

MaPS – listening document response

Summary

We are grateful for the opportunity to respond to MaPS listening document. The document is clearly the product of extensive thought about the state of financial capability in the UK, the potential of guidance and the role of engagement in pensions policy. It is a very good sign that MaPS has been so open in its consultation with the market and so willing to learn the lessons of the past through this sort of consultation exercise. This sort of openness does the organisation enormous credit and bodes well for future engagement with the pensions sector.

“At retirement” guidance and dashboard should be the main focus of MaPS efforts

We are looking forward to working with MaPS as MaPS brings forward the pensions dashboard and introduces default guidance at retirement. We see these innovations as critical to the future of UK pensions policy and see them as the main priorities for MaPS as regard pensions.

More generally, we see the UK working age population as difficult to engage in retirement planning. As the listening document sets out, this is a combination of low levels of financial knowledge, low levels of financial skill and cognitive and behavioural biases. We think this means that it would be incredibly difficult to raise the population of the UK to a good level of financial knowledge such that they feel comfortable planning for retirement. In our view, it is important for MaPS to focus its efforts on areas where it can have a real positive impact.

For those reasons, we disagree with the proposed target for 2m more people to say that they understand enough to make informed decisions about their retirement. This objective is too broad and we think that the UK pensions sector would benefit from an objective focused more on “at retirement” guidance and specifically on influencing the pensions choices of those approaching retirement. This is because of the difficulty of at retirement choices and the weakness of the current policy framework in supporting at retirement choices. As a result, there is a lot riding on the success of default guidance.

There is less need for engagement during accumulation

It is commonly said that strategy is what you don’t do. We see less of a role for MaPS in the accumulation phase. It is extremely difficult to engender behaviour change in pension saving during accumulation. Behaviour is more easily affected through defaults and scheme governance and regulation are stronger levers than engagement to try and ensure that pension schemes offer value for money.

There is a role for engagement in the accumulation phase but, increasingly this will be to identify individuals from whom the automatic enrolment default is not the right choice and to encourage them to personalise their retirement saving in some way. For example, a two step engagement campaign could encourage people to check whether saving 8 per cent of band earnings is the right level. It might only look to encourage action in those who consider 8 per cent of band earnings not to be adequate and could aim to make others comfortable with the notion of default based retirement saving.

We see this sort of engagement in the accumulation phase as a much lower priority than improving guidance at decumulation and ensuring the success of default guidance. We do, though, think that more work is necessary on the relationship between defaults and guidance, the respective merits of each and how different policy tools might complement each other in the pursuit of shared objectives. MaPS could have a leading role in the conceptual heavy lifting that needs to be done by the pensions sector on this issue.

A best in class, non-commercial dashboard should be a priority for MaPS

MaPS will also have a major role in the creation of the pensions dashboard. We see a non-commercial dashboard as the centre piece of the dashboard project. This is because we see the dashboard as a public utility rather than a commercial opportunity for pensions providers. Over time, we see the dashboard as a potential hub for increased levels of engagement with pensions. It is an obvious site to locate pre-retirement guidance and interactive planning tools. We hope that the MaPS led dashboard will lead the industry in the augmentation of the dashboard as the project develops from a pensions finder service through to a full retirement planning tool.

The focus on gender is important but many of the policy levers lie outside MaPS' remit

The focus on gender in the listening document is welcome. We see the gender pensions gap, though, as mainly a function of the gender pay gap, which is in turn strongly tied to labour market decisions taken when women become mothers. A solution to this problem will likely involve better childcare, better job progression from part time roles, better flexible working and more equal sharing of childcare responsibilities at home. There is a role for MaPS in raising awareness about the issue: we do not think that women realise the long term impact of labour market choices taken shortly after motherhood. But we see this as an issue that runs much wider than pensions policy and financial guidance.

We are also not sure whether reported differences in knowledge about pensions between men and women reflect a real gap or whether the evidence base partly reflects inappropriate male over confidence. It would be interesting to unpack this in more depth.

TPAS guidance offer should be preserved

Last we saw TPAS as providing an invaluable service to the pensions sector. TPAS offered expert guidance and was excellent value for value for money. In particular TPAS provided a channel for those with hard to answer questions about pensions for which regulated advice would be the only, expensive, alternative. We understand and support the case for bringing all financial guidance services together but hope that the services offered by TPAS will continue to have a place within MaPS offer for the foreseeable future.

1. What are the top priorities the Money and Pensions Service should focus on over the next three years?

Our greatest area of concern is the approach to retirement. Increasingly, people moving towards retirement will be expected to make complex choices in the absence of adequate support. They will be increasingly less likely to have DB pensions and will need to augment their state pension entitlement with income derived from their DC pots. This will mean managing a complex set of risks, dividing capital across different product categories and then picking the most appropriate product within each of those categories.

We do not believe that the pensions sector has got the right balance between reliance on engagement and defaults in retirement decision making. We think policy should make provision for a direct connection between the accumulation and decumulation phases so that people can easily access an income without making a choice. But, whatever happens, there will be a significant role for guidance in assisting retirees at retirement. As a consequence, we think that the bulk of MaPS guidance resource should be directed at people approaching retirement.

MaPS will also have a major role in the creation of the pensions dashboard. We see a non-commercial dashboard as the centre piece of the dashboard project. This is because we see the dashboard as a public utility rather than a commercial opportunity for pensions providers. Over time, we see the dashboard as a potential hub for increased levels of engagement with pensions. It is an obvious site to locate pre-retirement guidance and

interactive planning tools. We hope that the MaPS led dashboard will lead the industry in the augmentation of the dashboard as the project develops from a pensions finder service through to a full retirement planning tool.

2. We are required to help those ‘most in need’ and those who are ‘in vulnerable circumstances’. How can we best identify and reach them? What evidence do you have to help us target these groups effectively?

This is a difficult question to answer from the perspective of pensions. While some people are clearly more vulnerable than others as a result of their personal circumstances, many who ostensibly lack any sort of disadvantage may also be poorly placed to take decisions about their retirement saving. That may be a result of low levels of financial skills, it may be a result of low levels of financial knowledge and it may be the result of cognitive biases affecting decision making. In our view that means that while vulnerable has a specific meaning in relation to COBS, the pensions sector needs to think expansively about what constitutes vulnerability. In our view this means see vulnerability as a scale rather than as a binary state (vulnerable/not vulnerable.)

5. How should we facilitate the improvement of quality, efficiency and capacity within the money guidance, financial capability, debt advice, or pensions guidance sectors?

We see two elements as critical here. The first is focusing resources on achievable goals. The second is rigorous evaluation that should be designed into the intervention. In our view, good intervention means setting out to understand whether or not an intervention actually changed consumer behaviour in a desirable manner.

6. What are the most significant gaps for public financial guidance to fill?

We do not see a focus on the accumulation phase as necessary at this time. Automatic enrolment is currently working and while there is a need to understand how engagement might augment automatic enrolment defaults, we see delivering at retirement guidance as a much higher priority.

Pensions

27. Do you agree with our analysis of the issues?

We think that the analysis of the issues addresses the right topics. MaPS is right to set out that automatic enrolment is currently working as intended, that there are formidable barriers to engagement and that the pensions freedoms continue to raise huge challenges for the sector. As laid out above, our response to this analysis is that MaPS should focus largely on the delivery of at retirement guidance and the dashboard. We see engagement in the accumulation phase as a much lower priority.

MaPS is also right to highlight the risk of pensions fraud.

28. Are we focusing on the right outcomes?

We think that the overall objective of 2m more people saying they understand enough to make informed decisions about their retirement is too broad and would benefit from more focus. Following from the analysis elsewhere in this paper, we think most benefit can be achieved through focusing on people approaching retirement. This is mainly because AE has increasingly provided default answers for the main questions in the accumulation phase. The same is not true in decumulation and the quality of retirees retirement will depend partly or mainly on the quality of their decision making. As a result, we feel that this objective should focus explicitly on the preparation of retirees for retirement.

Furthermore, we do not think that adults saying that they are more prepared is the right measure. Reported level of knowledge is not a good barometer of whether or not people really understand something. We think that assessment of whether or not an objective for guidance has been met should be measured by observing behaviour change versus a control group.

29. Have we highlighted the right priorities for action?

We agree with the broad framework but think that MaPS should see normalising taking guidance at retirement as a core part of its mission.

30. Should we seek to influence the wider policy and regulatory context, and in what areas?

We think that the best way for MaPS to influence policy is through evidence. MAPS will be in a great position to evaluate the impact of guidance and other engagement tactics on pensions decision making. In our view a research and evaluation approach capable of showing behaviour change in an intervention group versus a control group would be extremely powerful.

31. How do we get consumers to engage actively in pensions and planning for retirement?

MAPS has a great opportunity to develop a rigorous approach to encouraging engagement with pensions. We think that the first step on the road here is proper framing of the issues and clarity about objectives. The listening document goes a long way towards achieving these things but there are a few areas where we would be inclined to go further.

We think that the PLSA's model for pension policy is the right place to start thinking about engagement and guidance. They point out that there are four ways on influencing retirement outcomes:

1. Governance – decision makers at the level of the scheme need to act in the best interests of scheme members as scheme members often lack expert knowledge about pensions and/or are disengaged from pension saving
2. Engagement – encouraging or requiring scheme members to take decisions about their retirement saving
3. Regulation/legislation – provision of a legal framework for the provision of pensions and the running of pension schemes. Policing the behaviour of those running schemes.
4. Choice architecture/defaults – providing a default product, savings level or decision to a saver or encouraging them to take a decision by structuring a choice in a particular manner.

Policy makers can place different emphases on these tools but it is important that, first, their actions push towards the same overall objectives for retirement objectives. Second, each of these policy tools should work together and not against each other. This matters as it would theoretically be possible to have an approach regarding each of these four things that did not work as a coherent whole.

This approach is slightly different to the traditional way that the sector has thought about engagement. The pensions sector has tended to over estimate what can be achieved through engagement. There are both ideological and commercial reasons for this. First, the sector has, quite naturally, tried to reduce the information asymmetry between customers and pension providers by trying to educate customers, or arguing that they should be better educated. This has tended not to work and is in marked contrast to the approach taken by the tech sector, which has spent vast resources making its products easier to operate.

Second, the pensions sector has sometimes argued in favour of engagement or education in order to make a case for things that suit the industry more than they suit the customer. Products that favour active investment choice tend to require higher levels of customer engagement. Engagement, in our view is not always an appropriate substitute for good product design.

The sector has tended also to see engagement as a good in its own right. We do not think this is the case. Engagement is a policy tool that may be employed to fulfil particular policy objectives. In that, it is no different to other policy tools such as regulation, the imposition of a price cap or the requirement of a default. Where engagement is suggested as the means to accomplish something we should always ask: what's the objective here and why is engagement the right policy tool?

Using this model to look at current pension policy shows a significant gap between the accumulation and decumulation phases. In the accumulation phase we are reliant on choice architecture/defaults to get people to save through automatic enrolment. And we are reliant increasingly on regulation, legal standards and governance to try and ensure product quality in the absence of engaged savers.

In decumulation, there is currently minimal reliance on choice architecture to bridge the gap between accumulation and decumulation. Regulatory and legislative constraints on decumulation products are much lighter and there is no mandatory product governance – although this is being considered for a subset of drawdown products. As a result of this, we are much more reliant on engagement and, specifically, on guidance as a policy tool in order to connect consumers to products that match their needs.

More generally, there is a need for a framework to help assess what the relationship between defaults and engagement should be in pension policy. Automatic enrolment answers the four main questions in the accumulation phase: whether to save, how much to save, what scheme to choose and where to invest. This limits the scope for engagement initiatives during accumulation as the savings baseline for many people will have been set by automatic enrolment.

Where there is a strong default in place, the role for engagement is different. In the first instance, initiatives intended to engage people with their pensions should sense check whether or not the default is the right thing for the individual being engaged with. If it is, then the role of communications is likely to get that individual comfortable with saving in a workplace pension default fund. If it is not, then the point of engagement shifts to helping that person vary their savings behaviour in some way: perhaps by increasing their contributions.

People in retirement

35. Should we seek to influence the wider policy and regulatory context, and in what areas?

We think that MaPS is in an excellent place to influence wider regulatory and policy debates. MaPS is uniquely well placed to advance the evidence base around financial capability and engagement and to build a library of “what works”. In our view, research into engagement has too often assessed the quality of inputs or the volume of outputs. It may ask whether or not people “feel” more knowledgeable after experiencing a particular intervention. In our view, the only thing that matters is whether or not an intervention changed behaviour in a

way that is beneficial for the saver. A research programme based on that sort of approach would be a great asset to policy makers.

36. How can we ensure that people in retirement who are digitally excluded get the help and guidance they need?

The organisations that were merged into MaPS operated through a number of different channels. TPAS offered support over the phone and Pension Wise offered both face to face and telephony. We see both the telephony channel and also the wide ranging support offered by TPAS as key to supporting older pensioners. TPAS service was particularly valuable because of the range of topics TPAS guiders can credibly cover resulting in an ability to take a full perspective on an individual's pension