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How complex are the decisions that pension savers need to make at retirement?

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A Research Report by Daniela Silcock, John Adams and Mel Duffield

Published by the Pensions Policy Institute

ISBN 978-1-906284-30-5
www.pensionspolicyinstitute.org.uk

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Introduction

With automatic enrolment now well under way and around 9 million employees expected to be newly saving or saving more in pension schemes by 2018, there has been increasing focus on the design and quality of Defined Contribution (DC) schemes. So far the focus has mainly been on the accrual stage, employer contribution levels, the design of default investment strategies, and the level and transparency of charges. However with existing DC pension schemes now maturing, and the first auto-enrolees due to retire over the next few years, attention is turning also to the retirement phase and how best to help DC members to achieve better outcomes and greater security in retirement.

The pensions landscape is undergoing many changes alongside automatic enrolment. Changes announced in Budget 2014 mean that, from April 2015, people with Defined Contribution savings will be allowed greater levels of flexibility when they come to access their pension savings after the minimum pension age (currently age 55). A number of factors have increased the costs of providing DB pension schemes and, as a consequence, over 85% of DB schemes in the private sector are now closed either to new members or to both new members and new accruals. Due to a combination of automatic enrolment and DB closures, the UK private sector workplace pensions landscape is likely to be dominated by DC schemes in the future.

PPI has undertaken research projects on income needs and the use of income and assets in retirement before; however rising longevity, the growing complexity of retirement behaviour, and regulatory changes introducing more flexible access to DC savings, have all generated new challenges and opportunities and increased the appetite for a debate on policy responses and industry solutions to enable better retirement outcomes.

Therefore the PPI is embarking on a series of three major research reports exploring developments in how people access pension savings. These reports should serve as a timely, invaluable and independent assessment of how well equipped the UK pensions landscape is to support good member outcomes in retirement.

This, the first report in the series, explores the range of potential decisions people have approaching, at the point of, and after retirement. It sets out the likely income and savings portfolios people might reach retirement with now and over the next ten to fifteen years, and sets these against the behavioural and psychological factors that affect the decisions people could make at and during retirement. The research investigates implications for the retirement income product industry, employers, trustees, providers, consultants and services which provide advice and guidance.

The research methodology includes using the PPI's dynamic model and data from Wave 5 of the English Longitudinal Study of Ageing to make estimates of future levels of savings portfolios as well as exploring the attributes of what different savings portfolios and attributes might mean for outcomes in retirement. The research also involved a workshop conducted by the PPI with experts on the behaviour and psychology of pensions and retirement decisions.[1] The workshop explored the range of options facing people in the lead up to and at retirement, then explored the knowledge and skills that people need in order to make informed decisions about these options. The research also makes use of managerial information provided by The Pensions Advisory Service on public enquiries regarding pensions issues.

Chapter one sets out the decisions that people face in the run up to, at and during retirement and looks at some of the available information on current trends in these areas.

Chapter two sets out the internal and external factors which influence the decisions that people make in retirement and examines retirement and pension transitions which are involuntary.

Chapter three sets out the skills and knowledge that people need in order to make informed decisions about pensions, retirement and other financial decisions from across the life course and ranks these decisions by difficulty and overall financial impact on people's lives.

Chapter four sets out the portfolios of pension saving and entitlement that people will be reaching State Pension Age with today and over the next ten to fifteen years. It defines different segments within this population and looks at which segments are faced with the most complex decisions at and during retirement and how these correlate with financial skills and knowledge. This chapter explores the implications of the segmentation for the provision of advice and guidance.

[1] The workshop was attended by: Christopher Brooks, Senior Policy Manager (Age UK), Alev Sen, Policy Researcher (CAB), Dr Paul Cox, (CHASM), Alan Higham, Retirement Director, (Fidelity), Janette Weir, Director (Ignition House), Anthony Tomei, Visiting Professor (King's College), Melinda Riley, Head of Policy, (TPAS), Rebecca Fearnley, Chief Adviser, (Which)

Executive Summary

Pension and retirement transitions have become more staged and gradual

Pension provision in the UK has historically been provided through a combination of a Defined Benefit (DB) model, sponsored by employers, and the state pension or state benefits. The DB and state pension models, coupled with a Default Retirement Age have all encouraged people to take their pension at the same time that they retire, as a single "taking a private and/or state pension and leaving work" event, whether this be at Normal Pension Age or at State Pension Age.

Over the past few decades, the Defined Contribution (DC) model has become more popular with employers, creating more variation in the pension and retirement landscape. DC pension savings, generally converted into an annuity, involve more choice by the consumer than DB pensions, as to the structure of the income stream and the age at which to commence.

This change, considered alongside other changes such as rises to State Pension Age, and some Normal Pension Ages (the expected age at which to take a DB pension as income), the removal of the Default Retirement Age (the age at which an employer was legally allowed to terminate employment on the basis of age), increases in longevity, and economic challenges, have all resulted in changes to the way that people approach retirement and pension transitions. What was traditionally a single event (leaving work and taking a pension) has for many people become more staged and gradual as people work longer, and often more flexibly, and as opportunities for taking pensions in stages have become more readily available.

The number of people saving in DC pension schemes is rising

The introduction of auto-enrolment in 2012 also means that many more people are being brought into pension saving, particularly into private sector DC pension schemes, as many private sector DB schemes are closing to new members. Changes announced in Budget 2014 also mean that, from April 2015, people with DC savings will be allowed greater levels of flexibility when they come to access their pension savings after the minimum pension age (currently age 55). There is already evidence that people are interested in the new flexibilities and feel that they need assistance in making decisions about their DC savings in light of the announcement. The number of calls to The Pensions Advisory Service regarding at-retirement decisions increased after the Budget announcement that further flexibilities would be introduced. In the first few weeks after the announcement, the proportion of helpline calls received by TPAS about at-retirement decisions rose from 15% of calls to 45%.

There are a range of options potentially facing people at and during retirement
All of these changes mean that now, and particularly going forward, people contemplating a work or pensions transition can in some cases face an array of options such as when, how and whether to retire; when and how to take state and private pensions; and when and how to access non-pension savings and assets. Each transition has several options within it and there are myriad ways to combine them. However many work and pension transitions are involuntary, such as those triggered by ill-health or redundancy. Not everyone has a range of assets and savings to depend on in retirement and for many there may be strong defaults dictating how they retire.

The PPI conducted a workshop with experts on the behaviour and psychology of pensions and retirement decisions.[2] The workshop explored the range of options facing people in the lead up to and at retirement, then explored the knowledge and skills that people need in order to make informed decisions about these options. The workshop also explored the knowledge and skills that people need in order to make informed decisions about other major financial decisions from across the life course.

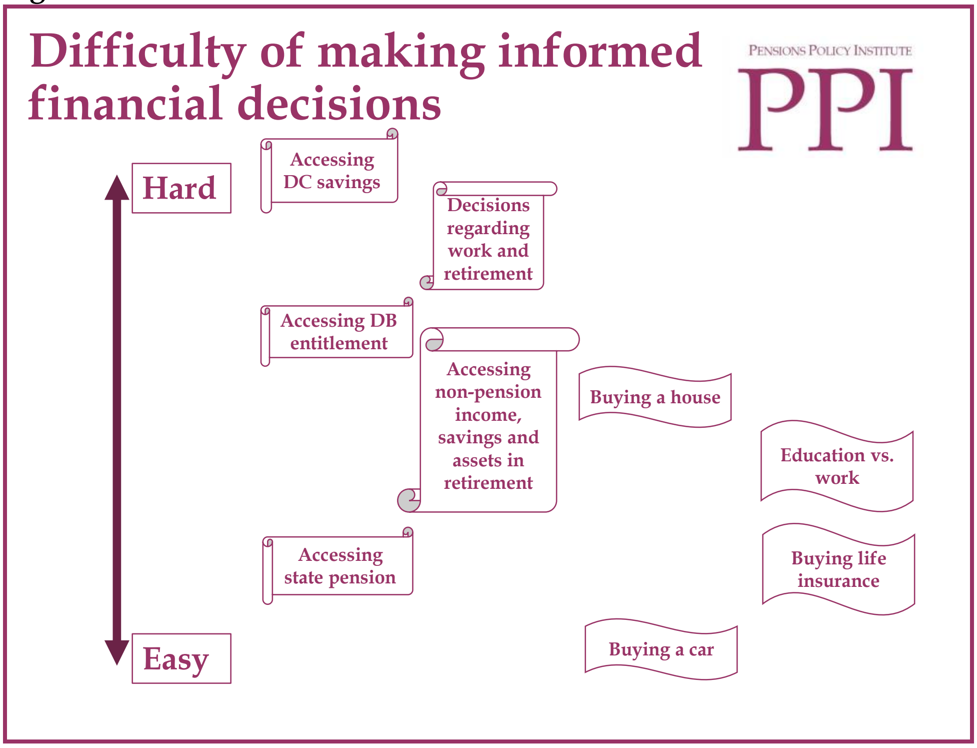
The workshop participants ranked decisions related to pensions and retirement, and other major financial decisions from across the life course by the difficulty of making an *informed financial decision* on each.

Decisions about accessing DC pensions are considered the most challenging of pension and retirement decisions and other major financial decisions from across the life course
The workshop's considered opinion was that making informed decisions about accessing DC savings was the most difficult of both pensions and retirement and other financial decisions (Figure EX1). The factors considered necessary to make informed decisions about DC savings involve knowledge about the economy and market-risks, numerical skills and knowledge about the potential impact of unknown factors. Making informed decisions regarding work and retirement were ranked as the second most difficult as these all involved a high degree of uncertainty.

Making informed decisions about accessing DB entitlement were considered the third most challenging, just above making informed decisions regarding accessing other income and assets, buying a house or choosing between further education and work. Making an informed decision about accessing state pension entitlement, purchasing life insurance or purchasing a car were ranked the easiest, as the outcomes of these decisions were relatively simple to understand and there are strong defaults attached to some of these options.

[2] The workshop was attended by: Christopher Brooks, Senior Policy Manager (Age UK), Alev Sen, Policy Researcher (CAB), Dr Paul Cox, (CHASM), Alan Higham, Retirement Director, (Fidelity), Janette Weir, Director (Ignition House), Anthony Tomei, Visiting Professor (King's College), Melinda Riley, Head of Policy, (TPAS), Rebecca Fearnley, Chief Adviser, (Which)

Figure EX1[3]



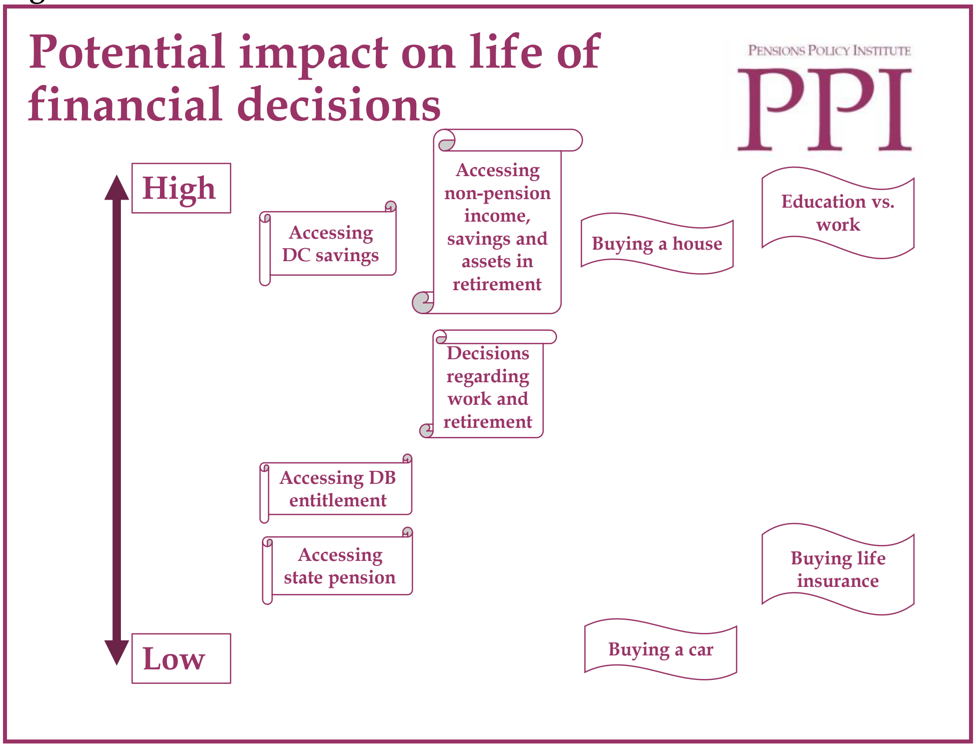
The decisions were re-ranked by the level of impact they might have on people's future financial outcomes.

The level of financial impact that decisions about accessing pension or non-pension savings and assets will have on an individual is dependent foremost on the levels of savings or entitlement that the individual has accrued of a particular type. If the level of savings or entitlement of one type is small, and the individual has substantial levels of savings or entitlement of other types, then the decision may have less of an impact. If the individual has accrued a large level of savings and entitlement of one type, such as DC savings, and has very little other types of savings or entitlements, then the impact of any decision made might be more profound. Those with small levels of savings or entitlement may also experience a relatively greater impact from decisions about access if they have very little other savings, entitlements or assets to fall back on.

The workshops considered opinion was that decisions about accessing DC savings, the most difficult to make an informed decision on, were also near the top of the ranking of financial impact level. Decisions about further education versus work, buying a house and accessing other income and assets in retirement were also ranked as having the highest potential for financial impact during the lifetime (Figure EX2). The areas that were considered most difficult to make an informed decision about and were also likely to have a high financial impact were those about accessing DC savings, and decisions about work and retirement.

[3] Rankings agreed by working group of experts including representatives from: Age UK, CAB, CHASM, Fidelity, Ignition House, King's College, TPAS, Which

Figure EX2[4]



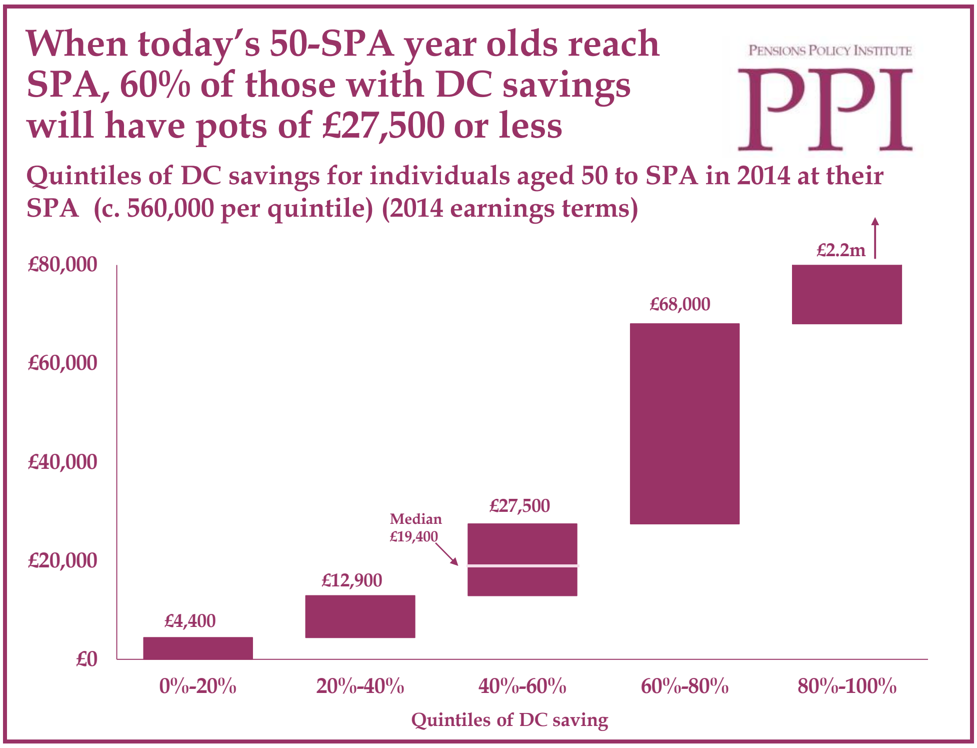
There are varying saving and asset groups within the over 50 population, and these have different characteristics attached to them

This report explores the portfolios of pension saving and entitlement that people will be reaching State Pension Age with today and over the next ten to fifteen years. It defines different segments within this group and looks at which segments are faced with the highest risks and most complex decisions at and during retirement and how these correlate with financial skill and engagement. The segment groups are separated by level (25th percentiles) of DC savings, then further divided by level of DB entitlement (those with less than the 50th percentile of DB entitlement - £5,444 per year - and those with more than the 50th percentile) to create 12 separate segments.

The DC portfolios of groups approaching retirement over the next ten to fifteen years are of special interest, as it is people with this type of savings who will be most impacted by the Budget changes introducing further flexibility of access to DC savings. Simulating ageing for all of today's 50 to SPA year olds with DC savings till they reached their own individual SPA and considering them as one population, then 60% of them are modelled as having pots of £27,500 or less (2014 earnings terms) (Chart EX1).

[4] Rankings agreed by working group of experts including representatives from: Age UK, CAB, CHASM, Fidelity, Ignition House, King's College, TPAS, Which

Chart EX1[5]

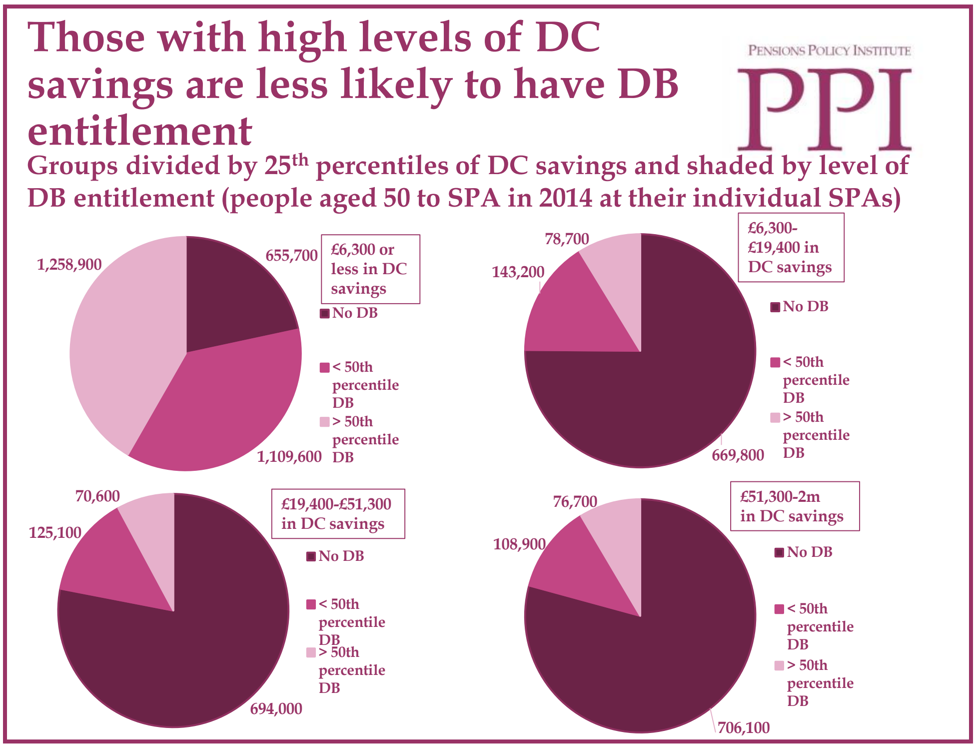


Half of people currently aged between 50 and SPA with pension savings will have £6,300 (2014 earnings terms) or less in DC savings by the time they reach their SPA – including some with no DC savings

Around 5.7 million people currently (2014) aged between 50 and SPA will have some private pension savings or entitlement at their SPA. Around half of these people will have DC pots of £6,300 or less, including those who will have no DC savings. Around three quarters of this group will have DB entitlement. Half of this group will have DC pots of £6,300 or more and around a quarter of these will have DB entitlement (Chart EX2).

[5] PPI Dynamic Model

Chart EX2[6]



The segment groups have been assigned risk labels reflecting indicators such as degree of dependence on DC, whether they had DB entitlement to fall back on, and their likely ability to make "good" DC decisions based on their levels of financial skill and engagement.

Those who are judged to be very dependent on DC savings are determined to have higher levels of risk. Risk level can be mitigated by other factors such as whether people have substantial enough DC savings to afford the risk, whether they were more likely to use independent advice, and whether they were likely to have higher numerical ability, or score well on proxy indicators of financial skill and engagement (Chart EX2, Table EX1).

The highest risk group was those with £19,400 to £51,300 (the 50th to 75th percentiles of DC saving within the sample group) of DC savings and no DB entitlement

The group identified as being exposed to the highest risk was those with £19,400 to £51,300 of DC savings and no DB entitlement. This group constituted 694,000 people, 12% of people aged 50 to SPA in 2014, aged to their individual SPAs. The people in this group are likely to rely mainly on the state pension or state benefits, but have moderate DC savings which could be used to support retirement through a combination of paying off debts, spending on necessary items (such as home repairs) or as a source of retirement income. However, this group scores low on proxy indicators of financial skill and knowledge and are

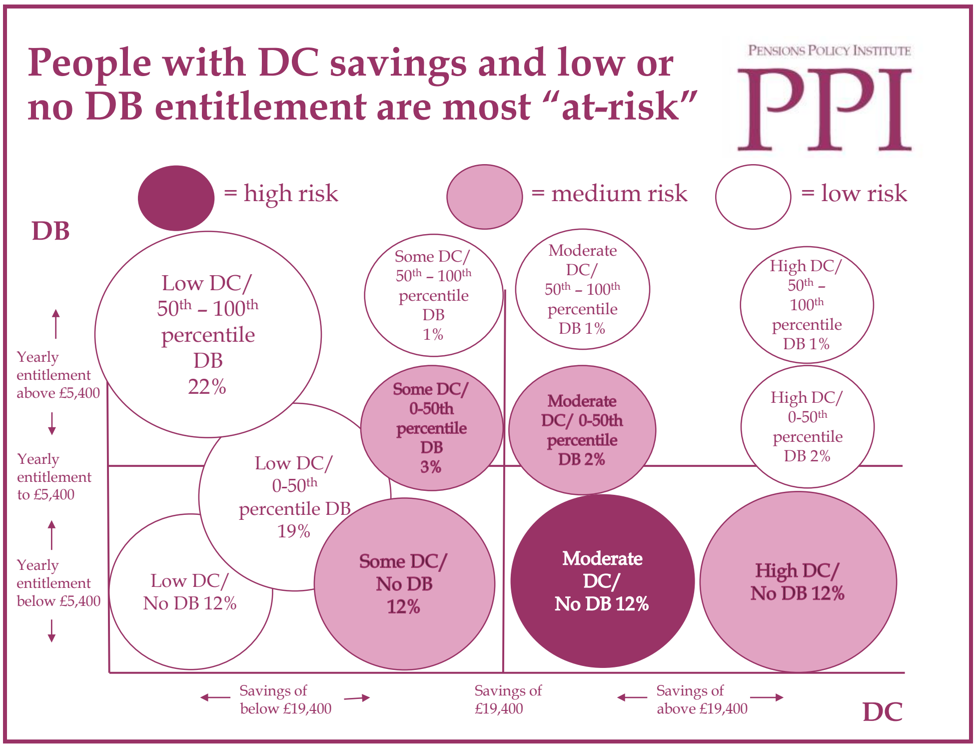
[6] PPI Dynamic Model

less likely than people in some other groups to use independent advice which might aid in determining the best use for their DC savings. For some people this may be because regulated financial advice appears unaffordable, though many people may be unaware that there is commission attached to the sale of products that are non-advised. If they make a poor decision about their DC savings they have little other income sources than the state or housing assets to fall back on. Prior to the transitional arrangements introduced in 2014, many of the people in this group would have had to purchase a lifetime annuity or invest in Capped Drawdown with their DC savings because they would have been above the trivial commutation limit of £18,000. After April 2015 all of these people will be able to flexibly take their DC pension savings after the minimum pension age and therefore they will face an array of decisions that they would have had to if they were purchasing a lifetime annuity or Capped Drawdown.

Around 29%, or 1.6 million, of people aged 50 to SPA in 2014, aged to their individual SPAs, are classified as having a medium risk level, because they will be dependent to some degree on the income from their DC savings in retirement, have little other savings and assets to fall back on and have low levels of financial skill and engagement. They were not classified as high risk either because they are relatively less dependent on their DC savings (due to other savings or entitlement or because they have low levels of DC savings) or because they have enough DC savings to be reasonably expected to use advice, or not suffer the same proportionate loss from making poor decisions.

Those labelled as "low-risk," because of high levels of DB entitlement, constitute around 25% of the population analysed. The majority of these people have low levels of DC savings and either have high levels of DB savings, or will be dependent mainly on the state pension and, possibly, state benefits (Chart EX3).

Chart EX3[7]



This report looks at different indicators and how they correlate with pension and non-pension savings portfolios

It is useful to explore how different indicators correlate with pension and non-pension saving portfolios because they can provide information about the likely needs and characteristics of different groups. For example, profession based socio-economic class can give indications about education, income level and the likelihood of people being able to work longer or more flexibly. For example, those in lower profession based socio-economic classes are less likely to have flexible working options available to them and are more likely to have to leave work for involuntary reasons such as health problems.

The level of non-pension savings and assets held by people gives an indication of how dependent they might be on one source of pension savings or on the state. Proxy indicators of financial skill and engagement can allow judgements to be made regarding people's likely ability to make complex decisions about accessing pension savings without assistance. The following table sets out the segment groups and indicates whether they scored high, medium or low in each of these indicators.

[7] PPI Dynamic Model

Table EX1[8]

Group average scores on different indicators – colour-coded by risk level **High = ✓** **Medium = ~** **Low = X** ***DC – total savings*** ***DB – yearly entitlement in 2014 earnings terms***	**Socio-economic class**	**Non-pension savings and assets**	**Proxy indicators of financial skills and engagement**
Low DC/No DB ***(£6,300 or less (DC), No (DB))***	X	X	X
Low DC/0-50th percentile DB ***(£6,300 or less (DC), £5,400pa or less (DB))***	X	~	X
Low DC/50th-100th percentile DB ***(£6,300 or less (DC), £5,400-£300,400pa (DB))***	~	~	~
Some DC/No DB ***(£6,300-£19,400 (DC), No DB)***	X	X	X
Some DC/0-50th percentile DB ***(£6,300-£19,400 (DC), £5,400pa or less (DB))***	~	~	~
Some DC/50th-100th percentile DB ***(£6,300-£19,400 (DC), £5,400-£300,400pa (DB))***	✓	✓	~
Moderate DC/No DB ***(£19,400-£51,300 (DC), No DB)***	~	~	X
Moderate DC/0-50th percentile DB ***(£19,400-£51,300 (DC), £5,400pa or less (DB))***	~	~	~
Moderate DC/50th-100th percentile DB ***(£19,400-£51,300 (DC), £5,400-£300,400pa (DB))***	✓	✓	✓
High DC/No DB ***(£51,300- 2m (DC), No DB)***	✓	~	~
High DC/0-50th percentile DB ***(£51,300-2m (DC), £5,400pa or less (DB))***	✓	✓	✓
High DC/50th-100th percentile DB ***(£51,300-2m (DC), £5,400-£300,400pa (DB))***	✓	✓	✓

[8] PPI Dynamic Model

After April 2015, decisions about accessing DC pension savings will become more complex

In order to make an informed decision about accessing DC savings and structuring income in retirement people need to be able to understand economic factors such as inflation, market-based risks and longevity risk. Therefore, people may struggle more with complex decisions regarding using DC savings to support themselves in retirement than those with DB savings who can make an informed decision based on a more limited understanding (as scheme rules generally protect members against inflation, market based risks and longevity risk).

Decisions about accessing DC savings will become more complex after April 2015 when people will no longer be required to use a recognised retirement income product. Retirement income products such as annuities and income drawdown previously had some safeguards against market-based and longevity risks built into them, and many, such as lifetime annuities, will continue to do so after April 2015. However, people who choose not to purchase a retirement income product which protects against risk with some or all of their DC saving after April 2015 will have to make decisions about how to protect themselves against risks, many of which are not predictable (such as inflation risk and longevity risk). The 56% reduction in annuity purchases observed in Q3 of 2014 (in comparison to Q3 of 2013) indicates that far fewer annuities will be purchased by people with DC savings in future, and that their funds may therefore be exposed to these greater levels of risk.

Levels of numeracy in particular have been found to have correlations with ability to understand pension arrangements. However, having DC savings and no DB entitlement is associated with lower levels of numeracy. People with DC savings and no DB entitlement will also be more dependent on using their DC savings to provide themselves with an income in retirement than those who have some DB entitlement to fall back on but may also have more difficulty making a fully informed decision about accessing their DC savings.

Though many people with DC savings (between 70%-80%) reported receiving information from their scheme or provider, people report finding scheme communications confusing and difficult to understand. Natural tendencies towards inertia can be further exacerbated by complexity, uncertainty and a lack of understanding.[9] Therefore, scheme communications, without significant redesign, are unlikely to fill the gap in knowledge or provide the support that people with DC savings might need to make complex decisions, particularly once people over the minimum pension age are allowed complete flexibility to access DC pension savings.

Decisions about accessing DC savings are likely to be very difficult for people to make without assistance. However, regulated financial advice has an upfront cost attached to it which might make it appear inaccessible to people with small

[9] DWP (2012a) p. 23

amounts of DC savings. Regulated advice may not be unaffordable in practice in comparison to the sale of non-advised products which often have a commission attached. But use of regulated financial advice was very low on average among all the segments, ranging between 4%-9% engaged from each segment excepting for those with the highest levels of DC saving and no DB savings, 14% of whom had used an IFA.

The Guidance Guarantee will need to be able to fill the gaps in advice and information required by people with DC pension savings
It will, therefore, be imperative that the new Guaranteed Guidance service is particularly able to engage with people with DC savings and no or low levels of DB entitlement who might be in danger of making decisions which are detrimental to their outcomes in retirement due to low levels of numeracy or cognitive or behavioural barriers.

During a pensions guidance pilot on at-retirement decisions, only 2.5% of customers were reported to have taken up the offered guidance.[10] This suggests that, as with the accumulation stage, there may be a substantial group of individuals who do not wish to engage in decision-making around their retirement provision. Recent PPI research analysing findings from a consumer survey found that individuals' intentions around their DC pensions are characterised by a high degree of uncertainty around both when they might retire and how they will access their pension savings. Even 12 months ahead of their expected retirement dates, only around 50% of DC savers say they know what they expect to do with their pension pot at retirement. So, even if engagement can be achieved, it is unlikely that savers will have clear or definitive views on their expectations and preferences in retirement. It is more likely that gradually raising their awareness ahead of retirement around the choices and trade-offs they will face will help them to become comfortable with any default options they are offered by their schemes or providers, or will prompt them into exploring where they can find further help, beyond any initial guidance service.

For those who do engage with the guidance, they may need ongoing support, not just around decisions at retirement, but decisions later on in retirement as income needs or sources might change for people several times during retirement because of changes of health, household makeup, and increases or decreases in available income. It is not yet clear whether people will be only allowed to use the Guidance service once, in the lead up to retirement, or will be allowed to have multiple sessions. It might be worth investigating whether people would benefit from the offer of several targeted guidance sessions throughout retirement. It may also be worth investigating whether the guidance should be offered to people of working–age who are still making decisions about saving in a pension.

[10] www.moneymarketing.co.uk/2015140.article?cmpid=pmalert_590745

It should also be taken into account that people who do not act on advice or guidance immediately after receiving it may be less likely to make a decision or to make a decision with positive outcomes. Those who are more impulsive or more prone to inertia are the least likely to act on advice or information right away. These tendencies could be considered in the design of advice. There are ways of helping people to take action, for example giving them easy, practical steps to follow, or by including the action as part of the advice or guidance session. However it may be more difficult to give people these options through guidance than through regulated advice.

Those designing the delivery of guidance and communications with eligible customers may want to look at focussing on how to engage with people who have DC savings. If there are behavioural barriers, such as a lack of trust, the communications might want to look at ways of addressing these. Research on people's engagement styles indicate that the framing of messages impacts people's responses; people engage more readily when an option is framed as a "gain" rather than a "loss".[11] People also find making decisions with short-term, tangible consequences easier.[12] Guidance communications could explore ways of incorporating positive messages and perhaps framing potential outcomes as more "tangible" in order to encourage engagement.

Delivery partners must be aware that when customers do engage, they are likely to have varying levels of numeracy and therefore potentially varied abilities to understand and engage with decision-making or to understand the implications of different options. Delivery partners should explore ways of ensuring that those with lower levels of numeracy are provided with information and guidance that they can understand and use to make informed decisions about using DC savings to provide an income in retirement.

Summary of conclusions

Decisions about accessing DC pensions are difficult for people to make as they often require understanding of complex and uncertain economic and market concepts such as inflation, investment risk and longevity risk. Changes announced in Budget 2014 mean that, from April 2015, many people with Defined Contribution savings will be allowed far greater levels of flexibility when they come to access their pension savings. This will further complicate the decisions that DC savers must make as it will increase the number of available options, push the burden of managing risk further onto pension savers, and, in some cases, extend the need for ongoing decision making into retirement.

The people reaching SPA over the next ten to fifteen years vary considerably in their pension and non-pension savings and asset portfolios. Within this population, there are segments who will require greater support than others as a result of reaching retirement more reliant on their DC savings to secure an adequate income, with riskier portfolios and potentially lower levels of ability

[11] DWP (2012a) p. 30-31
[12] DWP (2012b) p. 35 Figure 4.2

to make financial decisions. The challenges for these segments will be compounded over the next few years as the industry is still responding to the reforms and adjusting to a new type of pension saver who will be allowed to access their savings more flexibly. The defaults in place for these groups may either be actively developed in response to the reforms (for example, new drawdown strategies offered directly by a pension scheme or provider) or may be the "path of least resistance options" made available to them (for example, taking the DC pension as cash, or buying an annuity from their current provider). At this early stage it is unclear which options will be most popular.

PPI segmentation based on key characteristics of people currently aged 50-SPA in England indicate that around 12% of the population analysed (694,000 people) will be at "high-risk" of making poor decisions when they reach SPA if they are not offered support through either guidance and advice or suitable defaults. These are groups with between £19,400 and £51,300 in DC savings and little or no additional DB pension to fall back on). A further 29% (or 1.6 million) people aged 50-SPA in 2014 of people aged 50 to SPA in 2014 will be at "medium risk" of making poor decisions. These are groups with anywhere from £6,300 to above £51,300 in DC savings and little or no additional DB. This means that around 4 in 10 retirees will need significant support over the next ten to fifteen years because they will be dependent to a significant degree on the income from their DC savings in retirement to supplement their state pension, have little other savings and assets to fall back on, have low levels of financial skill and engagement, and are less likely to already use a financial adviser or be actively targeted by financial advisers in the current market given the size of their pension pots.

There is a particular correlation between having low levels of numeracy and low or no DB savings to supplement their DC savings. Those with low levels of numeracy will find decisions about accessing pension savings particularly challenging but they are also unable to fall back on a secure source of private pension income in the form of an indexed DB pension.

The Guidance Guarantee, which will offer the provision of free impartial guidance to those reaching retirement with DC savings will be operational from April 2015, however there are significant concerns regarding what the take-up of the guidance may be, whether the guidance will be able to meet the level of need and the complexity of the different individual and household circumstances, and the likelihood that individuals will follow up on the guidance they receive with timely and appropriate actions. There are intrinsic issues with engaging with people around pension decision-making that are impacted both by their own high levels of uncertainty around their retirement planning and by behavioural barriers which can lead to inertia and a reluctance to actively engage and take decisions. There were already concerns in place about the availability and quality of guidance and support offered to pension savers prior to Budget 2014 and the announcement of the new flexibilities. It is clear that a large number of people will require even more support and assistance once these new flexibilities are in place.

This research has identified around 40%, 2.3 million, people approaching retirement in England with private pension savings over the next ten to fifteen years who will be most in need of assistance and for whom access to these services will be particularly critical if they are to make the most of their available DC savings to support their retirements.

The number of people retiring with DC pots is expected to grow as more people are brought into pension saving through auto-enrolment, but average pot sizes are likely to remain relatively low over the next few years, with the median DC pot size, for those age 50 to SPA, in 2015 at £13,800 and growing to £23,800 by 2024. It will be critical that the people reaching retirement with DC savings over the next few years are given support. Independent and trusted guidance and advice services, beyond the Guidance Guarantee, will need to be made available to people in these medium to high risk groups. The people in these groups will need special targeted support to engage with and act on advice and guidance or they will be at risk of accepting defaults or making decisions that could adversely impact their retirement incomes.

Chapter 1: What are the main pension and retirement decisions that people have to make at and during retirement?

This chapter sets out the decisions that people face in the run up to, at and during retirement and looks at some of the available information on current trends in these areas.

Pension and retirement transitions have become more gradual

Pension provision in the UK has historically (for the last 100 years) been provided through a combination of a Defined Benefit (DB) model, sponsored by employers, and the state pension or state benefits. The DB and state pension models, coupled with a Default Retirement Age have all encouraged people to take their main (state and/or private) pension at the same time that they retire, as a single event.

Over the past few decades, the Defined Contribution (DC) model has become more popular with employers, creating more variation in the pension and retirement landscape. DC pension savings, generally converted into an annuity, involve more choice by the consumer than DB pensions, as to the structure of the income stream and the age at which to commence.

This change, considered alongside other changes such as: rises to State Pension Age, and some Normal Pension Ages (the expected age at which to take a DB pension as income); the removal of the Default Retirement Age; increases in longevity; and, economic problems, have all resulted in changes to the way that people approach retirement and pension transitions. What was traditionally a single event (leaving work and taking a pension) has become more staged and gradual as people work longer, but more flexibly, and opportunities for taking pensions in stages have become more readily available.

People contemplating a work or pensions transition may face a greater array of choices such as when, how and whether to retire; when and how to take state and private pensions; and when and how to access non-pension savings and assets. Each transition has several options within it and there are myriad ways to combine them.

The main pension and retirement transitions can be grouped under the following five headings:

- **Work and retirement transitions**
- **Accessing state pension**
- **Accessing DB pension entitlement**
- **Accessing DC savings**
- **Accessing other income and assets**

Work and retirement transitions

For those contemplating a work transition there are several options, though the accessibility of each option will be affected by the availability of appropriate employment. Some people may have greater levels of autonomy than others over how, and when, they leave work. The self-employed in particular may have more control over working hours and how to transition out of work. On the other hand, especially for employed people, some work transitions are involuntary, though the removal of the Default Retirement Age should have made it easier for some people to stay in work for longer (Box 1).

Box 1: options for work transitions

- Remaining in current work arrangement
- Leaving work altogether
- Moving from employment to self-employment (or vice versa)
- "Sliding" into retirement: this can take many forms, including:
  - Moving from full-time work to part-time work
  - Working "flexibly" – flexible working can take many forms within three broad sub-headings:[13]
    - *Flexible working hours:* such as part-time working, compressing hours or zero-hour contracts
    - *Flexible working space:* such as working from home some or all of the time
    - *Flexible work:* such as shifting to work which is less physically or mentally demanding
- The age at which to affect a work transition is a pre-cursory decision for each of the above

Involuntary transitions can be prompted by the following:

- Leaving work due to:
  - redundancy
  - expectation by scheme or employer (due to age)
  - ill-health
  - caring needs
- Working part time because:
  - no full time work is available
  - caring responsibilities
  - need the income despite wanting to retire
  - psychological factors: for example, fear of retirement; family relationships
- relationship breakdown – signalling return to work

Default options:

- There is no single default for those leaving work:
  - people with an occupational pension may have normal pension ages which can be a strong trigger for leaving work.
  - reaching the State Pension Age can be a trigger to leave work.

[13] PPI (2012), DWP (2009), Age UK (2012)

- people may be compelled to leave work due to ill-health or because they are no longer able to fulfil their duties.
- people may be compelled to leave work because of redundancy and/or lack of available or alternative employment.
- people may work flexibly or part-time as a transition out of work because they wish to or because flexible or part-time work may be the only employment available.
- people may be compelled to remain in work despite wanting to leave, because they cannot afford to leave

The average age of leaving work in 2010 was between 61-65 for men and between 56 and 60 for women

The average age of leaving work increased between 2002 and 2010 for both men and women. The average age of leaving work in 2010 was between 61 and 65 for men and between 56 and 60 for women, though the proportion of women leaving work later has increased more quickly than it has for men. (Table 1)

Table 1:[14] the proportion of people leaving work (in 3 year time periods) in each age group for men and women

Time period	Ages (men)				Ages (women)			
	51-55	56-60	61-65	66-70	51-55	56-60	61-65	66-70
2002-2004	12%	27%	31%	18%	15%	38%	25%	11%
2004-2006	11%	20%	38%	19%	11%	42%	23%	15%
2006-2008	9%	23%	40%	14%	14%	40%	30%	8%
2008-2010	8%	25%	40%	16%	9%	36%	33%	12%

The proportion of people in full time work transitioning to part-time work and the age at which they did so both increased between 2002 and 2010 suggesting that more people are using part-time work as part of a transition out of work. Some of these people may be doing so because full-time work is not available to them (Table 2).

[14] PPI analysis of ELSA data, Waves 2-5

Table 2:[15] **Proportion of people who transitioned from full time work to part-time work between time periods, by age**

Time period	Ages (men and women combined)			
	51-55	**56-60**	**61-65**	**66-70**
2002-2004	29%	33%	20%	7%
2004-2006	26%	45%	15%	6%
2006-2008	25%	34%	25%	6%
2008-2010	22%	43%	24%	5%

Accessing state pension

People with state pension entitlement (arising from contributions or credits) can currently claim a state pension income at any time from State Pension Age (SPA). SPA is currently age 65 for men and rising for women from age 60 in 2010 to age 65 in 2018. Further SPA rises are scheduled for both men and women to reach age 66 by 2020 and age 67 by 2028. The timetable for a rise to age 68 is currently under review.[16]

People can either take a state pension income at SPA or defer. Both Basic State Pension and additional state pension (S2P, SERPS, GRB) can be deferred. People who have already started to receive their state pension income can also choose to stop receiving income and defer. Under current rules people who defer can receive either a higher state pension income or a lump-sum in return (Box 2).

Those who do defer have the following options:

- **Income**: For every five weeks of deferral, people can receive a 1% enhancement to state pension income. This is equivalent to 10.4% increase for each year people defer.
- **Lump sum:** Benefit that has been deferred for 12 consecutive months from April 2005 can be taken as a one-off lump sum payment, rather than as an increase in future pension payments. The lump sum accrues interest at 2% above the Bank of England Base Interest Rate, and the whole of the resulting lump sum is taxable at an individual’s marginal tax rate.

Box 2: options for accessing state pension

- Take state pension income from SPA till death
- Defer at SPA or defer after receiving state pension for a period of time
  - Choose how long to defer for
  - Choose between a lump sum or enhanced pension income (after April 2016, only the enhanced income option will be available)
- Top up (buy back NI contributions)

Default option:

[15] PPI analysis of ELSA data, Waves 2-5
[16] PPI (2014b) p. 26

- The default option (resulting from taking no decision) for those with state pension entitlement is to take their state pension as an income at SPA, and continue receiving payments until death

The Government currently estimates that between 10,000 and 25,000 people defer their state pension each year.[17] Based on ELSA data, between 2008 and 2010, around 1% of people reaching SPA deferred their state pension. Of those who had deferred at the time of questioning, 30% were going to opt for or had received a lump sum, 26% had opted for or received higher weekly state pension payments and 44% had not yet decided how to take their deferred pension (based on a small sample size).[18]

After the New State Pension is introduced, the rules for deferring state pension will change
After the introduction of the New State Pension (previously known as the Single-Tier Pension) in 2016, those deferring their state pension will receive a 1% increase in their state pension income for every nine weeks of deferral. This is equivalent to an increase of around 5.8% for each year people defer. After the introduction of the New State Pension, those deferring will no longer be eligible to receive lump sums.[19]

Accessing DB pension entitlement
People with entitlement to Defined Benefit (DB) pensions[20] have a Normal Pension Age (NPA), at which they are expected to begin taking a pension. NPAs generally range between age 60 and age 65.

People with DB pensions in both the private and public sector (though not, after 2015, in "unfunded" public sector schemes) are allowed to transfer the "value" of their DB entitlement out of their DB scheme and into a Defined Contribution scheme. The value calculation is known as the Cash Equivalent Transfer Value (CETV). DC schemes allow savings to be accessed in a different way from DB schemes. The way that DC savings can be accessed will be covered in the next section.

People who wish to take their DB pension earlier than the NPA can usually do so though the level of pension income they receive will generally be lower than the level promised at NPA. People can defer their DB pension as well and take it later than their NPA with some enhancement or lump sum given in return. Around 60% of pensioners in 2013 received some income from Occupational Pensions (the majority of which are DB).[21] Those with DB entitlement have several options when they come to take their DB pension (Box 3).

[17] DWP (2013) p. 22 para 90b
[18] PPI analysis of ELSA data, Wave 5
[19] www.gov.uk/deferring-state-pension/what-you-may-get
[20] trust-based pension schemes provided by employers which guarantee a proportion of average or final salary as income in retirement
[21] DWP (2014a) p. 44 table 3.7

Box 3: options for accessing DB pension entitlement

- Take pension income at Normal Pension Age (NPA)
- Take lump sum – generally 3/80th of salary – or enhanced pension income
  - Take the lump sum early as a way of bridging the gap till the pension is taken
- Transfer DB value (CETV) to a DC scheme
- Take pension income early: reduced pension income
- Take pension income late: enhanced pension income
- Take reduced pension income in order to supplement spousal pension

Default option:

- The default option (for those who do not wish to make a decision) for those with DB entitlement is to take their entitlement as an income from their NPA, with or without taking a tax-free cash lump sum

Accessing DC savings

The options that people with Defined Contribution (DC), or money-purchase, savings have at retirement will change after April 2015. Transitional arrangements are currently in place (between April 2014 and April 2015). However, one aspect that will remain the same is the imposition of a minimum pension age at which people can access their DC pension savings. This is enforced through tax rules; most people who access their DC savings before the minimum age are classified as making an "unauthorised withdrawal" and their withdrawal is subject to a tax charge of 55%. The minimum pension age is currently 55 (it rose from 50 in 2010). The Government plans to raise the minimum pension age to 57 in 2028.[22]

Under current rules, people accessing their DC savings after the minimum pension age have several options (Box 4).

Box 4: Options for accessing DC savings under the current system

Tax-free lump sum

- Take 25% of savings as a tax-free lump sum
  - What to do with lump sum – re-invest vs. spend
  - What age to take it (any age after 55, subject to scheme rules)

Pots below £30,000

- These are currently under transitional regulations: those with total pension savings of £30,000 (prior to 2014 this applied to total savings of £18,000) or less can take the total as a lump sum, 25% tax free and 75% taxed at their marginal income tax rate. This is known as Trivial Commutation and can be executed at any time after the age of 60 rather than the minimum pension age of 55.
- In addition to access to a pot of £30,000, a further three pots of £10,000 (prior to 2014 this applied to two pots of £2,000 or less) or less can be taken as a lump sum, after the age of 60.

[22] HMT (2014a) p. 11

For those with a guaranteed minimum annual income of £12,000
- Those who can provide themselves with a guaranteed lifetime income of £12,000 per year from state and private pensions (DB or DC) can purchase an income drawdown product which allows withdrawals of income in unlimited amounts. This product is called Flexible Drawdown.

Pots above £30,000 but without a guaranteed minimum income of £12,000
- People who have DC savings pots of over £30,000 but are not able to secure a minimum income of £12,000 per year are required to use a product which provides a secure retirement income, if they wish to access their savings (excepting the 25% tax-free lump sum). They can do this in one of two ways:
- Purchasing an annuity, which provides a guaranteed income for life, or
- Purchasing an income drawdown product, which allows investment and fund growth, and limits income withdrawals to 150% of an equivalent annuity based on rates set by the Government Actuary's Department. This product is called Capped Drawdown.

Default option:
- Under the current system, the default option for those above the trivial commutation limit (and some below) has been to take a 25% tax-free cash lump sum and use the remaining fund to purchase a lifetime annuity. (Those wishing to trivially commute can do so from age 60.)
- Some DC schemes have a default annuity option included in the pension contract and some have guaranteed annuity rates (guaranteed rates might be higher than market rates) attached. Many schemes market their own annuities to the fund-holders in their schemes.

In March 2014, the Government announced that all people with DC savings over the minimum pension age would, from April 2015, no longer be required to purchase an annuity or a drawdown product in order to access their DC savings, and would be allowed to withdraw their DC savings in unlimited amounts, taxed at an individual's marginal rate (with 25% of the amount withdrawn tax-free) (Table 3).

Historically, people who wanted to access their DC savings were required to secure a retirement income. The Government's justification for this regulation was that it provided tax relief for pension savings in order that people would use their pension savings to provide themselves with an income in retirement. The Government did not wish to encourage "moral hazard", defined in this case as the risk that people spend down all of their pension savings and then fall back on the state for support in retirement.[23] However, the Government believes that the annuity market has not been "operating in the best interests of consumers" and that the introduction of the New State Pension will help reduce the risk of moral hazard, by giving people on lower incomes a higher state pension income

[23] HMT (2006)

and reducing the number of people eligible for Pension Credit at the Guarantee Credit level (Savings Credit will be abolished for those retiring after the introduction of the New State Pension). Therefore the Government has felt that it is appropriate to introduce more flexible access to DC savings at this time.[24]

Table 3: New tax rules apply to pensions after April 2015[25]

Prior to April 2015	After April 2015
Annual/lifetime allowance: • Pension contributions are tax-free up to the amount of £40,000 per year, £1.25m per lifetime (between 2011 and 2014, the annual allowance was £50,000. In 2010-2011 it was £255,000)[26] **After age 55:** • 25% of DC pension pots can be taken as a tax-free lump sum • Those who have DC savings above the trivial commutation limit[27] but who are not able to meet the Minimum Income Requirement[28] must purchase a product which will provide a secure retirement income (an annuity or capped drawdown product) in order to access their savings and have income from these products taxed at marginal rate. • Any other withdrawal is taxed at 55% **Bequest** • Inherited pensions (with the exception of lifetime annuities without capital guarantees) are tax-free if: ➢ The fund-holder dies under the age of 75 without taking any savings out through access to a lump-sum and/or income drawdown • Inherited pensions are taxed at marginal rate of the beneficiary if: ➢ The fund-holder dies over the age of 75 <u>*and*</u> the beneficiary is a spouse or a child under the age of 23 • Inherited pensions are taxed at 55% if: ➢ The fund-holder dies under the age of 75 but has taken money out of the pot <u>*or*</u> the fund-holder dies	**Annual/lifetime allowance:** • Pension contributions are tax-free up to the amount of £40,000 per year, £1.25m per lifetime **After age 55:** • 25% of DC pension pots can be taken as a tax-free lump sum • All other withdrawals are taxed at an individual's marginal rate • People will still be able to purchase a lifetime annuity, a flexible annuity, a flexible drawdown product or withdraw lump sums from uncrystallised pension funds (25% of each withdrawal tax-free and the remaining 75% taxed at an individual's marginal rate) • The age of access, 55, will rise to 57 in 2028 when State Pension Age (SPA) rises to 67 for men and women. After that the minimum age of access will rise so that it remains ten years below SPA. **Bequest** • Inherited pensions (with the exception of lifetime annuities without capital guarantees) are tax-free if: ➢ The fund-holder dies under the age of 75 with uncrystallised funds or funds in a drawdown account • Inherited pensions are taxed at marginal rate if: ➢ The fund-holder dies over the age of 75 with uncrystallised funds or funds in a drawdown account • Inherited pensions are taxed at 45% if:

[24] HMT (2014a)
[25] www.gov.uk/government/news/chancellor-abolishes-55-tax-on-pension-funds-at-death; DWP (2014b)
[26] www.gov.uk/tax-on-your-private-pension/annual-allowance
[27] £18,000 prior to April 2014 plus up to two more pots of £2,000 or less; £30,000 between April 2014 and April 2015 plus up to three more pots of £10,000 or less
[28] £20,000 prior to April 2014, £12,000 between April 2014 and April 2015

over the age of 75 but leaves their fund to someone other than their spouse or child under the age of 23	➢ The fund-holder dies over the age of 75 *and* the beneficiary takes it as a lump sum (from 2016-17, those taking a lump sum in these circumstances will be taxed at their marginal rate) **Further measures** • In order to avoid people over age 55 (rising to age 57) diverting their salary through their pension fund and avoiding paying tax, the following rules apply: ➢ People who withdraw more than 25% from a DC pension fund, where the fund value is above £10,000 will have their annual allowance of tax-free contributions for DC savings reduced to £10,000 per year

Box 5 shows what the new rules mean for those accessing DC savings after April 2015.

Box 5: Options for accessing DC savings after April 2015

- Take 25% of savings as a tax-free lump sum
  - ➢ What to do with lump sum – re-invest vs. spend
  - ➢ What age to take it (any age after 55)

- The remainder can be withdrawn in unlimited amounts, taxed at the individual's marginal rate. People can also do one or a combination of the following:
  - ➢ People will still be able to purchase an annuity or a drawdown product but should be able to choose between several varieties of these
  - ➢ People may also be able to leave their fund with their pension provider and withdraw directly from their pension fund, "uncrystallised funds pension lump sums".
  - ➢ Those who withdraw their total fund can choose whether to spend or re-invest the lump sum

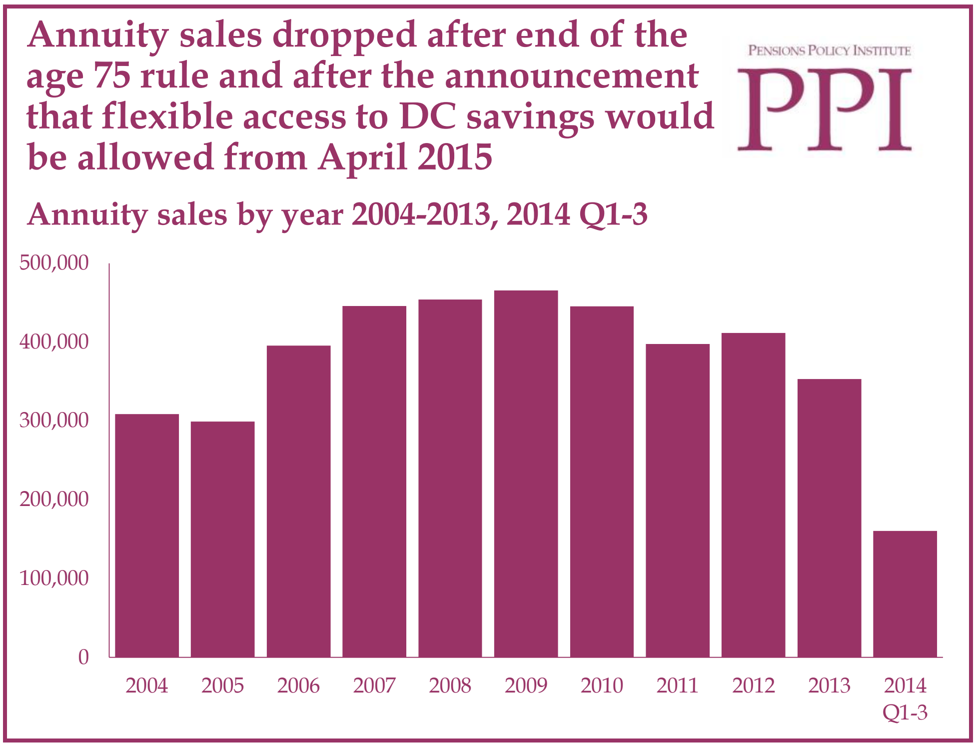
Default option:

- It is not yet clear what the default option will be under the new system. Default options will depend on how scheme members and schemes and providers respond to the changes. Some schemes may not expand access and withdrawal options for members. Defaults for those with complete access could either be withdrawing pension lump sums directly from a pension fund or provider or investing in Flexible Drawdown.

Annuity purchase behaviour has changed since the changes were announced
Until recently, the majority, around 75%, of people with DC savings generally purchased an annuity, or an income drawdown product if they had large pots.[29] In 2013, there were 6 million annuities in payment, and half a million income drawdown products held.[30] The number of annuities purchased each year from 2004 to 2013 ranged between 300,000 and 400,000 (Chart 1). The number of drawdown products purchased from Association of British Insurers' members each year varied, by 2013 there were almost 600,000 income drawdown products in force (Chart 1). However, the data on drawdown does not include some large providers of drawdown who are not ABI members.

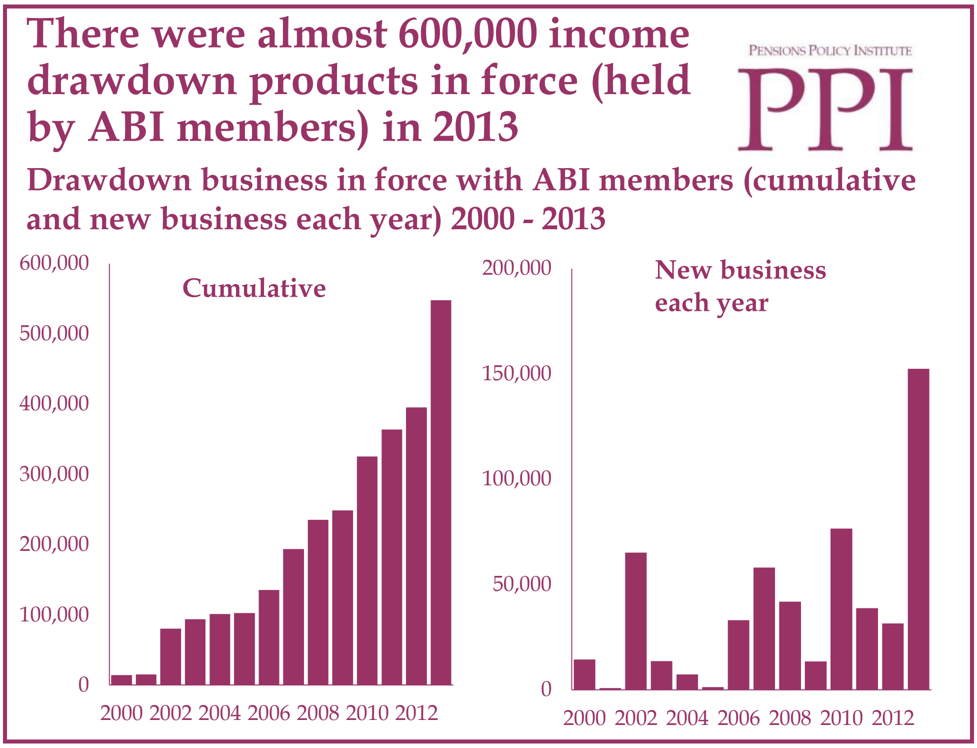
Annuity sales dropped slightly in 2011, when the rule requiring people to purchase an annuity at age 75 was lifted. It was at this time that Capped and Flexible Drawdown were introduced, though income drawdown has existed in different formats since the mid-90s.[31] In effect, this change meant that those people who purchased drawdown products could remain invested in them for the entirety of their retirements, when previously they would have been required to convert to an annuity at age 75. Therefore, annuity sales saw a slight decrease after 2011 (Chart 1). However, at that time, drawdown products were still considered by most providers of these products to be appropriate only for those with large DC pots (e.g., £100,000 or more) (Chart 2).

Chart 1[32]



[29] HMT (2014b)
[30] ABI stats, Business in Force – Pensions and Retirement Income 2013
[31] www.sharingpensions.co.uk/income_drawdown.htm
[32] ABI stats

Chart 2[33]



After the announcement in April 2014 that trivial commutation limits would be raised to £30,000, with immediate effect and that from April 2015 people aged over age 55 with DC pots would be able to flexibly access their savings, annuity sales dropped considerably. Annuity sales in the third quarter of 2014 were around 56% less than sales in the third quarter of 2013 (Chart 3).

[33] ABI stats – includes only drawdown provided by ABI members, not the whole drawdown market

Chart 3[34]

One of the decisions outlined above is the age at which to take a private pension

Private pensions are any non-state pension in which membership is voluntary. They can be *personal pensions*, which involve a contract between an individual and a pension provider (such as an insurance company) who manages a DC fund on the individual's behalf and then returns the fund to the individual in retirement or *occupational pensions* (DB or DC) which involve a contract between the employer and their employee and in which the employer is responsible for paying the pension once it becomes due.

People are most likely to start drawing *occupational pensions* at around age 60 (generally the normal pension age for these schemes).

The age at which people first access *personal pension* savings on average varies by gender; men are more likely to access personal pensions at age 65 (SPA) whereas women are more likely to access personal pensions around age 60 (women's SPA until 2010).[35] These figures indicate that SPA is a trigger for accessing personal pensions. The minimum pension age of 55 is also a trigger, shown by a small peak of people purchasing annuities at age 55, 7% of annuities purchased in 2013 were by 55 year olds.[36]

[34] ABI stats
[35] IFS (2012a) p. 23-24
[36] PPI (2014c), ABI stats

The below tables show that the age that people access personal and occupational pension savings has increased on average between 2004 and 2010, with more people, predominantly women, waiting until their 60s to access their pension savings and entitlement. (It is worth noting that in 2010, the minimum age of access to private pensions was raised from age 50 to age 55.)

Table 4:[37] Proportion of men accessing their *personal pension* for the first time by age group in different years

Age	**2004-2006**	**2006-2008**	**2008-2010**
51-55	7%	13%	5%
56-60	17%	26%	20%
61-65	41%	47%	66%

Table 5:[38] Proportion of men accessing their *occupational pension* for the first time by age group in different years

age	**2004-2006**	**2006-2008**	**2008-2010**
51-55	9%	5%	3%
56-60	41%	49%	53%
61-65	41%	42%	42%

Table 6:[39] Proportion of women accessing their *personal pension* for the first time by age group in different years

Age	**2004-2006**	**2006-2008**	**2008-2010**
51-55	16%	3%	9%
56-60	42%	51%	43%
61-65	32%	32%	39%

Table 7:[40] Proportion of women accessing their *occupational pension* for the first time by age group in different years

age	**2004-2006**	**2006-2008**	**2008-2010**
51-55	7%	9%	10%
56-60	61%	74%	58%
61-65	21%	16%	28%

The relationship between leaving work and taking a private pension

Accessing a private pension is not always associated with leaving work. Some people who access their private pension savings do not necessarily leave work right away, and others may already be out of work when they come to access pension savings.

Among people aged 50 and over (between 2004-2011), just under 70% were in work immediately prior to drawing their private pension. Of those in work,

[37] PPI analysis of ELSA data, Waves 2, 3, 4 and 5
[38] PPI analysis of ELSA data, Waves 2, 3, 4 and 5
[39] PPI analysis of ELSA data, Waves 2, 3, 4 and 5
[40] PPI analysis of ELSA data, Waves 2, 3, 4 and 5

around 55% remained in work after beginning to draw their pension.[41] However, it is unusual for people out of work to *return* to work once they have started drawing a personal pension. The majority of those who were not in work remained not working after beginning to draw their private pension, with just under 3% entering work after drawing their private pension.[42]

The proportion of people choosing to take a private pension while still in work is increasing

The proportion of people aged 60-64 in work and also receiving a private pension income has increased between 2002/03 and 2010/11 by 13% for men and 8% for women. Those who continue to work after drawing their private pension are likely to work fewer hours; around 9 hours fewer a week on average in 2010/11 (men).[43]

Of those aged 50 and over, women and people over the age of 55 are more likely to leave work after starting to draw their private pension than men and people aged 50-54.[44]

Pensioners can use non-pension income, savings and assets to support retirement

People can use non-pension income, savings and assets to support themselves in retirement, for example: state benefits, housing, non-pension savings and assets, earnings and investment income.

28% of pensioners receive income from state benefits

Many pensioners will be eligible for state benefits in retirement. In 2013, 28% of pensioners received income from income-related benefits (such as Housing Benefit or Pension Credit). Those who are eligible for income-related benefits will generally have fewer choices to make regarding retirement income than those with higher incomes and private savings and assets.[45]

In the first half of 2014, around £642m was released through equity release

One major source of non-pension income in retirement is housing. People can access income from their house through an equity release product, downsizing, or taking in lodgers. In 2011, 76% of households (England and Wales) with the head of household[46] aged 65-74 and 73% with head of household aged 75 or over, were owner-occupiers[47] who could potentially use housing as a source of income. In the first half of 2014, around £642m was released through equity release. The average age for accessing equity release is 69.[48] Owning housing

[41] This is 31% of all those who began drawing a private pension regardless of whether they were in work or not

[42] IFS (2012a) p. 25, table 2.1

[43] IFS (2012a) p. 26, 29, table 2.3

[44] IFS (2012a) p. 25, table 2.1

[45] DWP (2014a) p. 40, Table 3.4

[46] Household Reference Person – defined as "the oldest full-time worker in most households or a person chosen from the household based on their age and economic activity status"

[47] ONS (2011)

[48] KRS (2014) p.8

(without a mortgage) in retirement can also reduce living costs (in comparison to paying rent) by around 30% for a single person and by around 40% for a married couple.[49]

17% of pensioner households receive earnings income, 62% receive investment income

Pensioners can also use income from earnings and other savings and assets (such as ISAs) in retirement. In 2013 17% of pensioner households received income from earnings and 62% received income from investments.[50] People can access non-pension savings and assets with fewer restrictions than they can pension savings. For example, there is no minimum age for using earnings or investment income to support oneself. Though individuals must be aged 55 or older to use equity release (Box 6).

Box 6: Options for accessing non-pension income, savings and assets

- Using own or others earnings as income
- Releasing housing equity
  - For example: Downsizing; equity release (lump sums or drawdown); lodgers; buy-to-let homes
- Accessing savings and/or investments
- Using expectation or receipt of inheritance as a source of income
- Selling one's business as a source of income
- Applying for state benefits

Default options:

- Non-pension income, savings and assets which can be used to support retirement are not regulated in the same way as pension savings and there is no single default. Those who do not wish to make a decision could leave their savings and assets invested and, if they are not needed during retirement, leave them as a bequest. Another option would be to spend down other savings and assets while leaving pensions invested in a tax favoured vehicle, the tax treatment of pension savings and bequests is becoming more beneficial after April 2015.

The amount of debt owed by a household will impact the way they use non-pension income, savings and assets

It is worth noting that the amount of debt people have accrued when they reach retirement is likely to impact the way they manage both their pension savings and other savings and assets. People who have accrued debt (or have an outstanding mortgage) alongside savings and assets in retirement may have less income in retirement than expected if a large portion of the savings and assets accrued must be used to pay off debt.

[49] PPI (2009) p.2
[50] DWP (2014) p. 34, figure 3.2

Summary
People contemplating a work or pensions transition may have an array of decisions to make regarding when, how and whether to retire as well as when and how to take state and private pensions and/or access any non-pension savings or assets they have. Because each of these areas has several options within it, there are a myriad of different ways that these options can be combined. The accessibility of each option will be affected by the availability of appropriate employment. Some people may have greater levels of autonomy than others over how they work and when they leave work. The self-employed in particular may have more control over hours and when and how to transition out of work. On the other hand, especially for employed people, some work transitions are involuntary such as those triggered by redundancy or ill-health.

The proportions of people in full time work transitioning to part-time work at older ages increased between 2002 and 2010 showing that more people are using part-time work as part of a transition out of work, though some of these people may be doing so because full-time work is no longer available to them.

The options that people with Defined Contribution (DC), or money-purchase, savings have at retirement will change after April 2015.

Historically, people with DC savings above and below certain levels were required to secure a retirement income in order to access them. These people generally purchased an annuity, or an income drawdown product if they had large pots. The number of annuities purchased each year from 2004 to 2013 ranged between 300,000 and 400,000. The number of drawdown products purchased each year varied. By 2013 there were almost 600,000 income drawdown products in force.

After the announcement in April 2014 that trivial commutation limits would be raised to £30,000 (with immediate effect) and that from April 2015 people aged over 55 with DC pots would be able to flexibly access these, annuity sales have dropped considerably. Annuity sales in the third quarter of 2014 are around 56% lower than in the same quarter of 2013.

Chapter 2: What factors influence the choices people make in retirement?

This chapter sets out the internal and external factors which influence the decisions that people make in retirement and examines retirement and pension transitions which are involuntary.

The key factors which influence retirement decisions and transitions (and other financial decisions) can be organised into five general groups.[51]

- **Cognitive factors**
- **Affective (emotional/feeling) factors**
- **Behavioural factors**
- **Attitudes towards external stakeholders**
- **Structural factors**[52]

Cognitive factors

Cognitive factors encompass knowledge, awareness and beliefs. Knowledge, in this sense, applies both to financial capability (e.g., numeracy, maths or economics skills) as well as awareness and understanding of the available options and key risks people face before and during retirement. People are particularly likely to lack knowledge about the more uncertain aspects of retirement such as their life expectancy and healthy life expectancy, future job prospects, and the impacts of inflation and investment returns.[53]

Many people believe they don't have sufficient knowledge or skills to make decisions about pensions

Many people feel that they lack the necessary tools and knowledge to make pension decisions. People commonly report worrying that they will be "short-changed", and this fear can inhibit active decision-making. A general lack of trust in the sustainability of the state pension and in the providers of private pensions reinforces fears and uncertainty, though trust in employer-sponsored pensions is higher than it is for third-party run pensions.[54]

On the whole, people in the UK have low understanding of how state, employer and private pensions work. There are "notable gaps and misunderstandings",[55] irrespective of education level, both because people are not equipped to make accurate calculations of pension values and retirement income and because many future factors (such as investment returns) are unknown. Knowledge about how the tax and benefit systems work are also low and hampered by frequent policy changes.[56]

[51] DWP (2012a) p. 22 figure 3.3
[52] DWP (2012a) p. 22 figure 3.3
[53] DWP (2012a) p. 22
[54] DWP (2012a) p. 25
[55] DWP (2012a) p. 15
[56] DWP (2012a) p. 25

Levels of numeracy in particular have been found to have correlations with people's ability to understand pension arrangements.[57]

In the UK levels of numeracy among adults are low. In 1999, around 20% of adults (around seven million) were found to have more or less severe problems with basic skills, in particular with what is generally called 'functional literacy' and 'functional numeracy'.[58] In 2011, 43% of adults were found to have literacy skills below a GCSE "C" grade and 78% with numeracy skills below a GCSE "C" grade. This implies that levels of literacy and numeracy may be decreasing within the population.[59]

Around 4 in 5 adults have a low level of numeracy (below GCSE grade C level).[60] This means that nearly one in five people cannot correctly identify the balance in a bank statement, while only around one person in ten has the ability to calculate compound interest.[61]

Affective factors

Affective (or emotional/feeling) factors encompass feelings or attitudes towards retirement, pensions and work. They include whether people trust or mistrust government policies and agendas around pensions and retirement. They include perceptions of injustice, for example, some people may feel that rises to State Pension Age are unjust and this may affect attitudes to work and retirement.[62]

Attitudes are often affected by the past experiences of individuals or their friends and families in making financial decisions. Those with negative past experiences may be more cautious about subsequent financial decisions, whereas those with positive experience may be more confident. The experiences of family members also play a significant role in shaping attitudes.[63]

Changes to households, such as the birth of children, which cause a shift in priorities have also been shown to impact on people's attitudes and approach to financial decision making, as do economic changes, such as recessions.[64]

Attitudes to risks will also affect engagement, for example in relation to investment decisions. Those who are risk averse may be likelier to follow default options with lower potential for reward but less potential for volatility. Those with high-risk aptitudes are more likely to take financial risks in the hopes of a better return. The majority of people are fairly risk-averse, though men on average are less risk-averse than women.[65]

[57] BIS (2013) p. 58
[58] DFEE (1999)
[59] www.nationalnumeracy.org.uk/what-the-research-says/index.html
[60] www.nationalnumeracy.org.uk/what-the-research-says/index.html
[61] MAS (2013) p 15
[62] DWP (2012a) p. 23
[63] DWP (2012b) p. 11, para 2.1.1
[64] DWP (2012b) p. 11, para 2.1.1
[65] DWP (2012b) p. 5, para 1.1 p. 11, para 2.1

Behavioural factors

Behavioural factors or "intention" are influenced by both cognitive and affective factors. Many people display a natural tendency towards inertia which impacts pension decisions by manifesting as a reluctance to seek information or make active decisions. Natural tendencies towards inertia are further exacerbated by the complexity and uncertainty surrounding decisions about pensions and retirement.[66]

The following quotes from TPAS's enquiry database indicate some of the confusion and complexity people experience when dealing with pensions decisions.

"I am currently on benefits and cannot afford to pay for advice on company pension policies I hold. I have received details on my options, but they are a mass of figures that are difficult to understand. Can you help me?"

"Hello, I am wanting to begin contributions towards a pension scheme. I am employed and my employer will contribute X% towards a scheme of my choice. However, I am feeling overwhelmed by the range of pensions on offer and what would make financial sense. Can you help me?[67]

This tendency towards inertia can result in a mismatch between stated intentions and actual behaviour, evidenced by the lack of saving among those who report that they recognise the need to save for retirement.[68]

Inertia can also arise from competing priorities taking precedent, a lack of funds making people feel that there is no point trying to make decisions, or intimidation at the prospect of making decisions. Interestingly, the tendency towards inertia decreases just before retirement, when most people have more motivation to make a decision, but can increase again afterwards. Inertia arising from intimidation about pensions decisions tends to disappear during retirement, after which many retirement decisions might have already been faced or taken, but inertia arising from other factors can remain throughout retirement.[69]

Attitudes towards external stakeholders

Attitudes towards external stakeholders encompass attitudes towards government and other key stakeholders who play a role in pensions and retirement decisions, such as pension providers. This involves both awareness of the existence and roles of these organisations and whether they are trusted as organisations (rather than trust or lack of trust in an agenda or policy as in affective factors). The level of trust people have in organisations will impact on their willingness to engage with them or take their advice.[70] Those who have

[66] DWP (2012a) p. 23
[67] Sample of enquiries received by The Pensions Advisory Service on the issues raised by online enquiry customers: September 2014
[68] DWP (2012a) p. 23
[69] DWP (2012b) Pp. 36-37
[70] DWP (2012a) p. 23

been with a provider for a long time may also be subject to the influence of brand loyalty, choosing options offered by this provider even if they are not the best offers on the market. There is strong evidence that brand loyalty is a major factor in DC pension decisions.[71]

Trust plays a particularly vital role in pensions decisions. Many people, especially those making decisions about accessing private pensions, are dependent on assistance from external agencies such as advisers or scheme providers because most individuals are not equipped with the skills and knowledge needed to make informed decisions without assistance.[72] People do not always know whether they can trust particular agencies or not, illustrated by this quote from TPAS's enquiry database:

*"I will be taking my pension at the end of September when I leave work and am looking at providers. I have been given a quote from a company called *****. It was the best I have received but I am not sure if they are as safe as the main annuity providers such as *****, ***** etc. Are you aware of this company and are they known for their pension service?"*[73]

Structural factors

Structural factors include both external factors and individual factors which may or may not be under the control of the individual. External factors include:

- Benefit and tax system
- State pension system
- The economy

Individual factors include:

- Employment status[74]
- Socio-economic class
- Household structure
- Levels of pension saving
- Health

Employment status affects people's work and retirement options

Pension decisions are affected by decisions about work. People who remain in work as part of their retirement transition will be less dependent on pension income and will therefore have more options regarding when and how to take their pension savings. Conversely, those who leave work, or who are already out of work, when they take their private pension may experience more restricted pension options.

People can use phased retirement alongside taking their private pension; working flexibly or part-time while taking a supplementary income from their

[71] ABI (2012)
[72] DWP (2012c) Pp. 3-5
[73] Sample of enquiries received by The Pensions Advisory Service on the issues raised by online enquiry customers: September 2014 (quote edited for clarity)
[74] DWP (2012a) p. 22 figure 3.3 & p. 23

private pension. This option is not available to all workers who may not be aware of or may not have flexible working options available to them. People in low-skilled or manual jobs in particular may be prevented from making active choices regarding retiring in a flexible way because they are forced to leave work due to health problems or because of a lack of flexible employment options.[75]

Affective factors also impact decisions about working for longer, for example many people feel that it is unjust that they should have to work longer than previous generations and this might affect decisions that people make about remaining in work. However, changes in employer practices, removal of the Default Retirement Age, the shift from DB pensions to DC pensions and a normalisation of working longer could all contribute to attitudes to working longer changing among younger generations in future.[76]

Socio-economic class affects people's susceptibility to external intervention

Profession-based proxy classifications for socio-economic class can be correlated with responsiveness to external triggers[77] regarding extending working life and pension decisions, and allow for consideration of what extent the use of information and advice might affect pension and retirement decisions. External triggers include interventions by external stakeholders such as Government, providers and charities.

- **Professional/managerial:** people in this group require "least attention" from external stakeholders. They are likely to have high levels of personal wealth and greater freedom and choice over working and pension decisions.
- **Middle strata:** This group is the most likely to be in stable employment and have access to flexible working arrangements, as well as being more likely to have occupational pension entitlement and/or DC pension savings. People in this group are more likely to be in a position to enhance the retirement income potential of their savings by deferring or making additional contributions. The flexibility available to this group in terms of both work and retirement income provision mean they have a higher variety of options available to them, but may benefit from assistance or intervention.
- **Low/unskilled:** This group is generally less able to respond to external triggers because their options tend to be more restricted in terms of employment and flexibility. People in this group are also more likely to have to leave work early as a result of ill-health or redundancy. Their retirement income arrangements tend to be "modest" which also limits options at retirement.[78]

Household structure

Couples in a household tend to take financial decisions together, or at least discuss them before acting. This implies that the thoughts and attitudes of the other members of a household could impact on the financial decision making of

[75] DWP (2012a) p. 24
[76] DWP (2012a) p. 24
[77] Particularly policy interventions
[78] DWP (2012a) p. 11

individuals.[79] Whether an individual is the main financial decision-maker in a household will also impact the way that they make decisions. Main financial decision-makers tend to be more confident and more long-term in their thinking, while those who take a more passive role within the household tend to have shorter-term thinking and be more likely to spend than save.[80]

Gender and gender roles within a household can impact pension decisions. Women are likely have accrued lower levels of pension savings during working life, as many tend to prioritise family and children in financial decision making. Therefore women and men can reach retirement with very different pensions and savings portfolios. Even at retirement, decisions might be gendered as women's small amounts of savings and assets may be used to meet immediate financial needs for the family while men's savings, which may be more substantial, could be funnelled into an income for the family. In cases where there is an unequal distribution of income or relationship breakdown this could potentially result in inequality. The trend for many partnered men to purchase single-life annuities is reflective of the way that pension income is often unequally distributed within households.[81]

The different factors which influence behaviour affect each other and some have a greater impact than others

Each of the above factors interrelates with the others to create a host of influences at play in pension and retirement transitions. Obviously, some factors will carry more weight than others. For example structural factors which mean that people are forced into a transition, such as leaving work due to ill health, will play a greater role than attitudinal factors which might allow for detailed consideration of options and flexibility of choice.

People with limited employment prospects or low levels of saving, who are more likely to be in the low/unskilled socio-economic class, will generally have fewer options available to them and their choices will be subsequently restrained.

Active financial decision-making is often prompted by life events

Active financial decision-making is often prompted by life events such as getting married or having children, or financial triggers which involve changes to the income of a household. Significant life events such as births, deaths or illnesses are powerful triggers for making financial decisions, for example, purchasing life insurance. However, purely financial triggers, such as a reduction in income or a receipt of inheritance, do not seem to have as strong an impact on financial decision-making.[82]

Looking at the enquiries received by TPAS gives an indication of some of the triggers that cause people to seek help. The need to make retirement decisions

[79] DWP (2012b) p. 13, para 2.1.2
[80] DWP (2012b) p. 15, para 2.3.1
[81] DWP (2005)
[82] DWP (2012b) p. 12, para 2.2.1

was the main reason for calls (Table 8). The number of calls regarding at-retirement decisions increased after the Budget announcement that further flexibilities would be introduced. In the first few weeks after the announcement, the proportion of helpline calls received by TPAS about at-retirement decisions rose from 15% of calls to 45%.[83]

Table 8: Distribution of a random sample of calls to TPAS helpline in 2013/14[84]

Reason for call	Numbers calling	Proportion of total
Retirement and planning decisions	7515	30%
Trivial commutation	2879	11%
Automatic enrolment	2688	11%
Pre-retirement pension saving guidance	2206	9%
Trying to find pension	2199	9%
Pension contract terms	2126	8%
Mistakes	1763	7%
Pension transfers	1709	7%
Tax relief	1677	7%
Delays	707	3%
TOTAL	25469	100%

People find it easier to make simple, short-term decisions with tangible outcomes

People are more inclined to make decisions that are administratively simple and have shorter term consequences. There is a reluctance to make decisions with longer term consequences, such as saving in a pension scheme. People are also more likely to make "poor" choices (leading to unintended or undesirable outcomes) when the consequences are delayed, such as inadvertently purchasing an annuity which does not provide an income for a spouse or dependents.[85]

Financial decisions with less tangible outcomes are more difficult for people to make than tangible decisions such as purchasing houses, cars or holidays. Outcomes from pension saving are not just intangible, but also uncertain as they are affected by investment growth, inflation, total contributions, time of receipt, length of life in retirement etc. These uncertainties and the lack of tangibility make decision-making about pensions during working life and at retirement very difficult.[86]

Timing affects decision-making

The timing of a decision can impact outcomes. People who do not act on advice or guidance immediately after receiving it may also be less likely to make a

[83] Data provided by TPAS
[84] TPAS (2014) p. 16
[85] DWP (2012b) p. 33
[86] DWP (2012b) p. 35 Figure 4.2

decision or to make a decision with positive outcomes. Those who are more impulsive or more prone to inertia are the least likely to act on advice or information right away.

There are ways of helping people to take action, for example giving them easy, practical steps to follow, or by including the action as part of the advice or guidance session. However it may be more difficult to give people these options through guidance than through regulated advice.[87]

Pension decisions are particularly affected by inhibiting factors
Inhibiting factors such as fearfulness or competing priorities, appear to have a greater impact on decisions about pensions (saving in) than on other financial decisions. People tend to put off decisions about the accumulation phase of pensions more readily than other decisions. [88]

The framing of communications affects decision-making about pensions
The framing of external messages and communication (from schemes or advice agencies) impacts the way people react to them. The biggest impact seems to arise from whether an option is framed as a "gain" or a "loss". Options framed as gains are considered more attractive. People's position in their life course also makes them more sensitive to the framing of particular factors, such as healthy life expectancy for older people. However, framing that is crafted too deliberately can also make people feel that attempts are being made to manipulate them. Research concludes that while framing has an impact on behaviour, it is not the major factor.[89]

General information is not as useful in terms of influencing behaviour as interventions at critical times dealing with key decisions. Though educational material is seen to be effective for those actively seeking information. [90]

Summary
Decisions people make at retirement are affected by both internal (behavioural and cognitive) factors and external (structural) factors.

On the whole, people report lacking the necessary tools and knowledge to make pension decisions. A general lack of trust in the sustainability of the state pension and in the providers of private pensions reinforces fears and uncertainty, though trust in employer-sponsored pensions is higher than it is for third-party run pensions.

Levels of numeracy in particular have been found to have correlations with people's ability to understand pension arrangements. In the UK levels of numeracy among adults are low. Around 4 in 5 adults have a low level of numeracy (below GCSE grade C level).

[87] AXA, University of Warwick (2007a), AXA, University of Warwick (2007b)
[88] DWP (2012b) p. 32
[89] DWP (2012a) p. 30-31
[90] DWP (2012a) p. 15

Many people display a natural tendency towards inertia which impacts pension decisions by manifesting as a reluctance to seek information or make active decisions. Natural tendencies towards inertia are further exacerbated by the complexity and uncertainty surrounding decisions about pensions and retirement.

Financial decisions with less tangible outcomes are more difficult for people to make than tangible decisions such as purchasing houses, cars or holidays. Outcomes from pension saving are not just intangible, but also uncertain as they are affected by investment growth, inflation, total contributions, time of receipt, length of life in retirement etc. These uncertainties and the lack of tangibility make decision-making about pensions during working life and at retirement very difficult.

Each of the above factors interrelates with the others to create a host of influences at play in pension and retirement transitions. Obviously, some factors will carry more weight than others. For example structural factors which mean that people are forced into a transition, such as leaving work due to ill health, will play a greater role than attitudinal factors which might allow for detailed consideration of options and flexibility of choice.

Many people may need or seek advice or guidance for help with their decision-making around pensions. People who do not act on advice or guidance immediately after receiving it may be less likely to make a decision or to make a decision with positive outcomes. Those who are more impulsive or more prone to inertia are the least likely to act on advice or information right away. These tendencies could be considered in the design of advice. There are ways of helping people to take action, for example giving them easy, practical steps to follow, or by including the action as part of the advice or guidance session. However it may be more difficult to give people these options through guidance than through regulated advice.

People with limited employment prospects or low levels of saving, who are more likely to be in the low/unskilled socio-economic class, will generally have fewer options available to them and their choices will be subsequently restrained.

Chapter 3: How complex are the choices that people have to make at and during retirement?

This Chapter sets out the skills and knowledge that people need in order to make informed decisions about pensions, retirement and other financial decisions from across the life course and ranks these decisions by difficulty and overall financial impact on people's lives.

The PPI conducted a workshop with experts on the behaviour and psychology of pensions and retirement decisions.[91] The workshop explored the range of options facing people in the lead up to and at retirement, then explored the knowledge and skills that people need in order to make informed decisions about these options.

For some of these areas, it is not possible to make a fully informed decision. That is because uncertain factors such as economic changes, inflation, and longevity can affect outcomes. However, in order to make an informed decision, people would benefit from some understanding of the potential ranges these factors may operate within and how changes could affect retirement outcomes.

Work and retirement

For those in work and contemplating a transition, options range from staying in work to working flexibly or leaving work altogether. Though some people may have very few options if they are constrained by internal or external factors such as ill-health or lack of appropriate employment.

However, for those who have available options, the following knowledge is necessary, at a minimum, in order to make an *informed decision* about work and retirement:

Box 7: Skills and knowledge necessary to make an informed decision about transitions out of work and into retirement[92]

- **How much income will people need in retirement?** – people must have some understanding of the level of income they might need or want in retirement. They will need to know whether the income they will receive from pensions (and/or other sources) will be sufficient without further contributions to their pot or giving their pot further time to mature.
- **What income is available?** – people will need to understand what income is available from pensions and other (non-pension) savings and assets. Specifically, they will need to have some idea what the yearly income might be from these sources once accessed, how certain it is, whether it will change over time and whether it is time limited.

[91] The workshop was attended by: Christopher Brooks, Senior Policy Manager (Age UK), Alev Sen, Policy Researcher (CAB), Dr Paul Cox, (CHASM), Alan Higham, Retirement Director, (Fidelity), Janette Weir, Director (Ignition House), Anthony Tomei, Visiting Professor (King's College), Melinda Riley, Head of Policy, (TPAS), Rebecca Fearnley, Chief Adviser, (Which)

[92] As agreed by workshop

- **How might income needs change in future? –** People will need to know what effect changes in health or household circumstances could have on their income needs and whether they will have sufficient income to support themselves or a partner if they develop care needs. They will need to know whether their work plans could be impacted by changes in health; whether a longer than expected life could impact their need for saving and income from work; and, how their death or the death of their partner could impact the income of the household.

State pension

People with state pension entitlement are faced with two main choices: whether to defer or take their state pension at State Pension Age (SPA). Those who defer have supplementary choices such as how long to defer for and how to take their increase. Those who choose to take their state pension at SPA can, at a later date, choose to defer.

The following knowledge is necessary, at a minimum, in order to make an *informed decision* about accessing state pensions:

Box 8: Skills and knowledge necessary to make an informed decision about accessing state pensions[93]

- **What options are available** – people will need to know that they have a choice between taking at SPA or deferring and the options available to those deferring.
- **The comparative value of different options** – people must have some understanding of what the different options will mean for overall income in retirement. In order to understand this, people will need to have some knowledge about what their life expectancy may be and what the impact of living for much longer than expected might be.

DB pension entitlement

People with DB pension entitlement have a range of options for taking pension income, though there are several defaults built in to the system and those who do not wish to make a choice can take a tax-free lump sum and the rest as income from their Normal Pension Age.

Some people with DB pension entitlement may transfer the value of their entitlement as a lump sum into a DC pension saving scheme.

The following knowledge is necessary, at a minimum, in order to make an *informed decision* about accessing DB entitlement:

[93] As agreed by workshop

Box 9: Skills and knowledge necessary to make an informed decision about accessing DB pension entitlement[94]

- **What options are available** – people will need to know that they can choose to take their pension early or defer; take their lump sum in different ways; take partial income while staying in work; and, leave an income for dependents.
- **The comparative value of different options** – as is the case for state pensions, people must have some understanding of what the different options will mean for overall income in retirement. In order to understand this people will need to have some knowledge about their own life expectancies and the potential for health problems in retirement.

DC pension savings

Those with DC pension savings face the greatest array of complex choices as well as the greatest uncertainty in outcomes. DC pension decisions are more complex than others as they require knowledge about the economy and market risks as well as some numerical ability. Ahead of automatic enrolment, around a quarter of people had more than one DC pension pot, which adds complexity in terms of tracking down and consolidating pots within the DC regulations.[95] Many outcomes, particularly after April 2015, will depend on unknown factors such as longevity, inflation and changes in income needs. Purchasing a lifetime annuity can reduce some uncertainty, however, annuities do not always protect against inflation or changes in income needs.

The following quote from TPAS's enquiry database illustrates some of the complications involved in making decisions about accessing DC pension savings:

*"I took out a stakeholder pension. It was part unit-linked and part with-profit […]. ****** have now [taken] it over in the last 3-4 years I think. I need advice on what I should be doing with it. When it got transferred I was made aware that ***** had been using the wrong unit price or scale. ***** told me this and adjusted my pension. So I need someone to have a good look at it to make sure I'm getting the best deal for the future."* [96]

The following knowledge is necessary, at a minimum, in order to make an *informed decision* about accessing DC savings:

Box 10: Skills and knowledge necessary to make an informed decision about accessing DC savings[97]

- **What options are available** – people with DC savings have a range of products they can use to access their savings. Those with incomes below a certain level or anyone with DC savings accessing their savings after

[94] As agreed by workshop
[95] IFS (2012b) p. 32
[96] Sample of enquiries received by The Pensions Advisory Service on the issues raised by online enquiry customers: September 2014 (quote edited for clarity)
[97] As agreed by workshop

2015 can take lump sums in unlimited amounts (from age 55 and taxed at an individual's marginal rate).

- **Economic factors** – people using a financial product (for example, income drawdown, an annuity, a savings account) will need to understand how economic factors might affect their fund value and the availability of income over time:
  - **Inflation –** people will need to understand how inflation could impact both their investments and their need for income in retirement
  - **Market risks and returns** – people using products which invest savings and allow for income withdrawal will need to understand how investment returns and market risks could impact available income and the potential for savings to support them throughout retirement.
  - For those considering whether to take their DC savings or to delay in order to contribute for longer, an understanding of **compound interest** might be necessary in order to make an estimate of what their pot may be worth when they come to take it
  - **Longevity risk** – People will need to consider what their life expectancy might be and correspondingly how long they might need to support themselves for and what the impact of living for longer than expected may be on their need for income in retirement. They will need to understand how and when they might become eligible for means-tested benefits.

Non-pension income, savings and assets
Access to non-pension savings and assets is generally less restricted than it is for pension savings and these can be used as flexible sources of income during periods of greater need or during later retirement.

The following knowledge is necessary, at a minimum, in order to make an *informed decision* about accessing other income and assets in retirement:

Box 11: Skills and knowledge necessary to make an informed decision about accessing non-pension income, savings and assets[98]

- **Available options –** as with the other sources of retirement income it is necessary to have an understanding of what options are available in order to make an informed choice between them. People will need some understanding of how eligibility for means-tested benefits operates.
- **Costs associated with options –** sources of income in retirement often have associated costs, such as accessing income from housing through equity release, costs attached to purchasing financial advice, or the tax costs associated with receiving or leaving an inheritance. People will need to be able to factor these in when calculating how much income can be sourced from particular assets.
- **Uncertain future factors –** people might need to have some idea of how long they are expected to live and what the impact of factors such as an

[98] As agreed by workshop

extended life, changes in health or unexpected inflation may have on their need for income or availability of income.

The workshop participants elected certain core skills or knowledge that people might need to make financial decisions on any and all of the above areas.

In order to make *informed decisions* about work, retirement, pensions (state, DB and DC) and non-pension savings and assets, people will need the following skills and knowledge, at a minimum:

Box 12: Skills and knowledge necessary to make an informed decision about work, retirement, pensions and non-pension savings and assets[99]

- **Tax/National Insurance/state benefit entitlement –** people will need to have an understanding about how savings and income are taxed in retirement and how they interact with state benefits alongside a recognition that these regulations are subject to change.
- **Basic maths and literacy skills –** people will need these to be able to understand their different options and compare values
- **Sufficient knowledge to recognise pensions scams and other financial scams** – people will need to have some understanding of what constitutes legitimate offers or approaches and be able to recognise the hallmarks of fraudulent approaches
- **Understanding of defaults** – people will need to know what might happen if they do not make a decision

How do the complexities of pensions and retirement decisions compare to other major financial decisions?

The workshop participants also reflected on the skills and knowledge which people would require in order to make other major financial decisions that people might take during their life course, in order to allow for comparison between pensions and retirement decisions and other financial decisions (Box 13).

Box 13: skills and knowledge necessary to make major non-retirement financial decisions[100]

Further education vs. entering work

- Salary post-education vs. salary without further education
- Potential "opportunity costs" of spending time out of the labour market
- Likelihood of course leading to employment vs. other training/internships etc.
- Current climate of job market
- Structure of student loans, likely future burden of repayments
- Other costs associated with attending education

[99] As agreed by workshop
[100] As agreed by workshop

Buying a car
- Residual costs
- Ongoing costs: running costs, repairs/maintenance, tax, insurance, warranty

Buying a house
- Cost and affordability of mortgage
  - Value of different types of mortgages
- Future earnings risk
- Interest rate risk
- Upkeep costs and other ongoing costs

Life insurance
- Comparative value of different products
- Income needs of dependents
- Do terms & conditions allow for potential refusal to pay?

It is more difficult to make informed decisions about accessing DC savings than it is to make other decisions

The workshop participants ranked pension, retirement and other major financial decisions by the difficulty of making an *informed financial decision* on each. Their considered view was that making informed decisions about accessing DC savings were the most difficult. The factors considered necessary to make informed decisions about DC savings involve knowledge about the economy and market-risks, numerical skills and knowledge about the potential impact of unknown factors.

Citizens Advice interviewed Citizens Advice Bureaux (CAB) clients and volunteers in their fifties and sixties with private pensions. Many find choices about what to do with DC pension savings especially challenging because of the difficulty in determining what different options would mean in practice for retirement income and because of the difficulties involved in understanding the impact of taxation and the potential impact of market factors such as investment returns.[101]

The following quote from TPAS's enquiry database illustrates some of the complications involved in making decisions about accessing DC savings through a DB conversion, and highlights the potential impact of less predictable factors involving health, life expectancy, the need for a dependent's income and how options have changed in light of the increased flexibilities being introduced from April 2015.

"My question is about transferring and managing my workplace pension. I have a good final salary pension, but the problem is that I have an incurable lymphoma and have now developed a secondary cancer, my life expectancy is not clear, but obviously not brilliant.

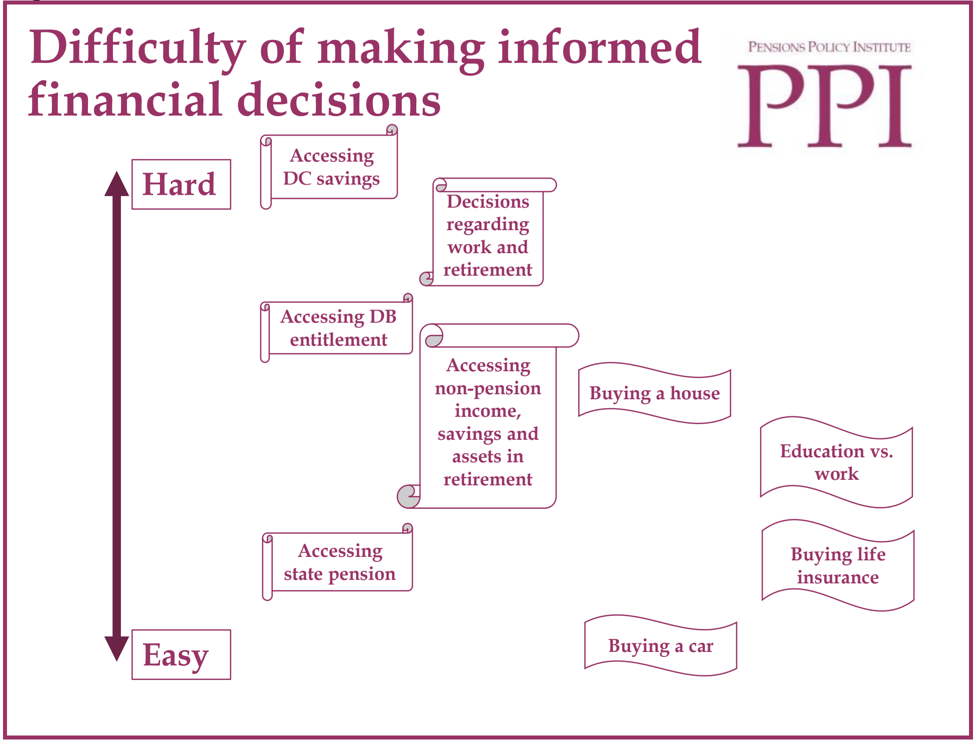
[101] Forthcoming Citizens Advice research paper '*How people think about older age and pensions: finding a way through the maze*'

The present pension goes to half its value for my wife on my death, which means she ends up on a small pension when she is still young. With the pension changes it seems to make sense for me to take the "pension" pot from my company pension and manage it myself so that it can then be transferred to my wife on my death and she then has no reduction in pension?"[102]

Making informed decisions regarding work and retirement were ranked as the second most difficult as these all involved a high degree of uncertainty.

Making informed decisions about accessing DB entitlement were considered the third most challenging, just above making informed decisions regarding accessing other income and assets, buying a house or choosing between further education and work. Making an informed decision about accessing state pension entitlement, purchasing life insurance or purchasing a car were ranked the easiest as the outcomes of these decisions were relatively simple to understand and had strong defaults attached to each option (Figure 1).

Figure 1[103]



The decisions were re-ranked by the level of impact they might have on people's future financial outcomes.

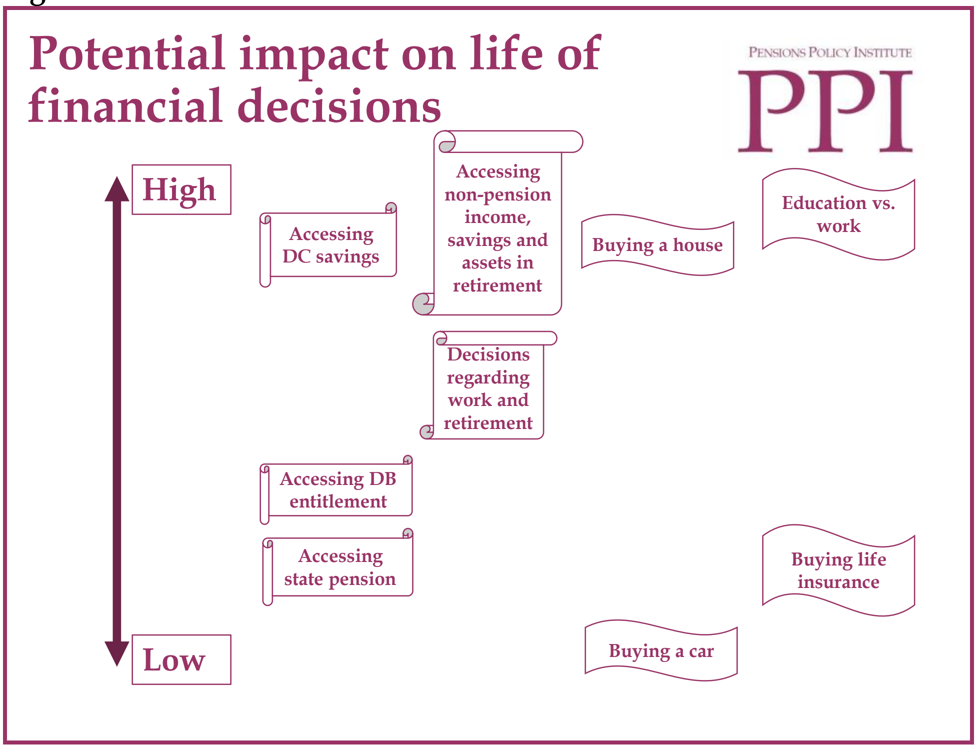
The level of financial impact that decisions about accessing pension or non-pension savings and assets will have on an individual is dependent foremost on

[102] Sample of enquiries received by The Pensions Advisory Service on the issues raised by online enquiry customers: September 2014
[103] Rankings agreed by working group of experts including representatives from: Age UK, CAB, CHASM, Fidelity, Ignition House, King's College, TPAS, Which

the levels of savings or entitlement that the individual has accrued of a particular type. If the level of savings or entitlement accrued in one type is minimal, and the individual has substantial levels of savings or entitlement of other types, then the decision may have less of an impact. If the individual has accrued a large level of savings and entitlement of one type, such as DC savings, and has very little other types of savings or entitlements, then the impact of any decision made might be more profound. Those with small levels of savings or entitlement may also experience a relatively greater impact from decisions about access if they have very little other savings, entitlements or assets to fall back on.

The workshop participants found that decisions about accessing DC savings, the most difficult to make an informed decision on, were also near the top of the ranking of financial impact level. Decisions about further education vs. work, buying a house and accessing other income and assets in retirement were also ranked as having the highest potential for financial impact during the lifetime (Figure 2).

Figure 2[104]



The Government is guaranteeing the availability of face-to-face guidance for everyone approaching retirement from April 2015

Making decisions about accessing DC savings involves complexity. As a result of the further flexibilities in accessing DC savings being introduced from April 2015, the decisions people make about accessing DC savings at retirement will

[104] Rankings agreed by working group of experts including representatives from: Age UK, CAB, CHASM, Fidelity, Ignition House, King's College, TPAS, Which

become more complex and involve more options and greater risk of financial detriment.

This is because, unlike DB pensions and state pensions which pay out a certain amount of income (generally rising in line with an inflationary index) until the death of the individual, DC savings can, after 2015, be accessed flexibly. Under the current system, people with savings above the trivial commutation limit are required either to prove that they have a secure income of £12,000 per year (£20,000 until April 2014) or to purchase a product which provides a "secure" retirement income; either an annuity or a Capped Drawdown product.

Lifetime annuity and Capped Drawdown products remove some of the differences between DC pensions and DB pensions because there is either no or reduced risk of the fund being depleted before the death of the annuitant (though drawdown holders faced some market-based risks which could reduce their funds). After full flexibility is allowed, from April 2015, people with DC savings who do not purchase a secure income product will run greater risk of running out of funds before their death. Other risks arise as a result of the new system, because people with DC savings might be faced with choosing between inaction or several complicated retirement income products. They will have to make choices based on imperfect knowledge as many of the factors which affect needs in retirement are surrounded by uncertainty, particularly changes in health, longevity and economic changes such as inflation.

Those who do not purchase an annuity may also be required to make decisions throughout retirement on changing funds or retirement income products as needs, circumstances, or economic factors change. However, cognitive functioning has been shown to decline throughout old age and could impair people's ability to make decisions as they get older.[105]

This is why options for accessing DC savings were ranked as the most complicated to make informed decisions on.

The Government recognises that the new flexibilities will result in DC savers (or those who transfer entitlement from DB to DC) having to make more difficult decisions at retirement than under the old system. Therefore it has committed to providing availability to people with DC savings, approaching retirement, with "free and impartial guidance on their options". The Government has guaranteed that the guidance will be impartial and provided face-to-face, online or over the phone according to the needs and preferences of the person accessing the guidance.[106]

However, while the guidance will be offered to people approaching retirement, there will be no obligation on people to take the offer up before making a decision about accessing their DC savings. Some people may choose not to

[105] IFS (2004) p. 255
[106] FCA (2014)

engage with the guidance, for example because of behavioural biases, such as the tendency towards inertia some people display, which results in a reluctance to engage with decision making in retirement. Around 92% of people indicated that they would "probably or definitely" use the guidance service once it became available,[107] however, in a TPAS and Legal and General pilot of pensions guidance on at-retirement decisions, conducted with 9,000 customers between April and May, only 2.5% of customers took up the offer.[108]

A recent PPI Briefing Note analysing findings from a consumer survey found that individuals' intentions around their DC pensions are characterised by a high degree of uncertainty around both when they might retire and how they will access their pension savings.[109] Even 12 months ahead of their expected retirement dates, only around 50% of DC savers said they knew what they expected to do with their pension pot in retirement. So, even if engagement can be achieved, it is unlikely that savers will have clear or definitive views on their expectations and preferences in retirement. It is more likely that gradually raising their awareness ahead of retirement around the choices and trade-offs they will face will help them to become comfortable with any default options they are offered by their schemes or providers, or will prompt them into exploring where they can find further help, beyond any initial guidance service.

For those who do engage with the guidance, they may need ongoing support, not just around decisions at retirement, but decisions later on in retirement as income needs or sources might change for people several times during retirement because of changes of health, household makeup, increases or decreases in available income. It is not yet clear whether people will be only allowed to use the Guidance service once, in the lead up to retirement, or will be allowed to have multiple sessions. The guidance will be funded by a levy on providers and financial service organisations and the level of provision will depend to some extent on available budget. It might be worth investigating whether people would benefit from the offer of several guidance sessions throughout retirement. If the guidance is effective, it may also be worth investigating whether the guidance should be offered to people of working–age who are still making decisions about saving in a pension.

It should also be taken into account that people who do not act on advice or guidance immediately after receiving it may be less likely to make a decision or to make a decision with positive outcomes. Those who are more impulsive or more prone to inertia are the least likely to act on advice or information right away. These tendencies could be considered in the design of advice. There are ways of helping people to take action, for example giving them easy, practical steps to follow, or by including the action as part of the advice or guidance

[107] www.cii.co.uk/knowledge/policy-and-public-affairs/articles/cii-report-guaranteed-guidance-what-consumers-want/32081
[108] Pilot sponsored TPAS and Legal and General, www.moneymarketing.co.uk/2015140.article?cmpid=pmalert_590745
[109] PPI (2014d)

session. However it may be more difficult to give people these options through guidance than through regulated advice.[110]

The Treasury will hold overall responsibility for the guidance but it will be monitored by the Financial Conduct Authority (FCA). The guidance for members of contract-based (third-party) DC schemes will be funded by a levy on these providers and on other financial services organisations. Trust-based schemes, run by a board of trustees with a fiduciary duty to members, will be obligated under the legislation to signpost to guidance; this will be monitored by The Pensions Regulator.

The telephony and internet-based elements of the guidance service will be provided by The Pensions Advisory Service (TPAS), an independent organisation who already has an established telephone and internet based guidance service. The face-to-face element will be provided through Citizens Advice Bureaux across England, Scotland, Wales and Northern Ireland.[111]

Summary

Making decisions about accessing DC savings involves complexity. As a result of the further flexibilities in accessing DC savings being introduced from April 2015, the decisions people make about accessing DC savings at retirement will become more complex and involve more options and potentially greater risk of financial detriment. Those who do not purchase an annuity at the beginning of retirement may also be required to make decisions throughout retirement on changing funds or retirement income products as needs, circumstances, or economic factors change. Though some people may purchase an annuity in later retirement and reduce the need for subsequent decision making about that portion of their DC savings.

PPI workshop participants ranked pension, retirement and other major financial decisions by the difficulty of making an *informed financial decision* on each. Making informed decisions about accessing DC savings were ranked as the most difficult. The factors considered necessary to make informed decisions about DC savings involve knowledge about the economy and market-risks, numerical skills and knowledge about the potential impact of unknown factors. Making informed decisions regarding work and retirement were ranked as the second most difficult as these all involved a high degree of uncertainty.

Making informed decisions about accessing DB entitlement were considered the third most challenging, just above making informed decisions regarding accessing other income and assets, buying a house or choosing between further education and work. Making an informed decision about accessing state pension entitlement, purchasing life insurance or purchasing a car were ranked

[110] AXA, University of Warwick (2007a), AXA, University of Warwick (2007b)
[111] FT Adviser, 01 October 2014, "*Treasury chooses Tpas for remote pensions guidance*", www.gov.uk/government/ news/pensions-guidance-providers-unveiled

the easiest as the outcomes of these decisions were relatively simple to understand and there are strong defaults attached to each option.

The level of financial impact that decisions about accessing pension or non-pension savings and assets will have on an individual is dependent foremost on the levels of savings or entitlement that the individual has accrued of a particular type. If the level of savings or entitlement accrued of one type is minimal, and the individual has substantial levels of savings or entitlement of other types, then the decision may have less of an impact. If the individual has accrued a large level of savings and entitlement of one type, such as DC savings, and has very little other types of savings or entitlements, then the impact of any decision made might be more profound. Those with small levels of savings or entitlement may also experience a relatively greater impact from decisions about access if they have very little other savings, entitlements or assets to fall back on.

The workshop participants found that decisions about accessing DC savings, the most difficult to make an informed decision on, were also near the top of the ranking of financial impact level. Decisions about further education vs. work, buying a house and accessing other income and assets in retirement were also ranked as having the highest potential for financial impact during the lifetime. The decisions that were considered most difficult to make an informed decision about and were also likely to have a high financial impact were those about accessing DC savings, and decisions about work and retirement.

The Government recognises that the new flexibilities will result in DC savers (or those who transfer entitlement from DB to DC) having to make more difficult decisions at retirement than under the old system. Therefore it has committed to offering people with DC savings, approaching retirement, access to “free and impartial guidance on their options”.

Chapter 4: How complex are the decisions facing people retiring within the next ten to fifteen years?

This chapter sets out the portfolios of pension saving and entitlement that people will be reaching State Pension Age with today and over the next ten to fifteen years. It defines different segments within this population and looks at which segments are faced with the most complex decisions at and during retirement and how these correlate with financial skills and knowledge. This chapter explores the implications of the segmentation for the provision of advice and guidance.

This report explores pension saving among individuals aged 50 to SPA in 2014
This report uses PPI modelling on the distribution of DC, DB and other pension wealth for older workers at a household and an individual level.

The modelling uses data from Wave 5 (2010/11) of the English Longitudinal Study of Ageing (ELSA) on benefit units with at least one individual aged between 50 and SPA. The modelling projects forward assumptions about continued earning and saving among people aged 50 to SPA and assumes that anyone eligible for auto-enrolment is auto-enrolled, does not opt-out, makes pension contributions along with their employer and receives tax relief. Those already in a pension scheme are assumed to continue contributing at their current percentage.

The PPI's Dynamic Model[112] uses data collected on over 10,000 respondents (selected to be representative of the English population aged 50 and over) and assesses their earnings and existing pension arrangements. As this is a relatively large sample, any analysis based on the whole sample is likely to be robust and, as a result, it is possible to generalise from these findings to the population of individuals in England aged over 50. However, more detailed analysis on smaller groups (e.g. by individual age bands) should only be treated as illustrative of how outcomes might differ between individuals and households, and the variation in household circumstances that might be observed.

The analysis uses short-term economic assumptions for RPI, CPI and annual earnings growth in line with Office for Budget Responsibility projections. It has also assumed expected investment returns of 6% in nominal terms, before charges, corresponding to a mixed equity/bond fund in the ratio of 60% equities, 40% bonds. However, this could overstate investment returns if the older workers are placed in more bond heavy, lower risk funds as they approach retirement.

[112] see Annex 1 for more detail

Assumptions about changes to DB

The modelling makes certain assumptions about the rate and impact of DB scheme closure in the private sector.

A number of factors have increased the costs of providing DB pension schemes[113] and, as a consequence, over 85% of DB schemes in the private sector are now closed either to new members or to both new members and new accruals (from existing members).[114] 41% of private and "other public sector" schemes that are still open are planning to close their schemes to new members over the next 5 years, and a quarter of open schemes are planning to close to new and existing members over the next five years.[115] Therefore, a large majority of those automatically enrolled are likely to be placed in DC pension schemes.

In the future the UK private sector workplace pension landscape is likely to be dominated by DC schemes, although the Government is currently consulting on ways of enabling employers to set up more hybrid schemes (which sit between DB and DC) and schemes which share risk between employees collectively.

Previous PPI analysis indicates that if an average of 15% of all people opt-out of being auto-enrolled automatic enrolment throughout the programme and beyond (and given certain economic and labour assumptions) the value of total private sector workplace DC assets in the UK could become greater than the total value of private sector workplace DB assets in around 2036 at £540 billion.[116]

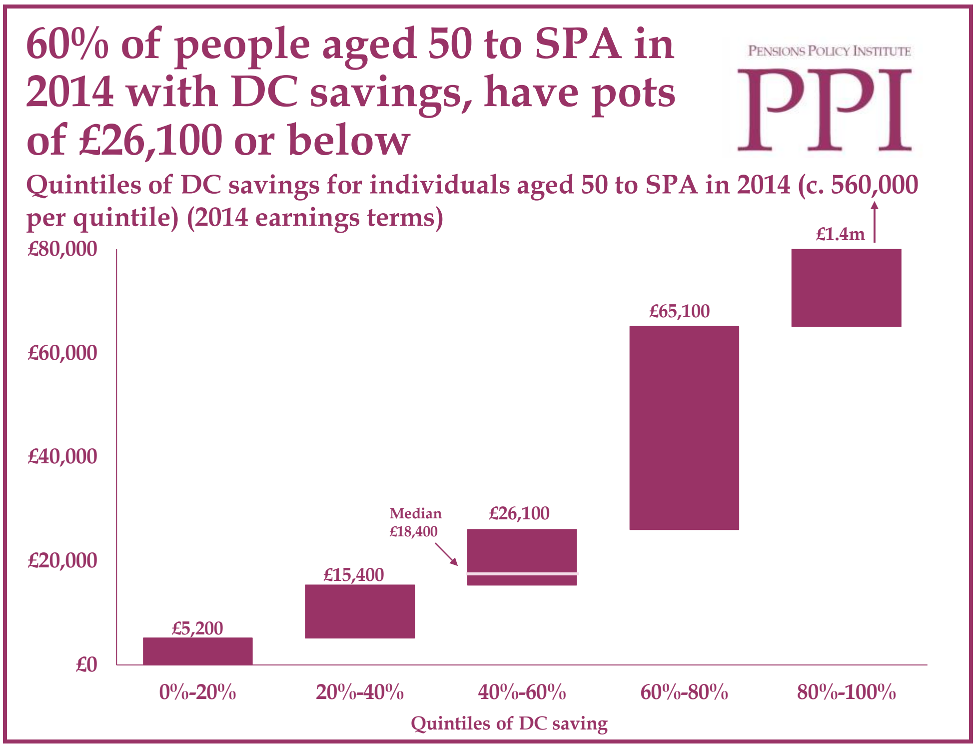
Since 2010 active membership of private sector defined benefit pension schemes has fallen from 2.1 million members in 2010 to 1.6 million members in 2013, whereas active membership of public sector pension schemes has remained steady at 5.3 million in both 2010 and 2013.[117]

The analysis in this report assumes that people who are currently active members of DB pension schemes remain so and continue to accrue DP pension up until their retirement. That assumptions may overstate the amount of DB pension held by individuals at retirement. However if we were to make the assumption that people in this age group experience an end of their defined benefit accrual at the average rate of scheme closure then we have two problems to overcome; we must arbitrarily choose people whose DB accrual ceases, and we may be overstating the closure for this particular age group, which may be more likely to remain active in schemes that are closed to new entrants but still offer accrual for existing members. For these reasons the assumption made is that employees currently in DB pension schemes continue to accrue pension in their existing scheme.

113 Such as increased longevity and market-based risks
114 TPR (2014)
115 NAPF (2013) p. 18
116 PPI (2014a)
117 ONS Occupational Pension Schemes Survey 2013

The majority of DC savers over age 50 have low levels of DC pension savings
60% of people aged between 50 and their State Pension Age (SPA) in 2014 with DC savings have pots of £26,100 or less (2014 earnings terms) (Chart 4). A pot of this size or less is unlikely to help provide a substantial level of income through retirement, though it could make a significant difference for someone on a relatively low income. A pot of £26,100 could purchase an income from a level annuity of around £110 to £125 per month.[118] Level annuity income does not rise in line with an inflationary index, but remains constant in nominal (cash) terms.

Chart 4[119]

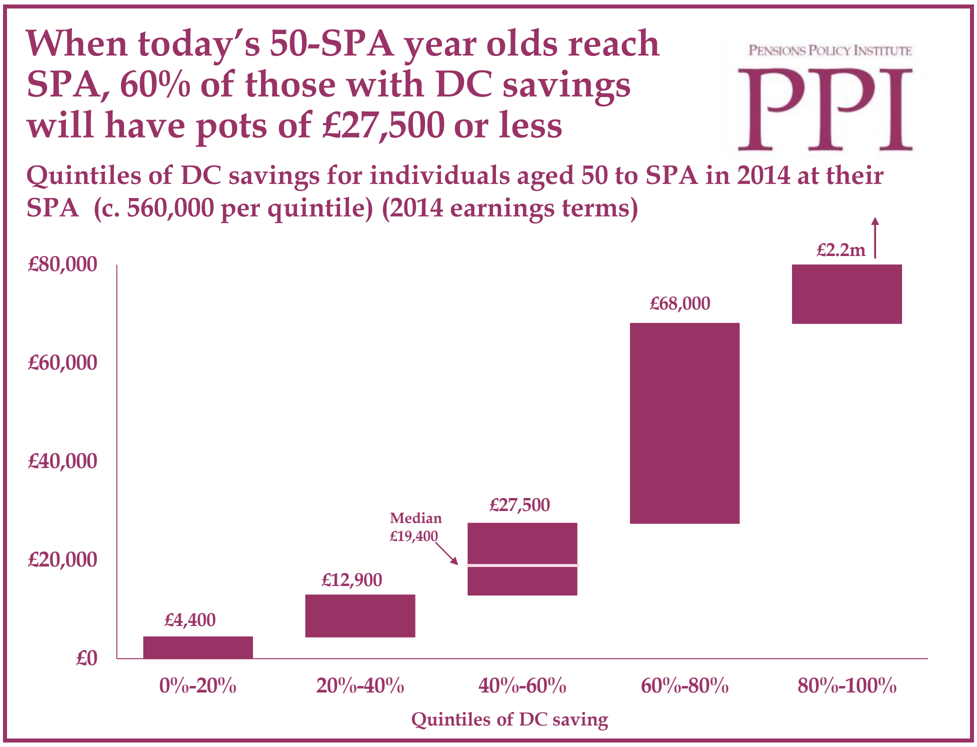


[118] Money advice service annuity comparison tables for a 65 year old, non-smoking single man living in London, assuming no tax-free lump sum is taken. Calculated 20 October, 2014.
[119] PPI Dynamic Model

By SPA the value of DC savings that people currently aged 50 to SPA with DC savings have will increase

If you simulated ageing for all of today's 50 to SPA year olds with DC savings till they reached their own individual SPA, assuming they continue to save and contribute at their current levels, and then considered them as one population, then 60% of them would have pots of £27,500 or less (2014 earnings terms) (Chart 5).

Chart 5[120]

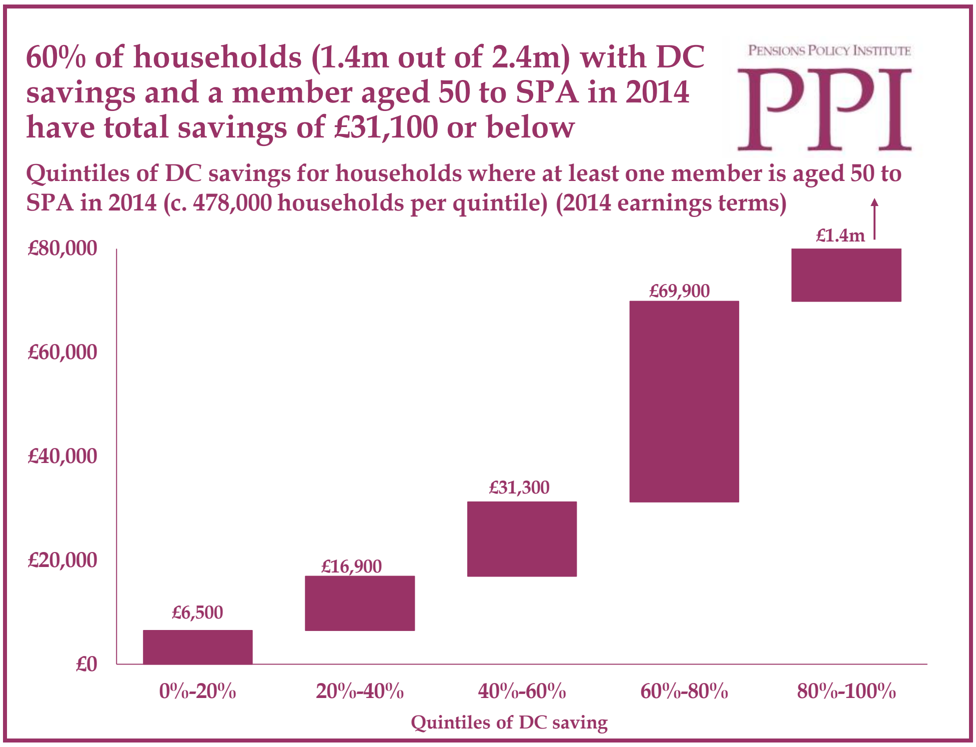


[120] PPI Dynamic Model

The value of household DC savings do not differ substantially from those on an individual level

Households have higher levels of DC wealth than individuals, as household analysis includes all the savings and assets belonging to a couple. On a household basis, 60%, (or around 1.4 million) of households with DC savings have total DC savings of £31,300 or below, compared to £26,100 or below for individuals (Chart 6). However, the value of household DC savings do not differ substantially from those on an individual level, indicating that in many households, the majority of DC wealth is held by one person.

Chart 6[121]



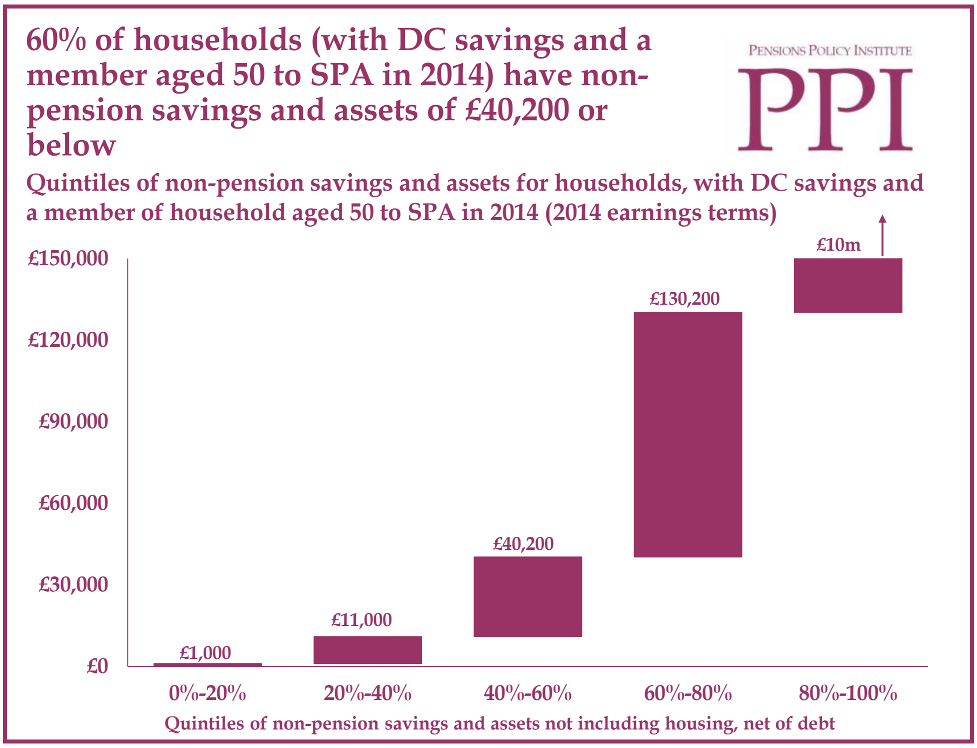
60% of people aged over 50 with DC savings have non-pension savings and assets of £40,200 or more

Many households will be able to use other, non-pension wealth[122] to supplement pension income and support themselves in retirement. Of those with DC savings, around 1.3 million households (out of 2.4 million) have non-pension savings and assets of £40,200 or more (Chart 7).

[121] PPI Dynamic Model

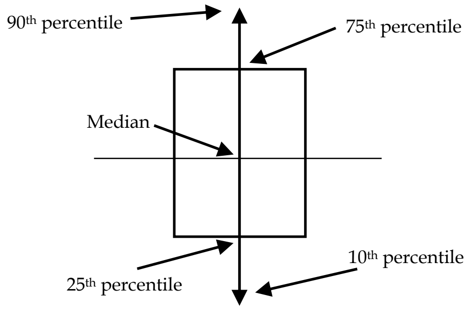
[122] Non-pension savings and assets include: savings (bank accounts, ISAs, TESSAs); investments (Premium Bonds, National Savings, PEPs, shares, trusts, bonds, ISAs, elements of life insurance) minus debts. It also includes physical wealth: second homes, farms or business property, other business wealth, other land, assets such as jewellery, art or antiques.

Chart 7[123]



Box plots

The next two charts in the report are **box plots.** Box plots allow graphic representation of a distribution of outcomes. The rectangle represents the 25th to 75th percentiles of the distribution while the end of the vertical line represent the 10th and 90th percentiles. The horizontal line through the box represents the median.



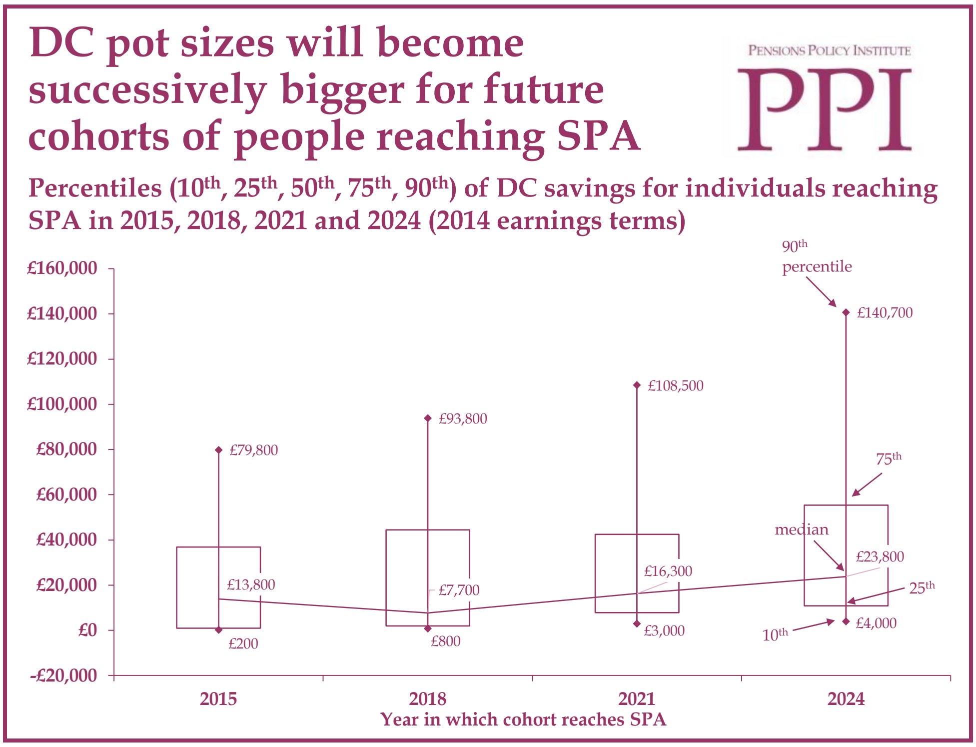
[123] PPI Dynamic Model

Over the next decade, cohorts of people reaching SPA should have successively greater amounts of DC savings

The following **box plot chart** shows percentiles of saving for those reaching SPA in 2015, 2018, 2021 and 2024. For each cohort, the box shows the median level of DC pension savings, (horizontal line through the boxes) as well as the 25th and 75th percentile (either end of the boxes) and the 10th and 90th percentiles, at either end of the vertical line through each box.

Between 2015 and 2024, the median level of DC savings for those reaching SPA with DC savings will rise from £13,800 to £23,800 and the 90th percentile will increase by around 75%[124] from £79,800 to £140,700 (2014 earnings terms) (Chart 8). Between 2015 and 2018, the median value of pot sizes decreases. This is due to the impact of auto-enrolment leading to more people saving in total, but smaller average pot sizes as the pots of people who have been auto-enrolled have only had a few years in which to grow.

Chart 8[125]

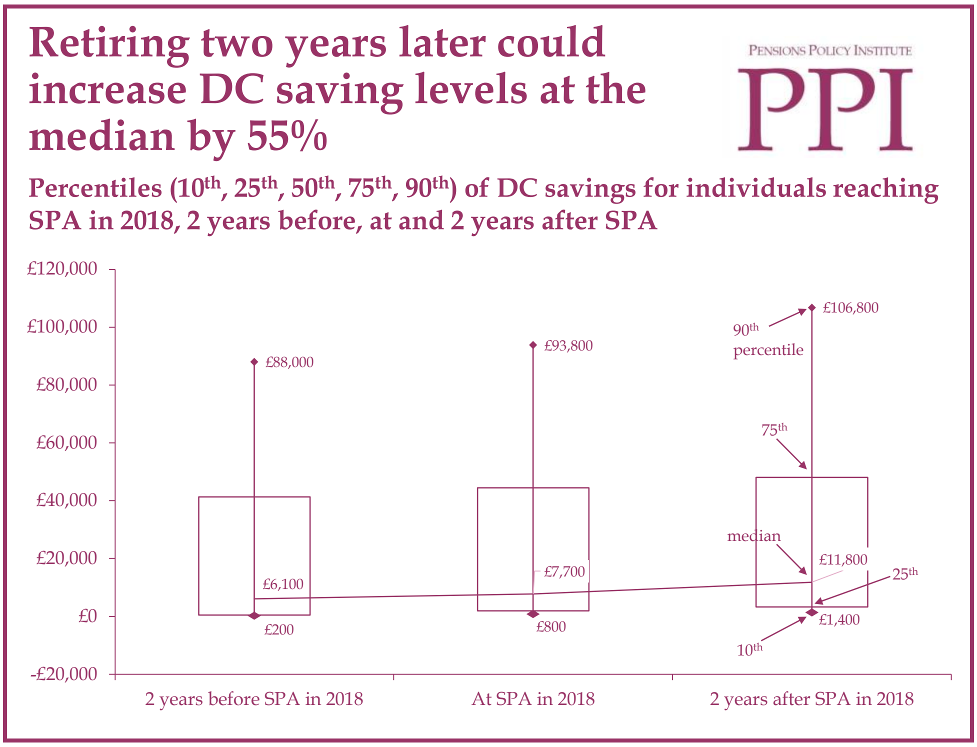


124 Rounded to nearest 5%
125 PPI Dynamic Model

Continuing to save beyond SPA could also increase the median value of DC savings by around 55%

If it is assumed that the cohort reaching SPA in 2018 with DC savings continues to save into their DC pension funds for an additional 2 years after SPA (without taking any money out) then the median value of DC pension savings could increase by around 55%, from £7,700 to £11,800, due to the value of compound interest operating on mature pots.[126] If, conversely, people in that cohort are all assumed to access their DC pension savings pots 2 years prior to SPA, then the median value of DC savings could be reduced by around 20%[127] (Chart 9).

Chart 9[128]

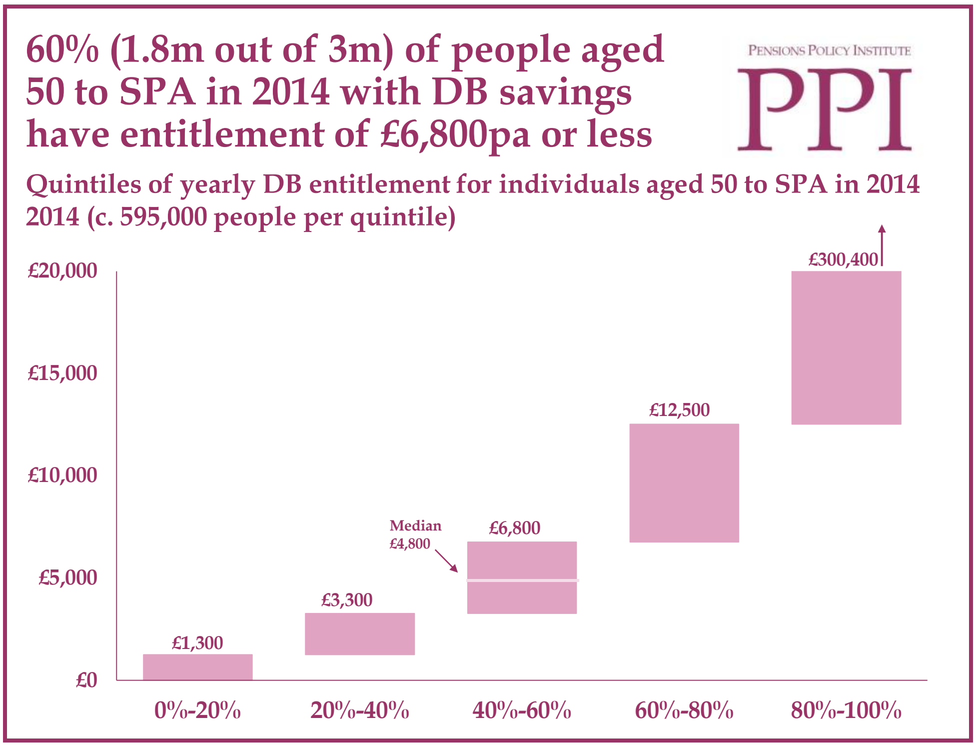


[126] Rounded to nearest 5%
[127] Rounded to nearest 5%
[128] PPI Dynamic Model

People aged 50 and over in 2014 have higher average levels of DB entitlement than DC savings
Current average levels of DB entitlement for those aged 50 to SPA would provide a higher income than the average levels of DC savings could provide. 60% of people aged between 50 and their State Pension Age (SPA) in 2014 with DC savings have pots of £26,100 or less (2014 earnings terms), which could purchase an annual level annuity income of around £110 to £125 per month, which does not escalate (i.e., remains the same in nominal terms year on year).

However, 60% of people aged 50 to SPA in 2014 with DB entitlement have entitlement of £6,800 per year or less, equivalent to £565 per month (2014 earnings terms), which should escalate each year in line with a pre-agreed index (e.g., CPI) (Chart 10). The escalating element of the DB pension increases its value relative to a level income, as the escalation ensures that the DB income is not as vulnerable to losing relative value (purchasing power) in real terms.

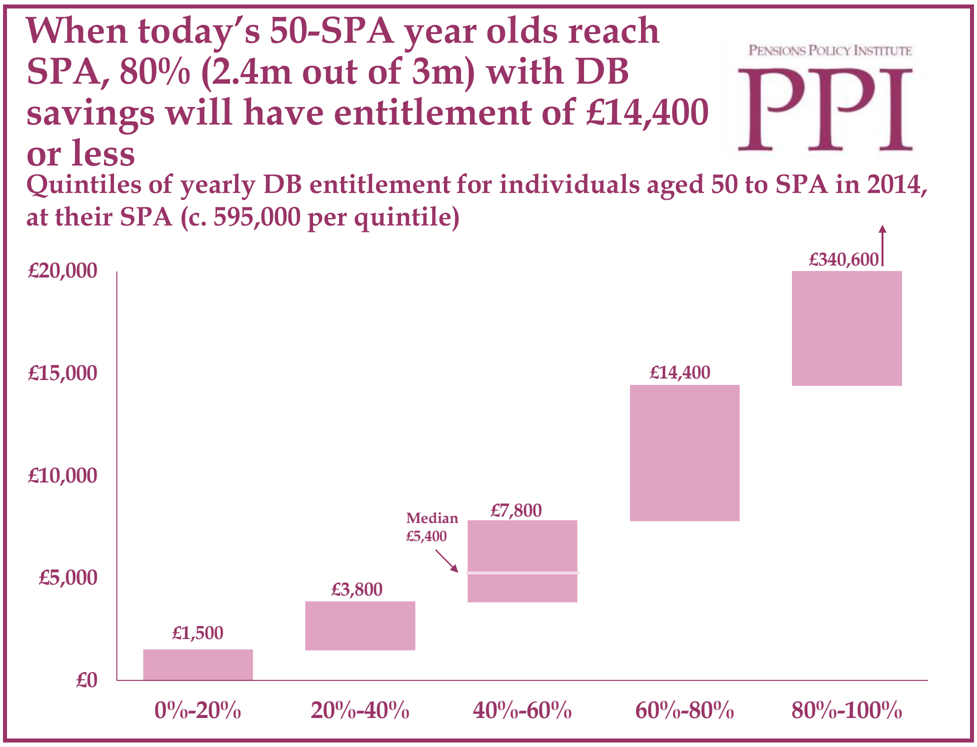
Chart 10[129]



[129] PPI Dynamic Model

By SPA the value of DB entitlement that people currently aged 50 to SPA with DB entitlement have will increase
If it is assumed that all people with DB entitlement currently in schemes remain in their schemes contributing until SPA, then the value of DB entitlement will increase. If you took a snapshot of all of today's 50 to SPA year olds with DB entitlement at their SPA and looked at them as one cohort, then 60% of them would have DB entitlement of £7,800 or less (2014 earnings terms) (Chart 11).

Chart 11[130]



Many DB schemes in the private sector are closing to new members and most employers are offering DC schemes for automatic-enrolment. In the future, more people are likely to reach SPA with DC savings and the average levels of DC saving are likely to increase, while the number of people with DB entitlement will decrease.

The rest of this chapter uses PPI's dynamic model and data from the English Longitudinal Study of Ageing to explore the portfolios of pension saving and entitlement that people will be reaching SPA with today and over the next ten to fifteen years. These people, aged 50 to SPA are aged to their individual SPAs and then their pension and other saving portfolios are considered. This chapter defines different segments within this group and looks at which segments are faced with the most complex decisions at and during retirement and how these correlate with financial skill and engagement. The segment groups are

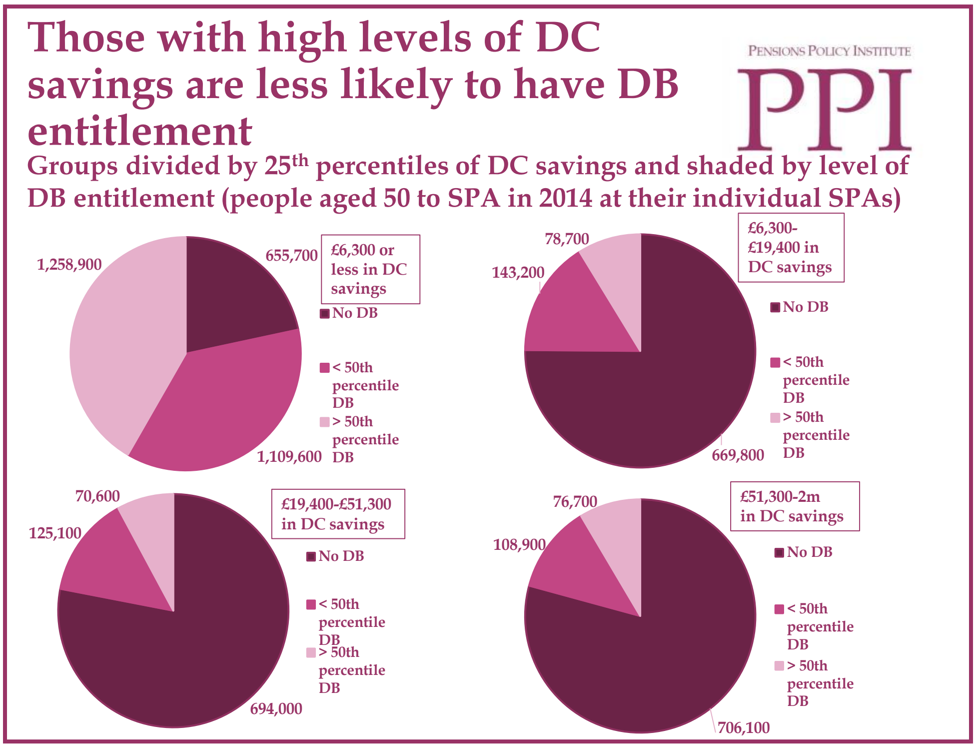
[130] PPI Dynamic Model

separated by level (25th percentiles) of DC savings, then further divided by level of DB entitlement to create 12 separate segments.

The characteristics of each group is explored. The DC portfolios of groups approaching retirement over the next ten to fifteen years are of particular interest, as it is people with this type of savings which will be most impacted by the budget changes introducing further flexibility of access.

Half of people currently aged between 50 and SPA with pension savings will have £6,300 or less in DC savings by the time they reach their SPA – including some with no DC savings
In England, around 5.7 million people currently (2014) aged between 50 and SPA will have some private pension savings or entitlement at their SPA. Around half of these people will have DC pots of £6,300 or less, including those who will have no DC savings. Around three quarters of this group will have DB entitlement. Half of this group will have DC pots of £6,300 or more and around a quarter of this half will have DB entitlement (Chart 12).

Chart 12[131]



The segments were assigned labels indicating the level of risk that they are exposed to
It is useful to explore how different indicators correlate with pension and non-pension saving portfolios because they can provide information about the likely needs and characteristics of different groups. For example, profession based

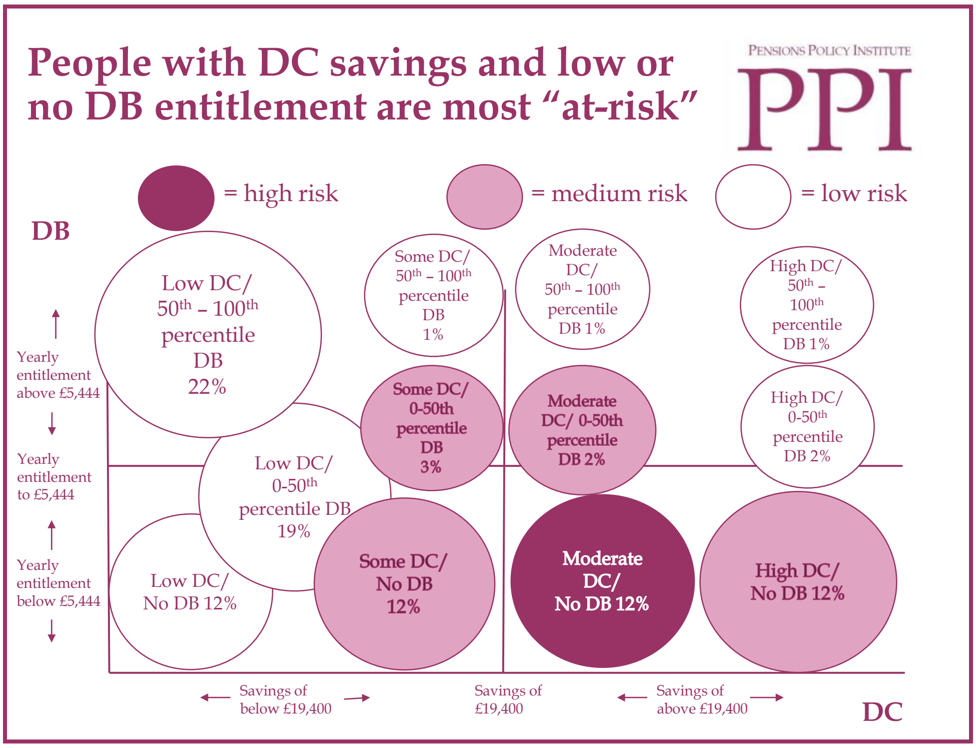
[131] PPI Dynamic Model

socio-economic class can give indications about education, income level and the likelihood of people being able to work longer or more flexibly. For example, those in lower profession based socio-economic classes are less likely to have flexible working options available to them and are more likely to have to leave work for involuntary reasons such as health problems.

The level of non-pension savings and assets held by people gives an indication of how dependent they might be on one source of pension savings or on the state. Proxy indicators of financial skill and engagement can allow judgements to be made regarding people's likely ability to make complex decisions about accessing pension savings without assistance.

The segment groups were assigned risk labels reflecting indicators such as degree of dependence on DC, whether they had DB entitlement to fall back on, and their ability to make "good" DC decisions based on their levels of financial skill and engagement. Those who were judged to be very dependent on DC savings, (which it has been established are difficult to make a fully informed decision about and the viability of which can be subject to unpredictable factors such as economic changes, inflation or living for longer than expected) were determined to have higher levels of risk. Risk level was mitigated by other factors such as whether they had substantial enough DC savings to afford the risk, whether they were more likely to use independent advice, and whether they were likely to have higher numerical ability, or score well on proxy indicators of financial skill and engagement (Chart 13).

Chart 13[132]



£6,300 or less of DC savings – the Low DC group
People with Low levels of DC (655,700 people 12%), and 50th percentile or less of DB entitlement (1,109,600 people 19%)

- Are more likely to be in lower socio-economic classes and the middle three overall income quintiles; have lower levels of non-pension savings and assets than other groups; scored low on proxy indicators of financial skill and engagement. These groups are classified as "low-risk" because they are likely to rely mainly on the state pension and state benefits or a combination of state and DB entitlement for their income in retirement. These are fairly low-risk sources of income which escalate to protect against inflation.

People with low levels of DC but 50th percentile or more of DB entitlement (1,258,900 people 22%):

- Are more likely than those with low levels of DB entitlement to be in a high socio-economic class and have reasonable levels of non-pension savings and assets. They scored around medium in the range of segments on proxy indicators of financial skill and knowledge. This group is classified as "low-risk" because they are likely to rely mainly on a combination of the state pension and DB entitlement for their income in retirement. These are fairly low-risk sources of income which escalate to protect against inflation.

£6,300 to £19,400 of DC savings – the Some DC group
For people with some DC, the level of DB entitlement makes a substantial difference to outcomes:

[132] PPI Dynamic Model

- **(No DB, 669,800 people, 12%)** Those with no DB tend to be in the bottom third of the range for social class, non-pension savings and assets and to score low on proxy indicators of financial skill and knowledge. This group is classified as "medium-risk". They are likely to rely mainly on the state pension or state benefits, but have some DC savings which could be used to support retirement by paying off debts, for a single purchase or as a small source of income. This group scores low on proxy indicators of financial skill and knowledge; but is unlikely to have enough funds to purchase independent advice which might aid in determining the best use for their DC savings.
- **(<50th percentile DB, 143,200 people, 3%)** Those with up to 50th percentile DB entitlement were middle of the range for likelihood of being in a high socio-economic class and having high levels of non-pension savings and assets. They scored mid-range on proxy indicators of financial skill and knowledge. This group is classified as "medium-risk" for the same reasons as the previous group.
- **(>50th percentile DB, 78,700 people, 1%)** Those with 50th percentile or more of DB entitlement were quite likely to be in the highest or second highest socio-economic group and non-pension savings quintiles. They scored mid-range on proxy indicators of financial skill and knowledge. This group is classified as "low-risk" because they are likely to rely mainly on a combination of the state pension and DB entitlement for their income in retirement. These are fairly low-risk sources of income which escalate to protect against inflation. They have some small portion of DC savings, however the decisions they make about these are unlikely to impact heavily on their overall income in retirement.

£19,400 to £51,300 of DC savings – the Moderate DC group

People in the moderate DC group scored better on most indicators than the people with lower levels of DC savings, despite DB entitlement, though those with high levels of DB entitlement scored better than those with low or no levels.

- **(No DB, 694,000 people, 12%)** Those with no DB tend to be fairly evenly distributed across the range of socio-economic class and non-pension savings quintiles. They scored low on proxy measures of financial skill and engagement. This group is classified as "high-risk". They are likely to rely mainly on the state pension or state benefits, but have moderate DC savings which could be used to pay off a significant debt or supplement retirement income. However, this group scores low on proxy indicators of financial skill and knowledge; but is unlikely to have enough funds to purchase independent advice which might aid in determining the best use for their DC savings. If they make a poor decision about their DC savings they have little other income sources than the state or housing assets to fall back on. Prior to the transitional arrangements introduced in 2014, many of the people in this group would have had to purchase a lifetime annuity or invest in Capped Drawdown with their DC savings because they would have been above the trivial commutation limit of £18,000. After April 2015 all of these people will be able to flexibly take their DC pension savings after the minimum pension age and therefore they will face an array of decisions that they would have had to if they were purchasing a lifetime annuity or Capped Drawdown.

- **(<50th percentile DB, 125,100 people, 2%)** Those with up to the 50th percentile of DB entitlement are about mid-way up the range of likelihood of being in the highest socio-economic class, and are clustered around the top two non-pension savings quintiles. They scored medium on proxy measures of financial skill and engagement. This group is classified as "medium-risk". They are likely to rely mainly on a combination of state and DB pensions, but have some DC savings which could be used to support retirement by paying off debts, for a single purchase or as a small source of income. If accessed in a way which suits their circumstances, their DC savings could be used in a way which impacts their retirement income by paying off a significant debt or supplementing income. However, this group scores low on proxy indicators of financial skill and knowledge; but is unlikely to have enough funds to purchase independent advice which might aid in determining the best use for their DC savings. If they make a poor decision about their DC savings they have some other DB entitlement to fall back on, which mitigates their risk down to medium rather than high.
- **(>50th percentile DB, 70,600 people, 1%)** Those with 50th percentile or more of DB entitlement are second most likely to be in the highest socio-economic class and the second highest non-pension savings quintile. This group scored high on proxy indicators of financial skill and engagement. This group is classified as "low-risk" because they are likely to rely mainly on a combination of the state pension and DB entitlement for their income in retirement. These are fairly low-risk sources of income which escalate to protect against inflation. They have a moderate portion of DC savings, but they also score high on indicators of financial skill and engagement and are therefore less at risk of making a poor decision. Those who do make a poor decision have other income sources to fall back on.

£51,300 to £2,199,800 of DC savings – the high DC group

Those with high levels of DC savings were more likely to score high on the indicators than other groups

- **(No DB, 706,100 people, 12%)** Those with no DB tend to be in the highest socio-economic class, mostly in the top three of the non-pensions savings quintiles, and scored middle of the range on proxy indicators of financial skill and capability. This group is classified as "medium-risk". They have high levels of DC savings and are likely to rely on a combination of state pension, DC savings and non-pension savings and assets to support themselves in retirement. Having DC savings as a main source of retirement income is riskier than other sources because decisions about DC savings are more difficult to make and DC funds are more subject to unpredictable factors. However, this group scored medium on levels of financial skill and capability and are the group most likely to use independent financial advice for assistance in making pensions decisions.

- **(<50th percentile DB, 108,900 people, 2%), (>50th percentile DB, 76,700 people, 1%)** Those with any DB entitlement at all were quite or very likely to be in the highest socio-economic class, and non-pension savings and assets quintiles. They scored well on proxy indicators of financial engagement. These groups are classified as "low-risk". They have a diverse portfolio of sources to depend on in retirement including state pension, DB entitlement, DC savings and other savings and assets. They score high on proxy indicators of financial skill and knowledge and are also more likely to be able to afford financial advice. Those who do make a poor decision about DC savings have other income sources to fall back on.

The next section explores the correlations between variables

Being in a high socio-economic class is associated with having higher levels of DB entitlement

Those with DB entitlement of 50th percentile or more are more likely to be in the highest socio-economic class. However, the likelihood of being in a higher socio-economic class, once someone had DB entitlement of 50th percentile or more, increased in correlation with the level of DC savings; 89% of people with DB entitlement of 50th percentile or more and DC savings of 75th to 100th percentile were in the highest socio-economic class. Those with no or very little pension savings and entitlement were most likely to be in the lowest socio-economic class.

Having DB entitlement of 50th percentile or more is most strongly associated with being in the highest quintile of non-pension savings and assets

Having DB entitlement at the 50th percentile or higher is most strongly associated with being in the highest quintile of non-pension savings and assets, however, having higher levels of DC saving is also associated. 45% of those with 50th percentile or higher of DB entitlement and 75th to 100th percentile of DC are in the top quintile of other savings and assets, while 43% of those with 50th percentile or higher of DB entitlement but very low levels of DC (25th percentile or less) are in the top quintile. Only 20% of those with No DB and 25th percentile or less of DC savings are in the top quintile.

Performing well on proxy indicators of financial skill and knowledge was associated with higher levels of DB entitlement, especially for education and numeracy

There is no direct measure of financial capability. This report uses indirect proxy indicators, (though flawed as sole indicators because each indicator such as education or numeracy can be correlated with many other measures) to measure financial skill and engagement. Seen as a group, these indicators can give some insight as to the levels of financial skill and engagement that people with different levels of pension saving and entitlement have. This report uses four proxy indicators: financial engagement, access to information, education level and numeracy.

High education and high levels of numeracy are associated with higher levels of DB entitlement

Those with DB entitlement of 50th percentile or higher were far more likely to have a degree and score 6/6 on a numeracy test, correctly answering the question about compound interest (the numeracy test questions are set out in the appendix). Higher levels of DC, with some DB entitlement, were also correlated with high levels of education and numeracy. 68% of people with DB entitlement of 50th percentile or more and DC savings of 75th to 100th percentile had a degree and 51% scored 6/6 on a numeracy test, correctly answering a question on compound interest. Having no DB entitlement at all was correlated with being less likely to have a degree or score well on a numeracy test, even when the individual had high DC entitlement.

Those with low levels of DC (50th percentile or less) and no DB are the most likely to have no qualifications at all.

All segments favoured their pension scheme and employer as a source of information on pensions

The majority of people in most segments used their scheme and/or their employer as a source of information on pensions. Having DB entitlement was correlated with being more likely to use a pension scheme as a source of pensions information. Those with the highest levels of DB entitlement (50th percentile or higher) were less likely to use their employer as a source of information than those with moderate levels of DB entitlement (50th percentile or lower). However, the survey data is from before automatic enrolment. As a result of automatic enrolment, more people will be receiving pensions information from their employer and or provider if they remain opted in. The DWP are also conducting a high profile information campaign about automatic enrolment and workplace pensions over television, radio, press coverage and other forms of media and advertising in public places.

Experience of using ISAs, PEPs and TESSAs and experience of direct market investment was fairly evenly distributed, however, those with higher levels of DC were far more likely to have direct investment experience.

Having DB or higher levels of DB entitlement was correlated negatively with using an IFA. Having DC and no DB entitlement was positively correlated with using an IFA. The group most likely to use an IFA (14% were those with 75th to 100th percentile of DC savings and no DB entitlement.

The following boxes and tables explore the data in more depth

The Low DC group (0th - 25th percentile DC savings)

£6,300 or less of DC savings – the Low DC group This group has very low levels of DC savings and are likely to depend more on DB savings, other, non-pension savings and assets or the state in retirement.

Low DC/No DB *(£6,300 or less of DC savings)*
The people in this group are:

- More likely than the people in any of the other segments to be in the lowest socio-economic class,
- More likely than the people in the other segments to be in the lowest quintile of non-pension savings and assets. A quarter of this group (26%) has £1,000 or less in other savings and assets,
- This group scored lower than any of the others on proxy measures of financial skill and engagement, though 5% have used an IFA and 1% have used an accountant for pensions advice.

Low DC/0-50th percentile DB *(£6,300 or less of DC savings, yearly DB entitlement of £5,444 or less)*
The people in this group are:

- In the bottom three for social class, a third (33%) are in the highest class and a third (32%) in the lowest,
- Fairly evenly distributed across quintiles of other savings and assets, with around a quarter (24%) in the top quintile,
- In the bottom three for education and numeracy, had low to medium levels of engagement and very little experience of using IFAs or accountants as a source of pensions information.

Low DC/50th-100th percentile DB *(£6,300 or less of DC savings, yearly DB entitlement of £5,444 to £300,400)*
The people in this group are:

- In the top five for socio-economic class, with 57% in managerial and professional occupations,
- In the top four for other savings and assets with 43% in the top quintile and 27% in the second highest,
- Scored medium for financial skill and engagement, with 39% having a degree, 34% scoring 6/6 on a numeracy test, answering the compound interest question correctly; 38% having direct investment experience, though very little experience of using IFAs or accountants as a source of pensions information and most using pension scheme and/or employer as a source of information.

The Some DC group (25th to 50th percentile DC savings)

£6,300 to £19,400 of DC savings – the Some DC group
This group has quite low levels of DC savings. They may have sufficient to pay off debts, or a mortgage but are likely to depend more on DB savings, other, non-pension savings and assets or the state for a regular income in retirement.

Some DC/No DB *(£6,300 to £19,400 of DC savings, No DB entitlement)*
The people in this group are:

- In the bottom three for social class: a third in the highest socio-economic class and a third in the lowest,

- This group is unlikely to have much other savings and assets with 21% in the top quintile, and a quarter (25%) with other savings and assets of £1,000 or less,
- Scored low for financial skill and knowledge: 20% have a degree, 18% scored 6/6 on a numeracy test, answering the compound interest question correctly; only 24% have direct investment experience and 52% have used an ISA, PEP or TESSA. However, 6% have used an IFA.

Some DC/0-50th percentile DB*(£6,300 to £19,400 of DC savings, yearly DB entitlement of £5,444 or less)*
The people in this group are:
- In the middle range for socio-economic class with 44% in the highest class, 18% in the second highest, but 27% in the lowest,
- More likely than any other group to be in the middle quintile of other savings and assets (30%), a quarter (25%) are in the second highest, only 15% are in the highest,
- Scored medium for financial skill and knowledge: 30% have a degree, 34% scored 6/6 on a numeracy test, answering the compound interest question correctly, 36% have direct investment experience and 67% have used an ISA, PEP or TESSA. 4% have used an IFA.

Some DC/50th-100th percentile DB *(£6,300 to £19,400 of DC savings, yearly DB entitlement of £5,444 to £300,400)*
The people in this group are:
- More likely than other groups to be in the second highest socio-economic class, 21%. 44% of the group are in the highest class,
- Scored high for other income and assets, with 46% in the top quintile and 26% in the second highest,
- Had medium levels of financial skill and engagement with 38% having a degree; 35% scoring 6/6 on numeracy and 54% scoring 5/6; 41% have direct investment experience and 49% have used an ISA, PEP or TESSA. 4% have used an IFA.

The Moderate DC group (50th to 75th percentile)

£19,400 to £51,300 of DC savings – the Moderate DC group
This group has moderate levels of DC savings. They may have sufficient to pay off debts, or a mortgage or might be able to use their DC savings to provide an income for some portion of their retirement, they are likely to still depend partially on DB savings, other, non-pension savings and assets or the state for a regular income in retirement.

Moderate DC/No DB *(£19,400 to £51,300 of DC savings, No DB entitlement)*
The people in this group are:
- Less likely than those in most other groups to be in the highest socio-economic class, but they are more evenly spread across class groupings than those in other groups, with 39% in the highest class, 12% in the second, 15% in the third, then 12% and 22% in the lowest class,

- Fairly evenly distributed across other savings and assets quintiles, with 25% in the second highest and 21% in the highest,
- Scored low on proxy measures of financial skill and engagement with 23% with a degree, 25% scoring 6/6 on numeracy, answering the compound interest question correctly; 27% with direct investment experience. Many use their scheme (75%) and/or employer (28%) as a source of pension information. 5% have used an IFA.

Moderate DC/0-50th percentile DB *(£19,400 to £51,300 of DC savings, yearly DB entitlement of £5,444 or less)*
The people in this group are:
- About mid-way up the range of likelihood of being in the highest socio-economic class with around 53%,
- About mid-way up the range of likelihood of being in the highest quintile for other savings and assets with 31% in the highest and 32% in the second highest,
- Scored medium on proxy indicators of financial skill and engagement with 34% with a degree, 33% scoring 6/6 on numeracy, answering the compound interest question correctly; 26% with direct investment experience. Many use their scheme (89%) and/or employer (31%) as a source of pension information. 8% have used an IFA.

Moderate DC/50th-100th percentile DB *(£19,400 to £51,300 of DC savings, yearly DB entitlement of £5,444 to £300,400)*
The people in this group are:
- The people in this group are second most likely to be in the highest socio-economic class (74%). 17% are in the lowest socio-economic class.
- People in this group are more likely than any other (37%) to be in the second highest quintile for other savings and assets, 34% are in the highest quintile for other savings and assets,
- This group scored high on proxy indicators of financial skill and engagement. Half of the people in this group have a degree (49%); 47% scored 6/6 on a numeracy test, answering the compound interest question correctly; 64% have used an ISA, PEP or TESSA and 33% have direct investment experience. Many use their scheme (83%) and/or employer (23%) as a source of pension information. 6% have used an IFA.

The High DC group (75th to 100th percentile)

£51,300 to £2m of DC savings – the high DC group
This group has high levels of DC savings. Those near the bottom of the scale should have sufficient savings to pay off debts, or a mortgage and might be able to use their DC savings to provide an income for some portion of their retirement. Those higher up the scale might be able to use their DC savings to provide the majority of their income in retirement, supplemented by state pension, any DB entitlement and other savings and assets.

High DC/No DB *(£51,300 to £2m of DC savings, No DB entitlement)*
The people in this group are:

- Quite likely to be in the highest levels of socio-economic class: 60% of the people in this group are in the top socio-economic group, the remainder are fairly evenly spread through the other groups with only 18% in the bottom two,
- This group scored in the top five for other savings and assets with 39% of this group in the top quintile of other savings and assets and 24% second from the top, the remainder (36%) are fairly evenly distributed across the bottom three,
- This group scored middle of the range for proxy indicators of financial skill and engagement. 37% of the people in this group have a degree; 35% of the people in this group scored 6/6 on a numeracy test, answering the compound interest question correctly and a further 35% scored 5/6; 59% have used an ISA, PEP or TESSA and 37% have direct investment experience. 75% use their scheme as a source of info and 20% use their employer. The people in this group are the most likely of those in any group to use an IFA (14%).

High DC/0-50th percentile DB *(£51,300 to £2m of DC savings, yearly DB entitlement of £5,444 or less)*

The people in this group are:

- Quite likely to be in the highest socio-economic class 61%. Only 13% are in the lowest socio-economic class,
- Quite likely to be in the top quintile of other savings and assets (44%); 28% are in the second highest quintile, the remaining 27% is distributed evenly,
- Scored high on proxy indicators of financial skill and engagement with 41% of the people in this group having a degree; 44% of the people in this group scored 6/6 on a numeracy test; 50% have used an ISA, PEP or TESSA and 46%, more than any other group, have direct investment experience. 80% use their scheme as a source of info and 33% use their employer. 9% have used an IFA.

High DC/50th-100th percentile DB *(£51,300 to £2m of DC savings, yearly DB entitlement of £5,444 to £300,400)*

The people in this group are:

- Much more likely than those in the other groups to be in the highest socio-economic class (89%); less than 1% are in the lowest socio-economic class,
- Second most likely to be in the top quintile of other savings and assets (45%), 32% are in the second highest quintile, and only 11% in the bottom two,
- Scored high on proxy indicators of financial skill and knowledge. People in this group are more likely than those in other of the groups to have a degree (68%), 16% have further education below degree level and only 3% have no qualifications; the people in this group are most likely to score highly on numeracy, 51% scored 6/6, correctly answering the compound interest question; 55% of the people in this group have used an ISA/PEP or TESSA and 37% have directly invested in the stock market; 92% use their scheme as a source of info, 21% use their employer, 8% have used an IFA.

Summary of conclusions

Decisions about accessing DC pensions are difficult for people to make as they often require understanding of complex and uncertain economic and market concepts such as inflation, investment risk and longevity risk. Changes announced in Budget 2014 mean that, from April 2015, many people with Defined Contribution savings will be allowed far greater levels of flexibility when they come to access their pension savings. This will further complicate the decisions that DC savers must make as it will increase the number of available options, push the burden of managing risk further onto pension savers, and, in some cases, extend the need for ongoing decision making into retirement.

The people reaching SPA over the next ten to fifteen years vary considerably in their pension and non-pension savings and asset portfolios. Within this population, there are segments who will require greater support than others as a result of reaching retirement more reliant on their DC savings to secure an adequate income, with riskier portfolios and potentially lower levels of ability to make financial decisions. The challenges for these segments will be compounded over the next few years as the industry is still responding to the reforms and adjusting to a new type of pension saver who will be allowed to access their savings more flexibly. The defaults in place for these groups may either be actively developed in response to the reforms (for example, new drawdown strategies offered directly by a pension scheme or provider) or may be the "path of least resistance options" made available to them (for example, taking the DC pension as cash, or buying an annuity from their current provider). At this early stage it is unclear which options will be most popular.

PPI segmentation based on key characteristics of people currently aged 50-SPA in England indicate that around 12% of the population analysed (694,000 people) will be at "high-risk" of making poor decisions when they reach SPA if they are not offered support through either guidance and advice or suitable defaults. These are groups with between £19,400 and £51,300 in DC savings and little or no additional DB pension to fall back on). A further 29% (or 1.6 million) people aged 50-SPA in 2014 of people aged 50 to SPA in 2014 will be at "medium risk" of making poor decisions. These are groups with anywhere from £6,300 to above £51,300 in DC savings and little or no additional DB. This means that around 4 in 10 retirees will need significant support over the next ten to fifteen years because they will be dependent to a significant degree on the income from their DC savings in retirement to supplement their state pension, have little other savings and assets to fall back on, have low levels of financial skill and engagement, and are less likely to already use a financial adviser or be actively targeted by financial advisers in the current market given the size of their pension pots.

There is a particular correlation between having low levels of numeracy and low or no DB savings to supplement their DC savings. Those with low levels of numeracy will find decisions about accessing pension savings particularly challenging but they are also unable to fall back on a secure source of private pension income in the form of an indexed DB pension.

The Guidance Guarantee, which will offer the provision of free impartial guidance to those reaching retirement with DC savings will be operational from April 2015, however there are significant concerns regarding what the take-up of the guidance may be, whether the guidance will be able to meet the level of need and the complexity of the different individual and household circumstances, and the likelihood that individuals will follow up on the guidance they receive with timely and appropriate actions. There are intrinsic issues with engaging with people around pension decision-making that are impacted both by their own high levels of uncertainty around their retirement planning and by behavioural barriers which can lead to inertia and a reluctance to actively engage and take decisions. There were already concerns in place about the availability and quality of guidance and support offered to pension savers prior to Budget 2014 and the announcement of the new flexibilities. It is clear that a large number of people will require even more support and assistance once these new flexibilities are in place.

This research has identified around 40%, 2.3 million, people approaching retirement in England with private pension savings over the next ten to fifteen years who will be most in need of assistance and for whom access to these services will be particularly critical if they are to make the most of their available DC savings to support their retirements.

The number of people retiring with DC pots is expected to grow as more people are brought into pension saving through auto-enrolment, but average pot sizes are likely to remain relatively low over the next few years, with the median DC pot size, for those age 50 to SPA, in 2015 at £13,800 and growing to £23,800 by 2024. It will be critical that the people reaching retirement with DC savings over the next few years are given support. Independent and trusted guidance and advice services, beyond the Guidance Guarantee, will need to be made available to people in these medium to high risk groups. The people in these groups will need special targeted support to engage with and act on advice and guidance or they will be at risk of accepting defaults or making decisions that could adversely impact their retirement incomes.

Appendix: Technical Annex

This appendix describes the assumptions and methodology for the modelling in this report. The modelling presented in this report used the PPI's Dynamic Model which uses projects the possible earnings and pension savings of a data population in order to illustrate the potential outcomes at retirement for that population. The Dynamic Model was developed with a grant from the Nuffield Foundation.

The PPI Dynamic Model

The Dynamic Model is a dynamic micro-simulation model. This means that an initial population of individuals are projected forward from the base year, with each individual being modelled independently by increasing their age, uprating their earnings, modelling the growth in their pension savings as they progress toward retirement.

Assumptions

General assumptions

The following assumptions are based on standard PPI assumptions setting principles which are the result of consultation with the PPI's external modelling review board. The modelling review board consists of a number of experts in the field of financial modelling.

- Long-term increases in the retail prices index (RPI) of 3.3%
- Long-term increases in the consumer prices index (CPI) of 2%
- Long-term annual earnings growth of 4.4% in nominal terms
- Short-term economic assumptions for RPI, CPI and annual earnings growth in line with Office for Budget Responsibility projections[133]
- Expected investment returns of 6% in nominal terms, before charges, corresponding to a mixed equity/bond fund
- Band salary is the amount of salary on which auto-enrolment minimum contributions must be made. In 2014/15 the band salary is on earnings between £5,772 and £41,865. These are assumed to remain in line with the Lower Earnings Limit and the Upper Earnings Limit
- When auto-enrolled, individuals and their employers are assumed to contribute at the minimum levels required under automatic enrolment legislation (phased in from a combined contribution of 2% of band salary in 2012, rising to 8% of band salary in 2018 in accordance with existing regulations)
- All DC schemes are assumed to levy charges equivalent to a 0.5% annual management charge

[133] OBR (2014)

Project specific assumptions

There are further assumptions required, specific to the dynamic model in this exercise:

- Individuals currently in work are able to continue working and saving into a pension scheme until their SPA.
- People who are currently saving in a pension scheme continue to save in that scheme at the same level of contributions or accrual until they retire. This means that it is assumed that people who are members of DB schemes in the base year continue to be members of DB schemes.
- Individuals not currently contributing to a pension, but who will be eligible for auto-enrolment, are auto enrolled into a DC pension in 2014 at the minimum contribution rates (including phasing) required under existing regulations.[134]
- Individuals do not access their private pension savings until their SPA (except in scenarios that explicitly assume otherwise).
- People who are not in employment in the dataset are assumed to remain out of work.

Since 2010 active membership of private sector DB pension schemes has fallen from 2.1 million members in 2010 to 1.6 million members in 2013, whereas active membership of public sector DB pension schemes has remained steady at 5.3 million in both 2010 and 2013.[135] The assumption that members of DB pension schemes continue to accrue DB pensions until SPA, particularly in the private sector, may overstate the amount of DB pension held by individuals at retirement. However if we were to make the assumption that people in this age group experience an end of their DB accrual at the average rate of scheme closure then we have two problems to overcome; we must arbitrarily choose people whose DB accrual ceases, and we may be overstating the closure for this particular age group, which may be more likely to remain active in schemes that are closed to new entrants but still offer accrual for existing members. For these reasons the assumption made is that employees currently in DB pension schemes continue to accrue pension in their existing scheme, recognising that there will be some overestimation of DB entitlement.

Data

This project uses individuals in the English Longitudinal Study of Ageing (ELSA) as the dataset from which the individuals modelled are taken. ELSA is an on-going longitudinal study of a range of socio-economic and demographic indicators of households with an individual aged over 50 in England. The results in this report present aggregated analysis of deterministic projections based on current earnings and savings levels in the ELSA Wave 5 dataset (2010) uprated to the baseline year of 2014.

[134] Contributions are phased in between 2012 and 2019 to reach 8% minimum total contributions on band earnings by 2019 - between £5,715 and £38,185 (2010/11 earnings terms)
[135] ONS Occupational Pension Schemes Survey 2013

This analysis is based upon data and a set of assumptions regarding future behaviour that may not be fully representative (such as the assumption of remaining with an employer until retirement, or of staying in a DB pension scheme). **As a result of this, the results of the modelling should not be taken as forecasts of future levels of retirement savings but are illustrative of the range of household outcomes and broad sizes of different segments.**

The data used in the model consists of two types of variables; those that are required to describe individuals' earning and pension saving circumstances for projections, and data that is used for making comparisons based on characteristics.

The most important variables considered for the purposes of projecting each individual concern:

- Earnings
- Age
- Pension contributions
- Current and deferred pension entitlement

The required data is not always available, as ELSA contains incomplete data on the level of deferred pension entitlement. In order to estimate this, broad assumptions on average contribution levels, investment returns and accrual rates were used in conjunction with available data on pension type, dates of scheme membership and current gross salary. Where scheme membership and salary data were unavailable, values were randomly assigned using a 'hot-decking' procedure based on the financial wealth quintile of the individual. This method is the approach used by the IFS in their paper *Estimating Pension wealth of ELSA Respondents*.[136]

Variables used for the purpose of making comparisons

The analysis in this report uses other variables from ELSA to consider the distribution of individuals and couples by certain characteristics. The following data variables were taken from the ELSA dataset for this purpose.

- Benefit unit income quintile - This variable in based on the ranking of benefit units (either a couple or a single person) by their equivalised incomes from earnings, state benefits, investments, pensions in payment. It uses the income distribution of all the respondent households in ELSA, so includes those in retirement.
- Socio economic class (NS-SEC5) – This measure of socio-economic group is based on in employment occupation, split into 5 categories in accordance with the Office for National Statistics groupings.
- Numeracy – In Wave 4 of ELSA the respondents were asked a series of numerical questions of progressive difficulty and awarded a score based on their performance. The question was not repeated in Wave 5 of the questionnaire so, by taking advantage of the longitudinal nature

[136] Banks, Emmerson, Tetlow (2005)

of ELSA, only individuals who had previously answered numeracy questions in wave 4 were included in numeracy analysis.

The numeracy questions consisted of three initial questions:

1. A sofa costs £300. How much would it cost in a half-price sale?
2. How many of 1000 people would be expected to get a disease if the chance is 10%?
3. A car is on sale at £6000, two-thirds of the cost new. What was the cost new?

The results of these first three questions then decided which route the numeracy test would take.
If the first three questions were answered incorrectly question 4 was asked, then the numeracy test was over:

4. How much change would you get from buying an 85p drink with a £1 coin?

If at least one of the first three questions was answered correctly, following question was asked:

5. How much would 5 people get with winning lottery numbers and a prize of £2m?

If at least one of questions 2, 3 or 5 was answered correctly the following question was asked:

6. How much would you have in an account from £200 after 2 years if the account pays 10% interest a year?

The respondent is then allocated a score. Credit for question 4 was given to those who were asked questions 5 and 6.

- Educational qualification - highest level of educational qualification achieved.
- Investments held – The ELSA data contains information about the assets held by respondents. The report does not distinguish between the amounts of the assets held as it is being used as a measure of familiarity, whereas amount is more likely correlated with opportunity. These investments were grouped into the categories used in the report as follows.
  1. Bank account - bank current account
  2. Basic savings – Savings account, Premium bonds, National Savings products
  3. More advanced savings – ISAs, TESSAs and PEPs
  4. Direct market investment – holdings in equities, bonds/gilts, unit/investment trust, share clubs and also included were any share reward schemes from their employer.
- Pension scheme information sources – respondents to ELSA were asked to identify the sources of information that they had used when making decisions about their pension savings.

Methodology

This section provides a brief description of the method used in this modelling.

The individuals considered in the modelling work are those in the 2010 ELSA Wave 5 dataset, aged between 50 and SPA, belonging to a Benefit Unit[137] that has at least one member still in work, who is either currently a member of a pension scheme, has some pension savings or who is in employment and would be eligible to be auto enrolled. This sample consists of approximately 2,800 individuals aged 50-SPA who fitted the criteria to be included.

Automatic enrolment is assumed to occur in 2014 for all employees, however in reality there is staging of the automatic enrolment process between 2012 and 2017 for existing employers, based on the size of the employer's workforce. The ELSA data does not include information on the size of the workforce of an individual's employer. In the interest of simplicity and to include as many of the individuals in the data as possible, it was decided that a midpoint date, slightly biased to the earlier larger employers, of 2014 would be assumed as the automatic enrolment date for all relevant employees in the dataset. The use of this assumption is supported also supported by the rate at which employees have so far been auto-enrolled into pension schemes. The DWP projects a target number of auto-enrolled employees of 10 million employees, so far, up to October 2014, just under 5 million employees have been auto-enrolled suggesting that the median employee will be automatically enrolled by the end of 2014, or in early 2015.

The financial data has been adjusted to make it consistent with 2014 earnings levels, which is taken as the base year for the model. In subsequent years of the projection, individuals are aged and their earnings increased in line with average earnings growth.

In each year of the projection, potential retirement funds or incomes for each individual are calculated, based upon the projected level of current and deferred private pension entitlement. These are then converted into Benefit Unit incomes, by matching individuals with their partners.

Having calculated the level of individuals' pension savings in defined contribution pension schemes and/or any accrual they have in defined benefit pension schemes, the individuals were assigned into quintiles based on their savings separately for each type of saving they have. The individuals were then cross tabulated with each of the comparison variables above to produce the results set out in the report.

[137] In this analysis, a benefit unit is considered to consist of either a single adult or a couple living in the same household.

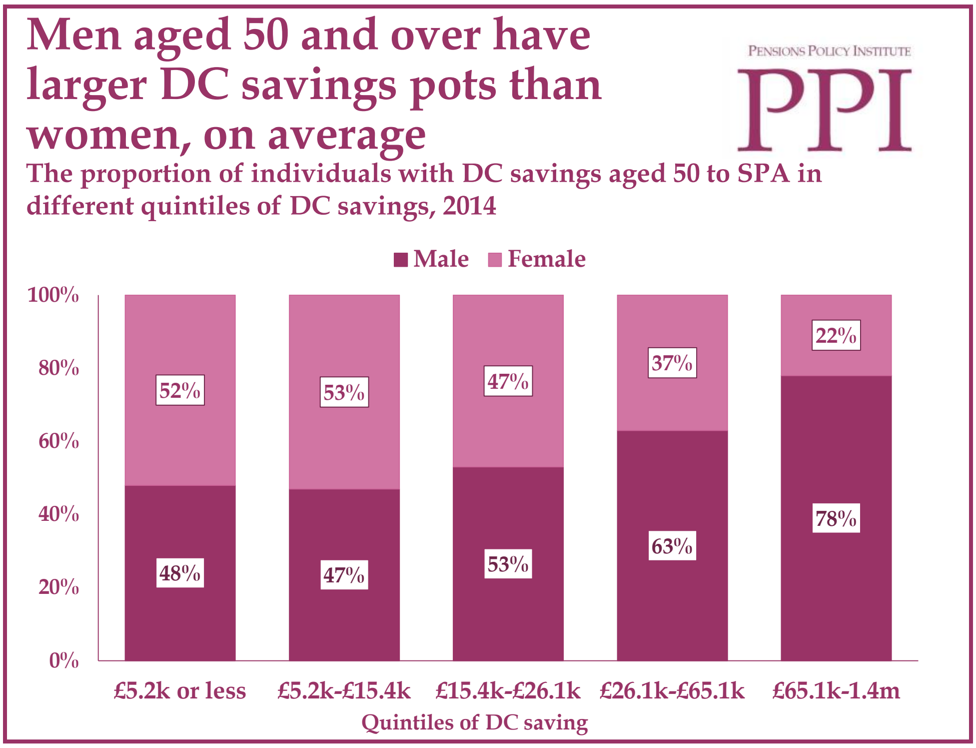
Appendix 2:

The following charts and tables investigate the data in more detail

Levels of DB and DC saving are not evenly distributed between men and women

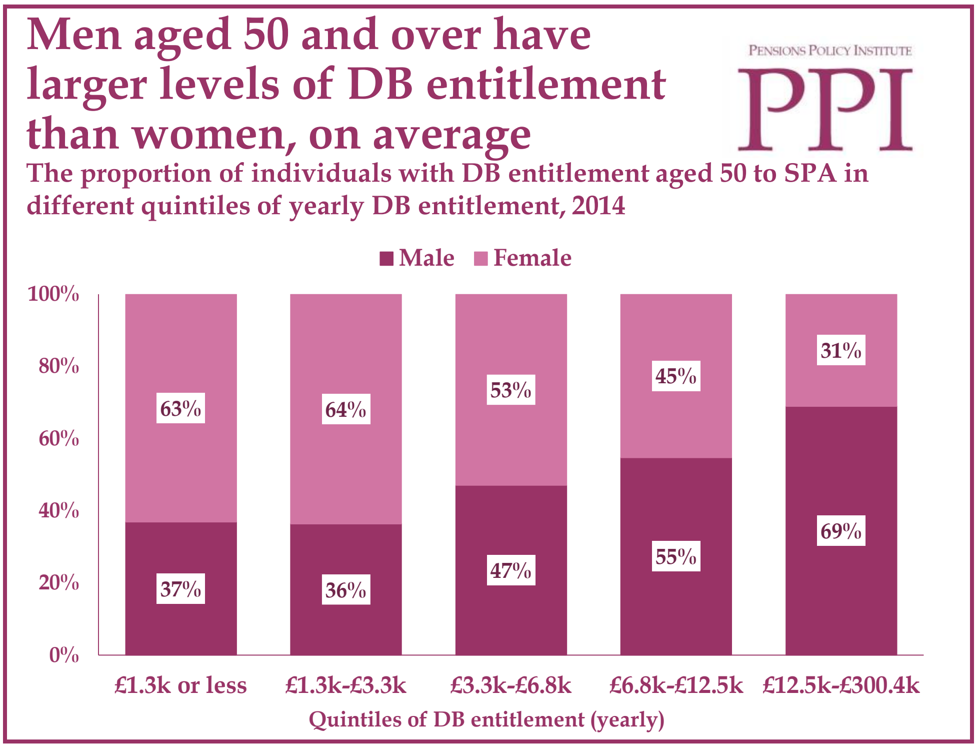
Women with DC savings or DB entitlement are more likely to be in the lower quintiles of savings than men. In 2014, among men and women aged 50 to SPA with DC savings, women disproportionately dominated the lower quintiles, with the lowest quintile being made up of 52% women and the highest quintile being made up of only around a quarter women. Women were also more highly represented in the lower quintiles of DB entitlement with the lowest quintile constituting 63% women and the highest quintile containing 31% women (Chart A1, A2). Though women were more likely to be represented in the higher quintiles of DB entitlement than in the higher quintiles of DC savings, perhaps because public sector jobs contain more women than men.

Chart A1[138]



[138] PPI Dynamic Model

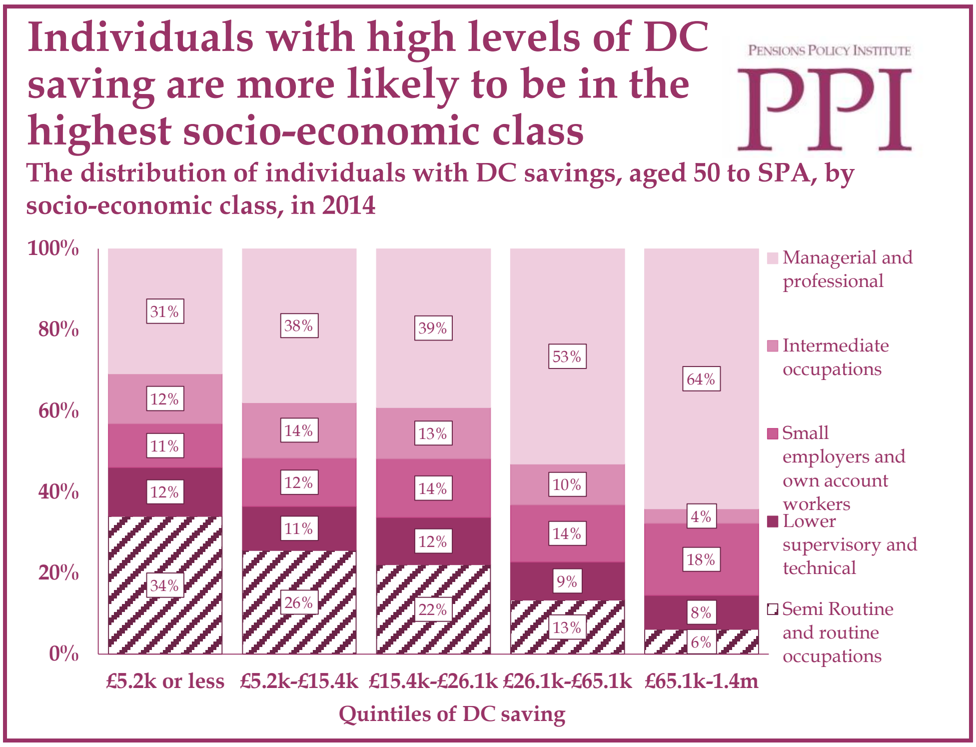
Chart A2[139]



[139] PPI Dynamic Model

People in higher socio-economic classes are more likely to be represented in higher quintiles of DC savings
Socio-economic class is also associated with higher levels of DC pension savings. People in the highest socio-economic class (using occupation as a proxy measure) represented around 64% of those in the highest quintile of DC savings and only around 31% of those in the lowest quintile. The lowest socio-economic class represented around 34% of those in the lowest quintile of DC savings and only around 6% of the highest quintile (Chart A3).

Chart A3[140]



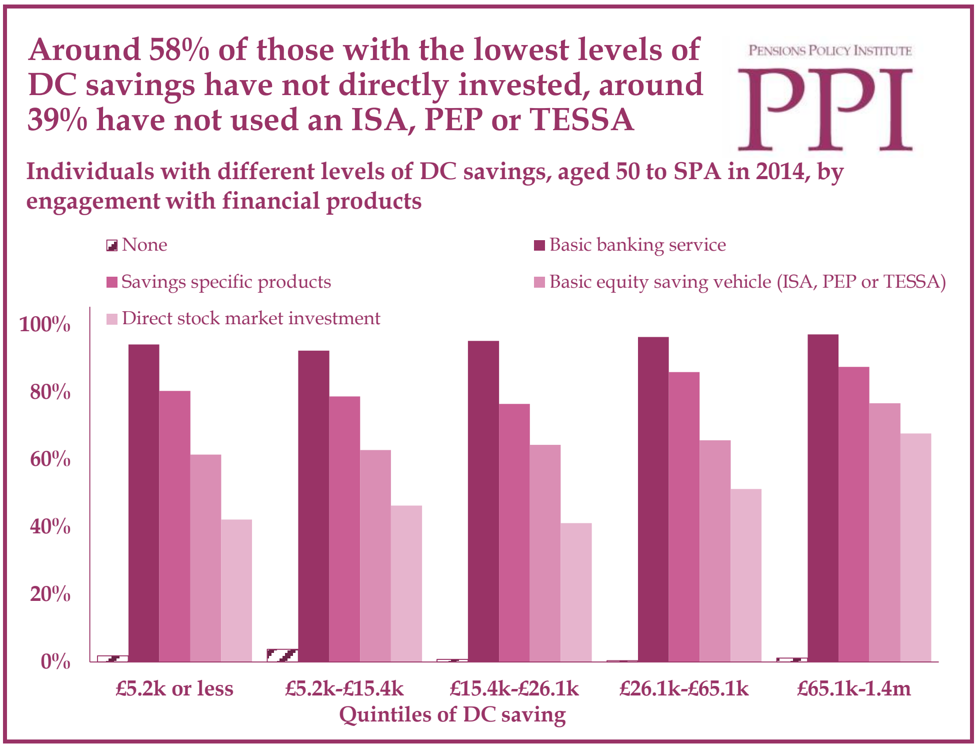
This report uses several indicators to measure financial skill and engagement
There is no direct measure of financial capability. This report uses indirect proxy indicators, (though flawed as sole indicators because each indicator such as education or numeracy can be correlated with many other measures) to measure financial skill and engagement. Seen as a group, these indicators can give some insight as to the levels of financial skill and knowledge that people with different levels of pension saving and entitlement have. This report uses four proxy indicators: financial engagement, access to information, education level and numeracy.

Around 58% of those with the lowest levels of DC savings have not directly invested, around 39% have not used an ISA, PEP or TESSA
Engaging with financial products can indicate the level of experience and knowledge people have of the market. People with direct experience of investing

[140] PPI Dynamic Model

are likely to have a more sophisticated understanding of how the market works than those only with no experience or only experience of a basic bank account. People with lower levels of DC savings are less likely to have direct engagement with a range of financial products. Among those with the lowest levels of DC saving, only around 42% have had experience of direct market investment and only around 61% have used a basic equity saving vehicle such as an ISA, PEP or TESSA. While around 68% of those with the highest levels of DC saving have direct investment experience (Chart A4).

Chart A4[141]



Around 80% of people get information on pensions from their scheme

Advice and information may help support those making decisions in retirement, though not all sources will give equally tailored advice. Independent Financial Advice, which is regulated and must be paid for, will involve personal, tailored advice on the best course of action for an individual. Because of the cost attached, however, Independent Financial Advice is not accessible for all people. Advice or information from people or organisations who are not necessarily experts on pensions may be less helpful than advice from an adviser or accountant, or information or advice from a scheme or a guidance service such as The Pensions Advisory Service.

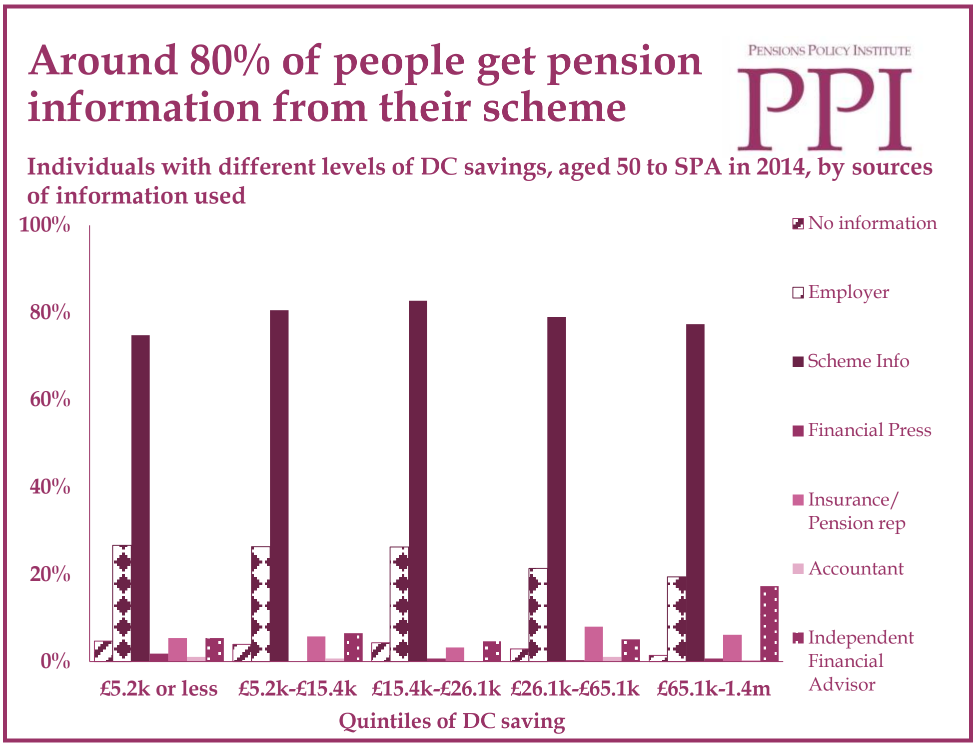
Around 80% of people in all DC saving quintiles used their scheme as a source of information and between 20% to 30% of people in each category of DC savings used their employer as a source of information. Those with lower levels of DC

[141] PPI Dynamic Model

pension saving were more likely to use their employer as a source of information than those with higher levels but less likely to use their scheme.

Those in the highest quintile of DC savings were most likely to report using an Independent Financial Adviser, but this was still a low level at just under 20%. Other sources of information such as the financial press, insurance representatives and accountants were not used very much by any group. Those with the lowest quintile of DC savings were most likely to report receiving no information on pensions (Chart A5).

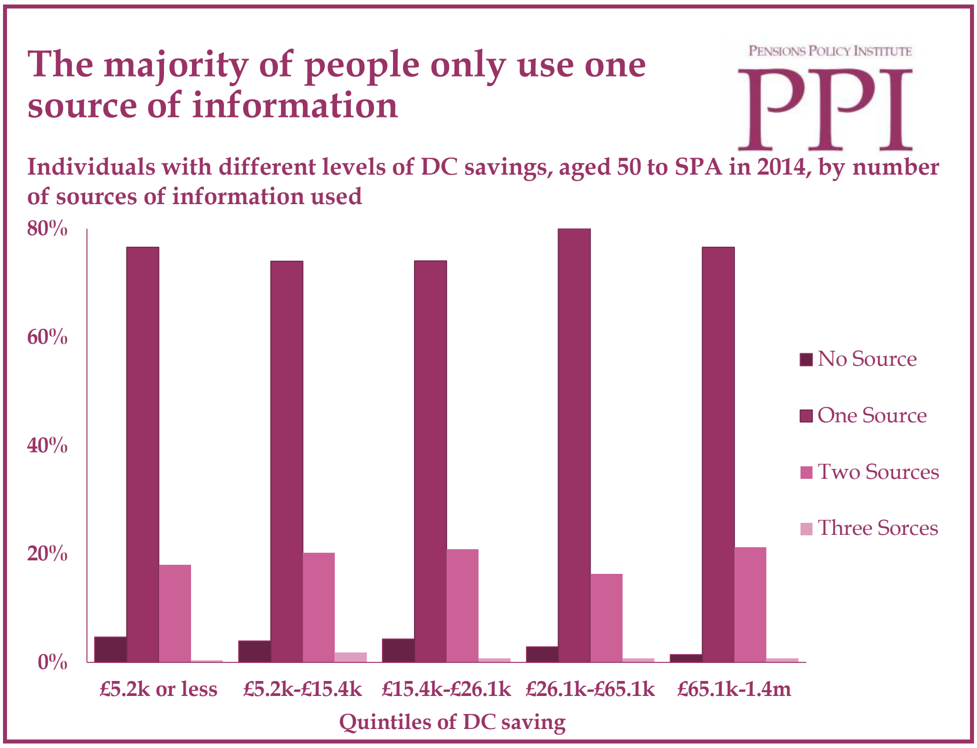
Chart A5[142]



[142] PPI Dynamic Model

The majority of people only use one source of information for pensions
Around 80% of people in most quintiles of DC savings only use one source of information for pensions; this is most likely to be their pension scheme. Around 20% of people in all quintiles of savings used two sources of information (Chart A6). It was very uncommon for people to use more than two sources of information on pensions. As pension schemes and employers were the most used sources of information, these are likely to be the two sources that most people used.

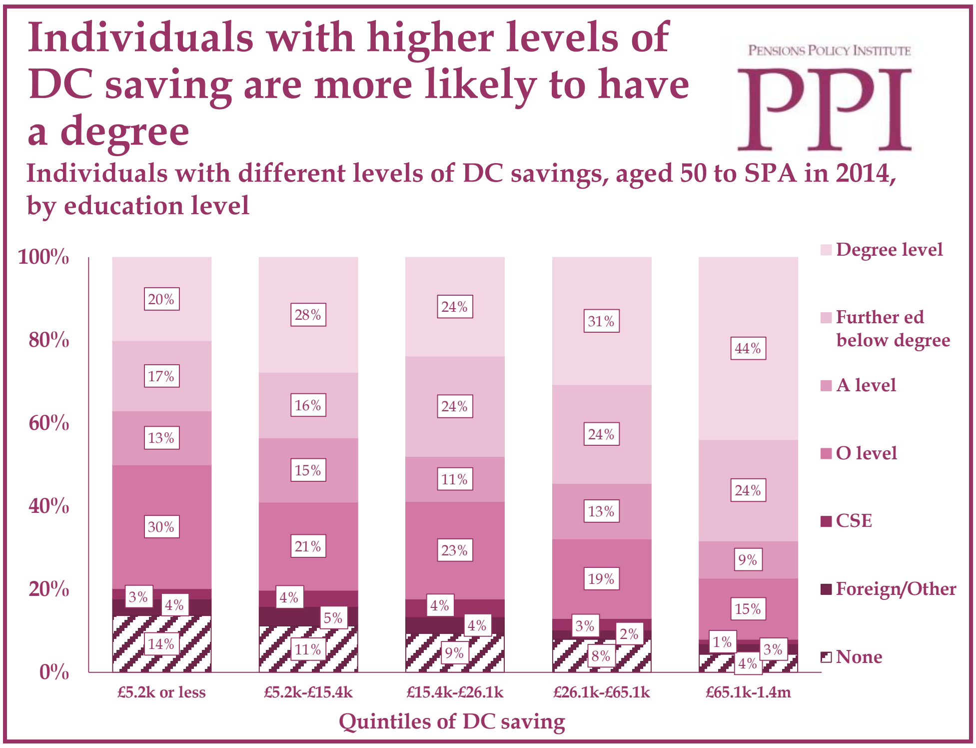
Chart A6[143]



Levels of education may impact on people's ability to understand and engage with pension saving and decisions on accessing pensions in retirement. Basic skills in literacy and maths are necessary for understanding some of the complex issues involved in accessing DC pension savings. People with higher levels of DC saving are more likely to have a degree than people in the lower quintiles of DC saving. Around 44% of those in the top quintile of DC saving have a degree while only 20% of the lowest quintile have a degree. Around 68% of those in the top quintile of DC saving have further education of some description, compared to around 37% in the bottom quintile (Chart A7).

[143] PPI Dynamic Model

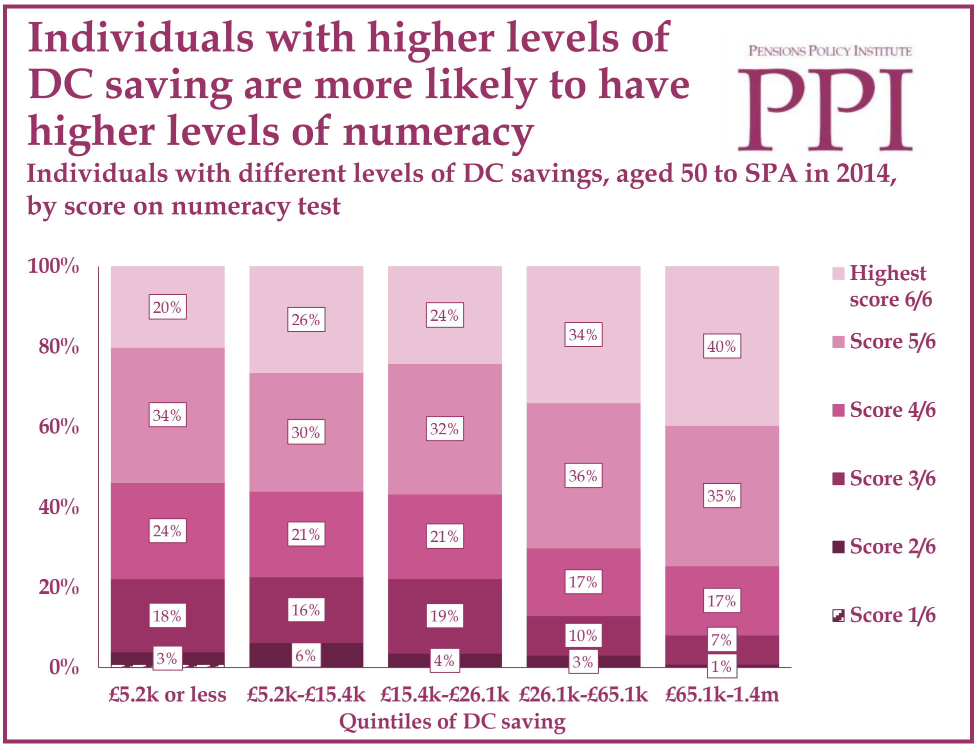
Chart A7[144]



[144] PPI Dynamic Model

Levels of numeracy in particular have been found to have correlations with ability to understand pension arrangements.[145] Those with higher levels of DC saving are more likely to score well on tests of numeracy. 40% of those with the highest quintiles of DC saving answered a question correctly which tested understanding of compound interest. Only around 20% of those with the lowest level of DC savings answered this question correctly (Chart A8).

Chart A8[146]



145 BIS (2013) p. 58
146 PPI Dynamic Model

Table A1

Individual savings portfolios	Socio-economic class		Non-pension savings and assets	
People aged 50 to SPA in 2014 with some DC or DB savings -aged to their individual pension age (5.7m people)				
25th percentile or less of DC savings + No DB savings (655,700 people, 12% of total)	Managerial/ professional	22%	£130,200 to £10,223,500	20%
	Intermediate	13%	£40,200 to £130,200	23%
	Small employers	5%	£11,000 to £40,200	14%
	Lower supervisory/ technical	13%	£1,000 to £11,000	17%
	Semi routine/ routine	46%	less than £1000	26%
25th percentile or less of DC savings + 50th percentile or less of DB entitlement (1,109,600 people, 19% of total)	Managerial/ professional	33%	£130,200 to £10,223,500	24%
	Intermediate	19%	£40,200 to £130,200	22%
	Small employers	8%	£11,000 to £40,200	19%
	Lower supervisory/ technical	7%	£1,000 to £11,000	16%
	Semi routine/ routine	32%	less than £1000	19%
25th percentile or less of DC savings + 50th to 100th percentile of DB entitlement (1,258,900 people, 22% of total)	Managerial/ professional	57%	£130,200 to £10,223,500	43%
	Intermediate	14%	£40,200 to £130,200	27%
	Small employers	7%	£11,000 to £40,200	16%
	Lower supervisory/ technical	8%	£1,000 to £11,000	8%
	Semi routine/ routine	14%	less than £1000	7%
25th to 50th percentile of DC savings + No DB savings (669,800 people, 12% of total)	Managerial/ professional	33%	£130,200 to £10,223,500	21%
	Intermediate	14%	£40,200 to £130,200	21%
	Small employers	10%	£11,000 to £40,200	18%
	Lower supervisory/ technical	10%	£1,000 to £11,000	15%
	Semi routine/ routine	33%	less than £1000	25%
25th to 50th percentile of DC savings +	Managerial/ professional	44%	£130,200 to £10,223,500	15%
	Intermediate	18%	£40,200 to £130,200	25%

50th percentile or less of DB entitlement (143,200 people, 3% of total)	Small employers	1%	£11,000 to £40,200	30%
	Lower supervisory/ technical	10%	£1,000 to £11,000	8%
	Semi routine/ routine	27%	less than £1000	21%
Individual savings portfolios	**Socio-economic class**		**Non-pension savings and assets**	
25th to 50th percentile of DC savings + 50th to 100th percentile of DB entitlement (78,700 people, 1% of total)	Managerial/ professional	44%	£130,200 to £10,223,500	46%
	Intermediate	21%	£40,200 to £130,200	26%
	Small employers	8%	£11,000 to £40,200	13%
	Lower supervisory/ technical	13%	£1,000 to £11,000	8%
	Semi routine/ routine	15%	less than £1000	8%
50th to 75th percentile of less of DC savings + No DB savings (694,000 people, 12% of total)	Managerial/ professional	39%	£130,200 to £10,223,500	21%
	Intermediate	12%	£40,200 to £130,200	25%
	Small employers	15%	£11,000 to £40,200	22%
	Lower supervisory/ technical	12%	£1,000 to £11,000	17%
	Semi routine/ routine	22%	less than £1000	16%
50th to 75th percentile of DC savings + 50th percentile or less of DB entitlement (125,100 people, 2% of total)	Managerial/ professional	53%	£130,200 to £10,223,500	31%
	Intermediate	16%	£40,200 to £130,200	32%
	Small employers	6%	£11,000 to £40,200	15%
	Lower supervisory/ technical	8%	£1,000 to £11,000	10%
	Semi routine/ routine	16%	less than £1000	13%
50th to 75th percentile of DC savings + 50th to 100th percentile of DB entitlement (70,600 people, 1% of total)	Managerial/ professional	74%	£130,200 to £10,223,500	34%
	Intermediate	3%	£40,200 to £130,200	37%
	Small employers	3%	£11,000 to £40,200	20%
	Lower supervisory/ technical	3%	£1,000 to £11,000	3%
	Semi routine/ routine	17%	less than £1000	6%

Individual savings portfolios	**Socio-economic class**		**Non-pension savings and assets**	
75th to 100th percentile of DC savings + No DB savings (706,100 people, 12% of total)	Managerial/ professional	60%	£130,200 to £10,223,500	39%
	Intermediate	7%	£40,200 to £130,200	24%
	Small employers	15%	£11,000 to £40,200	13%
	Lower supervisory/ technical	10%	£1,000 to £11,000	12%
	Semi routine/ routine	8%	less than £1000	11%
75th to 100th percentile of DC savings + 50th percentile or less of DB entitlement (108,900 people, 2% of total)	Managerial/ professional	61%	£130,200 to £10,223,500	44%
	Intermediate	9%	£40,200 to £130,200	28%
	Small employers	9%	£11,000 to £40,200	9%
	Lower supervisory/ technical	7%	£1,000 to £11,000	9%
	Semi routine/ routine	13%	less than £1000	9%
75th to 100th percentile of DC savings + 50th to 100th percentile of DB entitlement (76,700 people, 1% of total)	Managerial/ professional	89%	£130,200 to £10,223,500	45%
	Intermediate	3%	£40,200 to £130,200	32%
	Small employers	3%	£11,000 to £40,200	13%
	Lower supervisory/ Technical3%	5%	£1,000 to £11,000	8%
	Semi routine/ routine	0%	less than £1000	3%

Table A2

Individual savings portfolios	**Education levels**		**Score on numeracy test**		**Experience with financial products**		**Information source**	
People aged 50 to SPA in 2014 with some DC or DB savings -aged to their individual pension age (5.7m people)								
25th percentile or less of DC savings + No DB savings (655,700 people, 12% of total)	Degree level	16%	6/6	16%	Direct stock market investment	21%	IFA	5%
	Further education below degree	13%	5/6	30%	ISA, PEP or TESSA	55%	Accountant	1%
	A level	14%	4/6	26%	Savings specific product	47%	Insurance representati ve	4%
	O level	29%	3/6	20%	Basic banking	92%	Financial press	2%

	CSE	4%	2/6	7%	none	3%	Scheme information	68%
	Foreign/ Other	6%	1/6	0%			Employer	24%
	None	18%	0/6	0%			Co-worker	0%
							None	8%
Individual savings portfolios	**Education levels**		**Score on numeracy test**		**Experience with financial products**		**Information source**	
25th percentile or less of DC savings + 50th percentile or less of DB entitlement (1,109,600 people, 19% of total)	Degree level	21%	6/6	20%	Direct stock market investment	29%	IFA	1%
	Further education below degree	15%	5/6	32%	ISA, PEP or TESSA	58%	Accountant	0%
	A level	14%	4/6	23%	Savings specific product	47%	Insurance representative	3%
	O level	25%	3/6	19%	Basic banking	94%	Financial press	1%
	CSE	3%	2/6	6%	none	2%	Scheme information	66%
	Foreign/ Other	7%	1/6	0%			Employer	32%
	None	15%	0/6	0%			Co-worker	0%
							None	11%
25th percentile or less of DC savings + 50th to 100th percentile of DB entitlement (1,258,900 people, 22% of total)	Degree level	39%	6/6	34%	Direct stock market investment	38%	IFA	1%
	Further education below degree	22%	5/6	39%	ISA, PEP or TESSA	68%	Accountant	0%
	A level	11%	4/6	16%	Savings specific product	39%	Insurance representative	3%
	O level	18%	3/6	9%	Basic banking	97%	Financial press	0%
	CSE	2%	2/6	1%	none	1%	Scheme information	75%
	Foreign/ Other	3%	1/6	0%			Employer	27%
	None	6%	0/6	0%			Co-worker	0%
							None	7%
25th to 50th percentile of DC savings + No DB savings (669,800 people, 12% of total)	Degree level	20%	6/6	18%	Direct stock market investment	24%	IFA	6%
	Further education below degree	14%	5/6	27%	ISA, PEP or TESSA	52%	Accountant	1%
	A level	14%	4/6	25%	Savings specific product	46%	Insurance representative	5%
	O level	25%	3/6	24%	Basic banking	95%	Financial press	0%

	CSE	3%	2/6	5%	none	2%	Scheme information	74%
	Foreign/ Other	6%	1/6	0%			Employer	25%
	None	19%	0/6	0%			Co-worker	0%
							None	4%
Individual savings portfolios	**Education levels**		**Score on numeracy test**		**Experience with financial products**		**Information source**	
25th to 50th percentile of DC savings + 50th percentile or less of DB entitlement (143,200 people, 3% of total)	Degree level	30%	6/6	34%	Direct stock market investment	36%	IFA	4%
	Further education below degree	16%	5/6	27%	ISA, PEP or TESSA	67%	Accountant	1%
	A level	10%	4/6	30%	Savings specific product	52%	Insurance representative	7%
	O level	34%	3/6	9%	Basic banking	94%	Financial press	1%
	CSE	1%	2/6	0%	none	3%	Scheme information	76%
	Foreign/ Other	3%	1/6	0%			Employer	33%
	None	6%	0/6	0%			Co-worker	0%
							None	6%
25th to 50th percentile of DC savings + 50th to 100th percentile of DB entitlement (78,700 people, 1% of total)	Degree level	38%	6/6	35%	Direct stock market investment	41%	IFA	0%
	Further education below degree	23%	5/6	54%	ISA, PEP or TESSA	49%	Accountant	0%
	A level	15%	4/6	8%	Savings specific product	28%	Insurance representative	5%
	O level	18%	3/6	3%	Basic banking	97%	Financial press	0%
	CSE	3%	2/6	0%	none	0%	Scheme information	90%
	Foreign/ Other	3%	1/6	0%			Employer	23%
	None	0%	0/6	0%			Co-worker	0%
							None	5%
50th to 75th percentile of less of DC savings + No DB savings (694,000 people, 12% of total)	Degree level	23%	6/6	25%	Direct stock market investment	27%	IFA	5%
	Further education below degree	24%	5/6	32%	ISA, PEP or TESSA	56%	Accountant	0%
	A level	14%	4/6	23%	Savings specific product	46%	Insurance representative	6%
	O level	24%	3/6	16%	Basic banking	96%	Financial press	1%

	CSE	5%	2/6	5%	none	1%	Scheme information	75%
	Foreign/ Other	3%	1/6	0%			Employer	28%
	None	9%	0/6	0%			Co-worker	0%
							None	6%
Individual savings portfolios	**Education levels**		**Score on numeracy test**		**Experience with financial products**		**Information source**	
50^{th} to 75^{th} percentile of DC savings + 50^{th} percentile or less of DB entitlement (125,100 people, 2% of total)	Degree level	34%	6/6	33%	Direct stock market investment	26%	IFA	8%
	Further education below degree	15%	5/6	43%	ISA, PEP or TESSA	59%	Accountant	0%
	A level	10%	4/6	17%	Savings specific product	59%	Insurance representative	0%
	O level	27%	3/6	7%	Basic banking	98%	Financial press	3%
	CSE	3%	2/6	0%	none	0%	Scheme information	89%
	Foreign/ Other	5%	1/6	0%			Employer	31%
	None	6%	0/6	0%			Co-worker	0%
							None	2%
50^{th} to 75^{th} percentile of DC savings + 50^{th} to 100^{th} percentile of DB entitlement (70,600 people, 1% of total)	Degree level	49%	6/6	47%	Direct stock market investment	33%	IFA	6%
	Further education below degree	17%	5/6	41%	ISA, PEP or TESSA	64%	Accountant	0%
	A level	14%	4/6	9%	Savings specific product	48%	Insurance representative	9%
	O level	11%	3/6	3%	Basic banking	88%	Financial press	0%
	CSE	6%	2/6	0%	none	3%	Scheme information	83%
	Foreign/ Other	0%	1/6	0%			Employer	23%
	None	3%	0/6	0%			Co-worker	0%
							None	3%
75^{th} to 100^{th} percentile of DC savings + No DB savings (706,100 people, 12% of total)	Degree level	37%	6/6	35%	Direct stock market investment	37%	IFA	14%
	Further education below degree	26%	5/6	35%	ISA, PEP or TESSA	59%	Accountant	1%
	A level	10%	4/6	16%	Savings specific product	43%	Insurance representative	8%

	O level	19%	3/6	11%	Basic banking	96%	Financial press	1%
	CSE	2%	2/6	2%	none		Scheme information	75%
	Foreign/ Other	2%	1/6	0%			Employer	20%
							Co-worker	0%
	None	5%	0/6	0%		1%	None	1%
Individual savings portfolios	**Education levels**		**Score on numeracy test**		**Experience with financial products**		**Information source**	
75th to 100th percentile of DC savings + 50th percentile or less of DB entitlement (108,900 people, 2% of total)	Degree level	41%	6/6	44%	Direct stock market investment	46%	IFA	9%
	Further education below degree	22%	5/6	37%	ISA, PEP or TESSA	50%	Accountant	0%
	A level	17%	4/6	13%	Savings specific product	43%	Insurance representative	2%
	O level	15%	3/6	6%	Basic banking	98%	Financial press	0%
	CSE	2%	2/6	0%	none		Scheme information	80%
	Foreign/ Other	0%	1/6	0%			Employer	33%
							Co-worker	0%
	None	4%	0/6	0%		0%	None	0%
75th to 100th percentile of DC savings + 50th to 100th percentile of DB entitlement (76,700 people, 1% of total)	Degree level	68%	6/6	51%	Direct stock market investment	37%	IFA	8%
	Further education below degree	16%	5/6	37%	ISA, PEP or TESSA	55%	Accountant	0%
	A level	13%	4/6	9%	Savings specific product	45%	Insurance representative	3%
	O level	0%	3/6	3%	Basic banking	100%	Financial press	0%
	CSE	0%	2/6	0%	none		Scheme information	92%
	Foreign/ Other	0%	1/6	0%			Employer	21%
							Co-worker	0%
	None	3%	0/6	0%		0%	None	0%

Acknowledgements and Contact Details

The Pensions Policy Institute is grateful for input from many people in support of this paper, including:

Nigel Aston	Chris Curry	Shamil Popat
Danielle Baker	Melissa Echalier	Melinda Riley
David Berenbaum	Richard Edes	Alev Sen
Christopher Brooks	Rebecca Fearnley	Anthony Tomei
Alistair Byrne	Alan Higham	Janette Weir
Paul Cox	Reshna Khanom	

Editing decisions remained with the author who takes 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

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Published by
PENSIONS POLICY INSTITUTE

PPI

www.pensionspolicyinstitute.org.uk
ISBN 978-1-906284-30-5