

Life after pension choices

Consumer reflections
on pension freedoms
and thoughts on the
future



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Summary

The pension freedoms introduced in April 2015 gave around 4 million consumers flexible access to private pension pots. Next year a further 5 million existing annuity holders are set to become eligible for similar freedoms. In this report, we focus on consumers' reflections after using the new freedoms and their thoughts on future choices. This is the third report in a series exploring how pension freedoms are affecting consumers in the context of their broader lives.¹



Our research shows that pension freedoms have been popular. Consumers are happy to have control over their finances and are making their savings work better for their circumstances. In total, 35% of consumers who have used the freedoms say they have directly improved their own retirement prospects, with more saying they welcome the change despite not using it themselves. Just one in twenty (5%) say the freedoms have harmed their prospects.

Initial evidence allays earlier concerns that consumers would spend their pensions on luxury sports cars. Instead, consumers are likely to use their money for practical considerations such as savings (29%), daily living costs (29%), investments (18%) or paying off debts (16%). Just over one in five (22%) expect to use their pensions for luxury spending.

Our analysis shows that the way people approach retirement and pensions was already changing before the freedoms took effect. By 2014/15, 1.1 million people aged over 60 were both in work *and* drawing pension income. This has almost doubled (up by 0.5 million) over a decade and is likely to increase further as a result of the freedoms. Our research has identified three particular features of the new freedoms.

Consumers are facing unexpected tax and welfare losses. One in eight (12%) consumers had *unexpected* income effects related to tax or welfare payments (this does not include others who were expecting such effects). Our interviews showed that issues such as emergency tax codes and deprivation of capital rules can affect budgeting and create problems in people's broader lives.

Many consumers are transferring their savings into bank accounts. This is the joint most popular option (29% of all consumers) and is taken by a third (32%) of those

¹ The previous reports are: Citizens Advice, [Approaching Retirement](#), December 2015 and Citizens Advice, [Drawing a Pension](#), June 2016.

with pensions worth over £100,000. This may become increasingly common as a result of uncertainty about financial markets and annuity rates following Brexit.

Most consumers have not got a plan to fund future care needs, even after they have accessed their pensions. Our research shows that more than three in five (61%) have not got any plan of how they would fund their care costs. But today around half of older adults have care needs.

To ensure that the freedoms work for as many consumers as possible, we make the following recommendations:

- **The FCA should review whether warnings are being *targeted* well enough.** Consumers accessing more than their tax free lump sum should be given or signposted to further information, as should those receiving welfare payments.
- **The government should ensure that consumers can access good quality guidance and advice after they have made their first pension choices.** This should involve promoting second Pension Wise appointments and building greater flexibility in the service.
- **Consumers should be encouraged to consider future care costs.** Local authorities and others must ensure that people are made aware of how the care system works at key life stages such as making pension choices.
- **Pensions providers should adopt the Association of British Insurers' pension language code.** Our research shows consumers would be more confident with future choices if pension language were clearer and more consistent.

Method

All data in this report is from two sources unless otherwise referenced. The first is a series of qualitative depth interviews with twenty consumers who accessed their Defined Contribution (DC) pensions for the first time after April 2015. Citizens Advice research staff conducted these in February and March 2016.

The second is a survey by ComRes of 501 British adults aged 55+ who accessed their DC pensions after April 2015. Fieldwork was conducted online from 17 March - 1 April 2016. ComRes is a member of the British Polling Council and all figures used in this report are available on the ComRes website. Our sample frame sought to ensure that the incomes and working status of respondents were consistent with research conducted into this by organisations including the FCA and PLSA through the use of target quotas on variables including household income and retirement status. The survey reached a good mix of respondents by variables including age, gender, working status and household income.

In Chapter 3 we present new analysis of the Family Resource Survey comparing 2004/5 with 2014/15 and new analysis of Citizens Advice management information.

Citizens Advice delivers Pension Wise guidance on behalf of the Department for Work and Pensions (DWP). This report reflects the views of Citizens Advice as a consumer champion in the financial services market, and not those of DWP or Pension Wise.

Chapter 1: Consumer reflections on pension freedoms

The full implications of the recent pension freedoms will not be clear to consumers, pension companies or policymakers for some decades. Rather than modelling potential scenarios, we seek to understand consumers' short term reflections after accessing their savings to identify early indicators of how the reforms are working. Some are aware that their long term views may be different to their initial feelings.

"I'm as happy as I can be, given I don't know the overall outcome yet. We've got a solid plan but time will tell whether we've made the best choices."

Satisfied Consumers

The consumers we interviewed are generally happy with the pension freedoms. Some feel they have directly benefitted. Others have not used them but either feel glad to have had more choice or feel that the freedoms are positive for others. We asked whether the freedoms had affected individuals' own outlooks. More than one in three (35%) say the reforms have directly improved their retirement prospects, while just one in twenty (5%) say they have made them worse off.

Consumers are more likely to feel that the freedoms have directly improved their retirement prospects if they are younger, have larger pots or higher incomes. For example, 42% of respondents aged 55-59 feel better off thanks to the freedoms, compared to 29% aged 65-70. Consumers using drawdown products or taking more than their tax free lump sum are also particularly likely to say the freedoms have benefitted them (57% and 58% respectively, compared to 35% overall).

Those who feel better off most commonly cite having more control over their money (77%) as a reason, as shown in Figure 1 below. This was a prominent feature of our interviews, where consumers often referred to general control as the most important benefit.

"This is the only thing the government has ever done financially that will actually benefit me. It's wonderful, I have control of my money."

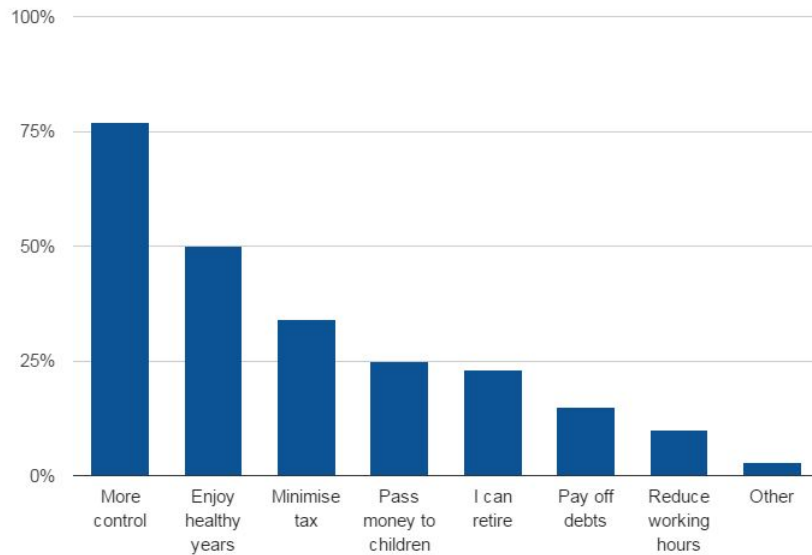
"It's given me peace of mind that it is safe, and that when I want it I can access it easily."

Other common reasons include being able to make the most of healthy retirement years (50%) and minimising tax (34%). Paying off debts is a less common reason (15%) but can be crucial for those affected.

"The new legislation is fine for people like us. It does us a favour. My idea was to get the money out of there as tax-efficiently as we could."

“Without the pension changes I would have gone bankrupt, I had no chance in hell of getting anywhere. It was such a relief that they made that change...what else would I have done?”

Figure 1: Reasons why consumers are happy with freedoms



No difference

The majority (52%) of consumers say that pension freedoms have not affected their prospects. Some feel the freedoms have made no difference to their prospects because they had accessed their savings in a way that would have been possible before the freedoms, such as buying an annuity. Indeed, just 18% of those who purchased an annuity said the freedoms had improved their prospects. Some who didn't use the freedoms still recognise that they will be good for others.

Our interviews also reveal that some consumers - particularly those who engaged after seeing press coverage of the freedoms - didn't directly see themselves as better off because they hadn't considered the counterfactual of what they would have done without the freedoms. This can be despite using the freedoms and being happy with the outcome.

“I tend to worry about things like the markets so for me it's a lot better to have things sorted and get an annuity. It may not have been the best decision financially in the long run but for me it was the right decision.”

“I think it's important for people to have as many options as they can, and even though I didn't actually use any of the new options I think it's good.”

Worse off

A minority (5%) of consumers say that pension freedoms have made their retirement prospects worse. In some cases consumers have negative reflections on the process

(such as having experienced delays) while in others they are more concerned about the outcome (such as the potential for running out of money).

“I got the money in the end, but if I’d known how much faff it would take... and all of the delays I would have just taken the money from other savings.”

Some had concerns for other consumers regarding pension scams and nuisance calls, which we have found to be a widespread problem.² Others expressed concern that people may run out inadvertently, or maybe deliberately in an attempt to draw from the state.

“I’m very happy with how I’ve taken the money, but the freedoms should be treated with caution. My friends have been inundated with phone calls.”

“I’m not sure that a lot of people fully understand their options, and I don’t know that they’ve been particularly well explained generally.”

Unexpected outcomes: Tax and benefits

While the full effects of pension freedoms will take years to emerge, a minority (12%) of consumers experience immediate and *unexpected* tax or benefit implications. These can include falling foul of deprivation of capital rules around welfare entitlement or facing unexpected tax deductions.

While most consumers have had the tax treatment they expected, 9% of consumers had unforeseen tax problems, including 30% of those who took their whole pot in one go (these figures exclude consumers who knew they would have tax or welfare implications). While some - particularly those still in work or claiming multiple pensions - feel that complications are inevitable, others feel confused and frustrated.

“My provider’s tax calculator was very good - it was almost the pound what they said it would be after tax.”

“They told me about the tax on the pension but what I possibly wasn’t aware of was that they would look at my other income and put me on emergency tax because it looked like my income was going to be much higher.”

Also, 6% of consumers face unexpected benefit problems, such as a reduction in welfare payments or losing eligibility entirely. This affects a greater proportion of those with lower pension savings (including 11% of people with pots worth less than £20,000).

“If I end up with more than £6,000 at any time the DWP will suspend my Employment Support Allowance, so I’ve got to be careful.”

² See, for example, Citizens Advice, [Too good to be Too good to be true? Understanding consumer experience of pension scams a year on from pension freedoms](#), March 2016.

Of those with unexpected tax or benefit problems, two thirds (64%) have been able to resolve them. And the majority of these found it simple to do so.³

“I got £3,000 less than expected but I saw on my provider’s website that if you’ve not got as much as you asked for it is probably emergency tax. I downloaded a form and then got the money back from the tax man.”

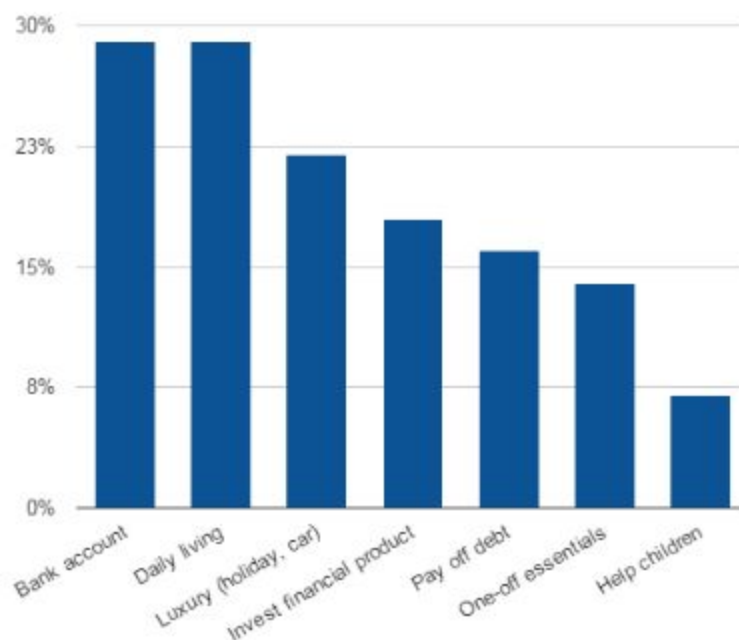
So overall, 3% of consumers have unexpected tax or benefit problems that have not been resolved. This suggests the system is generally working, but that communications should be improved to reduce the number of consumers facing unexpected outcomes. Certain groups are particularly vulnerable. The FCA should review whether warnings are being *targeted* well enough. Consumers accessing more than their tax free lump sum should be given or signposted to further tax information, covering both the basic principles behind pensions taxation as well as practical details, such as around emergency tax codes and how to claim rebates. A similar approach should be taken to people in receipt of welfare payments.

³ 87.5% of consumers who have been able to resolve their problem said it was ‘simple’ to do so.

Chapter 2: How consumers are using their money

The freedoms are designed to give consumers more choice over how they access their pension savings and, ultimately, how they spend them. As Figure 2 shows, consumers are planning to use their pensions in many different ways.

Figure 2: How consumers plan to spend their pension savings



Putting pension savings into a bank account is the joint most common way that consumers expect to use their pension savings (29%, level with spending on daily living costs). This option is not just favoured by those with small pots. In fact, almost a third (32%) of those with pots worth over £100,000 are putting their pension in a bank account. Consumers in our interviews cited benefits of bank accounts such as being trustworthy, not having fees and offering easy, immediate access. Some noted drawbacks that they may offer less growth and aren't as tax efficient as other options.

This trend of transferring pension savings into bank accounts is partly a response to low annuity rates and perceived risks of investing in financial markets. So with increased uncertainty in markets following Brexit, this could become an increasingly popular option.

"I've put my money in a savings account which I realise an adviser might not say is the best thing to do. I get about 1% on the current account but I'm not paying a management charge for that. My focus was to keep it safe."

"I haven't used it at all yet, it's just in my savings account. I did take it out thinking I might need to top up my income, but I've managed to cut back."

One concern around the introduction of pension freedoms was that consumers might spend retirement savings on luxury items such as sports cars.⁴ But our research shows that this is a less common route, with just over one in five (22%) planning to spend their pensions on luxury goods. In general, consumers plan to spend their money with more practical considerations, such as on daily living costs (29%), paying off debt (16%) or investing their money (18%). Despite this, it is also important to be aware that some consumers who are solely spending their pensions on daily living costs could be overspending and may later exhaust their private savings.

“I took two grand because I needed a new boiler, and the rest of it has gone straight to the mortgage. I knew I needed to get one because it was old, and I was thinking of how to do it.”

“We have treated ourselves to a holiday with the family and bought a new car. We needed one and it’s nothing too flashy.”

But overall, rather than being too risky with savings, it is possible that some consumers are being too cautious and could achieve better retirement outcomes by using their money in other ways. Many consumers value certainty over financial optimisation and the pension freedoms allow them to choose how to achieve this best. The key here is that consumers make *informed* choices when trading issues such as compound growth or investment returns for security or flexibility.

⁴ See, for example, This is Money, [That's a lot of Lamborghinis! Pensioners withdraw more than £2bn in first six months of new freedom rules](#), October 2015.

Chapter 3: Issues in the first year after accessing pensions

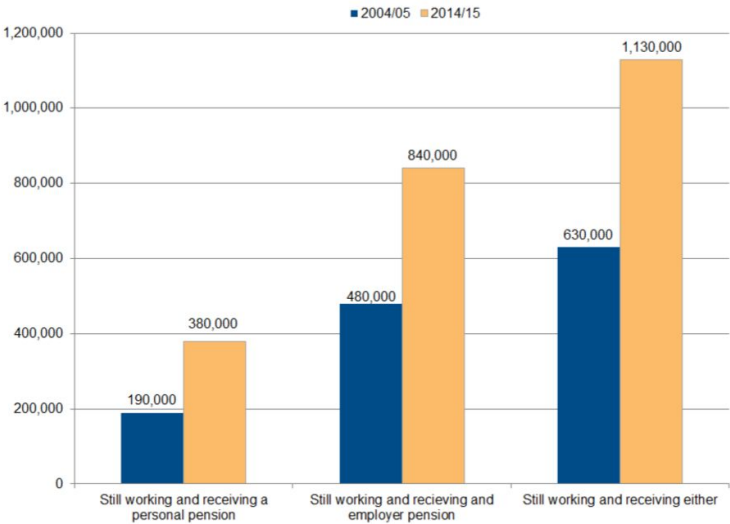
Retirement has traditionally been seen as a combined process of stopping work and drawing a pension. But following demographic shifts and new government policies,⁵ the transition has become increasingly blurred. While half (52%) of consumers accessing DC pensions in our survey are retired, more than four in ten (42%) are still in or seeking work.⁶

Changing approaches to pensions and retirement

Our new analysis of the Family Resource Survey shows a growing trend of people working and using pension income. Between 2004/05 and 2014/15, the number of people working past 60 increased by 1 million, to 2.6 million.⁷ Many of these access pension savings while in work. The number of people working *and* taking income from a pension has risen nearly twice as fast (by 80% compared to 46%) as the over 60 working population as a whole over ten years.

As Figure 3 shows, 1.1 million people are now both working past 60 and simultaneously receiving pension income, up by 0.5 million (and almost doubling) since 2004/05. This data covers the decade immediately before pension freedoms were introduced, so the recent rise is likely to be even sharper than this.

Figure 3: Change in people working and receiving pension income



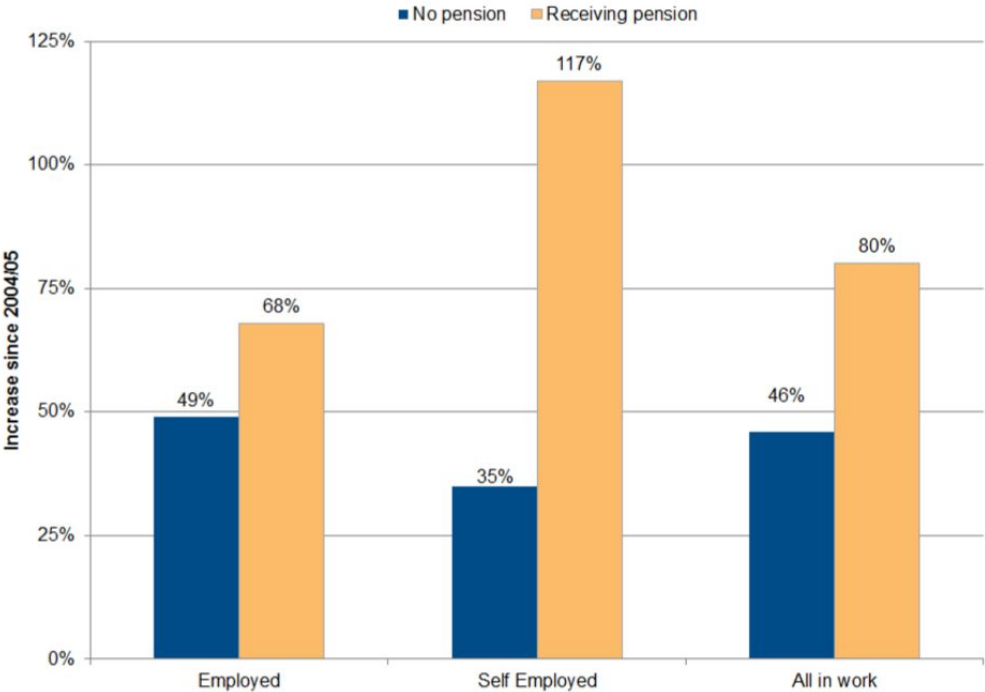
⁵ Policies such as ending compulsory retirement, introducing pension freedoms and increasing the state pension age have all changed the nature of retirement.

⁶ This includes 22% working full time, 17% working part time and 3% actively seeking work.

⁷ The increase is from 1.66 million to 2.63 million. In the same period, the number of people working past 50 increased by 1.9 million, to 8.9 million.

This shift has been particularly striking amongst self-employed people. Figure 4 shows a 117% increase in the number of self-employed people receiving pension income (compared to 80% for all workers). Some are making positive choices to change their careers or reduce their hours, whereas others may be using pensions to top up declining self-employed incomes (potentially as a result of falling out of employed work). We will explore this further in future.

Figure 4: Change in people working with and without pension income



Some consumers are paying into one pension while drawing from another. This can be for a variety of reasons, such as wanting to use existing pension savings to cover up front costs or to be tax efficient. It is likely to become increasingly common as a result of recent policies both on automatic enrolment and on pension freedoms. One consumer we interviewed took a lump sum to pay off his mortgage so he could cut down his hours and change jobs. In his new role he started a new pension saying “throughout my working life, I’ll take the free money if I can get it.”

Managing finances and other issues in the first year

A further consequence of the overlap between work and pension incomes is that accessing a DC pension for the first time is not an end to complex financial choices. If anything, consumers can face increasingly complicated questions about their finances and broader life choices. Consumers who have used pension freedoms and still have savings invested - such as those who have just accessed a tax free lump sum or bought a flexible drawdown - are taking different approaches.

Our qualitative research shows that some expect to review their savings frequently (such as every month) or after a year, while others expect only to review them when

they next need money or face a key life event. Some have advisers and pre-made plans (such as to remove a certain percentage each year or to stay below a higher tax bracket). When reviewing, consumers are interested both in the performance of their drawdown products and the charges applied to them.

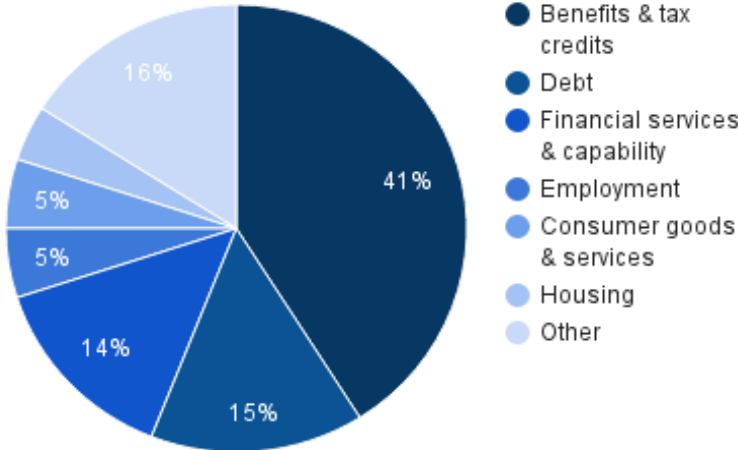
For some, monitoring stock market and pension performance is enjoyable and an interest they want to pursue in retirement. For others it can be stressful, and some consciously avoid this by opting to take their pension as cash or an annuity.

“I’m not going to look at anything for a year. I’m sick of pensions now and I don’t want to start worrying about every change in the market. I will look at the first annual statement, how the investment has done and the fees.”

Issues consumers are considering alongside pension choices

Our Citizens Advice management information can give an insight into the kind of issues consumers are dealing with alongside and after considering their pension choices. We record the different issues that our clients seek advice on, including Pension Wise appointments delivered on behalf of the DWP.

Figure 5: Issues raised with Citizens Advice at least two months after Pension Wise appointments⁸



To understand what issues consumers are facing, we have cross referenced issues that clients seek help with at least two months after they have visited Pension Wise (this excludes appointments booked immediately after their guidance session). These issues are detailed in Figure 5 above. Benefits and tax credits are the most common (41% of all issues). Within benefits, Employment Support Allowance (ESA) and Personal Independence Payment (PIP) are the most frequent issues. This suggests that people are dealing with health issues as well as their pensions and that, for many, health is closely linked to financial and retirement considerations. Debt and financial capability

⁸ In total, one in twelve (8.5%) clients who came to Pension Wise in June 2015 visited Citizens Advice again for support with other issues between September 2015 and March 2016 inclusive.

both feature prominently (15% and 14% respectively), showing further how pensions interact with other financial considerations in people's lives.

It is important that support services reflect the growing period of transition between work and retirement that many consumers are experiencing. The government should ensure that consumers can access good quality guidance and advice after they have made their first pension choices. This should involve promoting second Pension Wise appointments and building greater flexibility in the service. So for example, a client accessing a lump sum at 55 to pay off a debt could also have another appointment aged 60 when looking to cut down their working hours.

Chapter 4: Plans for the future

Many consumers will still have significant financial and lifestyle choices to make more than a year after first accessing their pensions. Financial choices include how to access remaining DC and defined benefit (DB) pension savings. These are closely linked to lifestyle choices, such as when to retire or cut down work and how to spend the additional free time that retirement brings.

A third (32%) of consumers say they have crucial DC pension choices still to make after first using pension freedoms. This includes those who have just accessed a tax free lump sum and those with additional unused pension pots. Some expect to make different choices in future because their circumstances will be different.

“I will probably get an annuity when I eventually retire. So that would be the time I’d have to be getting money in every month.”

As we established previously,⁹ DC pensions are just one form of retirement income for consumers. Some in our interviews expressed confusion around the state pension, both regarding how much they will get and when they will get it. This can make it harder to plan. Some consumers with DB pensions also expressed similar concerns about knowing when to access their pensions and how much they would be worth, noting the interaction with DC pension choices.

“We both have a couple of years shortfall away from the full state pension. We phoned up to find out how we could top up, we were told to wait a little while because it’s all going to change.”

“At the moment they’re saying it [the state pension] is something like £155, but nobody knows for sure. You do think about it as much as you can but obviously in six years it could have all changed again.”

Future care costs

Care costs can place significant financial pressure on people in later life, but most haven’t got a plan of how to fund these. Currently, around 4 million older people, nearly half the over 65 population, have care needs.¹⁰ The government plans to introduce a cap on later life care from 2020 so that people don’t pay more than £72,000 for their care. When trying to budget for potential future costs, consumers face uncertainties over their health, life expectancy, government policy and future market conditions.

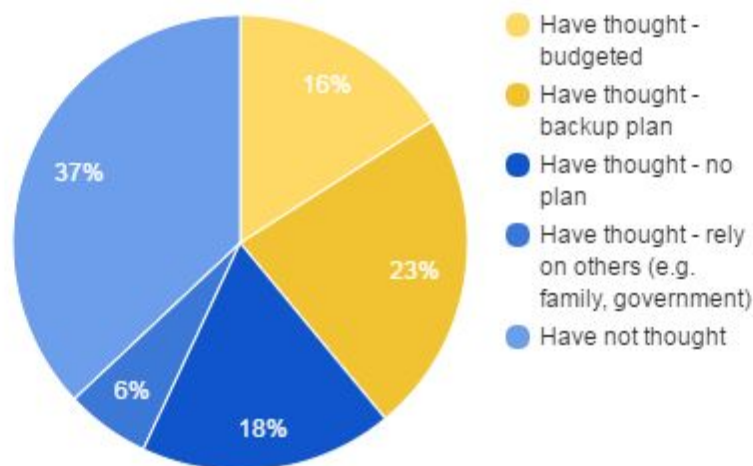
⁹ See for example, Chapter 2, Citizens Advice, [Approaching Retirement](#), December 2015.

¹⁰ This figure is likely to grow as life expectancies continue rising. See BBC News, [How the cap on care works](#), July 2015,

“Care is a constant worry as with my recent jobs I’ve been working with that age group. The government was talking about a £70,000 cap but I don’t even know if that went forward, so it’s hard to know what to do.”

Our research shows that the majority (61%) of consumers accessing their pension have not got a plan for how they would fund future care needs. These are shown in blue in Figure 6 below. The remaining 39% in yellow have got either an active plan (16%) or a backup plan such as equity release or downsizing (23%).

Figure 6: Consumer plans to fund their retirement



Of the consumers without a plan, most (37% of all) have not thought about care costs. Some simply do not want to think about the costs, which can feel uncertain and distant compared to more pressing financial considerations. Others say that while they didn’t consider care when accessing their pensions, they would do so at later points in life such as if their partner died or their health changed. The remainder have considered costs but don’t know how to meet them (18%) or expect others to pay for them (6%). This can be because they have low levels of savings or because they expect to get support from others.

“I haven’t thought about it because either you die or it’s life changing in care, I just don’t want to think about it. We’re just going to trust whatever state medical support we can get.”

“We know we’d have to fund it ourselves. But once you know that you tend to put it to the back of your mind. We don’t feel we’re close to having to consider care yet, but it’s famous last words.”

Almost one in four consumers (23%) have an idea of how to fund care as a last resort. In some cases a last resort option is not problematic - such as for people without dependents - but for others this prospect can be stressful.

“We’d sell the house if we had to. We’d always planned to pass it onto our daughters but we’d have to use that if it came down to it.”

“I haven't worried about care costs because I haven't got any dependents. I have got the value of my house to fall back on and I haven't got to worry about leaving it to anybody.”

Other consumers (16%) have made active plans. Our qualitative research shows that in most cases these are financial, such as getting insurance or designating specific savings for later care. In other cases, though, some have taken other measures such as adapting their homes so they can defer the prospect of moving into residential care.

“We inherited some money and decided not to touch it and leave it for if we end up in care. So we can enjoy our other savings now. If we don't need it, it will go to our kids which is a bonus.”

“I'm paying for medical insurance at the moment, and I've always got the opportunity of a property sale if things get really bad.”

The low levels of planning for care suggested that more work is needed to help consumers with these complicated decisions. Our previous research on The Four Advice Gaps shows that people are most likely to engage with planning for future financial events at key life events.¹¹ For example, almost four in ten people would have taken money advice when divorcing or following a bereavement had they been offered it.

Pension Wise covers care briefly but could offer stronger referrals to other more detailed sources of information. Local authorities and other organisations could do more to ensure that people can access information about how the care system works at that this is integrated with a referral system to other services.

Support with future choices

We asked consumers who still have key DC decisions ahead what would help them make these choices. The most popular was more guidance (33%), followed by product comparison tools (26%) and financial advice (22%). And in total over a quarter (26%) of consumers said that they would benefit from clearer or more consistent language around pensions (chosen by 22% and 12% respectively).

“I had three pensions I was looking at but it was just such a minefield reading through all of the documents that I only used one in the end. It would have really helped if they'd been presented in the same way.”

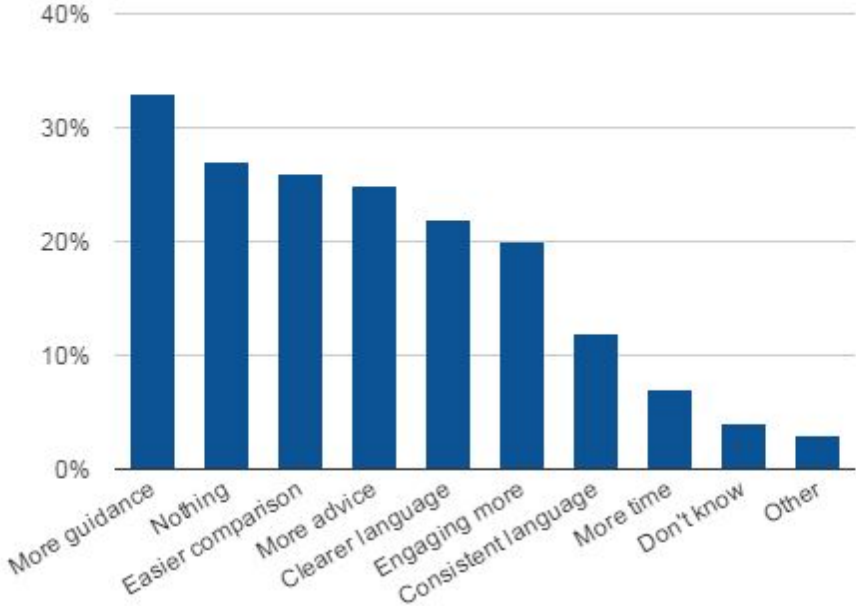
“I just wanted some help with taking money to pay off my debt. They [guidance provider] went through all of the other details but when I come to accessing the rest of it [pension] when I retire it would really help to go through the other options again.”

¹¹ Citizens Advice, [The Four Advice Gaps](#), October 2015.

As well as promoting more responsive guidance as discussed in Chapter 3, clearer and more consistent language would help consumers with their pension choices. The Association of British Insurers has produced proposals based on user research for how providers, and anyone else communicating with consumers, could implement clear and consistent language.¹² This will be particularly beneficial for consumers who have multiple pensions with different firms. Providers and the wider pensions community should follow this lead and adopt clearer and more consistent language to help consumers engage more confidently with their pensions choices.

Language should be addressed alongside other improvements that we have called for previously. These include improving adviser directories to help more consumers access financial advice (more advice in Figure 7) and helping consumers shop around more easily with digital tools (easier comparison).¹³

Figure 7: What consumers believe would help with future pensions choices



¹² Association of British Insurers, [Making Retirement Choices Clear](#), April 2016.

¹³ For better directories to financial advice see Citizens Advice, [The Affordable Advice Gap](#), October 2015. And for an independent comparison tool for drawdown products see Citizens Advice, [Drawing a Pension](#), June 2016.

Conclusion

Our research shows that consumers are generally happy with the introduction of pension freedoms and are spending their savings on practical considerations. The process of drawing a pension is becoming increasingly complex - both in terms of having more choice over how and when to access them, and how to balance these with other choices. Many consumers face decisions over a number of years. Growing numbers are working and drawing from a pension simultaneously, and this is going to increase as a result of auto-enrolment and pension freedoms.

To ensure that freedoms work for as many consumers as possible, we make the following recommendations:

- **The FCA should review whether warnings are being targeted well enough.** In particular, consumers accessing more than their tax free lump sum should be given or signposted to additional information, as should those already in receipt of welfare payments.
- **The government should ensure that consumers can access good quality guidance and advice after they have made their first pension choices.** This should involve promoting second Pension Wise appointments and building greater flexibility in the service.
- **Consumers should be encouraged to consider future care costs.** Pension Wise covers this but could offer stronger referrals to other more detailed sources of information. Local authorities and other organisations must do more to ensure that people are made aware of how the care system works at key life stages to promote informed choices.
- **Pensions providers should adopt the ABI's pension language code.** Our research shows that consumers want clearer and more consistent language around pensions.

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Published August 2016

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Registered charity number 279057.