Launch Event Write Up

What could effective pensions engagement look like?

Overview

On Thursday 15 February 2024, the PPI hosted a launch event for the second output in the Let's Talk About Engagement series: **What could effective pensions engagement look like?** The event was hosted by Standard Life and chaired by **Maddi Forrester, PPI Chair of Trustees (MFS Investment Management)**. It was attended by 90 people representing a cross section of the industry. A presentation was given by **Lauren Wilkinson, PPI Senior Policy Researcher**, and the following panel discussion and Q&A session were held under the Chatham House Rule.

This report, kindly sponsored by Standard Life, builds on the findings of the **Briefing Note 136 - What is the role of engagement in pensions?**, sets out the broad range of 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.

The Let's Talk About Engagement series was sponsored by: Aegon, Punter Southall, Royal London, Standard Life and USS.

Research Findings

Lauren Wilkinson, Senior Policy Researcher, PPI, presented the key findings from the report, relating to the nuanced spectrum of engagement, how and for whom effective engagement can help to achieve better retirement outcomes, and the increased importance of collaboration within the pensions industry and beyond.

The report emphasised the importance of understanding the diverse capacities and preferences of individuals regarding financial engagement, highlighting the goal of engagement as supporting better retirement outcomes and overall financial well-being over the life course. While effective engagement strategies hold promise for certain groups, such as those with high financial capability and openness to engagement, others may face significant barriers hindering their ability to make informed active choices that are likely to deliver positive retirement outcomes. These barriers include negative attitudes toward pensions, low levels of financial understanding, and behavioural biases like inertia. The report also underscored the need for collaboration within the pensions industry and with other stakeholders, such as employers and educational institutions, technological advancements, and targeted support mechanisms to address these challenges. Ultimately, the research suggests that a more segmented approach, including consideration of non-engagement focused mechanisms, could support more people to achieve positive retirement outcomes.

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Panel discussion and Q&A

The panel included:

- Lauren Wilkinson, PPI
- Andrew Pearson, Standard Life
- Kate Smith, Aegon
- Alan Morahan, Punter Southall
- Jamie Jenkins, Royal London
- Mel Duffield, USS

The following points were raised during the panel discussion and Q&A:

- Automatic enrolment and contribution rates: Although automatic enrolment has been a success in making more people save for their retirement, current contribution rates, which have remained around the minimum of 8%, are not sufficient to ensure financial stability in retirement, alongside income from the State Pension. Minimum contribution rates may need to be increased to encourage people to save more towards retirement.
    - However, although increased contributions are crucial in securing adequate later life outcomes, the current cost of living must be considered. Not everyone will be financially able to increase contributions, as they need their money immediately, so targeted contribution increases, as well as an opt-down mechanism for AE contribution rates, were suggested.
- 'Freedom of choice is paralysis of choice': Members have too many options to choose from, and if there are high levels of inertia, they are less likely to make active choices. Financial education is needed, and the earlier it is introduced, the more beneficial.
- The use of digitalisation to bridge the engagement gap: If members can see the value of their pot on their phone, in a similar way to their bank account balances, it may help them to view retirement as more of an immediate reality and increase their engagement.
    - AI solutions do not have to be through apps, they can also be integrated physically, such as through questions on a tablet in a bank, etc. This can help create a safety net to ensure that individuals who are unable to engage digitally are not forgotten.
    - A joined-up approach in businesses that offer banking services as well as pensions, such Lloyds Bank and Scottish Widows could be beneficial.
- Standardization of communication: The presence of jargon and multiple different terms used for the same thing across different providers decreases engagement, as some members are simply confused. Identification of universal language to be used in communications industry-wide may be needed to increase understanding and engagement. There are questions surrounding who should oversee this language standardization.
    - It may be best for policymakers to handle this task, as there they have no vested interests in market outcomes.
- Data personalization and segmentation: Data personalization and segmentation can increase engagement through curating content based on member's interests and preferences. Pension providers could deliver educational materials and resources that are relevant to the member, fostering higher levels of engagement.

- However, considering the currently relatively simplistic use of segmentation and personalisation, as well as the low amount of member data currently available, this will require significant experimentation and refining of approaches to find strategies that are effective for different groups.

- The risk of too much engagement: The public trust score within pensions is already 4.5/10. Ideally, making members more engaged should raise public trust levels, but the opposite may happen. Increased member engagement could lead to a further drop in confidence levels, leading to opt-outs. There is the possibility that when those who are typically less engaged see their pension savings, that they may take a more short-term perspective regarding how that money could be used now instead of in the future, particularly in the current cost-of-living crisis.
  - More emphasis should be placed on members doing basic tasks such as nominations and keeping contact details up to date. However, actions such as changing investments and consolidating pensions carry greater risks and members should be encouraged to get some guidance before making decisions.
- How would collaboration across the pensions industry work alongside competition between providers? The government could step in and set measurable targets and objectives to allow members to compare providers, which would still drive competition.
- Are the restrictions on how pensions can be used, combined with other financial pressures, hindering engagement, and should early access be granted to pension pots to buy property? The concept of retirement has changed drastically, from a three-stage to a multistage life, meaning less people are set to own homes, as well as fully retire. Members who are homeowners as opposed to renters may have a greater standard of living in retirement, and so early access to pension pots to buy property could improve retirement living standards by reducing housing costs in retirement.
  - However, house deposits would need to be the only permitted withdrawals, as any others would reduce retirement incomes without offering reduced living costs as a mitigation.

An INDEPENDENT Report by the

Pensions Policy Institute PPI

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