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Pension communication: Final report

Technical Commission on Old-age, Invalidity and Survivors' Insurance
International Social Security Association (ISSA)
Geneva

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Executive summary

This project on pension communication can be found among the activities defined in the work plan of the Technical Commission on Old-age, Invalidity and Survivors Insurance (TC Pensions) for 2014–2016. The project aimed at collating experience on what is being done around the world in the field of pension communication, analyse effects of different approaches, and establish what the current best practices are. The results of the project are presented in this report as well as through input to the new Guidelines on Communication by Social Security Administrations made available in the ISSA Centre for Excellence.

Information for the project was collected through an information inventory (aimed at compiling already existing knowledge) and a questionnaire sent to 41 International Social Security Association (ISSA) member institutions around the world.

It is important to consider the type of pension system in place (DB, DC or NDC), the degree of development (newly or well established pension system/organization) and the cultural and local context when deciding about suitable communication measures. It is also vital to include already at an early stage plans for measuring and evaluating implemented activities, to improve the outcome and better reach the targets set. The report shows that following-up and measuring effects of communication activities is an important area for improvement for most administrations.

All communication activities should have their starting point in the customers' need and expectations. A customer orientation should not only be present in regularly communication activities, but should also be a priority when e.g. designing decision letters.

Interest and lack of time are often critical factors when trying to reach pension savers. It is therefore helpful to inform people about the actual outcome of their behaviour instead of explaining the often complex structure of the existing pension system. Even so, many institutions currently do not.

It is vital that all institutions become aware of their customers' specific needs, life circumstances and preferred communication channels when deciding on communication activities. This can be achieved by actively defining and addressing specific target groups with customized communication measures. Working with life

situations can e.g. be a successful way to make information feel relevant to the customers. Throughout this report can be found several examples showing that it is easier to reach and more effective to work with smaller, well defined target groups. In addition, the tolerance for more in-depth information is higher when perceived as relevant.

Pension information in general and forecasts in particular should aim at providing a complete picture that goes beyond the institution's own administration, including all sources of pension on a national as well as international level, without overburdening the customer with excessive information.

1. Background

This project on pension communication can be found among the activities defined in the work plan of the Technical Commission on Old-age, Invalidity and Survivors' Insurance (TC Pensions) for 2014–2016, where it is listed as supporting ISSA topical priority 3: *Dynamic Social Security: A key condition for inclusive societies and economic growth.*

The need to provide information to participants is inherent in all pension systems, in particular in DC and NDC systems. Many studies on pensions have been carried out over the last 30 years by the ISSA, and by many others, on issues of sustainability, adequacy, system design, fairness, longevity, benchmarks, etc. However, one area that has so far not been dealt with to any great extent by the ISSA is pension communication. Irrespective of a country's social security system, there is a need for knowledge on effective methods to explain to participants how the system works, how different individual behaviours affect the individual pension, and how most pension systems are an agreement between generations.

The project aimed at collating experience on what is being done around the world in the field of pension communication, analysing effects of different approaches, and establishing what the current best practices are. The goals for establishing best practices in the area of pension communication were twofold. Most important is to strengthen individual consumers by customizing information that meets their specific needs and expectations – information that allows individual consumers to make informed decisions about their pension without being overloaded with redundant system information. Secondly, best practices can help provide useful input for decision-makers in both the design and policy phases.

The results of the project are presented in this report as well as through input to new communication guidelines made available in the ISSA Centre for Excellence.

The information gathering and analysis were made keeping in mind the needs of individual participants as well as the needs of social security administrations. The first activity of the project was an information inventory aimed at compiling already existing relevant research, case studies and publications in the area of pension communication and financial behaviour. This information was collected through the resources of the ISSA Secretariat, studies of open sources and gathering of good examples from the members of the project group. For this purpose a set of questions (see Annex 1) was answered by the members of the project group. The replies were compiled and analysed and the need for additional information gathering determined. The full results of the information inventory can be found in the interim report *Pension Communication – Activity 1, Information inventory, Version 5.0* (attached to this report), with the exception of the reply from BPJS Ketenagakerjaan in Indonesia. Examples from Indonesia can however be found in this final report.

Following the information inventory a questionnaire was prepared and sent to social security institutions. The questionnaire was sent to 41 selected member institutions in 38 countries spread over all continents (see Annex 2). A total of 20 replies was received, i.e. a response rate of 48.8 per cent based on the number of institutions who received the questionnaire. The collected material has been analysed and the main conclusions are presented in this report. All replies to the information gathering can be found attached to this report.

2. The context matters

Patterns identified in the study of open sources, available research and through the replies received through the questionnaires to members of ISSA, shows that it is important to consider the type of pension system in place (defined benefit (DB), defined contribution (DC) or notional defined contribution (NDC)), the degree of development (newly or well established pension system/organization) and the cultural and local context when deciding about suitable communication measures.

2.1. In relation to the degree of development (newly or well established pension system/organization)

It is natural and often necessary when implementing a new system/organization to prioritize making the basic functions of the administration work (paying benefits and collecting contributions). Secondly, focus is shifted to the perception of the services. Finally, attention can be directed towards more progressive communication strategies based on e.g. research on financial behaviour etc.

2.2. In relation to cultural differences and local conditions

Legal and cultural differences should be taken into consideration when presenting information messages and choosing channels. They will also have an impact on how information is perceived by the beneficiaries.

Certain differences reflecting local conditions can be detected, for example in the choice of communications channels. The National Social Insurance Fund in Cameroon uses local radio stations as one channel for their communication measures.

Cultural differences may have an impact on how administrations look at their customers and perceive the need for a customer-oriented approach. The balance between legally comprehensive information and more simplified targeted information that lack legal value is often impacted by local traditions and the legal environment of the administration and its beneficiaries. This is a challenge for several organizations. Communication measures do however risk becoming incomprehensible, if the legal perspective is predominant.

Cultural differences also have an impact on whether and to what extent institutions find it appropriate to point people towards beneficial behaviour patterns.

2.3. In relation to the type of pension system in place (DB, DC or NDC)

The main difference between DB and DC systems in terms of communication can be found in the need for forecasts and calculation tools. The size of a future benefit is known in case of DB systems, therefore forecasts are not relevant. DC and NDC systems, on the other hand, depend on a series of variables and are connected with a degree of uncertainty, which creates a need

for more information and supporting calculation tools to help beneficiaries understand and predict their future pensions. The uncertainty also creates a need for conveying crisis information, which is seldom needed for DB systems.

2.4. In relation to the strength of the private market

A market with strong private actors puts additional pressure on communication measures. With an increasing number of actors competing for the attention of customers, simplified and reliable information becomes more important. Competition also increases the costs and efforts required.

3. Focus on the customer

The project group has identified a number of areas that are important from a customer point of view. First and foremost, there is need for a more customer-oriented approach that goes beyond the institution's own administration, creating an increased awareness of all sources of pension and perhaps other social benefits. Increased customer orientation could be the answer to many issues raised by the responding institutions.

Relating communication to life situations (first job, having children, retiring etc.) can be a successful way to make the information feel relevant to the customers, especially as tolerance for more in-depth information is higher when it is perceived as relevant.

3.1. Aggregated data on customers' needs and behaviour

4 To better understand customers' needs for information services and their preferred channels, it can be a good idea to gather and map relevant data on customer needs and behaviour. This can be achieved by analysing web statistics, experience of staff in customer service and customer surveys (both qualitative and quantitative data). Good analysis makes it easier to identify, define and prioritize actions to meet customers' needs.

3.2. Incentives for the customer

Personal incentives for the customer (what's in it for me?) are important to the outcome of any communication campaign when attempting to influence the customers' knowledge or behaviour.

3.3. When customers are not interested

The *OECD Pensions Outlook 2014*¹ identifies common challenges regarding pension information. There are three main challenges for any communication initiative in the area of pensions: lack of interest in the topic on the part of a large share of the population (especially the young), the perceived or actual complexity of the topic, and the low level of financial awareness, knowledge, motivations, confidence, skills and responsibility of consumers, especially among the more vulnerable groups.

A majority of the responding institutions find it helpful to inform people more about the actual outcome of their behaviour, rather than explaining the (often complex) structures of the system.

¹ OECD. 2014. *OECD Pensions Outlook 2014*, OECD Publishing. "Pension communication: Pensions statements and national campaigns", Chapter 5.

Communicating favourable behaviour can be done in a first step through simple messaging, and in a second step through more elaborate guidance.

Research concerning financial behaviour shows that the complexity of the pension system makes people feel that the burden of gaining information is not balanced by the benefits of understanding the system.² Information should therefore be simple, short and easy to understand, and should aim at explaining how different decisions in life affect the future pension. Help customers to sort through the available information by pointing them in the right direction is also beneficial. This is often done by designing default alternatives that do not require people to make active choices.

Social security institutions can and should have an interest in influencing the choices of their customers through their communication measures. A majority of the responding institutions have also identified information on the most important factors determining the size of their beneficiaries' future pensions as a key area for their communication strategy. However, most institutions have no or little information about the awareness of beneficiaries.

Only two responding institutions (the United States Social Security Administration and the Pension Fund of the Russian Federation) have measured the awareness of their beneficiaries or have carried out relevant research. For example, in 2014 the Pension Fund of the Russian Federation carried out such a survey with the help of an independent research centre.

The replies to the information inventory questionnaire in Annex 1 shows that in the United Kingdom (UK), the Pensions Act 2008 established new duties which stated that employers need to provide their UK workers with access to a workplace pension plan that meets certain minimum standards. Some workers will be automatically enrolled into the pension plan and others can ask to join. The former is called automatic enrolment. These reforms affect the majority of UK employers and are intended to help up to 11 million more people save for retirement. The auto-enrolment, based on the "nudge" theory in behavioural finance,³ has been a success. Predictions of opt-out rates running at 33 per cent or so have not taken place; the industry average so far is just 9 per cent, according to official Department for Work and Pensions estimates. Some providers report higher opt-out rates, however, particularly among older workers. The UK also has the Behavioural Insights Team, a government-financed research institution dedicated to the application of behavioural sciences.

In Latin America, policy-makers are beginning to learn that the design of the default investment option is extremely important in mandatory individual systems, since a significant percentage of participants will probably fail to make an active choice. The default portfolio in Latin American countries was designed to select a more aggressive default option for younger participants and a less aggressive one for older participants. In Chile, for example, members who do not make an active choice are assigned to balanced funds based on a participant's gender and expected time horizon until retirement. The rule for assigning members to one of the five funds involves dividing them into three age groups, where younger members are assigned to a fund with more equities and older members to one with a higher allocation of fixed-income instruments. Members can choose funds in the two extremes of the spectrum (fund A and fund E), but the default funds only include those in between. In Chile, there is also a regulation to

² Mitchell, O. S.; Utkus, St. P. (eds). 2004. *Pension design and structure: new lessons from behavioral finance*, Oxford University Press.

³ Thaler, R.; Sunstein, C. R. 2008. *Nudge: Improving decisions about health, wealth, and happiness*. New Haven, CT, Yale University Press.

prevent pensioners and members close to retirement from taking high risks with their mandatory savings. The design of the default option in Mexico and Peru points in a similar direction.⁴

More information about research on financial behaviour can be found in Annex 3.

3.4. Life situations

Relating communication to life situations (first job, students etc.) can be a successful way of making information feel relevant to customers, especially as tolerance for more in-depth information is higher when it is perceived as relevant. One example is the personalized information for teachers in public schools as provided by Derrama Magisterial (Peru). The example of Derrama Magisterial also shows that it is more effective to work with smaller, well defined target groups, and easier to reach such groups.

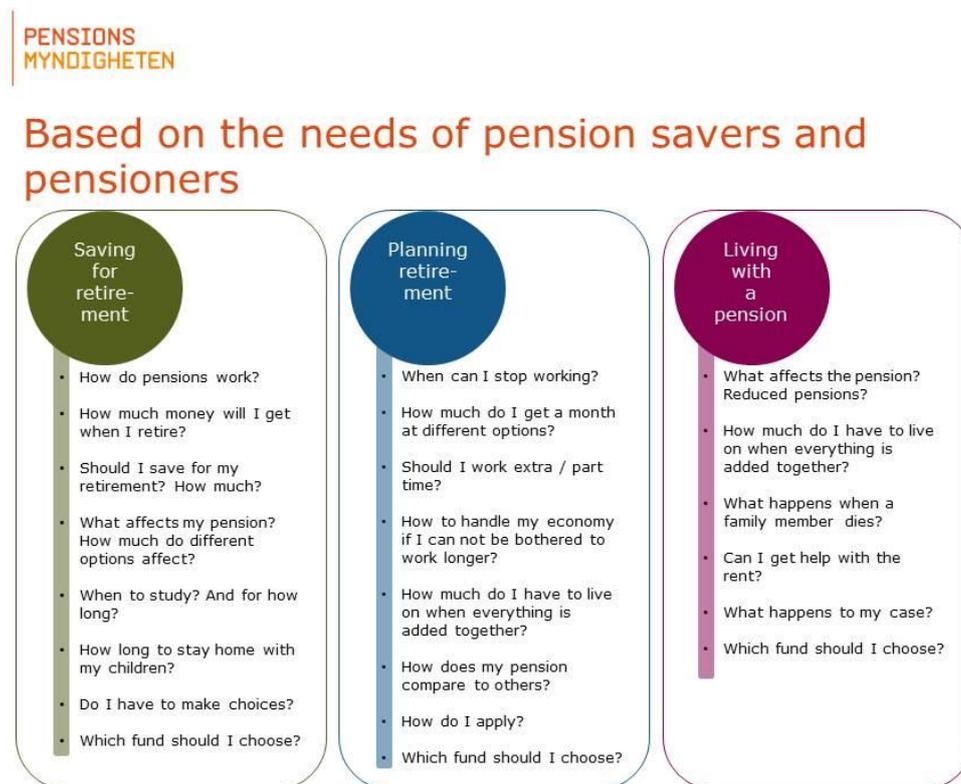
Target group orientation is a guiding principle of the German Federal Pension Insurance's communication strategy. This is reflected, for example by the structure of the homepage on its website. The prominently located button *Lebenslagen* (life situations) leads visitors to a page where they can choose a life situation similar to their own in order to obtain suitable further information.

The Swedish Pensions Agency has a similar approach, where the information on the organization's website is structured according to three basic phases in life: saving for retirement, planning retirement, and living with a pension. This is designed to make the information more relevant and easy to find for most visitors to the website (see Figure 3.1).

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The Swedish Pensions Agency also analyses customer needs based on these phases in life. Through surveys, statistics and gathering of data in different ways, the organization has identified needs and questions regarding pensions that are common in the different phases. This is helpful when trying to construct comprehensible, simple and relevant information for the public.

⁴ <www.oecd.org/finance/private-pensions/39368306.pdf>.

Figure 3.1. Swedish Pensions Agency: Information structured in three phases of life

4. Reaching out and supporting customers

The European Commission published a report in 2013 pointing out some best practices concerning pension communication. One of the most important conclusions in the report was the need to tailor pension communication to target groups:

“Communication has to meet the information needs and characteristics of the receivers. Different target groups might need different types of information, as well as require it to be delivered through different mediums, in accordance with one’s gender and/or economic, occupational and educational background.”⁵

Why is focus on the target group such an important part of communication? Simply because the communication becomes more efficient, because the members of the target group feel that the information concerns just them. Target-group orientation is something everybody uses when talking to other people. Few would address their mother in the same way as their employer. Adapting to the target group is something natural when you see your target in front of you. It becomes harder when you do not see them.

In fact, the target group is decisive when it comes to communication – you must use a channel that reaches the target group, your message must be adapted to the target group, you must use a language and tone that is suitable to the target group, and you must know your target group

⁵ Stevens, Y.; Van Assche, L. 2013. *The right to retirement pension information*, Peer Review in Social Protection and Social Inclusion (Madrid, 2-3 July 2013, Synthesis Report). Luxembourg, European Commission Directorate-General for Employment, Social Affairs and Inclusion, p. 22.

to find out how many times you have to repeat your message to reach them. You also have to consider if there are other actors that communicate with the same target group and perhaps will disturb your communication with other, and perhaps contradictory messages.

In this section we will give some examples and draw some conclusions on adapting to target groups, use of channels, how institutions deal with communication from the market, and how they choose to provide support to their customers.

4.1. Target groups

Targeting efforts should focus not only on the content of the information, but also the channel used and the presentation. It is also more effective to work with smaller, well defined target groups and easier to reach them.

The answers from the questionnaire show that some institutions are more focused on customer needs, which help them to define their relevant target groups. Even so, the responding institutions could possibly benefit from focusing more on certain target groups, given the large number of target groups mentioned, instead of trying to reach everyone with equal efforts. It should be kept in mind that even institutions that consider all target groups to be equally important single out certain groups for specific campaigns and information measures.

Targeting based on age seems to be the most common approach used by the responding institutions, together with the needs (both short term and long term) of the target group used to define the communication measures. However, these needs, and the size of the target groups, have to be considered in relation to the administrative costs when planning and deciding on the use of targeted information measures.

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Segmentation of the population into sub-target-groups can be fruitful in personalizing the communication. The BPJS Ketenagakerjaan in Indonesia maps beneficiaries based on the following characteristics: age, gender, education level, place of residence and the usual communication channel used, among others. It then identifies suitable communication channels tailored to the characteristics and considered most cost-effective and efficient. Finally, the chosen communication channels are monitored and evaluated through pilot projects in order to gain input for further improvements.

Users who log on to the Swedish Pensions Agency's website are automatically categorized based on age as well as interest in and knowledge of pension matters. Based on this categorization, users receive information adapted to their needs. This segmentation strategy has proved to be successful 70 per cent of the time, according to statistics from the Swedish Pensions Agency. Segmentation is also used to add various supplementary information to the annual pension forecast, the orange envelope which is distributed to 4.9 million pension savers.

4.2. Channels and strategies

In the questionnaire, institutions were asked to provide examples of successful communication projects. However, a few common communication strategies can be seen throughout most of the projects mentioned in the replies to the questionnaire. The responding institutions:

- focus more on the channels used rather than the results and effects of the communication measures/projects;

- allocate a multichannel approach to reach their targets and set goals; and
- provide, in many cases, Internet-based personal accounts.

A majority of the responding institutions find the Internet to be the most efficient way to communicate with customers. Several institutions also use social media in various ways. The Internet is of course in most cases a cost-effective way to reach out. In organizations where cost control is more important than reaching beneficiaries, it can be tempting to consider a banner on their own website as good enough. But often it takes more to obtain a real effect in the target group, which is why a multichannel approach seems to be favoured by the responding institutions when reaching out to the public. However, most institutions prefer to be contacted through Internet services, while a few prefer phone, letters or personal meetings.

The use of financial incentives is generally very efficient, if the necessary resources are available to the administration. The successful implementation of the Russian Federation's Government Pension Co-Financing Programme through its Pension Fund illustrates the use of information on financial behaviour: each voluntary insurance contribution is matched by the Government. Almost 16 million people have joined the Programme, resulting in a six-fold increase of the amount of voluntary insurance contributions paid.

The National Social Insurance Fund in Cameroon has conducted a very successful campaign encouraging pensioners to receive their pension through their local bank or through an electronic wallet. During the course of the campaign the use of banks by pensioners rose from 0.27 per cent at 1 January 2008 to 96.8 per cent at 31 December 2014 (including 9 per cent using electronic wallets).

Personalized meetings are preferred by some, such as Derrama Magisterial (Peru) and the Social Insurance Institute - National Social Insurance Fund (Côte d'Ivoire). Derrama Magisterial has focused its information activities on individual meetings and personalized services due to the specific group of beneficiaries (teachers in public schools). The meetings are arranged in the office or home of the beneficiary, thus minimizing the effort requested from the beneficiary. Derrama Magisterial also uses individualized accounts and information material to further limit the effort required by the target group.

The Social Insurance Institute – National Social Insurance Fund in Côte d'Ivoire also prefers personalized meetings because they provide an opportunity for direct feedback.

The BPJS Ketenagakerjaan in Indonesia, provides information and services through the Internet and social media, as well as through kiosks placed in strategic positions. They also offer personal meetings at service point offices, in cooperation with banks, minimarkets, supermarkets and local governments. Thus beneficiaries can be reached even in the most remote areas.

The Swedish Pensions Agency provides information and services at around 100 local offices (shared with the Tax Agency and the Swedish Social Insurance Agency). It is possible to book a meeting, in person or online through video, with a customer service consultant. Sharing offices and staff with two other major government agencies has proven to be very cost-effective and has also provided an opportunity to offer service at a level that would otherwise not have been possible.

To facilitate their work, many institutions try directly or indirectly to influence customers to use certain channels, as for instance the US Social Security Administration:

“To reduce the strain on resources and to allow us to handle more complex cases in our local offices, we do encourage the public to use our online services to obtain information or to file their claims. We also encourage members of the public to use our online services to verify their earnings and obtain estimates of their benefits so they have timely information and to reduce print and postage costs to the agency.”

The need for Internet-based personal accounts are addressed by several institutions through various services. Good examples of how personalized Internet accounts can be used are found, among others, in Italy’s National Social Insurance Institute and the Japan Pension Service. The Japan Pension Service uses Internet-based personal accounts both to inform and to interact with beneficiaries. The National Social Insurance Institute in Italy uses Internet-based personal accounts to create transparency by making it possible for the beneficiaries to see contributions made and to create and see the impact of different scenarios when making a decision about when to retire. In addition to the Internet-based personal accounts, a mobile application has also been created with tailored information that enables beneficiaries to make informed decisions based on the specifics of their own situation.

Since 1 October 2013 the German Federal Pension Insurance offers its customers the possibility to communicate securely via De-Mail, a procedure which is similar to e-mail. In addition, available online services enable customers to safely access their own insurance record, for example to retrieve data in order to plan their supplementary private old-age provision. Furthermore, customers can exchange electronic messages with their pension insurance institution. Pensioners, for instance, can print out a pensioner ID or a pension statement for submission to the tax office. Both the online services and De-Mail are advertised on the Internet, in brochures and at trade fairs. Customers also receive information on the possibility to submit applications electronically, using the online services, when their insurance record is updated.

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4.3. Consumer support...

Raising awareness of savings is important to institutions where private pension savings are a key part of the pension system. Some institutions even stimulate savings in various ways. Good examples can be found in Canada’s Quebec Pensions Board and the US Social Security Administration. The Quebec Pensions Board encourages its beneficiaries, through various information measures, to calculate their savings needs for when they retire. However, the emphasis is on people aged 35 to 49.

“The Board feels that at this age the citizen has access to a healthy income and can save a portion of it. It is also early enough for the savings to yield conclusive results. We also think that retirement starts to be a less abstract subject at this age.”

It should be noted that information provided to this age group needs to be short and specific due to the time constraints and the level of interest of the group.

The US Social Security Administration

“emphasizes that Social Security is only one part of retirement, and encourages the importance of other incomes and savings”.

This is reflected in all the information activities of the SSA.

4.4. ...and in relation to the private market

An overall conclusion given in the *OECD Pensions Outlook 2014* report is that government pension communication campaigns should avoid confusion with private providers' campaigns. It is important to maintain an effective control of the campaign, avoid mixed messages and ensure the objectivity of the information provided.

A few examples of this are given. In Estonia, for example, private providers agreed to postpone their advertising until the Government's campaign was completed. In Poland, the Government went so far as to restrict the marketing campaigns used by pension providers during its own campaign.

The experiences of Hungary and Poland demonstrate that private providers' advertising and marketing campaigns can overshadow the Government's information campaign and, in certain cases, give rise to a situation where consumers overestimate the benefits and underestimate the costs and risks of the DC system.

Most responding institutions do not provide help to their beneficiaries in relation to the private market. Concrete examples of cooperation can however be found, for example in the replies of the German Federal Pension Insurance, the National Insurance Institute (Israel) and the Mexican Social Security Institute.

Israel's National Insurance Institute has developed a counselling service for the elderly:

"The service is run by professional social workers and volunteers. The volunteers undergo an academic training course to be able to provide guidance and support to the elderly and their families on various issues, including finances."

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The German Federal Pension Insurance provides comprehensive independent guidance to its beneficiaries:

"This service is rendered by specially trained consultants who give a free of charge and neutral presentation of options for old-age provision."

The Mexican Social Security Institute gives information about

"loans from retirement plans that can be requested from private sector financial entities. The best and cheapest options available for pensioners are reviewed".

5. Forecasts and information relating to pension pillars

5.1. Information relating to all pension pillars

It is crucial for beneficiaries to have an overview of all pension pillars, in order to be able to make informed decisions about their pensions. Such information should preferably be provided on an individual level. However, individualized information on all pension pillars could potentially raise questions related to data integrity. Just over half the responding institutions inform about all pension pillars; and in most cases the information is provided on a general level. Some institutions provide more individualized information about the range of pension pillars, such as such as Australia's Department of Human Services through its Financial Information Service (FIS), which offers comprehensive retirement planning.

One example referred to in the information inventory concerns the United Kingdom. A special body in the United Kingdom, the Pensions Advisory Service (TPAS),⁶ provides pension information concerning all pillars. TPAS is an executive non-departmental public body, sponsored by the Department for Work and Pensions, which gives information, guidance and help relating to state, occupational and private pensions.

At the European level, the non-governmental organization (NGO) AGE Platform Europe⁷ among other things for better pension information. It argues that information about pensions should cover all sources of pension (state, occupational and private schemes), that such information should be communicated at the same time, be dynamic and available from the very beginning of one's working career.

5.2. Standards for presenting pension forecasts

The main focus of pension information is a projection of expected future benefit. This information can be provided in a number of ways. There should, however be only one standard for how this amount is calculated and presented. This standard is based on many years of international experience in the United States, Denmark, Germany, Netherlands, Norway, Sweden⁸ and the United States. The standard pension projection answers the question: If the present legal and contractual arrangements that I am covered by and my present income persists unaltered until my retirement, what pension can I then expect?

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The standard pension projection includes the following:

- It is a monthly amount (if benefit is paid monthly) or other interval if benefit is paid at other intervals.
- It is resented at the legal retirement age (other ages may be added, but are not standard).
- It is presented/calculated in today's prices and income level. That is, either zero inflation and income growth should be assumed in the projection, or if price and/or income growth are assumed in the calculation of the pension benefit, the pension benefit should be discounted by inflation and/or income growth. (Other assumptions may be added but are not standard.)
- If return on capital has an implication for the pension benefit such pensions should also be presented in today's prices and income level. (Other assumptions may be added but are not standard.)
- If mortality/life expectancy has an impact on benefits or standard retirement age, the projection of mortality used by the national statistical office or corresponding office should be used.

⁶ <www.pensionsadvisoryservice.org.uk/>.

⁷ "AGE Platform Europe was set up in January 2001 following a process of discussion on how to improve and strengthen cooperation between older people's organizations at EU level. Membership is open to European, national and regional organizations, and to both organizations of older people and organizations for older people. Organizations of older people will have the majority of votes in our decision-making bodies. Membership is open only to non-profit-making organizations. The work is financed by grants of the European Union, membership fees and donations", online article, available at: <www.eurag-europe.net/about-age/>.

⁸ See: Swedish Social Insurance Agency. 2007. *Orange report. 2007. Annual report on the Swedish Pension system 2007*. Stockholm, Försäkringskassan.

- If there are options in the legislation or contract, for example payment periods other than life, the default option should be used in the information.

The *OECD Pensions Outlook 2014* addresses the issue of providing pension projections to individuals. It discussed the possible implications and complexity in doing this, including projections being uncertain and difficult to present in a user-friendly way, and argues that pension projections are a possible way of empowering individuals to take active steps to improve their retirement income.

It also addresses the need to provide information on an individual's total pension and the difficulty in doing so:

“Ideally, the accounting information provided in the annual pension statement would be comprehensive, covering the member's pension accruals from all private sources and the state pension. However, this type of combined statement is unusual. The reason given for this is the difficulty of coordinating data between different plans and providers, among other factors.”⁹

The report concludes that the pension statement should ideally combine all pension information relevant to the individual, incorporating information from all pension sources (PAYG-financed pensions as well as private and funded pensions) given the overall structure of the pension system. The value of pension information to the individual is significantly diminished if information only relates to a single plan. Three examples of suggestions when designing statements with pension forecasts mentioned are:

- The most important figure for the consumer is likely to be the projected monthly income, which should be highlighted.
- Assumptions should be net of actual charges and take account of future inflation, so that the member sees the projected monthly income in “today's prices”.
- Even the term “projection” might be misunderstood and a suitable user-friendly synonym should be adopted, such as “forecast” or “indication”. Mathematical and technical accuracy should give way to user friendly language.

5.3. Practical examples and experiences of providing forecasts

A majority of the responding institutions send to their beneficiaries an individualized forecast covering their part of the pension system. The forecast can normally also be accessed through the Internet. Reminders are sometimes sent to encourage beneficiaries to access their Internet accounts; for example, the US Social Security Administration sends annual reminders through e-mail to their beneficiaries with a registered online account, asking them to review their online statement.

The responding institutions are of the opinion that forecasts:

- make it easier for beneficiaries to predict their future pensions (an expected future pension amount);
- provide better transparency to beneficiaries; and
- help beneficiaries plan their future career choices, retirement age and need for savings.

⁹ OECD, op. cit., p. 182.

The current age and the foreseen retirement age of the beneficiary are together with the size of the contributions and/or the income the most important variables to make up a good forecast, according to a majority of the responding institutions.

Providing forecasts about all pillars of the pension system is valuable from a customer point of view. It should however be noted that gathering and presenting such data requires substantial resources. The Swedish Pensions Agency provides a comprehensive forecast covering all pillars of the pension system: <www.minpension.se>, a service that contains over 98 per cent of all pension capital in Sweden. The information inventory showed that similar forecasts can also be found in Denmark: <www.pensionsinfo.dk> and Chile: <www.spensiones.cl/apps/simuladorPensiones>. The Swedish and Danish forecasts are made available through websites that are collaborations between the State and the private sector and that collect information from all actors and thus make it possible for the individual to access their own pension information and make a forecast on the total pension payment.

Other examples, referred to in the information inventory concern the National Old-Age Insurance Fund for Employees in France, the German Federal Pension Insurance and the Pension Fund of the Russian Federation.

In France, all customers over the age of 45 receive information every five years about their future pension from the National Old-Age Insurance Fund for Employees. It includes information about the contributions paid as well as a simulation of future pension rights. It contains data from multiple regimes to provide a complete picture of all regimes relevant for the basic as well as the complementary pension. Detailed forecasts can be accessed through the Internet in order to assess different scenarios. More detailed information is also provided through personal meetings organized all over the country, with the explicit goal of meeting all consumers before their retirement to help advise on the right time to retire.

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The German Federal Pension Insurance provides individual information through personalized annual pension forecasts. The forecasts can be accessed through the Internet and contain information about:

- entitlements accrued up to the present year;
- individual model calculations using contribution information on the last five years to extrapolate the amount of the future pensions;
- reduced earnings capacity benefits; and
- real value loss.

When the personalized pension forecasts were introduced, the German Federal Pension Insurance undertook a survey to evaluate the extent to which beneficiaries found the instrument helpful in planning their pensions. Most people knew about and had read the information and had found it helpful, but only a relatively small number were planning to take any action after receiving the information. The perception of the pension forecasts was influenced by socio-economic status: Younger people, people with low education levels and non-Germans were less likely to know about the pension forecasts.

Efforts to deliver forecasts have also been undertaken by the Pension Fund of the Russian Federation. As of 2015 all beneficiaries are able to access their personal accounts through the website. The information contains information about individual pension rights and options to choose individualized pension provisions in the Compulsory Pension Insurance (based on age

and employment status). The personal account also includes an individual pension calculator. Introducing a personal account accessible through the Internet is in line with the overall strategic direction of the Pension Fund of the Russian Federation to increase the use of e-services, and according to a survey from October 2014, 60 per cent of citizens show interest in using this new service.

Some institutions instead provide various other types of Internet-based calculation tools that can be used by beneficiaries for a better understanding of all parts of their future pension. Examples referred to in the information inventory include Belgium, France and the Netherlands. The Netherlands provides an online tool <www.mijnpensioenoverzicht.nl> that gives beneficiaries information on how much pension capital they have gathered through their occupational pension. Belgium <www.mypension.be> and France <www.marel.fr/> provide calculation tools into which beneficiaries manually enter all their available data.

6. Methods for measuring and evaluating communication activities

Surveys are the most commonly used tool for measuring and evaluating communication activities, followed by customer statistics and web analytics.

The methods used for evaluating communication measures need to be carefully planned and adapted to the local situation. A good example can be found in Peru, where Derrama Magisterial applies a direct way of measuring communication activities based on customer statistics (the number of new members), because of the limited sized and well defined target group.

Most of the responding institutions measure the impact of their information measures based on how successful they are in reaching the intended target group(s). However, measuring the number of people reached does not always provide an understanding of how well an information campaign has been received and understood. To better understand the impact of a campaign, reference to the size of the target group and the expected results (goals) is necessary. In addition, it is also useful to measure how a campaign is perceived and, if relevant, its effect on the recipients' awareness and behaviour.

Surveys are necessary to detect behaviour changes. However, the use of such surveys seems to be less common than expected, as only a few institutions are able to detect an influence on the behaviour of the customers.

The Social Insurance Institution in Poland provides a good example of how external institutions can be commissioned to measure and evaluate the quality and impact of various information measures (as a benchmark). It commissions a survey every two years using a panel and in-depth interviews.

It has proved successful for the Swedish Pensions Agency to create short movie clips for social media such as Twitter and Facebook. The Agency has measured the effects of its campaigns and has experience the type of information measures that are most efficient to use when addressing people through social media. Studies have also been carried out on the impact of using social media to inform about upcoming events and activities relating to personal meetings.

The Swedish Pensions Agency has also undertaken a broader approach to measuring when evaluating a large communication initiative. This includes a combined analysis of web statistics, results from several surveys, media analysis and tracking of digital advertisements,

among others. This approach and the analysis have proved to be excellent tools for decision-making and achieving long-term cost efficiency.

7. Input for decision-making

Most institutions provide input to the responsible decision-makers, either in general or through specific work groups. Good examples can be found in the replies from Australia's Department of Human Services and the German Federal Pension Insurance.

The Australian Department of Human Services has developed a well-structured process for feedback through reference groups which represent various customer cohorts. Discussions in these forums, as well as feedback from member organizations, can inform policy development. The German Federal Pension Insurance uses experience from communication activities as input for decision-makers.

“For example, the form and design of the pension forecast of the statutory pension insurance system and the positive experience with this tool are a starting point and basis for a discussion concerning the development of such information tools for other old-age provision products or for the development of legal guidelines for such product information.”

8. Conclusions and recommendations

The conclusions drawn from the material that provides the foundation for this report can be summarized in the following subheadings. Institutions need to focus more on:

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8.1. Effects, following-up and measuring

A majority of the responding institutions have identified their beneficiaries' awareness of the factors that are most important for determining the size of their future pension as an important area that impacts their communication strategy. However, they currently have no or little information about such awareness. Following up and measuring the effects of communication activities are therefore not surprisingly mentioned as an important area for improvement. Measuring and evaluating beneficiaries' awareness as well as changes in behaviour and other desired effects can help institutions tailor their communication activities to become more effective and to better reach their goals.

8.2. Outcome of behaviour

To increase the awareness of beneficiaries most institutions find it helpful to inform people more about the actual outcome of their behaviour instead of explaining the (often complex) structures of the system. Even so, many institutions do not currently inform people about the actual outcome of their behaviour. As a first step, it has proved efficient to do this by simple messaging; once this has been done, the target group might be interested in more elaborate guidance in a second step.

8.3. Customer orientation

Increased customer orientation could be the answer to many issues raised by the responding institutions. Such orientation should not only be present in regular communication activities, but should also be a priority when, for instance, designing decision letters, which are an important part of the institution's communication with its beneficiaries.

8.4. Specific target groups

Relating communication to life situations (first job, study, etc.) can be a successful way of making the information feel relevant to customers, especially as the tolerance for more in-depth information is higher when it is perceived as relevant, e.g. personalized information for teachers in public schools as provided by Derrama Magisterial (Peru). The example of Derrama Magisterial also shows that it is more effective to work with smaller, well defined target groups, and easier to reach them.

All communication activities should also take into consideration legal and cultural differences. This includes the message conveyed as well as the channels used, and will also have an impact on how information is perceived by beneficiaries.

8.5. All benefits

Institutions should take a holistic view of customers' needs, and in the communication consider other benefits, incomes and savings that the individual might have, as demonstrated by examples from Canada and the United States.

8.6. Forecasts of total pension

There is a need for a more customer-oriented approach that goes beyond the institution's own administration, creating an increased awareness of all sources of pension on a national as well as international level (e.g. through improved cooperation between responsible institutions) among the countries responding to the questionnaire, only the Swedish Pensions Agency provides a forecast covering all pillars of the pension system.

8.7. Focus on the pension saver

Pension savers – people not yet receiving benefits – seem to be the greatest challenge when working with pension communication, due to lack of interest and lack of time.

Annex 1. Questionnaire: Information inventory

The following 12 questions were sent to the members of the project group.

1. What methods do you use to explain your pension system to the beneficiaries? What do you think people actually need to know for their daily behaviour?
2. Are beneficiaries aware of what factors are most important for determining the size of their future pension? Is this an important thing to communicate for your organization?
3. Do you know if the beneficiaries trust the system? How do you measure this?
4. Do you have experience of applying relevant research on financial behaviour to pension information? In that case, how was this done, and what are your most important results?
5. Do you provide pension forecasts to the beneficiaries? If so, how is this done and what are your experiences?
6. Do you try to adjust the communication to different target groups (i.e. formal/informal sector; young people/people just before the retirement age; employed/self-employed etc.)? How is this done? What are your experiences and results?
7. Segmentation is a way to categorize all your customers or beneficiaries. For example, every customer can be marked out in the register of customers as a member of a certain group. In that way, the company or organization can easily sort out these sub-groups and adapt the communication. Do you work like this? In that case, what are your experiences?
8. Many pension administrations work in an environment where the private market - for example banks and insurance companies – communicates in a powerful way. Do you see it as your job to support your customers in relation to the private market? In that case, how do you do this? What are your experiences and results?
9. How do you provide service to your customers or beneficiaries? What channels do you find successful and why? Do you try to make customers/beneficiaries choose more cost-effective channels? How do you do this?
10. Do you have good examples of cost-effective communication? Examples where you were able to get the same or better results of your communication on your target groups at lower cost?
11. Do you have good examples of how to follow up communications projects and how to measure the result of your communication?
12. Do you know of other examples where agencies or organizations work successfully in the fields covered in question 1–11? In that case, please provide information on who we should contact for further questions.

Annex 2. Questionnaire: Information gathering

The following 20 questions with a spread of eight different areas of communication were sent to selected ISSA members outside the project group.

Successful communication projects

1. What was your most successful communication measure/project on pensions? Please describe the initiative and its effects briefly.

Target groups

2. Do you adjust your communications to different target groups (i.e. young people/people just before the retirement age; employed/self-employed, etc.)? Please elaborate.
3. Which target groups do you try to reach? Are some target groups more important than others? If yes, please identify them and explain why.
4. Can you measure if you reach these target groups? Do you see an influence of your communication on their behaviour?
5. Do you try to reach people in the informal sector by communication measures? If so, how?

Customer orientation

6. Do you inform people about the whole range of pension pillars (not just the one you represent)? If so, how?
7. Are beneficiaries aware of what factors are most important for determining the size of their future pension? Is this important for the way you communicate?
8. Do you measure if beneficiaries have confidence in the expected provision of future retirement pensions? Is this important for the way you communicate?
9. Do you think it is helpful to inform people more about the actual outcome of their behaviour instead of explaining the (often complex) structures of the system? If so, do you point people towards a behaviour that would maximize pension benefits? Please provide examples.

Pension forecasts

10. Do you send a pension forecast directly to the recipients, for example by letter? If so, how frequently?
11. Is it possible for the customers to obtain a forecast by themselves (e.g. through the Internet) at their own convenience?
12. Does the forecast you provide include other pillars as well?
13. What are the results of providing these forecasts?
14. Given your experience, what kind of variables (for example retirement age, return on pension capital etc.) are the most important to make up a good forecast?

Communication channels

15. Please provide examples of efficient channels for communicating with the public.
16. Which channels do you prefer your clients to use when seeking information from you? Why? Do you try to influence your customers to use certain channels?

Consumer support in relation to the private market

17. Do you see it as your job to help your customers in relation to the private pensions market (banks, insurance companies, etc.)? If so, how? Please provide examples.

Input for decision-making

18. Do you provide input for decision makers, in both the design and policy phases, based on experience from your communication activities?

Methods for measuring and evaluating communication activities

19. Please give examples of how you measure and evaluate the results of your communication activities.

Description of your national pension system

20. Briefly describe your pension system and your role in it (please try to keep your answer to a maximum of 200 words).

Annex 3. Understanding financial behaviour – crucial when communicating pensions

If you want to communicate things that are generally perceived as difficult, and where the results of actions today come to the surface in the future, it is of great importance to understand how people normally behave in actual life. For this reason, we summarize here the relevant research concerning financial behaviour.

Two systems that form our thoughts

The Nobel Prize winner Daniel Kahneman¹⁰ has shown that the human brain has two different ways of forming thoughts. In system 1, thinking is fast, automatic, frequent, emotional, stereotypic and subconscious. In system 2, the thinking is slow, effortful, infrequent, logical, calculating and conscious. System 1 is at work when you detect that one object is more distant than another, or decide from which direction a sudden noise comes from. It is automatic and requires little or no effort. But you have to use system 2 when you compute the product of 17 x 24. You must pay attention, or else you will perform less well. The division of labour between system 1 and system 2 is efficient. Most of the time we use system 1, and when things get difficult, such as the multiplication, we call for system 2. However, system 1 has systematic errors, biases. It sometimes answers easier questions than it was asked, and it has little understanding of logic and statistics. One more thing is that system 1 cannot be turned off. Kahneman concludes that system 1 is more influential, and that it steers system 2 to a very large extent.

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Based on Kahneman's research, Richard H. Thaler and Cass R. Sunstein conclude in their book *Nudge: Improving decisions about health, wealth, and happiness*¹¹ that busy people are trying to cope in a complex world in which they cannot afford to think deeply about every choice they have to make. Other research shows that complex matters, such as pension systems, make people feel that the burden of gaining information is not balanced by the benefits of understanding the system.¹²

We use the rule of thumb

As Thaler and Sunstein state, people therefore adopt sensible “rules of thumb” that sometimes lead them astray. There are different rules of thumb that most of us apply, and that sometimes lead us to make good judgements and sometimes to make bad ones.

Anchoring and adjustment. If you do not know the answer to a question, you start with something you know, an anchor, and then adjust in the direction you think is appropriate. If I do not know the population of New York, I may estimate it as at least 10 times as big as my home town. This knowledge can be used to influence people, by changing the starting point or the anchor of their thinking. People will donate more money to charity if the options are 100 dollars, 250 dollars, 1,000 dollars and 5,000 dollars, than for example 50 dollars, 75 dollars, 100 dollars and 150 dollars.

¹⁰Kahneman, D. 2011. *Thinking, fast and slow*. New York, NY, Farrar, Straus & Giroux. See also <www.scientificamerican.com/article/kahneman-excerpt-thinking-fast-and-slow/>.

¹¹ Thaler, R.; Sunstein, C. R. 2008. *Nudge: Improving decisions about health, wealth, and happiness*. New Haven, CT, Yale University Press.

¹² Mitchell, O. S.; Utkus, op. cit.

Availability. Most of us tend to assess the likelihood of risk by asking how readily examples come to hand. If there are more homicides than suicides reported in the mass media, we might draw the wrong conclusion that homicides are more frequent than suicides. Or, an example that is relevant to pensions and savings, people will buy stocks and funds that have done very well in the past, even if good results in the past are no evidence for good results in the future, and that other facts might suggest they are a bad investment.

Optimism and overconfidence. Most of us tend to think that our results or performance are above average. And we are also overoptimistic, even when the stakes are high. At least in Sweden, about 20 per cent of marriages for ages 30–59 will end in divorce. But newlyweds think that the chance of divorce is nil, even people who have been divorced before. Unrealistic optimism is also one explanation to why lotteries are so successful.

Loss aversion. Research shows that we will be twice as miserable when we lose something, compared to the happiness we feel when we get the same thing. This produces a strong desire to stick with our current situation, even if a trade or a change would be in our favour.

Status quo bias. We tend to stick to the current situation for more general reasons than loss aversion. The tendency to sit on the same side of the breakfast-table is such an example. A pension-related behaviour that shows this is retirement savings plans, where people pick an asset allocation and then forget about it. Examples from the United States demonstrate this, as well as the premium-pension system of Sweden, where people can choose from 850 different funds. An option designed as “default” will therefore be successful in such systems.

Framing. Framing is a schema of interpretation which we use to make sense of the world. It is our own collection of anecdotes and stereotypes that makes a frame that we rely on to understand and respond to events. The choices we make are influenced by the creation of this frame. Framing can be used to influence us. The way in which a problem is presented will influence our decisions. Thaler’s and Sunstein’s example is of a doctor recommending a treatment and saying that out of 100 persons who took the treatment, 90 are alive after five years. If on the other hand the doctor says that out of 100 people, 10 will be dead within five years, our “system 1” will automatically think that many people will die and that I will be one of them.

If you also take into consideration the power of loss aversion, it is possible to influence people’s behaviour: if you don’t do this you will lose X amount of money. One example of this when it comes to pensions is the typical message from banks and insurance companies: the pensions will be low, and if you don’t save you will be poor and miserable when you get old.

The framing effect has consistently proved to be one of the strongest biases in decision-making.

Thaler’s and Sunstein’s conclusion is that most people need some help to make choices that are good for them in the long run, in a complicated world with many choices. A good choice architecture provides the solution. It can be as simple as presenting the vegetables first at the school lunch, or as complex as designing a good default option for the majority who are not interested in choosing different allocations in their pension plan.

Financial education is less successful

Based on what we know about how people think and behave, trying to educate people in financial matters is therefore less successful than good pension design. Academic analysis of

financial education has found no evidence of measurable success in improving people's well-being. Cole and Shastry¹³ studied financial education programmes mandated by state Governments, and found that they had no effect on individual savings. Another researcher, Willis,¹⁴ concludes that a norms model of financial education could be effective in improving customer welfare only in conjunction with a reduction in the complexity of the consumer financial decisions and actions our society and marketplace require.

Conclusions for pension communication

When it comes to knowledge on financial behaviour, the conclusions for communicators trying to reach out with things that most people think are complicated or boring – such as pensions - are in short these:

- There is no point in trying to educate people in how the system works. Most people are rational and think the cost of invested time trying to understand complicated and sometimes boring things is too high, considering the reward.
- More important is how you design the system, communicating how different behaviours through life affect the total pension, and provide rules of thumb.
- Most people don't like to choose. If there are choices to be made, the majority will need a good default alternative.

¹³ Cole, S.; Shastry, G. K. 2008. *If you are so smart, why aren't you rich? The effects of education, financial literacy and cognitive ability on financial market participation* (Working paper, No. 09-071). Boston, MA, Harvard Business School.

¹⁴ Willis, L. E. 2009. *Evidence and ideology in assessing the effectiveness of financial literacy education* (Law Research Paper). Los Angeles, CA, Loyola Law School.

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