February 2016

New Choices, Big Decisions:

Exploring Consumer Decision Making and Behaviours Under Pension Freedom and Choice

Sponsored by **The People's Pension** and **State Street Global Advisors**

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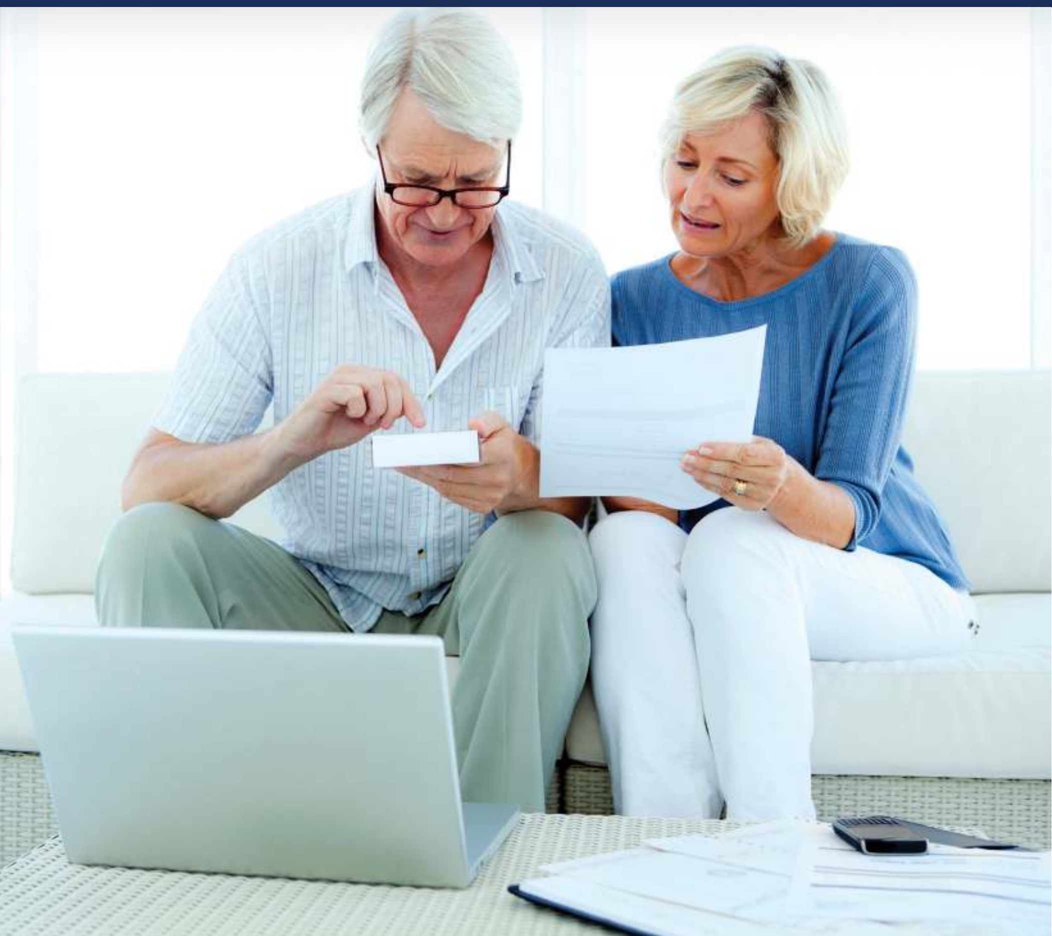
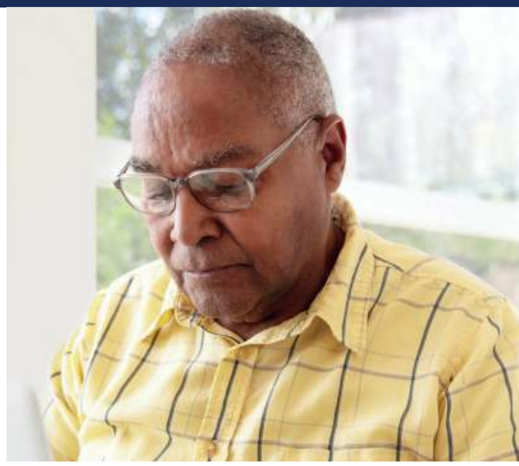



Foreword

Darren Philp,
Director of Policy
and Market Engagement,
The People's Pension

Perhaps it isn't that much of a surprise that people are bewildered and confused about their options at retirement. After all, the last few years have seen a period of great change in pensions, of which the new retirement freedoms introduced in the 2015 budget were a major part.

We supported this research because, as the largest private sector master trust in the UK, we wanted to gain a better understanding of consumer behaviour around the new retirement freedoms. In order to truly support our members, we need to understand the challenges they are likely to face before they make a final decision.

It is clear from the research that savers are struggling to compare options and get the right information at the right time. Understandable, when they face a landscape which is complex and hard to navigate.

This research highlights the need for people being supported to make decisions through appropriate guidance and advice, and also the need for defaults which allow savers the best chance of a good outcome, whatever they choose to do with their money.

A key finding for me is that people feel that they are being forced into making a decision, because they fear the rules will change again or because of the way that choices are presented to them. People don't need to rush, and while you may be able to access pension savings at 55 now, retirement savings are exactly that, retirement savings.

Nobody knows how long they are likely to live for, so how can they know for long they need to make their money last? People might feel they should take action – but, no action might be the best choice for now. Just because people can access their savings earlier doesn't mean that they must.

Darren Philp

Alistair Byrne,
Senior DC Strategist,
State Street Global Advisors

STATE STREET GLOBAL ADVISORS

It's important that we understand the real impact of the pension freedoms on the decisions scheme members make at retirement. Only that way, can we design the products, investment strategies, and advice services that members need.

The first step in building that understanding came in 2014 as market researchers and pollsters asked members the obvious question: cash; annuity; or drawdown? While that was a helpful start, we questioned how strongly held or thought-through those preferences might be.

In a quest to deepen our insights, last year we partnered with the Pensions Policy Institute and Ignition House and conducted in-depth member interviews and focus groups, exploring the various choices and trade-offs in more detail. While that served to build an even more detailed picture, it still focused on the hypothetical – what people might do with their retirement choices when the time comes.

The research published in this report goes further. It explores the decision making experience of people undertaking that journey of choice. We sought to filter the sample to ensure a focus on people who are reliant on DC for their retirement income and face arguably more challenging decisions – so we deliberately excluded those with small pots at one end of the spectrum and high net worth individuals with advisers at the other. We built a sample representative of future generations of scheme members reliant on DC for their retirement income.

The research has been conducted by Ignition House, whose work investigating the behaviour of scheme members in the new environment is industry leading. We are delighted to co-sponsor the research with The People's Pension, who share our goal of improving outcomes for the UK's growing legion of DC scheme members.

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 are working to capture these themes in a series of personas encompassing typical behaviours that will allow us to investigate ways to better meet member and retiree needs going forward. The personas will be published in May.

For now, we hope this report fuels the discussion about how our industry can help members to make the most of the pension freedoms now at their disposal.

Alistair Byrne

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Executive summary

Research objectives and methodology

Pension Freedoms, introduced in April 2015, have radically changed how people can access their DC pension pot after the age of 55. Almost one year in, evidence is emerging which quantifies *what* people are doing with these new freedoms, but we have limited insight into *why* they are acting in this way. This longitudinal study fills this gap by following a large group of people who intended to take money from their DC pension pot through their entire decision making journey.

This is a large scale research project. In total, we tracked 80 55-70 year olds across eight months of fieldwork. We used a mix of qualitative research methodologies, including face to face depth interviews, telephone interviews, video diaries, and diary blogs.

We took several measures to 'future-proof' our research to ensure that the insights could be used beyond explaining the behaviour of the early pioneers of the Pension Freedoms. We excluded people who will have a significant underpin of DB income, excluded buy-to-let landlords, focused on people with a DC pot worth between £30,000 and £100,000, and limited the number of respondents in our study who simply wanted to cash in their pot.

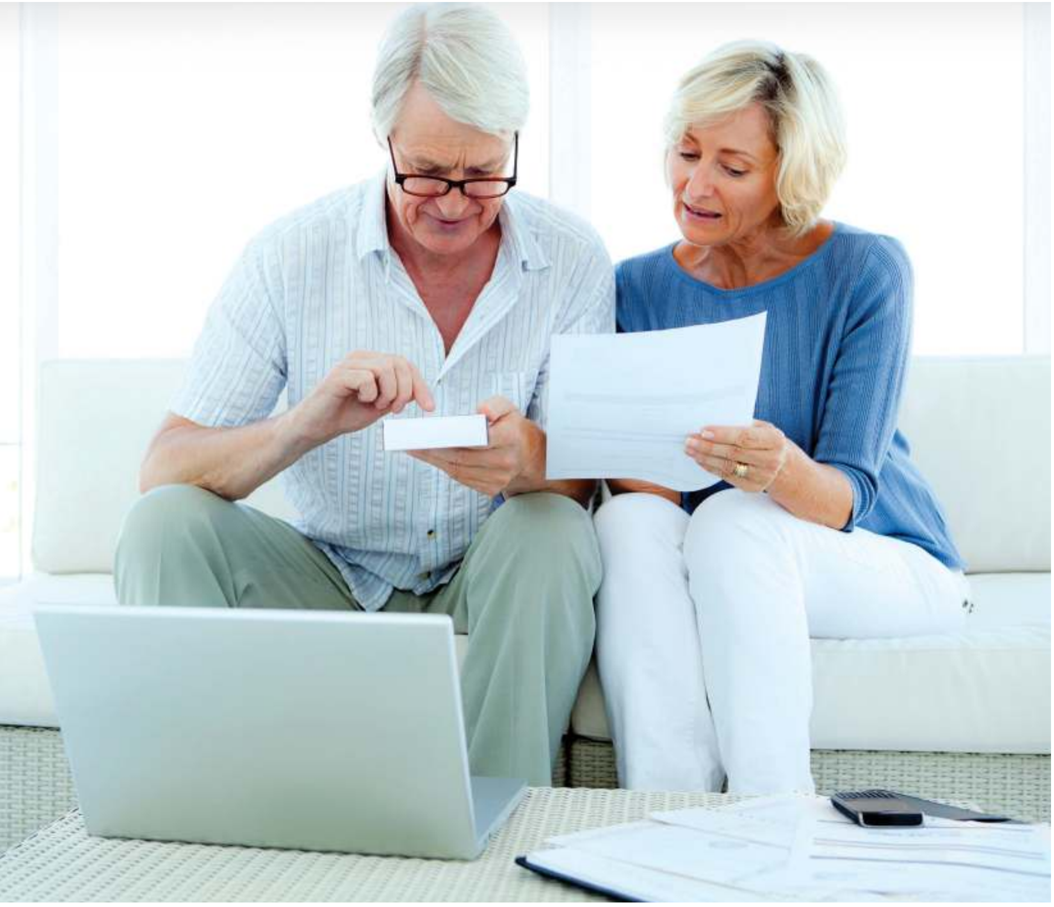
What is driving members' behaviours?

Pension Freedom and Choice has revolutionised the way the baby boomers think about their pensions. For many of our respondents, the 'big change' is not that they no longer need to buy an annuity (which, at best, are seen as poor value), the change is that they can access all their money at 55. No longer mentally earmarked for income in some far off old age, a pension is now 'real' money which they can use today, for all sorts of things. For younger members in particular, the messages they are picking up from the media, providers and their own research makes them feel like they should be accessing some pension money of they will be missing out.

What are they doing, and why?

Our respondents were very aware that their pension constitutes an important element of their lifetime savings and were keen to do the 'sensible' thing. Few were confident in their ability to navigate the options available and most were fearful that a wrong decision could have a serious impact on their financial wellbeing.

In practice, we witnessed numerous examples of behavioural biases which make it difficult for people to achieve optimal outcomes. Pensions were described as "a minefield", "bewildering" and "impossible to understand". Overwhelmed by complexity and fearful of making a poor choice, many of our respondents took much longer than they anticipated to make their final decisions. Despite firm intentions to access cash or take an income from their pension pot at the start of their journey, many of our respondents actually ended up doing nothing. We have named this group, by far the largest in our study, the '*Procrastinating Petes and Paulas*'. Amongst those taking action we found a minority who were willing to pay the tax bill to access all of their money at once, but many more were simply taking 25% tax free now and deciding what to do with rest at a later date. Very little thought was given to the remaining 75% – 'drawdown' was simply a by-product of taking tax free cash. We found that people were, in general, more than willing to trade off the security of an annuity for flexible access to the whole pot. That said, everyone who discovered that they had a guaranteed annuity decided to take the secure income.



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Research methodology

Pension Freedom and Choice has revolutionised the way people can access their pension money and much can be learned from the first cohort of decision makers who are forging new paths through the complexities and challenges of the new landscape.

Information is starting to emerge about the size and characteristics of this important group. The Pensions and Lifetime Savings Association (PLSA), for example, recently estimated that this cohort consists of just over 4 million individuals aged 55 to 70 with around 2.8 million DC pots not yet in payment. Within this group, the PLSA identified three key segments and estimated the relative size of these groups;

The actioners

Those who have accessed their pension savings (for the first time) under the new Pension 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.

Whilst such research and other industry information has provided very useful insight into what members are doing, with our research we wanted to explore in detail why they are making these choices by following people as they went through their decision making journeys. Our research is, therefore, firmly centred on providing comprehensive insights into thought process of the PLSA's 'actioner' and 'investigator' segments.

To track people at every stage of their decision making process, we knew we had to allow sufficient time for people to explore their options in full. We stared this project in April 2015. Fieldwork commenced in June, our first respondents were on boarded in early July, and fieldwork closed in February 2016.

All respondents were asked to complete a depth interview at the start of the project. These lasted 30 minutes and we adopted a qualitative methodology to explore intentions and analyse needs and motivations. During their decision, respondents kept a diary, detailing their thoughts as they

1. 'Pension freedoms: No more normal' PLSA, January 2016

explored their options. Diary entries were recorded using a mixture of video blogs, written online blogs, emails and phone interviews. Finally, we conducted hour long depth interviews with each respondent to explore the rationale for their decision.

This rich data set delivers a fascinating and valuable profile of journeys through retirement, providing crucial insights for future policy, product design and investment strategy.

Figure 1: Research process

Before the decision

Explore intentions, analyse needs & motivations, and collect baseline data, e.g.

- Demographics
- Background on their finances
- Importance of pension to financial well-being
- Baseline knowledge of the changes, include tax rules

30 minute interviews with 110 people intending to do something with their pot

During the decision

Explore journeys as people navigate pension freedoms:

- Options explored?
- What drives behaviours?
- What information has been sought and at what stage?
- Why did/did not seek advice?
- Feelings about the process?
- Useful interventions?
- Triggers for a decision?

80 active diary participants 500 diary posts & 80 video blogs, spanning 8 months

After the decision

Detailed examinations of the final decision made via an in-depth interview:

- Rationale for final decision?
- How this differs from initial intentions?
- Feelings about the process?
- What would they do differently if they had their time again?

1 hour in-depth interviews with all decision makers

The current cohort of decision makers is a unique group which may not be representative of members in the future. We took several measures to 'future-proof' our research to ensure the insights could be used beyond explaining the behaviour of the early pioneers:

- We started the fieldwork in June to avoid the early 'gold rush' of those simply waiting for the rules to change so that they could cash in their pots;
- We actively sought out respondents who would be more akin to members making decisions five to ten years from now, excluding those with a high percentage of income from DB schemes and focusing on pots with between £30,000 and £100,000 accumulated. We excluded those with pots of more than £250,000;
- We focused primarily on group scheme members, who will become an increasingly important part of the market as auto-enrolment matures;
- We excluded those with more than two buy to let properties as we know from previous research that this segment often have a very different perspectives on their pension;
- We limited the number of participants who currently have an ongoing relationship with a financial adviser.

3

What is driving members' behaviour?

Pensions now feel very different

There is no doubt that Pension Freedom and Choice has revolutionised the way the baby boomers think about their pensions. Discussions about what to do with their pots are happening across kitchen tables, in the workplace, and even at social occasions in a way that would have been unimaginable a few years ago.

> "After a brainstorming session with the lads in the pub recently, one suggested www.pensionwise.gov.uk. Surprisingly it was very easy to find and quite easy to understand, unlike some of the material from other financial companies."
>
> *– Male, 60 years old, diary entry*

For many people in our study, the 'big change' is not that they no longer need to buy an annuity (which, at best, are usually seen as poor value), the change is that they can access their money at 55. No longer mentally earmarked for income in some far off 'old age', a pension is now money which they can use today, for all sorts of things. Being told they can access money how they want and when they want suddenly makes pensions very real, and across the land pension information that has been ignored for years is being dusted off as people are keen to find out what they are worth.

People often feel under pressure to do something with their pension

At the start of their journey, many of our younger respondents felt under pressure to 'do something' with their pension or risk missing out. Whilst primarily attributing this pressure to do something to what they are reading in the mainstream media, information in provider packs also reinforces this view. Here, people recall reading about the options now available to them, but do not usually recall being told that they have the option to leave their pension alone. Validation also comes from reading online blogs, where 'people like me' all seem to be happily taking out some of their pension money to pay for cars, holidays and extensions.

> "I think it's because I used to read a lot of stuff in the paper... and particularly financial forums... and a lot of people were desperate to get this money out. I think I was sort of got caught up in all that. I thought that if I didn't take it out it might come to an end."
>
> *– Female, 61 years old, final decision interview*

> "It was very well publicised, there was a lot in the press about it and in the Mail on Sunday, which is where I get most of my financial information. So we knew it was coming up."
>
> *– Female, 55 years old, final decision interview*

Few of our younger respondents were looking to access their entire pension provision, but tended to talk about taking smaller pots or their tax free cash as it will not make much of a difference to them in the future. Many had complex arrangements, especially when looking at the household level, which may include significant non-pension savings, a partner's DB pension, expected inheritance or potential lump sums from downsizing. This helps to explain why the early statistics are showing that, rather than stripping out all of their pensions, people are accessing relatively small sums.

It typically takes a personal intervention to make them stop in their tracks and really think about whether they need to access their pension at this particular point in their life. Examples of personal interventions include discussions with providers, a meeting with Pension Wise or a review with an adviser. When this happens is it a very powerful wake up call, but all too often this intervention is the exception rather than the rule.

> "Until I had the conversation with the guy from AVIVA, I think that was the first time anyone had said to me that I don't have to do anything with it if I didn't want to. We were all caught up in it all."
>
> *– Female, 54 years old, final decision interview*

> "LV were really amazingly patient with me, because I was phoning them up and asking lots of questions... One chap said to me, what are you wanting to use the money for? And I thought, I don't know! I thought, well if I do take it out, what am I going to do with it?"
>
> *– Female, 61 years old, final decision interview*

A significant sub-group also have the impression that their pension is 'maturing' and they have no choice but to take action. This view is usually triggered by the receipt of a wake up pack or other information from their provider, commonly when they reach 55, 60 or 65 (which was the norm for retirement when they set the plan up).

People want to be sensible with their money, but fundamental human nature makes this difficult in practice

People are very aware that pensions constitute their lifetime savings and that they are unlikely to be able to build up their pots again, so making a mistake with this money could have a devastating effect on their future well-being.

> "It's a very serious matter. If I muck up at 60, I muck up for the rest of my life, I've got to get this absolutely correct and that's the problem, it's a minefield."
>
> *– Male, 64 years old, final decision interview*

Overwhelmingly, the key desire is to be 'sensible' with their money, but we have seen numerous examples of behavioural biases which make it difficult for people to achieve optimal outcomes.

Figure 2: Behavioural biases influencing decision making behaviour

Bandwagon effect	Confirmation bias	Optimism bias	Present bias	Ostrich effect
"I'll have what they are having"	A tendency to search for, interpret, focus on and remember information in a way that confirms one's preconceptions	The tendency to be over-optimistic, overestimating favourable and pleasing outcomes	The tendency to have a stronger preference for more immediate payoffs relative to later payoffs	Ignoring an obvious (negative) situation

People start from a low baseline of knowledge and understanding

At the start of our study, participants were asked to describe how they felt about retirement and the journey they were about to embark on. 4 in 10 expressed positive emotions. These centred on aspects of retirement, such as winding down from work, spending more time with family, and enjoying more holidays.

> "I am looking forward to spending quality time with my wife and family."
>
> *– Male, 65 years old, diary entry*

However, 6 in 10 expressed more mixed or negative emotions. By far the most prevalent response was trepidation – while they were looking forward to retirement, they were concerned about the importance of the pension decision and were aware that building a sufficient level of understanding would not be an easy task.

> "I'm worried that the wrong decision could have major impact on my future financial well-being."
>
> *– Male, 62 years old, diary entry*

> "It's a very complex and daunting process from what I can see."
>
> *– Female, 55 years old, diary entry*

4

Decision making in practice

In practice, it takes much longer to make a decision than most people imagined

By starting our study in June, we wanted to exclude the 'gold rush' of people who had waited for a year to simply take their money out as cash as soon as the new rules were in place and, instead, focus on behaviours which are more representative of what will happen as the market settles down.

The new 'norm' emerging is that people are taking much longer than they expect to make decisions about what to do with their pension. At the start of the process most people thought that it would take a couple of months to find out enough for them to feel comfortable to make a decision. In practice, we found that many are still in the throes of their journey eight months later.

People feel overwhelmed by the task and are worried about making the wrong decision

Due to the sheer volume of enquiries, our respondents experienced delays obtaining information from providers, booking appointments with Pension Wise and being able to see an adviser. However, these were usually reported as minor frustrations rather than a key barrier to moving forward.

The key reason for their procrastination is finding the 'mental bandwidth' to be able to devote time to the task. People are usually juggling work and family at the same time as trying to educate themselves on a very complex topic. We found many instances of people saying that they had to carve some specific time out of their normal routine to be able to get to grips with planning for their future, for example taking a few days off work, maybe setting weekends aside, or focusing on the task over the Christmas holidays.

> "Just fitting it around life! It couldn't be my main priority because I work full time, we were moving house, having a new grandbaby come, and every Friday night I have my grandson and all day Saturday. It's just a case of trying to catch your breath and fitting everything in and this was just something more that was brought to the table and needed to be looked at steadily."
>
> *– Female, 54 years old, final decision interview*

People feel like they are undertaking lots of search activity – described by one respondent as "mooching" – and if there is no pressing need for action then this continues for an extended period of time. In some cases, they have been looking into their options for more than six months and are still no nearer a decision.

They are worried that they are missing something – the 'unknown unknowns' – and often have nowhere to go to validate that they have thought through all the implications.

In reality, we have found that the actual amount of time spent researching and building knowledge is around 20-40 hours, and that much of this time spent reading about the same things, but from different sources.

There is a plethora of information available, but trying to navigate to *relevant* information is very difficult

There is no shortage of information for people to access. Indeed, people feel like they are drowning in information. The issue they have is how to navigate through the sea of materials to find what is pertinent to their particular situation.

Many start the search process using simple search terms on Google, such as 'cashing in pension' or 'accessing pension money'. This brings up a multitude of sites for them to peruse, but which ones can they trust?

For our respondents, the most valued sources were from independent organisations, such as Which?, the Money Advice Service and Pension Wise. We found widespread awareness and use of the Pension Wise website, with people recalling being told to look at it by their providers (in calls and in their literature), friends, and the mainstream media.

"I've been out all day in the car with my husband and we were listening to Heart FM and it kept advertising the new website for info on pensions called Pension Wise."

– Female, 54 years old, diary entry

The Pension Wise website was well regarded and generally seen as a good starting point. However, by the time our respondents found their way to site, many said they were already familiar with much of its content. Some expressed regret that they did not look at it earlier in their journey.

"I logged onto Pension Wise – the government website for advice – and was pleasantly surprised. It talked in plain English and was easy to understand. It was easy to navigate. Gave advice on tax, scams and adjustable income, which I did not know about. I would use this again for reference although I don't want to have an interview."

– Female, 54 years old, diary entry

Information from their own providers was also read thoroughly, but with several packs often arriving at the same time, our respondents tended to prioritise. We found that they read the main provider's pack in detail, read the second largest pension's pack to make sure that it was saying the same thing, and usually skim read any subsequent packs for new information.

Less information is most definitely more

The main criticism voiced about the information they are reading is that it is too general and they cannot easily translate this back to their specific circumstances. The end result of information and choice overload appears to be a tendency for people to home in on information that reflects their intentions, and to gloss over any alternative options.

The stock industry response to consumer confusion is usually to call for more communication and education. However, the experience of our respondents suggests that this will only serve to confuse them further. Instead, they would undoubtedly benefit from less information, but information that has been tailored to what they are interested in rather than a one size fits all explanation of all the options.

Terms used by the industry are very confusing

Terminology differs from resource to resource, so time is spent trying to figure out how to tie it all together. In particular, the marketing names for products are confusing – it is not always clear what exactly it is that the provider is offering and it often doesn't match up to the terms they are reading about in generic information sources.

"I emailed my provider over the weekend as they did not appear to offer a facility to withdraw random amounts of cash... Sure enough it was on the website, but under the title Flexible Transitions Account. I had dismissed this as most of the 20 page document spoke about setting up a pension under that title. It was not clear (to me) that it was applicable to my circumstances. Perhaps I'm being thick here."

– Female, 61 years old, diary entry

There is a lot of confusion around drawdown and UFPLS. For them 'drawdown' is the catch all term they use for 'taking money out'.

"What you can do, the drawdowns, apparently there's three types of drawdowns now! I only thought there was one. There's a deferred drawdown, there's a drawdown which you take and you get for life – so it's an annuity, but there's another one and I'm trying to work out what that one is. Apparently there's three. Whether that's true or not, I don't know. So that's my latest assignment to find out, because it's kind of important. All my money. If I make a mistake now, that's it."

– Male, 64 years old, diary entry

These findings indicate that there is an urgent need for an industry wide lexicon using language that consumers can relate to – pensions are confusing enough for the typical consumer without the industry rubbing salt into the wound.

Low take up of the Pension Wise guidance service, but highly valued by those who used it

One in 10 of our respondents (8 of 80) booked an appointment with Pension Wise. There were many reasons why many chose not to take up this free resource: some said they knew that the Pension Wise advisers were not allowed to give personal advice and this limited the value of the discussion; some had heard negative feedback on the quality of the advisers in the mainstream media, which clouded their view; some said accessing an hour's worth of free discussion with an independent financial adviser was a better use of their time; and some simply felt that the Pension Wise advisers would not be able tell them any more than what they had already read on the website.

That said, those that attended a face-to-face appointment gave very positive feedback and would recommend the service to others. Pension Wise advisers were commended for giving straightforward options and providing a good summary of the next steps.

"I saw a Pension Wise advisor yesterday. I opted for a face to face rather than a telephone interview. Was impressed by the advisor. He spoke in a calm manner, didn't use a lot of jargon and also responded appropriately after realising that I knew some things about my options, and didn't treat me as a complete pension novice. He quickly went through the basic options pointing out pros and cons of each... All in all, 45 minutes well spent and I'd recommend taking the opportunity of the free appointment."

– Female, 60 years old, diary entry interview

"I did have an interview with the Pension Wise people, but I left that a bit late. I should have seen her first of all. I'm sure that she would have set me straight about a lot of the things and I could have gone into a lot more detail, but I'd already almost made my decision about things when I saw her."

– Female, 64 years old, final decision interview

Despite finding the decision making process a ‘minefield’, many would not seek help from a financial adviser

Despite finding the decision making process a ‘minefield’, many were reluctant to seek formal advice. Of our 80 respondents, 31 spoke to a financial advisor during their decision making journey and 17 proceeded beyond the free consultation stage. A handful turned to an accountant, annuity broker or some other recognised ‘expert’. Most talked through their options with family, friends or work colleagues.

“The number of options available has made me even more convinced that I need to seek professional advice – even if I have to pay for it – so that I have a much better idea of how I proceed.”

– Male, 64 years old, diary entry

“I knew quite a lot about it and I had read up quite a lot. I kept a number of articles from the Telegraph money section, I got the Pension Wise booklet. Having read those and heard about the conflicts and potential dangers, I felt it was sensible to seek an IFA.”

– Female, 60 years old, financial decision interview

Some were surprised and disappointed to find out that not all advisers were not keen to take on their business, which perhaps is not surprising given many of our respondents were making decisions on pots of £30,000 to £100,000.

“First, I tried so hard to get appointments, but I couldn’t get them. I went to see two or three over the period.... I just felt I wasn’t getting a handle of what they were saying.”

– Male, 60 years old, final decision interview

Many baulked at the cost of advice, both on a one-off basis and for ongoing support, some felt that they could do better themselves, and a few were nervous of appearing stupid if they did not understand what the adviser was telling them. While some were happy to have free initial consultation, most were unwilling to pay what they perceive to be high fees for the full service. Some felt somewhat cheated that the Government or providers cannot offer a lower cost solution.

> "I had my call this morning with my new financial adviser. Whilst they were eager to come out and see me and conduct a review of my pensions, there was going to be a charge of £1,500 and the 1% annual fee. As I had originally already paid commission to the original sales person I do not feel I should have to pay twice for the advice. I will not be seeking help as the two pensions I am looking to take 25% from are only very small and I cannot justify the outlay. It is a shame that the cost of financial help is so prohibitive for people with small pension pots such as me. The government should look into this and how they can help people in my situation as I am sure many of them, like me, would appreciate some professional advice."
>
> *– Male, 56 years old, diary entry*

Volatility in the market is disturbing to many

During the study, there were a couple of well publicised falls in the stock markets resulting in a variety of, often polarised, responses.

For some, they are questioning whether they want to have stock market variations as a constant worry in the long term or whether a one-off decision to buy an annuity might a better option– but the negative perception of annuities is often too strong to make them change their mind.

Some feel that they should access money now as their pot may fall further, whereas for others they are delaying their decision as their pot has fallen further short of their 'target'. The less sophisticated consumers tend to want to access their 'fun' money sooner rather than later – whereas the more sophisticated are thinking twice about taking money in a falling market.

5

What are they doing, and why?

For those accessing part of their pension money, 'mental accounting' results in a sophisticated withdrawal hierarchy

Many studies have shown that the over 55s cohort have a myriad of pension arrangements from their diverse work histories, and this was certainly the case for our respondents. Typically, people had a mix of DB and DC pensions in their household.

Most were not taking all of their pensions out at the same time, and this resulted in a sophisticated mental accounting process whereby different pots were 'ear-marked' for different stages of their life. We have found that smaller funds, or those not performing well, are the most likely to be accessed first.

> "With the two other smaller ones, to be perfectly honest I will probably just get the cash out of those. I have no intentions with the bigger pot."
>
> *– Male, 59 years old, initial intentions interview*

Figure 3: How people have accessed their pension pot, in order of preference

1	2	3	4
Pensions with a (perceived) maturity date	Smallest funds	Dormant pensions, where there is the perception that these are not being looked after by the provider	Funds that are not growing, or more specifically, that are falling

The best laid plans of mice and men...

Our respondents usually had some idea of what they wanted to do with their pension pot at the start of their journey, but more often than not they came to a different decision.

Figure 4: Comparison of initial intentions for their DC pot and final outcomes

		Outcomes						
		No regular income		Taking a regular income				
Intentions		Cash in pot	TFC only and zero income drawdown	Annuity	Income Drawdown	Annuity -Drawdown blend	Decided to do nothing	Still deciding
Access pot as cash	35	10	7	1			11	6
TFC & remain invested	6	1	3				1	1
Annuity	10		1	2		1	3	3
Income Drawdown	7				3	1	3	
Some sort of income	22	4	1	3	3	2	3	6

By far the biggest group was those who simply wanted to take all their money out of their pension, with 35 of our 80 respondents thinking this would be the right choice for them. The typical drivers for this were poor perceptions of pensions, a feeling that they can ‘do better’ elsewhere and a sense that by having the money outside of their pension it is somehow safer, easy to keep a handle on, and more readably accessible.

These respondents typically had little knowledge of the options available at the start of their journey. They were aware that the rules had changed and they could now access their pot rather than purchasing an annuity, but knew little about the other options available. Few fully understood the tax implications of accessing their pot.

“So I thought what I’m going to do is to get it all out and I’m going to amalgamate it and invest it myself.”

– Female, 54 years old, final decision interview

“I think people want more control over their little pot of money. Personally, I am not convinced providers do much with the small pots that have been untouched in years, just like mine, in terms of growing them actively. I can do better myself.”

– Male, 55 years old, final decision interview

> "With it still in my pension, if I died it would be lost. I would like to know that should the worst happen there would still be something to pass on."
>
> *– Female, 56 years old, final decision interview*

In practice, just 10 actually withdrew their entire pot. Many were put off by the tax implications, which quickly became apparent once they started exploring this option. Some opted instead to withdraw their 25% tax free lump sum, and transfer into a flexible access drawdown product with the intention of withdrawing the rest of the pot flexibly over a number of years. Others opted to delay their decision.

By far the largest group in our study were the 'Procrastinating Petes and Paulas'

Of the 80 people in our study, 16 have yet to make a decision about what to do with their money, despite being sure at the start that they would 'do something' within a six-month project window. A further 21 have decided to do nothing at this point in time.

There were some good reasons given for delaying their decision. Four respondents, after speaking to their pension provider or an adviser, realised that they didn't actually have to do anything right now, five respondents found that their urgent need for the money had gone away (typically they had been made redundant, but had subsequently found a new job), four were concerned about stock market volatility, and a couple found out that they would face a penalty or loose a guaranteed annuity rate if they accessed their pot early.

Figure 5: Rationale why some respondents chose to delay their decision or were still in the process of deciding at the end of the study

Rationale	Number of respondents
I'm overwhelmed/life just got in the way	13
The process is taking much longer than expected	7
I no longer have an urgent need for the money/I decided not to retire	5
Provider/adviser made me realise I don't actually need to access my pot right now	4
I'm worried about turmoil in the stock markets so I'll hold off for now	4
I didn't want the tax hit/I realised it was better to access other savings	2
I found out I can't access my pot yet/I would have had to pay a penalty	2

However, the majority were put off making a decision because they felt it was too difficult to make such a life-changing choice right now and they will come back to it the future.

"I have been looking online to try and understand my pension choices. There is so much to read that once again I feel overwhelmed by the information so have decided to look at it again when I have more time."

– Female, 60 years old, diary entry

This suggests that, rather than being the 'dash for cash' many expected, the decision making process for those who have no urgent need for their money is being played out over an extended period of time, and for some this may even be over a couple of years. What we have seen to date is simply the tip of the iceberg.

25% tax free cash is a behavioural response to the way the rules have been presented to them

Of the 43 respondents who accessed their pension during our study window, all bar five took a lump sum. 21 took their maximum tax free cash allowance, 15 took more than their allowance (these are our respondents who chose to cash in their pots in one go), and just two took less than the 25% allowance.

Figure 6: Lump sums taken by respondents in our study

Lump sum taken	Number of respondents
Took the maximum tax free cash	21
Took more than the maximum cash free cash (typically took 100% of their pot)	15
Took a lump sum that was less than the TFC allowance	2
Started drawing an income, but did not take a lump sum	5
Decided to do nothing at this point in time, will reassess later	20
Had not made a decision by the end of the study	17

Few thought very deeply about whether they actually needed the full 25% or not, and hardly any considered whether they should access other savings instead. There was very low awareness of what happens if you didn't take all 25% at the start, with many assuming that you would lose any remaining tax benefit going forwards.

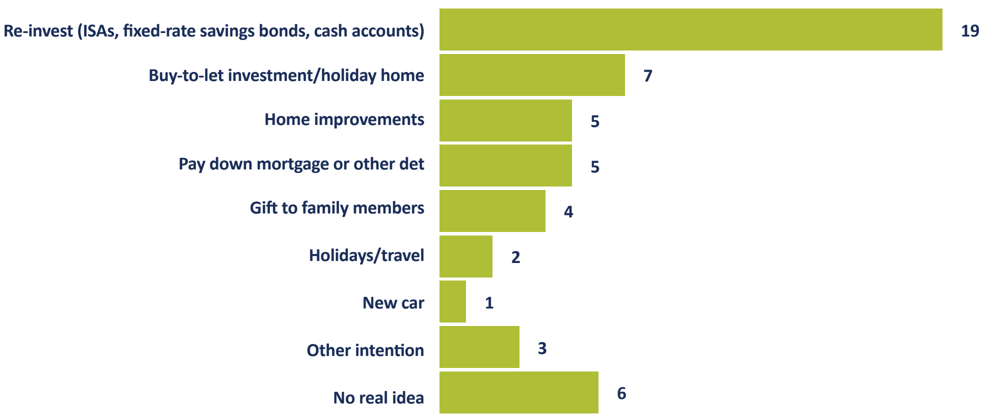
We probed in detail to test whether the 25% figure was driven by need or simply a function of the tax rules. Their response was clear – they will take whatever is allowed tax free as a lump and think of ways to use it.

"I wanted my tax free sum out just to get it out. I don't want the Government to change and say I can't have it. They're talking about pensions at the moment; they're looking at life time allowances and taking away the tax relief when you're paying into a pension, so it's quite possible that they'll say the 25% tax free is no longer, they probably won't because it's not a great vote winner."

– Male, 65 years old, final decision interview

Looking back at what people were posting in their blogs, the main focus for many was what to do with this tax free cash. This is not surprising as spending tax free cash is tangible, in their control and often involves some enjoyment. The most common intentions for their lump sums are holidays, new cars, home improvements, or gifts to family members (for example to pay for a family wedding or help a child onto the property ladder). Some are using a small part to pay off any remaining mortgage or other debts. We heard several stories of people using tax free cash to fund reduced working hours, often until another pension kicks in. Many simply parked some or all of this money into a cash ISA or their deposit account until they find a use for it.

Figure 7: Stated intentions for lump sum withdrawals



Note: Based on stated intentions of the 38 respondents who took a lump sum withdrawal during our study window, including those that withdrew their entire pot. Respondents often intended to use their lump sums for a number of different purposes and have been multi-coded accordingly.

People rarely thought about the long term consequences of spending this money now. In particular, the amount of tax free cash taken to spend on holidays did not feel like it would make any material difference their future financial well-being. However, when respondents were presented with some rough estimates of how much that holiday money could be worth when they actually came to need it at retirement, they said that it might make them think twice about spending today on something they didn't really need to do.

On the flip side, there was very limited thought given to what happens about the rest of the money. For many, 'drawdown' is simply the by-product of taking tax free cash.

Little or no shopping around for drawdown, and no idea how to go about it

Evidence from our study suggests that most people making decisions for themselves want to follow the path of least resistance, which typically means sticking with their current provider if they can. Usually, they have no idea what their pension currently costs, nor where that money is invested. Shopping around for a better deal does not even cross their minds.

"I have decided to go for drawdown with my provider... No I didn't look anywhere else. Why would I if they can do what I want?"

– Male, 64 years old, final decision interview

It came as a surprise to some that they were not able to take money straight out of their current pension, as promised by the Government. They felt more than a little disgruntled, and put it down to yet another reason to mistrust the pension industry. This bombshell often came well into the journey and, for some, was enough to throw them completely off track.

"I want to take my tax free lump sum of 25% and then draw down the rest without paying higher rate tax. I found out I will have to move my funds as I have found out that neither of my pensions provide this facility."

– Female, 55 years old, final decision interview

For those forced into looking elsewhere, the process is fraught with difficulty. It appears that the mainstream media is issuing lists of providers who offer this facility, which people have found very helpful. People have no idea what comparative factors to use to judge one provider over another so are tending to simply go with brands they know. Hargreaves Lansdown, in particular, was very active to people in our study.

"I went into drawdown with Hargreaves Lansdown as I was already with them for shares and it is a one stop shop. It's very tricky to compare providers."

– Female, 56 years old, final decision interview

"I blew £10k on a holiday which may seem a bit crazy but it was our 40th wedding anniversary. The rest, I've already got stocks and shares ISAs with Hargreaves Lansdown, who I think are really good… so, I've decided I'm going to put £15k with Hargreaves Lansdown, £5k a bit crazy in an emerging market, £5k in a North American fund, which is a bit less risky, and then £5k in a pretty safe UK fund."

– Male, 65 years old, final decision interview

They have often had very limited experience of choosing investments – most of their savings are in cash ISAs and their pension is in a default fund. They are looking in the money sections of the media for 'top picks' and at best buys from drawdown providers.

"I might have a look at the fund from Neil Woodford, that seems quite good… it's all a bit of a gamble really."

– Male, 63 years old, diary post

Time horizon for the remaining money in drawdown is 5-10 years – there are no expectations of it lasting for life

People in our study generally had limited expectations for how long their pension money was expected to last, driven in part by our studys' focus on people with smaller pots (£30,000 to £250,000). If they can make it last for 5 to 10 years, they generally feel that they would be a good result.

"I need an income from my pension plan, or my savings, to tide me over for five years before the state pension is payable."

– Female, 60 years old, diary entry

Few have thought in detail what they would live off in their later years, once this money has gone. Somehow,something will come along which will solve the issue – usually downsizing their home to release some equity.

Perceptions of risk and reward are not always aligned to the views the industry would take

The vast majority had no idea what their pension was currently invested in and this was not an area where they felt comfortable to build knowledge. Despite this, people often felt that they could make their pension money work harder by taking a different investment approach themselves.

Typically, this referred to investing in a buy-to-let property, which could deliver both a stream of income and capital gains, or putting money in a cash ISA. Four people in our study went down the buy-to-let route, some in the UK and some abroad. When asked, they described this as a low risk strategy as "you can't go wrong with property".

Understanding the thought process behind taking money out of the pension to invest in a cash ISA was revealing. For many pensions are difficult and not well understood, have been subject to bad publicity, and can fall in value. Some reported that their pension had been 'doing nothing' for many years. They understand how a cash ISA works and this gives them a sense of control. They are also comforted that the money is the ISA is 'safe' as it cannot fall in value, whereas pension money is subject to the vagaries of the stock market. They know that they will at least earn a little bit of interest, whereas there are no guarantees with investments. They are very comfortable shopping around for the best ISA rates. They do not understand or consider the erosive effects of inflation.

> "I want to take 25% tax free. The rest I will put into pensioner bonds or maybe my Santander 123 account. We have two of those already but we can have a third."
>
> *– Male, 67 years old, diary post*

Spending on an extension to their home was often described as an 'investment', adding value to their home for the future. They felt that this was a good use for money which was currently 'doing nothing' in a pension as they expected to reap the rewards when they came to downsize. This view was usually formed without having any idea what their current pension was invested in.

Other 'low risk' strategies included using part of a pension pot to buy an investment in an eco-hotel and taking a whole pot out, spread over a few tax years, to invest in gold.

We found a handful who still wanted the security of an annuity

At the start of the process, 10 people said they might buy an annuity with their pension. In the end, just two did. These people tended to be fully retiring, requiring an income replacement. They valued the security of an annuity and felt that they did not want the worry of keeping the money invested.

> “It’s something that I’ve worked all my life for and leaving it invested would just be like going to a betting shop. You’re taking a chance, there are no guarantees and I’d like a bit of security now.”
>
> *– Male, 60 years old, final decision interview*

A further seven did not intend to buy an annuity, but did this with part or all of their money (often because they discovered one of the schemes provided a Guaranteed Annuity Rate). For the rest, bad press, low rates, feedback from advisers, and the lack of flexibility put them off.

> “I decided against an annuity the second it was announced that it would no longer be compulsory. Even before, at the back of my mind, I felt that returns from annuities were not so great, even in the long term.”
>
> *– Female, 61 years old, final decision interview*

> “Annuities are a con. Quite frankly I would prefer to take it all out and pay the tax.”
>
> *– Female, 62 years old, final decision interview*

Most have a good awareness of the basics by the time they made their decision, but are missing some important fundamentals

Most decision makers felt comfortable they were making sensible and logical choices with their money, and usually had no regrets or concerns about the decisions they had made.

However, during the course of our detailed face to face discussion we often found that people were making decisions without fully understanding all the options and implications. The basic messages were getting across, especially about not paying too much tax, but there were still very many grey areas.

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Implications of our findings

Most decision makers felt comfortable that they were making sensible and logical choices with their money, and usually had no regrets or concerns about the decisions they had made. However, during the course of our detailed face to face discussion we often found that people were making decisions without fully understanding all the options and implications. The basic messages were getting across, especially about not paying too much tax, but there were still very many grey areas.

It is difficult to say at this stage whether oversights will result in any serious consumer detriment, but the early signs are worrying. Our respondents often had a safety net to fall back on – a partner with a good final salary scheme, substantial housing equity and small mortgage debts at retirement – but the future may not be so rosy for those who will follow.

Based on our findings, we believe people will benefit from this checklist of ten common questions people should be asking themselves as they go through the process:

1	Do I really need to take any of my pension money now?	✓
2	Do I really need to take all 25% of my tax free cash out now, or am I just finding ways to spend it because I can?	✓
3	For those reliant on spouse's (DB) pension, what happens to me if they die first?	✓
4	If I am going to put my pension money into a cash ISA, am I sure that I will not be better off by leaving the money invested?	✓
5	Does my provider offer the best product or should I look around for a better deal?	✓
6	If I am not buying an annuity, what should I be invested in?	✓
7	What ongoing charges are there, and how will this impact me?	✓
8	Is property really a low risk investment and have I thought through all the overheads involved – capital gains tax, income tax on rent, void periods, insurance, letting fees, refurbishment costs and so on?	✓
9	Will I really want to downsize when my pension money runs out – I will probably be in my late 70s by then and less open to big lifestyle changes?	✓
10	More and more people are living into their 90s, what if I am one of them?	✓

Methodological appendix

All respondents were asked to complete a depth interview at the start of the project. These lasted 30 minutes and we adopted a qualitative methodology to explore intentions and analyse needs and motivations. During their decision, respondents kept a diary, detailing their thoughts as they explored their options. Diary entries were recorded using a mixture of video blogs, written online blogs, emails and phone interviews. Finally, we conducted hour long depth interviews with each respondent to explore the rationale for their decision.

Figure 8: Number of active research participants by age, gender, DC pot size, DC scheme type and tax rate

Number of respondents active throughout study		80	100%
Age	55-59 years old	35	44%
	60-65 years old	36	45%
	65-69 years old	9	11%
Gender	Male	44	55%
	Female	36	45%
DC Pot Size[1]	Less than £30,000	10	13%
	£30,000 to £50,000	17	21%
	£50,000 to £100,000	39	49%
	£100,000 to £250,000	11	14%
	More than £250,000	3	4%
Scheme Type[2]	Group Scheme	66	83%
	Female	14	18%
Tax Rate	Basic Rate Taxpayer	67	84%
	Higher Rate Taxpayer	13	16%

[1]Respondents were recruited on the basis that their DC pot was between £30,000 and £250,000, however many were unsure exactly how much their pot was worth at the start of their journey. Coding here is based on actual pot size at time of decision.

[2]A large number of respondents had more than one DC arrangement and some were making decisions on both group and individual schemes> Coding is based on their main DC pot.

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Janette Weir, Managing Director of Ignition House, authored the report. Janette is one of the founding directors of Ignition House. Ignition House is a specialist financial services research agency made up of experts in financial research, economics, public policy and management consulting. Janette's expertise focuses on conducting pension research with consumers. She has been actively involved in understanding consumers' reactions to the new Pension Freedoms, first announced in the 2014 Budget. Janette received support from her colleagues Edward Ripley, Research Director, Joseph Birch, Research Manager, and Eirik Barr and Megan Herity, Research Analysts.

The views expressed in this report are those of the authors and not necessarily those of SSGA or The People's Pension. Any errors in the report are the responsibility of the authors. For further information about this summary report or the wider research programme, please contact:

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