

Introduction

New pension flexibilities have brought an increased focus on issues around financial education and the ability of individuals to make the necessary decisions.

After briefly exploring the pensions decisions that UK individuals are required to make, this note considers some international examples of financial education (summarised in Chart 1) to illustrate other approaches that could be adopted in the UK.

The international examples included in this briefing note are:

- Financial education during accumulation (Denmark)
- Pensions Dashboard (Sweden)
- Sorted website (New Zealand)
- Three Pensions Days (Netherlands)
- Auto-escalation (United States)

These examples are explored in more depth in the remainder of the Briefing Note along with points of particular relevance to the UK.

Chart 1: Overview of approaches to communication taken by a selection of countries¹

Country	Approach taken to communication	Outcome
Denmark	Provision of information such as statements that includes less text and jargon following the recommendations of the Money and Pensions Panel	An evaluation round the provision of information by the Danish Insurance Association found that 74% and 66% of respondents were satisfied with the amount of information that they received about their personal pension and occupational pension respectively
Sweden	Pensions Dashboard that enables individuals to see all of their pension entitlements together	No specific evaluation: Sweden scores 81.6 on the integrity index for the Mercer Global Pension Index
New Zealand	Sorted website, with a familiar tone, that covers pensions alongside other issues	Reported saving rates in 2005 were at the highest level since 1995 with 72% of people surveyed saying that they (or someone else on their behalf) were saving for retirement (though this may not be due to the Sorted website only)
Netherlands	Three Pensions Days every October alongside the provision of information in a layered way	No specific evaluation: Netherlands scores highly (89.4 compared to an average of 71.9) on the integrity index (that includes quality of communications) for the Mercer Global Pension Index
United States	Auto-escalation: Save More Tomorrow initiative in which individuals sign up to increase their pension contributions in future years	In one US 401k (DC) scheme with SMarT features, employees increased their pension contributions from 3.5% to 13.6% of salary over a four and a half year period. Take-up has tended to be higher where individuals are provided with financial advice

Decisions during accumulation phase

Individuals might need to take into account a variety of factors during the savings or growth phase. While some of these relate to financial factors such as investment returns and risk, they interact with other factors such as the desired retirement date and life expectancy to determine what might be a suitable accumulation strategy.

The use of defaults can be effective during the accumulation phase to address, at least partially, certain factors such as under-saving for retirement.

The emphasis of government policy has been on these defaults rather than on financial education, with an emphasis on the roll out of pension savings via automatic enrolment that relies on inertia. This is based on the fact that, for the target population, making or increasing pension contributions is likely to be in their best interests but they are unlikely to take action on this, if left to their own devices.

Decisions around how to access pension savings

Chart 2 shows some of the factors that individuals might need to take into account when deciding

how to access their pension savings in retirement.

While this phase has sometimes been portrayed as a 'decumulation' phase, the pension funds of those individuals using drawdown products are still accumulating returns while they have the ability to make withdrawals. The pension flexibilities mean that the transition from the accumulation to the decumulation phase may become increasingly blurred.

Decisions during decumulation take into account some of the same factors as for accumulation;

Chart 2: Factors to take into account when deciding how to access retirement income

Factors to take into account - accessing savings

- Ways in which pension funds can be accessed, e.g. income drawdown
- Tax-free lump sum
- Types of annuity (e.g. fixed, indexed, enhanced)
- Annuity rates
- Tax rules, e.g. around trivial commutation



Decisions

- When to retire
- When to access retirement savings
- How to access retirement savings



Personal factors that will affect decisions around accessing retirement income

- Living circumstances (e.g. single or part of a couple)
- Factors related to life expectancy
- Likely retirement date

life expectancy, investment returns and risk. These also include other financial factors such as the level of income that is required and when health issues may occur. The combination of all of these factors makes retirement planning challenging.

For this reason, it is important that individuals are either provided with good defaults to nudge them towards decisions, or to acquire skills that allow them to address at least some of the major decisions around retirement.

Resources available to UK individuals

An overview of resources available

to a UK pension saver is shown in Chart 3. The written form (letters, pamphlets, analysis, etc.) about both the pension system in general and about their own pension provision, has generally been the medium used to convey information. However, there is a growing appreciation that this is not sufficient.

The developments in the pension world, where an increasing range of retirement patterns means that there is a greater variation in how individuals approach and deal with retirement, is generating similar issues. This means that

the communication of the options available needs to engage individuals with a wide range of financial literacy if sub-optimal outcomes are to be avoided.

How do other countries address the financial awareness and education?

This report uses the Mercer Global Pension Index² to provide some insight into the effectiveness of the approaches used (where no formal evaluation has been conducted). Specifically, it uses the integrity sub-index, which considers communication amongst other areas such as regulation and governance.

Chart 3: Information sources available to employers, pension professionals and individuals

For employers/pension professionals

For individuals

Pension providers

Pension Wise (The Pensions Advisory Service, Citizens Advice)
Independent Financial Advisors

Employers, Money Advice Service, phone or web based services including non-advised guidance and online annuity rate comparison sites, Age UK

Department for Work and Pensions, Her Majesty's Revenue and Customs, The Financial Conduct Authority, Citizens Advice

The Pensions Regulator, NEST (for automatic enrolment)

Local authorities (for means-tested benefits), SAGA, Which?

Tailored information is available

Information tends to be more generic



Financial education during accumulation – Denmark

Denmark is credited with having an effective pension system, made up of a state pension and fully funded occupational pensions based on collective agreements, as well as private pensions.

A **Money and Pensions Panel**, was launched to increase knowledge and interest about financial matters, having specifically considered how best to communicate information around pensions. This found that members preferred projections

not to include too much text. They also preferred the phrase ‘expectation of pension payments’ to ‘projections’.³

There has been an ongoing effort to engage individuals in terms of their pensions through the provision of information that can be adapted to their circumstances. Two examples of these are shown in Chart 4.⁴

An evaluation around the provision of information on private pensions by the Danish Insurance Association found that 74% and 66% of respondents were satis-

fied with the amount of information that they received around their personal pension and occupational pension respectively.⁵

The following points are of interest with respect the UK pension system:

- Information around pensions is available on the same website as information around other financial issues; which may bring the topic of pensions to the attention of someone initially looking for information on another subject.
- There is an emphasis on both practical arrangements and ade-

Chart 4: Examples of information sources in Denmark

Danish Insurance Association website on private pensions and insurance

- Overview of types of pension savings, what happens when you change jobs and when you retire
- On-line tools such as ‘pensions meter’ that compares levels of saving with desired retirement income, and exams that test individuals’ knowledge around pensions
- An overview of different pay-out options, e.g. guaranteed rate annuities compared to market-based annuities
- Pensions ABC that providing an overview of pensions, including costs and tax
<http://www.forsikringogpension.dk/pension/Sider/pension.aspx>

Citizens website -

- Includes information and interactive tools around pensions and early retirement alongside other areas such as education, housing benefit and disability
- It covers areas such as expatriation and the pension, pension notification and tax on pensions
- On-line tools such as pensions calculator
<https://www.borger.dk/Sider/pension-og-efterloen.aspx>

quacy of savings during the accumulation phase, e.g., what to do when changing jobs or evaluating savings against desired retirement income.

- As with some of the other countries considered in this Briefing Note, it is possible for individuals to see consolidated information about their own pension entitlements, including state, occupational and private pensions.

Pensions Dashboard – Sweden

It has been highlighted in the UK media that it will be difficult for individuals to make decisions if

they are unable to access details of all of their pension entitlements—state and private pensions—in one place.

The Swedish ‘**Pensions Dashboard**’ has been suggested as one potential solution.⁶ This dashboard allows individuals to see information about all their pensions, both private and state entitlement.

Individuals receive an annual statement around their state pension, known as the ‘**orange envelope**’, which provides a projection of the state pension that an

individual might receive, depending on when they retire. An example of this statement is shown in Chart 5.

Where individuals have occupational or private pensions, they can supplement the orange envelope, using the Minpension system (translation: Mypension).

There has not been an evaluation of the Pensions Dashboard; however, Sweden scores 81.6 on the integrity index (that includes quality of communication) for the Mercer Global Pension Index.⁷

Chart 5: Example of statement used in Sweden
Annual Statement 2015

Your National Public Pension

According to our forecast, this is the amount of national public pension you could receive per month, before tax. The amount may vary depending on when you decide to retire.

age 61	age 65	age 68 and 4 months	age 70
SEK 10 700	SEK 13 500	SEK 16 800	SEK 18 900

Do you have pension from several sources?

In addition to the national public pension, most individuals also have an occupational pension from their employer. Some also have private pension savings.

National Public Pension

+

Occupational pension

+

Private pension

Your entire pension

Log in and see your entire pension

www.pensionsmyndigheten.se/B3

Use electronic identification or your personal code

The following points are of particular interest with respect to the UK pension system:

- The dashboard enables individuals to see all of their pension entitlements, including state, private and occupational pensions, regardless of whether these are DB or DC pensions.
- The information is updated on a near real-time basis for most pension funds.
- The service's reach is wide—over 2 million individuals of a 9.5 million population are registered.⁸
- The 'Minpension' portal is owned by a subsidiary of Swedish Insurance (the Swedish

insurance trade association), is run and funded jointly by the state and pensions industry.

Sorted website – New Zealand

This website is run by New Zealand's Commission for Financial Capability (formerly the Retirement Commission) with the primary aim of promoting saving for income in retirement (Chart 6). The Commission realised that people typically did not consider retirement until their 40s, but general information around finances is useful for people of all ages. The website covers areas such as starting work, managing debt and pensions.

The language used on the website is easy to understand and informal. Users can personalise the guidance which is interactive and makes use of games and calculators. The website also provides a blog and other ways of accessing information such as seminars.

While it is not possible to impute any increases in saving directly to the activity of the Commission or the Sorted website, reported saving rates in 2005 were at the highest level since 1995 with 72% of people surveyed saying that they (or someone else on their behalf) were saving for retirement.⁹

Chart 6: New Zealand Sorted website

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The screenshot shows the Sorted website interface. At the top, there is a navigation bar with links for Home, Get sorted, Life events, A-Z guides, and Calculators. Below the navigation bar, the main content area is titled 'Living in retirement'. On the left, there is a photo of an elderly woman and a list of related guides: Having regular income, Government help, Ways to save money, Budgeting, Where to live when you get older, Protecting your assets, and Trusts. On the right, there is a section for 'Related guides' with links for Retirement income, Asset protection, Insurance, Budgeting, and Retirement planning. Below that, there is a section for 'Related life events' with links for Moving to a retirement village and Losing your partner.

Similarly reach and usage of the website has been impressive with 20% of New Zealanders saying that they had visited the website. 69% of visitors using the Sorted website said they considered it likely very likely that they would take some action or change the way they are managing their money.¹⁰

The heavy reliance on internet resources reflects the high proportion of internet access of New Zealand's population. However, the Commission did complement this with other approaches such as:

- Printed booklets;
- Partnerships with professional services firms; and
- The sponsorship of money management programmes in secondary schools.

A Freephone pilot was also held in one region in mid-2005 but this was not developed as there was no evidence that telephone-based services would be effective.

The service is heavily advertised, for instance, on other websites and portals. In 2005, 75% of its budget was spent on advertising.

A PPI report¹¹ outlined the following reasons for the Retirement Commission's success:

- It provides guidance to help people make financial decisions, e.g. it provides individuals with a list of questions that they might ask.
- It provides advice around lifetime financial planning rather than focusing on pensions.

- It is user-friendly, trusted and personalises information.
- The website is complemented by other approaches.

Pensionedriedaagse – Netherlands

Three days every October 'Pensionedriedaagse' (Three Pensions Days) occurs. Pension providers, employers and advisors work together to inform the public around their pensions.

In addition, every pension scheme member is provided with a 'Uniform Pension Overview', in a consistent format. This is complemented by an on-line tracking system that allows someone to view their state and private pension provision together in one place.

There has been no specific evaluation of this approach; however, the Netherlands scores highly (89.4 compared to an average of 71.9) on the integrity index (that includes quality of communication) for the Mercer Global Pension Index.¹²

The following points are of interest in connection with the UK pension system:

- The Pensionedriedaagse can act as a trigger for people to consider their pension arrangements.
- Information is provided to individuals in a layered way, meaning that relatively straightforward information is provided in the first instance and, should they wish, indi-

viduals can access more complex and detailed information.

- Individuals are encouraged to consider changes in their circumstances and the ways in which these affect their pension position.
- Pension providers of workplace pensions play a large role in the provision of information to members.

Auto-escalation – United States

While this is not an example that focuses on financial education, it is included here because of the role of advice in influencing individuals' choices around auto-escalation.

In the US, it has been recognised that inertia may lead most individuals who are automatically enrolled to save at the statutory minimum. There is a perceived risk that increasing contribution rates could lead people, particularly lower earners, to opt out because members might feel they could not afford to invest more. Increasing opt-out rates would undermine the aim of the automatic enrolment policy.

In the US, the Save More Tomorrow" (SMarT) initiative uses interventions based on behavioural economics, with the aim of encouraging individuals to save more without increasing opt-out rates.

The SMarT initiative commits scheme participants when they join a scheme to increase pension contributions after each pay rise.

Unlike automatic enrolment in the UK, individuals opt in to the scheme rather than opting out. Once signed up, the individual no longer has to make an active decision on increasing pension contributions, as it happens automatically.

In one US 401k (DC) scheme with SMarT features, employees increased their pension contributions from 3.5% to 13.6% of salary over a four and a half year period.¹³ Take-up has tended to be highest where individuals are provided with financial advice. In 2009 around 59% of large US companies' DC schemes had SMarT features.¹⁴

The following points are of interest in connection with the UK pension system:

- Ideally these pre-commitment devices are introduced at a time of steady earnings growth—unlike the period that has recently occurred in the UK.
- Administrative changes would be required to payroll systems and software. However, if a large enough number of employers requested an auto-escalation facility the payroll industry may respond positively.

Conclusion

The approaches of the countries considered here share particular approaches that could be considered in the UK:

- The inclusion of information around pensions with information around other financial topics.
- Provision of consolidated information around an individual's state and private pension entitlements. The intricacies of the state pension along with the move to the single-tier pension however may complicate this in the UK.
- Calculators that compare saving with desired level of retirement income. Some calculators are already available in the UK, however, a useful addition might be one that enables an individual to take into account all elements of their retirement assets and income.
- The provision of information in a layered way so that individuals can access more complex and detailed information if they wish.
- The tailored illustration of how a change to a retirement age can influence an individual's level of retirement income.
- Illustration of the impact of life events on the retirement savings.
- Co-ordinated approaches, such as that provided by the 'Pensionedriedaagse' where

providers, employers and advisors work together to inform the public around their pensions.



The PPI is very grateful to Partnership for supporting this Briefing Note. Editing decisions remain with the PPI who takes responsibility for any errors or omissions

1 Towers Watson (2013) *Evaluation of Openness and Transparency Initiatives of the Danish Insurance Association*, Mercer (2014) *Mercer Global Pension Index 2014*. Thaler and Benartzi (2004) "Save More Tomorrow: Using Behavioral Economics to Increase Employee Saving." *Journal of Political Economy* 112(1), PPI (2006) *Lessons from New Zealand's Retirement Commission for UK policy on financial awareness and advice*

2 Mercer (2014) *Mercer Global Pension Index 2014*

3 Antolín, P. and D. Harrison (2012), "Annual DC Pension Statements and the Communications Challenge", OECD Working Papers on Finance, Insurance and Private Pensions, No. 19, OECD Publishing. <http://dx.doi.org/10.1787/5k97gkd06kth-en>

4 Danish Insurance Association (2008), "Financial literacy and transparency initiatives and tools in life and pensions"

5 Towers Watson (2013) *Evaluation of Openness and Transparency Initiatives of the Danish Insurance Association*

6 Age UK (2014) "Dashboards and jam jars"

7 Mercer (2014) *Mercer Global Pension Index 2014*

8 <http://www.ftadviser.com/2015/03/11/pensions/personal-pensions/report-calls-for-swedish-style-pension-income-dashboards-y8nZbbuThY8Ozr1bQT0VSL/article.html>

9 PPI (2006) *Lessons from New Zealand's Retirement Commission for UK policy on financial awareness and advice*

10 PPI (2006) *Lessons from New Zealand's Retirement Commission for UK policy on financial awareness and advice*

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12 Mercer (2014) *Mercer Global Pension Index 2014*

13 Thaler and Benartzi (2004) "Save More Tomorrow: Using Behavioral Economics to Increase Employee Saving." *Journal of Political Economy* 112(1)

14 AON Hewitt (2012) *Hot topics in retirement*

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