

PENSIONS POLICY INSTITUTE

PPI

Supporting later life

Executive Summary



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Lauren Wilkinson joined the PPI in September 2016 as a Policy Researcher. During her time at the PPI Lauren has produced research on a range of topics, including Defined Benefit, consumer engagement, pension freedoms and Collective Defined Contribution.

Lauren was promoted to Senior Policy Researcher in January 2019.

Prior to joining the PPI, Lauren achieved an undergraduate Masters in Politics and Philosophy at the University of Glasgow, followed by a Masters in Public Administration and Public Policy at the University of York.

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Chetan Jethwa joined the PPI modelling team in April 2018 as a Policy Modeller. He is responsible for maintaining and developing PPI models as well as producing modelling results and undertaking analysis to feed into the PPI's research.

Chetan has a BSc in Actuarial Science from the London School of Economics.

The Pensions Policy Institute (PPI)

The PPI is an educational, independent research organisation with a charitable objective to inform the policy debate on pensions and retirement income provision. The PPI's aim is to improve information and understanding about pensions and retirement provision through research and analysis, discussion and publication. It does not lobby for any particular issue or reform solution but works to make the pensions and retirement policy debate better informed.

Pensions affect everyone. But too few people understand them and what is needed for the provision of an adequate retirement income. The PPI wants to change that. We believe that better information and understanding will lead to a better policy framework and a better provision of retirement income for all. The PPI aims to be an authoritative voice on policy on pensions and the provision of retirement income in the UK.

The PPI has specific objectives to:

- Provide relevant and accessible information on the extent and nature of retirement provision
- Contribute fact-based analysis and commentary to the policy-making process
- Extend and encourage research and debate on policy on pensions and retirement provision
- Be a helpful sounding board for providers, policy makers and opinion formers
- Inform the public debate on policy on pensions and retirement provision.

We believe that the PPI is unique in the study of pensions and retirement provision, as it is:

- Independent, with no political bias or vested interest
- Led by experts focused on pensions and retirement provision
- Considering the whole pension framework: state, private, and the interaction between them
- Pursuing both academically rigorous analysis and practical policy commentary
- Taking a long-term perspective on policy outcomes on pensions and retirement income
- Encouraging dialogue and debate with multiple constituencies

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A Pensions Policy Institute report

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A Research Report by Lauren Wilkinson and Chetan Jethwa

Published by the Pensions Policy Institute

© October 2019

ISBN 978-1-906284-87-9

www.pensionspolicyinstitute.org.uk

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Preparing for later life requires people to make complex plans for the unpredictable challenges they may face

The first report in this series, *Living through later life*, identified three phases of later life determined by level of disability or difficulty performing essential tasks (Independent, Decline, Dependent), while highlighting that transitions between these phases are unpredictable, can be sudden, and that not everyone will experience all three phases in order or even at all. In order to support these unpredictable challenges, people must make equally complex decisions about how to use their savings and assets in order to support later life.

Other non-financial factors that could influence people's decisions about how to access their retirement savings include:

- Household and family circumstances
- Expectations of retirement
- Desire to leave bequests

Low levels of financial capability and behavioural biases may prevent people from making choices which can maximise their retirement income

Many people struggle to understand financial fundamentals such as tax, probabilities and inflation risks or how investments and retirement income products work. People often struggle to understand charges, risks and value for money. This is in part because of the perceived lack of clarity in product information, but also because many people have little exposure to these products during their working lives.

Across all levels of financial capability, behavioural biases can act as a barrier to effective and timely later life plans. People tend to:

- Fear ageing and associated health declines
- Have low levels of trust in the pension industry
- Have low levels of personal savings and resources with which to support later life¹

1 Citizens Advice (2015a)

Resources available to draw upon to support later life vary substantially across the wealth distribution

Total wealth varies drastically between those in different wealth quintiles. For example, someone in the top wealth quintile might have around £1,350,000 in total wealth at age 66, compared to just £13,000 for someone of the same age in the lowest wealth quintile. However, perhaps even more important than the disparity in total levels of wealth, is the difference in types of wealth held. For those in lower wealth quintiles, much of their wealth is concentrated in illiquid assets such as physical belongings and property, if they have been able to buy a house during working life, which many in lower quintiles have not. This leaves them heavily dependent on the State Pension to provide them an income in later life, and with limited choice as to how to use their assets to support themselves. Those in higher wealth quintiles have higher levels of liquid wealth, such as pension savings and financial wealth. As a result, they may require greater support in managing their money over the course of later life to achieve positive outcomes. Whereas those in lower wealth quintiles are likely to benefit more from well-designed safety nets and state support.

Following the introduction of Freedom and Choice, people are likely to need more ongoing guidance and advice throughout the course of later life

Given the complexity of retirement decisions, particularly since the introduction of pension freedoms, many people will find it difficult to make choices that will best meet their needs over the course of later life. For some people initiatives aimed at increasing engagement and financial capability will equip them to make appropriate decisions. Advice and guidance plays an important role in supporting people while making these choices, although most advice and guidance offerings currently focus on at-retirement decisions rather than ongoing support throughout later life. For those with lower levels of financial capability, greater support in making these decisions may be needed to improve later life outcomes, while those with low levels of savings are likely to need support from Government in meeting their later life needs.

Pre-retirement education and ongoing support throughout later life are vital to supporting positive later life outcomes

In order to make appropriate choices when faced with the complex retirement decisions described in this report, people are likely to need:

- Increased engagement and understanding of pensions, which can be promoted through pre-retirement education initiatives, as well as wake-up packs.
- Ongoing support throughout later life, through both advice and guidance, as well as the other policy levers.

While advice and guidance can help some people to achieve positive later life outcomes, others may need support from Government to achieve better outcomes

There are a range of policy levers beyond advice and guidance which could be used to improve later life outcomes:

- Compulsion: Unlikely to have a place in the post-pension freedoms landscape.
- Defaults: default offerings, such as the investment pathways currently being formulated, could help to guide people towards appropriate retirement decisions in cases where they are unwilling or unable to make informed active choices.
- Safety nets: essential to protecting older people from the poorest later life outcomes, but it is important that engagement and take-up rates are maximised.
- Consumer protection: recent policy changes from the Financial Conduct Authority (FCA) have been focused on increasing consumer protection and ensuring that people are protected from especially detrimental decisions, particularly where they result from inertia and lack of engagement.
- Behavioural interventions: alongside initiatives aimed at pre-retirement education and increasing engagement could help to improve later life outcomes.