Association of British Insurers

ABI Long term Savings

Principles for tailoring retirement risk warnings

abi.org.uk
@BritishInsurers
@association-of-british-insurers

Principles for tailoring retirement risk warnings

The final report of the Retirement Outcomes Review recommended some major changes to the way in which pre-retirement communications are structured. These reforms sought to make best use of behavioural insights to ensure that information is delivered in the most accessible and impactful way. The manner in which risk warnings are delivered is no exception. Providers must give risk warnings as a single side of A4 (accompanying the new one page "wake up pack") but they do have some leeway as to which warnings are most appropriate to their populations.

The first part of this document provides an example of what a one page wake up pack could look like. There will be many ways of setting out the one pager and providers will want to reflect their own insights about their unique populations.

The second part of the document sets out some principles as to which risk warnings could be delivered at different occasions that wake up packs are distributed. Age is of course an imperfect proxy, but when used alongside other proprietary data these principles could help make consumers aware of the risks to which they are most vulnerable. It should be noted that there are some risk warnings (e.g. for products with valuable guarantees) that would need to be included if applicable, but this document focuses on the more generic level. It should be noted that these are high-level principles and messages that firms can choose to follow. They will of course need to be adapted to the house style and brand of the provider in question.

The examples have been divided up into three different stages to reflect the different risks posed at each stage. When a wake up pack is received at age 50 the vast majority of consumers are unable to access their savings. This is a material difference that should be reflected in the risk warnings. 50 year olds are also more likely to still be saving into their pensions than their 75 year old counterparts.

The second category is by necessity much broader. This recognises that there is no such thing as the usual retiree and there are a wide variety of patterns of spending and saving in the 55-70 bracket. It is therefore important to focus on common themes, like shopping around, reviewing investments and sustainability of income.

The final category recognises that there are some legal changes that come about when a consumer reaches the age of 75, and issues that increase in importance at older ages - these should be reflected in the risk warnings. Consumers should be aware of issues regarding the lifetime allowance check and different product features.

Providing consumers with easy to use information and appropriate risk warnings should help consumers avoid pitfalls and promote better outcomes. These high level principles are designed to help schemes and providers think about how best to achieve this outcome.

Mock Up: Single Summary Document with conditional text

Provider Name

Provider .co.uk details
Telephone number(s)

Addressee
Address details
Address details
Address details

Plan Number
Plan Holder name

Letter Date

Introductory text – the purpose of this letter.

Customers Intended Retirement Date

Contributions section:
Employers' name
Employers' contribution amount in last 12 months
Employee contribution amount in last 12 months

The current retirement value

Age 50 "Open Market Options Statement" (OMO)
Age 55 & 60 & wake up "Accessing Pension fund at this point may not me the best option".

All packs issued more than 6 months prior to ird - a Statement to customers to consider whether they are saving enough to meet their needs at retirement.

Values are not guarantees and are based on the information we hold for you. Values can go up or down.

Statement on whether guarantees and other special features e.g. with profits or GAOs apply and how to find out further information.

Statement warning that the current value of pension's savings may be subject to early exit charges or other withdrawal charges when accessed.

Arrange a Pensions Wise guidance appointment
Read the enclosed Money Advice Service (MAS) Guide
Read the enclosed Risk Warnings
Read the risk factors which relate to open market options

Get free impartial guidance

HM Government

Pension wise
Get to know your options

Before you decide how to access your pension benefits – use Pension wise:

It's a free and impartial service provided by the Government to help you understand your options, that has had positive reviews from users.

Arrange your appointment by telephone or online here:
Xxx
Xxx

Link to provider calculators, online guides, tools.

Tailored Risk Warnings

Age 50

- **Pension scams**
- **Employer contributions**
- **Making your income last**
- **Reviewing your investments**
- **Bringing your pensions together**

Age 55/65/70

- **Pension scams**
- **Employer contributions**
- **Making your income last**
- **Reduction in your savings allowance**
- **Means tested benefits & debts**
- **Choosing your provider**
- **Keeping investments under review**
- **Tax**

Age 75

- **Pension scams**
- **Lifetime allowance check**
- **Tax free cash**
- **Lasting power of attorney**
- **Tax risks to beneficiaries**
- **Security of income**
- **Life expectancy**
- **Reviewing your investments**
- **Means tested benefits & debts**

Risk Warnings Age 50

Pension scams

Consumers lost more than XX to pension scams last year. Make sure that someone else doesn't enjoy your retirement savings. Never respond to an offer given by a cold caller and make sure that you know what your options are. As you approach 55 you may become a target for such scammers so make sure you stay safe.

Employer contributions

If you are saving into a workplace pension then your employer will also be contributing. If you choose to access or move your pension you may lose these contributions. They are a valuable part of your pay and you should fully understand your options and the impact on your future income before taking action that could deprive you of them.

Making your income last

The money you have saved over the course of your life may have to last for the entirety of your retirement. The good news is that you will probably live for longer than you expect. But this does mean that you need to make sure that you are spending your money in a way that makes sure it lasts. Bear in mind that prices go up over time making basic necessities more expensive.

Reviewing your investments

Depending on how you want to spend your retirement you might want to change what you are invested in. It is important that you review your investments and make sure that they match your retirement aims. If you are invested in cash inflation could erode your income over time.

Bringing your pensions together

Like most people you will probably have had a number of jobs of the course of your working life. It is also likely that you may have a number of pensions. This can be hard to keep track of so you might want to consider bringing them together into a single pot which will make it easier to manage.

Risk Warnings Age 55/60/65/70

Pension ccams

Consumers lost more than XX to pension scams last year. Make sure that someone else doesn't enjoy your retirement savings. Never respond to unsolicited calls, texts or emails about your pension savings. As you are now able to access your pension savings, you may become a target for such scammers so make sure you stay safe.

Employer contributions

If you are saving into a workplace pension then your employer will also be contributing. If you choose to access or move your pension you may lose them. These contributions are a valuable part of your pay and you should fully understand your options and the impact on your future income before taking action that could deprive you of them.

Making your income last

The money you have saved over the course of your life will need to last for the entirety of your retirement. Many people underestimate how long they will live and taking too much at the start could mean you or any dependents run out later. It's therefore important to think about how much income you need, how long it will need to last and how you can manage it to ensure it doesn't run out while you still need it.. Bear in mind that prices go up over time making basic necessities more expensive.

Reduction in your savings allowance

It might not be in your best interests to access your pension savings right away. If you do access your funds then you could limit how much you will be able to put into your pension in a tax efficient manner.

Means tested benefits & debts

If you currently receive means tested benefits, withdrawing money from your pension may impact your eligibility. If you owe money to a company or an individual, they cannot make a claim against savings held in your pension. This also applies to County Court Judgments and Individual Voluntary Arrangements. Once you have withdrawn money from your pension, however, you may be expected to pay.

Choosing your provider

As your pension is held by us you are protected by the Financial Services Compensation Scheme in the unlikely event that your provider becomes insolvent. If you transfer out of this scheme you could lose this valuable protection. Different products have different features so you should shop around for the best deal.

Keeping investments under review

Depending on how you want to spend your retirement you might want to change what you are invested in. It is important that you review your investments and make sure that they match your retirement aims. If you are invested in cash, inflation could erode your income over time.

Tax

If you are still working or have another income, any money that you take out of your pension will be charged at the rate of tax you currently pay, or it could push you into a higher bracket. If you take out large amounts this could put in you in a different tax bracket and incur large charges.

Risk Warnings Age 75 +

Pension scams

Savers lost more than XX to pension scams last year. Make sure that someone else doesn't enjoy your retirement savings. Never respond to unsolicited calls, texts or emails about your pension savings. As you are now able to access your pension savings, you may become a target for such scammers so make sure you stay safe.

Lifetime allowance check

As you still have money within a pension and will soon be reaching your 75th birthday, a check needs to be carried out to see if you have exceeded your lifetime allowance. The lifetime allowance is the amount you can tax efficiently build up in pension benefits over the course of your life. If the value of your pension savings is above your lifetime allowance at the point the check is carried out, a tax charge may be payable.

Tax free cash

You are entitled to 25% of the money you have in your pension with us tax-free. You do not have to take this now, but, if you do not, then it could be subject to tax if it is paid out after you die.

Lasting power of attorney

One thing that you might want to consider is who you would trust to make decisions for you if you lose the capacity to make them. This is called Lasting Power of Attorney and allows people you trust to be able to make decisions about your finances and health. Without one, your loved ones may not be able to access your assets to help manage your financial affairs or make decisions about medical treatment on your behalf.

Tax risks to beneficiaries

If you decide to take your money from this pension pot now it could have tax consequences for any beneficiaries you may have. Money within a pension and money outside of one can be treated differently for inheritance tax purposes.

Security of income

As you still have funds you might want to use them to secure your income. As you are older than the average saver that accesses pension funds you may be able to get a higher rate of income than you would have if you'd used your pot for a secure income at an earlier stage. If you remain invested, you will need to keep monitoring your investments.

Life expectancy

People who reach the age of 75 are much more likely to reach the age of 90 than the population as a whole. You should think about this and make sure that you are using your money in a way that will continue to meet your needs.

Reviewing your investments

You need to regularly review your financial circumstances to make sure that the investment choices you've made, and any withdrawals you're taking, continue to meet your needs, capacity for loss and your attitude to risk. These can change as life goes on, particularly if your circumstances change.

Means tested benefits & debts

If you currently receive means tested benefits, withdrawing money from your pension may impact your eligibility. If you owe money to a company or an individual, they cannot make a claim against savings held in your pension. This also applies to County Court Judgments and Individual Voluntary Arrangements. Once you have withdrawn money from your pension, however, you may be expected to pay.

Contacts

MATT BURRELL
Policy Adviser, Long-Term Savings Policy
Matt.Burrell@abi.org.uk
Tel: +44 (0) 207 216 7370

ROB YUILLE
Assistant Director, Head of Long-Term Savings Policy
Rob.Yuille@abi.org.uk
Tel: +44 (0) 207 216 7613

Matt Burrell / Rob Yuille

Association of British Insurers
One America Square, 17 Crosswall,
London EC3N 2LB
T: 020 7600 3333 | **abi.org.uk**
May 2019