Approaching retirement

How consumers think about their lives and future plans before withdrawing their pensions

citizens advice

Contents

Executive Summary

The pension freedoms introduced in April 2015 removed the effective requirement for consumers to purchase a guaranteed income product with their defined contribution (DC) pensions. This has created far more choice for consumers to draw their savings in ways that suits their personal circumstances.

This is the first report of a three part series exploring how consumers think about and experience pension freedoms in the context of their broader lives. Here we consider the attitudes of consumers in their 50s and 60s who have DC pensions but have not yet started making active plans to withdraw them. The second report will consider the experience of consumers withdrawing their DC pensions and the third will explore their thoughts on retirement after taking advantage of pension freedoms.

The key finding in this report is that many consumers don't have a firm understanding of how their pension savings will convert into retirement income. They are effectively flying blind towards retirement, hoping that they will be able to make do with what their eventual income, rather than feeling that they can adjust their saving levels to target the retirement income they want.

This happens for three key reasons. Firstly, consumers have much on their minds in their broader lives, especially as they start approaching retirement. Many are thinking about caring for parents, children or grandchildren, including those in the 'sandwich generation' who are considering multiple generations. Our quantitative research shows that some have key hopes to travel (51%) and relax while also having major fears about health (73%) and money. Consumers have a powerful conception of making the most of their 'good years' in retirement and more than three in four (77%) see remaining active generally or through holidays as a key aspiration. Pension freedoms can facilitate this and allow people to phase into retirement, staying in work while also having more time to pursue other priorities. However, our research also shows that while consumers want to make the most of their good years, they often avoid planning for what will happen if their health deteriorates. Just 12% see not being able to fund future care costs as a key concern, even though over three quarters are likely to have a care need at some point in their retirement.[1]

Secondly, many consumers expect to have complicated retirement income streams. These includes traditional state and private pension incomes both for the individual and their partner if they have one. On top of this our research shows that three in four (74%) consumers with DC pensions see at least one other source - such as other savings, property or future inheritance - as key to their retirement income. Property is sometimes seen to compensate for undersaving, which raises questions for future generations if they have lower property wealth. As Figure A shows, these complex

[1] Building the National Care Service, HM Government, 2010, p.125.

income sources create uncertainties which make it hard for consumers to know what income they should expect and how much (and how) they should save.

Figure A: Different income sources bring different uncertainties for consumers

Income source	Potential uncertainty
Pension income	Legislation, economic performance, personal circumstance
Partner's income	Knowing partner's saving levels
Property	Future market changes and costs of downsizing
Other investments and savings	Future market changes, taxes
Future inheritance	Whether and when it will be received, value, taxes
Working (full time or part-time)	Job availability, pay rate and health considerations
Means-tested benefits	Eligibility and future levels
Selling business	How valuable it will be
Support from children	Whether and how they can help

Thirdly, consumers face specific barriers to engaging with their pensions, as presented in Figure B. Many are deterred because they don't feel confident in their understanding of how pensions work. Some see their inability to predict accurately how their pensions and personal needs will change as a reason to defer engaging. Others have cognitive biases against thinking about pensions (because it makes them feel old or concerned that they haven't saved enough) or simply feel too busy to focus on pensions. In our qualitative research we observed a strong sense that many consumers do not want to invest time trying to understand pensions until they actively want to withdraw their savings. While this can sometimes be rational, such as to avoid the stress of short term market fluctuations, it also risks leaving consumers sleepwalking towards bad or arbitrary retirement incomes. Without understanding what their pension savings will convert into as an income, many resort to a wait-and-see approach.

Figure B: Barriers to pension engagement

Type of barrier	Issue
Knowledge and understanding	• Complex • Media • Language • Lack of help
Unknowns	• Economic • Personal • Political
Fears	• Ageing • Low trust • Insufficient savings
Time	• Feel too busy

These three factors mean that many consumers develop a piecemeal understanding of pensions. Some conflate different pension issues which can exacerbate their inertia. For example, they may hear of a change to the state pension age and think it affects their ability to access their DC pension. Some consumers counter uncertainty by having a clear plan for how their pension income will last or by diversifying their investments, but many don't. With limited understanding and engagement, it is unsurprising that almost half (48%) of consumers are not confident that they will have the standard of living in retirement that they want.[2] Consumers without specific strategies often reassure themselves with subliminal safety nets such as falling back on their house as a 'nest egg' if they run out of income, relying on means-tested state support or returning to work later in retirement. But these approaches can create further uncertainties and are unlikely to lead to good outcomes.

> "My pots are worth £200,00 but I don't have a sense of what that will turn into. That worries me."

> "I've got lots of other things to do and it's just not important. Well, it is important, it's just not *as* important. It's not immediate. You can put it off and you haven't got to worry about it quite yet."

Given these challenges, it is important that the pensions system adapts to the new freedoms, both by making it easier for consumers to engage and by channeling inertia if they don't. This is particularly important for the roughly three in five consumers that we identify in Figure C as passive savers and the one in five who avoid their pension savings. Two key ways that this can be achieved are using trigger points to make consumers engage with their pensions and ensuring that good information, guidance and advice are available to help them plan.

Figure C: Three main types of engagement for consumers

Engaged:
- Likely to be part of the 22% who know their pension value
- Tend to actively engage with their pension
- More likely to have large pots and to be confident consusumers

Passive:
- Likely to be part of the 56% who have a rough idea of their pension value
- Tend to pay into their pension and check their statement once a year
- Not likely to consider changing their contribution rates

Avoiding:
- Likely to be part of the 22% who don't know their pension value
- Tend to be accepting or concerned consumers
- More likely to have a pension pot below £70,000

Triggers play a crucial role in saving for retirement and many participants in our research only started to save because they were encouraged to do so by employers or family members. The recent introduction of auto-enrolment is a welcome and

[2] ONS, Early indicator estimates from the Wealth and Assets Survey, Wave 5, July 2014 to June 2015.

important measure that is helping more people save, but it is unlikely to be sufficient.[3] Our research suggests that apart from tax relief for higher rate taxpayers, consumers do not increase pension contributions because of government nudges. Rather, they are only likely to *increase* pension contributions following soft triggers such as receiving a letter from their pension provider or being offered a pay rise from their employer in the form of pension contributions. Stronger triggers (such as auto-escalation for pension saving) will be needed in future to to support greater saving rates and the role of employers will continue to be critical.

Consumers also have triggers to withdraw their pension pots. These have become more important following the introduction of pension freedoms as DC savings can be used in more ways and fulfil more objectives. While some of these are planned, others are not - more than one in four (26%) consumers would expect to draw their pension early if they had a change in health circumstances and one in five (20%) would take it if they lost their job.

Good quality information, guidance and advice are also important to help consumers with their choices, particularly if they are withdrawing due to unforeseen circumstances. Many consumers don't have clear plans of how to withdraw their pension even a few years before they expect to retire. While the idea of a guaranteed income for life remains popular, some consumers don't value or recognise the term annuity. This is linked to historic reputational issues, as well as the general feeling that pension language is confusing and inconsistent. And while others are attracted to flexible options, they are often unsure of how they work or will be taxed. We find that consumers are more likely to want help with pensions (53%) than other key financial choices, including being twice as likely to want help in this area compared with buying a house (26%). This underlines the importance of being able to access good quality pensions guidance and advice.

While many consumers who are currently in their 50s and 60s can fall back on property or DB pension schemes to boost their retirement incomes, this is likely to be harder for future generations. It will become increasingly important that consumers understand and engage with their private pensions during both accumulation and decumulation.

Citizens Advice delivers pension guidance on behalf of HM Treasury, under the Pension Wise brand. This report reflect the views of Citizens Advice as a consumer champion in the financial services market, and not the views of Pension Wise or HM Treasury.

[3] The Pensions Policy Institute found that a worker on the median income and auto-enrolled for their working life would have less than a 50% chance of achieving an adequate income in retirement. See PPI, What level of pension contribution is needed to obtain an adequate retirement income?, 2015

Methodology

This project describes the findings from 20 qualitative interviews and a survey of 1,386 people.

The participants in the qualitative interviews were all aged 50 - 65 and had DC pensions which they had not yet accessed. They were recruited specifically for this project, and sampling was designed to ensure that they represented a range ages, pot sizes, overall wealth and geographical location across England. Interviews covered general hopes and fears for the future and then focused on thoughts on pensions and retirement income.

For the quantitative survey, we commissioned a ComRes survey of 1,386 UK adults aged 50 or over who are not yet retired. This was comprised of a nationally representative sample of 1,000 UK adults in this age bracket, plus a boost of an additional 350 people with DC pensions. In total 572 respondents had DC savings and had not yet started accessing them. The survey was conducted between 14 and 28 August 2015. Data tables are available at www.comres.co.uk.

We have changed consumers' names for case studies to protect their anonymity.

About Citizens Advice

Citizens Advice is a national charity which delivers advice services from over 3,300 community locations in England and Wales, run by 338 registered local charities. As a charity we seek to empower people to help them make the best choices for their own lives.

We are helping more and more people to make informed decisions about their pensions. Last year over 310,000 people sought help from us with their pension, up from 220,000 in 2013/14. We know that thoughts about pensions are often intimately linked to other issues, and overall half of the people who sought face-to-face advice from Citizens Advice also wanted help in other areas.[4]

We have a good understanding of how consumers think about pensions, both through our Citizens Advice service and through delivery of face to face Pension Wise sessions which began in April 2015.

[4] Citizens Advice management information, 2014/15.

Chapter 1: Hopes and fears for later life

Consumers have a lot on their minds as they approach retirement: 50% of Citizens Advice clients with pension queries also want help on other issues such as debt and employment. Similarly, one in four Citizens Advice Pension Wise clients also book a separate Citizens Advice follow-up session after their appointment.[5]

We want to explore pension choices in the context of people's broader lives. Our previous research found that for many, retirement presents both opportunities and concerns.[6] The choices consumers make about when and how to retire are intimately linked to their hopes and fears - some may postpone retirement because they love their job or because they cannot afford to retire, while others phase into retirement early because they want to go travelling or need to care for a relative.

Figure 1 shows consumers' key hopes and fears for retirement. A good retirement income is the most important single hope, acting as an enabler for other priorities such as taking holidays and clearing debts. When thinking about fears, becoming frail - both in physical and mental senses - is by far the biggest concern for consumers, with 73% concerned with at least one of these. Overall more than three in four (77%) plan to keep active in general, take holidays and travel. We now look in more detail at: health, family, money, holidays and travel, and hobbies and socialising.

> "You worry about money because you need it to survive on, it's not as if the gas and electricity aren't going to be needed!"

Figure 1: Top priority hopes and fears for retirement[7]

Hopes	%
Have enough income to support the lifestyle I want	59%
Take holidays or travel	51%
Keep active	50%
Relax	26%
See friends and family	21%
Clear my debts	13%
Leave money behind for friends / family after I die	12%
Volunteer / give back to society	11%

Fears	%
Becoming frail physically or mentally	73%
Not being able to pay the bills	29%
My pension savings running out	24%
Not being able to stay in my home	20%
Being lonely	17%
Not being able to pay for care	12%
Not being able to maintain my home in good condition	11%
Not being able to continue hobbies	11%

[5] Citizens Advice Management Information.
[6] Citizens Advice, How people think about older age and pensions, March 2015.
[7] Consumers were asked to cite their key hopes and fears - here we list the top eight from each section. Other key hopes were improve my home (8%), offer support to my family and friends (8%) and access culture (7%) and the other key fear was being targeted by scams (5%).

1.1 Health

Health is cited by as a key concern for retirement by almost three in four people (73%) - this concern manifests itself both in terms of length and quality of life. In our interviews consumers often seemed prone to underestimate how long they would live by using the length of their parents' lives as a rule of thumb. But they also appeared susceptible to an optimism bias by overestimating how long they will be healthy for within this period.

Good years

A major theme here is that consumers want to make the most of their healthy retirement years. These are often referred to as 'good years' and are coupled with a sense that health deteriorates more quickly in later life (often based on seeing parents' health decline, either prematurely or at a typical age). Many feel that they are starting to see health and life differently, particularly as they hit certain milestones such as their 50th birthday or having grandchildren who they wanted to be around for.

Expected good years can have a significant impact on people's plans. Some have ideas to prolong their good years, such as remaining active (cited by half of people in Figure 1 above). However, our research suggests that most health concerns are channelled towards enjoying the good years rather than planning for later years and poor health. Just 12% of people in our survey cited funding care costs as a key concern for retirement. This chimes with other research showing that four in five (82%) over-45s have not thought about care or spoken to their families about this eventuality.[8] Health concerns can make some consumers more cautious with their plans but can have the opposite effect on others.

> "I don't want the years when I'm fit and able to do things and just waste them and do nothing, but obviously financially it's not always so easy to do it."

Attitudes to health

Attitudes to health and retirement are generally linked to past health issues, lifestyle, family history or the experience of peers. We observed two main groups of people whose plans are affected by health considerations.

The first group includes people who have had personal or family experience of poor health and are more likely to have it at the forefront of their minds as they consider retirement: people with specific health conditions such as cancer and heart disease; people who have family history of poor health; and those with specific health concerns because of their lifestyles.

> "Health is probably my biggest fear. The male line of my family doesn't live beyond 75 and bits start falling off after 60."

> "How long have you got on this life? I have abused myself with drinking and smoking for a lot of years, and you do start to think when you get

[8] Partnership, Care Report, 2015.

> to 50, the clock's starting to tick now, is it time to start enjoying yourself before the coach trips to Scarborough for fish and chips?"

The second group includes people who haven't had direct or family health issues so see health as a real, but less dominant, concern. In some cases they recognise that retirement is likely to lead to some health deterioration after seeing their parents' health decline. In others they may have seen friends or colleagues suffer with serious health issues.[9] These people are more likely to have no particular plans to retire and want to work until health stops them.

> "You realise how quick things will go, you suddenly realise you have to start planning. I took my mum to her parents' grave a few weeks ago, 25 years ago I wouldn't have been interested but seeing how her health has declined in her 70s I can now see that happening to me."

Strategies

Consumers take different attitudes to dealing with health concerns, partly based on their health experience and personality. Some, particularly with genetic concerns, feel powerless. But others plan to keep both mentally and physically active through work or leisure to keep themselves healthy.

Similar health experiences can lead to different people taking opposite courses of action. Some see health concerns as a reason to be less cautious and enjoy their good years, with some planning explicitly to take more money early in retirement even if it could leave them short of money later. As well as enjoying themselves, some in this group want to take money from their pension to help their children so they can see them benefiting from it.

> "I could wait until I'm 65 and I might never actually get much of that money anyway. I'd rather benefit from it sooner which is what I think a lot of people are thinking nowadays."

> "I thought 65 is a long time ahead, and I've got this cancer I might not be alive then so I might just enjoy it now, while I can, while I'm still fit and healthy. I live much more for the minute rather than worrying about the future."

But another group becomes more cautious in response to health concerns, such as buying an annuity to guarantee income even in poor health, paying off their mortgage or updating their will. These acts are often motivated by a desire to avoid being a burden on family, but will not always ensure this. For example, writing a will is unlikely to help with care costs and downsizing may be less lucrative and more complicated than expected. Similar caution was shown by people restricting their travel and other plans for the future because of health considerations.

[9] It is important to note that, while in a small minority, some people said they had no health concerns for the future and that they haven't ever had any health issues.

Case study: The impact of family health experience on retirement plans

Lisa[10] is in her early 50s and married to a public sector worker. Five years ago she cut down on her hours at work so she could begin to enjoy life more and have more time to do the things she loves such as gardening, swimming and looking after her pets. Lisa lost her dad when he was around her age now and explains how this made her look at life differently compared to her husband who has parents who are still alive.

> "I lost my father in his 50s and it made me look at life differently and made me realise it's not worth leaving everything 'til you're older, you need to enjoy your life as you go along.
>
> "My husband has a different thought pattern to me. he comes from a family where they all live 'til they're in their 90s, and his parents are both still alive, he's never lost anybody close. And because I lost my dad so young, and my mum's the oldest person who ever lived in her family and she's only early 70s, I suppose I've got a different outlook on life."

1.2 Family

Family considerations are key for man in later life, ranging from emotional issues such as wanting to see their grandchildren to financial issues such as wanting to help children get onto the property ladder. In our survey, 21% of people cited seeing friends and family as a major aspiration for their retirement. But our interviews suggested that this underplays the real influence of family, which runs throughout many different considerations. For example, having enough savings to afford the lifestyle they want (59%) can encompass being able to visit family and many plan to take holidays (51%) which will often be with their partners, parents, children or grandchildren.

We observed a variety of different family relationships at play. A significant cohort prioritised both older and younger relatives - the so-called 'sandwich generation' - while others focused primarily on either older relatives or younger relatives.[11] Some members of the sandwich generation feel pulled from both ends and in extreme cases live with multiple other generations.

> "I'm looking after Dad and at other end of the scale I've got a daughter with two grandchildren. So it's kind of like being pulled at from both ends of the age spectrum as well as being in the middle myself. I'm helping out with grandchildren, worrying about my own children, and then worrying about dad, and then, you know, myself."

In relation to older generations, some already have caring responsibilities while others are expecting to assume them in the future. Behaviour is often affected by how far people live from their parents. Some living nearby visit them frequently in their homes or care homes, while others (or their partners) spend long periods away looking after their parents. One person we interviewed has found a job in another city so she could

[10] We have changed consumers' names for case studies throughout this report to protect their anonymity.
[11] It is worth noting here that some parents said that they saw their children from time to time but this was not a key consideration for their retirement. Others participants did not have parents or children.

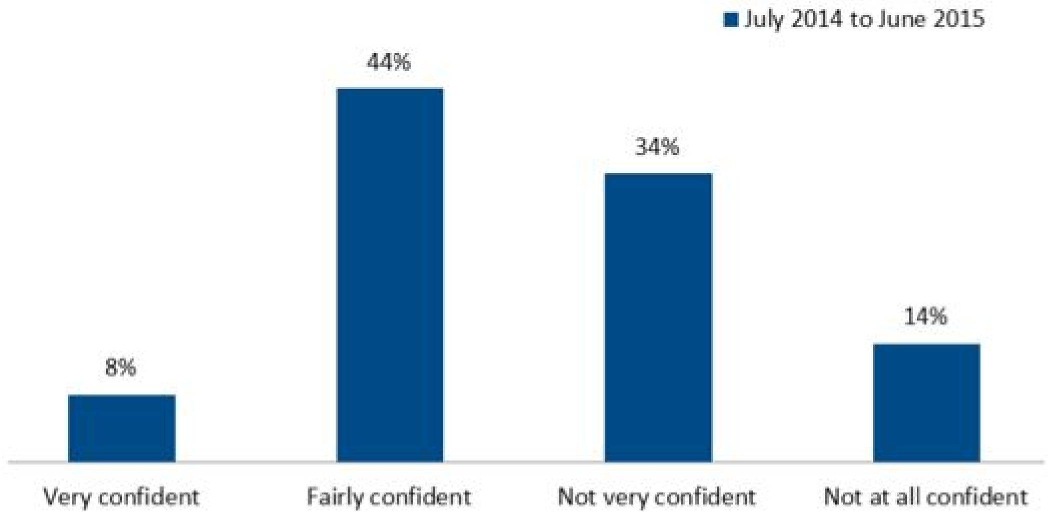
spend three days a week there to look after her father. Concern also extends to other relatives such as aunts or uncles, either directly or through the concern of parents. This has an impact on some people's working lives and has an effect on how they themselves plan to phase into retirement. Some also discuss taking out lump sums from their pension if their parents needed financial support.

Younger relatives are also prominent in people's minds. Many of our interviewees live with their school age or grown-up children. Some with grown-up children see helping them settle down as a key priority and letting them live at home to save rent is an important part of this. Some are delaying plans to downsize their homes to allow their children to stay with them until they can afford to move out. Some parents are planning for the future in other ways - such as saving for future events like university or weddings - and some say his has deterred them from increasing pension contributions. Some expect to move closer to their children in future while others are actively planning to cut down on work to look after their grandchildren.

Those who do not have children also hold younger generations in their future hopes. They are more likely to prioritise seeing other people such as as nieces, nephews and godchildren. They are also more likely to talk about seeing friends as a key part of their later lives. Not having their own children to consider results in a strong sense that they are better off and able to take more risks with their money.[12]

1.3 Money

Figure 2: How confident are you that your income in retirement will give you the standard of living you hope for?[13]



Money is a key factor for people thinking about their later working lives and retirement. Our research shows that having enough income is the most common aspiration for the future, being cited by six in ten (59%) consumers as a key priority. From the qualitative interviews, we observed that most people consider their retirement income to be based on total household savings and expect to draw from a variety of sources. People are particularly focused on the idea of being 'secure' or 'comfortable' in the future. Although not expressed directly, this is often linked to the idea of replacement rates and living costs. Figure 2 illustrates data from the Office for

[12] It was also mentioned that those without a parent or children felt isolated.

[13] ONS, Early indicator estimates from the Wealth and Assets Survey, Wave 5, July 2014 to June 2015.

National Statistics' (ONS) Wealth and Assets Survey, showing that almost half (48%) are not confident that their income in retirement will give them the standard of living they are hoping for. We discuss the complexity of people's future incomes further in Chapter 2.

> "We're hoping for a comfortable, not a luxury but a comfortable, lifestyle."

From our qualitative work we observed three main reactions to expected levels of retirement income.

Confident:
- 8% very confident (ONS)
- Generally married with no need to sell home for pension income
- Confidence gained from modelled plan or diverse assets saftey net

Accepting:
- 44% fairly confident (ONS)
- Generally has medium savings
- Do not think they'll be rich but expect to have enough
- Likely to have own safety net

Concerned:
- 48% not confident (ONS)
- Generally has lower savings
- Less likely to own their own homes so see housing as a key issue
- May expect to use state saftey net

Confident consumers are generally married and do not expect to need to draw income from their primary residence to fund their retirement. This group includes people who say they feel better off than ever in life, with some saying they are ready to enjoy their hard-earned savings, and others saying they have been lucky with inheritance. These consumers have generally gained confidence from either having a specific modelled plan for their savings or from having a diverse set of assets. This group includes some who don't feel confident in drawing their DC pension income but are still confident about retirement income overall because of other household assets. Some in this group feel able to bide their time and wait for the best deal on their DC pensions.

> "I feel good because my advisers have produced a modelled profile for my savings showing that they will last until we're 90 without having to sell the house, even if there's a 15% stock market crash in 10 years."

Accepting consumers do not think they will be rich but expect to have enough. They often have a strong sense that although their income will drop in retirement and will be smaller than they would want, they will have enough to get by on and that others will be worse off than them. This group includes many consumers with medium levels of saving but also some with high and low levels.

This group often feels that their pension savings may not support a comfortable lifestyle for the rest of the lives but that they would be able to cut back or use their property to generate extra income if necessary. This is likely to be linked to the 24% of people in our poll who cited their income running out over time as a worry. Some take the view that saving more would not be worth the short term loss, while others are taking action to secure their safety net rather than a main pension. The most common approach here is to pay off the mortgage for peace of mind and as a security measure for social care costs.

> “We’ve just paid off our mortgage but we’ve kind of neglected our pensions. We should have more in them but I don’t know how much we can do now. We’re in a better position than a lot of people I know [because of the house] but we’re still not in a great position. We’ll probably have to cut back but we should have enough to be okay. We don’t owe any money.”

Concerned consumers generally feel negative about their retirement income. They are much less likely to own their own homes and are more likely to see housing as a key issue for retirement. Overall, 29% of consumers in our poll are worried that they won’t have enough day-to-day retirement income. Some express a sense that they will not be comfortable in retirement, while others feel frustrated that they will not be able to make the most of this period of their lives. People in this group generally have lower savings, although it also includes some with medium savings.

Many are prevented from creating strategies to deal with their monetary concerns as they feel that their present income is too low to let them do anything about it, while some are concerned about losing state benefits if they save too much. For some this lack of money means they will have to carry on working. It is worth noting that while this group is worried and some feel that they will have to carry on working, many feel at the back of their mind that the state safety net will keep a roof above their heads and ensure they do not starve (this is discussed further in Chapter 3).

> “I’m quite a bit bothered about it, but you know, you haven’t got the exact figures of what you’re going to get. I don’t think mine will last, I don’t think there’s been enough in the pot really. I get to the point where I think ‘what the hell if I haven’t got any I haven’t got any’.”

Running out of money: pension freedoms

Our poll found that 24% of people cite their income running out over time as a key concern. Within the qualitative interviews we discussed whether people thought their pension would support them throughout retirement. There is a common feeling that, although people expect to be careful with their own money, they are concerned that the general public may not be so responsible. In some cases consumers seem to base their expectations of prudence on assumptions that they won’t have any unexpected income shocks.

Some acknowledge that they haven’t thought about the idea of running out of money as they like to live for today, but feel they should be concerned because their parents are still alive. Others have thought about it and are concerned, wishing that they had paid more in. In contrast to these approaches, some are aware that they might run out of funds but aren’t bothered. This was, in some cases, because they have no children to pass any money on to or because they expect a safety net and basic standard of living if they run out of funds as discussed in Chapter 3.

> “I haven't paid enough in but I get to the point and think what the hell if I haven’t got any I haven’t got any, I’ll get by. There’s a lot worse off than me.”

1.4 Holidays and travel

A key opportunity of retirement is being able to take advantage of having more free time and fewer work and family commitments. More than half (51%) of people in our survey cited being able to travel and take holidays as a key aspiration. This is an area where the concept of 'good years' is particularly powerful. Many people are excited about the opportunity to see new places and travel more extensively, although they are aware that this may become harder as they get older.

> "We enjoy travel and hope to do more in the future. That's one of our main sort of joys of life really."

> "I'm going to use the 25% to pay off credit cards and debts and things like that, and have a big holiday. I want to take my mum to Australia so she can meet up with her cousin that she has never met, treat her before she gets too old to do it."

Some want to travel for specific emotional reasons such as visiting relatives, revisiting childhood memories or going somewhere that they have always dreamed of. Others simply feel they deserve to relax and take a holiday. Many in couples hope to spend more time together, such as on long weekends away as they phase into retirement or by buying a holiday caravan to visit. This raises a distinction between holidays and travel, with the former being seen as less adventurous and less dependent on good years.

Although many people do plan to travel more in their later working lives and early retirement, some note tradeoffs between time, money and family. For example, some envision having more time so want to take more holidays but don't feel this is affordable. Others feel that they can't travel extensively while they are still caring for their parents.

> "I want to have a few more holidays, I haven't had any holidays for a few years, I would like to get on holiday like everybody else but at the moment the way money is and finances you've just got to really hang on to what you've got."

1.5 Hobbies and socialising

Enjoying more leisure time is another key attraction of retirement. As we discuss in Chapter 2, this prospect can lure some to phase into full or partial retirement. Overall half of people cite keeping active as a key hope for retirement, while key concerns include being lonely (17%) and not being able to pursue hobbies and interests (11%).

Some specifically want to do more as they enter or phase into retirement. This includes having more time for their existing activities, starting new ones and returning to others. A key driver for this is simply to have fun and enjoy life, but it can also be linked to other motives. Some hope to take up new hobbies such as going to the gym or swimming for physical health reasons, while others plan to remain mentally active by attending academic courses or taking up music.

> "The more active you keep your brain going the more active you keep yourself."

Volunteering is another key option people consider to remain active and to do something they see as worthwhile. For some this would be preferable to working in a paid position if they have enough money to do so, and is seen as a way to keep their hand in work-like activities if they are still healthy. Citizens Advice relies on over 20,000 volunteers across England and Wales, many of whom have entered or are phasing into retirement.

Many recognise that their friendship circles will be important and may change. Some see retirement as a great opportunity to spend more time with their friends and feel it important to grow old with them. One person who had retired early noted how he had felt a significant shift in who he was socialising with - having previously spent time with younger colleagues he now spends most time with retired friends his age or older.

> "It would be nice to have the same gang of friends grow old together, to go over theirs and have a social."

> "Just spending more time with friends will be great as well. And you know just chilling out a bit more, and being a bit more active culturally as well as sort of perhaps physically as well."

Others say they hope to make some new friends and get involved in their communities through activities such as joining a choir or a bowls team. This can help reduce the risk of loneliness in later life, and is particularly important for single people and those without significant family responsibilities.

Case Study: Loneliness
Laura is single and has no other family members. She is self-employed and worried that neither having regular colleagues nor an immediate family may lead her to become isolated and lonely in retirement. Many of her friends started families or moved away. As a result of this, one of Laura's main hopes for the future and retirement is to build new networks of friends through taking part in new activities outside of work.

All the factors mentioned within this chapter show that those in their 50s and 60s have a lot on their minds, with pressing responsibilities as well as hopes and fears for the future (both for themselves and others). A good retirement income is the main hope for the future as it is the resource that can help realise other hopes and prevent fears. Health is a key concern and the notion of 'good years' is central to people's thinking. However, our evidence suggests that many consumers are thinking about making the most of these years without making contingency plans for health problem.

Chapter 2: New approaches to phasing into and funding retirement

Retirement has become an increasingly flexible process. Many consumers are choosing to retire gradually by changing their working patterns rather than retiring suddenly when they reach retirement age.[14] Recent governments have supported this change with policies such as ending the compulsory retirement age and introducing pension freedoms. The choice to phase into retirement is linked to expected retirement income and other priorities discussed in Chapter 1. This chapter answers three key questions:

- **When do consumers plan to retire?** Some have already phased into retirement whereas others plan to continue working indefinitely.
- **How do consumers plan to retire**? Some will change employment status (e.g. starting agency or zero hours work) or reduce the hours or the stress of work.
- **How do consumers plan to fund their retirement?** Many have complex income streams which they can access at different times.

2.1 When do consumers plan to retire?

Some of those we spoke to had already retired or had clear plans about when they were going to retire, whilst others either needed or wanted to carry on working indefinitely. The different approaches are summarised in Figure 3.

Figure 3: Four main approaches to retirement timing

Already retired	Want to retire but cannot afford to
● Often early retirement. ● Motivated by planing or forced early retirements e.g. health, redundancy. ● Likely to phase different income sources at different times. ● This group often has high pension wealth even before considering property.	● Concerns include worrying about finances e.g. paying the mortgage. ● Motivated to retire by hopes for future and not enjoying current work. ● This group are generally concerned about their retirement income or debts.
"When I got voluntary redundancy at 60 it seemed a good time to take my pension, allowing me to pay off my mortgage. I had also recently been diagnosed with cancer. I just thought, 'you know what, I'm going to enjoy the money now and enjoy working slightly less while I can, while I've still got my health'. And so all of those things combined to me deciding to take the pension at 60."	"I would like to retire at 60, but I'm 57 now so I don't think I'll make it in time. In an ideal world I'd stop work at 60 so I've still got some life in me to go and do the kind of things I want to do and concentrate on me and my family a little more. I don't think I can afford to because I've still got a mortgage to pay."

[14] Research from insurer LV= found that only a third of people now at state retirement age were not working at all. This is Money, Working into old age becoming the norm: Two thirds of workers continue to toil beyond state pension age, August 2014.

Target retirement	No plans
● Either have a specific age target (e.g. 60 or State Pension Age) or looser targets (e.g. when a business could be passed on to children). ● Motivated by enjoying work or wanting more retirement income, often linked to partners plans. ● Tend to be either accepting or confident about their money in the future, but with no plans on how to withdraw pension income. "My aim is to build my company up this year and next year, and then probably sell it the year after. My two private pensions kick in at 60 but of course my state pension doesn't kick in until 67 I don't think."	● No plan when to fully retire or a desire to work indefinitely. ● Motivated by enjoying work, the activity of going to work itself or the belief that they will never be able to afford to retire. ● This group cuts across all saving levels - those with low savings are more likely to work out of necessity. "I can't see me ever leaving there [work] unless ill health or anything because I can pick or choose more or less the hours I do. I enjoy what I do. There's more paperwork than I would like. I've got no plans to retire as such - some days I'd like to pack it in - but I can see myself staying there for quite a while."

We identified a general consensus that individuals have expectations both for themselves and for society at large that retirement has become a more gradual process. Some consumers have begun planning to phase themselves into retirement, including by changing how they work.

> "I don't think retirement is going to be such a definite thing at 65. I don't think people think like that any more, that they're just going to be looked after. My sister is 72 and she's still working part-time. The idea that you retire and just stop isn't going to be the way things are. I don't think the government can afford it and I think people don't just want to stop completely."

2.2 How do consumers plan to retire?

Some interviewees have already started working part-time, whereas others are planning to change how they work in future. In general, consumers want more flexibility and less stress - both emotional and physical - from their jobs as they approach retirement. They are also likely to want to do things that are more 'worthwhile' or fit with their plans for the future, including reducing hours of formal work if they can afford to.[15] For example, one person we interviewed had phased over a ten year period from being the director of a company to a freelance consultant.

Consumers have three main plans of how to phase into retirement, all of which can overlap. They are:

- Reduce working hours

[15] It is also worth remembering from above that some people plan to carry on working indefinitely, and only plan to cut down hours if forced to for reasons such as health.

- Reduce physicality of work
- Change employment status[16]

Reducing hours of work is a commonly recognised way of phasing into retirement. It can increase leisure time and reduce mental and physical stress. It can also offer greater flexibility if people can work their part-time hours on different days. The desire to reduce hours is divided between those who feel working part-time is a realistic target and those who question whether they will be able to afford to do so. Some want more free time but also want to retain some work because they enjoy it or want to be mentally active.

> "Going part-time, I've regarded it as a kind of stepping stone to giving up work altogether and being fully retired. But I just love my job so I'm not really ready to give that up yet."

Others are happy with their hours but want to **reduce the physical stress of their work,** including working from home more. This is particularly the case for self-employed people who are able to adapt their working circumstances more easily. In some cases workers are motivated by an awareness that this will enable them to continue working for longer.

> "It would be a lot less stressful with less driving so I would like to cut down to four visits a day and do more work in the office."

Finally, **changing employment status** can include becoming self-employed, an agency worker or taking a zero hours contract. While in some parts of the labour market these are seen as insecure forms of work, people in their later working lives can value the flexibility they offer. Some see changing employment status as opportunity to do something completely different and to develop in retirement because they have been working flat out since they were young.

> "I don't envisage working until I'm 65. Perhaps go part-time working, 3 days a week. Maybe stop working altogether and go to an agency because they pay a lot more for my sort of experience...I've got a couple of options in mind."

Self-employment and retirement

Some participants expressed a desire to become self-employed in retirement. They particularly see self-employment as an opportunity to gain more control over the number of hours and the type of work they do. In some cases it is seen as a way to fulfil a dream or do more worthwhile work linked to Chapter 1. In both of these cases people can be inspired by their friends, family or colleagues to take this decision.

Those who are already self-employed or have recently become self-employed are particularly likely to eschew traditional views of retirement. They are more likely to have no plans to ever retire - in some cases this it is because they enjoy their work and the flexibility of being their own boss, in others it is because they have low

[16] In addition, some people expressed a general unspecified desire to 'wind down' without having a specific plan in mind.

levels of pensions savings so need to continue working. We will publish research early next year on the particular challenges self-employed people face with pension saving.

> "Well if I'd have been with my employer [rather than self-employed] I would have actually retired at 60, I would have retired now. But since I've been doing my own thing I've found it easier to balance work and other stuff."

2.3 How do consumers plan to fund their retirement?

Phasing into retirement gradually means some consumers access different parts of their retirement savings at different times, as well as supplementing retirement income with wages. Pension freedoms are designed to help people retire in different ways to suit their own circumstances, supporting the fluidity of retirement described above. Key to many people's decision is whether they can afford to phase into retirement.

As Figure 4 shows, the three most cited important sources of retirement income for consumers with DC pensions are standard pension vehicles: the state pension (76%), DC pensions (58%) and DB pensions (42%). In our qualitative research consumers often conflated their private pensions into one package, sometimes without recognising the differences. It is important to consider DC pensions in this context, and previous research has shown the different risks consumers face depending on their levels of DB and DC saving.[17]

Figure 4: Most important sources of retirement income for DC pension-holders[18]

	Ranked in top 3
The state pension	76%
My private pension – defined contribution/money purchase	58%
My private pension – defined benefit/final salary	42%
Income from/drawing on other savings	33%
Property income	24%
Part-time employment	22%
Support from my spouse or partner	8%
Don't know	7%
Support from my children	3%
Other	3%

As well as formal pension savings, consumers factor in a wide variety of other potential income streams. Overall, we found that three in four (74%) consumers with DC pensions expect at least one non-pension income to be one of their top 3 sources

[17] Pensions Policy Institute, Transitions to Retirement - 'How complex are the decisions that pension savers need to make at retirement?, November 2014

[18] Consumers were asked to select up to three key sources of retirement income from a list.

of retirement income. These include income from other savings (33%) and part-time work (22%). One in four (24%) cite income from property to be one of their crucial sources of income - this figure does not cover those who see their property as a backup safety net. Many consumers will be reliant on a wide range of different sources, which can make it hard to estimate future incomes, especially when each individual component is uncertain (as set out in Figure 5).

These retirement income sources can often be accessed at different times. To understand whether consumers are making 'good' decisions, policymakers need to understand the full financial context of their choices.

> "My two private pensions kick in at 60 but of course my state pension doesn't kick in until I'm 67 I don't think so I can do part-time work from 60 to 67."

> "They'll all be important and I'm guessing they'll all be necessary."

Figure 5: Complex consumer income streams

Income source	Potential uncertainty
Pension income (DB, DC, state)	Economic, personal and political (see Chapter 3)
Partner's income	Knowing partner's saving levels and what they will mean in retirement
Property	Future market changes and costs of downsizing
Other investments and savings	Future market changes, taxes
Future inheritance	Whether and when it will be received, how much it will be (including tax)
Working (full time or part-time)	Whether jobs will be available, how much they will pay and health considerations
Means-tested benefits	Eligibility and future levels
Selling business	How valuable it will be
Support from children	Whether and how they can help

As well as knowing the present value of their pensions, consumers may also need to balance their partner's income and household property, savings wealth and potential future inheritance. This means some are confused about their future income.

> "Until the money is in my hand I don't think I'll believe any of it. I don't have a sense of what that will turn into. I think that worries me. If I am absolutely honest, I'm not confident what I'd be getting even if it all went to plan."

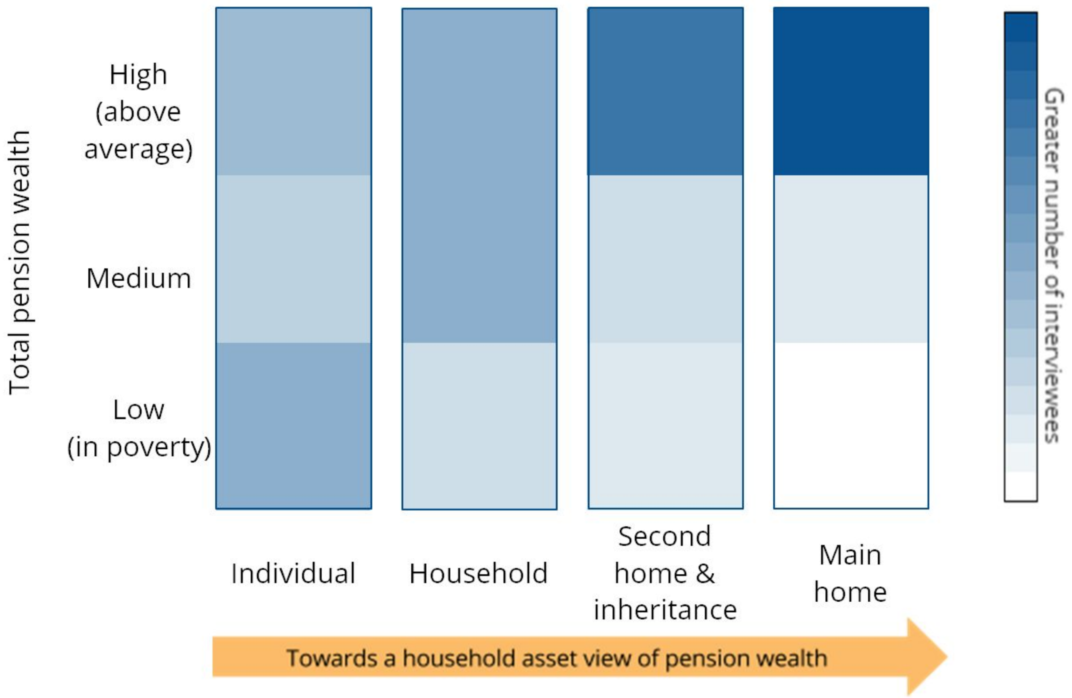
> "We've got bits and pieces all over the place. When the time comes we'll have to sit down and work out what we'll get."

There are four different ways of looking at a consumer's level of retirement savings:

- The individual consumer's pensions and other savings
- The consumer's total household pension and other savings
- Household pension savings plus any second homes or expected inheritance
- Total household assets including primary residence

These different levels are important to truly understand pension choices. For example, some consumers in our research had relatively small DC pots but were confident about retirement because their partner had large DB savings. Others were accepting because although they had a medium level of household savings, they saw their primary home as a safety net or last resort - this is the key distinction between the third and fourth columns below. Figure 6 is illustrative of the consumers in our qualitative research - while many would be in poverty on their individual pensions and savings alone, if household savings are included they are more likely to have a medium or high income. The trend continues as property and expected inheritance are included. This shows how important it is to consider full retirement income when looking at pension choices and also raises questions for future generations who may have lower property wealth.

Figure 6: Viewing pension wealth alongside total household assets[19]



Our qualitative research shows that people in couples almost universally expect to share their retirement income. Many are expecting to rely on - or provide for - their partner, and in one case a share of an ex-partner's pension was also an important consideration. This means that some pension decisions can appear irrational when looked at on an individual basis, but seem logical we considered on a household basis.

"We talk a lot as a couple, it's never been my money or her money".

[19] The darker the square the greater number of people falling within the category. Low pension wealth is set as in pensioner relative poverty: less than 60% of median pensioner income and high pension wealth is set at above the median pension income.

Case study: Pension wealth as a household

On her own Lisa, 59, owns her home in Northampton, has DC pension wealth of around £50,000 and would be heavily reliant on the state pension for her retirement income. She is planning to use her DC pension to buy a caravan in Norfolk, as she loves the coast and has always dreamt of owning a place there. She is happy to pay tax on some of her pension so that she can buy the caravan now, particularly so she can spend time with her grandchildren there.

In isolation this may appear like an irrational way to draw her pension. But Lisa has considered her options and is not too worried about her retirement income. She and her husband have always shared their finances and he has a good public sector final salary pension. They both feel they will have enough money to live on in retirement as they live a "modest" lifestyle and will be able to live on his pension income. They want to enjoy their healthy retirement years and expect to spend less money by no longer going on foreign holidays.

Property is a key source of retirement income, with with 24% of those surveyed ranking this in their top three most important sources of income in retirement. Most consumers we interviewed mentioned the use of their property in relation to retirement income with some expressing a feeling that their generation had 'got away with it' in terms of their saving habits, through a combination of property booms, generous final salary schemes and inheriting property.

> "I managed to get my foot on the ladder just at the right time."

Many consumers feel property is preferable to pensions because of perceptions that it is safer, more lucrative, more tangible or more tax efficient than a pension. Some have actively chosen to invest in property rather than their pension, while others expressed plans to use their pension pots to invest it in property.

However, while some people see property as an active part of their retirement income plan - such as selling a second or inherited home or investing in buy-to-let - others see their home as a backup insurance policy in case they run out of money. Many expressed the view that "my house is a nest egg". Some said they could use equity release or downsize to top up their income if they started to run out later in retirement. However, some have mixed feelings about having to use their home as part of their retirement income, such as concerns about how much they would raise and where they would have to move to.

> "It would be a wrench to leave our neighbours, we help each other out."

Case studies: Main home as pension wealth

Jenny, 60, is concerned about whether she will have enough money to live on in her retirement, despite having medium pension wealth when considering traditional pension incomes. When thinking about where her main pension income will come from, Jenny thinks that she will probably have to get capital from the sale of her house.

Nancy, 52, has more of an active plan for turning her house into retirement income, rather that relying on it as a backup option. Nancy has low DC pension savings (Just under £50,000) but is expecting some inheritance from an aunt. Initially, she has low pension provision, once her inheritance is taken into consideration she has medium wealth. She bought a house in London in 1997, which has risen in value from £120,000 to over £800,000 today. Taking her main home into consideration, she will have high pension wealth and she is planning to convert her house into two flats. This will enable her to remain in the area and realise some of her capital.

Inheritance - both already received and expected in the future - was mentioned within the interviews as an important element of retirement income. Some feel that they cannot rely entirely on expected inheritance. This is sometimes because the value or timing is uncertain, such as how much a property will be worth, when a relative will die or how much of their estate will be used for care costs.

Case study: The importance of inheritance and second homes

Robert initially has medium pension wealth, reliant on his DC pension. However, this isn't where he sees his main pension income coming from. He and his wife own a second home that they rent out. Robert thinks that this will be their main source of income and so are planning on doing a long term rental so that they can secure their income. He is also reassured that the property itself is very useful "if things go really bad" as they could get capital from this. After taking into consideration this property, Robert and his wife actually have high pension wealth and his DC pension is not in the top two sources of income for them.

This chapter has shown how the nature of retirement is changing. Retirement is no longer a cliff edge at 65 and is instead is becoming a more fluid process. People are choosing to work for longer, changing working patterns so that they can phase into retirement. Alongside this, other income streams are being used to stage retirement income, supported by pension freedoms. This complexity, combined with other priorities discussed in Chapter 1, can mean consumers often don't have a strong grasp of what their retirement incomes will be. We now look at the specific challenges consumers face to engaging with their pensions as a subset of their overall retirement income.

Chapter 3: Why people do or don't engage with pensions

In this chapter we explore in detail the interrelated barriers that deter consumers from engaging with pensions while they are saving. These include fears about confronting pensions, a lack of time, and - as our previous research found[20] - a concern that pensions are complex and confusing. A common view is that it is not worth understanding pensions now as conditions will have changed by the time the consumer wants to retire. But this approach runs a risk that consumers will end up sleepwalking towards retirement without knowing whether they are saving enough to be comfortable.

We start by identifying three illustrative groups of consumers in terms of how much they engage with their pensions. This helps understand how barriers affect different groups.

Engaged:

- Likely to be part of the 22% who know their pension value
- Tend to actively engage with their pension
- More likely to have large pots and to be confident consusumers

Passive:

- Likely to be part of the 56% who have a rough idea of their pension value
- Tend to pay into their pension and check their statement once a year
- Not likely to consider changing their contribution rates

Avoiding:

- Likely to be part of the 22% who don't know their pension value
- Tend to be accepting or concerned consumers
- More likely to have a pension pot below £70,000

Engaged consumers tend to actively check their pensions, knowing how much they put in, what their pensions are worth and what kind of income they should deliver. This group is likely to be part of the 22% in our poll who know the exact value of their pension and the 19% who say they have a very good understanding of their DC pension plan. These people are more likely to have large pots and to be confident consumers. They are also more likely to be retired or single, with more time to engage or a greater sense of independence. Many have financial advisers or accountants who they discuss their pension with, particularly including issues of how to maximise their pot size and to minimise tax. Some were actively monitoring annuity rates while others had relatively small DC pensions but still check them alongside other financial interests.

> "I'm financially astute enough to look at things myself. I check the papers and the markets most weeks. I'm constantly watching the annuity rate, but annuities at 5% don't interest me. I'd rather wait until they pick up."

[20] Citizens Advice, How people think about older age and pensions, 2015.

Passive consumers are likely to be amongst the 56% who have a rough idea of their pension value and the 37% who check their pension value once a year. This group includes consumers who pay into their pension and check their statement once a year, but are not likely to consider changing their contribution rates or to understand how much income they are likely to get from their pension. A common approach is to pay the automatic rate into a workplace pension and to skim read the first page of a pension document before filing it. Some in this group, particularly self-employed people, have an accountant and have, in some way, delegated their pension and are not engaged or aware themselves. Others ask their partner to check paperwork but are not particularly aware of what they had saved. Nobody in this group knew what management charges they were paying and many did not know that these existed.

Case study: Passive consumer

Robert, 61, is a passive consumer and does not know much about his pension. He has one pension which he thinks is worth around £80,000. He pays in around £750 per year into his pension pot, but is not quite sure what type of pension it is and is unsure when he can start accessing it. He knows he should know more but is currently happy to keep paying contributions and think about it later. He quickly checks his pension statement each year, but then files it away.

"It's embarrassing because I haven't really studied the pension. I get a statement once a year so I have a quick look at it and then it gets filed. I've been pretty bad, I tend to forget about it then. I really need to sit down with someone. There's a whole page of stuff here I've never really gone about reading."

Avoiding consumers rarely check their pensions and are likely to be part of the 15% of people who check their pension value less than every two years and be part of the 22% who don't know their pension value. Some in this group receive pension statements but bin or file them without reading, while others have moved house and lost contact with their pension provider. This group is made up of accepting and concerned consumers and they are likely to have a pension pot below £70,000. The most common reason for avoiding DC pensions is because the income is not seen as important - some have significant other savings, whereas others don't, but see their pension as being too small to be worth engaging with or worrying about.

> "I just see the logo on the envelope and put them in a pile upstairs. I know it's not going to be millions and I'm not going to retire now on it! I don't think I've opened any of the statements for about three years. They're boring."

3.1 Barriers

Consumers have many barriers to engaging with their pensions. The key reasons for avoiding pensions from our survey are presented in in Figure 7, while Figure 8 presents the four key types of barriers identified from our qualitative interviews.

Figure 7: Which of the following best explains why you do not know the current value of your pension pot?[21]

Figure 8: Barriers to pension engagement

Type of barrier	Issue
Knowledge and understanding	● Complex ● Media ● Language ● Lack of help
Unknowns	● Economic ● Personal ● Political
Fears	● Ageing ● Low trust ● Insufficient savings
Time	● Feel too busy

3.2 Lack of Knowledge and Understanding

More than a quarter (27%) of people with DC pensions feel that they don't understand their pension plan, while fewer than one in five (19%) feel very confident. Our qualitative research suggests that the complicated nature of pensions can be a barrier to engagement. Some feel that pensions are too complicated and more confusing than other finances, with a 'minefield' of factors to consider. Some express concern that they don't know enough, particularly given how long they have been paying in for.

> "My main issue is that it's quite frightening the amount of different options, and you're talking about quite a big sum of money and a lot of people want to take that off you and not tell you the risks. You've got to be very savvy out there."

> "I can't believe, hearing myself talk about it, I'm talking about my security for the rest of my life, and I don't even know anything."

[21] This is based on our survey and the base is all DC consumers who do not know the value of their pension pot (n=125).

There is an inescapable fact that pensions *are* complicated. They involve calculations about future inflation, market performance and longevity, amongst many other factors. Given that the UK has low levels of financial capability and take up of financial education,[22] it is unsurprising that people face barriers to understanding pensions.

This intrinsic complexity is made worse by the fact that most consumers don't have a clear incentive to learn exactly how pensions work during accumulation.[23] Most consumers learn about pensions informally from the media, employers, family and friends. Passive accumulators and avoiders are particularly likely to have a piecemeal understanding. So although they may be are aware of major changes and stories from the news, they neither fully understand the fundamentals of how pensions work nor understand what exactly reforms mean for their circumstances.

A piecemeal understanding means that many consumers amalgamate stories about DC pensions with others around state pension, public sector pensions and other private pensions. This leads to a wide range of misunderstandings and confusion, such as that people can withdraw their state pension at 55 or that an increase in the state pension age means they cannot access their private pensions until 67.

> "I've learned about pensions by talking to my colleagues and listening to the news. That's why I don't understand everything, maybe [I would] if I sat down with somebody who really knew about the pension scheme."

> "To be honest I don't even know whether I'm allowed to work at all and have a state pension, I don't really understand it all to be honest. I have actually been on the .gov site a couple of times in the last year and to be honest it's so complicated to try and figure out, and oh look I can't have that bit and I can have that, but you can't have that if you've got that, it's a minefield."

This confusion is compounded by the fact that consumers also have to navigate their way through phrases like defined contribution, defined benefit, workplace pension, contract-based pensions, trust-based pensions, annuity and contracting out. This type of language does not resonate with consumers in the context of their broader lives so it is welcome that the Association of British Insurers is developing standardised language on products and charges to help customers consider their options.[24] While pensions as investment vehicles are complicated, the language to describe them does not have to be. Correspondence from pension companies is important because for many it is the only personalised material they receive. Confusing paperwork can lead to some crucial misunderstandings - the most common we encountered when going through consumers' statements with them was that they could not access their pension until the stated 'retirement date' or 'chosen retirement date'. This is explored in the case study overleaf.

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[22] Money Advice Service, The Financial Capability of the UK, 2013.
[23] It is also complicated by the fact that consumers may have multiple pensions. Other large financial commitments, such as mortgages, offer immediate rewards and consumers generally don't have to track multiple different mortgages.
[24] Association of British Insurers, ABI sets out action plan to help customers get most from pension freedoms, June 2015.

We went through pension statements with our qualitative participants - some felt that information from the pension companies was good, but many felt they were either too confusing or too long to be useful. Our participants' statements ranged from 2 - 46 pages long. Some felt that the language was confusing, as it contained 'fuff', 'bumf' and 'jargon'. Many felt that short clear summaries of the key points would be more useful.

> "It's just too complicated, you know, if you don't work in the financial industry it's quite a lot to take in."

> "I've got a life and I'll be bored by page two. There's too much of it. It's just so complicated. I'd rather have factual bullet points, the key factors that you need to know."

Case study: confusion around retirement dates

Ian, 53, did not think he would be able to access his DC pension until he was 70 because he misunderstood his statement. He is a passive accumulator who skim reads the first page of his statement when he receives it each year.

"I get a statement once a year so I have a quick look at it and then it gets filed. I've been pretty bad, I tend to forget about it then"

He thought that the retirement date on his statement was binding and that he could not access his savings before then. This meant that he was expecting to carry on working until he was 70, when he could actually access it at 55.

"We were given this date of 2032. It kind of depresses me, 'I think 'crumbs that seems a long way off. It's not going to pay me until I'm 70 and who knows what the price of living is going to be then?'"

Pension freedoms

One of the major barriers to engagement with pensions is the piecemeal understanding many consumers have of how they work. The new pension freedoms introduced earlier this year are a good example of this. They allow consumers aged 55 and over to take their DC pension in chunks, as flexible income, as one lump sum, buy a guaranteed income or a combination.[25]

One in five people told us that they were unaware of these reforms and one in four felt unsure what these reforms would mean for them. More than half (55%) of all people with DC pensions said they understood 'fairly well' what pension freedoms would mean for them. Our qualitative research suggests that even people who initially said they had a good understanding of how pension freedoms worked could struggle to explain what the options would mean for their own situation. This may reflect a superficial understanding. We observed a broad range of understanding of pension freedoms, including consumers who:

- Understand pension freedoms fully
- Understand the freedoms but not the full implications

[25] For more information see https://www.pensionwise.gov.uk/pension-pot-options.

- Have some awareness of them, such as that they can take a lump sum
- Have heard of changes, but did not understand what they meant
- Haven't heard about pension freedoms

The news and media is particularly important for people's awareness and understanding of pension freedoms. Piecemeal headlines have led to a wide range of misunderstandings and confusion, with many having an awareness of some pension freedoms, but not all. For example, some know that it is now possible to access cash cash at 55 but are unable to give more specific details. Some think they can take a tax free lump sum at 55 but will have to wait until state pension age to access the rest of their freedoms.

On the understanding of how pension choices will be taxed, there is again a range in knowledge with some thinking pensions are taxed as income, but also cases of people not knowing how they are taxed, thinking the annuity is taxed or thinking pensions are tax free. Recent research has shown that more than half (53%) of retirement savers are unsure of the tax rules surrounding pension freedoms, and this was a common theme in our interviews.[26]

Lack of help

Some consumers who lack understanding of pensions expressed in our interviews a desire to check their pension, but did not know where to go for clear, trusted help. Some wealthier consumers paid for financial advice, but others fell into the affordable advice gap.[27] Some consumers were aware that they could get help but were concerned that it was not impartial or did not know where to get it, leaving them stuck in a free advice gap where they cannot get support to overcome their lack of knowledge.[28]

> "I just don't know enough about it at the moment. I would like to have free help, perhaps government website advice first but it is always nice to discuss it with a person, to ask a question and get the answer straight back."

In some cases consumers expressed concern at a specific lack of a feedback loop to know how much they should pay in. While the government has introduced Pension Wise to help people with decumulation choices, many consumers want help with their accumulation choices. This is an area where a retirement dashboard showing people's savings and what they would equate to as an income could be used to help improve understanding and engagement.

> "It's a minefield really, pensions, of what do I do? What's the right target to try and hit? Figures, and how much you will need to live? And how long are you going to live?"

> "I'd just like an expert to sit me down and say 'you need to pay this much more into your pension or else you'll just be taking home £20 a

[26] Research based on a Portus survey of 1,080 employees, featured in FT Adviser, 'HMRC to profit as most pension savers clueless about tax', 18th November 2015.
[27] This is defined as consumers who are willing to pay for advice but not at current levels. For example, we found that 16% of consumers were willing to pay £200 - £1,000 for advice on a pension, but that average costs were around £1,500. See Citizens Advice, The Affordable Advice Gap, November 2015.
[28] Citizens Advice, The Four Advice Gaps, 2015.

week'. I'd like someone to explain how much I should pay in and how much I would get out a month at the end of it."

3.3 The Unknown

Economic

Knowledge of how pension savings are invested is mixed. Engaged consumers are likely to understand exactly how pensions are invested, whereas others may be unsure of whether or how their pensions are invested, while retaining some sense that their pensions' values fluctuate. Some consumers who were aware of investment links said that uncertainty in the stock market (such as shocks to the Chinese economy) made them feel powerless.

Estimates for the eventual value of a pension fund are also vulnerable to economic changes. While some consumers really value having a forecast in their pension statements, others feel that this is not a true reflection because of uncertainties around investment and inflation. Other consumers find it hard to understand how much money they will need, which we discuss in the box below.

The general sense of powerlessness leads some to avoid checking how much their pension is worth until they are closer to retirement to avoid the stress of fluctuations. But some engaged consumers have more active approaches, such as choosing low or medium risk investment options and or investing themselves through SIPSs. Some get detailed plans for their savings and others invest in property and diversify their investments.

> "Unless you're about to retire in the next two years nobody can project what's going to happen."

> "Every so often it does cause anxiety and then you have to tell yourself you can't do anything about it."

Economic and personal: different views on the cost of retirement.

Consumers' thoughts on adequate income are dependent on expected outgoings in retirement, which are linked to inflation and expected lifestyle.

Some felt that they would spend less because their children were now self-sufficient, they would drive less or they would move to a smaller house. Some people felt that inflation would be a factor, but despite this their costs were still likely to go down because of their changing behaviour.

> "I'm guessing I won't spend half as much as I do now. You still need a car but I won't be doing the miles."

> "What people aren't cognisant of when they say inflation will destroy your savings is that as you get older you spend less. You go out less, you booze less, you eat less, you consume less. Your

> joy is a cup of tea in the garden, not drinking your way through ten bottles of wine."

Another group of people felt that their costs would start to rise. This was sometimes because they would have more leisure time or because inflation would mean that prices would outstrip their savings. This thinking spanned all income groups but was particularly strong for people living on low incomes who were more sensitive to changes in the prices of basic goods.

Others recognised that some basic costs would stay the same or couldn't think of any particular areas where they would make savings.

Personal circumstances

Another barrier for engagement with pensions is linked to the idea of not knowing how personal circumstances will change before accessing pensions. Some consumers said that they didn't know what would be happening in their lives tomorrow, never mind in ten years' time. This was heightened for some by an impression that circumstances change more quickly later in life. Some were also uncertain about how long they would live and how much money they would need at different phases of retirement.

For some, this didn't cause anxiety as there wasn't anything they could do about it. Others were reassured by the presence of the state safety net.

The perceived 'safety net': state support and owned home

In the back of many people's minds is the idea that they have a 'safety net' for their retirement income. This prevents some from saving more into their pension as they perceive that they will be okay with their back-up option. The two main sources of this perceived 'safety net' are: state support and a releasing equity from homes.

There remains confusion around level of state pension and other rules (single tier, eligibility) and some think that state pension alone would be terrible, but others have a more subliminal state 'safety net' that reassures them. There was a sense among some that although they didn't know the exact rules around or levels of state support, they wouldn't be destitute because they don't see poor pensioners out on the street or because they know that their parents received state support.

Property was also perceived as a 'safety net' for retirement income. Although for some their home is an active part of their retirement income, for those viewing it as a 'safety net' this is seen as a back-up option, with concerns over how the income would be accessed and worries about selling (See Chapter 2).

> "I know there's lots of people in poverty and things like that but my wife works with elderly people and she says 'I've never seen a poor pensioner'."

> "You don't hear about people not being able to pay gas and electricity bills in the news."

Political
Some consumers are deterred from engaging during accumulation by the idea that politicians are 'moving the goalposts' and that pension legislation is constantly changing. Interviewees discussed the rising state retirement age, recent pension freedoms and how they expected more changes in the future. People also expressed a broader concern about the long term sustainability of the state pension, which added to overall anxiety about pensions in general. Political uncertainty not only increases confusion but also leaves some consumers feeling like they can't keep up, which causes them to defer thinking about their pension.

> "I think it's constantly changing, I mean every year something changes with pensions and legislation, access and things like that."

> "If you learned it all now, in three years time they'll have changed it all again."

3.4 Fears
Consumers also face barriers to engaging caused by fears (like having low trust in pensions) or by cognitive aversion to confronting issues (like ageing or having insufficient savings).

Ageing
One particularly difficult barrier to overcome is centred around the worry of getting older - 15% of people who don't know their pension worth say they avoid it specifically because they don't want to think about retirement. Our interviewees commented on how thinking about their pension made them feel old and some expressed this as being an affront to their pride.

> "You're thinking about old age aren't you. I know it sounds silly. I suppose in some ways one looks forward to retiring but in others you definitely don't."

> "You've got to do it [look at your pension]. But it's just the thought of 'oh I'm getting old, my joints won't work, I'm going to be dribbling'."

Low trust
Another barrier to engagement with pensions is the lack of trust in pensions and the financial system more generally. This comes from the news and personal experiences - including those of friends and family. The Maxwell scandal and the collapse of Equitable Life were both cited frequently in relation to trust in pensions. They were often raised as deterrents to increasing pension contributions, and we observed very low levels of awareness that the Financial Service Compensation Scheme's applies to pensions.[29]

Some consumers' trust is affected by negative personal experiences of financial services such as being mis-sold a pension, endowment fund or Payment Protection Insurance, or facing exit charges for early withdrawal from an ISA. Although most of these cases were not related to pensions, bad experiences of financial services often seem to rub off on pensions.

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[29] The FSCS protects 100% of the claim with no upper limit for claims relating to long term insurance policies (such as pensions and life assurance). See http://www.fscs.org.uk/what-we-cover/products/pensions.

> "My parents suffered from Equitable Life when that folded. I became rather cautious about putting money into the pension and I focussed on bringing the mortgage down."

> "It's difficult because some companies went under some years ago and it's been very difficult to know what to do regarding a pension scheme."

The historic nature of some of these cases suggests that scandals live long in consumers' memories and are hard to shake off. This is exacerbated by a general conception that 'pensions' are a homogenous entity. Trust in pensions is also reduced by stories of generous public sector pensions (particularly for MPs) and from personal experience of seeing parents losing their pensions to care costs. Some also cite the loss of the 'personal touch' with financial services and constant rebranding or renaming of firms as reducing their confidence in pensions.

This distrust means that some consumers only invest with large pensions firms in the public eye, while others want to spread their pension rather than keeping it in one place. Some turn to other investments to support their retirement income because of their low trust in pensions. Property is the main alternative, with expectations that property delivers higher returns than a pension and some believe it is safer, suggesting that even if something did go wrong property and rental income dropped they would still have a property to sell. Others felt that even if property investment failed they would only have themselves, rather than a pension firm, to blame.

> "I would only invest with one of the big companies even if I was gonna get a bit less. I worked all my life for it. And I actually wouldn't invest with somebody unless I could have a conversation face-to-face either. I don't know who I'm speaking to on the phone."

> "You just can't trust the banks or the politicians now anymore can you? They are both the same. The bank manager used to be the face, now you just speak to whoever's at the end of the phone. You're lucky to see anyone."

Insufficient savings

Some customers avoid checking their pensions because they are concerned that their income won't be enough. This means they feel it isn't worth checking, but also presents deeper fears that they will not have enough income in retirement. This led to some consumers feeling that it is easier to avoid their pensions rather than address their concerns, meaning they can end up burying their head in the sand.

There is a risk that fears can become self-perpetuating if consumers are put off saving and engaging because they don't think they have enough. The longer they avoid their pensions the more likely it can become that they will have insufficient retirement income.

> "But they are really small pensions so I haven't got the energy to think about them at the moment."

3.5 A Lack of Time

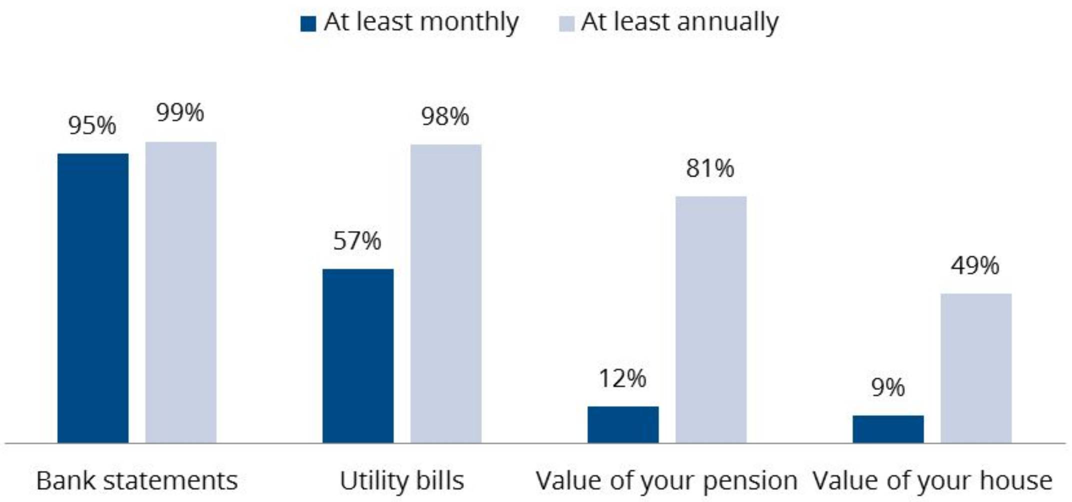
Many consumers feel that they are too busy to engage with their pension. Many said that reviewing their pension was something they need to do or have on their 'to do' list but that they hadn't got around to doing so yet. Some said if they did have more time then they would be more interested.

But the notion of simply not having enough time is not straightforward - some said that along with not having enough time, they also felt pensions required too much effort to engage with, were boring and involved too much information. For this group it seems that a lack of time is as much of a justification covering other deeper barriers than a key obstacle itself. Both being too busy and finding pensions too boring interlink with the lack of understanding, as confusion can fuel the sense of not having enough time.

> "I think I'm just too busy, there's so much going on in life in general. By the time I get home I just forget."

This is further reflected in the frequency with which consumers check the value of their pension in comparison to other finances. As Figure 9 shows, only one in eight (12%) check their pension value monthly compared to 95% for bank statements and over half (57%) for their utility bills.

Figure 9: How frequently or otherwise do you check each of the following?[30]



In this chapter we have shown the different levels of engagement consumers have with their pensions. Consumers are put off engaging with their pension because of a lack of knowledge, a number of unknowns and cognitive fears all presenting barriers to engagement. Some of these barriers can be addressed, such as by increasing trust by promoting the Financial Services Compensation Scheme for pensions or increasing understanding by making pension language clearer for consumers. But other barriers seem rational and inescapable, such as that people cannot be sure the exact return they should expect on their DC savings.

[30] Each figure excludes consumers for whom the question is irrelevant. For example, if someone doesn't own a home they are not included in the 51% who don't check their house's value.

> "I think more and more, the older you become, the more focussed on all of that, and decisions become quite important."

A common response to these barriers is to avoid engaging with pensions. But by doing this, consumers risk sleepwalking towards retirement without knowing whether they are saving enough to be comfortable, which was the key aspiration identified in Chapter 1. Given the considerable inertia around pensions, triggers for engagement at key life events are highly important.

Chapter 4: Saving and withdrawal triggers

The different priorities in people's broader lives (Chapter 1), diverse income streams (Chapter 2) and pension barriers (Chapter 3) combine to create considerable inertia for consumers. Many accepting and avoiding consumers lack a sense of what their retirement income will be and how they can improve it. Prompts or triggers to action are important both during pension accumulation and at decumulation.

Our research sample - in their 50s and 60s - often started saving following ad hoc triggers such as advice from family members or employers. Savings triggers have been revolutionised by auto-enrolment which now forms the most significant trigger for pension saving. But auto-enrolment has not solved saving problems. Over 20 million people - more than half of the working age population - are not eligible, including 4.5 million self-employed people and 5.3 million people in work but not earning enough from any single job.[31] So it remains important to consider triggers that could help these excluded consumers start saving. It is also important that triggers help consumers increase their saving rates because auto-enrolment is not helping consumers save *enough.* Research by the Pensions Policy Institute has found that a worker on the median income who is auto-enrolled for their working life would have less than a 50% chance of achieving an adequate income in retirement.[32] In this context, we need to understand what can trigger consumers to increase their contributions.

Triggers for pension withdrawal have become more important following the introduction of pension freedoms. Consumers now have more choice about how to withdraw their savings, so the influence of different triggers has changed. This is particularly important when consumers respond to unexpected triggers such as sudden poor health or redundancy - short-term choices can have a significant impact on retirement incomes.

4.1 Saving Triggers

Starting contributions

The main triggers for pension savings in our research group focused around employment and family. Employers play a key role in offering a pension and communicating with employees. We observed a feeling that an employer's recommendation is trusted, particularly if they are paying into the pension as well. There is a workplace effect too, with some consumers feeling that they are more likely to pay into a pension if their colleagues are also doing so. With this in mind, auto-enrolment appears well designed as it uses employers to trigger saving and creates a stronger habit of workplace saving.

> "It just happened, it just sort of came out of your wages, you didn't really have any say in it and I didn't enquire about it really. I just knew you got put into a pension, it was basically just a long term savings plan."

Family and friends have been the other key trigger to begin pension saving. A number of consumers in our group started saving because their father told them to at the

[31] Pensions Policy Institute, Who is ineligible for automatic enrolment?, September 2015.
[32] Pensions Policy Institute, What level of pension contribution is needed to obtain an adequate retirement income?, 2015.

start of their career. Some people start thinking about saving when they get married, divorced or their children leave home. And as with the workplace effect described above, we also observed a cohort effect with the saving habits of friends and relatives affecting people's behaviour. Many say that without an external nudge from relatives or friends they probably would never have started saving. This is particularly the case for self-employed people who cannot rely on being nudged by an employer. We will explore this in more detail in a report on self-employment and pension saving early next year.

> "I think if it hadn't been for my father I'd never really have thought about setting up a pension."

> "My father always made me very savvy moneywise and insisted that I joined a pension scheme at the earliest opportunity to give my family security, which I've also told my children."

Increasing contributions

Increasing pension contributions is key to ensuring that an individual's pension pot is *enough* for their retirement income. However, when most passive and avoiding consumers have joined a pension they are likely to set it to the back of their minds rather than considering when to increase contributions. As a result, triggers are important to help consumers consider their contributions. They should ideally be accompanied with a feedback loop (through an informative tool, guidance or advice) to link changes in contributions to likely retirement incomes.

> "It's a stupid thing really - ok I've got a pension scheme going but I've put it to the back of my mind because I don't really want to think about it I suppose, but I really ought to be looking at it and thinking more about it. And it's stupid because every year I've said to my wife I should call the pensions people and put more money in."

The role of employment is again important when looking at increasing pension contributions. Simple acts from an employer can result in employees increasing their pension contributions. This can include offering access to financial advice or a pension review, giving a pay rise in the form of greater pension contributions or asking whether employees want to increase their pension saving (and potentially increasing employer contributions to encourage this). For engaged consumers (and some passive consumers) employment itself is again influential in increasing savings, with a number mentioning that they would increase savings if they got a pay rise or if they changed jobs.

Pension companies can also play an important role here. We spoke to participants who said they received a letter from their provider each year suggesting they contribute an extra 1% and that this often prompted them to increase their payments.

Case study: The role of triggers in accumulation

Julie, 62, has two SIPPs worth around £150,000 in total. She has responded to a number of triggers throughout her working life. She originally started saving for her pension almost 40 years ago when her employer suggested it. She later left that job, but her accountant suggested that she kept paying into the pension for tax efficiency (she was a higher rate taxpayer at the time), so she did.

She is now self-employed and has her own company pension. The pension company she uses writes to her each year suggesting that she increases her contributions by 1%. Julie says she quickly considers whether she can afford to and generally does follow the provider's prompt and increase her contribution. She says this annual letter from her provider is a stronger trigger to increase her pension saving than tax relief.

Key milestones such as major birthdays act as a trigger for some to consider increasing the amount they are saving for retirement. Many in our research mentioned mentioned turning 50 as a key trigger to consider their contribution rates. Some saw 60 as a key milestone while others said that turning 30 had made them realise they needed to be more sensible. Similarly, other life events had a similar trigger effect for increasing savings, such as changes in their or their families health or one person who increased their savings following a divorce as they realised they needed to start looking after themselves.

Tax relief is an important factor amongst higher rate earners but has little impact on basic rate taxpayers. This is because tax relief is currently twice as valuable for higher rate than basic rate taxpayers and many passive and avoiding consumers do not understand how exactly pension taxation works. The basic rate taxpayers we interviewed were generally glad to receive tax relief but said it did not ultimately affect their decision of how much to save. As we said in our recent tax relief consultation response, we believe tax relief should be reformed to ensure government spending does more to support consumers to save for adequate retirement incomes - this should include specific incentives for basic rate taxpayers to move beyond auto-enrolment basic levels.[33] Higher rate taxpayers were also triggered to increase savings following the recommendation of a financial adviser. For this group, changes in markets that make pension saving more or less efficient can work as both a trigger and a deterrent for saving.

> "It is nice to have a top up. If anyone's going to give you a free tenner then great."

However, as well as triggers there were a number of practical deterrents for saving beyond the conceptual barriers to engagement discussed in Chapter 3. The key deterrent was the idea of not being able to afford to save right now. Recent ONS figures show that over 80% of consumers who are not saving into a pension say this is because they have a low income or can't afford to.[34] A sense of not being able to afford pension contributions was particularly acute when people had children and bought a house - this presents a high risk period when people may stop saving and

[33] Citizens Advice, Strengthening the incentive to save: a consultation on pensions tax relief, 2015.
[34] ONS, Early indicator estimates from the Wealth and Assets Survey, Wave 5, July 2014 to June 2015.

not resume for some decades. Other deterrents from saving include wanting to buy a house, to pay off a mortgage or to pay for a treat treat that year. Employment can also work as a deterrent when people changed jobs or take a pay cut. Later in working life some people also feel that they have left it too late to make a real difference to their retirement income and so do not see the point in increasing savings.

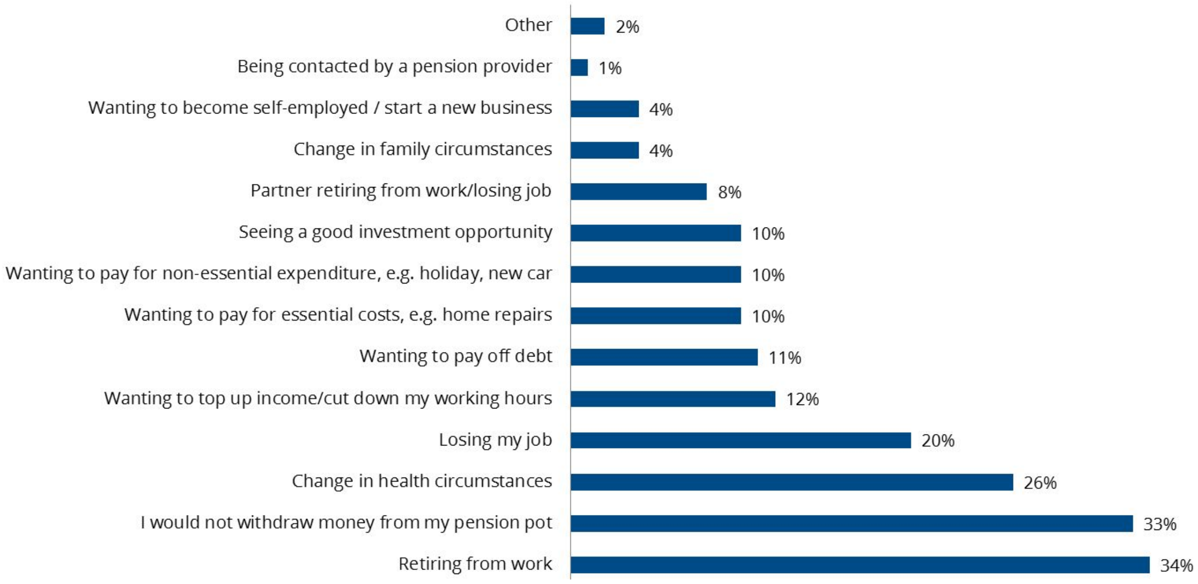
> "At the moment I haven't got any cash at the end of the month to put into it."

4.2 Withdrawal Triggers

The new pension freedoms create opportunities for new withdrawal triggers but also act directly as a trigger as some consumers are prompted to take action following seeing news coverage. Some withdrawal triggers are planned, such as retirement itself, whereas others can be unexpected. If consumers are withdrawing from their pension pot for unexpected reasons they may create difficulties in the longer term. However, this must also be balanced with the importance of the DC pension for an individual's or household retirement income, which as shown in Chapter 2 can be very complex.

As Figure 10 shows, retiring from work is the primary reason (34%) consumers expect to start withdrawing money from their DC pots and 12% may make withdrawals to top up income or cut down their working hours. Both of these can be carefully planned decisions and are linked to phasing of retirement discussed in Chapter 2. Triggers can also be unplanned, with one in five saying they may withdraw funds if they are made redundant.

Figure 10: What, if any, would make you want to start withdrawing money from your DC pension pot?



Beyond retirement, there are many other reasons people may choose to withdraw from their pension pot. Family could also be a trigger for withdrawal before retirement and for unplanned reasons, for example helping children when they needed some money[35] or helping with costs for parents.

> "My mum's very old and very frail. If, or when, anything happens to her, she's not rich but there'll probably be two or three years funding for me there, so that could influence it."

One in four people (26%) said they would consider withdrawing from their pension pot if they had a change in health circumstances, triggering an unplanned withdrawal. The link between health as a trigger for withdrawal was also shown in the qualitative data with health concerns being mentioned as a prompt for withdrawal either because it triggered retirement itself, to pay for health costs or to enjoy life more following a health scare such as cancer.

Other reasons people mentioned for considering withdrawing from their pension pot were for one-off costs such as using their Tax Free Lump Sum to pay off debts, to help buy a car or fix something in the house.

Case study: An unplanned pension withdrawal

Brenda, 60, is an avoiding consumer. She has pension savings of around £50,000 and lives in rented accommodation. She had forgotten all about her pension after a number of years doing casual work and didn't receive statements after she moved house.

She only discovered its existence again when she inherited a flat from a family friend and wanted to pass it onto her sons. They wanted to modernise the property and then sell it on, so asked her for some money to do this. She had low savings but started wondering whether she had a pension which she could access. She contacted her old employer and was able to track down the pension - she is now looking at how she can withdraw her pension to help with the redevelopment.

"I'd forgotten all about my pension until the house came up. I thought I need a bit of money to do it up and wondered whether I had a pension. I wrote to my old employer and they called back and explained I did".

As with saving, there are also deterrents that prevent or delay people from withdrawing from their pension pot. Other deterrents include the charges for early withdrawal or a misunderstanding about when they would be eligible to access their pension pot. For those who were able to (often with higher incomes), the fact their pension would become more valuable or they could get a better value annuity if they left it for longer was also deterrent for withdrawal.

One person mentioned that receiving their annual statement was a trigger for them to consider beginning to withdraw from their pension pot. Beyond this, there was a general sense that consumers want a prompt of being contacted when they become eligible for withdrawal, with some expecting to receive proactive contact from their

[35] There was a second group of parents, however, who either say they won't withdraw from their pension pot to help their children or that they would only do so for serious emergencies.

pension providers similar to automatic reminders at the dentist. This shows the importance of pension literature discussed in Chapter 3.

> "I imagine I will be contacted before it comes to say what do you want to do with it? I suppose I assume they will be in touch with me, rightly or wrongly. I'll start thinking about it when someone contacts me and says it's time to start looking at your pot."

The considerable inertia around pensions means prompts and triggers are important for both accumulation and decumulation. Although auto-enrolment has revolutionised triggers to start saving, more triggers are needed to increase saving levels. Our research suggests that employment is the main trigger for accumulation so the focus should be on helping employees and self-employed people save more through work. Triggers for decumulation can be planned or unplanned. It is particularly important that consumers responding to unplanned triggers understand what impact their choices may have on their long-term retirement incomes - we will explore this more in the next report in this series.

Chapter 5: Pension choices and support

This chapter considers how consumers expect to access their money, which is likely to be triggered by the circumstances discussed in Chapter 4. Most passive and avoiding consumers have not made definitive plans in advance of their DC pension withdrawal. In general these consumers plan to consider their choices as they get closer to retiring - this can range from a few weeks to five years. We consider the thoughts people have on their different options and how they plan to gain understanding of their choices through informal and formal channels.

5.1 Pension plans

Roughly four in five consumers - those we have identified passive and avoiding - are likely to defer actively engaging with pension choices until withdrawal is imminent. It is therefore important to stress that many consumers we spoke to simply do not have decumulation plans because they have not researched their options or thoughts about their retirement needs in detail.[36]

> "Oh, well I don't think I have to think about it yet, do I? I think it's more nearer the time when you need to make these decisions, and so many things can change."

Beyond the majority without clear plans, we observed a continued interest in **guaranteed income products**, which is supported by recent Association of British Insurers statistics showing that over 40% of investments since April have gone into annuities (with the rest going into income drawdown products).[37] The main benefit consumers see from annuities is the security they offer, with some observing that with the population living longer this could be particularly important. There are others that like the idea of a guaranteed income, but are not sure what an 'annuity' is. Annuities were of interest for those who planned on having a modest lifestyle or who had lived on modest income so didn't want to gamble their money.

Overall wealth is an important factor. Some on low incomes rejecting annuities so that they can pay off debt or because they are worried that they won't have access to funds if they face an emergency. Others are more favourable to annuities if they have other options such as remortgaging or equity release as a way round this. Those with alternative options or high wealth are also more likely to say they will wait for a good annuity rate or shift funds into a SIPP.

For some, plans are shaped by personal experience such as having lived on a low and insecure income throughout their lives, who therefore want the confidence of a stable income in retirement. Others have seen family or friends able to pay for good quality care because they have a guaranteed income product. This is often linked to family considerations and the desire for a guaranteed income to avoid becoming a burden. However, parental experiences can have the opposite effect, such as consumers who have seen a parent die shortly after buying an annuity so resent the fact they 'lost out'.

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[36] We specifically focussed on people who haven't yet withdrawn their DC pensions and have no imminent plans to do so. The discussions we had therefore involved general thoughts on retirement options in advance of a decision rather than specific plans.

[37] Of £5 billion of DC pension funds invested, £2.2 billion has gone into annuities. Association of British Insurers Press Release, £4.7 billion paid out in first six months of pension freedoms, November 2015.

Views on options are also directly affected, in conflicting ways by DC pot size as well as overall assets. Low pot values attract some consumers to annuities as the lump sum wouldn't make much difference, as well as others who feel a small annuity wouldn't make a difference so prefer to withdraw the cash.

Some consumers are attracted to **cash withdrawal.** This is generally because of low confidence in pension products or a desire to pay off debts. Trust is an important factor, and some participants told us they were willing to withdraw their pensions and put them into bank accounts where they would be safer, even if this would lead to a higher tax bill. Others planned to withdraw their savings and invest them elsewhere.

> "I probably think I can do better with the money than they could."

Property is a key plan for consumers planning to withdraw cash. Some think that this is the best way to invest their money, linking to the ideas of using property to fund retirement as discussed in Chapter 2. Those with more money are interested in lump sum as they feel they can make good use of it.

Some consumers are attracted to a **combination** of guaranteed income and flexibility. Some with more than one pension discuss taking one for income and one for lump sums. This can apply for those with a DB and a DC scheme or multiple DC schemes. We also observed this between couples using a mix of assets across their household savings to deliver a mixture of secure and flexible income streams.

Thoughts on pension freedoms

The new pension freedoms offer consumers much more choice over how to withdraw their pension (See Chapter 3). There was a strong feeling in our qualitative interviews that although the interviewee (and their friends and family) would be cautious with pension freedoms, it was likely that other people would spend their savings in a reckless manner. We observed a generally positive response to pension freedoms. However, others felt that the freedoms make things more complicated and felt they would need more help as there are greater consequences for not being savvy, a risk of losing money to scams and a worry that their plans may result in them running out of money (Chapter 1).

> "Some people will probably go out and go 'right I want a boat' and buy and boat and then think 'Oh God I've got nothing for my retirement.' I'm not that sort of person, I'm not that rash."

5.2 Understanding options

Pension decumulation choices are notoriously difficult. Many consumers have not engaged actively with the pensions industry before and most will never have made any decumulation choices. The choices require that people understand complex tradeoffs and decisions about future conditions. As discussed above, many feel that they do not yet know enough to make a decision. In this context, it is not surprising that people want help with pensions more than other major financial choices. Overall six in ten consumers (62%) with DC pensions plan to seek help, with more than half (53%) saying they strongly want support.

Figure 11: To what extent, if at all, would you want support from an expert when considering the following transactions?[38]

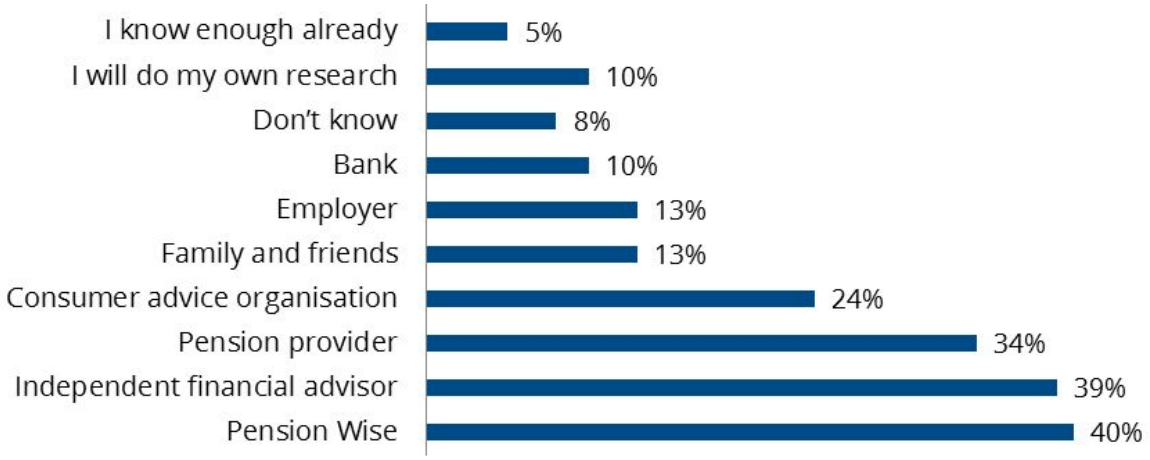
	Would want support (7-10)
Withdrawing my pensions	53%
Investing in the stock market	42%
Buying a house	26%
Buying a car	10%

While some (generally engaged) consumers feel they are informed enough already, a more common plan is to wait and learn about options closer to the time. People discussed starting their research at different points - including the month, six months, year or five years before expected withdrawal. This suggests that consumers need support at different points but also that those who engage further in advance may need help again closer to the point of withdrawal.

> "I wouldn't know what to do but when the time comes I'm sure I'm perfectly capable of finding out and taking some advice if I need to."

Most consumers feel it is important to know that support will be available when the time comes to make a decision. While some expect to read up on the choices themselves, many will also discuss with family, friends and experts. Figure 12 shows where consumers expect to seek help with their pension choices.

Figure 12: Which of the following, if any, do you think that you will approach for advice when you make a decision about how to withdraw your pension savings?



Informal help

Informal help includes speaking to friends, particularly those who have already made their choices or work in finance or accountancy. 13% of those surveyed told us they would approach their family and friends for advice on withdrawing pension savings. This was reflected in the qualitative interview where people said they would talk to

[38] For this question, consumers ranked how strongly they wanted help on a scale of 1-10. Here we have considered consumers scoring 7-10 to actively want support.

partners, children, parents and friends. A key reason for asking family and friends for help is because they are highly trusted and have a good understanding of the person's life goals.

Some said that family and friends would be useful for initial research and generally sharing tips or warnings if they have been through choices themselves. People also value recommendations for where to get more formal help. There is a general sense that friends and family could share thoughts but not actually provide advice on particular products, and in cases where people do want more help from family and friends, it is either because their relative or friend is a financial adviser or because they do not think they can afford to pay for help.

Although some would ask friends and family informally, others took the view that they wouldn't want to mix their finances with friends or family in case something went wrong. One person said explicitly that while they were happy with informal advice while they were saving, they wanted expert advice when withdrawing.

Expert help

Three in five (62%) consumers expect to take expert help when making a decision about how to withdraw their DC pension savings. Consumers have two main sources of independent expert help: financial guidance and advice. Our interviews identified widespread confusion about the distinctions between the two. Many consumers did not know or misunderstood the distinction. Those who were able to identify the difference generally had experience of guidance or advice services.

The government's pension guidance service, Pension Wise, was introduced in April 2015 to help consumers understand their options. Our research suggests that consumers are strongly in favour of the fact that it is an independent and free service. Some specifically value the service on its own merits, including how it explains options in clear terms with a "low fog index" and offers a different perspective from advice. Others expect to use it as a stepping stone before taking financial advice or seeking help elsewhere.

> "I think the guidance sounds initially better and then to go more in depth you'd want advice. I'd use the guidance first, because if you've already had somebody say to you what your options are, you've got a bit more knowledge and you can trust them. I'll definitely want to understand more when I come to take it out. Unless you're mega rich I think it's very important."

The other main form of expert help is financial advice. Some consumers - particularly those who have taken financial advice in the past or who have high net wealth - are attracted to advice because it can tell them exactly what to do and offers extra peace of mind about their choices, such as getting a detailed risk assessment. Consumers want help with specific issues, such as combining pension pots, tax arrangements and complex investment choices.

Some consumers are concerned about the clarity of charges and commission, which we have discussed in detail in previous research.[39] Some perceive these as too high

[39] Citizens Advice, The Affordable Advice Gap, November 2015.

for them - including both those who want help but can't afford it and those who could pay but feel it isn't good value for money (so would rather risk doing it themselves). These include some consumers with large pots who almost certainly would benefit from paying for advice. As discussed above, many people would seek help choosing a financial adviser, either from family and friends or through guidance services. Some consumers also said they would conduct their own research before speaking to IFA and some would look at advisers' past performance. Some consumers plan to speak to an accountant, particularly those who already have one, such as self-employed people. One concern raised with expert advice is that prices may be linked to commission, which suggests more work can be done to highlight the process made following the Retail Distribution Review.

> "There is no pensions board that you can go to that is independently really. You know because everybody's' got their own, all pension are invested somewhere, with a company, there isn't an overall view. Yes, you can go to an independent financial adviser but every adviser is going to give you different advice, as far as I know there is not a body that sits overall that sort of governs it."

Other sources of information and guidance

Consumers have a sense that providers also have an important part to play when making their choices. Some think it will be their first port of call, while others expect to discuss options with them at some point. Some hope that providers will alert them when they can take their pension and others hope they will offer information and help with their options.

However, we observed different views on whether providers could be relied on to offer good quality help. Some felt that they would probably prioritise profit over consumer outcomes. While some felt they could trust big name providers, others felt they might only encourage choices that made them more profit. Similarly some people mentioned that they might seek help from their bank, but again there were concerns that it might not be impartial.

The media is also important as a source of information on pensions. Many people expect to pay more attention to news stories about pensions as their retirement draws closer, and many heard about the new pension freedoms through the news. Some - especially engaged consumers with more assets - already watch markets closely and consume financial news, although some find this process stressful. As well as informing, it can have a direct impact on behaviour with some having moved their investments due to news stories. However, the news does not give a full picture or understanding as discussed in Chapter 3 and can lead to piecemeal understandings of pension choices.

> "When I have thought about it, especially when it was on the news I thought 'Ooh, gosh! How would you make that decision?'"

The internet is also a popular source of information. Some will use it to find pension information while others would use it to choose advice companies. Trusted websites such as Gov.uk, Citizens Advice and Which? were mentioned as helpful. Consumers who lack internet access may face specific challenges with making pension choices, and we will look at this in more detail in the second report in this series.

Prefered channel
We asked consumers to list their two preferred ways of receiving guidance or advice on their pensions. The most popular channel was face-to-face with 79% ranking this in their two preferences (and 71% ranking it as their first preference). This was further reflected in the qualitative research with consumers explaining that they felt they could trust the person they were talking to more (which was crucial for many when discussing finances). Others said they felt they would develop a better understanding and would be more confident asking questions or going back over points during a face-to-face interview. Telephone support and website help (both cited by 42% in their top two) were the next most popular channels.

Figure 13: Featuring as one of consumers' two preferred channels for receiving advice or guidance on withdrawing DC pensions[40]

Consumers are unlikely to have clear plans on how to withdraw their DC pensions in advance of taking their savings. With many putting decisions off until later, it is unsurprising that more than six in ten consumers plan to seek help with their decisions. While some expect to talk to friends and family, this is generally either a first port of call to find out general information or recommendations of where to go for help, or a last resort to avoid paying for advice. Alongside increased pension freedoms, consumers have more choice and are most likely to turn to expert guidance or advice services. These will continue to be crucial to ensure that consumers make the most of their retirement savings.

[40] Ranked within top two preferences. The full list of options was: face-to-face, on the phone, on a website, on email or live chat, on a video chat, or not wanting advice.

Free, confidential advice. Whoever you are.

We help people overcome their problems and campaign on big issues when their voices need to be heard.
We value diversity, champion equality, and challenge discrimination and harassment. We're here for everyone.

Mathew Basford, Rebecca Jeffrey and Thomas Brooks, with thanks to Alan Woods for help planning the research. December 2015

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