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Communication in DC Pension Plans in The Netherlands

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Communication in DC Pension Plans in the Netherlands

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Executive Summary

As the Dutch pension system will be changed in the upcoming years, there is much to learn from pension institutions that offer defined contribution (DC) products. The initial goal of this research was to find the best practices of DC pension communication. The results of fourteen interviews with pension institutions revealed characteristics of common practices rather than best practices.

1. Communication strategies

- Interviewees had difficulty describing goals and targets for communication.
- Communication is mostly aimed at clarifying expected retirement income rather than scheme details (i.e., how the pension scheme works).
- There is a significant variation in how expected retirement income, pension capital, and investments are presented. For example, there is little uniformity in the visualization of the navigation metaphor.

2. The participants' perspective

- Participants' responses to fluctuations in pension capital are minimal.

- There is a lack of standardization in the measurement of how participants evaluate the services of their pension provider. Most providers only measure satisfaction.
- The evaluation of the effectiveness of specific communication strategies is limited or is not conducted in a standardized, empirical manner.

3. Decision-making support

- Pension institutions have different strategies (tooling or survey-based) to assist participants in choosing between risk profiles.
- Most pension institutions refer participants to an independent advisor for the decision between a fixed and variable pension.
- Many pension institutions offer an interactive tool where the consequences of decisions (e.g., later retirement) are displayed.

Recommendations

1. Collaborate

Standardization based on best practices in tooling, visualization, and customer evaluation measures can reduce costs and increase effectiveness and efficiency. Insights should be applied from data visualization experts.

2. Set explicit communication goals

Pension providers should be more explicit about the aims of communication.

3. Measure the effectiveness

Pension institutions should empirically study the effectiveness of their communication in reaching their goals. “What gets measured, gets managed.”

Introduction and Background Information

In June 2019, the Dutch government, employer and employee organizations reached an agreement to change the pension system. In general, the new system will become more personalized, will contain more options, and more risk will be placed on the participant's side. These aspects of the new system make good communication very important. Given these changes, there is much to learn from pension institutions who offer DC products and therefore have experience in communicating about risk, choices, and other features that will be part of the new pension system in the Netherlands. The initial goal of this research was to find the best practices of communication in DC pension schemes. However, during the process of conducting the interviews, it became clear that this is an impossible task. The participating pension institutions do not use the same measurement methods, the effectiveness of communication is sometimes not studied, and there are big differences between the institutions regarding their target groups and number of participants, among other things. Therefore, it was decided to report the **common practices of communication in Dutch DC pension schemes, to give some examples of creative practices to activate and reach out to participants, and to draw up a list of recommendations.** This report covers the following topics: communication goals and frequency, segmentation, the representation of the expected retirement income and pension capital, tooling, evaluations by participants, and decision-making support.

Method

In total, fourteen interviews were conducted; eleven interviews with marketing and communication employees of different pension institutions who offer DC products in the Netherlands, and three interviews with experts from the Federation of the Dutch Pension Funds (Pensioenfederatie), the Dutch Association of Insurers (Verbond van Verzekeraars), and the Dutch Authority for the Financial Markets (Autoriteit Financiële Markten—AFM). The interviews were conducted between May 12 and July 1, 2020.

Before we conducted the interviews we asked the participating institutions to send us screenshots of their tools and visualizations, and we asked them a number of questions about their scheme. The interviews were recorded and a summary of the interviews was sent to interviewees for review, with additional questions. We then organized a validation session at the Federation of the Dutch Pension Funds with several DC providers, where we presented the results and asked whether the results seemed logical or needed additional explanations or adaptations. Finally, the first draft report was shared with all interviewees to gather additional comments and approval. These comments were incorporated in this report, which all interviewees approved.

Table 1: Background characteristics of the interviewees

Functional role of interviewees	
Executive, management	**n = 8**
Professional	**n = 10**
Type of institution	
Pension fund	**n = 7**
Premium pension institution (PPI)	**n = 4**
Insurer	**n = 1**
The Federation of the Dutch Pension Funds	**n = 1**
The Dutch Association of Insurers	**n = 1**
The Dutch Authority for the Financial Markets (AFM)	**n = 1**

Main Findings

As stated in the introduction, it was quite difficult to find “best practices” in DC communication in the Netherlands because communication differs in many aspects, such as the level of detail, way of visualization, and the frequency of updating information. We identified very little uniformity in performance measurement, segmentation, visualization, and timing of communication. This lack of uniformity can partly be explained by different target groups, different budgets and the more commercial background of institutions. However, we also noticed a call for more knowledge-sharing and uniformity among interviewees, since this can reduce development costs and enhance clarity for participants who accrue pensions at different institutions.

Below is an overview of common practices that we identified in this research

1. Most institutions have generic goals, for example providing their participants with an overview, insight, and action perspective. These goals are generally not translated into specific communication targets and measurements.
2. Most institutions measure the satisfaction of their participants; however, the timing of the evaluation and focus (satisfaction with scheme, or service, or communication) differ.

3. Most institutions state that their communication focuses on expected retirement income, rather than pension capital, investments, or scheme details.
4. Most institutions communicate on a regular basis to stay in contact and to increase engagement. Life events are common moments to contact participants.
5. Most institutions aim to be transparent about the pension capital, investments, and expected retirement income. However, the visualization of these concepts differs.
6. Most institutions stress the importance of layered information, and not providing too much information at once.
7. Most institutions do not include the standard navigation metaphor in their communication but have adapted the visualization. Reasons to not use the standard format were diverse.
8. Most institutions offer interactive tools to help participants make pension choices where the consequences on retirement income of certain choices are directly visible. Most institutions also include more elements in their tooling than only the second pillar pension that they provide themselves. They also include the state pension, other second pillar pensions and some even third pillar pension products or personal savings. Many institutions also offer participants the possibility to compare their expected income to their expected expenses, based on the Dutch

National Institute for Family Finance Information (Nationaal Instituut voor Budgetvoorlichting—NIBUD) information.

9. Many institutions refer participants to independent advisors when they have to buy an annuity.

There is no common practice or consensus on the following issues

1. Some of the institutions argue that it is good to update pension capital information on a real-time or daily basis, others argue that it is not necessary to update the pension capital this frequently.
2. Segmentation differs across institutions, from basic to very advanced segmentation. There seem to be different opinions on the effectiveness of segmentation.
3. The way in which respondents are guided in determining their risk profile varies. Some institutions work with a survey-based approach; others work with tooling that visualizes possible outcomes of different risk profiles.

We found some interesting practices which were shared by several institutions

- Some institutions show the development of the pension capital over time to shed light on the added value of pension institutions. As well as this, the intention is to show possible decreases in capital relative to increases that have been achieved over time.

- Two institutions also present the expected future pension capital at retirement, in scenarios, since this is the capital that participants need to buy an annuity from when they retire.
- One institution works with rounded numbers to tens (when the capital is below 10,000) or hundreds (when the capital is above 10,000) for the expected retirement income, to prevent participants from perceiving these numbers as exact.
- Two institutions link the choice for an offensive risk profile to a variable annuity as the default, which decreases the number of choices participants have to make.

In the following chapters we summarize our findings based on the interviews. We start in Chapter 1 with an overview of communication strategies and information on the presentation and visualization of certain key concepts in communication. In Chapter 2 we describe how participants respond to DC communication. Chapter 3 outlines insights on decision-making tools and choice guidance as provided by the different DC institutions. Chapter 4 details some "do's and don'ts" for DC communication as shared by our interviewees, and we finish by sharing the authors' perspectives and providing recommendations in Chapter 5. We also provide inspiring examples throughout, related to the topic at hand.

Chapter 1: Communication Strategies

1.1 Communication goals are often unclear

Pension communication goals are important as they define the focus of communication practices. Overall, we observe that it was quite difficult for interviewees to explain the communication goals of their company. When an answer was given, respondents often said: “overview, insights, and action perspective,” in line with recommendations by the AFM. Even though many agreed to these general goals, none of the interviewees translated them into explicit targets, which can be used for measurement and monitoring. Measuring and monitoring customer feedback on these explicit targets can be instructive for a better realization of communication goals. Explicit targets are also helpful to line up the internal organization for shared aims.

1.2 Most institutions try to communicate regularly with their participants

Most pension institutions have a strategy that entails frequent communication with participants in the scheme. They try to communicate at least once every quarter or once every two months, for example, through digital newsletters, webinars, or presentations. Most pension institutions also actively contact participants when they experience a life event such as divorce.

A few institutions explained that they would like to change the frequency or style of their communication to increase engagement with pensions. For example, one institution mentioned that they want to make their communication style more fun and playful. Other institutions mentioned that they would like to develop an app which they could use to communicate via push notifications when action is required from participants. Currently, only one of the interviewed institutions offers an app to their participants. The app contains all the information that is available on the member portal, and for example gives an overview of the retirement income and expenses, and the pension capital.

> At BeFrank we do everything we can to activate our participants. New participants receive a warm welcome with a personal welcome video and on location we literally help participants over the pension threshold or dive into their retirement together in the BeFrank Smoothie bar. Now that we are unable to come visit because of all the corona measures, we are taking our participants into their pension online. An online presentation during working hours or in the evenings, or videos that are available 24/7, we offer it all. And that works. Login rates of more than seventy percent are the rule rather than the exception. We work closely with employers on this because we cannot activate participants alone, we do that together with the employer.

“

Do you want to work as long as Sinterklaas?

That was the slogan of a playful campaign. The aim was to have a young target group (25–35 years old) log in to the portal. At the same time, we wanted to investigate whether or not the provision of an incentive helps to direct this target group toward the portal. As an incentive we offered Tony Chocolonely chocolate letters and ten bol.com gift cards which we would raffle for the participants who log in. We sent an activation email to the target group in two different batches:

- Batch 1: activation email without a win element
- Batch 2: activation email with a win element

The open ratio of the batch with a win element was about six to eight percent higher in comparison with the batch without a win element. The number of people logging in as a result of the activation email with a win element has more than doubled. Therefore, it shows that offering an incentive works well and stimulates action.

1.3 Communication is aimed at clarifying expected retirement income rather than scheme details

Almost all institutions focus on providing participants with a clear overview of their expected retirement income. Communication about scheme details and how the pension scheme works is not central and is often provided through video clips (7 out of 11). Another general observation is that information is offered in a layered way, as recommended by the Dutch authorities AFM and Pensioenfederatie. For example, participants may first be shown the overview of their expected retirement income. Then, if they want to know more about how this amount is constructed, or how the pension institution is investing, they can continue to click until they arrive at the next level of information.

1.4 Segmentation in communication is mostly very basic

Based on the interviews, we identified three groups that differ in the degree of their segmentation approach. The first group indicated that they used basic segmentation: mostly age and number of years until pension, or status (active, retired) are used as segmentation variables. One common example was that participants are contacted at age 57 when they are asked to decide between a fixed and a variable pension.

The second group indicated that more segmentation variables, and different types of segmentation variables, were used: life events, income, or salary were mentioned by this group. They also expressed their desire to go even further in segmentation. The third group used more advanced forms of segmentation: preferences and personality types such as security seekers, alpha males, or geo-types were mentioned. This group also acknowledged the value of available data, and generally included behavioral segmentation where they derived information about different segments on the basis of login behavior, click behavior, or choices that participants make. Some in this group indicated that they did or are doing quite extensive research in this area. Even though this group is already quite advanced in their segmentation, their insights do not necessarily translate into segment-specific communication, with content or style of communication tailored to different segments.

Diving deeper, one institution stated that their experiments in using the insights from segmentation in pension communication did not make much of a difference. The AFM stated that there is not yet sufficient research on this topic so that evidence for a positive effect of segmentation in pension communication is still missing. More research is required to investigate the effect of segmentation in pension communication. Furthermore, interviewees signaled barriers to segmentation because of costs, for technical reasons, and systems that cannot support segmentation.

For the following analyses, we examined the online portals of pension institutions with respect to the communication about the retirement income, investment information, and pension capital, as well studying feedback from the interviews.

1.5 There are different levels of detail and frequency in pension capital

All DC institutions we interviewed give their participants insights into their accrued pension capital. Some merely state the pension capital, whereas many others state the capital, paid contributions, and results of the investments. Few go into more detail by also including information on costs or transactions. Therefore, the way that pension capital is presented differs: some institutions just show the accrued capital as one number, others show a table with details, others use a bar chart, and others use a line graph.

About half of the institutions we interviewed said that they want to show their participants explicitly the development of the capital over time to 1) show them the positive effect of investing capital and the contribution of the pension institution as well as their contributions, 2) to put a possible decrease of pension capital at a certain moment into the broader perspective of increasing capital over time, and 3) to increase participant engagement.

One of the institutions changed the presentation of pension capital and the achieved returns from percentages to absolute numbers based on research among their participants, who wanted to see the added value in monetary terms.

One of the institutions provides complete transparency by making the information on the exact transactions in a participant's portfolio available to them. However, they do not expect a lot of participants to look at this detailed information and it is merely a standard functionality of their portal.

Two institutions described that they not only show the accrued pension capital up to now, but they also show the expected pension capital. This expected pension capital is presented in scenarios, comparable to the navigation metaphor. One of the institutions argued that it is important to show the capital in scenarios, because eventually, the capital is used to buy an annuity.

Finally, several institutions mentioned that the focus of participants is, and should be, on the expected monthly income when they retire. They choose to focus on the expected retirement income and less on the pension capital in their communication.

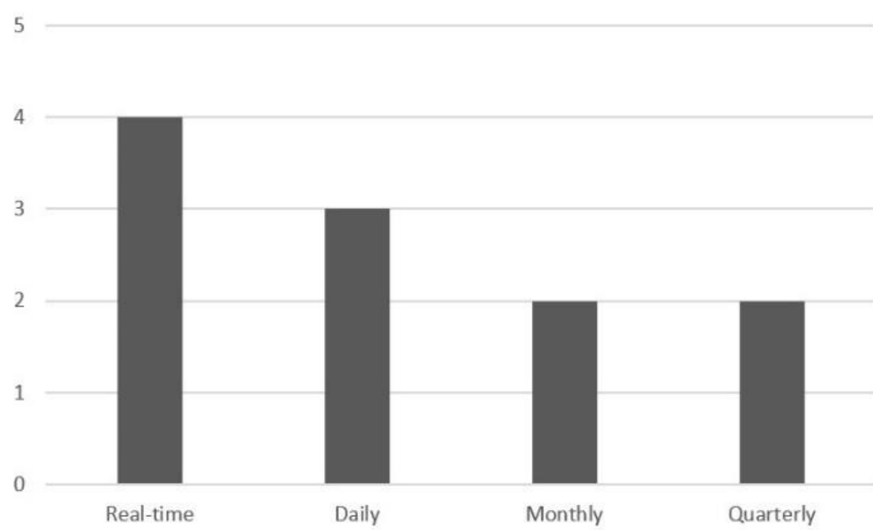


Figure 1: Frequency of updating the pension capital

Figure 1 shows that most of the financial institutions update pension capital in real time or on a daily basis. The reasons to choose a particular frequency vary across institutions; most hope to increase pension awareness and interest in pensions by offering up-to-date numbers on pension capital. Furthermore, it seems to be becoming standard in the financial industry to provide real-time capital information. In contrast, there are pension institutions who do not see the benefits of offering data at high frequency. They argue that their participants rarely look into these numbers, or mention that they do not have the administrative or ICT capacity to show these numbers in real time or on a daily basis. The Dutch pension authorities mentioned that they also believe that a frequently updated pension capital can increase engagement and interaction, but changes in pension capital can also provide unnecessary discomfort for such a long-term product.

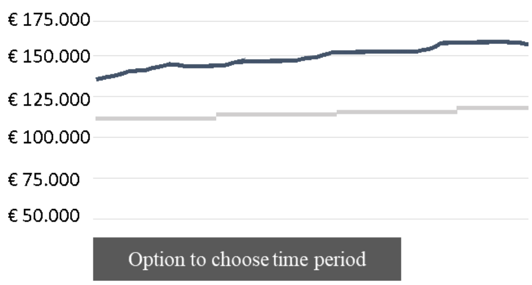


Figure 2: Examples of the presentation of the pension capital

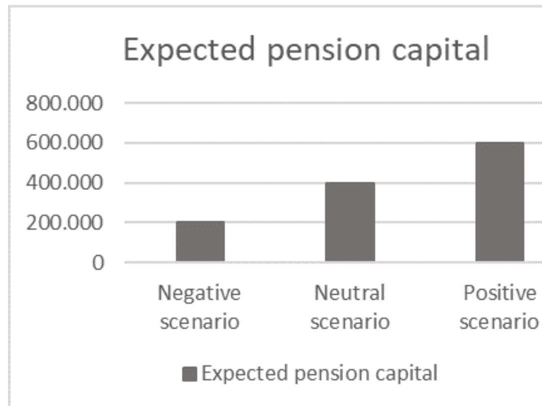


Figure 3: Examples of the presentation of the pension capital

Capital per December 31st, 2019	104.521,09
Paid contribution	2.816,02
Subtotal after contribution	107.337,11
No costs allocated this quarter	0
Subtotal after costs	107.337,11
Return on investments	-20.076,67
Capital per March 31st, 2020	87.260,44

Figure 4: Examples of the presentation of the pension capital

1.6 Layered presentation of investment information with variation in detail and updating frequency

The presentation of investments is closely intertwined with the presentation of pension capital. A majority of pension institutions indicated that they provide an overview of investments to achieve transparency. If institutions actively communicate about the development of investments, this is mostly done quarterly. As described in the previous section, some institutions update the value of investments in real time, but others only update it quarterly. Figure 3 displays some examples of how investment information is presented. In general, most institutions have multiple layers in their investment information. In these layers, individuals can find more detailed overviews of the development of investments over time, what their investment mix looks like, or what the environmental impact of their investments is. Some institutions show all details for the build-up of investments (e.g., transaction costs, corrections), but this information is only available at the end of a layered set of information.

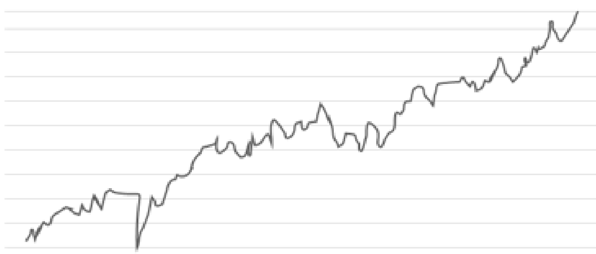
Fund 1 3.53 % ↑

Fund 2 1.39% ↑

Fund 3 8.14% ↑

Stock	Valuation date	Units	Share price €	Value €	Current composition	Recommended composition
Fund 1	02-09-2020	40	154.39	6175.60	90.10%	88.30%
Fund 2	02-09-2020	5	86.58	432.90	6.30%	7.59%
Fund 3	02-09-2020	2	123.12	246.24	3.59%	4.11%
Total value				6854.74	100%	

Share price today €154.39
Share price yesterday €152.39
Change since yesterday: + 1.31%



Option to choose time period

Figure 5: Examples of how investment information is presented

> We have noticed that participants, next to achieving returns, consider sustainable investment to be more and more important. That is why we are now developing an individual ESG report, which gives the participant insight into how sustainable their investment portfolio is. We calculate the CO_2 emissions (tCO_2e) of an investment fund and compare it to the benchmark. Because this figure does not mean much to the participant, we then compare it with, for example, planting trees or car trips to Amsterdam. We make this comparison, because a participant can attach value to it and it appeals more to the imagination. Furthermore, the development of individual ESG reports is in line with the current development of the individual pension.

1.7 Considerable variation in how expected retirement income is presented

The majority of financial institutions present the expected retirement income in the form of a bar chart. In addition, there are a few institutions who show only numbers instead of visualizing the expected retirement income in a graph. In general, institutions that use a bar charts argued that the visualization makes the presentation of the expected retirement income more dynamic, especially when these bars are incorporated in a pension tool where individuals can see the effects of early retirement or extra savings. Institutions who only show numbers did not provide a clear rationale as to why they prefer this option over visualizations with a bar chart. For example, one institution described that there was no conscious decision made about how to visualize the expected retirement income.

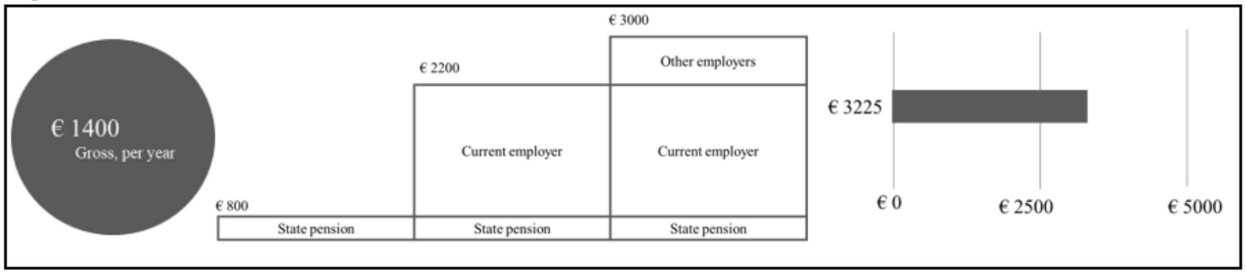


Figure 6: Variations in visualization

Whether the expected retirement income is presented as net or gross expected income, varies between institutions. Those that show net income reason that it is easier for participants to compare a net amount to their current monthly salary. In contrast, institutions that show gross income argue that it is difficult to determine the appropriate income tax level. Finally, some institutions allow participants to select whether they want to see net or gross income estimations.

With regard to the level of detail in the presentation of the expected retirement income, one institution explicitly discussed the rounding of numbers. They purposely round off numbers to tens or hundreds (e.g., €1,440 per month) to prevent participants from perceiving the expected retirement income as precise and exact. This topic was not discussed with other institutions, but from reviewing the communication materials that were shared with us, it can be derived that most others only round to whole numbers (e.g., €1,443 per month) and not to tens or hundreds.

Most institutions provide a total overview of the expected retirement income, which also includes the state pension (AOW) and accrued pension from other institutions. This enables participants to know the total amount of retirement income they can expect when they retire, and also enables them to check whether the amount is sufficient by comparing it with expenses or the current income. There is also a smaller number of institutions that only show the corresponding occupational retirement income (including the state pension), and not retirement income from other institutions.

The majority of the institutions give participants the opportunity to compare their expected retirement income with their expected expenses during retirement. This information about expected expenses is based on data from the National Institute for Family Finance Information (NIBUD). These data represent expenditure on housing, utilities, insurance, municipality taxes, transportation, groceries, personal care, clothing, subscriptions, vacations, hobbies, and other social activities. These expenditures are provided for different household compositions, but can also be adjusted by participants to their personal preferences and situation (e.g., to capture whether a mortgage will be paid off before retirement). The comparison between expected retirement income and expected expenses enables participants to check whether their income is sufficient for their desired lifestyle or not. This tooling also provides an action perspective if participants conclude that the expected retirement income is not sufficient. For example, participants can see how increasing savings, altering the risk profile or delaying retirement impacts their retirement income.

Furthermore, a number of institutions stated that they wish to extend the total overview of the expected benefit to create a full financial picture for participants. The total overview should incorporate, among other things, unemployment benefits, inheritance, taxes, and equity.

1.8 Many institutions choose a custom “navigation metaphor”

One of the most interesting findings of this study is that there is no uniformity in how the navigation metaphor is applied beyond obligatory communication. Only one institution uses the navigation metaphor on the portal, but then the design is substantially different. Most institutions use bar charts or a weather metaphor, and there is one who does not present this type of information at all.

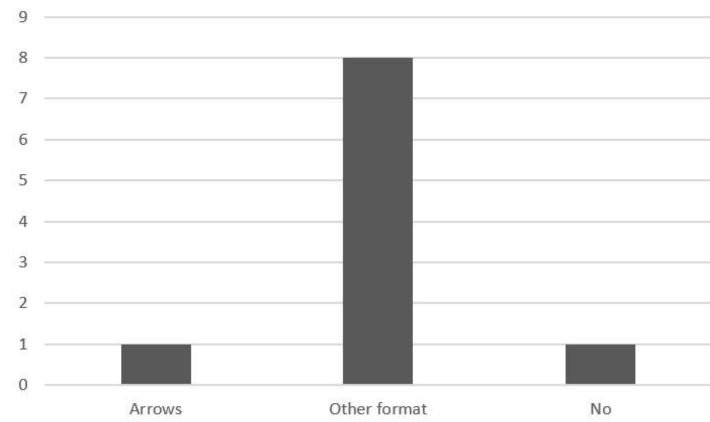


Figure 7: Overview of usage navigation metaphor

The institution using the prescribed design indicated that they use this design to avoid confusion among participants (i.e., “they recognize it from the UPO and mijnpensioenoverzicht.nl (MPO”). Some institutions did not comment on why they do not use the standard. A few mentioned that they do not think that participants recognize the standard navigation metaphor. One institution stated that the arrows from the navigation metaphor are difficult to display in graphs. One interviewee stated that they do not use the navigation metaphor because they find that it offers a limited representation of reality. They prefer to show a large number of scenarios in a graph and the distribution of the results. Another institution already had their own metaphors and design in place.

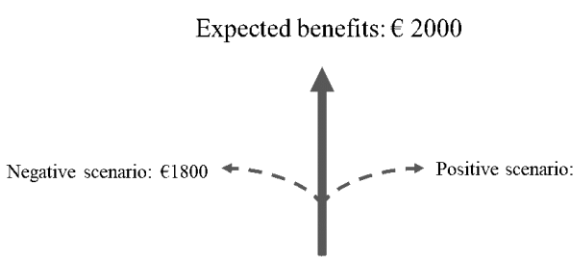


Figure 8: Example of navigation metaphor in different design

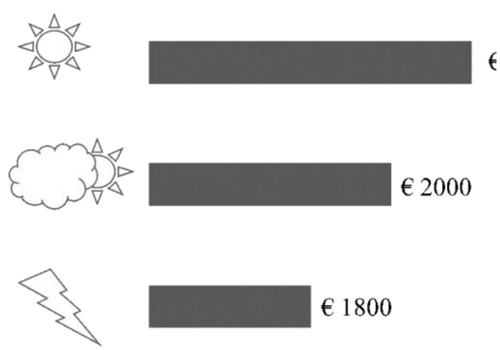


Figure 9: Example of the weather metaphor

Chapter 2: Participant Perspective

2.1 Satisfaction is the most common focus of evaluations by participants

The research that pension institutions conduct with regard to how they are evaluated by participants can focus on different outcomes such as satisfaction, trust, awareness, understandability, or activation. Based on the answers that pension institutions shared with us, we can conclude that almost all pension institutions study the satisfaction levels of their participants. We notice that some pension institutions have unique and creative ways to review how their participants evaluate them (See the *Cappuccino* example). Looking at the scores that participants give their institutions we see that most score around 7 out of 10. In general, this number is seen as acceptable, and there is no explicit mention of a continuous effort to improve this score. There is, however, a lack of standardization in the measurement of how participants evaluate their pension institution. For example, some institutions measure the satisfaction with the scheme itself, while others measure the satisfaction with the services that are provided. Many times, evaluations are focused on general satisfaction, rather than on whether participants perceive the information they receive as relevant for them and adequate to make good decisions. This lack of standardization makes it difficult to compare the scores that pension institutions receive, as the focus of their measurement differs. In addition, the timing and the frequency of evaluation differ. Some collect this information regularly (e.g., yearly satisfaction survey), while others only conduct it irregularly on demand. Also, activation of the participant is generally not included as a standard measure. Only three interviewees explicitly mentioned that they measure behavior as a source of feedback and information. Examples include regular A/B tests in newsletters, login behavior, or items that are viewed. The evaluation of the effectiveness of specific communication strategies is limited, or is not conducted in a standardized, empirical manner.

One institution described a very holistic and structural approach to research. It became clear in the interview that they care very sincerely about the insights and learning from research. As well as rather standard methods such as a yearly participant satisfaction survey, research through their panel and a button on the portal where participants can provide feedback, they also mentioned several creative formats for how they get in contact with participants to get feedback.

> At BeFrank, we attach great importance to the comprehensibility and accessibility of our services. Years ago we introduced cappuccino testing. Our specialists hit the street with an iPad in hand and in exchange for a cup of coffee, asked for the opinion of passersby about various parts of our online environment. Was something unclear or did it not meet the user's expectations? Then we went back to the drawing board. We still do that to this day. With that caveat that we are now testing more online. Our customer panel was launched last August and we already have many registrations. It is good to see that our participants are involved in our services, and therefore also with their retirement! We regularly ask questions online about our services to the participants of the BePanel. Based on this, we implement improvements. So, it has now become cappuccino testing in "corona-style."

2.2 Perceived uncertainty by participants and responses to fluctuations in pension capital

One of the major differences between a defined contribution (DC) pension scheme and a defined benefit (DB) pension scheme is that there are regular fluctuations in pension capital in DC schemes, which are overtly visible to participants. We asked pension institutions how participants perceive these fluctuations, and whether they contact the pension institution in the case of financial shocks. Almost all institutions report that they receive very little response to fluctuations. If there is any response at all, it is linked to unusual circumstances, such as the impact of the coronavirus on investments. However, even when there is an unusual event that impacts pension capital, very few participants actively contact the pension institution with questions. This may also be because most institutions want to prevent anxiety among participants and clearly communicate and actively send out information on the situation before participants see the results of the negative shock in their pension capital.

Whereas most pension institutions indicated they receive almost no questions about fluctuations of the pension capital, some other related questions were asked more frequently. For example, one institution indicated that participants asked about the mismatch between the pension capital as stated on the UPO, compared to that of the pension institution's own portal. Another institution indicated that participants generally accept that a variable pension was associated with risk, but that they were worried that at some point during retirement, their pension capital will be depleted. Finally, one institution reported that they received questions when other pension institutions yielded a higher return on investments than their own institution.

Chapter 3: Decision-making Support

Pension institutions support individuals in three important dimensions:

1. Setting the risk profile;
2. Choice of a fixed or variable payout in retirement;
3. Additional retirement choices such as retiring early.

Below we describe how the different institutions that we interviewed help participants to make choices with respect to their retirement.

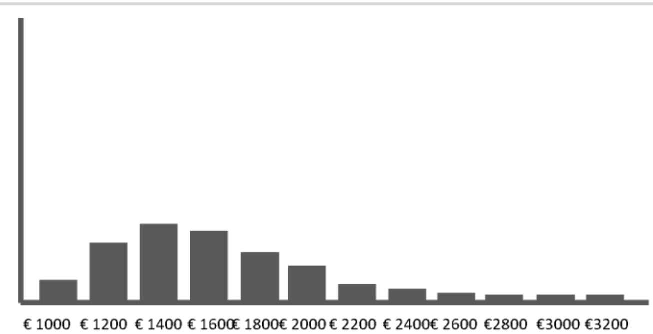
3.1 Two main ways to help respondents in determining their risk profile

In many DC schemes, it is possible for participants to decide which risk profile best suits their needs. Seven providers that we interviewed offer their participants the possibility to determine their own risk profile. In this way, they can influence the risk that is taken by the pension institution on their account. In general, participants often need to decide between an offensive, defensive, or neutral profile.

We identified two main strategies that pension institutions use to assist participants in choosing their risk profile. Several institutions elicit the risk-attitude of participants by asking them several investment-related questions. In this survey-based approach, participants are asked to indicate how they feel, what they know, and how much experience they have with several aspects of risk, such as fluctuations in financial markets. In the other approach, pension institutions provide a tool through which participants can choose their preferred distribution of expected values, each linked to a specific risk profile. With this approach, pension institutions show the expected retirement income in scenarios (comparable to the navigation metaphor) based on a certain risk profile. Or, they show an expected distribution of (e.g., 100 possible) returns based on a specific risk profile. This method enables the participant to learn which outcomes are most likely to occur when they choose a specific risk profile. One of the institutions states that this "distribution builder" (see Figure 8) has been thoroughly tested and further developed with participants, and it has proved to be clear and able to make participants aware of the uncertainty of retirement income. In contrast, another institution indicated that these graphical representations are perceived as confusing by participants and advisors.

When considering strategies for the elicitation of risk preferences, it is important to keep in mind that not all participants will make active decisions for their risk profile. One pension institution indicated that whereas there are a lot of tools available to assist individuals in changing their risk profile, a majority of participants remained in the default option, and did not make active decisions.

Figure 10: Example of distribution builder – neutral profile top



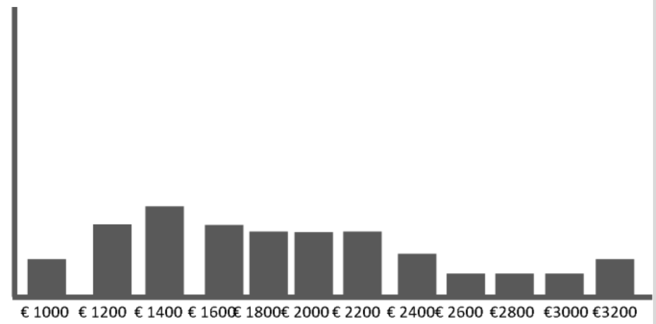


Figure 11: Example of distribution builder – offensive profile middle

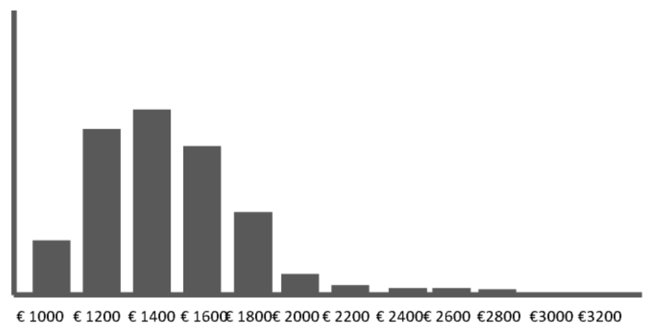


Figure 12: Example of distribution builder – defensive profile bottom

3.2 Many institutions offer different types of communication to help respondents make key choices

Once participants approach their retirement age, they may need to decide between a fixed or variable retirement income, and may need to select the provider they want to receive their retirement income from. For some institutions, the annuity is acquired at a certain moment in time; for other institutions, there is a gradual conversion to an annuity over ten years. Below we describe how the decision process is supported by the pension institutions that we interviewed.

With regard to the choice between a fixed and a variable pension, most pension institutions provide an overview of the advantages and disadvantages of both options. Whereas this approach seems straightforward, respondents stated that the use of specific words and complexity of language should be kept in mind. They indicated that they already put effort into making their descriptions understandable for all participants. However, they do not provide evidence that this indeed increases the comprehensibility of pension information. Therefore, it is important that pension institutions test whether participants are able to understand the information instead of blindly writing at "B1 level," where one interviewee comments rightfully that B1 refers to a language level defined by the Common European Framework of Reference (CEFR) and does not say anything about the understandability of a text, as often implied by pension institutions. Furthermore, next to the level of language, the exact choice of words has the possibility to influence the decisions that people make. For example, people may be risk-averse and may evade a variable pension because it is described in terms of risk. On the other hand, fixed pensions may be risky because of inflation, but the choice of words can make this option seem less risky to participants.

Overall, most pension institutions refer participants to an independent advisor who has an up-to-date and complete overview of all possible benefit providers, and can compare the expected retirement income that different parties offer. Some interviewees also state that Dutch law does not allow them to advise their participants. Also, many institutions refer participants to an independent advisor because the institution only offers a variable or a fixed pension, or no annuity at all. One pension institution gives participants the possibility to talk with their actuaries about the choice.

Some institutions developed tools so they can give participants a good overview of the possible personal outcomes when choosing between a variable and fixed retirement income, without advising them. One tool shows participants' real-time information on the expected retirement income based on their pension accrual. Another institution shows information on the expected retirement income from their own annuity product, compared to the average in the market as a benchmark.

Two institutions indicate that they automatically match the choice of a risk profile to the choice of a fixed or variable pension (personalized default). Individuals who choose an offensive risk profile get a variable pension as a default. This strategy reduces the amount of decisions that the participant has to take. If the participant does not agree with the default, it is still possible to change the choice to a fixed or variable pension.

Several institutions offer more information about this choice through short movies, visuals/infographics, pension coaches, or online presentations. The Dutch pension authorities mentioned that the standard format in which the difference between a fixed and variable retirement income is explained is the one most commonly used.

The timing and effort of informing participants that they need to make a choice for their retirement income differs between pension institutions and ranges from 6 months to 15 years. The timing is also dependent on the moment the pension capital is converted to an annuity, and whether this happens gradually or at a certain moment.

3.3 Most institutions try to help participants with their retirement planning

Many pension institutions offer an interactive tool in which the consequences of changing the retirement age, or other choices are provided. One institution described that the interactive nature of a digital planner is important, as it shows participants how actions (such as early retirement) and consequences (lower expected retirement income) are related. Most institutions were positive about their planning tools. The institutions described that their tools are convenient for participants, and that the insights can directly be linked to specific actions. For example, if participants see that their expected retirement income is insufficient, they can use the interactive parts in a tool to see how certain decisions (e.g., later retirement, extra savings, a different risk profile) would affect their expected income. As mentioned before, an extra option that most institutions provide is the comparison between expected retirement income and expenses, based on data from the Dutch National Institute for Family Finance Information (NIBUD). Various institutions indicated that they are planning on extending or optimizing these interactive pension tools. For example, some institutions indicated that they want to integrate information from other institutions (e.g., the tax administration or UWV) to gain a more complete view of an individual's financial situation.

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

Finally, we asked the institutions that we interviewed to describe what they believe are do's and don'ts with regard to communication in a DC scheme. Most respondents indicated that there are very few differences between communication in DC and DB schemes. One difference that was highlighted by a few respondents is that the burden of risk is now with participants rather than the institution, and that by making more decisions, participants are more responsible for possible outcomes. This requires careful attention in a communication strategy. Finally, some institutions described challenges they face with regard to DC communication.

4.1 Do's—as described by the interviewees

Pension capital	• Present the pension capital in a clear and understandable way. • Show the historical development of investments: show the return on investment.
Options and decision-making	• Focus on good communication about choices that participants have in the scheme – participants enjoy having the feeling that there are options, even if they do not respond. • Design a good default.

Risk and uncertainty	• It is important that participants receive clear communication about the risks that DC schemes entail. • Be transparent (also with regard to risk). • Be clear about the fact that numbers are an indication, not a guarantee (for example by using rounded numbers).
Important communication moments	• Make it clear for participants that they need to purchase a retirement income when they retire. • Inform participants about the consequences associated with specific life events.
Information and communication	• Make sure that participants understand what is communicated to them. • Specify what is the function of communication. • Layer information: not everyone wants to see the same amount of detail.
Other	• Be available and be open to suggestions by participants. • Collaborate as a sector to create a portal in which individuals can review their complete financial situation.

4.2 Don'ts—as described by the interviewees

Options and decision-making	• Don't neglect the risk of having many options for participants. Individuals can make bad decisions if they do not understand the consequences. This is especially true for participants with little experience with finance and investing. • Don't offer too many options for participants.
Information	• Don't give participants too much information at once, but make information available in layers. • Don't hide information from participants • Don't focus on risk too much—the participant should not be more anxious than necessary. • Don't only present numbers, graphs, and percentages.

4.3 Challenges

- People only become interested in their pension when they get older; it is difficult to get young people to be interested in their pension.
- Communication is of great importance in a DC scheme, because participants need to make decisions, and participants carry the risk. This is a challenge because of costs and low pension awareness.
- There is a limited budget for communication.
- Communication is perceived as more diverse (and complex) for the so-called premium pension institutions (PPIs), because they have to deal with different employers and schemes, and need to comply with various

types of regulation, particularly in the fields of communication and financial supervision.

Chapter 5: Author's Perspective and Recommendations

Pension systems evolve continuously over time and so the communication profession needs to change as well. The new pension contract will imply more personalized pensions, individual responsibilities, and more pension choices. This report aims to provide an overview of current practices in DC communication to identify good and even best examples useful for the new contract in supporting individuals in their pension choices and life cycle planning.

Many of our findings in DC communication may also hold true for DB pension communication. One of the most noteworthy findings for us was the level of diversity in pension communication; for example, in the presentation of pension capital, expected retirement income scenarios, navigation metaphor, investment information, and decision-making tooling. This is of course partly because institutions serve different types of participants. However, throughout the interviews we noticed there was a demand for more uniformity and knowledge-sharing across the sector. We also think that the pension sector (DC schemes *and* DB schemes) can profit from more uniformity because it makes the information more comparable between institutions, but it can also reduce costs of development and research, and improve quality.

Different types of communication or visualizations are valid if the target group of a pension institution is very different. However, we noticed that design choices were often not based on conscious choices or backed up by research. The best way to find out what works for which type of participants is to actively research the effectiveness of communication and see how it performs on concrete communication goals. We recommend the involvement of data visualization experts in the further development and testing of visualizations.

We noticed that many institutions do not have clear communication goals, and that there appears to be a mismatch between the communication goals and what institutions measure in their participant evaluations; most research focuses on measuring satisfaction, while most institutions stated that their communication goals are to give participants insight, overview, and action perspective. In our view, research should align with communication goals. This implies that satisfaction is not the most meaningful measure if communication goals are to create an overview, give insight, and generate insights on possible actions for participants. Effective communication also needs more explicit goals, which should be translated into more smart targets that are measured and monitored over time.

We also recommend measuring behavior, rather than solely focusing on perceptions or intentions. For example, the effectiveness of communication can be measured by analyzing the frequency of logins on the portal, the items that participants direct their attention to, or how much time is spent on the portal. A/B tests can generate causal evidence on which design triggers more or more desired behavior. Return on marketing can be calculated by dividing the costs of a communication campaign by the effect that it has on behavior, rather than just satisfaction, of participants. In this way, effective campaigns can be distinguished from those that may not lead to behavioral change.

Segmentation is used by most pension institutions to make communication more relevant, although the level of segmentation ranges from basic (age, pension status) to more advanced (combined data or behavior). Our interviews reveal that there is a lack of research on the effectiveness of segmentation in pension communication. Research in marketing has shown that behavioral segmentation, rather than socio-demographic or lifestyle segmentation, leads to better segmentation than traditional variables such as age, which may not discriminate sufficiently between different types of participants. More research is needed to generate evidence-based insights about the effectiveness of segmentation based on novel variables (i.e., participant behavior), and the results should be shared within the sector. As one respondent commented, “We want to segment in a more detailed way, but there are few examples in the pension sector.”

There seems to be no agreement about the frequency of updating pension information such as pension capital. Therefore, we recommend that institutions study the following two things. First, we recommend investigating participants’ needs with regard to information updating. Second, we advise studying the consequences of frequent updating to show whether it indeed increases pension engagement, or possibly creates anxiety. Both aspects should be considered next to the costs of updating this information in real time.

A limitation of the current pension-planning tools is that information about participants is scattered across different institutions and platforms. Therefore, it is possible to give insights and an overview about the total retirement income, but not about an individual’s holistic financial situation. By integrating information from tax offices, private banks, or governmental institutions, the information would become more complete, and therefore more insightful. We were impressed to find that some institutions already offer the possibility to get a more complete overview of the financial situation. We think this is a good development and encourage institutions that do not have this possibility yet to also offer this to their participants, taking into account the above-mentioned recommendations. Also, the sector would benefit from more knowledge-sharing and collaboration, and there are opportunities to add additional functionality to mijnpensioenoverzicht.nl (MPO).

In sum, we can conclude that the pension sector can benefit from collaboration, and a more evidence-based approach. There is much opportunity for future research in the field of pension communication, which goes hand in hand with some exciting possibilities for innovations. This conclusion is not limited to DC schemes; it holds for all types of pension institutions and schemes.

About the Authors

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Joyce Augustus-Vonken currently works as a researcher at APG's market & customer insights department, where she is responsible for participant research. At the moment her focus areas are the new pension scheme and the needs and wants of participants with respect to their total income and retirement. She is familiar with different types of research such as neuromarketing research, data science, desk research, and quantitative and qualitative research methods. Before her role as a researcher, Joyce was a corporate trainee at APG. Before that she worked as a lecturer at the University of Maastricht, where she also completed her masters in International Business, Strategic Marketing.

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Eduard Ponds (1958) is Professor Economics of Pensions at Tilburg University. Ponds is also employed at pension service provider APG and is currently involved in research on individual pensions and choice architecture. His publications are mainly on pensions, in particular related to the pension fund sector in the Netherlands and elsewhere. He is one of the first in recognizing the importance of intergenerational transfers and risk sharing within the Dutch pension fund sector, as put forward in his PhD (1995). He introduced the so-called policy ladder as a tool to define conditional indexation by Dutch pension funds as well as the method of value-based ALM to determine generational redistribution in case of changes in the design and funding of collective pension plans. His recent research is centered around the design and communication of choice options in Dutch pension plans.