Association of British Insurers

ABI Long term Savings

Finding the Right Path

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Introduction

In 2015 the pensions industry underwent a fundamental change. Prior to that, industry focused on helping citizens build up resources until a single decision point and then providing a guaranteed income. Since 2015, it may need to provide continuous support from when people start saving to the end of their lives. This is a major shift that has not been examined in enough detail in the intervening years. It will become increasingly important to address this: by 2030 one fifth of the UK population will be over the age of 65 and will have to make more difficult decisions about their retirement income than the generations that preceded them.

This guide aims to show what providers and the market as a whole can do to ensure that their communications are effective and impactful, including:

- What information people need to be able to make good decisions in retirement
- How the regulatory requirements set by the FCA can be best used to meet those needs
- What else providers can do on top of the regulatory requirements to encourage better outcomes and meet customers' need
- Where regulations prevent providers from meeting consumer needs

Pension freedoms mean that customers have many more choices, but they can be complex and ongoing; this presents a challenge to the pensions industry to provide the level of support needed for those in retirement. Age UK characterised this challenge well in their 2018 paper "Financial Resilience during Retirement":

"A focus on high quality provision of products and information is needed to overcome the lack of awareness, misunderstandings and barriers to accessibility across the piece. This means age-proofing and improving financial products and services. It also means providing timely, accurate and accessible information and advice from all sectors."

As an industry we have a responsibility to give consumers the tools and products they need to live an empowered later life. By communicating better and making use of the latest advances in behavioural science and technology we can reach a situation where people are able to find the right path to a retirement that fulfils their goals.

CHAPTER 1

What information do consumers need to make good decisions in retirement?

Investment pathways will create a new simplified environment for non-advised consumers but they will still have choices to make, and many will still be approaching these options with a low level of financial capability. The Money and Pensions Service stated in its ten-year national strategy that 22 million people say they don't know enough to plan for their retirement.

WHAT ARE INVESTMENT PATHWAYS?

The FCA's Retirement Outcomes Review showed that non-advised consumers struggled to make retirement decisions and to understand retirement products. One particular concern was consumers not knowing what to invest in and therefore either keeping their savings in cash and losing value to inflation, or investing in riskier assets for a short period. In order to combat these risks, the FCA looked at good practice that already existed in industry and mandated it to all those offering non advised drawdown. This good practice was described as "investment pathways", which means creating pre-packaged investment products to fit four stated objectives.

Option 1 *"I have no plans to touch my money in the next five years"*

Option 2 *"I plan to use my money to set up a guaranteed income within the next five years"*

Option 3 *"I plan to start taking my money as a long-term income within the next 5 years"*

Option 4 *"I plan to take out all of my money within the next 5 years"*

Alongside the creation of investment pathways, the FCA also mandated a system of communication to help consumers stay in the right investments.

Consumers need to have the right information to be able to make informed choices about how to use their retirement savings. It is providers' responsibility to supply the right information at the right time using the right method of delivery, including signposting to advice and guidance. These communications must also cater for the differing needs of consumers who are advised and those who are approaching this on a non-advised basis.

WHAT RETIREMENT DECISIONS DO CONSUMERS NEED TO MAKE WITH A DC POT?

Product	Decisions include
Pension	• When to access • Whether to take tax-free lump sum, and how much • Which provider
Flexible access (Drawdown)	• What to invest in • How much to draw down • Which provider
Guaranteed Income (Annuity)	• Whether to include Inflation link • Whether to include Death benefits • Which provider

How much to draw down in flexible access is arguably the most complex decision, and will likely be based on many factors, relating to the individual's preferences and circumstances, including:

- How long the money needs to last
- Whether to pass money on to beneficiaries
- The health of the individual and anyone else who depends on the income
- The pattern of income – increasing with inflation, taking more upfront, leaving money aside for later life

These are decisions only individuals can make, but providers can equip them with the right level of information and tools to help them understand and decide.

Core Information

There are some pieces of information that are purely factual and should form the basis of any decisions that consumers make, including.

- Current value of pot as a cash amount (including as a guaranteed income)
- Costs and charges
- Projected expiry date of pot, based on withdrawal rates (if taking an income)
- Stated objective chosen for the pension saving (if known)
- Other wealth and investments
- Tax related information

This information should provide the basis of any decision that consumers take and is provided to them regularly through regulated communications.

There are some additional, and more complex, pieces of information in retirement than when saving into a pension. Beyond the factors noted some consumers will face additional factors. These can be complex and unfamiliar – for example, what approach to take when a consumer is simultaneously withdrawing and saving? Providers can add value here by providing relevant, useful information.

Understanding key concepts and options

In addition to the core information contained in provider communications, people in retirement also need to be able to understand a number of concepts that will be unfamiliar to many. Without an understanding of the key concepts that underpin the options available, consumers are unlikely to be able to make decisions that match their goals. These key concepts include the products they are in, and those available to them – including a flexible income, a series of lump sums or a guaranteed income for life.

It is for example important to show how some simple financial concepts will affect the value of people's pots and ultimately their standard of living, including:

- Investment growth and risk
- Impact of inflation
- Withdrawal rates
- Costs and charges
- How marginal tax rates work

These concepts are not expressed easily in the written format that most regulatory communications use. A good deal of progress has been made in simplifying language and improving design to help consumers to focus on key information. This is an area where providers can go beyond the regulatory minimum and use innovative communications tools to help consumers improve their understanding of these concepts, encourage the use of Pension Wise and regulated financial advice.

Life factors that consumers need to consider

Whilst all retirement journeys and all consumers are different, there are some commonalities and there are distinct phases of retirement that most people go through. These stages of retirement do not necessarily correlate to specific age groups but to people's physical health and wellbeing. PPI research has shown that retirement can be split into three phases:

- Independent phase – Minimal physical limitations and good health, able to engage with positive activities, low risk of cognitive decline.
- Decline phase – Mild physical limitations, more likely to experience cognitive decline, increased risk of bereavement and isolation.
- Dependent phase – At least one severe physical limitation likely to need substantial support.

Providers can tailor their communications for these phases. As well as the change in messaging, consumers may require different types of support and use different channels of communication as they move through the different stages of retirement.

There may be specific calls to action at each phase. People who are in the independent phase need to understand and plan for the later two phases of their retirement and the actions they can take to prepare for them. This could vary from setting up a lasting power of attorney to making provisions for the potential cost of social care.

Confidence, knowledge and peace of mind

Whilst regulated financial advice remains outside of the reach of many UK consumers, there are many parts of the advice process that would help them greatly. Providers serving non-advised consumers may be able to usefully cover some information normally covered within an advice proves in a way that helps the consumer without crossing the boundary into recommendations and advice. Many of the benefits are intangible such as a sense of security or feeling positive about the future. Providers should aspire to provide these benefits to advised and non-advised consumers alike.

CONFIDENCE

One of the most often reported benefits among consumers who take financial advice is a feeling of increased confidence regarding their financial affairs. Improved confidence can help them to make good decisions and achieve a higher quality of life in retirement. Examples of how increased confidence can drive better retirement outcomes include for example:

- The confidence to remain invested rather than seeking to fully encash a pot.
- The confidence to spend more in retirement, as a consequence of knowing guaranteed or sustainable income sources are in place.

KNOWLEDGE

Regulated financial advice also creates opportunities to explain financial concepts in the context not only of a consumer's savings but in the context of their wider lives, increasing knowledge and wellbeing. Providers can also help consumers by offering tools that will allow consumers to self-learn in this regard, including quizzes, calculators, video and other options to help consumers model their circumstances, improve their knowledge and make better decisions.

PEACE OF MIND

The ultimate aim of any pension product should be to provide people in retirement with financial security and peace of mind. If consumers can be given the right information, the ability to understand certain concepts and the confidence to make decisions, they will be equipped to make the most of their retirement savings and avoid the pit-falls of the pension freedoms.

Aviva Pensions Engagement Programme

Confidence-building communication initiative tells customers that Aviva is here to help

We have reversed low levels of engagement with a programme of activity to increase understanding of pension products, build trust in the Aviva brand, and help customers plan better for retirement.

Summary

- Implemented customer segmentation
- Increased relevant, frequent, targeted customer engagement
- Reflected customer journey in engagement approach
- Improved channel use and content management
- Promoted use of support services and tools

Challenge

Low levels of engagement

Research showed a lack of engagement – many customers didn't know how we could support them on their journey to retirement, or that we had tools to help. Research also showed that customers were not aware they could speak to our specialists, who could help them make the right decisions about their pension future.

Solution

A customer-focused approach

We established the Accelerated Customer Engagement (ACE) programme in 2017 to address the low levels of engagement that were affecting customer experience. The programme was launched with a series of 'test-and-learn' activities to help customers understand their pensions and plan better for retirement. Initial responses showed a willingness of customers to increase their pension knowledge and look to us for support, so we refined and optimised the strategy. Customers were segmented into groups based on expected behaviour and likelihood to act – messages, channels and calls to action were tailored accordingly.

Insight

Thanks to our engagement communications, customers have deeper, more informed conversations with our call centre pensions specialists.

Insight

By capturing insight from our dedicated call centre, we can identify where customers need most support. This helps shape future communications.

Results

Forging long-term relationships

We pride ourselves in the way we now build personal, long-term relationships with our customers – we don't measure engagement success purely on call numbers, open rates or click-through rates. While these numbers are much-improved, we are also seeing qualitative gains from a willingness of customers to seek our support.

Next steps

Improving the pensions journey

By understanding and refining our customer segmentation models in 2020 and beyond, we can visualise, plan and deliver the right message at the right time for any customer during their pension journey with us. Qualitative research has helped us shape and evolve the way we communicate, improve channel use and content management, and promote the use of support services and tools (for example, MyAviva). Ultimately, it will build our brand and credibility, and ensure that we always deliver the right outcomes for our customers.

Insight

The use of our support tools increased significantly when customers received relevant communications at the right time.

> "A key measure of success is whether customers turn to us when they need support because we've taken the time to engage with them."

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In numbers

2.7 million
customers engaged

7.4 million
individual contacts

Monthly digital newsletter to more than
2 million customers
(over 45% open rates)

30
integrated, theme-based communications

3.3%
Direct mail response rate
– above industry average

Four-times the traffic to the **MyAviva app**

CHAPTER 2

Regulatory Requirements

Following the introduction of investment pathways, providers now have regulatory requirements for communicating with customers during their retirement. Annual statements must be provided to all pension customers in retirement and, for investment pathway customers, new FCA guidance says providers should also send regular communications that ensure their chosen pathway is appropriate for their needs and circumstances. This section sets out these requirements and their purpose.

ANNUAL STATEMENTS

Consumers will receive the core information they need to make decisions about their retirement income will be through statements provided at least annually by their provider. These statements must be provided from when a consumer accesses their pension – whether drawdown or lump sums, or just on taking a tax-free lump sum. The regulations regarding what must be included in these communications allow for a degree of latitude and should enable providers to tailor the information to better serve their customers.

Purpose

In COBS the FCA defines the two main objectives of in-retirement annual statements as to:

1. Provide the retail client with such information as is necessary for the retail client to review the decision.
2. Inform the retail client that if their circumstances and or retirement objectives have changed it may be in their best interests to:
   - Review their choice of pension product
   - Review their investment choices
   - Take regulated advice to understand their options at retirement
   - Seek out guidance

These rules, which were updated after the FCA's 2017 Retirement Outcomes Review, represent the most important element of the regulatory regime for pensions in the withdrawal phase, setting out what the regulator believes is essential to ensure consumers have the core information they need to review their options.

Core information

Whilst the FCA has set out the pieces of information that are likely to help consumers meet the objectives; it has not been prescriptive. There are, however, some elements that will be common to all consumers when providers seek to meet the first objective set out by the FCA, including:

- Current value of pot as a cash amount
- Potential value of pot if it were used to buy a guaranteed income
- Costs and charges from previous year
- Investment growth from the previous year
- Information regarding advice and guidance
- Information regarding shopping around
- The amount of crystallised and uncrystallised funds

Other pieces of information are only likely to be relevant to consumers who are using their pot or product for certain purposes. Only a client taking an income would benefit from receiving the following information:

- Total withdrawals from previous year
- Withdrawals per month in the previous year
- The proportion of funds remaining compared to outset
- Projected point of pot exhaustion based on current withdrawals
- The rate of withdrawal compared with a sustainable rate

5-Yearly Communications

After August 2020, non-advised consumers entering into drawdown are likely to have done so via one of the four new 'investment pathways'. As part of this package of reforms the FCA expects providers to write to consumers every five years, as part of their annual statement, to check that the investment pathway they selected is the one that is still most appropriate for them.

This could be a crucial communication as it is likely that many consumers will have changed the objective they have for their pot over the five years. It is not yet clear how different these communications will be from the previous annual statements that providers are obliged to send to consumers who are using the investment pathways.

The five-yearly prompts will need to vary for each pathway. These communications could be effectively tailored, but there are limits due to the advice / guidance boundary. This is discussed in the next section.

Incompatibility Statements

In Policy Statement 19/21 the FCA created an obligation on providers to notify clients if they make a request which is: "clearly incompatible with the investment pathway selected by the client", adding that (emphasis added):

> "We consider that - to comply with their obligations under COBS 14.2 - providers must intervene to provide information if a consumer acts in a manner that clearly contradicts the objective of the pathway solution they've invested in."

The ABI called for clarity on this point and welcomes the guidance. But there is little detail regarding what behaviour would be considered incompatible, and how quickly a client should be notified. Another key question is how providers may notify consumers without crossing the boundary into regulated advice.

CHAPTER 3

Challenges and potential solutions

Overlaps between requirements

As noted in the previous chapter, there is a large degree of overlap between the Objectives of annual statements, five yearly statements and incompatibility statements. Providers will need to make qualitative judgements about consumer behaviour to determine which type of regulatory communication is required and whether they should also reflect the messaging in other communications.

If a consumer is acting in a way that is inconsistent with their chosen pathway, they should be told at least annually rather than waiting for five years. If a consumer is taking more income than they should be from a pot that is supposed to last a lifetime, for example, a five yearly prompt could come a long time after they have done irreparable damage to their retirement prospects.

This section sets out, for each investment pathway objective,

- regulatory requirements for statements
- how the statements interact
- what the messaging could look like, particularly the incompatibility statements.

Due to the uncertain nature of the advice boundary, it is possible that the suggested messages may stray over it.

OPTION 1 "I HAVE NO PLANS TO TOUCH MY MONEY IN THE NEXT FIVE YEARS"

BEHAVIOURAL INDICATOR: HAVE THEY ACCESSED THEIR FUNDS?

YES	NO
Incompatibility Statement When you selected an investment pathway you said that you had no plans to access your money, but we have noticed that you done so. This could mean that your investment no longer meets your needs. Please get in touch to review your investments.	**Annual Statement** Basic information, plus: if you now plan to touch your money in the next five years, please get in touch to review your investment pathway.
Annual & Five-year Statement Repeat message	**Five-year statement** Five years ago, you said you had no plans to access your pension. Now that 5 years has expired, have your plans changed? Please get in touch to review your investment pathway.

OPTION 2 "I PLAN TO USE MY MONEY TO SET UP A GUARANTEED INCOME WITHIN THE NEXT FIVE YEARS"

BEHAVIOURAL INDICATOR A: HAVE THEY SET UP A GUARANTEED INCOME?

YES	NO
No longer on an investment pathway and now covered by the regulations governing guaranteed income products.	**Annual Statement** Basic information, plus: if you no longer plan to set up a guaranteed income. Please get in touch to review your investments.
	Five-year statement 5 years ago, you said you had planned to set up a guaranteed income within the next five years but you have not. In order to ensure that you are invested in a way that matches this choice. Please get in touch to review your investments.

BEHAVIOURAL INDICATOR B: ARE THEY DRAWING DOWN MONEY (POSSIBLY AT A FAST RATE)

YES	NO
Annual Statement/Incompatibility Statement Basic information, plus: When setting up your investments you said that you intended to set up a guaranteed income using this pot. We've noticed that you are drawing down income from this pot instead which means you might be using inappropriate investments. Please get in touch to review your investments.	**Annual Statement** Basic information, plus: if you no longer plan to set up a guaranteed income please get in touch to review your investment choices
Five-year statement 5 years ago, you said you had planned to set up a guaranteed income within the next five years but you instead been using it for flexible income. Please get in touch to review your investments.	**Five-year statement** 5 years ago, you said you had planned to set up a guaranteed income within the next five years but you have not. In order to ensure that you are invested in a way that matches this choice. Please get in touch to review your investments.

OPTION 3 " PLAN TO START TAKING MY MONEY AS A LONG TERM INCOME WITHIN THE NEXT 5 YEARS"

BEHAVIOURAL INDICATOR A: HAVE THEY ACCESSED THEIR FUNDS

YES	NO
Provider should refer to behavioural indicator B	**Annual Statement & Five-year statement** Basic information, plus: when you selected your investment pathway, you said that you intended to take a long-term income from this pot. We've noticed that you have not accessed it at all yet. Please get in touch to review your investments.

BEHAVIOURAL INDICATOR B: ARE THEY DRAWING DOWN FUNDS AT AN UNSUSTAINABLE RATE?

YES	NO
Incompatibility Statement 5 years ago you said that you would like to take a long term income form this pot, we've noticed that you are withdrawing money more quickly than we would expect, so you may be invested in the wrong things and your pot could run out whilst you still need an income. Please get in touch to review your investments.	**Annual Statement** Basic information
Annual & Five-year statement Repeat message	**Five-year statement** You last made a decision about your investment pathway 5 years ago. Please get in touch to review your investments.

OPTION 4 "I PLAN TO TAKE OUT ALL OF MY MONEY WITHIN THE NEXT 5 YEARS"

BEHAVIOURAL INDICATOR A: WITHDRAWING LARGE SUMS TO MAXIMISE TAX EFFICIENCY

YES	NO
Annual & Five-year Statement Basic information plus: Reminder of their investment pathway	**Incompatibility Statement** When selecting a pathway you said that you would like to take all of your money from this pot in the next 5 years, we've noticed that you are withdrawing money more slowly that we would expect, so your investments may not match your objective. Please get in touch to review your investments.
	Annual & Five-yearStatement Repeat message alongside basic information.

PHOENIX GROUP

Standard Life Assurance Ltd

Standard Life Assurance Ltd (part of the Phoenix Group) sends two types of communications to non-advised drawdown customers with an Active Money Personal Pension

Withdrawal behaviour trigger comms

These are sent to:

- customers in our 'ready-made' drawdown investment options whose withdrawal behaviour is potentially inconsistent with where they are invested
- customers who are withdrawing >10% p.a. (after Tax Free Cash).

General review comms

These are sent to:

- the rest of our Active Money Personal Pension drawdown customers.

The communications prompt customers to check if their investment choice is still right for them using our online drawdown review or our investment guide. The communications also encourage customers to login and use our review tool to understand how long their pension money could last. The main difference between the two is the withdrawal behaviour triggered communications reference that the customer's behaviour appears out of line with their investment choice.

We are experiencing email open rates of c. 55% and login rates of c. 10%. These are both significantly higher than our standard communications and market benchmarks which we believe is due to the use of personalised dynamic content. Customers who we do not have a valid email address for receive the communications by post.

While the engagement stats are reassuring, to date we are not experiencing many customers switching investments following the communications (<1%). This isn't necessarily an indicator that the communications are not having the desired impact as customers could be reading the communication and taking an active decision not to change anything.

To get further insight into how the communications are landing with customers, we send follow-up email surveys to understand if:

- The communication was clear and easy to understand
- The communication was relevant to them
- They are aware where their pension money is invested
- They are aware that it is their choice as to where to invest their pension money
- The communication has encouraged them to review their pension investments
- They are aware that where they choose to invest their pension savings can affect how long their money could last
- The communication has encouraged them to review how long their pension money might last

CHAPTER 4

Communicating about pot sustainability

The fundamental aim of provider communications in decumulation is to get people to engage with their investments and ensure the sustainability of the consumer's chosen approach.

Communicating about sustainability is a concept that the FCA has left unspecified, though some guidance is offered in COBS 16.6.9 G as to how sufficient information can be illustrated in annual statements. This includes: a) the proportion of the fund remaining since outset; or

(b) an indication of when the fund may cease to exist; or

(c) the rate of withdrawals or payments relative to a sustainable rate.

There is, however, no single definition of a sustainable rate. There are rules of thumb, and official GAD rates which state the 'equivalent annuity'. This means that if providers wish to utilise this option they run the risk of having created a definition of a sustainable rate that they could then be liable for.

Digital tools

As well as the annual and five-yearly communications that all providers will have to send to customers, consumers could also benefit from a variety of digital tools to better illustrate their position and available options. The FCA rules represent the regulatory minimum, but many providers will seek to go further.

Calculators

As noted above, some providers may have concerns about using specific safe withdrawal rates and may wish to provide digital tools which will allow consumers to model different outcomes. Different tools may be appropriate for different pathways:

Option 1 Model the impact that accessing funds will have on a consumer's ability to contribute further to their pension savings either due to losing ongoing contributions or activating the Money Purchase Annual Allowance.

Option 2 Model the impact of buying a guaranteed income for life at different ages.

Option 3 This could be particularly powerful in relation to option 3. Allowing consumers to model the impact that different rates of withdrawal will have on the longevity of the pot would help those who utilise flexible drawdown to do so in their best interests

Option 4 Consumers using this option may want to model the tax impact of different levels of withdrawal over the five years as they have indicated is their intention.

Quizzes

As noted above, many consumers lack understanding of the key concepts set out in the first chapter. A simple mistake in terminology could lead to severe consumer detriment and providers have a duty to try and avoid this.

One solution to this could be simply asking consumers multiple choice questions to test their understanding before they take choices. This would help consumers make informed choices and reassure providers.

Newsletters

Digital newsletters are a cost-effective way to keep in contact more frequently with customers. Content could be tailored to individuals to best highlight the issues that they need to engage with.

Videos, Podcasts & Webinars

Another way in which providers could seek to engage consumers and explain complex concepts is through recorded mediums like videos podcasts and webinars. These give the advantage of having a human voice explain difficult ideas, without presenting the regulatory risk that conversations about them could have. It is less likely that a pre recorded video used by many different consumers could be classified as having given a personal recommendation.

Tailor communications by age & behaviour

Other messages in communications could help drive consumer engagement with their investments. Whilst imperfect, age can act as a good proxy for the stage of retirement that people are in.

55-65

People in this cohort are less likely to have fully retired, meaning that certain messages may be more appropriate for them. For example,

- Making your income last
- Reduction in savings allowance
- Employer contributions

65-75

People in this cohort are likely to have retired, but still be in the independent phase of retirement. For example,

- Lifetime allowance check
- Tax free cash reminder
- Keeping investments under review

75+

People in this age bracket are more likely to be in the decline phase of retirement and providers could seek to tailor messages to limit any vulnerability. For example,

- Tax risk to beneficiaries
- Keeping investments under review
- Advantages of securing your income
- Lasting power of attorney

Behavioural Data

As more and more people start to engage with their retirement savings digitally providers will be able to target communications and nudges on personal basis rather than relying on proxies such as age. For firms who offer multiple services this could go as far as utilising data held in relation to the customer's other products to derive insight, using information from general and specialist insurance lines to build a better image of the individual customer. In future, an Open Finance model may allow providers to accurately map and predict consumer behaviour on the basis of information that many consumers share with them voluntarily, but progress in this area is largely dependent of the definition of a personal recommendation and the advice boundary more widely.

Conclusion

As an industry and a society, we are still adapting to the new world created by pensions freedoms. Investment pathways and the communications that go with them are another step towards creating an environment where consumers are able to make the most of the freedoms without making decisions that will damage their long-term prosperity. Alongside this guide we have also published a report setting out the lessons we have learned over the five years since pension freedoms.

At its core the changing retirement market represents a change in the nature of the relationship a provider has with its customers. From one that is based on a single transaction to a longer term more interactive relationship that can span the entirety of later life.

As a community of providers of pensions we understand our consumers' core information needs; our core communication vehicles; and the potential for technology and innovation to push beyond these core components. If we build on this understanding, we can start to bridge the gap and provide consumers with confidence, knowledge and peace of mind.

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