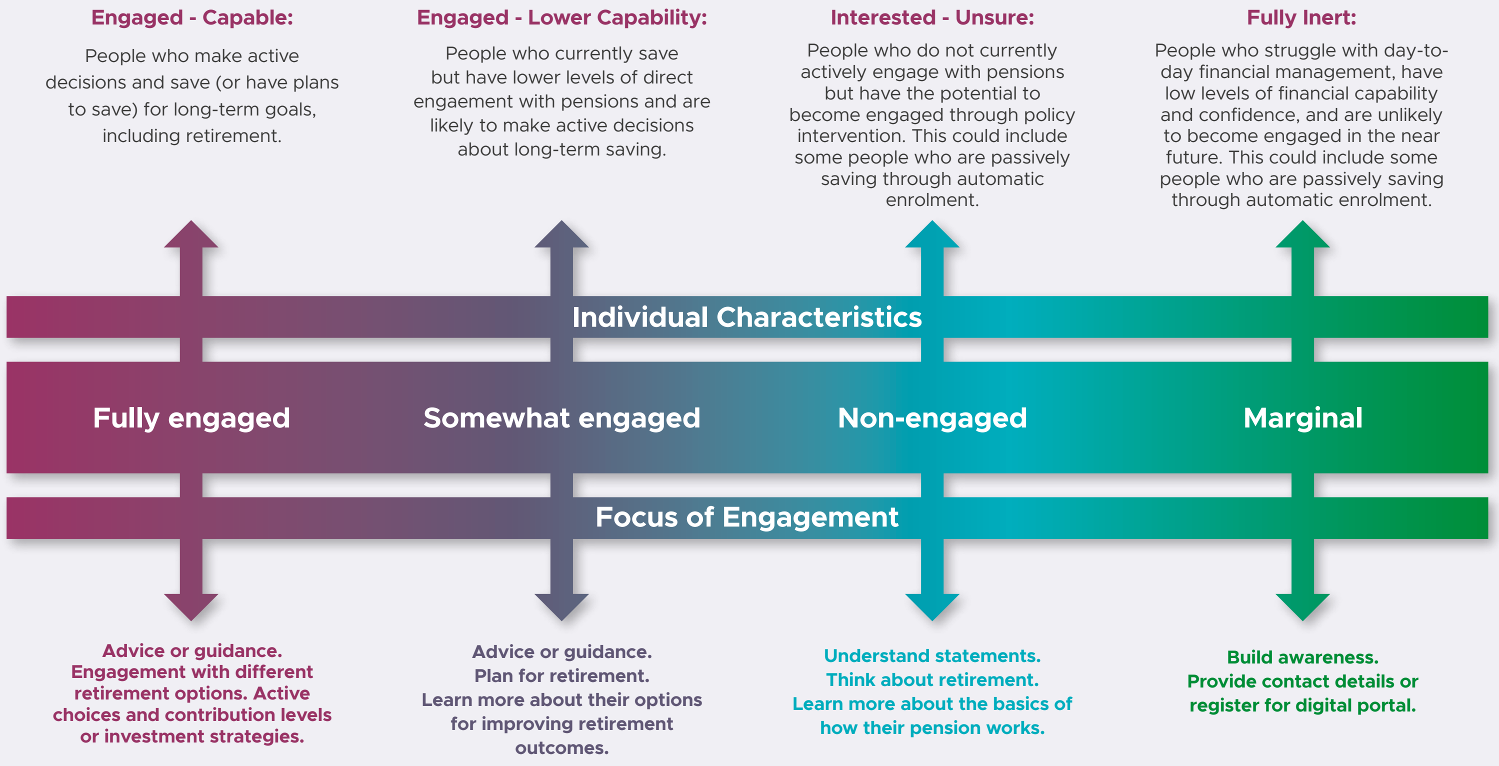
What could effective pensions engagement look like?

Executive Summary

This report explores the factors that can impact the level of "engagement" that can feasibly be achieved, the benefits and risks associated with engagement and the ways in which engagement strategies could be strengthened, including what other support may be needed for those who are less likely to become engaged or benefit from engagement.

This is the second of two outputs in the PPI's Engagement Research Series. The first output, **What is the role of engagement in pensions?**, set out an overview of the current landscape of pensions engagement and a proposed definition of engagement as a spectrum (Figure Ex.1).

Figure Ex.1



A better future for savers could be built on a foundation of consensus, collaboration and technological advances

Government and industry anticipate that retirement outcomes and overall financial wellbeing could be improved by better engagement, but levels are currently low

The Department for Work and Pensions (DWP) hypothesise that 'better engagement will lead to better decision making and outcomes for members.'[1] Many across the industry share the expectation that increased engagement can support better retirement outcomes and improve overall financial wellbeing over the lifecourse. Increasing the effectiveness of strategies that aim to build confidence in active decision-making could help to deliver better retirement outcomes for those who are able to become fully engaged. For those who are able to become fully engaged, making informed active choices is likely to deliver better outcomes if they are able to tailor their saving and access behaviour to reflect their individual needs and preferences. However, there are many barriers that mean that full engagement is not a feasible expectation for everyone.

While there has been a growing focus on developing engagement strategies in the pensions industry, measures estimate that levels of engagement remain low; among adults with at least one active Defined Contribution (DC) pension, over a quarter (27%) have a very low engagement level, with a further quarter (24%) categorised as 'low engagement'.[2]

Supporting people to make informed active choices will require a substantial amount of work but advances in technology and more targeted support could improve outcomes for some people

The current UK pension system requires some active decision making for people to achieve optimal outcomes. Increasing the likelihood of more people making active choices, as well as the likelihood that they have enough knowledge to make active choices that are likely to improve their retirement outcomes and financial wellbeing, will require substantial work from within the pensions industry, Government and beyond, which could benefit from a more joined-up approach.

The level of resource and cost required to build strategies aimed at stronger engagement needs to be weighed up alongside the level of benefit that is reasonable to expect

Building a more segmented approach to engagement, in order to better meet the needs and preferences of different groups, is likely to be a costly exercise, given the improvements in communications and data required to develop and implement. Considering the current relatively simplistic use of segmentation and personalisation, this will require significant experimentation and refining of approaches to find strategies that are effective for different groups. This is likely to be too large an individual undertaking for even the largest schemes, further underlining the need for a joined-up approach across the industry, in conjunction with Government. The cost associated with developing more complex segmentation would need to be weighed up carefully against its potential benefits, particularly in light of increased focus on Value for Money. While data-driven approaches to engagement will be costly to develop, they may be more cost-effective to manage on an ongoing basis, as well as potentially better meeting member expectations and needs. Identifying mechanisms for measuring the outcomes of engagement strategies also presents challenges. Building consensus on more nuanced measures of engagement could support the development of realistic targets, more effective tracking of progress and the ability to more accurately assess the balance between cost and benefit.

[1] DWP (2023a)
[2] FCA (2023a)

Technological advancements, including pensions dashboards and the potential for greater segmentation, present an opportunity for innovation in engagement

Advancements in technology and digital platforms are likely to aid engagement going forward. Improvements in collection and utilisation of data could help to make engagement strategies more effective and measurable. At the same time, digital channels, including apps and video content, are becoming an increasingly important component of engagement strategies as they allow for more personalised and potentially more effective engagement. Increasing use of AI could also support greater personalisation.

A more joined-up approach that incorporates a holistic view of people's financial circumstances and behavioural biases could help to increase engagement

Supporting people with financial challenges, outside of pensions, that are already relevant and interesting to them as part of a broader, open finance led, financial wellbeing strategy, could help to build their connection with their pension provider and lead to more informed active choices in the future. Communications that are informed by an understanding of behavioural biases are likely to have a greater impact on actions and outcomes.[3]

Some people will need greater support to achieve positive outcomes

Some people will find it more challenging to make informed active choices that lead to positive retirement outcomes and are therefore unlikely to achieve positive outcomes through engagement alone. If the shared goal of Government and industry is for everyone to achieve positive retirement outcomes, and better levels of financial wellbeing throughout the whole of life, other mechanisms will be required for those for whom full engagement is unachievable.

People with lower levels of financial capability and knowledge are both less likely to make active choices and less likely to benefit from this behaviour. Among those who do make active choices, they are at greater risk of making decisions that will lead to poor retirement outcomes. While not representing an exact correlation, measures of financial vulnerability could provide a rough estimate of the scale of this group that is unlikely to become fully engaged and less likely to benefit from engagement. 52% (27.3 million) of UK adults have one or more characteristics of financial vulnerability.[4]

Some people with higher levels of financial capability and understanding will also be challenging to engage because of personal characteristics and circumstances and are therefore at risk of failing to take actions that are likely to improve their retirement outcomes. The approach that is appropriate for these groups, be it engagement-focused or other policy levers, differs according to their level of financial capability and their openness to engagement.

Other mechanisms may more effectively deliver the goal of positive retirement outcomes and will be particularly important for people who are unlikely or unable to make informed active choices:

- Guidance, which may be delivered as part of engagement strategies, is essential to support those who are less capable of independently making active choices that will deliver positive retirement outcomes. Many could also benefit from taking more formal financial advice. The impact of guidance and advice on retirement outcomes is dependent on people engaging with available support.
- Appropriately designed defaults could help people who will not or cannot make informed active choices to achieve better retirement outcomes.
- Rules of thumb could help to reduce friction costs and guide people towards better retirement outcomes without the need for full engagement.
- Safety nets and protection-based policies will play an important role for people who are unlikely to make informed active choices.

A more collaborative and investigative approach is needed to achieve engagement goals

While increasing engagement with pensions is a significant focus of both government and industry, a significant proportion of the population are unlikely to achieve positive retirement outcomes under the current system without changes to engagement strategies and consideration of other mechanisms needed to support those who are unlikely, unable or unwilling to engage, or unlikely to achieve positive outcomes through engagement alone. Further work will be needed to improve retirement outcomes, which may include:

- **A more collaborative approach across the pensions industry:** The pensions industry has started to take a more collaborative approach, with cross-industry awareness campaigns but could benefit from further collaboration on the more technical aspects of engagement, including, but not limited to:
  - Reaching a consensus on a method for measuring engagement;
  - Best practice for data collection and utilisation; and
  - Agreeing clear language to be used in communications across the industry.
- **Further investigation of segmentation:** Developing an agreed-upon approach to segmentation that takes into account both openness to engagement and financial knowledge/capability could help to make engagement strategies more effective and ensure that other appropriate mechanisms are in place for those who will struggle to achieve positive outcomes through engagement alone. It would be beneficial for the industry or government to conduct further in depth research into the barriers to engagement in order to build a better understanding of the different segments, how to identify people in these segments and how best to support them to achieve positive outcomes.
- **Consideration of other mechanisms:** Investigation into the role of appropriately designed defaults, rules of thumb and safety nets for those who are unlikely to achieve positive outcomes through engagement alone.
- **A taskforce or working group for engagement:** Building consensus on approaches to engagement, improving the effectiveness of segmentation and identifying reasonable targets for engagement could be supported by a designated taskforce or working group that brings together key stakeholders from across government and industry.

[4] FCA (2023b)
[5] FCA (2023a)

Introduction

There is broad agreement across the pensions industry that current levels of engagement are too low and pose a risk to retirement outcomes and overall financial wellbeing. However, there is less consensus on the extent to which people can be expected to become engaged and who is likely to benefit from engagement, while others may require additional support to achieve positive outcomes.

The overarching aim of this research series is to break down what we mean by engagement and for whom engagement is likely to be beneficial, in order to identify what effective engagement strategies might look like for groups with different characteristics and what other mechanisms may be needed for those who are unlikely to achieve positive outcomes through engagement alone.

The first Briefing Note in this series, **What is the role of engagement in pensions?**, was published in October 2023. The Briefing Note provided an overview of the current landscape of pensions engagement, including:

- What current engagement approaches look like;
- How engagement is measured;
- Current levels of engagement; and
- Definitions of engagement.

It also set out a proposed hierarchy or spectrum of different levels of engagement (Figure Ex.1).

This report builds on the findings of the Briefing Note, exploring the factors that can impact the level of engagement that can feasibly be achieved, the benefits and risks associated with engagement and the ways in which engagement strategies could be developed to be more effective.

Chapter One – What is engagement trying to achieve?

Explores the purpose and definition of engagement, including the role of engagement in the current pension system.

Chapter Two – What are the benefits and risks of engagement?

Explores how the four key engagement stakeholders: the individual, the employer, industry and the Government may be affected by engagement work, and what costs and benefits need to be borne in mind when designing strategies.

Chapter Three – What are reasonable expectations for engagement?

Explores the range of factors that determine what achievable engagement targets could look like, along with who is less likely to become fully engaged or benefit from engagement to achieve positive outcomes.

Chapter Four – What could effective engagement strategies look like?

Explores what effective engagement strategies could look like for those who are able to become engaged.

Chapter Five – What other support is needed to achieve positive retirement outcomes?

Explores what other mechanisms could support people who are unlikely to become engaged or benefit from engagement to achieve better retirement outcomes.

CHAPTER ONE:

WHAT IS ENGAGEMENT TRYING TO ACHIEVE?

This chapter explores the purpose and definition of engagement, including the role of engagement in the current pension system.

Increased engagement can support people to make informed active choices that may deliver better outcomes, but some people will need greater support if they are unable to become fully engaged

The publication prior to this report, Briefing Note 136, What is the role of engagement in pensions?, highlighted that conversations about pensions engagement have primarily focused on how to increase engagement levels, without considering who can feasibly become engaged and to what extent. Without an answer to these questions, it is challenging to define engagement and its aims, or set feasible targets.

While it is challenging to find consensus on a definition of engagement, there is consensus that its purpose is to support individuals to achieve better financial outcomes in later life and over the lifecourse more broadly. Understanding what engagement is trying to achieve is vital to developing strategies that support people to reach this goal. This Chapter poses three core questions:

- What is the purpose of engagement?
- Is engagement necessary to achieve this purpose?
- How can the definition of engagement be designed to reflect the various needs and capabilities of different groups?

This report is primarily focused on the Defined Contribution (DC) landscape, in which engagement and active choice play a greater role, in comparison to Defined Benefit (DB). DC provides an increasing proportion of UK pension provision, with private sector DB provision in decline. As a result, DC savers will make up the majority of future retirees, and even among those with DB entitlement, many will also have some DC savings as a result of increased job mobility. DB members may also choose to transfer their entitlement out of the scheme and then be faced with the same complex decisions as other DC members in retirement.

Engagement could deliver better outcomes for those who are able to make informed active choices, but those who are more challenging to engage will require additional support

There is broad agreement that the goal of engagement is to deliver better outcomes for individuals

The Department for Work and Pensions (DWP) hypothesise that 'better engagement will lead to better decision making and outcomes for members'.[5] Many across the industry share the expectation that increased engagement can support better retirement outcomes and improve overall financial wellbeing over the lifecourse. However, it is important to consider what is meant by engagement, and whether "engagement" in the form of active decision making is the most effective and likely way to deliver better outcomes.

This report considers better or positive retirement outcomes to be the ability to provide an adequate and sustainable income in later life. There are a number of elements that feed into this goal:

- Saving at a high enough rate to secure an adequate and sustainable income in retirement. As the aim of pension savings is to smooth living standards between working life and retirement, savings rates should not be so high that they lead to a poorer standard of living during working life. Balancing these two competing demands is particularly challenging for people on low incomes.
- Investing optimally for their stage in the pension saving or retirement journey.
- Minimising fund management and administration costs, which may include consolidation of pots where appropriate.
- Accessing pension savings in a way that best meets their needs and preferences in order to provide an adequate and sustainable income in later life.

If better outcomes are the goal of engagement, then success should be measured not just on levels of interaction, but on ultimate outcomes for individuals. This report considers both basic engagement, in terms of communicating with members, and the more active engagement that is necessary for many under the current system in order to make choices that will lead to positive retirement outcomes. Under new Consumer Duty laws, providers must consider the most appropriate way of supporting their customers by equipping them to make 'effective, timely and properly informed decisions'.[6]

The current pension system makes it difficult for people to achieve optimal retirement outcomes without making informed active choices

The current UK pension system requires some active decision making for people to achieve optimal outcomes:

- During accumulation – people who do not make active decisions will contribute at the rate at which they are automatically enrolled, which is unlikely to provide adequate and sustainable retirement incomes. They are at greater risk of losing track of pension pots, and less likely to plan for retirement.
- During decumulation – DC savers face complex decisions at, and during, retirement, about how to access their savings. Those who take the path of least resistance, will potentially fall back on options which do not best meet their needs.

Low levels of engagement can have a significant detrimental impact, for example:

- In 2019-20, around a third of people (850,000 households) entitled to pension credit did not take up the benefit (although this is not solely due to low engagement, but also perceived stigma around claiming benefits among older generations in particular).[7]
- In 2022, there was around £26.6 billion across 2.8 million pensions pots for which the provider had lost contact with the member.[8]

If informed active choices are required to achieve positive retirement outcomes, people who are unable or unwilling to become fully engaged will fail to meet this goal

Increasing the effectiveness of strategies that aim to build confidence in active decision-making could help to deliver better retirement outcomes for those who are able to become fully engaged. For those who are able to become fully engaged, making informed active choices is likely to deliver better outcomes as they are able to tailor saving for and accessing their pension savings to reflect their individual needs and preferences. While informed active choices made during accumulation can have a positive impact on retirement outcomes, decisions made in the years leading up to, at and during decumulation will be particularly impactful and are increasingly complex. Not only are there a range of different methods for accessing and utilising pension savings in later life, but there is also increasing heterogeneity in retirement experiences, expectations and preferences, with much greater variance in retirement age and transitions to retirement, and longer life expectancies on average.[9] Greater variance in financial circumstances beyond pensions will also have a significant impact on later life outcomes, particularly changes in home ownership, with the proportion of households who own their own home expected to decline from 78% today to 63% by 2041.[10]

However, there are many barriers that mean that full engagement is not a feasible expectation for everyone. If the system is set up in such a way that informed active choice is a requisite to achieve positive retirement outcomes, anyone unable to become fully engaged will suffer poorer retirement outcomes as a result. If the shared goal of Government and industry is for everyone to achieve positive retirement outcomes, and better levels of financial wellbeing throughout the whole of life, other mechanisms will be required for those for whom full engagement is unachievable. More structured support, including defaults, may be needed to deliver the goal of better retirement outcomes for people who are less able to make informed active choices.

[5] DWP (2023a)
[6] FCA (2023b)
[7] DWP (2023b)
[8] PPI (2022) Lost pensions 2022: What's the scale and impact?
[9] PPI (2018) Living the Future Life: The implications of a longer life
[10] PPI (2023) The UK Pensions Framework: Renting in retirement – The fault line below the UK pension system

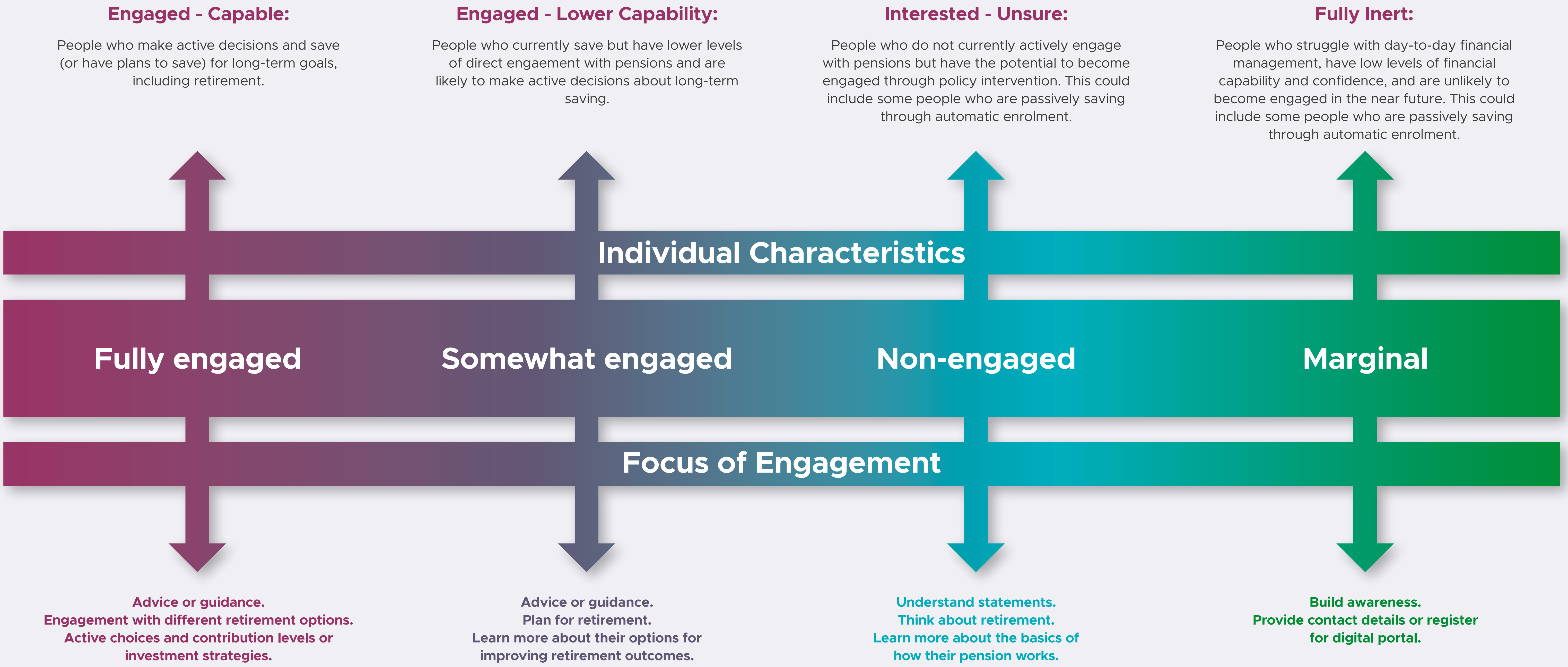
In order to be effective, engagement must be defined in a way that reflects individual needs and capabilities

Identifying a hierarchy of engagement provides the opportunity for greater individualisation in order to more effectively meet individual needs

This project aims to draw from existing practice on engagement, in order to find where consensus lays, and use this consensus to develop a consistent, national, definition of engagement. The first Briefing Note in this research series discussed current practice on engagement, and used it to draw up a hypothesis for an engagement definition.

This definition is based on the premise that, as people have different capacities for engaging financially, an effective definition of engagement must have multiple levels to reflect this. The definition which this report uses, and which is intended to form the basis of a consensus going forward, divides people by their ability to make active financial decisions. It then sets out the types of activity which could be viewed as an achievable level of engagement for those individuals. In this way, the definition provides a structure and aim for those attempting to foster engagement, and a way of approaching measures of success (Figure 1.1).

Figure 1.1: Spectrum of engagement



[15] PPI analysis of LFS
[16] WHERL (2017)

The PPI ran a communications campaign to gather views on this proposed spectrum of engagement and carried out interviews with a range of stakeholders. The response to the spectrum was broadly positive, with a recognition of the benefits of segmenting groups in order to design engagement strategies that more appropriately meet their needs, capabilities and preferences.

The interviews and campaign included the following feedback:

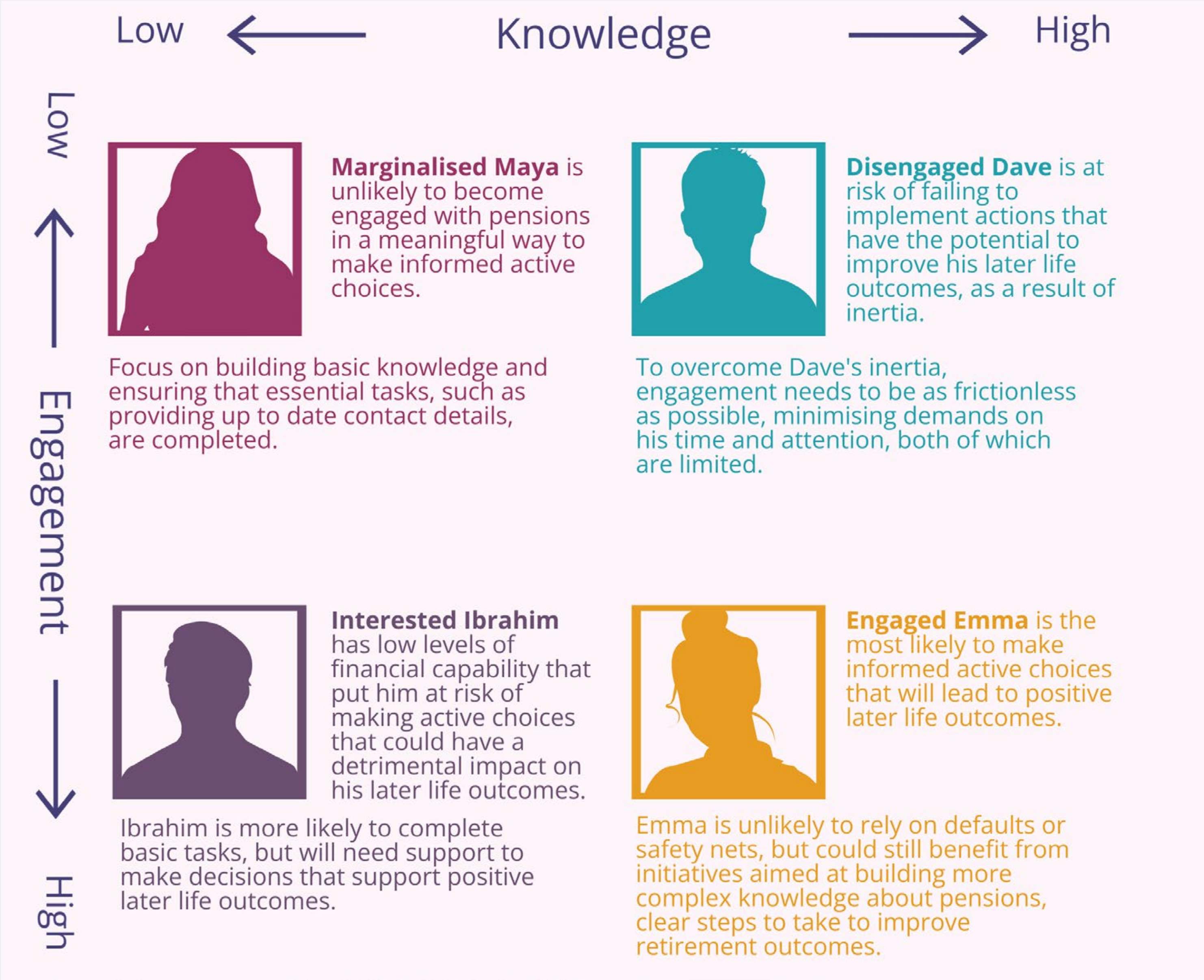
- Some people may currently have low levels of engagement, alongside low levels of financial capability, but may be open to engaging with the right approach. Others may have higher levels of financial capability but could still be challenging to encourage to make active choices. Segmenting groups based on levels of both engagement and knowledge will strengthen the likelihood of the effectiveness of engagement strategies.
- People could transition between points on the spectrum depending on circumstances and other demands on their attention. The ways in which financial capability, behavioural biases and individual circumstances can impact engagement are discussed in more detail in Chapter Three.

It is hoped that the spectrum will be adopted and adapted in order to develop engagement strategies that reflect and meet the needs of different groups.

Openness to engagement and financial capability both impact the extent to which people can become engaged and whether they are likely to achieve positive outcomes as a result

People with lower levels of financial capability and knowledge are both less likely to make active choices and less likely to benefit from this behaviour. Among those who do make active choices, they are at greater risk of making decisions that will lead to poor retirement outcomes. Some people with higher levels of financial capability and understanding will also be challenging to engage and are therefore at risk of failing to take actions that are likely to improve their retirement outcomes. The approach that is appropriate for these groups, be it engagement-focused or other policy levers, differs according to their level of financial capability and their openness to engagement. This report utilises four hypothetical personas to illustrate the need for more nuanced and targeted engagement strategies (Figure 1.2). These personas are used throughout the report to highlight where barriers, benefits and policies might have the most impact.

Figure 1.2: Engagement personas



Identification of the people within each of these segments is challenging and will be dependent on the development of data collection and utilisation. While there is still significant work to be done to accurately categorise people into segments, it is important that engagement strategies and other support is available to meet the differing needs and capabilities of each of these groups.

[17] IFS (2023b)
[18] PPI Analysis of Wealth and Assets Round 7 data combined with PPI modelling.

Conclusions

The definition of engagement should reflect the fact that people have different capacities for engagement

- Engagement can range from marginal to fully engaged depending on openness to engagement and financial capability.
- The types of engagement targets and strategies that are appropriate will depend on people's current level of engagement.
- If engagement is defined by its overarching goal of delivering better retirement outcomes and improving overall financial wellbeing, its success needs to be measured by how many people are achieving this goal.
- Engagement strategies could be made more effective by the development of an agreed-upon approach to segmentation that takes into account both openness to engagement and financial knowledge/capability.

Engagement, or "the encouragement of active decision-making", may not be the most effective way to deliver positive retirement outcomes

- The current pension system makes it difficult for people to achieve optimal retirement outcomes without making informed active choices.
- If informed active choices are required to achieve positive retirement outcomes, people who are unable to become fully engaged will fail to meet this goal.
- Other mechanisms are likely to be required for those for whom full engagement is unachievable and could be beneficial, alongside engagement, for those who have low levels of financial capability.

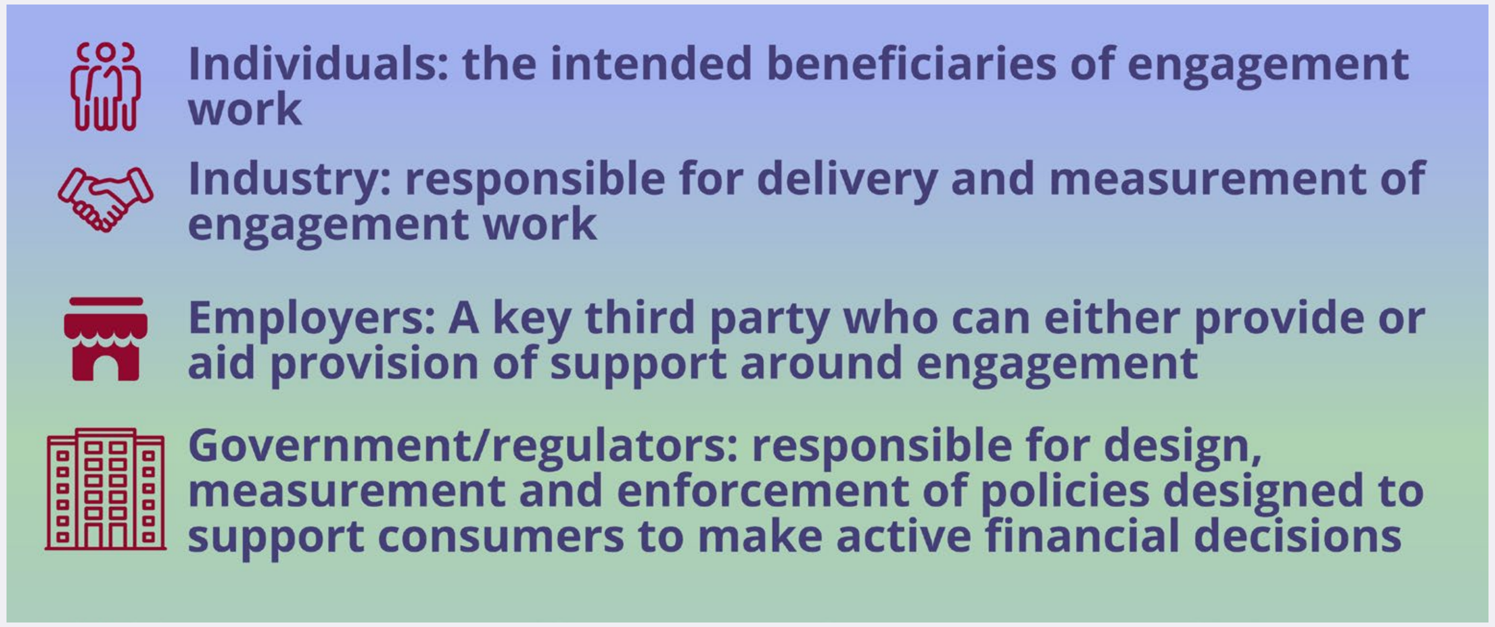
CHAPTER TWO:

WHAT ARE THE BENEFITS AND RISKS OF ENGAGEMENT?

This chapter explores how the four key engagement stakeholders: the individual, the employer, industry and the Government may be affected by engagement work, and what costs and benefits need to be borne in mind when designing strategies.

Within work around engagement and financial education in the UK, there are four key stakeholders: the individual, the employer, industry and the Government (including the regulators) (Figure 2.1). Each of these different groups play a role in determining the level to which individuals are capable of, and do, make decisions regarding their own financial lives. There are secondary agencies involved as well: charities, schools and universities, for example. However, many of these will deliver support based on policies and/or funding arising from Government decisions.

Figure 2.1: Four key engagement stakeholders



The rest of this chapter explores the potential costs and benefits facing each of these stakeholders, when making active financial decisions (individuals) or working to foster engagement (industry, employers and Government/ regulators) (Figure 2.2).

Figure 2.2: Potential benefits and costs of engagement for key stakeholders

Agency	Potential benefits	Potential costs
Individuals	• Saving into a pension (although many are now defaulted into saving by automatic enrolment). • Greater understanding of retirement needs – commensurate higher savings levels and/or positive self-select investment choices during working life. • Accessing and using retirement savings in a way which maximises opportunity to meet adequate or desired living standards. • Better physical and mental health in retirement. • Improved overall financial wellbeing.	• Making decisions which reduce retirement income. • Time and attention to engage and build pensions knowledge.
Industry	• More engaged members who contribute more. • Enhanced communication with members which allows for better tailoring of offerings.	• Time and resource devoted to developing and implementing strategies. • Increased cost associated with servicing more engaged members who may initiate contact more frequently.
Employers	• The opportunity for recruitment and retention advantages through offering benefits such as access to advice and/or education. • Higher levels of employee wellbeing as a result of healthier financial lives.	• Time and resource. • Worries about remaining within legal advice/guidance boundaries.
Government/ regulators	• Potentially higher saving levels and more informed pensions access decisions by consumers resulting in higher pensioner incomes. As a result – lower levels of means tested benefit entitlement, higher levels of physical and mental health among pensioners.	• Potentially greater levels of intervention with industry. • Time and resource in building consensus; designing, implementing and measuring engagement strategies. • Changes in tax revenue resulting from adjusted saving and access behaviour.

Individuals have both the most to gain and the most to lose from making active decisions about pensions and retirement planning

Engagement with individuals can bring about positive behaviours, for example:

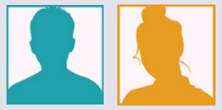
- 91% of people who had Pension Wise appointments in 2019/2020 felt that they were able to consider their options more thoroughly as a result, and 57% changed their plans regarding how they have or will access their pension savings.[11]
- After members of Experian's pension scheme were offered a financial education and guidance programme through Wealth at Work, their employer reported:

> *…we can now see members making more proactive and informed contribution and investment decisions. Contribution levels are up and there's a far greater understanding of the at-retirement options and the importance of the right glide path strategy. The seminars are an important call-to-action for retirement planning.*[12]

- Aegon has been sending highly personalised short videos to members (about three and half minutes long) that contain annual statement information and options. Aegon found that 80% of those who watched the videos, watched all the way through, and 60% of these people took some sort of action, including: checking retirement goals, considering pot consolidation and viewing investments.[13]

Behaviour such as deciding to save, increasing contributions, changing investments and planning retirement transitions can have a significant effect on pension incomes in retirement. For example, PPI modelling shows that increasing lifetime pension contributions from 8% of salary to 9% could boost Defined Contribution (DC) pension pots by 13%, working an extra two years could boost pot sizes by 5%, and changing investments from a default strategy to a diversified growth strategy, could boost pots by around 3%.[14]

People with higher levels of financial capability are more likely to make decisions that will successfully improve retirement outcomes, so are more likely to benefit if they can be motivated to engage.



Disengaged Dave and Engaged Emma

[11] Hughes et. al. (2020)
[12] www.wealthatwork.co.uk/corporate/2019/09/30/experian/
[13] Interview with Aegon
[14] PPI (2019)

A low standard of living in retirement is associated with poorer physical and mental health outcomes, along with lower general levels of wellbeing.[15] Many of today's savers are unlikely to achieve higher than minimum standards of living in retirement and around three million people are unlikely to meet even minimum standards.[16] A boost in retirement income could help bring people closer to a living standard which they find acceptable, raising overall wellbeing levels for pensioners. Therefore, engagement, or active decision making, can result in positive outcomes for savers.

Active decision making can result in poor outcomes

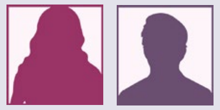
However, motivating people to make active pension decisions does not always result in the best outcomes. People making active decisions may not have sufficient financial capability or support to make positive decisions, and could potentially reduce their eventual retirement income. For example:

- In 2000, Sweden launched a large-scale TV advertising campaign encouraging people to make active pension investment decisions, which led to 67% of members actively choosing a self-select fund, however, after the Government reduced spending on the advertising campaign, active decision-making dropped to 8% (by 2003). Unfortunately, many of the active choosers invested in funds that performed less well than the default funds in their schemes, and as a result of the reduction in engagement, remained in these funds.[17]
- Some of those who make some active financial decisions, but are not highly actively engaged, have higher levels of financial confidence than financial literacy. For example, somewhat actively engaged people in debt often feel that they are managing well and are less likely to seek help from free services which they view as being for people unable to manage at all. The somewhat actively engaged may be more at risk of making poor decisions than the fully actively engaged.[18]
- Pension scheme members engaging with information about their pot without a clear purpose have reported finding the experience scary and confusing because they are not sure what steps to take next.[19]
- Many, particularly young savers, are increasingly reliant on social media, such as Instagram and TikTok, for financial information and guidance, and are less likely to seek out information from verified factual sources. Social media was used by 18% of investors in the 12 months to May 2022 to research investing, to find opportunities to invest in, or to keep up to date with investments. This increased to over half (54%) for younger investors aged 18-34 who had been investing for less than two years.[20] As of January 2024, #Fintok has 4.7 billion views on TikTok, while #pensionsUK has 3.8 million views. Social media can be a useful tool, particularly for engaging young savers. However, there is also risk associated with financial influencers or 'finfluencers' who share financial information or guidance on these platforms which may not be factually accurate or appropriately explained. In July to September 2023 the Financial Conduct Authority (FCA) consulted on increased regulations for financial promotions on social media.[21]
- Some stakeholders are concerned that the "pay your pension some attention" campaign could backfire if, during the cost of living crisis, it brings people's attention to the fact that they are paying into a pension, and results in people ceasing to contribute.[22]

Those who become "engaged" and make decisions that ultimately deliver suboptimal outcomes could therefore jeopardise their retirement living standards, as well as their physical and mental health.

[15] Kotecha et. al. (2013); Elliott (2016) ; Clair et. al. (2023)
[16] PPI (2021a)
[17] Cronqvist & Thaler (2004)
[18] TNS BRMB (2015) p. 15
[19] DWP (2023a) p. 20
[20] FCA (2023a); FCA (2023c)
[21] FCA (2023d)
[22] www.pensions-expert.com/DB-Derisking/Experts-question-timing-of-pensions-awareness-season
[23] https://www.nudge-global.com/clients/case-studies/siemens-2/
[24] https://hrreview.co.uk/hr-news/reward-news/staff-seek-financial-education-from-employers-but-access-remains-limited/372503
[25] Department for Business & Trade (2023)
[26] FCA (2023c)

The risk of making decisions that could be detrimental to later life outcomes is greater for people with low levels of knowledge or financial capability.



Marginalised Maya and Interested Ibrahim

Some active choices carry more risk than others. Encouraging members to complete basic administrative tasks, such as updating contact details or signing up for their provider's app, is unlikely to lead to detrimental outcomes. Encouraging members to consider whether to increase contribution rates is also unlikely to lead to detrimental outcomes. Others, such as changing investments, carry a greater level of risk, and could benefit from signposting more clearly to members that such choices should be approached with caution.

Providers could lose or gain financially from providing engagement support

On the face of it, providers have a lot to gain from providing support to people to make informed, active financial decisions. Satisfied customers who have positive outcomes from pension saving will engender trust and engagement with the system. Those making active decisions may decide to contribute more in to their pension pots and invest in retirement income products. These activities could directly lead to higher profits and higher customer satisfaction for providers. Member research and higher engagement could also result in better understanding of the membership and allow for more tailoring of services.

On the other hand, investing in efforts to engage consumers is a costly process. The costs of member research, trials and adaptions of communications are likely to be an additional cost, further exacerbated by the new Value for Money requirements coming in during the next few years which will require schemes to evidence that they are providing quality communications.

Some member engagement costs may be passed on to employers, especially in the case of employer-sponsored schemes.

The degree to which employers offer engagement support depends on size/resources and approach to employees

Employers can provide support in several ways, for example, financial education courses, access to guidance or advice, or interactive websites and tools. All of these services require resources from the employer:

- Time in determining what the best services are,
- The costs and time involved in providing the services,
- Time involved in monitoring and updating the services.

Provision of this type of support is easier for large employers with a high turnover, and more internal staff to devote to the organisation of support, and who will find the provision easier to afford. Employers may provide this type of support from a sense of paternalism towards staff or as part of recruitment and retention exercises; for example, Siemens employees who have engaged with the financial education provided by their employer are 16% more likely to stay with the company than those who have not engaged.[23] In many cases the motivation may be a combination of these. Overall benefits for employers include higher levels of general wellbeing among staff, which is connected to financial health. Some smaller employers may wish to provide these types of services but may not have sufficient resources.

Around 34% of UK employees are provided financial education through the workplace,[24] so while there are benefits of providing these services, around 66% of employees work for organisations who currently feel that the costs outweigh the benefits (if they have considered the matter at all). Smaller employers may be less able or less willing to provide financial education in the workplace. 61% of UK employees work for small and medium enterprises (SMEs).[25] Employers may also be concerned about potentially breeching the advice/guidance boundary. The Government and the FCA are currently carrying out a joint review to examine the regulatory boundary between financial advice and other forms of support.[26]

The Government and the regulators have complex decisions to make regarding their role in supporting people to make informed, active financial decisions

The Government has a vested financial interest in people making informed, active decisions about pensions and retirement. The less provision people make for their own retirement, the more likely they are to become eligible for means-tested benefits, at a direct cost to the exchequer. As relative poverty also affects physical and mental health outcomes, a population with insufficient pension savings will result in greater pressure on the NHS and care systems.

On the other hand, persuading people to make active financial decisions is not the only potential way to increase retirement income levels. The Government has several levers to hand, for example, it can increase State Pension levels, or increase the minimum level of contributions that employers and/or employees have to pay towards automatic enrolment pensions.

Alongside the consideration of which policy or combination of policies are best, the Government will need to consider resourcing. It will need to decide whether it is most cost effective and likely to succeed if engagement support plans are:

1. Designed and implemented by Government/regulators,
2. Designed by Government/regulators and implemented by industry,
3. Designed and implemented by industry, at the behest of Government/regulators,
4. Designed and/or implemented by other third parties.

All four of these options require some level of resource from Government in terms of monitoring, but the first two options are more resource heavy. For example, New Zealand's Sorted Programme, which provides a website and works with employers, communities, and in schools to encourage financial literacy and engagement costs around NZ$9.7m per year to provide.[27] Costs for a similar programme within the UK would be much higher due to a larger and more diverse population. Options 3 and 4 may cost the Government less directly, but may also be less effective and/or joined up as, for example, industry provided support services may focus mostly on existing customers, rather than those not engaged with any financial services.

While there may be potential benefits to Government of providing support for engagement, it will need to weigh up the role that active decision making should play alongside other policy levers and the potential resources involved in delivering support directly or through encouragement of third parties.

[27] Te Ara Ahunga Ora, Retirement Commission (2022)

Conclusions

There are potential costs and benefits involved in engagement for all key stakeholders

- Individuals have both the most to gain and the most to lose from making active decisions about pensions and retirement planning
- Providers/Industry could lose or gain financially from providing engagement support
- The degree to which employers offer engagement support depends on size/resources and approach to employees
- The Government and the regulator have complex decisions to make regarding their role in supporting people to make informed, active financial decisions

CHAPTER THREE:

WHAT ARE REASONABLE EXPECTATIONS FOR ENGAGEMENT?

This chapter explores the range of factors that determine what achievable engagement targets could look like, along with who is less likely to become fully engaged or benefit from engagement to achieve positive outcomes.

Engagement could help some people to achieve better retirement outcomes, but others are less likely to either make active choices or benefit from doing so

While engagement could help some people to achieve better retirement outcomes, there are barriers which mean that some people are extremely unlikely to become fully engaged to make active choices that are likely to improve their outcomes. This chapter explores the barriers to effective engagement and who is most at risk of experiencing poorer outcomes if they are unable to make informed active choices.

Achievable targets for engagement should take into account the starting point of currently low levels of engagement

The Financial Conduct Authority (FCA) estimates that among adults with at least one active Defined Contribution (DC) pension, over a quarter (27%) have a very low engagement level, with a further quarter (24%) categorised as 'low engagement'.[28] It is challenging to estimate more precise levels of engagement as there are currently no agreed upon universal measures. Much of current measurement focuses on basic digital engagement, such as email open and click through rates.[29] These actions are relatively easy to track, but may measure the effectiveness of specific communications rather than actual member engagement. Building consensus on more nuanced measures of engagement could support the development of realistic targets and more effective tracking of progress. It would also be beneficial for the industry or government to conduct further in depth research into the barriers to engagement in order to build a better understanding of the different segments in terms of engagement openness and capability, how to identify people in these segments and how best to support them to achieve positive outcomes.

An understanding of the way in which knowledge and behavioural biases can inhibit people from making informed active choices is needed to inform realistic expectations for engagement

Developing engagement strategies that take account of individual characteristics and potential barriers is likely to lead to more achievable targets and better retirement outcomes

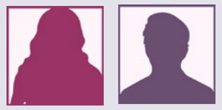
There is extensive literature available of behavioural barriers and biases to engagement, which are summarised below. These include:

- **Individual factors:** There are a range of individual factors that can impact how engaged individuals can feasibly be expected to become, as well as the extent to which they would benefit from greater engagement, including: demographic characteristics, financial capability, current levels of engagement and financial education, pension scheme membership, financial characteristics, employment factors, vulnerability, and personality traits.
- **Negative attitudes** towards pensions and retirement planning are echoed across many surveys, including PPI's 2021 Young People and Pensions Survey.[30] Negative attitudes and feelings associated with pensions make it more challenging to engage with individuals and build their confidence in making decisions about retirement planning.
- **Low levels of understanding and knowledge** are also a barrier to enabling people to make informed active choices. For example,
  - » Only a quarter (24%) of the UK working-age population have the numeracy level equivalent to a GCSE pass (Grade 4 or C).[31]
  - » 39% (20.3 million) of UK adults didn't feel confident managing their money.[32]
  - » 24% of adults have low levels of confidence in managing their money, 19% do not consider themselves to be confident and savvy when it comes to financial services and products, and 38% rate their knowledge of financial matters as low.[33]
- **Lack of exposure to pensions:** Because of the long-term nature of pensions and the distance of many savers from retirement, they are unlikely to need to engage with pensions on a day-to-day basis, as they do with other financial products such as current and savings accounts.
- **Lack of trust in the pensions industry:** The pensions industry has a public trust score of 4.56 out of 10.[34] Low levels of trust in the pensions industry mean that people are less likely to engage with the information and support provided.
- **Too much information:** Half (49%) of UK savers say they find the amount of information they receive about their pensions overwhelming, while 41% say they have no idea what to do with the information they receive.[35]
- **Uncertainty about steps to take:** Even when members understand the information they are provided with about their pension pot, many are unsure what to do with that information in terms of: how to assess whether what they had saved was enough or was a 'good' amount; what their monthly savings would mean in real terms when they came to claim their pension; what the impact on their savings, and income in retirement, would be if they decided to retire earlier or later; and what the impact of saving more would be.[36]
- **Subconscious behavioural factors** that can influence or inhibit engagement with pensions:
  - » **Inertia:** People have a tendency toward inaction and often put off making decisions. This is particularly true when they have low levels of understanding, as with pensions.
  - » **Present bias:** People often value benefits today more highly than benefits in the future, particularly challenging for pensions, which require time and sacrifice now for reward in the future, and many viewing retirement as a long way off.
  - » **Information aversion:** People tend to avoid engaging with information that they expect to cause psychological discomfort. If people are unsure of whether their pension savings are on track to achieve adequate retirement outcomes, they may avoid looking at information in order to avoid these negative feelings.[37]

Everyone is susceptible to behavioural biases at times, not just people at the lower end of the engagement spectrum (Figure 1.1).

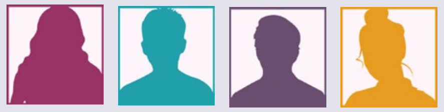
While low levels of numerical and financial capability are more likely to be a challenge for people at the lower end of the engagement spectrum, behavioural biases can affect people across the spectrum.

Low levels of numerical and financial capability are more likely to be a challenge for people at the lower end of the engagement spectrum.



Marginalised Maya and Interested Ibrahim

But behavioural biases can affect people across the spectrum.



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[28] FCA (2023a)
[29] Eberhardt, Bruggen, Post & Hoet (2021)
[30] PPI (2021b) The Future Life: How can younger people be supported to achieve adequate retirement outcomes?
[31] National Numeracy & YouGov (2022)
[32] MaPs (2018) https://www.fincap.org.uk/en/articles/key-statistics-on-uk-financial-capability
[33] FCA (2023a)
[34] Trafalgar House (2021)
[35] Standard Life (2023)
[36] DWP (2023a)
[37] PPI (2017) Consumer engagement: Barriers and biases

While in some cases strategies can be designed to mitigate or work with behavioural biases, they are strong, inherent behaviours that will not be able to be overcome for everyone. Stronger nudges, defaults or even mandation might be needed to help some people to achieve positive retirement outcomes given the range of barriers that exist.

Reasonable expectations for engagement must acknowledge that some people will never become fully engaged

The group that is unlikely to become fully engaged and make effective active choices could represent a significant proportion of the population

It is challenging to estimate how many people are unlikely to become fully engaged to make informed active choices due to the limited data available and the many interconnected factors that determine an individual's capacity for engagement. However, given currently low levels of engagement and the large range of barriers to engagement, it is likely to be a significant proportion of the population.

While not representing an exact correlation, measures of financial vulnerability could provide a rough estimate of the scale of this group that is unlikely to become fully engaged and less likely to benefit from engagement. 52% (27.3 million) of UK adults have one or more characteristics of financial vulnerability.[38]

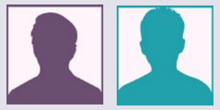
Feelings of ownership and control over pensions could also be used as a measure of engagement. It is estimated that around a third of savers feel in control of their pension and a further 37% think it is definitely possible to expect them to take more ownership in the future.[39] This suggests that around a third do not feel in control and do not expect to become more engaged in the future.

A third of savers feel in control of their pension.

Engaged Emma and some Interested Ibrahim and Disengaged Dave

There may be some people in this group who have relatively high levels of financial capability but low levels of engagement and some who have a greater openness to engagement but lower levels of financial capability.

A third think it is definitely possible to expect them to take more ownership in the future.



Some Interested Ibrahim and Disengaged Dave

As with the above group, there is likely to be a mix of people with low levels of financial capability but openness to engagement and people with higher levels of financial capability combined with a lesser openness to actively engage.

A third do not feel in control and do not expect to become more engaged in the future.

Marginalised Maya

Some people will require greater support to achieve positive retirement outcomes

Different starting points and limitations across individuals need to be taken into account when formulating feasible targets for engagement, and a more nuanced approach which views engagement as a gradual building process is likely to be more successful. Some people will never progress beyond these intermediate steps of engagement, but are likely to achieve better outcomes as a result of achieving lower level engagement targets than under a one-size-fits-all approach which fails to engage them at all.

Considering the challenges associated with increasing levels of informed active choice and the fact that a significant proportion of the population are unlikely to ever become fully engaged, if the purpose of engagement is to deliver better retirement outcomes and improved financial wellbeing overall (as outlined in Chapter One), there is a question as to whether engagement is the most effective means to do so. For those who will not or cannot fully engage with active decision-making, mechanisms other than engagement are likely to be needed to achieve this goal. Chapter Five explores what additional support may be needed for those who are unlikely to engage or benefit from engagement.

[38] FCA (2023a)
[39] Ignition House (2022)

Conclusions

There are many barriers that impact what is feasible to expect of engagement, and some people will find it particularly challenging to make informed active choices

- Achievable targets for engagement should take into account the starting point of currently low levels of engagement.
- Currently low levels of understanding and knowledge are also a barrier to what engagement can achieve.
- Expectations for engagement should recognise the behavioural biases that impact individual behaviour.

Reasonable expectations for engagement must acknowledge that some people will never become engaged

- The group that is unlikely to become fully engaged and make effective active choices could represent a significant proportion of the population (around a third).
- The approach that is appropriate for these groups differs according to their level of financial capability and their openness to engagement.
- Some people will require greater support to achieve positive retirement outcomes.

It would be beneficial for the industry or government to conduct further in depth research into the barriers to engagement

- Developing a better understanding of the range of barriers to engagement and their prevalence across different segments of society could aid in identifying the people who are in each segment and how best to support them to achieve positive outcomes.

CHAPTER FOUR:

WHAT COULD EFFECTIVE ENGAGEMENT STRATEGIES LOOK LIKE?

This chapter explores what effective engagement strategies could look like for those who are able to become engaged.

This chapter focuses on potential ways to strengthen engagement strategies for those who are able to become engaged to make informed active choices. Chapter Five explores what might be needed in terms of additional support for those who might struggle to engage.

This chapter considers:

- The resources required to implement effective engagement strategies
- The role of technology in strengthening engagement strategies
- How the presentation and timing of support could aid informed active choices

Supporting people to make informed active choices will require a substantial amount of work, but advances in technology and more targeted support could improve outcomes for some people

Engaging people to make informed active choices that are likely to deliver positive outcomes will require substantial work from within and beyond the pensions industry

While there has been a growing focus on developing engagement strategies in the pensions industry, measures estimate that levels of engagement remain low.[40] Increasing the likelihood of more people making active choices, as well as the likelihood that they have enough knowledge to make active choices that are likely to improve their retirement outcomes and financial wellbeing, will require substantial work from within the pensions industry, Government and beyond, which could benefit from a more joined-up approach.

The pensions industry has started to take a more collaborative approach, with cross-industry pension awareness campaigns, but could benefit from further collaboration on the more technical aspects of engagement

There is ongoing work in the pensions industry to develop a more collaborative approach to fostering engagement, for example through engagement initiatives that are supported by cross-industry groups (Figure 4.1).

Figure 4.1: Collaborative engagement campaigns

Pay your pension some attention: A coordinated industry campaign led by the Association of British Insurers (ABI) and the Pensions and Lifetime Savings Association (PLSA), supported by a range of organisations across the industry.

Pension awareness week: A week in September dedicated to raising pension awareness and engagement, coordinated by Pension Geeks, the Pension Attention campaign, Money Helper and the Department for Work and Pensions (DWP), supported by a range of organisations across the industry.

National pension tracing day: An annual campaign aimed at encouraging people to check whether they have any lost pension pots. Founded by Punter Southall and supported by a range of organisations across the industry.

These campaigns focus on building awareness among pension savers and directing them to appropriate information and tools.

It would be beneficial for the industry to collaborate further on the more technical aspects of engagement, such as reaching a consensus on a method for measuring engagement, best practice for data collection and utilisation, and agreeing clear language to be used across the industry. This could be supported by a cross-industry taskforce or working group to build consensus on best practice and reasonable targets for engagement.

Interventions from stakeholders outside the pensions industry could help to build financial capability so people are more likely to be able to make informed active choices

While the pensions industry can provide educational offerings to increase financial capability, meaningful improvements are likely to require a more joined-up approach, incorporating stakeholders from beyond pensions, including educational institutions (schools and universities) and employers. Financial education programmes are increasingly being offered to children and young people. The MaPs Financial Education Provision mapping study found that in 2021 there were 102 financial education programmes, reaching around 6.3 million children (approximately 61% of five- to seven-year-olds in the UK.[41] The study did not measure the effectiveness of available financial education, although it did highlight the areas covered by different programmes. One provider of school-aged financial education, MyBNK, has evaluated the impact of their programme, illustrating the positive effects of early financial education (Figure 4.2). Financial education is in the national curriculum for most schools, but there are concerns about delivery and effectiveness, with an inquiry from the Education Committee in November-December 2023 looking into ways to strengthen financial education.

Figure 4.2[42]

MyBNK used independent evaluators to assess key financial capability indicators of over 3,000 children aged 7 to 11 before taking part in their 'Money Twist' lessons, immediately after taking part, and at suitable points following the lessons. The evaluation found that three months after taking part in the programme:

- 69% of children were working towards a savings target.
- 77% of children who could not delay spending gratification prior to the lessons, now could.
- 75% who could not separate their needs and wants, now could.
- 83% of those who could not correctly identify what a budget was, now could.

There is also a role for employers, who generally have a greater level of trust from individuals and more frequent contact. Employers can provide financial education, financial wellbeing workshops and information about workplace pensions. Some pension providers are stepping into this space to provide more holistic financial wellbeing support through employers. There are also a range of other companies that provide financial wellbeing support and workshops on behalf of employers.

In addition to broader financial wellbeing support, there could also be a role for employers to assist in building pension-specific knowledge. There is evidence to suggest that establishing specific individuals within the company as 'pension champions' can help to boost engagement and understanding of pensions. Pension champions may be members of HR or benefits teams within a company, or any other employee, who is trained by the workplace pension provider so that they can answer other employees' questions, provide updates and signpost other members towards relevant information.[43] However, at present there is considerable variation in the financial wellbeing and pensions support provided by employers, which means individuals' outcomes may be impacted by where they work if standardised support is not introduced.

[40] For example, FCA (2023a)
[41] MaPs (2022)
[42] Substance (2021)
[43] Interviews with industry experts

Agreeing an approach for measuring success could help to make engagement more effective

Building a consensus on industry-wide measures of engagement to be used across government, industry bodies and providers, would enable a better understanding of current levels of engagement and progress towards engagement goals. However, there are no agreed upon measures at present. Advancements in collection and utilisation of data could support this goal, but given the extensive work involved, it could be more effective for the industry to work on this collaboratively rather than on a single provider basis.

The level of resource and cost required to build strategies aimed at stronger engagement needs to be weighed up alongside the level of benefit that is reasonable to expect

Building a more segmented approach to engagement, in order to better meet the needs and preferences of different groups, is likely to be a costly exercise, given the improvements in communications and data required to develop and implement. Considering the currently relatively simplistic use of segmentation and personalisation, this will require significant experimentation and refining of approaches to find strategies that are effective for different groups. This is likely to be too large an individual undertaking for even the largest schemes, further underlining the need for a joined-up approach across the industry. The cost associated with developing more complex segmentation would need to be weighed up carefully against its potential benefits, particularly in light of increased focus on Value for Money. While data-driven approaches to engagement will be costly to develop, they may be more cost-effective to manage on an ongoing basis, as well as potentially better meeting member expectations and needs.

Technological advancements present an opportunity for innovation in engagement

Advancements in collection and utilisation of data could help to make engagement strategies more effective and measurable

Data can be used to form a better understanding of individual characteristics, needs and preferences, in order to develop engagement strategies and targets that accurately reflect and adapt to these differences between individuals. As technology and data management advance, the possibilities for segmentation and personalisation will grow. Development of AI could be particularly useful for strategies aimed at increased segmentation. There are two key ways in which data can support more effective engagement strategies:

- Better utilisation of existing data: personalisation of engagement is currently primarily based on age, but could also be based on other data readily available such as gender and pot size.
- Collecting more data: in order to develop engagement strategies that most effectively meet individuals' needs and engagement style, more in-depth data will be needed about a range of factors, including approach to risk, attitude to later life, and timing of key life events.

Gathering the level of data required to develop optimal engagement strategies would require data collection from a representative cross-section of individuals in order to formulate profiles that reflect the full range of characteristics, needs and preferences across the engagement spectrum.

Technological advancements can make it easier to get input from individuals by reducing the need for active feedback and gathering data passively from engagement behaviours; for example, through the tracking of paths on apps/websites, which can then be used to guide future users towards useful information based on previous usage data.

Obtaining information for groups at the lower end of the engagement spectrum may be challenging. There are trust issues associated with gathering data, particularly if individuals are unclear on how the data will be utilised. Strategies offering rewards for engagement could be utilised to gather data. However, even with incentives, some groups will be particularly unlikely to engage and may require nationally led surveys and/or a requirement for employers to provide more data on their workforce.

Digital channels are an increasingly important component of engagement strategies as they allow for more personalised and potentially more effective engagement

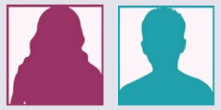
Advancements in technology and digital platforms are likely to aid engagement going forward. Many pension providers offer digital tools and platforms to make it easier for members to manage their pensions online. These tools make information about contributions, investment choices and projected retirement income more easily accessible, as well as enabling information in formats that some members should find easier to understand and engage with. Some providers now offer personalised video content, including animated summaries of information included in members' annual statements. Webinars and podcasts are also a growing part of engagement strategies.

Utilising a range of channels to engage members could help to increase levels of engagement as different people have different learning approaches. As well as being perceived as more accessible for members, digital engagement is easier for providers to accurately measure, and, once established, can also be cheaper to deliver; although, there can be significant costs associated with developing digital offerings. As the pace of technological development accelerates, the cost of remaining competitive could become significant, and potentially prohibitive for schemes that lack scale.[44]

There is also an increasing focus on helping members to build good habits and engagement behaviours through 'gamification', which introduces incentives for engagement. Some providers are exploring the possibility of loyalty programmes which reward members for completing tasks (Figure 4.3). Other 'gamification' options include awarding points or badges for completing specific engagement activities, such as nominating a beneficiary or completing educational modules.

Figure 4.3

Royal London's 'Pension Prize Wheel': Rewards members for viewing their pension on the provider's app by allowing them to 'spin a wheel' and win prizes. Introducing rewards for engaging with the app could encourage people who are otherwise less open to engagement.



Marginalised Maya and Disengaged Dave

Further digital engagement is expected through the introduction of pensions dashboards

The introduction of pensions dashboards could aid in creating a more joined-up approach to pensions engagement, while also making it easier for individuals to access information relating to their pensions. Dashboards will enable individuals to see all of their pension pots, and State Pension entitlement, in one place.

In order to achieve the full benefits of pensions dashboards, individuals will have to be engaged. Consumer research prior to the introduction of dashboards suggests a positive reception from savers, with young people and those with low financial confidence particularly interested (Figure 4.4). Where pensions dashboards have been introduced internationally, including in the Netherlands, Denmark and Australia, they have resulted in higher levels of engagement.[45]

[44] Thinking Ahead Institute (2020)
[45] https://www.dashboardideas.co.uk/

Figure 4.4[46]

After seeing a description of pensions dashboards:

- 53% of consumers say they would be likely to use the dashboards and 59% agree the dashboards would help them understand their pension.
- Two-thirds (66%) of 18-34-year-olds and one-third (28%) of those aged over 65 say they are likely to use pensions dashboards.
- Over 80% of people with low financial confidence and 52% of people with high financial confidence agree it would be helpful to see all of their pension pots in one place.
- 68% of 18-34-year-olds think pensions dashboards would help them to better understand their pensions, while 65% think it would help them to better manage their pensions.

While dashboards are expected to improve retirement outcomes, there are challenges associated with their delivery that have delayed their launch. There may be a need for interim measures from Government or industry to support people who will be retiring prior to the launch of dashboards.

A clearer understanding of communications, steps to take and the impact of doing so could encourage more active choice

Too much information can be overwhelming, especially if individuals are unclear about how to respond. Some providers have introduced a personalised checklist of actions for members within their digital portal or app, so that members are clearly signposted towards next steps, such as nominating a beneficiary or reviewing their investments.[47] Pension providers in Australia are trialling more intensive programmes to engage new members (Figure 4.5). Pension providers in the UK are also developing more robust and structured journeys for new members.

Figure 4.5[48]

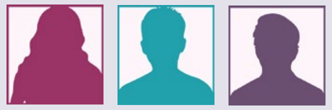
First State Super, an industry fund in Australia with around 800,000 members, created a new welcome programme for new members joining the scheme. New members are excluded from standard scheme communications for an initial period during which they are guided through the first steps of engagement. Within ten days of joining the scheme, members are provided with a welcome pack setting out a checklist of actions, including: registration for online access; consolidation of pension pots; nomination of a beneficiary; and consideration of increased contributions.

Members are sent subsequent communications at 30 days, two months, three months, six months and 12 months after joining the scheme, and a sample of new members also receive welcome calls within the first 15 days of joining.

The list of key actions is updated as members progress through each step and members will receive nudges to re-engage them with the checklist if they have not yet completed all actions. A summary of activity is provided after 12 months (or earlier, if all initial engagement steps have been actioned by the member).

While this initiative is still relatively new, initial data suggests it is effective in encouraging members to engage. Email open rates have been around 60%, and 19% of new members have taken action to consolidate their pension pots (18.5% higher than among members who have not been through the welcome programme), while beneficiary nominations and the number of members choosing to increase their contribution rate are also higher.

This is particularly challenging for those with low levels of financial capability, but even those who with higher levels of understanding could benefit from clearer guidance on specific actions to take as it reduces the friction costs (time and mental load) of engagement and decision-making.



Marginalised Maya, Disengaged Dave and Interested Ibrahim

A clearer understanding of the impact of taking action could encourage more people to make active choices

Many people are unlikely to expend time and effort unless they can see a benefit. A broad message, such as 'being more engaged will improve your retirement outcomes', is unlikely to motivate most savers. A more targeted approach that highlights the benefits of taking a specific action is likely to have more salience for the average saver. Reducing friction costs, 'the small hassles that can make an action more difficult, such as the steps involved in accessing information', and emphasising the benefits will be particularly important for people in low engagement groups.[49] Providers are exploring new ways to engage people with the question of adequacy through technology (Figure 4.6).

Figure 4.6[50]

Scottish Widows' Pension Mirror: Estimates users' age by taking a picture and provides information on average pension savings for people that age using data from the Wealth and Assets Survey.

As of November 2023, more than 72,000 people had used it a quarter of a million times.

Projections of future retirement income are useful for helping savers to understand what they are likely to achieve with current savings, but given widespread low levels of understanding about income needs in retirement, many savers will still find it challenging to assess the progress of their retirement savings even with this information. Linking additional features to these projections could help to increase members' understanding and likelihood of taking action as a result. These additional features could take two primary forms:

- **Information sources:** Linking directly from retirement income projections to information about income needs in retirement, such as the PLSA's Retirement Living Standards (RLS) (Figure 4.7), could provide savers with context which would aid them in assessing whether they are on track to achieve adequate retirement outcomes.
- **Calculators:** tools which allow members to adjust their contribution rate or target retirement age to see what the impact would be on their projected retirement income.

Figure 4.7[51]

PLSA RLS awards: The Retirement Living Standards are accessible to more than 35 million savers through more than 124 different organisations. The PLSA has introduced annual awards to recognise adopters who have incorporated the standards into their communications in novel and effective ways.

Framing increased contributions in explicit terms a member can easily understand, e.g. a cup of coffee a week, can be effective as it helps savers to understand it is a small sacrifice, but can also potentially have a negative motivating effect considering present bias (they may value the immediate gratification more than future retirement income that feels less concrete). Framing increased contributions in terms of the outcome, explicitly telling them what an increased contribution could translate to in retirement income based on projections, could be more effective, but still challenging due to present bias (valuing money today over more money in the distant future).

While some providers do offer these types of information and calculation tools, linking them directly to a member's personalised retirement income projection could increase the likelihood of engagement, while also providing members with a clearer understanding of actions they could take at a time when they are already thinking about their retirement outlook.

[46] ABI (2022a)
[47] Interviews with industry experts
[48] Thinking Ahead Institute (2020)
[49] Dutta-Powell, Court & Gilchrist [Behavioural Insights Team] (2021)
[50] https://www.scottishwidows.co.uk/workplace-insights/articles/11-2023-article-pension-mirror.html

Ensuring that the language used in communications is easy to understand could increase the likelihood of informed active choices

The language used to communicate with and educate people affects both the likelihood that it will motivate them to make active choices and the extent to which it will increase their capability of making active choices that are likely to deliver positive retirement outcomes.

74% of the UK population cannot identify a single pension acronym that is used frequently within the industry, and the terms 'pension' and 'retirement' can often cause savers to disengage, so it is vital that member communications use language that is both engaging and can be easily understood by the average saver.[52]

Nest have identified 4 core aspects of language for effective engagement:

- **Positive:** Messages that focus on positive gains can be more motivating than those that focus on negative aspects, such as what people are not doing that they should be.
- **Plain spoken:** Technical language or jargon creates barriers to engagement as average pension savers may disengage if they do not understand what is being communicated.
- **Plausible:** Communications grounded in reality and pragmatism, rather than aspiration, are more likely to resonate, particularly during times of economic uncertainty.
- **Personal**: Messages framed from the individual's perspective are more likely to resonate.[53]

Communications that are informed by an understanding of behavioural biases are likely to have a greater impact on actions and outcomes.[54]

It would be beneficial for the industry to develop an agreed-upon language for communicating with members that is clear and consistent, especially considering that many people will have multiple pension pots across different providers. Technology can be used to assess and simplify communications. For example, XPS Pensions Syntax is a free-to-access online tool that allows schemes to test how easy their communications are for members to understand. The tool rates documents based on three key areas: readability, accessibility and inclusivity.[55] AI could also be used as a tool for simplifying communications. Members may use AI themselves to simplify the communications they receive, either actively or as part of new AI features being trialled by email providers, including Microsoft.[56] There is a risk that the information they receive from an AI summary may not be correct if it is not checked by a pension professional, but AI could provide a useful tool for the industry to refine and simplify the way it communicates.

Timing support correctly could increase the prevalence of informed active choices that are likely to deliver positive retirement outcomes

Ensuring that support is provided at the right time could aid informed active choices

Continuous engagement is unlikely to be achievable for most people, so identifying the key points at which learning or making active choices would be most beneficial will help to reduce friction costs for individuals, while also having a positive impact on retirement outcomes.

The need for active decision-making is likely to grow as people get closer to leaving the labour market. This is reflected in current levels of engagement, with savers more likely to engage with their pensions as they approach retirement. 49% of people aged 18-54 have reviewed their pension pots in the last year, compared to 65% of those aged 55-64.[57] People are likely to need the most support as they approach access and decumulation decisions.

However, if the overarching goal of engagement is to improve retirement outcomes, some people could also benefit from learning about pensions and making active choices during the accumulation phase. The need for active choices during the accumulation phase earlier in working life is likely to be less frequent and less intensive, and there are times when inaction or inertia is likely to deliver better outcomes.

A more joined-up approach that incorporates a holistic view of people's financial circumstances could enable engagement approaches to be introduced at times when people are most likely to be receptive

Timing communications to coincide with points at which people may already be thinking about making changes to their financial arrangements or are more open to reassessing their financial position could increase the likelihood of active choices being made.[58] Certain life events, or 'teachable moments', could increase individuals' receptiveness to engagement with pensions. Life events can impact individuals' openness to engagement in two ways:

- Economic impacts: Changes in the amount of personal finances (e.g. change in income level), as well as the risk level of finances (e.g. variance of income stream).
- Non-economic impacts: Changes in subjective well-being and life satisfaction, stress, health and emotions.[59]

There are a wide range of potential windows for more effective engagement, including marriage, birth of a child, death of a parent, changing jobs, receiving a pay rise or purchasing a house. While life events can make people more open to engagement in some instances, they can also make people less receptive, for example if they result in an increase in cognitive and emotional load.[60] This approach to engagement is still in its infancy and could benefit from greater research on how different groups respond to various life events and the impact this has on engagement with pensions. Engaging with savers about financial matters they are already interested in, outside of pensions, as part of a broader financial wellbeing approach, could also help to build trust in their pension provider and present future opportunities for engagement on pensions.

Gathering data on these life events, both on an individual level and in terms of how they impact pensions engagement, is likely to be challenging, as discussed in the challenges of data gathering more broadly. Furthermore, the window of opportunity for leveraging these life events for pensions engagement could be relatively short, which presents further challenges to implementing this approach.

These life events or 'teachable moments' could also be used as a mechanism of the pensions industry to build trust with savers, even if they do not engage specifically on pensions at that time. Supporting people with financial challenges, outside of pensions, that are already relevant and interesting to them as part of a broader, open-finance led, financial wellbeing strategy, could help to build their connection with their pension provider and lead to more informed active choices in the future.

[51] https://www.plsa.co.uk/Policy-and-Research/Topics/Retirement-Living-Standards
[52] Aegon survey of 2,000 UK adults (2022)
[53] Nest (2020)
[54] FCA (2023b)
[55] https://www.xpsgroup.com/what-we-do/technology-and-trackers/xps-syntax/
[56] QuietRoom (2023)
[57] FCA (2023a)
[58] Blakstad, Bruggen & Post (2018)
[59] Blakstad, Bruggen & Post (2018)
[60] Blakstad, Bruggen & Post (2018)

Conclusions

Supporting people to make informed active choices will require a substantial amount of work from within and beyond the pensions industry

- The pensions industry has started to take a more collaborative approach, with pension awareness campaigns, but could benefit from further collaboration on the more technical aspects of engagement, including reaching a consensus on a method for measuring engagement, best practice for data collection and utilization, and agreeing clear language to be used across the industry. This work could be supported by a cross-industry taskforce or working group.
- Interventions from stakeholders outside the pensions industry, such as education providers and employers, could help to build financial capability so people are more likely to be able to make informed active choices.
- The level of resource and cost required to build strategies aimed at stronger engagement needs to be weighed up alongside the level of benefit that is reasonable to expect.

Technological advancements, including pensions dashboards and the potential for greater segmentation, present an opportunity for innovation in engagement

- Advancements in collection and utilisation of data could help to make engagement strategies more effective and measurable.
- Digital channels are an increasingly important component of engagement strategies as they allow for more personalised and potentially more effective engagement.
- Further digital engagement is expected through the introduction of pensions dashboards, but the extent to which they can improve outcomes will depend on whether people can be engaged to use them and understand what to do with the information presented.

Providing support at an appropriate time, along with clear steps to take and an understanding of the impact of taking them, could encourage more informed active choice

- Confusion about what specific steps to take in order to improve retirement outcomes can discourage active decision-making. Helping people to understand the specific steps they can take and the impact of doing so could encourage more to make active choices.
- Ensuring that support is provided at the right time, and potentially leveraging life events or changes in circumstances, could increase active choice at appropriate times.

CHAPTER FIVE:

WHAT OTHER SUPPORT IS NEEDED TO ACHIEVE POSITIVE RETIREMENT OUTCOMES?

This chapter explores what other mechanisms could support people who are unlikely to become engaged or benefit from engagement to achieve better retirement outcomes.

Other mechanisms may more effectively deliver the goal of positive retirement outcomes and will be particularly important for people who are unlikely to make informed active choices

While strategies designed to promote engagement can help some people to achieve positive retirement outcomes, other people are likely to benefit from greater support. As highlighted in Chapter Three, reasonable expectations for engagement must acknowledge that some people will never become fully engaged to make informed active choices and that some people are unlikely to achieve positive retirement outcomes through engagement alone, even if they are able to become engaged, and will therefore require greater support. Some of the mechanisms outlined in this chapter could be applied alongside engagement to strengthen its effectiveness (guidance and advice, rules of thumb), while others could act as a safety net for those who cannot or will not make informed active choices (defaults).

Additional support is likely to be most necessary for people who have both low levels of openness to engagement and low levels of financial capability.

Marginalised Maya

But it could also benefit people who are open to engaging but have low levels of financial capability and people who have reasonable financial capability but are less willing to engage.

Disengaged Dave and Interested Ibrahim

Guidance and advice could be particularly beneficial for people who are open to engaging but less capable of making active choices that will deliver positive retirement outcomes without support

Because of the complexity of decisions about how to save for and access Defined Contribution (DC) savings in particular, people may need to access guidance and/or advice to support them in making choices that achieve positive retirement outcomes. Many could benefit from accessing guidance and/or advice at different stages during the retirement saving and decumulation journey. Guidance and advice could form part of engagement strategies and would be particularly beneficial for people who are more open to engagement but less capable of making active decisions that will deliver positive outcomes, although it could be beneficial for people across the engagement spectrum if they can be motivated to access it. However, as with engagement more broadly, increasing uptake of these services is challenging. Satisfaction among those who engage with guidance is broadly positive, although less than half (46%) believe they are financially better off as a result of taking guidance (Figure 5.1). Take up of guidance remains relatively low. In 2022/23 there were around 121,000 Pension Wise appointments.[61] Use of advice is also relatively low, with 82% of people purchasing an annuity doing so without taking advice, and 39% of people moving into drawdown.[62]

Figure 5.1[63]

While support is likely to be most needed as people approach decumulation decisions, many could benefit from guidance and/or advice during the accumulation phase around:

- Contribution levels;
- Decisions on going part-time or taking a career break;
- Consolidation of pension pots; and
- Reviewing investments.[64]

In order to increase engagement with guidance and advice, more work may need to be done to:

- Make people aware of the advice, guidance and support that is available to them;
- Help people to understand the value of accessing guidance and/or advice; and
- Ensure that people understand when they need help and seek support before significant financial problems develop.

[61] https://maps.org.uk/en/publications/moneyhelper-pension-take-up-dashboard
[62] ABI data
[63] Standard Life (2023)
[64] PLSA (2022)

The Financial Conduct Authority (FCA) is currently consulting on proposals to help close the advice gap, including:

- Further clarifying the boundary between guidance and advice;
- Introducing a new regulatory framework to allow firms to broaden their offering to include support based on a target market the consumer has identified as belonging to, as an alternative to fully individualised support; and
- The development of simplified advice to provide personalised recommendations in a more cost-effective way for consumers with small sums of money to invest.[65]

Advancements in technology could also support greater access to guidance and advice. Some organisations offer online 'robo-advice', which is aimed at people who would benefit from advice but may not have access because they cannot afford or believe they cannot afford, regulated financial advice. Online advice uses algorithms to help answer money-based questions and should allow advice to be offered more quickly and cheaply, reducing 'friction costs' associated with accessing support.

Appropriately designed defaults could help people who will not or cannot make informed active choices to achieve better retirement outcomes

Guidance and/or advice may be sufficient to help some people to achieve positive retirement outcomes, but others will need further support. Appropriately designed defaults and safety nets are beneficial for those who are less capable of, or less willing to, make active choices.

Defaults already exist in some aspects of pensions, including:

- **Automatic enrolment:** Eligible employees are enrolled into a workplace pension scheme by default and must make an active choice to opt-out. Prior to the introduction of automatic enrolment, the default was non-participation. By October 2023, nearly 11 million people were automatically enrolled, with a further 1 million having been automatically re-enrolled (having opted out previously).[66] Opt-out rates have varied over time but average around one in 10, significantly lower than anticipated before the introduction of automatic enrolment. As a result, workplace pension participation has increased from 55% in 2012 to 79% by 2021.[67]
- **Default funds in accumulation:** DC pension schemes offer a default investment fund for members who do not make active choices about how to invest their pension savings. Default funds are designed to meet the needs of most members. Eligible employees are automatically enrolled into their scheme's default fund. 94% of members in master trusts remain in the default fund. For other DC scheme types, participation in the default fund ranges from 84% to 88%.[68]
- **Default investment pathways:** In 2018, the FCA found that around a third of those who had moved into drawdown without taking advice were invested in cash, or cash-like assets, rather than strategies with the potential for higher returns that better suit the member's aims. The FCA estimated that around half of these savers were likely to experience poorer retirement outcomes as a result of their investment choice.[69] In response to this risk, drawdown providers are now required to offer 'investment pathways' to members. These pathways require non-advised members to make a decision about how they intend to access their savings in the near future (the next five years) and then be given an appropriate underlying investment portfolio on that basis. Drawdown investment pathways came into force in February 2021. The FCA has also made it illegal to default consumers into cash drawdown; savers must now actively opt in if they want to invest in cash, or cash-like assets. Take up of investment pathways among drawdown customers was at 50% in Q1 2023, with 4% instead choosing to self-select their investments, and the remaining 46% opting to stay in current investments (having entered drawdown prior to the introduction of pathways).
- **Default decumulation options:** While default investment pathways have been introduced for contract-based providers, the Department for Work and Pensions (DWP) have consulted on the introduction defaults in trust-based DC schemes. In November 2023, the outcome of the consultation set out the intent to 'place duties on all trustees of occupational pension schemes to offer a range of different decumulation products and services to members at the point of access.' Schemes will also be required to design a 'backstop' default decumulation solution, based on the general profile of their members, that a member will be placed into if they access their pension savings (in order to take a tax free lump sum) without making an active choice about how to access the remainder of their savings.[70]

Some people, particularly those with low levels of financial capability, could benefit from the introduction of further defaults which reduce the need for active engagement while guiding them towards positive retirement outcomes. People who are less willing to, or confident in, making active choices, even if they have relatively high levels of knowledge and understanding, could also benefit from defaults.

Defaults are relatively simple when aiming at a goal that is likely to be universally beneficial, such as automatic enrolment, but become more complex when relating to decisions that are more nuanced and dependent on individual circumstances and preferences, such as saving more or how to access a DC pot.

Minimum automatic enrolment contribution rates act as a default that could have a significant negative impact on retirement outcomes for those who do not make active choices

The minimum contribution rate required by automatic enrolment has become a default for savers, some of whom view it as a recommendation from Government as to how much they ought to be saving in order to achieve positive retirement outcomes.[71] Now that all scheduled minimum contribution rate increases have been implemented, there have been recommendations across the industry for further increases to be considered. While past increases have not resulted in substantial spikes in opting out, any further increases need to be balanced against the potential risk of encouraging higher opt-out rates. The Association of British Insurers (ABI) has called for default contribution rates to be increased to 12%, with either an opt-up or opt-down mechanism, meaning that savers can choose to contribute at a lower rate (and potentially receive equivalently lower contributions from their employer) but must make an active decision to do so.[72] Other options include auto-escalation, with contribution rates automatically increasing, either when pay increases are received or as members age. Increasing default saving rates would be particularly beneficial for people who do not make active choices, but could also benefit more engaged savers if they use the minimum contribution rate as a factor when determining their own contribution rate.

Defaults to hybrid or multiple retirement income solutions could help people who are not confident making active choices to achieve better retirement outcomes that incorporate flexibility with protection

The OECD has suggested that DC pension plans should provide some level of lifetime income as a default for the payout phase, unless other pension arrangements already provide for sufficient lifetime pension payouts. They also recommend that full lump sums should be discouraged in general, except for low account balances or extreme circumstances.[73] Three national actuarial bodies in the US, UK and Australia have jointly concluded that there would be value in developing appropriate defaults that allow individuals to access their pensions through an income stream that offers flexibility in their early years of retirement. However, in the latter years, they could provide, at a minimum, a structured lifetime payment with a potential for a lifetime income guarantee to protect against their longevity risk.[74] A hybrid approach which splits pension savings between a flexible fund and one which provides some protection against longevity risk could help individuals to balance competing priorities in order to achieve both adequacy and sustainability.[75] Offering this approach as a default solution could help people who are less likely to make informed active choices to achieve this goal.

65 FCA (2023c)
66 TPR (2023)
67 DWP (2022)
68 PPI DC Asset Allocation Survey 2023
69 FCA (2019)
70 DWP (2023c)
71 TPP (2022)
72 ABI (2022b)
73 PPI (2023) What can the UK learn about other countries' approaches to accessing DC savings; OECD (2022)
74 PPI (2023) What can the UK learn about other countries' approaches to accessing DC savings; American Academy of Actuaries, Institute and Faculty of Actuaries and Actuaries Institute of Australia (2015)
75 Hyams et al. (2022)

Rules of thumb could help to reduce friction costs and guide people towards better retirement outcomes without the need for full engagement

For people who are somewhat engaged, but unlikely to become fully engaged with active decision-making, either because of willingness or capability, reducing the difficulty of making active choices could support them to achieve better retirement outcomes. When faced with complex decisions, people often rely on heuristics: mental shortcuts or 'rules of thumb', in order to reduce the effort required to make a decision. There are many heuristics that can impact the way in which people engage with pensions decisions, including:

- **Anchoring:** Rather than carrying out the detailed and complex calculations that may be required to reach an answer, people often make estimates by beginning at an initial value and adjusting to produce a final answer. These adjustments are usually insufficient. The initial value chosen will affect the final answer, as well as its closeness to the actual answer.[76] The default minimum contribution rate under automatic enrolment acts as a significant anchor point, with many interpreting it as a recommendation for how much they should be saving.[77]
- **Representativeness and availability:** Often people judge the frequency or probability of a certain outcome based on the level of ease with which they can recall similar outcomes. They assume that events which have occurred more often in the past are more likely to occur again in the future. In terms of pensions engagement and decision-making, this can present a challenge as people may use past experiences of retirement among previous generations, such as parents and grandparents, as a guide to their own behaviour, without realising that they are saving in a vastly different pensions landscape and facing very different levels of risk to previous generations.

While rules of thumb can sometimes lead to suboptimal choices and outcomes, they could be harnessed for positive outcomes too. Developing rules of thumb that encourage positive pension saving behaviour, such as increasing contribution rates, could benefit those who are less likely to become fully engaged in particular, by reducing the time and mental load associated with making active choices.

In order to be effective, a rule of thumb needs to meet the following criteria:

- It addresses a specific situation or challenge.
- It is relatively easy to understand and apply.
- Can be used as a guide or target that individuals can aim for.
- It offers a better course of action than not following it; it is in the general best interests of individuals, and they are not likely to face any negative consequences by adopting it.

Rules of thumb are not:

- Perfect – they will not suit everyone for every situation.
- Always the way to achieve the optimum outcome for that particular individual.
- A 'once and done' approach. Such decisions should be revisited on regular occasions.[78]

There are a number of rules of thumb that have been suggested around retirement saving, such as:

- Dividing the age at which you start saving for a pension by two to give a suitable contribution rate: Using this rule of thumb, someone beginning to save for a pension at age 22 would need to contribute at 11%, while someone starting to save for a pension for the first time later in life would need to contribute at a higher rate to make up for lost time. For example, someone aged 40 when starting their pension would need to contribute at 20%. While this rule of thumb can act as a useful illustration of the importance of starting to save early, it may underestimate the level of contributions needed to achieve an adequate retirement income or result in yielding an unachievable contribution rate.
- Building up a pension pot that is worth ten times your annual salary: While the specific multiplier that is appropriate for this rule of thumb is up for debate, providing savers with a goal in numerical terms they understand (their current income) makes it easier for them to assess whether they are on track for positive retirement outcomes. This rule of thumb could be even more useful if it broke targets down by age. For example, by 30 you should have built up a pension pot equal to your annual salary, by 40 you should have built up a pension pot equal to four times your annual salary. This staged approach to targets would provide a framework that makes it easier for individuals to assess how well they are progressing and identify whether they need to make changes in order to meet goals.
- Drawing down at an annual rate of 4%: identifying a sustainable rate of drawdown in retirement requires an understanding of many complex factors, including pot size, asset allocation and investment returns, and longevity. This can be particularly challenging for people with low levels of financial capability, but can present challenges across the spectrum, given factors like the tendency to underestimate one's own longevity. Providing a reasonable figure for withdrawals that is unlikely to exhaust the pot during retirement can act as a default for those who are less confident in making active choices or an anchor point for those who are more knowledgeable to adjust based on their individual circumstances.

A framework of rules of thumb has been developed and adopted in New Zealand (Figure 5.2). As these rules of thumb are a relatively recent development, it is not yet clear the extent to which they will have a positive impact on retirement outcomes. When data becomes available, this could be used to inform whether development of rules of thumb is appropriate for the UK pensions landscape.

[76] Tversky & Kahneman (1974)
[77] Nest (2019)
[78] PPI (2015) Transitions to retirement: Myths and rules of thumb in retirement income

Figure 5.2[79]

New Zealand Actuaries Retirement Income Interest Group (RIIG) have proposed a guidance framework to help savers think about how they can develop their own drawdown approach.

Recognising that the necessary choices are not easy and that guidance from KiwiSavers is limited to one standard level income strategy, they suggest that drawing down should be thought about using a "two buckets" framework:

- An emergency bucket reserved for spending needs which are not usually met from a regular budget, such as medical bills, eyesight needs and hearing aids, home or car maintenance and repairs – one to two years of living costs is suggested; and
- A longer-term drawdown bucket which supplies cash for regular budgeted spending.

The emergency bucket should be in readily accessible deposits and the drawdown bucket in medium-risk funds, such as a conservative or balanced KiwiSaver fund.

The drawdown bucket should be accessed by the retiree creating a personal plan, guided by a consideration of four suggested Rules of Thumb. The Rules of Thumb are designed to give a reliable, useful steer, suitable for a range of personal drawdown priorities.

Rules of thumb	Most suitable for	Pros	Cons
6% rule: Each year, take 6% of the starting value of your retirement savings.	People who want more income at the start of their retirement, to "front-load" their spending, and are not concerned with inheritance.	Very simple: Known regular income.	Income will not rise with inflation. Risk of retirement savings running out within lifetime.
Inflated 4% rule: Take 4% of the starting value of your retirement savings, then increase that amount each year with inflation.	People worried about running out of money in retirement or who want to leave some inheritance.	Fund likely to last near to a full lifetime. Income will rise with inflation.	Lower income than other options.
Fixed-date rule: Run your retirement savings down over the period to a set date – each year take out the current value of your retirement savings divided by the number of years left to that date.	People comfortable with living on other income (for example New Zealand Superannuation) after the set date. Those wanting to maximise income for most of their life and not concerned with inheritance.	Income for a known selected period.	Amount of income varies from year to year. Annual calculation necessary.
Life expectancy rule: Each year take out the current value of your retirement savings, divided by the average remaining life expectancy at that time.	Those wanting to maximise income throughout life and not too concerned with inheritance.	Efficient use of fund to provide income for whole of life.	Amount of income varies from year to year; low in later years. Annual calculation necessary and relatively more complicated.

Rules of thumb are also prevalent in digital spaces, for example the UK Personal Finance flowchart which is signposted for users of Reddit (a social networking site).[80]

Safety nets and protection-based policies play an important role for people who are unlikely to make informed active choices

Alongside work around financial capability and potential defaults, it is vital for people at the lower end of the engagement spectrum (those who are unlikely to become engaged or benefit from engagement) to have safety nets they can fall back on. Safety nets are any support offered by Government, such as means-tested benefits, to help those in financial difficulties. Safety nets can also be provided 'in kind' through guidance, support, legal assistance, or care and support for those with health problems or struggling families. Those who are at the lower end of the engagement spectrum are more likely to be unprepared for financial difficulties and are therefore more dependent on social safety nets than more fully engaged people with greater financial resilience.

[79] PPI (2023) What can the UK learn about other countries' approaches to accessing DC savings?
[80] https://ukpersonal.finance/flowchart/

Conclusions

Other mechanisms may more effectively deliver the goal of positive retirement outcomes and will be particularly important for people who are unlikely to make informed active choices

- While strategies aimed at building knowledge and confidence in decision-making can help some people to achieve positive retirement outcomes, others would benefit from greater support, if they are unable or unwilling to engage with active decision-making.
- Guidance, which may be delivered as part of engagement strategies, is essential to support those who are less capable of independently making active choices that will deliver positive retirement outcomes. Many could also benefit from taking more formal financial advice. The impact of guidance and advice on retirement outcomes is dependent on people engaging with available support.
- Appropriately designed defaults could help people who will not or cannot make informed active choices to achieve better retirement outcomes.
- Rules of thumb could help to reduce friction costs and guide people towards better retirement outcomes without the need for full engagement.
- Safety nets and protection-based policies will play an important role for people who are unlikely to make informed active choices.

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The People's Partnership (TPP) (2022) Pension Adequacy: The pension saver's perspective

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Trafalgar House (2021) Trust and confidence around Great Britain: survey of 4,000 UK adults

Tversky & Kahneman (1974) Availability: A heuristic for judging frequency and probability

Glossary

The PPI produce a standard pensions glossary. This glossary incorporates common abbreviations and terminology used during The Pension Policy Institute's **Knowledge Sharing Seminars: an introduction to the UK Pensions System.** They are also often utilised in the wider industry.

All definitions are correct at the time of publication and the document is updated annually to coincide with the publication of the PPI's annual Pensions Primer. The Pensions Primer, which forms part of our core work funded by our Supporter's is a guide to the UK pensions system and provides a detailed description of the current pensions system and some of the archaeology of these layers. The guide is intended for people wanting to learn about the UK pensions policy. The Pensions Primer should not be used to make individual pensions decisions.

CLICK!

The glossary can be downloaded here

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Details of the Knowledge Sharing Seminars can be found here

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The Pensions Primer can be downloaded here

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