

PENSIONS POLICY INSTITUTE  
**PPPI**

Supporting DC  
members with  
defaults and  
choices up to, into,  
and through  
retirement





*'Supporting DC members with defaults and choices up to, into, and through retirement: Qualitative research with those approaching retirement'* is the first stage in a two stage research project sponsored by State Street Global Advisors. The qualitative research contained in this report was conducted by Ignition House, a research consultancy specialising in financial services, on behalf of the PPI.

This is part of the PPI's research series on Transitions to Retirement, a series of three major research reports exploring how people access pension savings. This research series is also sponsored by Age UK, The Investment Association, Partnership, The Pensions Advisory Service (TPAS), The Pensions Regulator (TPR), The People's Pension and Fidelity.

Sponsorship has been given to help fund the research and does not imply agreement with, or support for, the analysis of findings from the project.

The PPI is grateful for the support of the following research series sponsors:



A Report by Melissa Echaliier, Mel Duffield, Janette Weir and Ed Ripley

Published by the Pensions Policy Institute

© January 2015

ISBN 978-1-906284-31-2

[www.pensionspolicyinstitute.org.uk](http://www.pensionspolicyinstitute.org.uk)





## Supporting DC members with defaults and choices up to, into, and through retirement: Qualitative research with those approaching retirement

Executive summary	1
Introduction	6
Chapter one: The role of defaults and choices in the current pension and retirement system	8
Chapter two: Members' understanding, expectations and preferences around their pensions and retirement income	11
Chapter three: Contradictions and challenges	30
Chapter four: Conclusions	37
Annex 1	39
Annex 2	45
Annex 3	47
References	50







## Executive Summary

This PPI report, *Supporting DC members with defaults and choices up to, into, and through retirement: Qualitative research with those approaching retirement*, is the first stage in a two stage research project, sponsored by State Street Global Advisors, and draws heavily on insights from new qualitative research with DC savers approaching retirement conducted by Ignition House, a research consultancy specialising in financial services. The purpose of the qualitative research is to explore preferences for how those approaching retirement might want to draw an income, the trade-offs that they are willing to make in retirement, and the potential to develop default products and strategies that could support them.

The report builds on the findings of the first report in the series *How complex are decisions that pension savers need to make at retirement?*, which found particular challenges with levels of financial engagement and numeracy amongst those expected to be the most reliant on their DC savings, suggesting a need for either personalised guidance and advice or robust defaults that can protect consumers from the greatest risks. In turn, this report focuses on the potential for offering default investment and drawdown solutions for accessing retirement income to DC members.

This research aimed to target groups with sufficiently large pension pots that they might prefer to leave these invested rather than withdrawing them in their entirety as a cash lump sum. For this reason, as a group, the participants in this research have above average levels of DC pension savings and, therefore, the findings should not be taken to be representative for all DC savers.

The research composed of 33 face-to-face interviews and 3 focus groups with 22 individuals approaching retirement (aged 55-70) and for whom DC savings make up the majority of the private pension savings.

**While this group have made preparations for retirement, they have not thought through their financial position or their spending needs in any detail...**

- Participants typically have a range of pension investments, including more than one DC pension, or a DB pension, and where there is a partner, retirement planning is typically done on a joint basis. It may therefore be difficult to make too strong or specific assumptions about how savers wish to use a given DC pension pot.
- Phased or flexible retirement is increasingly seen as the norm, with those approaching retirement often expecting to work for some years beyond State Pension Age. Planning horizons are short, focusing on the next year or two rather than long term income needs – making it difficult to engage savers with detailed retirement planning ahead of, or even at, retirement.

- Those individuals interviewed tend to overestimate what they need for their essential spending in retirement – however once they were taken through a budget planning exercise they typically find that they need around £10,000 to £15,000 in the early years of retirement, falling later in retirement. This demonstrates the importance of more detailed assessment of needs and budget planning compared to more simplistic replacement-rate approaches.
- 55-70 year olds who took part in the research tend to underestimate their life expectancy compared to national projections, therefore underestimating how long their pension pot might be required to last. More worryingly they significantly underestimate their chances of surviving to older ages (for example, beyond age 90), suggesting they may fail to understand the importance of protecting themselves against longevity risk and the value of insurance style products including annuities.
- Generally stated preferences are to take a lump sum at the start of retirement (often using the tax-free cash lump sum) and then draw a gradual income, sometimes taking more out in the early years when they expected to be most active. However it isn't always appreciated how taking a lump sum might impact on their remaining income over the course of the retirement.

**... And they are unlikely to be well placed to make decisions about investments either in the run up to, or during, retirement.**

- The 55-70 year olds spoken to were not confident with equity markets or making direct investments themselves and tended to invest their non-pension savings in cash-based investments such as ISAs – suggesting that pension savings accessed as one or a series of lump sums may simply be placed in “safe” or low-return investments.
- This was sometimes combined with occasional false confidence in their ability to invest in something “safe” or “better” outside of a pension. This typically included either cash investments or property but there was evidence that the tax implications of drawing down all of a pot at once had been missed by some and few had considered the associated costs and level of risk of investing in property.
- Awareness of how pension savings were currently invested was extremely low – there was some recognition amongst a small number of those interviewed that their pension savings were held in a form of default fund but they generally had no idea what that meant in terms of the underlying investments.
- When prompted, those interviewed did begin to understand that default investment funds in the run up to retirement targeting annuity purchase at a set age may no longer be suitable for them, and were very supportive of the idea of being offered default funds into and through retirement. Some even felt that pension providers had a “duty” to provide these.
- There is some indication that those approaching retirement do begin to engage more with their pension pot, however even those planning to retire

within the next 2 years had an open mind around whether and when this might happen in practice, and the options that would be available to them. They were largely unwilling to engage with the idea that they might be able to choose how they would be likely to access their assets five or ten years in advance of the retirement date.

**While they initially place a very strong emphasis on capital protection and ease of access they are willing to make trade-offs...**

- Those interviewed were initially drawn to investment options in retirement that involved them taking little or no investment risk to protect their capital and guard against losses.
- However, they lacked any understanding of how investment choices might interact with the average level of income they might receive over the course of their retirement and, in particular, how some risk might be required to deliver investment returns that can protect them against inflation. It therefore seems likely that individuals may need some nudging or guidance to understand their acceptable levels of risk given their wider preferences. This is something that the Guidance Guarantee might look to achieve. This also highlights challenges around the provision of advice to those DC savers with relatively modest pension pots, who have not traditionally purchased advice.
- Along with the amount of risk associated with a given default drawdown strategy, the participants also selected ease of access, flexibility and income profile as important features. Again, once the trade-offs were explained to them they were often willing to sacrifice some flexibility and lock away at least some of their pension pot for a fixed period, typically 5 years at most, to secure a higher return.

**... And after discussion could start to give some clearer indications about their preferences.**

- There was consensus that different circumstances and lifestyles in retirement might mean that there would be a need for some limited amount of fund choice outside of a default option – perhaps 3-6 fund choices in total – with individuals recognising their inability to cope with too many investment choices.
- Initially there was little understanding of how investment choices and rates of return would impact on how long their pension savings would be likely to last for. Understanding how quickly money would run out if entirely invested in safe assets, and how that interacted with their uncertainty around life expectancy and the possibility of reaching very old ages, was an important eye opener.
- When weighing up their options, those interviewed generally shifted from not wanting exposure to any risk to being willing to be exposed to potential losses of around 10% (but no more than 20%) of their pension pot to give them a greater chance of income growth and inflation protection.
- They were also willing to forego some flexibility around their ability to access their fund at short notice to improve their investment returns –

albeit recognising that they might require easy access to a fixed amount (e.g. £10,000).

**The idea of being pre-committed or locked into specific courses of action in retirement was not popular but the concept of longevity insurance did resonate with DC savers.**

- While recognising the potential difficulty of making financial decisions later on in retirement, those interviewed were generally resistant to the idea of a pre-determined or assumed course of action, e.g. being locked or rolled over into an annuity from a set age, as they wished to retain flexibility to deal with unexpected life events.
- The majority of those spoken to were however warm to the concept of some sort of longevity insurance product to act as a “safety net” against the risk that they might live too long and/or draw down too much income in the earlier years of their retirement.
- A high upfront cost was a significant barrier but the idea of making gradual payments towards an insurance style product (rather than an upfront one-off lump sum to purchase a deferred annuity) did appeal. In discussion annual premiums of between £500-£1000, starting at age 65, were not seen as an unreasonable amount to secure a lifetime income, e.g., £5,000 per annum from age 85 onwards.
- However, some still felt that this was too much of a ‘gamble’ and would prefer to take their chance on running out of money.

**The key conclusions of this interim stage of the research for the pensions industry, including insurance company platforms, asset managers, trustees and employers, are as follows:**

- The Budget freedoms are generally viewed as popular with DC savers, largely because of the negative associations in the financial press around annuities and the notion of handing over your money, however when they begin to understand the scale of choices and trade-offs involved in how to access their DC pension pots at retirement they quickly become daunted. This suggests that disengagement and inertia amongst consumers from April 2015 is a key risk without effective processes in place, either through guidance and advice or the provision of appropriate defaults.
- There are some specific risks identified within the research which policy makers, regulators and the pensions industry should work together to address, specifically around:
  - Reluctance or inability to plan beyond the next few years, which means locking into a specific course of action either before or at retirement is generally unpopular;
  - Poor understanding of both spending needs throughout retirement and likely life expectancy and, in particular, the probability of living beyond older ages, which means some DC savers are likely to underestimate the importance of having some form of longevity insurance;
  - Lack of engagement (even very close to, or into, retirement) and a willingness to accept a provider default or invest where one is offered-

- leading to the potential for consumer detriment if the defaults offered are not suitable and designed in the best interest of savers;
- Perceptions that there are “safer” or “better” investments outside of pensions, which when probed are based on misguided beliefs or have not been properly thought through.
  - The idea of being offered a default investment or drawdown option into retirement resonates with DC savers – though they recognise the importance of wider individual and household circumstances and the need for there to be some element of choice for those who want it. There is a degree of commonality, once thought through, around the appetite for investment risk and growth in their pension savings post retirement and their willingness to sacrifice capital protection and ease of access.
  - Given the existing lack of any understanding around the underlying investments in default funds, and what the funds are seeking to achieve, it will be important that any defaults and alternatives offered are clearly branded and communicated in terms of their levels of risk and objectives.
  - DC savers may be reluctant to make upfront commitments about when they might lock into a certain course of action, or to hand over significant sums of capital in the early years of retirement to another party, such as an insurer. Whilst these may act as barriers to the take up of some forms of annuities, concepts like longevity insurance and the payment of ongoing premiums did resonate with the majority of those interviewed, and they were willing to make some sacrifices in income in early years to ensure they had a secure backstop should they live to higher ages.

The second stage of this research will build on these findings to explore the potential communication challenges around comparing different options for DC savers at retirement, with a particular view to exploring the tools, visuals and rules of thumb that might help to benchmark different options. This will be particularly relevant in the post-April 2015 retirement landscape where taking a fixed and guaranteed income stream (through an annuity) may not be the norm but where those unwilling or unable to take financial advice may still need to feel comfortable with their choices or any default solutions being offered to them at retirement.

## Introduction

In light of the changes announced at Budget 2014, the PPI has embarked on a series of major research reports on *Transitions to Retirement* exploring developments in how people might convert their workplace Defined Contribution (DC) pension savings into retirement income, and the associated risks and opportunities around the new freedoms and flexibilities.

This report, *Supporting DC members with defaults and choices up to, into, and through retirement: Qualitative research with those approaching retirement*, is the first stage in a two stage research project, sponsored by State Street Global Advisors, and draws heavily on insights from new qualitative research with DC savers approaching retirement conducted by Ignition House, a research consultancy specialising in financial services. The purpose of the qualitative research is to explore preferences for how those approaching retirement might want to draw an income, the trade-offs in retirement that they are willing to make, and the potential to develop default products and strategies that could support them.

The report builds on the findings of the first report in the series *How complex are decisions that pension savers need to make at retirement?*, which found that those approaching retirement today typically have a range of pension savings and assets available to them, with some heavily reliant on a DC pension as their main source of income. It found particular challenges with levels of financial engagement and numeracy amongst those expected to be the most reliant on their DC savings, suggesting a need for either personalised guidance and advice or robust defaults that can protect consumers from the greatest risks.

While other factors such as contribution level and length of working life may have a greater impact on outcomes, this report focuses particularly on the potential for offering default investment and drawdown solutions for accessing retirement income.

The existing behavioural evidence around pension saving and investment choices suggests that, with low engagement and natural tendencies towards inertia arising from a lack of trust or from confusion, the default will often be the option which involves the least active decision making. In the recent past this has seen high take-up at retirement of the 'default' annuity offered by an existing pension provider, despite the apparent benefits of shopping around. A key question for the industry, in light of the new Budget freedoms and the wider range of options now available, is whether there is sufficient common ground between groups of DC savers approaching retirement to inform the proactive design of new defaults, or a limited set of choices, that can support them into retirement even if they fail to engage.

The first chapter of this report provides an overview of considerations and behavioural evidence around the use of choices and defaults, and the evidence on the impact of defaults that have already existed, at least until recently, in the pensions and retirement system prior to April 2014.

The second chapter shares the findings of new qualitative research with DC savers approaching retirement, which explored in depth their understanding, expectations and preferences around how they might access their pension savings in retirement. It goes on to identify some of the challenges and contradictions presented by these findings.

The third chapter considers some of the contradictions and challenges identified by these findings while the fourth chapter uses the findings to draw some conclusions for the pensions industry from this research.

This project will consist of two stages. The second stage of this research will build on the findings in this report to explore the potential challenges around comparing different options for DC savers at retirement, with a particular view to exploring the tools, visuals and rules of thumb that might help to benchmark and communicate different options. This will be particularly relevant in the post-April 2015 retirement landscape where taking a fixed and guaranteed income stream (through an annuity) may no longer be the norm, and where not everyone will receive personalised financial advice to help them make complex decisions or be comfortable with any defaults being offered at retirement.

## Chapter one: The role of defaults and choices in the current pension and retirement system

Within the pensions and retirement landscape in the UK, different elements of the system rely on the existence of defaults or the exercising of choice. The decisions around saving for retirement are notoriously complex; the first report in this series found that decisions about accessing DC pensions, in particular, are considered the most challenging of pension and retirement decisions and other major financial decisions from across the life course.<sup>1</sup>

This means that the effective deployment of choice relies on individuals having meaningful options, the necessary information, financial literacy and numeracy skills in order to interpret this information in the light of their own circumstances.

On the other hand, the effective use of defaults relies on the ability of decision makers to generalise that, in a sufficient number of cases where this default is used, the default course of action will be beneficial, or at least not detrimental, to the individual. Defaults can either be the deliberate result of a pre-designed policy or process or can simply develop as a result of the interaction of different factors and be the “path of least resistance”. In practice where individuals do not exercise their right to choose for one reason or another, de facto defaults can still develop.

This section summarises some of the defaults that currently exist in the current pension and retirement system. More detailed analysis and policy background is shown in Annex 1.

### **Pervasive defaults already exist in the UK pensions system**

Prior to the announcement of new pension flexibilities from April 2015, the following ‘defaults’ already existed, and some continue to exist, within the pension and retirement system.

- Under workplace pensions or automatic enrolment - where to save, how much to save and when to save.
- In many cases, de-risking pension fund investments towards the end of an individual’s working life.
- When to retire.
- Taking a 25% tax-free lump sum and purchasing an annuity (until March 2014).

<sup>1</sup> PPI (2014)

### **Defaults can strongly influence behaviour**

Defaults can strongly influence behaviour in the current pension and retirement system and the reasons for their impact can provide some insight into how defaults might be used to support DC members with their retirement options in the future. For example, existing research suggests that:

- Some DC scheme members view default options around annuitisation as implicit advice<sup>2</sup>
- Some DC scheme members are overwhelmed by the number and complexity of choices around drawing down income, leading them to accept the default<sup>3</sup>
- Social norms can drive retirement behaviour; in the recent past there has been a peak in annuity purchases at the ages of 60 and 65, the normal retirement ages for many workplace pension schemes, suggesting that this can have an impact on when individuals choose to access their pension pots.<sup>4</sup>
- Financial incentives/disincentives can also play an important role – for instance, there are lower incentives for DB scheme members to remain working after they have reached their pension scheme’s normal pension age or they have built up maximum accrual in their scheme.<sup>5</sup>

### **Evidence to date provides insight around how defaults might work under the new flexibilities**

Some examples of how existing defaults are having an impact on pensions and retirement behaviour in practice are provided in more detail at Annex 1. These examples provide the following insights around how defaults might work (either positively or as de facto defaults) under the new flexibilities:

- The existing evidence strongly suggests that individuals are already unwilling to shop around for an annuity. The Budget changes are generally expected to make this process more complex; by increasing the number of options available thus making it more difficult for individuals (particularly those with modest DC pots that they do not simply want to take as cash but who might also be reluctant to pay for financial advice) to make active choices. In turn, this may deter individuals further from shopping around for a retirement income product;
- It is likely that individuals will continue to consider the use of any default products or strategies offered to be implicit advice, again suggesting that they are still at risk of being defaulted into unsuitable options, especially if they are disengaged or overwhelmed by the choices and decisions they face;
- The introduction of automatic enrolment means that there will be a cohort of new DC savers who have often not made an active decision to save or

<sup>2</sup> Madrian and Shea (2001)

<sup>3</sup> Collard, S. (2009)

<sup>4</sup> ABI (2014)

<sup>5</sup> IFS (2012)

made any active investment choices. Recent PPI research<sup>6</sup> also suggests that they are likely to have lower levels of financial engagement and experience with other financial products than existing pension savers (including those interviewed in the fieldwork for this research) and are unlikely to have previously used financial advisers – this is likely to make decision making at retirement more of a challenge for them than current cohorts of retirees with DC savings.

**A balance between the use of defaults and information provision will be required**

This evidence suggests that there is a careful balance required between having defaults in place that are beneficial for the majority of people likely to use them, and ensuring that individuals' have sufficient information in order to make active choices, should they wish to do so, without overwhelming them.

**The Guidance Guarantee will not be able to provide individuals with tailored advice**

The Government is introducing the Guidance Guarantee, under which individuals will be eligible to receive free and impartial guidance to enable them to navigate their pension choices. However, this will not be equipped to deal with the full range of uncertainties and complexities around individuals' circumstances, or able to provide individuals with advice on specific products and strategies.

The default retirement solutions offered in this context are likely to involve DC savers remaining partly or fully invested in a default retirement fund offered by their existing (or nominated) scheme or provider that they could also start to draw an income from, and could also include conversion into a lump sum, an annuity, or another form of insurance with part of their pension pot at the start of retirement or at older ages.

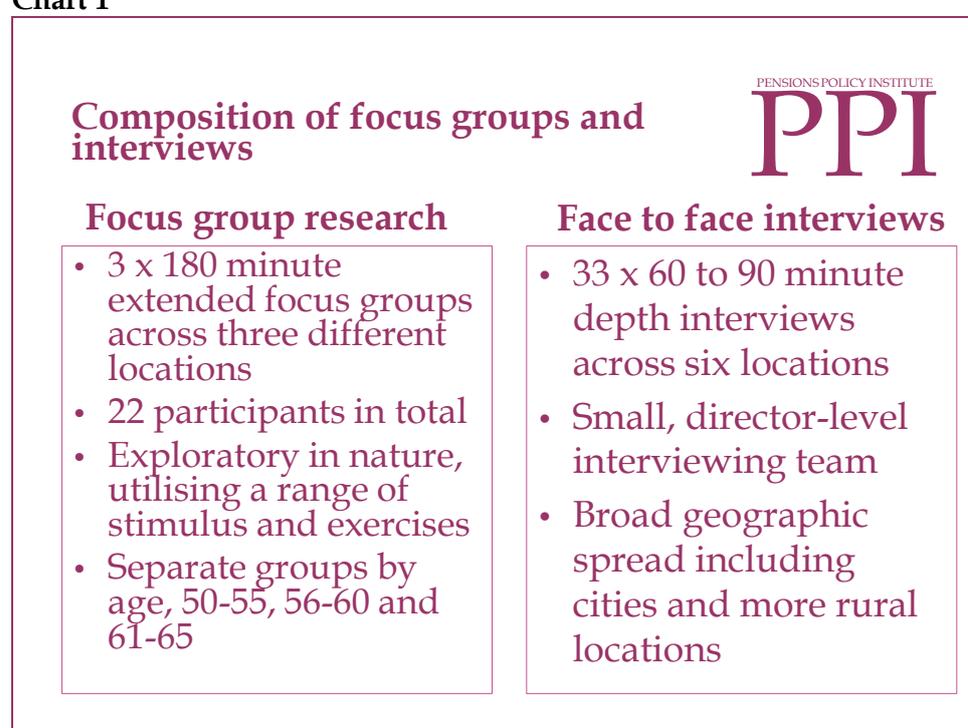
The remainder of this report focuses on the findings of qualitative research which explores these issues and the potential for the industry to develop default retirement solutions.

<sup>6</sup> PPI (2014)

## Chapter two: Members' understanding, expectations and preferences around their pensions and retirement income

To support the first stage of this research Ignition House were commissioned to carry out in-depth qualitative research. The fieldwork took place in October and November 2014. This chapter provides an overview of the findings from the qualitative research. The composition of this research is described in Chart 1. A full breakdown of the sample and inclusion criteria and the broader research approach are at Annex 2.

**Chart 1**



The participants selected had the following attributes:

- All had at least one workplace (or group) DC pension pot
- Two thirds had pension pots estimated to be worth £30,000 or more
- A minority of the participants had DC pension pots either below £30,000 or above £100,000

The research therefore aims to broadly target the groups who may have sufficiently large pension pots that they might prefer to leave these invested rather than withdrawing them in their entirety as a cash lump sum. At the same time, this group may not currently be the primary target for financial advisers and traditional income drawdown.

As with all qualitative research, care should be applied when generalising the results to the whole population of DC savers – these findings are not representative of all DC savers as a whole. However, they provide some useful insight to the range of preferences and trade-offs likely to be made by others in their cohort. The first report in the Transitions to Retirement series, *How complex are the decisions DC savers need to make at retirement?*, provides further contextual information about the circumstances of those expected to reach retirement with DC pension savings over the next 10-15 years.

The overarching aim of the qualitative research is to provide insight into how DC savers might behave and approach their retirement decisions in the new liberalised at-retirement landscape. Specifically, it explores their understanding and expectations around their pensions and retirement and, in particular, explores their preferences around the default solutions that might be offered to them. The discussion guide used for the research explored the following topics:

1. Participants' current financial position and pension arrangements, and planning around retirement;
2. The extent to which participants are equipped to makes choices around investments;
3. Participants' preferences around accessing their retirement assets following the changes announced in the Budget 2014; and
4. Individuals' attitudes towards the idea of defaults being offered and preferences around the design of particular defaults.

The first section on current pension arrangements and financial plans provides important context for individuals' preferences around accessing their assets and their preferences around defaults. The findings are briefly summarised here and are provided in more detail at Annex 3.

**Box 1: Participants' current financial position, pension arrangements and planning around retirement****Participants' current financial position**

- Most participants had paid off their mortgage, with few reporting debts or loans
- Most participants had additional savings and investments, but lacked the confidence and knowledge to choose equity-based products, meaning that their savings tend to be placed in cash-based investments
- Downsizing is seen as the fall-back option for those who will need to top up retirement income, but few have fully considered how much this could release

**Pension arrangements**

- Complexity of arrangements means that this generation usually does not rely solely on DC pension pots for income
- Most participants had more than one pension arrangement, with around a quarter having access to a DB pension (either the participant or their partner)
- For those in a couple, retirement decisions were typically made on a joint basis

**Retirement planning**

- Phased retirement up until age 70 is expected to be the pattern for most participants.
- Plans are often superficial and focus only on the next year or two, with participants finding it difficult to estimate their long-term income needs and, therefore, how long their pension pot is likely to last.
- Participants initially tended to overestimate what is needed for their essential spend. When taken through a task which required them to consider their likely spending patterns in detail in retirement most individuals estimated that they would need around £10,000 - £15,000 for the early years of retirement, dropping to around £10,000 for the later years.
- At the same time, participants underestimate their life expectancy and the probability of an individual aged 65 living to a particular age; for example, they over-estimated the number of people who will die between the ages of 65 and 70. Similarly, they significantly underestimated the probability of living to age 90 or 100. In this way, they are likely to underestimate how long their pension pot might be required to last.

Participants were positive about their plans for retirement and felt that they had modest expectations for their early retirement years.

*"I'd be mortgage free, I would be able to pay my bills and I wouldn't have to sit in a jumper and turn the heating off... I don't want to be in that type of circumstance, I'd like to be in a position where I could take as many holidays as I do now"*  
Male, aged 55-60

*"I don't want to be one of those old people who are frightened to turn the fire on and can't go anywhere. It's all of those things you take for granted and when suddenly your income goes from one point to another, then I worry. I am frightened for that."*  
Female, aged 61-65

The findings from the remaining sections explore attitudes to investments pre- and post-retirement, options for drawing retirement income, and potential default solutions in greater detail.

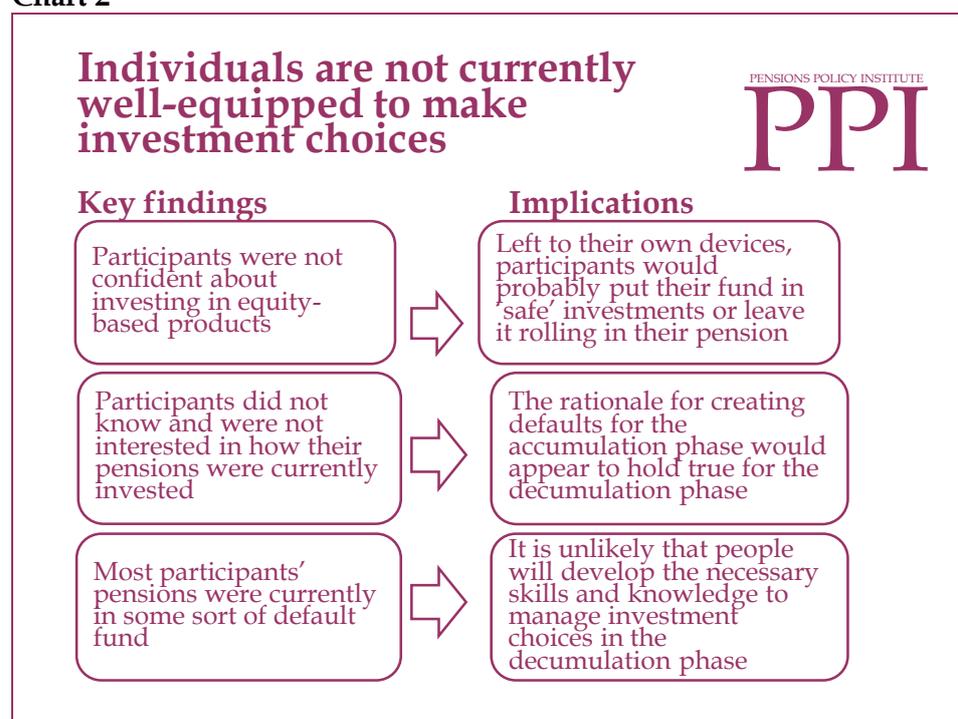
### The extent to which participants are equipped to make choices around investments

- Individuals are not confident about investing money in equity-based products
- Participants' lack of understanding around longevity suggests a low awareness of how long they might be taking money out of their pension pot

*Individuals are not confident about investing money in equity-based products*

Participants were typically not confident about investing money in equity-based products – this is reflected in both their current savings, where most of these were held in cash-based products and in their almost complete lack of knowledge and interest in how their pension was currently invested. This lack of confidence and interest has implications for individuals' likely behaviour in retirement (Chart 2).

**Chart 2**



When asked about their level of knowledge around investments, participants were typically uncertain about their ability to make equity-based investments:

*“Not very good really, I think people think they are but in actual fact are not. I am very dubious about what to do. I think for me I understand properties much more than I understand pensions”*  
 Female, aged 61-65

*“I think I’m more comfortable about the stock market but the things like unit trusts and funds are a bit of a minefield I find. You get information that tells you what to do and where to invest but making comparisons between one and another is very difficult”*  
 Female, aged 61-65

*“Comfortable-ish but I’m less comfortable now. It’s a question of “who can you trust?” because at the end of the day that’s all I’ve got. If I invest it and it all goes then I don’t have another pot of money to back it up. I’m not Wayne Rooney, I don’t have that kind of money. It’s a really big decision.”*  
 Male, aged 55-60

When speaking about the decumulation phase, many participants talked about taking the tax-free lump sum and leaving the rest ‘invested’, but when probed had no idea what this meant in practice in terms of what underlying asset classes their remaining funds would be invested in. There was a lot of confusion in their terminology, with participants commonly referring to the interest rates they would like to achieve, rather than investment returns.

*“I am just going to leave it invested...I might leave it to my daughter”*  
 Male, aged 66-70

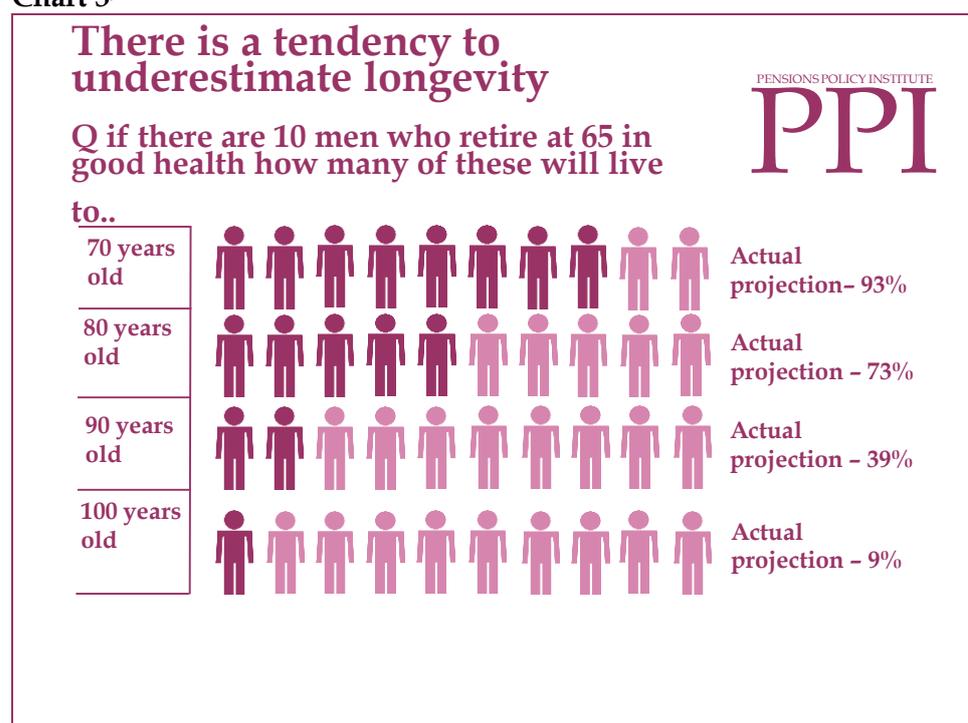
*“I will take 25% tax free cash. Before the Budget, I would’ve used the rest for an income through an annuity. Now I want to have 2 years salary as a safety net saved and I will leave what’s left after the tax free cash there and take some if anything comes up”*  
 Female, aged 61-65

*Participants’ lack of understanding around longevity suggests a low awareness of how long they might be taking money out of their pension pot*

In order to measure individuals’ understanding of how long they are likely to live, they were asked to estimate longevity for a group of ten men aged 65 in

good health. A comparison with life expectancy projections for a 65 year old male (Chart 3) shows that they significantly over-estimated how many people will die between 65 and 70, and under-estimated how many will live beyond 80, compared to calculations based on national life expectancy projections. The projections reflect the life expectancy of the general population whereas, in practice, the life expectancy of those individuals with DC savings is likely to be slightly higher. This reflects the fact that individuals with DC savings have typically been in work and wealthier, both factors being associated with better health.

Chart 3<sup>7</sup>



The findings from this comparison suggest a low awareness of how long individuals might be taking money out of their pension pot.

Overall, the responses, alongside the fact that it is extremely difficult for an individual to make any estimates around their own life expectancy, suggest that individuals are unlikely to develop the necessary skills to manage investment choices in the decumulation phase themselves, and emphasise the need for a review of current default funds to assess whether these are still fit for purpose under new pension rules.

Under the previous rules, where the majority of individuals used their pension pots to purchase an annuity, funds were typically moved to safer assets as individuals approached retirement age, to maintain the value of their capital and match the assets that would back an annuity purchase. As it can no longer

<sup>7</sup> Actual projections based on PPI analysis of ONS population projections, 2012-based

be assumed that individuals will simply take a tax-free lump sum and purchase an annuity with the remainder these defaults may no longer be fit for purpose.

Indeed, default funds are already being reconsidered despite many only being recently reviewed for the introduction of automatic enrolment; a recent survey of DC pension professionals, including trustees, found that 66% were looking to change their default strategy within the next 18 months, while 52% were planning to implement new retirement solutions following the removal of compulsory annuitisation.<sup>8</sup>

**Participants' preferences around accessing their retirement assets following the changes announced in the Budget 2014**

- Participants preferred capital-protected investments in the first instance
- Participants would prefer to access their pension pots on an ad hoc basis or take money out of these tax efficiently, but there was confusion about how to do this
- Participants referred to the option of taking their money and placing it in 'safer or better' investments
- Participants could see themselves either opting for a level income or taking more income early on

*Participants preferred capital-protected investments in the first instance*

Participants' preferences around the investment of their pension pots also reflected a lack of understanding around the impact of investment choices, and a risk of unintended consequences. Where participants expressed how they would prefer to invest their pension pots during retirement, most opted for options that would not require them to risk losing any of their capital while some would be willing to take a small risk only.

However, there was a lack of understanding of the implications of this in terms of pot size or the subsequent level of retirement income that they could receive. This is explored further in the section around defaults.

<sup>8</sup> SEI (2014)

*"I don't pretend to be a financial person but I prefer to be safe with money. I am not a gambler, I am not prepared to lose"*  
Female, aged 56-60

*"I am medium to low risk, looking for 4 to 5% in interest"*  
Male, aged 61-65

*"I can't afford for it to go wrong, I am risk averse, something small is better than nothing"*  
Male, aged 56-60

*"I'm happy to take a risk and a bit of a loss just as long as it's not too much"*  
Female, aged 61-65

*There was good awareness of the new flexibilities proposed in the 2014 Budget*

Compared with earlier research conducted by Ignition House in May 2014<sup>9</sup>, there were fairly good levels of awareness that the Budget 2014 proposals will increase flexibility, with participants generally welcoming the greater choice. There was also a higher awareness that there would be some tax implications of accessing pension money. This compared to a continuing poor awareness of other options that were already available to individuals prior to the Budget, such as the trivial commutation of small pots or the ability to access pension savings from age 55 onwards.

*Participants would prefer to access their pension pots on an ad hoc basis or take money out of these tax efficiently, but there was confusion about how to do this*

Participants in this research were also aware of a wide range of options that would be available to them as a result of the Budget proposals, with the most popular options being to access their pension pot on an ad hoc basis or to withdraw their money in a tax efficient way.

However, despite high levels of awareness of the Budget proposals and of the existence of tax implications of taking the pension pot, there was considerable confusion about how exactly to access money tax efficiently as participants typically had a poor understanding that taking lump sums could push them into higher marginal tax brackets.

*Participants referred to the option of taking their money and placing it in 'safer or better' investments*

Many participants discussed the option of taking their money out of the pension and placing it in 'safer or better' investments, but in practice this referred to cash investments. Property was also a popular option, often driven by a degree of mistrust of pensions and pension providers. Those considering property as an investment strategy usually wanted to take their money out in stages to be tax efficient, but there were several participants who were very

<sup>9</sup> Ignition House (2014)

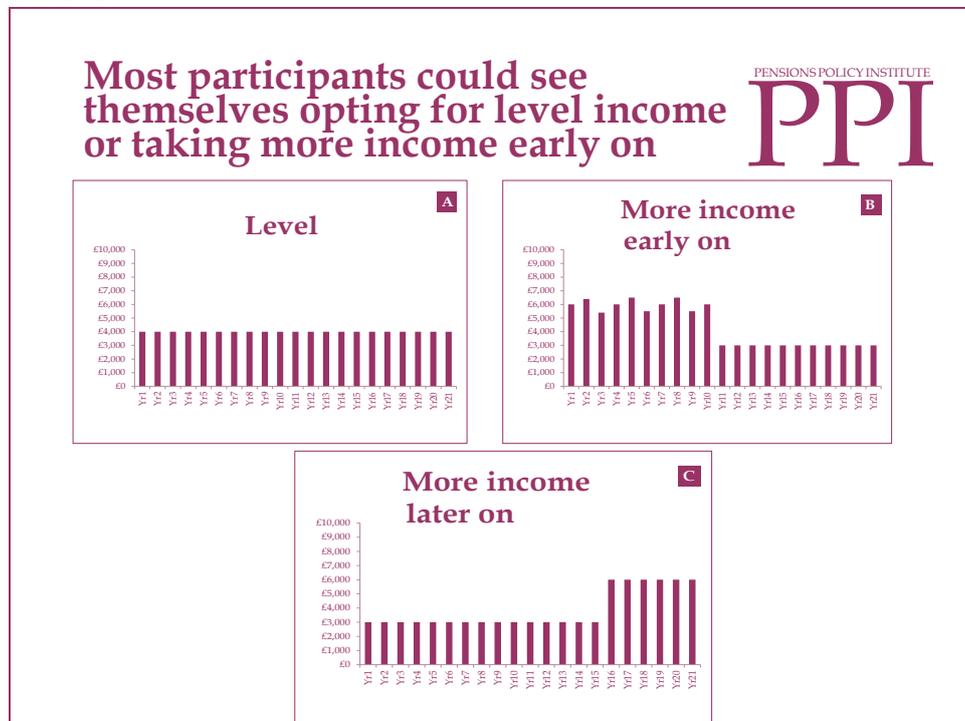
surprised to learn that their plans could lead to a 40% tax payment. Using pensions to buy a property was discussed by both current landlords looking to add to their portfolio and by those who had never invested in property before.

In most cases, individuals were referring to the outright purchase of property with their pension pots or combining pots with other family members. In certain regions they indicated that they could purchase a property outright for £50,000 – however, there was no evidence that they had considered the detail around this, for instance, the tax implications of drawing down their pension pots in order to make the purchase, the potential tax, administrative or running costs beyond the purchase price, or the risks of investing all of their pension pot in one particular asset.

**Participants could see themselves either opting for a level income or taking more income early on**

When presented with potential withdrawal profiles, participants could see themselves taking a level income, over the course of their lifetime, or taking more income early on: either option A or B (Chart 4). Fifteen of the participants would prefer to receive a level income throughout their retirement while thirty of the participants would prefer to receive more income early on. Only ten of the participants were attracted to back-loading their income, and taking more in later life, typically in order to preserve resources for dependants.

**Chart 4**



The reasoning for taking more income early on centred on the ability to enjoy the income in the healthier years of individuals' early retirement.

*"My wife's one for "let's live for today as I don't know what's going to happen tomorrow." I am apprehensive but I would like to enjoy some of that money that I've saved all my life. I would like to spend some of it while I'm able to"*  
Male, aged 61-65

*"I think it would be more towards the beginning because I would be concerned about health in later years and that I may not be able to drive or do so much travelling. If in the event that I needed a lot of care then I would downsize my house."*  
Female, aged 55-60

#### **Individuals' attitudes towards the idea of defaults being offered and preferences around the design of particular defaults**

- Participants supported the idea of defaults and felt that pension providers had a duty to provide these
- Recognition of different circumstances in retirement led to a consensus that individuals should be offered some alternatives to defaults
- Visuals can be used to explore the trade-offs and uncertainties around investment returns and longevity
- Participants selected level of risk, ease of access and flexibility to change the amount of income as the most important factors in determining their choices around drawing down their pension pots in retirement
- After an initial reluctance to invest in equity-based products, most individuals would be willing to trade off more risk for the possibility of higher returns
- Many participants would trade some flexibility for higher returns
- Further testing found participants would typically choose a low or medium risk option
- Death benefits are seen as a 'nice to have', with individuals more willing to take an increased risk for their spouse rather than their dependents
- The concept of longevity insurance was understood and resonated, but a key barrier will be the cost of this

*Participants supported the idea of defaults and felt that pension providers had a duty to provide these*

Participants' lack of knowledge and understanding meant they needed considerable help to understand why the default funds they are invested in today may not be appropriate for them for the next 20 to 30 years.

Similarly, participants had little understanding of how their funds are currently invested, were generally unfamiliar with the concept of life-styling investments in default funds, and typically had no idea that these lifestyle funds were often being built on the assumption of annuity purchase at a particular date. They agreed that this should no longer be the assumed path for them.

Consequently, participants were very supportive of the idea of default funds that could support them into retirement, and felt that in some cases pension providers even had a "duty" to provide these. At the same time, they were not keen for automatic or irreversible decisions to be made for them as they wished to retain flexibility to deal with unexpected life events.

*Recognition of different circumstances in retirement led to a consensus that individuals should be offered some alternatives to defaults*

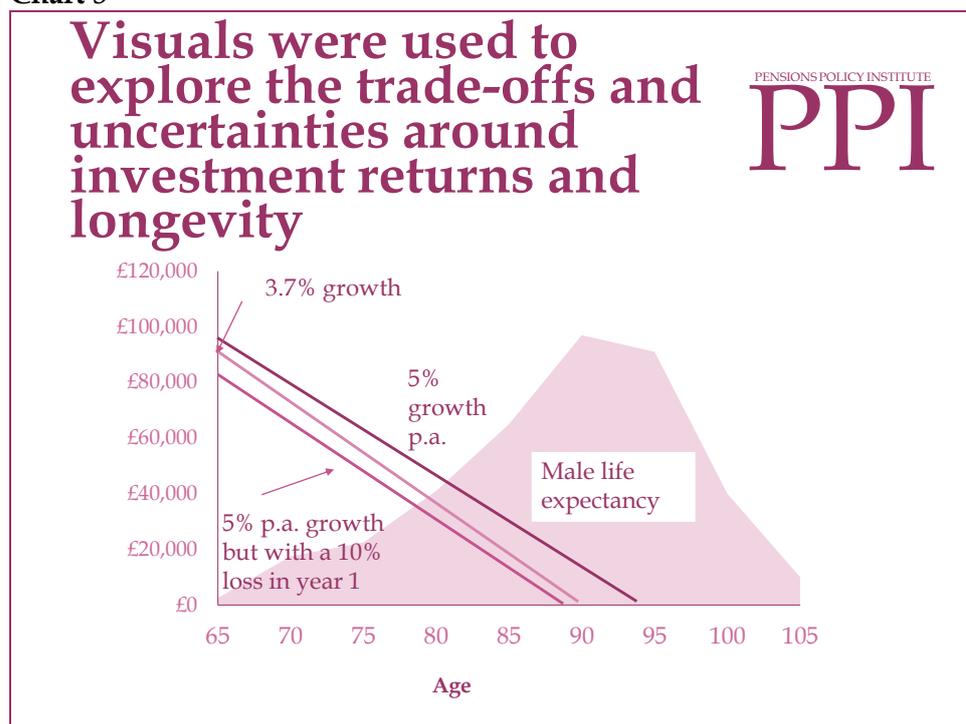
Recognition of the fact that individuals may have different circumstances during retirement meant that there was a consensus among those interviewed that individuals should ideally be offered some alternatives to the defaults, with the optimal number of choices being around three, and no more than six. This also reflected the fact that most participants felt that they would not be able to cope with too many choices, and recognised that too much choice could put them off making a decision altogether.

*Visuals can be used to explore the trade-offs and uncertainties around investment returns and longevity*

In the first instance, participants had little notion of the impact that rates of return might have on how long their money could last for. However, when the moderator referred to the stimulus (shown below in Chart 5) to discuss the impact that different (average) rates of return could have on how long their money could last for, with particular emphasis on the need for equity exposure to keep up with inflation, participants felt that was very useful graphic and were consequently able to understand the concepts well.

In particular, the shaded light pink area which shows the distribution of male life expectancy, helped participants to understand that a significant minority of people will live beyond 90, and that, for those people, their capital is likely to run out before they die, even with 5% growth per annum. In addition, the realisation that some equity exposure would almost certainly be needed to achieve the growth rates shown in Chart 5 was an eye opener for most participants. As a result, participants started to understand the importance of investment returns and the consequences of 'safe' cash-based investments on long-term income.

Chart 5



This is consistent with the findings of previous research, conducted by NEST, which finds that a probabilistic approach can more effectively project outcomes to individuals than deterministic approaches.

A deterministic approach provides individuals with one outcome – for example, they are told that if they pay in a particular amount to a pension they might receive a particular level of annuity on retirement. In contrast, a probabilistic approach provides individuals with a range of possible outcomes and gives a sense of how likely each of these outcomes are. NEST research suggests that deterministic approaches can be misunderstood because the outcome outlined is taken as either a promise or too indicative to be meaningful for the individual.<sup>10</sup> A probabilistic approach can help individuals to understand that there is a range of possible outcomes, with some being more likely than other.<sup>11</sup>

*Participants selected level of risk, ease of access and flexibility to change the amount of income as the most important factors in determining their choices around drawing down their pension pots in retirement*

When asked to select between the key factors or criteria they think retirement income strategies should be based on, most participants suggested risk, in terms of the level of risk that they would be willing to take with their retirement savings. When a number of factors were tested to see which of

<sup>10</sup> NEST (2014)

<sup>11</sup> NEST (2014)

these resonated risk, income profile and ease of access were assessed as being very important (Table 1).

When these choices were probed further to find out which factors the participants rated as most important, level of risk, ease of access and flexibility were selected as the most important factors in determining their choices around drawing down their pension pots.

**Table 1**

Factor	How important is it to them?	Comment
Level of risk	High	This concept was already familiar to them
Income profile	High	It was relatively easy for them to pick an option around their income profile
Ease of access	High	This was highly valued by all
Money for dependants	Medium	This was judged to be less important as they intended their pension savings to meet their needs while they may intend to leave their house for their children
Death benefits	Medium	Couples with DC savings only wanted this
Flexibility to change income	Medium	This was valued to mitigate any uncertainty
Inflation proofing	Medium	This was valued – but participants had not considered the cost of this or the inflation protection already provided by the Basic State Pension or Defined Benefit pensions
Ability to cope with varying income	Medium	Some had a sufficient buffer to secure income in the Basic State Pension or Defined Benefit pensions

*After an initial reluctance to invest in equity-based products, most individuals would be willing to trade off more risk for the possibility of higher returns*

Participants initially identified a reluctance to invest in equity-based products as they did not want to risk their capital. At the same time, they were keen to maximise their returns. In practice, individuals may not secure the retirement income that they would like in real terms (inflation-protected) if they do not take some risk with at least part of their pension pot. During the interview process, participants became acutely aware of this and that their two requirements were contradictory, as they were unlikely to secure the

retirement income that they would like in real terms without taking some risk with at least part of their pension pot.

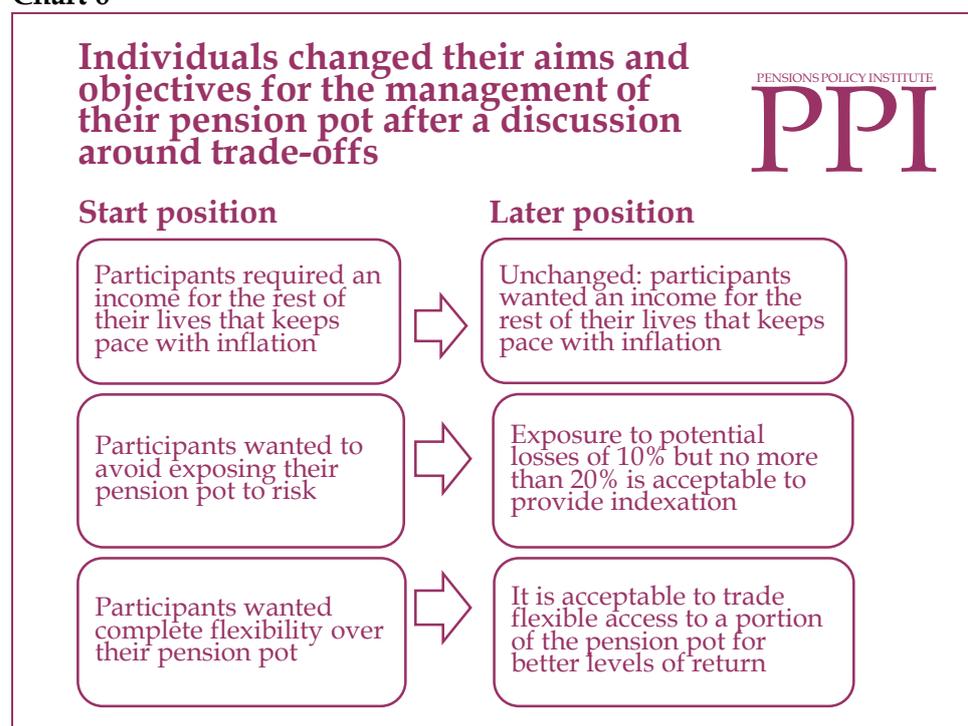
On reflection, most individuals said they would be willing to trade off more risk for the possibility of higher returns. When probed further, most felt that they had capacity for around a potential 10% loss in their capital if they have a poor financial market experience. However, once this loss reaches towards 20% this is no longer likely to be acceptable. Those who are most likely to have an appetite to take some risk are:

- Those with more than £50,000 in their DC pot; and
- Those with Defined Benefit income sources (themselves or their partner) or the Additional State Pension that delivers a secure underpin

*Many participants would trade some flexibility for higher returns*

Similarly, while most participants had initially described themselves as wanting complete flexibility around their pension pots, when some of the trade-offs with potential returns were presented to them, many would be willing to lock in some of their pension pot for a limited time at least, typically no more than 5 years. Their starting and later positions are shown in Chart 6.

**Chart 6**



This reinforces the importance of these factors, and suggests that default fund strategies could be built primarily around risk profiles, targeting some degree of inflation proofing and flexibility.

Further testing found participants would typically choose a low or medium risk option. When further testing was conducted to assess what level of risk participants would be willing to take based on a small range of options, they typically chose a low or medium risk option (Chart 7). Some even developed an interest in blending their own options from the 4 options presented (possibly misunderstanding that the options would already include a mix of underlying assets to meet their risk/return objectives). None of the participants selected Option 4 alone; for this reason, this response is not included in Chart 7.

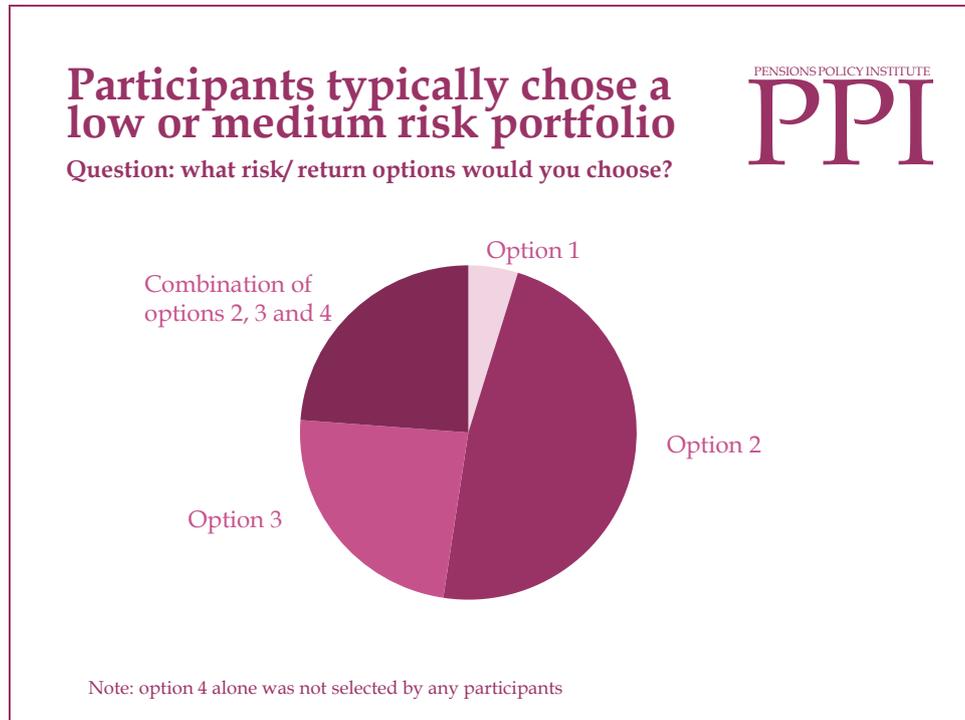
**Option 1:** Holding all in cash: expected return might be 1-2%, the initial value of the pot will not fall but as this will not keep up with inflation the real value of the pot, and the amount of income that can be taken out of it, will decline over time.

**Option 2:** Low risk portfolio (mainly bonds, some shares): expected return might be about 4%, will just ahead keep ahead of inflation but in a bad year could lose 10% of its value

**Option 3:** Medium risk portfolio (say 60% shares, 40% less risky assets): expected return might be 5-6%, will beat inflation, in a bad year could be down 15-20%

**Option 4:** High risk portfolio (say 80% in shares): expected return might be 6-7%, will beat inflation, in a bad year could be down 25-30%

Chart 7



The fact that Option 1, the cash option, was not popular reflects the fact that participants wanted to maintain the real value of their pension funds – as Option 1 would not keep up with inflation, its value would be likely to fall during retirement in real terms. The most popular option beyond this is a low risk portfolio for which the expected return is 4%, just above inflation, recognising that the fund could lose 10% of its value in a bad year. This is consistent with participants' earlier acceptance that they would risk losing 10% of the value of their fund to provide some level of return, and to cover the impact of inflation.

*Death benefits are seen as a 'nice to have', with individuals more willing to take an increased risk for their spouse rather than their dependents*

Participants were asked to consider whether they would be willing to take a reduced income or more risk in return for offering death benefits. There were mixed views on whether participants would like an income to continue to be paid to their spouse after their death. Unsurprisingly, this depended on whether they had a spouse, and whether there was already provision in place for the spouse (e.g. from their own pension or a DB pension), with some participants simply wanting to maximise the income from their DC pot in the early years of retirement.

As an exercise, participants in the groups were asked to say where their tipping point would be for the 'cost' of a 50% spouses benefit. From a starting income of £6,000 p.a. with no protection, very few would accept a drop in income to less than £5,000 per annum. This is reflected in the relatively low popularity of joint-life annuities in the current market, which typically offer much lower starting levels of income compared to single-life annuities.

Participants in the groups were also asked whether they would be willing to take more *risk* with their portfolio for either death benefits *or* payments to dependents. The consensus was that they were more willing to take an increased risk for their spouse rather than dependents (as there are other provisions in place for the children, including the expected inheritance of a house), but were unwilling to take more risk than Option 3 in order to achieve this.

*The concept of longevity insurance was understood and resonated, but a key barrier will be the cost of this*

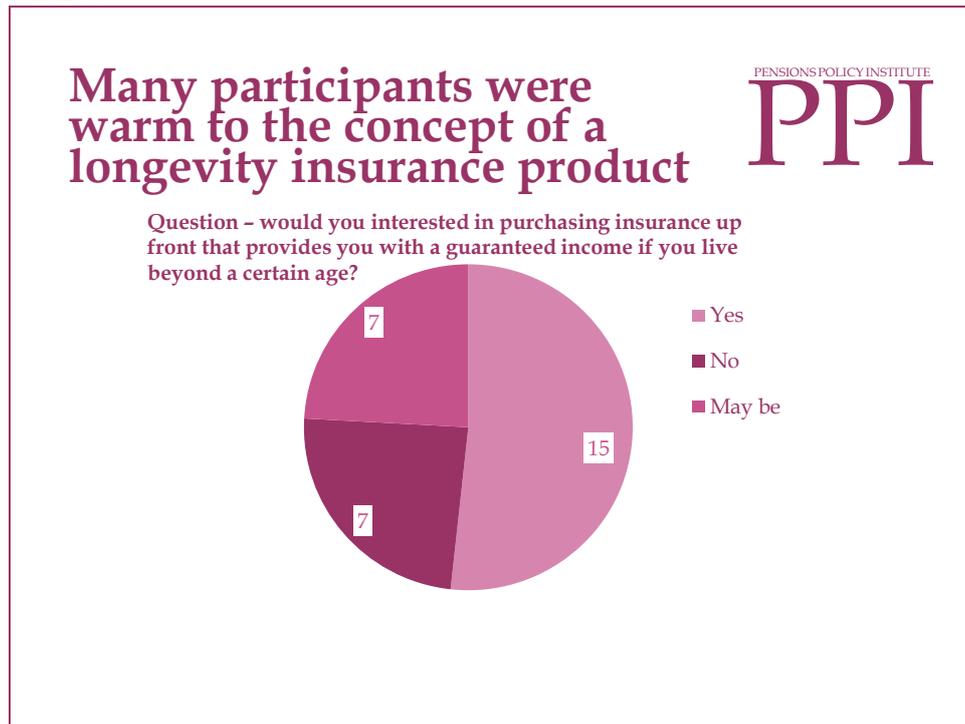
When participants were asked whether there should be an option to secure their funds at any point, they could see the merits of securing an income at some point in the future when they were no longer willing or able to make decisions on the pot any more. However, they were very unwilling to pre-commit to purchasing an annuity to do this.

In addition, they would want to retain as much flexibility as possible so were not warm to the idea of automatic conversion or rollover to a guaranteed income in later life, especially if this meant locking into an annuity. They would prefer to leave their options open for as long as possible, and are

unlikely to want to commit to the option of securing an income until they are in their 70's or beyond.

However, many participants were warm to the concept of a gradual payment for a longevity insurance product, with participants being able see how this could help them to build up a 'safety net' against the risk that they live too long or take out too much income. The biggest barrier mentioned would be the cost, with the majority feeling that ongoing premiums of between £500 and £1,000 per annum, starting at age 65, were not seen as an unreasonable amount to secure a lifetime income, e.g. £5,000 per annum, from age 85 onwards. These premiums were generated by discussions that took place in the focus groups rather than being based on calculations around realistic premiums for this type of longevity insurance. The distribution of responses to this question is in Chart 8. However, after considering these costs, some still then felt that it would be too much of a 'gamble' and they would prefer to take their chance on running out of money.

Chart 8



**Communications**

There was limited exploration of views around communication during this research, due to time constraints. However, the research re-iterated findings already highlighted, for the most part, elsewhere.

- Participants had no clear preference for channel – paper, email and phone are all acceptable. However, they thought annual statements should be on paper.

- They felt content would need to be jargon free and use language that resonates with the lay person.
- There were mixed views on visuals, but case studies and examples were felt to be useful.
- They liked the idea of a helpline which would allow people to ask questions to a 'real person', preferably based in the UK.
- They identified that the communication strategy may need to change as they get older to focus more on paper rather than electronic communications.
- They noted that font size will need to be large to start and increase as they get older.
- They felt that sentences need to be short and simple. Bullet points may be useful style devices to get the message across succinctly.
- Communications should be kept short, especially as people get older.
- Summaries would be useful.

## Chapter three: Contradictions and challenges

Participants' reactions to particular questions indicated some contradictions in the positions that they would choose to take with regards their DC savings. The exploration of these highlights some of the future challenges for the development of pensions policy, the use of defaults and communications around pensions and retirement decisions.

Overall, individuals had not considered that they might be drawing down money for just as long as they were paying into their pension. While this may, in part, be a result of the fact that some participants have not yet thought in detail about structuring their retirement income, these findings illustrate areas that may need to be addressed as the Budget freedoms are introduced.

### **Contradictions and challenges**

- Participants typically expressed their intention to withdraw tax-free cash and then access their pension pot gradually, and were keen for this to keep pace with inflation. However, they had not considered the impact of withdrawals on their income over the course of their retirement, and were also initially very risk-averse
- Individuals face risks around lack of understanding of trade-offs
- This particular group of individuals receive some protection from the State Second Pension
- Participants want security of income but reject the idea of an annuity
- People feel uneasy about making decisions around equity based investments but find it difficult to trust anyone with their capital
- Individuals wish to bequeath their home to their dependants but have not factored in the potential cost of care
- There is a lack of interest in pensions and lack of certainty around retirement plans
- The design of defaults should take into account wider household circumstances
- Changes in cognitive ability and decision-making capability during retirement will determine whether particular approaches are appropriate
- There is a lack of understanding around the tax system

**Participants typically expressed their intention to withdraw tax-free cash and then access their pension pot gradually, and were keen for this to keep pace with inflation. However, they had not considered the impact of withdrawals on their income over the course of their retirement, and were also initially very risk-averse**

Participants welcomed the flexibility to vary their income provided by the proposals to lift the restrictions on how individuals can access their DC pensions. The most popular pattern for withdrawal described was for individuals to access their pension pot gradually with many indicating that they would take a lump sum at the beginning and would then withdraw their pension pot gradually, taking more in the early years when they expected to be most active. However, participants only expressed this intention following the completion of an exercise that required them to consider their costs in the early years of retirement (up to the age of 75) and the later years (from the age of 75 onwards). Individuals outside this research may not conduct the same calculations and may therefore reach a different conclusion. Participants typically did not consider the impact of withdrawing a lump sum at the start of their retirement on their income over time.

Where drawdown strategies for retirement income have already been introduced or proposed, these have typically invested part of the pension pot in more risky assets in order to enable income payments to keep pace with inflation. However, participants in this research were not initially willing to risk their capital by investing in equities and similar assets, and prioritised security over growth. This risk aversion was driven by the following underlying views:

- Awareness that, as they approach retirement, there is not enough time for their pension pot to recover
- Awareness that their ability to top up their pension pot is coming to an end
- Previous negative experience of investments

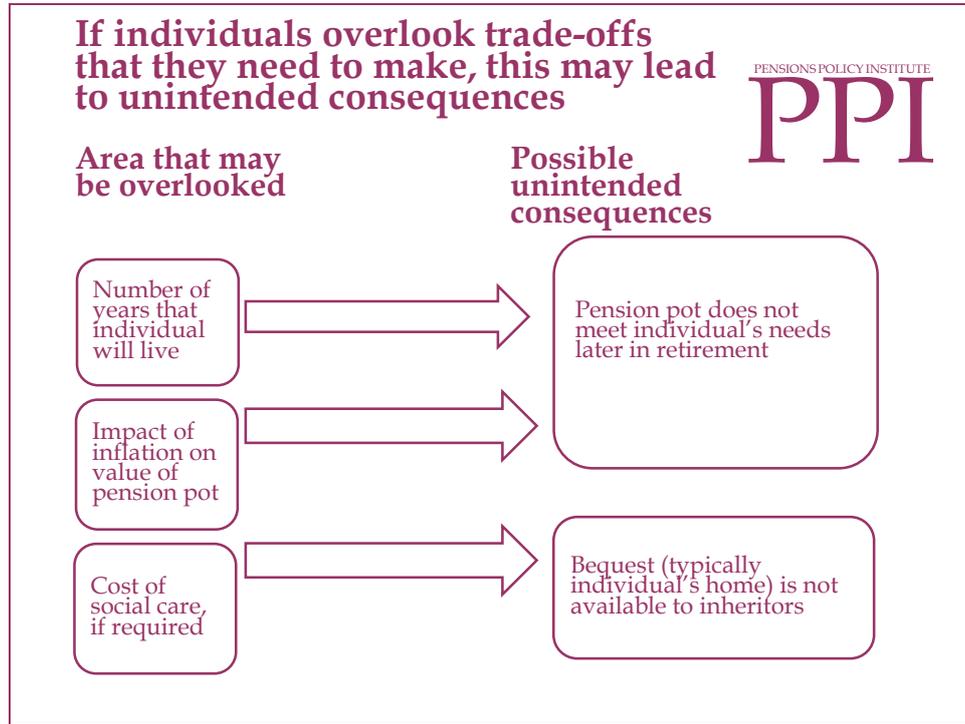
#### **Individuals face risks around lack of understanding of trade-offs**

There is a concern, confirmed by this research, that individuals will not understand that they can't 'have it all' and that they need to prioritise different goals for their pension pots and to make trade-offs in order to meet their highest priorities.

Chart 9 highlights some of the issues that individuals may overlook, and some of the possible unintended consequences of this. This list is not exhaustive, but illustrates how far-reaching some of the consequences might be, if individuals are not aware of some of the trade-offs that they need to make.

In terms of trade-offs, individuals may choose to invest some of their pension pot in riskier assets in order to increase the likelihood that it keeps pace with inflation. Similarly, they may choose to take smaller sums in the earlier years or to purchase longevity insurance in order to ensure that they have adequate resources later in retirement.

Chart 9



Despite these issues, there are some mitigating factors that provide a safety net for this cohort of pensioners

**This particular group of individuals receive some protection from the State Second Pension**

The group that took part in this research understood the need for their pension pots to last the duration of their lives, with none of them planning to withdraw and spend their entire pension pot. In addition, this group were pleasantly surprised by the amount of state pension that they would receive, based on hearing about the new state pension to be introduced in April 2016, or based on reading their own state pension forecasts. This is likely to include individuals who have accrued high levels of State Second Pension in the form of SERPS or S2P. This may not be the case for younger DC savers who will be entitled to the new state pension and are less likely to have already accrued amounts above this.

*“£15k coming in from the state isn't bad. That is very useful and is a surprise. I think the security is an added bonus.”*  
Male, aged 56-60

*“ I need £10k to cover all my essential outgoings, so that would even leave a bit on the side!”*  
Male, aged 66-70

### **Participants want security of income but reject the idea of an annuity**

While participants typically wanted security of income and for this to keep pace with inflation, they were negative about annuities, one of the products designed to deliver security of income. Their negative attitude stemmed from:

- General perceptions, gleaned from the financial pages of the press, that annuities delivered poor value for money
- The concept that the money is no longer theirs, linked to the fact that they will not be able to bequeath this money
- The belief that insurers make a profit by taking annuitant's money if they die early

Annuities represent the individuals trading control of their money and the possibility of future gains for the guarantee of a set level of income for the rest of their life. However, most annuities purchased to date are not index-linked, suggesting that individuals (whether or not they are aware of this) trade the risk of their income not keeping pace with inflation for a higher income in the early years of their retirement.

An annuity enables individuals to pool their longevity risk with that of other annuitants. However, participants in this research under-estimated the likelihood of living to higher ages.

These findings suggest that, if these individuals do consider annuities in the light of their expectations around their longevity (which individuals tend to underestimate), these annuities may appear to deliver poor value for money. This suggests that annuities may be rejected by a proportion of individuals, at least in the first instance, even where this may be the option most suited to their needs.

However, among the group that took part in this research, there was some interest in longevity insurance, purchased using annual premiums, as individuals could see how this would offer a safety net.

While this method of purchasing a deferred annuity was more attractive to participants than the use of a lump sum to purchase an annuity at age 65 (to be paid from age 85), this approach of annual premiums does not entail the same benefits that might accrue from the pooling of longevity risk that takes place where a group of individuals aged 65 purchase deferred annuities outright. This risk is linked to the concept of 'mortality drag' and arises because those individuals who die before the age of 85 stop making contributions towards longevity insurance from the point of their death onwards. In turn, the mean age of death of those who continue to purchase longevity insurance increases as time goes on, meaning there is less scope for the pooling of longevity risk among the remaining contributors. In turn, this suggests that an individual who lives until the age of 85 will pay more for longevity insurance if they purchase this on an annual basis until the age of 85 than if they purchased a deferred annuity at age 65.

**People feel uneasy about making decisions around equity based investments but find it difficult to trust anyone with their capital**

While individuals are happy to make decisions around cash ISAs and to take these types of products out themselves, they are much less confident about making decisions on equity-based investments. At the same time, this group reported that they find it difficult to trust anybody with their capital. This mistrust was linked to issues with the banking sector, widely reported in the media in recent years, alongside a general mistrust of pensions. When this mistrust was expressed, reference was made to specific issues such as those linked to the Mirror Group pension scheme and the scrapping of the dividend tax credit for pensions.

**Individuals wish to bequeath their home to their dependants but have not factored in the potential cost of care**

Participants often stated that they wished to leave a legacy for their dependants, typically their own home. However, they had not factored in the fact that they might need to pay for social care. The cost of social care can be very high, and is impossible to predict in advance; estimates are that while a quarter of older people will spend very little on care, 1 in 4 will face costs over £50,000 and 1 in 10 will face care costs over £100,000.<sup>12</sup>

Any defaults and communications should also be designed with an awareness of the following challenges:

**There is a lack of interest in pensions and lack of certainty around retirement plans**

Participants' responses in this research suggest a lack of interest in their pension arrangements, despite the fact that they recognise that pensions are important. In particular, awareness of default funds and how these work was very low.

However, participants also reported greater engagement during the few years approaching their retirement. This suggests that effective defaults will be required during accumulation until the few years before retirement. However, as there is greater heterogeneity around retirement ages, different individuals will become engaged in this decision at different ages. In addition, for those individuals who never engage with decisions around retirement, some type of effective default may still be required.

In addition, in this research, even those individuals planning to retire within the next 2 years had an open mind around whether this might happen in practice, and had not done much to look into the options available to them. Similarly, for those planning to retire within the next few years, planning for a flexible retirement was the norm.

<sup>12</sup><http://www.ageuk.org.uk/documents/engb/press%20releases/implementing%20the%20dilnot%20social%20care%20cap.pdf?dtrk=true>

Even where individuals do engage to a greater extent as they approach retirement, they may not know exactly how their retirement will play out in practice. This suggests that any default solutions provided to individuals at this point will need to be sufficiently flexible.

**The design of defaults should take into account wider household circumstances**

These research interviews found that pension pot size is not necessarily a good reflection of financial resources or resilience in retirement. Partners may have larger pots or be a member of Defined Benefit pension schemes; this research, in particular, found a high incidence of men with wives who have NHS or other public service pension entitlement.

This highlights challenges around the design of defaults based on an individual's circumstances, particularly those based on the premise that a particular DC pension pot is an individual's only source of retirement income. Some individuals also recognised that they would use different DC pots for different purposes (e.g. using smaller pots as a back-up or rainy day option if other investments perform badly), in line with a 'mental accounting' approach.

**Changes in cognitive ability and decision making capability during retirement will determine whether particular approaches are appropriate**

If individuals choose to access their pension pots gradually throughout their retirement, it is likely that they will have to make decisions around their pensions throughout their retirement. In addition, individuals' circumstances are likely to change over the course of their retirement, for example, their spouse might die or they might acquire a disability or health issue. In turn, this is likely to have an impact on their financial position and to require them to make decisions later in retirement when their capacity to make decisions may have declined.

Interviews suggested that participants had not thought about their capacity to make decisions in later life – they typically expected their children to take over decision-making if they were no longer capable. However, in order to do so, they would need some type of authorisation. This type of issue may be covered by a Power of Attorney for finance and property where an individual nominates someone to take care of their affairs – however, an individual can only nominate someone while they have mental capacity to do so. If they are not judged to have capacity to do so, the individual's carer is obliged to apply to the courts to become a 'deputy', a process that can be prolonged and expensive. In order to avoid this situation, individuals can make a Lasting Power of Attorney, which nominates someone to make decisions on their behalf if they lose capacity.

In fact, some participants suggested that pension providers should ask them to nominate someone who could manage their pension fund, if they no longer had capacity, a more specific version of the Lasting Power of Attorney concept.

In addition, an individual might have retained their mental capacity, in general terms, while no longer feeling capable or having the confidence to make complex decisions around their pension pot, which might need to take into account likely remaining longevity, likely investment returns and interaction with tax and means-tested benefits, among other factors. Overall, particular mental capabilities, including reasoning skills, decline as individuals get older<sup>13</sup> – therefore, this may affect individuals’ capacity to deal with more complex issues such as finances and pensions.

**There is a lack of understanding around the tax system**

As mentioned above the idea of investment property was popular with participants; however, where an individual withdraws their pension pot this is treated as income and taxed in accordance with the income tax thresholds after the tax-free lump sum. Therefore, if an individual withdraws a large amount in order to purchase a property, this may push them into a higher rate tax where spreading withdrawals over a number of years would avoid this scenario. However, participants were often not aware of this – it is important that individuals become aware of the implications before making choices that could have an adverse impact on their retirement income arrangements.

<sup>13</sup> <http://www.ccace.ed.ac.uk/about-us/what-we-do/what-is-cognitive-ageing>

## Chapter four: Conclusions

The key conclusions of this interim stage of the research for the pensions industry, including retirement income providers, asset managers, trustees and employers are:

### **Disengagement and inertia amongst consumers from April 2015 is a key risk without effective processes in place**

- The Budget freedoms are generally viewed as popular with DC savers, largely because of the negative associations in the financial press around annuities and the notion of handing over your money, however when savers begin to understand the scale of choices and trade-offs involved in accessing their DC pension pots at retirement they quickly become daunted. This suggests that disengagement and inertia amongst consumers from April 2015 is a key risk without effective processes in place, either through guidance and advice or the provision of appropriate defaults.

### **Specific risks arise from lack of understanding around available investments, spending needs during retirement and the probability of living to older ages**

- There are some specific risks identified within the research which policy makers, regulators and the pensions industry should work together to address, specifically around:
  - Perceptions that there are “safer” or “better” investments they can use outside of pensions, which when probed are based on misguided beliefs or have not been properly thought through;
  - Poor understanding of both spending needs throughout retirement and likely life expectancy and, in particular, the probability of living beyond older ages, which means DC savers are likely to underestimate the importance of them having some form of longevity insurance;
  - Reluctance or inability to plan beyond the next few years, which means locking into a specific course of action either before or at retirement is generally unpopular;
  - Lack of engagement (even very close to, or into, retirement) and a willingness to accept a provider default or invest where one is offered – leading to the potential for consumer detriment if the defaults offered are not suitable and designed in the best interest of savers.

### **However, default investment or drawdown options resonate with DC savers and the commonalities around appetite for investment risk and growth mean that the development of effective defaults is viable**

- Having a default investment or drawdown option that could be utilised at some point at or during retirement resonates with DC savers – though they recognise the importance of wider individual and household circumstances and the need for there to be some element of choice for those who want it. There is a degree of commonality, once thought through, around the appetite for investment risk and growth in their pension savings post

retirement and their willingness to sacrifice capital protection and ease of access.

- Given the existing lack of understanding around the underlying investments in default funds, and what the funds are seeking to achieve, it will be important that any defaults and alternatives offered are clearly branded and communicated in terms of their objectives and risk-level.
- DC savers are generally reluctant to make up-front commitments about when they might be willing to lock their money in to a particular strategy. They are also reluctant to hand over significant sums of capital in the early years of retirement to another party. While this reluctance may act as a barrier to the take-up of some forms of annuities, concepts like longevity insurance and the payment of ongoing premiums resonated with the majority of those interviewed, and they were willing to make some sacrifices in income in early years to ensure they had a secure backstop should they live to longer ages.

The second stage of this research will build on these findings to explore the potential communication challenges around comparing different options for DC savers at retirement, with a particular view to exploring the tools, visuals and rules of thumb that might help to benchmark different options. This will be particularly relevant in the post-April 2015 retirement landscape where taking a fixed and guaranteed income stream (through an annuity) may not be the norm but where those unwilling or unable to take financial advice may still need to feel comfortable with their choices or any default solutions being offered to them at retirement.

## Annex 1: The role of defaults and choices in the current pension and retirement system

Within the pensions and retirement landscape in the UK, different elements of the system rely on the existence of defaults or the exercising of choice. The decisions around saving for retirement are notoriously complex; recent research conducted by the PPI found that decisions about accessing DC pensions, in particular, are considered the most challenging of pension and retirement decisions and other major financial decisions from across the life course.<sup>14</sup>

This means that the effective deployment of choice relies on individuals having meaningful options, the necessary information, financial literacy and numeracy skills in order to interpret this information in the light of their own circumstances:

On the other hand, the effective use of defaults relies on the ability of decision makers to generalise that, in a sufficient number of cases where this default is used, the default course of action will be beneficial, or at least not detrimental, to the individual. Defaults can either be the deliberate result of a pre-designed policy or process or can simply develop as a result of the interaction of different factors and be the “path of least resistance”.

Prior to the announcement made by the Chancellor of the Exchequer in the Budget 2014, and the subsequent legislation that has been introduced<sup>15</sup>, there were restrictions to the amounts that individuals could withdraw from their DC pension pots from age 55 onwards, with most individuals taking the 25% tax-free lump sum and using the remainder of their fund to purchase an annuity. The following defaults already existed, and some continue to exist, within the pension and retirement system:

- Under workplace pensions or automatic enrolment - where to save (currently the employer chooses the pension scheme or provider and a default fund must be offered for employees if they fail to make an active investment choice) , how much to save (minimum statutory contributions), and when to save (from 22 to State Pension Age if earnings are above the threshold). In addition a 0.75% charge cap, to be introduced from April 2015 for schemes used for automatic enrolment, means that individuals will be automatically enrolled into schemes with relatively low charges;
- In many cases, de-risking pension fund investments towards the end of an individual’s working life to reduce the chances of the funds value falling just before retirement and to target annuity purchase through matching assets.

<sup>14</sup> PPI (2014)

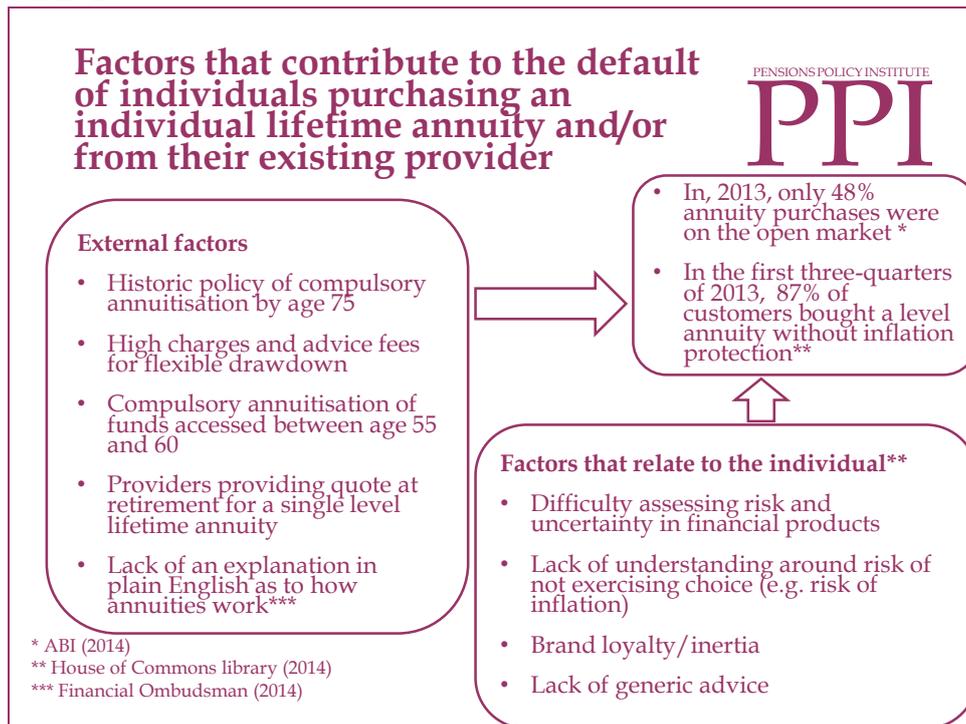
<sup>15</sup> Taxation of Pensions Act 2014

- When to retire – there is the State Pension Age (which is increasing) and often assumed scheme pension ages which can be viewed as a default where communications focus on this as the expected retirement age.
- Taking a 25% tax-free lump sum and purchasing an annuity (until March 2014).

While defaults have typically been seen as a product of a more paternalistic political system and choice is commonly linked with a more libertarian agenda, the interaction of the two is not straightforward.

In practice, these do not always work in the individual’s best interest or may actively work against their best interest. An example of this in the past has been around the purchase of annuities where, while purchasing these on the open market is frequently advantageous, particularly where enhanced or impaired annuities might be available, only 48% of purchases were on the open market in 2013.<sup>16,17</sup> Chart 10 shows some of the factors that have led to this position.

**Chart 10**



Under the Budget changes, there are now two fundamentally different approaches the Government is taking to savers with DC pensions.

<sup>16</sup> ABI (2014)

<sup>17</sup> In addition, a proportion of these annuities counted as being purchased on the open market, approximately one in six, were tied’ external annuities where the pension provider has nominated a third party as the ‘default’ annuity provider (FCA (2014))

With automatic enrolment a strong default has been introduced deliberately to tackle the problem of under-saving for retirement that relies heavily on the individual's disengagement and inertia to drive the best outcome for the majority of individuals eligible for the programme. This was introduced following the Pension Commission's conclusions that the complexity of the UK pension system, compounded by behavioural biases such as procrastination, myopia and inertia, along with market barriers, prevents people from making informed decisions and often leads to them not saving for retirement at all. Automatic enrolment was designed to harness the power of these tendencies with the objective of increasing pension saving and is so far proving highly effective at increasing rates of participation in workplace pensions.<sup>18</sup>

In contrast, the removal in the Budget of any limits to the amount of DC pension that can be drawn down from age 55 will lead to greater flexibility and options, something that may require individuals to engage and make active choices to secure good outcomes.

It is possible to foresee a situation where the defaults of automatic enrolment and the introduction of far more choice at retirement could be complementary. If, for example, individuals start building up larger pension pots as a result of automatic enrolment, and reaching retirement with a significant DC pension pot becomes the norm, more individuals may become interested and engaged in exercising their options.

However, the existing body of research and evidence suggests there are still significant challenges around engagement at retirement, and high levels of uncertainty amongst those approaching retirement or already retired about their future plans. There is therefore a significant risk that without personalised guidance and advice, or effective defaults in place, individuals may see poor outcomes in retirement, either due to making poor or misinformed active choices, or by accepting de facto defaults that may not be suitable for them.

### **Impact of defaults**

Defaults can strongly influence behaviour in the current pension and retirement system and the reasons for their impact can provide some insight into how defaults might be used to support DC members with their retirement options in the future. For example, existing research suggests that:

- Some DC scheme members view default options around annuitisation as implicit advice<sup>19</sup>
- Some DC scheme members are overwhelmed by the number and complexity of choices around drawing down income, leading them to accept the default<sup>20</sup>

<sup>18</sup> Johnson, P. Yeandle, D. Boulding, A. (2010)

<sup>19</sup> Madrian and Shea (2001)

<sup>20</sup> Collard, S. (2009)

- Social norms can drive retirement behaviour; in the recent past there has been a peak in annuity purchases at the ages of 60 and 65, the normal retirement ages for many workplace pension schemes, suggesting that this can have an impact on when individuals choose to access their pension pots.<sup>21</sup>
- Financial incentives/disincentives can also play an important role – for instance, there are lower incentives for DB scheme members to remain working after they have reached their pension scheme’s normal pension age or they have built up maximum accrual in their scheme<sup>22</sup>

Some examples of how existing defaults are having an impact on pensions and retirement behaviour in practice are summarised below.

#### *Automatic enrolment*

There have been unexpectedly low levels of opt out from automatic enrolment to date. Research published by the DWP in April 2014 found that, of those employees who had been enrolled only 9 to 10% had subsequently opted out or left the scheme.<sup>23</sup> As a result, the Government has recently revised down its central projections of opt out rates (to 15%) and revised upwards its expected number of new savers (by 1 million) following early evidence on the implementation of the reforms by the largest employers. These low levels of opt out observed so far may be because individuals recognise pension saving to be positive, because the initial contribution levels are so low that they do not have a significant impact on take-home pay, or simply as a result of inertia.

#### *Asset mix during accumulation phase*

Under automatic enrolment it is a requirement that qualifying workplace pension schemes offer a default fund so that individuals do not have to make active investment choices. Many DC pension schemes already offered default funds prior to automatic enrolment and these funds have typically moved individuals into less risky assets as individuals approach retirement age. These have typically targeted annuity purchase at the individuals assumed retirement age. Existing data indicates that approximately<sup>24</sup> three quarters of DC savers have remained in the default fund during the accumulation phase, and higher levels are expected in automatic enrolment schemes (for example, over 99.9% of savers have remained in the default in NEST).

#### *Choice of whether to annuitise, when to annuitise, and what annuity*

Decisions around the purchasing of an annuity at retirement are recognised as complex and in the past those approaching retirement have been sent wake-up packs. Traditionally these offered quotes for a ‘default’ annuity of a single-life, level annuity at a given retirement age. This is now more likely to be provided

<sup>21</sup> ABI (2014)

<sup>22</sup> IFS (2012)

<sup>23</sup> DWP (2014)

<sup>24</sup> NAPF (2013)

alongside quotes for other annuities, such as index-linked or joint annuities.<sup>25</sup> However, a single-life level annuity generally offers the highest income in the early years of retirement and is likely to be more attractive than the other options illustrated. This is reflected in the fact that, in the first three-quarters of 2013, for example, 87% of annuity customers purchased a level annuity without any inflation protection.<sup>26</sup>

Similarly, the proportion of joint life annuities in the last quarter of 2013 had increased on previous years; however, this was still only 33% of all annuities purchased.<sup>27</sup> Another example of a default is around the purchase of annuities from an existing provider rather than on the open market. This is despite the fact that a review of annuities estimated that, for a standard annuity, consumers with an average fund size could receive 6.7% more income per year if they purchased their annuity on the open market rather than from their provider.<sup>28</sup>

These examples provide the following insights around how defaults might work (either positively or as de facto defaults) under the new flexibilities:

- The existing evidence strongly suggests that individuals are already unwilling to shop around for an annuity. The Budget changes are generally expected to make this process more complex; by increasing the number of options available thus making it more difficult for individuals (particularly those with modest DC pots that they do not simply want to take as cash but who may be reluctant to pay for financial advice) to make active choices. In turn, this may deter individuals further from shopping around for a retirement income product;
- It is likely that individuals will continue to consider the use of any default products or strategies offered to be implicit advice, again suggesting that they are still at risk of being defaulted into unsuitable options, especially if they are disengaged or overwhelmed by the choices and decisions they face;
- The introduction of automatic enrolment means that there will be a cohort of new DC savers who have often not made an active decision to save or made any active investment choices. Recent research<sup>29</sup> also suggests that they are likely to have lower levels of financial engagement and experience with other financial products than existing pension savers (including those interviewed in the fieldwork for this research) and are unlikely to have previously used financial advisers – this is likely to make decision making at retirement more of a challenge for them than current cohorts of retirees;

At the same time, growing complexity and greater variation in individuals' circumstances around retirement (for example, more flexible retirements, and

<sup>25</sup> FCA (2014)

<sup>26</sup> House of Commons library (2014)

<sup>27</sup> ABI (2014)

<sup>28</sup> FCA (2014)

<sup>29</sup> PPI (2014)

multiple DB and DC pension pots for those currently close to retirement) could make it more difficult to ensure that any defaults introduced are suited to their range of individual and household circumstances. There is a careful balance required between having defaults in place that are beneficial for the majority of people likely to use them, and ensuring that individuals' have sufficient information in order to make active choices, should they wish to do so, without overloading them.

The Government is introducing the Guidance Guarantee, under which individuals will be eligible to receive free and impartial guidance to enable them to navigate their pension choices. However, this will not be equipped to deal with the full range of uncertainties and complexities around individuals' circumstances, or able to provide individuals with advice on specific products and strategies.

Independent and trusted guidance and advice services, that can go beyond the Guidance Guarantee and provide more personalised support, may become more readily available to those with modest DC pension pots. While organisations such as the Money Advice Services might provide guidance and resources to enable people to make decisions, they are likely to need to use an Independent Financial Advisor to obtain regulated advice that is tailored to their circumstances. However there may still be groups unwilling to engage or to pay upfront fees for financial advice, and for these groups appropriate default retirement solutions can play an important role.

The default retirement solutions offered in this context are likely to involve DC savers remaining partly or fully invested in a default retirement fund offered by their existing (or nominated) scheme or provider that they could also start to draw an income from, and could also include conversion into a lump sum, an annuity, or another form of insurance with part of their pension pot or at older ages.

## Annex 2: Sample, inclusion and research approach

The following types of individuals were included in the research, on the basis that DC savings should constitute a significant portion of their retirement provision:

- They had at least one workplace or group DC pension pot;
- They were members of a group scheme but not necessarily currently contributing.

The following types of individuals were excluded from the research:

- Individuals with an independent financial advisor
- Individuals with more than 2 buy-to-let properties
- Individuals with pots over £250,000
- Individuals with Defined Benefit entitlement which would be worth more than 60% of their expected retirement income

Individuals with an independent financial advisor were excluded from the research on the basis that they would delegate decisions around their retirement income to their financial advisor, rather than making the decisions themselves. Individuals with more than 2 buy-to-lets and/or DB benefit entitlement which would be worth more than 60% of their expected retirement income were excluded on the basis that they might expect to receive a high proportion of their retirement income from other sources, a factor which would affect their attitudes around their retirement income.

Chart 11 shows the composition of the group included in the field work:

**Chart 11**

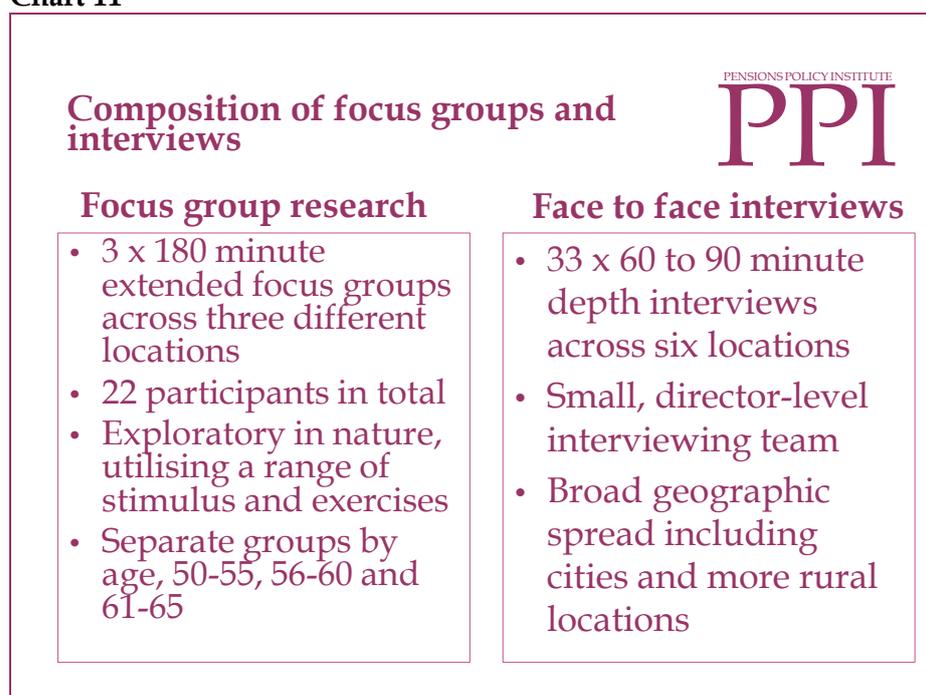


Table 2 provides a further breakdown of the sample.

**Table 2**

<b>Attribute</b>	
<b>Focus group locations and age breakdowns</b>	Manchester - age 50-55 London - age 56-60 Leeds - age 61-65
<b>Focus group pension pot size</b>	<£30,000 - 7 £30,000 - £50,000 - 5 £50,000 - £100,000 - 8 £100,000 - £250,000 - 2
<b>Focus group gender</b>	Men - 12 Women - 10
<b>Depth interview locations</b>	London, Birmingham, Glasgow, Leeds/Huddersfield, Manchester/Liverpool
<b>Depth interview ages</b>	Age 55-60 - 15 Age 61-65 - 16 Age 66-70 - 2
<b>Depth interview pension pot sizes</b>	<£30,000 - 6 £30,000 - £50,000 - 7 £50,000 - £100,000 - 14 £100,000 - £250,000 - 6
<b>Depth interview gender</b>	Men - 20 Women - 13

Depth interviews were combined with focus groups to allow for exploratory research as well as the understanding of retirement journeys and decision-making in more detail.

## Annex 3: Current financial position, pension arrangements and planning around retirement

### **Financial position**

- Most participants had paid off their mortgage, with few reporting debts or loans.
- Some participants had taken the tax-free cash to pay off their remaining mortgages.
- 1 in 6 participants had additional savings and investments to supplement their retirement income.
- 3 in 4 had a cash ISA.
- 1 in 3 had equity-based investments.
- 1 in 4 had a second or buy-to-let property.
- Most lacked the confidence and knowledge to choose equity based products, meaning that savings tend to be placed in cash based investments.
- Downsizing is the fall-back option for those who will need to top up retirement income, but few have fully considered how much this could release.

### **Pension arrangements**

- Complexity of arrangements means that this generation usually does not rely solely on DC arrangements for income.
- Most participants had more than one pension arrangement, with around a quarter having a DB pension (either the participant or their partner).
- Only 1 in 2 think that they have enough saved for retirement.
- 1 in 3 are expecting an inheritance to boost pension savings.
- For those in a couple, retirement decisions were typically made on a joint basis.

### **Planning around retirement**

- Phased retirement up until age 70 is expected to be the pattern for most participants.
- Plans are often superficial and focus only on the next year or two, with participants finding it difficult to estimate long-term income needs and, therefore, how long their pension pot is likely to last.
- Participants tended to overestimate what is needed for their essential spend. When taken through a task which required them to consider their spending pattern in detail in retirement most individuals estimated that they would need around £10,000 - £15,000 for the early years of retirement, dropping to around £10,000 for the later years.
- At the same time, participants underestimate their life expectancy, thereby underestimating how long their pension pot might be required to last.
- Finishing paying off a mortgage is often a trigger for thinking about retirement, as owning a home outright means that participants feel financially secure.

- Despite high levels of awareness of the costs of care, and the impact that this can have on housing wealth based on experiences with friends and family, participants preferred not to think about care needs for themselves and had not made any plans to protect their homes from the costs of long-term care. They are focused on the early active years of retirement and cannot or do not want to think beyond this for themselves.
- There is no single standard journey as circumstances vary enormously, but the key triggers to start the process of retirement are reaching a milestone age, paying off the mortgage and partner retiring.
- For those approaching retirement, planning for a flexible retirement was the norm. Some were already partially drawing pension income to supplement reduced wages.
- Most expected to finally stop working completely around State Pension Age or at 70, but a few said they would carry on for as long as their health permitted. 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'.
- Most were positive about their plans for retirement.

#### **Homework task**

Participants were asked to complete a homework exercise to estimate how much income they would need in retirement. They were asked to do this in two different ways:

- Replacement rate – what percentage of their household income would they need to live off in the early years of retirement (up to age 75) and the later years of retirement (75+). Based on their current household income, this percentage was then converted into an amount to allow for a comparison with the breakdown of estimated expenditure.
- How much they spent on various categories of household expenditure today, in their early years of retirement and in the later years of retirement. They were asked to give their estimates in today's money to remove the need to consider inflation.
- In terms of reactions to the homework task, participants knew in the back of their minds that the budget exercise was something that they should do, but had put it off.
- The vast majority of our participants gave significantly higher amounts they would need to live off when asked for their replacement rate compared to actually working through the numbers.
- The average sum derived from the replacement rate was £25k, but the numbers ranged from £12k- £55k.
- After looking at their spending patterns in detail most people estimated they would need around £10-£15k for the early years of retirement, dropping to around £10k for the later years. Here, there was much more consistency - the numbers ranged from £6k to £15k, with just one outlier at £25k (due to renting rather than owning outright).
- The biggest surprise was the high level of food expenditure.
- They did not factor in any long term care costs.

## Acknowledgements and Contact Details

The authors are grateful for input from many people in support of this paper, including:

John Adams	Michelle Cracknell	Reshna Khanom
Nigel Aston	Chris Curry	Darren Philp
Danielle Baker	Richard Edes	Shamil Popat
David Berenbaum	Alan Higham	Melinda Riley
Jim Boyd	Jonathan Lipkin	Daniela Silcock
Matthew Blakstad	David Mann	Ric Tizard
Christopher Brooks	Ruth Meade	Paul Todd
Alistair Byrne		

Editing decisions remain with the authors who take responsibility for any remaining errors or omissions.

The Pensions Policy Institute is an educational charity promoting the study of retirement income provision through research, analysis, discussion and publication. The PPI takes an independent view across the entire pensions system.

The PPI is funded by donations, grants and benefits-in-kind from a range of organisations, as well as being commissioned for research projects. To learn more about the PPI, see: [www.pensionspolicyinstitute.org.uk](http://www.pensionspolicyinstitute.org.uk)

© Pensions Policy Institute, 2015

Contact:

Chris Curry, Director

Telephone: 020 7848 3744

Email: [info@pensionspolicyinstitute.org.uk](mailto:info@pensionspolicyinstitute.org.uk)

Pensions Policy Institute

King's College

26 Drury Lane

3<sup>rd</sup> Floor, Room 311

London WC2B 5RL

**The PPI is grateful for the continuing support of its Platinum & Gold members:**

### Platinum

JLT

JP Morgan Asset Management

The Pensions Regulator

Prudential UK & Europe

Threadneedle Investments

Just Retirement

### Gold

AXA Investment Managers

BlackRock

Capita Employee Benefits

Department for Work and Pensions

Hymans Robertson

RPMI

AllianceBernstein

NEST

The People's Pension

A full list of supporting members is on the PPI's website.

## References

- ABI (2014) *The UK Annuity Market: Facts and Figures*
- Collard, S. (2009) *Individual investment behaviour: A brief review of research*
- DWP (2013) *Employers' Pension Provision Survey*
- FCA (2014) *Thematic Review of Annuities*
- FCA (2014) *Pension Annuities: A review of consumer behaviour*
- Financial Ombudsman (2014) *Response to thematic review of annuities*
- House of Commons library (2014) *Pensions:annuities*
- IFS (2012) *The evolution of pension wealth and contribution dynamics*
- IFS (2012) *Expectations and experiences of retirement in defined contribution pensions: a study of older people in England*
- Ignition House (2014) *Post Budget At Retirement Market: Results of Qualitative Consumer Research*
- Johnson, P. Yeandle, D. Boulding, A. (2010) *Making automatic enrolment work*
- Madrian, B. C., & Shea, D. F. (2001). *The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior*. *The Quarterly Journal of Economics*
- NEST (2014) *Improving consumer confidence in saving for retirement*
- NAPF (2013) *Default Fund Design and Governance in DC Pensions*
- NEST (2014) *The future of retirement: a consultation on investing for NEST's members in a new regulatory landscape*
- PPI (2014) *Transitions to Retirement Report – 'How complex are the decisions that pension savers need to make at retirement?'*
- The Pensions Regulator (2009) *A review of retirement for Defined Contribution members*
- SEI (2014) *Defined Contribution Survey July 2014*





Published by  
PENSIONS POLICY INSTITUTE

**PPI**

[www.pensionspolicyinstitute.org.uk](http://www.pensionspolicyinstitute.org.uk)  
ISBN 978-1-906284-31-2