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Communication in DC Pension Plans: An International Perspective

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Communication in DC Pension Plans: An International Perspective

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Executive Summary

As the Dutch pension system will be changed from a defined benefit (DB) system toward a defined contribution (DC) system in the upcoming years, there is much to learn from national and international pension institutions that offer DC products. Previously, we have covered the results from fourteen qualitative interviews with communication professionals from DC pension institutions in the Netherlands (Report 1). This report, Report 2, describes the results from fifteen interviews with communication professionals from pension institutions in Australia, Canada, Chile, Denmark, Sweden, the United Kingdom, and the United States. The key findings are as follows.

1. Communication strategies

- We found a great variety of communication means and strategies.
- Communication strategies are mostly not backed up by evidence.

2. Communication and presentation of DC product features

- There is no consensus on the best way to display or visualize pension information.
- Defaults, regulations, and user testing affect the chosen presentation of pension elements.

3. Engagement

- A lack of engagement is a universal challenge for pension institutions.
- Technology, communication, and financial advice can be used as strategies for increasing engagement.

Recommendations

1. Share knowledge

Communication knowledge is currently scattered across individual pension institutions. This report is designed to share knowledge with the pension sector. A continuous stream of knowledge shared both nationally and internationally can increase communication effectiveness, can reduce the cost of developing effective communication, and in the end serves the interest of the pension plan participant.

2. Improve the evidence base for communication

Pension communication will benefit from a more evidence-based approach. The best approach to assess whether communication goals are achieved is to first have measurable and specific goals, and then empirically examine the effects of different communication vehicles and messages toward these goals. Evidence-based pension communication can be utilized to increase the financial well-being of participants, while simultaneously demonstrating the importance of well-designed communication in the organization.

3. Represent communication in the board room

Communication should be represented at board level, to ensure an adequate standing in the organization. Pension communication is of great relevance for most operations of pension institutions. The inclusion of pension communication in the boardroom will create more dialogue between different facets of the organization, and will demonstrate the importance of communication for most of the core activities of pension institutions.

Introduction and Background Information

In June 2019 the Dutch government, employer and employee organizations reached an agreement to change the pension system from a defined benefit (DB) system to a defined contribution (DC) system. Given the changes toward DC schemes, there is much to learn from pension institutions who offer DC products and therefore have experience in communicating about risk, choices, variable benefits, and other features that will be part of the new pension system in the Netherlands. In two reports, we describe the insights from a range of interviews with pension institutions. Report 1 covers the insights from fourteen qualitative interviews with DC pension institutions in the Netherlands. The focus of this report, Report 2, is to identify **common practices of communication in international DC pension schemes, to give some examples of creative practices to activate and reach out to participants, and to draw up a list of recommendations.** This report covers the following topics: communication strategy, goals and frequency, the representation of the expected retirement income and pension capital, tooling, evaluations by participants, and decision-making support. This report also compares the results from the international interviews with the Dutch results, to identify new insights, but also to give specific recommendations to the Netherlands.

Method

The findings of this report are based on fifteen qualitative interviews with pension institutions from Australia, Canada, Chile, Denmark, Sweden, the United Kingdom, and the United States. The interviews were conducted between November 2020 and March 2021. Table 1 details the characteristics of the interviewed institutions. Prior to the interview, institutions filled out a questionnaire about the characteristics of their pension scheme. In addition, interviewees were asked to share screenshots of their online communication materials. All interviews took place online and were recorded; the interviews were then transcribed, and the content analyzed. Interviewees were sent a summary of the transcribed interview for review.

Table 1: Characteristics of pension institutions

Fund	Country	Number of participants	Type of participant enrollment	Option to choose asset allocation strategy	Take-up of accrued pension capital during accumulation	Offering lump-sum pay-outs	Offering annuities	Option between fixed or variable payout
1	Denmark	1.3 million	Automatic	Yes	No	Yes	Yes	Yes
2	Denmark	300,000	Automatic	Yes	No	Yes	Yes	Yes
3	Sweden	2.6 million	Automatic	No	No	No	No	Yes
4	Sweden	> 1 million	Automatic	No	No	No	Yes	No
5	Australia	2.2 million	Automatic	Yes	Under specific circumstances	Yes (up to 100%)	No	Yes
6	Australia	775,000	Automatic	Yes	Under specific circumstances	Yes	No	Yes
7	US	5 million	Self-enrollment	Yes	Yes	Yes (up to 100%)	Yes	Yes
8	Canada	67,000	Mandated by law	Yes	If employment ends, remains locked-in	Yes (up to 100%)	Yes	Yes
9	Canada	40,000	Automatic	Yes	If employment ends, remains locked-in	Yes (up to 100%)	No	No
10	Canada	49,000	Automatic	Yes	If employment ends, remains locked-in	Yes	Yes	Yes
11	Canada	7,000	Automatic	Yes	If employment ends, remains locked-in	No	Yes	Yes
12	Chile	2 million	Automatic	Yes	During Covid	No	No	Yes
13	UK	700,000	Automatic	Yes	In serious ill health	Yes (up to 100%)	No	Yes
14	UK	9.5 million	Automatic	Yes	No	Yes (up to 100%)	No	Yes
15	UK	475,000	Automatic	Yes	No	Yes	Yes	Yes

Main Findings

In this section, we report the main findings of our report, and differentiate them based on whether they are a common practice, or whether there is no consensus on the issue.

Common practices

1. All pension institutions regularly reach out to their participants. However, the definition of regular communication differs per institution.
2. Many pension institutions use life events as a touch point for communication.
3. Most pension institutions primarily communicate through their website and by email. Many institutions use various additional channels.
4. Most pension institutions segment communication to some extent, but the segmentation variables differ across institutions.
5. The presentation of pension information is generally number-heavy.
6. Pension capital is mostly updated on a daily basis.
7. Communicating about pension income is heavily regulated.

8. Most pension institutions are not allowed to give advice and have to find alternative ways to engage their participants.

9. Low engagement is a given for almost all pension institutions.

10. Overall, institutions are focused more on communicating about investment risk than on the risk of having insufficient savings.

11. Institutions stress the long-term nature of pension savings.

12. Most institutions avoid extensive information on short-term fluctuations in the capital.

There is no consensus on the following issues

1. The importance assigned to engagement differs. One group sees engagement as important to improve pension outcomes. The other group considers engagement as something that should not be of great importance if the scheme is well designed, taking low engagement into account.

2. The added value of mobile applications (apps) is viewed differently. Not every institution offers a mobile app. Some use them mostly as a quick information source for the participants, others use it as an engagement tool.

3. The number of choices that pension plan participants have, and the number of choices that pension institutions want their participants to have, differs across pension institutions.

In the following chapters we summarize our findings based on the interviews. We start in Chapter 1 with an overview of communication strategies. In Chapter 2 we provide information on the presentation and visualization of key concepts in DC communication. Chapter 3 outlines the challenges of engagement with pensions. Chapter 4 details some “do’s and don’ts” for DC communication as shared by our interviewees. Chapter 5 shares the authors’ perspectives and provides three recommendations for DC communication. Finally, Chapter 6 compares the findings of this report with our previous report on DC communication in the Netherlands. We also provide inspiring examples throughout, related to the topic at hand.

Chapter 1: Communication Strategies

1.1 Many institutions focus on activating participants

When asked about the goals that communication departments of the participating institutions try to achieve, the “activation” of participants was a prominent one. Institutions try to give their participants ownership of their retirement income and want participants to make decisions that fit their needs. The goal of “giving people insight into their situation” was implicitly discussed by many institutions as well. Some institutions mentioned that they put a lot of effort in participant education on, for example, “how pensions work.” One institution offered another perspective, about the need to also think specifically about negative behaviors that you want to discourage, instead of focusing only on behaviors that you want to encourage. The interviewees did not mention whether these overarching goals were also translated into specific communication means and targets.

1.2 Part of activating participants is reaching out to them on a regular basis

An annual statement is part of almost all institutions’ communication tools. Next to that, most institutions say that they contact their participants on a regular basis. However, what is considered a good frequency for this regular communication differs among the participating institutions. It ranges from weekly communication about institution performance to only once per three years; most institutions contact their participants several times a year. Next to regular communication to “remind them every once in a while” that they are accruing pension, life events are a common reason for reaching out to participants. The frequency of reaching out often varies for different groups of participants, depending on age, needs, interest in the topic, and sometimes even emotional behavior. For example, one UK institution described that during the Covid crisis, they chose to reduce communication frequency for people who, based on data, seem to be prone to panic selling.

1.3 Most institutions segment their communication, but the “how” is different

Most institutions segment their communication to some extent. Yet, the variables used for segmentation differ. Some institutions differentiate communication based on age or whether the participant is retired or not. Some look at the economic situation and try to nudge people into making good pension decisions. One institution noted that the size of a participant’s salary or pension capital is predictive of the success of communications. Participants with greater pension capital or salary need less personalized communication because they are generally more interested or invested. On the contrary, they found that for people who are less invested, they have to put in more effort and costs in the personalized communication to get to the same end result.

“

If we want to stimulate a behavioral change, we typically run test campaigns. We know the efficacy of an email campaign vs. personal email campaign vs. a video vs. a personalized video. Effectively, we know the response rate and the click-to-action but also the unit cost. Unit costs are higher as you are going up that chain. With the available budget, we then try to create the right communication mix to deliver the right outcome. Salary and pot size are an interesting pivot point in that you can often get the same behavioral reaction with a lower cost, and less personalized intervention for a higher pot size because the member is more invested or interested, and will open the email and do something with it. In contrast, for someone who has a smaller pot size, you might need the communication to work that much harder. It might need to be a personalized video compared to an email which might cost ten times as much as a unit cost.
NEST, UK

1.4 Website and email are still the most-used communication channels

A wide variety of communication channels and means is used to contact participants, from letters to chatbots to trucks driving around the country. Besides the obvious and most-used channels such as websites, email, telephone, and advisors, we also see that a lot of institutions use additional channels. Annual participant meetings, TV, social media, or mobile applications are often used. TV and social media are mostly used for creating awareness, emphasizing the importance of pension engagement, and to inform about the institution’s environmental, social, and governance (ESG) policy. The use of letters is decreasing.

The Covid crisis has fueled a rise of webinars and videocalls which many institutions believe will still be used once Covid is over or under control. Few institutions have store fronts but those who have indicate that they are highly valued because of the possibility to interact face to face.

1.5 Mobile applications are not widely used (yet)

Using a mobile application (app) as a communication channel is currently not universal or common practice. Some institutions that do not have an app at the moment, however, state that they are considering developing one. Many times, a website designed for mobile usage is used as an alternative. Within the group of pension institutions that do have an app, two subgroups can be distinguished. One subgroup is where the functionality of the mobile app is often limited—the app is used as a quick check or information tool and contains information about, for example, the pension capital and investments. The other subgroup of pension institutions uses the app as an engagement tool and invests quite heavily in the development of the mobile app with, for example, gamification, the use of push notifications to reach out to participants when it is relevant, and the addition of many features. There is not always evidence that a mobile app increases activation and engagement. Sometimes institutions choose to develop an app because they think the customer demands one; it seems to be a market standard.

1.6 Most institutions consider costs as their unique selling point

The interviewed institutions frequently use low costs and fees as a positioning feature and a way to attract participants. Institutions also use their "not for profit" feature as a way to generate greater trust (according to interviewees). Institutions also mentioned diversity in investments, a lot of pension choices, and in-depth organizational insight (or transparency). Good performance on ESG criteria was indicated by three institutions as their selling point, and five institutions said their service and communication was their selling point.

1.7 Communication is seen more as an operational matter

Good communication is considered to be important by all institutions. At the same time, it seems more of an operational matter, and not something that is represented and anchored at board level or within the whole organization. It is often confined to the marketing or communications department: “I don’t think that we have specific people with communication background on the board.” Only one institution reports that the head of education and engagement is part of the senior management team.

All participating institutions have a dedicated department for communication, and two institutions mention that the department combines education and engagement. Most institutions have different focus areas or teams within that department, for example a data insight team, a participant experience team, and a creative team. Most of them also mention that the people working in the department have a communication, marketing, or journalism background and then acquire knowledge about pensions. However, for a few institutions, the employees working at the communications department have a pension background and then learn more about communications on the job.

For some institutions, the head of marketing holds the final responsibility. These institutions also mention that compliance and adherence to regulation is important, but the responsibility to ensure this lies within marketing. Others, however, also describe a hierarchical chain whereby legal and actuary teams seem to overrule the communications department.

1.8 Three types of effectiveness measurements are used

We find that three measurement types of the effects of communication can be distinguished. The first level includes analytics of activities, where log-in rates, open rates, call rates, and web analytics are assessed. The second type is the assessment of satisfaction with products, services, and institutions. The third type is the analytics of change in behavior. Pension institutions who track these effects focus on changes in behavior such as a change in contribution rate, appointing a beneficiary, or a change in an investment mix. We note that the methods and frequency of measurement differ across institutions. Some institutions appear to test their communication strategy quite intensively but overall, we found limited evidence regarding the evaluation of the effectiveness of communication.

“

It's not just: “have they opened the email?” It is rather: “have they read the email and gone on to take some positive action, which will influence their financial future?” This institution measures seven aspects:

1. Have they increased their contributions?
2. Have they chosen where to invest (because if they do nothing, they will be in a default investment)?
3. Have they transferred the pension in?
4. Are they saving alongside their pension, so have they a set up a cash account or an investment account with us as well?
5. Have they registered to use the site for online access?
6. Have they logged in during the last twelve months?
7. Have they put in place a death benefit nomination?

Hargreaves Lansdown, UK

“

Australia also does sophisticated testing with AB testing and assessing, which are messages that people are most receptive to. One Australian institution has three layers of reporting:

1. The bottom layer is campaign engagement metrics such as open rates, and subsequent actions that the participant takes, for example portal logins, and app and web usage.
2. The middle layer is called the “RAD framework.” Each participant is scored based on their actions and transactional activity. The scores are used to measure campaign impact. Here the questions are: Have we improved the rankings of participants? Are we moving participants toward better action health, better relationship health, or lower defection risk?
3. The highest level is market share, and factors such as whether participants remain to change from the accumulation to the decumulation product.

1.9 Some institutions try to educate participants on the scheme details

Different responses were received on the importance of communicating the details of how a pension scheme works. Some institutions stated that it is important to explain how the institution works in plain and simple language, and that this is an important challenge. Others focus mostly on personal information for the participant.

Conclusion

Looking at the way the different pension institutions communicate with their participants we see a wide variety of means and frequencies, all with the same goal of activating participants. Common practices are the use of website and email, the focus on low costs, and the importance of communication. Communication is mostly not represented on the board of the institutions.

Differences between institutions are found in the additional channels and means they use to communicate, how they segment their message, and whether or not a mobile app is used as a communication channel. If the latter, there are differences between whether the app is mostly used as a quick information source, or as an engagement tool.

Chapter 2: Communication and Presentation of DC Product Features

2.1 Communicating investment risk is challenging

1. Institutions focus on different types of risk associated with their product

Institutions generally acknowledge that there are two types of risks: 1. the risk of not saving enough for retirement, and 2. the risk of investment loss. One Swedish institution considers the risk of poverty due to little or no saving the dominant risk, especially for women and part-time workers, and also because people can withdraw their savings within five years. Overall however, interviewees are focused more on communicating about investment risk than on the “lack of savings risk.” This imbalance may be explained by the strict regulations in all countries to inform participants adequately about the risks incorporated in their DC products. However, countries and institutions cope very differently with these regulations, despite efforts to follow common practices. There are differences in type of risks that are explained (for example, economic scenario risk, investment risk) and differences in what is being stressed in the communication (such as transparency, tradeoff between return and risk, and types of investment risks). Interviewees overall express their concern over whether participants understand risk at all.

2. Institutions differ in how they comply with regulations

It is easy to think that regulations largely determine practices. A good illustration showing this is not necessarily the case is what we find in different interviews with pension institutions in the UK, who operate under the same regulations. UK pension institutions have to provide disclaimers, but how they do it is up to them. One of the institutions focuses on transparency and it provides extensive disclaimers and detailed risk information. Another institution refers to the disclaimer as “legal stuff.”

2.2 Help participants to take a long-term perspective

Institutions aim to encourage participants to approach pension savings as a long-term investment. They tend to avoid extensive information on short-term fluctuations in capital. The impact of corona, however, turns out to be an exception. Interviews were held during the pandemic and institutions reported that they provided additional information via various communication channels (e.g., newsletters, emails, website), but still aimed at getting participants to take a long-term perspective during the corona outbreak.

Institutions express their concern about specific groups. For example, some observe that younger participants, who did not witness the financial crisis in 2008, are much more nervous than older participants when markets drop. One Australian institution reported that a “sizable proportion” of their participants were selling at the bottom of the market, while it is better to wait at that moment. Institutions assumed that participants did this because of a lack of a long-term perspective.

Another institution notes that in their participant base, financial literacy is very low and if you would proactively communicate about every fluctuation, people would lose track. However, the institution also indicates that those who are interested should have access to such information.

2.3 Presentation of pension capital is generally number-heavy

In general, information about the accumulated pension capital is presented in a numerical format, and few visualizations are used (see Figure 1). If visualizations are used, they are mostly bar graphs (see Figure 2), for example to compare the contributions made and accumulated capital. The content of pension portals varies in the level of detail. Some portals only show the accumulated pension capital, while others also show how it is built up. Some institutions provide forecasts or show how the pension capital has developed over time (Figure 3). This information is frequently layered; participants can access more detailed information as they progress through the portal.

The presentations of pension capital and investments are mostly intertwined. Some institutions indicate that they purposely focus on pension capital, as it is the core of a DC scheme. Others indicate that they would rather move toward providing an estimated pension income. Some institutions indicate that their participants want to see income, while other institutions state participants are more interested in capital. The formatting of portals was often affected by regulatory constraints and market standards, which are continuously developing.

We note that there is little research on how participants interpret the numbers associated with their pension accumulation. One institution indicated that they studied how participants interact with a portal. They found that participants frequently do not understand what they are seeing and what it means. This has led to a simplification of the portal; they want to show as little information as possible on the front page.

Some institutions were not able to provide details on why the pension capital was presented in a specific way, as this was done by the administrator rather than the institution itself. The findings of the interviews clearly indicate a trend in the aim to make pension information more tangible (e.g., moving from percentages to money and visualizations).

Last year	
Total amount of money in your pension plan on 01/01/2020	€ 20,505
This year	
You have saved into your plan	€ 1234
Employer has added	€ 1234
The government has added, through tax relief	€ 123
After charges, the value of your investments investments has gone up by	€ 1010
Additional transactions	€ 3000
Total amount in your pension plan on 01/01/2021	**€ 27,106**

Figure 1. Numerical information on accumulated pension capital[1]

[1] Quietroom (2021, October 16). "Introducing the simpler annual statement." https://quietroom.co.uk/2018/09/04/statement-2/

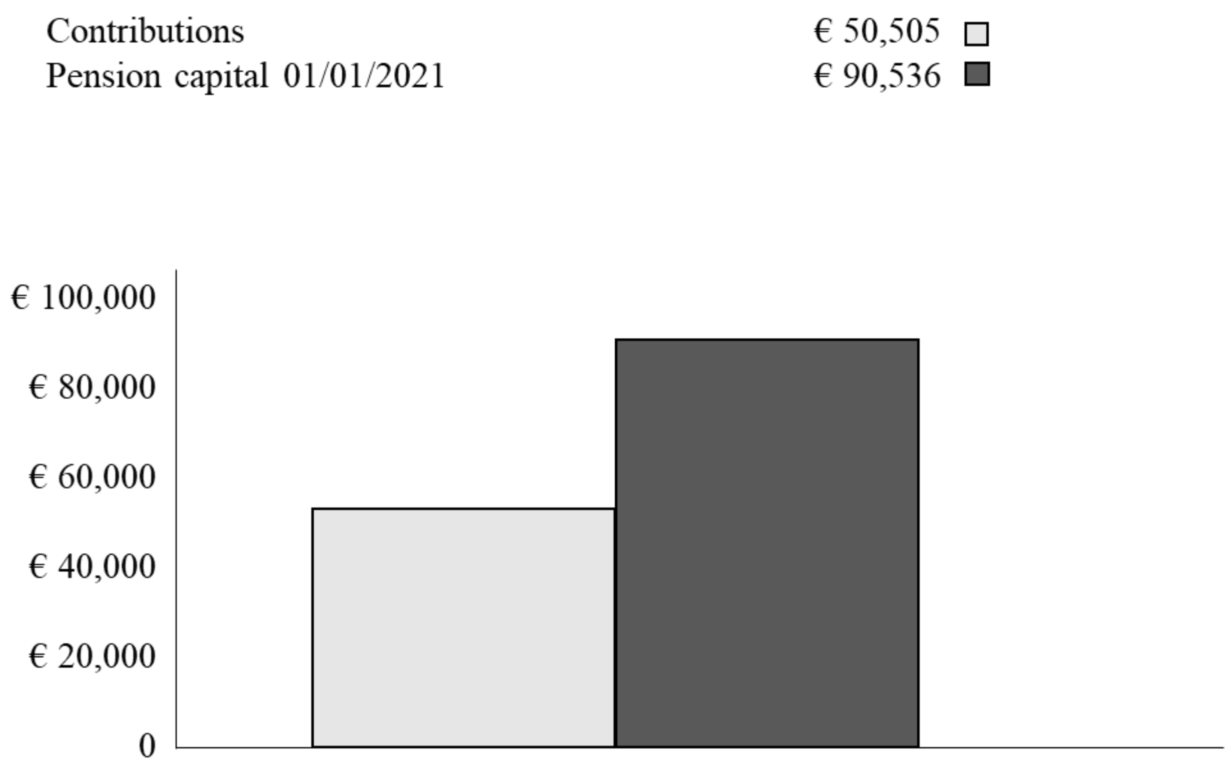


Figure 2. Bar chart comparing contributions and accumulated pension capital

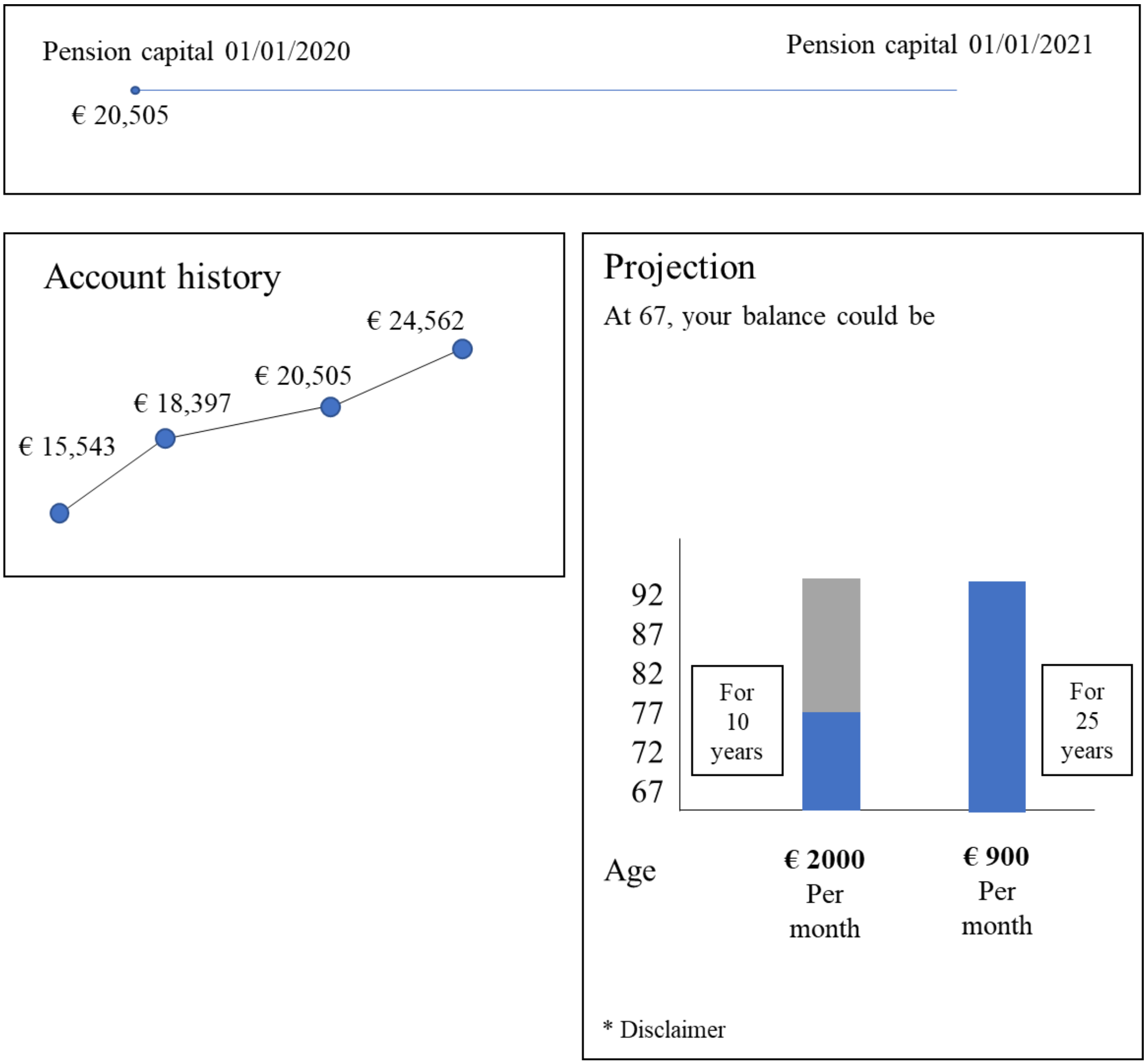


Figure 3. Visualization of pension capital, including development over time and projections

2.4 Pension capital is most frequently updated on daily basis

Most pension institutions update the value of the pension capital daily or even in real time (two in real time; eight daily). One institution that updates the capital on a monthly rather than daily or real-time basis does this because it is in line with how often participants demand this information. They argue that only a small group would benefit from more frequent updating, but they do not receive any complaints from this group. Pension institutions which update the pension capital daily or in real time provide various arguments for doing so. First, institutions argue that they need to align with participant expectations; some participants may want to check the status of their retirement every day. Some institutions refer to the principle that everything should be up to date, so participants can make decisions based on the most accurate and recent information. Others argue that real-time updating is necessary to compete with other institutions, including financial institutions. Finally, real-time updating is sometimes driven by the programming of the website, so it is not a conscious decision. Institutions note that once you start providing daily valuations, you cannot go back.

A possible issue that arises with daily updating is over-engagement. Some clients log in multiple times per day and use their pension capital as if it is day trading. In this way they may crystallize losses when there are fluctuations, possibly leading to myopic investment decisions. As explained in Chapter 2.2, institutions aim to help participants to take the long-term perspective on their retirement income and assets.

2.5 Detailed investment information should be accessible by all participants

Institutions indicate that information about investments is only relevant for a small proportion of their participants. However, they want to be transparent and make it possible for everyone to access this information. The presentation of investment information usually comprises very detailed, numerical information. One institution compares the performance of their own investment mix to other investment strategies as a benchmark, using bar charts (see Figure 4). If visualizations are used to present investment information, they are mostly pie charts that show how the investment portfolio is built up visually, and hence display a listing of the participant's current institutions as well as the value of each institution (see Figure 5). Most institutions have high-level information on costs and transactions available in layers, but do not actively put this information forward.

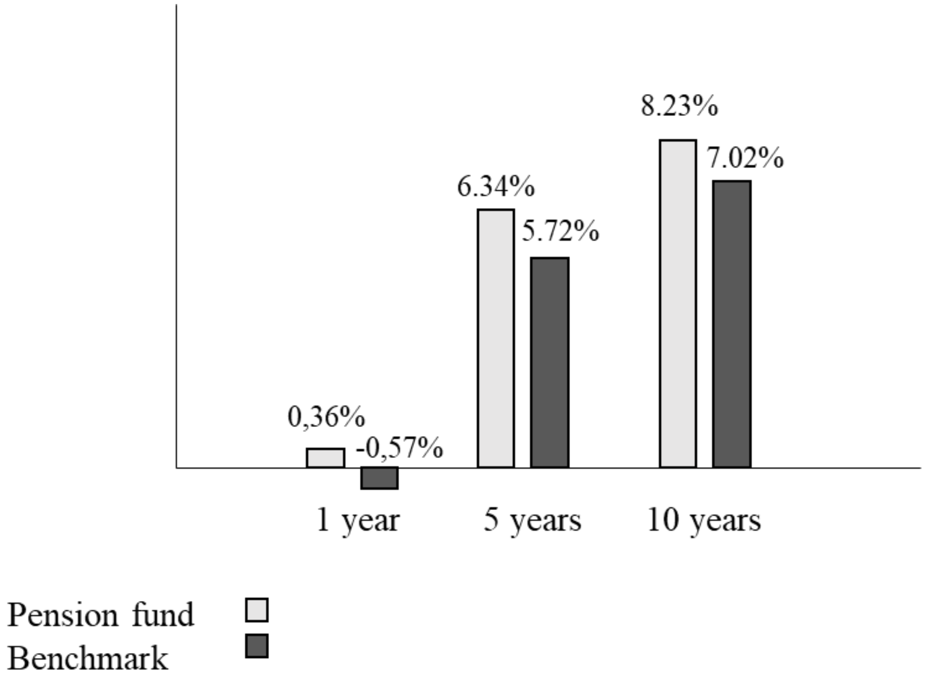
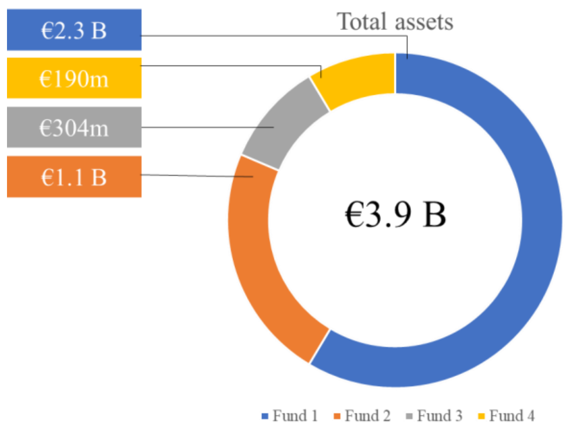


Figure 4. Comparison of pension institution investment mix performance to benchmark



Fund MERs (costs)

Fund 1	0.23%
Fund 2	0.16%
Fund 3	0.19%
Fund 4	0.42%

Fund rates of return

Fund 1	-3.82%	Fund 3	-7.04%
Fund 2	+1.96%	Fund 4	+1.23%

Figure 5. Visual representation of investment mix using a circle diagram

2.6 The presentation of expected retirement income is heavily regulated, and presentation formats differ between pension institutions

As stated earlier, institutions focus more on pension capital than expected retirement income. A possible reason might be that communicating about expected income is heavily regulated across countries, and is usually accompanied by extensive disclaimers. For example, in Australia expected income can only be provided on the yearly benefit statements but not on a portal or other communication channels. In other countries, the institutions do not provide a direct projection, but instead allow participants to create a projection using tools. These tools allow an adjustment to the expected income for the participant's expected retirement age and additional contributions. Yet, there is great demand to shift from a focus on pension capital to a focus on expected income. This is because pension capital is more difficult to put into perspective, compared to monthly income, and can lead to overconfidence and an illusion of wealth: "€500,000 may seem a lot, but it is not much when you look at the life expectancy in Denmark." Accordingly, one Swedish institution allows putting the expected income into perspective by comparing it to the participant's current monthly income. Figures 6 to 9 demonstrate various presentation formats of expected retirement income.

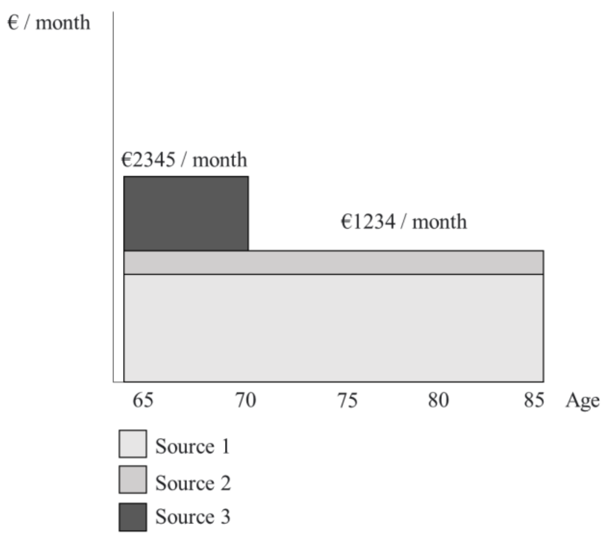


Figure 6. Pension retirement income by age and source

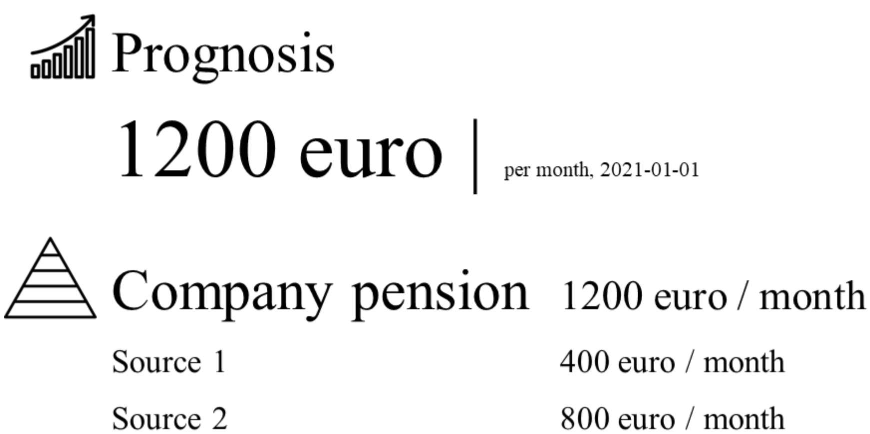


Figure 7. Pension retirement income by source

		Extra saving from now on		
	Saving at the same rate	+ € 20 per week	+ € 40 per week	+ € 60 per week
Estimated balance at 67	€ 253,000	€ 257,000	€ 261,000	€ 265,000
Annual payments	€ 15,000	€ 15,200	€ 15,500	€ 15,700
Monthly payments	€ 555	€ 564	€ 572	€ 581

Figure 8. Projection of how additional savings affect pension capital and expected income

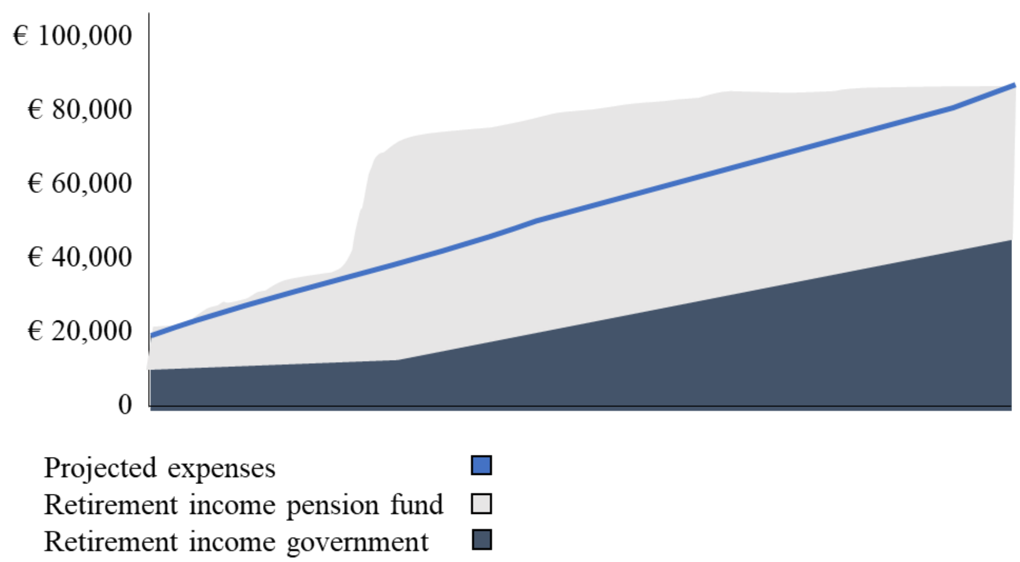


Figure 9. Comparison of pension benefits and expected expenses

2.7 Uncertainty in pension outcomes is generally communicated through one number rather than multiple scenarios, with disclaimers about assumptions underlying projections

The presentation of uncertainty is also heavily regulated, in almost all countries. Institutions are required to provide disclaimers to reflect that the expected income is not a promise, but a possible outcome. In some countries, institutions cannot communicate about expected income as the regulator says this information is too uncertain. A majority of institutions project one number, based on the average estimation of several projections based on an industry standard (e.g., the US, Australia). If participants can see scenarios, it is usually three options (e.g., Canada, Denmark). The terms used differ, but in general they have an average, optimistic, and a pessimistic scenario. Some institutions offer two types of information. For example, the main number projected in Sweden is the expected income at that moment. However, people can click through to access the opportunity to manually change the rate of return and go through some scenarios. One institution recently started communicating three scenarios (mean, fifth, and ninety-fifth percentile of outcomes are shown) based on a recommendation by the regulator. The institution currently does not have a positive attitude toward this—they believe that customers will not understand.

2.8 Pension institutions generally cannot offer advice, but assist participants with choices during the accumulation or decumulation phase

Most DC institutions are restricted in giving specific advice to participants. They have to refer participants to financial advisors for specific product advice. DC institutions necessarily have to fall back on tasks such as counseling, informing, soft suggestions, peer information, and more. Pension institutions frequently assist participants in selecting their risk profile and investment mix by providing a questionnaire that measures risk preferences. Moreover, institutions generally help participants to gain insights into how they can increase their expected retirement income by providing tools. These tools vary considerably in reach and sophistication (e.g., also allowing to adjust the expected retirement age or add additional contributions). When the projected outcomes of the tool indicate insufficient savings, one institution also subsequently suggested soft counteractions that users could take, for example retiring later or lowering spending during retirement. Many institutions also refer to governmental websites where participants can find additional tools.

Conclusion

Overall, there is much variety in the way that pension elements such as the accumulated pension capital, investment results, and expected retirement income are displayed. In general, it is number-heavy, and different in layout and content across institutions. We see that the exact display of these pension elements is different for various reasons. Some elements are not consciously designed in a specific way, but are the result of a technical system such as updating pension capital. In some cases, the display of an element is informed by conscious decisions and user testing. We also see that the communication is heavily affected by factors outside the pension institutions' direct control, such as regulatory constraints. The focus of most DC schemes is on the capital, while there is a wish to shift this toward the expected retirement income. When institutions do display the expected retirement income, they mostly accompany this with disclaimers.

Chapter 3: Engagement

3.1 Lack of engagement is a universal challenge

Lack of engagement with pensions is acknowledged as an issue in almost all countries. In general, engagement appears to be an industry-wide issue, that is not heavily affected by cultural or regulatory differences. However, there is no clear agreement on the meaning of the term “engagement,” and institutions use the same word in different meanings. Some countries have specific features in their pension system that can help or hinder engagement. For example, an Australian institution points out that their pension system is linked to insurance, and it is easier to engage individuals with insurance and then consequently introduce them to pension content. Most institutions note that engagement increases with the age of the participant; they become engaged when they are closer to retirement. Sometimes this is increased by national differences; for example, a Danish institution points out that the Danish tax system leads to major disadvantages if you are not on time with strategizing how your pension will be paid out. Because of this system, participants are more engaged with pension planning before they reach retirement.

The findings indicate that only a minority of participants are actively engaged in their pension planning. Some institutions even indicate that participants are often not aware that they are enrolled in an institution. Low engagement with pension planning demonstrates the relevance of auto-enrollment and that it is of significant relevance for pension adequacy. However, most of the current defaults are not sufficient to provide adequate pension income. In addition, auto-enrollment does not necessarily lead to more awareness. One Swedish institution notes that individuals are more engaged with their total pension than with the amounts they have built up at separate institutions. They argue that government initiatives that combine data from all institutions are beneficial. Hence, this Swedish institution indicates that their communication strategy is influenced by their members' focus on the total pension rather than the amount built up at their specific institution; rather than developing new features and functionalities, the institution refers to the governmental pension platform that includes all sources of pension capital.

3.2 Two main attitudes of institutions toward engagement

1. Lack of engagement is not necessarily an issue

Several institutions indicate that a lack of engagement should be viewed as a given, and that a pension system should be designed to accommodate this. For example, product design should be based on low engagement (use of average risk-preference, auto-enrollment, and defaults). Institutions adhering to this attitude mention that participants will become engaged when they are closer to their retirement age, and that the main message toward participants should be that pension is being taken care of; participants do not have to know all the details.

2. Engagement is beneficial for participants

The attitude that engagement is beneficial for participants is more frequent. Institutions note that engagement enables participants to save costs, benefit from opportunities such as employer matching, and to make changes depending on the economy. The view that engagement can reduce the risk of inadequate retirement institutions is shared by various institutions. Additionally, some institutions describe that pension should be perceived and appreciated as an employee benefit.

3.3 Technology, financial advice and communication can increase engagement

1. Technology

Institutions generally agree that digital developments have increased engagement. For example, the possibility to send notifications through an app can be used to drive engagement. The development of apps is also a way to reduce barriers to engagement: participants no longer need to call or write letters, or if it exists, go to their pension branch to make changes. Institutions use technology to provide automatic information to participants. For example, automated (and personalized) emails are used to communicate with participants at specific touchpoints in their pension journey, or chatbots are used to direct participants to relevant information.

2. Personal financial advice

Although in most countries pension institutions are restricted to general advice (e.g., general recommendations to increase pension capital such as increasing work hours or retiring at a later age), in some countries it is possible for institutions to offer individual financial advice to participants. It is costly for a pension institution to offer personal financial advice, but it can be used as a competitive advantage. In countries where offering personal financial advice by the pension institution itself is not allowed, institutions may still want to refer their participants to an external financial advisor. One institution specifically notes that the goal of their education and communication programs is to drive people to an individual advice session, as they find that these sessions affect engagement positively.

3. Communication

Communication can be used to trigger engagement. The trustworthiness of the communication source is frequently considered by pension institutions. It is important to establish the pension institution as a credible source and communicate through other sources such as the employer, if higher levels of trust are required. The content should match the interest of customer segments. For example, younger participants may be more interested in sustainability. One institution acknowledges this and uses a focus on ESG as a strategy to foster emotional engagement with younger members.

Less traditional communication channels can be used to educate participants. For example, gamification can be used to make seemingly complex pension decision-making easier and more fun. Gamification could be used to demonstrate how changing their asset allocation would affect their retirement income, or how lifestyle decisions can help them to save more.

3.4 The investment in engagement should be balanced

Most institutions acknowledge the importance of engagement, but more engagement does not always mean better results. Institutions consider that scheme design and policy regulations are most important to get people to start saving for their pension. Although engagement can be beneficial to reduce the risk of not saving enough for retirement, an increase in default saving rates may be more effective. Some institutions note that engagement should be balanced; it should not be a goal, but a means to an end. If participants are over-engaged this may lead to specific issues, for example if they start perceiving their pension investments as day trading. Institutions should therefore choose which and how much engagement they go for, and acknowledge the benefits and potential pitfalls of engagement.

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Interactive participant guide

SMART pension tests all their communications with actual members using their in-house user research team. This means they create things that users actually need rather than what they think they need. Their Member Guide is a good example of this as it is written in plain English, supported by illustrations (www.smartpension.co.uk/member).

Engage participants with stories from other participants

One Canadian institution uses participant stories called *The Money Chronicles* to help participants engage in their pension planning. The institution cannot give direct financial advice, but instead regularly provides fact sheets presenting real-life participant profiles, outlining their personal background, and financial uncertainties and goals. Importantly, the institution further provides useful tips, links, and references that may help the participants to achieve their personal financial goals.

Books about pensions

KPA collaborated with well-known journalist Annika Creutzer who wrote four books about pensions: *Welcome to Your New Job!*; *Take Control of Your Pension* [targeted at women specifically]; *Time to Put the Pension Puzzle Together*, and *Your Security at Work*. The books were provided to 300,000 participants of a labor union and received a lot of media coverage.

Removing barriers to engagement

NEST found that the registration rate improved significantly by switching from a postal- to an SMS-based registration procedure. By doing this, they were able to reduce the attrition from 15–17 percent to zero. This is because when using the postal registration, participants either lost their letters or had difficulties transferring their passwords. People in the UK are used to registering via SMS, making it easier to complete the process.

Conclusion

There is not one strategy, campaign, or innovation that can drastically change engagement over pensions. However, acknowledgment of the low baseline level engagement of pension plan participants is important for the design of effective communication. It is important to reflect on the necessity of engagement for reaching desired retirement outcomes. If a pension scheme is designed to account for low engagement, an increase in engagement may not always be required.

Chapter 4: Do’s, Don’ts, and Challenges

The interviewees mentioned a lot of very valuable do’s and don’ts, which are summarized in the table below. Interestingly, the do’s and don’ts all focus on pension communication as such, and do not address aspects such as visualizing risk and uncertainty, or presenting choices. They cover recommendations about the role of communication (vis-á-vis scheme design), activation, experimenting and learning, and the tone and style of communication. The interviewees support the conclusion from the Dutch report that in terms of pension communication and participant activation, there are very few differences between DB and DC schemes. As one institution puts it:

> It really starts with a philosophy, almost an ideology: what is the relationship between us, the plan, and the participants? What do we want it to look like, and what are we interested in doing for our participants? So, for me, the defined benefit and defined contribution debate is of no interest. It is not about pension theory; it is about the execution. You can have successful defined contribution as well as defined benefit plans, but you have to put in the effort and that starts with your philosophy.
> PEPP, Canada

4.1 Do's—as described by the interviewees

Role of communication [vis-á-vis scheme design]	• Be clear why you are communicating and start with the objective. What are you trying to achieve with this communication and is it the right way to achieve it, or could you do it through scheme design? • Let the scheme design do the heavy lifting and use communication to tell people that you have done that, instead of inviting them to take action. • Get the balance right between scheme design and individually led decisions.
Activation	• Eliminate the gap between intention and action. • Base your communication on solving a need. • Use personas to humanize everything; look at their life journey, and different types of friction points along the way, where they are going to be pulled in different directions financially. • Recognize that people do not live just financial lives, there is a more holistic aspect that we need to acknowledge. • You need to give information that is relevant for people at a certain point in their lives. • Be ruthless in what you prioritize to tell people. Consumers have a limited capacity to engage with the sort of information that we send to them. • Check whether communication leads to the aimed activation.
Risk and uncertainty	• Provide clear communication about the risks that DC schemes entail. • Be transparent, also with regard to risk.

	• Be clear about the fact that numbers are an indication, not a guarantee (for example by using rounded numbers). • Communicate pension savings as long-term investment with unavoidable volatility.
Experimenting and learning	• Test your information through A/B tests, focus groups, or other means of including customer needs in the process of designing information (i.e., involve the customer). • Learn from other sectors.
Organization of communication	• Ensure good cooperation between product specialists, actuaries, legal experts, and communication experts. • Have very strong communication experts on the board because they will meet a lot of opposition trying to simplify and target the communication. • Build trust in communication experts' ability to design good communication. • Be sharp and focused on what is going to add value to customers, rather than listening to a lot of different voices within an organization. • Layer information: not everyone wants to see the same amount of detail.
Tone and style of communication	• Keep it as simple as possible. • Think about a single topic and a single call to action. • Use language that customers can understand and use plain English when you communicate—avoid pension jargon. • Visual illustrations are very important and also help overcome language and other barriers. • Emotionally engage your audience by bringing pensions to life. • Speak positively about their future and how they can influence the world they retire in.

	• The most successful pieces of content that we have produced were participant stories, authentic and genuine "behind the scenes" videos of people in their natural environment. • Adapt tone, style, and content to specific target groups.

4.2 Don'ts—as described by the interviewees

Options and decision-making	• Don't have a gap between good intentions and the ability to do an action—you will lose customers. If a customer thinks about an action, they should be able to take that action in that moment. • Don't have a product specialist [pension expert] take the final decision on pension communication, because that may lead to losing customers.
Information	• Don't overload your DC participants with too much information. • Don't use pension jargon. • Don't write in a negative tone. • Broad messages that are more product focused don't resonate in the same way as the ones that are more personal in nature. • As soon as it feels like we are instructing, it does not seem to convert as much. • Research shows that if you do not acknowledge all options of participants, and only talk about pension product options, it erodes trust automatically. It comes over as, "you are not talking about all of those other things. What else are you not telling me?"

Chapter 5: Author's Perspective and Recommendations

The current report provides insights into common practices in pension communication in a multitude of countries. We perceive the current study as a snapshot of a small sample to take inspiration from, rather than a conclusive and complete view of pension communication. Given our sample, which is diverse in type of pension regulations and limited to eight countries, we cannot conclude how representative our results are. Furthermore, we cannot assess the objective effectiveness of the communication strategies that were discussed during the interviews as we do not have access to (comparable) data that would allow to test this. Yet, we saw a lot of inspiring and interesting examples, and one of the main goals of the report is to share these and thereby facilitate knowledge exchange.

Our report demonstrates a lot of variety in pension communication. Not only between countries, but also within countries. An important observation here is that the evidence base for communication is not always clear. In our research, we came across many inspiring examples, which are included in the different chapters. In our view, the next step forward would be working toward improving the evidence base with comparable measures for effective pension communication. A solid evidence base would be beneficial to create best practices that could be shared across countries that will enhance the financial well-being of participants.

Another interesting observation is that even though the regulatory frameworks differ across countries, the communication goals, as well as the overall challenge of a lack of engagement and difficulties in activating participants, seems universal. The fact that there are common goals, but diversity in practices can be perceived as good thing, or as worrisome. On the one hand, diversity may bring about creativity, and allows for communication to be catered to the institution's own participant base. Additionally, diversity in communication strategies can be beneficial for knowledge exchange, and if pension institutions learn from each other, it can potentially improve the quality of communication. On the other hand, diversity comes with disadvantages. When there is little uniformity, it is difficult to check whether institutions are doing the right thing. The development of communication materials comes at a cost, and when every pension institution does this individually, this cost may be unnecessarily high.

These reflections are also of interest to regulators. The variety in pension communication, even in the communication of heavily regulated materials such as risk disclaimers, requires consideration. If an evidence-based industry standard for communication is available, then institutions should perhaps provide evidence if they want to deviate from this standard. However, regulators should also be able to adapt the industry standard, if research proves that alternative presentation formats are superior. For example, we found that the projection of income was sometimes not possible because of a strict regulatory standard. This regulation is in conflict with research which shows that (net) monthly income may be the most meaningful information for people to draw conclusions on whether they are on track with respect to their retirement planning, as it can most easily be compared to current income[2].

A lack of engagement with pensions appears to be a universal challenge, irrespective of regulation, country, or pension institution. We found it interesting that not all institutions viewed more engagement as better: over-engagement can also lead to myopic behavior such as day trading or unnecessary worries. Some institutions reflected on the relevance of engagement for pension outcomes. Good pension outcomes can be reached by scheme design, or by effective communication. Pension institutions may want to ask which elements they want to tackle with communication, and which challenges can be resolved by effective scheme design. The answer to this question determines the relevance of the extent to which people need to be engaged.

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[2] Compare for example Daniel Goldstein, Hal E. Hershfield, & Shlomo Benartzi, The Illusion of Wealth and its Reversal, *Journal of Marketing Research*, 2015, DOI:10.1509/jmr.14.0652.

Chapter 6: Comparison Between NL and International DC Pension Institutions

In this chapter we reflect on differences and similarities that we have noticed when comparing the findings of the current report on international DC communication to our previous report on DC communication in the Netherlands.

Overall, we note many similarities between the Netherlands and the rest of the countries from interviews, in the challenges that are associated with communication in a defined contribution pension system. One important difference is the fact that in the Netherlands the communication about the investment risk associated with pensions is standardized, although this is not yet implemented by all institutions. In the Netherlands a “navigation metaphor” is used as an industry standard. With this navigation metaphor, participants see what their expected retirement income would look like in an optimistic, pessimistic, or average scenario. Internationally, we do not see specific examples that are standardized or superior in conveying uncertainty or risk. Since there is no evidence base to support the effectiveness of one presentation format over the other, we cannot conclude what the best way is to present risk and fluctuations. This aligns with the recommendation of improving the evidence base for pension communication, which is included in both reports.

Similarly, we note that in the Netherlands the visualization of numerical information (e.g., pension capital, expected retirement income) seems to receive more attention and is visually more advanced. However, the evidence base for the use of specific visualizations was often lacking, so it cannot be concluded if the visualizations work better than numerical information.

We note that in the Netherlands, the terminology used by pension institutions is heavily affected by the Dutch Authority for the Financial Markets (AFM). In comparison with international institutions, Dutch institutions regularly strive to give their participants insight and an overview of their personal situation, besides activating them. Where these goals are also implicitly discussed by international pension institutions, the focus appears to be more on activating participants.

With regard to the assessment of the effectiveness in communication, we note that in the Netherlands the focus is often on opening rates, click rates, and login behavior. Internationally, we see inspiring examples that focus on whether people engage in the desired follow-up behavior. This may be partially due to the greater number of choices available to participants of specific pension plans internationally. We would recommend that Dutch pension institutions take inspiration from the focus on follow-up behavior that some international pension institutions describe. Interaction behavior such as loginn behavior should be assessed but should not be the end goal. Whether participants engage in the desired follow-up action should be part of the assessment of effective pension communication.

The updating of the value of pension capital was more frequent internationally than in the Netherlands. Most institutions indicated that they update this information daily. In the Netherlands, we saw more variety in the frequency of updating the value of the pension capital. More than half of the pension institutions that were interviewed in the Netherlands said that the pension capital should be updated daily, as it aligns with the participants' expectations. However, a significant proportion of institutions indicated that daily updating is not necessary for a long-term product. It is also interesting to note that when we asked participants of an ICPM webinar on pension communication about whether pension capital information should be updated in real time, 50 percent of the seventeen participants were in favor and 50 percent against the statement. The pros and cons of daily updating should be carefully considered. Once daily updating is implemented, it will not be possible to go back to less frequent updating, as the expectations of your participants have changed.

One of the challenges that was revealed by international pension institutions was the regulatory constraints that hinder the display of monthly income projections rather than the total pension capital. This issue was not reflected by Dutch pension institutions. Since most Dutch pension institutions originally started as a defined benefit scheme, it seems that a projection of expected income seems to be more accepted, and easier to provide. We believe this is beneficial, as it allows participants to compare their current income with their expected retirement income and to have a clear idea of what they will get each month in the future, without requiring calculations from the participants' side.

Interactive tooling seems to be more advanced in the Netherlands in comparison to the current state of tooling internationally. However, interactive tooling seems to be gaining traction, and is seen by pension institutions as an effective way to help participants with retirement planning. One main issue that is holding back the development of interactive tooling is the regulation that pension institutions should not provide financial advice to their participants. Whereas this regulatory constraint is also present in the Netherlands, it appears that pension institutions have found a way to suggest possible actions, without stepping into the advice realm. For example, this can be done by giving generic advice on how retirement income could be increased through working more hours or for more years. If institutions want to provide interactive tooling to their participants, follow-up actions should be framed as possible actions to consider rather than a specific recommendation or specific product advice.

Finally, we note that lack of engagement is an issue that is present internationally. In the Netherlands, the argument is sometimes brought forward that participants do not engage with their pensions as there are few actions that they can take. The interviews with international pension institutions demonstrate that the number of choices that participants have does not significantly drive engagement. As the Netherlands is transitioning from a traditional defined benefit pension system toward a defined contribution scheme, the role assigned to engagement requires consideration. These insights can be used to inform the discussion on what the low levels of engagement imply for scheme design, communication, and choice architectures.

About the Authors

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