ignition house

Transparent Charges: The Member Perspective

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Foreword

Automatic enrolment has been hugely successful, with over 10 million more people saving for their retirement since its launch in 2012.

Continuing to build trust with savers, to encourage them to engage and save more, is critical in enabling them to have adequate savings and income in retirement.

For those saving for retirement, the Simpler Annual Statement will provide a simple and more consistent way to see and understand the money they have built up for retirement – which will be further enhanced by the Pensions Dashboard, which will ultimately bring all retirement savings together in one place.

In the research undertaken and on the launch of the Simpler Annual Statement initiative, the simple and consistent disclosure of members' costs and charges was identified as an important area for future work. At present there's no requirement for annual pension statements to show a consistent disclosure of the explicit costs and charges that individual members actually pay on contract and trust-based defined contribution savings.

Using independent research, the main aim of this initiative was to listen to members and understand the information they would like included on annual pension statements on the costs and charges they pay for administration and investment – and importantly how they would like it to be presented.

This research has been developed and completed with input from the DWP, FCA, TPR and other key industry stakeholders to make sure that the approach and methodology adopted meets key needs and expectations. The output of this research will be given to the DWP for it to then choose how to consider, use and apply it.

I would like to thank Janette Weir and Ignition House for the excellent research that has been conducted and to Stephen Budge for his support of this project (seconded from LCP) in addition to all those acknowledged below.

Acknowledgments

This report documents the findings of a research project carried out by Ignition House. This project has been sponsored by the following organisations and we would like to thank them for their valuable input and financial support.

Colleagues from DWP, FCA, TPR, PLSA, ABI, PASA, the Investment Association, our sponsoring organisations, and industry experts have contributed to the design of the interviewing materials and the research plan overall, and we thank them collectively.

We would also like to thank Leftfield and its regional recruitment specialists for meeting the challenging requirements of this project and the individuals who gave up their time to be interviewed with such goodwill and patience.

Janette Weir authored the report, with analytical support from Edward Ripley. The views expressed in this report are those of the author and not necessarily those of the project sponsors. Any errors are the responsibility of the authors.

Methodology

We used a mixed methodology for this project. Our qualitative research provided deep insights into members' views on their annual pension statement, what they did and did not understand about costs and charges, and early insights into format and wording preferences. The qualitative research was supplemented by a nationally representative online survey of 1,016 current and deferred DC members aged 22 to 65, which delivered additional robustness on the key metrics and questions on format and wording raised by the industry. All research was conducted in July 2021.

The methodology, quotas, and research instruments were subject to a rigorous approval process with feedback sought from the project sponsors, trade bodies, broad representation from the industry and the Government and regulators. We collectively thank all those who gave their time to input into this project.

Qualitative research overview

To fully explore DC members' opinions and understanding and behavioural responses to placing transparent charges information on members' annual pension statements, we conducted a comprehensive programme of qualitative research with 45 current DC members in total, which consisted of 20 one-hour online in-depth discussions and six online mini-focus groups with between three and five respondents in each group. All respondents were recruited on the basis that they were currently contributing to a workplace pension. Fieldwork was conducted by Janette Weir in June 2021.

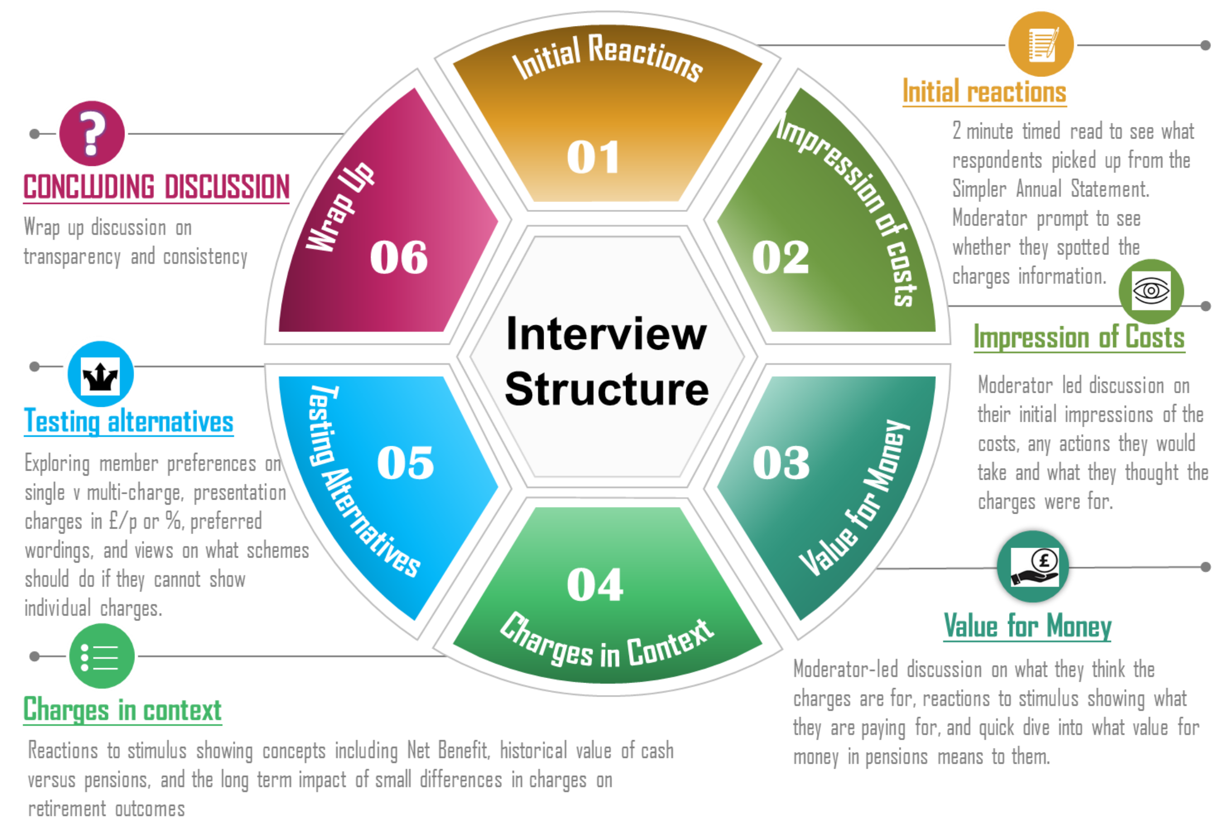
As Figure 1 details, quotas were set by age (under and over 35-years), gender, and the level of engagement with their pensions. At the request of the industry working group, a separate session was held with self-employed respondents. The rationale for this was that the self-employed are responsible for their pension provision and therefore may be more engaged with their pensions than employees. In reality, our self-employed respondents had either continued with a workplace pension when they transitioned into self-employment or delegated pensions to their accountant and so were more aligned with employees than perhaps the industry had anticipated .

Figure 1: Qualitative research quotas

			Male	Female	Total
Face to Face depths	Under 35 year olds	Very/Low engagement	2	3	5
		Moderate engagement	3	2	5
	Over 35 year olds	Very/Low engagement	3	2	5
		Moderate engagement	2	3	5
			10	**10**	**20**
Focus Groups	Under 35 year olds	Very/Low engagement	1 mixed group		**5**
		Moderate engagement	1 mixed group		**5**
	Over 35 year olds	Very/Low engagement	1 mixed group		**4**
		Moderate engagement	1 mixed group		**4**
	Mixed age group	Very/Low engagement	1 mixed group		**4**
		Self employed Moderate engagement	1 mixed group		**3**
All respondents:			**22**	**23**	**45**

Respondents in the qualitative research were not told the purpose of the discussion, other than they would be asked to comment on a “key pension communication”. The statement tested was a template proposed in 2018 as part of the industry initiative, rather than a version in the DWP consultation on simpler annual benefit statements. As such, the statement was colour-coded into sections and contains the circles containing the headline information. We used the money in/money out version as this was the member preference in the 2018 testing.

Figure 2: Qualitative research interview structure



Quantitative research overview

The qualitative research was supplemented by a nationally representative online survey of 1,016 current and deferred DC members aged 22 to 65. This 20-minute survey was designed to deliver additional robustness on the key metrics and any outstanding questions on format and wording that was not conclusively answered in the qualitative research. Additional checks were put in place to ensure that any 'speeders' or 'straight liners'[1] were excluded.

All fieldwork was conducted over a 10-day period in July 2021.

[1] Speeders are respondents who completed the survey in an impossibly quick time, who have rushed through the survey without giving each question due consideration. Straight-liners are those who repeatedly give the same answer.

Understanding current member engagement levels

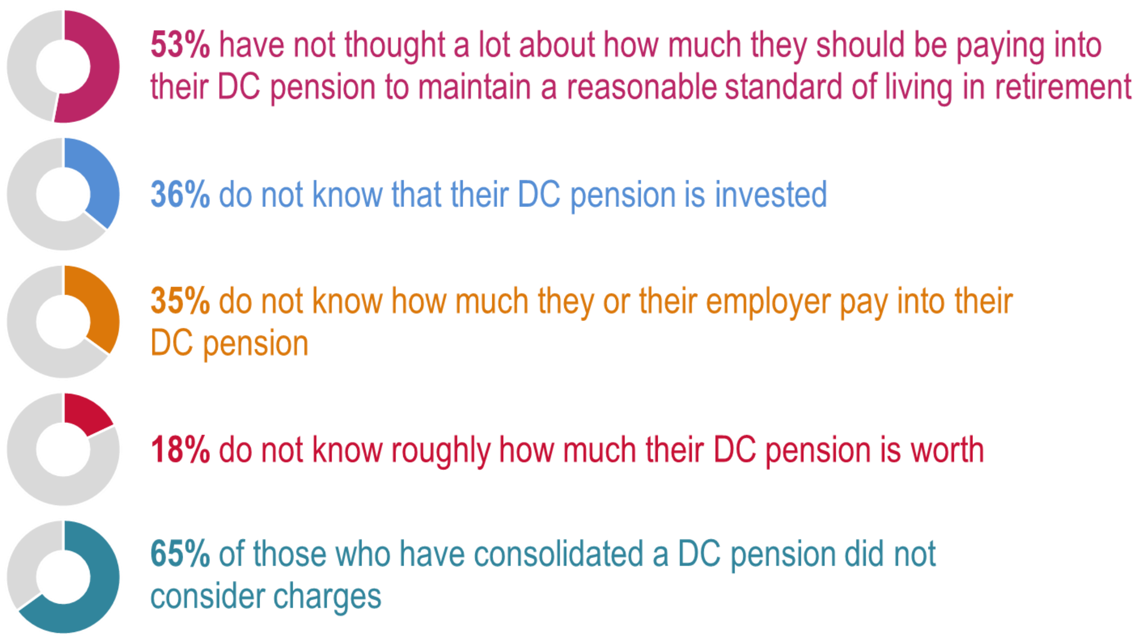
As background to the project, this chapter explores how members currently feel about their pensions and determines their levels of engagement. If they could recall receiving one, we sought to understand behaviours concerning their latest pension statement, and in particular whether they had any awareness of any charges prior to this research.

Members generally have little knowledge or understanding of pensions

Our survey data suggest that just one in five (20%) are engaged with their pension, 35% have moderate levels of engagement, and the remainder (45%) have low levels of engagement.

Figure 3 shows several key engagement metrics which demonstrate members' current lack of knowledge and understanding.

Figure 3: Member engagement metrics



Base: All DC pension members aged 22-65 (1,016)

Most respondents in our in-depth qualitative discussions said they knew very little about their workplace pension, and expressed regret that they had not been a little more engaged.

> *"I have just the one pension, which is the standard pension through my work from my current job. It's the Government one, the mandatory one. They put a percentage in and then I also put a percentage in as well. I fail with pensions, to be honest, it's all a bit of a minefield to me. So I would love to know more; especially as I'm not getting any younger. I need to think about these things a bit more seriously now. I'm a bit of a pension novice, I'm afraid."* Focus group respondent, age 35+, moderate engagement

Most members (63%) are aware that their pension is 'invested', even if our qualitative discussions revealed that they were often not sure exactly what this meant.

Engagement and interest levels increase slightly at age 40, when pensions start to become 'real', but for our qualitative respondents, this had not typically translated into any detailed understanding of how they could take their money at retirement. A couple who were over 50 had started to look into this, but most of our more engaged respondents were simply 'tracking how their pensions are doing' over time. A handful had online accounts to do this and a couple could access their pension via an App.

One in three (30%) of DC members in our survey currently had had more than one pension while a quarter (25%) said that they had previously consolidated some of their pensions. Just one-third (35%) said that costs and charges had been a factor in their decision. We observed the same pattern in our in-depth discussions. When probed, our non-advised qualitative respondents (i.e. those who do not have a financial adviser) often followed the path of least resistance and consolidated into their current pot with very little thought. It was very common in our in-depth discussions for us to hear of intentions to consolidate at some point in the future. Yet when probed on what they would base any future consolidation decision on, again charges did not usually feature.

Just 13% of members said they read and understood their statements well

The annual statement was recognised (by all of those who received one) as the key communication to help them understand their DC pension; it is often the only piece of information that they could recall having received from their provider beyond any initial welcome pack. Members consistently reported that the key information in their statement is: how much have I got, what will I get at retirement, what can I do to improve the situation.

Yet respondents (21%) could not always recall receiving an annual statement. Some of our qualitative respondents said that they only knew that they were paying into a pension as it appears on their wage slip every week or month.

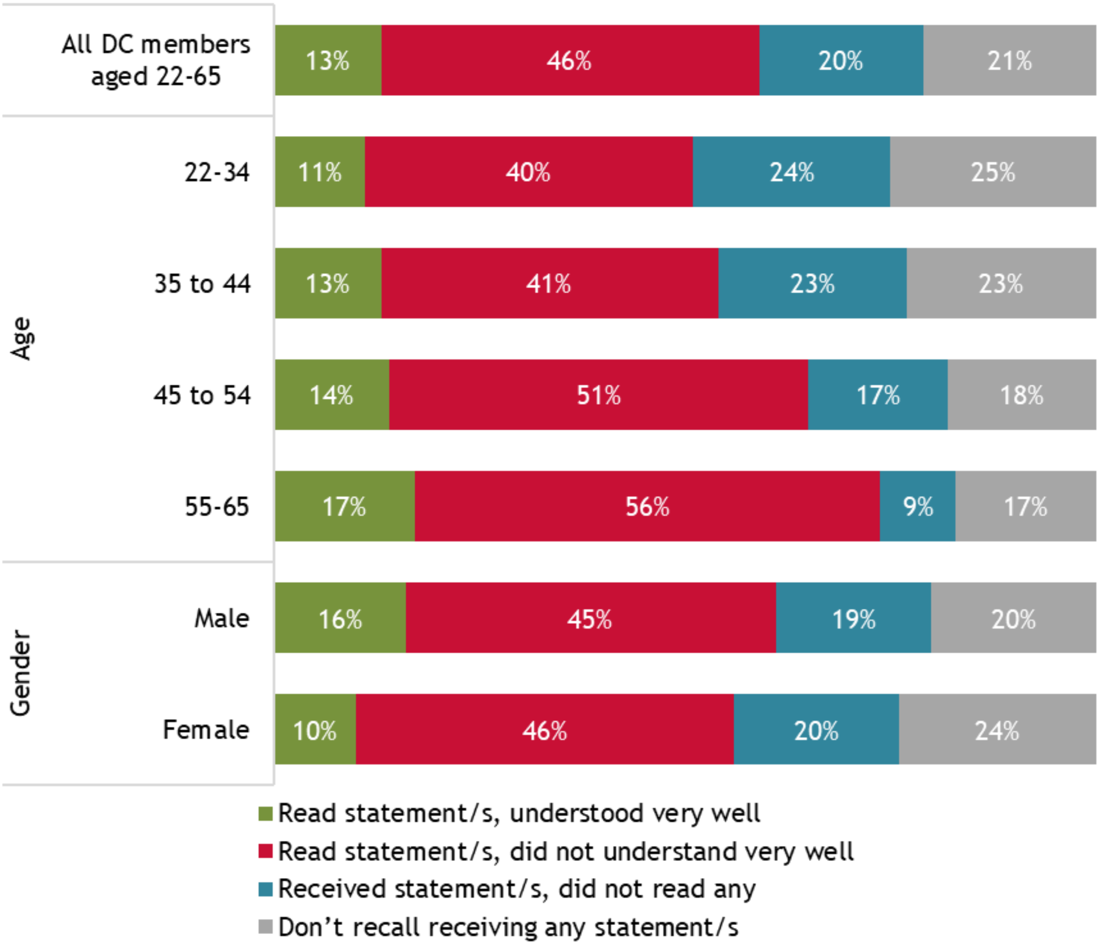
"I've actually never received any communication from my pension. We are a relatively small company, so we only really started paying properly in about a year ago. And I know I only noticed it because it popped up on my pay slips at the end of the month. So I know what company it goes through, and I know that it's happening, but I've never actually checked out myself." Focus group respondent, age 22-35, moderate engagement

In our in-depth discussions, those who could recall receiving a statement tended to receive a paper version or were actively logging on to a provider portal regularly. Those who could **not** recall receiving a statement were often members of digital-only/digital-first providers. Our survey shows that 63% of members who could recall receiving a statement from their DC pension provider in the last 12 months said that the statement came by post (or hardcopy).

In 2018, we conducted a similar programme of research to assess member reactions to the Simpler Annual Statement where we surveyed 1,000 members to see whether they could recall receiving a statement and, if they did, to what extent they understood its content. At that time, 76%, of those *who read their statements* said they didn't understand it well, equating to 14% of *all* DC members We repeated this question in this survey to see whether things had improved.

In line with the 2018 findings, Figure 4 shows that just 23% of those who had read a statement said that they had understood it well. Overall, this means that 13% of all DC members both read and understood their statement well, again no change since 2018. This is not particularly surprising, as some of those in our in-depth discussions still described their current statement as a 'booklet' which they skim read, or simply glance at and file away.

Figure 4: Member's current behaviour with regards to annual statements



Base: All DC pension members aged 22-65 (1,016)
Question: Q5. Do you recall receiving an annual statement from your defined contribution pension provider/s in the last 12 months? Q5a. And generally, how well do you understand the information in your pension statement/s?

Areas of the statement of most interest to members

This section draws together findings from both the qualitative and quantitative elements of the research to provide an overview of members' initial impressions of the first page of the Simpler Annual Statement. This exercise was primarily designed to identify areas of the statement which caught members' attention, and in particular to assess to what extent they focused in on the costs and charges shown. That said, members also gave their reactions to what they were seeing, and we have reported this to provide background context.

Our qualitative respondents were shown the first page of the Simpler Annual Statement and given 2 minutes to read the information. Statements were rotated so that some saw an investment gain; some saw a loss. Some saw the single charge; some saw a total with a breakdown. In reality, respondents took less than a minute to read this page.

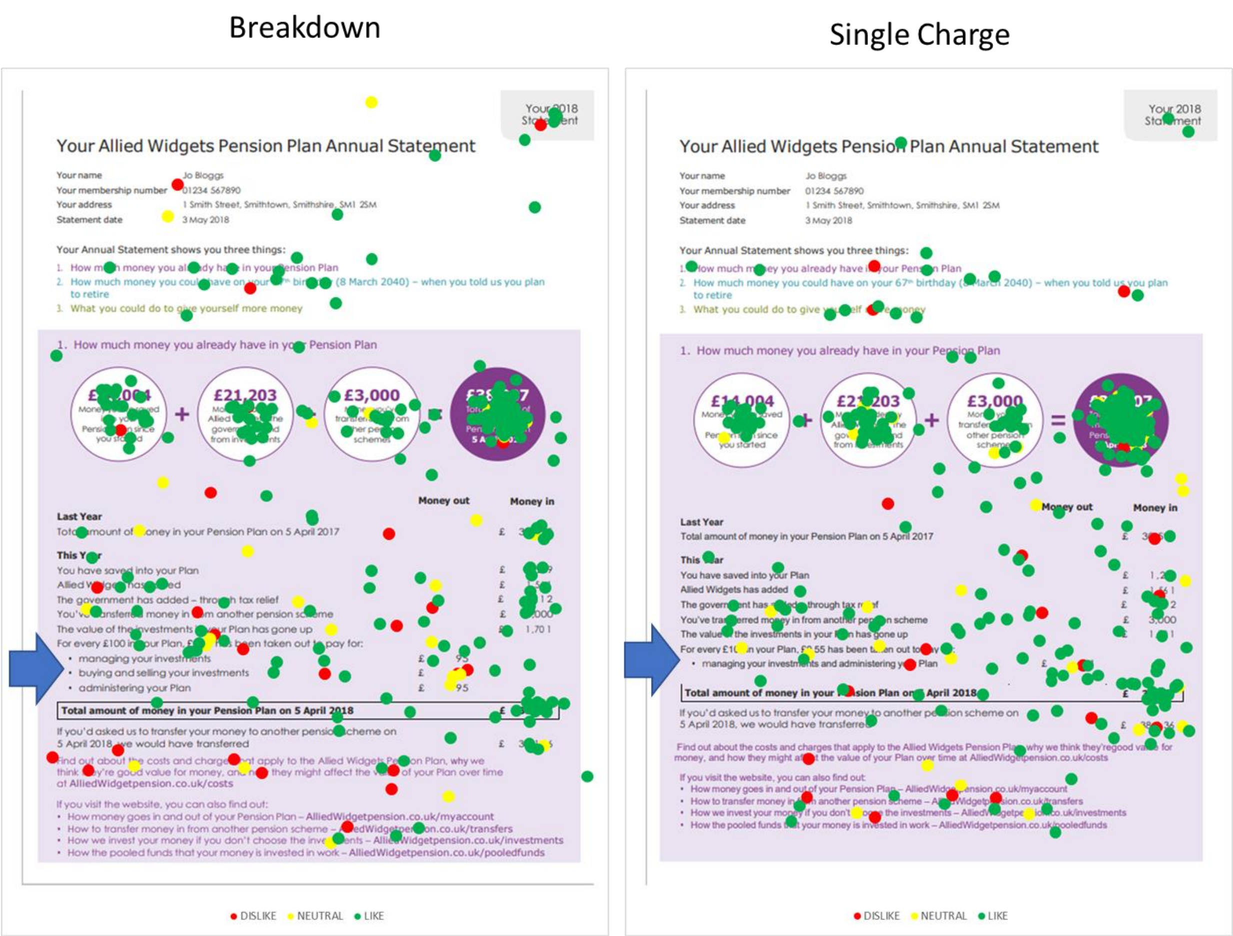
Our survey respondents were shown a version of the statement (again, versions were rotated) and were asked to click on the areas which caught their attention, to say whether they had a positive or negative reaction to that information, and to provide a comment.

Feedback was overwhelmingly positive and mirrored what we heard from members in 2018

In our survey, we used a 'heatmap' exercise to understand what members are drawn to when they initially see the statement. Respondents were asked to look carefully at the statement and identify which areas were of interest to them by clicking on that part of the statement. A box would then open for them to say whether they had a positive, negative, or neutral reaction to the information they were seeing, and to leave a comment if they wished. Each click is represented in Figure 5 by a circle. The circles are colour-coded to reflect whether they had a positive, negative, or neutral view of that piece of information. Areas on the statement where there are numerous circles, therefore, show where members had the most interest. If these are green, then the feedback was positive.

Statements were rotated so that half of our respondents saw a single charge and half saw a total with a breakdown of the charge into three components; managing investments, buying and selling investments and administration. The single charge is the 'heatmap' on the right in Figure 5, the breakdown is on the left.

Figure 5: 'Heatmap' indicating areas of most interest to members



Base: All DC pension members aged 22-65 (1,016)
Question: Please read the example annual pension statement and click on any information in the purple box that catches your eye. For each click, a box will appear. You can then select whether you had a positive or negative reaction to seeing this information and enter any comments you have. When you have finished clicking the tick button. You can select as many parts of statement as you like.

From Figure 5 we can see that by far the greatest area of interest is the circles showing 'How much money is in your pension plan', as these are the "figures that matter". Survey respondents commented that this statement was clear, easy to understand, and liked the "big bold colours". The money in/out layout also appealed and received comments such as "everything is clearly itemised and easy to understand".

In line with the findings from our 2018 research, our qualitative respondents also liked the format of the first page of the Simpler Annual Statement and felt that the layout was an improvement on what they currently received. They felt that the document was very visual, with not too many words, which was very appealing.

> *"I do like the fact that the facts are all there because sometimes when you do get the bigger booklets, there's something on one page or something, another page. But I do like that. It's quite easy to read that. It's just saying how much you've put in how much the company has put in. I've never noticed this bit about the government has added through tax relief. I've never noticed that part on a statement. Maybe I've not looked at it in detail."* Depth respondent, age 22-35, moderate engagement

> *"It's a lot clearer than my book. I like to be able to see all the figures at the top, like that money that they've paid and you've paid in. And then the total figure. Also, I hadn't noticed the government tax relief. I've never seen that before in my pensions. It just all seems a lot clearer."* Focus group respondent, age 35 and over, low engagement.

Again, our qualitative respondents were drawn to the three circles which they felt gave them the headline information. We heard positive feedback on the 'money in/money out' format which was likened to their bank statements. They liked the colour coding of the three sections as a signposting mechanism.

> *"My eyes were immediately drawn to the bubbles and the simple breakdowns."* Focus group respondent, age 35+, low engagement.

> *"The way that's laid out, that's foolproof. Everything's there."* Focus group respondent, age 35+, low engagement.

Members were drawn less to the information on charges than their savings value

Looking specifically at the costs and charges line on the heatmap, indicated by the blue arrows in Figure 5, we can see there are significantly fewer circles representing far fewer respondents who felt this was of less interest to them. In total, across both statements, just 49 of the 1,016 respondents marked this as an area of significant interest, with 31 respondents posting positive views, 11 posting neutral views, and just 7 posting negative views, typically where they remarked on the level of charges, rather than the fact charges had been levied.

When asked if anything surprising had caught their eye in the in-depth discussions, our qualitative respondents were more likely to talk about the tax relief or the fact they could transfer money in or out of their pension, as opposed to the charges. Around half said that they had noticed the charge; the rest had not particularly focused on it. When probed to say why this was, respondents generally said they were simply more interested in other aspects of the statement - such as the overall amount in the pot - or they thought that the amount they saw seemed reasonable, so they skimmed over it.

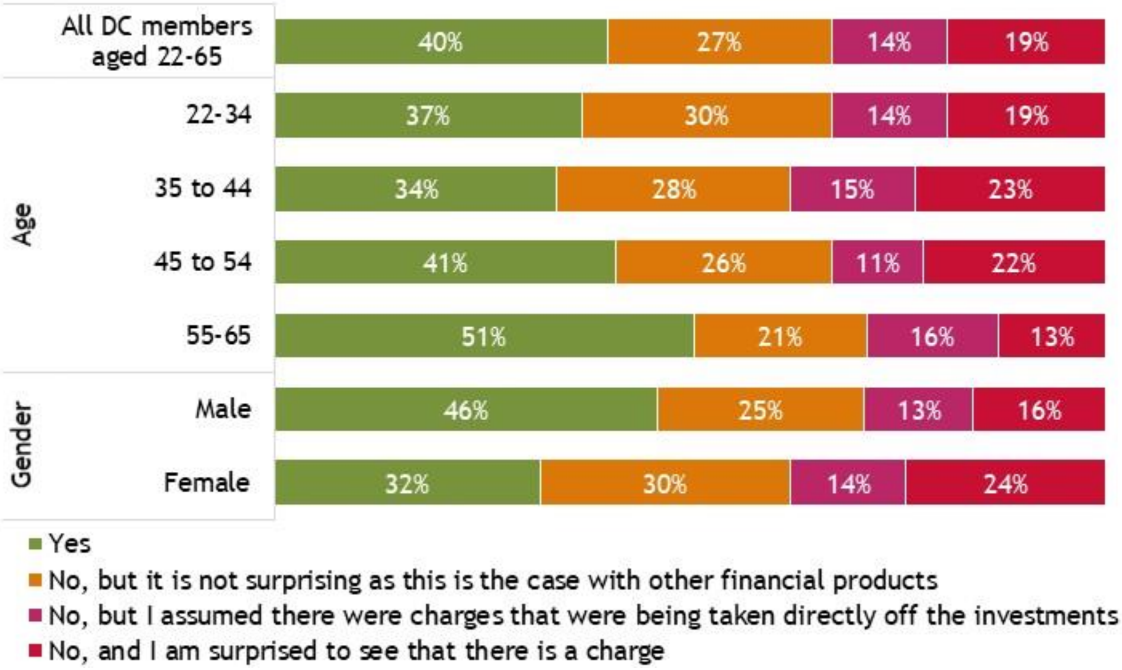
> *"If this was me, I would actually have saved more through tax relief than I would have spent on costs for it. So that probably wouldn't bother me too much, to be honest."* Depth respondent, age 22-35, low engagement

> *"I saw it, but because I was reading the more positive thing above it that said the value of the investments in your plan has gone up, I skimmed past that. I always kind of assumed that this was being paid for somewhere, but I had no idea how or why. To me, 55 pence out of a hundred, it's quite reasonable as a charge."* Depth respondent, age 35+, moderate engagement

The majority of members were not aware they were paying charges but were not particularly surprised to see them

We tested whether members were already aware of charges in our survey and whether it was a surprise to see them. The results shown in Figure 6 suggest that six in ten members (60%) were not aware that they were paying any charges for their pension. Awareness appears to increase with age.

Figure 6: Member awareness of charges



Base: All DC pension members aged 22-65 (1,016)
Question: Q7. Before now, did you know that you were paying a charge for your pension?

Given a moment or two to reflect on seeing charges explicitly shown on a statement for the first time, most of our qualitative respondents said that it was not surprising to see charges on their statement referring to transparent charges on other financial products such as mortgages and credit cards, and saying that nothing in life is free. These findings are supported by our survey data, where almost half (45%) of those who were not aware of any charges were not at all surprised to see them.

> *"They're charging you for the fact that they're investing your money. So they're trying to make a return for you on the money. And I guess that's one of the challenges. So they're managing it, they're keeping it safe. They're charging for the fact that they're sending you statements that they're dealing with your queries. I don't know what else, but I mean, there's going to be lots and lots of fees in the same way as a bank might well charge you a fee or any organization might charge you a fee. They're doing things for you at the end of the day, it's a service."* Focus group respondent, age 35+, moderate engagement

Furthermore, almost a quarter (23%) of those who were unaware of charges had assumed that some charges were being taken directly off the investments. Again, this was reflected by a small minority in our depth discussions.

> *"I think it's just the fact that it's written down, that it makes you think. I guess they've got to get money somehow. I just assumed it would be*

somewhere where they'd invested the money, they would have made a cut there." Focus group respondent, age 35+, moderate engagement

This data suggests that industry concerns about the unintended consequences of showing charges on statements may be somewhat overstated, as just one in five (19%) seemed genuinely surprised to see a charge for their pension and the rest intuitively knew that this would be the case.

Industry concerns that transparent charges on statements might lead to higher opt-out rates seem unfounded

For many, even amongst those who had previously thought that charges might be levied, this was probably the first time that they had seen an actual pounds and pence figure on a statement, and so we wanted to get some idea of what actions they might take - if any.

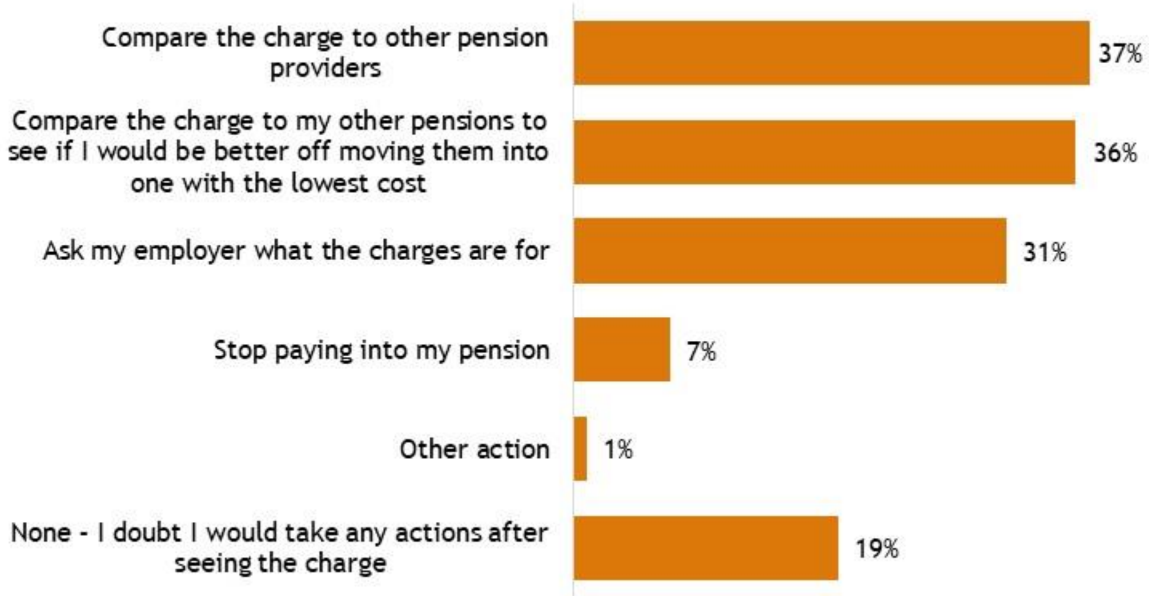
Figure 7 shows that, initially, 7% of members in our survey said they might consider stopping contributions into their pension. When explicitly told that their employer would no longer pay any contributions if they did this, this proportion dropped further to 5%.

At first glance, this number does look somewhat concerning, as even small percentages such as these could result in worse retirement outcomes for millions of members if intentions were to turn into actions. However, looking deeper at the 49 members in our survey who said they might stop paying into their pension suggests that the situation is not quite as clear cut as Figure 7 suggests. As you will see below, this 5% of members will then consider a number of other aspects before making a final decision – as value matters to them. This will be an important message for providers to give to members to avoid any unintended consequences.

Firstly, over half (57%) of these 49 respondents reported earlier in the survey that they already know that they are paying a charge, and yet this awareness had not triggered any action.

Secondly, just 4 respondents (equating to a tiny 0.4% of **all members**) would take this action alone. The remaining 45 would *also* want to understand how these charges compared to the market, or understand what the charges are for. This presents an opportunity for the industry to help members understand what they are getting for their money, and what they will lose out on if they cease contributions into their workplace pension.

Figure 7: Member actions as a result of seeing charges on their statements



Base: All DC pension members aged 22-65 (1,016)
Question: Q11. If you were shown how much you pay for your pension on your annual statement, would you take any of the following actions as a result; or is it likely you would take no actions?

Thirdly, there is a big difference in stated intentions in a survey and actions. But, to be on the safe side, providers will need to be alert to this small possibility and have effective communications in place for any potential opt-outs. Value for members, in particular, needs to be communicated more effectively.

We see from our data that the respondents who said they might stop paying into their pension are a mix of those with low, moderate, and high levels of engagement. Based on our qualitative discussions we feel that that the reasons for wanting to stop contributing might be different across these segments and therefore different messaging by providers might be needed to counteract this knee-jerk reaction. Those with low to moderate engagement are more likely to compare pensions with their savings accounts, where there are no explicit charges. They will need help to understand the value of pensions versus cash savings, and importantly the loss of the employer's contribution and the tax relief. Those with higher levels of engagement are more likely to take the view that the charges shown are too high, and may need help to understand what they are paying for.

On a positive note, Figure 7 also suggests that seeing costs on their statements might, in fact, inspire some members to have more engagement with their pensions. For example, around a third of those currently with low or moderate engagement levels would want to compare the charges to other pension providers. Similar numbers might ask their employer what the charges are for.

We were very heartened to see that none of our qualitative respondents said that they would be better off taking their money out of their pension and putting it in cash. Some compared the charge to the tax relief and were pleased that the government was paying for it. Some compared the charge to the money their employer was paying in, and could see the value of a pension over other investments. Across the groups and the in-depth discussions, a handful of members compared the charge to their annual contribution and felt that it was a very high percentage (although their calculation was not always correct).

> *"I feel like more than 50% of what I was being put in doesn't even come from out of my pocket anyway, comes out of my employers. So in my brain, I'm not even paying that charge really."* Depth respondent, age 35+, moderate engagement

The vast majority of respondents in our depth discussions did not consider stopping their contributions - either because they recognised the importance of having a pension, or thought it was "compulsory" to pay into a pension. A couple initially suggested that they might want to look for a cheaper pension themselves, but when they found out that they would lose out on their employer contributions, they quickly dismissed this idea.

Members who saw an investment loss were more likely to initially question the charge – but most understood that the company would incur costs when markets go down. In reality, they said that they were unlikely to take any action unless the fund fell persistently over several years.

> *"I'm thinking of the charge separately to the loss. I'd be more upset about the loss than I would be about the charge because the charge, well it is what it is. The logical part of my brain would say I plan on continuing to pay into my pension. So you'd hope that over the next 20 years that would maybe even itself out a little bit and, hopefully, we'd have a more successful year at another time that might help make up that deficit."* Depth respondent, age 35+, moderate engagement

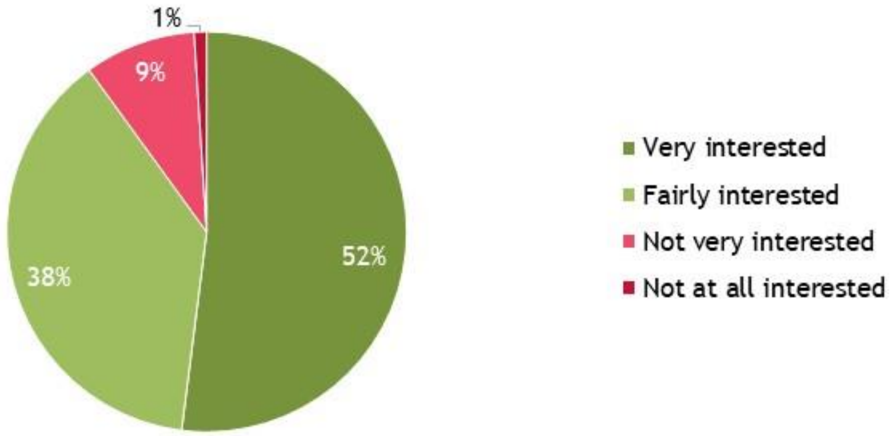
The charges presented on the statement were around £200. At this level, members felt that they would not pay too much attention to this. However, if charges were more than £500 then they might start to take more notice.

> *"When you compare that versus when it's laid out, like in this format, the money in and the money out, it's such a tiny, tiny percentage. And for me, if I was managing my own pension, I wouldn't know where to start and how to invest it or anything like that. So it looks like a really small and reasonable price to pay, to have somebody else take care of this for you."* Depth respondent, age 22-35, moderate engagement

Once they are aware that there are charges, members are very keen on transparency and consistency

Our survey data paints a pretty compelling picture. Once members are aware that there are charges, only 1% are **not at all interested** in seeing these on their statements. A whopping 86% of those currently with low levels of engagement expressed interest, and 44% of this group said they were very interested.

Figure 8: Levels of member interest in charges



Base: All DC pension members aged 22-65 (1,016)
Question: Q8. How interested are you in seeing the charges you pay on your statement?

Once our qualitative respondents became aware that there are charges on their pension, they questioned why this had never been made clear to them before, and contrasted this situation with their other financial products – such as bank accounts, mortgages, and credit cards - where they believe disclosure regulations are already in place.

> *"I think transparency is important. I think whoever's got a pension we want to know exactly what we are paying. Especially as my money at the moment, it's not easily come by, is it? And we want every penny to count."* Depth respondent, age 35+, low engagement

Respondents were very supportive of the initiative and frequently suggested that increased transparency would lead to more trust in the sector. They strongly supported the joint aims of simplicity, consistency, and transparency and felt this would help them make more informed decisions. In our survey, 96% of members felt it was important for all pension providers to present the charges in a consistent and simple way.

> *"You know, no one's expecting something from nothing. You don't expect to do work and not get paid. Somebody has decided to take the money,*

spend time investing people's pension money. Of course, that's going to cost. But just tell us what it's going to cost. And then it's freedom of choice. If I want to pay 1.5% or if I want to pay 0.5%, that's up to me." Depth respondent, age 35+, low engagement

"Today I was shocked because I didn't know that we pay charges for a pension. And as much as I clearly have not done enough research as I should have done on my pension, I don't feel I'm alone. So at which point you'd be a bit, hang on a minute, it's sort of been back-doored in there. It probably was somewhere in between all the jargon, but I think it needs to be more transparent. At the end of the day, people should know what they're paying. And see if there are any alternatives to that because you get loads of people asking you to switch your pension to them." Depth respondent, age 35+, low engagement

Making sense of the charges

In this section, we explore member perceptions of what the charges are for and briefly cover what members perceive value for money to be when thinking about their pension. We look at their reactions to stimulus to help them understand the charges in context, and in particular whether the concept of 'Net Benefit'- a standardised approach used in the Australian market to enable members to compare the net performance of schemes over time - resonates.

Members are often unsure of the basis of the charge

Members in the in-depth discussions were unsure, from what they had seen on the statement, whether the charge was a flat rate or a percentage. This was very much reflected in our survey results, where 58% thought it was a flat rate and 42% thought it was a percentage. Just 10% of all members were sure that the charge was based on a percentage.

This strongly suggests that many members may be unable to recognise that 55p in £100 or £5.50 in every £1,000 is a percentage. Providers will need to bear this -in mind when considering the content of any communication programmes.

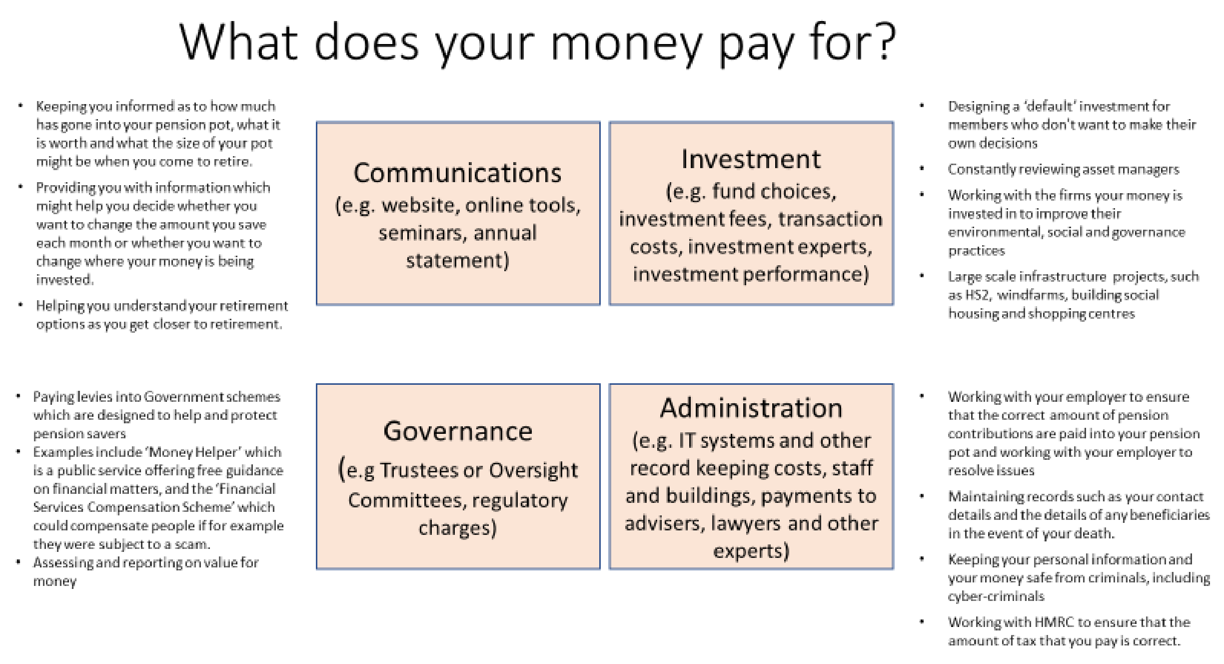
Members had a good idea of what the charges were for - but were pleasantly surprised to see just what they are getting for their money

When asked in the depth discussions to say what they thought the charges were for, or to describe it to their friends, most of our qualitative respondents called it a "management fee" or an "administration fee" and recognised that it covered both administration and investment costs.

> *"That's for a whole year's management of your fund, isn't it? So it's moving the money around as the market's changing. I would've thought a pension pot is split across an awful lot of different items. And there'll be a point at which that the pension provider will have to do some sort of management of that money. If you're investing in 2000 different products on behalf of a hundred thousand different people, you have management that has to cover that. And I know the banks will be covering a lot of risks so I'd hope that that the cost covers an element of insurance, as well as just the admin of the money."* Depth respondent, age 22-35, moderate engagement

The stimulus 'What does your money pay for?' (Figure 9) resonated well in both the qualitative and quantitative elements of the research. Qualitative respondents were pleasantly surprised to see what is going on behind the scenes and most felt that this would help to place charges into context. Overall, 92% of members in our survey said they would find this type of information useful.

Figure 9: Stimulus to show what their money pays for



At times in the depth discussions, seeing this stimulus prompted members to question what percentage of the charge was for-profit. They were surprised to learn that some pension providers - sometimes even their own provider - were not-for-profit organisations. They felt this was very important information to know and would cast the information on charges in a more positive light.

Some of the industry group which helped to shape our research requested that we challenge members to think about whether this sort of breakdown was necessary when, for example, shops do not feel the need to tell customers about their staff costs, building costs, distribution costs, and so on when showing them the price of a tin of beans.

Members understood the push-back but said that it was a completely different situation and that they were keen to understand more. Buying a can of beans is something they are familiar with, one can is the same as the next, the purchase happens every day, and they can immediately see what they are getting for the price. A pension is long-term, it is not a fixed price, and it is not clear what you get for the costs and charges until the end (i.e. what is in the savings pot).

> *"So the levels of importance are so different. A tin of beans to me, I don't really mind where it comes from or what the cost breakdown is. But for your future and going into retirement and older age, and now you have all these dreams of traveling and spending time with family and being able to afford all these things is it's really important that your money is in a safe place."* Depth respondent, age 35+, moderate engagement

Members mistakenly believe that all schemes charge roughly the same and that their employers continuously monitor their provider for value for money

Respondents were well aware that their employers had arranged their workplace scheme and firmly believed that their employer would have shopped around for the best deal at the time. This was felt particularly strongly amongst those working in larger companies. However, six in ten (58%) members were under the impression that their employer is continuously monitoring the situation to ensure that any charges are competitive, and a further 26% are unsure whether this happens or not.

That said, members generally felt that charges would be similar across providers, reflecting a competitive market. It was common to hear in our depth discussions that newer or lesser-known brands would be cheaper, as they would need to be more competitively priced to attract business. Our survey data supports this misperception – here just one in five (20%) *disagreed* with the statement "All pension providers charge roughly the same".

Yet when asked what action they would take on seeing charges (see Figure 7), 73% of members said that they would want to compare charges. Members in our depth discussions were often under the impression that – if they really wanted to - they could Google and find online comparison sites for pensions. They were disappointed to find out that this was not currently the case. As such, they felt they had no frame of reference to say whether their scheme was offering good value or not.

Members want an easy way to benchmark one scheme against another to measure the value they get for the charges they pay

In the qualitative research we therefore tested member reactions to some simple benchmarking metrics. We tested whether some form of red/amber/green visual on their statement which identified whether their charges were lower than average/average/above average, or whether an icon to indicate that their scheme was below the charge cap, would be helpful. None were aware of the charge cap and this took some explanation by the moderator.

The majority felt that both indicators would be useful and that seeing this sort of information would help them to think twice about transferring from a lower cost to a higher cost scheme.

That said, a small number reflected that they had no control over the costs and value as the scheme was set up by their employer, so if they saw a red marker they would feel bad but have no power to do anything about it. That might affect their willingness to pay additional monies into their pension, over and above their current contributions. Others would want to ask questions to HR or their employer to see what the 'extra' money was for. Generally, they understood that there may well be good reasons why schemes might want to charge more – for example, for better fund choice, different types of investments, higher expected outcomes or better communications.

However, we need to make sure that pension products are not solely assessed on their cost. To understand whether members would make this simplistic judgment, we spent a little time exploring what members understood by 'value', and whether metrics that compare the cost to expected member outcomes might be more appropriate.

Value to members means 'what you get back', rather than cost alone

When asked whether cheapest is best, in their daily lives none felt that this was the case. They talked about 'quality' and it was common to hear the phrase "buy cheap, pay twice". In our survey, just one in five (22%) members agreed that 'cheapest is best' when it comes to pension charges.

We are aware that value for money is a hot topic for the industry and regulators at the moment, and so although this was not the main focus of this research project, we asked members to think about what 'value for money' or 'quality' means in the pensions context. Members did struggle a little to articulate this. However, there were a number of common themes which are shown in Figure 10. We were unable to explore this area in any further detail, due to time constraints.

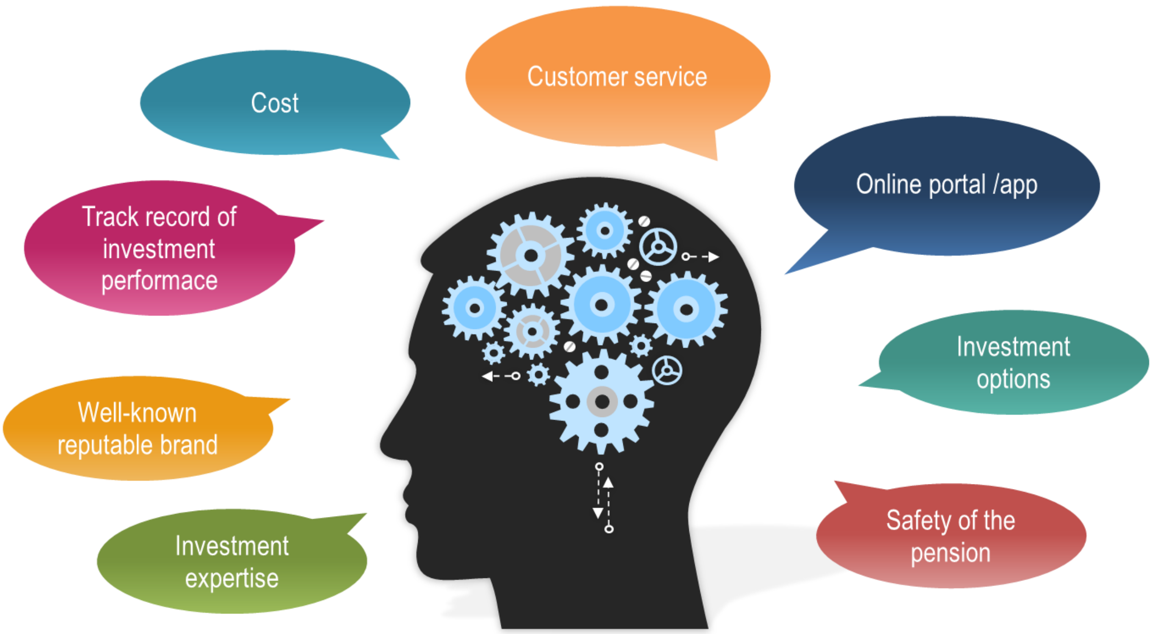
Unprompted, 16 of our 20 depth respondents and at least one person in every mini-group mentioned that amount of money they get out at the end (i.e. their outcome) is a key determinant of value for money, and is a more important factor than cost alone.

> *"I would be less worried about the cost and I'd be more worried about what you get back. That is your retirement money for the rest of your life and is actually really super important. So I would actually not care as much about the cost more about what you are getting out of it."* Depth respondent, 22-35, low engagement

> *"Sometimes you do get more for your money if it's invested in better things. But you'd need to really see a difference in their payouts to other*

companies to pay more. If someone was saying, I'll charge you a hundred pounds a year where this company is saying £211 then show me why you're worth the £211, why your investments are any better than this company that's charging a hundred. Or you'd go with the hundred company, wouldn't you? So at the end of the day, it's based on proof."
Depth respondent, 35+, low engagement

Figure 10: Members' perception of value for money



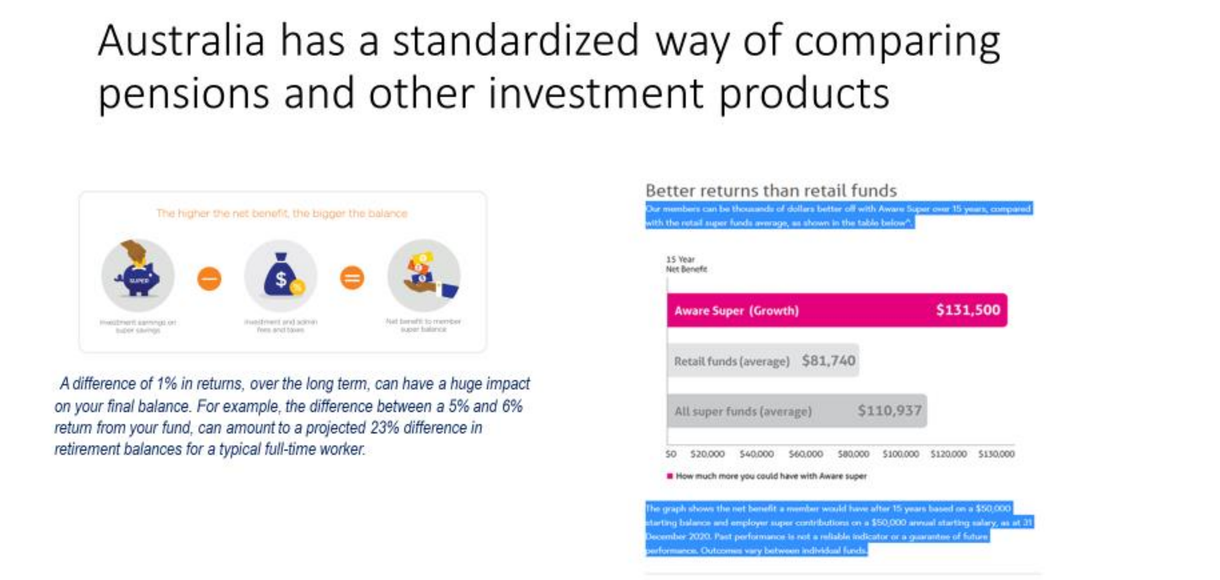
Nine in ten members agreed that cost alone is not that important, and the concept of Net Benefit resonated well

Our survey data confirms that members are generally aware that cost alone does not represent the full picture, with just one in ten (12%) members disagreeing with the statement, "The cost alone is not that important as a higher charge might result in a better investment return". This is an encouraging finding and again indicates that, intuitively, many members are looking not just at charges alone, but also at expected outcomes.

Not surprisingly then, when shown stimulus showing the concept of Net Benefit and how it can be used to help members (see Figure 11), this resonated well with members, albeit that the concept took some time for the moderator to explain. Respondents were told that 'Net Benefit' uses a standardised approach to calculate investment returns over a set period of time, say 10 or 15 years. The total charge of running the pension over this time are deducted and the new figure is the 'Net

Benefit'. Because it is a standardised approach, this figure can be used to compare their scheme's performance against the market as a whole, or to compare one provider against another.

Figure 11: Stimulus to introduce the concept of Net Benefit



Members will need help to understand that small percentage differences can make a big difference to long term outcomes

Members often admitted that they perceived little difference between 0.5%, 1% and 1.5% - and so were very shocked to see examples of the impact of different charges on the amount of money for retirement.

Figure 12: Example stimulus to illustrate the impact of charges over time

Impact of charges based on £100 per month contributions (you, your employer and tax relief) from age 25 to 50

	Annual Charge is 0.5%	Annual Charge is 1%	Annual Charge is 1.5%
Pot Without Charges at Age 68 Of which: Your Contributions Investment Growth	£399,500 £20,000 £349,500	£399,500 £20,000 £349,500	£399,500 £20,000 £349,500
Pension Pot With Charges	£339,700	£289,000	£246,000
Difference in £:	£59,800	£110,500	£153,500
How much lower is the value of the pension due to charges?	15%	28%	39%

They felt that the type of information shown in Figure 12 would certainly make them pay more attention to charges, think carefully about moving money from one scheme to another, and ask questions about what they were getting for the extra charge. Reassuringly, they would seek to understand whether the higher charge was resulting in better performance over time, once again demonstrating members' interest in value for money, rather than costs alone.

> *"It's crazy. Obviously, it depends on your own individual circumstances but even with such a small percentage difference, you can really be a lot better off or worse off in the long run."* Depth respondent, age 35+, moderate engagement

> *"That's such a big difference. It's massive in just 0.5 of a percent. That should be one of the biggest things shown in statements or annual statements or when you're looking at comparison websites. That should be mentioned somehow. If they can explain that in some way that'd be massive."* Depth respondent, age 22-35, low engagement

Members were also shown stimulus to demonstrate the impact of the same percentage charges on different pot sizes. Members generally felt that there was more 'investment work' looking after the larger pots, and so this differential was fair enough. However, they did start to question what additional administrative work a larger pot generated, and perhaps felt that a capped fee would be the most appropriate.

Messages about the long-term value of pensions over cash savings are very powerful

We showed members a graph to illustrate how the value of £10,000 in a pension had grown over the last 10 years compared to the same amount in cash savings. This type of 'cash versus pension' information was universally liked, and something they had not seen before. Members thought this would be a particularly useful and reassuring message to give, if transparent costs were introduced onto statements at the same time as an investment loss had occurred.

Some were surprised to see the impact of investment growth over 10 years, and it made them think about paying more into their pension.

> *"Hang on a minute, why am I paying into an ISA? And that's only my contribution. That's not even when it's taken into account what my employer puts in as well. To me, that's huge. I'm absolutely shocked. I think it makes me think about putting more of a contribution in."* Depth respondent, age 35+, low engagement

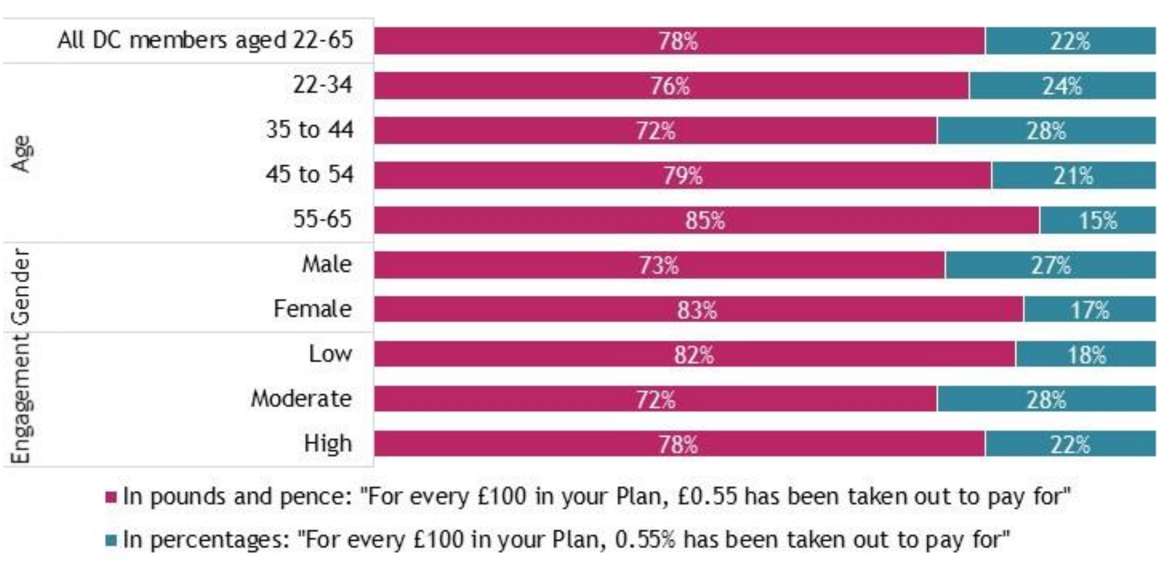
Member preferences

In this section, we consider different ways of presenting charging information and ask members for their preferences.

Members overwhelmingly wanted to see charges in pounds and pence

Nearly eight in ten (78%) of members prefer charges to be shown in pounds and pence, rather than a percentage. Women are particularly keen for this to happen. Perhaps surprisingly, there was no material difference between those with low and high engagement levels. The minority who currently read their statements and understand them well were a little more likely to want to see a percentage, but even here six in ten (61%) would still prefer to see a pounds and pence figure.

Figure 13: Member preference: £ and p versus percentages



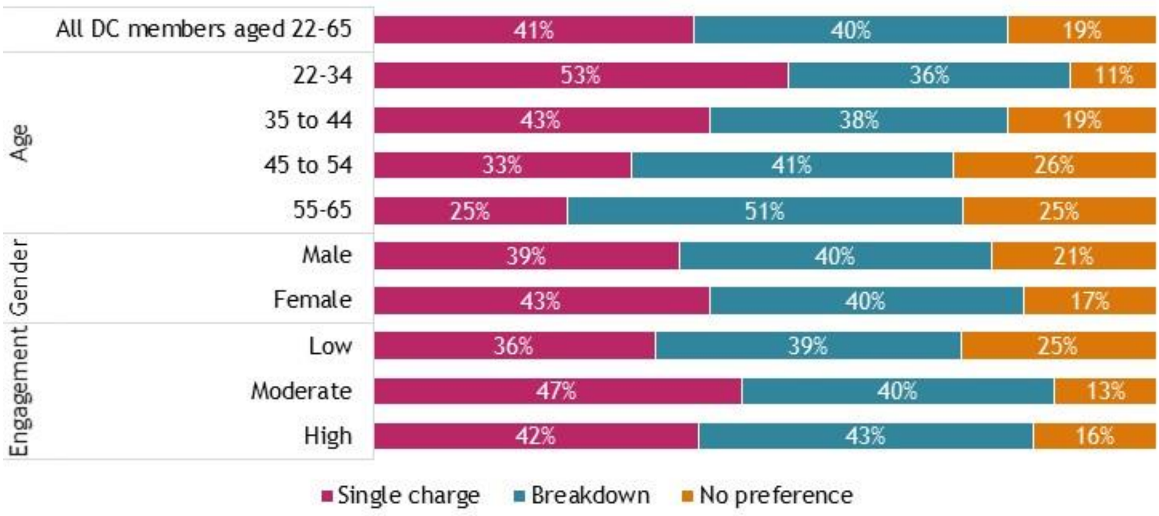
Base: All DC pension members aged 22-65 (1,016)
Question: Q18. Instead of showing charges in pounds and pence, we could give the figures as a percentage. Which of the following two options do you prefer?

Given time to think, members had a strong preference for a breakdown rather than a single charge

When asked to give their response to this question in our survey, Figure 14 suggests that there is very little difference in members' preference for a single charge or a breakdown, and so this data alone can give no definitive steer to the industry on which is the better way to show charges to members.

However, we can see that the preference for a breakdown increases with age. Of those who expressed a preference, two thirds (67%) of those aged 55-65 and 55% of those aged 45-54 would like to see a breakdown. This compares to just 40% of those aged 22-34.

Figure 14: Member preference: single charge or breakdown



Base: All DC pension members aged 22-65 (1,016)
Question: Q15. There are two ways in which we could show you your charge. Which do you prefer, the single charge or the breakdown?

Members in the qualitative research, who had some time to reflect on the charges they were seeing, said that they much preferred the breakdown of charges to the single charge. The rationale given for this twofold. First, the breakdown gives them a better sense of what their money is paying for and seems better value for money. Second, the three buckets chime well with what they intuitively think charges are for, or enables them to transparently see some areas of value that wouldn't occur to them spontaneously, thereby giving greater justification for the overall charge. Beyond this, some members anchored onto the smaller sums. The breakdown looks "smaller" and "better value" than the single charge - as the largest figure is £95 rather than £211. This behavior was consistently observed, even though the breakdown is totaled up to the larger number.

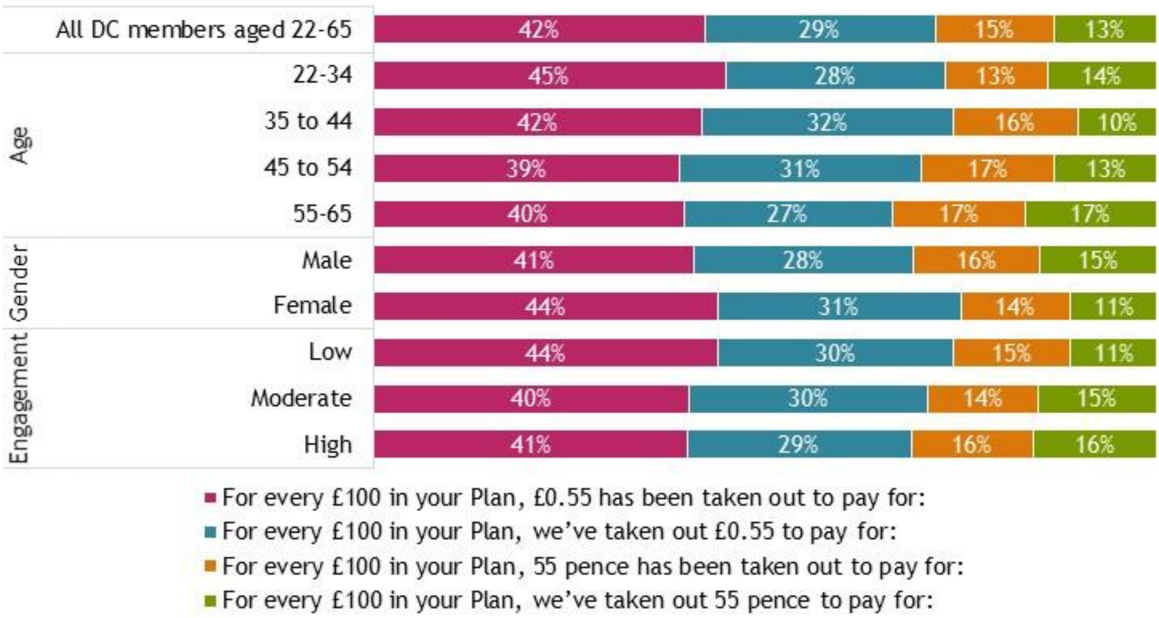
This finding seems to fit with a behavioural concept known as 'Support Theory", whereby people form different judgments depending on how much granular detail something is explained in.

If a breakdown is shown, on balance, members would want to see the investment charges split - 58% of members in our survey said what they would like to see transaction costs broken out from management charge. However, when we told our qualitative respondents that, in reality, providers might struggle to break out the investment charges into two separate items, they took a more pragmatic view and were happy to see a combined figure. This suggests to us that there is some flexibility here.

Members preferred to see amounts presented as numbers rather than words

Members' views were much clearer on the wordings used on the statement. On balance, Figure 15 shows that our survey respondents preferred "*For every £100 in your Plan, £0.55 has been taken out to pay for*:" of the four options tested.

Figure 15: Member preference: 4 wording options



Base: All DC pension members aged 22-65 (1,016)
Question: Q16. Thinking again about the line in the statement which tells you how much you have been charged for your pension…which of the following four ways of writing do you prefer?

In total, 71% (42% + 29%) preferred to see '£0.55' versus '55 pence'. This chimes well with the findings from our depth discissions where members felt that using 55 pence – especially contrasted against the earlier '£100' rather than 100 pounds - was not the natural way they would write charges, and therefore felt that '£0.55' was the better approach.

When asked to say whether they liked the words “has been taken” or “we’ve” taken, 57% (42%+ 15%) of our survey respondents preferred the more passive wording. Again, this matched with our qualitative findings, where members reported that they found the words “we’ve taken” to be too aggressive.

Expressing the charges in £100s makes it easier for members to digest

Figure 16 strongly suggests that members want to see charges expressed in £100 rather than £1,000.

Figure 16: Member preference: figures in £100 or £1,000

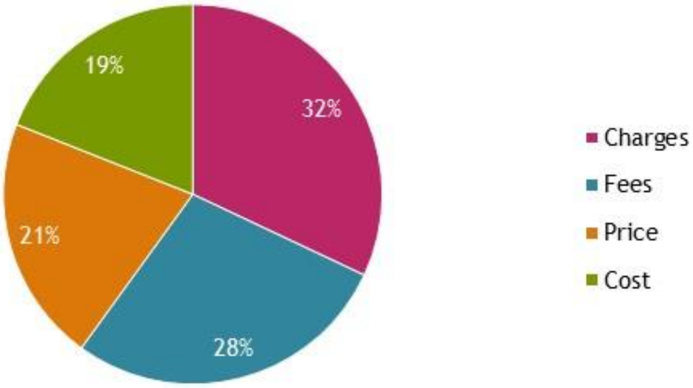
Base: All DC pension members aged 22-65 (1,016)
Question: Q17. We could show the amount you pay for every £100 in your pension, or for every £1,000 in your pension. Which of the following two options do you prefer?

The rationale given for this in our depth discussions was that this seems like a smaller sum and therefore better value, it is not ‘scary’ for those with smaller pots, and it was easier to manipulate into a percentage. The minority who wanted to see it is as £1,000 were mindful that this would be more realistic for larger pension pots, and therefore felt that the 55p figure was a bit misleading.

Members did not particularly like ‘price’ - but had no strong preference for ‘costs, fees, or charges’

We tested four different words – ‘fees’, ‘costs’, ‘charges’, and ‘price’ – to understand which resonated best and why. Members were asked to rank in order of preference. Figure 17 shows the results for their first choice. Here, 32% ranked ‘charges’ as their most preferred descriptor, closely followed by ‘fees’.

Figure 17: Member preference: preferred word to describe the money taken



Base: All DC pension members aged 22-65 (1,016)
Question: Q19. Thinking about the words we use to describe the money that has been taken out of your pension, please rank the following options in order of preference.

Our depth discussions revealed that fees sound professional and are linked to delivering a financial service, but on the other, they feel expensive. 'Costs' were felt to be more transactional than 'charges'. 'Price' did not resonate particularly well. Price is fixed, whereas the money taken out of pensions is variable depending on how much is in the pot.

Members take a dim view of schemes that can't provide an individual charge

Respondents in the depth discussions were told by the moderator that, despite what they had been shown on the example statement, not all schemes would be able to show them their personal charge – perhaps due to issues with old IT systems or charges which were difficult to split out. This did not resonate well with our respondents, who felt that all providers should be able to do this. Generally, members felt that this was a very poor reflection on those schemes and that it would make them think that they were untrustworthy - or trying to hide something.

This view was certainly supported in our survey. Here, members were asked to consider a situation where they saw two statements from two different pension providers, where one itemised how much it charged and the other did not. Our data shows that six in ten (58%) members agreed with the statement "The pension provider with no charges is trying to hide their costs", and just 7% disagreed with the statement "The pension provider that is not showing what they have charged is not as reputable as the other company".

Worryingly, 40% of members in our survey agreed with the statement "The pension with no charges must be free". All respondents in the depth discussions who were asked about this issue said that they were keen for some explicit wording to be included in the statement to avoid such misunderstandings.

> *"I'd say prior to this session, I think that if it wasn't on the statement, you would think they're not charging you. You'd probably be a bit naïve if they leave it blank. They shouldn't be able to do that. You would think it would almost be illegal not to state that."* Depth respondent, age 22-35, moderate engagement

When asked whether an average charge would be acceptable, again this did not resonate particularly well with members in the qualitative element, although those taking part in the survey were split roughly 50/50.

> *"To be blunt, I wouldn't care less what other people are potentially charged because that's nothing to do with me. I just want to know what I'm individually being charged. I don't care what the average is. If I go to a supermarket, I'm not going to be like, oh, how much was your bill?"* Depth respondent, age 35+, low engagement

> *"I think that actually needs to be made law and part of their legislation about all pensions. Because it's not fair on someone that can't see all that information, who is making an ill-informed choice on which way to go. I think they should all be made to do it. I know some businesses may struggle because they haven't got the facilities, but unfortunately, that's business, isn't it?"* Depth respondent, age 35+, low engagement

Conclusions

The findings from this comprehensive research programme are clear; once members are aware that charges are incurred on their pension money, they want to know more about what they are paying. Transparency and consistency are key to building trust.

Some industry fears that more transparent costs could result in a large number of members opting out of their pension appear unfounded. A tiny minority of members may consider opting out, but not before they had asked more questions. Clear communications about the long-term benefits of remaining invested in a pension and the additional advantages of pensions over other savings (tax relief and employer contributions) is expected to make them think again.

Whilst cost information alone is useful, members suggested some benchmarks or indications (i.e. a colour-coded rating) would help them make sense of whether their scheme is offering value for money. It is heartening to see that intuitively the majority of members recognise that cheapest is not always best, and that a better comparison metric takes into account investment performance net of charges – as outcomes are more important than just cost. Further work will be required to determine the best way to present this information clearly to members, but the Australian example of Net Benefit appears to be a useful starting point.

Thinking about the way we show charges on the annual statement, members have given clear indications of their preferences, and areas where they are more ambivalent. They want figures in pounds and pence, represented out of every £100s. Beyond their dislike of the word ‘price’ they do not have any particularly strong preferences on the words used to describe what they are paying, so any one of ‘costs’, ‘charges’ or ‘fees’ will be acceptable.

If for any reason schemes are unable to show individual charges, members want this to be clearly communicated on their statements to avoid any potential for misunderstanding. At a push, members will accept average charges rather than nothing being shown - but will question the value of the data as they struggle to make any sense of what this actually means for them. The industry will need to be aware that members take a very dim view of schemes in this situation leading to a lack of trust, believing that they have something to hide.

In summary, our research has identified that the disclosure of members’ costs and charges is important to them and had not identified any consumer behavior which would be a barrier to taking this initiative forward. Transparency, as members said, builds trust but with the opposite effect if charges are not shown when they are paid by members.

This initiative and evidence from members deliver a very solid and compelling basis upon which to build by showing members’ explicit charges clearly and simply – which is likely to provide positive benefits as members are much more likely to ask the right sorts of questions about value for money.