How people think about older age and pensions

Contents

Executive summary

Very soon, important reforms will take effect which expand consumer choice around access to pension savings in an already complex landscape. With 80,000 people already seeking face to face help from Citizens Advice about their pensions each year, we have explored how people think about older age and pensions and what support they need to take control of their retirement.

Our qualitative research confirmed what Citizens Advice clients often tell our advisers. We found that people find making pensions decisions hard, and many struggle to do it themselves. We found that people do not think about pensions in isolation - rather, they think about them in the context of their current and future financial circumstances and personal priorities. And we found that people often think most seriously about financial decisions and plans, including pensions choices, at important financial moments in their lives. In the future, it is essential that the user is put at the centre in the provision and promotion of information, advice and guidance about pensions.

Context

Changes to pensions systems across the globe have resulted in greater complexity of choice for many people planning for older age. In the UK, successive administrations have added new features to the pensions system, increasing complexity over time. They have also overseen a shift towards requiring more active consumer choices in a growing marketplace for pensions and pensions products. On top of this in March last year the Government announced reforms to pensions rules which will, from 6th April, give an estimated 320,000 people retiring each year with defined contribution pensions greater choice over how they use their pension pot savings[1]. The changes will remove restrictions on accessing savings after the minimum pension age (currently 55) which will allow the development of new drawdown products in addition to the evolving annuities market. They will also alter rules on access to lump sum payments and the tax implications of decisions.

Research

In the context of these major reforms Citizens Advice conducted research through the Citizens Advice Bureaux (CAB) network in England and Wales. We did this to gain a deeper understanding of the issues that people are already bringing to bureaux and to contribute to the wider debate on enabling people to make informed and engaged pensions choices and financial plans for older age. Twenty CAB clients and volunteers in their fifties and sixties

[1] See *Budget 2014*, 19 March 2014, HM Treasury and *Freedom and choice in pensions*, March 2014, HM Treasury.

with low to high pension pot savings took part in in-depth interviews, and 12 CAB staff and volunteers in a range of adviser roles participated in focus groups drawing on their front-line experience and insight in this area. We also analysed statistical management information on advice sought by CAB clients on pensions issues and web analytics data on people's online access to information on pensions via AdviceGuide, our advice website.

Findings

Our research finds a disconnect between how people think about pensions and older age, and the way the pensions system expects people to behave. People work hard to secure a decent income in older age and many aspire to having an idealised retirement lifestyle popularised by expressions like 'grey nomads', 'super-boomers' and 'retiring with attitude'. But this is often at odds with people's real experience. Many face challenges managing their money day-to-day, planning future finances with certainty, and supporting their family. They struggle with competing pressures, and keeping up to speed with changes that could affect them. People want to be in control of their finances and wish to be able to secure financial resilience and independence in older age, but in a period of economic uncertainty, social change and major reform, many are finding this increasingly difficult.

Levels of confidence in making sense of pensions choices tend to be low, even including those with higher levels of financial literacy and amounts of pension savings. This uncertainty often results in anxiety and works against engagement with pensions choices. In addition people find thinking about the long-term future difficult, and often do not trust financial institutions. A key theme from this research is that a dynamic whole-person approach is needed to make a real impact towards bridging this disconnect and helping people find a way through the maze of decisions they face. We therefore highlight key findings with potential for improving engagement with pensions choices and financial planning for older age with implications for policy makers, regulators, providers, employers and the advice sector.

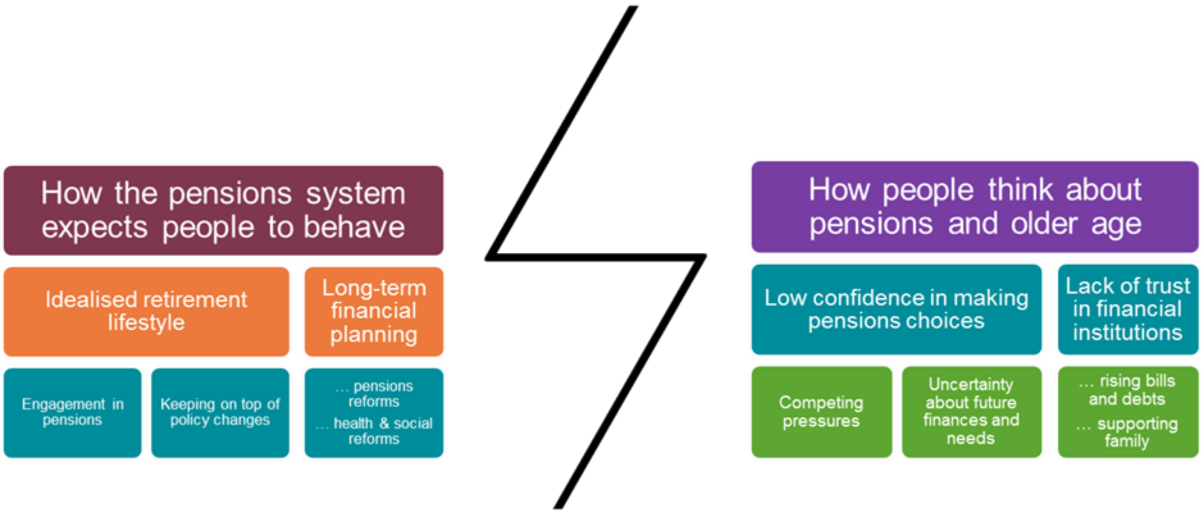


Diagram illustrating our finding of a disconnect between how people think about pensions and older age (right), and how the pensions systems expects people to behave (left). Intended to be illustrative and indicative

1. People find making pensions decisions difficult to do by themselves – the advice and guidance landscape needs further development in the future

People facing difficult choices with their pensions often need to seek advice and guidance from a range of formal and informal sources to try to plug the gaps. Finding out about pensions policy changes which could impact on them are a key driver for seeking advice or guidance. The government commitment to partner the introduction of new pensions freedoms with guaranteed access to free, independent pensions guidance for all through Pension Wise is therefore welcomed.

Our research found that people are anxious about a) making sense of pensions options and navigating the system; and b) making consumer product and provider choices and investment decisions. It is crucial to note that in the current pensions advice landscape these two issues are catered for through distinct advice and guidance routes. In practice however, many people regard 'advice' in a fluid way, encompassing informal and formal sources, and many will look to draw on a range of sources of advice to help them find a way through[2].

Given the risks posed by misinformation, ranging from making poorly-informed choices to falling foul of mis-selling and scams, this highlights the importance of having key sources of formal advice and guidance clearly defined and promoted, with routes for signposting between services built-in to ensure people are aware of their options and can get the information they want and need. Pension Wise is also an ideal opportunity to promote a better understanding of formal advice options on pensions, and taking effective action to reduce risks from scams. We also welcome the FCA's requirement on providers to ask customers about their circumstances, to give relevant risk warnings and to highlight that using Pension Wise or taking regulated financial advice is a key part of protecting themselves.[3]

Our research found that making decisions at retirement is difficult and a serious worry for people, so it is important that people are made aware of their options for seeking regulated financial advice as appropriate. With the development of new products following the introduction of the new pensions freedoms and expanded choices, this type of advice may become increasingly important. We found strong attitudes of mistrust in financial advice, so it is crucial that people can find clear and complete information on their financial advice options. They need to understand the importance of seeking financial advice that is regulated and have access to a comprehensive list of the types of services provided and fees and charges that different providers levy. The work of the Money Advice Service on an impartial financial advice directory to coincide with the launch of Pension Wise is a welcome

[2] See for example, *Researching the 'Advice Gap'*, March 2012*'*, Nick Hurman and Ian Costain, Financial Services Consumer Panel which found that people often perceive non-regulated assistance with shopping around, which the authors term 'assisted non-advised services', as being equivalent to regulated financial advice or fairly close to it.

[3] *PS14/17 Retirement Reforms and the Guidance Guarantee, including feedback on CP14/11*, November 2014, Financial Conduct Authority and *Dear CEO letter*, January 2015.

development in this space[4]. However, **in the future the costs and benefits of accessing regulated financial advice could be more clearly communicated to consumers** to ensure that those who need it and can afford it feel confident in accessing it.

More generally, regulated financial advice may not be an affordable option for all those who have pension savings. In addition, we found that some hold attitudes of mistrust in the profession and doubt that they will receive a value-for-money service. In this context, we found a strong appetite for trusted digital pensions planning tools and assistance in navigating an increasingly crowded pensions marketplace. This indicates scope for exploring better ways to assure and ensure people can access the tools that could help them with self-guided pensions planning and shopping around.

89%

more people used the pensions pages on the Citizens Advice online advice site, AdviceGuide, last year than in the previous year.

As more and more people turn to the internet and digital technology for advice and assistance, it is essential that services are up to speed with the digital age. For example, the number of people using the pensions pages on the Citizens Advice online advice site, AdviceGuide, was up by 89 per cent last year compared to 2012.[5] However, it is important that pensions advice and guidance continues to be accessible in all of the formats people need, including face-to-face and by telephone. People may need to choose the channel based on the level of complexity of their decisions, or may have specific disability requirements. **The Treasury should continue to make pensions guidance available through a range of different channels** including online, phone and face-to-face so it is accessible in the ways people need it.

2. People do not and should not think about pensions in isolation – they need support to consider pensions in the context of their wider financial and personal circumstances

50%

of CAB clients who asked questions about pensions also asked about employment, benefits, debt, and relationship issues.

People think about pensions in the context of other personal and financial decisions. Pensions choices themselves are wide-ranging; for example, people need to coordinate State Pension and private pension choices in order to plan finances in retirement. Our evidence from Citizens Advice Bureaux in England and Wales points to the complexity and breadth of issues people may need to consider and coordinate. In the first quarter of 2014, of the 1,672 CAB clients who sought help from bureaux about occupational and personal pensions, 50% also sought advice on one or more other issues ranging from

[4] *New Money Advice Service financial adviser directory gets the green light*, Money Advice Service press release, August 2014.
[5] Citizens Advice management information, January 2011 to December 2013, Citizens Advice.

employment, tax and benefits, to debt, consumer issues and family and relationships.[6]

The interacting pressures and decisions here can be very complex: for example, people who are close to retirement but also struggling with bills and debts may find it hard to prioritise longer-term financial planning for older age. Conversely their pensions savings, including smaller pots, can have implications for means-tested benefit claims, applications for debt remedies such as bankruptcy and Debt Relief Orders (DROs), and repayment negotiations with creditors. People need to know about these interactions and how to handle them, but often awareness is low and this can result in ill-informed and sometimes pressured choices, a sudden loss of expected income, and disengagement with pensions.

Therefore the Government should ensure that advice and guidance is available across the range of personal and financial decisions people face. Our research demonstrates the need for pensions interactions to be more clearly communicated to people as the pensions reforms affect how people can access their savings, at the same time as other major reforms including to welfare. Generalist and, where relevant, expert (e.g. money, benefits) advice delivered face-to-face also has a crucial role to play here as it can be very difficult to understand and coordinate these decisions without it. A dynamic approach is necessary as personal and financial circumstances and priorities can change quickly as a result of policy change, life-changing events or experience of financial difficulty and debt.

3. People think about pensions choices, at important financial moments – these should be exploited as hooks to greater engagement

This research finds that whilst many people find thinking about the future difficult, serious reflection on pensions choices and financial plans for older age can be prompted and could be encouraged at important financial moments including: claiming or discontinuing a benefit, house-buying, divorce, and changes to employment such as ill-health and early retirement, redundancy or changing job. The increased media attention around pensions prompted by the reforms may also act as a hook for more active engagement for some. These prompts can result in people maximising savings, and engaging in more informed decision-making with a more future-oriented focus. Our findings therefore indicate scope for exploring a range of measures which could capitalise on the potential of this to encourage and enable saving, planning and engaged decision-making. Organisations that people interact with at these times – including mortgage lenders, employers and welfare agencies – are important potential partners in getting consumers more engaged in pensions decisions at points of other important financial changes in their lives.

In many cases, this would be a matter of building on the good practice that already exists. For example some employers offer impartial pensions guidance as part of their employee

[6] Citizens Advice management information, January to March 2014, Citizens Advice.

benefit offer, hold staff information workshops and meetings on pensions, and provide in-house support through human resources teams.

4. Pensions information is too confusing – it needs to be easier to understand

In order to make informed and engaged pensions choices people need to be able to access and understand their pensions information at the points they need. The way pensions information is communicated is therefore crucial. However, many people feel overwhelmed and confused by information they receive from providers and are therefore discouraged from engaging with it. **Providers could do more to explore the potential of digital tools to help people better engage with their pensions information.** They could do more to review written information, and develop and test a range of new channels for communicating with their customers, such as secure online portals with scope for engagement such as web chat, and improved telephone and face-to-face communication.

Proposals for the future

1. **The Government should ensure that advice or guidance is available across the range of personal and financial decisions people face.** This includes the possibility of needing long-term care and interactions between pension income and decisions about benefits or debt.

2. **The Treasury should continue to make pensions guidance available through a range of different channels** including online, phone and face-to-face so it is accessible in the ways people need it.

3. **Key sources of formal advice and guidance could be more clearly defined and promoted, with routes for signposting between services built in** to ensure people are aware of their options and can get the information they want and need.

4. **In the future, the costs and benefits of accessing regulated financial advice could be better communicated to consumers** to ensure that those who need it and can afford it feel confident in accessing it.

5. **Employers and financial services firms could use 'financial moments'** such as starting a new job or re-mortgaging as a hook to encourage people to think about pension saving and choices.

6. **Providers could do more to explore the potential of digital tools to help people better engage with their pensions information.**

Chapter 1: Introduction and methodology

In April, important reforms will take effect which expand consumer choice around access to pension savings[7]. People with defined contribution pension pots will face greater choice over how they use their savings after reaching minimum pension age. We will see new draw-down arrangements alongside annuities, increased access to full withdrawal, changes to when and how people take lump sums, and changes to tax rules which will impact on the outcomes of decisions. These reforms build on multiple cumulative changes to pensions over the years which have resulted in a system many people find hard to understand and engage with. In addition, we know that people's lives are diverse, complex and changing. Pensions choices are part of a wider maze of decisions people face when thinking about older age.

Historians have highlighted how the emergence and rise of pensions made a retirement income possible for a widening range of people[8]. However today the decline in pensions saving alongside rising life expectancy is a major policy concern. The Department for Work and Pensions (DWP) estimates that there are 11 million people working in the UK who are not saving enough for an adequate retirement income.[9] Automatic enrolment into workplace pensions is a serious attempt to address difficulties people have with engagement, but for many affordability is a key barrier to saving. More households are struggling to save and finding themselves in financial difficulty and debt as income levels fail to keep up with consumption costs. This problem is unlikely to go away soon - the UK's economic forecasting authority, the Office for Budget Responsibility (OBR), expects real wages to continue to stagnate in future years[10]. Citizens Advice bureaux see over 100,000 clients with debt problems every quarter, a third of whom are aged over 50.[11]

1 in 3

of the 100,000 clients Citizens Advice bureaux see with debt problems every quarter, are aged 50 or over.

Citizens Advice supports the government's policy goal of enabling and encourage saving as this is essential for helping people secure an adequate income in retirement. Given the latest reforms, and in light of the increasing complexity of choices people face at points of decumulation and the squeeze on savings, we also believe it is more important than ever that people are able to make better informed and engaged pensions choices and financial plans for older age.

With the aim of providing a useful contribution to policy debates in these areas, this report presents findings from Citizens Advice research into people's attitudes to and experience of pensions and planning for older age. It offers an

[7] See *Budget 2014*, 19 March 2014, HM Treasury and *Freedom and choice in pensions*, March 2014, HM Treasury.
[8] See *Old Age in English History: Past Experiences, Present Issues*, 2000, Professor Pat Thane.
[9] See *Enabling and encouraging saving: the evidence around pension reform and saving*, February 2013, Department of Work and Pensions.
[10] See analysis by the International Longevity Centre- UK (ILC-UK) of Office of National Statistics (ONS) and Office for Budget Responsibility (OBR) forecasts: *Freedom and choice in pensions: risks and opportunities*, June 2014, Ben Franklin, ILC-UK.
[11] *Citizens Advice management information*, January to March 2014, Citizens Advice. Of debt clients who have no savings, 28% are aged over 50.

assessment of the current pensions landscape with a focus on how people make choices in it. The research also examines how advice and guidance can enable people to find a way through the maze of decisions they face.

Research objectives and design

Many studies have attempted to understand the implications of pensions reforms on how people make decisions. These have mainly focussed on technical finance factors such as asset allocation and contribution rates. But few have looked closely at the human story and experience to making these choices; this is the perspective we explored in this research.[12]

We aimed to investigate how people in different personal and financial circumstances are considering and making decisions about older age and pensions, and to examine advice and guidance needs at and coming up to retirement. We chose a qualitative research design comprising 20 in-depth interviews and two focus groups with Citizens Advice clients and volunteers to enable us to explore a range of experiences and understand in detail how people conceptualise their choices at retirement in the context of those experiences.

In addition to the primary research outlined below, we analysed:

- Statistical management information from Citizens Advice Bureaux across England and Wales; and
- Advice sought by CAB clients on pensions issues, web analytics data on people's access to information on pensions via our online advice website AdviceGuide.

Sampling and recruitment

Interviews were conducted with people aged between 50 and 69 with personal or occupational pensions. Ten CAB clients and ten CAB volunteers matching these criteria from across the Citizens Advice Bureaux network in England and Wales were recruited.

Given our research objectives of understanding the range of experiences and attitudes on this topic, we aimed for maximum diversity across the sample. Our two key sampling criteria were income and pensions savings, and we recruited a good range across both. Income levels ranged from under £400 per month, to over £3,000 per month.[13] All participants had at least one defined contribution pension, and the majority of these (for eighteen of the twenty participants) were not yet in payment. Some had defined benefit pensions from both public and private sector jobs. The total number of individual pension pots ranged from 1 to 7, while levels of total pensions savings ranged from under £2,000 to over £800,000. The categories low/medium/high pensions savings were used in analysis and reporting.

---

[12] See for example, review of 130 papers: *Retirement saving choices: review of the literature and policy implications. Journal of Population Aging*, 2011, 4 (1-2). Pp. 97-117, Orla Gough and Claudia Niza

[13] Most drew income from a range of sources, these included: earnings from full-time and part-time wages, salaries, and self-employed income; receipt of income-related, income-replacement, disability and carers' benefits, including Pension Credit, Job Seekers Allowance, Employment Support Allowance, Disability Living Allowance, Carer's Allowance, Housing Benefit; State Pension receipt; rental income from owned property; and pensions in payment and other savings being drawn e.g. from ISAs.

County of residence, number, types and amount of debt, work history, family structure, gender, ethnicity, disability and housing tenure were recorded, and were considered in analysis where relevant.

Focus groups were conducted with twelve paid staff and volunteers from Citizens Advice Bureaux in England. These advisers worked in a range of advice-work roles, including Generalist Adviser, Benefits Caseworker, and Financial Capability worker. This was a diverse sample of participants with varied levels of pensions knowledge and experience of providing advice on different types of issues e.g. from interactions with benefits decisions, to assessing and developing financial capability. The group was however, in some cases self-selecting, with some advisers who took part having worked in the financial services and pensions industry prior to taking up their CAB adviser roles.

Data collection and analysis

Fieldwork was carried out between June and August 2014. Interviews and groups were conducted using semi-structured discussion guides. Interview topics included personal and financial circumstances, pensions savings history, the recently announced pensions reforms, how interviewees were making choices about older age and pensions, and how they would like to receive advice and guidance in this area.

Focus groups were aimed at better understanding advisers' front-line experience and insight on CAB clients seeking advice or financial capability training on pensions and saving for retirement.

Good practice in research ethics was applied, including obtaining informed consent, and giving participants the option to terminate or stop the interview at any point and without explanation. With consent, the groups most interviews were recorded and transcribed, then analysed to draw out the range of participant experiences and develop analytical themes. In the report we have taken steps to ensure the confidentiality and anonymity of participants is protected.

Definition of 'advice' in this report

In the pensions advice landscape 'financial advice', and sometimes for shorthand 'advice', is commonly used to define regulated investment advice which includes product and provider recommendations. In this context, the use of the term 'guidance' rather than 'advice' may help define the impartial new pensions guidance service Pension Wise from regulated financial advice. However, our analysis required a broader and contextually specified definition of 'advice'. We therefore differentiate as appropriate between 'informal advice', for example, from family and peers, and 'formal advice' – which we often shorten to 'advice'. For the latter, we define types as relevant, for example to differentiate between regulated financial advice and impartial guidance on pension choices, as well as generalist advice and expert advice in other areas such as money and benefits.

Acknowledgements

We would like to thank Citizens Advice Bureaux from across England and Wales who supported this project. In particular we would like to thank staff and volunteers who helped with recruiting CAB clients for interview, including: Wiltshire CAB - Salisbury, Derby CAB, Maidstone CAB, Westminster CAB, Swansea Neath Port Talbot CAB, Portsmouth CAB – Cosham, Nottingham & District CAB – Netherfield & Arnold, Manchester CAB, Bargoed CAB, and Arun & Chichester CAB - Bognor Regis. We are also very grateful to the staff and volunteers who participated in focus groups. They came from the following bureaux: Blackpool CAB, Lincoln CAB, Arun and Chichester CAB, South Somerset CAB, Tonbridge CAB, Corby & Kettering CAB, Wiltshire CAB - Salisbury, Hammersmith and Fulham CAB, Chiswick CAB, Hounslow CAB, Rushmoor CAB

Our biggest thanks go to the CAB clients and CAB volunteers who gave their time to take part in the interviews and share their personal experiences.

Chapter 2: How people think about older age and pensions

Retirement is not what it used to be. People in their fifties and sixties face very different challenges than their parents did at the same age. In the context of rising life expectancy, and increasing household financial pressures, many are facing circumstances they may not have anticipated, including adult children needing support with housing costs or living at home, competing pressures to work and provide informal care for grandchildren, and navigating a changing formal care system for parents living to an older age. The traditional concept of retirement itself, that people work until they retire from paid work, and then start to draw pensions or their State Pension, does not reflect the real experience of many. In England approximately half of men and a third of women aged 60 to 64 in receipt of private pension income were still in work in 2012[14]. In addition, retirement age is increasingly uncertain for many, due to a range of factors including changes to State Pension Age and needs to extend working lives. Research by the Chartered Institute of Personnel and Development (CIPD) found that over two-fifths of people now plan to work past the age of 65, and the main reason for most (72%) was financial need[15]. The Pensions Policy Institute (PPI) found that people thinking about work and pensions transitions face a wide range of options including how and when to retire, when and how to take state and private pensions, and when and how to access non-pensions savings and assets. They note that each of these transitions encompass a range of options, and that there are numerous ways to combine them depending on circumstances.[16]

A key finding from this research is that planning for older age and engaging in pensions choices can be very difficult. Participants described facing a diverse range of decisions about older age and pensions, often considered in the context of competing household and financial pressures, and changing circumstances. Key factors influencing thinking included practical time-money considerations and personal evaluations about the right things to do, particularly in relation to financial independence and assistance to family. Analysis also revealed behavioural biases at work, including prioritising short-term considerations (myopia) and issues of immediate personal importance (salience), as well as aversion to risk and loss[17]. For many the complex interplay between the range of choices they faced resulted in difficult tensions, dilemmas and trade-offs, making choices challenging at best, and sometimes overwhelming.

2.1 An idealised retirement is often at odds with people's real experience

"People often assume you would be delighted to skip away and live on a beach, and you often feel that too, but I really didn't appreciate how hard it would be to find a job in the current market."

Female, 59, recently redundant, medium pension savings

[14] *English Longitudinal Survey of Aging (ELSA),* 2012.
[15] *Managing an age-diverse workforce: employer and employee views*, March 2014, Chartered Institute of Personnel and Development (CIPD).
[16] *How complex are the decisions that pension savers need to make?* November 2014, Daniela Silcock, John Adams and Mel Duffield, Pensions Policy Institute (PPI).
[17] See *EAST – Four simple ways to apply behavioural insights*, April 2014, Cabinet Office, NESTA; and also *MINDSPACE – influencing behaviour through public policy*, March 2010, Cabinet Office, Institute for Government.

Participants tended to hold an idealised image of retirement. Often this involved expectations and aspirations for a change in lifestyle, or “a new lease of life”. Ideas of what this would look like included more time for leisure and travel, volunteering in the community, moving or renovating the family home, choosing to cease work, contributing to financial well-being and care of family, and keeping mentally, physically and socially active. Whilst some were optimistic and hopeful that aspects of this ideal were within their reach, others were not, often highlighting conflicts with their personal circumstances and practical time, money and health constraints. The cases below illustrate the disconnect between this idealised image and reality.

Joanna, 60, was widowed, claimed income-based Employment Support Allowance (ESA), and had a small defined contribution pension in payment. Her leisure plans did not include thinking about going abroad, and were often made short-term because they depended on how she was managing her money at the time. She described this as a situation of “swings and roundabouts”. She occasionally went over her overdraft limit and had an unstable income and expenditure pattern:

“One week I manage, the other week I have to cut…If I’m okay with my money, I go out, for example to the Bingo.”

At the time of her interview she described her finances as “very low”. She said she was trying to keep her “head above water”, and was hoping not to be hit by any “big bills like gas or electric”.

For Robert, 64, current and future family care responsibilities were essential considerations. Robert had brought forward his plans to leave work in November, after his mum had a serious stroke in February and following which needed full-time care. His sister and dad had died and he was his mum’s sole carer. Robert said he could no longer plan holidays or consider making volunteering commitments because he did not have the time.

“It’s more or less 24 hour [care] ... unfortunately I’m the only person, and I can’t really wander off.”

In the case of Joanna her low income and savings made it difficult to imagine and plan for being able to afford holidays abroad and plan regular leisure activities. For Robert current and future time-intensive caring commitments conflicted with his aspirations for leisure and volunteering. Participants held ambiguous attitudes towards this disconnect between imagined and real retirement. On the one hand the displayed a matter-of-fact, practical attitude to this situation. Those with lower savings were often accepting that certain aspects of an idealised retirement - such as holidays abroad – were not in their reach. On the other hand, feelings of frustration and upset sometimes surfaced when participants reflected on the fact that they would not have the kind of retirement they had imagined and work towards. Poorer than expected outcomes from pensions saving was a particularly emotive subject. For some participants the anger they felt about this had discouraged them from thinking about and dealing with their pension and planning longer-term for older age:

"I'd love to go to Greece or Spain, if I won the lottery or something like that.

"I'd love to go to Greece or Spain, if I won the lottery or something like that. I think it would be lovely to relax - go where I want, do what I want. But I can't do that. I used to go fishing, bowling, and darts. But now I can't afford it."

Male, 66, long-term unemployed, undisclosed pension savings

"When I first started pension saving at 21, I thought: the government puts something in, you put something in, and the gaffers put something in. [It] seemed like a good deal at the time. But now it's not worth the paper it's written on… I don't think you can plan for the future – you're penalised anyway."

Male, 52, recently redundant, medium pension savings

2.2 Serious reflection is often prompted by life events and key financial moments

"Life can change so quickly and so much."

Male, 63, retired, medium pension savings

Participants tended to consider long-term financial planning to be difficult, with some calling it 'impossible'. Many found it very difficult to picture themselves in 20 years' time, with those in ill health or with friends and family who had died young most pessimistic about their mortality. When asked to think about the next five and ten years, most hoped they would be doing roughly what they were doing at present. While they often hoped they would be able to maintain their independence and standard of living, they described anxieties about factors they felt were out of their control, such as including rising cost of living, life-expectancy, potential care costs and marketplace returns on pensions and investments. For some, the recent recession had increased this sense of uncertainty about the future.

"It's been a confusing place in the market and pensions, and even more so because of the turmoil the financial markets have been in since the economic recession…Planning after that is very hard. The way the stock market has been fluctuating over the past ten years makes it so difficult to plan, because history's already been broken."

Female, 61, retired, high pension savings

"In 20 years' time I'm just hoping I'm still here. I can't really see into the future. I can't really answer. I just live for today."

Female, 60, ESA recipient, low pension savings

"I am confident I will understand what the changes [Freedom and Choice in Pensions reforms] are and how they will affect me. What I don't know is: should I protect my income for 20 years time, in case I have care costs, or should I go out and buy a Lamborghini, or in my case, a Nissan Micra?"

Male, 60, retired, high pension savings

Fear about the future was therefore a strong influence on thoughts, often resulting in disengagement from planning longer-term. Behavioural insights studies have found that motivation for action can be strongly influenced by 'present bias' or 'myopia', with short-term considerations often at the fore-front of people's minds, over long-term thinking about the future.[18] For example, analysis by the Institute of Fiscal Studies (IFS) found that nearly three-fifths of people aged between 50 and 64 who were not yet retired, said they had never thought about how many years of retirement they might need to finance.[19]

But paradoxically, focussing on short-term considerations could sometimes result in greater engagement with long-term planning and pensions decisions. This was particularly true with regard to experience of important life events and at key financial moments including problem debt, divorce, bereavement, buying a house, redundancy and sudden ill health. Many participants described how encountering these, had acted for them as strong immediate triggers for considering and re-considering decisions[20]. These findings are illustrated in the following cases of participants Rebecca and Arjun.

[18] *EAST – Four simple ways to apply behavioural insights*, April 2014, Cabinet Office, NESTA.
[19] *Expectations and experience of retirement in Defined Contribution pensions: a study of older people in England*, November 2012, Institute of Fiscal Studies (IFS).
[20] This chimes with behavioural insights around salience, that people's attention is drawn to what is new and relevant to them. See *MINDSPACE – influencing behaviour through public policy*, March 2010, Cabinet Office, Institute for Government.

Rebecca, 64, who had worked as a self-employed accountant, described how she had changed her pension saving plans following her divorce ten years ago. She had started a pension in the 1980s and whilst she was married said "I didn't have any pensions provision then, or very little." During her divorce she explained that her ex-husband had wanted to stay in the family home, and that her financial situation had worsened:

"Divorce doesn't do ones finances much good…it sliced [my] capital in half."

It was at this time that Rebecca started her own local accountancy business, and had decided to substantially increase her saving, consciously putting as much as she could into her personal pensions. However, while she had felt it important to save as much as possible, she had not consciously planned around guaranteeing a particular income in retirement:

"I did what I did, and hoped it would work out."

Arjun's father-in-law and mother both lived nearby to him and his wife, and had recently taken up formal care. Arjun owned his home and had a main defined benefit pension which he had started drawing from in the last year. He also had saved two large defined contribution pension pots not yet in payment. When asked if he felt in control of his finances Arjun first said "yes, totally in control", but then re-thought his answer. He said "the sensitive issue" for him was "potential care home costs." He described how his father-in-law in particular had a "decent pension" but that in spite of this he and his wife had found they had needed to help out with his care home costs.

These events had strongly impacted on his thinking about his own retirement, and in particular his plans for use of his defined contribution savings. Before he said he had been thinking to use this capital to fund what he called "the luxuries of retirement"', but now he was seriously considering potential formal care costs for him and his wife. He said "my needs for capital have become highly complicated".

As Arjun's case illustrates, deteriorating health and securing personal independence are key concerns and priorities for the future for many at or near retirement. However, other participants had either not started planning for possible care costs, or expected the government to step if necessary, as a quid pro quo for having paid into the system through taxes during their working lives. Yet as health and social care reforms take shape, Arjun's worries about possible long-term care costs are a very real issue for many. Research from the Institute and Faculty of Actuaries found that 1 in 3 women and 1 in 4 men aged 65 are likely to need care, and that the average income of retired households is below the threshold of the cap on social care costs.[21]

Turning to Rebecca's experience, her divorce had resulted in a knee-jerk response of increased saving for retirement. However, it is important to note that such life changing events do not always result in greater engagement in longer-term financial planning for older age. In some cases, especially where participants had encountered sudden and serious financial difficulty, the result was disengagement with long-term planning, as the case of participant Stacey illustrates.

Stacey, aged 65, was widowed and a registered homeopath. She had got into problem debt having fallen behind with mortgage and credit card payments. Her retirement plan to set up a business providing healing holidays abroad in Spain had fallen through, after she had a hip fracture and was unable to work as planned. As a result she had changed her plans and said that her main ambition now was stabilise her finances and become debt free in the next few years, and she had stopped thinking about the longer term. She had started taking steps to get her finances in control, including taking out a Debt Management Plan (DMP), and preparing to sell her house.

Stacey had a pension in payment from her late husband, and a personal pension she had taken out on suggestion from a friend. After experiencing financial difficulty, Stacey said she had made an enquiry to her provider about accessing her personal pension to help her clear her debts. It was at this point that it was clarified to her that she had taken out a guaranteed annuity, and so could not use her pension in this way.

Stacey's was similar to a number of other participants who had found themselves in financial difficulty following sudden onset illness affecting their capability to work, in some cases resulting in ill-health retirement. Participants in these circumstances often thought about using pensions savings to help with clearing debts.

"I got into financial difficulty….I've got the electric bill - £500 or so behind, and £400 outstanding on water…I was hoping I could get a bit of my pension…[to] pay my debts off."

Male, 52, recently redundant, medium pension savings

However in many cases these participants had initially lacked awareness of the implications of capital availability on entitlement to debt remedies, such as bankruptcy and Debt Relief Orders (DROs), and for repayment negotiations with creditors. This highlights a need to raise awareness and understanding to prevent inadequately informed quick decisions. Issues around how pensions decisions interact with other decisions are explored in the next chapter.

[21] *How pensions can help meet consumer needs under the new social care regime*, May 2014, Institute and Faculty of Actuaries (IFoA).

"My own personal circumstances have made me look at my pension afresh. It could be my life grant if things get really bad."

Female, 59, recently redundant, medium pension savings

2.3 Bills and debts make it hard for people to get in control of their finances

"Obviously when things increase in prices – utility prices, fuel, things like that, food – wages don't always go up. But we manage, just."

Male, 59, medium waged, medium pension savings

For most participants looking after their own finances and being financially independent in older age were important. They tended to describe their personal attitudes to managing and saving money included 'practical', 'pragmatic' and 'careful'. Their reasons for pensions saving were to secure an income and good standard of living in older age. However, many faced difficult pressures that made it difficult for them to secure this financial control.

These pressures were more acute on participants with lower savings and incomes or who were experiencing financial difficulty and debt. They described a range of financial pressures affecting short-term money management and long-term financial planning. Focussing on getting their current finances in order had meant needing to delay thinking about their pensions and longer-term financial planning. Key priorities included: immediate household budgeting, considering entitlement to benefits and making claims, debt management, job-seeking, and keeping on top of household bills, rent and mortgage payments.

"Rent and food are my first two priorities."

"After I left work, unfortunately what savings I did have were all gone very very quickly. At the moment I'm applying for ESA with [the] help of the CAB. Rent and food are my first two priorities. …Because of all the other stuff, I'm taking it one stage at a time. I've got too much on my plate, so my pension at the moment is on the back-burner."

Male, 60, long-term unemployed, low pension savings

Participants with low pensions savings described how their financial ability to save had been limited by a range of factors including: low-income employment; working in insecure short-term jobs without guaranteed income; and breaks from working following sickness, redundancy, maternity breaks, or childcare and caring responsibilities[22]. Female participants had often experienced a number of these challenges. Needing to prioritise debt repayments over saving after experiencing financial difficulty were also key factors for some participants.

"So many people don't [have] pensions. I joined a little bit. I don't work full-time, [because] it's very very hard to get. I do cleaning and save a little bit…At the moment it's very hard. I pay my bills bit by bit…Every month I pay £50 back [credit card debt] bit by bit."

Female, 58, long term low wage, low pension savings

"I saved to have something out when I retire, to live on a bit more….But I only saved what I earned. I was never a bigger earner. The most I ever earned was £16,000."

Male, 63, retired, medium pension savings

Often participants with low pension savings had little or no other financial savings or wealth to fall back on in retirement, and were unlikely to gain any other wealth through inheritance. Therefore being able to protect savings for the future was a key priority. Concerns about eating into, using up, or being able to continue contributing to pension savings were often key worries. This is supported by IFS analysis of the 2012 English Longitudinal Study of Ageing which indicates these issues face many with smaller pension pots. They found that for people with defined contribution pension pots were with levels of other wealth and savings decreased with pension pot size.[23]

"I spend most of my time job-seeking and volunteer two days a week at CAB to keep my skills up. Effectively I am penniless. Life doesn't stop, but I'm very aware of having to pull my horns in. I stopped paying into my AVC last month. I think it would be most sensible [following Freedom and Choice reforms] to keep [my pension] in [my] pot. I hope not to have to dip into [it]. But I may have to, to pay off our trip to China to see our daughter. If I get a job I won't have to do that."

Female, 59, recently redundant, medium pension savings

Worries about effectively managing financial pressures were often heightened by the tension felt with wishing to secure financial control and independence in the future. This prompted strategies to avert risk and loss and protect financial security in the future[24]. These included down-sizing to a cheaper or easier to maintain property, reducing spending on non-essentials, making an investment to maintain the family home to avoid future costs,

[22] These factors are reflected in national statistics on pension participation, which find this increases with total weekly household income. Employees have highest pension participation (48%), then self-employed (20%). People in the International Labour Organisation's 'inactive' category (including unemployed, retired, student, looking after home/family, permanently sick/disabled, temporary sick/injured, other) have the lowest pension participation (1%). See *Family Resources Survey*, Department of Work and Pensions, 2011-12.

[23] *Expectations and experience of retirement in Defined Contribution pensions: a study of older people in England*, November 2012, Institute of Fiscal Studies (IFS). This study found that Defined Contribution pension pots are a more important component of total wealth for those with lower levels of total family wealth. Of those in the lowest wealth quintile, Defined Contribution pension wealth as a share of total family wealth was over 50 percentage points higher than those in the middle quintile.

[24] See behavioural economics literature on risk aversion e.g. *MINDSPACE – influencing behaviour through public policy*, March 2010, Cabinet Office, Institute for Government.

delaying drawing pensions savings, delaying plans to stop working, and in some cases where this felt financially viable, deferring their State Pension.

The following quotes illustrate some of the financial challenges and worries participants raised and how they responded – in one case job-seeking and freezing pension savings to avert loss, and in the other, dealing with immediate budgeting and benefit entitlement considerations as a priority over thinking about pensions.

2.4 Many people prioritise family, but face challenges to supporting relatives

"Yes, I see the children, the little devils! Sometimes they come over for the weekend, to give a break to my daughter [from] looking after [them]."

Male, 66, long-term unemployed, undisclosed pension savings

A key priority for participants was looking after and contributing financially to their family. Many described how they pooled resources and made joint financial decisions with members of their household, including partners and sometimes adult children. Financial, time and care commitments to family relations outside the home were also important, with some needing to prioritise older parents, siblings, and adult children over themselves. Many participants were regularly taking care of their parents or grandchildren and prioritising buying them essentials and presents over other expenditure.

"My priorities for the future are to contribute to my daughters from time to time - car repairs, clothes for the children - to continue to do that."

Female, 64, retired, high pension savings

"The only person I look after is my mum in Africa. I send her some money for food to eat. I go there... She is 94 years old."

Female, 58, long term low wage, low pension savings

"My priorities for the future are to contribute to my daughters…"

Whilst these choices were often taken for granted, some family commitments involved more careful consideration. This was particularly true in instances where participants felt competing financial and time pressures constrained their ability to assist family as they had desired. Some also felt tensions between maintaining personal financial independence and supporting and protecting the financial independence of family members.

For example, participants in difficult financial circumstances often described steps they were taking to avoid needing support from or leaving posthumous bills or debts to family. This was the case for participant Mark, 60.

> Mark talked with strong feeling about his attitude to work and managing his finances. He described himself as “a very proud man”, and said he had been brought up to live within his means. Following ill health he had lost his job from the electronics business he had worked in since his twenties. He was working on stabilising his finances, including starting to make claims for Disability Living Allowance (DLA) and ESA with assistance from his local CAB and described his current financial situation as “hand-to-mouth”. His parents had died and his brother lived in a different town. Mark had a small defined contribution pension saved from his years working in electronics, and planned to use his lump sum to get his funeral expenses covered. He said “If I use that to bury myself, then I don’t burn my brother with the cost.”

Mark’s decision illustrates how thinking about use of pension savings can involve highly personal judgements that have practical implications for choices made.

For some participants competing pressures including changes in financial circumstances such as reduction in income and savings due to sudden redundancy and long-term unemployment were in tension with their desires and plans to assist their families, as the following quote illustrates.

“My daughter in London hasn’t been saving up. A lot of people where we live have parents who are much better off than us, and it’s not unheard of for them to buy their children homes. My main worry is that traumatic moment: ‘I want to get married.’”

Female, 59, recently redundant, medium pension savings

The next section will look at the how the pensions system often does not take into account people’s challenges and motivators to informed engagement.

Chapter 3: Pensions are complex and hard to navigate

The UK pensions landscape has become increasingly hard to navigate. Analysis from History & Policy has shown a history of multiple reforms by successive governments since the introduction of the basic State Pension in 1946 under the Beveridge settlement. Change has tended to be achieved by creating new features or allowing them to emerge, therefore adding complexity to system over time.[25] With regard to the additional State Pension, for example, people can have retained rights to elements that have been superseded, from the state graduated pension, replaced by the state earnings related-pension (SERPS) in 1978, and most recently from the state second pension introduced in 2002, which will be superseded by the new single-tier State Pension. This will take effect from April 2016, after which time people will only be able to accrue entitlement to one State Pension, but pre-existing entitlements will be honoured.

Private pension saving has increased significantly since the 1950s, and recent decades have been characterised by rising defined contributions pension saving and falling defined benefits pension saving. Changes from the 1950s onwards, notably the post-war rise in occupational pensions, and the development of mass personal pensions and free standing additional voluntary contributions (FSAVCs), have resulted in the growth of the pensions market. The current rise in defined contribution pensions, and associated development of complex markets in pensions products requiring a more active role for consumers, is of particular significance today. Analysis by the University of Birmingham using ONS data estimates that at present 10.5 million people. 60% of those with accumulated and accumulating pension pots, have defined contribution pensions[26]. With the decline of defined benefit schemes and the continued implementation of automatic enrolment, this is set to increase[27].

Many people with defined contribution pensions will, from April, have more choice over how they use their pension pot(s) as a result of major reforms to pensions rules. The government's Freedom and Choice in Pensions reforms will remove restrictions on accessing defined contribution savings after the minimum pension age (currently 55). The reforms will allow the development of new products including increased draw-down arrangements in addition to the current annuities market, and change rules on access to lump sum payments and the tax implications of decisions[28]. These reforms are in addition to changes that were made with immediate effect in April 2014, including raising trivial commutation limits to £30,000.

Tracking research of the retirement income market is already showing significant changes since the reforms were announced. In the third quarter of 2014, the value of drawdown sales was around 50% that of the value of annuity sales, compared to 14% a year ago. The number of annuities sold had fallen by 56% from the same period in 2013[29].

---

[25] See *Politics and pensions in post-war Britain*, 2006, Dr Hugh Pemberton, Policy papers, History & Policy
[26] *Private pension wealth among 55-64 year olds in the UK*, Dr Paul Cox, published by NEST.
[27] As of October 2014, 4.7 million people have been auto-enrolled: *Automatic enrolment, Declaration of compliance report, July 2012 – end September 2014*, October 2014, The Pensions Regulator.
[28] See *Budget 2014*, 19 March 2014, HM Treasury and *Freedom and choice in pensions*, March 2014, HM Treasury.
[29] See ABI retirement income statistics Q3 2014 – note this is not the whole market, it is ABI members only.

In addition, people increasingly have multiple pension pots they need to monitor a number of different accounts, and make complex choices about how best to use or amalgamate them. Research by Age UK in 2013 found that nearly one in four have lost track of at least one pension[30]. This will be an important issue in the future, as it is estimated that automatic enrolment will give rise to up to 50 million dormant pension pots by 2050. More people will have small pension pots, and more will have multiple pots. The Government is attempting to counter this increasing complexity by introducing automatic transfers.[31]

Many people therefore face increased complexity in pensions cognitively demanding pensions choices, both as citizens with a stake in the State Pension system and consumers with contracts in the pensions market. In addition, this research finds numerous obstacles that make it even more difficult for people to make engaged informed choices that are right for them. Communications-based barriers, including highly technical pensions information from pensions providers, were a particular problem for many participants.

3.1 People find private pensions complex and confusing

"Going back, it was last year. [My late husband's employer] sent me information. It was about choice with my pension. It said I could have a bigger pension, but with everything frozen. But because I'm an optimist and I think I'm going to live longer to an older age, I chose to keep [it] as [it] is – gradual increments, as I get older. I don't know if it was the right decision, but that's the decision I made."

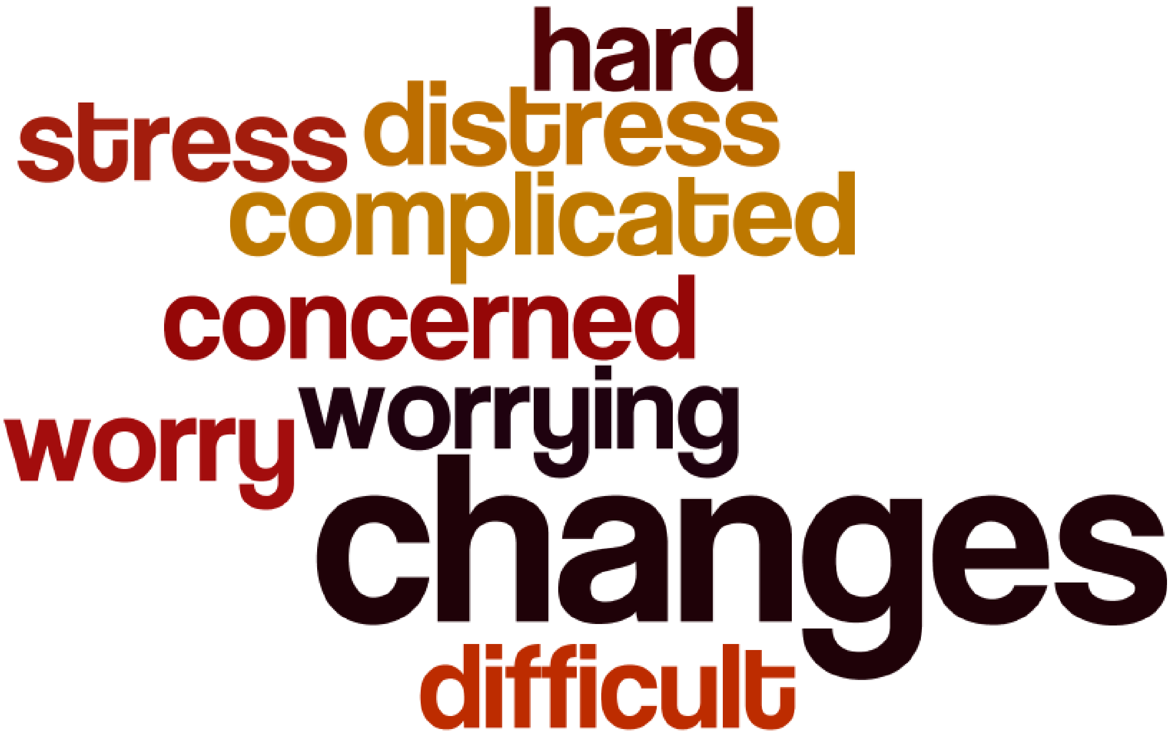
Female, 65, low pension savings

"I don't know if it was the right decision, but that's the decision I made."

Participants reported struggling with making sense of their pensions choices. Those who had with specific barriers to understanding struggled the most. Learning difficulties, memory issues, low numeracy and literacy skills, and low financial capability all contributed to the difficulties people experienced. Numbers, language and financial figures all caused confusion. Some were not clear about key related financial terms such as such as 'annuity' or 'defined contribution pension', even where they had taken out these products. CAB advisers also said that some of the clients they saw had low levels of financial capability affecting ability to understand and engage with pensions decisions. Participants who were confident in their own understanding of pensions -

[30] *Nearly 1 in 4 lose track of pension pots*, April 2013, Age UK news archive.
[31] *Automatic transfers: consolidating pension savings*, DWP, 2013.

including those who sought regulated financial advice - still struggled with keeping up with pensions changes that could affect them, and understanding all of their options and market outcomes from an increasingly wide range of complex choices.



Wordle illustrating participants' spontaneous reaction to the word pensions. Intended to be illustrative and indicative

It is widely known that many people find pensions difficult to understand and engage with. A Department for Work and Pensions (DWP) survey carried out in 2012 with 1,949 randomly selected adults over 18 in Great Britain found that the majority (63%) agreed with the statement "sometimes pensions seem so complicated that I cannot really understand the best thing to do."[32] And a 2013 survey by the Association of British Insurers (ABI) found that 26% of respondents were uncomfortable with their understanding of retirement options, rising to 40% among those with lower levels of overall financial confidence. 20% are not confident that they can make an informed decision about their retirement options.[33]

For participants the experience of struggling to make sense of pensions tended to cause a conflict with values of financial independence and responsibility for managing their own money. Participants often said this negatively affected their engagement. Feelings about this situation ranged from anxiety and apathy, to embarrassment and anger. Those with specific barriers found this subject particularly emotive, often describing in detail why they found pensions so hard to understand and why they thought this was unfair:

---

[32] *Department of Work and Pensions Research Report No. 813, Attitudes to Pensions: The 2012 survey*, 2012.
[33] *Retirement choices: baseline to measure effectiveness of the code of conduct, results from consumer research, May 2013, ABI.*

"It's foolish to sit back and not take control, but I don't feel tooled-up to do that. [It] makes me feel embarrassed, that I'm so financially illiterate. It's my own pension future… I don't come from a background of family investments. I don't have parents who talked about annuities, AVCs, [and] ISAs the same way as others. We never had any education at school for financial literacy."

Female, 59, recently redundant, medium pension savings

"To me, pensions and things like that should be the simplest things to understand. Even politicians have said [they] should be made simple. At the end of the day its people's lives… Make it so easy so people can understand. No wonder most pensioners get ripped off…They blind you with science."

Male, 66, long-term unemployed, undisclosed pension savings

Attitudes towards the Freedom and Choice in pensions reforms were ambiguous, reflecting this tension between valuing increased financial control and struggling with the attendant increased complexity. For some more choice felt positive, allowing them to fit decisions to personal needs. Some participants also said they welcomed the removal of the obligation to purchase an annuity because they said they found the term and the concept confusing.
One participant said they felt draw-down products would be easier to understand partly due to the nature of the name. This highlights the risk that the complexity of pensions could lead people to take the easier to understand choice over the choice that's best for them.

"

Frankly, it boils my brains looking at all the things that will be available.

"

On the other hand, some participants - including those with higher confidence or those with Financial Advisers - worried about feeling overwhelmed by the potential extent and complexity of choices after the reforms. The uncertainty around the implications of the reforms added to their apprehension[34]. For many, the reforms exacerbated anxieties about being able to plan and make pensions decisions effectively and with confidence. These anxieties were based on experience of a large number of government pensions changes throughout their lifetime, and difficulties predicting or trusting the financial markets.

"I'm fairly good at weighing up pros and cons to narrow down choices. But frankly, it boils my brains looking at all things [that] will be available… It's like going to a restaurant. If you have to narrow down two or three options where there are 100 items on the menu, you're never going to eat a meal. All your

[34] Since these interviews, more changes have been announced as part of the package of reforms, including giving people options to draw regular lump sums from their pots, also with implications for tax charges.

energy will go on working out what to eat… I love choice. But I would not go to a restaurant with 100 main courses."

Male, 60, retired, high pension savings

"In honesty I know very little about the pensions system…I picked up on pension age changes. And I did hear about the more choice. All it made me do is made me feel uneasy about getting to pension age."

Male, 59, medium waged, medium pension savings

3.2 Pensions information can be off-putting

Many participants said that the way the information they received about their pensions was designed and communicated did not help them to make sense of and engage with their choices. Often this made it difficult for them to feel able to take control of their financial planning. Few thought they had the time to keep track of and understand all of the information they receive. Participants often expressed concerns about the amount of information and paperwork they received and having the time to go through, organise and find out about the options presented. This was often an issue for those with multiple pension pots and varied histories of transfers, merging, and freezing their pensions. Many reported dealing with this issue by 'putting or hiding away' the information because they felt overwhelmed by both the quantity and the content. Some reported losing or throwing out important papers, because they had lost track over the years of what they had needed to keep.

"I don't read my letters, I shove them in a file. It's embarrassing to say this, but I'm full of apathy…I try to read this stuff, but it swims before my eyes. I go into a fog. I switch off completely."

Female, 59, recently redundant, medium pension savings

"I'm not very good at reading, that's the problem… I haven't got the foggiest. I just throw it in a suitcase. I don't bother with it. I find it very difficult, but I'm too head-proud to ask for help."

Male, 52, recently redundant, medium pension savings

Behavioural biases towards inertia in the face of information overload could well have been in operation here.[35] A few participants described how they had developed personalised coping strategies to organise their paperwork. However, these tended to be participants with more time, resources and financial capability to invest in this process. For example, one retired participant with high pension savings described how he had collated and organised

[35] See *MINDSPACE – influencing behaviour through public policy*, March 2010, Cabinet Office, Institute for Government. Also, The FSA's CPOS study in 2008 found that 50% of annuity buyers felt bombarded by too much information.

key figures from his pensions statements on a spreadsheet on his computer at home, to help him take control of his information, in liaison with his Financial Adviser.

Letters, statements and forms from pensions providers were especially contentious. This was a particularly hot topic for participants with specific barriers to understanding. Participants with Independent Financial Advisers (IFAs) also tended to raise concerns about the amount of information they received from them, alongside high volume pensions information.

"Last year they [pensions provider] sent me miles and miles of forms. Take out an annuity, this, or that. I'm no financial wizard. And I've got so much going on."

Male, 60, long-term unemployed, low pension savings

"Financial Advisers write 20 pages when one would do"

Female, 64, retired, high pension savings

"

I'm no financial wizard.

And I've got so much going on.

"

The language used in pensions communications often added to the difficulties experienced. Jargon and technical terms as causing real difficulty with understanding, were off-putting and upsetting for some. Participants described the information as 'speaking Martian', 'gobbledygook', and 'double-dutch':

"The numbers they talk about are like monopoly numbers - percentages this, that, and the other. [I] just want to know how much I've got."

Male, 52, recently redundant, medium pension savings

"I like literature clearly and explicitly written, and not technical, in good precise plain old English layman's terms."

Male, 59, medium waged, medium pension savings

3.3 Policy changes and marketplace uncertainty make long-term planning difficult

"It seems to change everyday."

Male, 66, long-term unemployed, undisclosed pension savings

Worries about the pace and number of government pensions changes and financial marketplace uncertainty affected their confidence in feeling in control of their pensions and pensions choices, and ability to plan effectively longer term. Some participants also highlighted wider issues with trust in financial services, with a few mentioning previous mis-selling scandals, and scams in pensions specifically.

For those with defined contribution pensions not yet in payment, a major concern was working out how much they had and what their choices could mean for them in terms of income and capital outcomes. Even those with higher savings or confidence expressed worry about not being able to fully assess the results of decisions, in particular around market investment returns and tax implications. Difficulties with estimating outcomes with defined contribution pensions was a key concern for participant Elizabeth, 61 who had high pensions savings and high self-assessed pensions understanding.

Elizabeth talked at length about pensions being a part of the financial marketplace, and how, despite following the markets regularly, being good with numbers, and seeking Independent Financial Advice, it worried her that she could not know with certainty how her funds would perform. Elizabeth, who had experience of losing money on her original pension and on an endowment mortgage, said "what's right one year is not in another."

"Funnily enough, I find it very hard. I find it's a minefield actually having clarity on what my options are. There's no magic answer. I don't think there is, and I don't think there will be next year…I'm fairly okay with figures, but it's messy, so messy. You stick your finger in the air and hope."

Worries about estimating outcomes from defined contribution pensions were also raised by participants with lower levels of pensions understanding than Elizabeth. Often in these cases, difficulties with making sense of financial terms like compounding, interest rates and inflation, and the technical presentation of options in communications from providers, added to these anxieties.

"I find it's a minefield actually having clarity on what my options are."

People find estimating retirement income, especially from defined contribution savings, hard. Analysis of household surveys in England by the IFS in 2012 found that one third of those approaching retirement are unable to anticipate what their future retirement income might be - 46% can provide a range and 22% can give a precise figure. The study found that people found it harder to predict income from a particular pension if that pension was defined contribution rather than defined benefit. [36]

In this context, it was not surprising that whilst some participants said they were aware of the potential financial benefits of private pensions - one CAB volunteer called saving into a pension a ‘no brainer’ due to the tax relief - for many they were seen as difficult to control and effectively benefit from. This meant that for some, strategies to avert financial risk or loss in the future involved planning to move their money away from their pensions, for example into housing property which was often seen as more stable – ‘property is my pension’ was a phrase used by a number of participants. Saving accounts were also being considered by some as these were felt would be easier to control and access[37]. Both buying a home and taking out a saving account were regarded as attractive in comparison to pensions because they were seen to be easier to understand, but often this was not based on an informed evaluation of these different options. The following quotes provide examples of this thinking.

“I know some people would just abuse it [new pensions freedoms]. But if I took it out and put it in the bank, it would work out at 3% [interest]. If I put it in a bank, that’s near enough what the pensions people are offering. And at least it’s there. Say I die in five years. The children will be able to access that.”

Male, 63, retired, medium pension savings

“If I could get my money, I could buy a nice little terraced house. I could go out and work. I want to not think about paying rent and bills…Look at when [UK insurance company] went bankrupt. Nobody knows what’s round the corner. Bricks and mortar are more secure.”

Male, 52, recently redundant, medium pension savings

With regard to government changes, a frequently used phrase was that ‘goalposts keep shifting’. For example, difficulties keeping up with changes affecting tax implications of use of pensions savings were highlighted by some participants, in particular when discussing the new pensions freedoms, and pension scheme age was an area of confusion following government changes and problems understanding communications from providers, in particular for participants with multiple pensions with different providers whose policies varied.

Participants also said they found it hard to understand how the State Pension would work for them, which is not surprising in light of research which shows that self-assessed knowledge of State Pensions is very low[38]. In particular, for participants, expectations of timing and level of income from the State Pension was an issue often raised. Changes to

[36] *Expectations and experience of retirement in Defined Contribution pensions: a study of older people in England*, November 2012, Institute of Fiscal Studies (IFS).

[37] Similarly research undertaken by Tonbridge and Malling Citizens Advice Bureau with clients who had used the bureau’s debt services, found that ease of access was a feature that made short-term loans attractive. See *Easy money, hard times: analysing attitude and experience in short-term loan use*, November 2013, South East Consumer Empowerment Partnership Tonbridge and Malling Citizens Advice Bureau.

[38] See *Department of Work and Pensions Research Report No. 813, Attitudes to Pensions: The 2012 survey*, 2012. This survey found that nearly three quarters of 18 to 69 year olds stated that they either had patchy knowledge (37 per cent) or knew little or nothing (36 per cent) about the State Pension system.

State Pension Age (SPA), and the additional State Pension including retained rights to SERPS and lack of clarity about the planned introduction of the new Single-Tier State pension, were brought up by some as making planning difficult. Participants with higher knowledge and confidence mentioned difficulties working out outcomes of returns on National Insurance Contributions (NICs), and the number of qualifying years they needed, particularly with regard to policy changes where practical implications had not yet been clarified. This was the case for Amanda in relation to the recent announcement of planned changes to State Pension Age.

Amanda, 58, demonstrated knowledge and engagement about her State Pension decisions, and was very concerned about the impact of recent change in State Pension age on her plans. Amanda, had worked in a well-paid job at a multi-national technology company from which she had an occupational pension, before starting her own business in 2000. While she was self-employed she had started saving into a personal pension, which she had decided to stop contributing to last year, when she closed her company down. Amanda described how she had planned her finances so she could retire at 60. However, she was worried about how the recent change in State Pension age would affect her entitlement and plans:

"At the age of 58 I was led to believe I needed 30 years for the full pension. But now NICs have gone from 30 to 33 years. When I was planning, it wasn't for 33 years. I spent years caring for my parents and didn't register as a carer. I didn't think I needed to."

Amanda had tried to get information on what the change would mean for her. However, this had not helped her gain clarity, which had resulted in upset and anxiety for her.

"I understand from talking to the pensions service [that] they don't actually know the ins and outs."

3.4 Coordinating interacting financial decisions is difficult

A key finding from this research is that decisions about pensions are often made in the context of other financial decisions. Timing and coordination of these, and awareness and understanding of the interactions between them, are often complicated and hard to navigate.

CAB advisers described how the outcomes of some financial decisions, may be affected by access to capital, including pensions savings. Examples of such financial decisions included making claims for income-assessed benefits and managing debt by applying for debt remedies such as bankruptcy and Debt Relief Orders (DROs) or entering into repayment negotiations with creditors. However, from their experience of advising clients they felt that awareness of these interactions was low, and highlighted that the clients they saw often found them difficult to understand and coordinate. For example, rules on what gets treated as ‘notional income’ under Department for Work and Pensions (DWP) deprivation of capital rules, and under debt remedy rules, are complex and may need to be interpreted with reference to case law. Advice of benefit and money advice experts is often necessary to ensure the optimal outcome for the individual affected.

Advisers thought that the timing, clarity and quality of communications around these interactions could be improved. For example they described how implications for pensions choices were often revealed to clients in the course of an advice session on at first glance seemingly unrelated issues for their clients in particular benefits, and debt, divorce and other forms of financial settlements. They described cases they had seen of clients with low pensions savings seeking advice to understand why their Pension Credit was suddenly and unexpectedly stopped. It usually turned out that they had not been aware of the implications of their savings on entitlements, and had not received clear and sensitive explanation from the DWP about the cause of the changes to their Pension Credit. The experiences of participants Ahmed and Joanna illustrate these issues.

Joanna and Ahmed had both found out at the time of applying for income-based ESA and Pension Credit respectively that their pensions savings needed to be assessed under the DWP’s deprivation of capital rules. In Ahmed’s case this had not affected his income outcome, but in Joanna’s it had left her worse off than she had expected. In both cases they had not been aware of these implications and had been unsettled at finding out in the way they did.

For Joanna, experiencing a sudden financial loss in comparison to the income she had expected had caused her upset, anger and had resulted in a negative attitude to engagement in pension saving. She said, “I thought, if I’d known what I know [now] then, I wouldn’t have bothered joining it, or refused to go into it. I thought, because it’s a private pension it would be extra money in my pocket, that I could live comfortable. [I] thought that was the idea of having a private pension.”

Advisers suggested that in some cases these sorts of scenarios could be avoided by improvements to communications from the government, for example better explanations of the rules around the treatment of capital for means-tested benefits. They also highlighted the fact that coordinating these interacting decisions and estimating income could become more complex for people as a result of new pensions, welfare and social care reforms. For example, changes to marginal discount rates on income-assessed benefits, such as Housing Benefit, and pensions disregards arrangements under Universal Credit, are likely to impact on financial outcomes for individuals. Advisers were especially concerned about potential unintended consequences for people in debt, including potential risks of increased pressure from creditors and bankrupts trustees. Advisers highlighted the need for clear communication on the possible impact of these changes and their interactions.

Chapter 4: Finding a way through the maze: the role of advice and guidance

"… I don't like making boo-boos. I did that once before and I've learnt…That's why I always try to ask questions, put together, then make a decision."

Male, 66, long-term unemployed, undisclosed pension savings

A key finding from this research is that enabling people to make informed choices and plans is crucial for bridging the disconnect between the way the pensions system operates and how people actually think about older age and pensions. It was clear that participants wanted to be able to make well-informed choices that they felt confident would be right for them; many described seeking advice from a range of informal and formal sources to try to plug the gaps.

Commentators researching the pensions advice landscape note a continued shift for commercial providers from regulated financial advice, to non-regulated assistance with 'shopping around' such as online price comparison sites. It has been suggested that for people who cannot or choose not to seek regulated financial advice, impartial non-regulated "generic/simplified/basic advice"' could have an important part to play in addressing an identified "advice gap" for "lower-depth holistic advice"[39]. In this context the introduction of Pension Wise across a range of channels for people who will be affected by the pensions freedoms is a significant development.

To better enable people to make informed and engaged pensions choices we need to work out how to get the most from Pension Wise and also identify other aspects of advice and assistance that need consideration. This section therefore analyses participants' discussion of advice needs with implications for current and future provision.

4.1 Many turn to friends and family, but also need access to formal advice and guidance

Many participants said they spoke to friends, family or acquaintances with better knowledge about pensions to help them understand their options, and described how they often found out about policy changes and other news which could impact on their pensions and other decisions from this route. Participants also got information from media, news channels and online consumer forums. For example, one participant said she followed a few financial journalists on Twitter, as a way of finding out about pensions changes. Some were aware of the potential draw-backs of finding out about pensions in this way, such as the potential for bias or inaccuracy.

---

[39] *Researching the 'Advice Gap'*, March 2012*'*, Nick Hurman and Ian Costain, Financial Services Consumer Panel.

“I speak to friends and family. They tend to watch different news channels or read different papers, but they often only give personal opinion and feeling.”

Male, 59, medium waged, medium pension savings

While for many participants their first port of call or initial spark off for enquiry was often social connections or news, some participants described how they would sometimes follow this up or consider following this up with formal advice or looking up information themselves on the internet, as the following quote illustrates.

"I got a letter from them [pensions provider] this Friday. [I] asked someone I know who knows about pensions... [I said] can you read through, because to me it's all double-dutch... If I'm not satisfied I'll go to the Citizens Advice, to see what advice they can give me.”

Male, 66, long-term unemployed, undisclosed pension savings

This finding was reflected in the experiences of CAB advisers who described how clients often came to see them having found out about policy changes that could impact on their personal decisions through friends, for example at the pub, or via news on TV.
These findings highlight that whilst informal sources of advice and information are important to people - notably for finding out about policy changes that be relevant to them - people need access to formal advice that matches their needs and that they can trust given the complexity and range of important choices involved.

4.2 Formal advice and guidance needs to be centred around user needs

Centring formal advice and guidance around user needs involves careful consideration of appropriate channels, clear communication of the differences between regulated and other advice, trusted and impartial sources, and independent quality control of the advice and guidance on offer.

“There is no one solution. Each person is different, with different circumstances and different priorities. You need to fit the advice to the client”

CAB adviser, focus group participant

People need different types of advice and guidance and means of accessing them. Participants had a range of preferences for tailored information and advice including by type of channel, complexity of query, levels of confidence in understanding pensions information, and affordability.

“You need to fit the advice to the client.”

“Some people have telephone phobia, but as I say I’m quite happy to discuss, on the phone, a simple enquiry. If [I] want to clarify and don’t get the job done on the telephone, [it’s] nice to know [I] could go in and speak to someone face-to-face…CAB is a classic example of that – [you] can go in or call, either or.”

Male, 59, medium waged, medium pension savings

Some needed advice and assistance on their pensions choices, from understanding options and clarification of technical terms, to investment advice. Others needed help with making sense of their wider long-term financial planning. They often needed both.

However there was often confusion about where to go for what kind of advice. For example, many were unclear about what regulated financial advice involved, and some had not heard of it. Based on their experience of providing generic pensions advice including support with understanding pensions letters, CAB advisers stressed the importance of clearly delineating different types of advice, making clear the distinction between what they offer and regulated financial advice. They highlighted the increasing importance of signposting the different types of information and advice people might access, particularly in the context of Pension Wise.

Information and advice needs to be impartial, up-to-date and easy to apply to the context of an individual’s life. Some participants stressed that it was important for them to have facts rather than judgement and opinion due to the personal nature of their decisions, whereas others wanted active direction from a trusted source. A key concern was being able to ensure that sources of advice did not have vested interests or potential vested interests. For example, participants said they would not turn to their pensions providers for advice, with a few highlighting concerns that they could not ensure they would be impartial. One participant said:

“Basically [pensions provider] stick up for [pensions provider]. I need the right information and numbers.”

Male, 52, recently redundant, medium pension savings

CAB advisers emphasised that given the changing landscape and complexity of pensions choices, and decisions around them in thinking about older age, advice and information needed to be up-to-date and relevant to people’s queries about policy changes that might affect them. Advisers also expressed worry that with the introduction of the new pensions freedoms and guidance new scams might develop which people, especially those with specific barriers, could fall foul of unless appropriate action such as awareness raising was taken. It is therefore important to have quality controls such as training and auditing to ensure information given is up-to-date, accurate, factual, clearly communicated and confidential. In the field of impartial guidance Pension Wise is a particularly important development here, as it will be delivered to standards developed and monitored by the FCA[40].

A key requirement was that the source of advice could be trusted to treat them fairly and work to ensure the best outcome from them. Some participants mentioned as advice and

[40] *PS14/17 Retirement Reforms and the Guidance Guarantee, including feedback on CP14/11*, November 2014, Financial Conduct Authority.

consumer organisations as trusted sources. By contrast, there were concerns about financial advisers' independence from industry and the potential for seemingly unreasonable charges. Participants with financial advisers often said they trusted their own, but tended to express wider distrust in the profession in terms of independence from industry in particular. However, few were clear on the cost and benefits of seeking regulated advice. Among participants with low savings, those who knew about regulated financial advice said they could not afford to use it. CAB advisers thought that clients with smaller pots and often low levels of financial capability were not adequately catered for in the regulated pensions advice landscape for affordability reasons, despite their savings often being of high personal financial significance.

As participants described their preferences and need for different channels of advice, DIY tools for selecting products and providers were discussed at length as sources they were increasingly using and looking for. However, the proliferation of consumer websites, blogs, and product comparison tools were sometimes seen to make finding the right information harder. One participant said that despite often looking up information on pensions, he was worried about getting 'mis-directed'.

In spite of these difficulties many participants said they frequently sought information online from computers as well as digital technology. In this context, advisers highlighted the need for quality online information that is easy to find and follow, and that acts as a "trusted filtering mechanism". However, some on low incomes and with low savings said they needed face-to-face advice because they could not afford to have broadband and landline access at home and so could not use online or telephone advice.

In addition, those who felt less confident about their own understanding of pensions also wanted the reassurance of face-to-face discussions. Often they described needing help with understanding pensions letters and forms and gaining clarity on their options. Peter, who is dyslexic, described his needs for face-to-face advice including navigating and understanding his pensions information:

"I've never been, how do you say, into forms and paperwork. I am dyslexic a bit. I find it daunting… I can understand things, if someone tells me… I prefer face-to-face, seeing someone, showing things. It's that personal thing I like - when they can explain to you. On the phone I'd be lost, trying to find something here, a sheet there."

However, those with low confidence tended to also be those least likely to be able to afford financial advisers or any other type of fee-charging advice agency, thus access to free formal advice was crucial in ensuring these individuals made well-informed decisions.

Advisers also highlighted that those with disabilities may have different needs that must be considered.

"I've never been, how do you say, into forms and paperwork… I prefer face-to-face, seeing someone, showing things."

Participants with limited mobility for example said they needed access to telephone advice or outreach home-visits.

Conclusion

This research finds that people need to make sense of pensions to plan realistically for older age, to improve financial control and to make the right personal decisions. However, many people find this too complex and demanding to do alone.

With the build-up of policy changes over time, and with new changes just around the corner, the pensions system in the UK is likely to continue to be an ever more difficult maze to navigate.

The introduction of Pension Wise for all those who will be affected by the most recent set of reforms is therefore a positive move. We hope that this report shows how to help people get the most out of both this guidance and out of regulated advice. We also hope that the research indicates the potential for other measures for enabling and encouraging saving, and better informed decision-making.

Ultimately this research brings into sharp relief the increasing need for advice and guidance, and the need for a dynamic and user-centred approach to supporting people to make informed and engaged choices. Many people thinking about older age and pensions are facing increasing pressures on their time and their finances, alongside the often uncertain impacts of major reforms and social changes. They often struggle to seek advice or support when they most need it due to the pressures they were under.

It is helpful in concluding to return to the case of Stacey, who had attempted to access all her pensions savings after experiencing problem debt. She had not been aware of the terms of her pensions when she tried to do this, and had not thought through or sought advice on the implications for her entitlement to debt remedies and repayment negotiations with creditors. Stacey had felt unable to seek support at this time as a result of the demanding circumstances she was in:

"Well the difficulty has been being under so much pressure and stress. I haven't been able to think out things or get advice in the way maybe I should have. It was a case of survival I would say."

This case illustrates that people in financial difficulty or under financial pressure may struggle to prioritise thinking about pensions and longer-term financial planning for older age, and may therefore need support with debt management, employment issues, benefit claiming, and budgeting to be able to re-gain financial control, and the need for advice on pensions interactions.

We therefore need to need to make sure that everyone gets the advice or guidance they need, at the right time, and in the right way for them. The way people make decisions may not be linear, due to the range of issues they may be experiencing. The provision and promotion of advice that has quality controls, can be tailored, and is accessible and is trusted is therefore very important, and will only become more so as current and future pensions reforms take effect.

References

ABI retirement income statistics Q3 2014, Association of British Insurers (ABI)

Automatic enrolment, Declaration of compliance report, July 2012 – end September 2014, October 2014, The Pensions Regulator

Automatic transfers: consolidating pension savings, DWP, 2013

Budget 2014, 19 March 2014, HM Treasury

Citizens Advice management information, January 2011 to December 2013, Citizens Advice

Citizens Advice management information, January to March 2014, Citizens Advice

Citizens Advice management information, November 2013 – October 2013, Citizens Advice

Department of Work and Pensions Research Report No. 813, Attitudes to Pensions: The 2012 survey, 2012

Easy money, hard times: analysing attitude and experience in short-term loan use, November 2013, South East Consumer Empowerment Partnership Tonbridge and Malling Citizens Advice Bureau

EAST – Four simple ways to apply behavioural insights, April 2014, Cabinet Office, NESTA

Enabling and encouraging saving: the evidence around pension reform and saving, February 2013, Department of Work and Pensions

English Longitudinal Survey of Aging (ELSA), 2012

Expectations and experience of retirement in defined contribution pensions: a study of older people in England, November 2012, Institute of Fiscal Studies (IFS)

Family Resources Survey, Department of Work and Pensions, 2011-12

Freedom and choice in pensions, March 2014, HM Treasury

Freedom and choice in pensions: risks and opportunities, June 2004, Ben Franklin, ILC-UK

How complex are the decisions that pension savers need to make? November 2014, Daniela Silcock, John Adams and Mel Duffield, Pensions Policy Institute (PPI)

How pensions can help meet consumer needs under the new social care regime, May 2014, Institute and Faculty of Actuaries (IFoA)

Managing an age-diverse workforce: employer and employee views, March 2014, Chartered Institute of Personnel and Development (CIPD)

MINDSPACE – influencing behaviour through public policy, March 2010, Cabinet Office, Institute for Government

Nearly 1 in 4 lose track of pension pots, April 2013, Age UK news archive

New Money Advice Service financial adviser directory gets the green light, Money Advice Service press release, August 2014

Old Age in English History: Past Experiences, Present Issues, 2000, Professor Pat Thane

Politics and pensions in post-war Britain, 2006, Dr Hugh Pemberton, Policy papers, History & Policy

Private pension wealth among 55-64 year olds in the UK, Dr Paul Cox, published by NEST

PS14/17 Retirement Reforms and the Guidance Guarantee, including feedback on CP14/11, November 2014, Financial Conduct Authority

Researching the 'Advice Gap', March 2012*'*, Nick Hurman and Ian Costain, Financial Services Consumer Panel

Retirement choices: baseline to measure effectiveness of the code of conduct, results from consumer research, May 2013, ABI.

Our aims

- Provide the advice people need for the problems they face.
- Improve the policies and practices that affect people's lives.

Our principles

The Citizens Advice service provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. We value diversity, promote equality and challenge discrimination.

Produced by Alev Sen.

3rd Floor North
200 Aldersgate
London EC1A 4HD
Tel: 03000 231 231

www.citizensadvice.org.uk

Citizens Advice is an operating name of
The National Association of Citizens Advice Bureaux.

Registered charity number 279057
Published March 2015