Show me my money.

A report on transparency in pensions

December 2020

interactive investor

Chief Executive

Foreword

In a famous scene from the film Jerry Maguire, star football player Rod demands his sport agent, Jerry declare loudly on the phone 'show me the money' – a commitment to getting Rod the very best deal.

For the purposes of this paper, "show me the money" has become "show me my money". It's a galvanising request for traditional life company pension providers to reveal to their millions of members exactly what assets are held (and where) within their pensions, and what, in pounds and pence, they are being charged.

This report, with research conducted on interactive investor's behalf by Boring Money and Opinium, suggests that millions of people are not getting the commitment that they deserve from their own 'agents' – in this case, the life companies. They are not being shown their money.

In any other industry it would be unthinkable for customers to be given so little idea about what they are buying, and how much it costs, and whether they will face a penalty if they move.

A pension is possibly the biggest asset, apart from their home, that any one individual will own, in their lifetime. Can you imagine, in any other context, owning something worth hundreds of thousands of pounds, without knowing what it is and what it costs you?

Meanwhile, with pensions, an odd lack of communication persists, with the industry assuming that people do not want information underpinning everything, rather than that they do.

We are encouraged by the Pension Schemes Bill, which has made its way through Parliament and among other measures, enables the provision of a pension dashboard. The Department for Work & Pensions' work on simplifying pension statements could also improve understanding of these important communications.

We are also pleased that The Pensions Regulator will focus on whether defined contribution scheme members are getting good value for money as part of its 15-year corporate strategy.

However, in the policy recommendations at the end of this paper, we urge the City regulator to enforce what we call meaningful transparency – both in terms of showing people what is actually in their pensions, and in relation to charges.

Transparency doesn't just mean printing a percentage on a statement. It is imperative for the cost of a pension to be clear and crucially, comparable.

Given that percentage fees continue to dominate the financial services landscape, this latter detail is crucial. How percentages compound over time is not transparent and is complex to work out. Many people don't realise the impact this can have on something as distant-seeming as their pension, and this is one reason this obfuscation has been allowed to continue.

Consumers understand the difference between price and value in day to day purchasing decisions. They will be able to grasp this in relation to pensions too, if it is presented in the right way, like a cost per 100 grams at the supermarket, for instance.

Boring Money's qualitative research with customers holding pensions with life companies found that information on exit fees – whether there are any and what they are - was particularly hard to come by.

Although exit fees now only affect a very small percentage of life company pensions, the lack of information is a barrier to customers being able to move.

None of this has been helped by The Financial Conduct Authority, which dropped work examining investment platform exit fees last month. We fear this risks endorsing a rip-off culture. We urge the regulator to pick up this baton once more on behalf of customers who are effectively trapped with their current provider – and not just for investment platforms, but the wider market too.

The rule of meaningful transparency should also apply to pension holdings. Funds publish their top holdings on a regular basis – why should life company pensions be any different? There is a clear case for more education and context around this information.

At ii, we have supported clear and simple charges and the right of investors to know and control where their money is invested (and whether it fits with their values). So, we believe we are in a strong position to champion the interests of millions of pension holders around the country on this issue of meaningful transparency.

We believe that this paper will help inform some of the important work being done by regulators and encourage pension providers to embrace a push towards greater openness. Yes, it may lead to more competition and movement of pension pots, but ultimately, the whole industry stands to gain.

We hope that regulators, policymakers and campaigners will read with interest some of the findings and the gaps it clearly demonstrates between how things should be in the new world of defined contribution pensions, and how they currently are.

Show us all our money.

Richard Wilson, CEO,
interactive investor

Researcher’s note

Life is busy. Personal admin is increasingly overwhelming. And hopefully it’s not just me who thinks that I have limited reserves of brain space to allocate to things! Deciding what to prioritise is important.

I want to allocate my non-work-thinking to things that are important or things that I enjoy. So to engage, I have to see the benefits or the purpose. Or a glimpse of some interesting detail which draws me in.

Here’s an example. Two years ago I took the kids to Myanmar, after two decades of wanting to explore this amazing country, but facing restrictions of various sorts.

There were some practical details to work out. Flight times. Flight costs. Visas. Injections.

But I was motivated to do all of this because I had some understanding of what awaited me there. The glittering Schwedagon Pagoda, Yangon, the communities living on Inle Lake and the quiet beaches brought this country to life. We can only compute that the flight time is worth it, once we have some glimpses of what awaits us once there.

Pensions have traditionally done a poor job of telling people why they should bother. Tax relief is not well understood. Costs remain hard to compute and compare. And we can’t see what is inside these mysterious accounts.

Would I have wanted to go to Myanmar if a traditional pension provider had been in charge of its marketing? I think not!

This is a broader challenge for the industry as the popularity of DIY investment soars, auto enrolment gathers pace, as more people take charge of their pensions, and as the need for simple packaged solutions increases. Just because the product structures make it easy for providers to limit a ‘look through’ to the underlying investment funds, often with gobbledygook names, we should not accept this as the status quo. This is not effective communication, nor transparency.

We need to actually show people that their pension is invested. To communicate the Dragon’s Den concept that they own a bit of these businesses. To reinforce that their money is in the US, Asia, Europe and elsewhere. And as demand for sustainable investing continues to increase, we have the opportunity to ride this wave of interest and show people what impact their pension is having.

Improvements have been made. Even just five years ago, most pensions customers would not have been able to work out the metaphorical cost of a flight, the need for a visa or how long it might take them to get there. Today, with what is still arguably too much effort, people can work this out. But consumers simply won’t get on board unless we do a better job of showing them what sits inside the pension borders.

I continue to call on the industry to help consumers understand what is actually inside their pension. Without this, we will never win on the engagement front. And without this engagement, trust and interest, pensions will continue to be ‘something done to us’ rather than something done for us.

Holly Mackay, Founder
Boring Money

About the research

Interactive Investor, with the help of Boring Money and Opinium, set out to gauge levels of engagement and understanding of life company pension schemes.

The focus was on pensions provided by these old life insurance companies, because they are long-standing providers of pensions in the UK, with millions of customers, many of whom have been auto-enrolled in defined contribution schemes through their workplace.

We wanted to establish exactly the extent to which pension savers are in the dark about the costs of their pension and the holdings within it; what they don't understand and to what level they feel like they don't control their own pension pot.

The qualitative research by Boring Money also attempted to define how pensions make us feel, what we expect from them and what we actually get.

Methodology

Opinium

There were interviews with 1,000 under 65-year olds with a pension with the following providers: Aviva, L&G, Scottish Widows, Standard Life, Prudential, Royal London, Aegon, LV= (i.e. a life company pension), between November 5th and 10th 2020.

Boring Money

19 people were interviewed at length and in-depth in September 2020. Recipients had pensions with Aviva, Standard Life, Royal London, Legal & General and AEGON.

The information that Boring Money sought to identify whether people could find, was:

- The value of their pension fund
- Fees
- Whether they are invested in cash, bonds, property, equities or other
- The region of the world their money is invested in
- The risk level they are exposed to
- Information about de-risking
- Sectors invested in
- Whether their pension is invested ethically or sustainably
- Whether there are any protected benefits on their pensions
- Whether there are any exit fees payable if they want to move it

Executive summary

5 key findings

01

People are aware and expect that they pay a fee for their pension, but almost half (48%) didn't know or couldn't guess what the fee amount was. When asked to look for fee information in their documents, people generally located this fairly easily. However, they tended not to understand what it represented when it was only expressed as a percentage or did not know what should be perceived as 'good'.

- In the broad 1,000 UK consumers sample, almost half (48%) didn't know and couldn't guess what fees they paid (Opinium)
- In the qualitative sample, people found their fees quite easily (online mainly, harder to find in paper documents), but then once found didn't understand the percentages and wanted to see it in £ as well (Boring Money)

02

When it comes to knowing the risk level of their pension, only 15% of respondents said they didn't know or couldn't remember their risk level. However, when located in pension information, the risk level often caused confusion, particularly when it referenced the SRRI (Synthetic Risk and Reward Indicator) rating.

- 15% of respondents said they didn't know or couldn't remember their risk level (Opinium)
- Most people knew their risk level, usually remembering what they chose initially. However, when looking at their account or documents, some were confused by the SRRI rating (Boring Money)
- Over a fifth (22%) of 18 - 34 years olds have a low risk pension

03

Pension holders are unaware about the concept of de-risking so many do not know whether this is set up on their pension. **Nearly a third (32%) don't know or can't remember if their pension funds become less risky as they get closer to retirement.** Providers are making it difficult for consumers to find out if their pension will de-risk or not and, if the information is located in pension documents, more explanation is required.

- Nearly a third (32%) don't know or can't remember if their pension funds become less risky as they get closer to retirement (Opinium).
- People didn't know if their pension de-risked or not, and then struggled to find meaningful or relevant information which told them if it does or not (Boring Money)

04

Although checking of pension documentation is fairly infrequent, people are engaged enough to know roughly how much money is in their pension and what they pay in. **Only 5% of respondents weren't sure how much they contribute to their pension.** Pension holders were more confident about their current pension fund value than any other aspect of their pension due to this being the pertinent information on annual statements and/or shown within an app.

- Only 5% of people aren't sure how much they contribute to their pension (Opinium)
- People were more confident about their pension size than any other aspect of their pension. If they don't check their balance regularly, their guess was close to the correct amount (Boring Money)

05

People know very little about where or how their pension is currently invested but they are interested to know when asked and keen to find out. Most providers do not provide easy access to sufficient detail about where the money is actually invested. Those that provide an app tend to be better, but this still relies on signposting links to other information and this often causes confusion.

- Frustration and surprise when asset class, sector, geography and sustainability information could not be located easily (Boring Money)

Introduction

In October, when ii published its Great British Retirement Survey 2020 of more than 12,000 people, we noted the huge percentages of 'don't know' responses on all matters pensions.

'Don't know' was a popular response to questions around whether pensions are invested ethically, for instance (over half of responses had no idea if their pensions were invested in a way that aligned with their values).

This paper is designed to give further insight into this lack of understanding and lack of engagement. It will interrogate assumptions and will start with two hypotheses: one to support meaningful transparency on costs and charges and the other to back the provision of meaningful information on holdings.

The research conducted on behalf of interactive investor by Boring Money and Opinium forms the basis of this paper and reveals some glaring gaps in knowledge and understanding.

There are things that people do know – generally speaking, the type of pension they have, how much they contribute and the risk level within their pension are known.

However, in the main, people are less aware about where their money is invested – the funds and companies that ultimately benefit from their diligent long-term investing, or what their pension investment costs them, in pounds and pence.

Our aim in this paper is to reach an understanding of why this is – whether there is something fundamentally disinteresting about pensions, or whether something is being lost in communication, or not communicated at all.

Hypothesis #1: People would like to know that they are paying a fee for their pension and they'd also like to know what that fee is, in pounds and pence

Not such a crazy hypothesis, but there is little evidence to suggest that many pension providers agree. Although fees are disclosed, because they have to be, they are not always easy to find on statements and if they are found, they are often given as percentages, making it hard for people to identify in pounds and pence what their pension is costing them.

Percentages require effort to work out. If this was done for people, converted into pounds and pence on each statement but also in provider comparison tables for different pot sizes, engagement would go up, movement between providers would rise and this increase in competition would help to drive down charges across the industry.

Hypothesis #2: Pensions are actually fascinating and if more information about where they are invested is offered - in more accessible and fun ways - people would engage more and possibly contribute more to their pensions, too

Okay, so 'fascinating' might be a push here. However, pensions are one of the least understood and poorest communicated financial products. And yet they are far more valuable to us as individuals than almost any other financial product.

Pension wealth in the UK can outstrip property wealth, and yet if the two were compared on a barometer for level of engagement from asset owners, one would be off the chart and the other barely off the horizontal axis.

So, we're going to add a second hypothesis that will doubtless raise a disbelieving smirk from many: that pensions are not, in fact, uninteresting. Although they have suffered from a lack of engagement, this is not because people are not interested, but because the pensions industry has never given them a reason to be interested, nor encouraged any real interaction.

If pension holdings information is meaningfully presented, this would also spark engagement and greater competition among providers, as customers seek pensions with holdings that better match their values.

Both of these hypotheses fundamentally challenge the status quo.

For decades, communication on pensions has been on a need-to-know only basis, the bare regulatory minimum level of information for an audience it has always been assumed, don't want to know a thing about it until they get close to retirement.

We think it's time to change a system that has gone unchecked for too many decades.

An analogy on buying something without knowing the price

Imagine walking into a shop to buy a TV, blindfolded. You are handed a television by the shop assistant who gives you no information about any of its features or how it compares to other televisions at other price points.

You are asked to pay for it, but you are not told how much it costs – you must simply hand over your card. In this alternate reality, you are told you have to buy the TV on offer, if you want a TV at all. You do really need a TV, so you buy it.

But you don't even get a receipt that tells you how much you paid. The only way to find out how much you paid for the TV is to check your bank statement.

This is a little bit like how pension sales work. With pensions, you have to wait for that statement. And when you get it, it might not tell you the pounds and pence you paid – just the % of your balance.

Does that sound like a great example of treating customers fairly?

An analogy on buying something without knowing what it is

Would you pay for a timeshare if you didn't know where the holiday home was, or what it looked like? You'd imagined a luxury eco resort in St Lucia, but it turns out it was a motorhome in Skegness.

By the time you've found out, it's too late to do anything about it – it's all done and paid for.

Surely no one in their right mind would do this?

Yet, this is sort of what most of us do when we start a pension through a workplace. We commit to paying a regular amount for something over the years, without actually knowing where our money is being invested.

… These analogies are of course meant to be tongue-in-cheek, but designed to illustrate the absurdity, in a real-world context, of what the process of buying a pension is like.

Measuring engagement

How often do people check in on their pension?

Both sets of research indicate that it's more than once a year and is encouragingly more frequent with online and app users. The Opinium research found that people are checking their pension more frequently than you might expect, with 71% of respondents checking their paperwork within the last year and 68% looking online.

Only 18% have looked at their pension information in paper form over the last month, and one in four (24%) have looked at this in an online format over the same time period.

Within the Boring Money survey, all of the 19 participants had checked their pension within the last year, with app and online users significantly more likely to have checked within the last three months than those who rely on paper.

Websites tended to be the most frequently used way to access pension information, followed by paperwork and then apps. This probably reflects the fact that apps are not widely available, as yet.

Although a note of caution: 11% of people who answered the Opinium survey didn't know or couldn't remember.

SUMMARY: Apps represent a user-friendly and convenient way to check pensions. In the Boring Money survey, the app users were among the most frequent pension checkers. Those who rely on paperwork are less likely to check as frequently, but they have mostly checked within the year. Pension statements are sent annually, which suggests that when a communication is sent, it is read.

Company websites and membership areas are also important and more could be done here to make these more user-friendly to encourage actions like increased contributions or give a better understanding of the ability to switch between funds or change risk profiles.

The findings suggest that more frequent communication from pension providers, delivered in an easier format using smart phones, would encourage people to think about their pension more often.

We don't know if this would result in higher contributions or fund switching, but more regular interaction would form a good first step.

But a note of warning: there appears to be a minority of 'ultra-disengaged' people, for whom a different approach might be required.

Are people taking control over the risk level of their pension?

A sign of engagement is whether someone has altered the risk level of the pension fund they have automatically been enrolled in – or even that they know what the risk level is.

Risk Levels by age

According to the Opinium research, over half (52%) of under 65-year olds have a moderate risk pension. But 15% of respondents didn't know the risk level of their pension.

When looking at age differences, 18-34-year olds are more likely to have a moderate risk pensions (57%) and those aged 55+ are more likely to have a low risk pension (41%).

However, over a fifth (22%) of 18 -34 year olds said they have a low risk pension and over a quarter (26%) of 35 - 54 year olds. These proportions are worrying as they suggest some younger people are choosing lower risk options potentially setting themselves on a course for lower investment growth over the years.

Risk among men and women

While both men and women are relatively unlikely to choose a high-risk pension option, men are twice as likely than women to have a high-risk pension (8% vs 4% respectively), according to Opinium.

Women are twice as likely to not know or not remember (22%) what level of risk their pension is compared to men (11%), suggesting lower pension engagement among women.

De-risking

There's some lack of awareness of how pensions are de-risked over time. Nearly a third (32%) do not know or can't remember whether their pension is invested in any funds that automatically become less risky as they get older/ closer to their retirement.

Younger people are more likely to know, probably because a box ticked years ago is unlikely to stick in the mind. More than a half (54%) of 18-34-year olds know that their pension is invested in a fund that de-risks compared to only 23% of those aged 55 and over. This perhaps suggests that pension communications at the point someone enrols in a workplace scheme on changing risk levels over time is becoming more effective.

It is concerning that older people are less likely to know if they are being lifestyled. Pension freedoms mean fewer of us are buying annuities, meaning that our money needs to work harder for longer - a lifestyle approach may not necessarily be appropriate. Either way, people should not have to live with the unintended consequences of a box ticked, without much thought, decades ago. They need to be in a position of knowledge.

But not all communications sink in. Some 17% don't recall changes to their pensions ever being communicated to them.

The Boring Money research found that risk levels were often guessed from the fund name or already known, and so were generally accurate.

SUMMARY: Most people know they have a medium risk pension. Most younger workers know that risk levels come down over time as you approach retirement. But few have moved into higher risk pensions. You might expect this proportion to be higher among young people, who have the most to gain from a higher risk approach early on in their pension saving.

Do people know how much they are contributing to their life company pensions?

Generally speaking, yes. According to Opinium, only 5 per cent of people are not sure how much they contribute. A further 11% know they contribute, but don't know how it translates into pounds, while 5 per cent don't know at all. Women are more likely than men to say they don't know how much they contribute to their pension.

- £249 = average monthly contribution to a life company pension, according to Opinium
- That's £262 a month for men and £224 a month for women

Nearly half (48%) could not guess the amount they pay each year to their pension providers into their pension pots.

18 to 34-year olds are putting the most money into their pensions monthly. With the highest number of responses in the £251 to £500 answer range (26%). The monthly contributions go down with age, which is thought provoking, given we would expect people to contribute more as salary increases

The Boring Money research also concluded that generally speaking, people knew the rough pot size of their pension.

SUMMARY: There is decent knowledge of both contributions and pot sizes among most pension holders, although there is a significant minority of people who are not aware of the contributions they are making.

What about how much they pay the provider for their pension?

Almost half (48%) of people don't know and couldn't guess the amount they pay to their pension provider as a fee, either as a percentage or in pounds and pence. Just under a third (30%) said they know or could guess the amount in pounds, while just over a quarter (26%) said they know or could guess the amount in percentage, according to Opinium.

The Boring Money research found that generally, people were aware that they paid some kind of fee, but did not know what this fee was. Generally a good awareness of current fund values and to some extent fees and risk levels (although often guessed/ assumed) but other existing knowledge is very limited.

SUMMARY: The answers to this question speak for themselves. The poor level of awareness of fees and charges contrasts sharply with the understanding of pot size, contribution levels and risk, which again leads us to conclude that cost information is poorly communicated in general, by these schemes. Given the impact they can have overall on the size of pension pots in retirement, we think this is a problem, albeit one that many pension customers are not aware they are suffering from.

Tackling unawareness of investments within pensions

Do people know what investments are in their pensions?

Generally, no. According to Boring Money. Little is known about where their pension money is invested and a guess is often inaccurate. Even the more savvy investors, who are typically more engaged, already investing elsewhere and want to know more, lack knowledge in this area, with heavy reliance on locating and understanding fund factsheets.

Interestingly, amongst people with stocks and shares ISAs, the Boring Money research revealed that there is much more awareness of ISA holdings than pension holdings among those people who also had ISAs.

Do people want to know what they don't know?

Well, yes. Indications from the Boring Money survey are that once participants set the ball rolling on a more detailed examination of their pensions, they are surprised at what they don't know, and also concerned by it and their inability to locate this information.

"Frustrated" was the word that frequently arose as people searched for information. But also it emerged that people are often "interested" in the information, then on finding they can't access it, feel "annoyed".

What revelations caused particular surprise or concern among respondents?

- Fees being high
- Not understanding risk profile grading as a number
- Surprised by investment details/ lack of diversification
- Lack of info about sustainability – despite an interest in this
- Finding out they had the option to change the funds

Pension pots – how easy was the information to find?

Easy to find	Possible to find	Can't find
Current value of fund	Shares/bonds/cash/property	Protected benefits
Fees paid	Regions	Ethical or sustainable
Risk level	Is my pension set to de-risk	Exit fees
	Sections	

Source: Boring Money

Some responses from Boring Money survey participants:

Verbatims

Comms

"I only look at it once a year when I get my statement and see what's it's worth and what I will get when I retire - then I cry in the corner."

Female, 40s, Scottish Widows

"I would make communications more regular and personalised. Pensions, as I've experienced, are something you get with work and then its just left as an afterthought."

Male, 30s, L&G

"Annual statement just says the amount and doesn't consolidate the information. Not engaged with PDFs - will never be despite how engaging it is because they're not user friendly."

Male, 30s, Standard Life

"If you want people to be more engaged, send more correspondence. The annual statement is on website, but I've never been sent another letter since setting up the pension."

Male, 20s, L&G

App

"Move on to an app. There's an app for everything now. If I was in the last 5 years of working, I would want to be looking at this every week."

Male, 30s, Aviva

"I have the Royal London app - very little you can get through this."

Male, 20s, Royal London

"I have greater awareness of where I am with my S&S ISA because of the app. I am blind with my Aviva pension until I get my statement next April."

Male, 30s, Aviva

Education

"Understand the choices they have and not just sit on what they have assuming it'd be fine. People should be informed enough to explain the reasoning behind their portfolio choice."

Male, 30s, Aegon

"Educating them about what they are doing with their money and why over next 40 years. I think most people have a massive misunderstanding about how pensions work and therefore mismanage or under save into their pension."

Male, 20s, Standard Life

"A lot of people aren't aware of how much they need to be contributing. The figures you see aren't realistic. ..... I would like more guidance around what is the minimum you need to be contributing not to be a pauper. The average person your age is contributing this much, this is how much you could..."

Female, 40s, Aegon

Sectors

"I had to look at a document from 2006 and I don't know where to find up to date information."

Female, 50s, Aegon

"Irritating when you're looking for something and then you can't find it. Builds frustration and has a knock-on effect of reducing confidence in the company and the actual fund team."

Male, 40s, L&G

Risk rating	*"It didn't give me a good grasp of what risks there are around my pension."* Male, 20s, Standard Life
Investment split	*"I felt a little deceived. I also felt a bit stupid. Isn't it so obvious it should be there?"* Female, 40s, Scottish Widows
Fees	*"You feel stupid because you assume the information must be in there. It feels like it's being presented in an opaque way."* Male, 40s, Scottish Widows
ESG	*"It didn't trouble me until I started thinking about it (lack of ethical). I think it should be there – it's something important and will become mainstream."* Female, 40s, Scottish Widows
De-risking	*"They've made statement of de-risking: at what point does that happen? I'd like to know. Are they de-risking me too early?"* Female, 40s, Scottish Widows *"If it wasn't for me getting a line/ruler and really looking at the %s I wouldn't have been able to see the differences. I would have liked a bit more description."* Male, 30s, L&G
Protected benefits	*"With the absence of anything obvious being in the paperwork led me think there wouldn't be."* Female, 30s, Scottish Widows
Misc.	*"My worst pension is L&G – it's like a black hole. In L&G I can see my fund is down but I can't see why.... The L&G website hard to navigate and find information."* Male, 40s, L&G *"Very dry and hard going, doesn't seem to tell me what I want to know, I glance at annual statement... I would like to know where my pension is invested..."* Female, 40s, Aegon
Exit fees	*"It would surprise me if there was (exit fees). Why would there be? I would be extremely unhappy if they were because they didn't tell me that there was going to be. In fact - I think that would be almost illegal."* Male, 30s, Aegon *"Annual statement just says the amount and doesn't consolidate the information. Not engaged with PDFs - will never be despite how engaging it is because they're not user friendly."* Female, 40s, Aegon

Assumption busting

Both surveys bust some assumptions that the pensions industry has been making, knowingly or otherwise, over the years.

Pension savers don't want to know/ ignorance is bliss?

The pensions industry has long approached the matter of communicating with its customers on the basis that they don't really want to know about their pensions. Engagement levels have typically been very low through working life, until someone reaches retirement age, at which point, they are usually very interested.

Interactive investor conclusion: An ignorance is bliss approach might have worked in a defined benefit pensions world, where employees signed up to the scheme on offer by their employer and had little choice in the matter.

However, in a defined contribution world, in which there are many pension providers and many investment approaches on offer, this ignorance could be costly.

Pensions are best left to the experts?

Getting the balance right between risk and return over decades and choosing investments that will beat inflation over huge time frames is no mean feat. If people do it themselves, they risk losing money and making bad decisions.

And if the 'experts' are investing in your behalf blindfolded, because the risk profile isn't one that you would have proactively chosen, or perhaps because you are being unwittingly lifestyled, then the 'experts' are not going to deliver the right outcome for you, however skilled their team. The most important thing for investors, arguably, is to be clear on their risk profile. Without being clear on that, you are unlikely to achieve your goals.

interactive investor conclusion: There is absolutely a vital and major role for experts and there is risk in leaving people, who are not all investment experts and don't all want to be, to fend for themselves in the wilds of the investment world. However, in general, people would like more control. That said, a minority appear to be fundamentally disinterested, and for this group, full management of their pension by the provider may be the best option for now.

Ironically, auto-enrolment, while it seemed to favour a 'set and forget' pensions culture, might actually be responsible for sparking far greater curiosity around pensions and a desire to be more involved in one's own life savings than was the case with defined benefit schemes, where you largely got what you were given. We expect the next phase in the evolution of auto-enrolled, defined contribution pensions to be one of exploration and action among pension holders.

All people care about is having enough to retire on

The point of a pension is to generate a big enough pot that will provide sufficient annual income for a decent retirement. There's no need to achieve anything else with it.

interactive investor conclusion: The switch to defined contribution and auto-enrolment has changed all of this. The impact of the financial crisis has made those generations that graduated after it much more switched on to their own personal financial outlook. Yes, they want enough to retire on. But they also want to know whether they could retire earlier and how much they'd need to do this; whether if they switched to a different fund, that would give them a greater shot at a bigger pot.

The level of interest in ESG and ethical pensions, once explained, also busts this assumption. People care about where their money is being invested, once underlying investments and the fact that there is choice, is explained.

Overall conclusion

It would be easy on the industry to conclude that the lack of engagement in pensions is because people are not interested, either in what they are investing in or what they are paying.

This view would maintain the status quo and no one would have to do anything better.

However our research suggests that far from not being interested, once pensions are properly explained, people are really engaged all of a sudden – and shocked at how much they don't know.

Self-Invested Personal Pensions (SIPPs), in our view, are like a glass bottle: you can see what's in them, and you can fill them with almost any type of fund, investment trust, direct equity or ETF you like.

There's no question that life company pensions have delivered good outcomes for millions. But they are certainly not the be all and end all and people need to be able to be in a position of knowledge, so they can make informed choices. Greater transparency here is key.

Pensions have not been communicated very well by pension providers and employers, and most of us have not been taught about them at home, or in school, vocational training or university. You can't know what no one tells you. Or rather tells you well. Because it's not that the information isn't there – sometimes it is. But it is presented without wider context or further explanation. It is the presentation and communication of this information, guided by a new set of assumptions – primarily that pension holders want to know and pensions are interesting.

It could be argued that the industry's approach thus far has been paternalistic. The undertone seems to have been "don't worry your little heads, we will take care of it all for you". The approach has encouraged rather than challenged apathy and whilst many will have been well served, many others may have been short changed.

We believe our research shows that the 'set and forget' cultural behaviour around pensions is a barrier to engagement and therefore also to providers seeing a need for more transparency. If this behaviour changes, so too could engagement levels – pension could possibly be viewed and reviewed as often as ISA.

What needs to change is cultural behaviour, but this needs to start within the industry and it will then transmit naturally to pension investors.

In the United States, new graduates, before they fly off into the working world, are given knowledge of the importance of their '401K' workplace pension, which they understand is a greater priority in those early years of work than saving for a home deposit. We believe the research shows that a 'pension priority' culture could exist here too, if pension information was communicated better and more frequently.

In lifting the lid on pensions, we are opening Pandora's Box, from the industry's point of view. A greater understanding from pension providers' customers will suddenly require a lot more work from the providers, who will be compelled to respond with better, clearer information in general, and in particular, meaningful cost information and more detail on where the money ends up – and crucially, whether that's sustainable.

Some of this disclosure work is already in progress, thanks to the Pension Schemes Bill, for example and the Department for Work & Pensions consultation on simpler annual benefits statements.

But it's one thing doing the work and quite another communicating it properly to customers. And it's hard to mandate communication style – this is an imaginative hurdle that providers must overcome. Once they do, these efforts can be measured.

Those that do it well are likely to thrive in this new access-all-areas pension party, while those that are reticent will be barred from entry and sent back home for an early night.

If we make information about what a pension is, how much it costs and where the money ends up transparent and communicate that information in a way that makes people want to read it, then the ball is in the court of the pension holder.

If, after being presented with all of this rich and perfectly crafted information, they then choose not to engage further with their pensions, then at this point, the industry could fairly declare that people genuinely don't want to engage any more with their pensions than they do already.

But at ii, we find that hard to believe.

A pension is the largest pot of money any of us are ever likely to have to our names. If we take an interest in vouchers, mortgage rates and mobile phone tariffs – information on which is likely to save us a few hundred pounds a year – at best, then there can be no logical reason we wouldn't take an interest in the big stuff.

If only we were told more about it…

Recommendations

General:

Providers need to communicate on the assumption that people do want to know more, engage more and contribute more, not that they don't. Clarity of presentation and accessibility is not just about an app. Useability should be prioritised on online portals and provider websites. Consider greater frequency of communication than once a year.

On transparency of cost:

Costs should be displayed in pounds and pence as well as %, based on current pension pots. A line should be included on pension statements that it is possible to move your pension to another provider.

There needs to be clarity on whether customers are being 'lifestyled' – and what that actually means.

Exit fees need to be scrapped -not just for life companies, but for the whole industry. And if the regulator won't scrap them, life companies should be compelled to make their exit fees clear, if they charge them.

On transparency of holdings:

Interactive investor recommends the mandated disclosure of top ten holdings, with geographical and sectoral breakdowns for each company, on annual statements, both online and on paper.

Guidance on whether there is a sustainable approach, or if it is possible to switch to a sustainable option, is crucial.

Benefits and pitfalls of other options - final note from Moira O'Neill, Head of Personal Finance, interactive investor:

"Many of us will have accumulated several pensions over the years. It can be easy to lose track of them and sometimes those older plans may no longer be the best option or represent good value for money. That's why there's a strong argument in favour of bringing your different pensions together under one roof, whatever stage of the investing journey you're at. It allows investors to have more of a say in where they put their pension – whether that's ethical funds, active funds, passives, investment trusts or direct equities.

"Consolidating your pensions in the one place makes them easier to monitor and manage, reduces hassle and paperwork and helps you identify the pension investments that aren't working, or which look more expensive than they need to be. Investors can't control the stock market, but they can control the charges they pay on their investments – which can really eat into your returns. A flat fee structure, like that charged by interactive investor, means that as your wealth grows over the long term, the amount you pay to us stays the same.

"But it might not be the right thing to do for everyone and requires careful consideration of what you might be giving up as well as what you could gain. Many pensions taken out prior to April 2006 include an option to take more than 25% as a tax-free cash lump sum, while certain older plans may come with guaranteed annuity rates (GARs) that promise income considerably higher than that currently available on the annuity market.

"Defined benefit plans pay a pension equivalent to a proportion of your salary, based on how long you worked for that employer. That pension is guaranteed and if you move it to a defined contribution plan, like the ii SIPP, you'd be giving up that guarantee and may not be able to secure the same level of income. The pension regulator has given pension trustees powers to freeze transfers out of defined benefit or final salary schemes for up to three months due to the financial fall-out from the pandemic. Also, The Financial Conduct Authority insists on you seeking professional financial advice if you're thinking of transferring any safeguarded benefits worth more than £30,000."

We'd welcome further thoughts on this paper by email to
Rebecca.oconnor@ii.co.uk

And we thank Boring Money and Opinium for their insights.

Becky O'Connor, Head of Pensions and Savings,
interactive investor

About interactive investor

interactive investor (ii) is the UK's number one flat-fee investment platform, offering ISA, SIPP, Junior ISA and general investing accounts, plus leading investment content, tools, choice and service. Customers pay a flat monthly fee, even as their investments grow, meaning they keep more of their money. interactive investor is an award-winning platform and proud to be rated 'Excellent' on Trustpilot. ii is authorised and regulated by the Financial Conduct Authority and FSCS protected.

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