

Gabriel Bernardino Chairman of EIOPA

## **Q&A about the Report on Good Practices related to the information provision in Defined Contribution (DC) schemes**

### **1. Why did EIOPA decide to produce this report?**

An important driver for the Report was the changing landscape of pension provision in Europe. Governments, employers and IORPs are increasingly shifting risks and the responsibility for individual financial planning towards members of pension schemes particularly via defined contribution (DC) schemes.

What this also means is that non-professional scheme members need to increasingly cope with risks previously managed by professionals. But current methods of information provision, focused on protecting the provider rather than helping the individual, lag behind this trend. A new approach is needed, focused on the needs of an individual, which motivates, supports and facilitates effective decision making. Behavioural economics provides useful insights into how this can be achieved.

### **2. What does behavioural economics tell us about an average individual and the way he or she processes information?**

Behavioural economics tells us that people on average, are not as rational as we have expected them to be, or, to borrow the term – they are not homo economicus. Like the hero of our report, called Max, they have limited time and motivation to be involved in long term retirement planning, they do not like complexity, try to reduce it and often use rules of thumb to process information quickly. They are prone to bias when making decisions, they like benchmarks and comparisons and are often satisfied if decisions lead to suboptimal results as long as they are reasonable. They prefer certainty, are unreasonably optimistic, put short-term interests first and have limited self-control to save for later.

But, at the same time Max gets concerned, at least from time to time, about his future income in retirement: Will it be enough? If not, how much will he come short? And what can he do to improve his pension situation?

To be effective, information needs to be able to answer these basic



questions while taking Max's human characteristics into account.

### **3. How should policy-makers change their approach towards communications with the members?**

First of all, policy-makers should think through the behavioural purposes of the information they are drafting: what should an individual be able to do with the information? What sort of financial decisions or choices should he make after reading the information?

Here is a simple checklist copied from the report:

<i>Preparation</i>	1	Have a behavioural purpose
	2	Provide a first layer of information that answers key questions of members
	3	Ensure that information is retrievable
	4	Ensure that the information provided is comprehensible
<i>Actual drafting</i>	5	Optimise attention
	6	Reduce complexity
	7	Provide figures that enable personal assessment and understanding
	8	Show potential implications of risks and ways to deal with them
	9	Support readers as much as possible towards financial decisions
<i>Testing</i>	10	Ensure thorough testing among members

The report also recommends that information be presented in layers. The first layer should provide answers to key questions, such as: Do I need to adjust my current retirement strategy? Do I need to make any financial decisions? How much pension income can I expect from this scheme – will it be sufficient and can I bear the risk? What can I do to adjust my retirement planning and how?

More complex information should be provided in subsequent layers for those who are interested. Legal information should be accessible as well, but in a comprehensible and relevant language.

Only well-structured information will help Max to find answers easily to his specific questions and at the same time to stay motivated while reading. Behavioural theories tell us that people have different motivation levels and different capacity for complexity. So providing information in layers would accommodate these different preferences.

These findings in the report are supported by useful examples of good practice from across Europe, on how effective member communications can be structured and presented in order to be helpful to the individual.

#### **4. What is the added value of the new approach suggested in EIOPA report?**

Our report is a unique product because for the first time policy-makers have received advice at EU level, which shows how information can be structured and presented to help scheme members make appropriate financial decisions. We hope that this report will encourage those responsible for pension scheme communications to provide clear, member friendly and comprehensible information that guides and supports European citizens in effective retirement planning.

The approach to information provision that we suggest, will motivate people not to be passive, but to learn and understand more about their own pension schemes and their personal circumstances. It will help people make financial decisions and act on these decisions. In short, we believe that it will lead to an improved retirement savings culture in the future.

The approach also has a more universal appeal. It can be applied to information provision across all Member States and across all pillars of pension provision, leading with time to the harmonisation and comparability of the common features, while still allowing room for the specific national contexts and details as determined by national social and labour laws.

But we need to remember that information provision is not a panacea by itself. It should be used in combination with other tools, such as default options, financial education and possibly mandatory approaches to pension savings.

### **What next?**

EIOPA is currently working on further advice to the European Commission on the format and content of a benefit statement for occupational pension schemes and on principles for information disclosure to be included in the proposal for a new IORP Directive. We will certainly use the insights gained from this report in formulating our advice.

And once the new Directive is in place, EIOPA should have the power to draft regulatory technical standards on information disclosure, in order to ensure effective and convergent approaches across the EU.