Prepare to engage

Bad decisions or no decisions at all – there are many reasons why savers don't take an active role in managing their pension pots. Andy Knaggs hears how the sector is trying to tackle the situation

Summary
• Member disengagement with pension schemes is a long-standing issue for the sector, as savers make bad choices or no choices at all, resulting in smaller pension pots at retirement.
• Digital technology, better understanding of savers' preferences and simplified messaging all play a part in driving engagement.
• Pension providers are seeking progress from government on a framework to deliver personalised advice provision to fill the gap.

This year sees the first ever PLSA Retirement Living Standards (RLS) Awards, showcasing the best pension schemes that have utilised the trade association's 2019-launched initiative to help people picture their future life in retirement.

Based on real things such as houses, holidays, and baskets of goods and services, RLS has a dedicated website and has been incorporated into numerous pension scheme communications and tools. The standards have so far been embraced by 53 organisations, according to the PLSA, reaching 14.4 million savers, of whom 10 million are active savers.

"It's such a great tool because it gives people an idea of what they will need in retirement," says PLSA policy lead for master trusts, Craig Rimmer. "You used to talk about a two-thirds replacement rate when you sat down with a financial adviser. With RLS, you can see what different levels of retirement will cost you in terms of a basket of goods, or how many holidays you will be able to have. It gives you something to aim at."

Arguably, this has been the biggest issue for pension scheme members over the years: simply having something tangible to aim at. What size pot will represent a good sized pot in, say, 30 years' time, when someone currently in their mid to late 30s will be starting to wind down from a lifetime of work?

Without such a realistic reference point, it is no surprise that many people have remained disengaged from their pension savings until it is possibly too late to materially improve their standard of living in retirement.

From apathy to fear

The reasons for disengagement are many, ranging from apathy and feeling that decisions have already been made on your behalf, to fear of not understanding matters that are seen as complicated and difficult.

There is not just disengagement, but also what might be called ill-informed engagement, such as that shown by Legal & General Investment Management's (LGIM) recent research into tax-free cash drawdown, which is often being taken by people once they can access it from age 55, for reasons such as debt repayment or house improvements, rather than providing them with an income for retirement living, as the pension pot was intended for.

The most obvious impact of these non-existent or poor financial choices is that people will have a significantly smaller pension pot when they retire, curtailing their lifestyles just when they want to enjoy themselves a little more. "It's often said about people sleep-walking into retirement," says pension communications company Making Giants' managing partner, Marliane Owen. "They stick with the default and if they are with the wrong default provider, they could end up with a pension that's 50 per cent less than if they had shopped around."

Other issues can arise from a general lack of engagement with pensions too. Lost pension pots is one such issue, where a worker has moved around through lots of different companies during their career, and loses track of their savings. There might also be issues with information, such as beneficiary details not being updated, which, should the worst happen to the pension holder, could result in disputes and delays.

In the UK, pension freedoms are comparatively recently gained, and the undoubted success of auto-enrolment raises its own questions as to how engaged those who have had this decision made for them will be in the years ahead.

Although many more people have been drawn into saving for their retirement, these issues have the potential to cause future problems, if communication and engagement are not improved. "We are seeing lots of people going into drawdown, but we don't know how it will develop; how many people will run out of money, how much pensioner poverty we will see as a result," says PPI senior policy researcher, Lauren Wilkinson. "We need a longer time to see that play out. The young that have been automatically opted in – they have not made any decisions, but will it really translate to adequate provision? Will they save enough?"

Medium and message

If we accept that disengagement remains a major problem for the pensions industry, and that the evolving structure of pension provision calls for a better informed, better engaged populace to be able to make good decisions, then what can the industry do to improve matters?

One way, according to some, is to start with education – right from school years. "There is an issue around financial education," says Wilkinson. "It's not really talked about in schools, and that's really important. I think just making it more normal to talk about pensions and retirement would help. In Australia, they have quite a different approach, and they are further along with auto-enrolment. It is quite common there to have a social conversation about how pension investments are doing."

Discussions then swirl around the nature of the medium and of the message that is being used to drive pension engagement. Digital technology has made a huge impact, with smart phone apps, online calculators and video statements all being embraced by the pensions sector. "We use a lot of video and animation to explain pension benefits," says Gallagher director of retirement communication, Karen Bolan.

"A big barrier is that people think pensions are too hard to understand. We're doing everything we can to simplify it, making things fun and interactive, and sometimes using gamification principles to enhance this. Technology allows us to take barriers away from people. If we have a digital tool that allows people to immediately contribute more, they are more likely to do it. If you put in barriers – like a form that needs to be filled in – they will switch off."

Hymans Robertson head of DC engagement, Kirsty Moffat, agrees that digital technology is vital, but also says that more traditional methods of engagement, such as roadshows and online member surveys, can also get great results. "To a large extent, the right medium to use depends on the company we are dealing with," she says, adding that for a client with many shop workers that have little access to computers, roadshows can be the most appropriate.

Owen, however, believes that the pensions sector has fallen behind banking in its use of technology, through this "not being pushed enough by pension providers and the support industry around them". She adds: "We have made a massive jump in the structure of pensions schemes and not really allowed the support around that to develop at the same time."

Different saver groups and their preferred engagement medium need to be better understood. The message needs to be simpler, with jargon removed, benefits and risks emphasised, and technical aspects demystified. "We need to talk to members in the language they feel comfortable with, because it can be a huge barrier for people to get over," says Bolan.

"For example, the term salary sacrifice sounds as if you are giving something away, when you're not. We look at the impact of any communication we send out: what do we want the member to know, feel and do, as a result of receiving a communication about pension benefits? If we can't tick all three of those, we should not be sending the communication."

LGIM co-head of DC, Stuart Murphy, believes there is a fundamental gap in advice provision for pension scheme members, beyond just the medium and the message. What is required is personalised guidance, he says, to sit in the middle ground between basic guidance, which few make use of, and the paid-for advice that few are willing to seek. LGIM and a number of other pension providers are lobbying the government for law changes that will allow this kind of engagement to take place. "This would be provided as part of the standard proposition," he explains. "We have data on the individuals. We know, for instance, when they get a pay rise. It's about being able to message them directly with specific information that's personalised to them, relevant and meaningful. It's a no-brainer really, but we cannot do this in the current framework. We are passionate about the need to bring this change about."

Written by Andy Knaggs, a freelance journalist