TISA

Response by TISA to:
Simpler Annual Benefit Statements

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About TISA

The Investing and Saving Alliance (TISA) is a unique, rapidly growing membership organisation for UK financial services.

Our ambition is to improve the financial wellbeing of all UK consumers. We do this by focusing the convening the power of our broad industry membership base around the key issues to deliver practical solutions and devise innovative, evidence-based strategic proposals for government, policy makers and regulators that address major consumer issues.

TISA membership is representative of **all sectors of the financial services industry.** We have **over 200-member firms involved in the supply and distribution of savings, investment products and associated services**, including the UK's major investment managers, retail banks, online platforms, insurance companies, pension providers, distributors, building societies, wealth managers, third party administrators, Fintech businesses, financial consultants, financial advisers, industry infrastructure providers and stockbrokers.

As consumers, the financial services industry and the economy react to and recover from the effects of the pandemic, the importance of the three key pillars of work that TISA prioritises has never been more apparent:

- **Strategic policy initiatives that influence policymakers** regarding the financial wellbeing of UK consumers & thereby enhancing the environment within which the industry operates in the key areas of **consumer guidance, retirement planning, later lifetime lending, vulnerable customers, financial education, savings and investments**.
- TISA is recognised for the **expert technical support provided to members** on a range of operational and regulatory issues targeted at improving infrastructure and processes, establishing standards of good practice and the interpretation and implementation of new rules and regulations covering **MiFID II, CASS, ESG/RSI, operational resilience, Cyber Risk, SM&CR** and a range of other areas.
- **Digital transformation initiatives** that are driving ground-breaking innovation and the development of industry infrastructure for greater operational effectiveness and revenue promoting opportunity for firms. TISA has become a major industry delivery organisation for consumer focused, digital industry infrastructure initiatives – **TISAtech** (a digital marketplace that brings together financial institutions and FinTechs for greater collaboration and innovation) and **TURN** (TISA Universal Reporting Network – a digital platform providing a secure data exchange for financial services using blockchain technology) – alongside projects **Digital ID** and **Open Savings & Investment**. This reflects TISA's commitment to open standards and independent governance.

Executive Summary

TISA welcomes the opportunity to respond to the DWP consultation – Simpler Annual Benefit Statements.

We fully support the principle of simplifying consumer communications to increase understanding and engagement.

Given the level of under saving that exists in DC pensions, the annual benefit statement should serve as an early warning wake-up call. This is an excellent opportunity to ensure that the annual benefit statement contains meaningful information and presented in a user-friendly format. We need to avoid the use of jargon and wordy paragraphs with infographics resonating well with consumers. If we look at the Australian Superannuation Retirement Standard, retirement outcomes are measured through general lifestyle standards which everyone can relate to. The PLSA provided a UK equivalent with their 'Retirement Living Standards' and the details have recently been brought up to date through Which? This type of communication provides useful benchmarks, generates engagement, and enables consumers to build up realistic expectations of what their retirements may look like.

Recognising the shift to digital communications in many areas of financial services, we need to continue progress in this area. It is fair to say that the pensions industry has not advanced as rapidly as others such as banking. Even a comprehensive and engaging paper statement has an increasingly smaller part to play in the future of communications, as digital becomes the standard for the vast majority of consumers. Digital encompasses a variety of options such as PC, laptop, tablet, and mobile phone – different communications will need to be adapted to suit the method of access. Of course, consumer security is key and appropriate identity verification is required.

Digital access also has the significant benefit of enabling easy transition from the statement to retirement tools, which enable consumers to simulate different 'what if' scenarios to generate their desired outcomes. Whilst we appreciate the good intention of the proposed section 4 on the paper statement, the digital journey cannot be replicated through a static paper communication.

The simpler annual benefit statement aligns well in terms of timescales and content with pensions dashboards. Much of the information contained in the statement will be required to be shown on dashboards. It is important that collaboration exists between the two, to ensure that requirements do not diverge, which would result in additional work for industry.

Lastly, it is worth pointing out the huge scale of regulatory change industry currently has on their agendas. We have seen a number of consultations and calls for evidence recently issued, and change calendars will be at capacity for many months. We would appreciate that this is considered when timescales are proposed and agreed.

We would welcome the opportunity to discuss any aspects of our response with you.

Question responses

Draft regulations

Question 1:

Do you have any comments on whether the draft regulations achieve our policy intention in relation to requiring use of a statement of one double-sided sheet of A4 paper for use by certain defined contribution pension schemes used for automatic enrolment (as defined in the draft regulations)?

We believe the draft regulations achieve their intention, which mandates that a paper-based statement cannot exceed one double-sided A4 sheet in length.

However, more clarity is required around which scheme members should be receiving this statement. Draft regulation 2 states the regulation 'includes those who are in the accumulation stage, but not those who are drawing down benefits.' It is commonplace for members to hold both accumulated and decumulated benefits within the same scheme/arrangement. It is unclear from the wording if they should receive this statement. We would suggest the requirement is extended to include anyone who still holds assets within the accumulation phase, irrespective of whether they have partially crystallised or taken a UFPLS. This aligns to the requirement for wake-up packs.

We would also expect some providers who have books of business spanning individual and workplace to roll this out to their non-workplace members at the same time. It makes sense from an operational and planning perspective to adopt this approach, if possible, although we would not propose that the requirement extends beyond the proposed workplace schemes.

As the requirement relates to qualifying money purchase schemes which are used for Auto Enrolment, this includes Collective Defined Contribution schemes. Some of the content proposed may be challenging or not as appropriate for CDC schemes. Can you confirm that these schemes will be expected to comply with the statutory guidance?

The new requirements apply to occupational and personal pension schemes as long as they are Qualifying Schemes, however they don't appear to apply to Qualifying Stakeholder Schemes. The reason we believe Stakeholder schemes are currently excluded is that the new requirements are being introduced under Regulation 17 of the Disclosure Regulations. However, Reg 4 (3) of these specifically states that Reg 17 doesn't apply to Stakeholder schemes. We believe this is not the intention and that Qualifying Stakeholder schemes should be included.

Consideration should also be given to extend a simpler statement to those in Drawdown. According to FCA statistics, 65% of those who accessed drawdown for the first time in 2019/20 only took tax free cash. They are in Drawdown by default but may not consider themselves in such a position. Whilst the content of the proposed statement would not be suitable for those in Decumulation, the principle of simplicity still applies. Additionally, many may still be able to continue contributing but not realise it. If positioned correctly, this could help those individuals recommence contributions, increase their financial resilience and potentially receive tax relief and an employer contribution.

Draft statutory guidance

Question 2:
Do you have any comments on the draft statutory guidance in terms of content or clarity?

General comments

The overriding and fundamental principle for the simpler annual benefit statement is to engage individuals with their pensions.
It should be an early wake-up call, as many will be underfunded and not achieve the retirement outcomes they are expecting. For paper-based statements we agree with the 2-page restriction, however even the example does not fit onto 2 pages of A4 when printed off. We need to be mindful that this should not become a compliance tick-box exercise, rather it becomes a meaningful document which consumers can relate to. Consistency is also important to enable comparison exercises to take place on a 'like for like' basis - this becomes even more important if we move towards a statement season.

All firms are changing or have changed processes to become more environmentally friendly. We also know that positive engagement is increasingly reliant on digital solutions, and whilst this is used almost exclusively by younger generations, it is increasingly popular with retirees e.g. baby boomers and beyond. We are therefore somewhat surprised that the consultation focuses on the paper-based format but does not provide much clarity on electronic and digital solutions.

Given the increasing number of devices people typically possess to access information such as banking and insurance, digital is now much broader than just e-mail. Digital banking is accessible through phones/tablets/laptops/pcs, and the format and information provided does vary to suit the method of access. Mobile banking is now more popular than online banking – we should be adopting the same progressive principles in pensions, whilst recognising that there will always be some individuals who prefer paper statements, however these will continue to decrease to a negligible number in the coming years.

We would therefore suggest that more detail is issued on the requirements for digital solutions for simpler annual benefit statements. For instance, how does the one double sided A4 restriction in length apply? Do digital and paper-based communications need to be identical in terms of layout and content?

In terms of the paper-based proposals and at a high level, the more information that is contained within the statement, the smaller the font needs to be. The smaller the font, the less engaging this becomes – particularly to those with poorer eyesight. Where information or messages are repetitive, this should be removed. Wordy documents do not engage people, if an infographic can be used to convey the same message, then this should be a principle that is adopted.

Pensions Dashboards will be required to display much of the proposed information contained within the simpler annual statements and it would therefore make sense that there was strong collaboration between these two initiatives to ensure that the requirements remain aligned.

Section 2

The inclusion of tax relief is important as this is a benefit that is not typically understood. However, it cannot be included where contributions are collected through Net Pay or Salary Sacrifice. An individual could be contributing to two schemes, one operating RAS and one operating Net Pay. If they make a comparison of the two using the statements, the scheme using RAS appears better.

We propose that for Net Pay schemes, a prescribed sentence is included instead of the tax relief example, which makes it clear in simple terms that they have received tax relief from the Government at their marginal rate. Complexity is introduced by the Net Pay Anomaly, as the recipient may have received partial or no tax relief dependent on their earnings, and an approach to mitigate this needs to be determined. Stating they may have received tax relief still makes the scheme look inferior to RAS purely from a statement comparison.

In the interests of consistency and transparency, costs and charges should be mandatory. It is important members see how much has been deducted from their plans in a year, together with a simple statement explaining what they represent.

Given the importance of ESG, and the increasing interest and engagement this is generating with scheme members, it would be appropriate to include details within the statement. Appreciating that we have a size restriction, at the very least it should state whether they have self-selected or are in the scheme default, however ideally it would list the actual investments out.

Section 3

We agree that Estimated Retirement Income is provided in line with the existing rules for growth etc. Research shows this is a valued piece of information and is the only piece of information that a typical member will be interested in within this section. Whilst we understand the reasons for stating the assumptions used and factors which could impact the figures, these are there more to meet the compliance requirement than a good member outcome. The additional wording which is typically not understood dilutes the purpose of this section, adds to the 'wordiness' of the document and takes up space which could be used for more meaningful information.

In keeping with the spirit of simplicity and engagement, we suggest that the details which need to accompany illustrations to remain compliant are contained on a separate sheet, with a simple referral made to this within the statement.

Section 4

We understand the reason for including this section, however a static document is not appropriate for a 'what if' scenario. This is an area where technology has a huge role to play, where sliders can be used by individuals to select various scenarios to reach desired outcomes. The key points here are the information is input by the member and multiple 'what if' scenarios can easily be created. A static document with a single 'what if' scenario that is determined by the scheme cannot replace digital member outcomes.

Notwithstanding the above, when reviewing the example and guidance, some questions become immediately apparent.

1. How do you determine the additional amount of contribution to illustrate? Is it a set figure, a percentage increase, and what if no contributions are being made at all or ad-hoc lump sums are being contributed?
2. Creating an illustration with a scheme determined contribution increase might be perceived as advice by the member
3. Similarly, how should you vary their selected retirement age? Should it be by 2 or 5 years, or should it depend on their already selected age? If it is already 70+ should you illustrate later?
4. Would a member perceive this as advice and move their SRD?

These are just some of the challenges and outcomes that a static communication which tries to partially emulate a digital solution would create.

A much better member outcome would be to include reference to a centralised MaPS online tool, which enables members to simply logon and use sliders to create various scenarios and outcomes. Given that most of these communications will be digital in the future, a simple link could be provided in the document.

The example references MaPS and Pension Wise. Moving forward, MaPS will become MoneyHelper for consumer communications and whilst Pension Wise remains a named service from MoneyHelper, MaPS have recommended to one of our firms to simply signpost everything to MoneyHelper. We would appreciate clarification on the correct wording which should be used.

Draft illustrative template

Question 3:
Do you have any comments on the illustrative statement template in terms of content or clarity?

Please see answer to Q2.

Additional point

Illustrations based on existing rules do not provide an accurate indication of expected returns. The scope for variation in growth rates also mean it is not possible to compare schemes on a 'like for like basis' and were this exercise undertaken, it could lead to poor member outcomes. Going forwards, illustrations should exist to provide realistic outcomes to members, which can be achieved through stochastic modelling. We recognise that the consultation is not designed to delve into the lower-level detail, however it does appear a relevant section to raise this for future consideration.

Timetable for change

Question 4:
Do you have any comments on the timetable in which it is proposed the regulations will come into effect, including the transitional provisions in regulation?

Whilst the information proposed in the simpler annual benefit statement does not introduce any information that is not already in existing communications (apart from costs and charges for some schemes), there is still considerable work required to determine how best to meet the statutory guidance in terms of layout, content, and style. Additional information will need to be considered and agreed, and to ensure it remains consumer friendly, consumer testing may be required.

At the moment, these are still in proposal stage, and it would not be prudent for firms to initiate a project until such time as the final rules are published – which is a date unknown.

It is also worth noting that we have entered an especially busy time with the release of several consultations and calls for evidence spanning across FCA, TPR and DWP. It is likely that the change calendar for firms will be at capacity for many months as these consultations close and final regulations are published in time.

Taking this into account, we propose that the earliest date that final proposals are implemented is 06/04/23.