THE SOCIETY OF PENSION PROFESSIONALS
making pensions work

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Dear DWP Consultation Coordinator

SPP Response to consultation on simpler annual benefit statements: draft regulations and statutory guidance

We welcome the opportunity to respond to this consultation.

Key Messages

In summary, we are supportive of providing members of all workplace pension schemes with standardised information to enable them to make fair comparisons to enhance member engagement; and the overall principles of the simplified annual benefit statements. SPP members have some concerns regarding the content reasonably fitting on to two-pages, particularly for FCA regulated providers and with some key mandatory information being omitted, as well as the practicalities of providing some of the information set out in the draft guidance and illustrative example. Finally, the SPP has concerns that the effective date of 6 April 2022 will be highly challenging for many pension providers, trustees and administrators across the UK to successfully make the relevant changes within the relatively short timeframe.

Detailed Response

Question 1:

Do you have any comments on whether the draft regulations achieve our policy intention in relation to requiring use of a statement of one double-sided sheet of A4 paper for use by certain defined contribution pension schemes used for automatic enrolment (as defined in the draft regulations)?

There is perhaps still some further debate to be had as to whether future investment in an alternative, digital solution (linked to pensions dashboards) would be a more effective and future-proof solution for the industry to provide members with 'live' standardised digital statements via

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pensions dashboards, to supplement paper based statements for members not engaging with their pensions online, which is somewhat a backward looking snapshot of how their pension savings have performed.

The SPP has observed that the regulations are relatively short, noting much of the detail sits within the guidance which raises potential concerns around the DWPs expectations around the frequency of changes it anticipates to the simplified annual benefit statement requirements in the future and also poses a risk that the lack of detail set out in the regulations could result in different approaches being adopted and not achieve the goal of standardisation.

In light of the definition of 'relevant' qualifying schemes, the SPP would welcome further clarity on understanding the schemes in scope, as to whether this includes all Qualifying Workplace Pension Schemes (noting some of these are not used for auto-enrolment purposes). The draft regulations refer to qualifying schemes as per the 2008 Pensions Act, however the guidance says that 'all auto-enrolment schemes' are in scope, and thus we would welcome further clarity on this intention.

Furthermore, SPP seeks additional clarity as to whether 'relevant' DC schemes which have members with safeguarded benefits built up, such as GMP or RST benefits, would also be exempt from the two-page statement, under the definition of 'DB benefits'. We note additional information and disclosures need to be provided to these members to clarify they have these additional benefits and that their SMPI projection does not take these benefits into account.

We would also ask the government not to use the term 'relevant schemes' as defined in the proposed guidance (but not in the proposed regulations) for the purposes of simpler annual benefit statements. This is to avoid confusion for the industry. "Relevant scheme" is already defined in The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996/1715) used for determining if an Annual Chair's Statement is required, and referenced in The Occupational Pension Schemes (Investment) Regulations 2005 (SI 2005/3378 2A,) and The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (SI 2013/2734 (Schedule 3 part 5 (f)) relating to the production of a Statement of Investment principles/implementation report and the publication of certain information on a website.

Therefore, adding a different definition of 'relevant schemes' for the simpler annual benefit statements regulations will lead to confusion and misunderstanding.

<u>Draft statutory guidance</u>

Question 2:

Do you have any comments on the draft statutory guidance in terms of content or clarity?

Overall, we are supportive of the five sections that the standardised statement should cover, and furthermore feel the simpler annual benefit statement should include additional mandatory sections on pension scams and to also show members which funds their monies are invested in (with relevant charges - TERs), for consistency and better understanding/engagement. We appreciate this additional information will require additional space, however we feel it is key to protect members and to enable them to make fair and reasonable comparisons across all their workplace pension plans, to understand how their pension savings are performing.

We have some observations in respect of the practicalities of some of the data/information points set out in the guidance and we also have some concerns as to whether all of the content can physically fit on to two-pages; our comments on these specific points are set out below.

A key concern for FCA regulated pension providers is the requirement to provide a number of specific risk warnings and disclosures to members within their annual benefit statements, which don't appear to have been considered within the DWP's guidelines/illustrative template. We have concerns that it will not be possible to achieve the two-page statement in line with the DWP's proposals as its stands. Some FCA regulated providers are uncomfortable with signposting members to relevant webpages or leaving out key disclosures without the relevant assurances from the FCA that this will not result in breaches. Ideally the DWP will work with the FCA to provide mutual guidance to FCA regulated providers on acceptable criteria for the production of simpler annual benefit statements, allowing sufficient time for this to be considered ahead of the effective date of change.

Section 2: 'How much money you already have in your pension plan'

For long-standing own-trust occupational pension schemes which have incurred a change to pension administrator(s) over their duration; we have concerns that the 'lifetime data' will not be available in the necessary format to be manipulated and included in the simpler annual benefit statement as prescribed in the guidance and illustrative template. Thus some discretion should be given for schemes where the data is not available in the necessary format, with an alternative option offered; such as showing the relevant information for the statement period only.

We note that for many pension arrangements in the UK, the costs and charges members pay are built into the daily unit price of the funds (they are not explicit deductions). Thus, for clarity, whilst the relevant figures can be shown on the statement in £ and p as optional information, it will not be possible to subsequently then show these as a 'deduction' to the members' total pension amounts.

Section 3: How much money you could have when you retire

To support administrators and providers ensure compliance with relevant disclosure requirements and for consistency across all simpler annual benefit statements for members, we ask for the DWP to provide a list of the specific points/statements that should be included in this section (where relevant). Without this guidance, the SPP has concerns it will not be possible to fit all of this information onto the two-page statement and furthermore, members will not receive the desired consistency of information across all of their workplace pension annual benefit statements.

The SPP feels that DC members would further benefit from standardised assumptions being used across the industry to produce all prescribed DC pension illustrations (including the SMPI, mandated by TM1, in addition to the KFI's and illustrations issued to members with crystallised benefits, as prescribed under relevant FCA COBS rules). Instances where both COBS and SMPI illustrations are required within the annual benefit statement (i.e. for members with both crystallised and uncrystallised funds in the same plan) provides further challenges for FCA regulated providers to fit the relevant content on to two-pages. We also note that the inconsistent underlying assumptions used (which all need to be disclosed to members) are not 'simplified' from a member perspective.

We note a key misalignment is the rate of inflation used under TM1 for the production of SMPIs being based on RPI (currently 2.5%) whilst all projections required under FCA for workplace pensions being based on CPI (currently 2.0%,), and this discrepancy has still not been resolved. Thus for members with both uncrystallised and crystallised benefits within their plans, of whom many receive a single statement, they will have projections using different inflation rates; it is confusing for members as well as advisors. The SPP would therefore welcome further thoughts and consideration from the DWP and the FCA to agree on consistent bases for all illustrations required for DC workplace pension plans; to ultimately simplify these for members and allow them to make meaningful and fair comparisons.

Furthermore, the ability for pension providers and trustees to choose relevant assumptions for the SMPI income (annuity) conversion, as well as the varying approaches undertaken to choose growth rates for the relevant projections, results in further inconsistencies and incurs another barrier for members to make meaningful and fair comparisons across their workplace pension plans. As this stands it will be further cumbersome for members if they need to go to multiple webpages to find details behind the illustrations to understand all of the assumptions used as a result of some statements including more detail than others; in the absence of prescribed criteria set within the guidance noted earlier.

These inconsistencies can thus be perceived as a barrier to enable members to make meaningful and fair comparisons to ascertain how their pension plans are performing; an overall objective of introducing standardised, simpler annual benefit statements and we also foresee this being a further issue for the pensions dashboard given the ambition to display and aggregate 'estimated retirement income'.

Section 4: What you could do to give yourself more money

It would be beneficial for members if any projection showing 'How saving more into their pension pot may generate an increased pot at retirement' was standardised for this purpose, so members can make easy, reasonable comparisons across their workplace pension plans and identify where they may get best value for their money.

It would also be beneficial if the DWP could list all of the relevant signposting it expects to see, without this, administrators and pension providers will not provide consistent signposting which will be confusing for members. We note that for each 'signpost', you would expect a brief explanation of what this means for the member and this should be considered in terms of the content fitting on to two-pages.

<u>Draft illustrative template</u>

Question 3:

Do you have any comments on the illustrative statement template in terms of content or clarity?

Overall, as mentioned earlier, we have concerns that the content will not fit on a two-page statement in practice, particularly for FCA regulated providers.

Section 2: 'How much money you already have in your pension plan'

In addition to the previous comments provided on this section under Question 2, the SPP feels that there would be merit for these summary bubbles to include *'total withdrawals/monies taken out'* of your pension plan since inception (this could account for transfers out, divorce payments, monies paid to HMRC as a result of lifetime allowance charges and scheme pays, monies withdrawn for pensions advice allowance or any monetary charges a member has incurred). Without this, the summary bubbles will not add up to the total current pension value and would thus likely confuse members. We feel the intention should be for these bubbles to add up to the current value to provide transparency and simplicity to members.

Section 3: How much money you could have when you retire

In addition to the previous comments provided on this section under Question 2, additional space on the two-page statement is needed to provide relevant disclosures and information to members who have Protected Tax Free Cash entitlements, in respect of the illustrations provided and what it means for them.

Additional notes

We note that under TM1, current regulations require annual benefit statements to include details on any death benefits a member may receive. We note this has not been considered within the guidance or illustrative template and additional space will be required to include this mandatory information.

Furthermore, TM1 also requires providers and administrators to disclose any costs associated with risk benefits or premium waivers that apply to members. We note this has not been considered within the guidance or illustrative template and additional space will be required to include this mandatory information.

Timetable for change

Question 4:

Do you have any comments on the timetable in which it is proposed the regulations will come into effect, including the transitional provisions in regulation 3?

The effective date of 6 April 2022 provides pension providers, trustees and administrators with circa 10 months to produce their simpler annual benefit statements; noting the draft regulations pose challenges for FCA regulated providers (details provided earlier in our response) and some further clarity is also needed on a number of the prescribed data attributes with further consideration for additional information that appears to be have been omitted from the draft illustrative template and guidance.

Furthermore, all trustees of standalone occupational pension plans within scope will be required to revise their annual benefit statement templates and processes, which will require additional support and guidance from their professional advisors and administrators; within relatively short time frames.

A number of our members, who administer schemes across multiple DC products (contract based, master trust and standalone own-trust occupational pension schemes) note that they have been working on projects to voluntarily adopt the simplified statements initiative with projects spanning from 18 months plus.

Experience tells the industry that the testing processes and necessary time before new data attributes and new templates can be issued to members should not be underestimated. Annual benefit statements are regulated documents which impact every member. They include personal data and are used to influence member decisions (which cannot be reversed) and thus all possible permutations need to be thoroughly tested across multiple products.

The SPP feels 6 April 2022 will be a challenge for many providers and administrators to implement the simpler annual benefit statements effectively and successfully within the short time period. We note the industry is also currently working on multiple wider regulatory initiatives including pensions dashboards and PS20/02, whilst investing in enhancing digital customer journeys (which for some of our members, will likely need to be put on hold to allocate sufficient resources to implement the changes required to paper-based simpler annual benefit statements).

Draft regulation 3 - Transitional arrangements

We feel some clarity is also needed in respect of the 'effective date' as to whether this relates to scheme year-end dates prior to 6 April 2022 or the actual date of issuing the statements being effective from 6 April 2022.

We note that in many cases, benefit statements for the majority of members in a scheme are issued initially, and then for some members these are issued slightly later due to clarity subsequently being received on various datapoints. We also see members requesting a further copy of their annual benefit statement at a later date. Therefore with these scenarios in mind, if 'date of issue' was the driver for the effective date of change, it would result in some members receiving the existing statement (issued prior to 6 April 2022) and few members receiving a new simpler annual benefit statement (issued post 6 April 2022). This would require administrators, trustees and providers to produce two versions of the statement for the same period which feels challenging and creates inefficiencies. The SPPs preference with this regard would therefore be for the 'scheme renewal date' to effect the changes, to avoid these inconsistencies and allow a cleaner approach for members as well as providers, trustees and administrators.

Response ends

Yours faithfully

pp.

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