Association of British Insurers

MAKING RETIREMENT CHOICES CLEAR

A consultation on simplifying language on retirement options

April 2016

Objective of this consultation and draft Guide

This consultation seeks stakeholders' views on a draft Guide to simplifying language on retirement choices ("Guide"). The Guide is designed to ensure that language relating to the retirement choices introduced on 6 April 2015 are explained and communicated to customers across the whole long-term savings sector in a clear, consistent manner, avoiding technical terms where possible.

Background to this consultation and draft Guide

In the face of increasing longevity, ensuring we all save adequately for our retirement has never been so important. But getting customers to plan for their retirement – let alone encouraging them to save more – remains a significant challenge.

Debate over how to achieve 'good retirement outcomes' for customers often reverts to calls for improvements in financial capability. As the Money Advice Service's Financial Capability Strategy suggests, ease and accessibility are enablers of improved financial understanding. So whilst it is absolutely essential that we make progress on this front in the long-term, simplifying the way we communicate with customers is arguably, and should be, the best place to start, as complex language and jargon makes decision-making harder for customers.

This is even more critical following the implementation of the pension freedoms on 6 April 2015, which presented customers with increased choice about what to do with their pension savings. The reforms are working well, but it is vital that we as a sector communicate the retirement options to customers in a clear and consistent manner, to ensure that customers can navigate the new retirement choices more easily and make the right decision for themselves.

In September 2015, the ABI established the Pension Language Steering Group (please see Appendix 3 for its membership), to implement a commitment to help customers navigate their choices, by developing simplified and consistent language to be used across the long-term savings sector. This was timely given the FCA's publication of *CP15/32: Smarter Consumer Communications*, which challenged trade bodies to come together to agree standard, non-technical descriptions of key pensions terms for use throughout customer literature.

As part of the Steering Group process, the Money Advice Service commissioned ComRes to undertake in-depth research and consumer testing across the UK, with customers of varying ages and financial understanding. It tested language currently used by providers to describe retirement choices in their wake-up packs and other literature. Information from other sources including Pension Wise and The Pensions Advisory Service was also tested. Participants were asked to comment on the accessibility of the terms used, how easily they were able to understand each of the options and whether any particular wording was confusing or unclear. The research produced a set of recommendations based on language that participants understood and reacted positively towards, and these have been used to inform this Guide.

Some organisations have undertaken similar work in the past, including the NEST Phrasebook (published 2011/updated 2012) and the DWP Pensions Language Guide (published 2011/updated 2014). These initiatives focused on savings and were developed when the only retirement option for most was to purchase an annuity. Our aim was to build on these bodies of work by addressing the retirement options introduced in April 2015, as well as any other terms that have arisen following the implementation of the pension freedoms.

This work is only the start and ongoing policy and regulatory developments will continue to shape aspects of the Guide. Therefore there is scope for further work, by the ABI or others, and we welcome research to test these phrases, or indeed alternatives.

Consultation

We are now consulting more widely to gather input from a broader set of stakeholders, including media representatives, to help us further understand the experiences of the wider sector following the introduction of the reforms in April 2015. We are particularly interested in evidence of language that works and language that doesn't.

This consultation document is available at **www.abi.org.uk/pensionlanguage**. The consumer research on which the Guide is based can also be found via this link.

We encourage you to respond to this consultation **by 19 June 2016** and would appreciate your feedback on the following questions:

1. Do you agree with the supporting principles of the Guide?

2. Does the Guide provide an appropriate explanation of the retirement options introduced on 6 April 2015?

3. Are there any other essential terms or phrases not already included in the Guide that should be?

4. Should this Guide set out words or phrases that should not be used when communicating with customers?

5. Do you envisage any challenges with the adoption and implementation of the Guide? If so, how could these be overcome?

Please send responses via email to **retirement@abi.org.uk**

Draft Guide

Status and Scope

This Guide, which sets out principles and examples for communications regarding the retirement choices introduced on 6 April 2015, has been endorsed by consumer testing and has the support of the Steering Group (Appendix 3).

This Guide is not just about using simple language; it's about the entire sector using the proposed simple language consistently and coherently.

While this Guide is voluntary, we propose that those who support the final version will commit to implementing it by no later than 6 April 2017. We are committed to improving customer engagement and understanding of the retirement options through greater simplicity and consistency in the language used when communicating with customers.

It is our hope that all involved in the long-term savings sector, including advisers, public bodies, commentators and the media, will adopt this Guide when referring to retirement choices, in order to maximise consistency in the language used to deliver the biggest possible impact on improving customer awareness and understanding.

The Guide is not intended to address any legal, regulatory or other responsibilities of those using the Guide, who will need to consider these in addition.

A full list of supporters will be published once the Guide has been finalised.

Principles of the Guide

These principles should be observed by all parties in the long-term savings sector when communicating with customers about the retirement options introduced in April 2015.

1. Communications with customers regarding the pension freedoms should use pension language that is accessible and that avoids technical or legislative terms. Where such terms are used and are unclear, plain-English explanations should be provided, drawn as far as possible from language based on research. In addition, language should be framed positively to encourage customer engagement.

2. Communications with customers should use pension language which is proven to be understood by customers.

3. Any party communicating with customers should be upfront about any tax, fees and/or charges involved with particular retirement decisions, and endeavour to ensure that these are described clearly and simply.

4. Engagement with customers should seek to instil a sense of responsibility and personal ownership of that customer's pension and their retirement income options.

5. All forms of communications should be relevant to the customer and appropriate to the channel, including written communications, online content, calls and face-to-face.

6. Communications about retirement choices should acknowledge the importance of relevant life events in order to be sensitive to differing customer preferences and circumstances. There is no one-size-fits-all approach to retirement planning and communications with customers should reflect this.

7. Customers should be signposted to the Government's free and impartial guidance service, Pension Wise, or to a regulated financial adviser wherever it might assist a customer (in addition to where stipulated by existing legal and regulatory requirements).

Simplified ways of communicating to customers about their retirement choices

The following are examples of clear ways of communicating with customers regarding their retirement options.

The Options at Retirement

You can keep your retirement savings where they are

You can delay taking money from your pension pot. Reaching age 55 or the age you agreed with your pension provider to retire is not a deadline to act. Delaying taking your money may give your pension pot a chance to grow, but it could go down in value too.

You can take your whole pension pot in one go

You can take the whole amount as a single lump sum. A quarter of your pension pot can be taken tax-free – the rest will be taxed. You do not need to stop working to take this option, but you need to plan how you will provide an income when you stop working.

You can take your pension pot as a number of lump sums

You can leave your money in your pension pot and take lump sums from it as and when you need, until your money runs out or you choose another option. You can decide when and how much to take out. Any money left in your pension pot remains invested, which may give your pension pot a chance to grow, but it could go down in value too. Each time you take a lump sum, a quarter of it is tax-free and the rest will be taxed.

You can get a flexible retirement income

You can leave your money in your pension pot and take an income from it. Any money left in your pension pot remains invested, which may give your pension pot a chance to grow, but it could go down in value too. A quarter of your pension pot can be taken tax-free and any other withdrawals will be taxed.

You can get a guaranteed income for life

A lifelong, regular income (also known as an annuity) provides you with a guarantee that the money will last as long as you live. You can also choose a guaranteed income that increases with inflation and/or continues to provide an income for a dependant. A quarter of your pension pot can be taken tax-free and any other withdrawals will be taxed.

You can choose more than one option and you can mix them

You can also choose to take your pension using a combination of some or all of the options over time or over your total pot. If you have more than one pot, you can use the different options for each pot. Some pension providers or advisers can offer you an option that combines a guaranteed income for life with a flexible income.

Appendix 1

Important information for customers to consider

The following are examples of how to further explain to customers how each retirement option works. It covers important information for customers to consider, including how their decision may influence how much tax they may have to pay or their entitlement to state benefits, using the language tested as part of the research process. What this Guide does not seek to do however is to standardise how risks are communicated to customers. How these risks are communicated to customers are the responsibility of individual firms or organisations.

Continue saving into your pension pot

You may be able to continue saving into your pension pot and your employer can also contribute too. Because you are retiring later, you will have to provide an income for a shorter period of time.

However, there are restrictions on how much you can save into your pot each year and over a lifetime. If you exceed these restrictions there will be a tax charge. Your existing pension provider, Pension Wise, The Pensions Advisory Service, HMRC or a financial adviser will be able to provide further information regarding any limits.

Remember, once you choose an option, your pot (in addition to any other assets you may have) will need to provide you with an income to last as long as you live, so it is important you think about the consequences of withdrawing all of your pension savings.

Tax

You will not have to pay tax on any pension savings while they remain in your pension pot.

If you die before the age of 75, any money left in your pension pot can be passed on. If you die after the age of 75, any money you pass on will be taxable.

Depending on your financial circumstances and the option you choose, you may pay tax on the money you take from your pot.

The money you take from your pot will be added to any other income you have for that tax year including State pension payments, benefits, salary etc. This may mean you pay a higher rate of tax in the tax year you take the option.

If you take the money in a number of different tax years you may pay less tax than if you take it all in one go.

It is recommended that you speak to Pension Wise, HMRC or a financial adviser to further understand how your decision will determine the amount of tax you will pay.

Fees

Pension providers may charge you to take your money in a certain way or to continue managing your pension pot. Check with your provider beforehand to see whether your preferred option will result in any fees or charges.

Some pension providers do not offer all of the options available. If your current provider doesn't, you can transfer your pension pot to another pension provider who does, but again, there may be a fee to do so.

If you seek guidance from Pension Wise, you will not have to pay any fees or charges for that guidance. Financial advisers will charge you a fee for any advice they provide, but it will be personal to you and your circumstances.

State Benefits

The amount of money that you take from your pension pot could affect any state benefits that you are entitled to.

If you are judged to have deliberately spent or given away your pension pot to receive or increase benefits, the Department for Work and Pensions or your local council may re-assess your eligibility and treat you as still having the money.

Investment risk

The money you have saved into your pension pot could continue to grow, but it could also go down in value, as with any investment.

Comparing flexible income and lump sums

These options can be similar and the main difference is how the tax is paid.

When you take a number of lump sums, a quarter of each lump sum is tax free and the rest is taxed.

When you choose a flexible income you usually take a quarter of your whole pot as a tax free lump sum at the start, and all future payments are taxed. You do not have to take any income.

For both options, your pension pot stays invested. A pension provider will offer you different investment choices with different benefits and risks. You pick the investments and get a retirement income from them. This may give your pension pot a chance to continue growing, but it could go down in value too.

For both options, you can pass money on after you die. The person who receives it can take it as a lump sum or as an income. They will pay tax on it if you die after age 75.

Unlike a guaranteed income for life (an annuity), the money you receive is not guaranteed to last as long as you live. The more money you take out each time the less money is left to provide a future income.

If you are using these options to provide your retirement income you should seek advice or guidance on the investments and how much money to take.

Providers will usually make charges for operating pension pots in this way. It is recommended that you take advice on whether this is the right option for you and the level of income you should take.

How a guaranteed income for life works (also known as an annuity)

There are a number of different types of guaranteed incomes for life.

An 'escalating' guaranteed income increases over time to keep up with inflation. Your income will start at a lower level and will increase by your chosen amount each year.

A 'level' guaranteed income will remain fixed. But as you get older, the cost of goods and services will increase with inflation meaning the real value of that income will reduce.

If you smoke, are on medication or have a medical condition, you may be eligible for an 'enhanced' guaranteed income (also known as an 'impaired', 'lifestyle' or 'underwritten' annuity). These tend to pay a higher amount of income on the basis that health factors shorten the life expectancy during which that income will be paid.

A guaranteed income that provides an income just for you is known as a 'single life annuity'.

Some guaranteed incomes can provide an ongoing income for a nominated dependant should you die. These plans (known as 'joint life annuities') provide a slightly lower income initially but payments will continue to your dependant after you die for a guaranteed period or for as long as they live.

How mixing your options works

You can choose a combination of the options over time or over your total pension pot, whichever suits your needs.

For example, you could take a quarter of your pension pot tax-free, use half to buy a guaranteed income for life, and leave the remaining quarter in your pension pot to use whenever you want to. Not all providers will allow this level of flexibility, however the preferred split can be obtained through transfers to pension providers who offer the options required.

If you have more than one pot, you could use different options for each pot. For example, you could buy a guaranteed income with one pot and receive a flexible retirement income from another pot.

You can choose a guaranteed income with whatever pension savings you have left, even if you take a flexible retirement income or a number of lump sums first.

Some pension providers or advisers can offer you an option that combines a guaranteed income for life with a flexible income. You should speak to your existing pension provider to see if they offer this option.

When choosing your options, you need to consider how much income you require now and for the rest of your life. You also need to consider how important it is whether this income is guaranteed.

Mixing your options can be complicated and therefore it is recommended that you should speak to Pension Wise or a financial adviser if you wish to choose this option.

Seeking help

There are a number of ways that you can find out more about your retirement options. For example, you can speak to:

- Your current pension provider
- Pension Wise
- The Pensions Advisory Service
- A financial adviser
- HM Revenue & Customs
- Your employer

Guidance

Pension Wise is a free, impartial government service that helps you understand what you can do with your pension pot. It offers guidance on the Pension Wise website about the options for taking your pension pot, and can help you understand the tax implications.

It also offers free guidance appointments over the telephone or face-to-face where you can talk through these options, ensuring you have the information you need to make the right decision for you. Pension Wise will not recommend any products or tell you what to do with your money.

The Pensions Advisory Service offers a free telephone service and its helpful advisers can talk you through your options.

Advice

You may want an independent financial adviser (IFA) to help you with your decision. Advisers are authorised to give you advice and recommend suitable pensions products and investment options for you. Financial advisers will charge you a fee for any advice they provide, but it will be personal to you and your circumstances.

You are required to obtain advice from an adviser if your pension pot is over £30,000 and it contains a special feature, such as a guaranteed annuity rate.

Some pension providers may require you to obtain financial advice if you decide to choose a certain retirement option. For example, if you choose to take a flexible retirement income, a pension provider may ask that a financial adviser helps you decide which investment choice(s) is/are right for you.

Scams

Beware of pension scams contacting you unexpectedly about an investment or business opportunity that you've not spoken to them about before. You could lose all your money and face tax of up to 55% and extra fees.

Appendix 2

This supporting glossary can be used to assist with explaining any legislative or technical terms not covered in the research. These terms are taken from the Jargon Buster in the Money Advice Service's *Your Pension – It's Time to Choose Guide (2015)* [1].

Term	Explanation
Annual Allowance (AA)	The maximum savings made into a pension – based on your own and any employer contributions, that you can have in a year before you have to start paying tax on them. In the tax year 2016/17, the annual allowance is £40,000. However, individuals who have taxable income for a tax year of greater than £150,000 will have their annual allowance for that tax year restricted. If you're not earning, you can still get tax relief on savings up to £3,600 a year.
Defined Benefit (DB) pension	Pays a retirement income based on your salary and how long you have worked for your employer. Defined benefit pensions include 'final salary' and 'career average' pension schemes. Generally only available from public sector or older workplace pension schemes.
Defined Contribution (DC) pension	Builds up a pot to pay you a retirement income based on contributions from you and/or your employer and investment returns. Includes workplace and personal pensions, including stakeholder pensions. Might be run through an insurance company or master trust provider, or through a bespoke scheme set up by your employer.
Flexi-access drawdown	Allows you to withdraw funds from your pension pot and then take any amount of income without restriction while leaving the remaining funds invested. You can take 25% as a tax-free lump sum when you first decide you want to go into drawdown. Replaced flexible drawdown and capped drawdown from April 2015, though existing users of capped drawdown can continue in that plan.
Guaranteed Annuity Rate (GAR)	A competitive guaranteed income offered by some pension schemes if you take a lifetime annuity out with them – often hard to match if shopping around.
Guaranteed drawdown	A hybrid product that combines a guaranteed income for life with the flexibility of drawdown.
Hybrid products	Products that combine features of annuities and income drawdown to provide a retirement income
Inflation	The increase in the general level of prices of goods and services.

1 https://masassets.blob.core.windows.net/cms/files/000/000/266/original/ENMAS_A5_YPITTC_online.pdf

Lifetime Allowance (LTA)	The maximum value of pension savings that you can build up without incurring a tax charge when you draw out your savings as cash or pensions (and without leaving a tax charge for your beneficiaries if you die before age 75). For the tax year 2016-17 the lifetime allowance is £1m. If you exceed the allowance you pay tax on the excess amount at 55% if taking the pension as a lump sum or at 25% if you take it as income. The same savings aren't assessed twice – so if you put £2m into drawdown this will have been tested and the excess taxed at that time and no further lifetime allowance charge is due. If you die leaving untouched pension savings that exceed the lifetime allowance – and they have not already been assessed against it – then your nominated beneficiary will be liable for the extra tax charges on the amount that exceeds the lifetime allowance.
Market value reduction	A reduction to your pension pot that could apply if you want to cash in your with-profits policy before or after its maturity date or other date(s) specified in the policy.
Money Purchase Annual Allowance (MPAA)	The maximum money purchase savings made into a pension that you can have in a year before you have to start paying tax on them once you have taken money out of your pension pot as cash, either entirely or as a small cash sum, or have started taking income from flexi-access drawdown, or a flexible annuity. This is also triggered for payments from a pre-April 2015 capped drawdown plan that exceeds the cap and in certain other limited circumstances. In the tax year 2016-17 the maximum MPAA is £10,000 compared with the full annual allowance of £40,000.
State Pension	A regular payment from government that you qualify for when you reach State Pension age. The State Pension age for men and women is increasing and will reach 66 by 2020. It's due to rise further to 67 by 2028. The amount you get depends on your National Insurance record.
Tax-free lump sum	An amount of cash set by law that you can take at retirement free of tax. It's usually up to a quarter (or 25%) of your pension. Sometimes simply referred to as 'tax-free cash' or 'cash lump sum'.
Tax relief	Some of your money that would have gone to the Government as tax, goes into your pension instead.

Appendix 3

The Pension Language Steering Group

The following organisations are members of the Pension Language Steering Group:

Association of British Insurers

Association of Professional Financial Advisers

Chartered Insurance Institute

Citizens Advice

Department for Work & Pensions

Financial Conduct Authority

HM Treasury

Pensions and Lifetime Savings Association

Personal Finance Society

The Money Advice Service

The Pensions Advisory Service

The Pensions Regulator

Association of British Insurers

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