



*Research report*

# Communicating Pensions Tax

Finding the best way to tell pensioners  
that the tax on their pensions might not  
be right

**Individuals Customer Directorate, HMRC**

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## *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)*

When people retire their circumstances often change in other ways, including financially. Many will start to receive a private or state pension. Some will leave work or change their work pattern, perhaps with a new employer. Together with the fact that a new pensioner may, depending on their age and income, be eligible to a greater tax-free income, this means that their tax affairs may change significantly. HMRC rely on timely notification of these changes and cannot match all of an individual's pay and tax until all the necessary details have been received. This can take some time, especially with so much potentially changing when someone retires. This can mean that errors accumulate over a period of time (until HMRC systems identify them) and it may be some time before the customer is aware that there is a mistake. By the time they are made aware of the mistake they may have a sum of tax to repay or to be refunded, which in some cases can be sizeable.

This research was designed to help HMRC to understand the best way to communicate these underpayments and overpayments of tax to pensioners. The main aims of the research were:

- To explore customer knowledge and attitudes around pensions and tax in order to assess likely responses to the news of underpayment or overpayment:
  - The attitudinal climate (for example, attitudes and preconceptions around pensions and tax).
  - Likely responses to the news of the underpayment of tax.
  - Emotional versus rational responses to the news.
  - Likely action on receiving this news.
  - Likely responses to the news of overpayment of tax.
  - The likely effect on customers' perceptions of HMRC.
- To provide guidance on developing the most suitable form of communication including:
  - How can we best communicate a message about under/overpayment to our customers? What information do customers in this situation need from HMRC? What support or guidance will our customers need?
  - Which channels would customers prefer for this type of communication
  - Possible effects of our communication on customers' perceptions of HMRC?

## *Who did the work (research agency)*

CML Research, a specialist qualitative research agency, carried out this research.

## *When the research took place*

The research was completed in February 2008.

## *Method, data and tools used*

The research used the following methods of qualitative data collection:

- 15 one hour discussion groups with pensioners (5-7 respondents per group).
- 7 one hour in-depth interviews with Department for Work and Pensions (DWP) and voluntary sector organisation (VSO) stakeholders. 3 thirty to forty-five minute in-depth interviews with HMRC staff.

In both the pensioner discussion groups and the stakeholder interviews, respondents were shown mocked-up versions of overpayment and underpayment communications. These examples were designed to stimulate discussion and it was made clear to respondents that under/overpayments of tax only affects a minority of pensioners. Respondents were then asked to imagine their own individual responses to the news and the form of communication.

## *Sample*

The pensioners were recruited to the discussion groups on the following criteria:

- Of State Pension Age and had been receiving the State Pension for at least 1 year.
- Receiving income from at least one other source, with total income above the tax threshold.
- Women aged 61 – 75 and men aged 66 – 80.

The groups were split by:

- Income level of £7,000 – £10,000 versus over £10,000 per year.
- Years receiving State Pension of 1 – 6 years versus 7 – 15 years.
- Gender - male versus female groups.
- Socio-Economic Group (SEG) - ABC1 versus C1C2 versus C2DERegion - Scotland (Edinburgh), rural (Farnham), south coast (Bournemouth), north (Leeds) and south east (Richmond).

- HMRC front line staff with experience of dealing with enquiries or complaints from customers, including pensioners.
- DWP and voluntary sector stakeholders including those working closely with pensioners on pensions and tax matters.
- Stakeholders working in the wider context, and able to comment on the 'bigger picture'.

## *Main Findings*

### **Customer knowledge and attitudes around pensions and tax**

There was considerable variation across the sample in terms of knowledge about the tax system and financial situation across the pensioners we spoke to. There was often a link between knowledge of the tax system and income, with the more affluent participants tending to be more knowledgeable about tax thresholds and tax codes. The majority of participants, while aware they are paying tax, rely on HMRC to contact them with any problems. Respondents on the lowest incomes knew least about tax and pensions and were the most vulnerable to worrying about money.

Regardless of income, all respondents were strongly against being in debt. They were keen to pay off any debts straight away, although some were more capable of this than others.

#### Pensioners really want to understand their tax affairs

HMRC staff interviewed feel that there is a wide range of tax knowledge amongst pensioners. This means that each individual requires slightly different support and information. However, those interviewed also feel that there are similarities across the pensioners who tend to contact HMRC, namely:

- They are often very keen (more so than younger customers) to understand any changes to their financial or tax situation.
- They tend to have more time than the general public to think about and question communications they receive about their finances.
- They tend to experience more worry over their financial situation, particularly women (whose late husband's perhaps used to deal with their finances).

### **Reactions to concept of underpayment / overpayment of tax**

#### Reaction to underpayment

Within our focus groups there were three different stages to pensioners' reactions on receiving a communication about an underpayment from HMRC:

- Emotional - Surprise or shock are likely to be experienced by most. Beyond this, a range of emotions depending on the individual's knowledge and financial situation (from disappointment through to fear).
- Rational - The rational response involved asking a lot of questions. Particularly important were why and how this had happened and what would happen next.
- Action - For many, the first action would be to contact HMRC to find out more or get an explanation. Few claimed they would refuse to pay, even if they believed the situation to be HMRC's fault.

### Reaction to overpayment

Reactions to overpayment were much less complex. There was a sense of surprise and pleasure amongst respondents. Some respondents were impressed with HMRC for paying it back and some said they wouldn't have expected them to. Some (particularly, the more knowledgeable/financially secure) respondents said that they would be annoyed that HMRC had had their money for that long. Respondents on a lower income felt they would be less likely to question this and just be happy to be getting the money back.

### **Perceptions of HMRC**

News of an underpayment of tax was most likely to simply reinforce negative views of HMRC. Many respondents said that news of an underpayment would damage their trust in HMRC.

Overpayment was less likely to affect respondent's perceptions about HMRC. Some talked about feeling slightly more positive as it was a good experience to get paid some unexpected money, whoever it's from. There could be some negativity around the situation as it was still a mistake and could work against the pensioner next time. They questioned if anything was being done to prevent it happening again.

### **Responses to communications**

#### Communications Preferences

The way that the under/overpayment is communicated is key in determining pensioners' response to it. Many of the emotional reactions in discussion groups were in response to the clarity/tone of the communications, as well as the news itself.

Across the sample, a *letter* was generally thought the best method of communicating this kind of news for the following reasons:

- It's an official document
- A desire to have something tangible to keep hold of and refer back to.

- The ability to think and digest it in their own time.
- It would be more likely to be written in full sentences than a leaflet.

Most respondents agreed that it should be a one-off letter with all the information in it.

There was limited support for other channels of communication. Few respondents would welcome a phone call about this news, although many respondents did want easy ways to get in touch with HMRC once they'd received the letter. Some suggested that vulnerable pensioners might need face-to-face contact to discuss the issues. Few respondents suggested the use of the Internet as a channel, although a small minority of participants were online and thought that the provision of a web address to look up more information could be useful. One HMRC staff member suggested that, if something was due to affect a number of pensioners, there could be some kind of announcement to the public/Pensioners as a whole.

### Reaction to research stimulus

The stimulus presented to respondents as part of the discussion groups showed a situation where tax had been underpaid over a long period of time, and so repayment was backdated. Many respondents were surprised it would take this long to be told about it.

Most respondents claimed that they would look at the figures provided to check them. Only the most vulnerable/least knowledgeable amongst our respondents thought they would avoid doing this. Checking the figures was particularly of interest for those who keep a record of their finances. These pensioners wanted figures clearly laid out, with an explanation for each calculation. Some said that if they found the figures hard to understand, they might get the impression that HMRC are trying to 'hide something'.

Some respondents were unsure whether it was their responsibility to act or HMRC's. However, most established fairly quickly that the next step was in the hands of HMRC, and the letter prompted the following questions:

- What will HMRC do to rectify this situation?
- Are they going to treat me as an individual or just a number?
- As it's their fault, will they compromise on what happens next?
- What will be the method of collecting the underpayment?

Respondents hoped that in this situation HMRC would let customers pay back what they could afford.

### Preferred letter contents

- Respondents would like the letter to talk about a discussion about the situation, rather than HMRC simply deciding how much and when it would be repaid.

- Most said that they would also want the letter to show how the collection would affect them (for example, how much will be taken, how much will that leave them with a week/month, when will the collection start and finish).
- Communications that stated 'Part of this payment is already being collected' were believed to be unfair. There was a hope amongst respondents that HMRC would inform them before starting to collect a payment.

Some of our respondents felt that they might interpret the wording of the communications (for example, 'we weren't aware') negatively as they felt it implied a lack of communication between HMRC and other government departments or pension providers.

## **Summary**

Among the pensioners in these discussion groups (in line with wider society) there is a wide spectrum of knowledge about tax and financial situations. Reactions to the idea of underpayment are negative and many claim they would contact HMRC to check and make sure the calculations were correct, although few claim they would refuse to pay. Reactions to the idea of overpayment were less negative.

Respondents would prefer a letter from HMRC outlining their situation and their options (in terms of payment or refund) set out clearly. They would like the letter to signpost sources of (HMRC and Voluntary Sector) information and support so that they are clear what they need to do to resolve the situation.