

CP24/24: Advice Guidance Boundary Review: Proposed Targeted Support Reforms for Pensions

1 Response

- 1.1 This is the Pensions Policy Institute's (PPI) submission to the Financial Conduct Authority's call for evidence on 'Advice Guidance Boundary Review – proposed targeted support reforms for pensions'.
- 1.2 The PPI promotes the study of pensions and other provision for retirement and old age. The PPI is unique as it is independent (no political bias or vested interest), focused and expert in the field, and takes a long-term perspective across all elements of the pension system. The PPI exists to contribute facts, analysis and commentary to help decision-makers to take informed policy decisions on pensions and retirement provision.
- 1.3 This submission does not address all of the specific questions in the call for evidence, neither does it seek to make policy recommendations. Rather, the response summarises relevant conclusions and analysis from research that the PPI has conducted in recent years:
 - 2024. **What could effective engagement look like?** Available at: [20240215-what-could-effective-pensions-engagement-look-like.pdf](https://www.pensionspolicyinstitute.org.uk/wp-content/uploads/2024/02/20240215-what-could-effective-pensions-engagement-look-like.pdf)
 - 2023. **Briefing Note 136 - What is the role of engagement in pensions?** Available at [20231016-ppi-bn136-what-is-the-role-of-engagement-in-pensions.pdf](https://www.pensionspolicyinstitute.org.uk/wp-content/uploads/2023/10/20231016-ppi-bn136-what-is-the-role-of-engagement-in-pensions.pdf)
- 1.4 This covering letter sets out the main conclusions of these research reports as they relate to the consultation. Please read the reports for the underlying analysis.
- 1.5 We are happy to talk further about any of the research discussed in this response if it would be helpful for the consultation.

2 Relevant conclusions from: What could effective pensions engagement look like?

- 2.1 ***What could effective pensions engagement look like?*** (2024) examines factors that can impact the level of "engagement" that can feasibly be achieved through measures including targeted support, the benefits and risks associated with engagement, and the ways in which engagement strategies could be strengthened. It includes what other support may be needed for those who are less likely to become engaged or benefit from engagement.
- 2.2 Looking across challenges and opportunities for engagement and targeted support, the PPI concludes that a better future for savers could be built on a foundation of consensus between stakeholders collaboration and technological advances. It shares the expectation that increased

engagement can support better retirement outcomes and improve overall financial wellbeing over the life-course.

- 2.3 Targeted support can be beneficial to some groups. Others will find it more challenging to make informed active choices that lead to better retirement outcomes and are therefore unlikely to achieve positive outcomes through targeted support alone. Targeted support strategies should therefore reflect the fact that consumers have different capacities for engagement, ranging from marginal to fully engaged depending on individual circumstances, openness to engagement, and financial capability.
- 2.4 People for whom full engagement is likely to be unachievable include those with lower levels of financial capability, and other mechanisms will be required to support these groups. Measures of financial vulnerability could provide an approximate estimate of the size of the group that is unlikely to become fully engaged with their pensions, and may therefore be less likely to benefit from targeted support. 52% (27.3 million) of UK adults have one or more characteristics of financial vulnerability.
- 2.5 Some consumers with higher levels of financial capability and understanding will also be challenging to engage because of personal circumstances and are therefore at risk of failing to take actions that are likely to improve their retirement outcomes. The approach that is appropriate for these groups, be it engagement-focused or other policy levers, differs according to their level of financial capability and their openness to engagement.
- 2.6 Developing an agreed approach to segmentation that accounts for both openness to engagement and financial knowledge/capability could underpin the development of targeted support strategies. This could also ensure that other appropriate mechanisms are in place for those who will struggle to achieve positive outcomes through engagement alone. These mechanisms include appropriately designed defaults, rules of thumb, and safety nets.
- 2.7 Ongoing engagement may not be achievable for most consumers, so timing targeted support appropriately could increase the prevalence of informed active choices that are likely to deliver positive retirement outcomes. Timing communications to coincide with points at which savers may already be considering making changes to their financial arrangements or are more open to reassessing their financial position could increase the likelihood of active choices being made. These include marriage, birth of a child, death of a parent, changing jobs, receiving a pay rise or purchasing a house. Whilst these are key milestones, these life events can also make people less receptive to interventions, for example if they result in an increase in cognitive and emotional load. This must be considered when designing and delivering targeted support strategies.
- 2.8 Identifying mechanisms for measuring the outcomes of targeted support also presents challenges. If defined by its overarching goal of delivering better retirement outcomes and improving financial wellbeing, the success of targeted support needs to be measured by how many people are achieving this end goal rather than just the number of people engaging with support. Building consensus on more nuanced measures of engagement could support the

development of realistic targets, more effective tracking of progress, and the ability to more accurately assess the balance between cost and benefit. Achievable targets should account for the starting point of currently low levels of engagement, and the size of the group that is unlikely to become fully engaged and make effective active choices (around a third of the population).

2.9 Overall, research showed that the level of resource and cost required to build strategies aimed at stronger engagement needs to be weighed up alongside the level of benefit that is reasonable to expect. It also needs to be weighed up against the cost of other areas of policy focus, including the increased focus on Value for Money.

2.10 A joined-up approach across the industry, in conjunction with government, may be needed to mitigate the cost of providing targeted support. Building a more segmented approach to engagement to better meet the needs and preferences of various groups is likely to be a costly exercise. This is given the improvements in communications and data required to develop and implement this. Considering the current relatively basic use of segmentation and personalisation, this will require significant experimentation and refining of approaches to find strategies that are effective for different groups.

2.11 Although data-driven approaches to engagement will be costly to develop, they may be more cost-effective to manage on an ongoing basis, and a better fit for purpose.

- Technological advancements, including pensions dashboards alongside the potential for greater segmentation, present an opportunity for innovation in engagement.
- Increasing use of AI could also support greater personalisation, particularly as digital channels, including apps and video content, allow for more personalised and potentially more effective engagement.
- Communications that are informed by an understanding of behavioural biases are likely to have a greater impact on actions and outcomes. Biases include inertia, present bias, and information aversion.

2.12 Overall, PPI research concluded that a collaborative and investigative approach is needed to achieve objectives around targeted support which includes:

- Reaching a consensus on a method for measuring engagement;
- Best practice for data collection and utilisation;
- Agreeing clear language to be used in communications across the industry.

3 Relevant conclusions from: Briefing Note 136: What is the role of engagement in pensions?

3.1 *What could effective pensions engagement look like?* (2023) Interrogates the view that better engagement will lead to improved decision making and outcomes for members. It finds

that higher levels of engagement are expected to improve retirement outcomes but there are limits to the level of engagement that can be achieved, and some consumers will not be able to achieve positive outcomes through engagement alone.

- 3.2 A range of factors can impact levels of engagement and the extent to which consumers would benefit from greater engagement. These include demographic characteristics, financial capability, current levels of engagement and financial education, pension scheme membership, financial characteristics, employment factors, vulnerability, and personality traits.
- 3.3 While increased levels of engagement do not guarantee better retirement outcomes, many consumers could benefit from becoming more engaged, even if it is broader than what we currently define as engagement. A greater understanding of the way in which people engage and the ways in which they can benefit from becoming more engaged could produce more achievable and measurable targets for engagement. Identifying a hierarchy of engagement, in which targeted support could fit, could help to make engagement strategies more effective for those who would benefit from increased engagement, while also improving outcomes by identifying those who are unlikely to benefit from engagement by ensuring that there are other mechanisms and support in place for them.
- 3.4 There is a widely-held expectation that higher levels of engagement will improve retirement outcomes. However, there are limits to the level of engagement that can be achieved and not everyone will necessarily benefit from increased engagement. For some, engagement could lead to a negative outcome if, for example, they make a poor active decision rather than being defaulted into an option which would deliver better outcomes. There are potential harms associated with engagement, particularly if individuals misunderstand the information communicated to them. Particular areas of concern include scams and tax charges.
- 3.5 Considering the broad range of factors that can affect people's capacity for engagement, a one-size-fits all approach is unlikely to deliver optimal outcomes. Effective engagement strategies will not look the same for all, and there may be limits to the extent to which some people can be expected to become engaged. For those who are limited in their capacity to become fully engaged or for whom engagement may not deliver substantial benefits, policy levers other than engagement, such as well-constructed defaults, safety nets or compulsion are likely to be needed in order to achieve positive retirement outcomes.
- 3.6 It may be challenging to accurately measure targeted support because it may not always result in active choices that can be tracked. Initial engagement with strategies can be relatively easily measured, but measuring the effectiveness of engagement aimed at education or support with decision-making, is more challenging. When engagement leads to active choices or action, such as making changes to contribution rates or investments, this can be measured and tracked. However, when engagement is aimed at less quantifiable goals, such as better understanding or confidence in decision-making, this is harder to measure.

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About the Pensions Policy Institute

We have been at the forefront of shaping evidence-based pensions policy for over 20 years.

The PPI, established in 2001, is a not-for-profit educational research Institute. We are devoted to improving retirement outcomes. We do this by being part of the policy debate and driving industry conversations through facts and evidence.

The retirement, pensions and later life landscapes are undergoing fast-paced changes brought about by legislation, technology, and the economy. Robust, independent analysis has never been more important to shape future policy decisions. Each research report combines experience with **INDEPENDENCE** to deliver a robust and informative output, ultimately improving the retirement outcome for millions of savers.

Our **INDEPENDENCE** sets us apart – we do not lobby for any particular policy, cause or political party. We focus on the facts and evidence. Our work facilitates informed decision making by showing the likely outcomes of current policy and illuminating the trade-offs implicit in any new policy initiative.

Our Vision

Better informed policies and decisions that improve later life outcomes

We believe that better information and understanding will lead to better policy framework and better provision of retirement for all

Our Mission

To promote, evidence-based policies and decisions for financial provision in later life through INDEPENDENT research and analysis.

We aim to be the authoritative voice on policy on pensions and the financial and economic provision in later life

