Research report

Alternative Approaches to Obtaining Information about Income in Retirement

An investigation into why customers may not return an enquiry form asking about income in retirement (P161) and what methods may be effective in encouraging them to supply P161 information.

Individual Customer Directorate, HMRC

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Customer Understanding Team
part of the Customer Units

About the Individuals Customer Directorate (ICD)

ICD is part of the Personal Tax Group in HMRC, which has responsibility for personal tax policy and operations as well as some work streams with personal and business customers.

Our role is to work with Directorates across the Department to design and deliver customer focused operating services to individual customers to make it as easy as possible for them to get their tax affairs right. We also manage HMRC cross-cutting areas that affect our customers such as the complaints strategy.

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Research requirement (background to the project)

All customers are sent a P161 Pension Enquiry form three months before they reach state pension age or when HMRC is notified that an occupational pension has been put into payment. The P161 asks customers to provide details about their pension and other income. In 2006/2007 approximately 590,000 P161s were issued.

The P161 information is used to calculate any allowances and tax that should be deducted, through the individual's tax code. Research was required to explore several issues concern, namely:

- Customers may not know why they receive a P161.
- A number of P161s issued are not returned.
- 15% of returned P161s contain missing or unclear information.
- 19% of P161s require follow up action from HMRC and further contact with the customer.

The objectives of the research were:

- To understand why customers may not be returning P161s.
- To determine the best time to request retirement income information.
- To explore how HMRC could persuade the customer that it is in their best interests to provide P161 information.
- To suggest what alternative methods might exist for obtaining P161 information and the appeal of these methods.
- To identify which alternative methods are likely to be most effective in encouraging customers to provide this information.
- To explore how the effectiveness of these alternative methods could be maximised.

Who did the work (research agency)

The research was conducted by Research Works Ltd, a specialist qualitative research agency.

When the research took place

The interviews were conducted between 28 January and 19 March 2008.

Method, Data and Tools used, Sample

The interviews were conducted in Northampton, Banbury, Sutton Coldfield, Leicester, Stockport, Oldham, St Albans, Northampton and Surrey. A total of 32 depth interviews of one hour duration and 8 triad interviews of 1.5 hours duration were conducted. These can be broken down as follows:

- 16 depth and 4 triad interviews with respondents who have yet to receive their P161.
- 16 depth and 4 triad interviews with respondents who have received their P161.
- An equal mix of male and female respondents.
- An equal mix of ABC1 and C2DE respondents.

The sample included representation of self-assessment taxpayers, PAYE taxpayers, taxpayers with multiple sources of income and those who are retired and not working.

Main Findings

Most customers did not understand why they receive a P161. There was a lack of understanding about the role of the form, and more generally about tax on pension income. It was clear that the difficulties revealed when completing the form were likely to result in incomplete or inaccurate forms being returned or not returned at all.

It emerged that difficulties completing the P161 are due to a lack of understanding of the relationship between retirement age, pensions and tax as well as specific problems in completing the P161.

The preferred method for obtaining more information and enabling individuals to complete their P161 accurately was paper and telephone, with face-to-face support being available for a minority of the very under-confident (usually women).

Partners who could work with HMRC to address the lack of understanding about the implications of reaching retirement age include the Department of Work and Pensions (DWP) and private pension providers. There was no understanding how the roles of DWP and HMRC differed.

Context

Women aged 59¾ and men aged 64¾ are officially approaching state pension age. However, many customers did not perceive themselves as nearing retirement. A number felt that retirement had 'crept up' on them and they were reluctant to accept that a new life stage was arriving. If customers are not necessarily focussed on retirement, the arrival of the P161 at state pension age is unexpected.

The erosion of a ‘retirement age’ has been driven by financial circumstances, as well as changing attitudes towards working. Some individuals remained under financial pressure (for example, paying off mortgages or providing for children living at home). Disappointing pension performance was also a factor. Others simply preferred to keep working and envisaged they would become bored if they retired.

Understanding about what happens ‘officially’ when someone reaches retirement age, and how to find out your state pension entitlement, was sketchy. There was also a lack of understanding about where to go to find out. Customers tended to rely on informal sources of information such as close friends and relatives to bring them up-to-speed. There was an assumption that pensions ‘would just happen’. Many respondents felt that HMRC should ‘know this information already’.

Working customers were the least likely to perceive themselves as ‘retired’, and still saw themselves as taxpayers. Non-working customers were more likely to be confused about their tax obligations. Definitions of ‘working’ were flexible – many working ‘a few hours here and there’ were less prepared to declare what they considered ‘negligible’ income.

ABC1 customers are more likely to have an understanding of their tax obligations, and to have access to people ‘in the know’ who can inform and support them through new processes. C2DE customers are more likely to have disorganised affairs – particularly in terms of working patterns (e.g. working cash-in-hand or part-time) – and less likely to be knowledgeable about tax.

A small group of female customers need considerable support. These were the respondents most likely to ‘leave it [the P161] in a drawer’. They tended to have had less contact with tax throughout their lives and to rely on other people. For C2DE (and some female) customers it is particularly important that the P161 information request is self-explanatory.

Reactions to receiving the P161

For stimulus material, customers were given the current P161 to look at as well as a new P161 which is in development.

The fact that the two-page P161 looks easy enough to complete is a strength, which is also a key weakness. Customers divided into two camps:

- The majority who were keen to complete the form. Many appeared to want to return the form quickly, but there were a number *too keen* to return the form that meant that they were likely to complete it inaccurately or without all the relevant information.
- A minority who were intimidated by the form, felt anxious and would either leave it or complete it inaccurately.

There was a lack of understanding about what the P161 was trying to achieve. The former title 'Pension Enquiry' is misleading. Many customers thought that the information they provided would affect their pension entitlement. On the new P161 the new title 'Pension Coding Form' is more accurate.

Completing the P161

The process of completing the P161 was found to be confusing, specifically:

- Box 1 – Personal Details - Customers queried the relevance of asking for their partner's date of birth (or death).
- Box 2 – State Pension - Many could not answer the question 'When do you intend to retire from paid employment?' The majority guessed at the answer. They were also flummoxed by the question 'From what date does your pension start?' Many claimed they did not have notification or could not remember whether they had been notified. A minority did not know what 'deferred' meant.
- Box 3 – Other Pensions - This box was easier to complete as customers tended to have the relevant information from their pension providers. However, the new form's instructions about 'triviality' and 'wind-up lump sums' were seen as meaningless.
- Box 4 – Earnings - This box posed issues for self-employed customers who were unable to quote monthly or weekly pay (new version asks for estimated profits).
- Box 5 – Job Seekers Allowance or Taxable Incapacity Benefit - There was a lack of understanding about why customers needed to quote their allowances and benefits. Respondents also found it difficult to quote weekly amounts.
- Box 6 – Other Taxable Income - This box proved contentious and there was evidence that customers may not declare information.
- Box 7 – Gifts to Charity - There was a lack of understanding about 'Gift Aid'.

In order to address difficulties interpreting the P161, several customers said that they would add their own written messages. It was clear that although the P161 was not experienced as problematic, customers did not fully understand the information requirements and the importance of accuracy.

Format

This age group are comfortable with paper and felt most confident providing 'official' information on paper (they can file paper, refer back to paper and photocopy the pages).

The paper format also suited their approach to completing the P161. They tended to complete the form in stages, putting it to one side and taking their time to understand it at their own pace.

There was a strong preference for retaining the paper format, but in addition the provision of support to complete the P161 via the telephone and (to a much lesser extent) the offer of face-to-face services appealed.

There was virtually no appetite for an online or email service. A relatively high number of respondents were not computer literate and some resented the expectation that they should become so. Even those who were computer literate were not the most confident users, particularly in terms of conducting transactions online with worries about PCs crashing and whether the form would 'arrive safely'. Although some customers used email, it was not a method of communication they relied upon. They also had concerns about security and confidentiality.

The telephone was the preferred alternative support channel. The strengths of a telephone service were seen as:

- Familiarity with seeking advice over the telephone.
- Speaking to a person (i.e. human, friendly contact).
- Personalised support (i.e. answers to questions about *my* situation).

There was little appetite for a P161 telephone completion service. The main objection was that a telephone completion service was not required – respondents were more than comfortable with paper.

Other objections included:

- *'How do we know that the person we are talking to on the phone and giving really personal details to is not eating a biscuit and talking to their mate?'*
- Data security.
- Additional cost.
- A significant minority pointed out that a telephone service was not appropriate for those who are hearing impaired.
- Arranging an appointment time was perceived as 'inflexible'.

The argument that telephone completion would be more time efficient was not found persuasive and customers felt that the process would be, if anything, more long-winded as:

- It requires gathering information together or scurrying around to find information whilst on the call.
- It requires relaying the information to the telephone operator (often presumed to be inexpert and with poor English).
- The form would need to be sent in the post to the individual to be checked and signed

The consensus was that telephone help line support should be offered for those who have queries when completing the P161 on paper. For those who need help with specific queries, telephone support could provide an appropriately tailored response.

Covering letter

The idea of a draft covering letter was well received. Customers appreciated the context it provided. They were surprised that the form arrives by itself, without any other written support. A covering letter would mean that customers were more informed prior to completing the P161.

The covering letter should cover the basics including the information that:

- Income can change at this time due to new entitlements (e.g. pensions) and changing work patterns.
- Tax is due on pensions and other types of income.
- It is important to ensure that you are on the right tax code so that you pay the correct amount.
- HMRC need to update their records because different types of income may be coming from different sources of which they are unaware.

The covering letter should also include a short 'how to' guide to explain what information is required in order to complete the form.

Guidance notes

Guidance notes could improve the quality of information supplied without inspiring additional customer contact as well as support accurate completion of each section and persuade respondents to divulge information.

Response to the example guidance notes was positive. However, there was resistance to substantially increasing the amount of paper in the P161 mailing. The idea of having three separate pieces – the P161, covering letter and guidance notes - was seen as both unappealing and unnecessary.

Incorporating the guidance within the form was seen to have several advantages, namely:

- You can clearly see the part of the form to which the notes are referring.
- All the information is in one place.
- It takes less paper than providing the notes separately.

However, incorporating the guidance within the form was also seen to have the disadvantage of making the P161 appear more complicated.

Overall, customers were resistant to separate guidance notes and their preferred option was the inclusion of guidance notes within each section.

Messaging

At present there is a tendency to skip information or ‘guess’ rather than seek support to complete the P161 accurately. A minority of respondents felt that it was up to HMRC to resolve any difficulties, expecting HMRC to return the form with any queries marked. This showed that respondents were not taking full responsibility for understanding the form and completing it accurately. The dynamic of the HMRC as ‘parent’ and taxpayer as ‘child’ was particularly noticeable amongst PAYE taxpayers.

It was often remarked that the telephone support number lacked prominence. Although a telephone number is quoted on both versions of the form, respondents did not feel *invited* to call and customers expected a freephone number.

A message about avoiding complexity would be appealing since those approaching retirement would prefer their affairs to be straightforward. Also, a message about the mutual benefits of producing an accurate P161 (for example, a ’please help us to help you’ message) would be welcomed.

Summary

There is a lack of understanding about the role of the P161 and more generally about the relationship between retirement age, pensions and tax. This impacts on whether the form is completed accurately.

This customer group prefers to provide this type of information by paper and may need support to do this.