March 2021

New Choices, Big Decisions

Pension Personalities Revisited

The Evolution of Consumer Decision Making and Behaviours Under Pension Freedom and Choice

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STATE STREET GLOBAL ADVISORS

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Objectives and Methodology

Background

In the first wave of our longitudinal study, we followed 80 people over the course of eight months (from June 2015 to February 2016) as they grappled with their initial decisions under the new freedoms. Our findings were published as part of the New Choices, Big Decisions[1] series of reports and have been widely disseminated to industry, policymakers, regulators and government. One year later, we checked in with 55 of our brave pension pioneers to find out how they had been getting on, to see how their lives have changed and to understand, with the benefit of hindsight, how they felt about the choices they made.

All of the respondents in our research demonstrated their own unique priorities, beliefs and preferences. Yet strong common themes and traits were evident across groups. We identified seven pension personalities, from the Procrastinating Petes and Paulas, who were overwhelmed by the task at hand, to the I can Do Better Colins and Clares who had lost all faith in pensions and would rather have the money in their control. In this report, we check in to see how our brave pension pioneers have been getting on in the five years since freedoms revolutionised the way people think about their pension money.

Pension personalities revisited

Five years later we have caught up with 30 of the original 'gang' to see how their lives, and their pension decisions are working out. We spoke to a mix of people across each of the seven personality types.

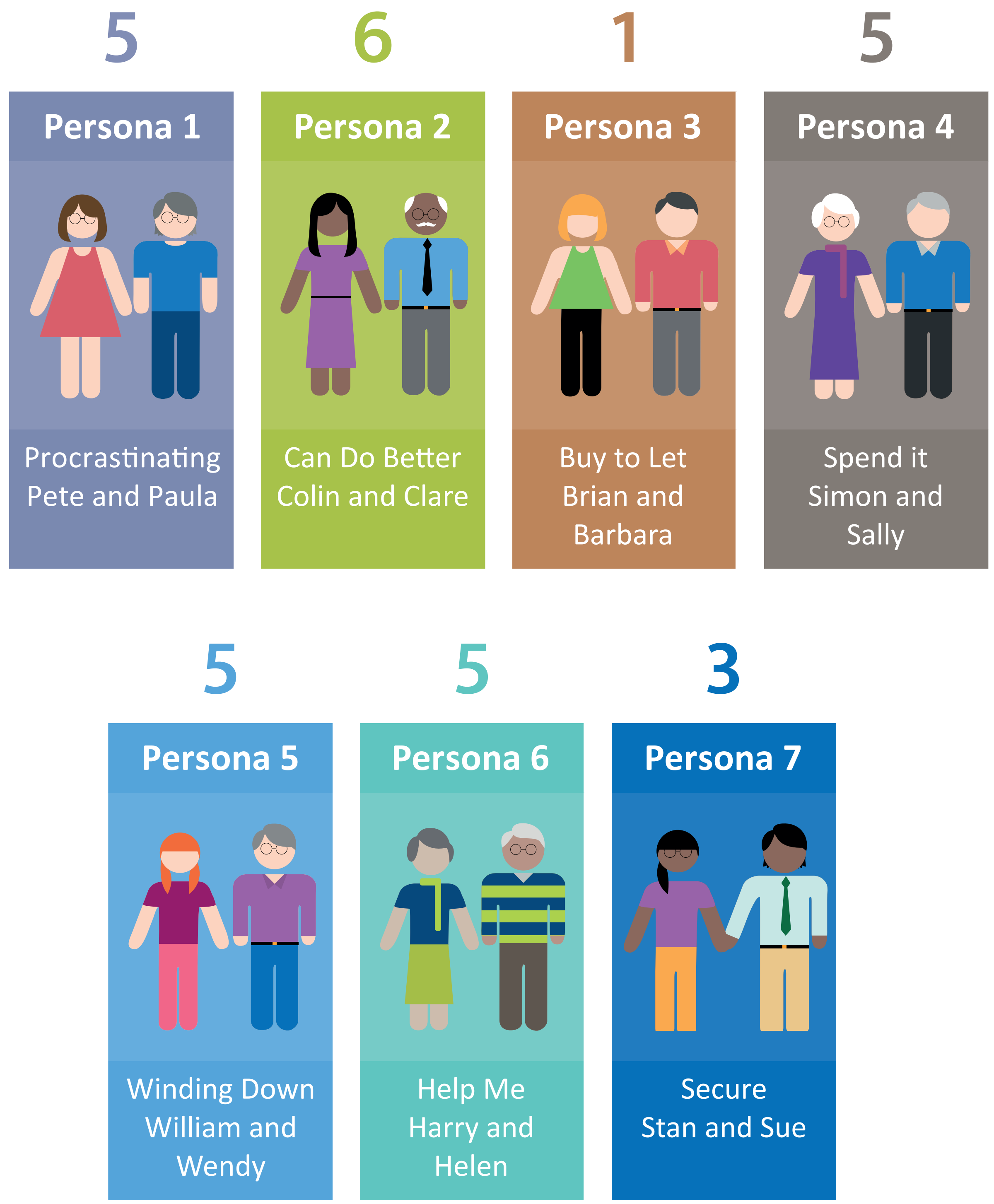
Our in-depth discussions revealed a number of common themes, which we discussed in detail in New Choices, Big Decisions 5 years on: The Evolution of Consumer Decision Making and Behaviours Under Pension Freedom and Choice[2]. To recap, we observed that none of our cohort are struggling financially at the moment, although some have taken on ad hoc work or set up microbusinesses to supplement their income. There remains a lot of confusion about what they have done and they are not always sure if they have taken an annuity or drawdown (to them it's just 'taking my pension money'). Five years on, they are no better informed about the risks they face if they do not want to buy an annuity. They have not been using the time to build the skills they need to make good decisions, nor are they seeking out the support they so desperately need to help them. There are a plethora of behavioural biases at play which have resulted in them sleepwalking into full retirement with very limited financial plans.

1 https://bandce.co.uk/wp-content/uploads/2016/03/ssga-tpp-report-new-choices-big-decisions.pdf
https://bandce.co.uk/wp-content/uploads/2016/06/15805_1_SSGA_TPP_Pension-personalities-Part-2.pdf
https://bandce.co.uk/wp-content/uploads/2017/04/16047_SSGA_TPP-SSGA-Joint-Research_FINAL-COMPLIANCE-APPROVED.pdf

2 https://thepeoplespension.co.uk/wp-content/uploads/New-choices-big-decisions-5-years-on.pdf

Figure 1: Pension personalities and sample size

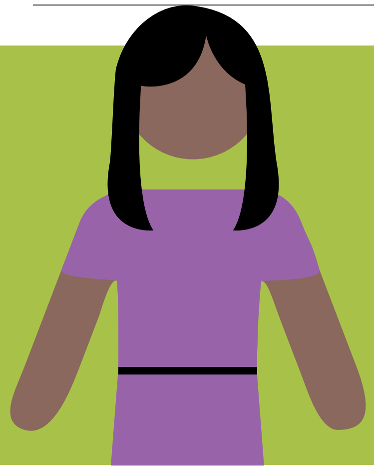
Sample size:



In this report we look at a subgroup of Procrastinating Pete and Paula, 'Leave it Larry and Linda'

2

Personalities



Personality:
Can do better Clare

Characteristics:

Gender: Female

Age bracket: 65-69

Pot size: <£30k after encashment

Retirement status: Working FT

Expected retirement age: None

Stated intent for money: Take it when needed to top up income

Importance of this pension to their overall financial well being
Not at all — Very

Know what they want to do with their pension pot from the start
No idea — Clear idea

Aware of how their pension money is invested
No — Yes

Confidence in their ability to make money last for life
Low — High

Open to alternative options
No — Yes

Satisfaction with their decision
No — Yes

Risks (Based on moderator impressions):

Longevity risk
Low — High

Risk due to lack of planning
Low — High

Inflation risk
Low — High

Investment risk
Low — High

Tax liability
Low — High

Potential of a negative outcome
Low — High

Decision Timeline:

Their story:

As soon as Clare heard about the pension freedoms she knew that she wanted to cash in her pension. She did not do any research to consider her options or the implications of her actions. She was still working at the time and expected to retire at state pension age, which, for her, is 66. She has a small DB due in payment, plus some savings in addition to her pension held in cash ISAs.

She took all the money out and paid some tax. At the time, she could not say what rate of tax she paid, but our calculations suggest this was 40% due to her earnings.

She is not knowledgeable at all when it comes to investments and is very risk averse. She put all her pension money in a cash ISA with her own bank. She felt very happy about doing this as she feels it is more secure as the money can no longer fall in value, and the money is there if she needs it.

She always intended to leave the money untouched until retirement and use it slowly over time to top up her state pension.

Five years later she is still working in the same job which she is still enjoying, although she has now moved to a four-day week. She has been furloughed but is hoping that she can return when things get back to normal. But if she was made redundant it would not be the end of the world as many of her friends have now retired and she would enjoy spending time with them.

When probed about her savings she recognised that the interest she was earning was a "pittance" but had not shopped around for anything better. She had not even thought about doing this. She was very reluctant to take any risks in case she lost any money and would not even consider moving into investments, even when the impact of inflation was explained to her.

"If it's anything that involves any remote risk, no, I wouldn't do it. I don't have enough money to risk losing a lot and I don't want to worry about the risk. It's the risk involved in the pension company, that's not for me."

She is scared of her money running out but has not worked out how she will take it. She has a sum in mind which she is going to need to live the lifestyle she wants, and if her money runs out she thinks she will have to sell her house. She has not made a budget, so is basing it all on pure guesswork.

"You just don't know what to divide it by. Who knows how long we're going to last after retirement - could be six months, it could be 20 years. I feel as though I've done enough saving to allow me to have a nice warm home and a holiday once a year. I'll probably have to look at a budget when the time comes , which will be difficult for me. I've never done it in all my life."

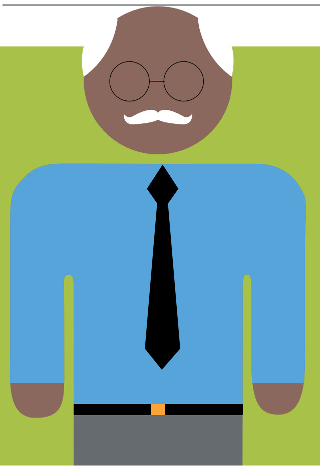
Implications of Their Decision:

Losing 40% of the pot to tax was a high price to pay for getting the money under her control. In a low interest rate environment, there is no way that she will ever make this money up again, so she has locked in this loss forever.

Her money is slowly losing its value over time due to inflation. In the last 5 years alone, she has lost almost 2% of the real value of her money; over 20 years this will be nearly 7%, assuming inflation rates stay very low.

By cashing in her pension, she has also missed out on investment growth. We'd expect investment returns in drawdown to average 3.5% a year.

Unless Clare lives a frugal life and can manage to pay for her daily living expenses with her state pension and small DB pension, it is highly unlikely that her DC money will last her for life. Based on her current plan, it is likely to run out within 10 years.



Personality: Can do better Colin

Characteristics:

Gender: Male

Retirement status: Working FT

Age bracket: 60-64

Expected retirement age: 66

Pot size: £50k-£100k

Stated intent for money: Retire soon and live off the money for as long as possible

Importance of this pension to their overall financial well being
Not at all — Very

Know what they want to do with their pension pot from the start
No idea — Clear idea

Aware of how their pension money is invested
No — Yes

Confidence in their ability to make money last for life
Low — High

Open to alternative options
No — Yes

Satisfaction with their decision
No — Yes

Risks (Based on moderator impressions):

Longevity risk
Low — High

Risk due to lack of planning
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Inflation risk
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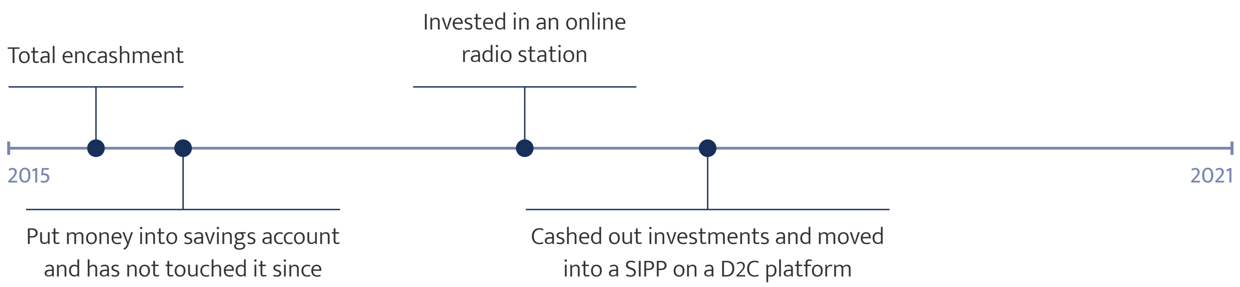
Investment risk
Low — High

Tax liability
Low — High

Potential of a negative outcome
Low — High

Decision Timeline:



Their story:

Colin had always wanted to dabble in investments and when pension freedoms gave him access to his pension money, he saw this as an ideal opportunity to realise that dream. He cashed in his pension and paid 40% tax, which he saw as inevitable.

"I was bound to pay tax anyway unless I left it in there. The only way to take it out without tax was to wait till I have gone 60 and have no significant income coming in."

Through contacts he became aware of a couple of opportunities which seemed to offer high rewards. He invested in an eco hotel scheme which promised to pay 8%.

Despite our worries that this showed all the classic signs of a scam, the scheme was real, and the expected dividends materialised. He used some of his money to make another investment in an online radio station.

"I put abut £10k into radio and £20k into the eco hotels and then I put £2k into the help to buy for my son, and the rest I put into my own ISA which isn't offering anything much really."

Three years later, he had decided that making his own ad hoc investment decisions was not the right strategy for him.

He had withdrawn all of his own investments, opened a SIPP on a well-known platform and re-invested his money into managed portfolios. He had looked into a couple of D2C platforms before making his choices, reading literature and attending face-to-face seminars. However, when probed on the factors used to make his decision, he had not considered charges at all as he felt they were all offering a similar proposition.

When we caught up with Colin in 2020, he was thinking about retirement. His business had been badly affected by Covid-19 and he was contemplating a move abroad to live in a lower cost location. He felt certain that he could work remotely if work picked up again, but the move and the sale of his home would give him more financial freedom to 'retire' if things did not pick up.

He recognised that he did not have enough in his SIPP to last for life. All things considered he hoped that his money would last until he was 80, but until our conversation he had not even made any rough calculations.

When probed about whether any of his own investments had done well enough to make up for the tax he paid, he admitted that he had not made this calculation, but did not think so.

Implications of Their Decision:

Colin has ended up in a SIPP on a Direct to Consumer (D2C) platform, a transfer he could have made at any time without incurring a 40% tax bill.

The nature of his investments mean that he could probably have done the same thing within a SIPP wrapper without incurring a 40% tax charge. Investment gains within the wrapper are tax free.

Colin did not mention how much he had paid in Capital Gains Tax when he cashed in his investments, nor what his transaction costs had been for buying and selling these investments.

Losing 40% of the pot in tax seems a high price to pay for getting access to his money in order to be able to dabble in investments.

Although the eco hotels paid off, it does not appear that his overall investment performance was sufficient to have made up this difference. Overall, he appears to be worse off.

Investing in just a couple of assets was a high-risk strategy, which put Colin at a very high risk of having a poor outcome. He has now reduced that risk by moving to a managed portfolio.

It is highly likely that Colin's DC money will not last for life. Even in the low-cost location it is likely that, at best, Colin's money will last for around 20 years, which will take him into his early 80s.

Can do better Clare and Colin

Propensity to have a poor outcome

Mapping their 5 year Journey

17 of our 80 original respondents totally cashed in their pensions and did so for a variety of reasons. A key segment within this total encashment cohort are the I Can Do Better Colins and Clares, who have completely lost their faith in pensions and the pensions industry and were cashing in due to this lack of trust. They have seen too many bad news stories over the years (they will still refer to Maxwell, Equitable Life or deficits in general) – and every front page headline of yet another 'pension crisis' only serves to reaffirm these views. In their minds, pensions remain overly complex, opaque, inaccessible and poor value for money. Although they rarely had any idea what their pension was invested in, or indeed how it performed compared to alternatives, five years ago our Colins and Clares believed that they could do better by taking their pot and investing it themselves in something they could understand and control.

We caught up with six Can Do Better Colins and Clares in this wave. They have no regrets about what they have done, are still mistrustful of pensions, and remain happy to have the money under their control. Yet when probed to see whether what they had done with the money had made back any tax they had paid, or kept pace with what they could have got as an investment return from their DC pension, none had made this comparison and had not even thought to do this.

Colins and Clares with no investment experience have kept their money in cash ISAs and high interest deposit accounts and premium bonds. They feel reassured that they know how these saving vehicles work, feel that they are 'safe' and cannot fall in value, whereas a pension feels like a black box. They are aware that interest rates are very low but are happy to take this return as they are entirely focused on not losing any capital. That said, they have not been shopping around to get the best deals on their savings. Inertia prevails. Our respondents had not yet started to dip into their pension money to live off and did not expect to do so for a number of years. They have no idea what impact their decision will have over their lifetime, and are unaware that the value of their cash savings is guaranteed to fall over time as low returns are eroded by inflation.

A small minority at the other end of the spectrum do have an active interest in investments. These 'hobbyhorse' investors did not have well-diversified portfolios, but often invested in a very small number of companies. Again, these investors are focused on the returns they have made in isolation, rather than looking at whether their actions have offset the tax they paid (including CGT). In the rare instance where they do benchmark against a typical pension portfolio, they are comparing their own very high-risk strategy with more modest medium to low-risk benchmarks.

Looking at our five-year time horizon, for some their 'gamble' has paid off so far; others have not been so lucky.

What can the industry do?

Enhance trust:

These consumers need to hear messages about retirement risks and how they can be met. They are not going to listen to institutions which they perceive as part of the traditional UK pensions industry. There may be an important role here for trust-based workplace pension companies if they invest in explaining that they are legally required to put their members' interests first and they live up to this requirement. YouGov polling conducted for The People's Pension and State Street Global Advisors indicates that people are much more likely to be interested in guidance from an organisation that is required to put their interests first than any other, including a government funded advisory body.[3]

Help consumers understand inflation risk:

No one we spoke to had had a conversation with their provider about the long-term risks of investing in cash. Much more could be done here to raise awareness. For example, simple models which show the age pension money will run out under different investment and spending scenarios can be very effective in bringing this issue to light. Simple models demonstrating what £100 buys today and what a non inflation proofed annuity of the same value will buy in different time periods would also help.

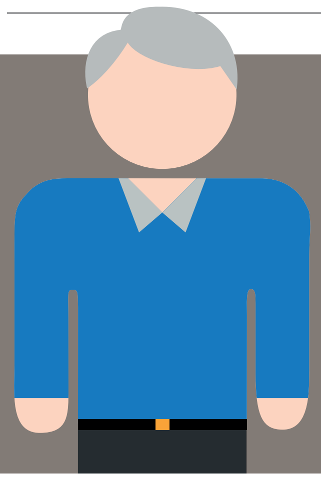
Increase awareness of cash–based investments in pension wrappers:

Where people insist on moving into cash, they should at least be made aware that they can do so without paying tax. Respondents in our study were surprised to learn that they could move pension funds into cash funds, and may have thought twice about paying tax to move outside the pension wrapper if the rate was competitive. Terminology will be key here – using jargon such as 'money market funds' will be a complete turn off, and will not get the right messages across.

Help consumers understand tax efficient withdrawal strategies

This would partly involve explaining how great the investment return would need to be just to offset their tax bill. Encouraging consumers to use simple models to understand the consequences of their actions will help them to decide whether this is, indeed, the right choice for them.

3 YouGov Plc. Total sample size was 2116 adults. Fieldwork was undertaken between 12th - 15th February 2021. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+).



Personality:
Spend it Simon

Characteristics:

Gender:	Age bracket:	Pot size:
Male	65-74	£50k-£100k
Retirement status:	**Expected retirement age:**	**Stated intent for money:**
Work dried up 4 years ago	66	Ad hoc withdrawals

Importance of this pension to their overall financial well being
Not at all — Very

Know what they want to do with their pension pot from the start
No idea — Clear idea

Aware of how their pension money is invested
No — Yes

Confidence in their ability to make money last for life
Low — High

Open to alternative options
No — Yes

Satisfaction with their decision
No — Yes

Risks (Based on moderator impressions):

Longevity risk
Low — High

Risk due to lack of planning
Low — High

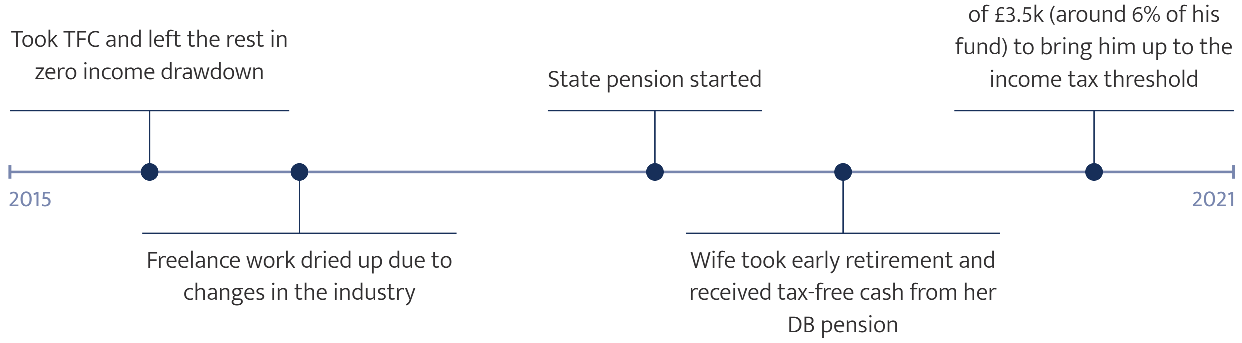
Inflation risk
Low — High

Investment risk
Low — High

Tax liability
Low — High

Potential of a negative outcome
Low — High

Decision Timeline:



Their story:

Simon originally took his TFC to pay off some of his mortgage and to spend on a holiday. He had planned to work a few more years part-time as his wife is 10 years younger than him, and his mortgage did not finish until he was 67, but in the end that was not possible.

"I think I would like to kept going at two or three days a week .That was always my intention, but it just didn't pan out that way. The industry changed that I was in. They were looking for younger people, not experienced people. I was always waiting for the phone call for someone to offer me a little bit of work. It took me a year or so to realise that that's not going to happen."

Simon's wife has a small DB pension which gave them some tax-free cash. They have been living off that and his state pension.

He has some money set aside in ISAs which he can also draw on, but at the moment, due to lockdown they have not needed to do this.

Simon took out his drawdown policy with his own pension provider. He did not shop around. He could not say what the charges were or whether these were in line with the market. At the time, he did a risk assessment and was identified a medium risk. He has not revisited his investment choices since. Nor has he been prompted to do so by his provider.

So far he has taken two withdrawals from his drawdown policy. He thinks each withdrawal equates to around 6% of his fund. He is using his wife's tax allowance to minimise the amount of tax he pays. He has not based this withdrawal on any sort of calculation, it is simply driven by the tax system.

"My plan is to not pay any tax on it, just keep it under the tax threshold."

He has not shopped around to see if he is in the best product, and thinks that this would be very difficult to do. That said, he thinks his drawdown policy has done well since he took it out, as the fund has grown to almost make back the money he has taken out.

"How would you do better? Choice is difficult these days, even choosing things like a vacuum cleaner, there's so much choice you get so confused. I'm not doing anything. You really stick with your own choice."

Implications of Their Decision:

Simon's state pension ad his wife's DB pension are inflation-linked, which somewhat protect him against increasing day-to-day expenses.

At the moment, Simon is not taking out much from his drawdown policy. A 6% withdrawal rate is not far off the 4% rule of thumb, but this might be a little high if Simon wants his money to last for the rest of his life, especially in the current low-return environment.

This strategy also relies on markets performing well, and there are turbulent times ahead in the next few years. Any significant falls in the market in these early years will have a severe impact on his overall well-being.

Simon may find it more difficult for investment growth to keep pace with his withdrawals, and he may see his pot depleted faster than he expected.

Simon is also not aware of costs and charges which, in the long term, can have a significant impact on his available funds.

That said, he looks to be in a reasonable position to make his DC money last into his late 80s.

Spend it Simon and Sally

Propensity to have a poor outcome

Mapping their 5 year Journey

Five years ago our Spend it Simons and Sallys were more than happy to take some of their pension money to enjoy now – usually some tax-free cash or a small pension - to spend on holidays, home improvements, a new car, or a treat for family members. Unexpected events, such as a family wedding, also drove their desire to access a chunk of pension savings. Most Simons and Sallys had sufficient savings sitting in cash ISAs or deposit accounts to cover these expenses, but somehow their pension felt like 'free money' or an unexpected windfall. With no plans to access the remainder of their pension for some time, 'zero income drawdown' was the norm.

We observed a lot of contradiction at the time. In one breath, Simons and Sallys were telling us that they were comfortable taking a slice of their pension money as it is not their main pension, or that it is only part of their pension money, or that they will be OK as they are still working and contributing to a pension. Yet, in the next breath, they were saying how worried they were about having enough money saved to retire on.

Five years later, we are still finding that most have no regrets about spending their 25% TFC – only a couple have even thought about the investment growth they have missed out on. Until recently, favourable stock markets were reinforcing their decision as they could see the pots growing, "making up" for the money they had taken out.

The 'Spend It' or zero-income drawdown group have typically been in a transitional state over the last five years. Until recently they have been working (full-time) and have not needed to access any more money to live off. We have observed a strong tendency for people to 'jam-jar' their pensions, and so there has been no subsequent dipping into pensions for further large lump sum spending. Inertia is also a powerful driver of consumer behaviour, and so there has not been any shopping around to see whether their initial drawdown product is still suitable, either on costs and charges or investments. We also observed that some still have some of the TFC left, which has been sitting in a savings account for the last five years earning very low or no returns.

We talked in detail about this group and the drawdown strategies they are following in our previous report, New Choices, Big Decisions 5 years on: The Evolution of Consumer Decision Making and Behaviours Under Pension Freedom and Choice, but in summary we found that those in non-advised drawdown are typically taking out ad hoc lump sums, and spending them down with the expectation that when this money has gone they will take out another lump sum. At best, they hope their money will last into their 80s. Our own rough estimates suggest that around three in four of those in drawdown are likely to run out of DC money before they die.

We observed that those going it alone are riddled with behavioural biases that prevent them from thinking about their later years, they struggle with numbers, they have no knowledge of investments, and consistently misunderstand or are unaware of the risks they face. This situation is far from ideal, and the respondents themselves wanted more 'do it for me/do it with me' solutions.

What can the industry do?

Help consumers think carefully about whether they need all of their tax-free cash:

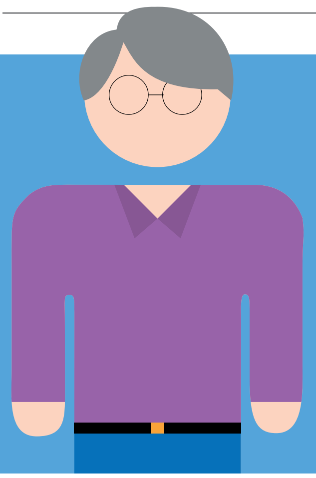
Members are currently anchored onto 25% and more can be done to help them keep more if this money was invested inside their pension wrapper.

Nudges to encourage better tax planning:

If working members, particularly high rate taxpayers, do need to access more money, more can be done to help them understand the most tax-efficient way to do this. Members are anchored onto taking money out of drawdown, whereas providers could create interventions at the point of withdrawal, checklists and rules of thumbs to help them consider whether it would be better to access tax-free cash from other DC pensions, or money from their broader savings first.

Develop products which provide guided outcomes:

More innovation is needed to develop cost effective products which combine flexible access, security and good governance. The investment pathways model put forward by the FCA will not suit the Simons and Sallys because the pathways approach assumes that individuals have a single ambition. Where individuals want to achieve multiple goals, the overall product or service needs to combine several sub-products. This is likely to at least require an annuity for security in later life, managed drawdown to maximise income in earlier retirement and a separate pot to fund spending. A tendency to follow the 'path of least resistance' suggests that their own provider will be their first port of call for such support. Knowing that a reputable company/ scheme with a legal duty to act in their interest has set up a solution to 'do it all for them' in much the same way that a financial adviser would - but at a lower cost - was very much welcomed in principle. For those with larger pots and more complex financial planning, this is likely to encourage them to reach out for independent financial advice as it will help give them a basic benchmark with which they can compare.



Personality: Winding Down William

Characteristics:

Gender:
Male

Age bracket:
60-64

Pot size:
£50k-£100k

Retirement status:
Working on ad hoc contracts as a freelance consultant

Expected retirement age:
When the work dries up completely – probably by 67

Stated intent for money:
Taking ad hoc drawdown payments for 10 years

Importance of this pension to their overall financial well being
Not at all — Very

Know what they want to do with their pension pot from the start
No idea — Clear idea

Aware of how their pension money is invested
No — Yes

Confidence in their ability to make money last for life
Low — High

Open to alternative options
No — Yes

Satisfaction with their decision
No — Yes

Risks (Based on moderator impressions):

Longevity risk
Low — High

Risk due to lack of planning
Low — High

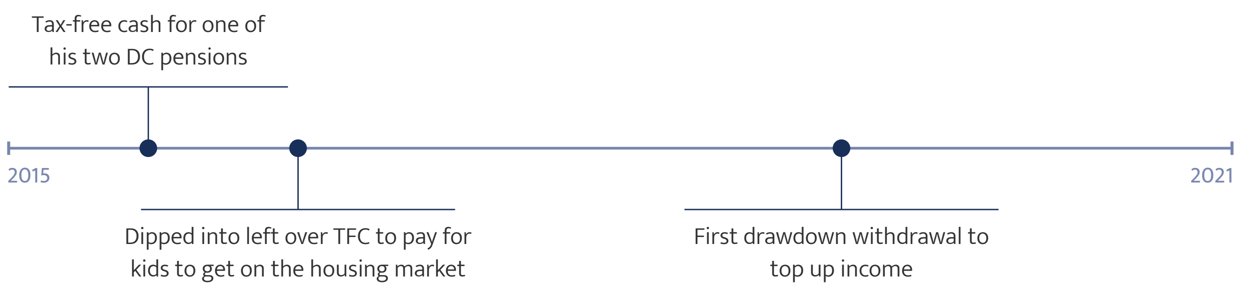
Inflation risk
Low — High

Investment risk
Low — High

Tax liability
Low — High

Potential of a negative outcome
Low — High

Decision Timeline:



Their story:

In 2015 William took his tax-free cash (TFC) and used it for a combination of things. He used it to pay down his mortgage, he bought a new car, and had a holiday. The money leftover was put into a cash savings and used a couple of years later to get his kids on the property ladder. He has no regrets about using the money in this way.

"I think I said at the time, this wasn't a life changing amount. I didn't really need it, but it was tax free, and it was nice to have."

Over the years his contacts have been getting older and retiring and he thinks that clients prefer to deal with younger people, so his work has been slowly drying up. He calls it a phased retirement, but it is not particularly an active choice.

"I might be a bit slower than I used to be. And I might not get as much work as I used to do because of my age, but that's just the way it is. My peer group are retiring around me, and clients like to deal with younger people, so I don't have an end date but somewhere in the next six years I suppose."

Covid-19 has exacerbated this situation, and if things don't get back to normal soon, he fears that he may not work again. Any potential plans to downsize have been put on hold.

Due to this recent and unexpected fall in income he has now started to dip into his drawdown policy, taking his first ad hoc payment of £4k to live off. Once this has been spent (over the course of a few months) and assuming no other work comes in, he expects to take a similar amount again.

He thinks that his pensions will last for a maximum of 10 years, which should take him to his mid 70s. He will rely on money released from downsizing to see him though to his 90s but has no plan if he lives longer than this. He has a minor health condition and is very fit.

"I'm convinced I'll have enough for a minimum of five, a maximum of 10 years anyway. I guess really between that and say 17 and 18 years is the time to sell the house and take enough equity from the house to make sure you get through to 90. From there on, whatever, it is a bonus, isn't it?"

Implications of Their Decision:

If he had left his tax-free cash untouched, William's fund would have grown by 19% over the last five years, giving him an extra £3,519.11 in his pot[4].

When he took his withdrawals, he did not consider the tax implications of his actions.

William had two DC pensions of a similar size. He has taken his TFC from one so each subsequent withdrawal will be taxed at his marginal rate, in this case 40%. He did not consider whether it would be more tax efficient to access TFC from his other pension.

William is reliant on releasing equity from his home to see him through his later retirement years. But even so, with one in ten of those currently age 65 expected to live to be over 100, it is likely he will run out of funds before he dies and be reliant on the State Pension.

4 We've used 3.5% as our investment assumption over the 5 year period.

Winding down William and Wendy

Propensity to have a poor outcome

Mapping their 5 year Journey

Phased retirement is increasingly becoming the new norm, with the new Pension Freedoms opening up this opportunity to more people than ever before, allowing Williams and Wendys to access their pension pots early and flexibly to supplement their income in the first stages of their retirement. Just under one in five (19%) of all UK adults aged 55-64 think they will stop working and retire on their official State Pension age (at 66 or 67 years).

Five years ago, our Winding Down Williams and Wendys wanted to enjoy life to the full whilst they were fit and able. Our Williams and Wendys all had pots of less that £250k - and many had significantly less than this. They did not expect their pension to last for life; they were simply looking to top up income for as long as possible, or to fill a gap until another source of income kicks in. This could be the State Pension, a final salary pension, or a partner retiring with larger pension provision. Wendys, in particular, felt cheated that their plans for retirement have been disrupted by the increase to State Pension age, and are using their DC pots to fund the difference. At the time, Williams and Wendys took 25% of their pot as a tax-free lump sum in the first instance, perhaps spending some of this on a holiday or home improvements, and planned to spread their withdrawals over a small number of years with the amounts set to minimise their tax bill.

Five years later, in addition to the two original Williams and Wendys we found that three more of our respondents had moved into this segment and had started to access money to fund reduced working hours. Our Williams and Wendys often felt that they had not saved enough for retirement, and that their money will not last until death. They are using DC money as a bridge until they get to State Pension age. However, even at this late stage in their working lives not all knew what their State Pension would be.

Reduced earnings also mean reduced pension contributions. Not only are this group running down existing pension provision during their last few economically productive years, they are forgoing employer contributions as well. None had factored this into their thinking. The decision to wind down was not usually driven by financial reasons – common mentions were providing childcare for grandchildren, a general desire for more “me time” or a gradual drop off in self-employment. Living for today and bearing the consequences tomorrow seems very attractive at the time, but due to the power of compounding, a few extra years of full-time work in their late fifties and early sixties could make a difference to lifetime wellbeing.

What can the industry do?

Help people understand the trade-offs and implications of funding a phased retirement from their pension pot:

Not only are our Williams and Wendys drawing on their limited lifetime resources to top up their income, they are also forgoing pension contributions. Women in part-time work in our study expressed regret that they had not considered boosting their earning (and pension contributions) once their children became more independent. Once again inertia prevails, and they would have liked a ‘nudge’ to help them understand the benefits of an extra day or two at work.

Develop and promote simple drawdown solutions that also target tax efficient short withdrawal time horizons:

Pension Freedoms open up the opportunity of phased retirement to people with smaller pots. Our Williams and Wendys are realistic about how long they want their pot to last – they are not looking for it to last their lifetime, rather to supplement their income over a five to ten-year time horizon. Yet they don’t know how best to manage their pot or their withdrawals to achieve this and believe that current flexible access products place all of the burden on them to make the right decisions.

Personality: Help me Helen

Characteristics:

Gender: Female

Age bracket: 65-74

Pot size: £100k-£250k

Retirement status: Made redundant at 66

Expected retirement age: 66

Stated intent for money: Income for life

Importance of this pension to their overall financial well being
Not at all — Very

Know what they want to do with their pension pot from the start
No idea — Clear idea

Aware of how their pension money is invested
No — Yes

Confidence in their ability to make money last for life
Low — High

Open to alternative options
No — Yes

Satisfaction with their decision
No — Yes

Risks (Based on moderator impressions):

Longevity risk
Low — High

Risk due to lack of planning
Low — High

Inflation risk
Low — High

Investment risk
Low — High

Tax liability
Low — High

Potential of a negative outcome
Low — High

Decision Timeline:

2015

Decided to do nothing as she was still working

Her firm went through an exercise to make everyone apply for their own jobs. She asked for, and got, voluntary redundancy

Took TFC and bought an annuity with her smallest pension

Met with an IFA , consolidated her two remaining DC pensions, taken TFC and moved into zero income drawdown

2021

Their story:

Helen has five pensions (two small DB and three DC). At the start of our study, she originally was looking at taking TFC from one of the smaller ones, but in the end decided to do nothing because she did not need the money as she was still working. As a single person, she was very aware that she wanted to make her money last for life and that this would be a difficult task for her to accomplish alone. She made initial contact with an IFA in 2015 but did not take it any further.

"I googled financial adviser for this area. There is a website - unbiased, which I went on and I asked them to send me some names of IFA's round about my area. I spoke to 2 or 3 and one of them wasn't interested, the other one said he'd come, and he didn't . One was very nice, we talked he came to the house. I wanted a guaranteed income and he said he could do it for £800 and I would get x amount per month and they would deal with everything for a monthly or quarterly fee, which sounds wonderful as I don't have to worry then."

In 2017 she was made redundant. She was already in receipt of state pension, which does not cover her outgoings. She initially used her redundancy money and savings to top up her income, but by 2019 this has been used up and she started to access her DC

With her 'small' pension, she has bought an annuity. She was worried what to do with the remaining larger pensions and sought the advice of an IFA during lockdown in 2020. On their advice, she has taken TFC but left the rest in drawdown for now and will dip into it as and when she needs it. Without this advice, she would have probably bought further annuities.

"Having spoken to the financial advisor and having gone through quite some in depth conversations he advised that I take my 25%, tax-free lump sum, but hold the rest because he said you don't really need any further monthly income. What was left after the 25% would be invested by them in whatever. And whenever I needed some money, I could get it. On my own I wouldn't have gone down that route. I would have probably taken a monthly income again, which I don't need at the moment and it would have just built up in my bank account or wherever, because interest rates are practically zero at the moment."

She could not say how much she was being charged for the ongoing advice service and had seen no figures to show how much she would be paying in pounds and pence.

Implications of Their Decision:

For Helen, the future looks bright and the blended approach recommended by the IFA offers the best of both worlds. Using an IFA has given Helen the confidence to be in drawdown. She is happy that the IFA is keeping an eye on investments as she finds this very complicated and would not be able to do it herself. She understands that if she wanted to buy an annuity in the future, that is still an option.

The IFA has devised a 20-year plan which she is happy with. They did not discuss what would happen if she lived longer than 20 years – but as she has some secure income (DB pensions and an annuity) in addition to the state pension, she thinks she will be OK.

Helen had very limited insight into the charges she is paying for this peace of mind, although she seems to remember it being more than she expected. She did not shop around to see whether the advice and drawdown product charges were competitive. She could not recall seeing any information on the impact of charges on her future pot.

Until our conversation, she had not thought whether she needs any further advice. On reflection, other than looking after the investment side, she thinks that her finances are in hand and paying for an ongoing service is not really necessary. She is unsure whether a different advice service is available as this has not been suggested as a possibility.

Help me Helen and Harry

Propensity to have a poor outcome

Mapping their 5 year Journey

Pensions are very important for financial wellbeing in retirement and our Help Me Harrys and Helens are determined to make the right decision. They have a long-time horizon for their money and want to do all they can to make their money last for life. They dislike annuities and want to be able to access their money in retirement. This group fully recognised that they have a big challenge ahead of them to meet their needs. They read articles, had numerous conversations with their providers, and were the most likely group to contact Pension Wise for a discussion. But at some point, they came to the conclusion that they will never be able to develop sufficient knowledge themselves to get to the best solution and went on to employ the services of a financial adviser. Some got to this stage very quickly; others only reached this stage after many hours of individual research. Unlike other groups, Harrys and Helens see the value in advice to get them into the right product, despite the cost. They feel comforted that the research they have done at least enables them to ask the right questions to the adviser.

At the end of our five-year journey, we spoke to five respondents who had engaged an IFA to help with their finances. Those with smaller pots had found this process a little tricky, but eventually they found their adviser through a combination of personal recommendations, websites such as unbiased.co.uk and local contacts. They are generally very happy with the service they have received so far, as it is giving them peace of mind. That said, they were less sure whether their financial situation merited a long-term relationship. Few had thought about the ongoing cost of advice. However, the cost of advice can have a significant impact, especially in a low-return environment. Advisers usually charge a percentage-based fee on the value of assets invested, and this was certainly the case for all of our advised respondents. Whilst they were unable to tell us what these fees were, FCA research shows that the average charges are 2.4% of the amount invested for the initial advice and 0.8% per annum for ongoing advice. This does not include underlying product and portfolio charges, like custody and fund management. Underlying investment portfolio charges averaged 1.1% but ranged from 0.4% to 2.0%. Taking into account both advice and portfolio charges, customers pay, on average, 1.9% in charges each year. The FCA also found that where firms offer both one-off and ongoing services, more than 90% of new customers are placed in arrangements for ongoing advice.

When shown the cost they were paying each year in pounds and pence, our respondents started to question whether they were getting value for money but recognised that they were faced with a binary choice – do it themselves or pay up.

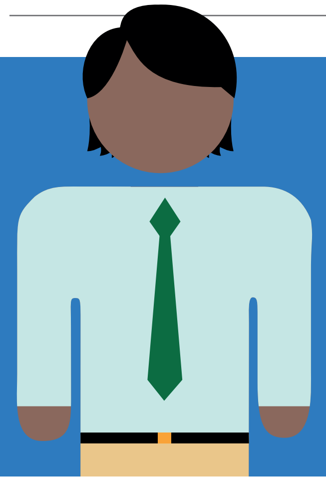
What can the industry do?

Guided outcomes for people with smaller pots:

Guided retirement outcomes from a provider with a legal duty to act in their interest would meet the needs of some of the Harrys and Helens. Those with larger pots are likely to see this kind of provider-suggested solution as a basic benchmark which gives them even greater confidence in seeking out an independent financial adviser.

Initiatives and solutions to help lower the overall cost of advice:

Initiatives such as the portable fact find will help, especially if there is some element of consumer self-service. Automated advice is in its infancy in the UK but early indications are that the FCA is keen for this sector to develop.



Personality: Secure Stan

Characteristics:

Gender:
Male

Age bracket:
60-65

Pot size:
£50k-£100k

Retirement status:
Fully retired

Expected retirement age:
–

Stated intent for money:
Income for life

Importance of this pension to their overall financial well being
Not at all — Very

Know what they want to do with their pension pot from the start
No idea — Clear idea

Aware of how their pension money is invested
No — Yes

Confidence in their ability to make money last for life
Low — High

Open to alternative options
No — Yes

Satisfaction with their decision
No — Yes

Risks (Based on moderator impressions):

Longevity risk
Low — High

Risk due to lack of planning
Low — High

Inflation risk
Low — High

Investment risk
Low — High

Tax liability
Low — High

Potential of a negative outcome
Low — High

Decision Timeline:

Their story:

Stan did not pay much attention to the new freedoms when they came in. He was 59 when he took TFC from his three DC pensions to get some new windows for the house and to have in cash savings as a safety net.

"You see so many people that just work and work and work and by the time they pack up it's too late, I don't want to be one of those people."

He bought three single life level annuities with the rest as he wanted to spread the risk across multiple providers. He did not look into whether he qualified for any enhancements. He was only interested in getting the maximum income so did not choose any options. Stan used a broker which he found online to purchase his annuities. He thinks this cost around 1%.

At the time he was disappointed at how little his annuity provided as an income. He felt he had saved a great deal of money over the years yet converting this money into a regular sum was not enough for him to live on.

"When I was at work, the pension that was offered you know they said, 'you put in this amount and we put in that and you will get so much at the end, so you'll have enough to live on' and it just didn't work out that way."

Five years on, he is now getting state pension but even so his household finances are a little tight. His wife has returned to part-time work to boost their income in order to maintain their desired lifestyle.

"I think I'm more disappointed than anything. Like I said, we're lucky enough to be in a reasonable financial position. So, what we're getting now is about a hundred pounds less than when the wife was working full-time."

Stan remains slightly disillusioned with his decision and wishes he had done something else. However, he is not sure what that would have been as he did not explore his options at the time. He regrets not looking into it more and feels that with the benefit of hindsight he might have preferred to have access to ad hoc lump sums rather than a regular income.

"Maybe if I hadn't been so lazy at the time. If I'd have looked into a bit more, maybe I've just got myself to blame. I would have been tempted maybe to keep it somewhere where I could get a lump sum whenever I needed it."

Implications of Their Decision:

Stan has a secure income for the rest of his life, albeit at a much lower level than he had hoped for. However, he did not take out any spousal protection and so his wife will not receive any further income in the event of his death.

He has also not inflation-proofed his income stream, so he will see its value slowly erode over time. Given household finances are already a little tight, he is likely to feel the squeeze as the increasing costs of essential bills, such as gas, electricity and council tax, make up an ever-larger share of his income.

Stan took his annuities at a relatively young age. By waiting a few more years, he could have increased his regular payment, which would then have been paid at the higher rate for the rest of his life. Stan could not recall this being discussed with him. Had he seen the difference this would have made over his lifetime, he would probably have made a different choice.

Stan did not feel capable of looking at his options and so, for him, the path of least resistance was to stick to what he knew - an annuity. Had his provider done the legwork for him through some form of guided outcome, he is highly likely to have taken that instead of an annuity as he very much regrets losing access to his pot.

Secure Stan and Sue

Propensity to have a poor outcome

Mapping their 5 year Journey

Secure Stans and Sues are, by far, our most risk averse group we encountered - and they are happy to describe themselves as such. Secure Stans and Sues often start their journey with the intention of purchasing an annuity, despite the flexibility offered by Pension Freedoms. They say that they have made sacrifices over the years to accumulate their pot and would be extremely unhappy to see it fall in value. They are unsettled by stock market volatility and say that they would constantly worry about their money if they were exposed to any form of investments in their retirement years. They do not want to have make pension decisions in retirement. They usually have the main, or only, pension in the household and feel they have a responsibility for maintaining the household finances in retirement. Many have no dependents and are not worried by the prospect of having no pot to pass on upon death. As a result, they are more than willing to sacrifice flexibility for the security of a known income for life.

Our Secure Stan and Sues have set themselves up with a secure income for life. However, almost all of those we spoke to had purchased a flat rate annuity as they were looking to get the maximum income possible and so will not see this income keep pace with increases in living expenses over the years. They have locked into this contract, and so are unable to access money in emergencies or take advantage of any future product innovation.

Five years on, we spoke to three of the original ten annuity purchasers. Perhaps surprisingly, given the backdrop of Covid-19 causing a large drop in stock markets, and the prospect of a no-deal Brexit at the time of interview, we found that their initial views had not particularly changed. Those who were happy with their choice back in 2016/2017 remained pleased today; those who had doubts still felt the same.

This group were the most unsure about the decision they had made. They felt that they had rushed into taking (and spending) their tax-free cash and that it might have been better for them to wait for a few more years to get a better rate.

"If I am honest, I wish I hadn't done it. I think if I had left that in I would have got a bit more and was probably a bit silly. I think I took it too early. Just because I could do it basically. I thought, I'll take the money it is tax free I'll do something with it, but I can't remember what I did with it." Female, TFC and annuity

If some form of guided outcome had been offered by their provider, it would certainly have been considered by this group. They want the security of somebody to 'do it for them' (especially the investment choices) and a regular income stream for life but would have valued the flexibility to adapt their plans to meet any unexpected life events.

What can the industry do?

Develop solutions which meet multiple needs:

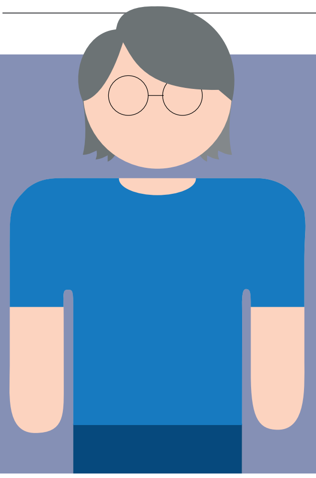
Stans and Sues prioritise security but have regrets that they have been forced to make trade-offs. Solutions which are layered by first securing the desired guaranteed element and then a drawdown product, followed by a discretionary spending fund would appear to better fit their requirements.

Don't neglect the annuity market:

Although the annuity market has seen a sharp decline in sales and attention has naturally focused on drawdown, there will be a core of consumers who are willing to forgo flexibility for security who should not be forgotten by the industry. Making an annuity choice part of a mixed solution rather than framing it as an 'all or nothing choice', may well significantly expand the size of this group. The inherent issues observed in the market before Pension Freedom and Choice have not gone away, which means that the industry still has a responsibility to reinforce key messages - such as the need to shop around for the best rate and how a small difference in rates can have a significant impact over the long term.

Promote awareness of the range of annuity options available:

Such as value protection and enhanced annuities.



Personality: Leave it Larry

this is a subgroup of Procrastinating Pete and Paula

Characteristics:

Gender:
Male

Retirement status:
Full-time work

Age bracket:
60-64

Expected retirement age:
70

Pot size:
£250k+

Stated intent for money:
Regular withdrawals

Importance of this pension to their overall financial well being
Not at all — Very

Know what they want to do with their pension pot from the start
No idea — Clear idea

Aware of how their pension money is invested
No — Yes

Confidence in their ability to make money last for life
Low — High

Open to alternative options
No — Yes

Satisfaction with their decision
No — Yes

Risks (Based on moderator impressions):

Longevity risk
Low — High

Risk due to lack of planning
Low — High

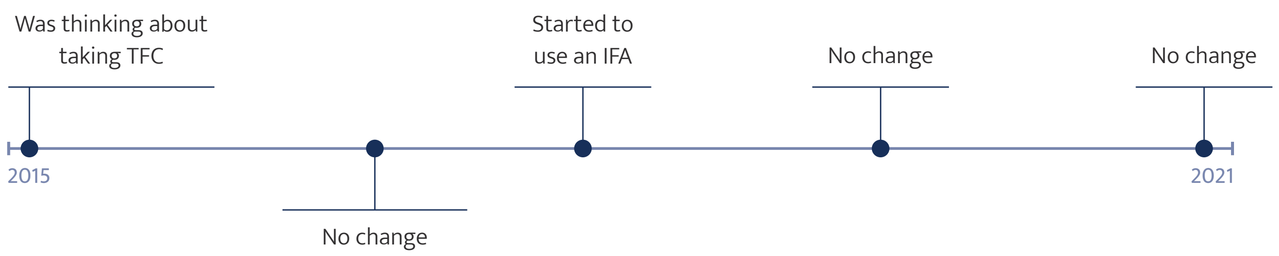
Inflation risk
Low — High

Investment risk
Low — High

Tax liability
Low — High

Potential of a negative outcome
Low — High

Decision Timeline:



Their story:

Larry was initially caught up in the excitement of being able to access his pension. He had never really liked the idea of an annuity and was pleased that the rules had been changed. He was initially tempted to take the tax-free cash but felt that it was important for him to make an informed decision on what that would mean for his future financial well-being. He did quite a lot of research and had a session with Pension Wise - which was useful to confirm his understanding but did little to help him make a decision.

At the end of Wave 1 Larry made an active decision not to touch his money. The research he did made him realise that he did not have quite enough in the pot for the lifestyle he wanted, and since then he has been paying in as much as he can spare.

"My pot is growing quite rapidly because I now pay in a lot each month. We looked at, you know, where will I be in 10 years? In 10 years, my daughter will be finished university. My fund will be over half a million by then. And at that stage, you know, given that a lot of my commitments will have gone, like my mortgage and I could probably afford to retire quite comfortably in 10 years time."

He has a young child and so, for him, early retirement was never an option. Luckily Larry likes his job and has found that it has become easier during lockdown. He can't see himself going back on the road.

"I enjoy working from home. It's very peaceful and I just crack on. The fact that we're in sort of semi lockdown has actually made my job less stressful because I'm doing no travelling round the country to see clients."

Since we first met, Larry has also turned to an IFA for help who is a long-term friend of the family. Larry felt that as his pot grew bigger he needed some 'professional help' to maximize his investment potential.

"I think it's important to have somebody that you trust that knows more than you. I mean, I class myself as being intelligent, but I'm not a money expert in terms of investments. So, it's nice to have somebody that's watching your back."

But when the time comes to draw down his money, his IFA will be long retired and Larry is uncertain whether his situation is sufficiently complex to merit starting a new relationship. He is worried about making his money last and is open to new solutions. He liked the idea of guided drawdown, describing it as "the best of both worlds".

Implications of Their Decision:

In the face of temptation, doing nothing was a difficult decision but has put Larry in a stronger financial position. Larry's tax-free cash remained in the pot and over the last 5 years has grown by 19%[5].

Penson freedoms triggered Larry to look in detail at his future financial situation for the first time and he did not like what he saw. He has taken active steps to try to boost his pension as much as possible while he is still employed.

Larry is happy to use an IFA for now, but with one eye on the long-term cost, and uncertainty around finding an IFA he can trust when his friend retires, he is open to solutions which take some of the burden from his shoulders.

5 This is as he'd be in the glidepath

Leave it Larry and Linda

Propensity to have a poor outcome

Mapping their 5 year Journey

In the first wave of our longitudinal study, we followed 80 people over the course of eight months (from June 2015 to February 2016) as they grappled with their initial decisions under the new freedoms. At the end of the eight months, 37 of our 80 respondents had not yet come to a decision about what to do with their money, feeling overwhelmed by the decision. This group clearly understood the importance of their pension and the decision they faced, but were starting from a very low baseline of knowledge. They desperately tried to educate themselves but struggled with the complexity of the topic area – the 'unknown unknowns'. They were unsure that they had fully understood all the options and their implications, and so with no urgent need to access their money they continued their search for many months, looking for some sort of 'Holy Grail' that could provide the single solution to all their needs.

These Procrastinating Petes and Paulas were by far the largest group we observed at the start of our study. At the end of wave 1 we split them into two subgroups - those who were genuinely too confused to do anything (16 of the 37) and those who had made an active decision not to do anything (21 of the 37). We called this second group our Leave it Larrys and Lindas.

A year later we caught up with 25 of them. With the benefit of a little more time, many of those who had been too confused had been able to reach a decision. Just two remained overwhelmed by the enormity of the decision and the plethora of information. The rest followed the pattern set by the early decision makers; it just took them a little longer to get there – some cashed in, some took zero income drawdown, a couple bought an annuity but the majority decided to leave the money where it was. And once the decision to do nothing had been made, it was firmly parked unless a life event – typically illness or redundancy - fundamentally changed their plans.

Five years later, we caught up with five Larry and Lindas who had made an active decision to leave their pension where it was in 2017. They all have different stories to tell, but every single one has still not touched their pension. A couple have found that they have enough money – from savings, inheritances and other income - to live off and have no plans to access their money at all. In fact, one has actually bequeathed her DC pension to her grandchildren in her will. Three are still in their early 60s, still in full-time employment and do not expect to access their pensions for at least another five or six years.

They have not spent the intervening years finding out more about their options, trying to understand the risks associated with each, and figuring out a plan for retirement. Their research is over. They may read the occasional article in the newspapers, or chat to family and friends, but they are not actively seeking out information to help them. They have not been to their provider's site to look for any planning tools that might help. If they did not visit Pension Wise at the time, they have not thought about doing so since, nor has there been any trigger to do so. The decision to leave their money alone has meant that pension decisions are now 'out of sight, out of mind'.

What can the industry do?

Enhance trust:

As with other pension personalities, the willingness of this group to engage with information is going to be facilitated if they feel they can trust the supplier of the information.

Better signposting to help people making the Big Decision:

To date, policymakers' focus has been on getting members to understand the different options available to them under the new freedoms and getting them into a suitable solution. Whilst there are tools to help members with their Big Decisions, awareness and usage is low. Members feel there is a huge support gap here and would appreciate Pension Wise extending its remit to offer support to those who are starting to make withdrawals. They would also like support from a trusted body to go beyond a generic description and become something they can rely on.

Better information, not more information:

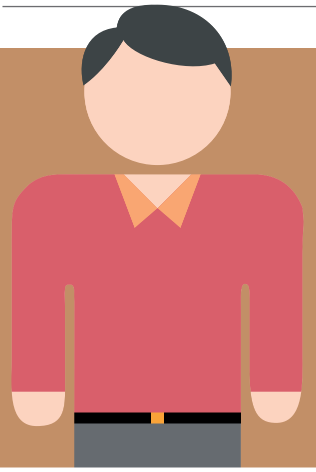
The stock industry response to consumer confusion is to call for more communication and education. However, we believe that this will only serve to confuse them further and the industry should be looking at ways to provide simpler information from trusted sources.

Consistent industry lexicon:

Procrastinating Petes and Paulas waste a lot of time trying to piece together what they are reading from different sources. A consistent set of names and terms would help them to navigate their way through the different options.

Guided outcomes for those following the path of least resistance:

Consumers have no concept of the differences between advice, guidance and information and, quite frankly, don't care – they just want some 'help'. They are currently finding it very difficult to access anything that resembles a middle ground between generic information about the different options open to them and paying more than they would want for a personal recommendation. More innovation is needed to fill this gap. Those who do not feel able to equip themselves with enough knowledge to decide what to do will be comforted that such a solution has been designed by experts to suit most people. The more sophisticated will use it as a benchmark to compare different options against.



Personality: Buy to Let Brian

Characteristics:

Gender:
Male

Retirement status:
Fully Retired

Age bracket:
60-64

Expected retirement age:
-

Pot size:
£50-100k

Stated intent for money:
Retire soon and live off the money for as long as possible

Importance of this pension to their overall financial well being
Not at all — Very

Know what they want to do with their pension pot from the start
No idea — Clear idea

Aware of how their pension money is invested
No — Yes

Confidence in their ability to make money last for life
Low — High

Open to alternative options
No — Yes

Satisfaction with their decision
No — Yes

Risks (Based on moderator impressions):

Longevity risk
Low — High

Risk due to lack of planning
Low — High

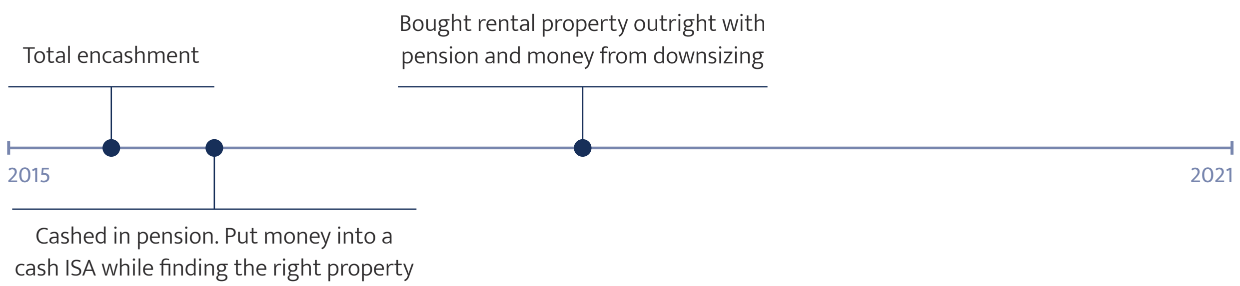
Inflation risk
Low — High

Investment risk
Low — High

Tax liability
Low — High

Potential of a negative outcome
Low — High

Decision Timeline:



Their story:

Brian's wife has a DB pension which, in combination with their state pensions, will cover daily living expenses. Brian had always intended to downsize and use some of the money released to purchase a buy to let (BTL) property as an alternative to putting the money in the bank - where he does not think that he will earn much interest on it.

He saw a BTL as an ideal way to deliver an income in his retirement. He has an asset to sell if they needed it, a reliable income stream and hopefully there might be some capital gains. He was looking at specific areas in his hometown, near to the universities, which he thought were 'hot spots'. His only concern was that he might not be able to release enough cash from the sale of his own home to buy a property outright.

He was delighted that pension freedoms allowed him to access his pension, as this just about topped him up to the right amount for an outright purchase. He paid tax at 40%.

A year after freedoms, he had sold his own home and was actively looking for his BTL property, but nothing suitable had come up. In the meantime, the money from his pension was still sitting is his savings account, earning very little interest.

"We moved house and we did very well. The banks are offering nothing, so the plan is to definitely buy a BTL, we'll be doing something in the early new year."

Five years later, the plan has come to fruition and he has purchased a one-bedroom flat in the city centre. They have put the flat in the hands of a letting agency rather than managing it themselves as they have moved again, further into the countryside. Even so, he estimates that their yield before tax is around 10%. So far, they have not had any substantive void periods, but he had not factored this into his 10% estimate.

He is slightly worried that Covid-19 might have an impact on university life, and he might find it difficult to get a new tenant, or need to substantially lower the rent. But so far, he has had no issues.

He has still not looked fully into the tax implications should he need to sell the flat or pass it on when he dies.

He has no regrets and believes that the BTL has worked out well for him and his family.

"Sometimes it is best to be blissfully ignorant of what you should have done and try not to think too much. Do what you think is right and hope for the best."

Implications of Their Decision:

So far Brian's decision is working as planned, but there are choppy waters ahead.

His yield of 10% looks good, but it must be remembered that he has locked in a tax 'loss' of 40% which will take some years of house price growth to recover. He has also not factored in his fixed costs – stamp duty, survey, solicitor's costs etc. In comparison, over the last five years the average performance of a drawdown policy has been 3.5%[6].

Brian has invested his money into a single asset – not even one asset class - and so has all of his eggs in one basket.

The longer Brian keeps hold of his flat, the more likely it is that he will need to commit substantial capital sums to maintain it. According to Which, the average cost of a new kitchen is £15k. A bathroom renovation is around £6k. This will significantly reduce his yield and he will need to set aside income (reducing his yield) or dip into other savings to find this money.

So far he has retained his tenant, but with remote learning and further lockdowns his income is at risk should that tenant decide to move away. On the positive side, rents have historically kept pace with inflation and so Brian should be able to maintain the purchasing power of his rental income over time.

6 This is as he'd be in the glidepath

Buy to Let Brian and Barbara

Propensity to have a poor outcome

Mapping their 5 year Journey

Novice property investors, risking all their retirement savings on the performance of one illiquid asset, are taking a huge gamble that growth in the residential market will be sustainable in the longer term despite government actions to cool the market. Yet five years ago our Buy to Let Brians and Barbaras were absolutely convinced that 'you can't go wrong' with property. They shared many of the same characteristics of the I Can Do Better Colins and Clares - a loss of faith in pensions and a desire to have their money in an investment which they can control and understand. The key difference is their unwavering faith in bricks and mortar.

In theory, the match between consumers' needs in retirement and property investment is good – there is an asset to pass on to dependents, the value of the asset is likely to grow over time, and there is a steady inflation-linked income stream. But our respondents rarely went any further than this in their thought processes, in particular to consider the fixed costs involved in the initial property purchase (such as stamp duty and solicitor's fees), and the impact of common ongoing costs (void periods, legal fees for tenancy agreements, mortgage interest costs, wear and tear repairs, insurance, letting fees and so on) on long-term returns. Brians and Barbaras buried their head in the sand about the illiquid nature of the asset and CGT eroding any gains.

Not all of our initial Buy to Let Brians and Barbaras who cashed in at the end of our first study actually bought a property. They cited several reasons for this, most notably not being able to find a suitable property. As a consequence, their money is sitting in bank accounts earning very low levels of interest.

"We are still thinking about buy-to-let. The banks are offering nothing. We have downsized, so it meant not only are we getting the pension, we also got money from the house. So, the plan is to definitely purchase a buy-to-let We'll be doing something in the early New Year. I've looked at everything and it's the only way to get high interest. And with a buy-to-let, you buy the place and you can always sell at the end of it, you don't lose anything. Male, Full encashment, 2017"

In this wave, we had one respondent who had actually made the leap. They were happy with the decision and had no regrets about losing 40% of the value of their pension in tax. That said, they did not make any calculations of the returns they would need to generate or the timescales required to offset this initial reduction in capital. To date, they have been fortunate that their tenant has not been impacted by COVID-19 and has been able to maintain regular rental payments. But they are unsure whether they would be able to get another tenant quickly, and at the same level of rent, if the current contract was terminated.

What can the industry do?

Enhance trust in pension providers:

Putting all your savings in a single asset despite the risks and because it is feasible to manage it directly instead of investing, is a stark manifestation of distrust in financial institutions. The possibility for pension schemes to move to a trust-based model and to invest in a much stronger form of pro-member governance is potentially a real opportunity for the industry to reshape perceptions.

Help people understand the risk they are taking by investing in a single asset.

Help people understand the costs involved and the yield needed to do better than keeping money in a diversified portfolio.

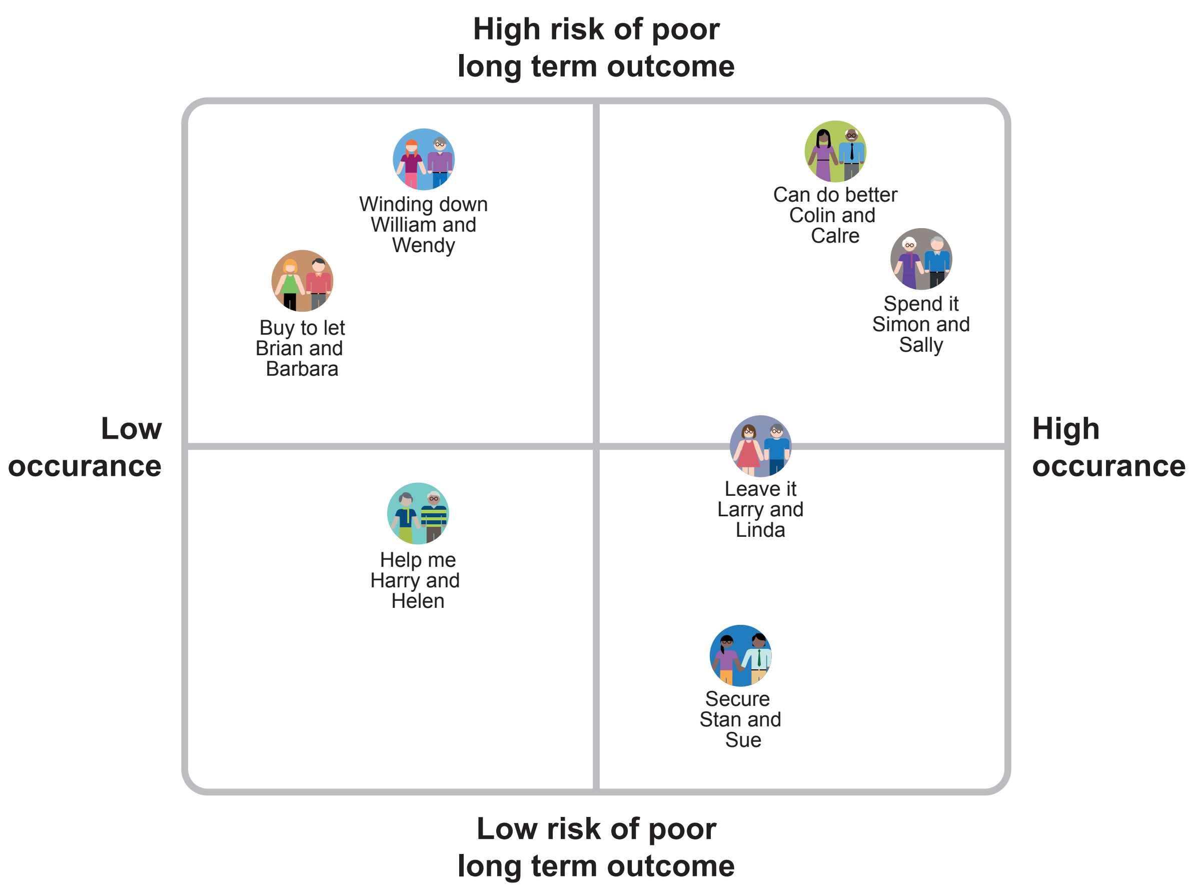
3 Conclusions

It has been a privilege to follow the lives of our 30 pension pioneers since the very start of Pension Freedoms. We have felt their pain as they struggled to understand what the changes meant for them, their money, and their future financial well-being. They have all made decisions which they feel will deliver the best outcome for them, given the impossible task we have set them, even if their observed behaviours often appear to be illogical and irrational to the industry.

Our seven personalities represent the majority of people making choices under the new rules. The most striking thing about our cohort of pension pioneers is how few are thinking about turning their pots into pensions. Left to their own devices, the link between DC savings and an income for life appears fundamentally broken.

Even among our relatively small set of respondents, we have observed that some personalities are more prevalent than others, and that some have more risk of a poor outcome in the future.

Figure 2: Long term prospects for our Pension Personalities



Two groups are of particular concern – the I Can Do Better Colin and Clares, and the Spend It Sally and Simons.

Looking only at pots over £30k, the FCA's retirement income market data shows that 13% of such plans were fully withdrawn in 2019/20, and so significant numbers of people with decent pots are still cashing in their pension and becoming Colins and Clares. It will be difficult to break the poor perceptions of pensions, but for members looking at this option more help is needed for them to understand the long term risks inherent in their decision, and particularly in cash-based investment strategies.

In our cohort of decision-makers, the Spend It Simons and Sallys were initially caught up in the excitement of being able to access a chunk of their pension money, and truly took on board the mantra of 'live a little'. For many with the safety net of a large DB scheme and significant housing equity, they probably could afford these 'treats'. But few considered whether they should have funded this from their DC pension when they had money sitting in deposit accounts and cash ISAs making very little return. Since our initial study, much evidence has emerged to suggest that the behavioural patterns we observed five years ago are being repeated again and again as fresh cohorts become eligible to access their money at 55. Taking some cash out of DC pensions has become the new social norm. FCA data indicates that almost seven in ten (68%) of plans accessed in 2019/20 are going into zero income drawdown (including UFPLS), and so the Simons and Sallys are likely to remain the largest segment. But with future generations even less likely to have the security of a DB pension to underpin their future income, we need to do more to break the behavioural patterns that drives members to take 25% tax-free cash to spend on car, holiday, kitchens. All too often interactions with their providers are purely transactional and the 'killer questions' to help them understand the impact of their actions on future financial well-being are not being asked. Yet when this did happen to our cohort, we observed that it could be a powerful mechanism to make members take a step back and consider their actions.

Now that the Simons and Sallys are five years older, they are thinking about the 'big decision' – what to do with their remaining 75%. At the moment, they are faced with a binary option of working through the decision by themselves or paying for ongoing financial advice. Our respondents very much recognised that this is not an ideal situation. Members want more 'do it for me/do it with me' solutions and their tendency to want to follow the 'path of least resistance' suggests that their own provider will be their first port of call for such support. Knowing that a reputable company/scheme has set up a solution to 'do it all for them' in much the same way that a financial adviser would for those with larger funds was very much welcomed in principle. The over 55s are more than twice as likely to consider taking free guidance from a provider (71% versus 33% respectively), which suggests that trust-based schemes should be well-placed to deliver trusted solutions if they can get this key message across to members.