Retirement Language – Analytical Report

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Contents

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This report is divided into three main sections – outlining the overall principles of communicating about the new pension options with consumers, key overarching messages that must be relayed and then the details on each individual option:

Aims and methodology

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This project has one overarching objective: to improve the language used to talk about retirement options for pensions so that they are clearer, easier to understand and more consistent.

Long-term planners: 12 focus groups of 8-10 people

London, 7/12/15
Glasgow, 8/12/15
Manchester, 9/12/15
Birmingham, 14/12/15
Belfast, 11/1/16
Cardiff, 13/1/16

Focus groups have been grouped on the basis of age, financial sophistication and size of pension pot.

Short-term planners: 24 depth interviews

London, 8/12/15
Glasgow, 9/12/15
Belfast, 12/1/16
Cardiff, 14/1/16

IDIs have been conducted on the basis of financial sophistication and size of pension pot.

Audience definitions

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Long-term planners: 12 focus groups

Long-term planners are defined as people who are still some way from retirement – they are at least more than six months away from their expected retirement date.

Long-term planners are divided into three categories in this research:

a) *People aged 22-39 (not yet retired)*
b) *People aged 40-54 (not yet retired)*
c) *People aged 55-64 (not yet retired)*

Short-term planners: 24 depth interviews

Short-term planners are defined as people who are close to retirement, either because they are within six months of their expected retirement date or because they have retired within the last three months.

Short-term planners are divided into three categories in this research:

a) *People aged 55-64 (about to retire*)*
b) *People aged 55-64 (recently retired**)*
c) *People aged 65+ (recently retired**)*

**within the next six months*
***within the last three months*

Financial sophistication

Research participants have also been categorised according to levels of financial sophistication, on the basis of a relatively simple calculation about interest rates. Participants are categorised into two categories:

a) High / medium financial sophistication*
b) Low financial sophistication

**Throughout this research, "high financial sophistication" has been used as a shorthand description of this for the attribution of quotations from the research.*

Terms tested (1/2)

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Take the whole of the fund
Take your whole pot as cash
Cash in your entire pot
Get your retirement savings paid as a single lump sum
Take all your remaining money out of your pension pot as a single lump sum
Close your pension pot and withdraw it all as cash
Cash in your entire pot – may be subject to a considerable amount of tax

Take cash in chunks
Take small cash sums
Take the money as a series of cash lump sums
Take cash from your pension in a number of lump sums
Take Uncrystallised Funds Pension Lump Sums (UFPLS)

Get an adjustable income
Use your pot to provide a flexible retirement income
Use flexi-access drawdown
Get flexible access to your retirement savings – take the income you need, when you need it
A flexible income you can change to match your needs
Invest in a drawdown product
Take a flexible income using pension drawdown

Terms tested (2/2)

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Use your pot to buy a guaranteed income for life – an annuity	Mix your options – you can mix and match as you like	Leave your pension pot untouched
Buy an annuity	Mix and match – use a blend of secure and variable income	Leave your whole pot untouched
Receive a set amount of income for life	Phase your retirement – by dividing pensions and taking income at different times	Leave your money where it is and make your choices later
Get a lifelong, regular income	You can mix any of these options at different times in your retirement	Leave it for now – keep your savings where they are and give them a chance to grow
Use your retirement savings to buy an insurance product that guarantees to pay you an income for the rest of your life	You don't have to choose one option – you can mix them over time or over your total pot	Leave your money invested in your pot until you need it
Get a secure income that is paid for the rest of your life and will never run out	Take a mix of cash and income at different times to suit your needs	Leave it for now – defer your pension

A. EXECUTIVE SUMMARY

Confidence and concerns

UNDERSTANDING AND CONFIDENCE

Overall understanding and confidence around pensions is low, with very low awareness of the new pension freedoms. **Pensions language should therefore be accessible, reassuring and not suggest any expectation of prior knowledge.**

Individuals rarely understand personal control over pensions and tend to think that pensions will happen to them. **It is therefore important that language conveys personal responsibility while not being alarmist.**

CONCERNS

As a result of low baseline trust in pension providers, people tend to have three primary concerns regarding different pension options:

- Tax that will be liable with each option;
- Fees incurred for pursuing each option;
- Inheritance, and what happens when the pension-holder dies.

Communications should address these issues to avoid being distrusted and ultimately disregarded.

Recommendations (1/2)

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1. Take your pension pot in one go

You can take the whole amount as a lump sum in one go if you wish, subject to tax and fees.

Explaining the option:

- Explicitly refer to the tax implications of the option
- Provide clarity on the fees to which this option would be subject
- Avoid references to cash
- Emphasise that once the pot has been spent, it is used up.

2. Take your pension pot as a number of lump sums

You leave your money in your current pension pot and take lump sums from it when you need it.

Explaining the option:

- Explicitly refer to the tax implications of the option
- Provide clarity on the fees to which this option would be subject.
- Explain the rules regarding frequency and number of withdrawals.
- Avoid references to cash,
- Emphasise that once the pot has been spent, it is used up.

3. Get a flexible retirement income

You convert all or some of your pension pot into an investment specifically designed to provide an income.

Explaining the option:

- Differentiate drawdown and annuities
- Provide greater transparency regarding how this option works, specifically emphasising the nature of the investment and the tax implications are clarified
- Emphasise the risks of this approach, which are not always immediately obvious to people
- Outline the advantages of this approach, particularly in terms of flexibility.

Recommendations (2/2)

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4. Get a lifelong, regular income

A lifelong annuity provides you with a regular retirement income for life – with the guarantee that the money won't run out before you die.

Explaining the option:

- Differentiate annuities from drawdown options
- Clarify the guaranteed (and low-risk) nature of annuities
- Be clear about the process of how retirement savings are converted from a pension pot into a regular income
- Address concerns regarding early death and the implications of this for partners / next of kin.
- Address the effect of inflation on an annuity.

5. You don't have to choose one option – you can mix them over time or over your total pot

You don't have to choose one option – you can choose from a variety of options as you like, and take income or lump sums at different times to suit your needs.

Explaining the option:

- Relate explicitly and clearly to all of the other options
- Clarify advantages of using this option
- Identify how to take up this option
- Encourage individuals to consider professional advice before mixing options.

6. Keep your retirement savings where they are

You can delay accessing your pension pot beyond your selected retirement date, or your scheme's normal retirement date.

Explaining the option:

- Address reasons for using this option, stressing the advantages of leaving the pension untouched.
- Clarify on the rules relating to leaving the money untouched – specifically in terms of the length of time for which this money can be left.
- Explain what happens to the money in the event of the death of the pension holder.

Key terms

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TERMS THAT SHOULD BE USED

Lump sum

A number of lump sums

Flexible retirement income

Lifelong, regular income

Guaranteed income

You don't have to choose one option

Leave your money where it is and make your choices later

Untouched

Give your money a chance to grow

TERMS THAT CAN BE USED IF EXPLAINED

Defined Benefit

Defined Contribution

Pot / Pension Pot

Series

Invest / re-invest

Annuity

Secure and variable income

Take a mix of **cash** and income

TERMS THAT SHOULD NOT BE USED

Taking cash

Chunks

Small lump sums

Uncrystallised Pension Funds Lump Sum

Flexi-access **drawdown**

Fund

Adjustable

Buying a product

Phase your retirement

Mix and match

Blend

Defer

Terms not to use

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Reasons for not using certain terms can be broken down into themes:

TERMS THAT SHOULD NOT BE USED

Taking cash

Chunks

Small lump sums

Uncrystallised Pension Funds Lump Sum

Flexi-access **drawdown**

Fund

Adjustable

Buying a product

Phase your retirement

Mix and match

Blend

Defer

Excessively technical

Uncrystallised Pension Funds Lump Sum

Flexi-access drawdown

Fund

Buying a product

Defer

Patronising

Small lump sums

Insufficiency professional

Taking cash

Chunks

Adjustable

Mix and match

Blend

Inaccurate

Taking cash

Small lump sums

Mix and match

Phase your retirement

B. CONTEXT AND OVERALL PRINCIPLES

Unprompted awareness

Pensions are rarely perceived to be of high immediate priority. **Long-term planners** are particularly likely to see pensions as a distant matter that they will deal with in the future, rather than something to plan for now.

> *"It's so far in the future for me that I don't even want to think about it, because what I'm doing right now might be totally wrong – who knows?" (Long-term planner: 22-39, high financial sophistication, London)*

> *"It's hard to plan now for something that's 40 years away, when that figure can change a lot in that time." (Long-term planner: 22-39, high financial sophistication, Birmingham)*

While pensions tend to be much more of a priority for **short-term planners**, some still prefer to avoid interacting with their pension as much as possible – either to avoid stress, or because they find it all too confusing.

> *"I'm just very confused but it just lingers on and I forget about it. Now I'm feeling quite stressed thinking about it" (Long-term planner: 40-54, high financial sophistication, Belfast)*

Implications

1. **Pensions language should portray pensions as a lifelong issue, relevant to all ages.**
   Despite younger people perceiving pensions to be a far-off concern, those who have retired with the benefit of hindsight often wish they had known more about their options earlier.
   > *"It's a bit late to start thinking 'What can I do for my pension?' now. If this is the earliest you think about it, you're too late." (Short-term planner: 65+, high financial sophistication, Glasgow)*
2. **Due to high levels of confusion around the topic, pensions language should be reassuring rather than alarmist.**
   Language needs to show that long-term management and sound decision-making can lead to a secure and happy outcome later on.

Unprompted understanding

Generally, understanding of the potential options which can be chosen at retirement is low reflecting lack of engagement and the difficulties in understanding complex financial products and concepts that individuals would not previously thought or learned about. Unprompted discussion tends to focus on **annuities** and **lump sum** options: awareness of newer, more flexible options is only evident in some older individuals with higher financial sophistication.

> *"Take a cash lump sum and then you have to have a compulsory annuity." (Long-term planner: 40-54, low financial sophistication, Cardiff)*

Awareness of the **lump sum** option seems to have been influenced by media coverage, with examples frequently given of people spending their cash lump sum all in one go.

> *"You can have the annuity, which is an amount per year or per month whenever you want it paid, or there's the thing in the news now about the pensioners buying a Lamborghini where you can have a lump sum and just go crazy with it, and everyone's worried that they'll have no money to live on." (Long-term planner: 22-39, high financial sophistication, Birmingham)*

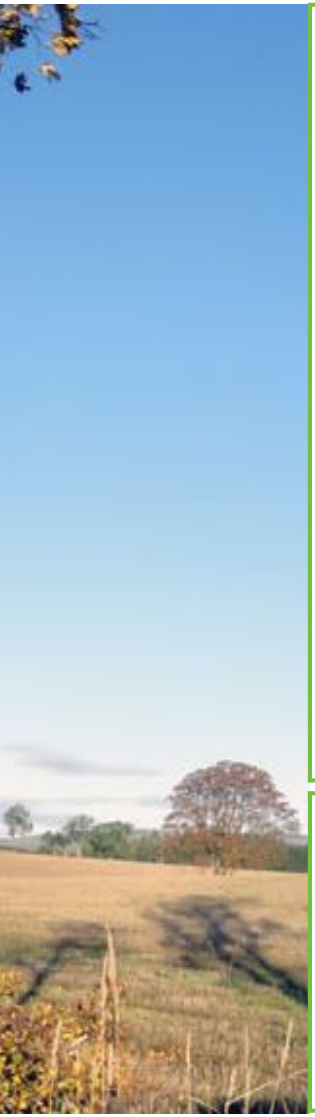
There is little knowledge of **April 2015** being the key date of changes being introduced and some individuals are unaware that there have been recent changes at all. There is scepticism over the value of developing a deep understanding of the current options, as pensions are seen as a volatile policy area subject to change in future.

> *"I just think, even if we know the options now, they'll probably change again before the time comes." (Long-term planner: 22-39, low financial sophistication, Cardiff)*

Implications

1. **Pensions language should be accessible, plain English, and avoid using technical terms as far as possible.**
   Unprompted discussion around pensions tends to use **accessible language** and there is a clear desire for plain English to be used. Technical proficiency in financial language is unlikely to be achieved by the majority of people, and would be an unrealistic expectation.

Confidence



Confidence in the area of pensions is generally low. At best, individuals display clarity of understanding over one or two options they have considered (most often annuity or taking their pot as a lump sum) and some awareness about the other options available – this appears more likely among older and more financially sophisticated individuals.

> *"The option is that I can get a lump sum or take the whole sum. I get a lump sum and then take on a monthly basis." (Long-term planner: 55-64, low financial sophistication, Glasgow)*

At the other end of the spectrum, many individuals cite feeling that the whole area of pensions is **impenetrable** to them, and that they are unable to engage with the issue. This is often as a result of feeling confused by pensions language.

> *"I think an awful lot of people are blinded by the vocabulary of finance." (Long-term planner: 40-54, low financial sophistication, Cardiff)*

> *"It [pensions] is quite specialist, and it's impenetrable." (Long-term planner: 55-64, high financial sophistication, Belfast)*

Often, understanding of pensions has been passively acquired rather than actively learned. This means that when pushed to elaborate on the topic, individuals' confidence falls as their understanding is only at surface-level.

Implications

1. **Language should be accessible, using words thought familiar and clear.**
   Currently, the perception that pensions are an impenetrable topic prompts **disengagement** among people whose understanding and confidence is low. It is vital to break this cycle by providing an easy way for individuals to get a foothold in the language of pensions.
   > *"I think I'm kind of in denial about pensions." (Long-term planner: 40-54, high financial sophistication, Glasgow)*

Concerns

There are some key concerns around the terms of pensions which contribute to an attitude of disengagement and disenfranchisement with pensions and pension discourse.

Tax is a prime concern for many individuals: there is an air of scepticism over pension descriptions and advice as a result of taxation not being addressed upfront.

> *"I think that's the main thing [that I would like to know], what it's going to cost you if you dip into it." (Long-term planner: 55-64, high financial sophistication, Manchester)*

Many individuals articulate a **low level of trust** in the information and advice they received about pensions from their providers. While for some this results from personal experience, for others it is a perception attributed to the financial sector more generally.

> *"Personally, it's hard to trust anyone really. If you go to a financial advisor or use a company, my common knowledge, or what I believe is that pensions aren't really worth anything now." (Long-term planner: 40-54 year olds, high financial sophistication, Belfast)*

> *"Everybody seems to be out for themselves, to get whatever they get for recommending whatever kind of pension." (Long-term planner: 40-54 year olds, high financial sophistication, Belfast)*

Implications

1. **Communications should address tax explicitly and up-front.**
   This will help individuals understand tax implications from the start, and increase trust around the topic.
   "People need to be aware that that might say £50,000, but you're not actually going to get £50,000." (Long-term planner: 22-39, low level of financial sophistication, Cardiff)
2. **If clearly set out and explained, use of numbers and figures can be a helpful aid to explanations.**
   Individuals often show a willingness to engage with numbers and figures of their own accord when discussing pensions, indicating they are comfortable dealing with this.
3. **Consistency in communication may improve trust**

C. KEY MESSAGES TO CONVEY

Individual control

"I literally just work through life and know at some point I'm going to have to retire, and I hope to God I've got enough money to survive, and if I haven't then I hope the government will be there to help me out if I haven't got enough money in the pot."
(Long-term planner: 22-39, high financial sophistication, Birmingham)

"The word 'fund' just makes me feel it's what you've invested in, and it's not your end result eventually".
"Instead of using 'the', you could use 'your'." (Long-term planner: 22-39, high financial sophistication, London)

"It starts feeling like it's yours. It's your fund. I thought 'the fund' wasn't personal enough."
(Long-term planner: 22-39, high financial sophistication, London)

Language around pensions should be relevant, personal and accessible, empowering individuals to take ownership of their pension.

For many individuals, there is a sense that their pension is something that will happen *to* them, rather than something they can create and shape with their personal decisions and choices.
Additionally, concerns over taxation and fees leave many individuals feeling as if despite their attempts to save, they do not have full ownership of their pension and the final amount they receive.
Greater involvement and ownership of pensions is desired in pension language, particularly by younger age groups.

Accessible to everyone

"You said there are three types of pensions. I'm like, 'Am I one of them? I don't know.' I'm assuming I'm one of them."
(Long-term planner: 40-54, high financial sophistication, Glasgow)

"£20,000 could be quite a large lump sum to some people."
"It might be small to somebody else."
"It might be small to Duncan Bannatyne. You know, it might be small change to him."
(Long-term planners: 40-54, high financial sophistication, Glasgow)

The language and descriptions used need to emphasise that all six options are available to everyone with a DC pension, regardless of factors such as the size of their pension pot or age of retirement.
People accessing pension language come from a wide range of financial and personal backgrounds and pensions language should account for this. Communications should use case studies or examples that fall within the potential of the average person, ensuring that no-one is alienated or biased against an option because it does not seem attainable to them personally.

Acknowledge life events

"Okay, that's great for now, but what happens if I've got £150,000 and I die two years after I retire?" (Long-term planner: 22-39, low financial sophistication, Cardiff)

"To me, it should go to her next of kin, but I don't know whether she would need a will, or whether it's automatic." (Short-term planner: 55-64, low financial sophistication, Belfast)

"I don't like this word 'before you die'. That's the bit I would leave out. When you get older you don't like to think about that." (Short term planner: 65+, low financial sophistication, Glasgow)

"I think 'dying' is a word you don't really say to a 60 year-old man, you say 'live', 'live' is better." (Short-term planner: 55-64, high financial sophistication, London)

In order to be sensitive to differing preferences, reference to life events should be included, but only when relevant and informative and language should be positively framed.
For example, some individuals suggest changing "until you die" to "as long as you live".
Some individuals want to be explicitly told what will happen to their pension if life circumstances were to change. In particular, there is concern over what happens to different pension products after death with questions over whether any remaining money is passed on and if so, to whom.
Some individuals oppose the mention of death in pension descriptions – most notably this is true of older individuals close to retirement or recently retired.

Clarify taxation and fees

"There's no mention of if you go past a certain amount, you've got to pay tax on it. Tax seems to be the missing elephant in the room, isn't it? Do you pay tax, or do you not pay tax? You put money in your account, you save it all your life, and then they tax you again, but it doesn't actually say that." (Short-term planner: 55-64, low financial sophistication, Belfast)

"What sort of tax am I paying, or would she be paying? Is it basic rate again? I don't know." (Short-term planner: 55-64, low financial sophistication, Belfast)

"You'll pay fees. So, you've already got a pension. You take your pension out and then pay the fees again that you've already obviously paid when you've got your pension the first time." (Long-term planner: 40-54, low financial sophistication, Cardiff)

It is important that tax and fees are addressed up front as there is great confusion over tax for a large proportion of individuals.

Specifically, providers should address:

- **When** tax is paid
- **How much** tax is paid
- Whether there are **fees** liable to be paid in addition to tax

Even among groups with low financial sophistication, individuals use tax percentages in their conversations about pensions showing a proactive engagement with the issue and a level of confidence in discussing it. Addressing fees and tax up-front may help increase people's trust in pension providers and inclination to engage with the topic of pensions.

D. LANGUAGE FOR SPECIFIC OPTIONS

Key

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Terms that should be used

Terms that can be used if explained

Terms that should not be used

Key overarching terms

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As far as possible, communications should avoid using these terms in isolation.
All are firmly embedded within pensions language and it would be difficult (as well as even more confusing for some audiences) to replace them with alternatives. However, the extent to which these (particularly annuity, DB and DC) can alienate people and prompt feelings of panic means that they should be accompanied by an explanation.

Certain central terms receive a mixed reception, across all audiences:

Pension pot

Divisive, with some people referring to the term as insufficiently professional for communications regarding pensions. Others, however, like it.

"I've always heard it, to be fair. I kept thinking of a leprechaun and throwing your gold in a pot, a little black cauldron." (Long-term planner: 40-54, low financial sophistication, Birmingham)

Annuity

Very divisive – for many this is the epitome of pensions jargon, while others say that this is simply a pensions term to be learned.

"I don't like that word [annuity], because it's only used in the context of pensions. So, you don't use your pension until you're 60, so you don't remember what the word means." (Long-term planner: 40-54, low financial sophistication, Cardiff)

Defined Contribution

Widespread distrust, and very low level of awareness and understanding. References to 'workplace pensions' are more widely understood.

"The wording doesn't really say what it is. […] I had to actually look it up when they had it in my documentation […]. I had to Google it, to actually work out what that meant." (Long-term planner: 22-39, low financial sophistication, Cardiff)

Defined Benefit

Not very well known and very poorly understood. References to 'final salary' pensions tend to be more widely understood.

"Is that like final salary ones [pensions]?" (Long-term planner: 22-39, low financial sophistication, Manchester)

1. TAKE YOUR PENSION POT IN ONE GO

Overview

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INITIAL IMPRESSIONS

Across all demographic groups, people tend to be relatively familiar with this option. In particular, there is strong awareness of the ability to take cash to buy luxury items such as sports cars, primarily through media coverage of the new freedoms.

When introduced, understanding of this option is often strong – the key principles are well understood. Many see this as a realistic option for themselves.

"Just straightforward, easy to understand, and you get from it [the scenario] what he's doing, what his aim is there really."

(Long-term planner: 22-39, high financial sophistication, London)

ISSUES AND CONCERNS

However, initial comprehension is often followed by strong concerns about missing information that is seen as essential to truly understanding this option:

i) **Tax:** The primary concern for many is tax, which is seen as central to this option. Communications which do not explicitly address the tax consequences of taking a single lump sum are very likely to be seen as disingenuous and not trustworthy. Specifically, there is a desire for information on the rate at which tax will be applied.

ii) **Fees:** Many are also concerned about charges imposed by pension providers for this service, and want to know how much of their pensions pot they will be left with if they pursue this option.

"It's just missing the implications. You can take the whole of the fund, but you don't get the whole of the fund. It's misrepresentation."

(Long-term planner: 55-64, low financial sophistication, London)

"It seems like a good option when it's written down like that until you read about [the case study]. He's just been right royally fleeced."

(Long-term planner: 40-54, high financial sophistication, Belfast)

Key terms

Only descriptions which make an immediate and explicit reference to tax are seen as realistic and trustworthy. As a result people tend to prefer **cash in your entire pot – may be subject to a considerable amount of tax**.

> *"We thought that the one that mentions tax was the only one that was clear. The other ones omitted to say anything about the tax implications of taking it out as a lump sum." (Long-term planner: 40-54, high financial sophistication, Belfast)*

The majority of terms already in use in relation to this option are relatively easy to understand. **Get your retirement savings paid in a single lump sum** is also widely seen as self-explanatory. **Cash in your entire pot** is seen as good, although **pension pot** is seen as clearer

Fund is consistently seen as confusing:

> *"We didn't like the word 'fund'. We didn't really understand the fund." (Long-term planner: 22-39, high financial sophistication, London)*

Although easily understood, references to **taking cash** in relation to this option are divisive – some say that this word makes this option sound unrealistically easy (like withdrawing from an ATM, with no tax implications), while others see it as encouraging wasteful use of the money.

The term **lump sum** is more widely understood and frequently seen as more serious and professional than cash, and therefore appropriate for a decision of this gravity.

> *"Certainly talk about lump sums […], I normally hear that all the time - if it's not broken, don't fix it." (Short-term planner: 55-64, low financial sophistication, Belfast)*

Recommendations

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Short descriptor

Take your pension pot in one go

Descriptive sentence

You can take the whole amount as a lump sum in one go if you wish, subject to tax and fees.

Additional detail

1. **Explicitly refer to the tax implications of the option** – *without this, communications will not be fully trusted.*
2. **Provide clarity on the fees to which this option would be subject**, *for the same reasons as above***.**
3. **Avoid references to cash**, *which are seen to invite short-term, reckless uses of the money.*
4. **Emphasise that once the pot has been spent, it is used up**.

2. TAKE YOUR PENSION POT AS A NUMBER OF LUMP SUMS

Overview

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INITIAL IMPRESSIONS

There is very low pre-existing awareness of the ability to take a pension pot as a number of cash lump sums, even among the more financially sophisticated.

Once introduced, initial understanding of the option is relatively strong, with people finding the overall nature of the option fairly straightforward to understand.

"I didn't know you were allowed to do that, and I thought if you are going to do that, don't you get penalised?"

(Long-term planner: 22-39, high financial sophistication, London)

ISSUES AND CONCERNS

However, there are often concerns about the **tax and fee implications** of this option.

Specifically, many (particularly the less financially sophisticated), **struggle to understand the logic for choosing this option** and specifically the tax advantages of taking the money in a number of lump sums rather than as a single amount.

As with the option to take the whole pot at once, many express **concern about the implications of the pot being used up** and question how an individual might survive once this happens.

"It's straightforward I think, it's just not telling you what the amount of tax it is, is it the same as normal income tax that you pay when you're working?"

(Long-term planner: 40-54, high financial sophistication, Belfast)

"You'd have to seek good, professional advice. […] I'm thinking, 'Hang on a minute, you're not doing very well there'."

(Long-term planner: 40-54, low financial sophistication, Birmingham)

Key terms

A number of lump sums is widely seen as the best way of phrasing this option, because it indicates that more than one withdrawal is possible and that this is not part of a pre-defined series. As before, **lump sums** is widely preferred to **cash**, being seen as professional, in line with the seriousness of a decision of this nature.

"I don't like the word 'cash'." (Short-term planner: 55-64, low financial sophistication, Belfast)

Series is often seen as clear, although some suggest that this implies setting up a defined and fixed set of withdrawals and underplays the flexibility of this option. Many have questions regarding the potential frequency of withdrawals and the tax implications of this.

"Does it mean you can't take it as one lump sum, do you have to take a series, and how many? It's reasonably easy to understand but there are questions behind it." (Long-term planner: 55-64, high financial sophistication, Manchester)

Uncrystallised Pension Funds Lump Sum (UFPLS) is widely seen as impenetrable:

"That could be the best option for you, but you wouldn't go for it because you don't understand it. It's words like this that they throw around that you don't understand." (Short-term planner: 55-64, high financial sophistication, Manchester)

Chunks is widely understood but alienates many, who see it as not suitably professional:

"We didn't like the word 'chunks'. We thought a chunk of bread, tuna chunks." (Long-term planner: 55-64, low financial sophistication, Glasgow)

Small lump sums is often seen as potentially patronising and not true:

"[This] is subjective, because £20,000 could be quite a large lump sum to some people." (Long-term planner: 40-54, high financial sophistication, Glasgow)

Cash is also not widely seen as the best option, implying that a pension is like a current account, overstating the ease of withdrawal and inviting reckless behaviour.

Recommendations

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Short descriptor

Take your pension pot as a number of lump sums

Descriptive sentence

You leave your money in your current pension pot and take lump sums from it when you need it.

Additional detail

1. **Explicitly refer to the tax implications of the option,** *clarifying tax advantages relative to taking the whole pot at once.*
2. **Provide clarity on the fees to which this option would be subject.**
3. **Explain the rules regarding frequency and number of withdrawals.**
4. **Avoid references to cash,** *which are seen to invite short-term, reckless uses of the money***.**
5. **Emphasise that once the pot has been spent, it is used up.**

3. GET A FLEXIBLE RETIREMENT INCOME

Overview

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INITIAL IMPRESSIONS

Across all audiences, there is considerable confusion regarding this option, with people often struggling to distinguish between this and annuities.

Genuine pre-existing awareness of this option is very low, and understanding once introduced is very weak.

ISSUES AND CONCERNS

Although the more financially sophisticated sometimes recognise that the money may run out through this option, **it is relatively rare that many understand initially that the income is not guaranteed for life** without an explicit reference to this.

Many do not understand **the nature of the investment** being undertaken – people want to know more regarding the type of investment, where the money is being invested and how it could support an individual's retirement.

Related to this, many want to know more about the **tax implications** – specifically, many are unsure about whether the money will cease to be treated like a pension and be taxed accordingly.

"Have I got it completely wrong? So he's not buying an annuity here, he's drawing down £650 a month cash lump sum?"

(Long-term planner: 55-64, high financial sophistication, Manchester)

"What I'm saying is I may as well just blow the whole lot then, have a really good couple of years, cracking, go off on holiday, buy myself an Aston Martin, have a really fab time."

(Long-term planner: 22-39, high financial sophistication, Birmingham)

"I'm confused because I don't understand what it means by, 'Invest the rest in funds.' So basically you're taking everything out of your pension pot and putting some of it somewhere else. Is that's what happening?"

(Long-term planner: 55-64, high financial sophistication, Belfast)

Key terms

Flexible retirement income is widely considered very easy to understand. **Flexible** is preferred to adjustable.

"It says it all in plain English." (Long-term planner: 55-64, low financial sophistication, London)

Flexi-access is considered relatively easy to understand with further explanation, but is not seen as a standalone term and is seen as jargon by many.

"It goes back into financial speak." (Long-term planner: 55-64, low financial sophistication, Glasgow)

Invest and **reinvest** are widely understood as words in their own right, but people struggle to understand how the process of investment works in the case of drawdown – how and where are the funds invested? This term can be used with further explanation.

Drawdown is widely seen to exemplify the jargon that should be removed from pensions:

"I've never heard of drawdown, so I don't know what a drawdown is. It's obviously a jargon that's used." (Short-term planner: 55-64, London)

Fund is not generally seen as clear:

"I think the bit about moving the rest into funds that allow him to take a monthly income, what does that mean? Into a bank account does it mean? Into funds? I hate it." (Long-term planner: 22-39, low financial sophistication, Manchester)

While **adjustable** is seen as clear, it is widely disliked and not seen as sufficiently professional for language around pensions.

Recommendations

the Money Advice Service™

Short descriptor

Get a flexible retirement income

Descriptive sentence

You convert all or some of your pension pot into an investment specifically designed to provide an income.

Additional detail

1. Differentiate drawdown and annuities
2. Provide greater transparency regarding how this option works, specifically emphasising the nature of the investment and the tax implications are clarified – there are often doubts as to whether this would be “taxed twice”.
3. Emphasise the risks of this approach, which are not always immediately obvious to people – specifically emphasising that retirement income is not guaranteed using this option
4. Outline the advantages of this approach, particularly in terms of flexibility.

4. GET A LIFELONG, REGULAR INCOME

Overview

the Money Advice Service™

INITIAL IMPRESSIONS

Pre-existing awareness of annuities tends to be far more mixed than for the other options tested:

- Some are highly familiar – this option tends to be most the widely recognised along with taking the whole pension pot.
- Others find that they have a latent knowledge – these people think this is simply what happens with all pensions and know more about them than they think they will.
- For some, particularly younger generations, there is no awareness at all – this is consistent with very low understanding of pensions altogether.

"The only thing is – I still don't understand: you can buy a guaranteed income. Is there such a thing, that is absolutely guaranteed?"

(Long-term planner: 55-64, high financial sophistication, Belfast)

"I have heard the word 'annuity' before, but I couldn't explain to you what it is. There are probably lots of people out there that have heard the word but don't know what it is."

(Short-term planner, 55-64, high financial sophistication, Belfast)

ISSUES AND CONCERNS

The **distinction between annuities and drawdown options** is a major cause for confusion – even once explained, some do not believe that annuities are truly guaranteed for life.

A major concern tends to be **what happens when the policy-holder dies** – many worry about their money being lost and not passed on to their next of kin.

Another concern is **inflation**, and how this affects the amount of money that people receive – does an annuity rise with inflation?

"Say they've got quite an amount of money and it's got 'lifelong' and you have a short life, then obviously what happens with the rest of your money? Will it go to your children? When it's got 'lifelong', how long is a piece of string?"

(Long-term planner: 55-64, high financial sophistication, Manchester)

Key terms

Lifelong and **regular** are seen as simple and explaining the nuts and bolts of the option. Similarly, **secure, safe** and **guaranteed** are all seen as self-explanatory and useful explanations. In particular, these words are seen as reassuring, particularly by risk-averse individuals or those low in confidence who are drawn towards the security of an annuity. **Set amount** is also seen as clear.

> *"I think people need to build trust. The words 'secure', 'guaranteed', and 'for life', for people that are getting older, that's what you want to think you're going to pay into, isn't it? To be guaranteed that and that you're going to be looked after if you've given them all your money." (Long-term planner: 55-64, low financial sophistication, Glasgow)*

There are mixed views on **annuity** – many have not heard of the word before (some refer to having come across it in Monopoly and not understanding its link with pensions). For some, however, it is 'scary' and triggers broader fear regarding pensions.

> *"I wasn't too keen on 'annuity' either, just because it sounds a bit scary as a word. It sounds a bit jargony." (Long-term planner: 40-54, high financial sophistication, Belfast)*

Some do not like the term, although there is sometimes agreement that it is relatively easy to understand with additional detail. Where used, this term should always be accompanied by an explanatory description – it is not suitable as a standalone term for many audiences.

> *"I think if I knew what an annuity was, it would be informative, but because I don't know what it is, I had to put vague." (Long-term planner: 22-39, high financial sophistication, London)*

The idea of **buying a product** is consistently seen as confusing – people often have difficulty with the principle of buying something to get a guaranteed income.

> *"I think a product is something you stick in your hair, but I don't think that a product could mean pension-type things." (Long-term planner: 40-54, high financial sophistication, Glasgow)*

Recommendations

the Money Advice Service™

Short descriptor

Get a lifelong, regular income

Descriptive sentence

A lifetime annuity provides you with a regular retirement income for life – with the guarantee that the money won't run out before you die.

Additional detail

1. Differentiate annuities from drawdown options
2. Clarify the guaranteed (and low-risk) nature of annuities
3. Be clear about the process of how retirement savings are converted from a pension pot into a regular income
4. Address concerns regarding early death and the implications of this for partners / next of kin.
5. Address the effect of inflation on an annuity.

5. YOU DON’T HAVE TO CHOOSE ONE OPTION – YOU CAN MIX THEM OVER TIME OR OVER YOUR TOTAL POT

Overview

the Money Advice Service™

INITIAL IMPRESSIONS

Awareness of the ability to mix different pension options is very low – even the most financially sophisticated individuals tend not to have heard of this before.

When introduced, there is often confusion – people can be dazzled by the array of options falling into the mix and do not immediately see them as a mix of ideas already presented.

"I'm totally confused on that one."

(Long-term planner: 40-54, low financial sophistication, Birmingham)

"I've got to read that again. Confusing."

(Long-term planner: 55-65, low financial sophistication, London)

ISSUES AND CONCERNS

As people **do not tend to see this option as a combination of options already presented**, it is essential that communications explicitly link to the other options available.

While some individuals see the benefits of mixing pension options and developing a balanced portfolio of pension products, **many struggle initially to see the potential advantages** – suggesting that these should be explicit in communications.

There is a **widespread nervousness** around this option and people say that they and other people could make serious errors if they tried to do this by themselves. This option should therefore always be accompanied by a notice encouraging people to seek advice if considering this option.

"It doesn't seem as easy [as earlier options]. It looks like hard work…unless you have an advisor."
(Long-term planner: 55-64, high financial sophistication, Manchester)

"The thing is when you've got a retirement thing, you've got to be sensible and a lot of people aren't sensible are they?"

(Short-term planner, 55-65, high financial sophistication, Cardiff)

Key terms

You don't have to choose one option – you can mix them over time or over your total pot is also widely seen as informative.

Secure and variable income tends to be preferred to mix and match, although it is not understood by some.

Take a mix of cash and income at different times to suit your needs is widely seen as a clear, easily comprehensible description of this. The words **cash** and **income** are easily understood, although cash is sometimes seen as too informal for language, as elsewhere.

> *"Most people understand 'cash' and 'income'." (Short-term planner: 65+, high financial sophistication, Belfast)*

While seen as clear and largely understood, many of the terms used for this option are not widely liked – many are seen as insufficiently professional or serious for pensions language. For example, although people rarely have a problem with understanding **blend**, many say that they do not like its use in the context of personal finance:

> *"It's not a good word, blend. You blend food." (Long-term planner: 55-64, high financial sophistication, Manchester)*

Phase your retirement is often disliked – many people do not understand how a retirement can be "phased" and do not think that this matches the reality of numerous decisions being made at the point of retirement. Others say that the word "phase" is insufficiently professional for pensions language.

Similarly, **mix and match** can be seen as too informal and occasionally also vague, if used without further explanation:

> *"It's like Morrisons' Match and More, isn't it?" (Long-term planner: 40-54, high financial sophistication, Glasgow)*

Recommendations

the Money Advice Service™

Short descriptor

You don't have to choose one option – you can mix them over time or over your total pot

Descriptive sentence

You don't have to choose one option – you can choose from a variety of options as you like, and take income or lump sums at different times to suit your needs.

Additional detail

1. Relate explicitly and clearly to all of the other options – without explicitly stating that this is just mixing the other options, it is likely to create a sense of bewilderment.
2. Clarify the advantages of using this option, specifically in terms of allowing a balanced portfolio and a mixture of flexibility and steady income.
3. Identify how to take up this option, in terms of the process required to use the pension pot for an array of different purposes.
4. Encourage individuals to consider professional advice before mixing options – people worry that mistakes will be made if the less financially sophisticated are left alone.

6. KEEP YOUR RETIREMENT SAVINGS WHERE THEY ARE

Overview

the Money Advice Service™

INITIAL IMPRESSIONS

There is some awareness of this option, although it is far from widespread.

Once introduced, the option is seen as relatively easy to understand in the first instance.

"I'd worry you were going to die and nobody is going to get it."

(Long-term planner: 22-39, low financial sophistication, Manchester)

ISSUES AND CONCERNS

Although initial understanding is relatively strong, more detailed consideration leads to a number of concerns and questions:

- **Reasoning**: the advantages of leaving the money untouched are not clear to some;
- **Growth:** linked with this, there are often questions regarding whether people can continue to put money into their pension pot and whether this continues to grow while untouched;
- **Limits:** some wish to know more about how long the money can be left untouched for;
- **Inheritance:** most importantly for many, there are concerns about what will happen to the money if the pension holder dies, worrying that it will be lost.

"What I want to know, does she still pay into her pension if she's on £900 a month and she has reached her retirement date?"

(Long-term planner: 40-54, low financial sophistication, Birmingham)

"Does anything happen to her money because she doesn't touch it? Does the pot increase or does it just stay static?"

(Long-term planner: 40-54, high financial sophistication, Belfast)

6. Do nothing

Leave it for now – keep your savings where they are and give them a chance to grow is widely liked. It is both seen to explain the reasoning for choosing this option (giving savings a chance to grow) and to be reassuring.

Leave your money where it is and make your choices later is widely seen as self-explanatory and requiring no further detail:

> *"It's simplifying the word 'defer', isn't it […]. If you don't know what 'defer' means, it just simplifies it." (Long-term planner: 55-64, high financial sophistication, Manchester)*

Untouched is also often liked and seen as clear. **Leave your pension pot** also seen as clear.

Although all are widely understood, the various ways of referring to a **pension pot** should be clarified. In particular, replacing the word **savings** with **retirement savings** or **pension** may mitigate any confusion regarding the nature of this option and the tax implications – there is some concern regarding whether this option removes the money from its pension wrapper.

> *"I would say pension, pension pot. I wouldn't say 'savings' because 'savings' is constantly making me think that you're going to get interest on it and it's not because you've got to pay tax. So that's a bit deceiving really." (Short-term planner: 55-64, low financial sophistication, Cardiff)*

Similarly, the fuller **pension pot** is widely preferred to **whole pot** or just **pot**, as it is seen to avoid confusion.

Defer is occasionally seen as jargon, and should therefore be avoided:

> *"It's quite negative, I think. If you defer something, it's like you're shoving it to one side and forgetting about it." (Long-term planner: 22-39, low financial sophistication, Manchester)*

Recommendations

the Money Advice Service™

Short descriptor

Keep your retirement savings where they are

Descriptive sentence

You can delay accessing your pension pot beyond your selected retirement date, or your scheme's normal retirement date.

Additional detail

1. **Address reasons for using this option**, stressing the advantages of leaving the pension untouched.
2. **Clarify on the rules relating to leaving the money untouched** – specifically in terms of the length of time for which this money can be left.
3. **Explain what happens to the money in the event of the death** of the pension holder.

Further information

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