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The benefit statements of pension companies still vague

Conclusion

The benefit statements for pension savings have not notably improved since Finansinspektionen's review in 2006. A standard insurance vocabulary that would improve comprehension of the benefit statement is still lacking and many companies still specify fees that consumers pay for pension savings as a lump sum. In addition, too few pension companies explain in simple terms for their investors that the entire sum of the pension capital is not guaranteed.

FI will take the following measures

The results of the study will be included as a basis for the review that is currently underway regarding the regulations for information to pension savers. FI is also participating in a project with the Social Insurance Office to establish standard terms for pensions and other insurances. FI would like to encourage pension companies to intensify their efforts to improve the comprehensibility of their benefit statements.

The study

We have reviewed the benefit statements of more than 45 insurance companies, with a focus on the areas the 2006 review identified to be weak: language use, fees, guarantees and risks, transfer of pension capital and changes to insurance-based savings.

The results of the study

Language use

Companies to a large extent currently use different terms for a single concept, at times even within the same company. It is easier for the consumer to get an overview of and compare terms and conditions if companies use the same insurance terminology, particularly since many consumers have insurances with more than one company, for example a defined benefit occupational pension with one company and personally managed or private pension insurances with another company.

Fees

None of the companies stated that they had made specific changes over the past year to list costs separately. A majority of the companies still report fees as a single lump sum, often referring to the fees in the benefit statement as “administration” or “administrative fees”.

It is important to clearly specify for consumers which fees they pay for their insurance services. In the 2006 report, we indicated that there was a need to expand market practice and regulations in order to ensure that fees were specified in more detail. The report also contained a suggestion for how information about the companies’ fees could be specified.

Guarantees and risks

Few companies are able to explain in simple terms for their policyholders what the benefits entail. Pension companies can be clearer when describing the portion of the capital that is not guaranteed, with regard to cumulative benefits or to the change in benefits during the year. Only a portion of the pension capital is guaranteed by the company, i.e. the “guaranteed” portion (with the exception of unit-linked insurance and deposit insurance).

However, we found the following explanations to be relatively good:

“Profits are not guaranteed and can fall given an unfavourable outcome in the business of company X. For this reason, company X has not committed to a future benefit amount.”

“...the benefit is not guaranteed, but rather only preliminarily distributed, which means that it can either increase or decrease.”

Transfer of and changes to insurance savings

In contrast to the previous study, many companies now encourage customers to ensure that their insurance is suited to their current circumstances.

Changes that should be taken into consideration are, for example, if the size of the family has increased or if survivor protection should be reviewed.

In many cases, information about the transfer of insurance savings is still unclear. For example, the Government has currently implemented a transfer stop, which means that it is not possible to transfer pension capital to other companies, a fact that is not always presented in the information.