



Institute
and Faculty
of Actuaries

Freedom and Choice: Public attitudes seven years on

Survey Report

March 2022

Freedom and choice: public attitudes seven years on

Foreword

Since April 2015 individuals have had greater flexibility in how they can access their pension benefits, for example they are no longer required to take an annuity and can now access their benefits as cash or transfer them to a drawdown arrangement.

This change offers individuals much more choice and flexibility. A good thing – but are people aware of how to use these new freedoms and confident in doing so? This raises another question as to whether individuals are making informed choices and good retirement decisions generally. In 2016, one year into the new changes, the Institute and Faculty of Actuaries (IFoA) carried out preliminary research into how people were responding to these new flexibilities. The research found that there were reasonably high levels of awareness, albeit mixed views as to whether the flexibilities were a good or bad thing.

Worryingly, there was also a significant proportion of people who were not confident about their decision-making in light of the new flexibilities being offered.

Seven years on from the launch of pension freedoms, we conducted the research again to find out whether the trends originally identified had changed. Our survey conclusions can be found on the following pages, along with recommendations on how to improve those areas that remain a problem for UK pension savers.

Kelly Hurren & Andrew Kemp

IFoA Personal Financial Planning Working Party



The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 32,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers.

Introduction

On 6 April 2015 the government implemented the 'freedom and choice' reforms set out in the Taxation of Pensions Act (2014). This groundbreaking legislation allows individuals to access their pension benefits with much more flexibility than before.

A year after launch, the IFoA carried out research into initial public attitudes to these changes. The full findings from this preliminary research can be **found here**.

Like many organisations, the IFoA remains concerned that many UK households are not saving enough for later life, are not accessing free guidance or paid-for financial advice, and remain ill-equipped to deal with the risk of running out of money in retirement.

In early 2022 we carried out an updated study to see whether public attitudes to the reforms had changed in the intervening six years, and to assess the current state of play as to how individuals understand and manage their pensions.

Key findings from the IFoA's 2016 research on public attitudes to pension freedoms

In 2016 the IFoA carried out some preliminary research into how individuals were reacting to these new flexibilities. We concluded that there were:

- Reasonably high levels of awareness of the new flexibilities, albeit mixed views as to whether they were a good or a bad thing
- Limited knowledge of the difference between guidance and advice.

The research also found that a quarter of people did not feel confident about their decision-making – this figure increased for women and those identified as working class.

Like many organisations, the IFoA remains concerned that many UK households are not saving enough for later life

What did we learn?

The latest study illustrates a number of themes, including:

- **Awareness of reforms** – compared with the initial survey, the reforms are more clearly perceived as a 'good thing'.
- **More encouragement for access to guidance and advice needed** – actions are needed to improve take-up of guidance and access to good-quality regulated financial advice. This supports the government's efforts to introduce a **Stronger Nudge** to pensions guidance, and the actions taken by pension schemes themselves to provide access to regulated financial advice. However, further action is needed, for example by increasing promotion and support for access to Pension Wise, and improving the availability and scope of the **Pensions Advice Allowance**.¹
- **Diversity and inclusion** – there is evidence of a gender and social imbalance when it comes to understanding how to access pensions savings and advice. Targeted action aimed at these groups should be implemented to help redress this imbalance.
- **Consumer understanding difficulties** – there is clear evidence that savers do not understand enough about their options, or pension products generally. The survey showed clear gender and social differentials, both in the type of pension people in these groups have and in how important their pensions are to meeting their normal expenditure in retirement. There is also a significant lack of understanding with respect to life expectancy. Actions are needed to address financial education in the pre-retirement phase and as savers approach retirement.
- **Limited regret** – most respondents were satisfied with the decisions they had made at retirement (albeit combined with the above conclusions on education and low take-up of advice/guidance). However, we should be mindful of consumer understanding given that our latest study demonstrated limited knowledge of pension products for a significant proportion of over 55-year-olds.

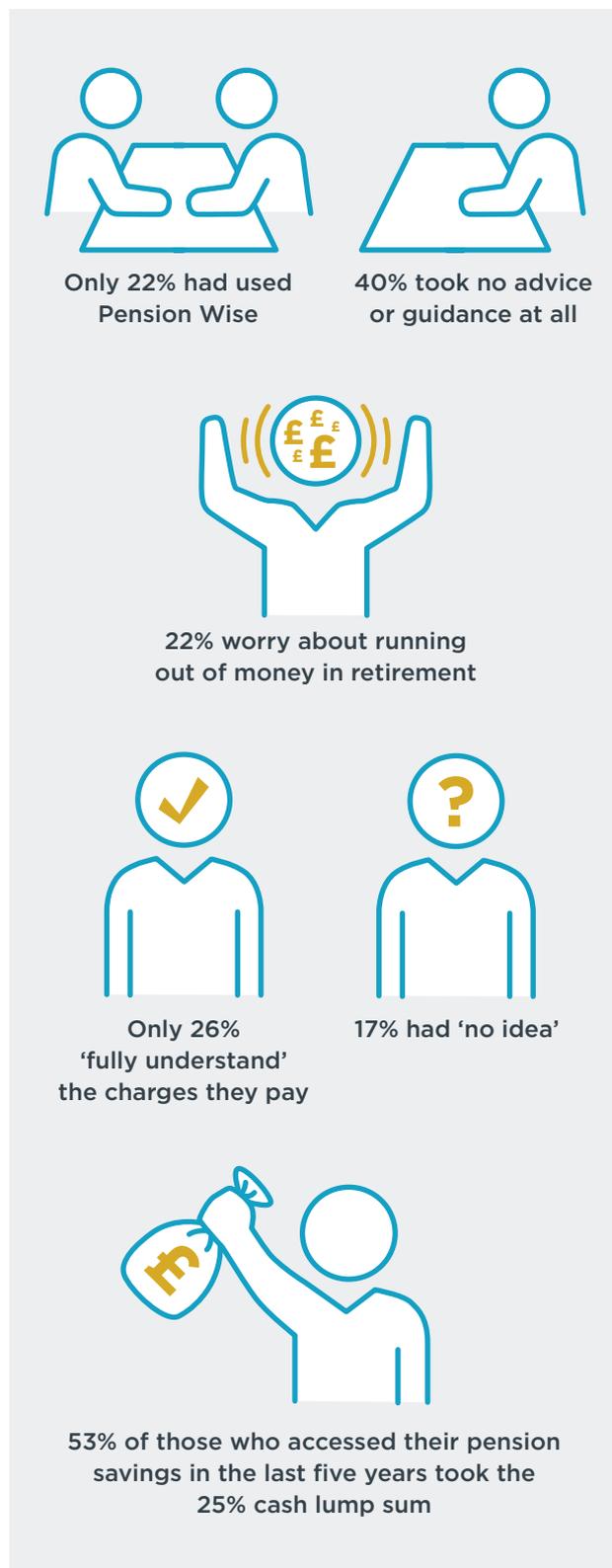
1 | <https://www.gov.uk/government/publications/pensions-tax-pensions-advice-allowance>

Further detail

Our latest study was carried out by YouGov in January 2022 and covered 2,065 adults in Great Britain aged over 55.

It showed that:

- **Those who may need it most are least likely to access savings** – where individuals had not accessed their pension savings since the new rules were introduced, this was mainly because they did not have a need to access them. However, there was a significant difference by social background, with individuals from middle-class backgrounds being 15 percentage points more likely than those from working-class backgrounds to say that they did not need to access their pension. Individuals from working-class backgrounds were more likely to state that they did not know how to access their pension or needed more information about their options.
- **Limited understanding** – despite a high proportion of respondents claiming that advice was not necessary (51%), a large proportion of individuals showed a worrying lack of understanding about pension products. Only one in four (26%) individuals ‘fully understand’ the charges they are paying for their defined contribution pension, with 17% admitting to ‘not understanding at all’. Similarly, only a third (31%) were aware of how their pension savings are invested, with 42% having ‘no idea’.
- **Pension Wise could and should be used more** – where pension savings had been accessed, only one in five individuals (22%) had used the government’s pensions guidance services, such as Pension Wise. Four in ten (40%) are taking no form of guidance or advice at all.
- **A gender imbalance** – there was evidence of a gender imbalance, with 58% of men who had accessed their pension since 2015 stating that they did not need to take guidance or advice, compared to 43% of women. Furthermore, where advice was required, men were 16 percentage points more likely to take tailored regulated financial advice, whereas women were seven percentage points more likely to access generic guidance such as Pension Wise, and, six percentage points more likely to ask friends or family. Of those who did not seek formal guidance, women were also five percentage points more likely to state the cost or not knowing where to find advice as the barrier.
- **Flexibility is a good thing** – reassuringly, 71% of individuals who had accessed their pensions savings since 2015 would not have done anything differently. 9% would have planned earlier so as to understand their options better and 9% would have liked more flexibility (5%) or cash (4%).
- **Money concerns** – one in five respondents (22%) worry about running out of money in retirement, while 18% worry about not fully understanding their options (11%) or products (7%). These concerns were highest in the respondents aged 55–64 who will be approaching retirement within the next five to ten years.



IFoA recommendations

Through the IFoA's work on the Great Risk Transfer campaign, which identified the dangers of individualised risk, we have made a series of recommendations on how to improve outcomes for savers. Our findings from the most recent survey on pension freedoms have further emphasised the need to take action on the following:

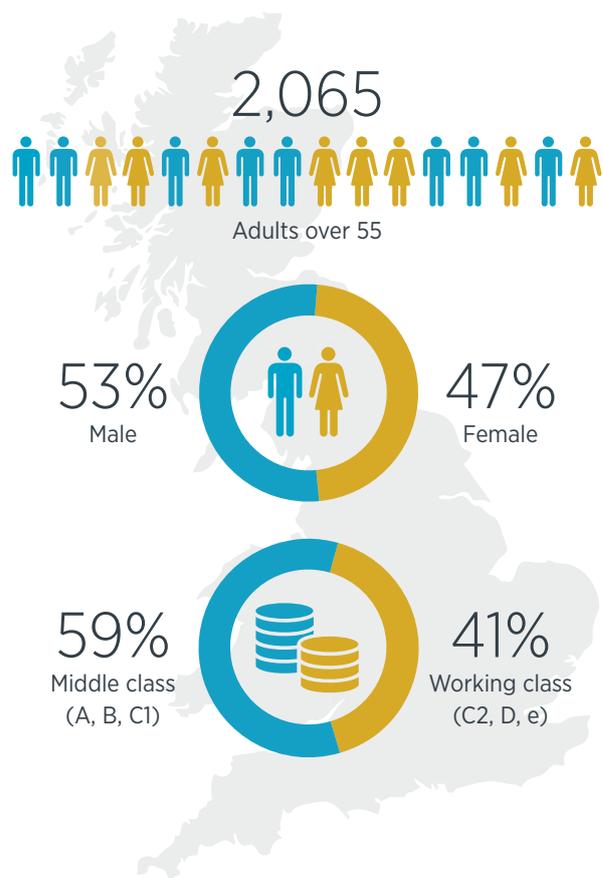
- **Pension Wise** – the Financial Conduct Authority should set a specific and ambitious target to achieve a significant increase in take-up of Pension Wise appointments before individuals access their pension. We endorse recent moves by the government regarding the Stronger Nudge proposals but other measures may be needed to support them.
- **Adequacy of pension contribution rates** – the government should reinvigorate its public messaging around adequate pension (or retirement) saving levels – particularly through workplace auto-enrolment pension schemes – to ensure that consumers are not lulled into a false sense of security that their savings for retirement will be adequate to achieve their retirement income goals.
- **Decumulation pathways** – the government should consider the introduction of default decumulation pathways as an option for all, and as a safety net for savers who cannot, or will not, engage with the decumulation process when entering retirement. There is growing concern that the auto-enrolment generation may be sleepwalking into a future of under-saving.

We endorse recent moves by the government regarding the Stronger Nudge proposals but other measures may be needed to support them

About our research population

The research was carried out by YouGov between 28-31 January 2022 and covered 2,065 adults in Great Britain aged over 55. The population characteristics were:

- 53% male and 47% female
- 59% from middle class (A, B, C1) social grades and 41% working class (C2, D, e) social grades
- Distributed across England, Wales and Scotland
- Covering a range of health, employment and cohabitation statuses.





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