Briefing:
Age UK survey on attitudes to a secondary annuity market

This briefing looks at the main findings from polling commissioned by Age UK to uncover more information about older peoples' attitudes to cashing in an existing pension annuity.

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1. Key points

- Only five per cent of people with an existing annuity income said they would consider exchanging this for a cash lump sum.
- The polling therefore indicates there is likely to be limited demand.
- Factors that seem to increase the likelihood of considering cashing in pension income include:
    - Having a lower income
    - Being younger
    - Being a woman
- 59 per cent of people said they would not seek financial advice before deciding whether or not to cash in their income.
- Men are less likely to seek advice than women.
- Although based on a low sample size, the main reasons cited for considering taking the cash lump sum are for health, enjoyment and bequests, which provides an indication of people's motivations.

2. Introduction

Since April 2015, individuals have no longer been required to use most of their pension savings to purchase an annuity. However, this does not apply to people who have already annuitised their savings. HM Treasury has therefore recently consulted on the potential development of a secondary annuity market, allowing existing annuitants to sell the right for someone else to receive their annuity income in return for a lump sum.

While the evidence base relating to consumer behaviour at the point of, or in the run up to, retirement has developed over the past year and indicates a desire to use the pension freedoms, much less is known about older people's attitudes to exchanging existing pension income for a cash lump sum.

Following the launch of the HM Treasury consultation 'Creating a secondary annuity market', Age UK commissioned TNS[i] to undertake some polling of the general public to uncover more information on how people with an existing annuity income might respond, given the choice to exchange their income for a cash lump sum.

Overall, our polling indicates that demand for re-assigning or re-selling annuities could be very limited. Among older retired people (75+) there may be very little demand indeed, with most interest to be found among 60-64 year olds. Cashing in might prove more popular among people with lower value annuities than for those with more to lose.

The findings of this research fed into the positions taken in Age UK's response to the consultation, which can be found on our website.

We are particularly concerned that people receiving means-tested benefits might be prevented from taking a cash lump sum, even where it is in their interest to do so, because of a lack of clarity around the 'deprivation of assets' rules which aim to deter benefit recipients from deliberately reducing their assets in order to increase their eligibility.

The polling

Our polling aimed to address the lack of evidence, and provide an indication of how people might react if the flexibility to cash in an existing annuity is created.

It should be noted at the outset that it is only indicative – there may well be a difference between survey answers and how people act in practice.

In early June 2015, TNS polled 1,481 individuals aged 60 and above, including 671 men and 810 women. Of these:

- 57 per cent were receiving income from some private pension source, consisting of:
  - 15 per cent from a pension annuity alone
  - 7 per cent from both an annuity and a final salary pension scheme
  - 31 per cent from only a final salary scheme
  - 4 per cent had some pension from another source, including an unknown source or from their (late) husband
  - 41 per cent were receiving no private income
- In total, therefore, 22 per cent had some annuity income.

We identified that it was important that respondents did not confuse State and private pension sources, and the focus of these questions was explained clearly at the outset.

TNS also asked respondents questions about their age; the length of time they had been receiving their income; whether the income provided from their annuity was above or below £750 per year, and/or from their final salary scheme was above or below £6,000 per year; whether they would seek out advice before making the cashing in decision; why they might consider cashing in; and how satisfactory their household income is.

3. To cash in…or not to cash in?

Overall, only four per cent of people with a private pension income (annuity, final salary, or both) would consider cashing this in for a lump sum payment.

Among those who have an annuity, only five per cent would consider cashing it in, while 78 per cent would prefer to receive the income for the rest of their life. 17 per cent didn't know.

The percentage who would consider cashing in is slightly higher for those who have only an annuity income (i.e. no final salary pension) at six per cent.

This suggests there will be only limited demand for re-assigning or re-selling annuities. It may be, of course, that asking people whether they would 'in theory' consider relinquishing their income is different from the reality of offering people a cash lump sum, but if so many are unwilling to consider it in the first place it is likely to be a major barrier to creating a viable marketplace.

There are, however, several factors which appear to influence people's propensity to consider re-assigning or re-selling their annuity, as set out below.

Gender

There is some gender variation, with only two per cent of men willing to consider cashing in while six per cent of women would. This might be because women typically have a smaller annuity income, forming a lower part of the total household income, and so are more willing to exchange it for a cash lump sum. This has potential equality implications.

Income

Our polling did not directly ask about individual or household income. However, the survey included proxies for income, which suggest that people on lower income would be more willing to exchange their income for a lump sum payment.

Firstly, seven per cent of people in the DE socio-economic groups would consider cashing in their pension income, while 76 per cent would prefer to receive a secure income for the rest of their lives. This falls to four per cent among C1C2s (with 82 per cent preferring a lifetime income) and just two per cent among ABs (with 83 per cent preferring to keep their income).

Secondly, the survey asked whether the individual had income from their annuity of more than or less than £750 per year. Only three per cent of people with an income above this would consider selling their pension income, compared to nine per cent with income below. 82 per cent of the higher-income group would prefer to maintain their lifetime income, as would 78 per cent of the latter.

These findings support Age UK's view that for the secondary annuity market to be considered a success it must work for the lower-income group of consumers. The government and regulators must ensure that people with a lower level of annuity income can access the market when in their interest to do so, and achieve a fair price from providers.

Age and length of time receiving the income

One clear trend is for younger people, or those who have been receiving their pension income for less time, to be more likely to want to re-assign or sell it. Ten per cent of people aged 60-64 would consider cashing in their income, falling to just two per cent of people in their 70s and no-one in their 80s. This could be because re-assigning or re-selling is more likely to appeal to younger people who were forced to buy an annuity just before greater pension flexibility was introduced, or who received particularly low annuity rates as a result of the long-term decline in interest rates.

This allays some concerns about undue exposure to risk for people later on in retirement who may be suffering from cognitive decline, although it definitely does not mean that this issue can be ignored completely.

A similar pattern is observed when examined by the length of time an individual has been receiving their annuity income. Nine per cent of people who had received their income for up to five years would consider cashing it in, falling to just two per cent of those who had received it for over 10 years.

The number of people stating they prefer to receive an income increases in inverse proportions.

This could be related to levels of income – among people with annuity income, just 23 per cent of people receiving it for under five years received over £750 per year, compared to 51 per cent of people who had received it for more than ten years. This again reinforces the argument for ensuring that people with lower value annuities should be prioritised by government and regulators as this new market develops.

Working status

People still in work are more likely to consider cashing in their income - seven per cent of those still working compared to three per cent of those already fully retired. As people still working are more likely to be towards the younger end of the age spectrum, this relates to the point above.

Home ownership v. tenancy

Tenants in our survey generally had less access to private pension income, and those that did have lower final salary but broadly comparable annuity incomes. Far more tenants (60 per cent) than homeowners (36 per cent) were not receiving any private pension income.

Those that did were more likely to receive smaller incomes. Only 31 per cent of tenants with final salary pensions received more than £6,000 a year, compared to 59 per cent of homeowners. And 30 per cent of tenants' with an annuity received below £750 per year, compared to 21 per cent of homeowners. However, similar percentages of tenants and homeowners received over £750 per year (62 and 61 per cent respectively) - this is accounted for by far fewer 'don't know' answers among tenants.

In spite of these differences, the proportion of tenants with annuity income who are considering cashing it in was broadly comparable to that of homeowners.

4. Taking advice

It is worrying that 59 per cent of people with income from an annuity said they would not seek advice before making the decision about whether to cash it in, compared to 36 per cent who would.

Age UK supports mandating advice for those with sufficient income, and guidance where advice is disproportionately expensive, and these findings reinforce this argument – anyone considering cashing in their pension income must be sufficiently informed of the consequences of doing so.

Among people whose only private pension came from a pension annuity, the percentage of people who would not take advice fell to 55 per cent, with 41 per cent saying they would seek advice, while it was highest among people who had both an annuity and final salary income.

Many people answering this question would, of course, refuse advice because they have no interest in cashing in their annuity income. However given the low numbers of people considering taking the cash lump sum, the high numbers of people not seeking advice is likely to incorporate many of this group, although further investigation is needed.

Gender

Men were less likely than women to seek advice, with 61 per cent and 57 per cent respectively stating they would not seek it out.

Income

A slightly higher number of people among the AB socio-economic group (63 per cent) reported they would not seek advice than among the C1C2 (58 per cent) and DE (52 per cent) groups.

Conversely, among people with an annuity income below £750 per year, a greater proportion reported they would not seek advice (70 per cent) than did people with over £750 (57 per cent).

5. Why might people cash in their income?

It should be noted that the sample sizes in this part of the polling are not large enough to develop any firm conclusions, but hopefully this provides an insight into why people might cash in their pension income.

The three top reasons that would motivate people to cash in their private pensions are:

- For their own health (25%)
- Wanting to enjoy themselves (18%)
- To give money to friends and family (12%)

Other possible reasons we gave included repaying mortgages and debts but this did not prove very appealing, with only four per cent and one per cent respectively considering this a motivation. Spending on their home (6%) was only slightly more likely to be cited.

42% of respondents question stated ‘none/nothing/I wouldn’t’ as the reason.

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[i] http://www.tnsglobal.com/uk