Non-Workplace Pensions Consumer Engagement

Consumer Research for the Financial Conduct Authority

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SHAPE YOUR THINKING

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Authors & Acknowledgements

This document reports the findings of a qualitative research study carried out for the Financial Conduct Authority (FCA) in June to October 2018 by NMG Consulting.

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The research findings represent the views of the 73 respondents who took part in the research, and we would like to thank them for their time in providing invaluable insight for this study. The interpretation of the findings and additional observations are the authors, based on the research findings and our knowledge of this market. Any errors in the report are the responsibility of NMG Consulting.

Contents

1 Glossary

Term	Meaning
Accumulation	The asset-building stage of pensions on which this research study is focused
Advice	Where consumers have received a ‘personal recommendation’. Shorthand for regulated financial advice, whether independent or restricted
Advised respondents	Research participants who stated they received advice from a regulated financial adviser when selecting their non-workplace pension
Adviser	A qualified, professional financial adviser who provides regulated advice to consumers including both Independent Financial Advisers, Restricted Advisers and Mortgage Brokers
Adviser charging / advice fees	The charge for advice services agreed in advance with the client and paid for by the client
Consumers	The potential audience who use / may use non-workplace pensions. Used when discussing insights, implications and conclusions that may apply to the broader market
Generation X	In this research respondents in the age bracket 36 – 53, representing the demographic cohort born in the mid 1960s through to early 1980s
Investment choices	The range of investments (funds, shares, investment trusts etc.) in which consumers can invest
Millennials	In this research respondents in the under 35 age bracket, representing the demographic cohort born in the mid 1980s through to end 1990s
Non-advised respondents	Research participants who stated they selected their non-workplace pension without receiving advice from a regulated financial adviser
NWP	Non-workplace pension. The product wrappers used to hold pension investments, including SIPP, personal pension, stakeholder pension, FSAVC
Ongoing advice	Where a regular service arrangement is in place between the adviser and respondent
Product fees	All charges related to the pension wrapper (annual management charges, dealing charges), not including advice charges or fund charges
Respondents	The individuals who took part in this research. Used when research findings are being described
Switchers	Have been through a transfer experience, either single provider to new NWP provider or consolidated multiple pots in to a NWP
Transactional advice	‘One-off’ advice where no ongoing service arrangement is in place

2 Executive Summary

This chapter provides an overview of key findings from the consumer research undertaken for the FCA's market examination of non-workplace pensions (NWPs). It is based on qualitative explorations with 73 customers of NWPs, representing a broad range of demographics and NWP arrangements. As a qualitative study the findings should be treated as indicative of consumer views.

This summary describes key learnings across:

1. The profile of NWP respondents and the factors that determine different types of behaviours
2. The purchase process and influences on choice of product and provider
3. The ongoing engagement with NWPs and satisfaction with NWPs

Within this report we use the term 'engaged' and / or 'engagement' when referring to the types of respondent who took part in the study. We define engagement as *'interest and involvement in the NWP, where involvement is a positive decision to do, or not do, something in relation to their pension.'*

Profile of NWP respondents

Level of engagement is the key characteristic setting different types of NWP respondents apart. There are three types – less, moderately and more engaged – of which the largest by far is the less engaged. The extent of disengagement across the pensions journey was highly striking in a substantial proportion of the less engaged group.

There is limited correlation between engagement and demographic factors such as age or NWP wealth within this particular sample; instead, engagement is driven by several factors including strength and clarity of need for a NWP, understanding of its benefits, financial capability and usage of financial advisers. Advised respondents who took transactional (one-off) advice several years ago to establish their NWP and have since had no contact with their adviser are rarely engaged with their NWP. Engagement can also be low amongst ongoing advised respondents who delegate all decision-making to their adviser. Engagement is highest when a strong need and drive to plan for the future is evident, financial capability is high and the benefits of pension saving are clear. This type was seen across non-advised and ongoing advised respondents. There is some evidence of engagement increasing at age 50+ (when retirement planning comes in to greater focus) but this is not universal.

Choosing NWPs

Respondent consideration of their NWP was limited to selection of provider; respondents rarely considered the *type* of NWP they were purchasing. It is rare for the purchase journey to start with a comparison across different types of NWP product. The majority of respondents appear to have simply bought 'a pension', rather than distinguishing between, for example SIPP, insurer personal pension or stakeholder pension. Little understanding of product type was seen except amongst the more engaged type investing in to SIPPs and some of the moderately engaged actively choosing a FSAVC to complement a workplace pension.

Shopping around when choosing the NWP provider was limited. In the majority of cases there was no great drive to spend much time on the buying process. Respondents did not expect to rely exclusively on their NWP to fund their retirement and very often had other sources of future retirement income. Often, the product purchase was prompted by an influential third party and was seen simply as a 'sensible thing to do'. In these cases where the perceived need for the product was low, involvement in the buying process was similarly low. Non-advised respondents relied on recommendations from third parties (such as family) and/or brand reputation in choosing their NWP provider. Advised respondents delegated the choice to their advisers with little validation of the adviser's recommendation. More engaged non-advised respondents spent some time researching providers and products. However, both the number of providers and range of product features compared were low.

Numerous barriers work against engaging further in the buying process for both advised and non-advised respondents. Pensions are considered complex and the effort involved to gain effective knowledge relative to the value of the pension can appear disproportionate. The ability to effectively compare features across providers is felt to be hard.

Charges were rarely a reason for choosing the NWP provider. The large majority of respondents were either unaware of their existence or assumed them to be very low and therefore of little consequence. Charges were rarely a lead factor in choosing the NWP even amongst the few who were clear about the charges being applied; for them, other factors such as reputable brand, fund choice and flexibility were more often cited.

There is little, if any, evidence that greater competition in the market would result in more engagement in choosing NWPs. Those respondents who had undertaken their own research at time of purchase cited they were largely satisfied with the quantity and quality of available information. However, for the majority, knowledge levels are low, interest levels are low and respondents mostly assume there is little to choose between different products and providers. Given these weaknesses in the demand side, it is difficult to see how consumers could drive greater competition given the limited factors on which they are currently choosing.

Ongoing Engagement with NWP

Most respondents do not engage with their NWP on a regular basis or give any active consideration to whether their NWP is meeting their needs from year to year. At best, the annual statement is skimmed to look for the current value of the NWP and how it compares to the previous year. Incidence of other activities such as checking charges, reviewing fund performance, switching funds or consolidating pots is extremely low and only undertaken by the more engaged type. Where a third party was relied on for the choice of NWP provider (either adviser or family member), ongoing engagement appears lowest; a lack of active contributions, holding the NWP for many years, low perceived value of the NWP and loss aversion (fear of making a mistake) also contribute to a lack of involvement. In addition to the annual statement, easy online access, regular adviser review, and for a very small minority, extra provider notifications appear to prompt engagement.

Non-advised respondents and transactional advised respondents (without an ongoing advised relationship) are highly reliant on providers to prompt and facilitate engagement. There are some who express anxiety at their lack of engagement and who would welcome further provider nudges to review the NWP. However, feedback suggests that provider communications on aspects of potential engagement with NWPs (e.g. reviewing contributions) is, in the main, struggling to cut through, given respondents' mindset and inaction.

Respondents do not consider the impact of ongoing charges on their eventual retirement pot. Across the types, most are unclear what their NWP is costing them each year so charges have very limited impact on respondent decision making. Around half are unaware they are paying an ongoing product charge, and most of the remainder are aware but unsure of the amount. The communication of charges (usually in percentages and sometimes hard for respondents to find) is challenging for respondents to understand.

The large majority have not undertaken or even considered switching provider or consolidating disparate pots. Advised respondents may have switched or consolidated via an adviser but the majority of non-advised respondents have never considered this though some were aware of it as a possibility. The fear of making a costly mistake and ending up with a worse outcome works against switching. A small number tried to switch but abandoned the process due to perceived complexity involved. A very small number faced issues during the transfer process (largely around time involved in moving funds) but most that had switched did so without difficulties. The vast majority of those with long-standing NWPs have not considered that there may be newer style products that may be better.

Respondents are mostly satisfied with their NWP, although this must be considered in the context of the amount of time they are prepared to invest in understanding what would constitute a good outcome, or what alternatives might have been available. In the absence of this understanding, simply having a NWP that is going to be there in the future when needed, plus a positive return on investment are the main considerations and even this is limited to the performance of their own fund in isolation. In the current market, returns and therefore satisfaction appear positive. However, most respondents have insufficient knowledge, and limited desire to acquire the knowledge, to enable them to make more informed judgements across all aspects of their NWP.

Respondents believe that having greater visibility on what the NWP should mean to them, now and in the future, would lead to greater engagement on their part. They believe providers could do more in terms of helping them engage with their NWP including further nudges around reviewing their NWP and making information received simpler. However, there are risks that further engagement activity by providers does little to change current behaviours given the extent of barriers evident.

3 Background

3.1 Regulatory context to the research

In 2014, the Financial Conduct Authority (FCA) consulted on specific measures to address weaknesses that had been identified in the workplace pensions market, including weaknesses in the demand-side of the market and reduced competition on charges.

Individual pension arrangements (the non-workplace pensions that are at the heart of this research) were not within the scope of those measures.

The FCA considers it likely that the weaknesses identified in the market for workplace pensions may also exist in the market for non-workplace pensions (NWPs).

As part of its work to determine whether this is the case, the FCA commissioned a primary research study to understand the extent to which NWP customers are engaged, informed and empowered to select and assess their pensions throughout their retirement savings journey.

3.2 Business objectives of the research

The primary objective of the consumer research is to help the FCA understand the nature and extent of consumer engagement in the NWP market. It is intended to explore:

- Who invests in NWPs and why
- How consumers choose providers, products and funds
- If and to what extent consumers engage with their NWP
- The role of independent financial advice in informing and steering consumer choices (and at what stages in the retirement savings journey)

The consumer research is not intended to provide conclusive answers on all issues and will be considered alongside other analysis being conducted by the FCA.

3.3 Research objectives

Element 1: Understanding what type of retail consumers use non-workplace pensions

The first objective of the study is to understand NWP consumers and whether there are any emerging themes around potential types of consumers and their usage of NWPs. More specifically, the study seeks to determine key characteristics, demographic profile descriptors, motivators and engagement, exploring:

- Age, income, employment status (at time of sale and currently)
- Other assets – both pension and non-pension (type and size)
- The consumer’s level of engagement and financial experience and sophistication
- What motivates people to take out a NWP
- Level of engagement with their pensions

Element 2: Consumer choices

A central premise of the FCA’s study is that, in a competitive market, pension providers will typically have an incentive to compete (on quality and price) where consumers have sufficient knowledge to make informed choices that reflect their preferences, enabling them to shop around for the best deal. Within this context, there are three areas of focus:

- **Area 1: Awareness of charges** – to explore to what extent consumers are aware of charges and to determine whether the way information is presented makes it easy for them to identify these and their impact
- **Area 2: Shopping around** – to explore the consumer's decision-making process, such as the features they take into account and why; how they narrow down choices and what they prioritise, and what impact the use of financial advice has on the process, including the extent to which the consumer considers themselves to be the decision-maker when an adviser makes a recommendation
- **Area 3: Review/switching** – to explore the extent to which consumers review their NWP; the reasons driving this and how they monitor its appropriateness over time, the likely triggers and barriers to changing funds, product or provider and what factors consumers consider when looking at shopping around/switching

3.4 Methodology and sample

Given the above objectives, the team concluded a large-scale qualitative approach was most appropriate in delivering depth of insight. The research design encompassed a combination of discussion groups and depth interviews. The research was carried out amongst a sample of 73 respondents split across seven discussion groups and 37 depth interviews.

Respondent profiles

Several criteria were used to achieve the sample of respondents for this study:

- **Age:** Focusing on accumulation lifestages. Cut off at 53 to avoid pre-retirement discussions. Two bands:
  - <35 ('Millennials')
  - 36 – 53 ('Generation X')
- **NWP wealth**: Representative of the broader market with an emphasis on the mass market. Three bands of NWP total pension pot size (based on respondent estimates) with large majority in the first two bands:
  - Lower NWP wealth - £1,000-£20,000
  - Moderate NWP wealth - £20,000-£100,000
  - Higher NWP wealth - £100,000+
- **Attitudes towards, and involvement with, pensions**: mix based on screening questions around confidence, experience and activity involving NWPs
- **Mix of channels used for purchase**: advised vs non-advised, broadly even mix. Advised includes ongoing advice and transactional (one-off) advice arrangements
- **Gender:** Mixed and allowed to fall out naturally
- **Geographical spread:** North, Midlands and South (see map in technical appendix)
- **Status**: See table below for different types recruited (e.g. contributing or not)
- **Brands**: mix of NWP brands to cover the range of NWP propositions in the UK allowed to fall out naturally. Included traditional insurance brands and online SIPP providers.

A breakdown of the sample composition is shown below:

Figure 1: Sample structure

Age	NWP Wealth (total NWP assets)		
	Lower NWP wealth £1K - £20K	Moderate NWP wealth £20K - £100k	Higher NWP wealth £100k+
Younger (Millennials) <35	2 groups (1 x active new + 1 x active ongoing) 7 depths	1 group mix of lower and moderate NWP wealth 1 mini group of moderate NWP wealth 10 depths	
Middle years (Gen X) 36-53	1 group (active ongoing) 7 depths	2 groups (1 x active new + 1 x active ongoing) 7 depths	6 depths
TOTAL	**3 groups + 14 depths**	**4 groups + 17 depths**	**6 depths**

The sample included the following NWP customer types:

- **Active new** = started contributing in to NWP in last 24 months
- **Active ongoing** = have contributed into their NWP for more than 24 months
- **Switchers** = have been through a transfer experience, either single provider to new provider or consolidated multiple pots
- **Non-contributing** = have a NWP that they are not contributing in to
- **Advised** and **non-advised**
- **Self-employed** and **employed** = current status of employment

The study achieved a spread of these types across the sample; the breakdown is shown in the technical appendix.

Respondents in the depth interviews were asked to bring copies of NWP communications such as annual statements or policy documentation for interviewers to be able to compare views on charges against actual information shown. Not all respondents brought this information.

3.5 Reporting conventions

Count

As this is qualitative research, we avoid using percentages in the findings. Instead we use terms such as majority or minority to demonstrate whether or not the finding was widespread within the sample.

Verbatim comments

These are respondent quotations, based on interview recordings with only minor editing. They are labelled by segment. The quotations demonstrate respondent's own views and may not always be factually correct.

Case studies

More detail has been given about the views and circumstances of some respondents to illustrate the segments with some real-life examples. Names of individuals have been changed to preserve their anonymity.

4. Profile of Non-Workplace Pension Consumers

This chapter supports a key objective to help understand the demand side of the market. It aims to describe the different types of NWP consumers that emerged from the research and their different behaviours and attitudes.

Key Findings of this Chapter

- Level of engagement is the greatest differentiating factor between NWP respondents in this study rather than age or NWP wealth.
- Three typologies of NWP respondents emerge: less, moderate and more engaged. The largest of these by far is the less engaged group who show very low levels of involvement in their NWP both at purchase and ongoing stages.
- Engagement with NWPs is driven by a number of factors; the most influential are: strength and clarity of the need felt when taking out the NWP; motivations for purchase and understanding of the benefits that NWPs can bring; financial capability and usage of financial advisers.
- The impact of professional financial advice on engagement is polarised; it encourages disengagement for those that choose to abdicate decision-making entirely or do not have an ongoing relationship, yet can enable others who have an established ongoing service arrangement.

4.1 Why engagement is important when profiling NWP consumers

Profiling of financial consumers is commonly undertaken to enable organisations to better understand consumers and target marketing activities to their needs. Typologies of financial consumers are usually determined by demographic factors, for example lifestage. In this study, while demographics accounted for some differentiation across respondents, it was not the lead determining factor in terms of respondent behaviours with the NWP. For example, older respondents were generally not more involved in the purchase process of the NWP compared to younger respondents. By far the most significant determining characteristic and difference observed across the sample was their *level of engagement* with the NWP, which has a significant impact on behaviours throughout the NWP consumer journey.

Engagement in this study is defined as:

***'Interest <u>and</u> involvement in the NWP, where involvement is a positive decision to do, or not do, something in relation to their pension**.'*

Examples of interest and involvement that we explored are shown in the table below. Ideally, engagement would extend beyond interest and involvement in the NWP to *understanding* of the NWP (as this would lead to consumers making more informed decisions about their NWP). However, in this research, while moderate to high levels of interest and involvement did on occasions correlate with understanding, this was not always the case. For this reason, we are treating the 'understanding' variable as a feature, but not as a qualifying characteristic of engagement.

In profiling respondents we looked at engagement across two key stages of the pensions lifecycle: 1) at purchase; 2) ongoing (accumulation stage only) and have used the following as indicators of engaged behaviour:

Figure 2: Examples of activities that determined level of engagement

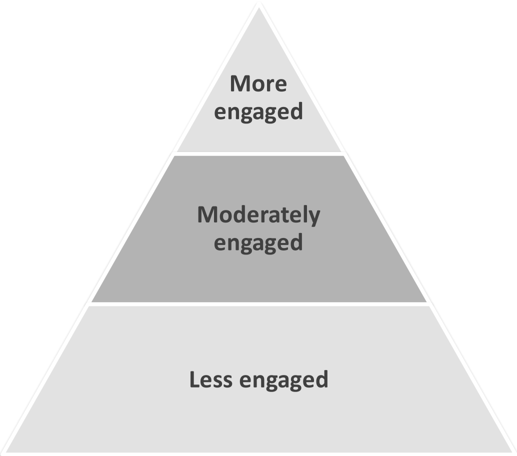
At Purchase	Ongoing
• Researching background information on pensions • Shopping around/considering more than one provider • Comparison of features across providers, beyond brand (e.g. funds and charges) • Seeking professional advice whilst remaining involved in choice	• Frequency of checking value of pension pot • Online registration with portal or app • Checking increase in value over time • Checking fund performance • Reviewing pension for suitability • Switching funds/provider or consolidating • Understanding features such as charges and funds

Engagement can change during the NWP lifecycle and this has also been reflected in our development of different types of NWP consumer according to their engagement levels.

4.2 Creating typologies of non-workplace pension consumers

Our analysis, based on engagement activities, identified three broad types of respondent, that differ in their level of interest and activity with the NWP:

Figure 3: Types of NWP respondent



By far the largest of these types (seen in around two thirds of the sample) was the less engaged group. In fact, the degree of disengagement across the pensions journey was highly striking in a substantial proportion of this group. The smallest group was the more engaged type.

An overview of the characteristics of each of the types is shown below and case studies to bring each to life, based on individuals who demonstrates these characteristics well, are included at the end of the chapter.

Characteristics of the 'less engaged' type

Perceived need and trigger to purchase

- Low perceived need - a non-priority consideration or tick-box attitude
- Trigger is often a prompt by a third party – a parent or other financial professional, e.g. mortgage adviser (often took one-off, transactional advice)

Demographics

- Often but not always under 35 when taking out the NWP
- Millennials who are time-poor and for whom provision for retirement lacks immediacy
- Generation X who took out NWP 15+ years ago / have stopped contributing
- More likely but not exclusively fall in to lower NWP wealth bands

Financial mindset

- Low understanding and interest in financial matters
- Low level of knowledge, interest and confidence in pensions
- Very low understanding of the underlying features and benefits of NWPs
- Focus is on ‘enjoying the present’ and short-term goals e.g. holidays, a new car etc. or other financial priorities e.g. house, kids, debt; often time pressured
- Small range of information sources, often limited to banks, mortgage advisers - high reliance on trusted others
- May have taken out the NWP several years ago and had some involvement in the purchase but NWP has since been largely forgotten about, sometimes frozen; other assets (property, workplace pension) are prioritised
- More likely to hold insurer personal pensions than other pension types

Characteristics of the ‘moderately engaged’ type

Perceived need and trigger to purchase

- Moderate perceived need – generally in response to a need to reduce uncertainty about one’s medium to longer-term financial future
- Trigger is often a change in requirement and/or outlook – a divorce or decision to go into self-employment or concern about a lack of workplace pension
- A more proactive drive to purchase a NWP compared to the less engaged group

Demographics

- 30s – early 50s, experienced a significant life event e.g. unemployment, divorce, move into self-employment, new job or birth of first baby

Financial mindset

- Low to moderate pensions knowledge – often a desire to know more
- More likely to be less experienced with long term investments but desire to build a portfolio is evident, together with a growing understanding
- High usage of online sources of information
- Likely to have consulted a financial adviser as part of the process – may not rely on adviser ongoing; if so likely to have delegated decision making
- Engagement levels often vary over time – peaking at purchase and then reducing over time
- Mix of product types seen in this type, across SIPPs, insurer personal pensions and FSAVCs

Characteristics of the ‘more engaged’ type

Perceived need and trigger to purchase

- Higher perceived need – often as part of a complex and proactive decision (ad hoc or ongoing) to plan one’s current and future financial provision
- Trigger may be reaching a milestone age (e.g. age 40 and in particular around 50) but is more often attitudinal – a strong desire to organise and plan ahead
- Sometimes related to increasing NWP wealth (but not exclusively – other factors need to be present)

Demographics

- Variable, more often but not exclusively 40s or older
- Moderate to higher NWP wealth band

- A small number of self-employed respondents demonstrated higher engagement levels (along with a stronger need to plan their finances)

Financial mindset:

- More knowledgeable, numerate, financial 'hobbyists', taking an active interest in finances
- Have an ongoing relationship with an adviser or are self-directed
- Have a better understanding of financial products and an active interest in financial planning
- More likely to have set up their NWP in recent years, with some using online investment platforms which leads to better understanding and greater visibility of product
- More likely to be invested in to SIPPs than insurer personal pensions
- More likely to have considered/gone through pension consolidation than other types
- May demonstrate informed understanding of underlying investments, fees and tax benefits, not frequently seen in other types

4.3 Factors that influence level of engagement

Looking closely at the attitudes of those within each of the three types above, it is clear there are dimensions that drive engagement and are highly influential in the degree of engagement, at outset when choosing the NWP, and ongoing. These factors were considered in detail when defining the types of NWP respondents emerging from the research.

1. Clarity and strength of perceived need felt for an NWP when taking it out
2. Motivation for taking out a NWP and understanding of the related benefits
3. Financial capability
4. Use of financial advice

It should be noted that engagement with the NWP can change over time and in a few examples, the impact of changing lifestage on engagement was seen, with the trigger of reaching 50 / early pre-retirement a further influence on engagement.

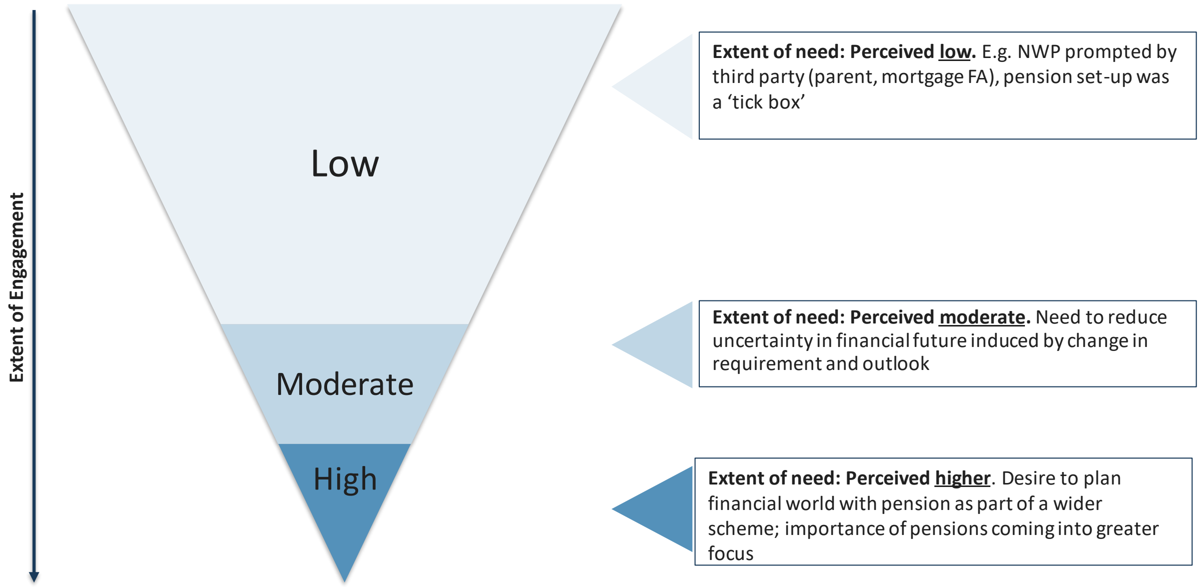
4.4 Perceived needs

The strength and clarity of need felt by a respondent for a NWP at the start of the path to purchase had a direct impact on engagement, both when choosing the NWP and for ongoing engagement.

Respondents demonstrated that where the need for an NWP was ill-defined at the outset of the journey, the likelihood of feeling a strong enough ongoing drive to engage with the NWP on a regular basis is low, at least until a trigger point emerges in the pre-retirement stage of the pension lifecycle (typically starting around 50 years of age).

The study revealed three levels of perceived need which are described here in decreasing order of incidence.

Figure 4: Types of NWP consumer by level of engagement and perceived need at time of purchase



1. Low perceived need at outset

Here, consideration of a NWP was very often prompted by a third-party (often a parent, mortgage adviser, workplace adviser or employer). The respondent appeared to have a latent need for a NWP that had not yet been realised or acted upon and the third party provided the trigger or 'nudge' to act. In these cases the respondent is trusting that this third-party 'advice' is the right thing to do without necessarily feeling an active functional need for the product. Parents and advisers are most commonly cited as influential third parties that prompted the purchase of the NWP.

In these circumstances respondents are buying a product while being unclear about the granularity of their need and the related benefits of pension saving. They do not appear very driven in their decision to take out a NWP. This often translates to low engagement with the NWP buying process which in turn impacts their ongoing NWP behaviours.

Trigger: In many cases the NWP was often a secondary consideration and was purchased in tandem with another financial product, such as a mortgage. Sometimes it was in response to a life-event such as changing jobs or changing lifestage e.g. getting married or starting a family. Parental encouragement appears to be a very strong trigger particularly amongst Millennials (sometimes including a lump sum gift to get the NWP started). We encountered examples of individuals in jobs with no workplace pension (pre auto enrolment); individuals leaving employers and believing they needed to transfer their workplace pension in to a NWP or wanting to transfer out in order to make a 'clean break' from their previous employer. In most of these situations the NWP has been treated as a 'tick-box' exercise with respondents prioritising other events going on in their life at the time of set-up (moving house, new baby, new job…). Here, the respondent can take out the product with little expectation of any further involvement once it is set in place. This was evidenced in a number of cases where the NWP had been bought many years' previous and had been given very little consideration following purchase.

> *"I got a pension 20 years ago, my parents told me to do it before I had children and bought a house. I thought it was a waste of money and I didn't think about it for years.*
> ***Less engaged,* moderate NWP wealth, Gen X**

"For me it is more like savings, rather than thinking where should I put it, what should I do with it. When I am 65 I have got a nice pot of cash... It is just a long term savings pot.
Less engaged, moderate NWP wealth, Millennial

2. Moderate perceived need at outset

In these cases, consideration of a NWP was most often seen as a response to reduce uncertainty and the associated anxiety of an unclear financial future. These respondents have a clearer understanding of why a NWP pension is needed (e.g. buying FSAVCs to boost workplace pensions; buying a NWP following separation from a partner as part of a strategy towards financial independence). Whilst evidence of a moderate need at outset is sufficient to drive a purchase of a NWP, it may not follow through in to ongoing engagement, which can leave the respondent with continuing uncertainty about whether their NWP is working well for them.

Trigger: Often a sudden change in circumstances. Two key examples of this include divorce or the decision to move into self-employment. The NWP may also have been triggered by a windfall e.g. a bonus from work or an inheritance.

"I got divorced 8 years ago and was given a big chunk of pension by the judge and the house and inspired by that, my financial adviser looked at the whole picture and said I need to put in as much as I can from now on. I have been stuffing as much as I can in every month and confident now that I will not be on the poverty line when I retire
Moderately engaged, moderate NWP wealth, Gen X

"Security. Making sure I have enough to provide my family and myself for the future. I don't mind taking some risk but security is very important. I always have an eye on the future; making sure there is something that is there for later on.
Moderately engaged, moderate NWP wealth, Gen X

3. High perceived need at outset

Here, consideration of a NWP is part of a proactive decision to plan one's financial future. The higher perceived need appears to be a direct result of the respondent having a much more accurate assessment of their future financial requirement, often on the back of a thorough review of current and future financial assets.

Trigger: Seen when the respondent was nearing pre-retirement (age 50+ in our cohort) and wanting to evaluate and plan their financial options for the future, or where the respondent is highly interested and engaged with financial planning overall and demonstrates a forward planning mindset, irrespective of age or lifestage. Often the NWP was taken out as part of a consolidation strategy and sometimes as a means of accessing specific investments (typically within a SIPP structure).

"Long term you want to make sure that when you come to a certain age you have got enough money to retire. Certainly as you get older you think more along those lines.
More engaged, lower NWP wealth, Gen X

"I realised I have got to think of the future so I need to contribute more to enable myself to have the lifestyle I want when I retire. I have had chats with my financial adviser about what I need to be contributing. I have got to put plans in place because if I can finish work earlier I would do that.
More engaged, higher NWP wealth, Gen X

A very small number of more engaged respondents displayed evidence of good understanding of their NWPs, based on their behaviours at outset and ongoing. We have not profiled these separately due to the small base size but these individuals were able to explain their fund choices and risk (e.g.

discussing the option of de-risking on approach to retirement), the charges incurred (including identifying separately fund and product charges). They were also more able to accurately cite the annual management charge, the tax advantages of pension saving and their options at decumulation. These individuals were either ongoing advised respondents or highly confident non-advised respondents using online investment platforms. Most but not all were investing in to SIPPs.

It should be noted that even respondents with a higher perceived need at outset can fall in to a low engagement group ongoing, where they delegate decisions to a professional financial adviser.

4.5 Perceived motivations and benefits

The motivation and perceived benefits of NWPs which drove the original purchase are an important influence on engagement. This is closely linked but not identical to, the perceived need for the pension.

There appears to be a strong link between strength of perceived benefits driving a purpose to save, and likelihood to engage with the NWP on an ongoing basis. Without a clear understanding of why they are saving, ongoing engagement is likely to be very low.

Motivations related to taking out a NWP in preference to other potential ways to save included:

- *A safety net (of undefined impact) for retirement*: Buying a NWP is most commonly seen as a 'sensible thing to do' in order to provide a secure pot of funds for retirement. However, a lack of awareness of how much the NWP may impact their financial future, coupled with a lack of trust in pensions generally, can weaken the appeal of this benefit.

- *Better investment growth* (than cash savings): while this is appealing to most, a lack of understanding of how pensions work and an unwillingness or inability to monitor the product means that this is only a clear benefit to a minority.

- *A tax efficient way to save*: a strong benefit for the more financially-knowledgeable; the self-employed in particular raise this as a known benefit. Most do not cite this as a reason to choose a NWP over other options, illustrating low awareness, or at least not top of mind consideration of the tax benefits.

- *Diversification of assets or provider away from the workplace pension*: A motivation to take out a NWP (rather than simply top up the workplace pension) is to spread the perceived 'risk' (implicit from conversations this is both at underlying asset and provider level); an additional, independent pension away from the employer is seen as 'a sensible strategy' by a few whilst a couple specifically referenced poor performance in their workplace pension as a reason to choose a NWP (demonstrating a lack of understanding around the ability to switch funds within the workplace pension).

- *A key source of income to fund retirement lifestyle*: Given the NWP was considered one of a number of planned sources of income in retirement, this was not a commonly cited benefit. This is confirmed by respondents reflecting that their NWP would be likely to contribute less than 25% of their total income in retirement. The appeal of this benefit was seen amongst those with the larger pot sizes.

- *To lock funds away/avoid frivolous spending*: a passive benefit however views are polarised: respondents also say that there is a limit to how much money they want or are able to lock away (and this impact their willingness to increase contributions).

"Security, knowing that it is not going to be taken by fraudsters. Interest/savings, risk free are the main things. **Less engaged, lower NWP wealth, Millennial**

"I knew they were tax efficient anyway. I knew that for me to pay into a pension, if I was just going to withdraw the money and pay 40% tax and it is just going to sit in the bank, I might as well put it in to a pension straightaway. There is no point in me paying loads of tax now when I might as well put it in to a pension and let it grow. That was a big thing from a tax perspective.
More engaged, moderate NWP wealth, Gen X

Several of the less engaged respondents struggled to articulate the reasons and benefits of saving in to the NWP beyond a general 'extra income for retirement'. There appears to be a lack of awareness of the range of possible benefits that saving in to NWP may deliver. This lack of awareness is another influence on how much respondents engage with their NWP.

4.6 Financial capability

Financial confidence and prior experience with financial products does not always equate to respondent confidence in being able to set up a NWP without support. The perceived level of technicality and complexity of NWPs sets them apart from other long-term savings and investment products such as ISAs or stocks and shares. This impacts the confidence respondents feel in setting up the NWP and in engaging with it ongoing.

We saw examples of financially experienced and confident individuals who treated the NWP purchase entirely differently to their other investments such as ISAs or stocks and shares. Pensions are thought to be particularly complex and the likelihood and risk of making a poor decision is felt to be high. Perception of risk is heightened with NWPs because of a sense that money is locked away and that decisions are largely irreversible and have the potential to have a very negative impact on one's quality of life in retirement. Many therefore choose to take professional advice.

Those that demonstrated the confidence and/or capability to act on a non-advised basis <u>and</u> undertake a considered purchase process were unified by being professionals, often in jobs involving degrees and therefore likely enabled by stronger analytical and numerical skills (for example a Company Director, an Accountant, an IT Consultant, an HR Director).

4.7 The role of professional financial advice

Due to this pronounced lack of confidence around NWPs, just over half the respondents, across all types in the study, sought professional financial advice in some form when taking it out.

However, taking advice can leave the respondent feeling distant and disconnected from their NWP, particularly during the ongoing stages of the product. The type of financial advice taken has a huge impact on overall engagement and subsequent understanding of the NWP. In several cases, we met respondents who had taken transactional advice and with no ongoing adviser relationship – either deliberately or because the adviser had moved on – had very few touchpoints with their NWP. They had received no prompts to re-engage with their NWP, beyond receipt of the annual statement, and without a strong driver to review the NWP, had left it alone. This was very often the case when the NWP had been taken out several years ago.

Figure 5: Impact of different advice arrangements on engagement

Type of advice	Most common circumstance	Profile	Influence on customer engagement
Transactional advice	• Often in tandem with taking out a mortgage or life insurance • May be employer-related (e.g. adviser brought in to promote FSAVCs and other ways to save) • Need for pension was prompted by adviser and therefore not necessarily front-of-mind	• More often in the lower NWP wealth bracket (across a mix of ages) • Majority of advised respondents took transactional advice	• Usually means no ongoing relationship or review • Older NWP advised respondents may have become orphaned from their adviser (particularly those taking advice pre-Retail Distribution Review) • Others with ad hoc arrangements can see advisers very infrequently (e.g. every three years) • Can lead to very low levels of ongoing engagement as these respondents do not have the annual 'nudge' to review the pension that an ongoing advised relationship would offer • Particularly low levels of engagement seen in respondents that bought their NWP 10+ years ago
Ongoing advice	• Often prompted by changing life and/or professional circumstances • Need to organise finances e.g. consolidate multiple pots, transfer defined benefit pension • Seeking professional advice *specifically* to set up NWP indicates a more marked appreciation of a 'need at outset' and a recognition of the need for expert support in this space (or respondent lacks time to do themselves)	• Gen' Xers within the moderate to higher NWP wealth bracket	• Respondent generally guided by their financial adviser during the annual review • Respondent assumes adviser maintains ongoing suitability of the NWP and would advise if anything needs to change; respondents are delegating responsibility • Only rarely translates into higher levels of proactive engagement with the product as trust in and delegation to adviser can be absolute
Non-advised	• Distrust in advisers or lack of willingness to pay advice fees a barrier to taking advice • Often coupled with a belief that it is possible to set up the pension oneself without the need for professional help. *This is much more frequent amongst recent purchasers*	• Mix of ages, more prevalent in the lower to moderate NWP wealth bracket	• A minority of this group show higher levels of engagement at outset and ongoing – those most interested in financial planning and confident enough to complete the purchase without advice • However overall low levels of shopping around are common and use of shortcuts is rife,

	• Less frequently, there is a lack of awareness or access to advice (e.g. lack of access to high street advice mentioned) • Amongst those who are moderately knowledgeable / engaged with their finances generally, there are instances where advice is sought initially for opinion with the respondent then transacting non-advised		meaning engagement is more commonly low

Changes in the advice market around the time of the Retail Distribution Review appear to have impacted some of the respondents in the sample; the number of advised respondents that received one-off advice rather than receiving ongoing service was high. Ongoing advised respondents were only seen in the older, wealthier cohort. There are clearly implications around access to ongoing advice, in terms of the impact on understanding and ongoing suitability of the NWP.

"Unless you know what you are doing it is a complete roll of a dice, so I feel it is best to get advice. I have a review once a year with the people who supply the pension, general chat about personal circumstances and she says - you have done well on this but not so well on this. You are a medium risk taker, do you want to continue doing what you are doing? With my limited knowledge I say yes, I will stay as I am because it has made a few quid in the last year. **Moderately engaged, moderate NWP wealth, Gen X**

"I am quite confident and if I need help I go to the right people; mortgage financial adviser. The pensions I have got are frozen so if I was to pay back into them I would just ring them until it got closer to retirement and then I would try and speak to a financial adviser regarding those.

Less engaged, lower NWP wealth, Millennial

4.8 Case studies

Less engaged type: Keith – lack of involvement early on has continued throughout the pension journey

Keith, 38, married with two children, floor-layer, lower wealth range. Set up non-workplace pension through an adviser when he was 17.

- **Triggers:** Prompted by a flooring customer (who was a financial adviser) who suggested he look at private pensions
- **Financial provision for retirement besides NWP:** Property, workplace pension
- **Consumer journey:** Trusted the adviser's recommendation, no validation or further shopping around, took out the NWP which has been rolling ever since
- **Criteria for choice:** Adviser recommendation; ability of provider to accept low monthly contributions
- **Engagement:** No ongoing relationship with adviser. Has continued contributions and increased once but rarely looks at statements or engages otherwise; workplace pension started three years ago takes additional savings that could have gone into NWP
- **Awareness of charges:** None apart from vague recall of adviser commission
- **Switching behaviour:** None - aware but thinks it will be a hassle

"I am on the ball with changing my gas provider or anything bill-wise like insurance. I never stay with car insurers 2 years on the trot. I don't know why this is different. (...) I couldn't even give you a rating because I have done nothing with it. It is quite embarrassing."

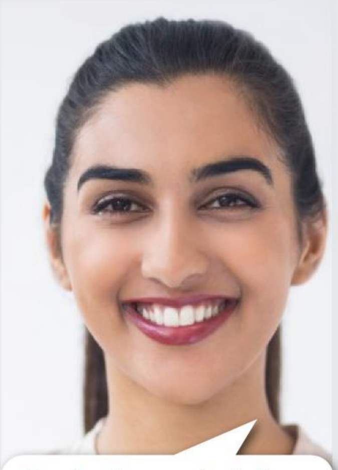
"We save for holidays, cars, DIY... The long-term? I think I will deal with that when I come to it."

"I have upped it once but it is hard with bills and the kids. When they get older I will definitely up it."

Moderately engaged type: Christie – willingness to engage but circumstances limit this

Christie, 35, single, is a smart, self-employed academic researcher, about to buy first property. Set up her NWP pension four years ago.

- **Triggers:** Self-employed, works "from project to project" and aware of need to self-provide for pension; aware of parents' situation and importance of being financially independent and the need to take better control
- **Financial provision for retirement besides NWP:** Small workplace pension
- **Consumer journey:** Discussion with parents and employer, visited a number of websites including MAS, discussion with an adviser (family friend). No further shopping around, didn't complete with adviser and went with same brand used by employer
- **Criteria for choice:** Recommendations by employer and adviser
- **Engagement:** Has made a number of lump sum payments, scans annual statements, frozen contributions (to focus on saving for house deposit), tried to consolidate workplace pot. Reasonably engaged but aware of knowledge gaps and anxious about her lack of knowledge.
- **Awareness of charges:** Vaguely aware of an annual charge as % of pot value; perception that all providers are on a par
- **Switching behaviour:** Considered (to avoid having multiple pots in future) but limited by value of workplace pot (provider unable to accept low value transfer)



"I can't quite remember but I imagine there was some kind of annual charge and when it comes to term. I think some charges associated with how you get your money and whether you decide to early-release a proportion of that. I am not entirely sure what those are but I felt that there were some overall management fees which were a small percentage."

"In 2014 I realised I needed to look after myself and manage my own funds and be financially independent."

"Things like this make me feel good about myself because it seems sensible."

More engaged type: Emily – keen saver and planner with interest in long term investing

Emily, 52, married with one child, self-employed HR Manager, higher wealth bracket. Set up NWP five years ago on a non-advised basis.

- **Triggers:** Moved into self-employment and decided to take out a NWP (well aware of pension benefits as an HR professional); strong awareness of need to provide for retirement
- **Financial provision for retirement besides NWP:** Downsizing, property, various company pensions including AVCs, investments, other savings
- **Consumer journey:** Read third party reviews, discussed with adviser friend, visited provider website
- **Criteria for choice:** Familiar brand, management fees, flexibility of investment, easier to keep track of as already had other products with same provider, good online portal she was already familiar with
- **Engagement:** Selects funds according to risk profile, reads statements and checks value and projections; would like to review and for provider to supply a gap analysis
- **Awareness of charges:** Yes, although cannot name the exact figure
- **Switching behaviour:** None but considering

"We are good savers, we plan and I look after the bulk of the money making sure it is invested in the right places."

"I feel I would have liked to get independent financial advice but I didn't know anyone I could trust."

"I trusted them and they are solid. I already had AVCs with them and there is the opportunity to bring them together which so far I haven't. The third one is they had reasonable management fees. They have a good online portal as well."

5 How Consumers Choose their Non-Workplace Pension Provider

This chapter looks at the touchpoints made on the path to purchase and explores the drivers and barriers to engagement at the start of the pensions journey and influences on decision-making

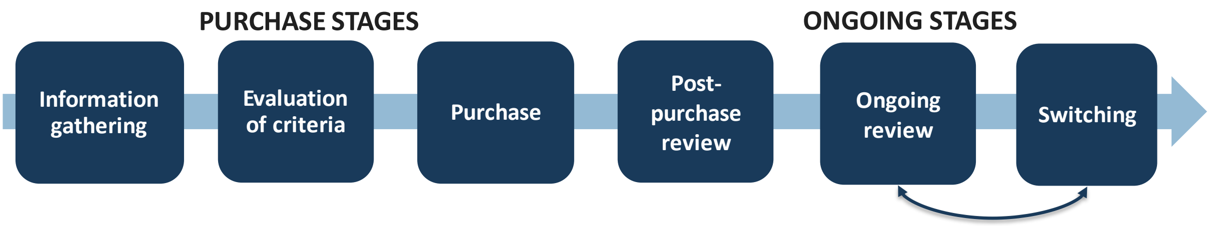
Key Findings of this Chapter

- Involvement in the buying process for most respondents is light touch and sometimes entirely delegated.
- Respondents wish to simplify the process and shorten the time spent on it wherever possible, given their circumstances and challenges faced in choosing a NWP provider.
- It is rare for the purchase journey to start with a comparison across different types of NWP product. The majority of respondents appear to have simply bought ‘a pension’, rather than distinguishing between different types.
- Recommendations by trusted others (mostly advisers and parents) and well-known brands are the most influential factors in choice of provider given respondents largely do not feel qualified to judge on other criteria and evaluation is deemed too hard.
- Charges are rarely given as a reason for choosing a NWP provider; respondents are predominantly either not aware of charges applying or believe them to be so marginal not to matter.
- Respondents are happy with provider content, although they would like a simpler and easier way to compare across the market.
- Respondents’ requirements of the purchase process are limited, and in this context, they are satisfied.

5.1 The challenges of choosing a NWP

The journey for choosing and using NWPs (accumulation only) has numerous touchpoints, shown in the diagram below:

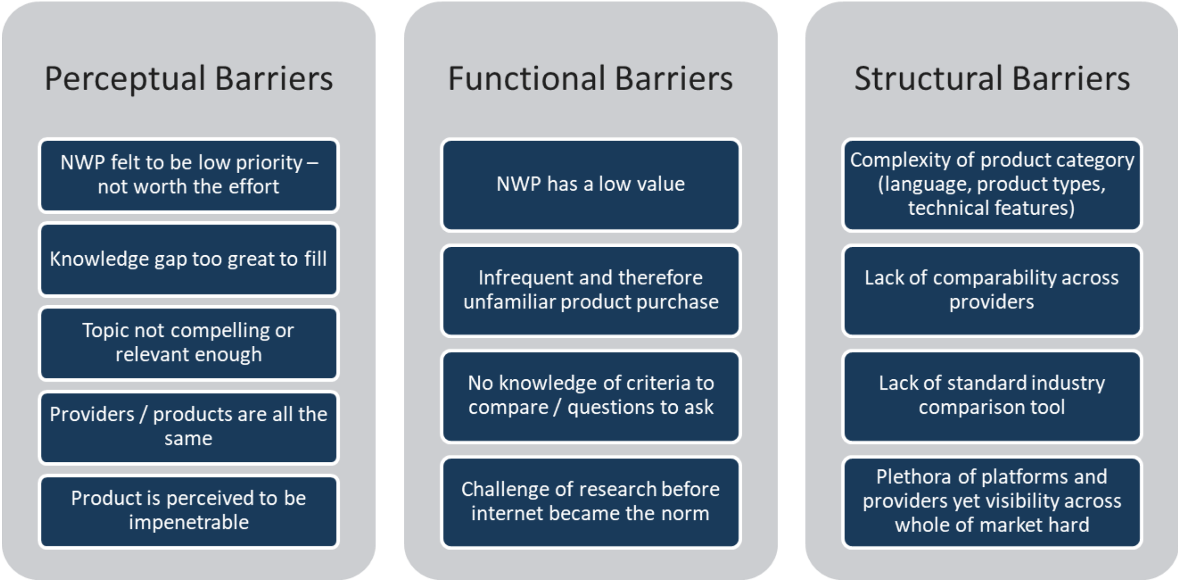
Figure 6: Key potential touchpoints in the NWP accumulation journey



NWP respondent involvement in this journey varies according to their usage of advisers and their level of engagement; very few follow a linear journey as numerous shortcuts are made and touchpoints can be seldom. For all but the more engaged type in our study, involvement in the buying process is light-touch and sometimes entirely delegated. This is driven by the respondent’s perceived mindset around NWPs, described in Chapter 4 – if a strong need is not experienced and the benefits of pension saving are not in sharp focus, the time and effort spent on the decision will be limited. Delegating to advisers also hugely impacts involvement in the journey.

Perceived complexity of the product and the likely effort and time involved to gain the knowledge for effective decision making are most commonly mentioned as barriers to greater involvement in the buying process – the knowledge gap is wide based on our observations of respondent comments. Furthermore, there are broader functional and structural inhibitors to greater engagement in the pensions journey which contribute to making the task of choosing a NWP very hard for many. These apply to both advised and non-advised respondents.

Figure 7: Barriers to engaging in the purchase process of NWPs



Less and moderately engaged types cite numerous reasons for their lack of involvement during the pensions purchase journey.

The NWP at time of purchase was often perceived to be low priority, in the context of other financial provisions for retirement. Respondents often had multiple planned sources of retirement income (confirmed by the majority citing that the NWP would contribute less than 25% of total retirement income). Other vehicles – workplace pension(s), property, other savings and investments, assumed inheritances, the State pension and continued part-time employment – are assumed to contribute a much greater proportion. Some (older) respondents appear to favour assets where they feel they have greater control and understanding, such as property. Where the pension is not considered to be a main future source of retirement income, it can limit the amount of time respondents are willing to spend on the buying process.

The role of workplace pensions appears to have gained momentum since auto-enrolment with many (particularly younger) respondents believing their workplace pension(s) would be more important than their NWP given employer contributions, time in work, perceived compulsion to save and for some, a greater emphasis from their network (colleagues, employers, advisers) to save within the workplace structure. We only met a small number with defined benefit pensions, but where these exist, they are considered highly important for future retirement income and this diluted the importance placed on the NWP, at time of purchase (and also ongoing).

"I have workplace and private pension. The private pension is a minor source: maximum 20%. Workplace pension is the bulk of it. I don't know much about pensions and feel I should understand them better because I have let it lapse and need to catch up on it. I have not done enough research on self-investment style ones.

Less engaged, lower NWP wealth, Gen X

The NWP as the lead contributor to retirement income was only seen in a very small number of cases, often amongst self-employed, older respondents.

The complexity of product structure – for example, the underlying features and benefits, the terms and language used, the nuances around tax relief – mean for the majority, the knowledge gap is wide. Pensions are generally felt to be impenetrable products that lack transparency. Compounded by the perception that pensions are dull, a distant product with no short-term benefit, locked away and, for many of the Millennials in our study, disconnected from their day-to-day lives, there is a clear lack of 'pull' to spend time bridging the knowledge gap.

"Pensions is an area I am not confident in.... pensions are not straightforward. It depends on what point in your life you started paying in, amount of monthly payments, then they say - on this date it will change and you will pay in until that date but anything after that means ... and I am thinking can you not just give it to me straightforward. I just want it in black and white- if you pay in this you get this.

Moderately engaged, lower NWP wealth, Millennial

"The pensions world is not interesting because it is invisible; you can't see what you are saving for and you don't know when you are going to need it. It also feels a bit dark because it might need to be used in my old age which I don't want to think about. I put money in a pot and don't think about it too much.

Less engaged, higher NWP wealth, Gen X

The fact that buying a NWP is usually an infrequent, possibly once-only occurrence, also means the effort involved to gain knowledge that may have limited future application, is a further barrier to greater involvement.

The combined effect of these barriers on the path to purchase is two-fold: 1) respondents delegate the decision-making to trusted others, or 2) they simplify and shorten the process in order to move forward.

A small proportion of more engaged respondents (those with a stronger appreciation of the need and benefits of pension savings, and who demonstrated the cognitive ability to better understand the different features and choices available) are the exception to this pattern of non-involvement in the buying process. We encountered a small number of cases where individuals, sometimes with the support of an adviser but also non-advised, undertook a more thorough, rational research and evaluation process. Their experiences are described below.

5.2 Research and shopping around

It is rare for the purchase journey to start with a comparison across different types of NWP product. The majority of respondents appear to have simply bought 'a pension', rather than distinguishing between, for example SIPP, insurer personal pension or stakeholder pension. Only in a very small number of examples within the more engaged types did respondents actively decide to invest in a SIPP due to perceptions of additional flexibility and choice of underlying assets (e.g. access to stocks and shares) relative to other pension types. In particular, respondents with older NWPs were uncertain about their product type, simply referring to it as their 'private pension' i.e. one bought outside the workplace.

Whilst respondents are aware there are numerous pension providers operating in the market, given the complexity of the decision for most, little shopping around to compare providers was undertaken – both for non-advised respondents making their own decision, or for advised respondents who may have wished to validate their adviser's recommendations. Decision making is unified by a desire to find the simplest and easiest route to navigate a decision that most don't feel qualified to judge, therefore heuristics influence the vast majority.

The two most common routes to choosing the NWP provider were:

1. **Relying on a trusted other to make the decision** – the power of recommendation is extremely influential in this context and is why many choose to use financial advisers or lean on parental opinions.

2. **Relying on the familiarity of a recognised brand name** – to provide comfort and assurance in an unknown space, highly prevalent for non-advised respondents.

Trusted others

Advised
Just over half the sample used professional financial advisers – referred to by respondents as IFAs or mortgage brokers (likely to be IFAs also giving mortgage advice) – to choose their NWP. As discussed in Chapter 4, some were 'sold' a NWP as part of a broader engagement with an adviser e.g. when arranging a mortgage, whilst others proactively asked their adviser to arrange the NWP. In most circumstances the adviser led the research and evaluation process with limited involvement in the choice of the product type, provider or funds by the respondent (exception is the more engaged, older respondents). Where the adviser appears to driven the need for the NWP, engagement and validation of the recommendation appears lowest.

A small number appear to have taken initial advice from financial advisers, some formally, others informally, but not completed the transaction, preferring to self-direct the actual purchase (and avoid paying advice charges). These appear in the more engaged type in the study.

Where advisers are involved, shopping around to compare providers is almost non-existent, such is the extent of trust in their recommendation. In these cases, respondents have delegated responsibility of the choice. More engaged advised respondents may undertake some validation of their adviser's recommendations and be involved in the final decision making. This typically involves online research on the providers' websites.

> *"I don't know much about pensions but feel I should understand them better, I need to focus on the plan for when I retire. I have left involvement of my personal pension to my adviser and I trust him to do that.*
> **Moderately engaged, higher NWP wealth, Gen X**

Non-advised
Parents who triggered the initial need for the NWP were often heavily influential in the buying process. In these cases, respondents appear to have been very comfortable allowing the parent to navigate the market and drive the decision based on their opinion of a suitable provider. It is not clear how much research the parents undertook, but several examples of parents recommending the same provider as their own were heard.

> *"It could have been any company, that was the one that my parents also have a pension with, I feel warm towards them and have insurance products as well.* **Less engaged, lower NWP wealth, Millennial**

Colleagues, employers and friends were mentioned in a few cases and here the respondent simply defaulted to the provider recommended by them, trusting in the person to put forward, without bias or self-interest, a provider they had had a trouble-free experience with.

A couple of cases used suggestions from online forums within Money Saving Expert to identify a provider.

In these non-advised examples, respondents may have phoned the provider or gone online to check generic details (e.g. minimum level of contributions, ability to pause contributions) but beyond this, undertook none or very little validation of the recommendation.

These shortcuts provide easy access to perceived expertise and assurance that someone who knows more than they do is driving the decision; this is a common way for respondents to avoid inertia and reduce the cognitive dissonance felt when having to make a decision that is considered necessary but deemed too hard given low knowledge levels.

Brand familiarity

Choosing a provider on the basis of brand familiarity provides a shortcut to assurances around factors such financial strength, longevity in the market, experience and expertise and this is a highly prevalent behaviour amongst the non-advised. Several examples of large, long-established insurers were mentioned in this context. Respondents may have an existing relationship with the brand (e.g. through general insurance) and extending the relationship is considered an easy way to choose a NWP provider. They may also have family members with existing relationships. The comfort this provides is usually sufficient, particularly for the less engaged, and was very commonplace amongst non-advised respondents.

"I had car insurance with xxx and seen the advertising and I felt comfortable using the brand.
Moderately engaged, lower NWP wealth, Millennial

Amongst the more engaged non-advised respondents, research of providers and some evaluation is undertaken. Online review sites are popular (newspapers, specialist money sites, consumer forums) as well as provider and platform websites. The aim is to build a shortlist of options for comparison. Even amongst this more engaged group, the range of sources accessed appears limited and the shortlist is short – typically two to three providers. Respondents are then likely to visit providers' websites for further information or, more commonly in policies taken out a few years ago, phone the provider to obtain information and guidance on aspects such as fund selection.

5.3 Factors that influenced choice of NWP provider

Given advised respondents leant very heavily on their adviser for evaluating criteria across providers, this section is focused on the feedback from non-advised respondents. It should also be noted that for respondents who took out their NWP many years ago, recall of the specifics in their drivers of choice is likely to have diluted their feedback in this area of questioning.

One of the consequences of the large knowledge gap that exists around pensions is that respondents "don't know what they don't know". A large majority were unsure of the criteria on which they should be comparing and choosing NWP providers and in fact struggled to answer this question during the research. They did not have a check list of questions to be assessing providers against. There was also an assumption that all large, well known providers offer similar products and with no knowledge to the contrary, any will therefore be suitable.

"It wasn't really tricky to research, not that it wasn't my choice, it was just I sort of fell into it. I rarely think about it because it is something you can't see or that you have much to do with throughout the years and you kind of forget about it. **Less engaged, moderate NWP wealth, Millennial**

A well-known brand was by far the most influential factor for non-advised respondents. Beyond this, factors mentioned by a minority of respondents were generic features rather than specific to a provider, including contribution flexibility or online visibility.

More engaged, non-advised respondents cited several factors of influence. We have not ranked these factors as this is a qualitative study and citations were low, but their relative importance to respondents appears tiered based on frequency of mention and strength of influence. It is clear that non-price factors were more important in driving selection than price (discussed in detail further below).

Figure 8: Drivers of selection for NWP providers – more engaged, non-advised respondents

Tier 1
Brand – Reputable, trusted provider
Flexibility – Around contributions e.g. ability to take payment holidays, change the amount, minimum amounts, ability to transfer out
Security – The perceived security that is offered by a provider being FCA regulated and the protection provided by the FSCS; also merges with brand associations of financial strength and heritage which are important
Fund selection – Breadth of fund choice (availability of specific funds or sectors; choice of risk profiled funds) for the more engaged type and simplicity of fund choice (ease of investing in to suitably profiled funds or portfolios without too much effort) for the less engaged. Only a very small number of more engaged respondents appeared more persuaded by funds and fund performance in the choice of the NWP provider.
Tier 2
Access – Visibility and greater control of pension via online portal and / or mobile app
Charges – Including competitive ongoing fees and no / low exit fees
Decumulation options – clear information about tax free lump sums and how to access; drawdown flexibility
Tier 3
Application process – Simple and swift onboarding (this feature is more important for those consolidating multiple pots)
Usability of platform – Important for online investors looking for a good ongoing user experience

Interestingly, customer service was not mentioned as a choice factor. Respondents appear to have almost no expectations of ongoing service provision around their NWP and therefore service has very little leverage on choice. Some talk about using their provider's telephone support line during the purchase process but the quality of this experience does not appear to have influenced decisions – by this point they are likely mentally committed to the brand they are speaking to.

5.4 Effectiveness and comparability of information available

Effectiveness

Assessment of respondents' views on the effectiveness of available information has to be heavily caveated by the fact that a) respondents are not undertaking extensive research by themselves and b) their willingness and ability to ask detailed questions about potential NWP solutions is limited, even amongst the more engaged respondents interviewed, given the knowledge gap described. They do not know what they do not know. In addition, advised respondents are very heavily relying on their adviser to evaluate provider information – their consideration of providers in the purchase process appears minimal.

Given this issue, respondents are not well qualified to judge the effectiveness of information. That said, we did not hear any issues around lack of provider content or staff to answer queries amongst those that had made a non-advised decision. And those respondents who had undertaken their own research cited they were largely satisfied with the quantity and quality of available information.

"I think it is a bit of a minefield. There is a lot of choice out there and there are a lot of options to having a pension as well in terms of savings and investments and I don't feel I know that much about them. In terms of what the different companies offer I imagine they are much the same.
Less engaged, lower NWP wealth Millennial

Comparability

There is an issue raised by respondents and that is on the comparability of providers. Whether or not they had tried to shop around, respondents felt comparison across providers was or would be a very hard task and this in itself limits the desire to want to shop around. The prevalent concerns are:

1) Visibility across the whole of the market is considered impossible
2) Nuances in terms and features across providers means an 'apples with apples' comparison is hard
3) There is not a known 'go-to' source for comparing pension providers
4) They do not know the most important factors on which they should be comparing
5) They feel ill-equipped to make judgements across complex terms and features

The perceived difficulties with comparison leads some back to relying on recommendations, advice or well-known brands. This mindset also limits the respondent's willingness to investigate specific features in detail. Confirmation bias is likely to impact where, for example, respondents believe charges to be the same across all providers and will therefore not seek out or even see the information on charges due to this belief.

The issue of comparability is exacerbated by those that took out their NWP 15+ years ago before the internet became a preferred source for research. Older respondents relying on phone calls to and product brochures from providers, found the task of researching multiple providers far harder and this was a further reason for limiting the amount of comparison undertaken.

It therefore appears that comparability issues need to be addressed before effectiveness of information can be evaluated. This focuses the problem back to the perceived complexity of the product category and the fact the respondents feel they are entering a technical minefield. Without a simple comparison website that would do the work for them (akin to services used for buying general insurance), respondents felt comparison on a non-advised basis was almost an impossible task.

5.5 Comparing charging information

Charges is an area of complexity for respondents and in this study we witnessed very high levels of confusion, highlighting an array of issues prevalent when respondents are buying NWPs.

Product fees were rarely called out as a specific factor driving selection of provider. Where they were mentioned (a handful of more engaged respondents) they were not considered to be a lead factor driving choice.

"I didn't really know either but obviously they need to make their money somewhere and get a percentage of what they are investing. I didn't use that as a point to compare or choose.
Less engaged, lower NWP wealth, Millennial

Behaviours seen, in approximate order of frequency, were:

1) Product fees were not considered at all when choosing the NWP.

2) Only advice charges were considered (by advised respondents) and any product fees were confused with advice charges (pre RDR commissions may have masked the actual product cost in some cases).

3) Cost was given a brief thought, but product fees were assumed to be marginal and consistent across providers so was not considered when setting up the NWP.

4) Product fees were thought to be payable only at outset, not ongoing (described variously as a set-up fee, handling fee, one-off fee or initial payment).

5) Cost was considered and concluded to be a very low amount ongoing and therefore acceptable (little to no benchmarking taking place given the issues with comparisons described earlier).

Only in a very small number of examples, all in the more engaged type, were respondents able to confidently state they knew the cost of the product prior to taking out the NWP.

Respondents with NWPs taken out many years ago were most likely to believe they paid nothing for the product – recall clearly impacts here, but commission structures at the time will also have impacted visibility of discreet product fees. However, more recent purchasers, often advised, were often very vague about fees at time of setting up the pension. This appears to be driven by several factors, including confusion with advice charges (respondents sometimes cited a headline figure far in excess of what an average product annual management charge would be), lack of attention paid to charges, lack of focus on product fees in both adviser and provider communications (respondents citing they could not recall this being mentioned at all), lack of clarity when fees are presented as a percentage rather than a total annual cost in pounds, and the assumption that the cost was low and so therefore was OK to accept and forget.

One further interesting nuance in the language used by a few respondents is the potential for contribution amounts to be confused with product costs. The actual cost experienced by the respondent can be described as the total amount being taken from their bank account each month (if a regular premium product) and without an explicit cost being experienced, a small number of less engaged respondents described the fee as the amount being paid each month: "I only pay £100 a month".

The implications of low awareness and understanding of product fees at time of purchase impacts ongoing engagement and understanding of the NWP, discussed in the next chapter.

"It is a minefield to work out the charges, whether you can get a lower charge and whether, in doing that, you are giving something else up. **Moderately engaged, moderate NWP wealth, Gen X**

"I didn't think about mine. If I changed tomorrow I wouldn't give it a thought. If the product was right the charge wouldn't be an issue. **Less engaged, moderate NWP wealth, Gen X**

"I had no charges. I knew the guy really well. No, there were no charges but he got commission.
Less engaged, lower NWP wealth, Millennial

5.6 Choosing the underlying investments

Fund decisions were mostly delegated or chosen passively; only in a minority of cases in the more engaged type were they chosen proactively. Non-advised respondents referred to seeing information in brochures or online about funds but for the majority, this quickly became too technical, leading them to default to the 'standard' or 'middle' offering (e.g. the balanced managed fund or portfolio) without sometimes being aware of any distinction between the product and the fund. Respondents sometimes took guidance from a telephone-based provider representative if unsure. Advised respondents largely left the fund selection to their adviser.

> *"I just went for medium and I know that is not a good mindset to have. It is just the reality.*
> **Less engaged, moderate NWP wealth, Gen X**

> *"I recall a conversation about where the money goes, how they grow it and the different funds they use to grow it. I remember graphs and charts but I don't know where my money is going. I just have this blind faith in the brand.* **Less engaged, higher NWP wealth, Gen X**

> *"I specifically remember looking at that and a booklet with graphs in it so they did give me a nice range of information when I set it up. It all seems so far away in terms of when you are going to be benefit from it and I didn't have the inclination to read it all; I just thought I'd go with the general average one.*
> **Less engaged, lower NWP wealth, Gen X**

A small minority demonstrated greater interest and involvement in fund selection, very often non-advised respondents who had opened SIPPs with online investment platforms. A small number with ongoing adviser relationships also demonstrated a reasonable level of involvement in the fund choice. These respondents demonstrate greater understanding of this feature through speaking about the risk profile of funds, fund charges, the ability to de-risk their plan when approaching retirement and access to specific sectors of interest.

5.7 Satisfaction with the purchase experience

From the respondents' perspective the buying process is working reasonably well as they have simplified it to such an extent that they are focused on just a very small range of requirements:

- Can I set up my NWP quickly and simply?
- Can I / my adviser find a provider I can trust (will my money be safe / be there when I need it)?

Other than 'ticking a box' in getting a NWP up and running with a reputable provider, respondents largely had no further requirements.

At this basic level respondent expectations are being met. The purchase process enabled respondents to move forward reasonable quickly – examples given ranged from a few days to a few weeks – a valuable benefit for those for whom time is a potential barrier. There were very few complaints about the purchase process and the establishment of the NWP (the only ones involve pension transfers and the ability of incumbent providers to transfer funds quickly and smoothly, this is discussed in the next chapter). Respondents have mostly chosen well established insurance companies, with a small minority selecting the larger online investment platforms. The trust requirement appears to be satisfied insofar as the financial strength of these providers can be assessed (out of scope of this research).

Respondents mostly believed they made the best decision they could at the time given their limited experience and ability to evaluate any differences between providers. Most are satisfied that doing something was better than nothing and simply having the pension in place is a source of satisfaction and in some cases relief.

The vast majority had not considered whether their choice was optimal at outset and most are not well placed to judge this based on levels of understanding around NWPs seen. The research prompted some to question, if they were able to revisit their buying experience, they may take more time and ask more pertinent questions. However, respondents do not appear to want more choice of providers or products. In fact, for the majority, more choice would present more complexity in the process and without support, would still default back to brands they feel most comfortable with.

Respondents did not have many suggestions for how to improve decision-making when choosing a NWP. The most popular request was for an independent comparison tool that can simplify the research and assist them by focusing in on the criteria on which pension providers should be assessed beyond brand. In addition to this, a checklist of core questions to ask (with or without an adviser) was felt to be helpful and this was mentioned by several, citing they ‘do not know what they don’t know’ when researching their options.

> “*I don't know if I made the right choice. I wouldn't know if I could have made a better choice.*
> **Less engaged, lower NWP wealth, Millennial**

There are some issues arising from these findings of this chapter.

A lack of financial interest and engagement means the majority of NWP buyers are not aware of the range of factors on which they could base their decisions, meaning choices are made without full cognition of what might make a difference to their pension outcome over the long term.

A lack of comparability presents an issue for consumers and is an area where the industry does not appear to support consumers’ need for simple, consistent and easy to evaluate information.

The lack of visibility on charges compounded with low levels of interest and attention to charges has resulted in the majority of respondents being unaware of the total cost of investing in a NWP when taking it out.

6 Ongoing Engagement with Non-Workplace Pensions

This chapter looks at the activities being undertaken during the accumulation stage of the NWP and the issues around ongoing engagement faced by respondents.

Key Findings of this Chapter

- Ongoing engagement with the NWP is very low with a majority simply skimming the pension statement and doing nothing more beyond this; interest for most is limited to knowing the value of their NWP and how it compares to 12 months' previous.
- Where the respondent was not highly involved in the buying decision, ongoing engagement appears lowest; a lack of active contributions, holding the NWP for many years, low perceived value of the NWP (relative to other assets held) and loss aversion also contribute to a lack of involvement.
- Issues around charges echo findings in the path to purchase – there is low awareness of costs being paid on an ongoing basis.
- Switching pension provider has low appeal for most, however consolidation makes sense in principle but is presumed difficult to undertake. Most that had experience of this found the process straightforward; a small number experienced issues.
- Return on investment is the main consideration for satisfaction and in the current market, returns and therefore satisfaction appear positive.
- Respondents believe providers could do more in terms of helping them engage with their NWP, however there is risk is that further communications activity by providers does little to change current behaviours given the extent of barriers, both perceptual and structural, observed.

6.1 Ongoing needs and current behaviours

There are two main types of emergent ongoing behaviours with the NWP:

- **None to minimal interaction**: the pension is mentally filed away upon 'ticking the box' at set up. Apart from an annual statement communication from the provider – which amongst the least engaged may not be read – there are no touchpoints with the NWP during the course of the year.
- **Relevant interaction as deemed necessary**: this may be a frequent check of the pension value on a mobile app, or an annual review of performance with an adviser. The type and extent of interactions are variable, but respondents that are more engaged on an ongoing basis are united by a desire to have some visibility of their NWP to help ensure things are on track.

In the sample, a majority – across less and moderately engaged types – had minimal interaction with their NWP, a small group of moderately engaged respondents had more extensive interaction and a very small group – the more engaged type – were interacting with their NWP on a regular basis.

When asked which of the following activities they had undertaken since taking out their NWP, around two thirds of respondents had read a statement, with less than half undertaking any of the other activities. Activities with very low incidence were undertaken by fewer than 1 in 5 respondents (note actual count not shown due to small sample size).

Figure 9: Extent of interactions with NWP since set up

Decreasing incidence within sample

Activity since set-up
Moderate incidence
Read statement*
Used online portal (web / app)
Low incidence
Checked performance (of overall pension)
Increased contributions
Very low incidence
Reviewed pension for suitability
Checked charges
Consolidated pots
Switched funds

*Respondents were asked if they had read their statement fully, i.e. not just a glance at the headline figure

Those that are less engaged on an ongoing basis are keen to keep things simple. Their main ongoing need is to know if their NWP is growing over time and a cursory glance at the annual statement provides the headline information to support this need. Without the prompt of the annual statement, there would likely be no interaction with the NWP. Several admit to not reading the statement at all – either filing it away unopened or placing it in a pile of paperwork to be read at a later date, which never arrives. Of those that open their statement, most simply check the value of their pot and possibly see if it has increased in value since the last statement. A small number will read the projections to understand what the value of the pension will translate to in terms of future income. There are doubts about the reliability of the projections which deter respondents from studying them in any detail – this uncertainty about the pension outcome is a further barrier to engagement.

"***Reviewed pension to make sure it is still right for you?*** *No. I have given it very little thought over the past couple of years. It is just there - suitable or not*. **Less engaged, lower NWP wealth, Millennial**

"*I am a bit disengaged and I don't want to look at it all the time, I am more concerned with the day-to-day. It feels so far away.* **Less engaged, moderate NWP wealth, Millennial**

There are numerous reasons for low engagement, some of which echo what was heard when discussing the purchase stage:

- **Recency of pension set-up**: for Millennials, set-up may have been relatively recent and the need for review has not yet been felt; conversely for older respondents, the NWP has been running for years, effectively 'filed away' without reason to disturb – it is considered a long-term product that one should not touch.
- **Not actively contributing**: the lack of regular contributions in to the NWP has a direct impact on engagement, particularly if the respondent is contributing to other pensions (e.g. workplace). This links to the above point as many NWPs were set up several years ago ahead

of the arrival of workplace pensions under auto-enrolment. Where parents made the initial and only lump sum contribution to the pension, seen in a couple of cases amongst Millennials, engagement was particularly low.

- **Low priority**: the NWP is often perceived to be low priority, in the context of other financial provisions for retirement and in the context of respondents' current lives, where present bias impacts the willingness to focus on a benefit that is distant and considered uncertain. For example, Millennials are more concerned with saving for a house, building careers, starting a family and Generation X'ers are more focused on children's education, starting a new career or business, divorce, mortgages and other debt.

- **Low value of pension / uncertainty of outcome**: this can limit engagement if the value of the NWP is perceived to be low – both the actual current value or the projected future annual income.

- **Fear factor**: active avoidance rather than inertia is a reason for disengagement – the fear of making a mistake / loss aversion. This is compounded by the belief that pensions are designed to be long term leading to a 'leave it alone' mentality. Without an ongoing adviser in place, fear inhibits action. This particularly impacts fund switching behaviours which appear particularly low in this sample.

- **Effort involved**: lack of knowledge compared to perceived complexity means it is too high a mountain to climb to effectively engage with NWP.

- **Abdication**: using an ongoing adviser, relying on parents, or simply trusting the provider to do a good job, drives low engagement for some. Trust in the provider has been reinforced for some through good investment returns in recent years, propelling the belief that given the bottom line number continues to increase, they do not need to engage further. Relying on parents was seen to the extent that some Millennials do not receive their NWP annual statements as they are sent to the original family home, rather than the policyholders' current address.

- **Lack of provider/adviser prompt**: many cite that providers have not 'nudged' them or that they are no longer in touch with their original adviser; the annual statement is insufficient as a call to action to review the pension, top-up contributions or consider switching funds.

- **Lack of awareness of an online option**: easy access to the pension value can be a trigger to greater engagement with the NWP. Many of those not using online services are with providers that offer this, but they had either not been made aware or had failed to spot it.

"***Were you aware you could increase your contributions?*** *I am certain I was aware but I haven't done it. It is still the level it was 20 years ago.* **Less engaged, lower NWP wealth, Gen X**

"*I do look at what the units are worth and what they were worth the previous year but in terms of the detail, I am not really interested and I rely on the adviser.*
Moderately engaged, higher NWP wealth, Gen X

"*Switching the funds you are in, that's interesting. I didn't know you could do that. I'd want to speak to someone. Information on it is useful but best done with an adviser who knew what they were doing*
Less engaged, lower NWP wealth, Gen X

There were a few drivers for greater engagement with the NWP, seen amongst the more engaged and some of the moderately engaged types:

- **Online access:** where apps and website portals are used and log-in is familiar and easy, engagement is noticeably higher. A small minority are regularly checking valuations on an app (as often as weekly), while website portals are used less frequently.

- **Adviser prompt**: an ongoing adviser relationship provides an annual nudge to talk about the pension and sometimes (not consistently) review for suitability. This is highly valued by the small minority that experience this.

- **Proactive provider emails / notifications**: infrequently mentioned but a few respondents received updates by email which increases visibility and therefore likelihood of interacting with the NWP (one example of an online pension consolidator sending notifications about the markets via their app which was highly valued by the respondent).

- **Reaching 50+:** a significant milestone for increasing engagement with NWPs; a few respondents in their 50s cited an increase in the felt need to understand options at decumulation, the likely value of their pension and a desire to feel a little more in control of their pension situation.

Experiencing one of more of these drivers, plus having the awareness of need and financial capability described in Chapter 4, can result in a reasonable level of understanding about the NWP. However, the likelihood of this occurring appears low, given that in our sample, only a small minority of respondents in the more engaged type displayed good levels of knowledge around fund choices, charges, taxation, risk and other relevant features of pensions.

“***How often do you look at yours?*** *Daily. I am a DIY-er and I watch things and compare over time. I have got the app.* **More engaged, moderate NWP wealth, Gen X**

“*I have got the app. I got a message on my phone re: the market turmoil saying - you may find your fund has decreased. I did feel there was an arm there saying, ‘Don't panic.’ That is quite clever. I go in the pension app once a month.* **More engaged, moderate NWP wealth, Gen X**

“*I have become more conscious of the fact that I need a bigger pot as I move closer to retirement and more aware of how much money you need to function without having a salary.*
More engaged, moderate NWP wealth, Gen X

Following the discussions, some of the less and moderately engaged respondents felt unsettled about their lack of activity, and some felt a renewed desire to look at their NWP and its current position (including investment choices, performance and charges), highlighting the effect a communications nudge that cuts through can have on attitudes (it is noted that a research effect may have made a temporary impact). A minority of the less engaged type remained comfortable with their lack of involvement, content to leave the outcome in the hands of their provider. Their motivation and strength of need associated with the NWP was not strong enough to warrant changing behaviours. In addition, the perceived gulf between their current knowledge levels and what would be required in order to make effective decisions was felt too great.

6.2 Effectiveness of provider communications

The lack of ongoing advised relationships means there is greater reliance on providers to deliver what is needed to help respondents understand their pension and check they are on track.

For non-advised and transactional advised respondents, there can be a gap between needs and experience in terms of education and communication. Unlike in the workplace where pension engagement activities, at least amongst larger employers, have started to increase in recent years, respondents with a NWP do not appear to experience much proactive contact from their providers beyond the annual statement. However, given the low levels of current engagement described above, combined with the perceptual barriers, particularly the time and effort involved, discussed earlier, it could be inferred that additional communication efforts by providers are going unnoticed.

Respondents believe providers are expected to undertake the following activities:

1. Administer the pension
2. Manage the investments
3. Communicate status of pension via an annual statement / online portal
4. Provide projections on the future value of the pension
5. Provide a channel for queries and support

However, the research discussions prompted further consideration of needs and expectations. Respondents reflected on the challenges they faced in staying engaged with their NWP and most recognised a need for greater provider support, particularly as they edge closer to retirement. Several commented on a lack of provider offer or suggestion for reviewing the pension, and without this prompt, had not thought to do so independently given the pension is not top of mind (or at best had felt a latent need for reviewing the pension that had not been actioned). A small number felt that providers may be limiting information that might lead a person to understand enough to consider a switch (in contrast to the utility sector which is observed as having moved forward in this regard).

“*Talk in layman's terms about market performance. An explanation on how the fundamentals work. I interpret it that you are bamboozled with figures – ‘we know what we are doing, just leave it to us, you don't need to be involved’. That is why I am sceptical.* **Moderately engaged, higher NWP wealth, Gen X**

“*Clarity on where my pension is invested, what those investments are doing. Clarity on charges although there is a percentage figure and I need it in pounds and pence and I need a graph. I am a chart person.*
More engaged, Moderate NWP wealth, Gen X

“*Provide a personal service but in a non-sales pushy way. Someone to say - you are not paying enough in but not in a pushy way - this is what the outcome could be. A bit like the energy companies do - You have hit your trigger, there are cheaper products out there. I don't think pension companies do enough of that.*
Less engaged, moderate NWP wealth, Gen X

Given most respondents only experience of provider communications was the annual statement, feedback on ongoing provider information was limited to this item. In the depths some respondents brought examples of their statements, others relied on recall.

The majority felt their statements were too complex for their needs. Whilst there were examples of clear summary pages, the overwhelming view is that statements should be shorter, simpler and focused on information that is most important to them. The two key pieces of information that respondents are seeking from their statements are:

1. **The fund value: has it gone up or down?** Respondents were confident they could understand this from their statement, although some would like the growth displayed more clearly as a percentage (e.g. your fund has grown by x% in the last 12 months). A few more engaged online platform respondents commented on the lack of clarity around discrete pension fund performance year on year.

2. **What the value translates to in terms of future income.** There was some uncertainty on the credibility of statements in providing accurate projections, confusion over what the projections

mean (at least one respondent treating it as a promise of future income) and distrust amongst a small number that the NWP will not deliver on the forecasts.

"It's all very confusing. Six or seven pages, then a summary. You're like, is this what I've got now or is that what I'm going to get? The figures don't seem to relate to my contributions. It all seems unreal.
Less engaged, lower NWP wealth, Millennial

"I didn't look at the fine details as it would have confused me. I'd prefer to go through it with a financial adviser when I get a moment. **Less engaged, lower NWP wealth, Millennial**

"It's the projection bit, what will I get. That's what I care about. You can tell me the money's gone here, there and everywhere, but I don't care. **Less engaged, lower NWP wealth, Millennial**

Respondents would like the pension statement to contain:

- Current value compared to 12 months previous
- Realistic projection of how the fund value translates into future income
- Simple view of overall performance (e.g. your money has grown by x% in the last 12 months)
- How performance compares to other providers / similar funds
- Reminder of what the pension is invested in, using simple terms
- Reminder of the annual cost of the pension – in pounds and pence
- Reminder of the basics of pensions
- Impact of increasing contributions

"If you continue your current level of paying in, what is going to be your final output. If you paid in an extra x per month, this is the impact of any reduction or increase.
Moderately engaged, lower NWP wealth, Millennial

"I think it should be statutory law to make it your year-to-date performance of that fund a percentage and that would drive up performance and comparisons. Nobody does that and I think it is deliberate, to make money. **More engaged, moderate NWP wealth, Gen X**

"I think they should assume they are talking to non-financial experts and write it accordingly. I don't want to be patronised but, equally, I don't want to be confused. Drop the jargon they use. Put it in layman's terms. **Moderately engaged, moderate NWP wealth, Gen X**

6.3 Understanding of ongoing charges

Consistent with feedback from the purchasing stage of the journey, awareness and knowledge levels around ongoing charges were low. Charges remain a grey area for respondents with around half unaware they are paying an ongoing product charge and only a small minority able to estimate the ongoing charge being paid.

Amongst those that do not believe they are paying any ongoing product charges, beliefs established at the time of establishing the pension are highly influential. If a person is not aware of costs upfront, they are unlikely to learn about them through ongoing provider (and for some, adviser) communications as they are not reading them closely enough to see any information about costs. Equally, they will not have thought to proactively check charges – it is not a feature on their radar at all. For some, the product was taken out many years ago and any information provided by their adviser or provider at the time has long been forgotten. Clarity of charging information on the statements seen was highly variable, with some providers leaving this information to the back page, and others communicating it in percentages and complex terms that respondents could not understand.

> "***Any information on charges?*** *I can't see it just scanning through .. It is not easy to see .... Annual Management charge - it is their initial 7.75% and then 1%. It is not overly easy to understand. It says 1% ordinary unit type and 7.75% initial unit type so is that 7.75% on any initial fund... I don't really understand the split between ordinary and initial.* **Less engaged, lower NWP wealth, Millennial**

Issues remain with costs being taken from the product rather than being paid for explicitly and orphaned advised respondents with older-style products believing all charges were settled up front or are being paid only to an adviser via commission.

This results in the large majority of respondents being unclear on the ongoing cost of their NWP. There is an intellectual assumption, following discussions, amongst some that a charge must be payable for a service being received even if the amount is not known. A small minority remain absolute in their belief that there are no ongoing product fees. These tend to be respondents with long-standing NWPs (those that set up their pension more recently and had moderate to more engagement in the buying process appear to have better awareness of the costs).

Of those that know they are paying something, most hazard a guess at the amount with varying degrees of accuracy (some much higher, some much lower than typical annual product costs of around 0.5% – 1%); only a very small number accurately provided an reasonably accurate ballpark (validated either through finding the charging information in the statement brought to the interview or from the interviewer's knowledge of average NWP ongoing product fees). There are no issues in the level of product fees being paid, although given the low level of review activity being undertaken, respondents may not be aware if their product charge is competitive or not.

Many have not considered the structure or level of product fees since setting up their NWP, which may have been several years ago. Assumptions around marginal ongoing costs relative to the size of the pot and that there is mostly parity of product fees across providers mean many respondents are not interested in the ongoing cost. Adviser, fund and platform charges cloud the absolute cost of the pension for many – it is hard for respondents to be able to distinguish between the different costs and some estimates are likely to include other costs.

Most believe the product fees are for simply managing the pension, for example, the administration involved. Others refer to managing the investments. It is clear respondents do not have much knowledge of what charges actually cover. A small minority are confused on whether the percentage is of the total value of the NWP or the investment growth…or something else.

One additional source of confusion is the potential for ongoing contributions to be perceived as the ongoing cost of the product, seen in a couple of cases.

> "*All I know is I pay a certain amount each month for contributions.* **Moderately engaged, moderate NWP wealth, Millennial**

> "*I am pretty sure they don't take a percentage of the monthly money I give but I think they take a percentage of the movement of whatever they are investing the money in.* ***It is on the growth****? Yes, I think she said that to me.* **Moderately engaged, moderate NWP wealth, Millennial**

> "*Having had a look at my statement I can't see anything that refers to charges. I am sure there is a small operating fee but nothing has really caused alarm bells. When you see the total going up every year you feel it is working.* **Less engaged, lower NWP wealth Millennial**

“*No, I think it is going to be similar across the board like interest rates on your bank account.*
Less engaged, lower NWP wealth, Gen X

6.4 Switching behaviours – triggers, barriers and benefits

Given low ongoing engagement levels and in particular the low incidence of NWP reviews, the large majority have not switched providers or consolidated disparate pots. A small minority have considered it while a few were not aware that this is a possibility.

Amongst those who had considered or undertaken switching / consolidation, a NWP review was the most common trigger. This was often prompted by a financial adviser during a review meeting, but was sometimes self-prompted when the paperwork involved in managing numerous pensions was felt too onerous or fragmented. Other triggers, seen in a very small number of non-advised cases, included current provider increasing product fees and low performance of funds.

“*Consolidating made it easier to manage. All in one place on a portal which I can view whenever I want to. I consolidated with an adviser so the adviser was the catalyst because he was offering a service to do the review every year. So it was part of the whole thing.* **More engaged, moderate NWP wealth, Gen X**

“*It is relatively straightforward, but you can easily make a mistake. They do tell you to seek financial advice because it might not grow as well as it is doing currently but it is easier having just one pension rather than messing around with three or four.* **More engaged, lower NWP wealth, Millennial**

The vast majority of consolidation cases took place with adviser support. A couple started with an adviser consultation but completed non-advised (where individuals did not want to pay advice fees and/or felt sufficiently confident to self-direct the process). These used online platforms to complete the process. The majority described an easy process, taking some weeks to effect (up to three months mentioned), but with no issues along the way. A couple cited difficulties with incumbent providers releasing funds (one made a complaint to the Financial Ombudsmen about what he described as “bullying tactics”). There were no mentions of unexpected exit charges.

A few non-advised respondents had wanted to consolidate, had taken some initial steps, including a discussion with an adviser or the provider, but had been deterred by the perceived complexity of the process, their lack of knowledge or the effort involved relative to the size of pot being transferred (usually small). Small workplace pots (under £1000) were difficult to transfer (one was stopped, one was a very difficult process to go through). This led to respondents either abandoning the idea or procrastinating, with a view to revisit at some point in the future.

“*The government wants us to save but doesn't tell us the best options. It is fiddly as well; I tried to transfer one and ended up with three and it is difficult to transfer, costly and time consuming.*
More engaged, moderate NWP wealth, Gen X

By far the most frequently mentioned benefit of consolidation is having less paperwork and therefore simplifying arrangements, rather than any advantages related to the product itself. Switching or consolidating to improve performance and lower fees were mentioned by a small number.

“(Benefit of consolidation would be that pension) *is easy to manage….. Being on top of it instead of hiding it in the cupboard. With my workplace pension I get statements once a month, I can see it fluctuating, I can see what I have put in and my employer has put in. At the moment with this (NWP) I am getting it once a year so it is at the back of my mind.* **More engaged, moderate NWP wealth, Gen X**

The barriers raised by those that have not switched are listed below in order of decreasing frequency. The main barriers mentioned highlight the fear of making a mistake when switching.

*"I sort of presumed you could but it was going to be an absolute *** ache. You hear horror stories of people trying to contact pension companies but they have moved or don't exist.*
Less engaged, lower NWP wealth, Gen X

Figure 10 Benefits and barriers of consolidation

Perceived benefits	Perceived barriers
• Less paperwork/admin • Easier to keep track of • Lower annual product fees • Improved performance • Higher projected retirement income • New features e.g. more options at decumulation	• Lack of awareness of consolidation benefits • Lack of understanding of consequences/implications • Not enough information on the process • Information sourced (via own research) is not clear enough • Expectation that it would take a lot of time and effort • Expectation that providers would not be helpful/ask for a lot of paperwork • Too busy to devote time to it • Wanting to retain an element of diversification across providers • Pension pot is too small to justify the effort • Would lose current benefits • Exit fees • Wanting to retain different pay-out dates

*"**Would it be a complicated process**? To consolidate it, yes. I would see a financial adviser. The main benefit would be so they can break down exactly what is happening and what the charges are.*
Less engaged, lower NWP wealth, Millennial

"Are they portable and what are the costs of doing it and what are the risks? I didn't know some transfers can only be undertaken with professional financial help. I don't feel I know enough about them to make a good judgement so I leave them where they are so I don't damage them.
More engaged, higher NWP wealth, Gen X

Despite the importance of brand in choosing the provider, brand loyalty is not given as a barrier to switching. The greatest barrier, beyond awareness, is a lack of confidence in being able to carry out the process. To counter this, many believe they would need to resort to professional advice which presents a further hurdle in terms of cost, access and time involved.

The small number that did switch (moderate and more engaged types) considered fund performance, cost and greater access to funds and flexibility as their main criteria for choice.

6.5 Ongoing satisfaction with NWPs

Respondents expectations of the NWP and provider are modest. Their main requirements are:

1. Growth over time. A return on investment is expected, over and above contributions made.
2. An easy way to check growth over time.
3. Being able to rely on providers to help them understand their NWP and check that they are on track
4. A simple annual pension statement to communicate the above and for some, digital access for more regular access to this information
5. Nudges / reminders to help those disengaged remember why they should be keeping track of their NWP

Ongoing advised respondents have even fewer expectations of the NWP given the adviser is the first port of call for most of the items listed above.

Where NWPs have been in place several years, the product appears to be performing against modest expectations of growth over time and on this basis alone, respondents are broadly satisfied with their NWP. In the current market, with widespread positive investment growth, it can be inferred that satisfaction may have been different if the research had taken place during a market downturn.

> "*Knowing there is something there - that gives reassurance that you have done something. Mine has been performing well and that is the main thing.* **Moderately engaged, moderate NWP wealth, Gen X**

Beyond this it is difficult for most respondents to accurately assess how well providers are meeting their ongoing requirements given the low levels of engagement seen in this study.

Respondents inherently believe providers could do more in terms of helping them engage with their NWP. Making information simpler is the most common request. Nudges are sought to help wake them up to the importance of saving and increasing contributions, and there is no push back on the idea of increased communications. Respondents accept they need to be reminded of key messages, have experience of this in other sectors (e.g. banking) and on reflection find it strange that NWP providers are not more proactive in their communications.

The desire to understand more about being on track and the impact of increasing contributions, even by a small amount, was often stated. Many low and moderately engaged respondents felt a targeted communication or income calculator tool would help them appreciate the benefit of boosting contributions. The challenge for providers is in achieving salience given that many already provide tools such as this on their portals.

> "*To be able to change the amount that went into it more easily so if you have £200 left over at the end of the month you can put that in. I am sure you can do it but I have no idea how you would.*
> **Less engaged, lower NWP wealth, Millennial**

Several non-advised and transactional advised respondents mentioned a pension review as a need area but could see no possibility of this being fulfilled. Respondents are currently poor at reviewing their own NWP product – both in time and competency – and in the absence of a paid-for adviser, expect the pension provider to offer at least some level of guidance around when and how to review their NWP. None could recall receiving a communications prompt focused on this. Those that would like a prompt felt every three to five years would be an appropriate frequency, given the long term nature of the product.

"We haven't got confidence in our knowledge and we wouldn't even know where to start. Just make it simpler and with more online help videos. You said the word 'annuity' and I am still not sure what it actually means. Get rid of the pensions language and use layman's terms. **Less engaged, lower NWP wealth, Millennial**

"Hand on heart, I don't know if it's still suitable. I know I should look at it but I just haven't had a chance. But they haven't suggested it and I'd need some guidance.
Less engaged, lower NWP wealth, Gen X

Herein lies a paradoxical situation where respondents are calling for greater provider communications to nudge them in to taking action, but current behaviour suggests that a great many would continue to ignore or miss this communication.

6.5 Future needs and changes requested

There is some desire for and expectation of improved engagement over time, particularly amongst Millennials. This is felt to be potentially triggered by reaching a milestone birthday (age 50 in particular), by a significant increase in the value of the pension over time or by an increase in relevant, personalised communications by providers. Turning 50 is considered an inflection point for evaluating pensions as well as other significant financial assets, as the need for retirement planning increases.

Respondents would like greater visibility on what the NWP means to them, now and in the future. Suggestions are made for improving touchpoints across the engagement types, although are more often than not mentioned by non-advised and transactional advised respondents:

- An at-a-glance one-page statement to provide the essential data in very simple and clear terms (a colourful, infographic-style statement brought to one session was praised for the simplicity of its communication), potentially sent more than once a year, via email or hard copy.
- Access to a mobile app – for monitoring the NWP more easily (more popular amongst Millennials). However, some admit that in practice they may not check very frequently.
- Personalised online 'dashboard' showing the current value of the NWP and projected income on retirement, with access to tools such as a retirement income calculator (email prompts to view would be required as likelihood is most will forget this exists).
- Traffic light system on the statement to monitor progress against plan – a simple red, amber, green system akin to food labelling that enables one to track progress against a retirement goal, set at time of establishing the pension.
- Occasional email communications, e.g. quarterly, to inform about the NWP (e.g. information about the underlying investments or impact of issues such as Brexit) and provide nudges to engage and reinforce key messages e.g. about tax benefits or reminders about the mobile app.
- Integration with online banking to enable a single view of banking and pension savings in one place.
- A centralised dashboard to see all NWP pensions in one place (a few respondents spontaneously described the proposed Pensions Dashboard).

"I would definitely use an app. I use banking apps every day. I think I would be more passionate and on the ball about it. It would make it more real than the letter sitting in the drawer.
Less engaged, lower NWP wealth, Millennial

For improved ongoing service respondents would like better guidance on improving their pension situation. This is expected to come from the provider (very low mention of Government guidance services):

- The opportunity for periodic pensions health checks. These are variously described as Skype, phone or email/chat based, and should be focused on the key criteria for reviewing suitability and performance. These are expected to be 'part of the service' rather than an additional cost.
- Easier process for increasing contributions (akin to online banking i.e. the click of a button).

For improving education and understanding about NWPs respondents would like simplicity and personalisation – information that is relevant, meaningful and comprehendible:

- Simplified language and terms – providers should assume the lowest level of knowledge and not fear patronising the few more engaged and knowledgeable out there (even this type demonstrated knowledge gaps during the discussions).
- Concise information on where and how money is being invested (e.g. Millennials interested in ethical investing).
- Comparisons on how funds are performing relative to similar others (e.g. average of the sector).
- Clear information on costs incurred over the last 12 months – in pounds and pence and not placed at the back of the pack.
- Information about the benefits of pension consolidation with scenarios to show the impact of increasing contributions over the long term.
- Rules of thumb or comparisons on how much to contribute – what is 'normal' or 'average' for people of the same age / region.
- Repositioning of pensions to make them more relevant and compelling to Millennials; i.e. change the label, freshen the image, bring short-term benefits to pension savings.

"*The language they use can be a bit stifling. Make it plain English - easy. I like the idea of some form of online learning e.g. video, documents. The annuity piece is a minefield so there is a responsibility on them to fill in the gaps, on, 'where are you in the pension journey? Click here and we will give you everything you need to think about.' Like a tutorial. You are 52, these are your options and if you do this you will get this.* **Would you bother to spend the time looking at it if an email came through?** *Yes 100% - if it was short and easy and something that would help.* **Less engaged, moderate NWP wealth, Gen X**

"*It is the word 'pension'. No-one at 28 wants to look at it. I don't want to think about it. Can they call it something different when you are under 30!* **Less engaged, lower NWP wealth, Millennial**

"*Education from secondary school onwards. They need to simplify the language.* **Less engaged, moderate NWP wealth, Gen X**

Respondents are clear they would like providers to do more. However, there is a significant risk that further communications activity by providers does little to change current behaviours as the perceptual barriers around pensions and the limitations of the broader ecosystem – for example a lack of financial education earlier in life, the inherent complexity of the product, lack of access to the whole of the market, all mentioned within the breadth of the research discussions as significant barriers to engagement – need to be addressed first.

7 Appendix A – Technical Report

7.1 Methodology and limitations

The FCA commissioned NMG Consulting to conduct a research study amongst current policyholders of non-workplace pensions in the UK, with the purpose of understanding their engagement with and behaviours around their NWP.

Given the objectives were highly exploratory, NMG recommended a qualitative approach, in order to understand the underlying motivations, needs and influences on behaviour. Within a qualitative study, a sample of respondents is selected to include as wide a range of people from across the target population rather than to provide a statistically representative sample. This allows the range of views across the population to be explored. The findings from a qualitative study provide a depth of an understanding as to the range of views or experiences that exist in the population. However, statistical inferences cannot be made from the qualitative sample to the general population.

7.2 Sample source

A free-find versus provider list source of sample for the research was considered. Given the relatively small sample required for qualitative research and the challenges involved in sampling across multiple product providers, it was considered disproportional to ask providers to supply extensive customer lists for recruitment purposes. Therefore, a free-find approach was concluded to be the best approach. Research participants for the study were recruited by a specialist recruitment agency used previously in projects for the FCA and very experienced in the recruitment of financial consumers. They were sourced entirely on a free-find basis using a detailed recruitment screener to ensure they matched the profiles sought.

7.3 Recruitment process

A team of field recruiters worked in targeted locations to source appropriate consumers. All members of the team have specific experience of recruiting for financial services research and of recruitment on a free-find basis. NMG Consulting conducted a detailed recruitment briefing prior to recruitment commencing.

Recruitment was carried out using a structured recruitment screener. It included a full set of questions asking about the participant's pension product holdings, employment status and attitudes towards pensions. Explanations of products were provided to ensure that respondents were clear about the type of pensions in scope. Excluded from the study was anyone who works for or had worked for an organisation in the pensions or investment industries, in financial advice, in journalism, media, PR or market research. This is to provide a more 'lay' view on the topic rather than one potentially influenced by professional experience.

Consumers who matched the required profiles, described in the sample section below, were invited to take part in the research. All respondents were sent a pre-task to complete ahead of the interview or focus group. The depth interview respondents were additionally asked to bring to the interview any recent paperwork relating to their NWP; for example, an annual statement or policy documentation. This was for interviewers to be able to check the validity of information given, for example of charges payable, and to help the respondent assess visibility and clarity of charging information. Whilst most respondents completed their pre-task, not all respondents brought their NWP information with them.

7.4 Sample

The sample comprised 73 participants, of which 37 took part in a one-hour depth interview and 36 in one of seven, two-hour focus groups. The 73 comprised numerous different type of non-workplace pension customers. Respondents were recruited into these types. Rather than setting hard quotas for the types, minimum thresholds were agreed.

The following definitions were used for the different types:

- **Active new:** started contributing in to a NWP in the last 24 months
- **Active ongoing:** have contributed into their NWP for more than 24 months
- **Switchers:** have been through a transfer experience, either single provider to new provider or consolidated multiple pots
- **Non-contributing:** have a NWP that they are not currently contributing in to / is paid up
- **Advised** and **non-advised:** mix of adviser relationships to fall out naturally
- **Self-employed** and **employed**: current employment status

The study achieved a spread of these types across the sample, as shown in the table below:

Figure 11 Coverage of types achieved against target

	Minimum Target	Achieved
Active new	10	24
Active ongoing	10	49
Switchers*	12	14
Actively contributing	20	61
Non-contributing	10	12
Advised	12	40
Non-advised	12	33
Self-employed	12	11
Employed**	12	62

**A small number were recruited as switchers but during the course of discussions they either a) revealed they had abandoned the transfer or b) mentioned transfer was workplace pension related*
*** Two not currently in employment*

7.5 Respondent profiles

Several criteria were used to construct the sample of respondents for this study. These were agreed by the project team and focused on factors considered potentially important when exploring engagement and understanding of NWPs:

Age: Given this project's focus on pension accumulation (the FCA's Retirement Outcomes study focuses on pre and at retirement decision-making), it was decided to exclude anyone over 53 to avoid pre-retirement discussions dominating discussions. We therefore focused on two age bands, representing two important lifestages for accumulation:

- <35 (representing 'Millennials' – the demographic cohort born in the mid 1980's through to end 1990's)
- 36 – 53 (representing 'Generation X' – the demographic cohort born in the mid 1960's through to early 1980's)

NWP pension wealth: Having examined FCA product data, the wealth bands were chosen to be representative of the market, with an emphasis on the mass market with under £100,000 in NWP wealth. Three bands of NWP total assets (based on respondent estimates) were selected, with the large majority of respondents falling within the first two bands:

- Lower wealth - £1000-£20,000
- Moderate wealth - £20,000-£100,000
- Higher wealth - £100,000+ (no upper limit set)

Attitudes towards, and involvement with pensions: a mix was desired, based on screening questions around investment confidence, experience and activity involving NWPs (such as fund switching, online registration and contributions).

Mix of channels used for purchase: advised (both transaction and ongoing) and non-advised, broadly even mix, falling out naturally within the sample.

Gender: Mixed, falling out naturally.

Geographical spread: North, Midlands and South, shown in the map below in Figure 13.

Brands: mix of NWP provider brands to cover the range of propositions in the UK and allowed to fall out naturally. Included traditional insurance brands and online SIPP providers. A mix of SIPPs, insurer personal pensions and FSAVCs were held across the sample.

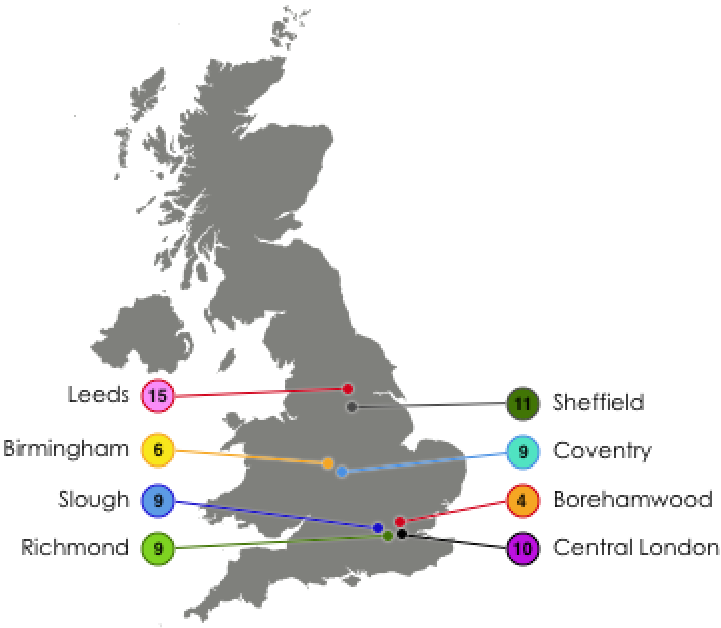
Figure 12 Sample structure

Age	Wealth (total NWP assets)		
	Lower wealth £1K - £20K	Moderate wealth £20K - £100k	Higher wealth £100k+
Younger (Millennials) <35	2 groups (1 x active new + 1 x active ongoing) 7 depths	1 group mix of lower and moderate wealth 1 mini group of moderate wealth 10 depths	

Middle years (Gen X) 36-53	1 group (active ongoing) 7 depths	2 groups (1 x active new + 1 x active ongoing) 7 depths	6 depths
TOTAL	**3 groups + 14 depths**	**4 groups + 17 depths**	**6 depths**

The distribution of respondents by geography, age and NWP wealth is shown below:

Figure 13 Distribution of respondents by geography, gender, age and NWP wealth



Gender

Male	39
Female	34

Age Band

<35	36
36-53	37

NWP Wealth

£1k-£20k	35
£20K-£100k	32
£100k+	6

7.6 Fieldwork

All depth interviews and focus groups took place in July 2018, conducted either in a viewing facility or meeting rooms. All were audio-recorded.

Participants were taken through a semi-structured discussion using an interview guide tailored to the group or depth structure and were shown stimulus material to explain pension consolidation and transfer to help ensure full understanding of this concept.

All research was conducted by a small team of senior qualitative researchers familiar with the UK retail pensions market and consumer behaviour. The FCA observed two depths and a focus group in the early stages of fieldwork.

7.7 Analysis

The analysis combined several proven qualitative techniques to uncover key themes, including analysis based on the evidence of what people said together with an interpretation of the underlying meaning and context. It involved some ‘counts’ of the answers to specific questions, grounded theory analysis to develop hypotheses and compare findings from sub groups and types emerging, together with observation and exploration of the language and stories used by the participants.

Throughout the fieldwork the interviewers compiled notes of observations and emerging consistencies. Every interview and focus group was transcribed to provide a detailed record of what respondents said. A brainstorming workshop was held between NMG and the FCA in advance of the detailed analysis to share emerging findings, identify further common themes and discuss implications of the initial findings. This provided a framework for a detailed thematic analysis using interview transcripts and interviewer notes. During the analysis process, emerging cognitive and emotional factors were considered, along with the influence of behavioural biases and heuristics.

The analysis took place in stages. Using sub group analysis, NMG examined whether responses varied according to a number of different variables such as channel usage, employment status, recency of NWP purchase and contribution status. The qualitative analysis process enabled comparison of factors that emerged during the analysis itself, such as strength of need for a pension or extent of benefits perceived in saving in to a pension. The process allowed the profiling of different types of NWP customer.

Specific differences between sub groups relating to any of these variables, where they arise, are discussed within the body of the report where the differences were felt to be substantive enough to make comment. If no specific references are made to differences between subgroups, no such differences emerged during the interviews. It is important to note that in a qualitative study, we are not considering the statistical significance of differences, but rather the emergence of differences in expressed views or differences through analysis that can be substantiated by evidence from the interview or observational data, and so are likely to exist in the wider population.