Institute
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Freedom and Choice: Public attitudes 1 year on

Survey Report

April 2016

FREEDOM AND CHOICE: PUBLIC ATTITUDES 1 YEAR ON

On 6 April 2015, the Government implemented the 'freedom and choice' reforms as set out in the Taxation of Pensions Act (2014).

This legislation allows individuals to access as little, or as much, from age-55 as they want from their Defined Contribution (DC) funds at their marginal income tax rate, while retaining the 25% tax-free lump sum. Before this, the tax and regulatory framework encouraged retirees to use the majority of their DC funds to buy an annuity. In the approach to the one year anniversary of the reforms we have we have undertaken an opinion poll to assess:

- Awareness of the reforms
- Why people are choosing to make use of the reforms
- Whether people are comfortable making decisions about their retirement income
- How confident people are that their pension income will last for the rest of their lives

KEY FINDINGS AND RECOMMENDATIONS

Overall, reported awareness of the reforms is high, as is confidence around decision making. Yet there is not agreement amongst the respondents on whether the reforms are a good or bad thing.

Only 21% of respondents felt their pension income would be enough for them to live on for the rest of their life, and 27% had no idea how long they were going to live. One of the potential consequences of the freedoms is that people run out of money in the later stages of retirement. In addition to having adequate savings, understanding the risk of living longer than expected, and in particular to a very old age, is crucial to mitigating longevity risk.

Whilst there are clear regulatory distinctions between guidance and advice, it is evident that the respondents are confused about the distinctions with 45% of respondents admitting that they do not understand or are not sure of the difference.

Only 3% of respondents anticipate using their housing wealth to fund their retirement and only 4% had made plans to meet long term care costs.

Age (whether a person was between 55 and 64, or 65+), gender and whether a person was identified as being middle class or working class had an impact on their attitude towards, and actions following, the reforms. This suggests that any future regulatory or legislative changes to protect consumers from bad outcomes may need to be targeted for different segments of the population.

AGE

Those aged 55 to 64 were most likely to be positive about the reforms, yet they were less likely to feel confident making decisions regarding their pension. They were also almost twice as likely as those aged 65+ to have concerns whether their pension would last a lifetime. Whereas those aged 65+ were less positive about the reforms, were more likely to admit that they did not understand the difference between guidance and advice, and were more likely to have left their DC funds untouched because these savings were not yet needed.

GENDER

Females were more were more likely than men to admit not understanding the difference between guidance and advice, less likely to feel confident making decisions regarding their pension and have less confidence that their savings would last a lifetime. Men were more confident making decisions and that their savings would last.

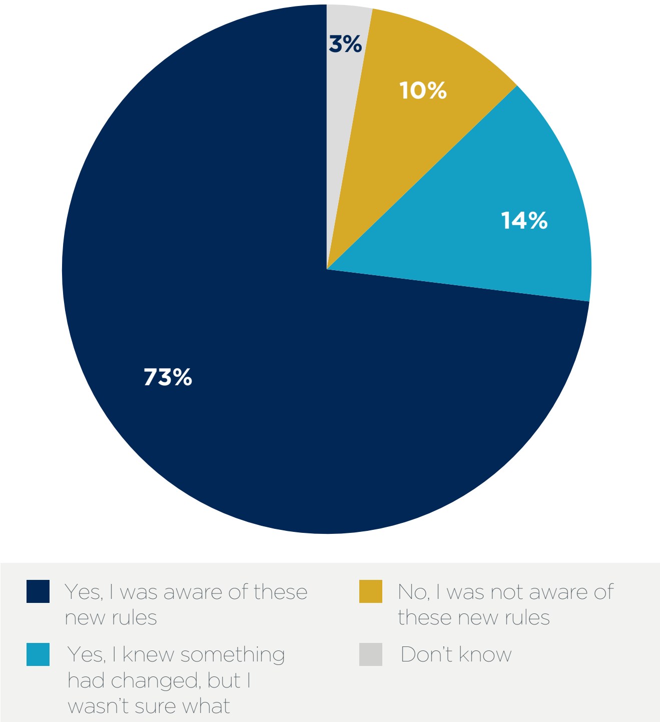
SOCIAL STATUS

Those identified as middle class were more aware of the reforms, more likely to understand the difference between guidance and advice, and be confident making decisions and that their savings would last for the duration of their retirement compared to those identified as working class. Those identified as working class were more likely to have bought an annuity.

FINDINGS FROM THE SURVEY

AWARENESS

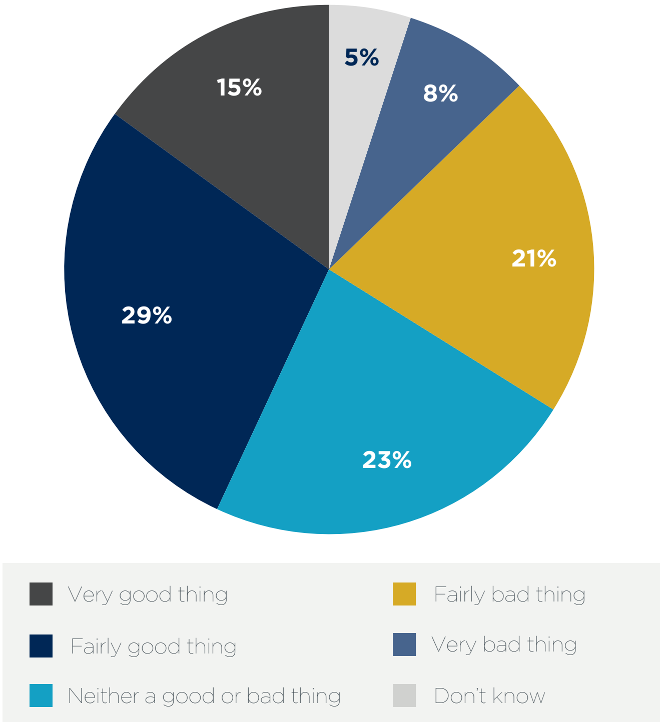
In April 2015, the Government introduced new rules that mean you can now access your defined contribution pension savings from the age of 55, and you no longer have to buy an annuity. Were you aware of these new rules?



Awareness of the pension freedoms is high, with almost three-quarters of the respondents being aware of the reforms. This suggests communication of the reforms has been successful in engaging people with their pensions, at the very least ensuring they are aware of changes to the way they can withdraw their pension. Amongst our respondents we found that awareness increased for those identified as middle class, with awareness reaching 80%. This is compared to 62% for those identified as working class.

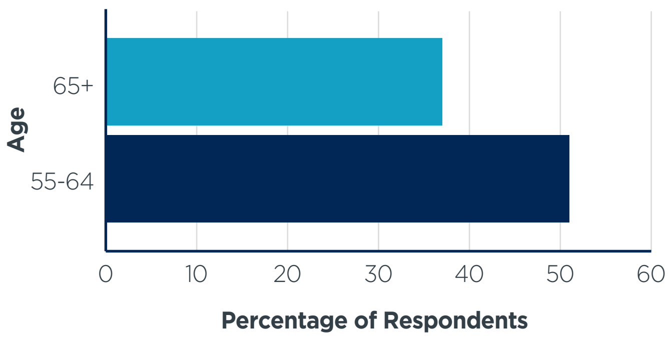
PERCEPTION

In the previous question you said that you are aware of the new rules that mean you can now access your defined contribution pension savings from the age of 55 and you no longer have to buy an annuity. Generally speaking, do you think these new rules are a good or bad thing? (n=1050)



Approximately a third of respondents felt that the reforms were a good thing and a third through they were a bad thing. Views were different across the two age groups. Over half of those aged 55-64 thought that the reforms were a good idea, compared to 37% of those 65+.

Percentage of Respondents who thought the reforms were a good idea by age group



Editorial notes
All figures, unless otherwise stated, are from YouGov Plc. Fieldwork was undertaken between 1st – 3rd March 2016. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+), of which 1408 were over 55.

GUIDANCE AND ADVICE

The Government is offering a free 30 minute guidance session from Pension Wise for people aged over 55 before they access their pension. People can also choose to pay for regulated financial advice. Regardless of who provides them, in principle do you understand the difference between financial guidance and financial advice? (Answers given as % of respondents)

	Overall	Male	Female	55-64	65+	Middle class	Working class
Yes	55	60	50	58	52	62	44
No / not sure	45	40	50	42	48	38	56

55% reported understanding the difference between the 'guidance' that is provided by the Government's Pension Wise service, and paid for regulated financial 'advice'. Worryingly, 45% do not understand the difference or are not sure of the difference. Although there are clear regulatory distinctions between guidance and advice, it is evident that the respondents are confused between the two. This could be problematic for people deciding whether to access either the free guidance or financial advice, and their expectations of what they might get from either of these services.

When split by social status, 62% of those who were middle class felt they had an understanding compared to 44% from the working class. There were also differences in those that admitted they did not know the difference between guidance and advice by gender and age, with 40% of men and 50% of women unsure; and 42% of those age 55-64 and 48% of those 65+ not sure of the distinction.

These findings suggest that understanding of guidance and advice are not the same across the population.

How confident are you about making decisions regarding your pension?

Three-quarters of people feel confident about making decisions regarding their pension. Confidence is high across all cohorts, but highest amongst males, those aged 65+ and those identified as middle class. A quarter of people did not feel confident making decisions regarding their pension. This rose to 30% for women and those aged 55-64, and to a third for those identified as working class.

LONGEVITY RISK

How much longer do you expect to live for?

As people save, and subsequently come to spend their retirement income, longevity risk – the risk of living longer than expected – is a critical factor, in particular, the risk of living to very advanced ages with depleted financial assets.[1]

From our respondents, 27% had no idea how much longer they were going to live. This could be problematic for those who do not opt to purchase a product with a guaranteed income. If a person underestimates how long they are going to live, and plans their retirement income accordingly, without any guaranteed income, they are likely to run out of savings before they die.[2] It is therefore important that people understand the potential range of ages they might live to.

If you have a defined contribution pension, do you think your pension and any state pension will be enough for you to live on for the rest of your life?

Only 21% of respondents felt their pension income would be enough for them to live on for the rest of their life. Again, social status, age and gender appear to be influencing factors:

- 26% of middle class respondents felt savings would last compared to 13% from the working class
- 26% of working class respondents felt savings would not last compared to 14% middle class
- More people age 55-64 are concerned that their pension would not last a lifetime (23%) compared to those age 65+ (12%)
- Males (28%) also tended to be more confident than females (15%) that their savings would last for the rest of their life
- Surprisingly only 3% anticipated using their housing wealth to fund their retirement

Who has accessed the freedoms?

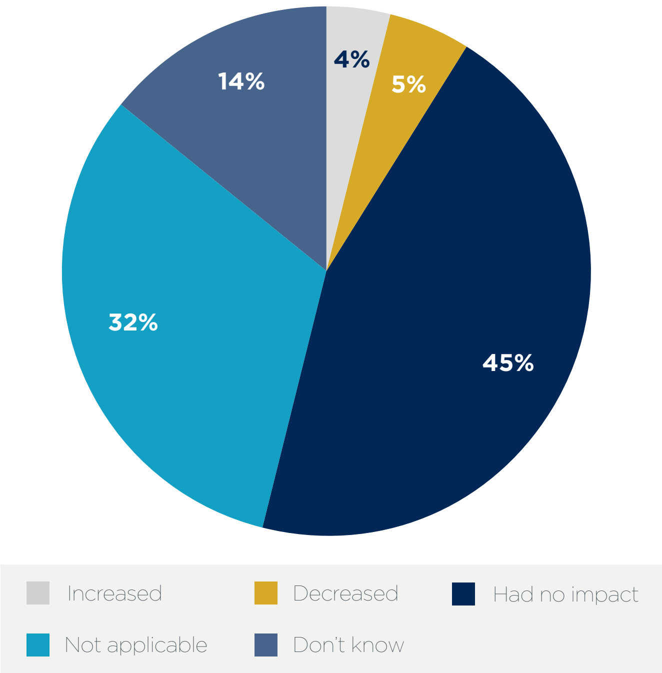
Only 10% of those aged 55 to 64 had accessed their DC pension savings since the freedoms were introduced, and only 1% of those aged 65+.

Of those that did access their DC savings post-freedom and choice (n=71):

- 6% took the full pot
- 65% took the tax free lump sum
- 17% entered into a drawdown arrangement
- Only 5% bought an annuity

8% of those identified as working class had bought an annuity, compared to just 1% of those who were identified as middle class.

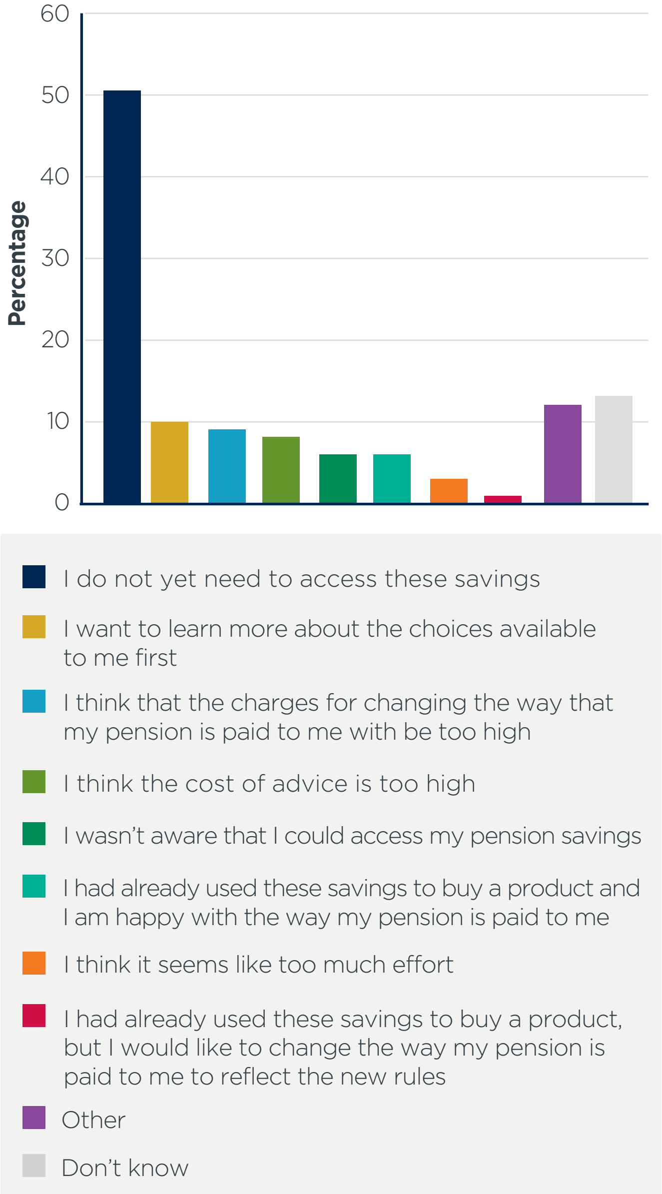
Do you think the decisions you have made regarding your pension since April 2015 have increased or decreased the likelihood of your pension lasting for the duration of your retirement or has it had no impact?



45% of respondents felt the decisions they had made regarding their pension since the freedoms had not made any impact on the likelihood that their savings would last for the duration of their retirement. Only 4% of respondents felt that their decisions had increased the likelihood.

Why have some people not accessed the freedoms? (n=513)

Which of the following reasons, if any, is why you have not accessed these savings? (Please tick all that apply, answers given in %)



The main reason people gave for not accessing their savings was that they were not yet needed, with 50% of those not yet accessing their pension giving this as a reason. Interestingly, 56% of those aged 55 to 64 gave this reason, compared to 39% of those aged 65.

7% of respondents had not made use of the freedoms because they had already accessed their DC pension under the old regime. Only 1% would like to change the way their pension is paid to them to reflect the new regime. Public attitudes of those that did not previously have access to the freedoms will be important in determining the potential viability and size of a secondary annuity market. In an earlier poll we found that 55% of respondents with an annuity would not want to sell it.[3]

Only 10% had not made a decision as they wanted to learn more about the options available to them, with 9% of respondents anticipating charges to be too high and 8% anticipating the cost of advice to be too high.

This suggests that there will be important implications for some respondents from the outcomes and further work resulting from the HM Treasury and Financial Conduct Authority consultations on Public Financial Guidance and the Financial Advice Market Review.

We also received a number of specific comments to this question including:

"It's pretty clearly a very bad idea"

"Many will regret the change as they get older"

"My pension is for retirement and not now and should be protected for that time"

"I don't have a big enough pension"

One respondent identified their provider as creating a barrier: "My pension provider will not let me drawdown as I want".

LONG TERM CARE

Over the previous decade, life expectancy in England increased at a relatively constant rate, however, trends in healthy life expectancy - how long a population might live for without health needs - are much less consistent. In the IFoA's Longevity Bulletin 'Longer life in better health', we illustrate that whilst life expectancy is increasing, a lower percentage of the individual's overall life was spent in good health.[4]

When asked if they had considered long term care costs, 51% of our respondents had, yet only 4% have made plans and 30% had not thought about it at all. This is a concern in a time where the number of people with care needs is rising. Our recent report 'How financial products can work alongside the Care Act 2014 to help people pay for care' sets out three steps that the Government could take to increase awareness of potential care costs and to encourage individuals to save to meet them.[5]

- **Clearly define the sharing of responsibility for the costs of care needs between Government and individuals**
- **A targeted and ongoing awareness campaign to Inform people of the potential costs of paying for care needs**
- **Ensure the system incentivises, not penalises those that make provisions for their long term care costs**

CONCLUSION

One year into the freedom and choice reforms, awareness of the reforms and confidence in making decision about retirement income are high amongst the respondents. Yet views on whether these reforms are positive are mixed. Our findings suggest that longevity risk remains a critical risk, with only 4% of our respondents believing that the decisions they have made regarding their pension, since the introduction of the freedoms, have increased the likelihood that their pension will last for the duration of their retirement.

Of those that had made use of the freedoms, a variety of options had been chosen, with only 5% opting to buy an annuity. For those that had not made use of the freedoms, the main reason was that they do not yet need to access their savings, as opposed to the impact of the reforms themselves. Yet only 10% wanted to learn more about the choices available to them before accessing their pension savings.

Understanding of the difference between the free guidance session provided by Pension Wise and regulated financial advice was not universal. It is important that those who opt to take either guidance or advice understand the difference, and have appropriate expectations of what they can gain from accessing either of these services.

Only 4% of respondents have made plans to meet any potential long term care costs, this is a concern where the number of people with care needs is rising, and we believe it is important that the Government take steps to inform people of the potential costs associated with paying for long term care needs.

If these reforms are to be successful in the long-term, and contribute to a sustainable pensions framework, it is important that the gaps in awareness and understanding of the following are addressed:

- Longevity risk
- The difference between and the benefits of guidance and advice
- Potential long term care costs and the impact this could have on pension savings

Differences in attitude and action between age groups, genders and social status' suggest that targeted approaches for each segment of the population could be more effective than a 'one-size-fits-all' approach to improving awareness and understanding of the gaps we have identified.

1 **IFoA et al. (2015) The Challenge of Longevity Risk: Making Retirement Income Last a Lifetime.** Available online: https://www.actuaries.org.uk/documents/challenge-longevity-risk-making-retirement-income-last-lifetime-0

2 **IFoA (2015) Policy Briefing: Saving for Retirement.** Available online: https://www.actuaries.org.uk/documents/saving-retirement-policy-briefing

3 **IFoA (2015) IFoA Public Opinion Polling: Secondary Annuity Market.** Available online: https://www.actuaries.org.uk/sites/default/files/documents/pdf/secondary-annuity-market-july-2015.pdf

4 **IFoA (2014) Longevity Bulletin 04 - Longer lives in better health?** Available online: https://www.actuaries.org.uk/documents/longevity-bulletin-healthy-life-expectancy-issue-4

5 **IFoA (2015) How financial products can work along side the Care Act (2014) to help people pay for care.** Available online: https://www.actuaries.org.uk/documents/how-financial-products-can-work-alongside-care-act-2014-help-people-pay-care-december-2015

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