GfK. Growth from Knowledge

At Retirement
Consumer research – exploring changes in the retirement landscape

A report for: **Financial Conduct Authority**

The views expressed in this report are those of the authors and not necessarily those of the FCA (nor do they reflect FCA policy or constitute guidance to firms).

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1 GLOSSARY

To clarify terms used in this report:

- **Decumulation** - The conversion of pension assets accumulated during an employee's working life into pension income to be spent during retired life.
- **Defined Benefit (DB) Pension** – The holder's pension will be related to their salary and the number of years they have been in the scheme. Automatically paid at retirement. Also known as **Final Salary** or **Average Salary** schemes.
- **Defined Contribution (DC) Scheme –** The holder's pension will depend on the value of contributions to the scheme and the rate of return achieved on their investment. This will provide a pension 'pot' on retirement which the holder will need to make a decision on what to do with. Also known as a **Money Purchase Scheme.**
- **Financial Research Survey (FRS)** – A proprietary survey of the GB marketplace run by GfK: 60,000 interviews per year using mixed mode interviewing and with a sample representative of the GB population. Provided a source of background information for this project, and used for weighting purposes (see Technical Report).
- **Guidance guarantee** - Government undertaking to ensure that every individual with DC pension savings will be able to access impartial, high quality guidance as they approach retirement.
- **Occupational Pension** – Pension arranged via the consumer's employer.
- **Open Market Option (OMO)** – The option to purchase a retirement product from a provider other than the pension provider.
- **Pre- and Post-Budget –** Refers to the retirement period before and after the changes to pension arrangements announced in the 2014 Budget. In the survey, those who had retired (by the definition below) were split into those retiring within the six months following the Budget announcement (Post-Budget) and those retiring in the six months prior (Pre-Budget). Those who retired longer than 12 months ago were excluded from the research.
- **Pre**-**retired** – All those who expect to retire (by the definition below) by August 2019 (five years from the date of the interview).
- **Private pension** – Pension arranged by the consumer privately (i.e. not via an employer).
- **Retired** - For the purposes of this report, a "retired" individual is one who is over 55 years old, who has either started drawing down from / accessing their pension savings or made the decision to 'defer' – i.e. put off accessing such

pension savings. This includes people who may still be in full time or part-time employment. Please note that all those who have made a decision to defer intend to make a decision within the next year; those who intend to defer for longer were excluded from the study.

- **SERPS and the State Second Pension:** The additional State Pension was previously known as the State Earnings Related Pension Scheme (SERPS) and the State Second Pension. Entitlement to an extra amount from the state is assessed on National Insurance contributions.

2 BACKGROUND TO THE STUDY

2.1 Overall objective

The overarching objective of this research is to provide the Financial Conduct Authority (FCA) with a thorough understanding of decision making about Defined Contribution (DC) pensions at retirement. In order to do this, the research targets two groups of consumers: those approaching retirement (in the next five years) and people who have recently retired (in the last 12 months). All respondents held a DC pension, which they regarded as their main pension (although it may have been held alongside other retirement products).

2.2 **Specific objectives:** To assess

- Awareness and understanding of proposed changes by the government;
- Awareness of and reactions to the guidance guarantee announcement;
- Size of pension 'pot', level of income needed in retirement, level of income expected in retirement, other sources of income;
- What retirees have chosen to do or will choose to do with their pension 'pot';
- The factors influencing choices;
- What people take into account in decision making and attitudes towards decision making;
- Awareness and understanding of options;
- Understanding of annuities, income drawdown and enhanced annuities.

3 EXECUTIVE SUMMARY

3.1 The at-retirement landscape

Pension funds and pension income

For around one half of those interviewed who hold a DC pension as their main pension provision their ‘pot’ is estimated (by them) to be less than £50k (58% Retired, 44% PPre-retired). The Pre-retired group estimate that they have income needs of £17k per year in retirement, whilst for the Retired this is lower at £13k. More than half (62%) of retired consumers do not believe their DC pension will deliver all the income they feel they will need in retirement and analysis of pension ‘pot’ sizes suggests that one in five are over-optimistic about the income they will get from their DC pension savings (retired 18%, Pre-retired 21%).

The majority of people in this cohort (78% Retired, 90% Pre-retired) have at least one other source of income, not including the state pension. Of the 42% who have a pension arranged through their employer, a quarter (23%) also have a defined benefit (DB) pension.

Preparedness and engagement

Consumers do not see themselves as very well prepared for at-retirement decisions. Only one third (36%) of those at or close to retirement feel completely or very well prepared to make decisions about their retirement income. Indeed one in five (20%) say they have or will put off retirement planning for fear they will make the wrong decision. However, consumers do see themselves as interested in personal finance, with about half (50% Retired, 58% Pre-retired) saying they are both interested and either knowledgeable or an expert when it comes to personal finances in general. This may be because the at-retirement decision heightens engagement for this group of consumers. It appears that consumers put off planning and decision making until very close to retirement. However, as retirement approaches, two thirds of the Retired (65%) report that they put a lot of effort into the retirement process, compared to two in five of the Pre-retired (41%).

Consumers who take advice, and those with larger pension ‘pots’ (£50k+) tend to feel more prepared.

Product choice

Nearly half of those who have retired chose to purchase an annuity – 16% with all of their pension 'pot' and 31% with some of their 'pot'. Take up of income drawdown is significantly lower, with only 15% choosing this option at retirement. This trend is likely to reverse. Those coming up to retirement report that they are less likely to choose an annuity (32%), while the number expecting to use income drawdown is much higher (38%).

It is also interesting to note that 20% of those who have retired and are drawing a pension are unsure of what product type they purchased.

Although some consumers are exercising their Open Market Option (OMO), 40% who purchase an annuity stay with their pension provider. One in five (22%[1]) of those who stay with their existing pension provider for the decumulation phase do not know they have the option to switch.

Those who know that they can switch find this information from a range of sources and, while the pension provider is a key source of information (mentioned by a third), people are equally likely to get this information from an advisor.

Consumers say their decision to switch or stay with the current provider is rate-driven, with those who stayed with their current provider likely to report that they got one of the best rates available (46%[2]) and those who switch saying they wanted a better rate than that offered by their pension provider (51%). At the same time, consumers can be risk averse, with a third (31%[3]) saying it is important to choose a brand they trust for a long term product.

Half of those already retired took a cash lump sum (51%), generally within the 25% tax free lump sum allowance.

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[1] Low base: all who have taken an annuity and staying with their provider (55)
[2] Low base: all who have taken an annuity and staying with their provider (55)
[3] Low base: all who have taken an annuity and staying with their provider (55)

A significant proportion (38%) of those who have taken or intend to take lump sums will use these funds for income. The majority of those taking a lump sum (70% of Retired, 79% of Pre-retired) say they will put the money in savings, a current account or investments. All of these options allow consumers access to their funds as needed. Half (54% of Retired, 47% of Pre-retired) will use the money for other reasons, including home repairs, holidays or special occasions, and a third of retirees (32%) have used their lump sum to pay off a debt or a mortgage with fewer (19%) of those yet to retire intending to do so.

Understanding of products

While awareness of the product options available is high, there is evidence of some confusion about what products actually offer in terms of income, guarantees and bequest provision.

Nearly all of our respondents (94% Retired, 93% Pre-retired) have heard of annuities and awareness of income drawdown is also relatively high (66% Retired, 73% Pre-retired). However, some consumers, who say they are aware of annuities and income drawdown are not clear about what these products offer. For example, 15% of those who have bought or intend to buy an annuity think they can leave a lump sum to their dependants, 6% think their income could run out and 7% think they could lose some of their pension fund. One in ten of those using an income drawdown product thinks that this will provide a guaranteed income for the rest of their life, not realising that their funds could run out.

Those who plan to retire in three to five years' time are more likely to agree that they put off retirement planning because it is so complex (28% compared to 17% of those retiring in the next two years). Similarly, those whose retirement is further away are more likely to put off planning because they are afraid of making the wrong decision (26% vs 16% of those retiring within two years).

Three in five of those in poor health (57%) are aware that some providers offer a higher rate for certain medical conditions / lifestyle choices and this is lower than awareness amongst those in good health.

How consumers make decisions

When presented with a list of factors that should or could be considered when planning for retirement, consumers say that they take a broad range of factors into account in their decision making.

Income needed, fund size and longevity are the key factors considered by most, while the impact of inflation is considered more by those with larger 'pots' (£50k+). Very few think about the need for long term care (9% of Retired, 15% of Pre-retired). When making decisions about lump sums, both retirees and those coming up to retirement say they consider longevity and tax implications.

Advice and information

Forty percent of respondents claim to have received regulated advice about their retirement choices, more so those with private pensions. Those who get advice feel better prepared to make decisions at retirement and are clearer about those decisions.

Information received from pension providers reportedly increases close to or at retirement, but one fifth of the Retired in our sample (21%) cannot recall receiving any information from their provider.

Letters and other printed material account for the bulk of communications from providers, with very few receiving face-to-face or phone advice or guidance. Indeed, where consumers have more than one source, they find printed communications more important than person-to-person contact in decision making, although this does not mean that there is not a role for both.

3.2 Budget announcements and future landscape

Awareness of changes announced in the Budget

There is a high degree of awareness of the changes announced in the Budget and people are already changing their decision making in response.

Of those who are aware, over one third of those who retired after the Budget (37%) and more of those yet to retire (45%) say the announcement has changed their decisions about how to manage their pension, with the emphasis on accessing funds more easily.

Those who retired post-Budget (in the past 6 months) are less likely to take a lump sum. About one fifth of the Pre-retired say they will not buy an annuity.

Bearing in mind that the Retired group in the study only covers people who had made a decision or would do so this year, a sizeable proportion of people who retired after the Budget announcement seem to be putting off their decision making, either having deferred (20%) or having bought a one year annuity (2%).

Among those who have not yet made a decision about their pension, people who have received regulated advice are much more likely to say they will use income drawdown (49% with advice vs 32% without), but are equally likely to take out an annuity as those who have not received regulated advice.

As mentioned earlier, those who have not yet retired are much more likely to consider income drawdown. However, we are unable to judge accurately the number of people that will actually enter into an income drawdown arrangement since we have not collected historic data to compare stated preferences and actual purchasing outcomes.

Over half (61% Retired, 57% Pre-retired) are aware of the guidance guarantee. Those who are aware have a largely positive reaction to the guidance guarantee, with just 13% of those who have retired and 9% of those approaching retirement feeling negative about the forthcoming service.

It is worth noting that pensions are only one part of the asset pool for this group of individuals. Most of those interviewed had other sources of income in addition to their DC savings, particularly savings or investments, and a quarter intend to use earned income to fund their retirement. This survey did not ask about expectations of the State Pension, but in fact it will provide a substantial contribution, particularly for those on lower incomes. Those with large pension ‘pots’, who tend to have higher income pre-retirement, are more likely to have other sources of income.

The cohort who make up this study are as likely to have a private pension as an occupational pension and only a small percentage have transferred from DB to DC. Their situation may be very different to that of people entering the workplace when DB pensions are withdrawn (as is now largely the case) or when more employees are likely to have DC pensions because of automatic enrolment[4].

[4] Under a law introduced in 2012, all employers must offer a workplace pension scheme and automatically enrol eligible workers in it. This requirement has applied to larger employers since October 2012 and by 2018 will apply to all employers. https://www.moneyadviceservice.org.uk/en/articles/automatic-enrolment-into-a-workplace-pension

4 METHODOLOGY

This is a quantitative study. The data was collected online, using a web-based survey. This approach represented the best solution due to the low incidence of the target audience in the general population (fewer than 2% of the population are recently retired and around 5% of the total population are approaching retirement (intending to retire in the next five years with a DC pension[5]).

All those taking part were asked about their pension holdings. Those who did not have a pension, were unsure if they had one or whether it was DC or DB, or whose main scheme was DB were all excluded.

Note that all respondents were asked about their main pension. Where people have more than one DC fund, we may assume that their main fund will be the larger or largest. By excluding those who have a DC pension alongside a main DB pension and asking people to report on their main pension fund, the research results are likely to be focused on larger DC pensions than would be the case if we asked about all DC pension funds.

Participants were sent an email invitation to take part in the research, containing a link to the survey. The survey then screened respondents to include those who have either a) retired in the last 12 months or b) intend to do so in the next five years. The screening process also ensured that all participants have a DC scheme, either as their sole or main pension provision, or jointly with a salary-related scheme. Those intending to defer for longer than one year were not included in the research.
Two groups of respondents were interviewed in order to cover the point of at-retirement decision-making:

- Those who have retired were asked about the decisions that they had made. This group includes those who retired before the Budget announcement, so providing a benchmark for pre-Budget activity.
- Those intending to retire were asked about their intentions and current activity, allowing us to understand how attitudes, views and behaviours change in the run up to retirement.

[5] Source: GfK Financial Research Survey. Defined as those expecting to retire within the next five years.

A total of 1,000 respondents completed the survey, in the following proportions:

- 318 have retired[6];
    - 129 since March 2014 (i.e. following the Budget announcement);
    - 189 before March 2014;
- 682 who are approaching retirement ;
    - 397 who expect to retire within the next two years;
    - 285 who expect to retire within three to five years;
- All participants were members of research-only online panels.

During interviewing, quotas were set to ensure a representative split by age and gender and the final data were weighted to reflect the demographic profile of the segments (age, gender, region, personal and household income) to match the FRS. The purpose of setting quotas and weighting is to make the sample as similar to a nationally representative sample as possible, partly to reduce any bias introduced by an online-only sample. Details of this process can be found in the Technical Report that complements this document, which also includes the full questionnaire.

The survey took approximately 20 minutes to complete, with participants receiving a small incentive.

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When combining retired and pre-retired study estimates into total (overall) level statistics in this paper the data is reported in the proportion these groups were sampled. Weighting total level statistics in proportions to reflect likely population sizes of retired and pre-retired when combined leads to some differences in the percentages reported. However, these differences are small where they occur and are within (95%) confidence intervals.

[6] The definition of retired is: Over 55, started drawing down / accessing pension savings or made a decision to defer for less than 12 months. This may include people who are still in work.

5 A NOTE ON READING THE DATA IN THIS REPORT

5.1 Sample statistics and confidence intervals

As with any sample survey, the results presented here must be read in the light of the limitation of sample statistics. All findings have an associated confidence interval which is a range (+/-) around each percentage that indicates the upper and lower bounds within which we must assume that the answer for the total population lies. The table below shows the confidence interval (+/-) for a range of sample sizes and answers.

Table 5.1: Confidence intervals (%)

	Sample size (base)							
Answer given	*50*	*100*	*200*	*300*	*400*	*500*	*750*	*1000*
50%	14	10	7	6	5	4	4	3
25% / 75%	12	9	6	5	4	4	3	3
10% / 90%	8	6	4	3	3	3	2	2

Charts show the sample size on which the calculations are based (the base). Small base sizes (fewer than 30) are noted throughout the report. In some cases the number of people within a particular subgroup who were asked each question may be low, and in those instances the results should be treated with caution. For the charts, wherever the base size is less than 100, this has been indicated with an *asterisk. Where a subgroup has a base of less than 30, data should be treated with extreme caution. In these instances the relevant subgroups with very low bases have been excluded from the charts in this report.

Where the text commentary refers to differences between subgroup, these are statistically significant differences by the definition above.

6 PROFILE OF RESPONDENTS

6.1 Demographic profile

As outlined in Section 4, two groups of respondents were interviewed in order to cover the point of at-retirement decision making:

- Those who have retired were asked about the decisions that they had made. This group includes those who retired before the Budget announcement, so providing a benchmark for pre-Budget activity.
- Those intending to retire were asked about their intentions and current activity, allowing us to understand how attitudes, views and behaviour change in the run up to retirement.

It is important to note, however, that while this report will refer to "Pre-retired" and "Retired" as distinct groups, retirement itself is not a simple binary event. For the purposes of this document "Retired" are defined as those aged over 55, who have either started to draw down from / access their pension savings or who have made a decision to defer for a short period of time (less than a year). This may include people who are still in full or part-time work but who have started decision making. Of those "Retired" by this definition, 24% are still in work, either full-time (5%), part-time (12%) or self-employed (7%). Four percent of respondents indicated that they fell under more than one heading.

"Pre-retired" are those who are not yet drawing down / accessing their pension savings, but who expect to do so within the next five years, some of whom are not in paid employment.

Table 6.1: Current status

	All Retired (318)	***All Pre-retired (682)***
Employed full time	5%	41%
Employed part time	12%	24%
Self-employed	7%	23%
Not in paid employment	4%	11%
Retired	76%	2%*

*Those who say they have retired and who are deferring for more than one year are counted as Pre-retired, as they will not make at-retirement decisions in this year.

The majority of those with a DC scheme are male – comprising 64% of the Retired and 73% of the Pre-retired groups. This reflects lower overall levels of pension provision amongst women, and possibly also the fact that as women make up two thirds of public sector workers[7], they may be more likely to be covered by DB schemes (which are outside of the scope of this research).

Mean **household** incomes are higher for those not retired at £42,590 pa (before tax and other deductions) compared to £24,760 pa for those retired. The corresponding figures for **personal** incomes are £31,070 pa and £16,600 pa.

6.2 Product holding profile

Most of those (92%) who have retired are drawing on a pension, with the remaining 8% choosing to defer and make a decision in the next year (this comprises 20% of those who retired post-Budget).

[7] Cribb, J, Disney, R and Sibieta, L. "The public sector workforce: past, present and future." IFA Briefing Notes BN145. Institute of Fiscal Studies 2014

6.2.1 Type of scheme

Over half (57% of all Retired, and 60% of Pre-retired) of respondents arranged their pensions privately, with the remainder arranged by their employer. Of those with employer-arranged schemes, around three-quarters (72% of Retired, and 75% Pre-retired) have a DC-only scheme as their main product, with the remaining quarter having both a DC and a DB scheme.[8]

As time goes on, we would expect to see future cohorts of retirees being less likely to hold income-proofed products such as SERPS, State Second Pension and DB schemes, and as such it is likely that reliance on DC schemes as the main or sole source of income will increase.

[8] Please note that as DC schemes are the focus of this research, any consumers with a DB pension as their main product were excluded from the questionnaire, and are not included in this data.

7 ATTITUDES

7.1 Key findings

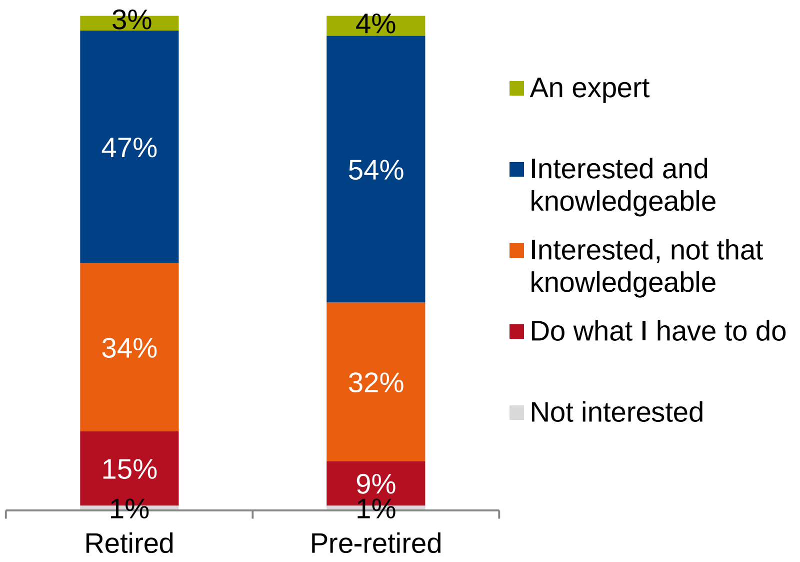
There is room for improvement in the level of consumers' confidence in their decision-making. Although there are some (small) indications that the changes announced in the Budget have had an impact on the decision-making of those who have retired since, these have not yet filtered through to those approaching retirement. There are slight indications that messages focusing on the ability to select a provider for pension income other than the one who maintained the fund are also getting across (although many still prefer to use a brand with which they are familiar).

Those for whom retirement is further away are less certain of what they will do, and are more likely to postpone thinking about it out of fear of making a wrong decision, or because of the perceived complexity of the process. This hesitation in getting engaged with the thought processes around retirement planning could be having an impact on how well-equipped consumers are in making decisions for their retirement. If people were engaged earlier in the process, they might be likely to feel less concern and more confidence.

7.2 Attitudes to finances

Survey participants were asked about their attitudes to managing their finances.
As shown below in Figure 7-1, the Retired and Pre-retired groups are similar in terms of their levels of self-reported knowledge and interest in personal finances, although those who are retired are more likely to say that "I do what I have to out of necessity but I am not particularly interested."

Figure 7-1 Knowledge and interest



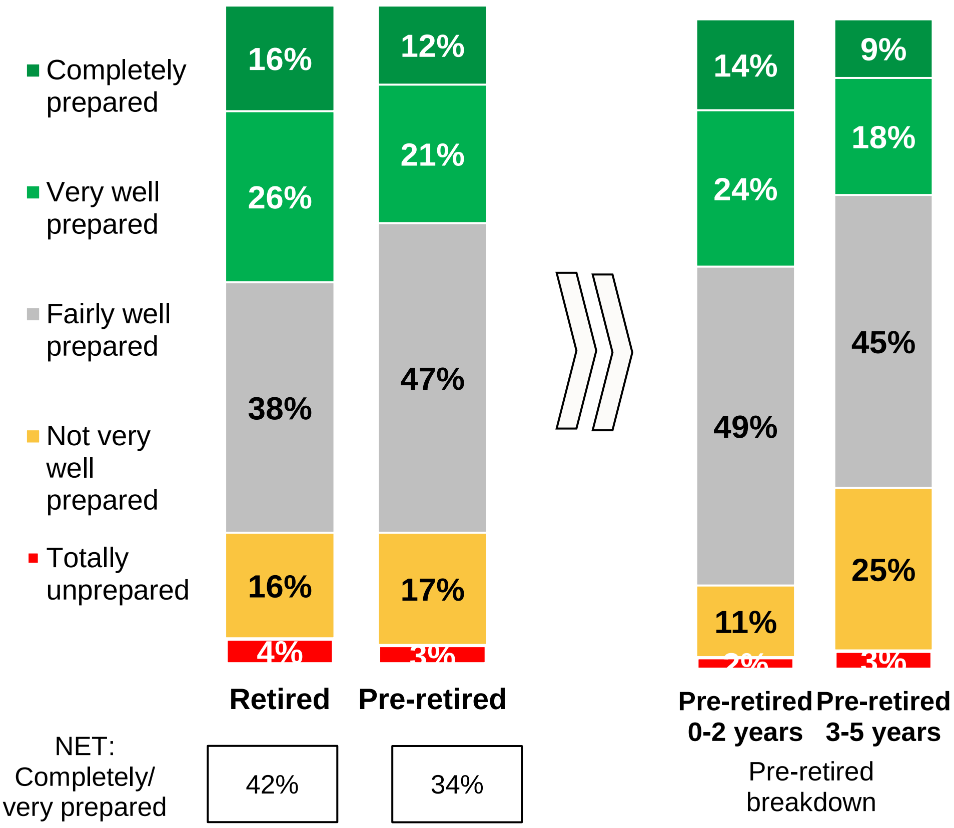
Q56. Which of the following statements best describes your attitude towards personal finance? Base: All (1000), Retired (318), Pre-retired (682)

Being “interested and knowledgeable” is correlated with a sense of putting a lot of effort into decision-making at retirement, being prepared for retirement and having already considered pre-retirement options, suggesting that it is important to drive interest in these products. Interest is also correlated with higher pension ‘pots’ (77% of those with an estimated pension ‘pot’ of £100,000 or more regard themselves as "interested and knowledgeable”, compared with 45% of those with an estimated ‘pot’ of up to £20,000). Levels of interest show little difference when analysed by when people retired or intend to.

Those who are interested and knowledgeable are also more likely to be using or intend to use income drawdown and report much higher levels of understanding of both annuities and income drawdown. Those who have received regulated financial advice are more likely to regard themselves as interested and knowledgeable. Although consumers state that they may be “interested and knowledgeable” about finances in general, this may not translate to specific knowledge about pensions, which are discussed in more detail in Section 9 below.

Looking more closely at the consumer journey towards retirement, there are indications that, even though reported levels of interest and knowledge (about finances in general) are not significantly different between those nearing retirement (in the next two years) and those retiring further in the future, levels of preparation for retirement do differ between these two groups, with higher levels of preparation as retirement date approaches, as shown in Figure 7-2 below.

Figure 7-2 Claimed preparedness for pension decisions

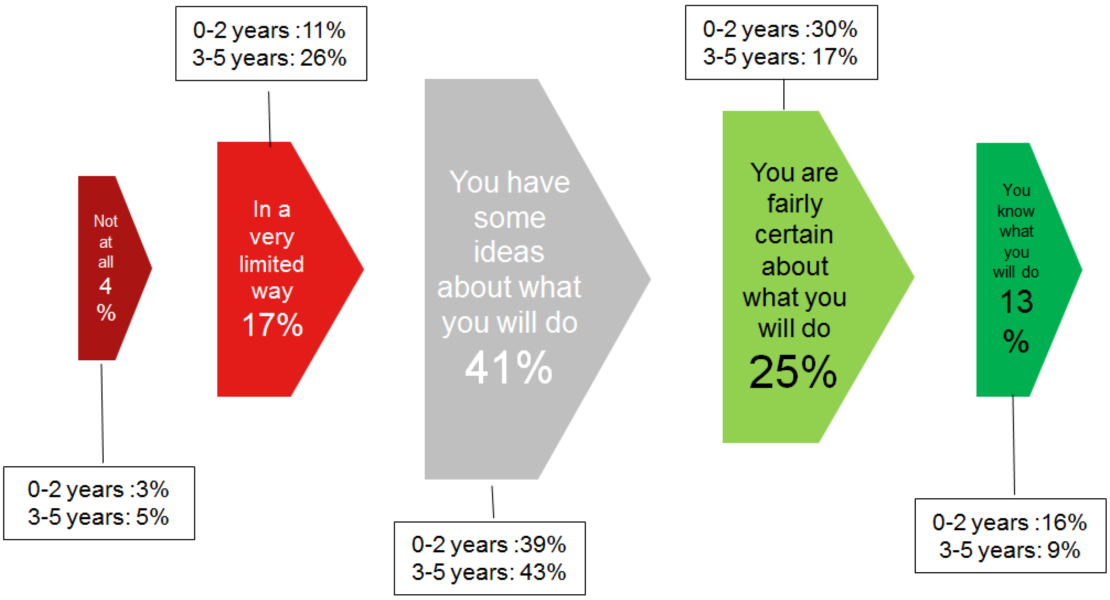


Q7. At the point when you retired how well prepared did/do you feel to make a decision about what to do with your pension pot in order to fund your retirement? Base: All Retired (318), All Pre-retired (682). Pre-retired 0-2 years (397), Pre-retired 3-5 years (285)

Forty-six percent of those retiring in the next two years already know or are fairly certain what they will do with their pension 'pot', compared to 26% of those retiring further in the future. This still represents a high degree of uncertainty, with most of those approaching retirement not yet clear about what they will do.

In line with what we have seen in terms of being knowledgeable and interested, those with larger estimated pension 'pots' (£100,000+) or who have received regulated financial advice are more likely to feel at least fairly certain as to what they will do.

Figure 7-3 Extent to which the Pre-retired have considered options for their pension



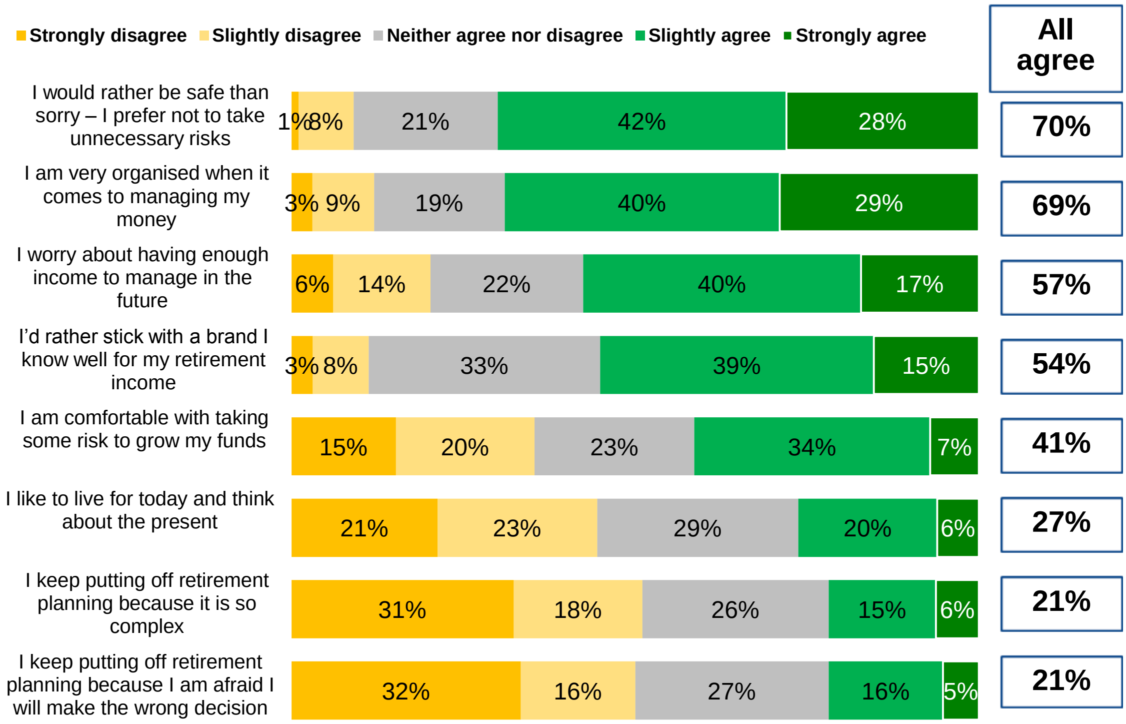
Q8. How much have you already considered your options for what you will do with your pension pot in order to fund your retirement? Base: All Pre-retired (682) ,0-2 years (397), 3-5 years (285)

Specific questions were asked about the level of effort put into researching and decision-making around pensions. There are indications that around a third of those who have been through the retirement process put only "a little" or "no effort" into it. This is discussed in more detail in section 11.2.

7.3 Detailed attitudes to finances

As well as asking specifically about retirement, respondents were also asked about how they manage their finances in more general terms. This revealed that, in general, consumers in the survey are risk-averse, with a sizable minority postponing retirement planning either because it is too complicated, or because they fear they will make the wrong decision.

Figure 7-4 Overall attitude to finances



Q55 How much do you agree with each of these statements about managing your finances? Base: All (1,000)

Those who retired pre- and post-Budget display no significant differences in their attitudes to finances, suggesting that the changes to the retirement landscape have not changed the way people think about finances.

A known brand of provider is an important factor for the majority of respondents in our survey, both those who are retired and those approaching retirement agree that they would rather stick with a brand they know well for their retirement income.

A majority of respondents (57% of both those Retired and Pre-retired) stated that they worry about having enough income to manage in the future. Of those approaching retirement, those further away from retiring (three to five years) are most concerned, being more likely to agree with this statement.

An important aspect for those at or approaching retirement is the extent to which they felt or feel prepared to make the decision about what to do with their pension 'pot' to fund their retirement. Fewer than half (42%) of those who have retired feel that they were "completely" or "very well" prepared to make the decision about their pension ‘pot’. As would be expected, those not yet retired are less likely to feel prepared (34%), with the sense of preparation declining when retirement is further off (28% of those retiring in three to five years are “completely” or “very well prepared”).

7.3.1 Confidence and understanding

It is interesting to note that whilst most retirees do not feel fully “prepared” for making their decision, they tend nonetheless to feel “confident” in the decision they have made. Three quarters (74%) of those who are retired agreed that they felt confident when making decisions around retirement, compared to 66% of those who are approaching retirement.

Confidence in making decisions is higher for men (72% vs 61% of women), for those with private rather than occupational pensions (74% vs 61%) and those with the largest pension ‘pots’ (80% for those with £100,000 or more vs 63% for those up to £20,000). Those who have received regulated advice are more confident in decision-making than those who have not (76% vs 63%).

It is worth noting, however, that people are often over-confident in their ability to make decisions[9].

In addition, when asked how well they felt they *understood* the options around retirement[10], the story is similar, with those who are already retired reporting higher levels of understanding (80% agreeing compared to 71% of the Pre-retired, falling to 64% for those retiring in three to five years.) Once again, men, private pension holders and those with the largest ‘pots’ expressed the highest levels of understanding. This self-reported understanding may not correlate with actual understanding. As will be discussed in section 9, there can be confusion around the detail of the product features of annuities and income drawdown. Another indication of confusion is that one in five of those who have retired and are drawing a pension are receiving a monthly income but do not know what product they bought to generate this.

[9] FCA Occasional Paper on Behavioural Economics - http://www.fca.org.uk/static/documents/occasional-papers/occasional-paper-1.pdf
[10] Self-described level of understanding

8 WHAT ARE PEOPLE DOING AROUND RETIREMENT?

8.1 Key findings

The pension ‘pot’ is not the only source of income people plan to use in retirement, with most people having at least one other source of funding they expect to use for income. These are discussed in more detail below, but include savings, investments and earned income. Those with a ‘pot’ of £100k+ are more likely to have other sources of income than those with ‘pots’ of up to £50k.

The majority do expect a gap between their DC pension income and the income they believe they will require, but this may be filled by additional income sources. However, there are indications that a sizable minority are overly-optimistic about the income their DC ‘pots’ will provide, which may indicate an overall income gap between required and actual income.

Most have heard of annuities and these remain a well-used product, but not everyone understands the detail of how these products work – this is particularly true for enhanced annuities.

Half of retirees in the survey had bought an annuity. Post-Budget some people chose to defer their pension decision, and some are also using a smaller proportion of their ‘pot’ for the annuity purchase.

There is lower awareness of income drawdown than of annuities, and what knowledge there is is often vague, with some of those who have bought an income drawdown product being unaware that their income is not guaranteed.

Those who are Pre-retired seem to be moving away from annuities as a product they expect to use, but as yet, we have not seen a large increase in the proportion of people taking income drawdown products.

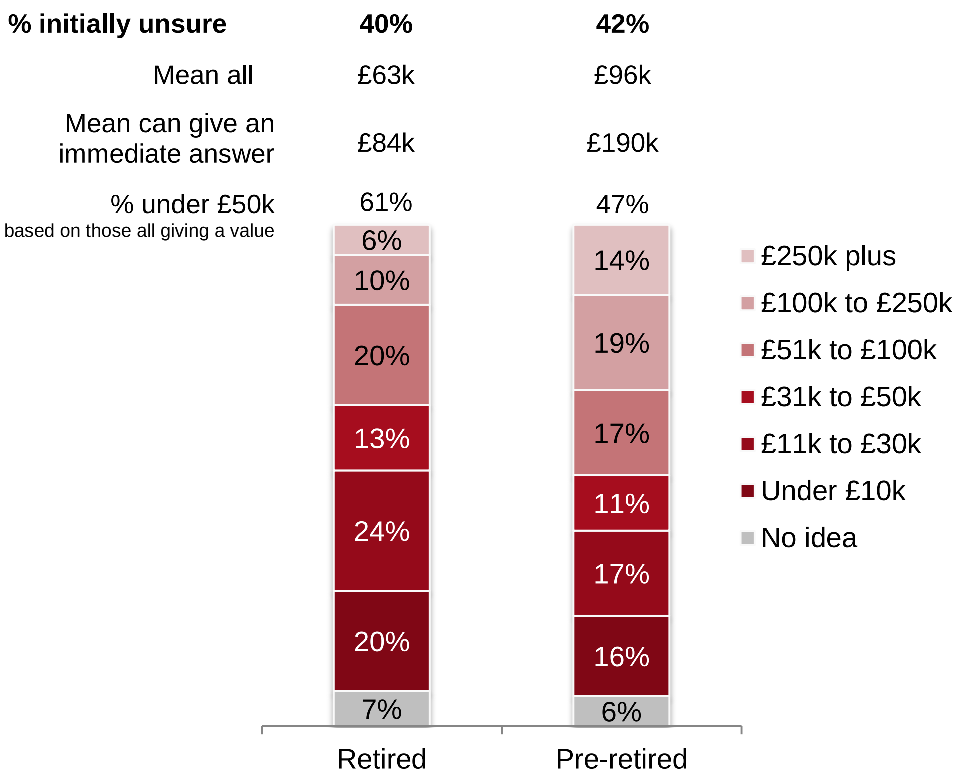
8.2 The pension ‘pot’

A key issue for retirees is, naturally, around how much income they will receive in retirement, an issue which (for DC members) is of course directly linked to the size of their pension ‘pot’ at the point of retirement.

Almost half (42%) of those approaching retirement are unsure of the total size of their DC pension 'pot'. Those who have a firmer idea of the size of their 'pot' tend to have higher value pension savings than those who are only able to estimate. This could indicate that some people with very small pots are less engaged with the whole process.

Taking into account the best estimates given by those who were unsure, the size of pension 'pots' are shown below.

Figure 8-1 Estimated pension 'pot' size (including those not sure)



Q9 / Q10. What is the total size of the pension 'pot' you had/you expect to have to the nearest £000 (IF RETIRED: before accessing it)? Please give the answer in total if you had more than one pension fund. We are talking only about your DC pension(s) Base: All Retired (318), All Pre-retired (682)

The estimates of pension 'pots' are higher than we would expect to see from the national average. There are several reasons why this might be the case. One is that those with very small 'pots' may screen themselves out of the survey because that 'pot' is not top of mind. A second is that we are only asking about DC pensions that are the main or joint main (with a DB pension) pension fund, so smaller (secondary) pensions are excluded.

Men report larger pension 'pots' than women

- Pre-retired: For men, the average pot size is £108k and 40% have pots that are less than £50k. For women, the average 'pot' size £61k and 56% have pots that are less than £50k.
- Retired: For men, the average 'pot' size is £75k and 51% have pots that are less than £50k. For women the average 'pot' size is £40k and 70% have pots that are less than £50K.

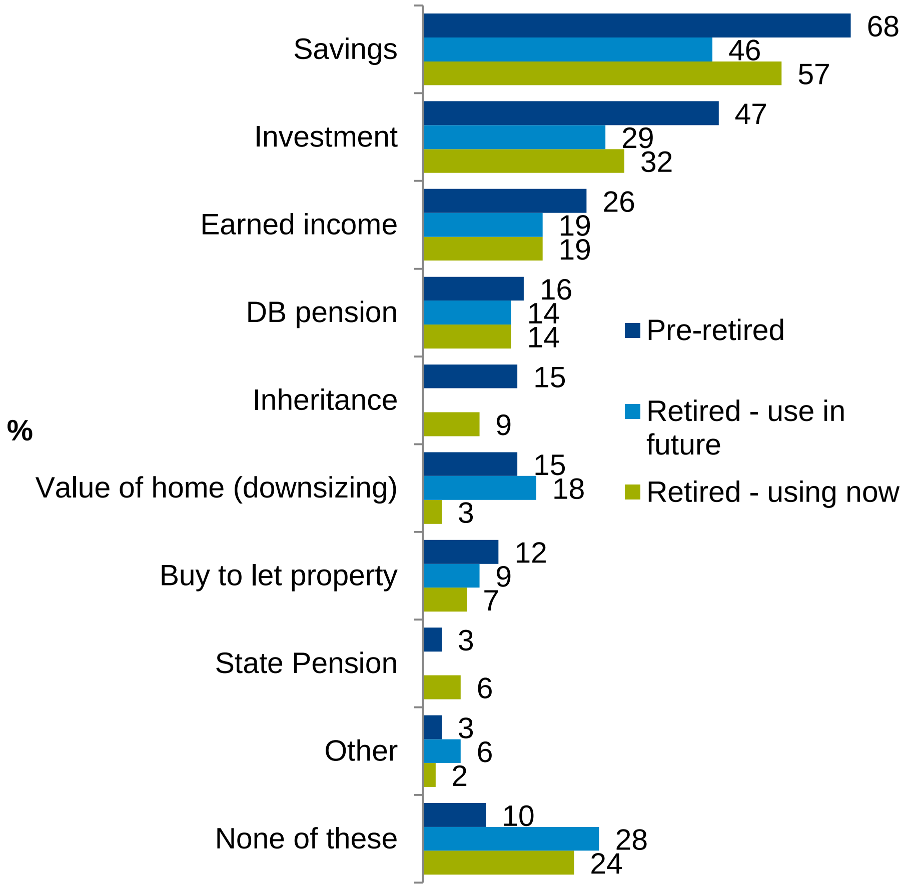
As can be seen above, there is a difference in 'pot' sizes before and after retirement, which could indicate that people have become more accurately aware at retirement, and that pre-retirement estimates are over-optimistic.

8.2.1 Non-pension income sources

In addition to pension income, most consumers (83% of those Retired, and 90% of those approaching retirement) intend to obtain income from other sources. The most common source of additional income is savings, although this declines for those who have retired, suggesting that these plans may change once the actual process of retirement occurs.

While more of those approaching retirement claim to be likely to expect to use these additional sources than eventually end up doing so, there are no differences in expectation the closer retirement becomes. This suggests that the decision not to use additional sources is made at the point of retirement, or after. Further discussion on whether income will meet expected needs can be found in Section 8.3 below.

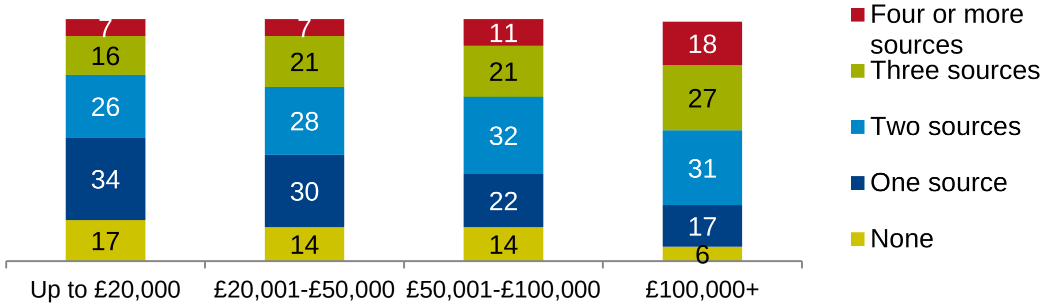
Figure 8-2 Additional sources of retirement income



Q14. In addition to income from your pension, do you currently/will you in retirement have income from any of these sources? Base: All Retired and drawing on pension (290), All Pre-retired (682)
Q15. And do you plan to use any of these for income in the future? Base: All Retired and drawing on pension (290)

Savings and investments are core sources of expected income, followed by earned income and DB pensions. The presence of earned income in the mix is further evidence that retirement can be a 'phased' process, not a single event. State Pension was not included on the list, but respondents did have the option to mention this, or any other sources of income. The State Pension will, in fact, provide a substantial contribution, particularly for those on lower incomes. The current average basic State Pension (as of 2012) is £86.08 a week (£94.36 for men and £80.67 for women)[11]. This amounts to an approximate annual income from the basic State Pension of £4,474 a year.

Figure 8-3 Number of additional income sources by pension 'pot' size

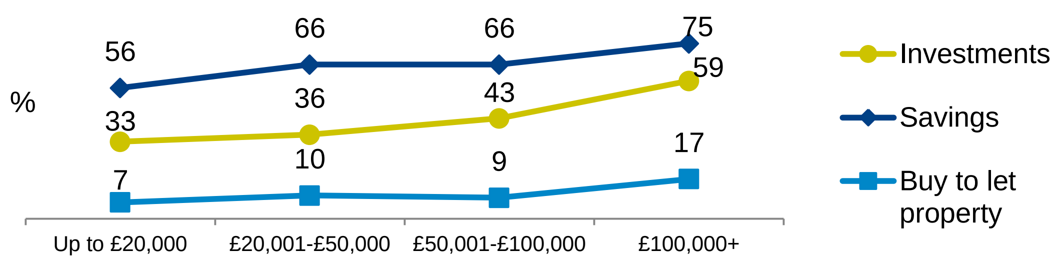


Q14. In addition to income from your pension, do you currently/will you in retirement have income from any of these sources?

Base: All (Retired or Pre-retired). Estimated pension 'pots' Up to £20k (273), £20-£50k (194), £50-£100k (170), £100k+ (300)

Those with larger pension 'pots' are more likely to have or be planning to have multiple sources of income in retirement; as the pension ''pot'' size rises, so does the number of supplemental income sources. As the 'pot' size reaches £100,000 or more, holdings of investments in particular increases.

Figure 8-4 Additional income sources by 'pot' size



Q14. In addition to income from your pension, do you currently/will you in retirement have income from any of these sources?

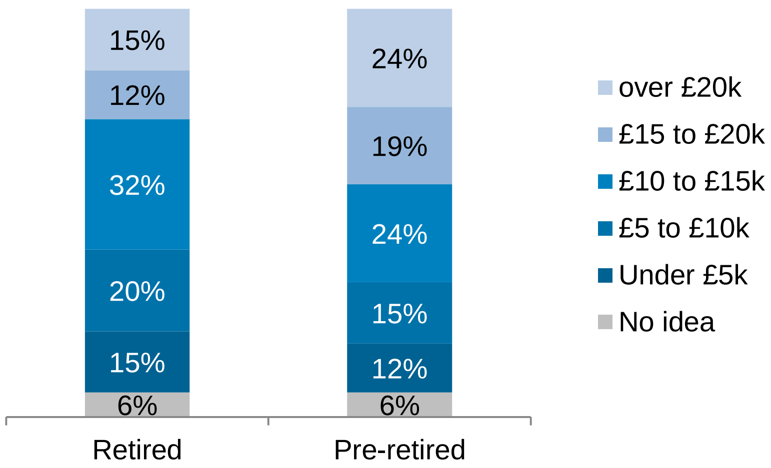
Base: All (Retired or Pre-retired). Estimated pension 'pots' Up to £20k (273), £20-£50k (194), £50-£100k (170), £100k+ (300)

[11] Source: http://www.pensionspolicyinstitute.org.uk/pension-facts/pension-facts-tables/basic-state-pension-table-6

8.3 Levels of funding

As discussed in section 8.2 above, awareness of pension 'pot' sizes are fairly vague, with many unsure as to the size of their 'pot'. Respondents tend to have a clearer view on how much income they will *need* in retirement, and many believe that their 'pot' will not deliver this.

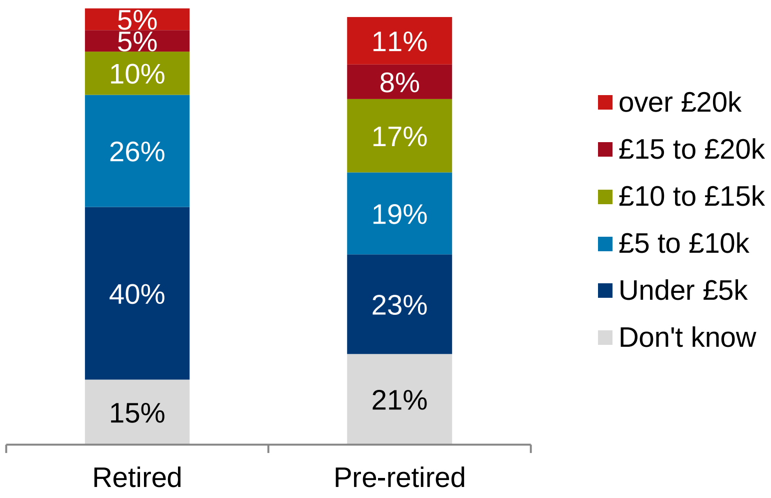
Figure 8-5 Estimates of annual income needed



Q11. Thinking about how much you will need to live on in retirement, what annual income, before tax , do you think you would need to the nearest £000? Base: Base: All Retired (318), All Pre-retired (682)
Q12. If you are not sure of the amount, which of the following bands would your annual income need to fall in? Base: All respondents not sure of income they will need. Retired (90*), Pre-retired (199)

Those approaching retirement tend to anticipate needing a higher income than those who have already retired (the Pre-retired believe they will need an average of £17,000, while the Retired say £13,000). We cannot say from this survey if this disparity is down to people resigning themselves to a lower income at retirement, or whether people realise that their initial estimate was more than they really required. As a point of context, The Pensions Commission believes that a retired person needs around two-thirds of their previous income in order to live comfortably in retirement. Using a national average wage of £26,000 pa, a comfortable average pension income is therefore around £17,000 pa.

Figure 8-6 Estimates of annual income from pension 'pot'



Q13. How much annual income before tax do you expect to have from your DC pension during retirement? Base: All Retired (318), All Pre-retired (682)

For those who can estimate the income they expect from their 'pot' it is, on average, lower than the amount they believe they will require. This is particularly true for those who have already retired (40% have a shortfall) but also true for those at the pre-retirement stage (34% have a shortfall).

However, for many in this cohort, additional sources of income in retirement (illustrated in section 8.2.1) will act as top-ups, as will the State Pension.

Those who are in the position of having a funding gap between their estimated DC pension income and income needed are more likely than the average to hold a DB 'pot' or investments, suggesting that the gap is not as large.

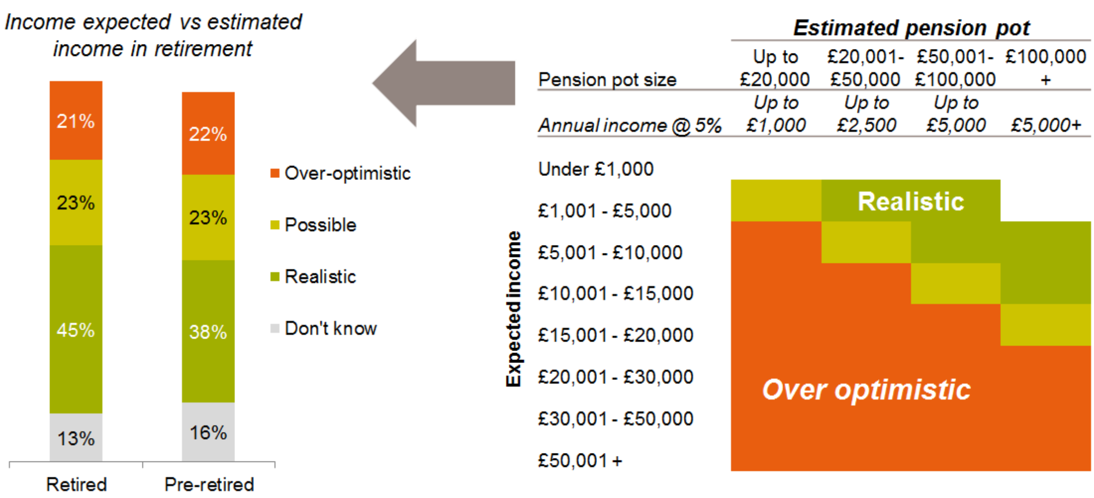
However**,** an area for potential concern is that a sizeable minority of respondents appeared to be over-optimistic about the income they will receive from their DC product in retirement. This is true even for those who have retired - indicating perhaps that their long-term arrangements are not yet fully in place, or that they are not engaged with them even in retirement.

Estimating "optimism" in pension provision:

The size of income for a given DC 'pot' generated from a retirement income product can vary due to a number of factors, so for the purposes of this research, an estimate was created. This takes the known or estimated pension pots of respondents and assumes a 5% annuity rate; representing a typical annuity rate at the time of the study. From this, the estimated size of income was compared with the level of income respondents expected to receive from their pension in retirement.

From this calculation, respondents were categorised into three groups. "Over-optimistic" are those whose expected income is unlikely to be available from their DC pension fun; "Possible" are those for whom their expected income is at least not totally unrealistic and "Realistic" are those whose income is likely to be in line or better than expectations.

Figure 8-7 Income expected from DC pension vs estimated income in retirement



Q9/Q10. Size of pension pot: known plus estimates. (Based on those providing the required information) Base: All those providing the required information. Retired (293), All Pre-retired (39*)

Q13. How much annual income before tax do you expect to have from your DC pension during retirement? Base: All Retired (318), All Pre-retired (682)

9 PRODUCTS USED AT RETIREMENT

9.1 Key findings

Annuities are purchased by around half of retired respondents, although this differed significantly post-Budget, where a sizable minority has chosen to defer their pension and expect to take a cash lump sum, rather than an annuity.

There are lower levels of awareness and understanding of income drawdown as a product category and indications that increased education is needed. For example, 10% of those who use or intend to use income drawdown believe it can provide them with a guaranteed income for the rest of their life.

It is also important to note that one in five (20%) of those who have retired and are drawing a pension receive a monthly income but are unsure which product they bought to generate this.

More detail on the use of these products follows in the sections below.

9.2 Annuities

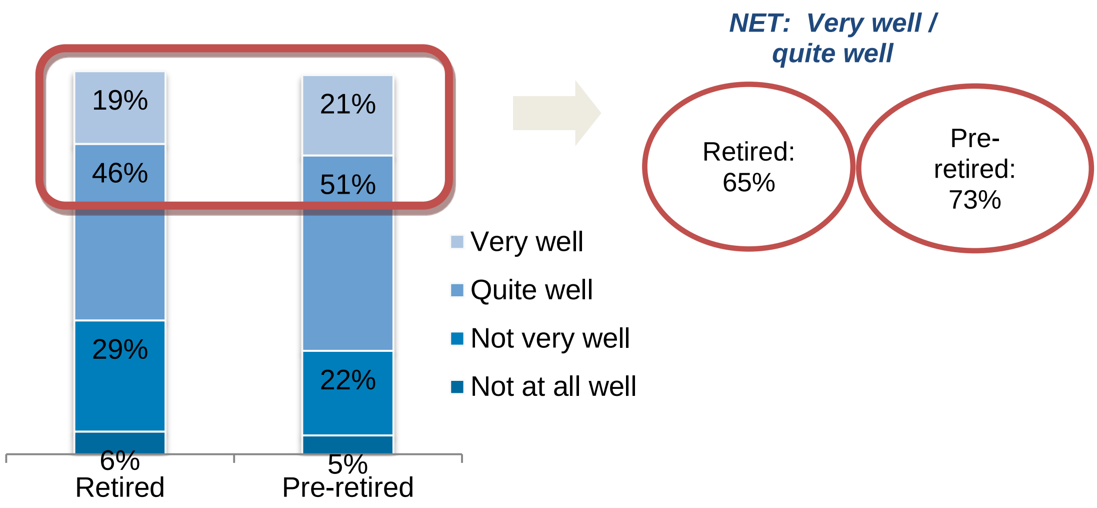
9.2.1 Awareness of annuities

Most respondents (94% of Retired, 93% of Pre-retired) have at least heard of annuities, but when asked how well they understand them, a third of those aware of them say that they do not understand them well.

Those with larger pensions are more likely to be aware of annuities (97% of those with 'pots' £100,000 or higher, compared to 89% of those with 'pots' of up to £20,000).

Those who have Retired are less likely to state that they understand annuities well compared with those who are Pre-retired. This could indicate an over-confidence on the part of the Pre-retired, who may feel less sure of their understanding when the point of retirement comes. Alternatively, it is possible that the Budget announcement induced those who are planning to retire to engage in understanding retirement products better.

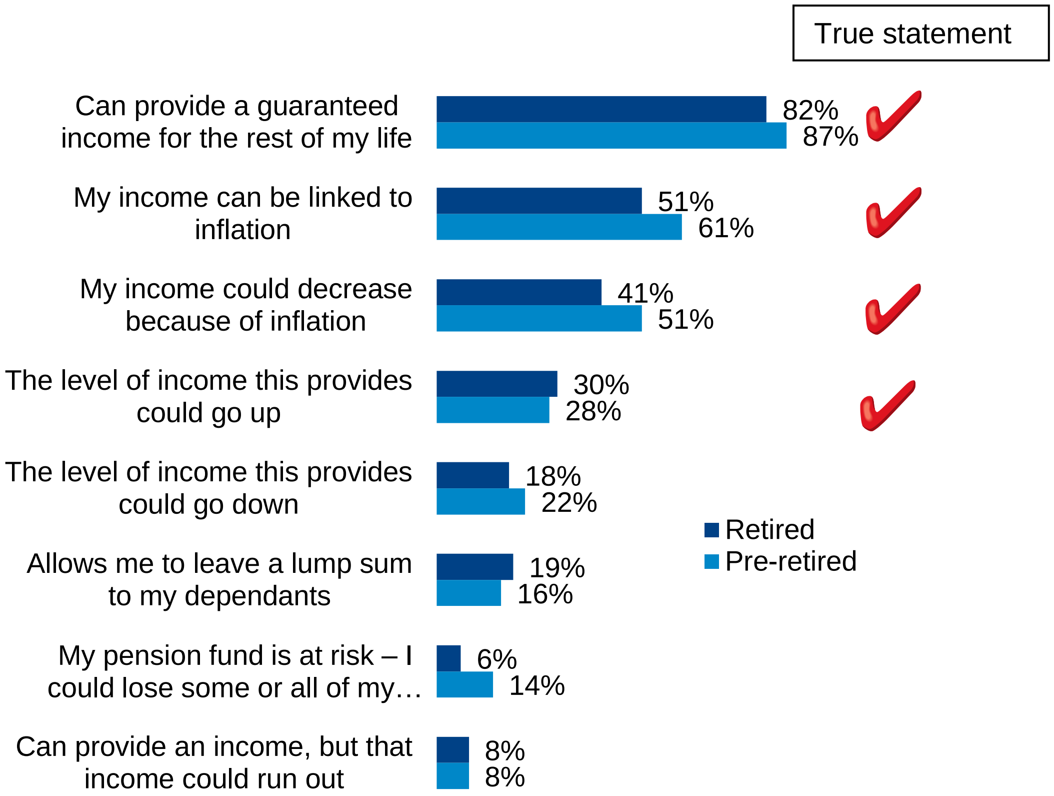
Figure 9-1 Level of understanding of annuities



Q50. Have you heard of an annuity before today? Base: All Retired (318), All Pre-retired (682)
Q51. And, honestly speaking, how well do you understand how annuities work? Base: All who have heard of an annuity. Retired (302), Pre-retired (641)

To further explore their understanding of annuities, those respondents who claimed some level of understanding were asked in detail about the product. While the basic elements of the product tend to be understood, there is still some confusion, with some believing that annuities allow a lump sum to be left to dependants, and others expressing a belief that their income could be at risk.

Figure 9-2 Detail of knowledge about annuities



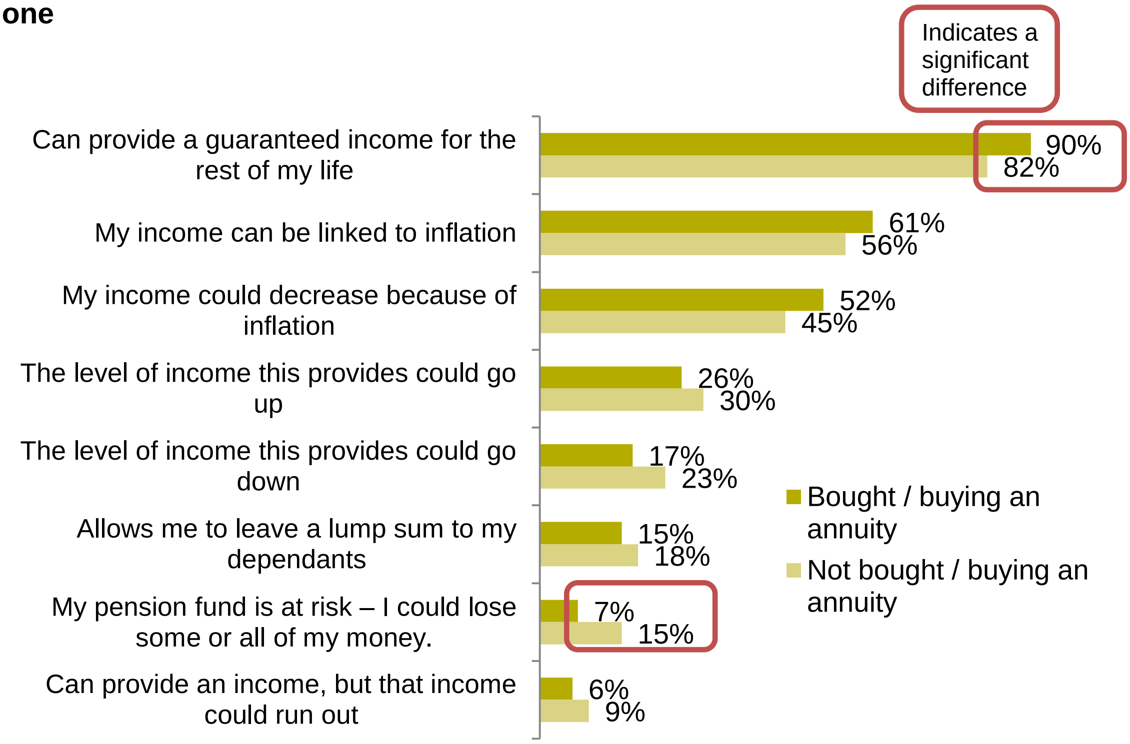
Q54. The next question is about retirement products and how they work. In each case please match the descriptions to the product. You can match a description to as many products as it matches. Base: All who are aware of both annuities and income drawdown AND do not say they don't understand them at all. Retired (212), Pre-retired (462)[12]

Those who are retired (around half of whom have bought an annuity) are less likely to be concerned about their pension fund being at risk, suggesting they have received some level of education at retirement, but in general there are clearly improvements to be made in people's understanding of these products.

As would perhaps be expected, levels of knowledge about annuities are higher among those who have bought (or intend to buy) one.

[12]Please note that we did not advise consumers on whether they should base this on nominal or real income.

Figure 9-3 Detailed knowledge about annuities - by whether bought / buying one



Q54. The next question is about retirement products and how they work. In each case please match the descriptions to the product. You can match a description to as many products as it matches Base: All who are aware of both annuities and income drawdown AND do not say they don't understand them at all (674), Bought / buying (248), not bought / buying (429)

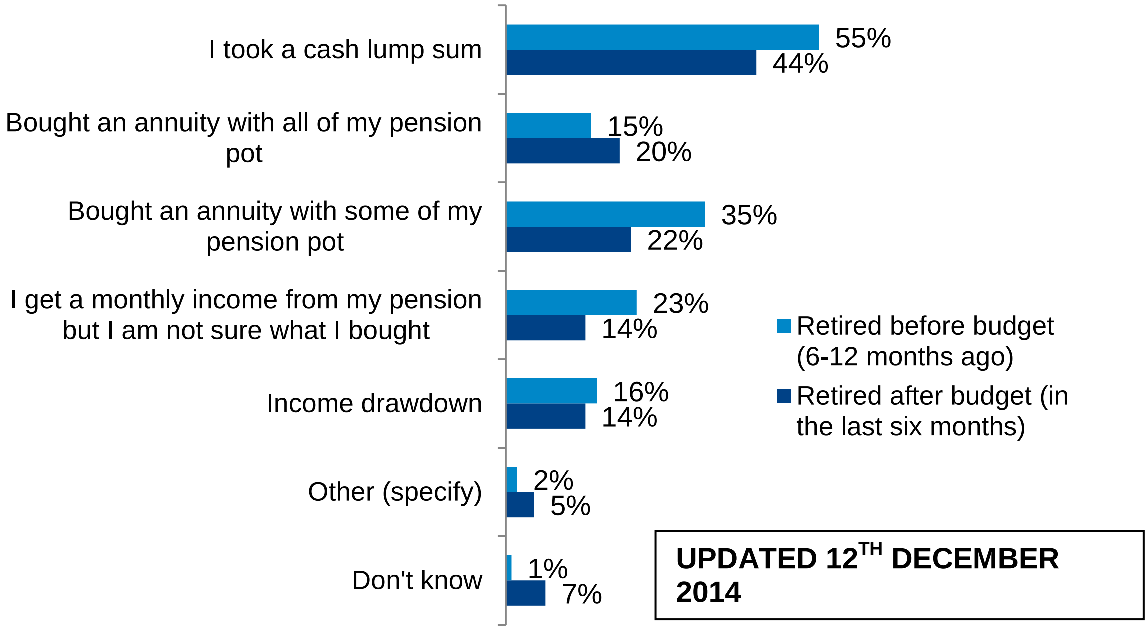
Regardless of their initial awareness and understanding of annuities, respondents were asked if they had heard of enhanced annuities (where, for example, smokers or those in poor health can get a higher income). Just under two-thirds (64% of Retired and 61% of Pre-retired) had heard of this feature, with those furthest from retirement the least aware (50% of those three to five years from retirement). Awareness is higher among those who have or intend to buy an annuity (77%). It is interesting to note that we do not see a higher awareness of enhanced annuities among those who say their health is "bad" or "very bad" – 57% of all those respondents with "bad" or "very bad" health are aware that annuity income varies according to the health of the retiree. This is no better than those report with better health[13] (where 65% were aware).

[13] Low base (78). Difference not statistically significant.

9.2.2 Purchase of annuities

Overall, 48% of those who have retired (and are drawing a pension i.e. have not deferred) have taken an annuity (65% of these using some of their 'pot', 34% using all of it, and 1% buying a one-year annuity – an option only available post-Budget).

Figure 9-4 Pension decision outcomes before and after Budget



Q16. You said you retired between September 2013 and March this year. Which of these did you decide to do with your pension? Base: All who retired September 2013-February 2014 (189)

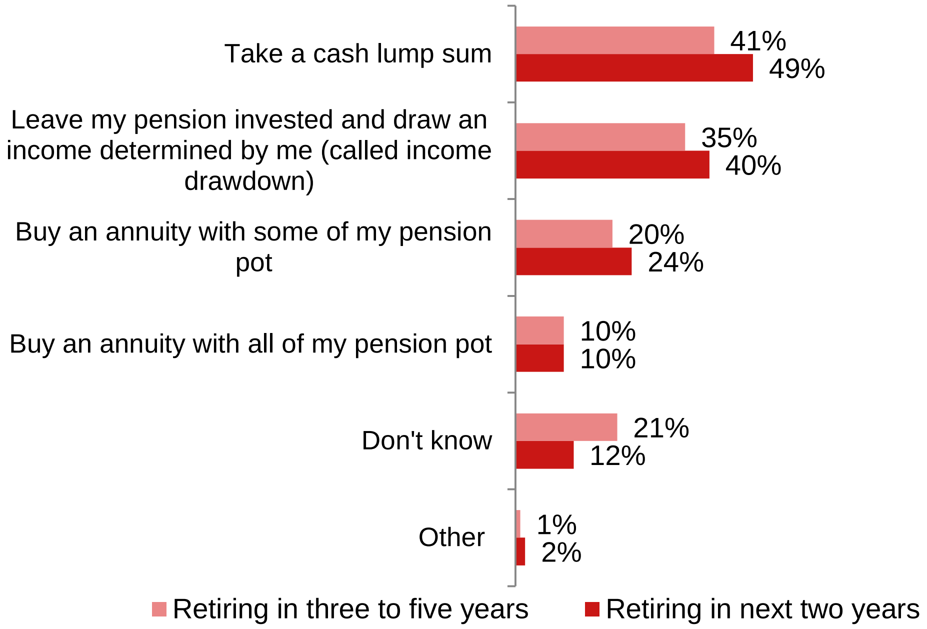
Q17. You said you retired in the past 6 months, what did you decide to do with your pension? Base: All who retired March 2014-present (129)

Those who retired post Budget were also given the option of saying that they had deferred their decision or taken a one year annuity. Twenty-one percent have deferred, and two percent have taken a one year annuity.

Of those who have not yet retired, a third (32%) intend to buy an annuity and, in line with those who have retired, the majority (69%) of these will use only part of their pension 'pot' to do so. This may suggest a move away from this category of product, but it must also be borne in mind that we have seen people's intentions change at the point of retirement, so this may not be reflected in their final behaviour.

As we have seen throughout the survey, awareness and consideration of the options increases as the date of retirement approaches, with one in five of those retiring in three to five years not knowing what they will do.

Figure 9-5 Expectations for pension for those not yet retired



Q18. Which of the following do you think you will do with your pension when you come to retire? Base: All 5-3 years from retirement (285), All 2 years from retirement (397)

9.2.3 Annuity providers

Three in five (60%) of annuity purchasers buy products from somewhere other than their existing pension provider[14], with around one in five of those not switching providers being unaware that they could do so[15]. Those with private pensions and those receiving regulated advice were most likely to switch provider (69% of those

[14] Please note that the FCA's Thematic Review of Annuities found that, in 2012, around 60% of annuities were purchased from customers' existing pension providers or through a third-party arrangement. There are two possible reasons for the discrepancy between the figures from this survey and those shown in the Thematic Review. First, the figure quoted in this report is based on a sample of 139 consumers who **recall** taking out an annuity product in the previous 12 months. There are also 20% of retirees who claim to receive a monthly income from their pension but are unsure what product they have. While some of these are likely to hold an annuity, they were not asked about annuity providers and are not included here. It is also important to note that to qualify for this research consumers had to consider their Defined Contribution pension to be their 'main' pension in retirement. Consequently we do not know which provider was used for secondary DC pension funds.

[15] Please note that the base of those taking an annuity with their existing provider is low at 55, so any comments should be viewed with caution.

whose main pension is private versus 42% occupational and 68% of those with advice compared to 46% without).

Most annuity purchasers are aware that shopping around is an option. Sample sizes are too small to explore in detail the sources of this awareness, however there are indications that the main sources are the original pension company and professional advisors not linked to the pension provider, as well as press and online sources. Where annuities are purchased, there is evidence that some shopping around occurs, with 64% of those who go on to purchase receiving at least two quotes. Of those who are retired and who took out an annuity from the company with whom they saved for their pension, almost one half got a quote only from their existing provider. Of those who switched away from their existing provider, one quarter obtained at least four additional quotes.

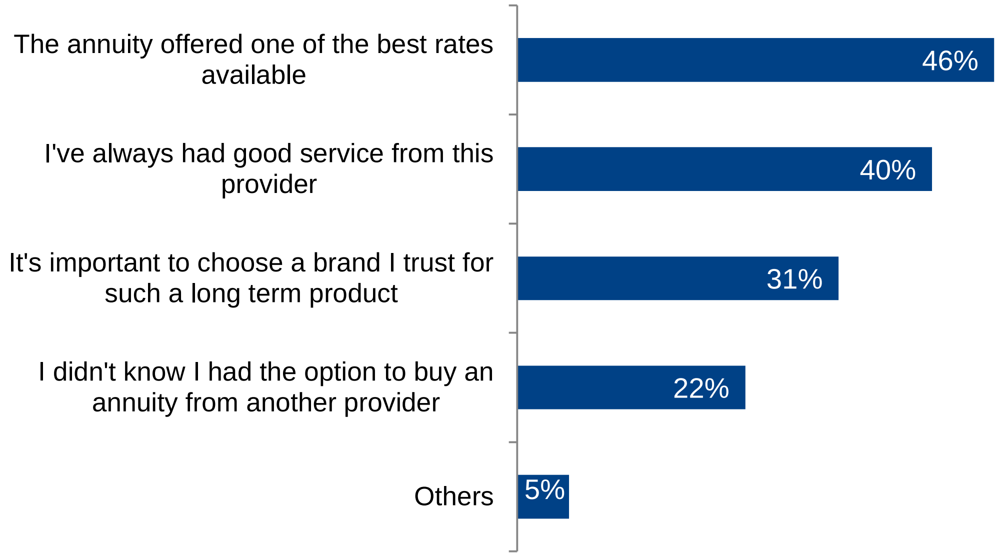
A key reason for using an existing provider was that they offered one of the best rates available (46%). We should not assume that this means that consumers made an exhaustive search, but they appear to feel that the rate offered was good enough to make switching unnecessary. Other key reasons for using existing providers were past experience of good service from the provider (40%) and the importance of a trustworthy brand (31%).

Where different providers are used for annuities[16], rate is once more the key factor (51% stating they found a much better rate and 28% saying they found a better rate). We cannot assume this is based on an exhaustive search, but we can assume that these respondents did some research among providers in order to find this better rate. Brand and service were less likely to be cited by those switching providers than by those remaining with their existing provider, although it must be noted that 59% of all retired and a similar 52% of Pre-retired agreed that they would rather stick with a brand they knew well for retirement income[17].

[16] Again, bases are low with 76 taking out an annuity with a different company. Please treat with caution.

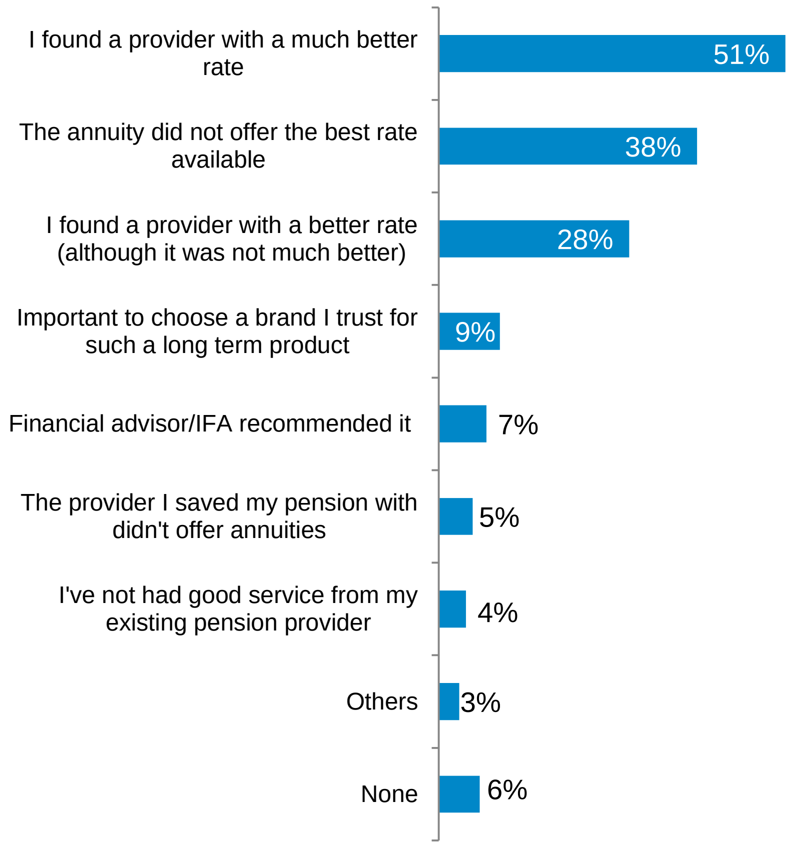
[17] These findings echo the FCA Thematic Review of February 2014, which concluded that a combination of a good rate allied to comfort with an existing provider are the main determinants of provider among those who shop around and do not switch.

Figure 9-6 Reasons for choosing existing pension provider for annuity



Q35. Why did you choose your existing pension provider for your annuity? Base: All who took an annuity with the same company (55)* CAUTION SMALL BASE

Figure 9-7 Reasons for not choosing existing pension provider for annuity



Q36. Which of these, if any, are reasons why you did not choose your existing pension provider for your annuity? Base: All who took out an annuity with a different company (76)* CAUTION SMALL BASE

9.3 Use of income drawdown

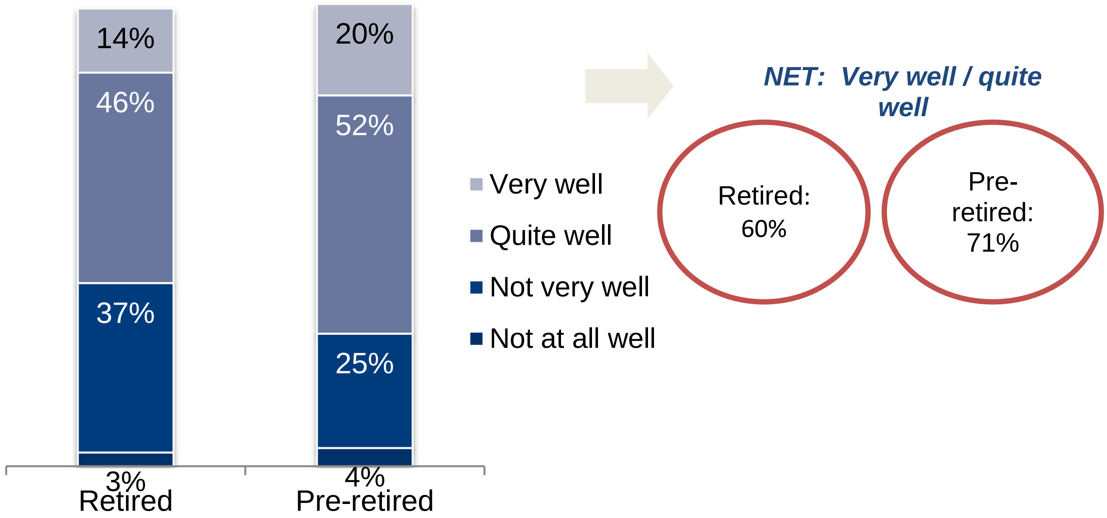
Awareness of income drawdown is lower than awareness of annuities. Traditionally, income drawdown has been available only with advice, so it is not surprising that we see higher awareness among those who have received regulated advice.

9.3.1 Awareness of income drawdown

Sixty-six per cent of the Retired and 73% of the Pre-retired had heard of income drawdown products before taking part in the survey, compared to 94% and 93% respectively who were aware of annuities. This is higher for men (74% compared to 64% of women) and those whose main pension is private (78% versus 60% of those with occupational pensions).
Where there is an awareness of income drawdown, this tended to be greater amongst those who have larger pension 'pots' (56% of those with 'pots' up to £20,000, rising to 92% of those with 'pots' over £100,000), and those with or anticipating income from other, non-pension sources (74% aware vs 50%).

Even where there is an awareness of income drawdown, it is often fairly vague, with over a third (40%) of retirees who have heard of the product stating that they did not understand how income drawdown works. This figure drops for those at the pre-retirement stage to 29%. As discussed above, this is possibly because engagement in the retirement and pensions process seems to build to a peak at the point of retirement and then fall away. Those at the pre-retirement stage who feel "completely" or "very" prepared for retirement and / or have received regulated financial advice are more likely to both have heard of income drawdown and feel that they understand how it works.

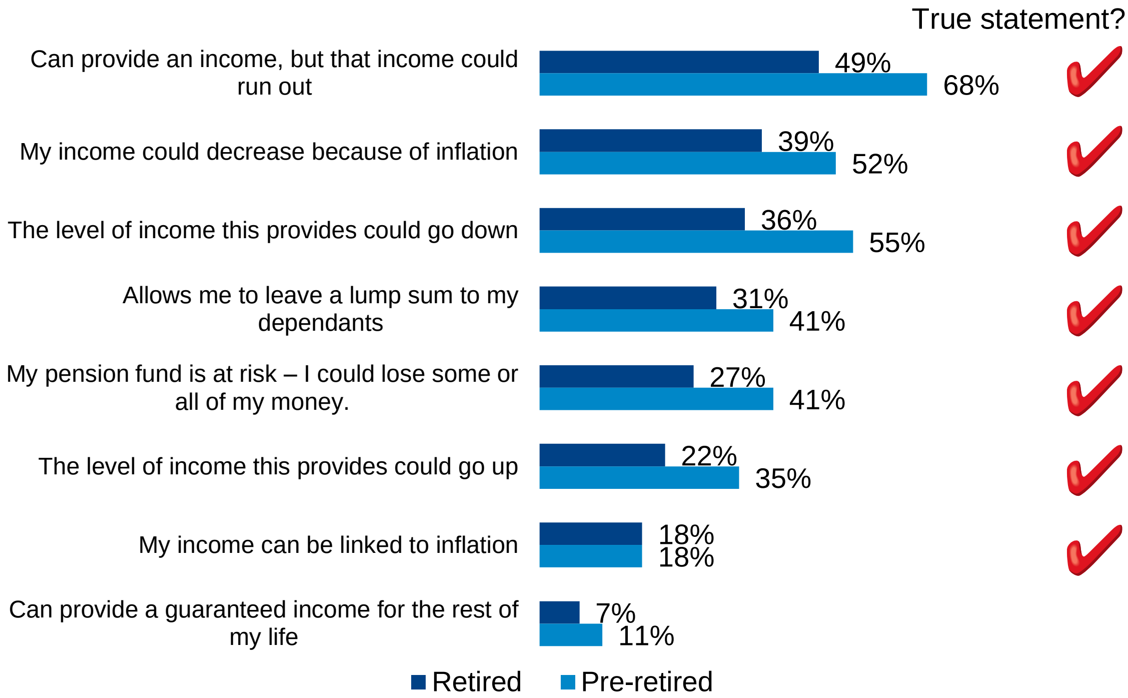
Figure 9-8 Levels of understanding of income drawdown



Q53. And, honestly speaking, how well do you understand how income drawdown works? Base: All who have heard of income drawdown. Retired (223), Pre-retired (498)

As with annuities, those with some knowledge of income drawdown were asked questions about the detail of the product, to explore depth of understanding. By and large this seemed to indicate a lower grasp on the detail of the product category than seen for annuities, with around half (49%) of those who had already retired and with some understanding of the product aware that it can provide an income that can run out.

Figure 9-9 Understanding of the detail of income drawdown

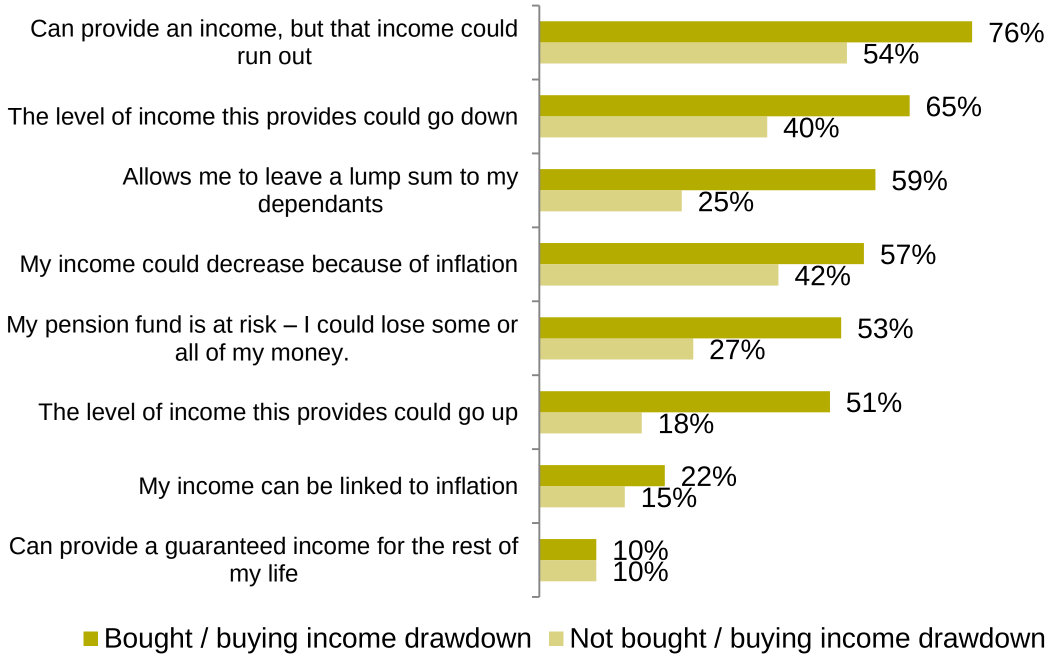


Q54. The next question is about retirement products and how they work. In each case please match the descriptions to the product. You can match a description to as many products as it matches Base: All who are aware of both annuities and income drawdown AND who do not say they do not understand them at all. Retired (212), Pre-retired (462)

It is perhaps a cause for concern that 11% of those Pre-retired believe it can provide a guaranteed income for the rest of their lives.

There are significant levels of confusion *even among those who have or who are buying an income drawdown product.* Almost half (47%) of those who have or intend to buy an income drawdown product did not know that their pension fund was at risk, and one in ten believed it could provide a guaranteed income for the rest of their life.

Figure 9-10 Understanding of income drawdown by whether have the product



Q54. The next question is about retirement products and how they work. In each case please match the descriptions to the product. You can match a description to as many products as it matches Base: All who are aware of both annuities and income drawdown AND who do not say they do not understand them at all. Bought / buying (274), Not bought / buying (400)

This picture is mirrored even amongst those who claim to understand the product well – all of which suggests a level of confusion among consumers and points to a gap in understanding.

9.3.2 Purchase of income drawdown

Income drawdown remains a minority purchase, with 15% of those who have retired and are drawing a pension opting for drawdown. This option is particularly taken up by those receiving regulated advice: 48% of the Pre-retired sample who have received regulated advice are considering income drawdown.

Only a small number of respondents (30) have deferred their pension, so data should be viewed with caution here, but of those who did (or who retired and took a one year annuity), just under half intend to take up an income drawdown product.

However, income drawdown looks to be of interest to those approaching retirement, with 38% of the Pre-retired expecting to use the product when they retire. This may not fully reflect reality once they are at retirement (where they may receive information and advice) but it does indicate that these products are more likely to be at the very least considered.

Those who received regulated financial advice were more likely to say they will use income drawdown than those who did not (49% versus 32%).

9.3.3 Income drawdown providers

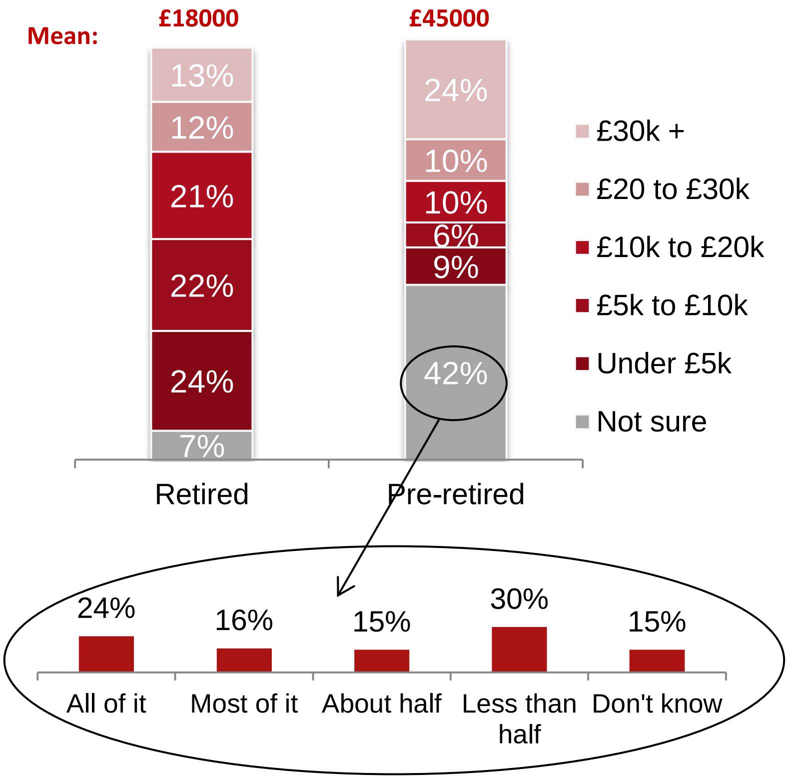
As income drawdown is currently taken by relatively few retirees, the base in our survey is small (57) and so any detail of this purchase should be viewed with caution. However, there are indications that when income drawdown is chosen, it is more likely to be accessed through the individual's existing pension provider (65% vs 40% for annuities).

9.4 Lump sums

Half (51%) of those who have retired and are drawing on a pension have taken a lump sum, and just under half (47%) of those planning to retire (or who have retired and deferred or taken a one year annuity) expect to take one.

Where a lump sum has been taken, the average estimate value of this is £18,000 with 46% taking £10,000 or less. When asked about how large a lump sum they *intend* to take, many at the pre-retired stage were unable to answer, but expect to take at least half of their fund.

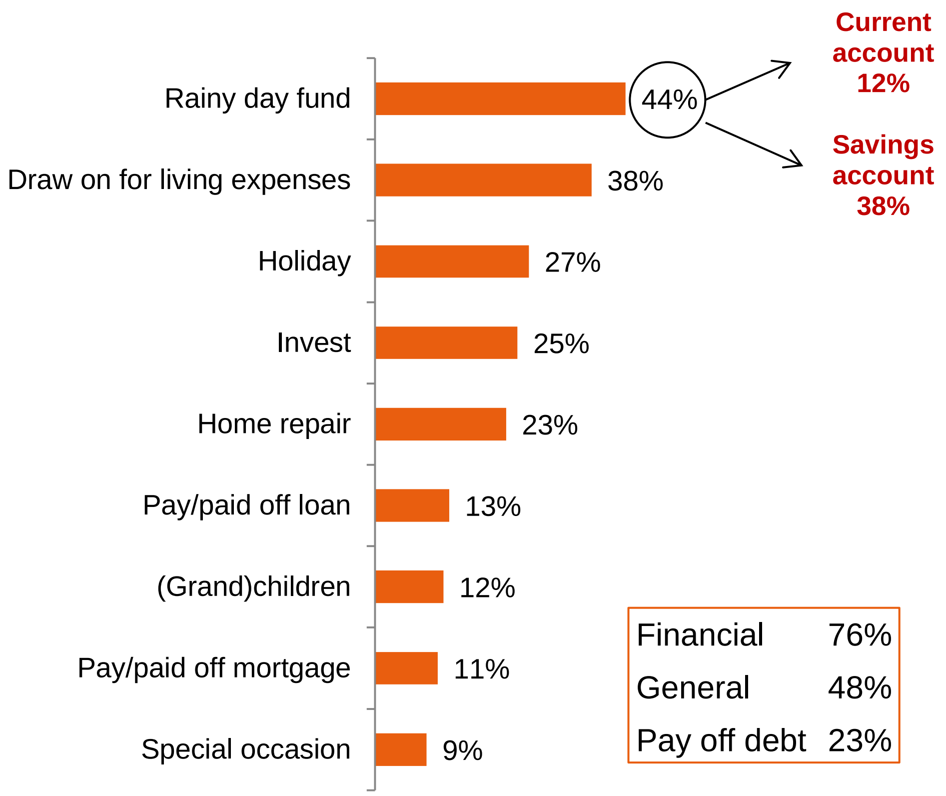
Figure 9-11 Lump sum sizes and estimates



Q21. How much of your pension fund have you taken as a lump sum so far? Please just tell us the total amount including both tax free and untaxed sums to the nearest £000. Base: All who have taken a lump sum so far (149)
Q23. How much of your pension fund do you intend to take as a lump sum in the future? Your best guess is fine. Base: All who intend to take a lump sum (351)
Q24 If you are not sure of the amount, would you be able to choose which of these would best describe how much of your fund you will take as a lump sum? Base: All not sure (150)

Where a lump sum is taken, this is usually for a rainy day (44%) or for day to day living expenses (38%). These funds will be kept in either a current or savings account, which could involve significant inflows to financial institutions. These are grouped together as “Financial” uses in Figure 9-12. Whether this inflow will increase depends on future retirees’ final decisions about the size of the lump sum to be drawn.

Figure 9-12 What lump sum was used / will be used for



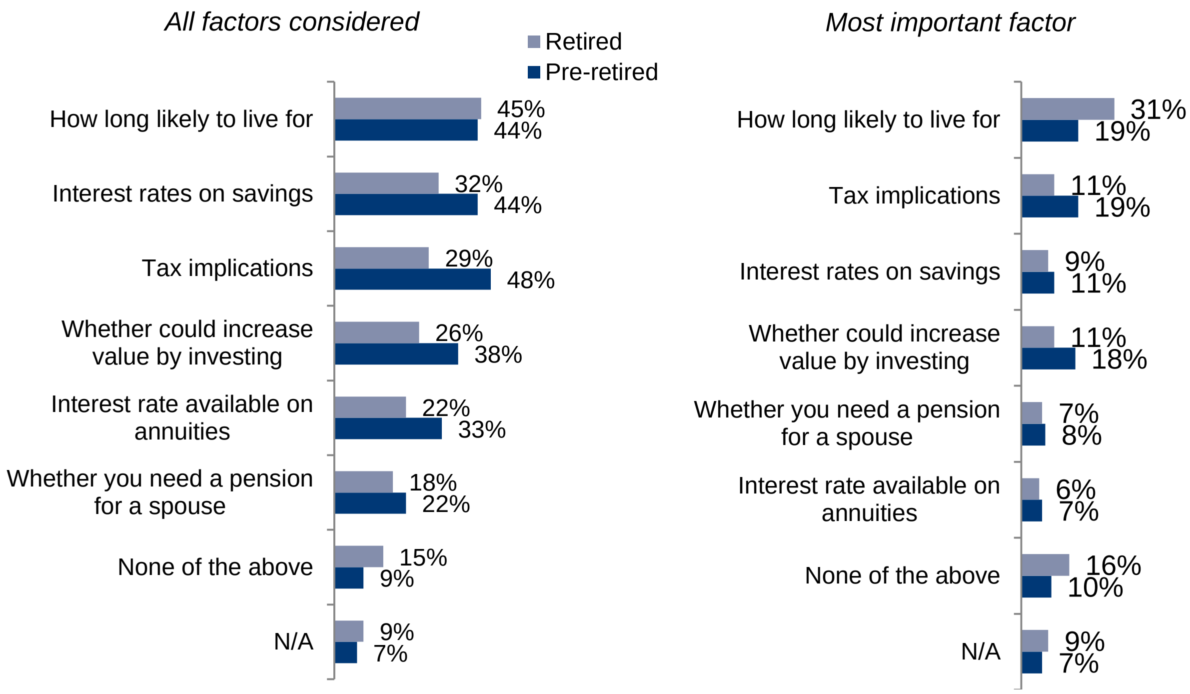
Q26. And what have you done / do you intend to do with this cash lump sum? Base: All who have or will take a lump sum (498)

Those who have already retired are less likely to be using their lump sum for day to day living expenses compared to the expectations of the Pre-retired group (28% vs 43%).

Half (54% of Retired, 47% of Pre-retired) will use money for other reasons, including home repairs, holidays, or special occasions, and a third of retirees (32%) have used their lump sum to pay off debt or a mortgage, with fewer of those yet to retire (19%) intending to do so.

Respondents were presented with a list of factors that could be considered when taking a lump sum. A key factor is how long the retiree expects to live, which is particularly important to those already retired. Return on capital and tax were factors that were considered and are reported to be especially important for the Pre-retired.

Figure 9-13 Factors that are / would be considered when taking a lump sum



Q27a If or when you were considering whether or not to take a lump sum, which of the following did you consider? Base: All Retired (318), All Pre-retired (682)
Q27b And which one is the most important? Base: All answering. Retired (152), Pre-retired (415)

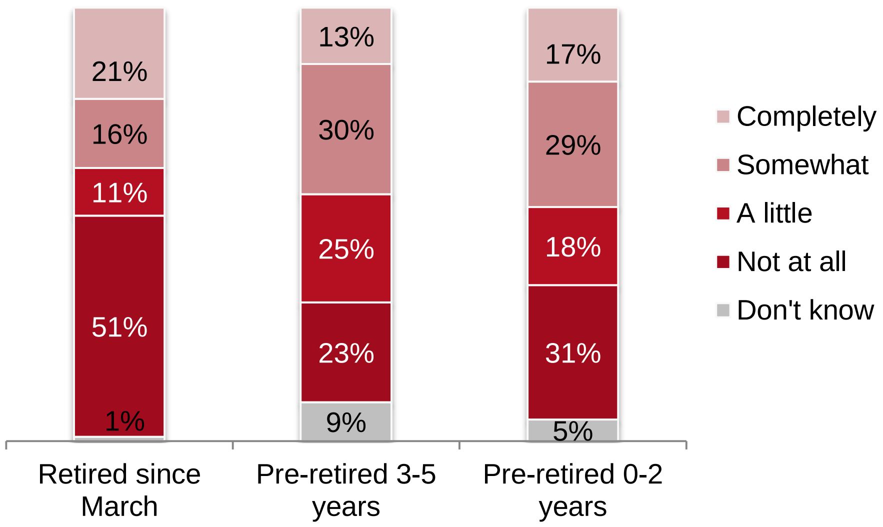
10 THE CHANGES IN LEGISLATION

Most respondents were aware of the changes made in the March 2014 Budget statement (87% of those Retired and 85% of the Pre-retired). It is encouraging that awareness among those who retired after this announcement was significantly higher, at 94%, compared to 83% of those retiring before the statement.

Awareness that the changes had been announced was highest amongst those with larger pension 'pots' (95% of those with 'pots' over £50,000 compared to 78% of those with 'pots' up to £20,000).

The announcement seems to have had an impact on people's decision-making, with 37% of those who retired since the announcement saying that this 'completely' or 'somewhat' changed their decision, and 45% of all those Pre-retired saying that they think it will change their decision.

Figure 10-1 Extent to which new legislation has had an impact on decisions about managing pensions



Q3. To what extent do you think this has changed/will change any decisions about managing your pension? Base: All aware of Budget changes. Retired March – Present (123), Pre-retired 0-2 years (338), Pre-retired 2-5 years (234)

Where people are changing their decision-making, this tends focus on either not purchasing or reducing the size of annuities that are purchased (22% of the Pre-retired) and / or increasing the likelihood of using or the size of income drawdown (12% of Pre-retired).

10.1 The guidance guarantee

The majority of both the Retired (61%) and Pre-retired (57%) groups are aware of the "guidance guarantee"[18]. Awareness is lower among those who have not received regulated advice (55% vs 68% who have) and those with smaller pension pots (69% of those with a 'pot' over £100,000 vs 54% for those up to £50,000).

Where people are aware of the guidance guarantee, their reactions are largely positive, with just 13% of those who have retired and 9% of those approaching retirement feeling negative about the guarantee.

[18] This was described to respondents in full – see questionnaire for text.

11 DECISION MAKING

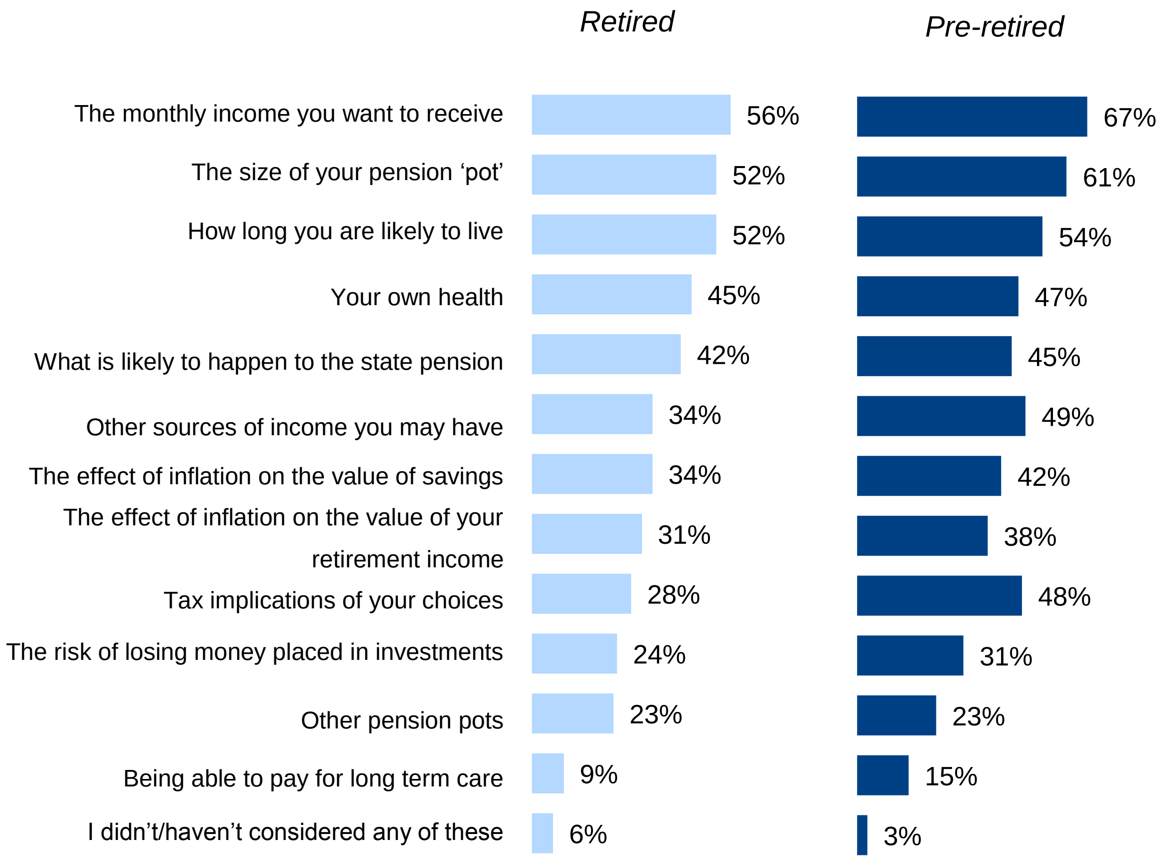
Turning now to the factors that influence the decision-making process.

11.1 What are the important factors in decision-making?

There are a number of factors that are taken into account at retirement and when planning retirement. The three key factors

- The monthly income wanted in retirement (56% of Retired, rising to 67% of Pre-retired)
- The size of the pension 'pot' (52% Retired, rising to 61% for Pre-retired)
- How long the individual expects to live for (52% Retired, 54% Pre-retired)

Figure 11-1 Factors that were / will be taken into account at retirement



Q20a. Thinking about your decision making at retirement, when it comes to your pension pot, which of the following, if any, did you honestly take into account / do you honestly think you will take into account? Base: All Retired (318), All Pre-retired (682)

The impact of inflation is a lower priority, but this does increase for those with larger ‘pots’ – half (51%) of all those (Retired and Pre-retired) with £100,000 or more cite this, compared to just 33% of those with £20,000 or below.

Consideration of the cost of long-term care is low, with only 15% of planners and 9% of those who have retired taking this into account in their decision-making.

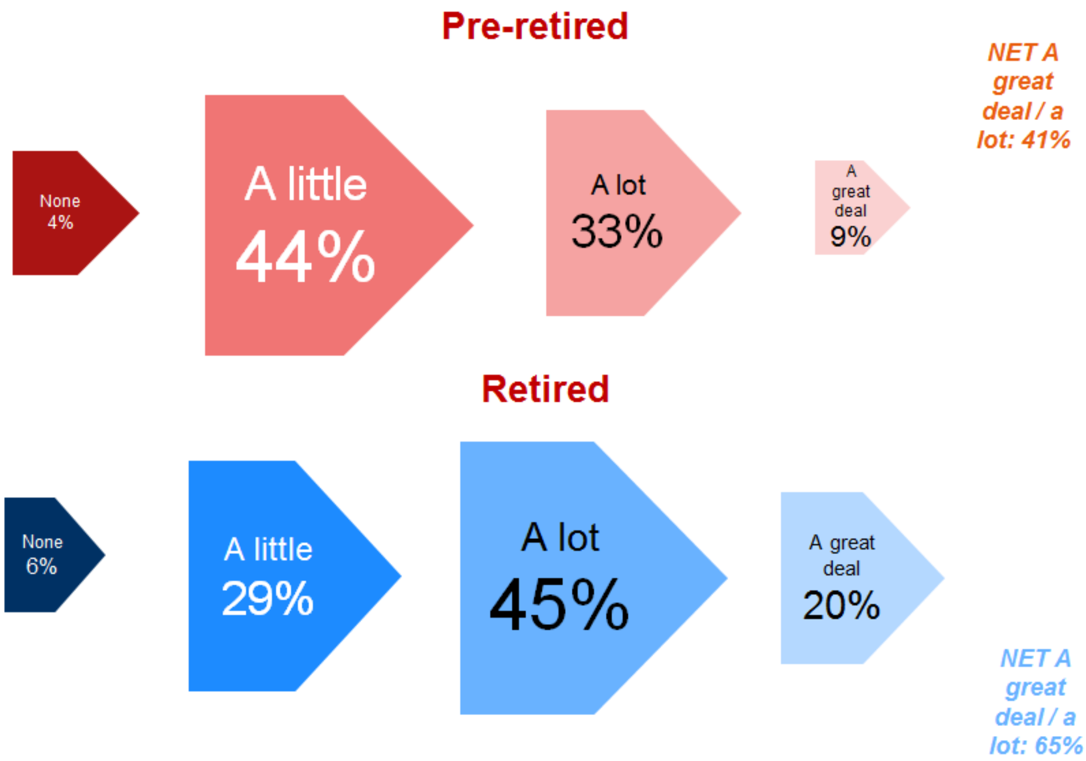
Where retirees took or intend to take an income drawdown product they are more likely to consider the risk of losing money on investments and the impact of inflation on their income.

Also worthy of note is that those at the pre-retired stage are more likely to consider the tax implications of their choices than those who have already retired. It is unclear from the survey why this might be the case. Indeed, the Pre-retired group say they will take more factors into account than the Retired group report they actually did. This could be for a number of reasons. It may be that the Pre-Retired group want to make a better-informed decision. Equally, it may be that they have yet to focus their search criteria.

11.2 How much effort is put into the process?

Respondents were asked about how much time and effort they put into the research and decision-making about what to do with their pension. The level of effort increases as retirement approaches, with those who have retired recalling higher levels of effort than those approaching it, who report more effort as retirement gets closer.

Figure 11-2 Time and effort put into decision-making



Q43. How much time and effort do you feel you [have] put into your research and decision making about what to do with your pension [so far]? Base: All Retired (318), All Pre-retired (682)

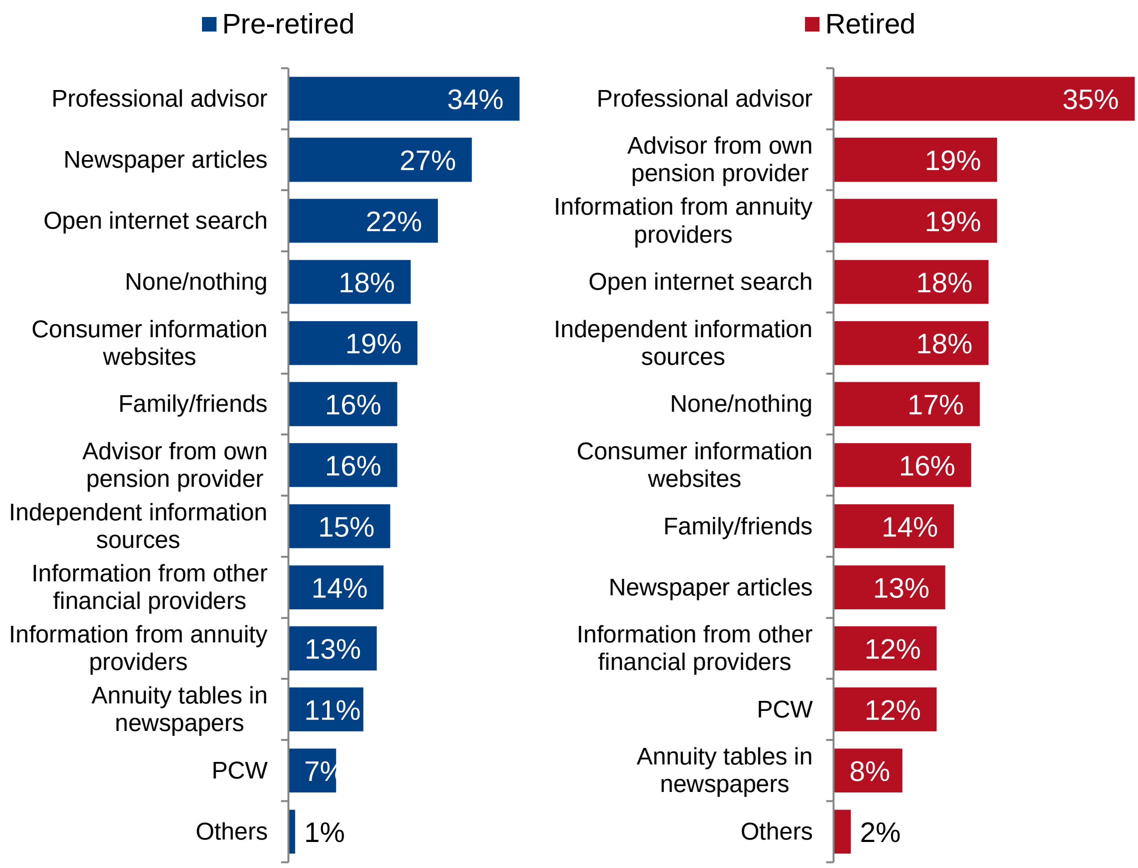
There is a possible cause for concern in that of those who have retired, a third (35%) expend no or only a little effort on the process. It should also be noted that levels of time and effort are higher for those with larger pension pots.

As might expected, the more effort and time put into preparation, the more prepared and confident the respondent feels about making their decision.

11.3 Getting advice and information

Only a third use professional advisors to help them make a decision about their pension fund. These advisors are the main source of information, guidance or advice in a portfolio, with consumers generally using an average of two. However, please note that these are *types* of information source; it may be that those using the internet, for example, are looking at multiple website. For the purposes of Figure 11-3 below, this is classed as a single type of information source.

Figure 11-3 Source of information, guidance or advice



Q40. Which of the following, if any did you use/have you used so far for information, guidance or advice in your decision making about what to do with your pension fund? Base: All Retired (318), All Pre-retired (682)

There is little difference between those who retired pre- and post-Budget; although the latter group was more likely to use an open internet search (26% vs 14%) Price Comparison Websites, while only used by a small number, do seem more popular at the point of retirement than for those at the pre-retirement stage. This indicates that use of these comparison tools may be something that is done at the end of the process, once a product category decision has been taken.

Use of Price Comparison Websites may lead to consumers being contacted by unknown companies. Where price comparison sites were used[19], around half of those who entered their details reported receiving calls, emails or mailings from companies they did not recognise. We cannot say how positively or otherwise these

[19] Small base, (79)

were regarded. A quarter (25%) did not enter their details, so could not be contacted.

Those who say that they put more time and effort into the decision-making process tend to use more sources of information to aid their decision-making. Those who put in “a great deal” or “a lot” of time and effort used an average of 2.5 information sources, compared to those putting in “a little” or “no” effort, who used 1.5 sources. Those who put in “a little” or “no” effort were, however, more likely to get information or guidance from family and friends than those putting in “a great deal” or “a lot” of effort.

11.3.1 Regulated advice

Please note: a “professional advisor” as discussed in section 11.3 above is whomever the respondent classes as such, and so may include non-regulated advisors. In order to clarify this, participants were asked a specific question about their use of regulated advice[20].

With this refined classification, we see that a substantial minority (43% of those Retired, and 39% of the Pre-retired) have received regulated advice. This is similar to the figure of 35% receiving independent regulated advice and 10% restricted advice reported recently elsewhere[21]. This is higher than the numbers spontaneously mentioning “professional advisor” regarding the question about sources of information, suggesting that these may be forgotten about.

Regulated advice is most likely to have been received by:

- Those with larger pension ‘pots’ (50% of those with £50k+ vs 33% of those with ‘pots’ up to £50k)
- Those who feel / felt “completely” or “very well” prepared for retirement (55%)
- Those who know what they will do, or who are fairly certain (54%)
- Those whose main pension is held privately (46% versus 32% main occupational pension)

[20] Defined as “A personalised recommendation from a qualified individual based on a detailed discussion of your financial needs and objectives.”

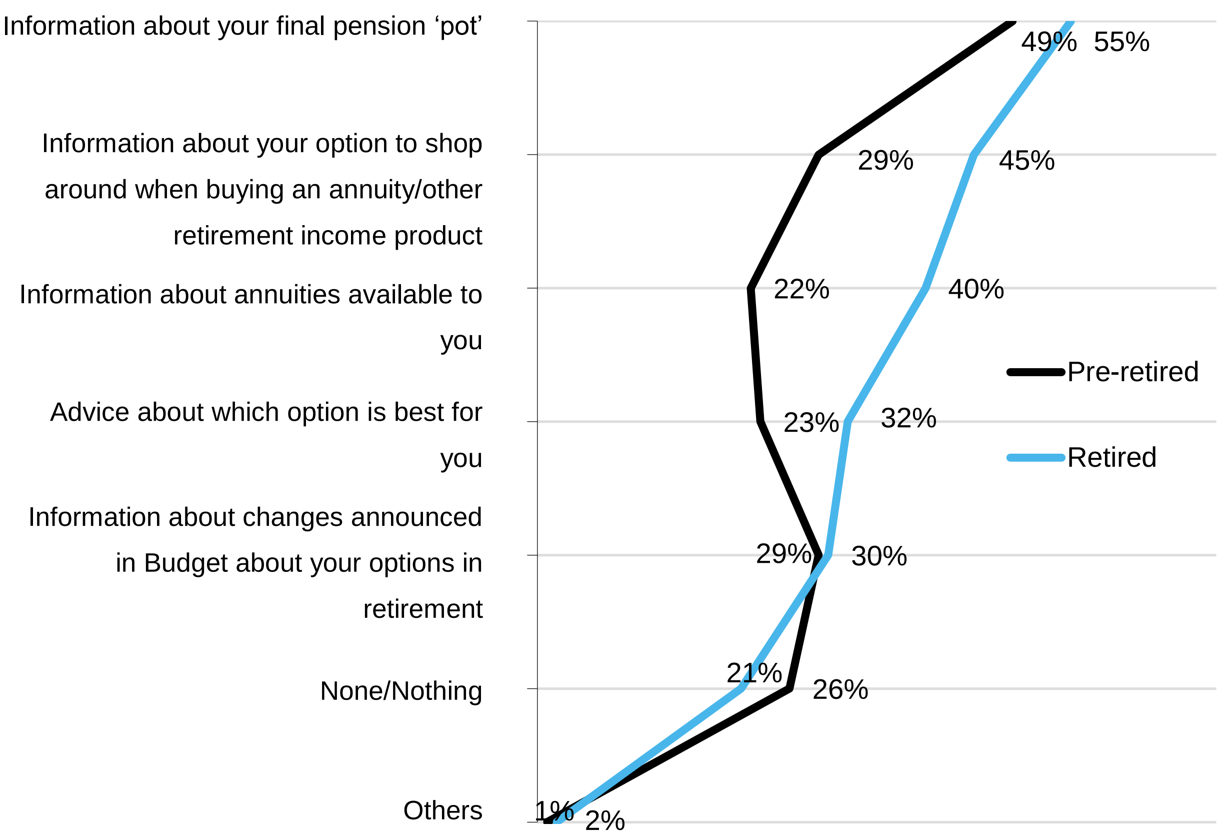
[21] Source: Mintel: Annuities – UK, August 2014

Those who take regulated advice (both those retired and those approaching retirement) are more likely to select income drawdown, suggesting that advisors may be promoting this product.

11.4 Information received from pension providers

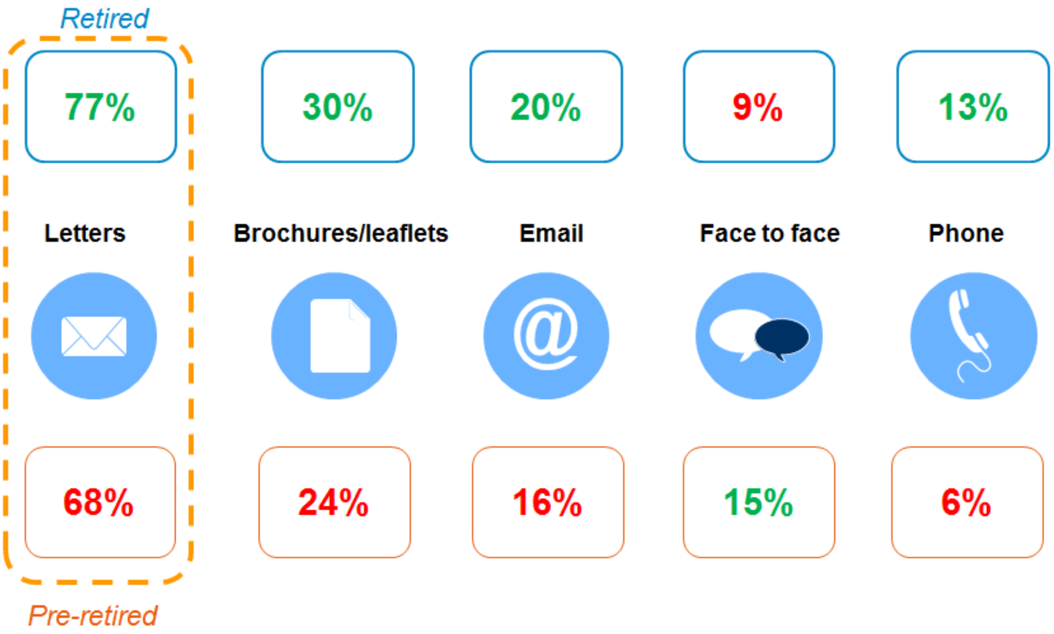
As might be expected, those who have retired recalled receiving more direct information from their pension provider than the pre-retired but, even so, 21% of those who have retired do not recall receiving information from their provider. The most common information received is about the final pension 'pot'.

Figure 11-4 Information received from main pension provider



Q31. Which of the following, if any, have you received from your main pension provider (the provider you were saving with) in the last couple of years? Base: All Retired (318), All Pre-retired (682)

Figure 11-5 Methods by which information has been received



Q32. And, thinking about the last couple of years, in which of the following ways have you received that information from your main pension provider? Base: All Retired (318), All Pre-retired (682)

Where information is received, letters are the most common format, and these are also the most influential source of information:

Top 3 most **important or sole** channels in helping **the retired** to make a decision**:**

- Letters (61%)
- Brochures / leaflets (16%)
- Phone (9%)

Top 3 most **important or sole** channels in helping the Pre-retired to make a decision**:**

- Letters (53%)
- Face to face (14%)
- Brochures / leaflets (10%)

15% of the Pre-retired group say that they have not started decision-making yet.

11.5 Expectations of the future

When asked about the level of income they anticipate needing in retirement, around a third (34% of those retired and 30% of the Pre-retired) expect their needs will stay more or less the same over time, with approximately one in five each stating their needs will go up, go down or vary.

The fact that only 40% of all the Retired and Pre-retired expect their needs to either increase or vary from time to time suggests that many are not thinking about long term care costs or how their spending patterns may change throughout retirement.

12 SUMMARY

This survey was carried out at a time of major change in the options available to those with DC pensions. This report therefore provides a snap-shot of the at-retirement landscape at this point of change.

With retirees now having more options at retirement, it is somewhat concerning that those now coming up to retirement do not see themselves as very well prepared to make at-retirement decisions and some will put off decision-making to avoid making the wrong decision. There is also some evidence of a lack of information or understanding, with a substantial minority not knowing how much they hold in their pension fund and some confusion about what annuities and income drawdown can and cannot offer.

We typically find that consumers are less interested in personal finance than in other aspects of their life and that can be challenging for communication. Here we have a group of consumers who are interested and who, therefore, may be open to more communication about at-retirement options and decisions, assuming this can be provided without it being overwhelming. Currently, forty percent of respondents claim to have received regulated advice about their retirement choices, more so those with private pensions. Those with access to advice do feel they are, or were, better prepared for at-retirement decisions and are clearer about the options available to them. This indicates the importance of the guidance guarantee, which is viewed largely positively by those who are aware of the guarantee.

There is a high degree of awareness of the changes announced in the Budget. It appears that the Budget changes may already be filtering through to change at-retirement choices. Currently, nearly half of those who have retired chose to purchase an annuity and take up of income drawdown is significantly lower. However, this may reverse in future, with fewer of those coming up to retirement likely to choose an annuity and more considering income drawdown.

Two in five of those who chose annuities switched providers, reporting that they did so to get a better rate than offered by their current provider. Nearly half of those who stayed with their provider said they got a good rate, but we also see just under a third also felt that brand choice is important for such a long term product.

About half of those interviewed had relatively low pension pots and, while many have other sources of potential income, those who have extra resources are more likely to be those with higher pension funds. It is likely, therefore, that those with lower funds will be relying to a greater or lesser extent on the state pension in retirement.