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Exploring Consumer Decision Making and Behaviour in the At-Retirement Landscape

Prepared by Ignition House for the Financial Conduct Authority (FCA)

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Glossary

This report contains a number of industry terms.

Term	Meaning
Additional voluntary contributions (AVC)	Contributions over and above a scheme member's normal contributions, if any, which the member elects to pay to an occupational pension scheme in order to secure additional benefits. A legal requirement until 2006, but still offered by many schemes.
Annuity	A series of payments made at stated intervals until a particular event occurs - usually the death of the person receiving the annuity. It is normally secured by the payment of a single premium to an insurance company. It may remain level during payment, or increase to compensate in whole or in part for increases in the cost of living. It can be designed to be paid only to the individual annuitant for life, or may be paid on to a surviving dependant on the death of the annuitant.
Basic state pension	The flat rate (not earnings related) state pension paid to all who have met the minimum National Insurance contribution requirements, their spouses, subject to certain conditions, and widow(er)s.
Contracted out	Commonly used to describe a scheme which provides benefits in place of the State Second Pension (S2P, previously SERPS). It is possible to contract out using an FSAVC scheme in which case the rebate of the relevant National Insurance contributions will be added to the pension policy.

Defined benefit scheme	A defined benefit scheme, also known as 'final salary' or 'salary-related', is a scheme in which the benefits are defined in the scheme rules and accrue independently of the contributions payable and investment returns. Most commonly, the benefits are related to members' earnings when leaving the scheme or retiring, and the length of pensionable service.
Defined contribution scheme	A defined contribution scheme is one where a member's benefits are determined by the value of the pension fund at retirement. The fund, in turn, is determined by the contributions paid into it in respect of that member, and any investment returns.
Enhanced/ impaired annuity	The guaranteed income from the annuity is higher (because the annuity provider expects to provide the income for a shorter period of time) for annuitants whose life expectancy is affected by their lifestyle choices (such as smoking) or certain medical conditions (such as diabetes).
Equity release	Schemes to release money based on the value of a house either as a lump sum or a stream of income.
Financial capability	A gauge of a person's financial sophistication and understanding.
Free-standing additional voluntary contribution (FSAVC)	Contributions to an individual pension policy separate from an occupational pension scheme, made by an active member of that scheme. Benefits are provided from that policy using contributions from the member only.
Income drawdown	Income drawdown allows you to take an income directly from your pension fund rather than using it to buy a regular retirement income. Your pension fund stays invested, so its value can go up and down. There are upper and lower limits on the amount of income you can take. These limits are set by the Government Actuary's Department and are reviewed regularly. The income is taxable.

Pension accumulation/ decumulation	Pension accumulation refers to the act of accumulating assets in order to finance a pension plan. Pension decumulation refers to the process of converting pension savings to retirement income.
Retirement Annuity Contracts (RAC)/ Section. 226	This was a way that self–employed people, or people whose job did not offer an occupational pension scheme, could save for retirement. It was not a pension scheme, but an agreement with an insurance company or friendly society (a special type of financial firm). The agreement could be approved by the Inland Revenue, meaning the member got tax relief. No new retirement annuity contract agreements have been allowed since 1 July 1988.
State Earnings Related Pension Scheme (SERPS)	This is the extra state pension that employed people could earn up to 5 April 2002. They paid extra National Insurance contributions once their earnings reached the lower earnings limit. People could choose to contract out of SERPS by joining an appropriate occupational or personal pension scheme. This was replaced by the State Second Pension from 6 April 2002.
Tax-free cash	The maximum tax free cash that will normally be available is 25% of the pension fund (or 25% of the value of the benefits), up to a maximum across all registered pension schemes of 25% of the standard lifetime allowance.
Third way	Generic term for retirement products that combine a guaranteed element (an income guarantee, a capital guarantee or both) with an invested element. Therefore they offer an alternative to income drawdown or annuity products. They generally attempt to combine the investment growth and flexibility that can be achieved from a drawdown product with the security of income that can be achieved from an annuity.
Trivial commutation	Consumers aged 60 or over with overall pension savings of up to £30,000 can currently take all of their savings in one lump sum taxed at their marginal rate. This increased from £18,000 from 27 March 2014.

Abbreviations

Abbreviation	Definition
DB	Defined benefit
DC	Defined contribution
F2F	Face to face
FCA	Financial Conduct Authority
GAD	Government Actuary’s Department
GARs	Guaranteed annuity rate
IFA	Independent financial adviser
NICs	National Insurance contributions
RACs	Retirement annuity contracts
S2P	State Second Pension
SERPS	State Earnings Related Pension Scheme

Reporting Conventions

The report makes use of three types of illustration to support the findings:

Verbatim comments

These are respondent quotations, based on interview recordings, with only minor editing. They are labelled by:

- Whether the respondent is going to make a retirement income decision in the next two years ('pre-retirement') or whether they have made a retirement income decision in the last year ('post-retirement').
- Gender
- Age

The respondent quotations demonstrate their own views and perceptions and may not always be factually correct.

Case Studies

Short case studies providing more information about a respondent's retirement journey and their retirement income decision making to support and illustrate the research findings.

Graphical representations/ counts

The number of respondents giving a particular response is shown in some sections of the report. Counts are provided to indicate the spread and balance of different behaviours or views among consumers who participated in the research. Typically they are based on interviewer interpretation of qualitative responses given by respondents.

These are indicative only and should not be regarded as statistical measures. The research is not necessarily representative of the broader at-retirement market. Quotas were imposed to achieve sufficient cell sizes for analysis rather than to be representative.

1. Executive Summary

1.1 Research objectives and methodology

Each year there are around 400,000 – 500,000 people making decisions on how they should take income from their defined contribution (DC) pension pots. Under the current system, flexibility to access money is limited to those with very small pots (those with less than £18k in total pension savings can choose trivial commutation) and those with very large pots (typically some type of drawdown product is available to those with over £100k). For the rest, the most popular choice has been to purchase an annuity - an insurance product where a fixed sum of money is paid to the individual each year, typically for the rest of their life.

The March 2014 Budget announced changes to the way that people can access their DC pension pots, with the aim of giving retirees more flexibility and more choice. People who continue to want the security of an annuity will be able to purchase one and people who want greater control over their finances can drawdown their pension as they see fit or purchase an alternative product.

The primary aims of this research are to provide the FCA with insight into how consumers currently behave when approaching their retirement income decision making and how this might change in the new post-April 2015 landscape. Specifically, the research looked to explore the following questions:

- What does the current retirement journey look like?
- How do consumers currently make their retirement income decisions?
- How well equipped are consumers to make active and informed decisions in the new liberalised landscape?
- How will the changes announced in the March 2014 Budget impact on consumer decision making?

We used a mixed qualitative research approach. In total, 104 respondents with DC pensions were included in the research.

1.2 Key findings

1.2.1 The current generation of retirees are usually not solely reliant on their DC pension for retirement

The complexity of historic arrangements means that the current generation of retirees usually are not solely reliant on DC arrangements for income and are more likely than subsequent cohorts to have an underpin of inflation-proofed, secure income from the Basic State Pension, SERPS/S2P and some provision from DB schemes[1].

This generation, perhaps more than any other, has also benefited from the buoyant housing market and many have considerable housing equity to fall back on should they find themselves in difficulties in later life.

For many, the limited importance of their DC pension pot to their overall retirement provision means that a failure to generate the maximum income possible from it will not have a life-changing impact on their financial well-being. DC pension pot size alone is, therefore, not a necessarily a good indicator of financial well-being.

That said, within this research there are more vulnerable groups (particularly singles, divorcees who did not benefit from pension sharing arrangements and those living in rented accommodation). These accounted for a very small minority of the respondents who took part in this research.

1.2.2 There is no typical retirement journey for today's retirees because of the heterogeneity of respondents' circumstances; for this reason increased flexibility resonated well

Few of today's retirees expect to reach State Pension Age, take their pensions, and give up work. Some form of phased retirement up until age 70 is the norm for most respondents in our research – driven either by financial need or a desire to continue working.

This means that income needs are much more varied than they used to be in the past. For example, people may not need to take pension income until they are in their late 60's or

[1] Retirement Sorted? The adequacy and optimality of wealth among the near-retired, IFS, 2014.

beyond if they continue to work. Alternatively retirees may only need to access part of their fund to ‘top up’ income for a period of time, for example, until their state pension or additional pension arrangements start, or their partner gives up work. The ability to access pension money more flexibly announced in the Budget, therefore, resonated well with our respondents.

Prior to the Budget announcement, few respondents were aware they could access their DC pot at any time from 55 onwards, or indeed that they could choose to leave their pension invested beyond their ‘selected retirement date’. They often believed that their pension had a date at which it ‘matured’ and when that time came they would simply take their tax-free cash entitlement and convert the rest to an income by purchasing an annuity. This means that taking pension income is not necessarily aligned with ‘retiring' and, indeed, respondents often described a situations where they may be taking annuity income and still earning, or may be taking pension income while still paying into a pension pot.

The Budget changes have also opened retirees’ eyes to the ability to take pension income as and when they need it, rather than take an annuity when the policy ‘matures’.

1.2.3 Respondents put off retirement planning, which can have a detrimental impact if plans change dramatically due to ill-health or redundancy

It was rare to find anyone who had made a budget to compare income needs pre and post retirement and such plans were focused only on the next year or so. The vast majority would simply work out how much income they would be able to get at the time and live to their means.

Most respondents are not actively involved in seeking information until the last few months before retirement, and even then many are undertaking fairly limited activities. Pensions are described as “a minefield”, “confusing” and “full of jargon” and these respondents tried to put off the process for as long as they could.

There is an expectation that income needs will drop in later life as their health fails and they become less active, but the vast majority of respondents did not want to think beyond that to consider the costs of long term care.

The key triggers to start the process of a planned retirement are usually life events such as a partner retiring, paying off a mortgage, or the perceived ‘maturity date’ of their pension arrangements. Some respondents felt that reaching age 60 or 65 were still key milestones, but these respondents were in a minority. Retirement plans can be disturbed by adverse events such as ill-health or redundancy and a propensity to put off planning means that those whose plans are thrown into disarray by such events often have little time to consider their options and make fully informed choices.

1.2.4 The vast majority know that they could shop-around for the best annuity rate, but not all do and many undertake very limited searches

The vast majority of respondents in our research were aware that they did not have to buy an annuity from their pension provider and that they could shop around for the best quote. Respondents pointed to the significant amount of press and media coverage about annuities and at-retirement choices.

Despite this high level of awareness amongst respondents that they could shop around, not all do. The propensity to shop around is affected by the importance of the DC pension pot to overall household income. Respondents for whom their DC pot was a “top-up” to other sources were of the view that a “few extra pounds” will not make a material difference. It is this, rather than awareness, which acts as the biggest barrier to shopping around and switching away from their current pension provider.

Consumers who do little or no shopping around may be acting rationally if the search costs involved (such as understanding the options available to them, seeking out rates, and finding out about providers they have not heard of) outweigh the benefits of any additional income. However, respondents in our research repeatedly took a very short-term view when assessing differences in annuity rates, and they did not consider the long term impact that a small difference in income will have over their lifetime. This means that they may not be assessing the amount of additional income in a fully rational way.

When undertaken, shopping around activity was often limited to looking at generic rates in best-buy tables either online or in the finance pages of the national newspapers. For some, shopping around involved getting a small number of quotes from well-known providers. Comparison sites were perceived to be very useful to see best-buy rankings and to illustrate the variety of annuity options available. Respondents felt this empowered them to take the next step, whether that was talking to providers, making a decision themselves, or looking for an IFA for advice. However, respondents were often reluctant to enter their personal details into comparison sites for fear of being “bombarded” with sales calls.

1.2.5 Retirement decisions appear heavily influenced by behavioural biases

Evidence from our discussions suggests the retirement plans and decisions that people make are not entirely guided by what makes most economic sense for them to do. Rather, their decisions are influenced by cognitive and emotional biases.

Respondents' biases manifest in a number of ways: putting off planning until very near to retirement, not thinking about the lifetime value of small differences in income, under-estimating their life expectancy, wanting to maximise income in the early years, a reluctance to consider the impact of running out of money in later life, and not considering the potential costs of care in their later years.

One specific issue which we explored with respondents is the reluctance to inflation-proof income. Respondents understood perfectly well that inflation can eat away at income, they have lived through periods of high inflation and many have felt a squeeze on their budgets in recent times, and they initially felt inflation-proofing income was important. However, when shown an illustrative example of how much their initial income could fall if they chose to purchase an inflation-proofed lifetime annuity versus a level lifetime annuity (in our example – broadly based on current market rates – initial annual income falls by almost a half, from £6,000 for a flat rate annuity purchased with a pot of £100,000 to £3,500 if the income is inflation-linked), the vast majority of our respondents were unwilling to take that level of reduction in income today to protect their income for tomorrow.

Our research also revealed that the framing of retirement income decisions can have an impact on the choices consumers make. Specifically, given the choice between income drawdown and an annuity, respondents in our research were far more likely to choose an annuity when the outcomes are framed in terms of consumption rather than in terms of investments. This is described in greater detail in section 7.4 of this report.

1.2.6 Largely positive reactions to the March 2014 Budget changes

The Government's Budget announcement on 19 March 2014 detailed some significant changes to the pension and retirement income landscape. Our research indicates that levels of awareness of the changes are correlated to proximity to the retirement decision date. Those who are about to make a decision about how to take income or are planning to make a decision in the next year, had followed the announcement with considerable interest. Many of those who had already bought an annuity had additional pension pots which were still invested, or their partner did, so they too were very interested in following how the Budget announcements would affect them. Respondents who were a couple of years out from taking retirement income were generally aware that something had changed, but they did not pay much attention to the details as they believed 'things may change again before [they] are ready to make a decision'.

Despite the high levels of interest and awareness that changes are taking place in the retirement income market, respondents were less able to articulate the details. In particular, the tax situation was somewhat unclear.

- The vast majority of our respondents were unaware of the fact that it is already possible to access pensions before the age of 55, subject to tax at 55%.[2]
- It was common for all but the most financially sophisticated respondents to miss that 75% of the DC pension fund would be taxed under the new regime, but it also came as no surprise when this was explained to them.
- Most did not understand what being ‘taxed at their marginal rate’ would mean for them. There were a couple of cases where respondents’ anticipated plans (typically to purchase buy to let properties) changed dramatically when this was fully understood.

Once the changes to the retirement income market were fully explained to those who needed clarification, the vast majority of respondents were pleased that they were now being allowed to “access their money” and they felt they were sensible enough to make the right decisions.

Across the board, respondents were keen to access the maximum tax-free cash as their default option. This cash was compartmentalised in their minds as “fun money”; typically they wanted to use it for holidays or cars. This is consistent with the experience of respondents in our research who had already accessed their pension; practically all have taken the maximum tax-free cash and spent it on similar things. The vast majority had not considered the implications of their decision to spend down their tax free cash on their lifetime income.

In light of the Government’s announcements in Budget 2014, respondents recognised that decisions about the remainder of their pot (after tax free cash) are becoming more complex, and are aware that there will be a plethora of options open to them. Many were unsure exactly what they would do; their general aversion to the concept of annuities means that some form of drawdown which offers more flexibility is likely to be the most popular option for those taking retirement income post April 2015.

1.2.7 Consumers may not be well equipped to make retirement income decisions in the new landscape without additional support and information

In the newly liberalised at-retirement landscape, consumers will have greater choice and flexibility over how they can access and use their DC pension funds. With greater freedom comes greater uncertainty, as consumers who choose not to buy an annuity have to manage

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[2] This applies to those holding pensions over a certain threshold (see trivial commutation definition)

longevity, and, for some, investment risk, for themselves and ensure that they are accessing money in the most tax efficient way.

Most respondents in our research had little knowledge about the different types of retirement income products that are currently available. There was some knowledge on how level lifetime annuities work, but very limited awareness of other options. Those who had been through the decision making process already, generally had a good working knowledge of the basics of lifetime annuities and some awareness of the concept of drawdown, although they could not describe these in detail. However, respondents who had taken their tax-free cash and left the remainder of their pot invested were not always sure whether they were in drawdown or not. There was an almost non-existent awareness of ‘Third Way’ products, which combine a secure income with the potential for some investment growth (for example, an investment-linked annuity).

Respondents with old style pension contracts (such as Section 226s and RACs) and those whose pensions were invested in closed with-profits funds had not considered whether providers would levy any charges or penalties for accessing their funds. Further, respondents are generally not aware that they needed to check whether their pension contracts contain a guaranteed annuity rate or not.

The Budget announcements open up the option of flexible drawdown to many more consumers than in the past. Those now choosing to draw down their income (either by entering into an income drawdown arrangement or directly from their pension fund) instead of purchasing an annuity will have to make ongoing decisions about where their money is invested and how much investment risk they are willing to take. Their decisions will have an impact on how much income they are able to take and/or how long that income will last.

We found that many of the respondents in our research were not confident enough to make decisions about equity-based investments today. Respondents had very low levels of awareness (and interest) in what their pension is currently invested in. They are predominately putting their non-pension savings into cash ISAs and deposit-based savings as they are unwilling to bear any capital loss.

There was very little awareness of how their investment choices could impact future income. For example, they did not understand the consequences of putting their pension savings in a cash-based investment over their lifetime. Furthermore, respondents had not considered the costs involved in remaining invested for many years.

It was also common for respondents to discuss accessing pension funds to invest in property, often without fully understanding the tax implications of withdrawing their pot in a single lump sum. Their thinking was, at least in part, driven by a mistrust of pensions and pension providers and the perception that property is a better investment than pensions in the long term. Respondents were not usually considering costs beyond the purchase price of the property in their calculations and, therefore, their comparison of rental yield compared to potential annuity rates was likely to be over-optimistic.

Respondents tend to underestimate longevity risk and spontaneously did not factor it in to their retirement income decision making. Although most have a reasonable awareness of average life expectancy, they are likely to over-estimate how many people will die between 65 and 70, and under-estimate how many will live beyond 80. When told the actual statistics, respondents were surprised how many live beyond 80, even though many had octogenarians in their family. Few wanted to think about living much beyond age 80 as it was “too scary” for them to contemplate being that old.

1.2.8 The recent financial crisis has dented confidence in all financial services companies

Respondents are unsure how to judge any advice they are given as there are no visible measures they can use to assess the quality of one adviser versus another. Cost is a barrier to advice rather than an indicator of the quality of the service on offer. As a result there is a tendency for consumers to revert to a DIY approach. This often leads them to choose the ‘default’ of full tax-free cash entitlement and a level annuity as respondents are often not fully aware of all the options open to them. In particular, awareness of impaired and enhanced annuities is low, even amongst those who would be eligible for such products.

Our research found that people who purchased annuities tended to favour staying with their own provider if they offered an annuity and the rates offered were perceived to be in line with others (they did not have to be the best rates on offer). There was a sense that their provider was at least known to them and, as it was usually a well-known household name, they had faith in their ‘promise’ to deliver an income for life.

Unprompted, respondents wanted some sort of quasi-government body or bodies to offer impartial information and guidance to help them on their journey. Respondents expected any such bodies to be ‘regulated’ in some way.

1.3 Overall Conclusions

Most consumers in our research had limited choices for taking their DC pension pot before the Budget. The announcements made by the Government in the March 2014 Budget will extend flexibility and choice; it has opened up a new decision making framework for those taking pension income in 2015 and beyond.

The changes announced resonate well with consumers who have lost faith in financial providers, believe that annuities offer “poor value for money”, and want to have more “control over their money”.

Very few of our respondents said they planned to take out their entire pension pot and spend it. Respondents were happy, however, to take out the maximum tax-free cash allowance to spend with little consideration given to the that impact this will have on their lifetime income.

A pervasive mistrust of annuities and the commonly held belief that they offer “poor value for money” (typically resulting from what they had read in the press) led to some form of flexible drawdown being the preferred future choice of respondents.

However, our research shows that, across the board, consumers may not be particularly well equipped to make decisions on how to access and manage their money at retirement, without additional support and information. Respondents generally under-estimate longevity risk and are usually not confident to make equity-based investments. They are not well informed about the tax consequences of their actions and how to navigate the tax system to ensure that they are managing their withdrawals in a tax efficient manner.

Respondents often do not have a full set of information on which to base their decisions. Anecdotal evidence suggests that the incidence of legacy pension arrangements with guaranteed annuity rates attached to them might be quite high and, therefore, it is essential that people are aware that they should check to see if they can get a higher rate. Similarly, those in ill-health are often not aware of the additional income they could receive by purchasing an impaired or enhanced annuity.

The impending changes to the retirement income landscape may have profound effects on the asset classes underpinning the retired population’s income. Low levels of investment knowledge and confidence means that consumers may be likely to switch funds out of pension wrappers into cash ISAs. Buy-to-let property is likely to be an important element of future pension income and is likely to attract new investment flows from pension savings. New flows of pension money may also act as a catalyst for further market growth and development in alternative investments, such as peer-to-peer lending, as consumers seek higher rates of return than those available in cash-based vehicles. Respondents currently have limited awareness of how these markets operate, and what is regulated and what is not.

Consumers' desire for the security of a guaranteed income coupled with access to their pot of money is likely to drive the market for products which combine elements of income drawdown and annuities.

2. Project Scope and aims

2.1 Project scope

The FCA launched a market study into the retirement income market on 14 February 2014 to assess whether competition in this market is working well for consumers. The Government's Budget announcement on 19 March 2014 detailed some significant changes to the pension and retirement income landscape and the market study was re-scoped and re-launched in June. From April 2015, from age 55, the Government proposes that everyone holding a DC pension pot will be able to withdraw it how they want, subject to their marginal rate of income tax in that year. 25% of an individual's pension pot will remain tax-free, as it is today. The changes mean that there will be more flexibility and more choice for retirees, and particularly for those with smaller pension pots. People who continue to want the security of an annuity will be able to purchase one, and people who want greater control over their finances can drawdown their pension as they see fit. Those who want to keep their pension invested and drawdown from it over time, or purchase an alternative product, will be able to do so.

2.2 Project aims

The primary aim of this research is to help the FCA understand how consumers with DC pensions currently behave when approaching their retirement income decision making and how this might change in the new landscape. Specifically, the research looked to answer the following key questions.

- What does the current 'retirement journey' look like?
- How do consumers currently make their retirement income decisions?
- How well equipped are consumers to make active and informed decisions in the new landscape?
- What impact will the Budget 2014 changes have on consumers' decision making?

3. Methodology

We used a mixed qualitative research approach, with extended focus groups allowing for more exploratory research and extended face-to-face interviews to understand retirement journeys and decision making in depth. In total, 104 respondents were included in the research. All interviews were conducted in August 2014 by Ignition House team members familiar with the pensions landscape and the changes proposed in the March 2014 Budget.

Respondents were recruited across the UK using a detailed recruitment screener - the main criteria being the overall size of their DC pension pot and where they are in their retirement journey.

In previous at-retirement research we have found that very few people take an active interest in how they will take income from their pensions until they are close to their retirement date. We, therefore, focused this research on those who are within two years or retirement and those who had very recently (within the last 12 months) made a retirement income decision.

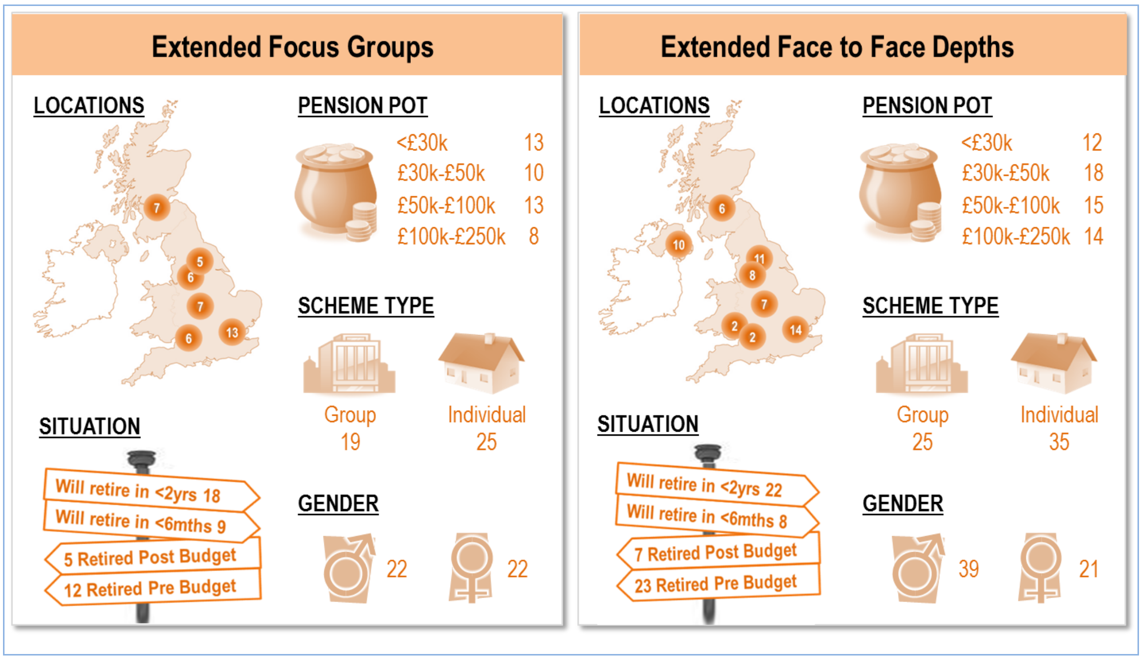
The research focused on people whose DC pension pots will be or are their **main s**ource of income in retirement. Therefore, respondents in this study are not necessarily reflective of the DC population as a whole, because we excluded the following types of respondent from the research.

- **Those with more than £250,000 in their combined DC pension pots**. The rationale for exclusion being that people with more than £250,000 in their DC pension pots would most likely have entered into income drawdown prior to the Budget announcement and are likely to use the services of a financial adviser. Therefore, the forthcoming changes to the way pensions can be accessed will have minimal impact on their decisions.
- **Those where income from their DB pensions will account for more than 60% of their total retirement income**. Here, the underpin of significant income from a DB scheme results in different attitudes and decision choices to those with predominately DC provision, especially in the newly liberalised at-retirement income landscape.
- **Those with more than two buy-to-let properties**. Our previous research with these groups indicates that the stream of income and expected capital gains from buy-to-let

properties means that these consumers have a very different view of DC pension income.[3]

An overview of the achieved research sample across both the extended focus groups and face-to-face interviews is depicted in Figure 1 below.

Figure 1: Achieved research quotas



[3] Ignition House Multi-client Research, April 2014.

4. Retirement Provision

This chapter considers the importance of DC pensions to the respondent's overall financial well-being in retirement. It explores the extent to which they have other sources of income or wealth, particularly housing wealth, on which consumers might draw to fund their retirement.

4.1 The current generation of retirees have sizable assets in addition to their DC pensions

There is a growing body of evidence to suggest that the current generation[4] of retirees, particularly those in couples, have a number of sources of wealth once total assets are taken into account.

The complexity of historic pension arrangements means that the current generation of retirees usually are not solely reliant on DC arrangements for income and are more likely than subsequent cohorts to have an underpin of inflation-proofed, secure income from the Basic State Pension (BSP), SERPS/S2P and some provision from DB schemes. This was reflected in the experiences of the vast majority of our respondents, who described a myriad of pension arrangements.

There are some exceptions: it was common to hear from our female respondents that they had chosen to pay reduced National Insurance contributions (NICs) for at least part of their working life and as a result have lower state pension entitlement. Furthermore, those who worked part-time for at least some of their working lives may not have been entitled to join DB schemes, or have built up smaller entitlements. Publicity surrounding the introduction of personal pensions in the late 1980s and early 1990s seems to have alerted these consumers to the need to build some of their own pension savings and it was around this time that many started saving for their retirement.

[4] Retirement Sorted? The adequacy and optimality of wealth among the near-retired, IFS, 2014.

4.2 DC pension pot size is not necessarily a reflection of financial well-being

In 2013 the average pension pot used to purchase an annuity was £33,670. The median value (over the same period) was less than £20,000.[5] These statistics raise concerns about whether people with smaller pots have made adequate arrangements for retirement and focuses attention on whether they are equipped to make decisions to ensure that pension income is maximised. However, it is important to remember that these statistics focus on the value of the single annuity purchase. In our research it was common to hear of multiple DC pots of varying sizes being used to purchase annuities over time, and of alternative arrangements expected to provide significant income in retirement.

Many of our respondents with smaller pots felt that they would be financially comfortable in retirement, for a variety of reasons.

- Most had some savings and investments in addition to pensions.
- Most saw retirement income as a joint asset. Partners may have larger pots, or still be in work, or have large DB schemes. For this reason it was common for women in particular with smaller pots to describe theirs as the 'top-up fund'.
- A small number of respondents made a deliberate decision to make alternative provision for retirement and their small DC pot is often as a result of limited membership of an employer's scheme, or as a result of contracting out of SERPS for a time, or an old paid up pension policy which has simply been left to run.
- There was a reasonable incidence of men in our study with wives who have NHS or other public sector DB schemes, providing some additional security to the level of household income.
- Despite being recruited to ensure that the DC pension was the main pension, some respondents reported having one or several DB schemes from their early working lives, and that they only started the DC pension later in life as a result of a job move or becoming self-employed.

[5] ABI Quarterly Pension Annuities https://www.abi.org.uk/~/media/Files/Documents/Publications/Public/2014/Pensions/The%20UK%20Annuity%20market%20Facts%20and%20Figures.ashx

Case Study: DC pot size is not always a good indication of financial well-being

Rory

- **Age:** 56-65
- **Work:** Employed
- **Pot:** <£30k (closed with profits fund)
- **Outcome:** Deferred

"I have a few properties that are let out and various things on top of that."

BACKGROUND

- Rory took out a pension with his mortgage in the 1980s. He paid into it for a few years until he changed mortgages. The pot was then frozen and has been building up slowly over time.
- Rory developed a mistrust of financial service providers (and pensions in general). Rather than investing in a pension, he opted to invest in property and owns two buy-to-lets.

OUTCOME

- Rory was recently contacted by his pension provider informing him that his expected retirement date was approaching. Prior to receiving this wake up pack he had "forgotten entirely" that he had the pension as it was "worth nothing" and accounted for a small part of his provision for retirement.
- He is yet to make a decision about the pot, but thinks he will probably take all the money out tax efficiently post April 2015 and invest it in property.

4.3 High incidence of housing wealth to supplement pension income if necessary

The vast majority of our respondents were home owners. Most had paid off their mortgages on their own homes or have very small amounts outstanding that are due to be paid off in the next year or so. A very small number reported having a significant mortgage left on their home, usually due to a change in family circumstances; for example they had re-married, had children late in life, or had divorced and set up home again.

Even though we excluded 'professional landlords' from our research (defined as those with more than two buy-to-let properties), there was still a high incidence of buy-to-let ownership. The majority of buy-to-let properties were owned outright and were generating an income for the respondents in our research. Buy-to-let landlords were in general disillusioned with pensions and had often stopped paying into their pots some time ago in order to fund their buy-to-let portfolio.

Although there is a very strong bequest motive for housing, respondents felt that they would downsize and release equity if required - but few had looked in detail at the practicalities or thought about the costs of doing so.

There was a strong aversion to equity release, with just a handful saying they would consider it as an option to supplement their retirement income. A dislike of equity release was usually driven by a strong bequest motive, negative press coverage around equity release, and unwillingness to take on another mortgage when they have just become mortgage free.

> *"It is a lot safer to downsize and release equity than to use a company for equity release."*
>
> **Post-retired, female, aged 56-65**

4.4 Additional savings are common, and are usually in cash based vehicles

Most respondents in our study had other assets they could use to boost pension income if necessary. Respondents were most likely to have savings in cash based savings vehicles; cash ISAs were the norm.

Respondents reported that they were much less confident about investing in equity based rather than cash based savings vehicles as they did not have the knowledge to make such investments and they were unwilling to take the risk of capital loss. For some, this was because they thought they could not afford to 'lose' any savings; for others it was because they were aware that now they are older they may not have enough time to make back any loss before they need to use the money.

4.5 Conclusions

The current generation of retirees generally do not rely on their DC pensions alone to deliver an income in retirement and may be in a better financial position than future cohorts.

It was rare to find respondents with a single DC pot that accounted for the bulk of their retirement income provision. The vast majority described a myriad of DB and DC arrangements reflecting varied work patterns. State pensions and DB entitlements provide a secure, guaranteed underpin of income.

This generation, perhaps more than any other, have benefitted from the buoyant housing market and may have considerable housing equity to fall back on should they find themselves in difficulties in later life. Most say that they would consider downsizing in later years to release equity, yet few have factored in the significant costs that would be incurred by doing so (including stamp duty, solicitor's fees and moving costs). For this reason, retirees may be overestimating the amount of income they could generate from their property to fund retirement. For some, it may be more efficient to generate this income from an equity release scheme, but the negative perceptions surrounding such products means that this route is not currently seen by most as a viable option.

Within this cohort there are more vulnerable groups – we found examples of singles, divorcees who did not benefit from pension sharing arrangements and those living in rented accommodation who were not well provisioned for retirement - but they were a very small minority of respondents who took part in this research.

5. Retirement Journey

Historically, those reaching retirement age followed a similar path, which was closely aligned to state pension age. DB scheme rules often mirrored state provision, and those with DC pensions commonly chose the state pension age as their 'nominated retirement date'. At this time, it was common for people to take their pension income and to stop working completely. Indeed, many employers did not allow their staff to continue working past this point.

Over time, changes to the system have meant that those reaching retirement today face a different set of decisions. Changes to legislation[6] have meant that people can go on working for longer if they wish, state pension age is being increased over time, and there are options to defer the state pension if desired.

This chapter considers whether the traditional retirement journey is still relevant for today's retirees or whether a new model is emerging.

5.1 Consumers have complex journeys as a result of phased retirement

For those respondents approaching retirement in the next few years, planning for a flexible retirement was the norm. Many had started this process and were already partially drawing pension income to supplement their reduced wages. For lower income brackets, continuing work was driven by financial need. For higher income brackets, continuing work was driven by a desire to keep their mind active and a fear of the unknown.

Most expected to stop working completely around 70, but a few (typically self-employed respondents) said they would carry on for as long as their health permitted. Age 70 was felt to be the age at which health would start to fail and when they would start to feel "old".

Those looking at a set date for retirement at 60 or 65 tended to be in the lower income brackets and had lower educational attainment. They felt they had been working since their teens and had 'done their time'.

[6] The Default Retirement Age was abolished in 2011.

Case Study: Phased retirement driven by a desire to keep active

Peter

- **Age:** 56-65
- **Work:** Semi-retired
- **Pot:** £100k to £150k
- **Outcome:** TFC and Annuity

"I still do a few days as a consultant, I can't ever see myself ever wanting to give up work, I'd miss the interaction with people and get bored."

BACKGROUND

- For Peter, semi-retirement is a life-style choice as he wants to spend more time with his children. He works from home and can't see himself ever giving up work fully – he says he would miss it too much.

OUTCOME

- Peter was aware that he could have access to his Tax Free Cash (TFC) at 55 after reading about it in a newspaper. He used his TFC to pay off his mortgage and reduce outgoings, and annuitised the rest of his pot to ensure a guaranteed income in retirement. His annuity income is not currently needed for daily living and normally pays for family holidays.
- Peter shopped around for his annuity, but opted to take one out with his existing pension provider because the rate was better than the other quotes he received, and it was a well known brand.
- Peter is confident he made the correct decision, but has no financial plan for when he stops working.

Case Study: Phased retirement driven by financial need

Patrick

- **Age:** 56-65
- **Work:** Semi-retired
- **Pot:** £30k to £50k
- **Outcome:** TFC and Third Way

"In the early days of my retirement , I felt reasonably optimistic, but now I have entered retirement and I haven't got the income I had, I'm a wee bit worried."

BACKGROUND

- Patrick's was recently made redundant. He had a "small pension pot" that he had been paying into for over ten years, which was due to "mature" at around the same time.
- Prior to looking into his retirement income options, he was optimistic that his pension, couple with a small buy-to-let property, would deliver a good standard of living in 'retirement'.

OUTCOME

- Patrick spent a bit of time considering his retirement income options. He received "a terrible" annuity quote, so decided to look at alternatives. His friend told him about a variable annuity product that still provides a guarantee for "peace of mind". He googled it, liked the concept, and bought it direct from the provider. He did not shop around and compare other products.
- He also opted to take the full TFC and invested in an equity ISA, to keep it "under my control."
- Once he understood the amount of income he could receive he was worried that it would not be enough to live off, so is now topping up his income by working part time as a tutor.

5.2 There is no typical retirement journey

The key triggers to start the process of a planned retirement are usually life events such as a partner retiring or paying off a mortgage.

> *"The push to retire was my wife retiring and the thought of going on more holidays."*
>
> **Post-Retirement, male, aged 66-70**

Retirement plans are often very fluid, even up to the last minute. This means that many retirees were putting off their decision making until very close to their retirement date.

Retirement plans can be disturbed by events such as ill-health or redundancy.

Figure 2: Triggers to start the retirement journey

5.3 Pensions are currently taken when they 'mature' - but the Budget may change this

Respondents in our research tended to see pensions as a product with a 'maturity date', which is normally the expected retirement age the provider set up on their system at the time the pension was set up. This means that taking pension income is not necessarily aligned with retiring. Respondents described a variety of situations where they may be taking annuity income and still earning, or may be taking pension income while still paying into a pension pot.

> *"The first time I took any notice of my pension was a few months before I was 60 – when I got my first letter from the company saying it was due and giving me my options."*
>
> **Post-retirement, male, aged 56-65**

It was unusual to find respondents who were making a decision on a single pot; more commonly respondents were on a learning curve as each pot matured. This means that:

- if they "made a mistake", it is not with the whole of their pot and they could learn from their experience
- they were often not too concerned with getting the best rate for their smallest pots as they had other sources of income in the pipeline, and
- some had already experienced the process for their partners' pension and were able to bring this learning to bear on their own pension decisions.

Before the Budget, few respondents were aware they could currently access their DC pot any time from 55 onwards, or indeed that they could choose to leave their pension beyond this date. The publicity surrounding the Budget has increase our respondents' awareness that DC pots can be accessed from age 55 onwards.

5.4 Retirement planning tends to focus on the next few years - few think beyond five years

Respondents typically took a very short term view of retirement planning. It was rare to hear of anyone who planned beyond the next year or so. Five years is around the maximum timeframe that respondents were able to think about.

Plans for retirement were often quite superficial, even for those on the cusp of making a decision. Just a handful of respondents said they had worked out what they needed to live on in any detail. The rest would simply see how much money they had coming in and work out how they would spend it from there.

While most respondents understood that their income needs may change at different life stages during retirement, they tended to focus on an anticipated drop in income in their mid to late 80s and frequently did not consider the potential uptick in costs in their final years due to increased care needs. Respondents were generally aware of the costs of care and felt that this **should** feature in their thinking, but they tend to put it off as they did not want to think about being in such a situation themselves. However, if all else fails and they have not made sufficient plans, our respondents believed that they could always fall back on their house and/or the state to support them.

5.5 Conclusions

Few of today's retirees expect to reach the state pension age, take their pensions and give up work. Respondents expect some form of phased retirement up until age 70, driven either by financial need or a desire to continue working. Income needs are, therefore, much more varied than they used to be in the past. For example, people may not need to take pension income until they are in their late 60s or beyond, or they may only need to access part of their fund to 'top up' income for a period of time.

For this reason, respondents were very supportive of the new pension regime that will allow pension money to be accessed more flexibly. The changes announced in the Budget have also opened retirees' eyes to the ability to take pension income as and when they need it, rather than take an annuity when a policy 'matures', or that they could take all their income at the same time if they wished.

There is an expectation that income needs will drop in later life as their health fails and they become less active, but respondents did not want to think beyond that to consider the costs of long term care. For this group, failure to plan for care costs may not result in significant detriment as most have housing wealth to plug the gap.

6. Current Decision Making Processes

The research explored how consumers currently make retirement choices to provide insight into how consumers might behave and the decisions they are likely to make in the post-Budget landscape.

This chapter also considers how retirees currently find out about their retirement options, where they go to obtain the information they use to make their final product choice, and whether they are aware of the need to shop around for the best annuity rates.

6.1 Limited understanding during accumulation of how retirement income is delivered

Many respondents in our research said they were surprised to find out that annuities were actually the vehicle which would deliver their pension income. Furthermore, a small number of pre-retired respondents who were still a couple of years from making their retirement income decisions were under the impression that their retirement income would automatically come from their pension pot at their retirement date, without them having to make an active decision (except for how much tax free cash to take).

> *"When I started looking into it I was horrified – I thought you could take it all and suddenly this word annuity cropped up…"*
>
> **Post-retirement, female, aged 60-65**
>
> *"I suppose I was a bit naive, I just thought the money would roll up and I would have it."*
>
> **Pre-retirement, male, aged 56-60**

Prior to retirement, the focus of communications with their pension provider was on how much was building up in their pension fund, what to invest that in and what the total value of the fund could potentially be by their 'selected retirement date'. Respondents reported that annuities had not been discussed with them at the time they took out the pension, and they could not recall them being mentioned in the provider literature they received, nor in discussions they had had over the years with provider representatives (for those in employer schemes) or in interactions with their IFA.

Furthermore, to respondents a 'pension' is usually associated with the stream of regular income you get when you retire; whereas in industry, the word 'pension' is used to describe the accumulation or savings phase.

6.2 Many put off planning which can be detrimental if their situation changes due to ill-health or redundancy

Pensions are described as "a minefield", "confusing" and "full of jargon" and respondents reported putting off the process of finding out about their options for as long as they could. Furthermore, many mentioned that the goalposts keep changing as government policy changes so frequently, so there is no point in planning too far in advance. For these reasons, most respondents do not actively seek information about their retirement options until the last few months before retirement.

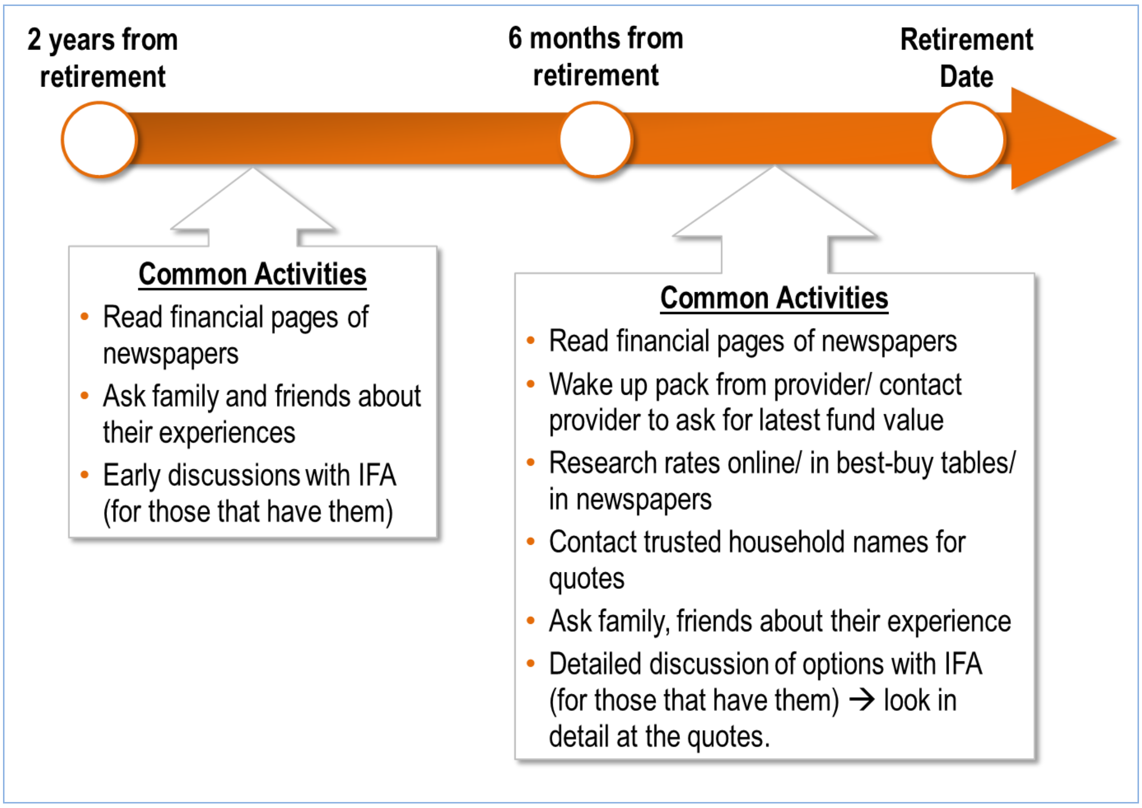
They reported building a basic awareness of the choices available to them by reading the mainstream media. The most popular sources of information were the money pages of the Daily Mail and the Mail on Sunday, the Telegraph, Which? and Martin Lewis. Such sources are seen as a useful starting point, raising awareness of the large variations that can exist from company to company and of the fact that there are different types of annuities to consider (such as joint, index-linked and impaired/ enhanced annuities).

"Pensions are something you only take a real interest in when you get to the end."
Pre-retirement, male, aged 56-60

"I don't want to think about it – and they keep changing things."
Pre-retirement, male, aged 56-60

Only those very near to retirement (no more than twelve months away) had really started to explore their retirement income options, but even at this late stage most had actually done very little.

Figure 3: Retirement income decision-making timeline



The relative importance of the pot to the household's financial well-being at retirement is a key driver of engagement levels. Where engagement levels were low:

- the pension in question is simply a "top up" to a partner's arrangements
- the respondent or their partner are still working and, therefore, there is an alternative income stream
- other sources of income from investments/properties exist, or
- the respondent had a small pot and, therefore, the income generated will make little difference to their lifestyle.

This means that there are circumstances where consumers disengage with the process. There were a handful of respondents in our research who reported that major life events (such as illness or redundancy) had resulted in an urgent need for income. In such situations, their lack of prior planning meant that they had little or no time, or inclination, to build sufficient knowledge to make informed decisions about how best to generate income from their pot and typically opted for the 'default option' - a level annuity (usually from their existing pension provider) and maximum tax free cash allowance.

Case Study: Major life events can sometime drive an urgent need for income

Paul

- **Age:** 56-65
- **Work:** Retired
- **Pot:** £50k to £100k
- **Outcome:** TFC and Annuity

"I was in no state of mind to deal with my pension, it seemed very complicated. It had to go into an annuity, I don't think I asked for any other options."

BACKGROUND

- Paul was made redundant from his job working for a housing association around the same time his spouse became terminally ill and he became the primary carer.
- His redundancy money ran out he needed income very quickly.

OUTCOME

- Paul received a pack from his provider and, based on this, thought that an annuity was his only option. He was in "no state of mind to shop around" and simply took the annuity that was offered.
- He took the maximum TFC, which he spent on a holiday (after the death of his spouse) and home improvements. He put some aside in a deposit account at the bank, which is now being used to supplement his income.
- He is now looking for work to increase his income - he still needs to pay off mortgage and an overdraft.
- He has had to heavily cut his outgoings.

6.3 The majority know that they could shop-around for annuities, but many do not do so

"I just read somewhere in the financial sections of newspapers that you should shop around… when you get to our age suddenly the 'Pensions' word is everywhere."

Post-retirement, female, aged 60-65

The vast majority of both pre- and post- retired respondents were aware that did not have to buy an annuity from their pension provider and that they could shop around for the best quote. Respondents say that there is more press and media coverage now than ever before about annuities and at-retirement choices and that this coverage has driven their impression that annuities are 'poor value', even though they have very limited understanding of how annuities work and why rates have fallen over time.

While respondents were aware that that by shopping around they may be able to get a better rate, this did not always reflect their actions. Furthermore, for many, their 'shopping around' activities were limited to looking at generic rates in best buy tables or getting a couple of quotes from well-known and trusted providers.

Comparison sites were perceived to be very useful to see best buy rankings, to provide a baseline of knowledge on available rates, and to demonstrate the variety of annuity options available. Respondents felt this empowered them to take the next step, whether that was talking to providers, making a decision themselves, or looking for an IFA for advice.

However, respondents were often reluctant to enter their personal details into comparison sites for fear of being "bombarded" with sales calls. Here respondents referenced past experiences purchasing motor and home insurance, where such actions could generate numerous sales calls or emails. Many felt that they were not at the stage where they were ready to make a purchase decision and they were concerned they may be rushed or pressured into a decision.

Some were also wary about entering detailed information about themselves, particularly financial information, as they were not sure whether it was be a legitimate website. In many cases they had not heard of the site and had not used it before. There was a higher degree of suspicion with annuity sites compared to home and motor aggregator sites as this is an important and one-time only financial decision (per pension pot, at least).

The small number of respondents that had been contacted as a result of using online comparison sites generally did not have positive experiences.

> *"They were bombarding me. I did have conversations, and the moment you try to deviate from the script you have had it…"*
>
> **Post-retirement, male, aged 60-65**
>
> *"They are like estate agents; they weren't interested in me as a human being. They just want to sell you the one they can make the most commission on."*
>
> ***Pre-retirement, male, aged 56-60***

6.4 Respondents do not consider the long term impact of small differences in income

For the respondents in our research, the biggest barrier to shopping around and switching away from their current pension provider is not a lack of awareness; just three respondents of the 35 who had bought an annuity in our research were not aware they could go elsewhere. For many, inertia is driven by the perception that a "few pounds" difference a week will not make it "worth the effort" and that annuity rates are "much of a muchness".

Case Study: Inertia is driven by a perception that the difference in annuity rates will not make a significant difference

Ernie

- **Age:** 65
- **Work:** Semi-retired
- **Pot:** £100k to £150k
- **Outcome:** TFC and annuity. Deferring his second pot due to the Budget announcement.

"I weighed up the options and for the ease of setting the annuity up I just left it with my provider... they were all much of a muchness."

BACKGROUND

- Ernie owns a printing business, but describes himself as semi-retired.
- His financial situation in retirement is "comfortable." He still has one pension pot invested (deferred), he has a buy-to-let property (which he bought with his TFC), and some cash ISAs.

OUTCOME

- Ernie has a longstanding relationship with an IFA, but did not take advice when drawing on his pension, because he felt that annuities were "much of a muchness."
- He felt it was 'the right time' to take the TFC when his state pension started. He did not necessarily need the income to live off, but wanted the TFC to invest in a buy-to-let property, because he believed that would give a better return than an annuity or other available retirement products.
- Ernie was confident that he made the right choice, but does not want an annuity for his deferred pension pot and, given the Budget announcement, is considering a drawdown account.

Consumers who do little or no shopping around maybe acting rationally if the search costs involved (such as time taken to understand the options available to them, seeking out rates, and finding out about providers they have not heard of) outweigh the benefits of any additional income.

However, our respondents repeatedly took a very short term view when assessing differences in annuity rates, and had generally not considered the long term impact that seemingly small differences in income will have over their lifetime.

6.5 Respondents were wary of providers' ability to give them impartial information about all their options

The recent financial crisis has dented confidence in all financial services companies and respondents reported finding it difficult to know who to trust. Respondents would generally not consider calling their pension provider to ask for help as they said that they were wary that providers might have a vested interest in pushing them into a particular solution. Consequently, interactions with providers in the information gathering stage tended to be for factual information, for example:

- to see what their fund was currently worth
- to see whether they could access tax free cash, and
- to let the provider know they wanted to access their pension money due to a change in circumstance (such as redundancy, health issues, and so on).

It was common for such calls to providers to simply trigger an at-retirement information pack to be sent rather than questions being answered by phone. There was a general awareness that providers have to be very careful so as not to provide advice or recommendations.

Feedback on the at-retirement information packs received from providers was negative in the main. Respondents felt that there is too much information, they are difficult to navigate, and are full of jargon. There was a perception that the providers are making things deliberately difficult so people take the easy option to stay with them – packs were described as "boring" and "too complex". There was some evidence that complexity of information and the at-retirement decision drives them to default back to the least difficult option as:

- they could understand the tax free cash, and generally took out the maximum, and
- a level annuity seemed the simplest choice of those presented, and was the most common annuity purchased.

Case Study: Complexity is driving respondents to the least difficult option

Linda

- **Age:** 60-65
- **Work:** Semi-Retired
- **Pot:** <£30k
- **Outcome:** TFC and Annuity

"I didn't do enough research on it… it was a bit daft. Perhaps I could have got a better idea of what the best deal would have been."

BACKGROUND

- Linda is divorced and 'semi-retired', working part-time as an administrator at a local golf club.
- She has two very small DC pension pots.

OUTCOME

- Linda became aware from her pension provider that one of her pensions had 'matured'. She received a pack, but did not read it. She spoke briefly the provider, but said she couldn't understand what they were telling her.
- She took the annuity on offer because it was the easiest thing to do. She "didn't have to make a decision" and "it just happened", and it was such a small pot she "could not be bothered" to spend any time on it. She was not aware that enhanced annuities were an option and says that the provider did not ask any questions about her health or whether she smokes.

That said, despite the negative feedback on the packs, they did result in some respondents taking positive action. When they saw the "poor" annuity rates their provider was offering and understood that they could shop around, they became determined to find a better deal.

However, after searching for a better annuity offer they often found that that rates (offered by providers on the open market) were "not that different" to the original quote and reverted back to their own provider. Respondents also favoured their existing pension provider because they were a known to them and they thought the process of accessing their pension money would be easier.

6.6 'Experts' are trusted to provide guidance and there is less shopping around where employers are involved

Respondents working for large employers would commonly ask for help from the HR or pensions department once they were in the final stages of their at-retirement decision making process. Where employers were involved in the process, respondents had more limited knowledge of their options and were less likely to shop around.

- There were a couple of cases of people who had one-on-one sessions with pension scheme representatives to talk about their options for retirement and what they could do. Respondents felt they were talking to experts and generally did no further research themselves.

- There were a small number of cases where the HR department had helped respondents by talking through the options with respondents. As a result, respondents typically did no follow up research themselves to verify the information they had been given, or to get more information.
- There were a couple of instances where the respondent reported that the employer had actually arranged the annuity purchase for them. Here the consumer did no shopping around and had complete trust in the employer to do the right thing for them.

6.7 Mixed views on whether IFAs can be trusted

Our reseach covered three distinct sub-groups in both the pre- and post-retirement segments:

- those who had an ongoing relationship with an IFA
- those who had had an IFA relationship in the past but were no longer seeing them on a regular basis, and
- those who had never used an IFA.

Pre-retirement respondents without an IFA commonly reported a strong mistrust of financial advisers based on poor past experiences. Some respondents were under the impression that IFAs are still paid by commission and felt that IFAs might not always work in their best interests. They were surprised to hear that pension advice in the post-RDR environment would be paid for by though an explicit fee, and that this could cost them in excess of £1,000. Knowing this reinforced their thinking that it is their responsibility to find out about their at-retirement options and make their own choices.

> *"Pension advisers are just there to make as much money as they can – with the current situation, and banks and so on, my big problem is who can you trust these days?"*
>
> **Pre-retirement, male, aged 60-65**

A small minority of the pre-retired respondents (typically self-employed) had used an IFA in the past to set up their pension and may consider going back to them for help when the time comes. However, many were concerned that the advice costs would be prohibitive given the size of their pension pot.

Those pre-retired respondents that have an ongoing and longstanding IFA relationship expected that they would delegate the decision-making to the IFA and were less concerned than other groups about the cost of attaining advice.

The story was more mixed amongst those who are in the process of making, or have made decisions. Some respondents who had recently made decisions about retirement income believed that there was sufficient information available for them to make a good decision on their own and felt reasonably confident they had made the right choices themselves. Others specifically sought IFAs to help them with their “life changing decision” as they realised they could not navigate all the options for themselves. When probed, these respondents were not entirely sure whether they had found a ‘good IFA’ or not – or indeed how they could judge this. Nevertheless, they took what was recommended at face value and did no further validation since the IFA’s ‘expertise’ is what they paid for.

6.8 Respondents preferred to discuss options but, on balance, placed more weight on written communications

We asked respondents about their communication preferences. They mentioned pros and cons of both written communications and speaking to providers about pension matters.

When discussing written communications, respondents in our research liked receiving documents which they could read at their leisure and take time over to digest the information. They felt that the documents were a physical record, which they could refer to in the future and could be used as proof if any disputes arose. On the downside, they felt that such documents are often poorly written, full of jargon and too long.

Respondents in our research felt that calls with providers could be useful. They liked to make calls to clarify their understanding and felt that that such inquiries were dealt with more efficiently over the phone as they are able ask questions directly and probe if they required further information. That said, respondents do not always trust what is said to them. Many raised concerns about whether the person on the phone would always have the necessary technical expertise to address their questions or concerns. They felt that some calls may have a sales agenda; in particular, they were concerned that unsolicited calls from providers may try to ‘pressure’ them into making a decision.

6.9 Conclusions

While the vast majority of respondents know that they could shop around, not everyone does and even those that do shop around will not necessarily switch away from their existing pension provider. Different messaging around the lifetime value of the “few extra pounds a week” available from switching may help people to understand the opportunity cost of staying with their own provider and help to put search costs in context.

Information sent from pension providers plays a useful role in the retirement income decision making process, but there is room for significant improvement in the length, language content and signposting.

It is clear that consumers are no longer sure where they can to go to find trusted advice or guidance, and are unsure how to judge any advice they are given as there are no visible measures they can use to assess the 1quality of one adviser versus another. Cost is a barrier to advice, rather than an indicator of the quality of the service on offer. As a result there is a tendency for consumers to revert to a DIY approach, but this often leads to them choosing the default of full tax free cash and a level annuity as they are often not fully aware of all the options available to them.

Unprompted, respondents wanted some sort of quasi-government body or bodies to offer impartial information and guidance to help them on their journey, and expected such bodies to be ‘regulated’ in some way.

7. How well equipped are consumers to make decisions?

This chapter considers how consumers make choices and the behaviours that may influence their decision making. We specifically explored their attitudes to investments and longevity risk and how the framing of information can affect perceptions of annuities versus alternative income generating vehicles such as income drawdown.

Given that an annuity has, to date, been the default option for the vast majority of retirees, we explored whether respondents understand what an annuity is and factors that determine annuity rates, their awareness of the different types of annuities and common alternatives available, such as income drawdown. We also explored which of these factors form part of their overall decision set.

7.1 Respondents' focus is on maximising tax-free cash and immediate income

Respondents were asked to describe what they were thinking about when they were making their retirement plans. The most common unprompted consideration was how much tax free cash they can have and what is the maximum level of income they can generate with the rest.

Beyond this, respondents needed to be prompted to consider factors such as longevity, health and inflation.

7.2 Respondents understand the impact of inflation but are reluctant to take a reduced income today

We prompted respondents to think about the impact of inflation on their income. Respondents understood that inflation can "eat away at income", after all they have lived through periods of high inflation and many have felt a squeeze on their budgets in recent times. As such, respondents initially felt inflation proofing was important.

However, when shown an illustrative example of how much their income could fall if they chose to purchase and inflation-proofed lifetime annuity versus a level lifetime annuity (in our example – broadly based on current market rates - income falls by almost a half, from £6,000 for a flat rate annuity purchased with a pot of £100,000 to £3,500 if the income is inflation-linked), the vast majority of our respondents were unwilling to take that level of reduction in income today to protect their income for tomorrow.

7.3 Respondents under-estimate longevity risk

Respondents underestimate longevity risk and are unwilling to factor it in to their retirement income decision making. Although most have a reasonable awareness of average life expectancy, they are likely to over-estimate how many people will die between 65 and 70, and under-estimate how many will live beyond 80. When told the actual statistics, respondents were surprised how many live beyond 80, even though many had octogenarians in their family. Few wanted to think much beyond age 80 as it was "too scary" for them to contemplate being that old.

This means that they were very unlikely to factor the costs of long term care into their retirement plans, even where they had had direct experience with elderly relatives.

Under-estimation of longevity also means that inflation-linked annuities seem less attractive. For example, respondents sometimes conducted payback calculations to see how long it would take for them to make back the difference if they bought an inflation-proofed annuity and the answer they come to is between 15 to 20 years. Rather than seeing inflation-linked annuities as a way to insure against future price rises and so reduce risk, they were described as a "gamble". Respondents preferred to maximise income in the early years as "you never know what will happen".

7.4 The way that retirement income decisions are framed has an influence on choices

Consumers are often susceptible to the way that information is presented. It seems plausible that consumers when assessing retirement income may make different decisions, even though the underlying choice remains the same, depending on the way information is provided. Framing retirement income and annuities choices in different ways may have an impact on whether consumers annuitise or not.[7]

[7] "Why Don't the People Insure Late Life Consumption? A Framing Explanation of the Under-annuitization puzzle." American Economic Review Papers and Proceedings 982 (2008).

To test this notion, respondents in our research were given a short description of an income drawdown product and an annuity product in both an investment and a consumption frame (see Figure 4). The income drawdown and annuity products were designed to be financially equivalent. In each frame, respondents were asked to say which product they would choose and, importantly, explain the reason for their choice.

The investment frame invites the individual to think in terms of wealth accumulation; this frame repeatedly uses terms such as "invest" and "earnings", explicitly mentions rate of return and the amount invested, and describes what happens to the investment value upon death. By contrast, the consumption frame encourages the individual to think in terms of a stream of spending: this frame uses terms such as "spend" and "payments" and mentions only the amount of money generated each month rather than rates of return.

In short, under the consumption frame, annuities appear to provide insurance against a consumption loss, namely the reduction in monthly spending in the event of a long life, whilst under the investment frame annuities appear to create the risk of an investment loss.

Figure 4: Drawdown and annuity options in the consumption and investment frame

CONSUMPTION FRAME

Option A	Option B
The retiree chooses an amount to spend each month in addition to state pension. How long the money lasts depends on monthly expenditure. If he spends £360 per month then there is enough money until he dies. If he spends £500 per month there will be no money left when the person is 90. He can spend down faster or slower than each of these options. When he dies any remaining money will go to his estate.	The retiree can spend £500 each month for as long as he lives in addition to state pension. When he dies there will be no more payments.

INVESTMENT FRAME

Option 1	Option 2
The retiree invests £100,000 in an account which earns a 3% interest rate. He can withdraw some or all the invested money at any time. If he spends £360 per month then there is enough money until he dies. If he spends £500 per month there will be no money left when the person is 90. When he dies any remaining money will go to his estate.	The retiree invests £100,000 in an account which earns £500 each month for as long as he lives. He can only withdraw the earnings he receives, not the invested money. When he dies, the payments will stop and the investment will not pass to his estate.

Note: Option A and 1 are the income drawdown product, Option B and 2 the annuity product

Our results were striking and suggest that the way that retirement income decisions are framed can have a significant influence on decision making. In the consumption frame, a roughly equal number of respondents preferred the annuity compared to those that preferred the income drawdown option (in our sample, 54 chose the annuity and 40 chose the drawdown), yet when shown the same choices using investment terminology the vast majority (87 of the 94 in our sample) chose the drawdown option.

The reasons given for choosing the annuity in the consumption frame were around 'security', "knowing what you can get" and the money being a guaranteed amount for the rest of their lives.

> *"I like that you know exactly what you are going to get."*
> **Post-retirement, male, aged 60 -64**
>
> *"You are financially secure, it's fixed so you know where you are, and my kids are already provided for."*
> **Post-retirement, male, aged 60-64**

In the investment frame, the annuity was often felt to be "too risky" and felt like a "gamble" as they did not want to "lose" their money when they died.

> *"I want to be able to be able to dip into the money any time."*
> **Post retirement, female, aged 60-64**
>
> *"There is no money to pass onto my dependents, and the flexibility is more important to me."*
> **Post retirement, male, aged 60-64**
>
> *"I don't like that all the money is gone – I might only live a few years."*
> **Pre-retirement, female, aged 56-60**
>
> *"You are really taking a gamble on how long you will live for."*
> **Pre-retirement, female, aged 60-64**

When we showed our respondents annuity and drawdown choices in both frames to see whether a different frame would lead to a switch, again, the results were stark. Just 5 of the 54 who chose an annuity in the consumption frame picked the annuity option under the investment frame. It is likely that the introduction of pot size brought to life the 'loss' on death, and respondents were keen that their money would be available to pass on to their dependents.

These qualitative findings help to understand not only the choices respondents make, but also how respondents explain these choices, and were used to inform the FCA's quantitative experimental research around the effects of framing which can be found in the annex of the FCA's Retirement Income Market Study report.

7.5 Some knowledge on how level lifetime annuities work, but limited awareness of alternative products

Amongst the pre-retired group there were very mixed levels of understanding of what an annuity is. Those farthest from making a decision were the least knowledgeable - several respondents had no idea what an annuity is. There were many more that had heard the term 'annuity', but could not describe it in any detail. Only the most financially capable pre-retired respondents were aware of drawdown before the Budget announcement and there was no awareness of 'third way' products.

> *"It's a like a dividend, you get a standard amount from the interest on your pension."*
>
> **Pre-retirement, female, aged 56-60**

The post-retirement group generally had a good working knowledge of the basics of lifetime annuities and some awareness of the concept of drawdown, even though they could not describe the details. That said, respondents who had taken tax-free cash from their pension and left the rest of the pot invested were not always sure whether they were in drawdown or not. Again in this group there was very low awareness of 'third way' products.

Figure 5: Awareness of how annuities work amongst pre- and post-retired respondents

	Pre-Retirement	Post-Retirement
Delivers a fixed, guaranteed income stream for life	HIGH	HIGH
Different rates from different providers	MEDIUM	HIGH
When they die there is nothing passed on to dependents	MEDIUM	HIGH
Annuity rates have fallen over time	HIGH	HIGH
Once you have bought an annuity you can't change it	MEDIUM	HIGH
You don't have to go with your current provider	MEDIUM	HIGH
Spouse/ inflation linked options	MEDIUM	HIGH
Enhanced/impaired life	LOW	MEDIUM
With profits/ investment linked annuities, temporary/ value protection annuities	LOW	LOW
Pre-budget - annuity is the only option for smaller pots	MEDIUM	HIGH
Mortality cross subsidy	LOW	LOW
GARs	LOW	LOW

Awareness of enhanced/impaired annuities, or whether the pension plan has a guaranteed annuity rate, was very limited in both groups. There were several cases in our research where ill-health meant that respondents could definitely have attained a higher income from their pension pot if they had known this was an available option.

Case Study: Awareness of enhanced annuities was limited

Rory

- **Age:** 65-70
- **Work:** Part-time
- **Pot:** £30k to £50k
- **Outcome:** TFC and annuity

"My pension provider wrote to me and I took it. I'd had a look online a bit, but theirs looked a good bet. I didn't do any medical questionnaires or anything like that."

BACKGROUND

- Rory saved in to a pension for 11 years, "for the tax benefits". He had a high degree of mistrust of financial services providers.

OUTCOME

- When his pension provider wrote to him, Rory looked online for quotes. He had a basic understanding of annuities from his own research.
- He opted to stay with his own provider as rates were around the same.
- He had a heart attack several years before retirement, but had not realised that he could have got a better annuity rate if this was taken into account. He did not recall seeing anything on ill-health in the literature he received and did not receive a call from his provider.

7.6 Limited understanding of investments, and no consideration of capability to make future decisions

The Budget announcement opens up flexible drawdown to many more consumers than in the past. Those choosing income drawdown instead of an annuity will have to make ongoing decisions about where their money is invested and how much risk they are willing to take. Their decisions will have an impact on how much income they are able to take and/or how long that income will last for, whereas in the past this was the responsibility of the annuity provider.

We found that many respondents were not confident enough to make decisions about equity-based investments today. They are predominately putting their non-pension savings into cash ISAs and deposit-based savings as they are unwilling to bear any capital loss. Respondents had very low levels of awareness (and interest) in what their pension is currently invested in.

There was very little awareness of how investment choices could impact future income. They did not understand what the consequences would be of putting their money in a cash-based investment over their lifetime, and had certainly not considered the costs involved in remaining invested for many years. They did not want to think about what would happen if they become unable to manage their finances in their later years and simply hoped that someone in the family would take over control.

Figure 6: Investment capability

7.7 Conclusions

Retirees are often not aware of all of the options available to them and are therefore not making fully informed decisions. In particular, increased awareness of impaired/ enhanced annuities is required.

Anecdotal evidence suggests that the incidence of legacy pension arrangements with guaranteed annuity rates attached to them (which can offer better than current market rates) might be quite high and therefore it is essential that people are aware that they need to check to see if they can get a higher rate.

The way that retirement income decisions are framed can have a significant impact on behaviour, with the investment frame resulting in a marked preference for income drawdown. The impact of investment framing has been somewhat limited to date as, until recently, an annuity was the only choice open to those with smaller pots. Going forwards, the impact could be more significant as the Budget changes provide more freedom for people holding pension pots of all sizes.

In theory, the results of our exercise suggest that re-framing the at-retirement decision as a consumption decision could result in more people taking out an annuity to insure against longevity risk. However, it is likely to be difficult to change behaviour in practice as consumers have been conditioned to think in the investment frame for many years, as pension communications have historically focused on how much is in the pot rather than the income that the pot can buy.

8. Awareness & Perceptions of the changes announced in the March 2014 Budget

The changes announced in the March 2014 Budget introduce greater choice and flexibility over how people can access and use their DC pension funds in the future. With greater freedom comes greater uncertainty, as consumers who choose not to buy an annuity have to manage longevity and investment risk for themselves.

This chapter considers how consumers might behave and approach their retirement decisions in the new landscape. We explored whether consumers are aware of the options now available to them and what decisions they are likely to make in the new landscape. In particular, we wanted to understand whether consumers were aware of the tax implications of different options, and how this might affect decision making.

8.1 Awareness that the 2014 Budget introduces flexibility around accessing pensions

There was a broadly positive reaction amongst respondents to the Budget changes, and the messages of freedom, control and flexibility have resonated strongly.

> *"I feel that everyone's circumstances are different and I think giving people the ability to choose what suits those circumstances is a good idea."*
> **Pre-retirement, male, aged 56-60**
>
> *"There is flexibility to do what I want to do, not what my pension provider wants me to do – you never had that opportunity before."*
> **Post-retirement, male, aged 60- 65**

Levels of awareness were correlated to proximity to the decision date. Those who are about to make a decision or are planning to make a decision in the next year had followed the announcement with considerable interest. Many of those who had already purchased an annuity had other pension pots which were still invested (or their partner did) so they too were very interested in following how the Budget announcements would affect them. Respondents who were a couple of years out from retirement were generally aware that something had changed, but they did not pay much attention to the details.

Many responsdents were wary that things may change again between now and 2015, and that a change of government in the next election may throw things in the air again. It was common for respondents to mention that this may place them in difficulty if they made firm plans today.

> *"It was supposed to be all coming in July, now it is April, who knows what will happen next year."*
> **Post-retirement, female, aged 60-65**

We found very few respondents who had annuitised all of their pension savings, but in such cases their knowledge was much hazier.

8.2 Few were aware of the specifics around the Budget changes

Despite the high levels of interest and awareness that the retirement landscape is changing, respondents were less able to articulate the details. In particular, the tax situation was somewhat unclear.

- The vast majority of our respondents were unaware of the fact that it is already possible to access pensions before the age of 55, subject to tax at 55%.[8]
- It was common for all but the most financially sophisticated respondents to miss that 75% of the DC pension fund would be taxed under the new regime, but it also came as no surprise when this was explained to them.
- Most did not understand what being 'taxed at their marginal rate' would mean for them. There were a couple of cases where respondents' anticipated plans (typically to purchase buy to let properties) changed dramatically when this was fully understood.

[8] This applies to those holding pensions over a certain threshold (see trivial commutation definition)

Case Study: Many were unaware of the tax implications of withdrawing their fund

Gary

- **Age:** 65-70
- **Work:** Part-time
- **Pot:** £30k to £50k
- **Outcome:** Considering his options

"I intend to take all the money out of my pension and buy a buy-to-let."

BACKGROUND

- Gary is a self-employed gas engineer. He plans to retire next year when his permits for gas installations run out.
- He has no active interest in financial markets, investments or pension and no significant savings. He owns his own home with a small mortgage.

OUTCOME

- Gary heard in the press that he could now take his entire pot out and wants to invest in a buy-to-let property. He is unaware of the tax implications of taking out all of his pot.
- Gary initially reported a dislike of annuities and intended to withdraw his full pension savings. After finding out about the tax implication of doing this (from the research interview) he might reconsider an annuity. Gary does not feel confident enough to manage income drawdown himself so did not regard this as an option.

8.3 Respondents will act responsibly with their pot, but were unsure exactly what they would do - except for taking their tax-free cash

Respondents were pleased that they were now being allowed to access their money and they felt they were sensible enough to make the right decisions.

"People like us who have saved all our lives, we are not about to do anything silly with it."
Pre-retirement, male, aged 56-60

Across the board, respondents were keen to access the maximum tax-free cash. This cash was compartmentalised in their minds as "fun money" - so typically they wanted to use it for holidays or cars. Decisions for the remainder of the pot are becoming much more complex, and many respondents were unsure exactly what they would do. Respondents are aware there is a plethora of options now available to them.

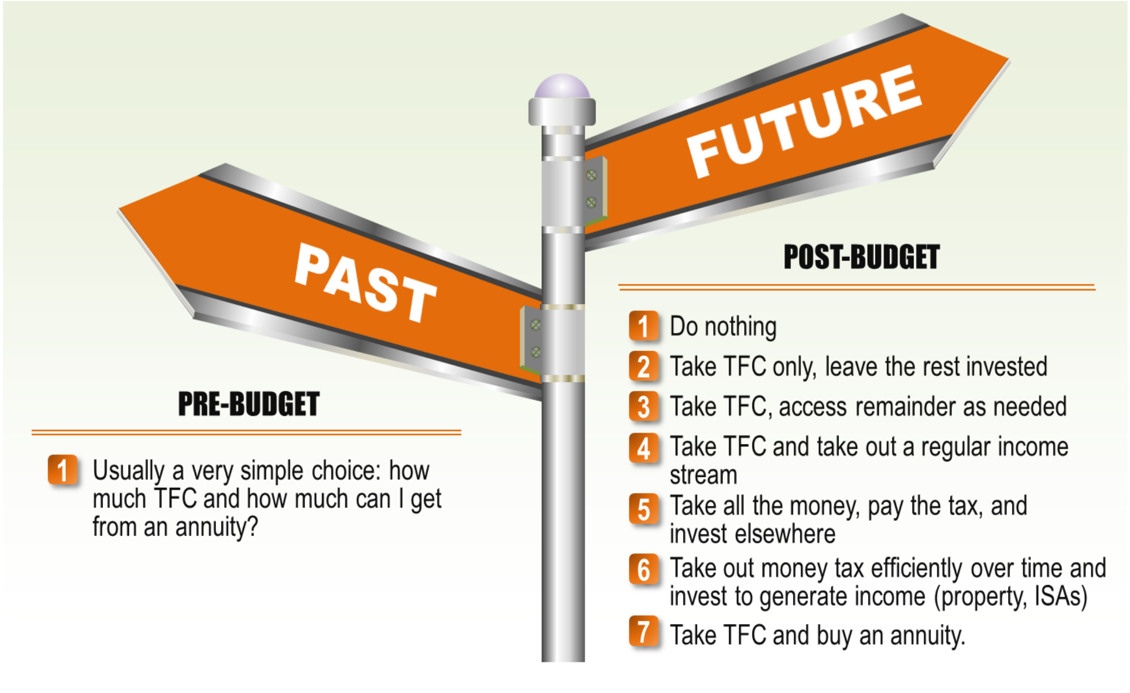
"I like the idea that you're not fixed with the annuity, but then there's the added responsibility of then what do I do? These people are bringing you all these solutions saying 'this is what you can get"'

Pre-retirement, female, aged 55-60

"You don't know what is going to happen in the next few years, so you don't know if you will be able to get then what you get now."

Pre-retirement, male, aged 55-60

Figure 7: Post-Budget options



8.4 The most popular option is some form of flexible drawdown

The general aversion to annuities meant that flexible drawdown is the most popular option for the remaining pot and is likely to be the new default.

The main reasons given for wanting some form of flexible drawdown arrangement provided were:

- a fear of losing the pension pot on death and inflexibility of annuities
- the ability to adapt to changing circumstances

- a want to have more control over their money
- a mistrust of providers
- a desire to access to the tax-free cash only, and
- a fear of locking themselves in to a solution – especially as many respondents were aware there may be new products on the market.

Respondents had not thought about the ongoing costs and charges associated with investments in flexible drawdown, and they had not factored this into their assessment of the pros and cons of income drawdown versus an annuity.

> *"Pandora's Box has been opened and there will be things coming out we can't even think of today."*
>
> **Pre-retirement, male, aged 60-65**

Respondents thought they would be able to manage their finances so that their money would last at least in to their 80s. If it did run out, they strongly felt they would only have themselves to blame. However, they wanted pension providers to have an obligation to tell them well in advance, and in simple language, when their fund was going to run out. Beyond this they believed it was up to them to decide how best to take it.

Respondents welcomed some form of rule of thumb or tools for income drawdown to help them understand how much money to access and how frequently. The majority of respondents in our research felt that they would like to access more money in the early years while they were fit and healthy enough to enjoy it.

8.5 Respondents wanting to drawdown often talked about wanting 'safer' investments

It was common for respondents to discuss accessing funds to invest in property. Property was generally felt to be a good long term investment, and particularly resonated with those who were mistrustful of pensions and pension providers.

The possibility to invest in property was raised by both current landlords looking to add to their portfolios and those who had never invested in property before. Most were talking about buying property outright - respondents discussed being able to purchase property abroad for upwards of £20k, and in certain regions they were convinced they could buy outright for around £50k. They may have to pool pension pots or combine with a spouse's or other relatives to do so.

Respondents were generally confident that investment in property would 'make back' the tax they would have to pay to access their fund if this was paid at 20%, but they are less certain about making up 40% of the value of their fund. Although they had no firm plans on exactly what they would do to minimise their tax bill, in such situations money will probably be withdrawn tax efficiently in phased amounts and invested in low risk investments – probably cash ISAs - until they have enough for the purchase.

Respondents who believed that property would be a better investment were not usually considering costs beyond the purchase price of the property in their calculations. Therefore, their comparison of rental yield, particularly compared to potential annuity rates, was somewhat over-optimistic. They also did not fully consider the risks of investing in a single asset versus a balanced portfolio.

Others discussed taking money out of the pension to invest themselves. They typically had limited awareness of what their pensions were currently invested in and the options available to them within the pension scheme. Again, such respondents tended to have a mistrust of pensions and pension providers and wanted the money to be under their control – especially those who had seen their pots perform poorly over the years.

> *"Rather than trust someone else with the money, I would rather take control and look after the money myself."*
> **Pre-retirement, male, aged 56-60**

Respondents were usually referring to taking money out of their pension and putting it into a cash ISA. They felt comfortable that they would be able to navigate decisions about which cash accounts they would use. Ideally, they would like to try to live off the interest generated without touching the capital sum, but had rarely calculated what impact this would have on their income or fund value over time.

That said, the current low interest rates are, perversely, likely to drive some respondents outside their comfort zone. A minority of respondents with medium levels of financial capability are looking at alternatives to cash accounts, but are not sure about their ability to make decisions on equity based investments. A popular mention for a more understandable product with the potential for higher returns was peer-to-peer lending. Respondents who mentioned this as an option had limited understanding of how

> *"I would invest in stocks and shares… I wouldn't really know what to do, you can lose as much as you can gain, but interest rates are rubbish."*
> **Post-retirement, male, aged 66-70**

such investment vehicles work, and of the risks involved, so they would initially “dabble” with small amounts to see how it goes.

8.6 Annuities will still be attractive to some

There were a handful of pre-retired respondents who still considered annuities to be an attractive option and would consider them in the post-Budget environment. Such respondents tended to have low to moderate levels of financial sophistication, have very limited other resources to draw on in retirement, and have no dependents. The key attractions of annuities cited were:

- the certainty of income for the rest of their life
- not having to worry about making decisions once it is done
- not having the confidence to know where to invest to make the money last, and
- for small pots, it is not worth the ongoing time and effort to manage flexible drawdown.

> *“The only thing my father and his friends ever worry about is being able to pay the gas bill and the electric bill – even a small amount can make a big difference.”*
> **Pre-retirement, female, aged 60-65**

Most of those who had already bought annuities were generally happy with their decision. They valued the security and certainty of the income stream and were pleased that they did not have to make ongoing decisions – particularly on their smaller pots. It was common for them to have other pots which they may access flexibly, and they saw previous annuity purchases as a useful underpin of guaranteed income.

There were significantly more respondents who said that if their flexible drawdown plans did not work out, or annuity providers came up with products where you can get some money back on death, they would consider a mix and match approach - but at this stage they were unable to say what the split would be.

On reflection, respondents felt that making decisions on investments when they are in the later years of retirement may be too much, and at this point an annuity is likely to be an attractive option for them.

8.7 Conclusions

The March 2014 Budget has the potential to revolutionise the way that pension income is taken in the UK. The changes announced resonate well with consumers who have lost faith in financial providers and who want to have more "control over their money".

Very few of the respondents in our research said they planned to take out their entire pension pot and spend it. Respondents did, however, make a distinction between how they would use their tax-free cash and the rest of the pot. Communications to make consumers aware of the lifetime value of the money they are spending today may help to equip them with the information they need to make fully rational decisions.

Due to pervasive mistrust of annuities and the commonly held belief that they offer "poor value for money", significantly more money is likely to be in flexible drawdown arrangements in the future.

Buy-to-let is likely to be an important element of future pension income (certainly for the current generation of retirees) and is likely to attract new investment flows from pension savings. Consumers will need to consider the risks they will be taking by investing all of their money into a single asset, and to ensure that they have considered all the costs involved (including stamp duty, capital gains tax, inheritance tax and income tax on rental income) to make the appropriate trade-off calculations.

Low levels of investment knowledge and confidence means that, respondents are likely to switch their funds out of pension wrappers into cash ISAs. This flow of funds from equity-based investments to cash deposits could have a detrimental impact on consumers' lifetime income as inflation reduces the real value of the fund over time. Simple default investment funds would help less confident consumers by removing the need to navigate the investment landscape and potentially mitigating the cost of ongoing financial advice.

New flows of pension money may act as a catalyst for further market growth and development in alternative investments, such as peer-to-peer lending, as consumers seek higher rates of return than those available in cash-based vehicles. Respondents have limited awareness of how these markets operate, and what is regulated and what is not.

Consumers' desire for products which offer a guaranteed, secure income but allow access to the capital, may drive the market for hybrid ('third way') products. The variety and potential complexity of these products means that consumers may find such products difficult to understand and compare, making it difficult to determine which option is the best for them.

9. Technical Appendix

9.1 Recruitment Screener

Recruiter's Name + ID No: Group / F2F No:

Q.1 We are conducting a survey in this area, but first could you tell me:

READ OUT AND CODE ACCORDINGLY

a. Do you or have you ever worked in any of the following occupations or industries?

b. Does any member of your family or close friends work or have they ever worked in any of the following occupations or industries?

	a	b
ADVERTISING	1	1
FINANCIAL SERVICES	1	1
MARKETING	1	1
MARKET RESEARCH	1	1
JOURNALISM	1	1
PUBLIC RELATIONS	1	1
INSURANCE	1	1
NONE OF THESE	2	2

IF RESPONDENT SAYS "YES" TO ANY OF THE ABOVE CODED 1 - CLOSE INTERVIEW

Q.2a **Can you tell me how many group discussions or depth interviews have you attended in the last 5 years?**

NONE	1	GO TO Q.3
ONE	2	ASK Q.2b
TWO	3	ASK Q.2b
THREE	4	ASK Q.2b
FOUR OR MORE	5	CLOSE

CLOSE INTERVIEW IF RESPONDENT HAS ATTENDED MORE THAN 3 GROUP DISCUSSIONS OR DEPTH INTERVIEWS IN THE LAST 5 YEARS.

Q.2b **When did you last attend a group discussion or depth interview?**

WRITE IN: ....

IF RESPONDENT HAS ATTENDED A GROUP DISCUSSION OR DEPTH INTERVIEW WITHIN THE LAST 6 MONTHS - CLOSE INTERVIEW.

Q.2c **What subjects have you attended discussions on?**

WRITE IN: ....

IF RESPONDENT HAS ATTENDED A GROUP DISCUSSION OR DEPTH INTERVIEW ON A SIMILAR TOPIC - CLOSE INTERVIEW.

AGE QUESTION

Q3 **Can you tell me your age LAST BIRTHDAY:**

Under 45	1	THANK AND CLOSE
45-49	2	THANK AND CLOSE
50-55	3	THANK AND CLOSE
56-65	4	
66-70	5	
70+	6	THANK AND CLOSE

SCREENING OUT NON FINANCIAL DECISION MAKERS

Q4 When you are thinking about choosing financial products and services such as pensions and investments, which of the following statements best describes how you normally go about deciding which product to take out? (**READ OUT)**

1. I am the sole decision-maker (IF MENTIONED CAN BE WITH SUPPORT OF FINANCIAL ADVISER].
2. I discuss things with my partner, but I tend to make the final decision (IF MENTIONED CAN BE WITH SUPPORT OF FINANCIAL ADVISER].
3. I make decisions jointly with my partner (IF MENTIONED CAN BE WITH SUPPORT OF FINANCIAL ADVISER]
4. I discuss things with my partner but they tend to make the final decision CLOSE
5. I leave it all up to my partner /someone else → CLOSE – BUT ENSURE ANY 'CLOSE' HERE IS NOT BECAUSE THE 'SOMEONE ELSE' IS A FINANCIAL ADVISER

ALL RESPONDENTS MUST BE FINANCIAL DECISION-MAKERS TAKING RESPONSIBILITY FOR THE DECISION I.E. ALL MUST CODE 1, 2 or 3.

Q4a **Can I just check, which of the following would you usually do:**

1. Manage your own money
2. Manage household finances (either individual or jointly)
3. Pay some household bills

ALL REPONDENTS MUST ANSWER YES TO ALL QUESTIONS

RETIREMENT QUESTIONS

Q5 When do you think you are likely to retire and by retired, we mean start to take an income from your pension pot?

Plan to retire soon, but not in the next 2 years	1	THANK & CLOSE
Plan to retire within the next 2 years	2	ASK Q5a
Don't know	3	THANK & CLOSE
Already retired more than 1 years ago	4	THANK & CLOSE
Already retired, but less than 1 years ago	5	ASK Q6a

ALSO CLOSE INTERVIEW IF RESPONDENT DOES NOT/ DID NOT HAVE A PENSION POT

ASK PRE-RETIRED ONLY
<u>**PRE-RETIREMENT PENSION SCREENER QUESTIONS**</u>

Q5a **Have you started to think about how you may want to take your retirement income?**

I am in the process of making a decision about my retirement income, and I have started to look into my options 1 GO TO Q5Ai

As a result of the Budget announcement I have deferred the decision on what I will do until next year 2 GO TO Q5b

I have bought a temporary annuity until I make my final decision, probably next year 3 GO TO Q5b

I have put some thought into it, but not much 4 GO TO Q5b

I have not thought about it at all 5 GO TO Q5b

REFER TO QUOTA

Q5Ai **You said you have started to make decision about your retirement income and looked at your options… can I ask, what planning have you done so far?**

Thought about your retirement options, and have a planned date in mind for when you are going to retire 1

Met with an IFA to talk about your retirement options, planned retirement date, tax, and estate planning 2

Received an information pack from your pension provider (note: known as a 'wake-up pack' in the industry). This is usually sent 6 months before your expected retirement date and provides you with some information about the choices available to you 3

Contacted your pension provider to request information about your retirement options, or asked them for a retirement income projection or annuity quote 4

Researched the retirement income options available to you (for example online or speaking to friends and family) and started to think about what you might do with your retirement pot 5

Received quotes from a variety of providers and in the process of making a final decision about taking your retirement income 6

I have not really thought about it in that level of detail yet 7

ALL RESPONDENTS IN THIS QUOTA SEGMENT ("IN THE PROCESS OF MAKING A DECISION") TO CODE AT LEAST ONE OF 1-6. IF THEY CODE 7, PLEASE RECLASSIFY Q5A AS '4' OR '5' AND GO PROCEED TO NEXT QUESTION

Q5b Thinking about your pension arrangements, which of the following do you have as your **MAIN** pension – these may be pensions that you are currently making contributions to, or ones that you have had in the past but are no longer paying any money into?

NO FINAL SALARY/CAREER AVERAGE/DEFINED BENEFIT SCHEMES IF THIS IS THEIR MAIN PENSION OR THEY ARE GETTING MORE THAN 60% OF THEIR INCOME IN RETIREMENT FROM THIS.

Note – people can make contributions to a final salary scheme, so please check whether they can tell you how much has been saved in the their fund and this is specific to them. Please confirm whether they have seen this fund go down when stock markets have fallen. Those with a final salary should not be able to say how much money is saved up in their pension.

1. Pension based on your final or career average salary – often called a final salary, career average, or defined benefit pension – this is a pension set up by your employer where the amount you receive as your pension income depends on what your salary is, or what it was when you left the firm, and how long you worked for the employer.

2. A pension scheme set up by your employer that is NOT based on your salary but on how much you save up in your fund. The fund will be made up of contributions either you or your employer or both have made and you will receive an annual statement each year telling you what your pension pot is worth today and what it is projected to be when you retire. CODE: GROUP SCHEME

3. A pension scheme you have set up yourself or through an adviser. This could be a personal pension, a stakeholder pension or a SIPP (Self Invested Personal Pension). CODE: INDIVIDUAL SCHEME

IF FINAL/CAREER AVERAGE SALARY (1) ONLY PLEASE THANK & CLOSE
IF FINAL/ CAREER AVERAGE SALARY (1) AS PART OF ARRANGEMENTS PLEASE ASK Q5bi
IF NO PENSION ACCOUNT (I.E. WILL RELY ON STATE PENSION BENEFITS ONLY OR OTHER TYPES OF SAVINGS AND INVESTMENTS SUCH AS PROPERTY OR SAVINGS) - CLOSE

Q5Bi **Can I just check, roughly what proportion of the income in retirement do you expect to receive from your final salary scheme/s?**

Less than 60%	1	CONTINUE
More than 60%	2	THANK & CLOSE
Don't know	3	THANK & CLOSE

Q5c **Can I just check, what financial services company is your MAIN pension invested with?**

(Note to recruiter – please ask as open ended and provide us with the details so we can double check if they have a Defined Benefit / final salary pension)

Q5d **Can I just check roughly how much money do you have built up in total in your pension funds?** (SEE QUOTA)

1. Less than £30k
2. £31-£50k
3. £51-£100k
4. £101-£250k
5. More than £250k – EXCLUDE
6. Don't know – ASK RESPONDENT TO CHECK PENSION STATEMENT AND THEN RECONTACT

NOTE TO RECRUITER: WE THINK MANY MAY NOT KNOW EXACTLY HOW MUCH THEY HAVE IN THEIR POT. PLEASE ASK THEM TO CHECK THEIR LATEST PENSION STATEMENT AND BRING THIS WITH THEM TO THE SESSION.

Q5e. **Do you use an independent financial adviser?** (SEE QUOTA)

1. I have an IFA (independent financial adviser) who I pay a fee to and who I see at least once a year
2. I have had an IFA (independent financial adviser) in the past and I could go back to them again if I needed any help
3. I have a relationship with someone at the bank (for example the bank manager) who I would go to see if I needed any advice
4. I have never used an IFA (independent financial adviser) or anyone at the bank for advice

CODE 1,2,3 = ADVICE RELATIONSHIP
CODE 4 = NO ADVICE RELATIONSHIP

SKIP TO Q7

ASK POST RETIRED ONLY

POST-RETIREMENT PENSION SCREENER QUESTIONS

Q6a **Thinking about the pension arrangements you had in place *before* you retired, which of the following did you have as your main pension.**

Notes to recruiter – People can have multiple pension arrangements.

No final salary/career average/defined benefit schemes if this is their main pension or they are getting more than 60% of their income in retirement from this.

Note – people can make contributions to a final salary scheme, so please check whether they can tell you how much has been saved in the their fund and this is specific to them. Please confirm whether they have seen this fund go down when stock markets have fallen. Those with a final salary should not be able to say how much money is saved up in their pension.

1. Pension based on your final or career average salary – often called a final salary, career average, or defined benefit pension – this is a pension set up by your employer where the amount you receive as your pension income depends on what your salary is, or what it was when you left the firm and how long you worked for the employer.

2. A pension scheme set up by your employer that is NOT based on your salary but on how much you save up in your fund. The fund will be made up of contributions either you or your employer or both have made and you will receive an annual statement each year telling you what your pension pot is worth today and what it is projected to be when you retire.
   CODE: GROUP SCHEME

3. A pension scheme you have set up yourself or through an adviser. This could be a personal pension, a stakeholder pension or a SIPP (Self Invested Personal Pension).
   CODE: INDIVIDUAL SCHEME

IF FINAL/CAREER AVERAGE SALARY (1) ONLY PLEASE THANK & CLOSE
IF FINAL/ FINAL/CAREER AVERAGE SALARY (1) AS PART OF ARRANGEMENTS PLEASE ASK Q6ai
IF NO PENSION ACCOUNT IN PLACE BEFORE RETIRED - CLOSE

Q6ai **Can I just check, roughly what proportion of the income from your pensions do you receive from your final salary scheme/s?**

Less than 60%	1 CONTINUE
More than 60%	2 THANK & CLOSE
Don’t know	3 THANK & CLOSE

Q6b **Can I just check roughly how much money had you have built up in total in your pension funds when you retired?** (SEE QUOTA)

1. Less than £30k
2. £31-£50k
3. £51-£100k
4. £101-£250k
5. More than £250k – EXCLUDE
6. Don’t know – ASK RESPONDENT TO CHECK ANY PAPERWORK THEY HAVE (E.G. PENSION STATEMENT) AND RECONTACT

Q6c **You say you are already taking an income from your pension pot. What did you decided to do?** (SEE QUOTA)

I bought an annuity with all of my pension pot	1
I bought an annuity with some of my pension pot	2
I bought a temporary annuity (e.g. one year annuity) and will review my options next year	3
My pension pot is still invested and I am drawing an income (drawdown)	4
I have taken my tax free cash only and the rest is still invested	5
Other (please specify)	6

Q6d **Can I just check, have you bought a retirement income product from one of the following providers (read out list)? These companies provide retirement income products that are not traditional annuities but provide a guaranteed income, and keep your fund invested so your income may go up in the future if markets do well.**

Q6e **When did you retire and start to take you retirement income?** (SEE QUOTA)

Between August 2013 and January 2014	1
Between February 2014 and now	2

Q6f **Did you take a lump sum from your pension pot when you retired?** (SEE QUOTA)

Yes	1
No	2

Q6g. **Thinking about when you were making your decisions on taking your income from your pension pot, did you:** (SEE QUOTA)

Seek advice from an IFA (independent financial adviser) who you paid a fee to help you make a decision	1
Buy an annuity direct from your pension provider, where you felt that they gave you a recommendation on what you should do	2
Buy an annuity direct from your pension provider, where you felt that they gave you information, but left you to decide how you wished to proceed.	3
Used a firm specialising in annuities to help find the best one, where you felt that they gave you a recommendation on what you should do	4
Used a firm specialising in annuities to help find the best one, where you felt that they gave you information, but left you to decide how you wished to proceed.	5
Buy through a comparison website	6
Other (please describe)	7

CODE 1 = TOOK REGULATED ADVICE
CODE 2, 4 = NON-ADVISED GUIDANCE
CODE 3, 5, 6 = SELF-SERVE
CODE OTHER = CHECK WITH IGNITION HOUSE HOW TO CODE

ASK ALL
Q7 Do you have any properties, either in the UK or aboard, in additional to your own home? If so, how many? (SEE QUOTA)

1	1
2	2
3-5	3 THANK AND CLOSE
More than 5	4 THANK AND CLOSE

EXCLUDE ANYONE WITH MORE THAN 2 PROPERTIES

FINANCIAL SOPHISTICATION QUESTIONS

Q8. **To start, I am now going to read some statements and I'd like you to tell me how much you agree or disagree with them.**

	Disagree strongly	Disagree slightly	Neither agree nor disagree	Agree slightly	Agree strongly
I regularly check out financial information in newspapers, magazines or on the internet.	1	2	3	4	5
I feel confident handling my own financial affairs.	1	2	3	4	5
I think I am knowledgeable about financial issues and products.	1	2	3	4	5

- If they score '1' on any question - code as LOW FINANCIALLY SOPHISTICATED
- If they score '1' or '2' on all questions - code as LOW FINANCIALLY SOPHISTICATED
- If they score '4' or '5' on all questions - code as HIGH FINANCIALLY SOPHISTICATED
- All others code as MEDIUM FINANCIALLY SOPHISTICATED

Q9. **Now thinking about savings and investments, can you tell me which of the following brackets, if any, best describes the current value of your savings and investments, including savings accounts, ISA's, stocks and shares, but excluding property and pensions?**
READ OUT & SINGLE CODE

Less than £10,000.00	1
£10,000.00 - £29,999.99	2
£30,000.00 - £39,999.99	3
£40,000.00 - £49,999.99	4
£50,000.00 - £59,999.99	5
£60,000.00 - £69,999.99	6
£70,000.00 - £79,999.99	7
£80,000.00 or more	8

Q10. **Can you tell me which of the following products you hold?**
READ OUT & MULTI CODE

Cash ISA	1
Stocks and Shares or Equity ISA	2
Premium Bonds	3
Investment Bond	4
Unit trust/ OEIC	5
Stocks and shares which I have purchased myself that are not shares in my employer or ex-employer and not shares which I have bought as part of a demutualisation of a building society or insurance company or a privatisation.	6

Q11. **Which of the following best describes your attitude to your pensions?**

I have little or no interest in my pension. I do not access my pension provider website and rarely look at my annual statements and have little understanding of what my fund is invested in. RELUCTANT

I have some interest in my pension. I might look at my statements from time to time and I might have registered for my member website and looked at it once or twice. I would be open to thinking more about my pension arrangements, but I find it quite difficult. GUIDED

I am very interested in my pension. I check the value of it and look at how my fund is invested. SELF-SELECTORS

DEMOGRAPHICS & SEGMENT CRITERIA

Q.1 **GENDER:**

MALE	1
FEMALE	2

PLEASE RECRUIT AN EQUAL MIX OF GENDER

Q.2 **What is your marital status?**

SINGLE	1
COHABITING	2
MARRIED/LIVING AS MARRIED	3
DIVORCED	4
SEPARATED	5
WIDOWED	6

PLEASE RECRUIT A MIX OF MARRIED/COHAB & SINGLE/ DIVORCED/ WIDOWED/ SEPERATED

Q3. **What is your total household income per year in terms of earnings, before taxes and other deductions to the nearest £5,000?** DO NOT READ OUT & CODE ONLY ONE

Less than £2,500	1
£2,500 - £4,999	2
£5,000 - £9,999	3
£10,000 - £14,999	4
£15,000 - £19,999	5
£20,000 - £24,999	6
£25,000 - £29,999	7
£30,000 - £34,999	8
£35,000 - £39,999	9
£40,000 - £44,999	10
£45,000 - £49,999	11
£50,000 - £54,999	12
£55,000 - £59,999	13
£60,000 - £64,999	14
£65,000 - £69,999	15
£70,000 - £74,999	16
£75,000 - £79,999	17
£80,000 - £84,999	18
£85,000 - £89,999	19
£90,000 - £94,999	20
£95,000 - £99,999	21
£100,000 or more	22
DK / NA/ Prefer not to say	EXCLUDE

Q3b. **In terms on earnings, is your household…?**

…a single income household	1
…a dual income household	2

Q4. **Which of the following describes your current working status?** READ OUT & SINGLE CODE

Working in full time employment (employee)	1
Working in full time self-employment	2
Working in part time employment (employee)	3
Working in part time self-employed	4
Non-working, not looking for work	5
Non-working, currently looking for work	6
Retired	7
Other	8

Q4a. **Is another member of your household working?** READ OUT & SINGLE CODE

Yes	1
No	2

ASK WORKING RESPONDENTS ONLY:

Q5. **Can you tell me your occupation? (or previous line of work for retired / currently unemployed?**

Write in: ______________________________

Social Grade:______________________________

Q6. **Thinking about your home now, can you tell me which of the following best describes your current home?** READ OUT & SINGLE CODE

Owned outright	1
Owned with a mortgage	2
Privately Rented	3
Other	4

Q7. **RURAL V URBAN**

Urban: Major Conurbation	1
Urban: Minor Conurbation	2
Urban: City and Town	3
Rural: Town and Fringe	4
Rural: Town and Fringe in a sparse setting	5
Rural: Village	6
Rural: Hamlets and Isolated Dwellings	7

Q8: **POSTCODE, FULL ADDRESS AND NAME (FOR ASSIGNING TO EXPERIAN SEGMENTATION MODEL – PERSONAL DETAILS WILL NOT BE PASSED TO THE CLIENT)**

Q9. **SOCIAL CLASS**

9.2 Topic Guide

BACKGROUND AND WARM UP

- Explore background, occupation, family situation.
- Describe your financial situation. Probe:
  - For those that have retired – how income compare to when you were still working?
  - Explore savings or investments. Probe for: instant access savings/ deposit accounts with bank/ B.Soc, ISA (cash/ equity), fixed rate savings bonds, premium bonds, investment bonds, unit trust/ OEICs, SAYE, pensions.
  - Probe for any borrowing - paying off your mortgage? Interest only? Personal loans or credit card debt?
- Probe confidence, knowledge and interest in savings and investment.

FRAMING EXERCISE ***(SEE SECTION 9.3 FOR STIMULUS)***

- Show respondents the background scenario. Stress that provisions have been made for dependents and that all options are financially equivalent i.e. they can't be better off doing once versus another.
- Show options in either the Consumption or Investment frame (rotate) and ask which they prefer. Probe why. Show the second frame and see which they prefer now. Probe fully.
- Ask if the products look familiar to them. Reveal Option 1/A is drawdown and Option 2/B is annuity. Probe how they feel about their choices now they know this.

RETIREMENT JOURNEY

- Probe pension arrangements. Ask why they took out a pension in the first place and what they now think about pensions.
- Probe what else they have for retirement.
- Probe for plans for retirement, specifically for a definite date when they will stop work. Probe why they chose this date.
- Discuss in detail sources of information used:
  - Friends, family
  - Internet research - if used, what did they look at? What search terms were used?
  - Online comparison websites:
    - What happened as a result of using the site?

        - Did anyone call them back? Who? What was discussed/offered in terms of products/services?
        - Anything in the post? Thoughts on this?
        - Any actions as a result?
    - Product provider – what happened?
        - If any interactions by phone, what was discussed? Thoughts on the person involved? Conversation seen as a recommendation/advice, or a list of options? Any actions as a result?
        - Any recall of receiving a pack from the pension provider? What was read? Thoughts on the pack? Any actions as a result?
    - Employer – what happened?
        - Who was involved? What was discussed? Thoughts on the conversation? Seen as a recommendation/advice or a list of options? Any actions as a result?

<u>**If they took advice:**</u>

- Who was this with?
- What form did the advice take?
    - Was it with an existing relationship or someone not seen before?
    - How easy was it to find someone to give advice? Thoughts on whether they can assess the quality of advice.
    - Thoughts on payment for advice?
    - Confidence in the advice given?
    - Any further actions?

<u>**If they did not take advice:**</u>

- Why did not take advice?
- Confidence in making the decision themselves?
- In what circumstances would they have felt the need to take professional advice?
- Any barriers to finding advice – where to look, who to see?
- Awareness of the need to pay for advice and the cost? Moderator to reveal typical cost of pension advice and probe thoughts on this.

<u>**PENSION PLANNING**</u>

- Any awareness of how much pension savings could generate before making a retirement income decision? Where did this perception come from?
- Any target income in mind? How much?
- What was taken into account to arrive at this figure?

- Any estimation of spending?
- How long were plans for?
- Any account of income needs in later life, such as care in own home or long term care?

- Any additional income sources that taken into account in the plans– such as other pensions, other saving and investments, or property?
- Any expectations of state pension and when this would start?
- Any expectations of an inheritance? Would this form part of the retirement plan?
- Any other factors considered? Probe specifically for:
  - Inflation – understanding, importance, and to what extent it featured in the plans;
  - Longevity risk - understanding, importance, and to what extent it featured in the plans.

AWARENESS OF ANNUITY, DRAWDOWN & THIRD WAY

- Unprompted awareness of what options can be used to take retirement income?
- Probe for understanding of annuities, pros and cons, and how they work. Specifically test:
  - Awareness that there is nothing to pass to dependents on death.
  - Awareness of how annuity rates are calculated and what factors can have an impact on this.
  - Awareness of impaired life or enhanced annuity.
  - Awareness of spouse's pension and the impact on income of taking this option. Show actual rates and discuss response.
  - Awareness of index-linked annuities and the impact on income of taking this option. Show actual rates and discuss response.
- Probe for awareness and understanding of income drawdown, pros and cons, risks, and their confidence to do this.
- Probe for whether they could tolerate a drop in income if the markets fell.
- Probe for confidence to navigate the options available to choose the best outcome.

AWARENESS OF 2014 BUDGET CHANGES

- Probe for awareness of the April 2014 Budget changes.
- Probe perceptions of what has changed, specifically,
  - What key messages were picked up? From where?
- What is their understanding of what will be tax free and what will be taxed? And at what rate? Probe specifically what 'taxed as income' means.

REACTIONS TO THE BUDGET CHANGES

- Probe for reactions to the budget changes. Any positives? Any concerns?
- What will the increased flexibility and choice on offer mean?
- What would they want to do now? What factors would be taken into account?
- Probe specifically, would they want to take all their money out and why?
  - What would they do with it?
  - What are the pros and cons of doing this?
  - What factors would they take into account?
- Probe specifically would they want to withdraw some of the money?
  - Probe how much would be tax free cash and how much would be over this (remind of tax implications and ask again).
  - What would they do with money?
- What will they do with money left in the pot?
- How confident are they that they could manage the money?
- What factors would they need to think about? Probe specifically:
  - Why is it important to think about investment return?
  - How confident are they that they could manage investments today? And in later life - say in their 80s or 90s?
- Would they worry about running out of money?
- If they were to run out of money, who would they view as responsible? And what would they do?

PRODUCT NEEDS EXERCISE ***(SEE SECTION 9.3 FOR STIMULUS)***

- Test a series of product 'features' to test what consumers value in an at retirement product.

Give respondents the set of cards and ask them to rank them in order from most important to least important. Discuss fully.

POST-BUDGET INCOME DECISIONS

- After consideration, how do they feel about making decisions in the new environment?
- What might they do with any DC pots they have? Why?
  - How likely is it that they would want to secure an income with all or part of their pension pot? What about in the future, say in their 80s or 90s?
  - Is there a minimum income – probe how much?
- What is driving this decision? Refer to *Product Needs Test*.
- How confident are they about making such decisions?
- If not securing all of the pot, will they want their income levels to vary over time – for example, more in the active early years or more later on to fund the costs of care?
- What help is needed to be able to make these decisions?
- Would a 'rule of thumb' figure as to the amount of income they should drawdown be helpful?

9.3 Stimulus Materials

FRAMING EXERCISE: CONSUMPTION FRAME

On the following sheets you will be presented with a number of choices that are available to a 65 year old when he (or she) retires. We would like you to discuss which one you think is the best choice and why.

The person who is retiring has some savings and can spend £600 each month from the state pension in addition to the income mentioned in each option. This person has already set aside money to leave to his children when he dies. The choices are intended to be financially equivalent and based on personal preferences for spending in retirement.

Option A The retiree chooses an amount to spend each month in addition to state pension. How long the money lasts depends on monthly expenditure. If he spends £360 per month then there is enough money until he dies. If he spends £500 per month there will be no money left when the person is 90. He can spend down faster or slower than each of these options. When he dies any remaining money will go to his estate.

Option B The retiree can spend £500 each month for as long as he lives in addition to state pension. When he dies there will be no more payments.

FRAMING EXERCISE: INVESTMENT FRAME

Option 1 The retiree invests £100,000 in an account which earns a 3% interest rate. He can withdraw some or all the invested money at any time. If he spends £360 per month then there is enough money until he dies. If he spends £500 per month there will be no money left when the person is 90. When he dies any remaining money will go to his estate.

Option 2 The retiree invests £100,000 in an account which earns £500 each month for as long as he lives. He can only withdraw the earnings he receives, not the invested money. When he dies, the payments will stop and the investment will not pass to his estate.

PRODUCT FEATURES SHOWCARD

Guaranteed fixed income for life	Income that keeps in line with inflation	An easy to understand product
Ability to pass money from my pension savings to my dependents	Access money if I needed it	A provider I have heard of before