PENSIONSAge

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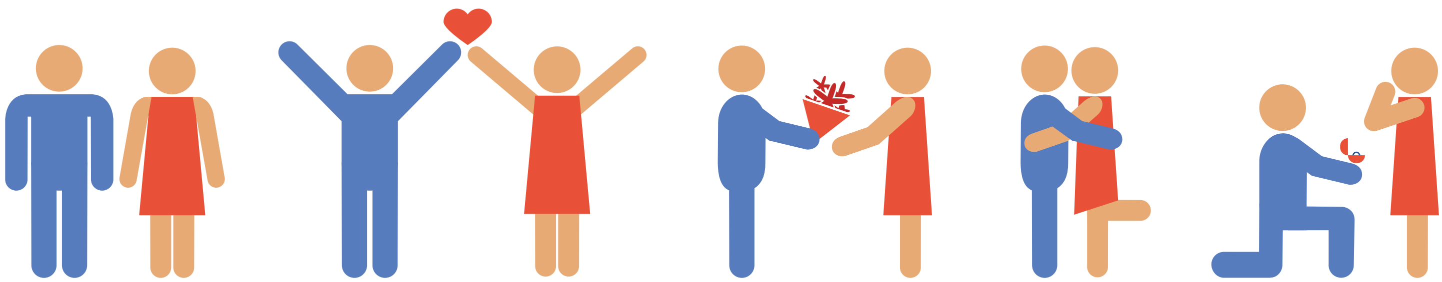
Engagement focus:

Putting the member first

NEST head of insight research
Matthew Blakstad



Do life events hold the key to pension engagement?

Matthew Blakstad discusses how key events in a scheme member's life can be used as opportunities to engage them with their pension

Do you know how much you've saved into your pension pot, or its estimated value when you retire? If you do, you're in the minority. Lots of people around the world don't engage with their retirement savings. Communications from pension providers often remain unopened, and many savers have never logged into their online accounts.

This is particularly noticeable amongst those who've been automatically enrolled. The approach's use of inertia, or 'doing nothing', means that savers tend to have lower levels of awareness and engagement compared to those who made an active decision to start saving.

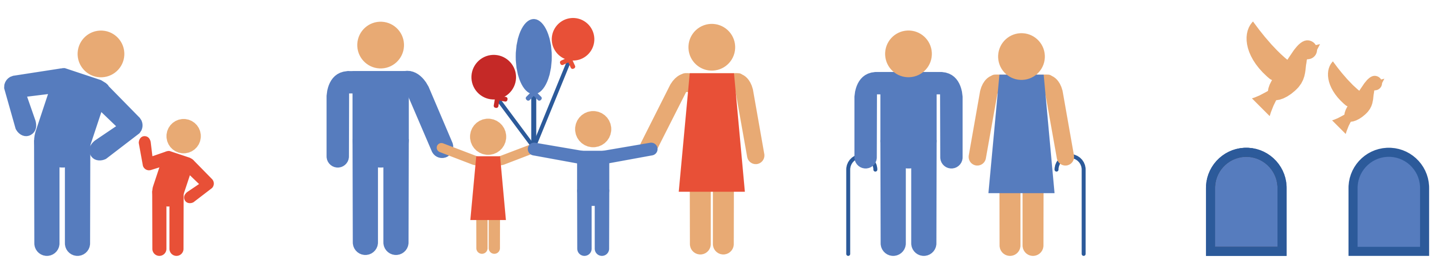
Does this matter? Pensions are a long-term savings vehicle, so unlike a current account there isn't the same need to check its balance regularly. In fact, doing so could put a saver off if they see the value of their pot fluctuate, as is common with any type of investment. And, thanks to carefully designed default pathways, many savers will get a good outcome even if they continue to 'do nothing'.

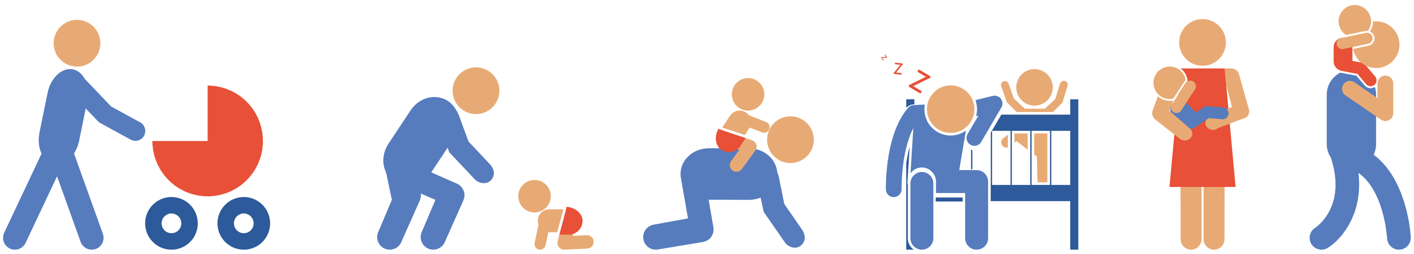
It is true however that some people could benefit from becoming engaged and taking action in certain situations. For example, if an individual's estimated pension pot value is lower than the amount they'll need in later life, being engaged and aware of this means they can act before it's too late.

Working out how to overcome this lack of engagement is a key challenge for the UK pensions industry. In recent years, researchers have become focused on this issue and have made a lot of progress. One idea is to time pension communications more effectively so the message reaches the saver during important life events when they're believed to be more receptive.

Experiencing a life event, such as starting a new job, becoming a parent or buying a house, can have a significant impact on us. These events often create a range of financial reasons to take a closer look at our savings, including pensions, and they can also make us think more about the future. It's therefore been suggested that life events could create 'teachable moments'.

On the other hand, life events can disrupt our daily routines and increase our stress level. Let's imagine you've just moved house. It's an event that makes us all stop and think about our finances. Can we afford the mortgage? How much will that leave us each month for other expenses? With finances at the front of our minds, would a letter about our pension make us stop and act now? Perhaps log into our accounts and check how our pension pot is developing? Or would the many extra tasks involved with moving house, like organising the removals vans, and packing and





unloading our belongings, leave us with very little spare time to think about a long-term goal over a short-term priority?

On a practical level, if life events do make us more receptive, how would pension providers use these 'teachable moments' to engage savers? One of the main challenges would be detecting the life event and pinpointing it with enough accuracy to effectively time the delivery of tailored communications.

So how would providers go about this? A scheme's access to life event information depends on the type of regulatory environment it operates in. In the UK for example, schemes often don't know much more than a saver's date of birth, address and income. On the other hand, other countries, like the Netherlands, also have information about marriage, divorce and childbirth.

Some life events however, such as buying a property, are generally harder to identify or can only be detected after the event has taken place. In these circumstances, it's been suggested that 'big data' could be used as an alternative method of gathering information and predicting events. The activity patterns of an individual's bank account for example may tell us that they're applying for a mortgage.

Now let's put ourselves in the shoes of the savers. How would you feel if your pension provider contacted you during a life event with tailored information, perhaps answering new questions you have about your pension? Appreciative of the helpful communication, or concerned that 'big brother' is watching you?

These are some of the insights and challenges identified in our most recent research with Maastricht University. The project involved a series of in-depth interviews with industry experts and pension savers, as well as a survey of NEST members conducted via an online questionnaire.

Engaged savers confirmed that certain life events had made them think more about the future and their finances, and in some cases had prompted them to increase their pension contributions or switch funds. In particular, starting a new job, becoming a parent and buying a house were said to have had the strongest effect. On the other hand, a number of savers said that some life events, including becoming a parent, had increased their mental and emotional load. And, to cope with this, they had switched their focus to short term, urgent needs rather than long-term financial planning and pensions.

The online questionnaire revealed similar results. Most notably, the event of starting a new job was experienced by 49 per cent of respondents, and one in four of these claimed that it had made them think about their pension, register with NEST or increase their contributions.

These findings seem to indicate that life events, particularly starting a new job, can trigger engagement with pensions. However, when we compared how many life events passive savers had experienced, the results led us to question this conclusion. The passive savers had experienced the same life events, and in some cases more frequently than the engaged savers.

So why did the life events supposedly trigger engagement from some savers but not others? There are a range of possible reasons for these results. We know for example that the two groups differed by age and gender, so it could be that one of these characteristics impacted the effect of the life event. It's also possible that the research participants post-rationalised their pension engagement when they saw the survey item on life events.

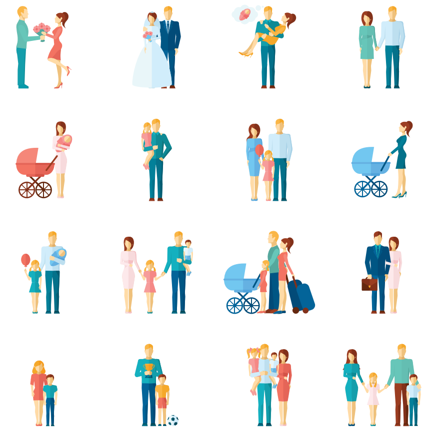
Alternatively, because the questionnaire covered three years of the participants' lives, the data we collected may not be precise enough to capture the effects of the many life events that had taken place. It's possible, for instance, that a number of life events had taken place during that time which had opposing effects on people's behaviour.

A further explanation could be that the life events did in fact create a teachable moment, but the impact may have been small because the individual didn't receive a tailored communications trigger.

Do life events hold the key to pension engagement? Whilst some of the initial findings are positive, further research is needed before pension providers rush to adapt their communication strategies. We needed to look more closely at the impact of life events, the reactions they trigger and their relation to pension and long-term planning behaviours. Whilst this research suggests there may well be a link, this new evidence is one more piece of a larger puzzle.

Written by NEST head of insight research Matthew Blakstad

In association with nest



Summary
- A new job or promotion is often the best time to engage members.
- Personalised messages at 'moments of reflection' work best.
- Don't let the moment slip away – it needs to be easy for the member to act.

Picking your moment

Stuart Anderson identifies the most effective ways to communicate with members to increase retirement saving

In 2017 the Pensions Policy Institute published *Consumer engagement: the role of policy through the lifecourse*. This report examined a range of 'teachable moments' during which individuals were particularly receptive to communications about pension savings and/or their wider financial affairs.

According to Pensions and Lifetime Savings Association policy lead engagement, EU and regulation, James Walsh: "The connecting factor among these teachable moments was transition. It is easier to encourage positive change when it is against a backdrop of transition – for example when someone starts a new role or welcomes a new member of the family."

Recent research by NEST and the University of Maastricht also identified a clear correlation between starting a new job and engagement with pension savings. With other major life events (marriage, bereavement, birth of a child etc), the connection appeared less cut-and-dried.

Nudge, nudge

JLT Employee Benefits principal, benefit consulting, Stephen Coates, says the best times to engage members are "moments of reflection". While he believes that some easily-identified milestones, such as turning 40, "resonate with all of us", he also says "trigger points are so much more successful when they are personal".

A number of JLT clients, he continues, work with the financial education specialist Nudge. This allows employees to share information about themselves and their goals, which "can allow us to provide meaningful information and calls to action at the points that matter most to the individual".

Coates acknowledges that members need to see a benefit in sharing their information, and that this will best be done in a 'social media-type' environment. Many staff are more likely to engage, he continues, when communications begin with 'financial wellness' and, for example, debt management, rather than pension contributions.

He also believes pension communications could learn a lot from the world of online retail: "If I buy something on Amazon then for the next few days, or weeks, my Facebook feed will be full of adverts for similar products. If employees put their information into something like Nudge, or their employee benefits platform, you need to have similar technology that can take this and personalise messages for them."

Low-hanging fruit

Cleverly identified, ultra-personalised trigger points may be the Holy Grail but it would be unwise to ignore the 'easy wins'.

Lane Clark & Peacock head of DC investment Laura Myers says: "A scheme I work with has used birthdays to promote awareness of its age-related contribution structure. This was a massive success – over the last year we've seen just under 50 per cent of people click through from the email to access the contribution page on the scheme's website, up from 10 per cent of members viewing this page prior to the trigger being used, and 25 per cent of those people then went on to increase their contributions.

"I have also seen success around regular reminders at flex renewal dates. At this point sending a simple contributions modeller – showing in pounds and pence how much you get if you pay more, and how that impacts net pay – is really helpful."

Another productive time identified by Myers is when parents return to work after maternity leave. This is easier for the scheme to pinpoint than the birth of a child and is a time when new parents are once again thinking long-term.

One-click ordering

It is all very well putting members in the driving seat by giving them timely, personalised communications that chime with them at that precise moment – but the car also needs to start first time.

"It's no good them having to phone someone and get a paper form sent out," says Coates. "It needs to be as easy as Amazon make it after you click on one of their adverts in your news feed."

Written by Stuart Anderson, a freelance journalist

Summary
- Trustees are obliged to report annually on value for members.
- Spending appropriately is as important as spending cheaply.
- 'Value' varies between schemes so carry out regular membership analysis.

Getting the best for members

Stuart Anderson considers how schemes can ensure members receive the most value from their retirement savings

Trustees of defined contribution schemes are required by The Pensions Regulator (TPR) to complete a 'value for members' (VFM) assessment in the chair's statement that forms part of the scheme's annual report and accounts.

VFM is, for the purposes of this assessment, defined as all those services for which members pay, either in whole or in part. These can include fund management, scheme governance and management, administration and communications.

Costs that are borne wholly by the employer are not included in this formal assessment. Of course, common sense dictates (and TPR recognises) that if the employer is not getting good value then this is also likely to have a negative impact on members in the long term.

Small imperfections

The Pensions Regulator's website includes a number of resources to help trustee bodies complete a VFM assessment and report on this in their chair's statement. However, a review carried out by TPR in 2017 found that only around half of small and micro schemes (those with fewer than 99 members) had a documented process in place to assess how costs and charges represented value for members.

A TPR spokesperson says: "Only around a third of small and micro schemes have used our guidance on how to carry out the assessment. These are strong indications that these schemes are often not following a proper process to produce a quality assessment."

TPR says it is particularly concerned about the emergence of "a tail of sub-scale pension schemes".

Its spokesperson continues: "We strongly believe that it is unacceptable to have two classes of DC pension saver – those that benefit from the premium of scale and good governance and administration, and those that do not."

Defining 'value'

'Value' does not necessarily equal 'cheap', and TPR recognises this. Price plays a part but so does context.

Pensions Management Institute vice president Lesley Carline illustrates this by describing a notional online modelling tool for members delivered at a much lower cost than an alternative system. On the face of it this provides great value for money.

"But what if only 2 per cent of members actually use it?" Carline asks. "Please don't think that providing a web service is a bad thing but it probably means you need to target some of your communications budget toward helping members to use it."

Lifestyle problems

This year's introduction of MIFID II, requiring the disclosure of transaction costs by fund managers, will ensure that these 'hidden' charges remain the headline issue when it comes to VFM and investment management. However, the ongoing fall-out from the introduction of the 2015 pension freedoms could prove more important for member outcomes.

Broadstone head of consulting David Pye says: "Everyone tends to focus on transaction costs for the growth stage but in many schemes now the biggest issue is de-risking.

"What should you do about lifestyling? If you look at the market, providers are lifestyling over anything between three and 15 years, which is a massive range."

This is not primarily about costs but, rather, about making sure members' money is spent on investment strategies that are actually appropriate to their needs.

Membership analysis

'Value' will look different in different schemes, dependent on their membership. NEST head of acquisition and retention Jennifer Gerber says: "Every aspect of a DC scheme should be scrutinised to ensure it represents VFM specifically for its own membership.

"This is why undertaking regular research and detailed analysis of the membership – including key attributes such as their attitudes to risk, beliefs, drivers, age and gender profiles – is imperative. If there's no appetite to do so, that's the time to undertake a strategic review to identify the type of DC arrangement offered to employees and delegate responsibility to a master trust or contract-based plan."

Written by Stuart Anderson, a freelance journalist