Association of British Insurers

MAKING RETIREMENT CHOICES CLEAR

A guide to simplifying language on retirement options

September 2016

Objective of this Guide

This Guide is designed to help ensure that language relating to the retirement choices introduced on 6 April 2015 is explained and communicated to customers across the whole long-term savings sector in a clear, consistent manner, avoiding technical terms where possible.

Background

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 *DP15/5: 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.

The 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, those who support the final version will commit to implementing it by no later than 6 April 2018. 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.

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 pension pot where it is

You can delay taking money from your pension pot to allow you to consider your options. 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 usually be taken tax-free – the rest will be taxed. You will need to plan how you will provide an income for the rest of your retirement.

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, normally a quarter of it is tax-free and the rest will be taxed. You may need to move into a new pension plan to do this.

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 usually be taken tax-free and any other withdrawals will be taxed whether you take them as income or as lump sums. You may need to move into a new pension plan to do this. You do not need to take an income.

You can get a guaranteed income for life

A lifelong, regular income (also known as an annuity) provides you with a guarantee that the income will last as long as you live. A quarter of your pension pot can usually be taken tax-free and any other payments 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 need to receive a pension 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, HM Revenue & Customs or a financial adviser will be able to provide further information regarding any limits.

Remember, once you choose an option, your pension (in addition to any other assets and/or income 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 pot.

Tax

You will not have to pay tax on money whilst it remains in your pension pot.

If you die before the age of 75, any money left in your pension pot can be passed usually tax free. 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. The tax year runs from 6 April one year to 5 April the next.

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.

You can 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 continue managing your pension pot, or if you take your money in a certain way. 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. If you are able to take an income and have chosen not to do so, some or all of the income you could have taken may be taken into account.

For more information about state benefits, visit: https://www.gov.uk/browse/benefits

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.

Shopping Around

It is important that you shop around to find the best deal for you, as you would with any other purchase. Your pension provider may not offer the option you want or other providers may be able to offer you a better deal, so it is worth comparing what each provider can offer. The Pension Wise website provides more information on Shopping Around: https://www.pensionwise.gov.uk/shop-around.

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 normally 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.

With both options, the rest of 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 but they may pay tax on it if you die after age 75. You should check whether your provider offers both options.

Unlike a guaranteed income for life (an annuity), the income 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 charge a fee 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 the increasing cost of goods and services, known as 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, inflation may increase therefore you can buy less with the same income.

If you smoke, have high blood pressure, are prescribed 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 your life is expected to be shorter and so the income will not be paying out for as long.

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 or for a guaranteed period.

You could also consider protecting your annuity payments through ‘Value Protection’. Value protection is an option that, if the customer dies without having received the full value of their pension fund, returns a lump sum (minus total gross payments made and tax). As a result, value protection gives the ability to protect up to 100% of the original pension pot.

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 normally take a quarter of your pension pot tax-free, use half to buy a guaranteed income for life, and take the remaining quarter as a flexible income. Not all providers will allow this, but you can transfer to another pension provider who does offer these options.

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 money you have left in your pension pot, 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 an adviser or shop around to see which pension providers 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 to you that 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 pension options.
For example, you can speak to:

- Pension Wise - the free and impartial Government service: https://www.pensionwise.gov.uk/ (0800 138 3944)
- The Pensions Advisory Service - who also offer free and impartial guidance to people with workplace and personal pensions: http://www.pensionsadvisoryservice.org.uk/ (0300 123 1047)
- A financial adviser: The Money Advice Service provides an online directory of regulated advisers: https://directory.moneyadviceservice.org.uk/en
- Your employer
- Your current pension provider
- Other pension providers

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 helpline and its advisers can talk you through your options.

Advice

You may want a financial adviser 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.

If you want to take your pension as a lump sum or as a flexible retirement income, you are required to obtain advice from an adviser if your pension pot is over £30,000 and it contains a promised amount or rate of income, such as a guaranteed annuity rate or defined benefits (e.g. a Final Salary pension).

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. People 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 charges of up to 55% and extra fees. Speaking to Pension Wise or The Pension Advisory Service, or dealing with a financial adviser, can help to minimise the risk of falling victim to a scam. For more information on how to protect yourself from scams, visit the Pension Regulator's website: http://www.thepensionsregulator.gov.uk/individuals/dangers-of-pension-scams.aspx

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 (2016)* [1].

Term Explanation

Annual Allowance (AA)
The limit on how much tax-free money you can build up in your pension in any one year based on your own contributions, any employer contributions and any contributions made on your behalf by someone else. In the tax year 2016-17, the Annual allowance is £40,000 for most people. The Annual allowance applies across all your pension savings, not per scheme. If you exceed the Annual allowance, a tax charge ('the Annual allowance charge') is made which claws back any tax relief that was given at source. See also Money purchase annual allowance. If your taxable earnings in the year are below the Annual allowance then tax relief on pension contributions from all sources is limited to 100% of your earnings (or to £3,600 if you have no earnings). If your 'adjusted income' is above £150,000 the Annual allowance is gradually reduced or 'tapered'. See Adjusted income and Tapered annual allowance.

Capped Drawdown
Capped drawdown is a type of income drawdown product that was available before 6 April 2015. If you already use capped drawdown it will continue under its existing rules, but if you exceed the drawdown 'cap' the tax relief you can get on future pension savings is reduced.

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 pension pot to pay you a retirement income based on contributions from you and/or your employer. Your pot is put into various types of investments, including shares (shares are a stake in a company). The amount in your pension pot at retirement is based on how much has been paid in and how well the investments have performed. Also known as 'money purchase' schemes. 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
Referred to as 'flexible retirement income' in this booklet. Allows you to use your pension pot to provide a regular retirement income by reinvesting it in funds specifically designed and managed for this purpose. The income isn't guaranteed for life but you have the flexibility to make changes to how much you take or to later switch to more secure retirement income products. 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 valuable guaranteed income often offered by your own pension scheme or provider if you take a lifetime annuity with them.

Guaranteed drawdown
A hybrid product that combines a guaranteed income for life with the features of a flexible retirement income product.

1 https://masassets.blob.core.windows.net/cms/files/000/000/390/original/MAS_A5_YPITTC0001E_May2016_W.pdf

Hybrid products
Products that combine a guaranteed income for life with the features of a flexible retirement income product.

Inflation
The increase in the general level of prices of goods and services.

Lifetime Allowance (LTA)
The total amount you can save into pensions in your lifetime while still getting tax relief. If you go over the allowance you will pay a tax charge on the excess when you draw out your savings as cash or pension. For the tax year 2016-17 the Lifetime allowance is £1m. If you exceed the allowance you pay tax on the excess amount (called the 'Lifetime allowance charge') at 55% if taking the pension as a lump sum or at 25% if you take it as income.(If taking it as income you will also pay tax on it at your usual Income Tax rate).The same savings aren't assessed twice. So if, for example, you put £2m from your pension pot into a flexible retirement income product, 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. This applies whether you die before or after age 75. (Pots can normally pass tax-free to nominated beneficiaries if you die before age 75.)

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. May apply, for example, following or during a period of poor stock market performance.

Money Purchase Annual Allowance (MPAA)
The maximum amount that can be paid in one year into your defined contribution pension savings and still get tax relief if you have already taken money out of any pension pot as cash (in one go or as smaller lump sums), or once you have started taking income from a flexible retirement income product or from a lifetime annuity which could decrease such as an investment-linked annuity. (It does not apply if you have only used some or all of your pension pot to buy a lifetime annuity.) The MPAA 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 MPAA is £10,000 compared with the full Annual allowance of £40,000 for most people. If you exceed the MPAA a tax charge is made which claws back any tax relief that was given at source. If your taxable earnings in the year are below the MPAA then tax relief on defined contribution pension savings is limited to 100% of your earnings (or to £3,600 if you have no earnings). The MPAA limit does not apply to other pension savings. For example, if you use up your £10,000 MPPA you are still entitled to tax relief on up to £30,000 (Alternative annual allowance) on any defined benefit savings in 2016-17.

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 Revenue & Customs

HM Treasury

Pensions and Lifetime Savings Association

Personal Finance Society

The Money Advice Service

The Pensions Advisory Service

The Pensions Regulator

Appendix 4

Where to find out more:

Pension Wise
To receive free and impartial guidance regarding your pension options, visit the Pension Wise website: https://www.pensionwise.gov.uk/. You can also call 0800 138 3944 to book a free phone or face-to-face appointment.

Money Advice Service (MAS)
For information regarding your options as well as wider information on pensions and retirement, visit The Money Advice Service (MAS) website: https://www.moneyadviceservice.org.uk/en/categories/pensions-and-retirement.

The Pensions Advisory Service
For free and impartial guidance on pensions, visit The Pensions Advisory Service website (http://www.pensionsadvisoryservice.org.uk) or call their dedicated customer helpline: 0300 123 1047

Financial advice
To find a financial adviser in your area visit the Money Advice Service's dedicated retirement adviser directory: https://directory.moneyadviceservice.org.uk/en

The Society of Later Life Advisers (SOLLA)
The Society of Later Life Advisers (SOLLA) can also help in providing specialist retirement advice: http://societyoflaterlifeadvisers.co.uk/

State benefit information
For more information about state benefits, visit the Government's dedicated website pages: https://www.gov.uk/browse/benefits

The Pension Regulator
For more information on how to protect yourself from scams, visit the Pension Regulator's website: http://www.thepensionsregulator.gov.uk/individuals/dangers-of-pension-scams.aspx

Association of British Insurers

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