

Realising the Pension Revolution

April 2016 Report



The PENSIONS
Advisory Service



Introduction: Michelle Cracknell, CEO, The Pensions Advisory Service

In our daily contact with customers we constantly speak to people who find it hard to take the action needed to make adequate provision for their retirement. We have seen a revolution, with the pensions landscape shifting from defined benefit to defined contribution pension provision. Pension freedom has triggered a step change in the attention given to pensions, but there is still a way to go to see people realise that the responsibility for ensuring they have sufficient income in retirement is theirs and their understanding or, more importantly, confidence needs to be higher in order that they take the actions needed.

We commissioned this report to better understand the behaviours and attitudes people have towards their pensions. Combining four editions of data from our 'Women and Pensions' survey with analysis of enquiry data received by us in the last year since the introduction of pension freedoms, we can see there are three barriers that stop people from saving into a pension – confidence, complexity and trust. These are more profound for certain groups, especially those under age 30 and over age 50. Of those surveyed, 73% of respondents feel that they can live comfortably on the State Pension; this belief would probably be challenged by most people connected to the pensions industry.

Our aim of the survey was to see if there were positive actions that could be taken to support people and help them make better provision for their retirement. The results suggest that people would benefit from the industry taking the following positive actions:

1. **Targeted and concise communication** that ends the 'boiler plate' approach which leaves

people discouraged and disengaged. Instead we need to empower people to make informed decisions through tailored, targeted and concise communications.

2. **Easy access** for people to find information, set up and save regularly into their pensions, as has been achieved for those who are part of automatic enrolment.
3. **Help to navigate the pensions landscape** so that if an organisation is unable to help, they signpost them to someone who can.

With the responsibility for retirement income falling squarely on the individual, our overarching objective is to transform people from being recipients of pensions to consumers of pensions. We believe the way to achieve this is to make it the social norm for people to seek help with their pension. This will result in people being more confident and increase trust in the industry, leading them to have a better chance of sufficient income in retirement.



Foreword



David McCann, Head of Planning,
Teamspirit Group

“There has been nothing less than a revolution in the pensions sector in recent years. One year on from the introduction of pension freedoms, the restructuring of existing products and vast array of new retirement income choices mean the landscape is almost unrecognisable. This presents challenges, but also a huge opportunity for consumers and industry alike.

As this report shows, consumers are reacting, with a 71% increase in enquiries made to The Pensions Advisory Service since the introduction of pension freedoms, while over the same period more than £5.9 billion* has been withdrawn from pension funds. This could be interpreted as a positive step; people are reviewing their options and taking advantage of the opportunity to control their hard-won savings. But, it could also be read as a loss of trust in the products and pensions industry to provide for the long-term. At its heart, industry and government have a communications problem to resolve.

Understanding what will trigger a real change in consumer behaviour towards long-term saving begins with understanding what barriers exist, both financial and emotional. That is why our collaboration with The Pensions Advisory Service is so important and will create insight to support the further evolution of our sector to address the fast-changing needs of consumers.

The pensions industry has a responsibility to educate, empower and inspire consumers to take action with their finances to prepare for their future. This has never been more important, so that today's and tomorrow's retirees can look forward to a financially secure future. ”

*ABI data, March 2016.

Research Overview

The Pensions Advisory Service (TPAS) is a government-aided, but independently run service, which provides free, impartial information and guidance about pensions to the public. It helps with all pension matters covering workplace, personal and stakeholder schemes and the State Pension.

This report is based on analysis by Teamspirit, the specialist communications agency, of web helpline and written enquiries received between April 2015 – February 2016 following the introduction of pension freedoms. This has been combined with analysis of the latest results of The Pensions Advisory Service's 'Women and Pensions' survey. This study conducted every three years, reviews the impact of changes within the world of pensions on attitudes to saving and the effect this has on women in particular.

Headline Findings

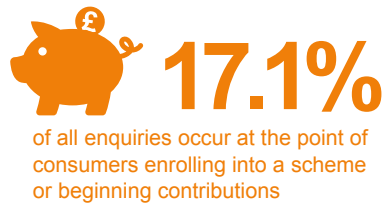
The introduction of pension freedoms has brought about a step change in consumer interest in pensions. Since April 2015, when the new rules came into force, The Pensions Advisory Service has dealt with more than 180,000 enquiries via its helpline, online webchat service and written questions, a 71% increase on the previous year.

This is encouraging as it indicates that people are seeking help to find out more about their pension. But it is only a small

proportion of those who need help. The data shows there are significant gaps in knowledge and the request for help is often being taken at a very late stage when in or near retirement. Of the enquiries received by The Pensions Advisory Service, the following reasons were cited as prompts for contacting the service by category, ordered by percentage of enquires received:

Trigger prompting an enquiry to TPAS	Channel of Communication			
	All Channels	Helpline	Webchat	Written
Retirement or receiving pension payments	29.6%	31.6%	23.5%	27.8%
Enrolment/contributing to a pension	17.1%	15.3%	24.8%	17.6%
Introduction of pension freedoms	16.0%	19.7%	13.6%	7.2%
Tracking or tracing pension savings pre-retirement	15.7%	12.8%	16.4%	23.6%
Life events (e.g. death, divorce, injury)	9.0%	9.2%	9.1%	8.5%
Pension scheme changes	8.2%	7.4%	8.5%	10.3%
Changing financial/employment circumstances (e.g. redundancy, bankruptcy)	3.2%	3.1%	3.4%	3.0%
Complaints, including cold calling	0.7%	0.8%	0.4%	0.2%
Direct communications from provider, or via media coverage	0.5%	0.1%	0.1%	1.8%

Analysis shows that the most likely trigger for people to enquire about their pension is when they reach the point of retirement or when they begin receiving pension payments. This accounts for nearly one third (30%) of all enquiries. More encouragingly, the start of retirement saving is also an important trigger, with 17% of enquiries from those at the point of enrolling into schemes or beginning contributions.



A further 16% of enquiries were triggered by the introduction of pension freedoms, as people over the age of 55 considered what the changes would mean for their individual circumstances. The findings also showed that 16% of consumers stated their reason for enquiring about their pension was because they were proactively tracking pension savings and performance. This indicates that those who contact The Pensions Advisory Service are by definition more engaged than the population as a whole.

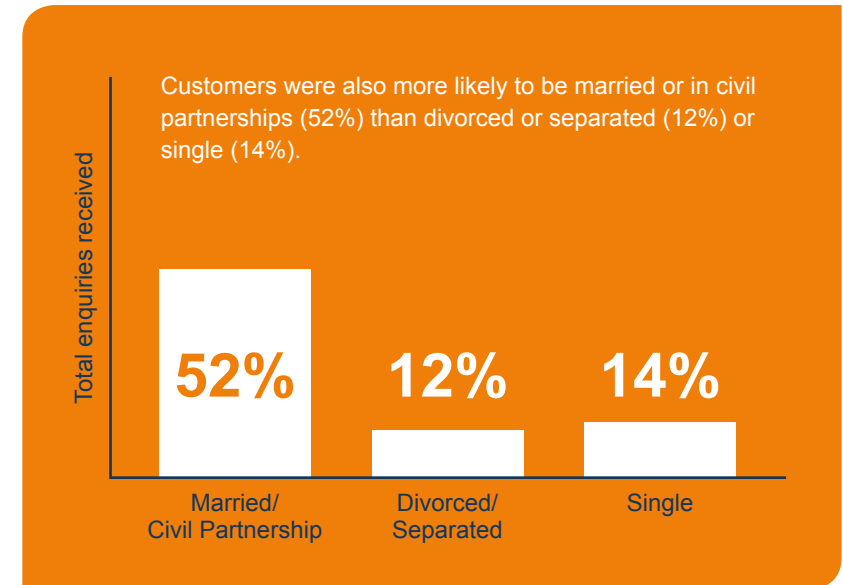
Direct communication from providers is interestingly not a significant prompt to engage with finding out more about pensions. Just 0.5% of all enquiries were triggered by provider communications. This makes it clear that the industry needs to review its strategy if it wishes to prompt action among younger people and sustain engagement throughout the accumulation phase.

The scale of the challenge is reinforced by the average age of those who made enquiries to The Pensions Advisory Service. Engagement is much more weighted towards those in or approaching retirement, with the average age of those making enquiries 59, and two thirds of all enquiries made by over-55s. By contrast, those under 40 account for just 8% of enquiries to the Pensions Advisory Service.

The challenge for government and industry alike is to shift engagement to those at younger ages when there is still time to take action that could increase pension savings and future retirement income.

There was also a clear gender split in those making enquiries about their pension provision

Men were more likely to contact The Pensions Advisory Service.



In terms of how people contact The Pensions Advisory Service, telephone remains the most popular channel, accounting for 64% of the total enquiries received. Written enquiries account for 23%, with webchat accounting for a further 14%. However, there has been a significant increase in online enquiries with a year-on-year increase of 64% compared to a 56% increase for helpline enquiries. In addition, enquiries via webchat have been extraordinarily high since the service was introduced in August 2013.



The popularity of channel used to make an enquiry about pension provision varied depending on the subject matter. For instance, the most popular trigger for those contacting The Pensions Advisory Service via the webchat channel was to enquire about automatic enrolment or starting contributions, a prompt more likely to occur for a younger demographic at the start of their careers. It also indicates that the nature of the workplace today means that webchat is popular for those working, as it can be conducted privately, whereas it is becoming harder for telephone calls to be made in private. In contrast, the top trigger for those submitting written enquiries remains as retirement or pension payments.

Over the past year, February, March and April were the months in which The Pensions Advisory Service received the most enquiries

The scale of the challenge is reinforced by the average age of people making enquiries to The Pensions Advisory Service

The analysis also showed clear seasonal trends in when people contacted the service. Over the past year, February, March and April were the months in which The Pensions Advisory Service received the most enquiries. This suggests the New Year's resolution and end of tax year have the greatest effects, with only a slight increase in enquiries immediately after the introduction of pension freedoms.

Attitudes Overview

Having understood how consumer behaviour towards engaging with pensions has changed in the last year, the next step was to better understand how attitudes have changed. The latest edition of The Pensions Advisory Service 'Women and Pensions' survey focused on confidence and empowerment of pension savers, specifically asking questions to determine how confident people feel about making financial decisions for retirement. The analysis of this data uncovered three barriers that affected consumer behaviour: confidence, confusion and trust.



73%

believe the State Pension will enable them to live comfortably in retirement



4.5%

of respondents described pensions as trustworthy



71%

stated they see pensions as complicated



43%

of those surveyed admitted they didn't feel confident in making decisions

Confidence

People are least confident about their pension prospects when they first start out in their career (18 – 30) and again at retirement. When overlaid with the enquiries data, there is a clear reluctance to ask questions and make decisions at a younger age. Further still, 43% of those surveyed admitted they didn't feel confident in making decisions about saving for their retirement. This reveals a clear need to reassure and instil confidence in all consumers, particularly amongst a younger demographic.

Confusion

There is a distinct lack of understanding about what income people should expect to receive – and what they need to receive – in retirement. 73% believe the State Pension will enable them to live comfortably in retirement, with one in five citing it as their main source of income. Nearly a third (30%) admitted they do not know how much pension income they will obtain, with 31% saying they didn't know how to obtain the estimates for this. The overwhelming majority (71%) stated they see pensions as complicated. It is therefore perhaps unsurprising that nearly three times as many people see them as depressing rather than liberating.

Trust

A major issue which needs to be tackled is a distinct lack of trust in pensions. Just 4.5% of respondents described pensions as trustworthy products. This in part explains why people are not engaging with their pension until the point at which it is too late to make significant changes. The level of trust is therefore only set to worsen if nothing is done to restore consumers' faith in the industry. When asked which organisations consumers would trust to help make a decision at retirement, pension providers and employers performed poorly – highlighting a challenge for all.

People are not engaging until the point at which it is too late to make a significant change

Realising the Opportunity – Recommendations

The findings of the report were discussed at a panel event with Baroness Altman CBE, Minister for Pensions, Richard Graham, Chair of the All-Party Parliamentary Group on Pensions, Michelle Cracknell, Chief Executive of The Pensions Advisory Service, David McCann, Head of Planning at Teamspirit Group, Sarah Pennells, Editor of SavvyWoman and Caroline Rookes CBE, Chief Executive of the Money Advice Service. The consensus was that we are in the middle of a pension revolution but, far more than that, on the cusp of a retirement revolution.

People are living for longer, looking forward to a future when they will be more active in older age. Yet, this report shows, too many assume the State Pension will provide for a comfortable retirement and are not taking the action needed during their working life to save for later life. This lack of awareness makes it clear how vital it is that more is done to support people to feel confident in saving for the long-term. At the heart of this challenge is the need for government and industry to build consumer understanding in pensions, so that they are able to be confident in making informed decisions. It requires a step change in engagement but, as the audience agreed, there is no 'one size fits all' solution.

Support needs to be delivered in a myriad of ways, beginning with education and continuing with prompts throughout working life delivered by employers, intermediaries and government. It was noted that whilst specific challenges face women, other groups such as the self-employed face similar barriers as they will not benefit from work place pension schemes. Improving engagement begins with greater understanding of the diversity of needs and then tailoring of the support provided with gamification and common messages being cited as examples. Making pensions guidance compulsory and offering it sooner may be required to ensure that the generation of retirees with significant defined contribution benefits are adequately supported.

The pension revolution is underway. It requires collaboration as an industry and with government to rise to the challenge and deliver a step change in understanding, through easily accessible, targeted and helpful communications. Only then will we help turn pension recipients into pension consumers and, in doing so, realise the revolution and better serve the next generation of retirees.

You do have to think of creative ways to engage people with their pensions. Reach them during specific life events when they're more open and more likely to take action. ”

Caroline Rookes

Case Studies

Anonymous enquiries to The Pensions Advisory Service

I am getting divorced from my husband, but I am confused about the information I've been given. I was married for over ten years. We've both got large pension savings, mine is roughly £500,000 and my husband's is over £1 million. I'm a bit younger than he is, and my solicitor has explained that our pension pots would be shared, however my husband's solicitor has stated that because he has fewer years to work, his pension should not be part of the settlement. All of our other assets have been equally split. I want to resolve this fairly, but feel that I should have some of his pension. What is the correct option for splitting pensions in this situation? ”

I am looking for some guidance on looking ahead to my future and how best to save for my pension. I'd like to know what options are available to me and just some reassurance really, as I am worrying about it all. I have no savings or assets to take into consideration and don't really know where to start. ”

I've got a relatively small pension from when I was working full-time. I had to stop working full-time to look after my children. Because I stopped working, I now have National Insurance gaps on my State Pension. I can't contribute to my workplace pension any more and would really like some help to know whether I should consider a stakeholder pension/personal pension or think about topping up my National Insurance contributions or none of these? ”

I'm in my early 30s and have had a small pension in the past with my previous employer. My wife always pays into her pension and has taken time out of work to look after our children; this means that I've had little in the way of funds to invest into a pension for myself. My job means I am regularly changing employers, but looking forward I'd prefer to do contract work as the money is much better. I want to set up an independent pension where I can pay minimal payments, then increase my contributions once my financial situation improves. I have no idea where to start with this; I'm finding it hard to find the confidence. I was wondering if you offer any independent advice on the options available that could help guide me into making a significant decision. ”

This report has been produced by:
www.pensionsadvisoryservice.org.uk
www.teamspirit.uk.com

