Make all pension firms send customers birthday cards with retirement forecasts attached, says former minister ROS ALTMANN

By ROS ALTMANN FOR THIS IS MONEY
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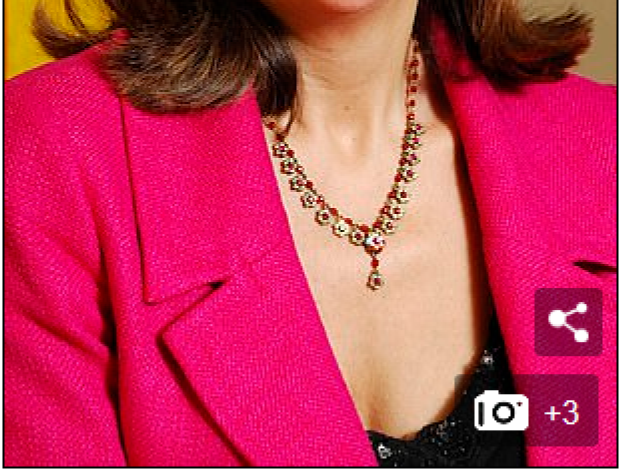
Former pensions minister Ros Altmann wants the Government to force all pension providers to send people brief, simple annual statements about their retirement savings.

Standard wording should be adopted and made compulsory to prevent firms using 'obfuscatory' jargon that baffles savers, she argues.

Lady Altmann also offers a five-point plan to make people more likely to read pension forecasts - including tailoring messages around birthday cards with 'many happy returns' greetings and colourful envelopes.



Ros Altmann: 'The legacy of impenetrable, dense, opaque statements will mean few people readily engage with their pension information'

It's time for pension providers to help customers understand their pensions, not leave them baffled by jargon.

The Government has just finished its consultation on **the introduction of simpler, standardised annual pension statements.**

I applaud its aims and support its proposed two-page statement.

This would show each customer's pension value, how much they have paid into it, how much has come from their employer and the Government, what charges they pay and how much their pension may be worth in future (using standard assumptions).

This is a vital first step in making pensions more user-friendly, but the Government should go further and make it mandatory for all providers, not just workplace schemes, to send out standardised, simpler statements.

I've also come up with a five-point plan to make them as easy to understand - and likely to be read by busy people - as possible.

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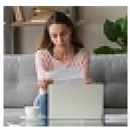

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HOW THIS IS MONEY CAN HELP

Pension messages MUST be standard and compulsory

Some providers see standardisation as a threat, and many are resisting it, preferring to stick to their own terminology, which of course is more convenient and less costly for them.

The Government should not bow to pressure for 'principles-based' or descriptive approaches - these have failed consumers in the past.

Over the years, I have witnessed many examples of this approach, which left customers baffled and bewildered.

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Ditch the jargon: Lady Altmann says pension forecasts should be tailored around birthday cards with 'many happy returns' greetings and colourful envelopes

Providers keep using old-fashioned nomenclature or jargon-based descriptors, which are unfamiliar to ordinary individuals.

Standardisation and simplicity are needed in practice, not just in theory, so providers cannot obfuscate and continue to confuse consumers with non-standard wording and information.

A classic example of this problem was annuity sales. Each provider had a different way of 'disclosing' the open market option, charges were hidden and

" Some providers see standardisation as a threat, and many are resisting it

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> *and many are resisting it*"
>
> **Ros Altmann**

Customers had no idea how to assess product suitability for themselves, nor how to shop around for the best rate or the right product.

Other providers, especially with closed books (meaning they are only winding down old savings, not trying to attract new customers) or weaker finances, see standardisation as a cost, with no benefits for them – it will not bring new business.

Customers will either just stay with them, or may realise they are in outdated, expensive products and transfer away.

And unfortunately, a voluntary system usually means the best providers act, while the worst operators drag their heels.

What firms should do to make pension messages easier to understand

All providers should adopt a user-friendly 'direct to customer' approach to communications, rather than producing materials that only intermediaries - financial advisers, and other industry insiders - instead of savers can understand.

Some providers say they do not want to spend the money on this change, but standardisation is certainly in the best interest of their customers, so I believe it is a necessary expense.

They also need to make sure new, simpler statements dovetail with work to prepare for the new pensions dashboard.

What is the pension dashboard?

A tool allowing people to see all their retirement savings at a glance is under development. **Read more here.**

Some providers may never have their legacy pension information ready to upload electronically to a dashboard unless it is made compulsory.

So requiring all pension schemes, not just workplace providers, to produce standardised annual statements which replicate the dashboard requirements, makes it more likely that customers and their advisers will eventually see a complete picture of all their pensions.

The pensions dashboard will not work without standardisation - and accurate data.

It is an open secret in the pensions industry that many records are error-ridden, but the extent of the problem has been hidden.

Data correction exercises and investment in digital integration and common data standards are essential so that individuals can rely on the figures they see in standardised statements and eventually on the pensions dashboard.

Failure to audit and validate pension data has been damaging to customers. For example, belated Guaranteed Minimum Pension data reconciliations have left pensioners suddenly seeing pensions cut.

Even modern automatic-enrolment pensions are not taking data accuracy seriously enough, as regulators focus on whether contributions are paid, rather than whether the amounts contributed are correct.

It will also be important for pension statements to itemise the amounts contributed by the individual, Government and employer.

The complexity of pensions and the opacity of current statements, means most individuals do not see the 'free money' that is added to their pensions for them by other taxpayers and employers.

This reduces the effectiveness of the savings incentive provided by the huge £50billion cost of pensions tax relief.

Helping each customer see they have only paid part of the fund, with others adding more money than if they were saving just in ordinary Isas or other products, can boost engagement.

What is the Guaranteed Minimum Pension?

The GMP was a protection created for people who were contracted out of paying State Earnings Related Pension Scheme (SERPS) top-ups by their work pension scheme, *writes This is Money.*

Employers effectively had to 'guarantee' workers wouldn't be penalised financially if their scheme contracted out and paid less National Insurance as a result. But the calculations were complicated, and have led to mistakes in individual pension records.

Our pensions columnist Steve Webb explains the GMP **here.**

Five ways to get people to read pension messages

1. Personalise them: Providers could send statements to coincide with the week or month of each customer's birthday, with a birthday card and perhaps a brightly coloured envelope.

They could wish people 'many happy returns' – alluding to the power of investment returns!

Providers might also consider consumer-friendly ideas such as a birthday 'prize draw' to encourage customers to open their statements, or lottery prizes and rewards if they consider contributing extra.

2. Use standard assumptions: Pension forecasts should use Government assumptions, so consumer information is consistent, unlike the current position where customers will see different projections depending on the source of the information. This adds to confusion.

The Government has already proposed doing this, and I support the idea.

3. Give two projections: Providers could use two retirement ages - 65 and 70, for example - to demonstrate the value of contributing for longer and delaying pension withdrawals.

Forecasts are based on assumptions that are a 'best guess' and are unlikely to be accurate.

In particular, the variations in investment returns, inflation and annuity rates in future will depend on factors not yet knowable. However, the increased value of contributing and earning investment returns for an additional five years is a more reliable forecast, certainly in relative terms.

This could provide a much-needed behavioural nudge to encourage people to keep working and build bigger pensions. It would indicate a positive way to improve their retirement prospects, with demonstrable benefits rather than negative messages about people not saving enough.

4. Make charges clearer: Customers need to know what they are paying for their pensions, in pounds and pence not just percentages of the fund.

This would show how much they are paying to the pension provider, administrators or managers.

This transparency is vital, but I am not

convinced transaction costs should include estimated 'market impact'.

It is questionable whether calculating market impacts is a valuable or cost-effective addition to disclosure requirements. Assessing whether an individual trade actually influenced price movements, given the numbers of trades occurring at any time, is imprecise and unreliable.

5. Launch a public information campaign: The legacy of impenetrable, dense, opaque statements will mean few people readily engage with their pension information.

A nation-wide marketing and PR effort could prompt people into opening, reviewing and thinking about their new, much easier-to-read pension information.

But this national initiative would not work without standardisation.