PENSION FREEDOMS: NO MORE NORMAL

UNDERSTANDING RETIREMENT WAVE II:

A PENSIONS AND LIFETIME SAVINGS ASSOCIATION RESEARCH PROGRAMME

JANUARY 2016

ABOUT THE UNDERSTANDING RETIREMENT SERIES

Working lives are changing, retirement is changing, pensions are changing. In July 2014 the Pensions and Lifetime Savings Association (then known as the National Association of Pension Funds) launched a major research series examining the nature of retirement, its impact on pension savers, pension schemes and other retirement savings as well as employers.

The purpose of the series is to inform both public policy and the design of private sector pension and retirement income products, as well as helping to shape the guidance and help that is needed as retirement approaches at the point of retirement and beyond.

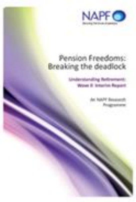
Wave 2 of the research, commissioned in February 2015 has examined the experience and consumer journey of those aged 55-70 who are able to access the newly introduced Pension Freedoms. Specifically it examines:

- How do consumers view the new Pension Freedoms?
- How do savers plan to access their savings under the new Pension Freedoms?
- What is their experience of navigating the new Pension Freedoms?
- Are suitable retirement income solutions emerging and are savers finding their way to them, and if not, what are the barriers?
- What can be done to lower or eliminate the barriers to good retirement outcomes?

ACKNOWLEDGEMENTS

The Pensions and Lifetime Savings Association would particularly like to thank Steve Pick, James Hopkins and Nick Williams from Critical Research and Andrew Wood from Bright Blue who undertook the quantitative and qualitative research that fed into this report.

We would also like to thank all of our members and other participants who took part in this research. For further information about this report or the wider research programme, please contact Liz Spratt on 020 7601 1734 or by email *Elizabeth.Spratt@plsa.co.uk*.

 Wave I The Unpredictability of Retirement	 Wave II Interim Pension Freedoms: Breaking the deadlock

PENSIONS AND
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PENSIONS AND LIFETIME SAVINGS ASSOCIATION

FOREWORD

I am excited to be able to introduce the final results from this second wave of our Understanding Retirement research. In previous instalments of the Understanding Retirement series we shone a light on the hopes and fears of the generation approaching retirement, the first cohort to have access to the new freedoms. Here, we explore how these have been translated into action.

This research represents the first major market-wide survey of who did what and why in the first six months of Pension Freedoms. Alongside an online survey which offers an early insight into the consumer journey of approximately 4 million individuals aged 55-70, our 'life logs' look through to the real people and the real experiences of those making at-retirement decisions in the new world.

One thing is clear: there is no more normal. Pension Freedoms have broken down the traditional norms of at-retirement behaviour; a daunting, prospect for the millions of people who want to do the right thing with their retirement savings.

From our investigation of the first cohort or 'pioneers' of Pension Freedoms three distinct groups emerge: the actioners, investigators and inactives. For the actioners, income drawdown was the most popular decision, with only a minority taking the cash purely to spend it. Our research also shows that the consumer journey is not linear. As happens so frequently in life, plans change, decisions get stalled and events overtake.

However, the findings also caution against placing too much weight on the experiences of these early adopters. It is clear that they are a unique cohort: more affluent, financially confident and well-versed in the world of pensions than those who will follow them. The inactives we identified speak of the potential difficulties to come. This group, numbering around 630,000 people, are potentially the most vulnerable, being the most reliant on their DC savings but also holding the lowest level of DC pension wealth and the lowest levels of financial confidence. These findings underline the importance of creating retirement solutions that will work for the many, not just the few.

In our interim report we identified the 'pension freedom deadlock', where uncertainty surrounding consumer demand, an unstable regulatory environment and concerns around future liability had fused to bring the newly emerging market to a halt. This new wave of research highlights the importance of our proposed solution: quality assured products and strong signposting by trustees and providers to help consumers get there.

Over the coming months the Pensions and Lifetime Savings Association will continue to set out its thinking about how this can be achieved in practice. This will not be an easy journey and will require collaboration between industry, government and regulators. However, I remain confident that we can continue to work together towards our shared ambition: a better retirement income for all.

JOANNE SEGARS

EXECUTIVE SUMMARY

This report provides an insight into the people engaging with pension freedoms introduced by the Government in 2014-2015 during the first six months of their implementation. This latest research, commissioned and analysed by the Pensions and Lifetime Savings Association (the Association), began in 2014 as a programme of research designed to understand retirement patterns in the UK market and the relationship between work, retirement and pensions.

The first wave of research published in its report 'The Unpredictability of Retirement'[1] reported on the feelings of apprehension and anticipation among those facing retirement today, feelings compounded by the introduction of the pension freedoms.

Wave II of the research focusing on the first cohort of pension savers to have access to the new pension freedoms is concluded with this report. An interim report on the baseline data[2] explored the apparent gap between the consumer needs for new retirement income solutions and the ability of the market to deliver. This final report explores the experience of the first six months of pension freedoms from a consumer perspective and highlights a number of policy issues suggested by this analysis.

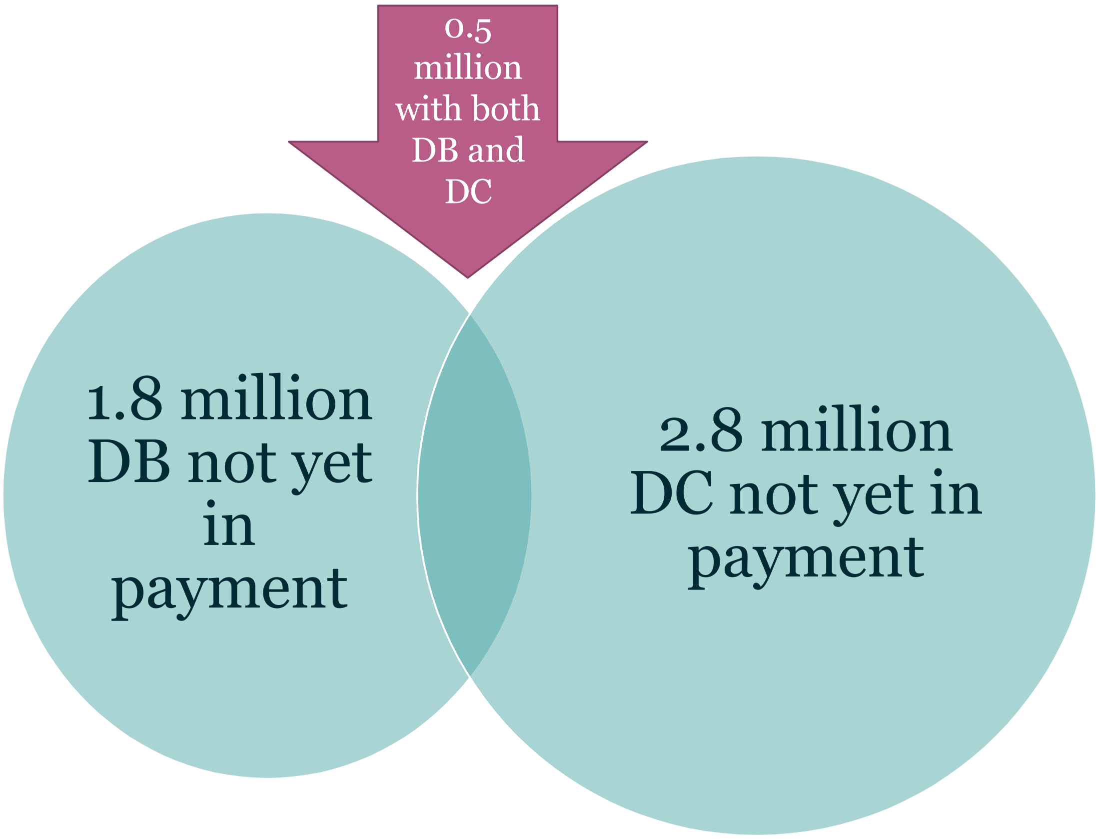
PENSION FREEDOMS: THE FIRST COHORT

The quantitative research conducted in October 2015 for this report enabled a more accurate sizing and profiling of the first cohort to have access to the pension freedoms. The Pensions and Lifetime Savings Association estimates that the cohort consists of:

- Just over 4 million individuals aged 55-70 with around 6.25 million private pension pots not yet in payment;
  - 2.8 million people with at least one DC pot not yet in payment;
  - 1.8 million with at least one DB pot not yet in payment[3];
  - 0.5 million with both DB and DC (included above);
- Our analysis makes it clear that **DC now dominates the landscape for those who have not yet taken any or all of their pensions**, with the percentage of people with only DC provision rising from 38% in 2010-12 to 54% in 2015.
- Contrary to speculation that this wave of retirees would be in possession of a large number of DC pots from different periods of their employment, this research discovered that **individuals with three or more pots made up just 13% of this population.**

[1] Understanding Retirement: The Unpredictability of Retirement
2 Pension Freedoms: Breaking the Deadlock
3 This estimate includes some members of DB schemes who may not be eligible to transfer from DB to DC – those who's DB has been accrued only in an unfunded public sector scheme. It was not possible in the survey to isolate these individuals

FIGURE 1: THE FIRST COHORT – PENSION TYPES NOT YET IN PAYMENT



The 2.8 million individuals with DC pension wealth not yet in payment are of particular interest for those trying to understand savers' reactions to their new freedoms.

There is **a sizeable group with complex provision**. Amongst this cohort, there was an average pension wealth of £85,000 and median DC wealth of £17,500. Overall we estimate that around 55% have DC pension wealth of £30,000 or less with 23% having DC pension wealth of £100,000 or more. There are significant levels of savings but some debt remains, the majority of which is outstanding mortgage debt.

Savers in this cohort have **modest levels of financial confidence.** These DC savers, who have potentially the most challenging choices now to make at retirement, were less likely to rate their financial capability as high (26%) compared to DB savers (33%) and less still than those with both DB and DC pension pots.

PENSION FREEDOMS: THE FIRST SIX MONTHS

The 2.8 million individuals with DC pension wealth not yet in payment were expected to be the most active when Pension Freedoms were introduced. There was widely reported concern in the media before the introduction of the Freedoms that all DC savers would look to raid their pension pots, spending their savings and being left with no money to live on over the course of their retirement.

However, our research has found that **the majority of the 2.8 million savers eligible to take advantage of Pension Freedoms have not taken action.** The baseline survey presented in our interim report provided an early snapshot of consumer behaviour, finding that just over 300,000 people were expecting to take advantage of the freedoms and access their DC pension pot by the end of 2015. Only 3% of those with DB pensions were expecting to transfer their savings to DC in order to access the freedoms.

Intended choices for accessing pensions do not always remain the same, and plans do not always take place within the original planned timeline. The majority of our 'life loggers', individuals who recorded their thoughts and actions about the new process for taking a pension between May and September 2015, thought they had a good awareness of Pension Freedoms and had planned to be very close to taking their pension in the first three months of the introduction of Pension Freedoms. However, by the end of the process only two out of 24 had accessed their pension.

Our follow up survey looked to partially test whether savers took the actions that they thought they would and to explore the actions that were undertaken. The results reveal that approximately 400,000 DC savers have taken some form of action in the first six months of the pension freedoms and 5% of those with DB arrangements have already switched to DC.

The 2.8 million DC savers can be segmented into three broad categories:

- **The actioners – those who have accessed their pension savings (for the first time) under the new Freedoms – 14% of all with DC with approximately 21% of DC wealth for this cohort;**
- **The investigators – those who have actively started to consider how they would take their pension under the Freedoms – 63% of all with DC with approximately 69% of DC wealth for this cohort;**
- **The inactive – those who have not taken any action since the introduction of Freedoms – 23% of all with DC and 10% of DC wealth for this cohort.**

FIGURE 2: ACTIVITY UNDER PENSION FREEDOMS APRIL TO SEPTEMBER 2015

	Proportion	UK estimate (rounded)	Combined DC wealth £bn (rounded)
The actioners	14%	400,000	£50bn
The investigators	63%	1.75 million	£164bn
The inactive	23%	630,000	£24bn

DC ACTIONERS

The early adopters of the pension freedoms are **a distinct and affluent group** numbering 400,000 with £50 billion in DC pension wealth (not yet in payment). The majority are already retired, already have access to other pensions already in payment, have DC wealth well above the average and many (40%) already have experience of SIPPs[4] or income drawdown.

It is clear that this first wave of those accessing the freedoms is unlike those who will follow. However, the actions of this first cohort may well influence future cohorts looking to access their pensions and may create the foundations for the social norms within which retirement products under Pension Freedoms operate.

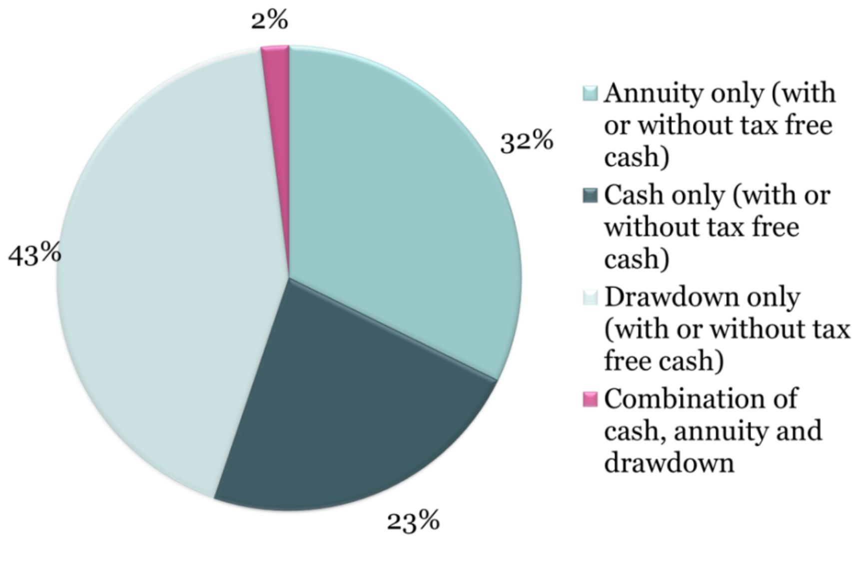
Just over a third of the 400,000 took only the tax-free cash during the first six months (but may yet take other actions in the coming months).

Of the remainder, putting the money into a drawdown type plan was the most popular, while annuities remained popular among one third. Only 23% simply took some or all of their pot as cash lump sums. A very small number combined more than one activity.

Those who have taken the cash have generally saved or invested the money with a minority choosing to pay off debt. Very few have invested in property, with only 10% saving or investing their cash withdrawals in this asset. **Only a minority of savers are taking cash only to spend it.** However where this occurred, home improvements were the most popular way of spending the cash followed by one-off expenditures on holidays or cars.

Broadly speaking, **those investing in drawdown arrangements appear to be drawn from the group with the highest levels of DC pension wealth** whereas those taking cash only appear to be drawn mainly from the group with the least DC pension wealth.

FIGURE 3: TYPE OF ACTION TAKEN



Base: All actioners (193)

[4] Self-invested personal pensions

A minority (21%) sought help from Pension Wise in making their decision while most relied on discussions with their scheme, provider or a financial adviser. Family and friends were also an important source of information and guidance. Only 5% (20,000) say that they used the Pension Wise phone guidance service and only 2% (8,000) say that they had a face-to-face guidance session.

Most found the process of accessing their pensions very or fairly easy but those moving into drawdown generally found the process a little less easy than those buying an annuity. Just under half found the terminology difficult and one in three felt that there was too much information available (and this made the choice harder).

DC INVESTIGATORS

By far the largest group, this cohort contains an estimated 1.75 million individuals at various stages of investigating their options. However, unlike those who have already taken action, most of this group have limited experience of drawdown and the risks involved. Moreover, they have relatively limited DC savings and are largely reliant on DC savings (and other savings) for their retirement income. Nonetheless, most are still working while many have above average household incomes and a chance to add to their savings before retirement.

Only 10% has already sought help from Pension Wise and the majority (73%) have not sought advice from a financial adviser.

Among those closest to taking action, cash and drawdown appear to be the most popular choices. However, unlike those who have already taken action, most of this group have limited experience of drawdown and the risks involved.

DC INACTIVES

The inactive DC savers are potentially the most vulnerable group numbering 630,000 with £24 billion of DC pension wealth not yet in payment.

While most are still working, they are the most reliant of the three groups on their DC savings but have the lowest level of DC pension wealth. They also have the lowest levels of financial confidence of the three groups. Retirement may be some years away for this group but they may struggle to get access to financial advice or to navigate their way through their own research of the market. On the plus side, the market may have evolved ways to help this group by the time they come to access their pensions.

MEETING SAVERS' NEEDS

This research again highlights significant gaps between what consumers say that they want from a pension at retirement and what the industry is able to supply. In our interim report we highlighted the deadlock that appeared to exist at that time between the desire among savers to access their pensions flexibly and the ability of the industry to deliver that flexibility in an easy, cost-effective manner.

Prior to April 2015 the majority of savers purchased an annuity, either through their provider or on the open market. Pension Freedoms brought the promise of new, innovative, products to the market place. Indeed in April 2015 a third of DC savers believed that their future pension would work like a bank account and 53% of DC savers believed that their pension provider was obliged to offer all the Freedoms.

Products fit for retirement needs were exactly what DC savers expected to find: in April 2015 DC savers most frequently intended to leave their money invested and draw a regular income from it; two-thirds from their existing scheme or provider.

The reality is that to access pensions flexibly, most savers still need to transfer their DC savings to a retail drawdown product in which they then have to manage the investments or pay an IFA to manage for them. We found limited evidence in our research of drawdown solutions designed for the mass market with low charges (close to the charge cap for accumulation) and investments managed through a default fund. However, there are welcome early signs of such products being developed and being made more widely available. The difficulty facing savers is how to find out about these products and how to access them when they are not available in their own scheme.

CONCLUSIONS AND POLICY IMPLICATIONS

Pension freedoms have swept away the norms of retirement income. No longer is it normal to purchase an annuity and it is increasingly unusual to reach retirement with a good DB pension. However, a replacement 'normal' has yet to emerge.

While, as our earlier reports showed, awareness and expectations of the pension freedoms among this age group were high, the actions taken and the people taking them in the first six months can in no way be considered a signal of what we should expect over the coming months and years.

The good news is that the Association's analysis shows that there is very little evidence of reckless spending or stripping of pension pots. The vast majority have not taken the money and most still want to realise a steady income in retirement with their pension wealth.

The early adopters or pioneers of the pension freedoms are, in many respects, unlike those who will follow. The majority already have a secure retirement income in the form of an annuity or DB pension as well as having some DC pension wealth that they have not yet accessed. They are clearly more confident and financially capable than many of those that will follow. Many have established relationships with financial advisers or are experienced DIY investors and are comfortable taking some risks with their money.

The group that will shortly follow them into retirement and making decisions about their pensions are more dependent upon their DC pensions and generally have less pension wealth (although some have time to accumulate more). They will almost certainly retire later than the early adopters and may be more encumbered with debt in later life.

However, what these later groups want from their pensions is not markedly different. They want their pension to generate a regular income that will last them throughout their retirement. However, unlike the early adopters, they are less inclined to take risks with their funds. They do find the flexibility of the freedoms appealing and like the idea of being able to dip in from time to time.

While both schemes and other providers of retirement income solutions have worked hard to adjust their offerings to pension savers, there remains little evidence that the market is working to meet the needs of the groups that will follow the early adopters. It is unlikely that a DIY or adviser-led drawdown solution will meet the needs or capabilities of many of them, although they like the idea of drawdown. It is unlikely that they will be able to manage investment risks themselves and will find even a medium risk strategy stressful. In theory, annuities should fit the bill for many but the product brand has been damaged and will take some time to repair. Designing products or scheme-based solutions will not be easy but it is possible to imagine the features that could be made to work:

- simple, and ideally a default, investment options (because these are not DIY investors);
- low cost administration and investment management (because the groups that follow will generally have modest investment funds);
- the ability to lock-in a secure income for later life but with some flexibility in the early years of retirement (because people don't know how long they will live and fear running out of money); and
- good communication and scheme governance (because many will not have access to personal financial advisers).

They will need more help making decisions and finding the best products but many will not seek out advice and many will not access Pension Wise. In spite of limited use among the early adopters, the Association believes that Pension Wise can play an important role in underpinning this framework. With continued support from Government, industry and pension schemes, it can become the norm for people to use the service.

The Association believes that a combination of Pension Wise, independent product standards and strong signposting is the solution most likely to meet the needs of savers in the coming years of pension freedoms. The Board of the Pension Quality Mark has recently consulted on developing a Retirement Quality Mark, building on the success of its quality mark for schemes. This would assess retirement products provided by schemes and providers against the quality of their governance and communications. This could make a real difference for ordinary people who may not have financial expertise but who will be managing their own retirement income in future by making drawdown plans much more useable.

Coupled with this, strong signposting by trustees would help to smooth the member journey from accumulation to decumulation. Under this scenario trustees would signpost accredited solutions, likely to offer good value for most members, as part of the at-retirement communications process. Together, we believe these solutions will help savers unlock the full potential of pension flexibilities, allowing real Freedom and Choice for consumers.

The quantitative research conducted in October 2015 for this report enabled a more accurate sizing and profiling of the first cohort to have access to the pension freedoms. The Pensions and Lifetime Savings Association estimates that the cohort consists of:

- 4 million individuals aged 55-70 with 6.25 million private pension pots not yet in payment
  - 2.8 million people with at least one DC pot that they can access;
  - 1.8 million with at least one DB pot not yet in payment[5];
  - 0.6 million with both DB and DC (included above).
- One third also has a pension already in payment
- 60% are male, 40% female
- Among the 2.8 million with around £238 billion in DC pension wealth:
  - Average DC pension wealth of £85,000 and median DC wealth of £17,500.
  - 22% also has a DB pension not yet in payment
  - 28% has a pension already in payment (10% has DB)
  - 46% has a partner who also has private pension provision
  - 83% has other savings or investments
  - 16% owns a second property
  - 25% has a mortgage still to pay off

The second wave of Understanding Retirement has focused entirely on the first cohort of those aged 55+[6] who have at least one pension not yet in payment (or a SIPP / drawdown plan) which they could access using the new freedoms. The research did not cover:

- those with no private pension provision (estimated at 3.3 million in this age group using ONS population data[7] for this cohort, data from the latest Wealth and Assets survey[8]); or
- those in this age band who have already accessed all of their pensions (both those who have already bought an annuity with their DC pot or pots and those with DB in payment) estimated at 4.2 million in this age group.

The remainder – approximately 4 million – has at least one private pension not yet in payment and are the subject of this more detailed analysis.

[5] This estimate includes some members of DB schemes who may not be eligible to transfer from DB to DC – those who's DB has been accrued only in an unfunded public sector scheme. It was not possible in the survey to isolate these individuals

[6] The research in fact interviewed those aged 55-70 since those with pensions not yet in payment beyond age 70 are few in number

[7] ONS population estimates by age and gender mid-2014

[8] ONS Wealth & Assets wave 4 2012-2014, table 6.8

Little is known about the pension, savings and debt held by this group and one of the objectives of this research was to understand more about the overall profile of this important group who are leading the way in shaping the new norms.

A SIZEABLE GROUP WITH COMPLEX PENSION PROVISION

Through the findings of this project, we have been able to estimate the number of individuals and the make-up of their pension provision.

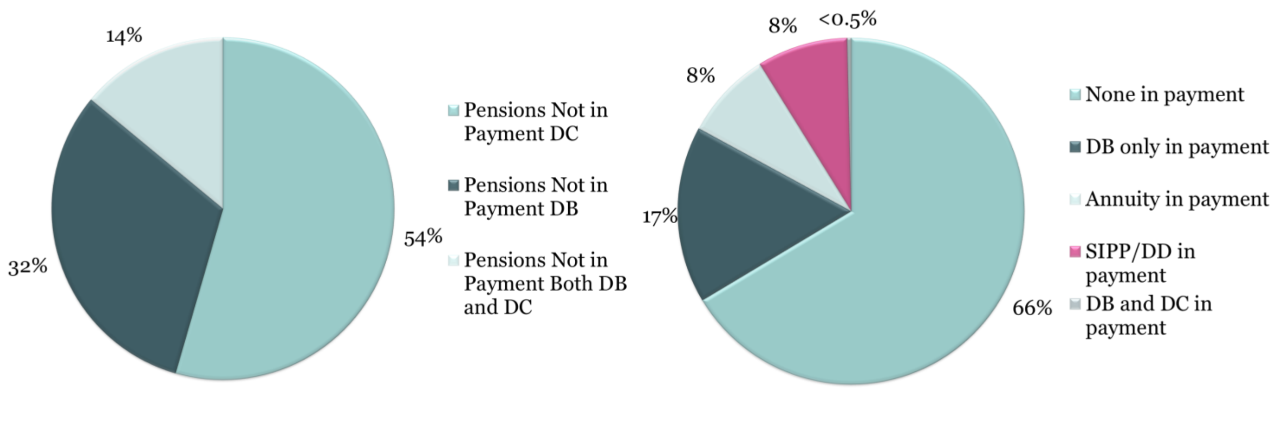
Of the approximate 11.5 million in this age group across the UK population:

- 3.3 million has no private pension provision and either is or will be largely reliant on a state pension;
- 5.5 million has a private pension already in payment, typically as an annuity or DB pension:
    - 4.2 million of whom have private pensions fully in payment (and cannot therefore access the pension freedoms);
    - 1.3 million have both a private pension in payment AND a pension not yet in payment;
- Just over 4 million has at least one pension not yet in payment.

Our survey (which was weighted to the UK population in this age group and Wealth & Assets pension data) suggests that:

- just over half of the 4 million has **only a DC plan** that is not yet in payment (2.2 million);
- around a third has **only DB benefits** not yet in payment (1.27 million); and
- only one in seven (14%) has **both DB and DC** not yet in payment (0.56 million).

FIGURE 4: PENSION PROVISION OF THE FIRST PENSION FREEDOM COHORT



Base: All respondent (1,979)

However, a third of the 4 million, in addition to having a pension that they have not yet accessed, also has a pension already in payment, split roughly 50:50 between DB and DC. Among those with DC pensions not yet in payment:

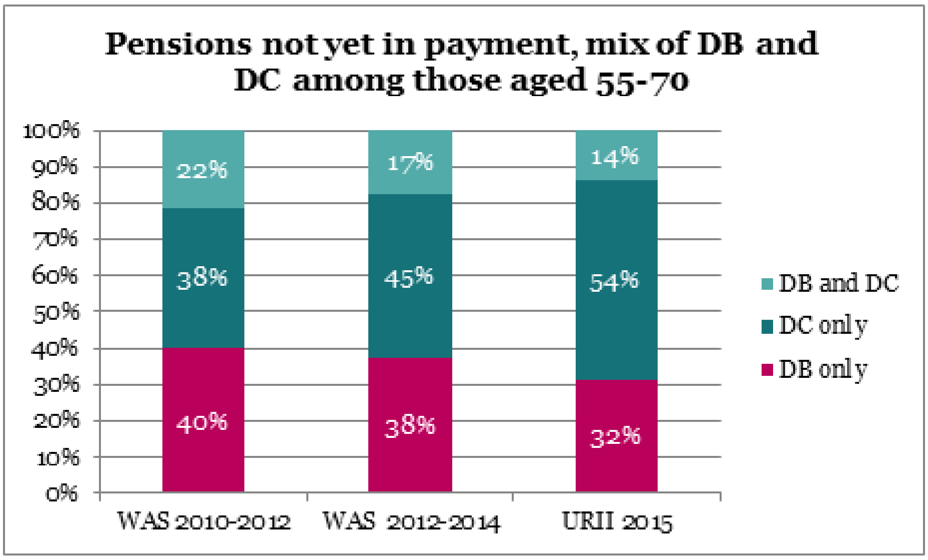
- One in ten already has a DB pension in payment;
- 9% has an annuity already in payment;
- 9% already has some of their DC pensions in drawdown (these individuals are also included in our survey since they can now access their drawdown flexibly).

DC PLANS DOMINATE THE LANDSCAPE FOR THIS COHORT

The data suggest that there are now more people in this cohort with DC plans in place (2.8 million) than those with DB (1.8 million) with only just over half a million with both not yet in payment.

Figure 5 below illustrates the shift that has taken place over just the past five years with DC now dominating the landscape for those who have not yet taken any or all of their pensions.

FIGURE 5: MIX OF PENSION TYPES NOT YET IN PAYMENT

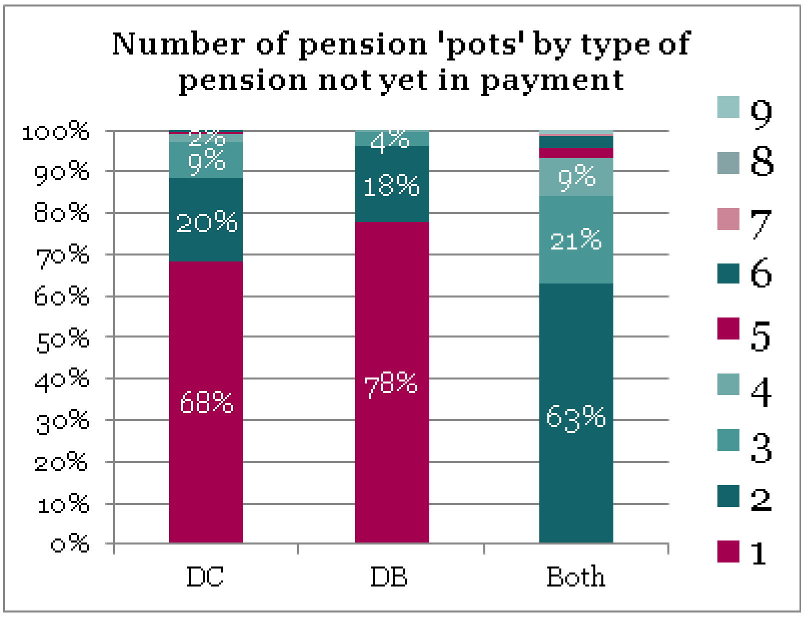


Base: URII (1,979)

The number of pots not yet in payment per individual averaged 1.57 across DB and DC (1.47 among those with DC) with 62% of respondents stating that they only had one pot not yet in payment. This suggests a total of 6.25 million 'pots' yet to be accessed by this group, including 4 million DC pots. Taking into account those who also have pensions in payment, the average rises to 1.58 per individual. The incidence of 3 or more 'pots' is limited to just 13% of this population.

While these data are almost certainly slightly understating the number of pots held by this cohort, all of our research among this group points to quite high levels of awareness of pension entitlement and the average accords with data from other surveys such as Wealth & Assets and this cohort are not, in the main, affected greatly by automatic enrolment.

FIGURE 6: NUMBER OF POTS



Base: All respondents (1,979)

In addition to their own pensions, nearly half (48%) of this group have a partner who also has a pension (46% among those with DC pensions). For just over one in ten (13%), their partner's pension will be the main source of income for the household in retirement (the proportion is twice as high for women).

DC PENSION VALUES REMAIN LIMITED WHILE DB RELATIVELY GENEROUS

Three quarters of those with DC pensions say that they have an exact or some idea of their combined worth. Of the remainder, most say that they believe them to be worth 'not very much'. Among those who said that they knew the worth of their combined DC pots, the average value was £153,000 while the median was £50,000. Among those who could estimate in a range the average was lower at £72,000 with a median in the £25,000 - £50,000 band. This leaves the remainder who, on the whole, seem likely to have less than this.

Overall, we estimate that:

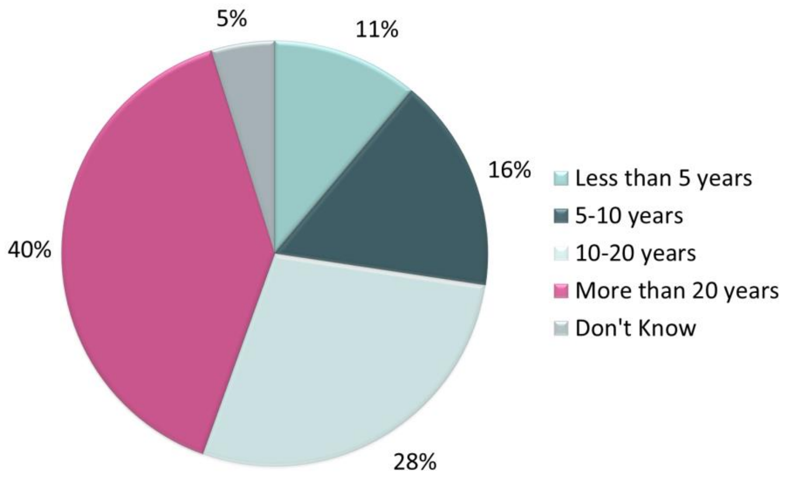
- around 55% has DC pension wealth of £30,000 or less
- around 22% has DC pension wealth of between £30,000 and £100,000
- around 23% has DC pension wealth of £100,000 or more.

Our best estimate of the average DC wealth for this cohort based on these survey data is a mean of £86,000 and a median of £17,500.

For many reasons (market movements, inaccuracy in people's estimates, incomplete data), estimating the DC pension wealth of this group inevitably leads to an inaccurate figure. However, we estimate it to be in the region £238 billion at September 2015.

By contrast, those with DB pensions tend to have a clearer idea of how many years of DB benefits that they have accrued. 95% of respondents answered the question with an average of 16 years DB accrual (16.5 for those with only DB and 15 for those with both DB and DC).

FIGURE 7: NUMBER OF YEARS OF DB ACCRUAL

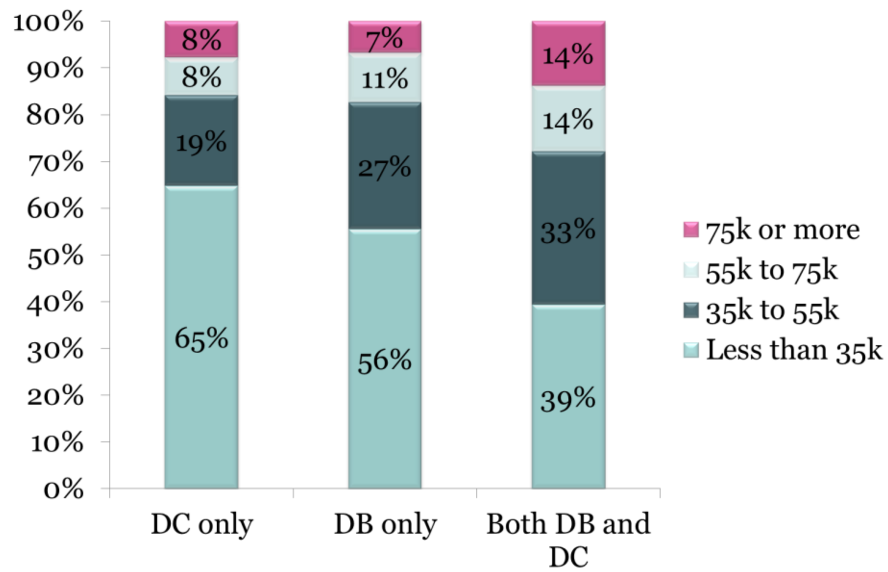


Base: All respondents with DB not yet in payment (937)

HOUSEHOLD INCOMES LOWEST AMONG THOSE DEPENDENT ON DC

An analysis of household incomes for this cohort (as reported in the survey) reveals a positive relationship between incomes and DB pensions. Those with least pension provision (generally those with DC only) also have the lowest household incomes.

FIGURE 8: HOUSEHOLD INCOMES BY PENSION TYPE



Base: All respondents willing to provide household income (1,652)

SIGNIFICANT LEVELS OF SAVINGS BUT SOME DEBT REMAINS

Overall, 85% of this group has some other forms of savings, most commonly cash savings (ISAs, current accounts, national savings etc.).

- This figure rises to 89% among those with DB and DC pensions and drops to 83% among those with only DC.
- 39% has some form of holdings in shares, rising to 50% among the group with both DB and DC.
- Just over 1 in 7 (15%) owns a second property rising to 18% among those with both DB and DC pensions

By contrast 70% of the group has no outstanding debt (mortgages and loans), highest at 75% among the small group with both DB and DC pensions. The majority of those with debt have outstanding mortgage debt (24%).

MODEST LEVELS OF FINANCIAL CONFIDENCE

Respondents to the survey were asked a series of questions about their confidence with financial decision making. From these questions we developed a scale of financial confidence – ranging from low to high. About two fifths of each group were positioned in "medium level" on our financial capability scale[9]. However DC savers, who have potentially the most challenging choices now to make at retirement, were less likely to rate their financial capability as high (26%) compared to DB savers (33%) and less still than those with both DB and DC pension pots (35%).

OTHER DEMOGRAPHICS

There were very few differences between the different pension saver groups (those with DB only, those with DC only and those with both DB and DC) by key demographics:

- Age: the median and mean was 59 for all three groups;
- Employment status: Two thirds are still working, although one in six of these consider themselves to be retired and 45% of them work part-time;
- Marital status: two-thirds are married or living with a partner;
- Children: on average across the three groups around two-thirds had children, albeit often grown-up;
- Disability status: between 11% and 15% of each group reported a long-standing disability.

[9] For details of the methodology to develop this scale, please see our methodology annex.

PENSION FREEDOMS: THE FIRST SIX MONTHS

In our baseline survey of savers in March/April 2015 we l explored what actions savers expected to take in relation to Pensions Freedoms in 2015.

- Among those with DC pensions:
  - just over 300,000 were expected to take money from their DC pension pots by the end of 2015 under the new Pension Freedoms.
  - Approx. 1.5 million savers with an estimated £50bn-£100bn expressed an interest in drawdown – the most popular option for savers
- Among those with DB 3% were expecting to transfer from DB to DC.

Our follow up survey looked to partially test whether savers took the actions that they thought they would and to explore the actions that were undertaken.

The results reveal that approximately 400,000 DC savers have taken some form of action in the first six months of the pension freedoms and 5% of those with DB arrangements have already switched to DC.

With the introduction of Pension Freedoms in April 2015 representing a fundamental change to the pensions and retirement income landscape a key part of our research was to evaluate what pension savers had done, and not done, over the course of the first six months.

DB SAVERS AND PENSION FREEDOMS

Members of DB pension schemes, where eligible[10], are able to transfer their DB pension benefits to a DC scheme to take advantage of the new Pension Freedoms: an estimated 1.8 million DB savers aged between 55-70 in the UK whose DB pensions are not yet in payment.

This survey suggests that between April and October 2015, 5% of the 1.8 million DB savers moved their money from DB to DC. This equates to approximately 100,000 DB savers in the UK and is higher than the 3% of savers who stated in our baseline survey an intention to transfer. Among the 5% who have already transferred out:

- 29% also had a DC pension not yet in payment;
- 44% had fewer than 10 years' benefit accrued (compared to just 27% of those that stayed with DB);
- Roughly half transferred benefits valued at over £30,000;
- More than 4 in 5 with values over £30,000 were unable (or unwilling) to say how how much they paid for their financial advice;
- Just over one in three (36%) who took advice did not find the advice helpful.

[10] Members of unfunded public sector schemes are not eligible to transfer to DC.

Around a further 100,000 DB savers (6%) had explored transferring their pension but were unable to do so. The majority of those who wanted to transfer but were not able to stated that they had found that they were not eligible. However, some had decided against having investigated and others were still waiting for valuation figures.

DC SAVERS AND PENSION FREEDOMS

The 2.8 million DC savers were the group expected to be the most active when Pension Freedoms were introduced. There was widely reported concern in the media before the introduction of the Freedoms that all DC savers would look to raid their pension pots, spending their savings and being left with no money to live on over the course of their retirement.

Our research has demonstrated that although there has been a flurry of activity under the Freedoms, the majority of the 2.8 million savers in this age group have not taken action. **An estimated 400,000 individuals[11] accessed of their DC pension in some way between April and the end of September**.

Our follow-up survey examined DC savers by three categories to demonstrate the range of activity as part of the Freedoms:

- **The actioners** – those who have accessed their pension savings (for the first time) under the new Freedoms – **14% of all with DC and approximately 21% of DC wealth for this cohort;**
- **The investigators** – those who have actively started to consider how they would take their pension under the Freedoms – **63% of all with DC and approximately 69% of DC wealth for this cohort**;
- **The inactive** – those who have not taken any action since the introduction of Freedoms – **23% of all with DC and 10% of DC wealth for this cohort.**

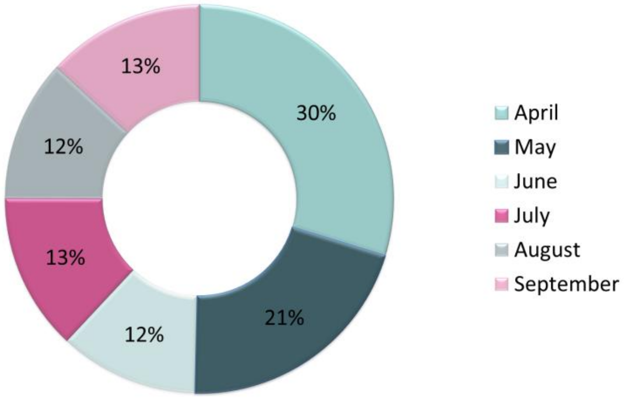
FIGURE 9: ACTIVITY UNDER PENSION FREEDOMS APRIL TO SEPTEMBER 2015

	Proportion	UK estimate (rounded)	Combined DC wealth £bn (rounded)
The actioners	14%	400,000	£50bn
The investigators	63%	1.75 million	£164bn
The inactive	23%	630,000	£24bn

Of the 400,000 actioners 50% took action within the first two months of Freedoms being introduced. This is in part due to 35% of those taking action having deferred taking their pension in 2014. In subsequent months the number taking action settled down to a more regular pattern.

[11] This compares to 300,000 contract-based pension 'pots' being accessed according to FCA data in the first six months of pension freedoms http://www.fca.org.uk/news/retirement-income-market-data . The FCA data does not track individuals neither does it include money accessed directly from trust-based DC schemes.

FIGURE 10: PROPORTION OF ACTIONS BY MONTH



Base: DC Actioners (193)

THE BEST LAID PLANS...

Although our research has shown a preference for investing in drawdown or taking cash over annuities, what was clear from both our longitudinal quantitative research and 'life log' participants[12] is that intended choices for accessing pensions do not always remain the same, and plans do not always take place within the original planned timeframe.

Findings from our longitudinal research should be considered indicative due to low bases – but of the 45 responding longitudinal DC savers[13] from our April 2015 survey who stated they planned to access their DC pension pot in 2015, only 21 had accessed their pension by October 2015.

Out of the remainder, only nine planned to take their pension before the end of 2015, although all but one had started to investigate their pension. This reflects that timescales can often change due to life events impacting on planned decisions about when to take a pension.

This reflects the experience of our 'life loggers': at the start of our lifelog process in May 2015 the majority of our 'life loggers' thought they had a good awareness of Pension Freedoms and had planned to be very close to or have started taking their pension in the first three months of the introduction of Pension Freedoms. However by the end of the process only two out of 24 had accessed their pension.

> *"Pensions are becoming such a hot potato that it is fast becoming a scary and worrying topic for those approaching this age. I thought I was quite settled in my approach - now I worry if I have enough to see me through..."*
>
> ***Male, 55, DC saver***

For some this was because the introduction of Pension Freedoms had acted as a catalyst to explore a potential financial opportunity, but on an

[12] See appendix for details
[13] In total 114 DC savers in the baseline survey expected to access their pension in 2015; we achieved a 39 per cent retention rate for these DC savers for the follow up longitudinal survey

evaluation of their financial situation they realised it was not the right time to take the money; others realised that they were not as informed about their options, and the implications of these options under Pension Freedoms as they had thought and so decided not to take their pension. Others found their life situation changing – one female 'life logger' found new employment and was satisfied enough in her new role to delay taking her pension.

Our longitudinal data also highlighted that intentions to take a pension in a particular way in April 2015, did not always reflect actual actions by October 2015. Of the 21 DC savers who had taken their pension between April and October 2015 (and had not only taken their tax free lump sum (TFLS)), just under four fifths considered that their plans had not fundamentally changed. However the reality was that over half of the 21 DC savers did not do exactly as they stated they would in April 2015.

Figure 11 below shows intended choices of our 21 DC savers in April 2015, compared to their decisions by October 2015.

FIGURE 11: INTENDED CHOICES FOR TAKING DC PENSION IN APRIL 2015 VERSUS ACTUAL DECISION IN OCTOBER 2015

		How pension savings were accessed between April and October 2015				
		Annuity	Cash	Drawdown	Cash and Drawdown	Total
Intended choice for accessing DC pension in April 2015	Annuity	1	0	0	0	1
	Cash	1	1	0	0	2
	Drawdown	2	4	2	0	8
	Cash and Drawdown	0	0	4	1	5
	Annuity and cash	2	0	0	0	2
	Total	6	5	9	1	21

Displays a difference between intended choice for taking pension in April 2015 and decision by October 2015

The differences may either reflect a lack of understanding about pension terminology in April 2015 or, that over the course of making their decisions, they realised they could take their pension in a different way that would be more effective for their situation.

For example in April 2015 two savers stated they would take their pension through buying an annuity and taking cash (beyond the TFLS). However by October 2015 both these savers had taken their TFLS and bought an annuity. This may be because the TFLS was a substitute for taking their pension as cash or that the annuity income was less than they had hoped for. Similarly in April 2015 two out of the four savers stated that they would take their pension as drawdown and cash, but by October 2015 they had taken a TFLS and drawdown without yet taking any more lump sums.

DC ACTIONERS: WHO ARE THEY AND WHAT DID THEY DO?

The early adopters of the pension freedoms are a distinct and affluent group numbering approximately 400,000 individuals with £50 billion in DC pension wealth. They generally have access to other pensions already in payment, they have DC wealth well above the average and many already have experience of SIPPs[14] or income drawdown. While one in five has chosen to purchase an annuity with their DC pension in spite of the freedoms, others have taken cash lump sums or have moved their remaining pension or pensions into drawdown arrangements with a view to taking either a regular income or lump sums.

Those who have taken the cash have generally saved or invested the money with a minority choosing to pay off debt. Very few have invested in property.

Our actioners have led the way in taking advantage of the new Pension Freedoms – accessing their savings within the first six months, at a time when the market for retirement income products under the Freedoms has not fully developed.

PROFILE OF THE ACTIONERS

The actioners number approximately 400,000 individuals with £50 billion in DC pension wealth. Given the profile outlined below, it is clear that the first wave of those accessing their pensions under the freedoms is unlike those who will follow. Many already had experience of drawdown and they tend to be more financially confident than those who have yet to take action.

However, our Wave 1 research highlighted that just over a quarter of over 50 year sought advice from friends and family about taking their pension in retirement. This suggests that the actions and experience of this first cohort may well influence future cohorts looking to access their pensions and may create the foundations for the social norms within which retirement products under Pension Freedoms operate.

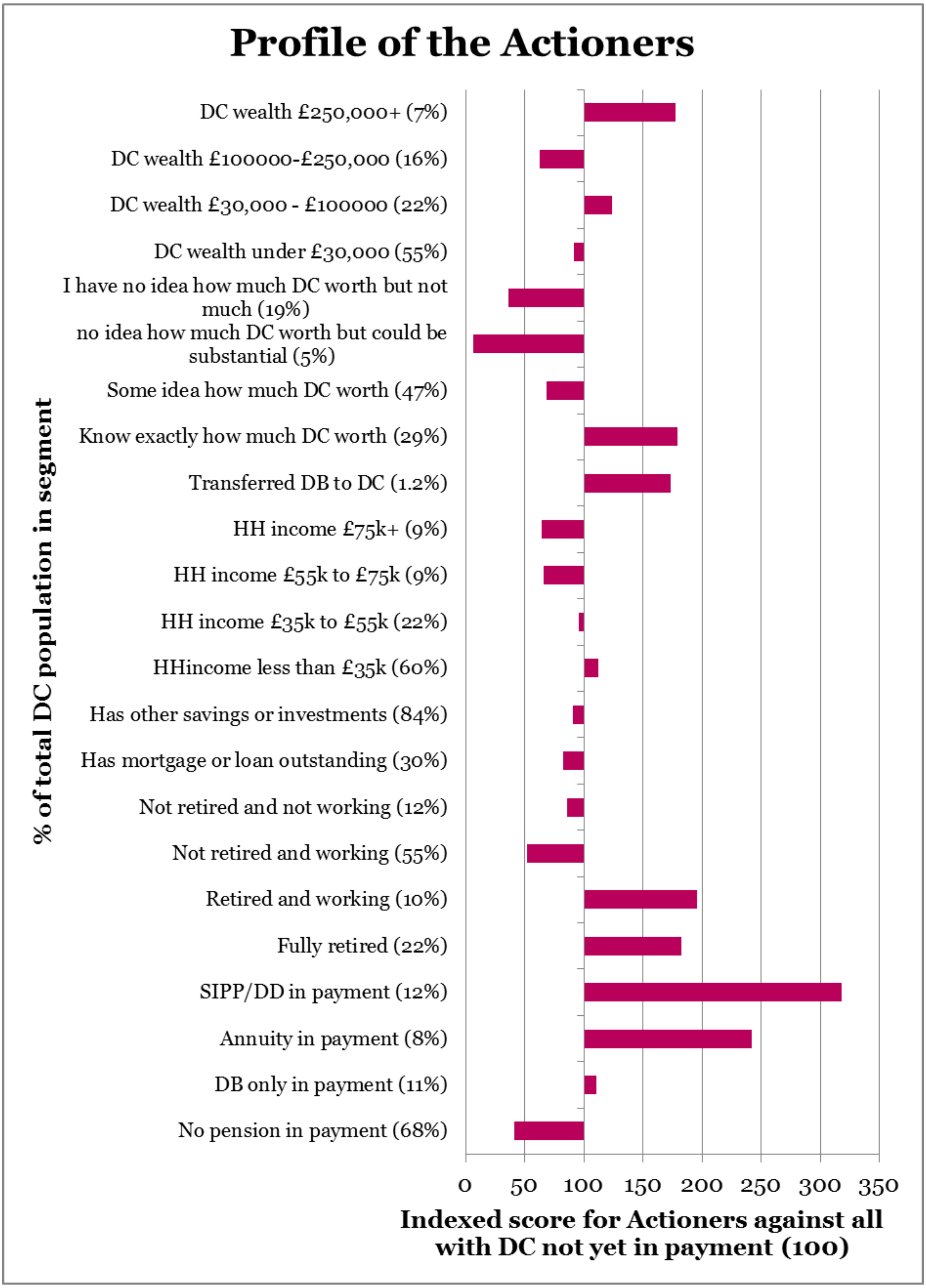
Figure 12 below summarises the most striking statistics about *the actioners* including the fact that:

- 72% of *the actioners* in the first six months were already in receipt of a pension in payment (compared to 32% of the whole DC group);
- 61% of *the actioners* are already retired (although a third are still working) compared to 33% of the whole DC group (interestingly, the actioners were no older than the other groups with an average age of 59);
- 40% of *the actioners* were already taking income from a SIPP or other drawdown product (compared to less than 12% of the whole DC group);
- 33% of the actioners have household incomes above £35,000 per annum compared to 40% of the whole group. This group may have been higher earners when working but two thirds now live in households with incomes below £35,000;

[14] Self-invested personal pensions

- 25% of *the actioners* had both DB and DC not yet in payment compared to 20% of the whole DC group.
- 92% of *the actioners* had at least some idea of the value of their DC wealth compared to 76% of the whole DC group
- 50% of *the actioners* had DC wealth in excess of £30,000 compared to 45% of the whole DC group (although median wealth remained low at £30,000 and the estimated mean was £125,000
- 35% of *the actioners* scored high on financial confidence compared to 28% of the whole DC group.
- 22% of the actioners own a second property (or more) compared to 16% of the whole DC group.

FIGURE 12: INDEXED PROFILE OF THE ACTIONERS



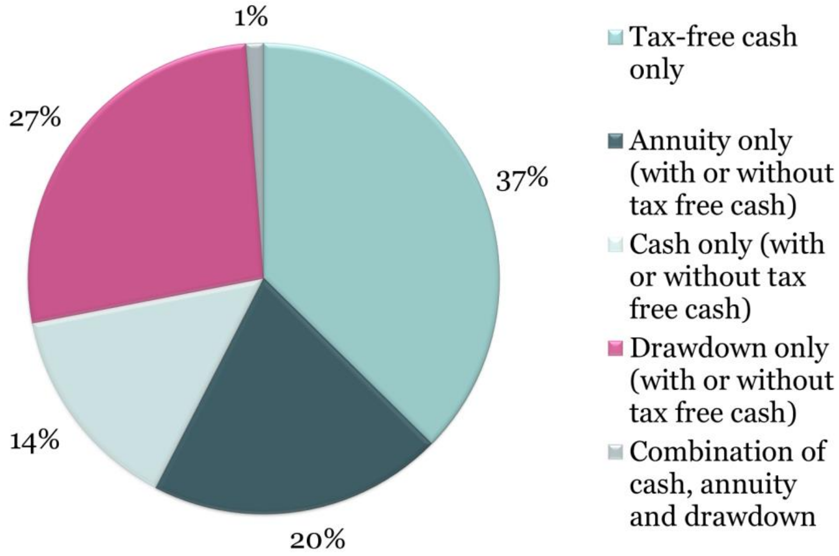
Base: All actioners (193)

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

ACTIONS TAKEN

The actioners took advantage of a range of new opportunities available to them under Pension Freedoms, although some stayed with the more traditional annuity option. On the whole, single actions were taken (generally in combination with taking the TFLS). The actions taken are summarised in **Error! Reference source not found.** below and reveal that beyond simply aking the TFLS, putting funds into a drawdown arrangement (whether or not an income is being drawn) is the most popular option. Annuities were the second most popular stated action, followed by simply taking a cash sum over and above their tax free cash. Very few of the actioners took a combination of options.

FIGURE 13: ACTIONS TAKEN



Base: All actioners (193)

This level of activity implies:

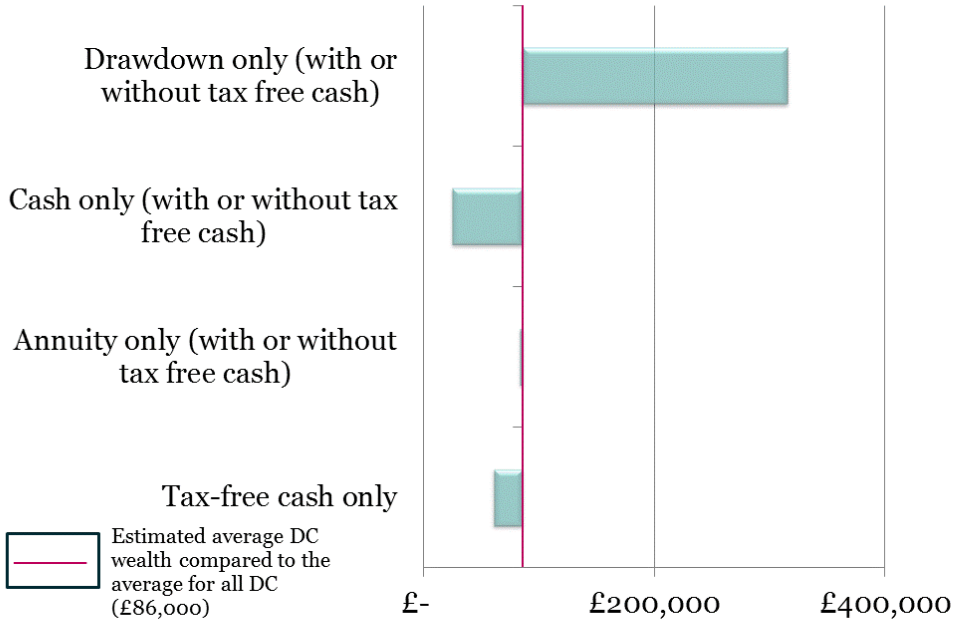
- 146,000 TFLS only withdrawals and at least that number of DC plans still to be accessed flexibly (some of these may have been left with their existing scheme or provider while others may have moved into personal pensions for later drawdown).
- 110,000 drawdown arrangements from which individuals have taken or will be taking further incomes and/or cash lump sums.
- 60,000 cash withdrawals (over and above the tax free cash) – almost certainly through UFPLS, although consumers would not describe it as this!
- 79,000 annuity purchases. (This figure is higher than that shown by FCA and ABI and may include some individuals who believe that they have purchased an annuity when in fact they have purchased a different income product).

Any actioners taking only their TFLS were asked how they planned to take the remainder of their pension income under Pension Freedoms. The most popular option was taking the pension as cash followed by drawdown, with annuities the least popular outcome.

The following analyses paint the picture of those taking specific actions but should be treated with some caution due to the relatively small sample sizes (56 for drawdown, 35 for annuities and 27 taking cash).

Broadly speaking, those investing in drawdown arrangements appear to be drawn from the group with the highest levels of DC pension wealth whereas those taking cash only appear to be drawn mainly from the group with the least DC pension wealth. Annuity buyers appear to be close to the average.

FIGURE 14: ESTIMATED AVERAGE DC WEALTH OF DIFFERENT ACTIONERS



Base: All actioners (193)

DRAWING DOWN

Putting money into a drawdown plan was the most popular option for both actioners taking their pension between April and October 2015 (and investigators who had made a decision about how to take their pension).

When respondents to our April 2015 baseline survey were asked why DC savers would opt for drawdown, the most popular benefits were seen as:

- a third of savers stated that it would provide them with greater flexibility than other options;
- a fifth stating that it would give them control of their finances;
- 18% felt that it would enable their money to continue to grow.

However, as our baseline data also showed, many DC savers appear uncertain of the features of drawdown with 53% of those interested in drawdown believing that drawdown would secure them an income for life. This may be less true of the Actioners, due to the high incidence of pre-existing drawdown in this group.

DC savers investing in drawdown since April 2015 have not all been those who would have traditionally have done so. One third of those stating they were investing their pension savings in drawdown had pension wealth of less than £30,000 while four in ten had more than £100,000 in DC pension wealth. Furthermore, two-thirds of DC savers investing their pension pots in drawdown in this period stated that this would be their main income in retirement.

Of those DC savers investing in drawdown – nearly two-thirds stated they were already or were planning to draw a regular income with just over one third stating that they would draw money as and when they needed it. Over half of DC savers investing in drawdown invested in a product from their current provider or scheme, with the remainder finding a new provider. Typical reasons for moving provider included:

- To get the best deal;
- On advice from an IFA or other source;
- Their current provider or scheme not offering the product required;
- To aggregate different pension pots to obtain drawdown.

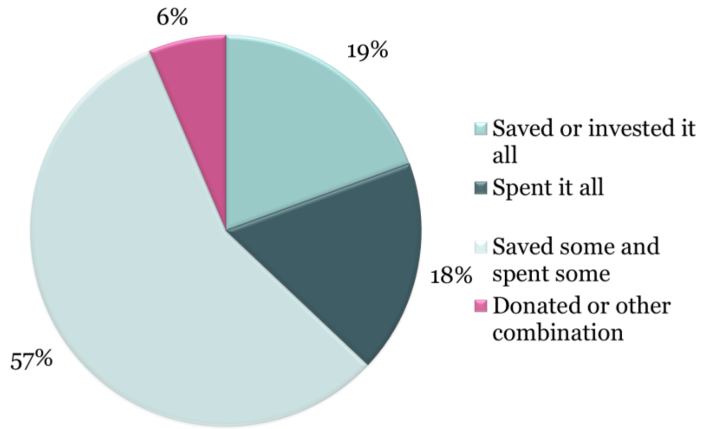
Less than half of those choosing drawdown stated that they would definitely use an IFA to manage their drawdown investments in the future; just under a quarter were still deciding whether to us an IFA, and just over a third were not planning to use an IFA.

CASH WITHDRAWALS

In total, 51%, of the estimated 400,000 DC savers had taken cash lump sums in some format (either taking their TFLS or taking some, or their entire, pension as cash lump sums) equating to roughly 204,000 individuals. The findings show that, far from being reckless with their pension wealth, the majority have been cautious, at least for the time being.

The majority chose to save or invest and spend their cash (57%) but some (18%) spent it all, while a similar proportion saved or invested it all (19%). The profile was very similar among those only taking the only and those taking other cash lump sums.

FIGURE 15: IN WHICH OF THE FOLLOWING WAYS HAVE YOU USED YOUR PENSION CASH?

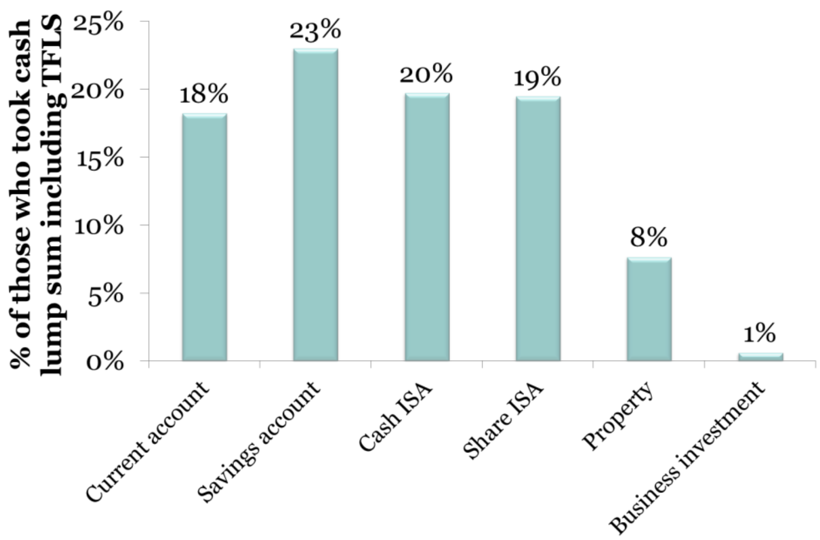


Base: All DC actioners taking their pension as cash lump sums and /or TFLS (138)

While the results suggest that the majority of those taking the cash were not reckless spenders, the saving and investment decisions taken do raise some concerns. Cash savings remain popular in spite of their historically low returns and the risk of their not keeping up with inflation.

Despite the fact that property is often considered by the media an area that many approaching retirement would invest their cash in, this was cited as the choice of investment for only 10% of those saving or investing their cash withdrawals.

FIGURE 16: SAVINGS AND INVESTMENT VEHICLES USED AMONG THOSE TAKING CASH



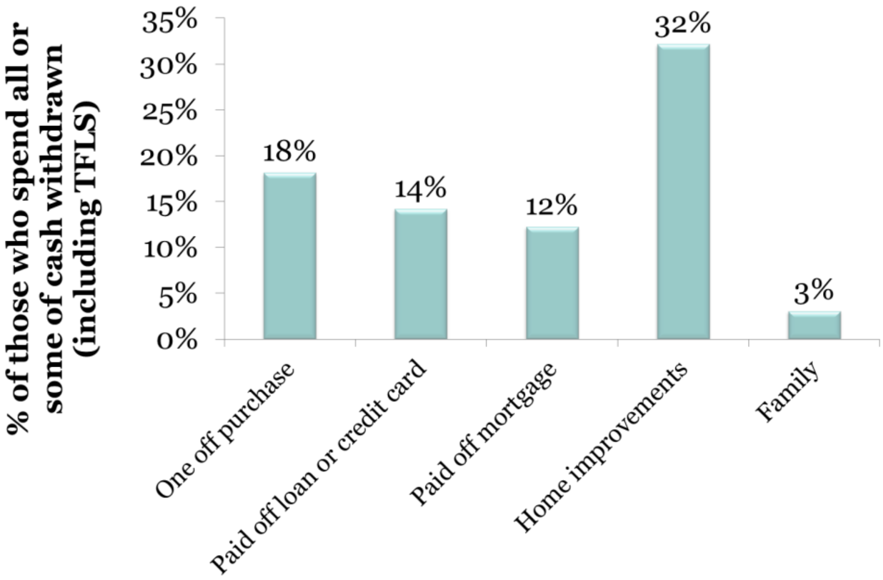
Base: all taking cash (138)

With the introduction of Pension Freedoms, there was much media alarm about savers who may take their pension as cash spend it on a host of one off purchases, such as the much famed Lamborghini, and be left with no money for retirement. This concern was shared by many of our DC savers in our baseline survey – who outlined this to be one of the potential drawbacks for savers under the Freedoms. Six months on, only a minority of savers are taking this cash only to spend it.

When spending all or some of their cash, the priorities were similar for both those taking cash (in addition to their TFLS) and those only taking only their TFLS.

Home improvements were easily the most popular way of spending the money, followed by one-off expenditure on holidays or cars.

FIGURE 17: WAYS OF SPENDING CASH

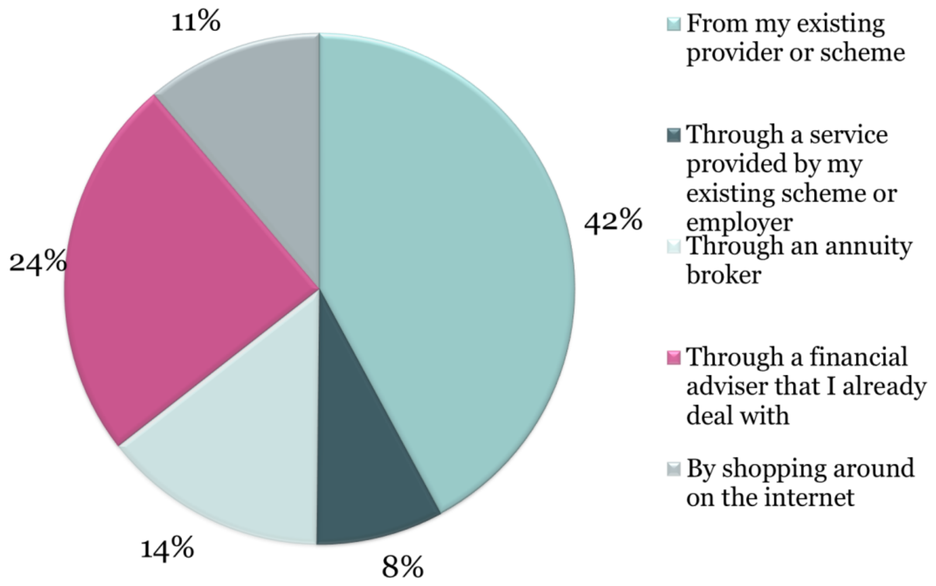


Base: all taking cash (138)

ANNUITY PURCHASERS

20% of DC savers who took an action in the first six months, an estimated 79,000, say that they bought an annuity under Pension Freedoms. When asked how they bought their annuity, the most common response was buying from their existing pension provider. Among the remainder, using an IFA with whom they had an existing relationship was the most common. No-one claimed to find a new financial adviser to effect this transaction.

FIGURE 18: METHOD OF BUYING ANNUITY?



Base: All DC actioners buying an annuity (35)

GETTING HELP WITH DECISIONS

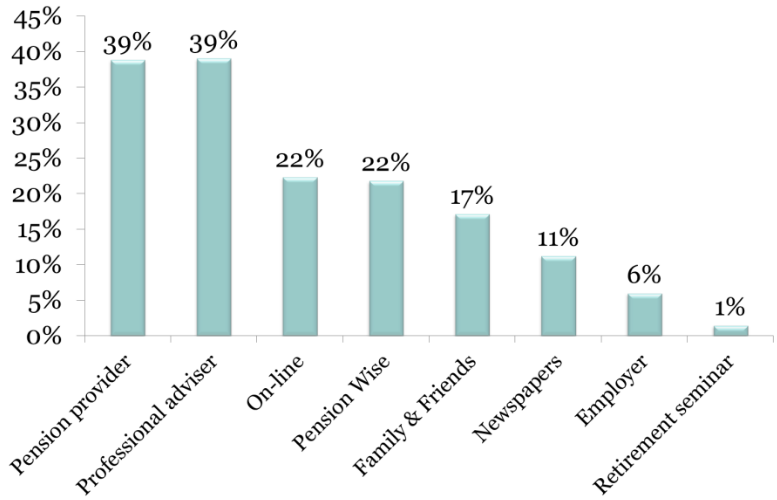
DC actioners were asked about where they had sought advice from whilst making their decisions. Options ranged from informal sources such as family and friends, through formal sources of information and guidance such as Pension Wise or employer to professional financial advice.

Two-thirds of actioners had made their decision using only one of the potential sources of support or advice. 39% contacted their pension provider to make a decision about how to take their pension, while 39% contacted a professional adviser (although only 25% said that they paid for professional advice). Other sources included:

- 22% researched how to take their pension online;
- Just under a quarter (22%) used Pension Wise;
- 17% used family and friends.

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

FIGURE 19: WHICH OF THE FOLLOWING ACTIONS DID YOU TAKE?



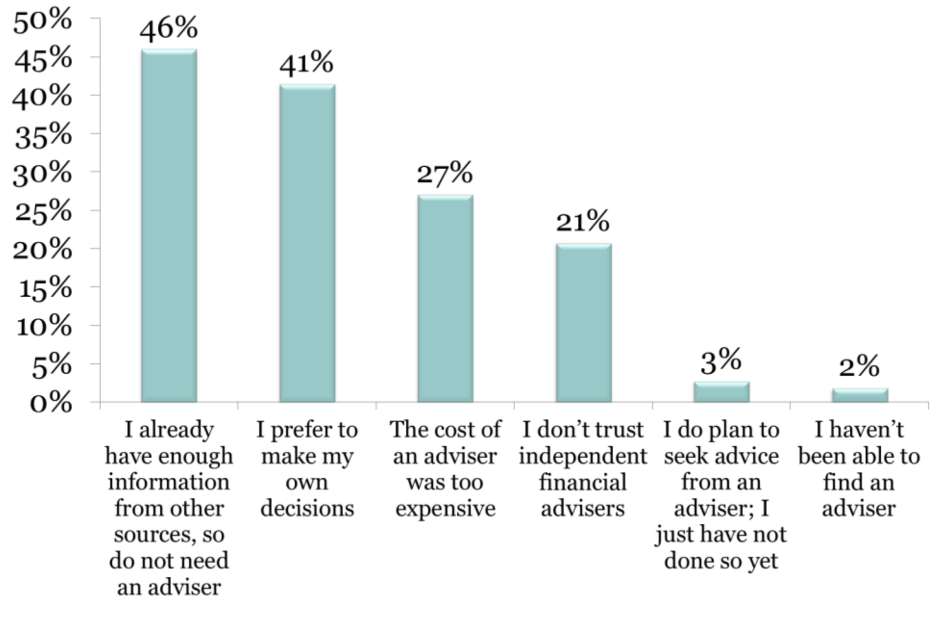
Base: All DC actioners (193)

The use of professional advice was most marked among those using drawdown and least marked among those simply taking the cash, although it is difficult to assess the link between cause and effect in these decisions.

Of all the sources used, professional advisers, where used, were felt to be the most useful source, followed by providers and family & friends.

Among the actioners, the main reasons given for not using professional advice were not related to trust, access or cost but were related to the information available from other sources and a preference for making one's own decisions.

FIGURE 20: WHY DID YOU NOT SEEK ADVICE FROM AN IFA ABOUT HOW TO TAKE YOUR PENSION?



Base: All stating they had not used an IFA (140)

Our 'life loggers'[15] also reported interaction with their pension providers as being key to raising their awareness about Pension Freedoms.

Where consumers used websites this was typically websites such as the Money Saving Expert, media outlets (such as the Telegraph, the Financial Times, the Guardian and Money Mail), pension provider websites, government websites (often unspecified) and wealth management companies.

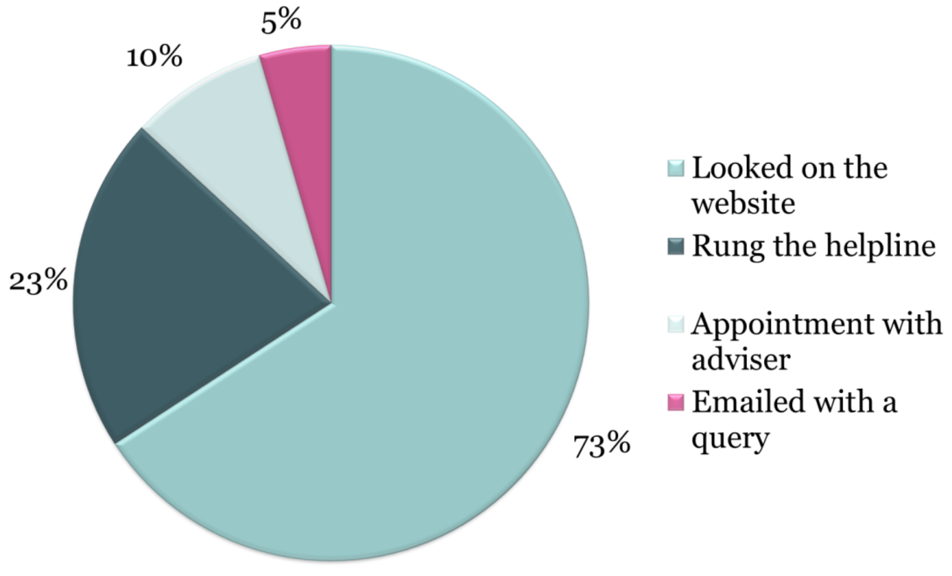
USE OF PENSION WISE

Pension Wise was introduced in April 2015 as a first line of defence to ensure DC savers received support when making a decision about how to take their pension; however one in five DC actioners had used Pension Wise to help them make their decision.

For most of these (73%) going on the Pension Wise website was the way in which they accessed Pension Wise. However, only a small proportion of those visiting the website went on to have further contact with Pension Wise.

In total just 2% of our DC actioners (8,000) reported having a face-to-face appointment with a Pension Wise adviser (slightly lower than Government data suggests in the period[16]) while 5% (20,000) reported receiving phone guidance (higher than Government data for the period suggests).

FIGURE 21: YOU MENTIONED THAT YOU HAVE BEEN IN CONTACT WITH PENSION WISE. WHICH OF THE FOLLOWING HAVE YOU DONE?

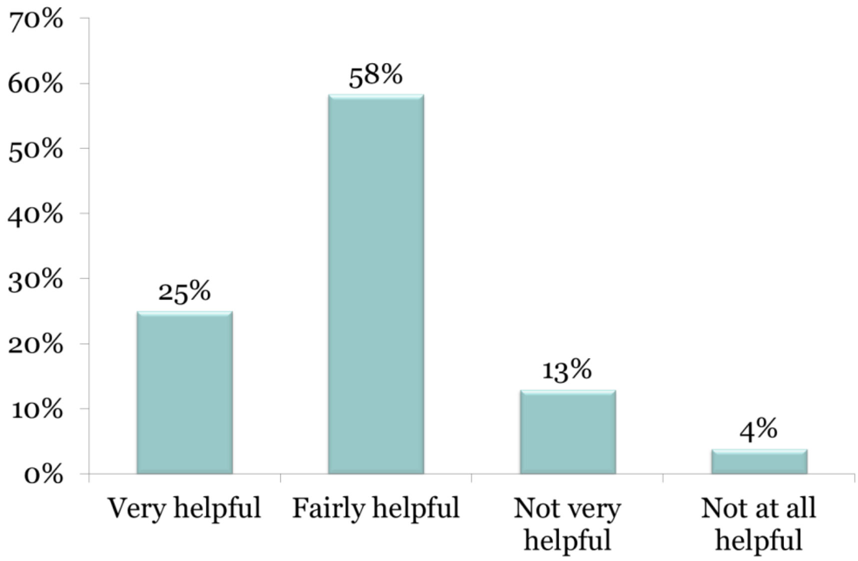


Base: All using Pension Wise (38)

Those who had been in contact with Pension Wise (in whatever format) found Pension Wise generally to be a helpful source of information – with 83% stating that they found the resource either very or fairly helpful.

[15] See appendix for details of the qualitative research supporting this report.
[16] Gov.uk/performance/pensionwise

FIGURE 22: HOW USEFUL DID YOU FIND PENSION WISE FOR HELPING YOU MAKE A DECISION ABOUT HOW TO TAKE YOUR PENSION?



Base: All using Pension Wise (38)

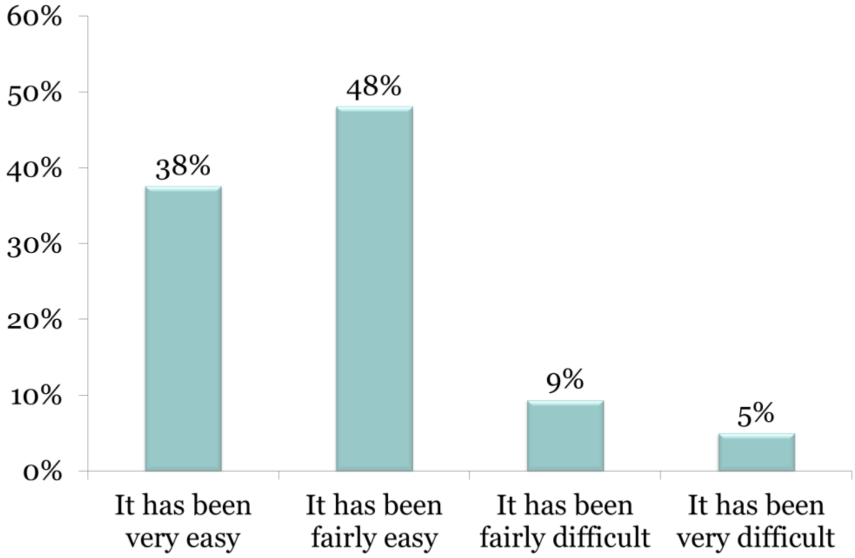
Typically when Pension Wise was not used, this was because savers were unaware of its existence, did not believe they needed it, or were using a professional adviser. Our 'life loggers' were similarly unaware of Pension Wise; no one spontaneously mentioned Pension Wise in their lifelog – and indeed no one had heard of it until we signposted them to the Pension Wise website.

WHAT SUPPORT AND PRODUCTS WOULD SAVERS LIKE?

DC savers have important choices to make approaching retirement, and savers have to make these choices with very different levels of financial capability. There has been much discussion since the introduction of Pension Freedoms by government and the pensions industry more broadly on the benefits of introducing default pathways, or similar mechanisms, to guide DC savers through the choices they have to make at retirement and ensure that whatever retirement income products they decide upon they get the best outcomes. However there is little understanding about what savers see as a good outcome and the types of guidance they would like to see to receive to ensure that they get this best outcome.

We asked our DC actioners how easy they found it to make a decision about how to take their pension income; 86 % stated that it had either been very easy or fairly easy.

FIGURE 23: WHICH OF THE FOLLOWING BEST REFLECTS HOW EASY, OR DIFFICULT, YOUR EXPERIENCE OF MAKING A DECISION ON HOW TO TAKE YOUR PENSION INCOME HAS BEEN (TO DATE)?



Base: All DC actioners (193)

Generally actioners considered that the entire process had gone well, where challenges were mentioned this was mainly around making a final decisions about how to take a retirement income; however a sizeable proportion of actioners stated that there were no challenges.

It should be noted that those taking drawdown were more likely to say that the decision was fairly or very difficult compared to those taking an annuity. Additionally those with low financial confidence were more likely to consider the decision to be more difficult than those with medium or high financial confidence.

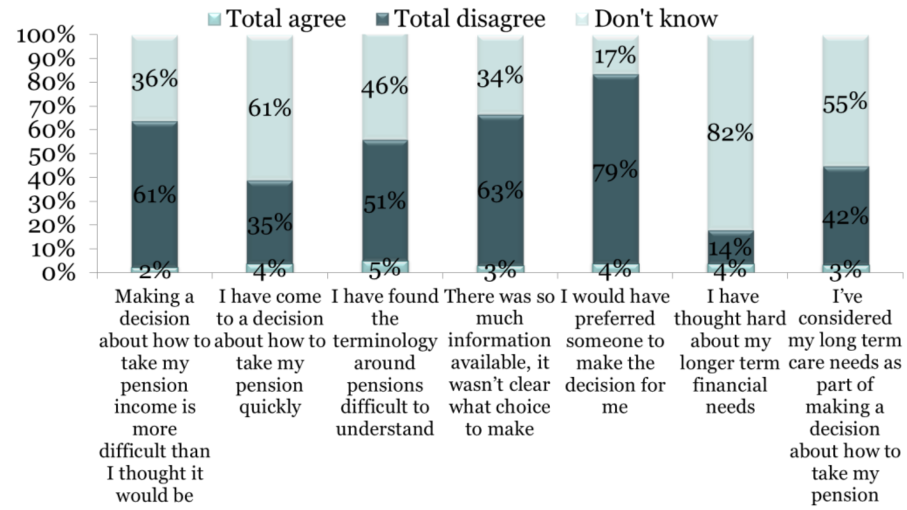
It is interesting to look at what those who had taken action and how they found the decision making involved the process of taking their pension. We showed those who had made a decision about how to take their pension a series of statements. Of note:

- Just over three fifths disagreed that the decision making process for taking their pension income was more difficult than they thought it would be.
- Unsurprisingly, for the early adopters, just over three fifths agreed that they had come to a decision about how to take their pension quickly.
- Just over half disagreed that pensions terminology was hard to understand.
- Just over three fifths disagree that there was too much information available, making it difficult to know which choice to make.
- Nearly four fifths disagreed that they would have liked someone to make the decision for them.
- The majority (82 %) agreed that they had thought hard about their longer term financial needs
- Just over half (55 %) said they agreed that they had considered their long term care needs in making their decision about how to take their pension.

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

On the surface at least it appears that our DC actioners on the whole had a less difficult time than many early commentators anticipated.

FIGURE 24: HOW STRONGLY WOULD YOU AGREE, OR DISAGREE WITH THE FOLLOWING STATEMENTS ABOUT MAKING A DECISION ABOUT HOW TO TAKE YOUR PENSION?

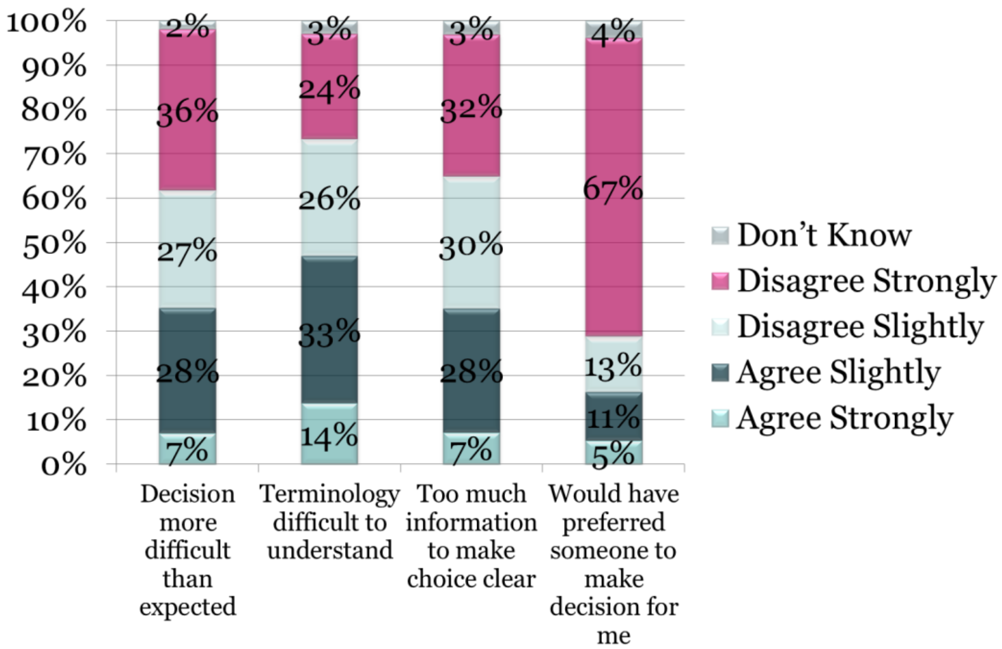


Base: All DC actioners (193)

PERCEIVED EASE / DIFFICULTY OF DECISION MAKING

Given the relatively high levels of financial capability among the DC actioners, it is perhaps not surprising that only one in three found the experience of making a decision about pension freedoms more complex than they expected. However, almost half struggled to some extent with the terminology and one in six would have liked someone to make the decision for them.

FIGURE 25: EASE OR DIFFICULTY IN MAKING DECISION



Base: All DC Actioners (193)

Those with lower financial confidence were much more likely than those with higher financial confidence to find the process of making a decision about how to take a pension challenging.

DC INVESTIGATORS: WHO ARE THEY AND WHAT DID THEY DO?

Nearly two million DC savers with £164 billion of DC pension wealth make up this group.

Many have started to explore the options available to them under the pension freedoms. Among those close to taking action, cash and drawdown appear to be the most popular choices. However, unlike those who have already taken action, most of this group have limited experience of drawdown and the risks involved. Moreover, they have relatively limited DC savings and are largely reliant on DC savings (and their other savings) for their retirement income.

On the plus side, most are still working while many have above average household incomes and have a chance to add to their savings before retirement.

Our research suggests that this is by far the largest group with an estimated 1.75 million individuals at various stages of investigating their options.

As shown in Figure 27 below, the investigators (as the largest group) are much closer to the average for the cohort than the actioners above. They are no older or younger than the average age of 59 and are no more likely to be male or female than the cohort as a whole (60:40). However, they are:

- Slightly above average in terms of DC pension wealth with an average wealth of £94,000 and a total DC wealth of £164 billion;
- More affluent in terms of household income with 22% having household incomes above £75,000 per annum compared to 18% of the whole cohort;
- Mostly (69%) in work (compared to 65% for the whole cohort);
- Two thirds have low or medium levels of financial confidence;
- Slightly more likely than average to have no pension in payment but where they do have one, it is more likely to be a DB pension in payment.

THE PROCESS OF INVESTIGATION

Our DC savers were at various stages of the journey to taking their pension: from those at the very start of the process to those who had informed their pension provider of how they would like to take their pension (but had not yet started to draw an income). Our qualitative research with our 'life loggers' gave us a richer insight into the different stages that a DC saver may be at on the journey to accessing their pension.

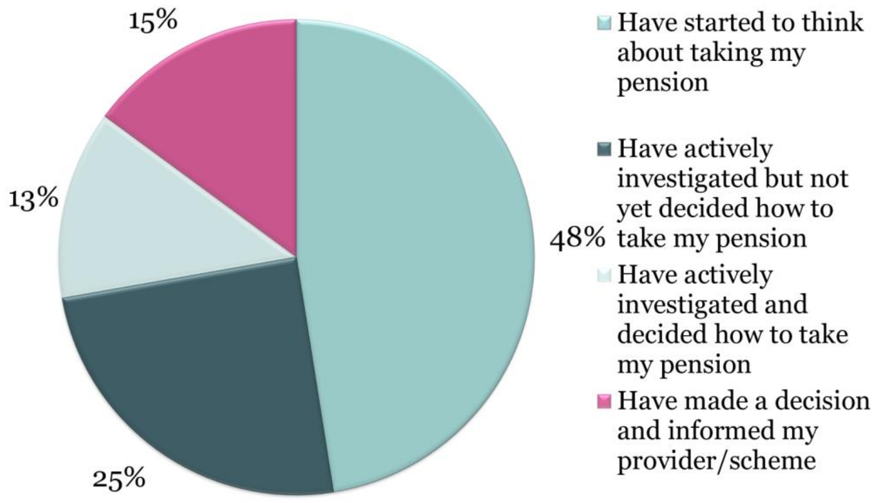
The process of investigating three broad stages can be summarised as:

- **Initial thinking**: part of the process of taking a pension is the initial thinking that a DC saver undertakes before looking to obtain external support to help make a decision; 48% of *the investigators* were at this stage.

- **Actively investigating**: required DC savers to proactively investigate taking their pension using other sources. This is beyond just thinking and planning their own finances; 38% of *the investigators* were at this stage.
- **Making a decision**: Some savers had done everything but started to draw their pension; 15% of *the investigators* were at this stage.

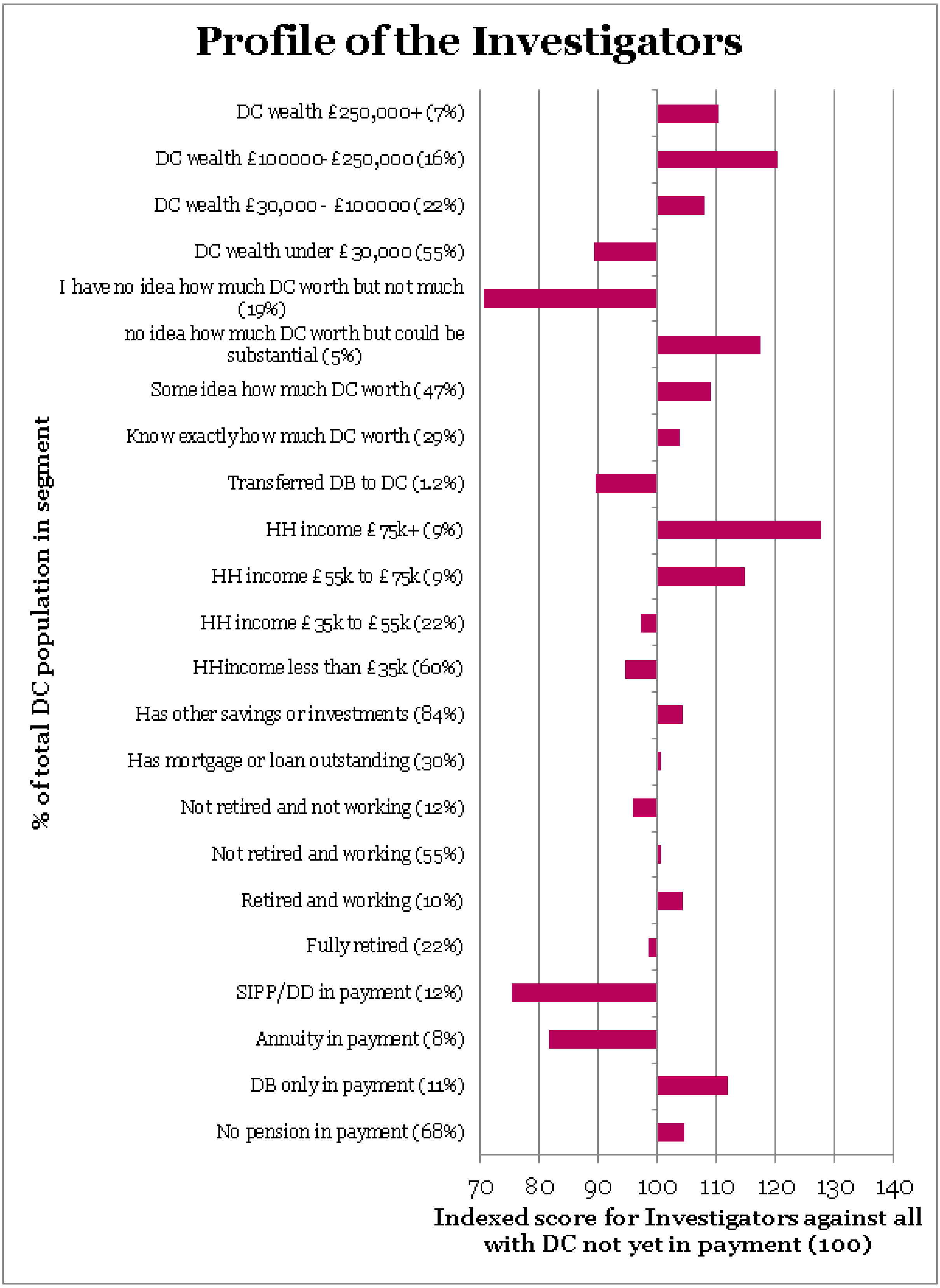
Journeys were not necessarily linear with DC savers sometimes moving forward and then back the three stages, as shown in Figure 28.

FIGURE 26: PROGRESS MADE BY INVESTIGATORS



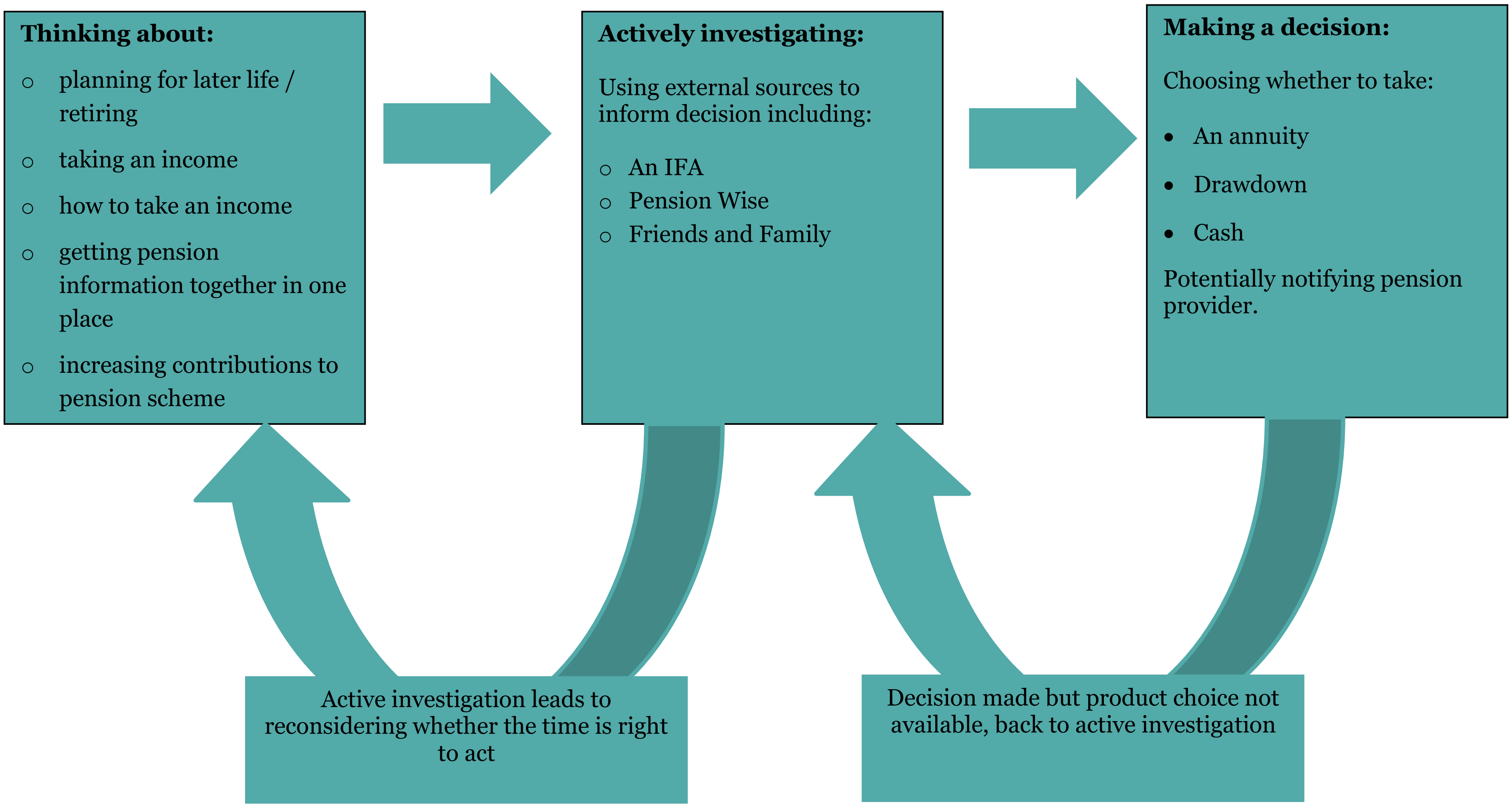
Base: All DC Investigators (884)

FIGURE 27: INDEXED PROFILE OF THE INVESTIGATORS



Base: All DC Investigators (884)

FIGURE 28: THE STAGES TO ACCESSING A PENSION



INVESTIGATORS TIMESCALES FOR TAKING PENSIONS

The greatest proportion of the investigators (38%) did not expect to take their pension until at least 2017, while 36% had put their plans to take their pension on hold for the time being. However that still leaves more than a quarter of the investigators, an estimated 450,000, planning to take their pension in 2015 or 2016.

36% of those investigating taking their pension had made a decision to start taking their pension on hold. Reasons most frequently stated were:

- they were not near retirement;
- they were still in employment;
- they did not yet need to take their pension.

Some savers felt unable to retire yet as they were aware that their pension pots were too small to provide a large enough income to live off.

Consumer view on Pension Freedoms:

"I have no need to access my pension yet as I had accrued considerable savings prior to retirement. I have been using this to fund expenses so far and will only start drawing from the pension fund when I need to."

Pension saver, Male, 59, DC saver

GETTING HELP WITH DECISIONS

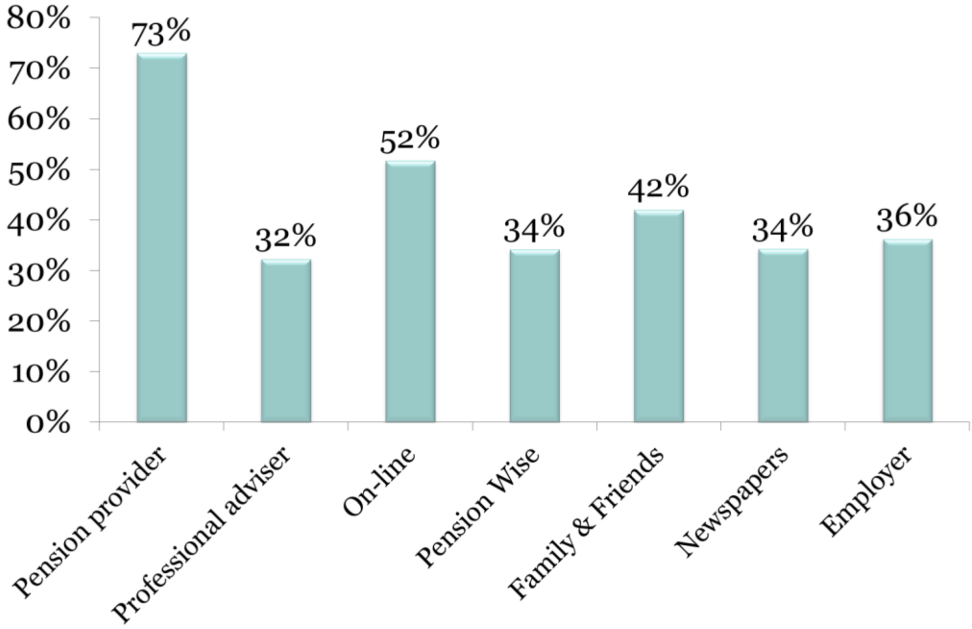
The investigators were asked how they had already or planned to seek help in making the decision about how to take their pension. While not strictly comparable with the actioners who were asked how they had already received support, there are nevertheless hints that the investigators may rely on a different and wider support network than the actioners.

The investigators are significantly more likely than the actioners to say that they have or plan to seek help from their pension provider or scheme in making their decision about how to take their pension (73% compared to 39%). They are also more likely:

- to seek help on-line (52% compared 22%);
- to seek help from their employer (36% compared to 6%) – however this is most likely driven by the fact that the investigators are much more likely to be in employment;
- to ask family and friends for help (42% compared to 17%);
- consult Pension Wise (34% compared to 22%).

However, they are less likely to consult a professional financial adviser (32% compared to 39%).

FIGURE 29: TYPE OF SUPPORT USED OR PLANNED TO BE USED BY INVESTIGATORS



Base: All Investigators (884)

Among the 73% who had not already sought some help from a financial adviser, the main reasons given for not doing so were:

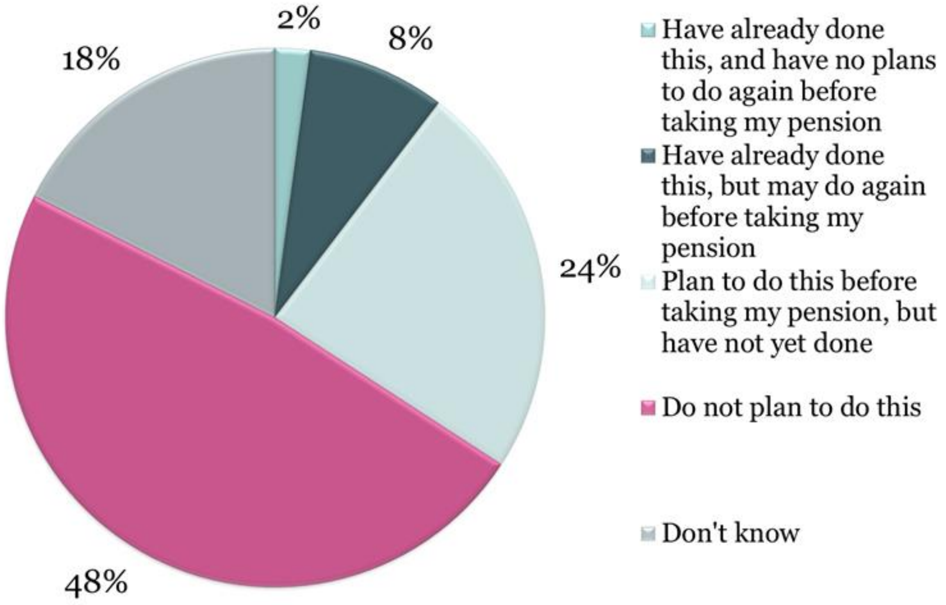
- 29% felt that they would prefer to make their own decisions and 17% feel that there is already enough information available;
- 21% felt that professional advice is too expensive;
- 16% don't trust financial advice.

Approximately one in five plans to seek out advice when the time to make a decision arrives.

USE OF PENSION WISE

Just 10% of the Investigators claimed to have used Pension Wise between April and September 2015 (approximately 175,000 individuals). Most of these planned to do so again before taking their pension. A further 24% planned to seek help from Pension Wise but a slim majority were either unsure or did not plan to use the service.

FIGURE 30: INVESTIGATORS USE OF PENSION WISE



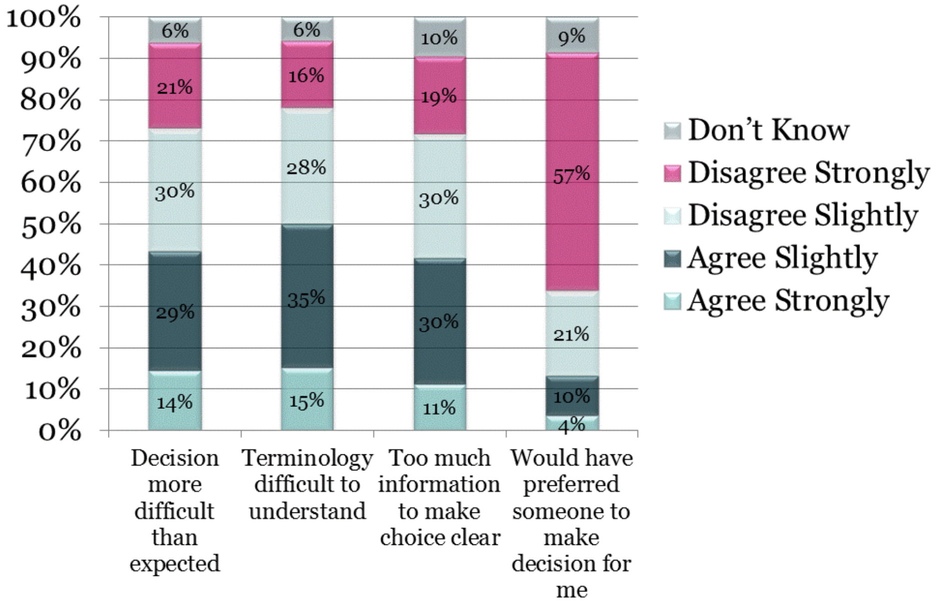
Base: All Investigators (884)

Among those using Pension Wise (10% of investigators), only 4% claimed to have arranged a face-to-face appointment and 14% a phone-based guidance session. The remainder had sought information from the website. Of those who had used it, 78% had found it very or quite helpful while 22% had been disappointed with the service.

PERCEIVED EASE / DIFFICULTY OF DECISION MAKING

Perhaps unsurprisingly, those who have not yet made a decision are significantly more likely to say that a decision is harder to reach than they expected and that there is too much information to make the decision clear. However, they are no more likely to say that they struggle with the terminology.

FIGURE 31: EASE OR DIFFICULTY OF DECISION MAKING AMONG INVESTIGATORS



Base: All DC Investigators (884)

PLANNED ACTIONS

Only 23% of investigators had made a final decision on how they planned to take their DC pension. The most popular choice was to take the money as cash (46%), followed by investing in drawdown (45%). However just under a quarter (22%) were still looking to buy an annuity. 22% thought that they would take a combination of options, typically cash and drawdown.

DC INACTIVE – WHO ARE THEY AND WHAT MIGHT THEY DO?

The inactive DC savers are potentially the most vulnerable group. While most are still working, they are the most reliant of the three groups on their DC savings but have the lowest level of DC pension wealth. They also have the lowest levels of financial confidence of the three groups. Retirement may be some years away for this group but they may struggle to get access to financial advice or to navigate their way through their own research of the market. On the plus side, the market may have evolved ways to help this group by the time they come to access their pensions.

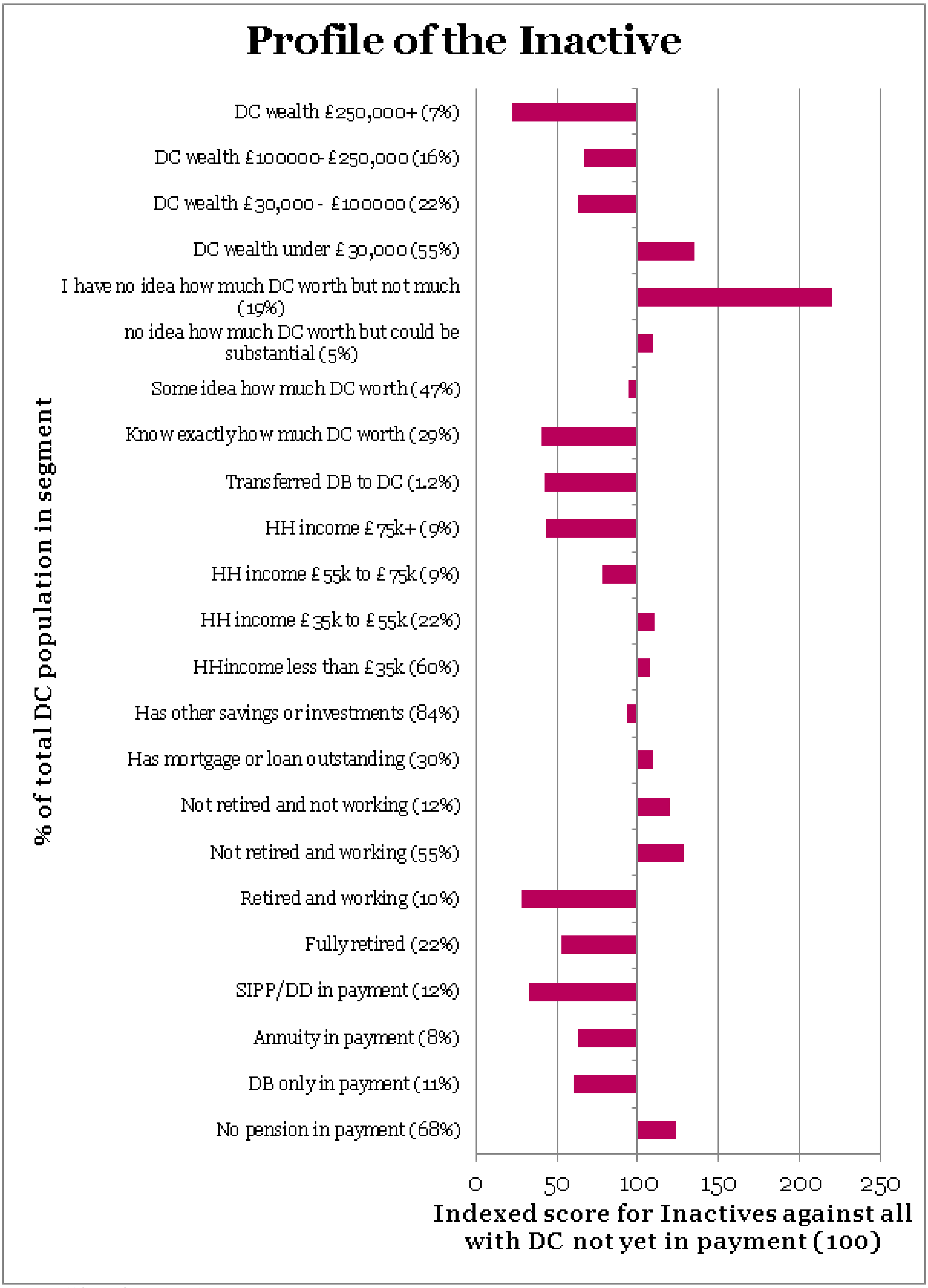
A group of our DC savers were yet to start investigating taking their pension; this was the smallest group with just 630,000 savers.

PROFILE OF THE INACTIVE

Other than average age, which is the same as the other segments at 59, the inactive segment has a very distinct profile (as shown in Figure 32 below):

- They have high levels of economic activity with 85% working compared to 67% overall among DC savers;
- 85% have low or medium levels of financial confidence (compared to 72% among all DC savers);
- They are the least likely of the groups to have a pension already in payment (16% compared to 34% overall) and the least likely to also have DB not yet in payment (8% compared to 19%);
- They have the lowest average value of DC pension wealth at £38,000 (compared to £86,000) and are the most likely to say that they do not know it's worth;
- They are slightly more likely to have debt outstanding (33% compared to 30%);
- They have the lowest household incomes of all three groups with 65% having incomes below £35,000 and 89% below £55,000;
- They are more likely to be female (49% compared to 40%).

FIGURE 32: INDEXED PROFILE OF THE INACTIVE



Base: All inactives (320)

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

REASONS FOR INACTION

The most frequent reasons given were that:

- they were not yet near to retirement;
- they were too young to be thinking about retirement or taking their pension;
- they thought that had to wait additional years to claim their pension (for examples because of schemes rules).

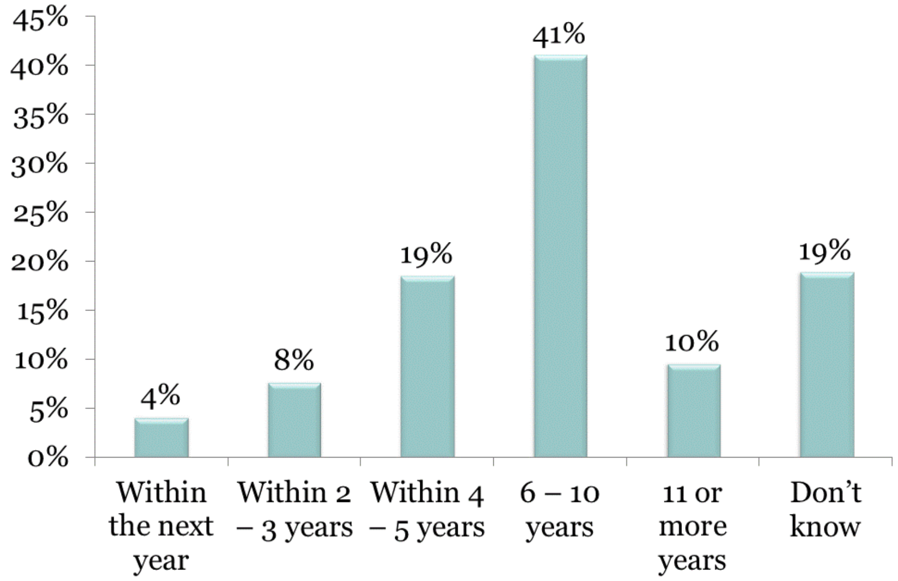
Other reasons for not investigating taking their pension included the fact that their pension was not yet needed, or that the value of the money within the pot was too small to consider taking at this point in time.

However, the profile of this group suggests that many simply do not have sufficient pension savings to retire comfortably.

INACTIVES TIMESCALE

Most inactives are at least four years from accessing their pensions with only a small minority expecting to access within the next year.

FIGURE 33: IN HOW MANY YEARS DO YOU THINK YOU WILL START TO TAKE AN INCOME FROM ANY OF YOUR DEFINED CONTRIBUTION PENSIONS?



Base: All doing nothing (320)

MEETING SAVERS NEEDS

This research highlights significant gaps between what consumers say that they want from a pension at retirement and what the industry is able to supply. In our interim report we highlighted the deadlock that appeared to exist at that time between the desire among savers to access their pensions flexibly and the ability of the industry to deliver that flexibility in an easy, cost-effective manner.

Prior to April 2015 the majority of savers purchased an annuity, either through their provider or on the open market. Pension Freedoms brought the promise of new innovative products to the market place. Indeed in April 2015 a third of DC savers believed that their future pension would work like a bank account and 53 % of DC savers believed that their pension provider was obliged to offer all the Freedoms.

Products fit for retirement needs were exactly what DC savers expected to find: in April 2015 DC savers most frequently intended to leave their money invested and draw a regular income from it; two-thirds from their existing scheme or provider.

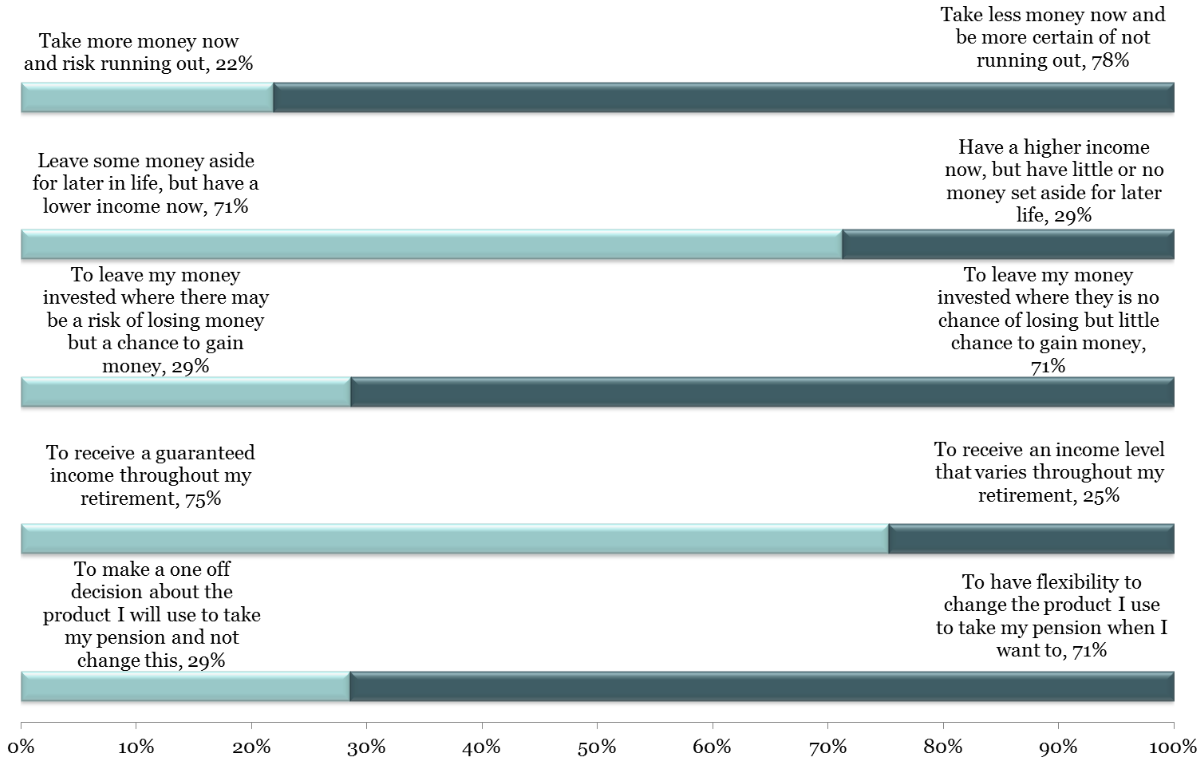
The reality is that to access pensions flexibly, most savers still need to transfer their DC savings to a retail drawdown product in which they then have to manage the investments or pay an IFA to manage for them. We found limited evidence in our research of drawdown solutions designed for the mass market with low charges (close to the charge cap for accumulation) and investments managed through a default fund. However, there are welcome early signs of such products being developed and being made more widely available. The difficulty facing savers is how to find out about these products and how to access them when they are not available in their own scheme.

WHAT DO SAVERS WANT?

We showed all savers with a pension not yet in payment a series of paired statements and asked them to select the statement that was their preferred option for how to take their pension. Inevitably, this highlighted the complex and perhaps impossible mix of features that are preferred:

- Having the flexibility to change the product they used to take their pension when they wanted to;
- Not running out of money in later life / receiving a guaranteed income throughout their retirement;
- Minimising the risk of losing money even if it meant little chance of gain;
- Leaving some money aside for later life.

FIGURE 34: WE WOULD LIKE YOU TO SELECT YOUR PREFERRED OPTION OUT OF THE TWO WHEN THINKING ABOUT TAKING YOUR PENSION



Base: All respondents (1,979)

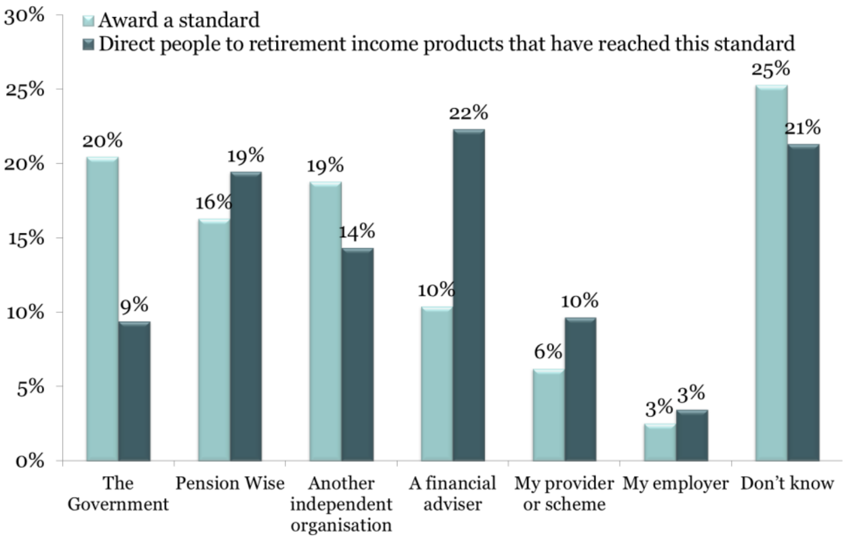
We scored our savers based on their responses across these five questions – this enabled us to create three categories of savers:

- Safe savers for whom an annuity might prove the most attractive solution (31%);
- Medium risk savers for whom a mass market drawdown with a later life annuity solution might be most attractive – perhaps something similar to the NEST blueprint[17] (60% of this cohort);
- Risky savers for whom traditional drawdown products might be most suitable (9%).

The Pension Quality Mark[18] (wholly owned by the Pensions and Lifetime Savings Association) has recently consulted on the development of quality standards for retirement income solutions and the Association. We asked respondents to our follow-on survey who should be responsible for awarding a formal standard that identifies good pension products and who should be responsible for signposting savers to these products. The most popular organisations were Government (20%) or an independent organisation (19%).

[17] NEST : The future of retirement (A retirement income blueprint for NEST's members)
[18] Pension Quality Mark

FIGURE 35: WHICH OF THE FOLLOWING, IF ANY, WOULD YOU MOST TRUST TO: A) TO AWARD A FORMAL 'STANDARD' TO GOOD PENSION INCOME PRODUCTS AND B) DIRECT PEOPLE TO PRODUCTS THAT HAVE BEEN AWARDED THIS STANDARD?



Base: All respondents (1,979)

STRONG SIGNPOSTING FOR SAVERS

Financial advisers, Pension Wise and another independent organisation were the most commonly chosen people to direct people to products that meet a set of quality standards.

Although the majority of pension savers felt they should be responsible for making the final decision about taking their pension in retirement, 61% of pension savers wanted to make this decision with support.

This overall position of the demand for supported choice was reinforced by answers to questions containing two paired statements:

- 10% of pension savers would like someone to both do their product research for them and choose the right solution for them;
- 33% of pension savers would like someone to do the product research for them but would like to make the final decision;
- 55% would like to do the research for themselves and make the final decision themselves;
- 1% would like to do their own research but have someone else make the final decision for them.

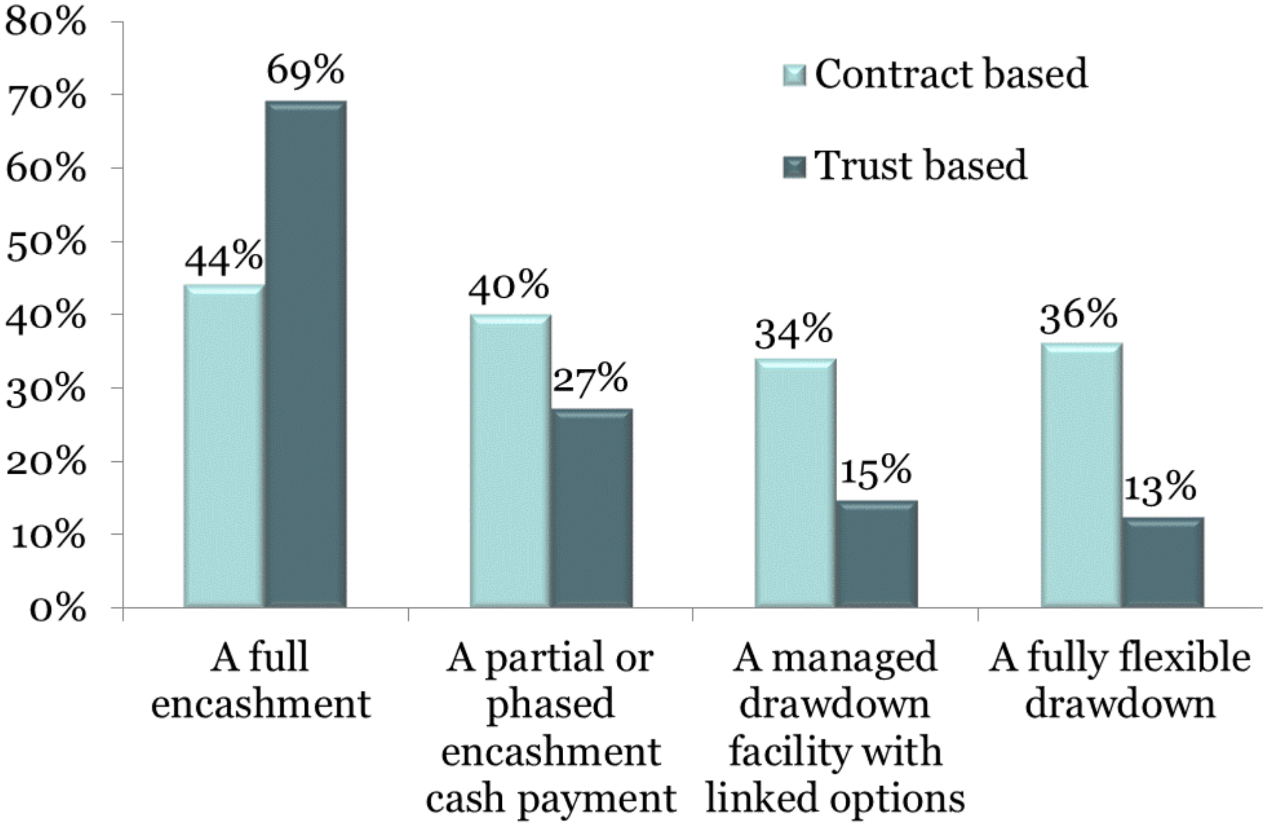
WHAT CAN THE INDUSTRY SUPPLY?

The reality for most savers wanting to access the pension freedoms is that they have to switch to a retail drawdown product if that is the vehicle they choose for accessing their pension. 51% of our DC schemes responding expected to be able to offer access their members some form of encashment in 2015, compared to around 15% of our members who expected to offer drawdown (either partial or full) in 2015. However, on investigation, the

"Our default is now geared towards the option of taking lump sums (most members have small pots)"
Association fund member, with a DC scheme

majority of those schemes saying that they would offer drawdown were in fact either offering multiple (but limited) encashments (UFPLS) or hoping to signpost members to a contract-based offering from the company providing their administration. Verbatim evidence from schemes suggests that many are either waiting to develop products to be sure of demand, or to see what products may be developed by administrators, platforms and insurers.

FIGURE 36: WHAT WILL SCHEMES OFFER IN 2015?



Base: DC schemes contract based (50), DC schemes trust based (88)

By October 2015 interviews with our stakeholders (schemes, administrators and insurers) suggested that schemes were still "waiting to see" what products would be most appropriate for their scheme members and developments by administrators and insurers were still in progress.

Often products were not developed due to membership demographics; on average for our pension scheme members only 18% of their scheme members were aged over 55 or over (and therefore eligible to access their pension under the Freedoms), and on average only a quarter of those of an eligible age were expected to try and access their pensions in 2015. For other schemes, their members did not have sufficient pot values to justify the development of more sophisticated retirement income products that some savers might like to see under the Freedoms.

However many of our pension scheme members were taking steps to ensure that their schemes were fit for the new freedoms. Many of our members were reviewing the suitability of their default fund as part of a transition to ensure that DC savers pots were invested in ways that would best support savers' accessing their income pension of choice at retirement. By May 2015 two thirds of our pension scheme members had already reviewed their schemes, with just over a quarter more likely to do so. Many were looking at implementing more than one investment strategy on the approach to retirement – so as to best to allocate assets so that the best returns could be obtained for annuities, drawdown or cash.

> *"We don't feel like we've got a significant amount of funds in the pot...– drawdown needs to have a reasonable amount of money associated with it."*
> **Association fund member, with a DC scheme**

During our stakeholder interviews in October 2015, one of our fund members flagged that they had changed the investment approach of their default fund so that it was better geared towards enabling members to take their pension as cash at the point of retirement – which they expected would be a popular option.

CONCLUSIONS AND POLICY IMPLICATIONS

Pension freedoms have swept away the norms of retirement income. No longer is it normal to purchase an annuity and it is increasingly unusual to reach retirement with a good DB pension. However, a replacement 'normal' has yet to emerge.

While, as our earlier reports showed, awareness and expectations of the pension freedoms among this age group were high, the actions taken and the people taking them in the first six months can in no way be considered a signal of what we should expect over the coming months and years.

The good news is that the Association's analysis shows that there is very little evidence of reckless spending or stripping of pension pots. The vast majority have not taken the money and most still want to realise a steady income in retirement with their pension wealth.

The early adopters or pioneers of the pension freedoms are, in many respects, unlike those who will follow. The majority already have a secure retirement income in the form of an annuity or DB pension as well as having some DC pension wealth that they have not yet accessed. They are clearly more confident and financially capable than many of those that will follow. Many have established relationships with financial advisers or are experienced DIY investors and are comfortable taking some risks with their money.

The group that will shortly follow them into retirement and making decisions about their pensions are more dependent upon their DC pensions and generally have less pension wealth (although some have time to accumulate more). They will almost certainly retire later than the early adopters and may be more encumbered with debt in later life.

However, what these later groups want from their pensions is not markedly different. They want their pension to generate a regular income that will last them throughout their retirement. However, unlike the early adopters, they are less inclined to take risks with their funds. They do find the flexibility of the freedoms appealing and like the idea of being able to dip in from time to time.

While both schemes and other providers of retirement income solutions have worked hard to adjust their offerings to pension savers, there remains little evidence that the market is working to meet the needs of the groups that will follow the early adopters. It is unlikely that a DIY or adviser-led drawdown solution will meet the needs or capabilities of many of them, although they like the idea of drawdown. It is unlikely that they will be able to manage investment risks themselves and will find even a medium risk strategy stressful. In theory, annuities should fit the bill for many but the product brand has been damaged and will take some time to repair. Designing products or scheme-based solutions will not be easy but it is possible to imagine the features that could be made to work:

- simple, and ideally a default, investment options (because these are not DIY investors);
- low cost administration and investment management (because the groups that follow will generally have modest investment funds);

- the ability to lock-in a secure income for later life but with some flexibility in the early years of retirement (because people don't know how long they will live and fear running out of money); and
- good communication and scheme governance (because many will not have access to personal financial advisers).

They will need more help making decisions and finding the best products but many will not seek out advice and many will not access Pension Wise. In spite of limited use among the early adopters, the Association believes that Pension Wise can play an important role in underpinning this framework. With continued support from Government, industry and pension schemes, it can become the norm for people to use the service.

The Association believes that a combination of Pension Wise, independent product standards and strong signposting is the solution most likely to meet the needs of savers in the coming years of pension freedoms. The Board of the Pension Quality Mark has recently consulted on developing a Retirement Quality Mark, building on the success of its quality mark for schemes. This would assess retirement products provided by schemes and providers against the quality of their governance and communications. It would also provide a clear framework within which trustees could signpost members to available options. It could make a real difference for ordinary people who may not have financial expertise but who will be managing their own retirement income in future by making drawdown plans much more useable.

Coupled with this, strong signposting by trustees would help to smooth the member journey from accumulation to decumulation. Under this scenario trustees would signpost accredited solutions, likely to offer good value for most members, as part of the at-retirement communications process. Together, we believe these solutions will help savers unlock the full potential of pension flexibilities, allowing real Freedom and Choice for consumers.

ANNEX 1: METHODOLOGY

In February 2015 the NAPF commissioned quantitative and qualitative research to examine the consumer and scheme experience of Pension Freedoms. The research aimed to understand:

CONSUMERS

- How consumers view the new Pension Freedoms?
- How consumers plan to access their savings under the new Pension Freedoms (before April) and how they have accessed them in the first six months?
- What is the consumer experience of making decisions about their savings under the new Pension Freedoms?
- What actions have consumers taken and how have they taken them?
- What is a good retirement outcome for today's retirees?

SCHEMES

- What do schemes expect their members to do with the introduction of Freedoms?
- What products will schemes be offering their members?
- What have been the barriers to implementation?

The following elements of research have been undertaken, and form the basis of this report:

CONSUMERS:

Quantitative research was conducted in March/April 2015 (the baseline survey) and again in October 2015 (the follow up survey).

The baseline survey was of 1,042 adults aged 55-70 was carried out by phone and online; the results are weighted to be representative of the population.

The follow up survey was an online survey of over 2,000 adults aged 55-70; 203 of the interviews were respondents to the baseline survey (who fell within an eligibility criteria for taking part in the follow up).

From May –September 2015, twenty-four 55-70 years olds participated in an online/paper lifelog; the lifelog allowed participants, who believed they would make a decision about how to take their pension by August 2015, to record their thoughts and actions about the process for taking a pension under the new Pension Freedoms.

SCHEMES: QUANTITATIVE RESEARCH

Quantitative research was conducted in April/May 2015. A phone survey was undertaken with NAPF fund members, with 174 interviews achieve.

Stakeholder interviews were conducted with 15 participants between September and November 2016. Stakeholder interviews included employers with pension schemes, mastertrusts, pension administrators and insurers.

REPORTING

For quantitative results, tables and figures report the base, which refers to the group who were asked the question, weighted to be representative of the UK population; please note that bases vary throughout the survey.

Throughout the report percentages in figures and tables may add to more than 100% due to rounding.

For further details about the research, please contact Elizabeth.spratt@napf.co.uk