Retirement Outcomes Review: Interim Report: Annex 3

Qualitative consumer research for assessing the non-advised journey

Prepared by Ignition House for the Financial Conduct Authority (FCA)

March 2017

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Acknowledgements

This document reports the findings of a research project carried out for the Financial Conduct Authority (FCA) by Ignition House from August 2016 to October 2016. At the FCA several colleagues contributed to the design of the interviewing materials and to the research plan overall, and we thank them collectively.

We would also like to thank our regional qualitative recruitment specialists for meeting the challenging requirements of this project and the individuals who gave up their time to be interviewed with such good will and patience.

Janette Weir, Edward Ripley and Iain Clacher authored the report, with analytical support from Joseph Birch and Eirik Barr. The views expressed in this report are those of the authors and not necessarily those of the FCA. Any errors are the responsibility of the authors.

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Glossary

This report contains a number of industry terms. Definitions are as follows:

Term	Meaning
Accumulation	Pension accumulation is the process of building pension savings before retirement.
Additional state pension (State Earnings Related Pension Scheme (SERPS) / State Second Pension)	This is the extra *state pension* that employed people could earn up to 5 April 2002. They paid extra national insurance contributions once their earnings reached the lower earnings limit. People could choose to contract out of SERPS by joining an appropriate occupational or personal pension scheme. This was replaced by the State Second Pension or Additional State Pension from 6 April 2002.
Additional Voluntary Contributions (AVC)	Additional voluntary payments made by a member of a workplace pension scheme to top up their pension benefits.
Annuity	An insurance product that can be purchased with pension savings that provides a guaranteed income for life or for a fixed number of years. There are a number of different types, including *single life annuities* that are paid just to the policy holder, *joint life annuities* that continue to pay out to a spouse or partner after the policy holder dies, and *enhanced or impaired annuities* that pay more if the policy holder smokes or has any medical conditions.
Basic State Pension	The flat rate (not earnings related) *State Pension* paid to all who have met the minimum National Insurance contribution requirements, their spouses, subject to certain conditions, and widow(er)s.
Benefit Crystallisation Event	Any event that triggers the need to test an individual's pension savings against the Lifetime Allowance. This could be when an individual takes a lump sum or starts to draw an income from their pension, at age of 75, or upon death.
Contracted Out	Employees used to be able to opt out of the *State Second Pension* (previously the State Earnings Related Pension Scheme) and instead choose to receive additional contributions into their workplace pension.

Decumulation	Pension decumulation is the process of converting pension savings to retirement income.
'Defined Benefit' pension scheme (DB)	A type of workplace pension that promises to pay an income in retirement; calculated using a formula based on their salary and how long they worked for their employer. Also known as a final salary or career average pension.
'Defined Contribution' pension scheme (DC)	A type of pension where the value of the pension is determined by the amount paid in by the individual (or their employer) and any investment returns. The value of the pension can go up or down depending on investment performance. They may be set up by an individual or by an employer, including: *personal pension, group personal pension*, *self-invested personal pension*, *stakeholder pension*, *workplace pension,* or *money purchase scheme*.
Enhanced/ impaired annuity	A type of *annuity* that promises to pay more money to the policy holder if they have a lower life expectancy due to lifestyle choices (such as smoking) or certain medical conditions (such as a diabetes).
Equity release	Products that let home owners release some of the equity tied up in their property, either as a lump sum or a steady stream of income.
Financial Adviser	An individual who is qualified and permitted by the FCA to recommend financial products to individuals based on an assessment of that individual's specific circumstances and needs.
Free-standing Additional Voluntary Contribution (FSAVC)	Contributions to an individual pension policy separate from an occupational pension scheme, made by an active member of that scheme. Benefits are provided from that policy using contributions from the member only.
Guaranteed Annuity Rate	An arrangement in a pension scheme to provide benefits whereby, in defined circumstances and irrespective of the prevailing market rate for annuities when those benefits come into payment, a member is entitled to an annuity at a minimum specified rate or benefits equivalent to that annuity at that minimum specified rate. If an individual has a pension with a guaranteed annuity rate that is worth over £30,000, they are required to seek financial advice before converting or transferring their pension.
Income drawdown	Income drawdown allows you to take an income directly from your pension fund. Your pension fund stays invested, so its value can go up and down. There are two main types of income drawdown: flexi-access drawdown, introduced in April 2015, which has no limits on

how much income you can take from your fund, and capped drawdown, available before April 2015, which has limits on how much income you can take.

Non-advised consumers	For the purpose of this report this term is used to identify people who accessed their pension pot without receiving any regulated financial advice. This group includes those who have received guidance only.
Pension Wise	Pension Wise is a free government service that is available to people aged 50 and over to help them understand what they can do with their DC pension money. It offers guidance on the Pension Wise website and free guidance appointments over the telephone or face-to-face.
Respondents	The people who took part in this research study.
State Pension	The State Pension is a regular income paid by the UK Government to people who have reached State Pension Age (SPA). For people reaching the SPA before the 6 April 2016, there are two parts to the State Pension - the *Basic State Pension* and the *additional state pension* (SERPS/ State Second Pension). For people reaching the SPA on or after 6 April 2016 the two-tier system has been replaced by a new single-tier system.
Tax-free cash	The maximum tax-free cash that will normally be available is 25% of the pension fund (or 25% of the value of the benefits), up to a maximum across all registered pension schemes of 25% of the standard lifetime allowance.
Third Way	Generic term for retirement products that combine the investment growth and flexibility that can be achieved from an *income drawdown* product with the security of income that can be achieved from an *annuity*.
Uncrystallised Funds Pension Lump Sum (UFPLS)	A way of taking a cash lump sum or sums from a pension without purchasing an *annuity* or going into *income drawdown* (i.e. crystallising the pension). Normally, 25% of each withdrawal is received tax-free, with the remainder added to the individual's taxable income and taxed accordingly.
Zero Income Drawdown (ZID)	For the purpose of this report this is used as an 'umbrella term' to identify people who have taken a lump sum from their pension, but have no plans at the moment to draw a regular income from it.

Abbreviations

Abbreviation	Definition
BSP	Basic State Pension
DB	Defined Benefit
DC	Defined Contribution
FCA	Financial Conduct Authority
GAD	Government Actuary's Department
GARs	Guaranteed Annuity Rates
IFA	Independent Financial Adviser
IHT	Inheritance Tax Planning
NICs	National Insurance Contributions
RACs	Retirement Annuity Contracts
S2P	State Second Pension
SERPS	State Earnings Related Pension Scheme
SIPP	Self-invested Personal Pension
SPA	State Pension Age
TFC	Tax-free cash
UFPLS	Uncrystallised Funds Pension Lump Sum
ZID	Zero Income Drawdown

Reporting Conventions

The report makes use of three types of illustration to support the findings:

Verbatim comments

These are respondent quotations, based on interview recordings, with only minor editing. They are labelled by:

- Gender;
- Age;
- DC pension pot size (for the pension pot that was accessed recently).

The respondent quotations demonstrate their own views and perceptions and may not always be factually correct.

Case Studies

Short case studies providing more information about a respondent's retirement income decision making to support and illustrate the research findings.

Graphical representations

Graphical representations are used in some sections of the report to indicate the spread and balance of different behaviours or views among consumers who participated in the research. Typically, they are based on the researcher's interpretation of qualitative responses given by respondents. These are indicative only and should not be regarded as statistical measures. Quotas were imposed to achieve sufficient cell sizes for analysis rather than to be representative.

1. Executive Summary

1.1 Research objectives and methodology

Pensions are a priority area of focus for the FCA given their economic and social importance and the fundamental changes there have been to this market. Now that consumers are accessing more complex products without advice, the FCA wants to understand whether non-advised consumer journeys have become more complex and whether consumers can go through the non-advised journey and interact with it effectively.

In particular, this study explores three issues relating to consumers seeking information or looking to make some form of choice:

1. How does the freedom to access pension savings from the age of 55 impact consumer journeys and decision-making?
2. How well can consumers assess and compare the retirement income options available to them and, in particular, could the use of a checklist reduce the error rate.
3. How does the existing provider relationship and interaction impact consumer journeys and decision-making?
    a. Does the way that providers communicate through their websites, including tools and calculators, affect customers' choices?
    b. Are preferred provider / referral arrangements, offered by some existing product providers, beneficial in helping consumers or deterring consumers from shopping around and leading to poor decision-making?

We used a mixed qualitative research approach, with focus groups allowing for more exploratory research and face-to-face interviews to understand retirement journeys and decision making in depth. In total, 171 pension decision makers participated in this study, with fieldwork taking place in October 2016.

To qualify for the research, respondents must have accessed one or more of their defined contribution pensions between January and September 2016 without receiving regulated financial advice. It is important to recognise that many respondents had other DB and DC pension arrangements, and other assets earmarked for retirement.

The FCA was particularly interested in consumers who have accessed some or all of their pension savings early. We used an age range of 55-59 as a broad-brush measure for early access and set age quotas to ensure good coverage of this group in the research.

1.2 Retirement Provision

For many who are going to be accessing their defined contribution pension savings under Pension Freedom and Choice in the next few years, their retirement savings are likely to be a mix of defined benefit, defined contribution, the basic state pension, and SERPS/S2P. Moreover, over 50's in the UK have substantial property wealth, with recent estimates putting this at £2.29 trillion by mid-2015.

As a result, for many, their defined contribution pot is not a substantial part of their wealth relative to their other pension savings and property wealth. Nevertheless, there are those for whom their defined contribution pot will be an important source of income alongside their state pension, they will not have other substantial assets, and so accessing their defined contribution pension is a considerably riskier decision given the lifetime ramifications of poor decisions.

1.3 Key findings

1.3.1 Many of our respondents had accessed their pension savings early. They were still working in some capacity and were not accessing their pension pot to deliver a retirement income

Pension freedoms have revolutionised the way people think about their DC pension pots and broken many of the traditional norms. We have seen a switch from a one-size-fits-all prescriptive approach – where people accessed their pension at retirement to deliver an income for retirement, usually by purchasing an annuity – to one which can be tailored to each person's individual set of circumstance.

At the same time there has been a decoupling of some of the decisions consumers make about their DC pots from retirement planning. People now feel that their pension is no longer locked away to provide an income in the distant future; it can be spent before retirement on whatever they want. Indeed, the vast majority of our 55 to 59 year old respondents (and a significant minority of our older respondents as well) accessed their pension without any firm plans to retire.

Only a small number of 55 to 59 year olds were accessing their pension to deliver an immediate retirement income, and those that were usually saw this income as a short-term bridge to cover them until their state pension or other pension income kicks in. A few had an urgent need for income due to redundancy or ill-health. Very few purchased an annuity or opted for a regular income drawdown product to deliver this income, instead choosing to withdraw lump sums from their pension as and when required.

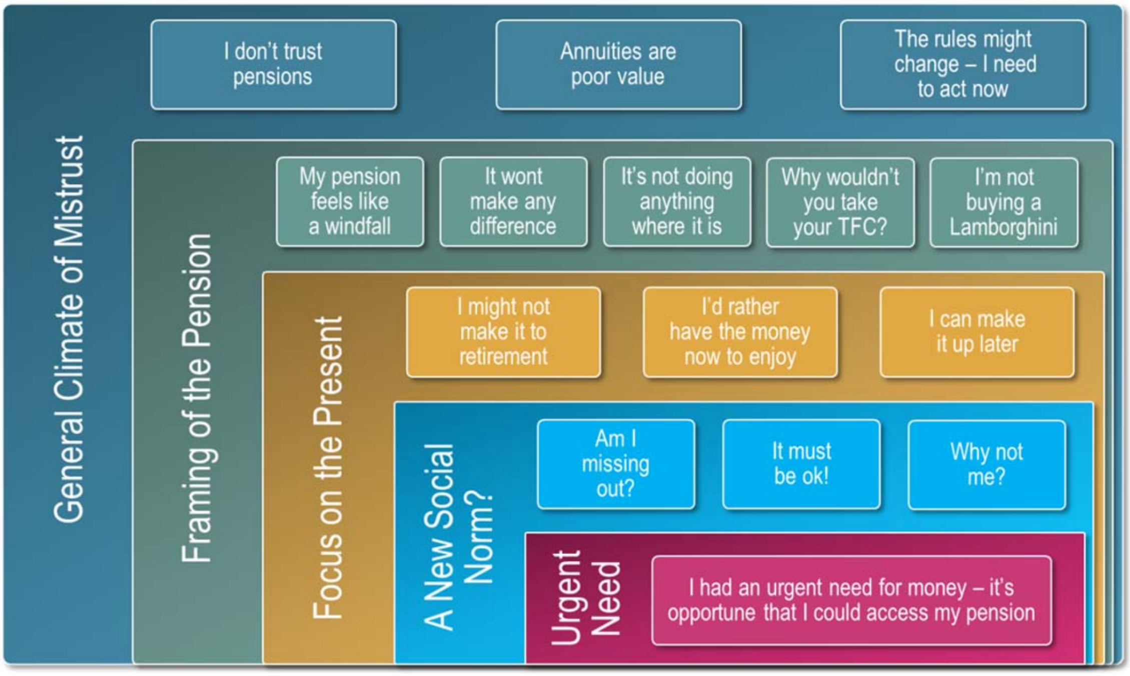
A significant number accessed their pension driven by the desire to take control of their money. They did not do this to spend their money, and many still viewed their pension as a source of money for future income – they just don't want that income to be delivered from a pension.

The remainder were simply making a decision to spend some of their pension money now. Usually this was the tax-free cash portion of their pot only, not their whole pot. Most purchased big-ticket, discretionary goods such as new cars, holidays, new kitchens or other home improvements, or used the money to help their family (university fees, house deposits, and so on).

1.3.2 Consumers want to behave responsibility, but a low level of awareness, a number of behavioural biases and framing issues may be driving short term decision making

Our discussions suggests the retirement plans and decisions that people make about their DC pots are not entirely guided by what makes the most economic sense for them to do. Rather, a range of cognitive and emotional biases may influence the way that they assess their needs and act on those needs. Many of our respondents alluded to a number of underlying reasons for wanting to access their pension money before retirement, indicating that this is an area with multiple layers of complexity (Figure 1).

Figure 1: There were a number of factors motivating respondents to access their pension early



One of the strongest drivers for early access, particularly for those that withdrew their entire pot, was a deep underlying mistrust in pensions. This mistrust was not directly influenced by personal experience. Rather, respondents referenced the constant stream of "bad news" pension stories in the press and historic "pension scams". Respondents could not distinguish between stories related to defined benefit and defined contribution schemes and they were not able to say why these issues had come about.

A further contributing factor to this sense of mistrust was the perception that pension rules are always changing – and usually changing to the detriment of the consumer. As a result, a significant number of our 55-59 year olds who were making a full or partial encashment said that they were keen to take action now solely to capitalise on the new pension freedoms, in case the rules changed in the future.

A significant minority of our respondents were so disenfranchised or disengaged with their pension that they withdrew their entire pot, driven by a desire to "take control" of their money and move it somewhere that was more tangible or accessible, and they were willing to pay the tax to do so. Usually this meant putting the money into cash ISAs or high interest savings accounts or investing in property (either improving their own home or purchasing an investment or second property). Most had little understanding of what their pension was invested in, the relative performance of their pension compared to their new investment choice, or whether they could replicate such investments inside their pension wrapper.

Only the most sophisticated had made any choices about how the money has been invested over the accumulation years, reflecting the high propensity to be in a default fund.

Interestingly, trust and engagement levels appear to be closely linked. Our most disengaged respondents – those who took very little interest in their pension, those with very little knowledge about pensions, and those that viewed pensions as impossibly complex - were more likely to have a deep rooted sense of mistrust and more likely to want to access their pension and move it to an alternative investment.

Some early access respondents noted that, because their projected pension income was going to be so small, accessing their pension now would make no real difference to their financial well-being in retirement, despite often not having any other assets to fall back on in an emergency.

Few had really accounted for the pension pot they had accessed as their money for retirement. Rather, it was money that was "locked away", "inaccessible" or "forgotten all about". Understandably, many respondents were therefore delighted to find out that they could access this money right away; describing the new pension freedoms as akin to a "windfall", a "bonus", or a "lottery win".

The pension tax rules are another strong driver of consumer behaviour; in particular the fact that they can take 25% of their pot tax-free. Having this money "tax-free" is very attractive as it sounds like a "win", or a "win against the Government", making access to the pension pot seem much more attractive than taking money out of other savings vehicles. As a result, many of our respondents described taking the tax-free money as a "no brainer" and many chose to access their tax-free cash from their pension rather than dip into cash based savings accounts.

The vast majority of our respondent took all of their tax-free cash for the pension pot they accessed, even if they did not have an urgent need for this money. As a result, many had not spent all of this money, but, instead, had put some aside for use at a later date. Usually, any money remaining was sitting in a current account, savings account, or cash ISA.

Some were looking for ways to spend their 25% tax-free cash, and it had not occurred to them to only withdraw the amount they needed.

Respondents demonstrated a very strong focus on the present. Many academic studies have shown that people often display a preference for consumption in the present rather than to defer consumption, and our study confirmed this view. A deep disconnect with the wants and needs of their future self means that most of our early access respondents did not think too deeply about the impact of using their pension money now on their standard of living in retirement. There were a number of reasons given for spending today: a small number referred to a recent bereavement driving a “live for today” mentality, but many simply felt that as they would have previously have taken the 25% tax-free cash to spend at age 60 or 65 they were simply bringing forward their consumption decisions.

Our respondents are the first cohort who have been able to access their pension money under the new rules. As such, they are looking at the experiences of others and end up creating new social norms, with some explicitly saying that the ease with which colleagues or friends talked about getting their hands on their pension money to spend on a big ticket item such as a car, kitchen or holiday had inspired them to take a similar course of action.

1.3.3 Most early access respondents had a very fixed view on what they wanted to do from the start and spent very little time researching their options

The vast majority of our full or partial early encashment respondents had made up their minds to access their pension from the very start, based on what they were reading and hearing in the media, and from observing the experiences of friends, family and colleagues. They were very set on this path, and felt that they would have needed a very strong intervention to make them think twice about what they were doing.

Most spent very little time, if any, finding out about the decumulation options available to them. Indeed, around half of our 55 to 59 year old respondents said they spent half a day or less researching their decision, and a significant proportion of this time was spent understanding the process and the tax rules or planning what to do with their tax-free cash once withdrawn.

A pervading undercurrent of mistrust meant that some of our early access respondents took a very dim view of some of the safeguards put in place by providers designed to slow the process down and help people to think about their decision in more detail (such as verbal warnings provided over the phone, requirements to fill out a form to receive further information, or requirements to first receive financial advice to encash a pension with a GAR). At best, many felt that that such interventions were simply a “back covering” exercise by providers to be endured, but some perceived this to be a delaying tactic by the provider rather than an additional layer of protection for their benefit. Unfortunately, this approach sometimes had an opposite effect, making certain people even more determined to get their money out as quickly as possible. A very small number felt that it was a useful way to get them to stop and think twice about their actions.

1.3.4 Tax planning is a now key component of consumers' decision making process, but there is evidence to suggest that our respondents did not completely understand the tax rules

Tax planning is now a key component of consumers' decision making process, and featured strongly in our discussions. However, while most of our respondents were interested in minimising any tax paid, a small number of our basic tax payers were not aware they could pay 40% on their pension withdrawal as they were not clear about what "marginal tax rate" meant. However, none of these respondents withdrew enough to tip them over the threshold.

We also observed very mixed levels of understanding about the use of an emergency tax code amongst our full encashment cases. Although all of our full encashment cases understood they had had to pay tax on 75% of their pension, a small number were surprised at receiving an additional tax bill from HMRC. They had not realised that withdrawals could have an impact on the amount of tax they pay on their income in that tax year.

Perhaps understandably, beyond the basic understanding about implications for income tax, there was very limited knowledge of the tax treatment of pensions. Few understood what happens to unused pots upon death and why pensions might be more favourable than other savings vehicles for IHT planning[1], nor that money in a pension is treated differently for means tested benefits, social, and long term care compared to other types of saving[2].

1.3.5 Hardly any of our partial encashment respondents shopped around for a drawdown provider - and for most it did not even cross their minds

Partial encashment respondents of all ages very much wanted to follow the path of least resistance. If their provider allowed them to access their money in the way they wanted to, they were more than happy to stay. Indeed, for most, it did not even cross their minds to consider moving provider. After all, in their minds, they were making a decision to access a small proportion of their pension money either to spend now or place in an alternative savings vehicle outside of a pension; they were not making a decision on what to do with the remainder still invested and were certainly not making a long term pension income decision.

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[1] www.pensionwise.gov.uk/when-you-die

[2] www.pensionwise.gov.uk/benefits

When asked directly by the moderator to talk through the pros and cons of searching the market for an alternative drawdown provider, most said that they doubted there would be much to gain by moving elsewhere and generally felt that there would be little difference in the products on offer. The vast majority had no idea where to go to shop around, or how to compare one drawdown proposition against another. If forced to choose, they would most likely focus on features that are difficult to compare across providers, such as brand recognition or trust.

In the back of their minds, a complete lack of understanding and familiarity with this area meant that they were often scared that they may be open to a scam. In this sense, they knew their provider was a safe bet, having had a relationship with them for some years, despite having derided their providers earlier in our conversations about poor historic returns.

1.3.6 A very short, process driven decision journey means that consumers consider very few factors in any depth

Many of our respondents spent very little time considering their decision to access their pension, and they focused very much on process related matters; such as how much money was in their pension, how much they could access tax-free, how quickly they could access it, what the process involved, and whether there were any penalties or charges to pay. Rarely did they consider any of the broader issues around how much they would need to live off, how long they might live for and what their pensions might be worth if they had left them in situ for a few more years.

As part of our discussions, we took our respondents on a journey of discovery to help them understand some of the broader issues at play. Two particular pieces of information were particularly impactful and resulted in some respondents starting to question whether they had acted too hastily, without understanding all the facts. First, information about life expectancy helped respondents re-evaluate their assumptions about how long pension money needs to last. Second, information on average income requirements in retirement, and the size of the savings pot needed to deliver this, made them question whether spending their money today (often on discretionary items) really would make no difference to them in the future.

1.3.7 Respondents overwhelmingly agreed that checklists could be a powerful planning tool and were keen for the FCA to take this concept forward with the industry

With the benefit of hindsight, respondents could see how a checklist might have helped them, for example to be better organised and not skip steps, to break the task into manageable chunks, to ensure they considered all their options and to reduce the risk of making a mistake. All of which would give them more confidence in their ultimate decision. However, very few could recall seeing a checklist during their search process and only the most engaged said that they had created their own checklist and worked through it.

Respondents had a consistent idea of how they would like a checklist to work in practice. First and foremost, there should be a single checklist used by everyone in the industry, designed by an independent source. The checklist should be delivered via multiple channels. It should include some top-level points to “wake up” the completely disengaged, and this could be delivered in paper format, while a more detailed version could be available online (some took the concept of the checklist a step further and described something more akin to an online personal financial planning portal). Many felt strongly that the checklist should not be compulsory.

1.3.8 Rules of thumb and illustrations have the potential to change behaviour, but more work will be needed to define the content

Looking at countries such as Australia and the USA, where similar pension freedoms have been the norm for some time, we see the presence of a set of commonly accepted ‘rules of thumb’ which are useful short cuts to help guide consumers to make good decisions. We explored whether some simple rules of thumb, based on existing international experience, could be useful in helping consumers in the UK navigate their pension decisions. Of the rules tested, we found that respondents struggled the most with the rules which challenged their perception that pensions were “bad”. The most powerful rules were those that spoke about life expectancy and how much they need to save for retirement.

We also used a set of prompts and illustrations to explore how effective such devices could be to “nudge” consumers away from common perceptions people have about pensions, such as that their pension is doing nothing where it is, that they can’t lose with property, that they can do better by putting their pension money somewhere better or safer, or that it will not make any difference if they access their pension money early.

Around half of our full encashment respondents said that they might have followed a different path as a result of seeing our examples. For our partial encashment respondents, the most powerful illustrations appear to be the ones that show a “loss”. By challenging their thinking, around half said that they might have considered taking a different approach if they had been exposed to examples like these at an early enough stage in their journey.

1.3.9 Although there is strong consumer demand for more consistency in the way providers are presenting information online, very few reported that this information had any impact on their decision

Only a small number of our respondents looked at their provider's website, and those that did had often already made up their mind on what they wanted to do. They typically spent half an hour or less on the site, and were mostly looking to validate what they had read elsewhere. Most reported that their interactions with their provider's website had little or no impact on their final decision, calling into question the benefits of a more prescriptive approach.

To help respondents understand that there may be differences between websites, in the assumptions used to show different retirement income options and the way the different outputs are shown, we asked respondent to spend some time reviewing a number of different providers' websites and tools. Respondents were very surprised to see that different sites can look very different and also use very different assumptions in their tools and calculators. They recognised that some sites were much more comprehensive than others, and that some information was much more clearly presented. Given the perceived levels of regulation in the pension and financial services industry, respondents believed that provider sites would be regulated to ensure high levels of consistency in the ways they present pension income options.

They were keen for the FCA to take the lead to rectify this, given that it would not cross their minds to look at websites from a number of different providers and, in any case, would not know which one to go to for the best information.

1.3.10 Most of our referral cases felt that they would have had a worse outcome if their existing provider had not referred them to a different provider

We wanted to explore whether preferred provider / referral arrangements, offered by some existing product providers, are helping consumers or deterring consumers from shopping around and leading to poor decision-making.

We recruited thirty-one referral respondents directly from provider contact lists. Many of our referral respondents were no longer working and were looking at their pension to deliver a secure income. They tended to be more reliant on DC pension income to cover basic living expenses than respondents in other parts of our research.

They were much more disengaged with, and wary of, pension freedoms than the people we saw in the other elements of this research. Most could recall their provider trying to talk to them about the various options, but they had little interest in any alternatives. These respondents certainly knew they should shop around for an annuity, but chose not to.

We had mixed levels of understanding about whether a referral had taken place. Some thought they had been transferred to another part of the same company, others were clear that they had been referred to a separate organization, although they rarely knew the exact nature of this referral. When pressed, respondents were not unduly concerned by the referral as they felt that their provider would have conducted some due diligence to ensure their customers were getting a good deal.

For many, if the referral service did not exist, they admit they would have struggled to make a decision or find an annuity on their own, and would not know where to go for advice. They were pleased that their provider could offer a solution, and felt that the search costs would have been very high for the perceived difference it would have made to their income.

1.4 Overall Conclusions

Most of the consumers in our research would have had limited choices for taking their defined contribution pension pot before the introduction of the new pension freedoms. The news of the new flexibilities was warmly received.

Their defined contribution pension savings were generally seen as an important part of their overall retirement provision and people of all ages wanted to behave responsibility with their money under the new rules. We found no evidence that consumers are taking money out to “blow the lot”.

Our respondents are the first cohort who have been able to access their pension money under the new rules. For the over 60s, this means that they no longer have to take a regular income, which many feel better fits with their lifestyle. For the 55-59 year olds it is now becoming commonplace to access the tax-free element of their pension for discretionary purchases at 55. Under the old rules, many would have taken this tax-free cash at 60 or 65, so they are simply bringing forward their consumption decisions.

Amongst all respondents we observed a strong undercurrent of mistrust in pensions, with many reporting that their faith in pensions has been eroded over the years by one bad news story after another. Such perceptions are very deep-seated and will not be quickly or easily reversed by education or interventions. Rather, they are likely to be reinforced by continuing coverage about the future of DC tax relief and DB scheme difficulties. The language of pensions, particularly now we have added drawdown, flexi-access drawdown, UFPLS, and so on, into the assortment of jargon they are faced with when trying to navigate their new choice set, is confusing and only serves to further reinforce their sense that pensions are a black box, operating for the benefit of the provider rather than the consumer, and are not to be trusted.

For some, this sense of mistrust is so strong that it is driving them to want to take "control" of their pension, despite having very limited investment knowledge or experience. They are often so disenfranchised that they are willing to pay higher tax rate to gain control of their whole pension. However, much of this money is still being "invested" for their future; it is simply being switched to investments that they can understand, such as property or cash.

For the rest, a low level of awareness, a number of behavioural biases and framing issues are likely to be driving short-term spending decisions to the possible detriment of their future self, in particular, the framing of tax-free cash and use of the consumption frame in annual statements. People are making these decisions without much thought into what impact this will have on their lifetime income. Low understanding and engagement, particularly around life expectancy and the amount of money needed for retirement, are often incorrectly resulting in over-confidence in their decision to spend today.

A historic lack of engagement with pensions is driving the perception that their pension is somehow different to their other savings. Indeed, some are so disengaged that they now see their pension as a "windfall" which makes them more likely to want to spend the money today, rather than in the future.

We also found evidence to suggest that respondents who accessed their pension pot early to access the tax-free cash only, do not even understand that they have made a decumulation decision, never mind what kind of decumulation decision they have chosen, nor the ramifications of this decision. To them they have simply taken some money from their pension pot and "left the rest with their provider". As a result, it rarely crossed their minds to question whether they are still in the right product with the right charges and investment strategy, and only the most sophisticated thought about switching to another provider for a better deal. However, even when prompted, the vast majority felt that they would not know how to go about shopping around, other than looking at features that are difficult to compare across providers, such as brand recognition or trust.

Existing interventions put in place by pension providers to try to help people to think about their decision in more detail (such as verbal retirement risk warnings given over the phone or requirements to fill out a form to receive further information) appear to be having little or no effect, and may even be reinforcing their negative perceptions of pensions. Indeed, we observed that early encashment respondents had a very fixed idea of what they want to do from the start, and focused almost entirely on this during their very short decision making journey.

There is strong support for the FCA to take forward the concept of a checklist with the industry, and respondents can clearly see how a simple list of questions could improve their decision making process and potentially improve the choices they are making.

Respondents were disturbed to see the considerable differences in the ways providers present online information and felt strongly that the FCA should intervene to ensure more consistency. However, the fact that so few were actually using provider sites in their search process, and those that did reported that what they saw had little or no impact on their decision making, very much calls into question whether the benefits would be worth the additional cost to providers. Of course, as the market develops, the use of online tools may well change and develop, which may make intervention more beneficial.

Our evidence would suggest that consumers like the referral arrangements offered by some existing providers, even if they do not fully understand the exact process they have been through. Without this service is it highly unlikely they would have shopped around themselves, and therefore would have ended up with less income.

2. Project Background, Aims & Context

2.1 Project background

Pensions are a priority area of focus for the FCA given their economic and social importance and the fundamental changes there have been to this market. Government policies have increased the levels of pension saving and the options available to consumers when they decide to access those savings. The latter reforms that came into effect in April 2015 have provided consumers with the benefit of accessing their pension flexibly from the age of 55, but are also increasing the range of financial planning decisions individual consumers may need to make in decumulation.

The FCA's Retirement Income Market Study (RIMS) in March 2015 identified a number of potential risks relating to consumer decision-making following the introduction of the pension reforms:

- In future, converting accumulated pension savings into retirement income need not be a one-off, irreversible step as has been the case for consumers purchasing lifetime annuities. Without a clear moment in time to make a decision, it may be harder to prompt savers to shop around or switch.
- If new types of products appear on the market, savers should be better able to find a product that meets their particular needs. However, more complex products are likely to be less directly comparable which could make shopping around more difficult for consumers.
- While charges for lifetime annuities are effectively captured in the headline rate, the same is not true for products with a drawdown element. Complex or opaque charging structures make comparisons harder and may weaken competitive pressure on value.
- Previously, drawdown products were sold primarily with full advice to people with significant pots to invest. Going forward, the industry will need to develop appropriate mass market distribution and guidance arrangements for products with a drawdown element.

Now the pension freedoms have come into effect, the FCA wants to assess their impact on competition in the decumulation market by looking at how firms and consumers have responded to the new freedoms, through the Retirement Outcomes Review (ROR).

2.2 Project aims

One of the key focus areas of the ROR - and the subject of this qualitative research project - is to explore the *non-advised consumer journey*. Now that consumers are accessing more complex products without advice, the FCA wants to understand whether non-advised consumer journeys have become more complex, and whether consumers can go through the non-advised journey and interact with it effectively; are there any specific barriers on the demand side that prevent effective consumer interaction with the at-retirement journey and what aspects of the journey work well for the consumer?

In particular, this study looks to explore three issues relating to consumers seeking information or looking to make some form of choice:

1. **How does the freedom to access pension savings from the age of 55 impact consumer journeys and decision-making?** The pension reforms signified two big changes for consumers. First, that they no longer have to buy an annuity at retirement - and we have seen a significant impact of the reforms in terms of reduced annuity sales. And, second, highlighting the fact that they can access their pension pot from the age of 55 - again we have seen a significant impact in terms of the numbers of people in the 55-59 age bracket accessing their money. The FCA is keen to understand how consumers are reaching these decisions and what factors influence their choices.
2. **How well can consumers assess and compare the retirement income options available to them?** Consumers make choices that reflect their own particular subjective preferences. However, the FCA have seen misconceptions among consumers who say they understand the choices they have made[3], for example choosing UFPLS or drawdown in the mistaken belief that they would get a guaranteed income, or misconceptions around implications for bequests. The FCA is keen to understand if a checklist might help consumers understand their options and think through all of the necessary steps.
3. **How does the existing provider relationship and interaction impact consumer journeys and decision-making?**
    a. Does the way that providers communicate through their websites, including tools and calculators, affect customers' choices? The FCA wants to understand to what extent these online offerings help consumers to make informed decisions or drive poor choices (e.g. through various behavioural biases).

[3] Based on a GfK online survey for the FCA of consumers who have DC pension as their main pension, conducted at the end of 2015.

b. Are preferred provider / referral arrangements, offered by some existing product providers, beneficial in helping consumers or deterring consumers from shopping around and leading to poor decision-making?

2.3 Background context

2.3.1 The new pension freedoms

In March 2014, the Government announced significant changes to the ways in which people can access their defined contribution pension savings. Under the previous regime, the tax rules were structured around the principal that most people should use their defined contribution pension to secure a regular income in retirement. While pension savers could withdraw their entire pension as cash, they were subject to a penalising 55% charge, unless their pension was worth less than £18,000[4].

Only those savers who had a large enough pension to demonstrate that they would have a guaranteed income of over £20,000 per year could drawdown their pension savings flexibly. The remainder had to purchase an annuity[5], which is an insurance product that pays a fixed sum to an individual each year, usually for the rest of their life. As a result, the vast majority of people with defined contribution savings used their pot to purchase an annuity.[6]

However, since 2015 under the new regime of Pension Freedom and Choice, the Government removed all restrictions on accessing defined contribution savings for anyone over age 55.[7] Consequently, individuals now have much greater flexibility in how and when they access their defined contribution savings regardless of pot size. Pension savers can now

[4] Pension savers could withdraw their entire defined contribution pension as cash, subject to a 55% charge, from the age of 55. Those with £18,000 or less could withdraw their pension as a cash, with 25% of the withdrawal being tax-free and the remainder being taxed at their marginal rate of income tax. However, this was only available from the age of 60. There were also trivial commutation rules that allowed two or more pots to be taken as lump sums as long as they were under £2,000.

[5] Regardless of pension size, everyone could withdraw 25% of their pension as a tax-free lump sum.

[6] In 2012, for example, 420,000 annuities were sold, 16 times more than income drawdown products, with a premium value of £14bn compared to £1.2bn for income drawdown. (Source: ABI)

[7] There were transitional rules for the year 2014-15 whereby trivial commutation rules were relaxed and the single pot threshold was increased to £30,000 and up to three additional pots of £10,000 or less could be taken. For capped drawdown, the maximum was increased from 120% to 150% of the equivalent annuity value and the minimum annual income threshold for flexi-drawdown was reduced from £20,000 to £12,000.

choose to withdraw their entire pension pot as cash, either in one go or in smaller sums over time, draw an adjustable income from their pension, purchase an annuity to deliver a guaranteed income, or choose to leave their pension untouched. They can also choose to mix their options, for example using some of their pension to purchase an annuity and some to get an adjustable income.

The new rules, therefore, provide much greater flexibility to individuals, but also mean that individuals are now faced with increasingly complex choices.

2.3.2 Understanding the cohort who will be making decisions in the first wave

These policy changes have occurred against a backdrop of the changing face of retirement. Life expectancy has increased significantly, meaning that people are working longer and retiring later. Furthermore, retirement is no longer seen as a period of relative inactivity, but rather characterised by a phase of relatively high activity before old age. The implications of this being that income needs are no longer as consistent through retirement. People are likely to spend more in the early active years of retirement – for example on travel, leisure activities or on their home - than they do later on in their retirement as activity levels fall (although, income needs may rise again late in retirement to pay care costs).

For many who are going to be accessing their defined contribution pension savings under Pension Freedom and Choice in the next few years, their retirement savings are likely to be a mix of defined benefit, defined contribution, the basic state pension, and SERPS/S2P.[8] Moreover, over 50's in the UK have substantial property wealth, with recent estimates putting this at £2.29 trillion by mid-2015.[9] As a result, for many, their defined contribution pot is not a substantial part of their wealth relative to their other pension savings and property wealth. Nevertheless, there are those for whom their defined contribution pot will be an important source of income alongside their state pension, they will not have other substantial assets, and so accessing their defined contribution pension is a considerably riskier decision given the lifetime ramifications of poor decisions.

Finally, there are a range of academic studies which show that the way in which individuals make decisions changes as they age. In particular, there is evidence to suggest that memory

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[8] Retirement Sorted? The Adequacy and Optimality of Wealth Among the near retired, The Institute for Fiscal Studies, 2014

[9] Savings and the Over 50s, Saga, 2016

(Verhaeghen et al, 1993) and their ability to process information (Salthouse, 1996) decline with age, yet older individuals not only retain their ability to process emotions, but also spend proportionally more time processing positive emotions and less time processing negative emotions (Mikels et al, 2005). So, emotions are potentially more important in decision making as individuals age, which is a key consideration in looking at the drivers of how individuals make decisions under Pension Freedom and Choice.

2.3.3 Emerging evidence of a change in behaviours since the pension freedoms were introduced

In looking at the evidence for what has happened since 2015, a number of different effects seem to be occurring. Recent evidence from the Pensions and Lifetime Savings Association (PLSA) has analysed the first cohort of those accessing their defined contribution pension savings under Pension Freedom and Choice.[10] The results of this work show a number of distinct groups have emerged and these have been categorized as *actioners*, *investigators*, and *inactives*. Actioners, are a group of 400,000 individuals who are "…a distinct and affluent group…" that were quick to take advantage of the new regime to access some of their defined contribution wealth that was not in payment. Investigators were the largest group (1.75 million individuals) and were in the process of looking at their options under the new regime. The final group, inactives (630,000 individuals), were those with the lowest incomes, who were likely to struggle to make choices or access financial advice.

One key conclusion from the work of the PLSA is that those who are the first to make use of the new regime are unlike those who will follow. The actioners were a group who already had a secure income for retirement, had a higher level of financial education, accessed financial advisors and/or invested themselves and had some understanding of risk in investment. It remains to be seen what will happen when the other identified groups start to take action.

As well as the work from the PLSA, recent research by the People's Pension and State Street Global Advisors examined a specific cohort of individuals who fell into the actioner and investigator categories of the PLSA report.[11] This research tracked 80 individuals aged 55-70 from July 2015 to February 2016 and focussed on individuals with accumulated defined

[10] Pensions Freedoms: No More Normal, Understanding Retirement Wave II: A Pensions and Lifetime Savings Association Research Programme, January 2016

[11] New Choices, Big Decisions: Exploring Consumer Decision Making and Behaviours under Pension Freedom and Choice, Ignition House research for the People's Pension and State Street Global Advisors, February 2016

contribution pots of between £30,000 and £100,000.[12] In looking at the journeys of these individuals, a number of key facts emerged. First, individuals were aware that their pension was a key part of their lifetime savings. Second, there were low levels of confidence about making a decision, as the consequences of a bad decision were clear. This in turn resulted in decision-making taking much longer than expected with many individuals eventually doing nothing. Third, although some opted for full encashment and paid the marginal tax to withdraw all their money, more often than not individuals took their 25% tax-free cash and little thought was given to what would happen to the remaining 75%.

In looking at the statistics from the FCA for the period Q4 2015 to Q3 2016, it is clear that individuals are using a range of options to access their defined contribution pension savings.[13] During this time period, 556,964 pension pots were accessed for the first time. Of these, 15% purchased annuities, 53% withdrew all their monies (with the majority being people with pots less than £10,000), 29% commenced new drawdown policies, and UFPLS payments were made from 3% of pension pots.

While consumers now have the freedom to access their DC pension savings at any time from age 55, there is strong evidence to suggest that many access their pension as soon as they are able to, potentially making rushed decisions. For example, nearly one-third (32%) of all policies accessed for the first time in Q4 2015 were by consumers aged 55-59. As a result, concerns have been raised that consumers may make choices that are detrimental to their income in retirement.

[12] A number of filters for eligibility for inclusion were applied to build a picture of behaviour of the type of individuals that are likely to be faced with decisions in 10 years from now. Exclusions include those with a large DB underpin, buy-to-let landlords with more than two properties, those with significant DC wealth, etc.

[13] Source: https://www.fca.org.uk/publication/data/data-bulletin-issue-8.pdf

3. Research Framework and Design

3.1 Research framework

We used a mixed qualitative research approach, with focus groups allowing for more exploratory research and face-to-face interviews to understand pension access decision making in depth. In total, 171 pension decision makers participated in this study, with fieldwork taking place in October 2016. All respondents had accessed a defined contribution pension in the last six months and did so without receiving regulated financial advice.

The FCA was particularly interested in consumers who have accessed some or all of their pension savings early. We used an age range of 55-59 as a broad-brush measure for early access[14] and set age quotas to ensure good coverage of this group in the research.

We did not set any quotas by type of access decision, but attempted to recruit a good mix of respondents across the research programme to broadly represent the range of pension decision makers[15]. It is also important to recognise that respondents were not making this pension access decision in isolation, and many had other DB and DC pension arrangements, and other assets earmarked for retirement.

	Full Encashment	**Partial Encashment**	**Regular Income[16]**	
			Annuity	Drawdown
Respondents aged 55-59[2]	21	61	8	2
Respondents aged 60-70	6	32	38	3

[14] We included three 53-54 year olds in our 55-59 age group, who were in the process of making a pension access decision.

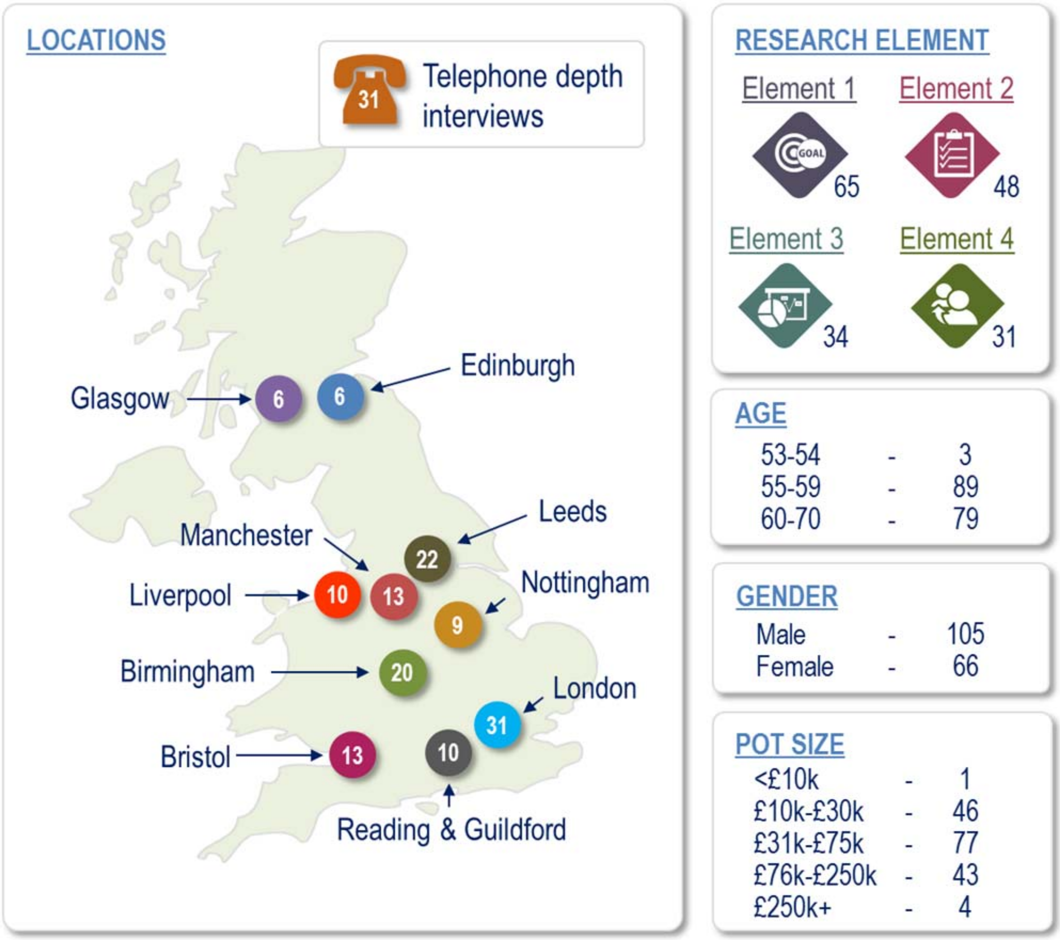
[15] According to the FCA's data for the period Q4 2015 to Q3 2016, 556,964 pension pots were accessed for the first time. Of these, 15% purchased annuities, 53% withdrew all their monies (with the majority being people with pots less than £10,000), 29% commenced new drawdown policies, and UFPLS payments were made from 3% of pension pots. 40% of all policies accessed for the first time in Q3 2016 were by consumers aged 55-59. Here, 63% took full encashment, 32% took a partial lump sum and 4% purchased an annuity.

[16] Respondents that accessed their pension to receive a regular income, either through regular income drawdown or an annuity, may also have taken a partial lump sum at the same time.

We were particularly interested in speaking to people that might be defined as disengaged - *those for whom the decision is a default or much of the decision is left to others* – as this group may have been particularly vulnerable to making poor decisions or failing to consider a wider range of options.

We recruited respondents from across the UK using a detailed screener, with quotas set to ensure a good mix of respondents by gender, age, pot size and pension engagement levels.

Figure 2: Achieved research quotas by location, age, gender and pot size



3.2 Research design

It was not possible to cover all of the FCA's requirements through a single group or set of interviews. For this reason, we split the research programme into four distinct elements:

- Element 1: Freedom to Access Pensions at 55. How does the freedom to access pension savings from the age of 55 impact consumer journeys and decision-making?
- Element 2: Checklists. How well can consumers assess and compare the retirement income options available, and could the use of a checklist reduce the error rate?

- Element 3: Provider Tools, Calculators & Other Online Communications. How does the way that providers communicate through their websites, including tools and calculators, affect customers' choices?
- Element 4: The Impact of Referrals. Are preferred provider / referral arrangements, offered by some existing product providers, beneficial in helping consumers or deterring consumers from shopping around and leading to poor decision-making?

Each research element had a different consumer sample and methodology (summarised in Figure 3). That being said, we recognise that there are linkages and interconnections between each element, and this report draws on insights from across all elements.

Figure 3: Sample coverage and methodology by research element

	FREEDOM TO ACCESS PENSION SAVINGS AT 55	ASSESSING RETIREMENT INCOME OPTIONS	PROVIDER TOOLS, CALCULATORS AND OTHER ONLINE COMMS	THE IMPACT OF REFERALLS
AREA OF INTEREST	How does the freedom to access pension savings from the age of 55 impact consumer journeys and decision-making?	How well can consumers assess and compare the retirement income options available to them?	How does the existing provider relationship and online interactions impact consumer journey and decision-making?	How does the existing provider relationship and referral arrangements impact consumer journey and decision-making?
SAMPLE COVERAGE	Accessed a DC pension pot in last six to nine months. Non-advised. Aged 55-59. Small cohort of 53-54 year olds. Mix of pot sizes.	Accessed a DC pension pot in last six to nine months. Non-advised. Aged 55 plus. Mix of pot sizes.	Accessed a DC pension pot in last six to nine months. Non-advised. Aged 55 plus. Used their providers website/ online tools. Mix of pot sizes.	Accessed a DC pension pot in last six to nine months. Non-advised. Aged 55 plus. Been through a referral process. Mix of pot sizes.
METHODOLOGY	Mix of 2.5 hour groups and 1 hour depths, but weighted towards individual depths. Focused on individual journeys and circumstances. Stimulus used to explore how heuristics or rules of thumb can be used to short cut to a decision.	Mix of focus groups (1.5 or 2.5 hours) and depths, but weighted towards groups. Explored how the timing, content, size, structure, and source of a checklist might influence and aid understanding.	8 x 2.5 hour creative focus groups. Mix of stimulus materials and live tool tests to explore how framing of information impacts decision making. Pre-task to refresh respondents' on the tools they used.	31 x 30-45 minutes qualitative telephone interviews. Focus on individual journeys to explore the role of referrals in decision making. Recruitment from list provided to the FCA by providers.

4. Motivations for Early Access

4.1 Introduction

In this section, we explore what is motivating some consumers to access their pensions early. We draw primarily on evidence collected from Element 1 of the research (*Freedom to Access Pensions at 55*), but also on the decision making journeys of 55 to 59 year olds who participated in the other three elements of the research. In total, ninety-two 55 to 59 year olds participated in the research.

Where appropriate, we also compare and contrast the needs and motivations of early access decision makers with their older counterparts. For the over 60s cohort, we draw primarily on evidence collected from Element 2 of the research (*Ability to Assess and Compare Retirement Income Options*). In total, we interviewed seventy-nine 60 to 70 year olds.

4.2 Early access and retirement planning

Pension freedoms have revolutionised the way people think about pensions and broken many of the traditional norms. We have seen a switch from a one-size-fits-all prescriptive approach – where people accessed their pension at retirement to deliver an income for retirement, usually by purchasing an annuity – to one which can be tailored to each person's individual set of circumstance. At the same time there has been a decoupling of what do with the DC pot [at 55] from retirement planning.

For our early access respondents, pension freedoms have switched the mental accounting of their pension pot from a future retirement income choice to a current consumption choice – their pension is no longer locked away to provide an income in the distant future; it can be spent before retirement on whatever they want. Indeed, the vast majority of our 55 to 59 year olds (and a significant minority of our older respondents as well) accessed their pension without any firm plans to retire. Most were full time or part time employees; some were self-employed. Only around a quarter of those we spoke to had retired or were semi-retired, either out of choice or due to redundancy or ill-health.

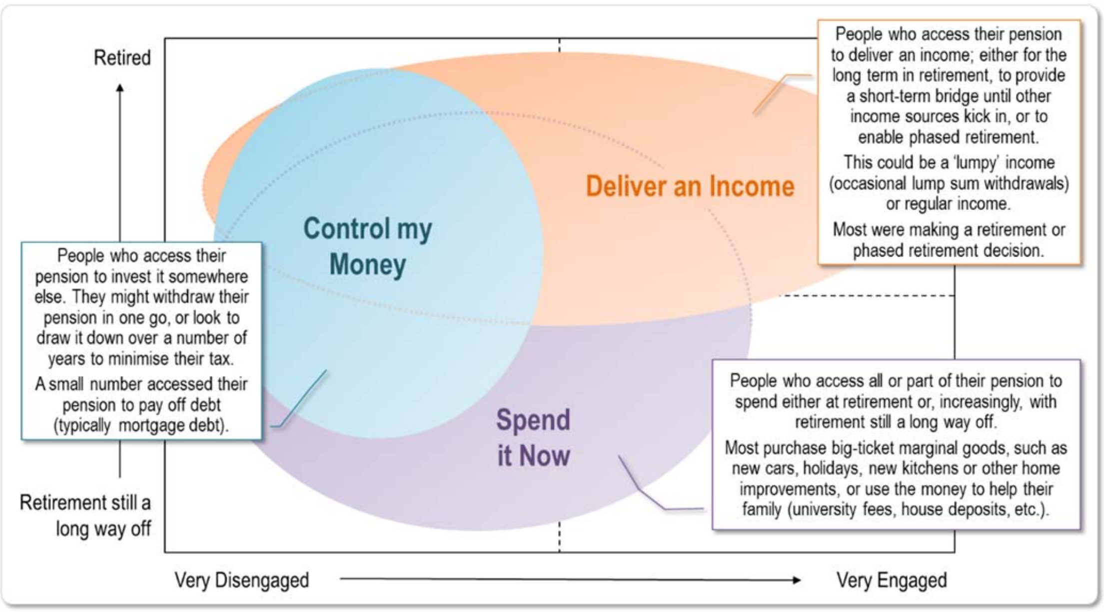
> *"I will be working forever and a day. I enjoy work too much. I don't feel like I am 55."*
>
> Female, 55-59 years old, £10k-£30k pot

Only a small number of our 55 to 59 year olds were accessing their pension to deliver an immediate income to cover day-to-day living expenses; and those that were, usually saw this income as a short-term bridge to cover them until their state pension or other pension income kicks in. A few had an urgent need for income due to redundancy or ill-health. Very few purchased an annuity or opted for a regular income drawdown product to deliver this income, instead choosing to withdraw lump sums from their pension as and when required.

A significant number accessed their pension driven by the desire to take control of their money. They did not do this to spend their money, and most still view their pension as a source of money for future income – they just don't want that income to be delivered from a pension. Some took their tax-free cash only, but are planning to withdraw the remainder of their pot over time in a way that minimises their tax bill. Others were so disenfranchised and disengaged with pensions that they withdrew their entire pot so that they could move their money in to an alternative investment or savings vehicle.

The remainder were simply making a decision to spend some of their pension money now. Usually this was the tax-free cash portion of their pot only, not their whole pot. Most purchased big-ticket, marginal goods such as new cars, holidays, new kitchens or other home improvements, or used the money to help their family (university fees, house deposits, and so on).

Figure 4: Three different reasons given for pension access - these were associated to engagement levels and age/ retirement plans



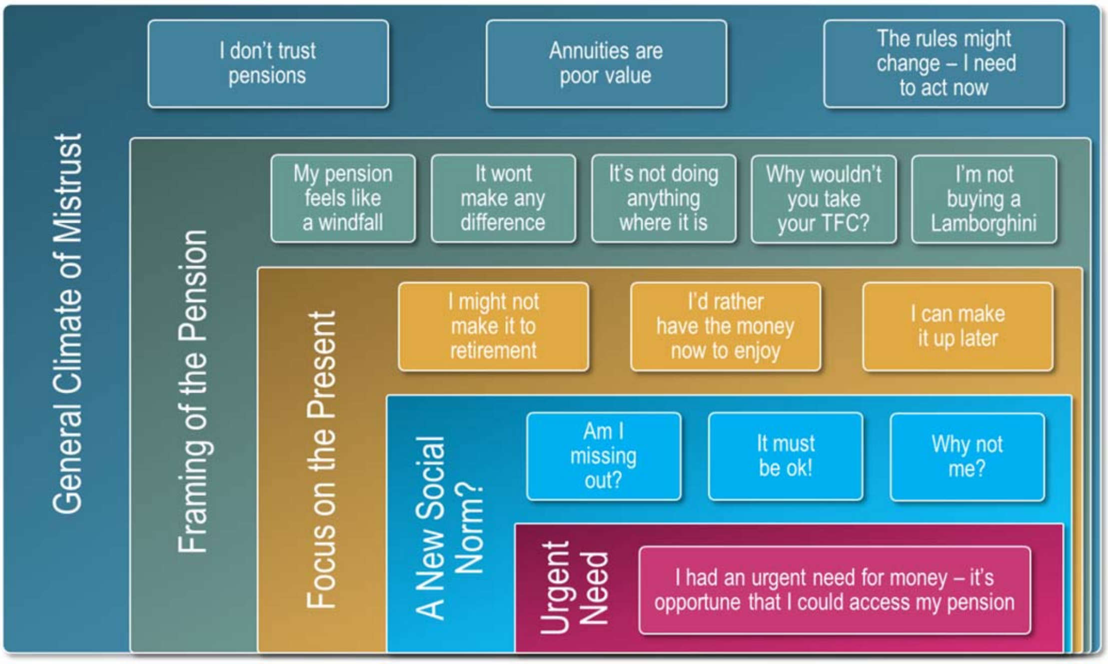
This is, of course, something of a simplification. In reality, respondents were often accessing a pot for a few different reasons, for example they may be looking to get an income from their pension and spend their tax-free cash, or may be looking to get an income whist also taking control of their pot through pension consolidation or self-investment.

Their reasons for access might also change over time. For example, they may have taken a lump sum now to spend, and plan to make an income decision sometime in the future, or may end up making a number of individual spending decisions over time and never make an active income decision.

4.3 Underlying motivations for early access

Evidence from our discussions suggests the retirement plans and decisions that people make are not entirely guided by what makes the most economic sense for them to do. Rather, a range of cognitive and emotional biases may influence the way that they assess their needs and act on those needs. Many of our respondents alluded to a number of underlying reasons for wanting to access their pension money, indicating that this is an area with multiple layers of complexity.

Figure 5: There were a number of factors motivating respondents to access their pension early



4.3.1 *A general climate of mistrust*

Many of our respondents had a deep underlying mistrust in pensions. This mistrust was not directly influenced by personal experience. Rather, respondents referenced the constant stream of "bad news" pension stories in the press and historic "pension scams". As an example, the BHS pension saga was mentioned in almost every session, and this was usually followed by a reference to Robert Maxwell or Equitable Life.

> *"I suppose, like a lot of people, I started to get concerned about private pension schemes. There's been a lot of problems of late. And, you know, BHS is yet another example."*
>
> Male, 55-59 years old, £75k-£250k pot

Respondents did not distinguish between stories related to DB and DC schemes. They were not able to say why these issues occurred nor did they talk about the differences between the likes of BHS, Maxwell, or Equitable Life and their DC pension. Furthermore, there is a general sense of mistrust around financial services providers. Many expressed dismay at how their endowment polices had turned out, and are still shocked by the 2008 financial crisis.

Another contributing factor was the notion that pension rules are always changing – and usually changing to the detriment of the consumer. In particular, respondents bemoaned recent increases to the State Pension Age and the removal of tax credits and some also talked about the Government's recent decision to cancel plans to create a market for secondary annuities, which was announced as we were conducting this study.

> *"I've since realized I have another one (pension). With the Government saying they will stop people cashing in, I might do that one as well. It was on the telly this morning."*
>
> Female, 53-54 years old, £31k-£75k pot

As a result, many of our respondents had little faith that the new pension freedoms would stand the test of time, and feared that the Government may amend or remove the tax benefits associated with the tax-free lump sum. Indeed, a significant number of our 55 to 59 year olds who were making a full or partial encashment said that they were keen to take action now solely to capitalise on the new pension freedoms, in case the rules changed in the future.

> *"You just don't know what the Government will do, because they can change the rules at any time."*
>
> Male, 55-59 years old, £75k-£250k pot

Common with other studies[17], we also observed many respondents describing annuities as "poor value for money" or, more emotively, as "a rip off". They felt fortunate that the rules changed and relieved that they no longer have to buy such a poor value product. However, on probing, few were able to say why annuity rates have fallen, or whether they are being offered a fair market price given the current investment climate.

> *"Annuity rates are ridiculous. With rates at the moment, an annuity wouldn't be worth tuppence."*
>
> Male, 55-59 years old, £31k-£75k pot

A significant minority of our respondents were so disenfranchised or disengaged with their pension that they withdrew their entire pot, driven by a desire to take control of their money and move it somewhere that was more tangible or accessible, and they were willing to pay the tax to do so. They typically talked about investing the money themselves outside of the pension wrapper. Usually this meant putting the money into cash ISAs or high interest savings accounts or investing in property (either improving their own home or purchasing an investment or second property).

> *"We are doing this house project. In many ways that's part of the retirement plan as well, because we might downsize. I thought I would make more spending it on that than hanging about waiting for it to mature… I paid tax. I guess I lost three thousand, but I thought it was falling anyway. If I left it, I might have ended up with nothing anyway."*
>
> Female, 55-59 years old, £10k-£30k pot

> *"The situation with Brexit… I thought I'll cash it in. I got the lump sum and I paid tax, you have to pay tax don't you… I paid the tax and got the money and invested it in Legal and General. I already have shares in that, but I think they are pretty safe. And Lloyd's Bank as well. It was for income. Dividends of 6.5%, and 4.5% with Lloyd's."*
>
> Male, 55-59 years old, £10k-£30k pot

[17] *Exploring Consumer Decision Making and Behaviour in the At-Retirement Landscape*, Ignition House research for the FCA, December 2014

We heard people of all ages talk about wanting more "control", which suggests that the drivers behind this desire are not specific to early access respondents.

> *"I knew I didn't want to leave it in the pension pot, because my view is that there won't be anything left by the time I pull it out… I've never believed in pensions."*
>
> Female, 60-70 years old, £10k-£30k pot

> *"When I looked at it, it was a difference of about 300 odd quid per year in what I'll get, and it just didn't seem worth waiting for. So, I might as well take the lump sum. I can invest that and get something better, even if it's only 2%. So, I might as well take it now and you get 25% of your pot tax-free, so I would think that's a no brainer."*
>
> Male, 60-70 years old, £75k-£250k pot

In their minds, this investment was something that they understood, was 'safe', and would not fall in value. In contrast, they feel pensions are impossible to understand, are risky and are just as likely or more likely to decrease in value as go up in value.

> *"I didn't seek any advice from anything or anyone, because I thought I can do it. I mean, I'm not stupid or thick, but when I see that word annuity – that word, I can't even say it – I don't know what it means. I can't get my head around it. So, I hear all that and I think I don't understand it. Just give me the money and let me put it where I can control it. I just think, if I've got the money in my hand that's where it is, and I can see what I've done with it."*
>
> Female, 55-59 years old, £10k-£30k pot

In general, these respondents had very little understanding of what their pension was invested in, how these investments were performing or that they may be able to replicate cash savings inside their pension wrapper. Only the most sophisticated had made any choices about how the money has been invested over the accumulation years, reflecting the high propensity to be in a default fund.

We also probed to see if respondents were aware of the charges being paid on pensions to see whether they understood the impact of charges on performance. Again, the vast majority had no clue. They were also not able to make any informed comments on the relative charges paid on a pension versus other savings vehicles.

Interestingly, trust and engagement levels appear to be closely linked. Our most disengaged respondents – those who took very little interest in their pension, those with very little knowledge about pensions, and those that viewed pensions as impossibly complex - were more likely to have a deep rooted sense of mistrust and more likely to want to access their pension and move it to an alternative investment; usually one that is easier to understand.

However, we also witnessed a number of contradictions. For example, many of our least trusting respondents also talked about having a degree of trust in their pension provider and citied trust as one reason for not shopping around for an alternative decumulation product when they enchased part of their pension.

4.3.2 Projected pension income figures in annual statements

Pension savers are normally provided with a statement every year that shows the value of their pension fund and an illustration of how much they might receive as an annual income when they come to take their pension. This figure is calculated by assuming their fund is converted into an annuity[18].

Existing research[19] has shown that way information is presented (how it is framed) can influence how individuals respond to choices about pension decumulation. For example, framing annuity choices as an investment (i.e. showing the total value of the pension pot that is given up to purchase an annuity) appears to bias consumers against annuities.

However, we found that the use of the consumption frame in statements (i.e. the amount of annual income they will receive) can reinforce the perception that their pension is "worth very little". It can also create a perception that their pension is "doing nothing" given that a fairly large change in the value of that particular pension pot may be required to show a material change in income delivered, especially if annuity rates are also falling; ultimately resulting in decisions to move pension money into a different savings vehicle or to spend money today rather than in the future.

Further, most of our respondents had little to no understanding of what they are invested in or how their underlying investments are performing or what impact any charges might have.

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[18] Statutory Money Purchase Illustration, published by the Financial Reporting Council www.frc.org.uk/Our-Work/Publications/Actuarial-Policy-Team/AS-TM1-Statutory-Money-Purchase-Illustrations-Vers.pdf

[19] Does the framing of retirement income options matter? A behavioural experiment, FCA, Dec 2016

> *"All that money in the pension pot is just sitting there, so I decided that I can use that money to do what I want to do now. It's not doing anything, so I just made the decision with my wife to use it."*
>
> Male, 55-59 years old, £31k-£75k pot

Some early access respondents also noted that, because their projected pension income was going to be so small, accessing their pension now would make no real difference to their financial well-being in retirement, despite often not having any other assets to fall back on in an emergency.

> *"The pension is only worth £20 to £30 per month. So, I thought I'd drive it for a while instead!"*
>
> Female, 53-54 years old, £31k-£75k pot

Others voiced concerns about falling annuity rates or investment risk and concluded that they would be better off accessing their pension money now, rather than running the risk of waiting another ten to fifteen years.

4.3.3 Perception that the pension is a "windfall"

As stated already, the vast majority of our respondents indicated that they previously had little interest in the pension pot they accessed, especially since the decision about what to do with the money seemed such a long way off and that they had very little control over what they could do. This manifested in generally poor awareness of what their pension money is invested in and what charges they were paying.

Many had multiple pots, and trying to keep track of which pension was with which provider (especially as the providers change over time due to mergers and acquisitions) was sometimes a challenge. Occasionally, we also came across respondents who had "found" old pensions that they had forgotten about. Typically these were smaller, frozen pots, and were often the result of opting out of SERPs or S2P some time ago.

As a result, few had really accounted for the pension pot they had accessed as their money for their future selves to live off in retirement. Rather, it was money that was "locked away", "inaccessible" or "forgotten all about". Understandably, many respondents were therefore delighted to find out that they could access this money right away; describing the new pension freedoms as akin to a "windfall", a "bonus", or a "lottery win".

> "I had a few savings I could have accessed, but that's my Christmas box money. Taking my pension money was like winning the lottery, well actually the pension was not that much, but I had a similar feeling that I had won something that I did not know I had."
>
> Male, 55-59 years old, £10k-£30k pot

> "I had a contracted out pension, with a company where I put a small contribution in and then stopped paying that one, because my circumstances changed. And that was the one I lost track of and that came in quite nicely as it happens. It gave me an extra £20,000 that I wasn't expecting. So, that was a real bonus."
>
> Male, 55-59 years old, £10k-£30k pot

> "I've got some savings; I've got some rainy day money, but (the pension) was like free money."
>
> Male, 55-59 years old, £10k-£30k pot

Academic research by Shifrin and Thaler[20] suggests that people tend to categorise their money into separate mental accounts, for example, a current income account (such as their monthly salary), an asset account (for example, a savings account), and a future income account (a pension) – and treat each account differently. In particular, they are far likely to spend money in their current income account than money in their savings or retirement accounts. There have also been a number of academic studies looking at how unexpected windfall gains are treated from a mental accounting perspective, which suggest that people are likely to spend a large proportion of their money if it is seen as a windfall, especially if that windfall is unanticipated.[21]

For our respondents - the first cohort since the new pension freedoms were introduced - it is hardly surprising that some see their pension as an unexpected windfall given that they could not have anticipated the rule changes. The impact of this is that they spent a larger proportion of their pension money today than would have been the case if they had mentally accounted for their pension as future retirement income. To be clear, this does not mean that everyone will spend all of their pension money, rather that some people may spend more of their pension money than otherwise would have been the case. Indeed, a number of our respondents said that they would never consider spending their savings in this

[20] *The Behavioral Life-Cycle Hypothesis*, Shefrin and Thaler, 1988

[21] *The Psychology of Windfall Gains,* Arkes, Joyner, Pezzo, Nash, Siegel-Jacobs, Stone, 1994

way, as they have made an active choice to build up these savings, have made their own choices about what savings vehicle to use and they are very specifically accounted for as "rainy day" money.

Academic evidence also suggests that lower income households have a higher propensity to spend a large amount of a cash windfalls[22] and that people are more likely to spend windfalls on marginal goods.[23] In line with what the academic literature would suggest, we observed that respondents with less retirement provision or less household wealth seemed more inclined to spend some or all of their pension, and that their spending was typically on marginal big ticket items such as a new cars, holidays or home improvements. Further larger scale quantitative research would be required to quantify this observation.

> *"I decided to take a lump sum because my daughter lives in Canada. I took it all. I did not want to wait until I was 65."*
>
> *Male, 55-59 years old, £10-30k pot*

4.3.4 Framing of the 25% tax-free cash (TFC)

There was a lot of information in the media that woke respondents up to the fact that they could take 25% of their DC pension as tax-free cash from the age of 55 onwards - although this has always been the case it was not as widely known before the pension changes and also came with restrictions attached, such as the need to buy an annuity or enter drawdown.

For our respondents, having this money "tax-free" was very attractive as it sounded like a "win", or a "win against the Government". This made accessing their pension pot seem much more attractive than taking money out of other savings vehicles, especially where there might also be delays due to lock-in periods, or penalties for early access. Indeed, many described taking the tax-free money as a "no brainer" and many choose to access their tax-free cash from their pension rather than dip into cash based savings accounts.

> *"We had a works meeting and they told us in the works meeting that that's what we could do. I thought, tax-free, that's a good idea. Because there's plenty of time to put it back in."*
>
> Male, 55-59 years old, £10k-£30k pot

[22] *Fiscal Policy and MPC Heterogeneity,* Jappelli and Pistaferri, 2013

[23] *Mental accounting and small windfalls: Evidence from an online grocer,* Milkman and Beshears, 2009

Only a very small proportion of our early access respondents (6 people) took less than 25% as a lump sum. Here, their motivation to access their pot was usually to meet a very specific spending need and all had pots larger than the average.

> *"I took a small tax-free lump sum and invested the rest. It was for a specific need at the time, yes it was very handy."*
>
> Male, 55-59 years old, £75k-£250k pot

Just three annuity purchasers chose not to take a lump sum at all. Here, they were looking to maximise their income.

> *"I didn't want to take a lump sum, because, basically, I didn't need a lump sum. My mortgage has been paid off, my cars are paid off, there's nothing really I would need it for... if it all goes wrong (with other investments), I've still got my annuity to fall back on. If I took a lump sum and lost it, then I've got nothing at all to fall back on to."*
>
> Male, 55-59 years old, £31k-£75k pot

Tax-free cash was also a driver for which pot to access. Those with a specific spending requirement often looked what 25% of each of their pots was worth, and decided which pot to take based on the one that came closest to this sum.

> *"I recently withdrew the maximum I could without paying tax, which was 25%, to give my daughter a down payment to buy her first house. I have several pensions, it was one of my private pensions I access. The one that had the most in it."*
>
> Male, 55-59 years old, £31k-£75k pot

The remainder were usually looking for ways to spend the 25%. It had not occurred to them to only withdraw the amount they needed. As a result, many had not spent all of this money, but, instead, had put some aside for use at a later date. Usually, any money remaining was sitting in a current account, savings account, or cash ISA.

4.3.5 A focus on the present

The announcement made in 2014 has resulted in a fundamental change in the way our early encashment respondents think about their DC pensions. Our early access respondents had often heard about the new pension freedoms from the media and this coverage has created a new anchor for accessing pension money at age 55. In their minds, this means that the "big change" arising from the new freedoms is that their pension now seems more "real" and much more immediate. Money is no longer locked away for a future income in retirement – they believe they have been told by the Government that they can access their pot now, to do whatever they want.

There is considerable evidence that individuals value immediate benefits more than the same or even greater benefits that will occur in the future, and our study confirmed this view.[24] A deep disconnect with the wants and needs of their future self meant that most of our early access respondents did not think too deeply about the impact of using their pension money now on their standard of living in retirement.

There were a number of reasons given for spending today. A small number referred to a recent bereavement driving a "live for today" mentality, but many felt that as they would have previously have taken the 25% tax-free cash to spend at age 60 or 65 they were simply bringing forward their consumption decisions. It is striking to see the similarities between the spending patterns of the under 60s to the over 60s.

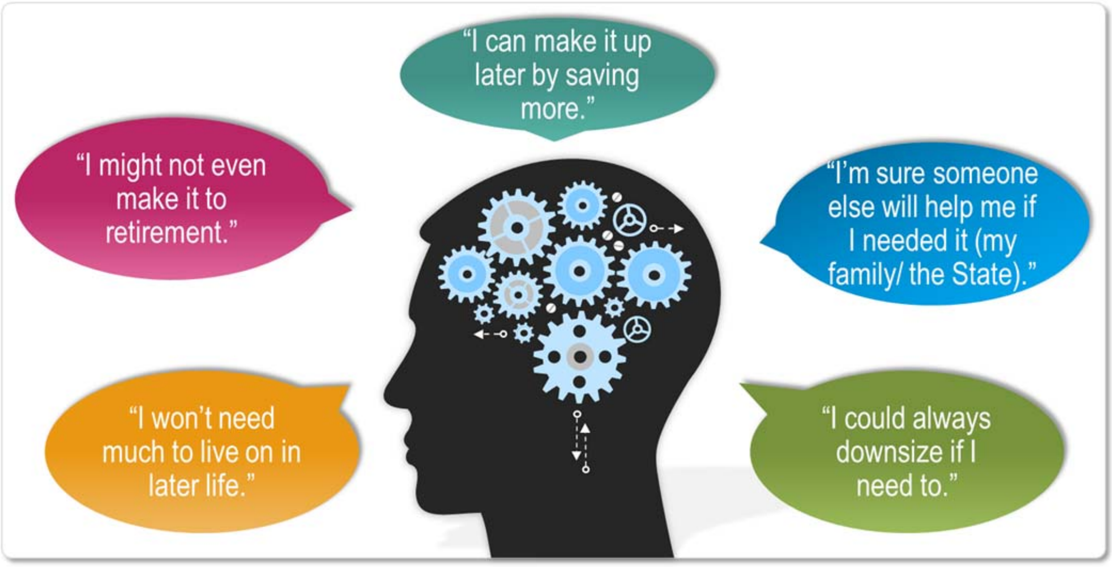
That said, and despite often recognising that their pension would be important to their well-being in retirement, low understanding and engagement means that the framing of early encashment decisions is often resulting in an over-confidence in their decision to spend today:

- A belief that they will be "comfortable" in retirement reinforces their strong preference to enjoy their money today; however, most woefully underestimated how much money they need to save to live off in retirement.
- Anchoring to a life expectancy of around 80-85 means that they typically under-estimate how much money they will need for later life; most were surprised to hear one in ten of them could live to be over 100, but even when presented with the facts, they did not want to believe it.
- Some have a strongly held perception that pensions are "bad" and they can do better themselves; but few knew what their money is invested in and how this is performing relative to other types of savings.

Our respondents demonstrated a strong optimism bias, manifesting in an over-confident view of how the future will turn out, as evidenced by how they rationalized their decision to prioritize spending now.

[24] Golden Eggs and Hyperbolic Discounting, Quarterly Journal of Economics, David Laibson, 1997

Figure 6: Respondents rationalized their decision to prioritize spending now in a number of ways



4.3.6 A new social norm

Our respondents are the first cohort who have been able to access their pension money under the new rules. As such, they are looking at the experiences of friends, relatives and co-workers to create a new social norm.

> *"It's the unknown, we're the first people that have gone through this stuff, so you can't look back. Normally you get some examples of what people did, but all of this is hypothetical of what would happen in the future, so it's a risky and difficult because it's only when you get a lot older that you will realize whether you have made the right decision. Will it work out or will there be enough money? Was that car I bought worth it?"*
>
> Male, 55-59 years old, £31-75k pot

Our younger respondents were more likely to report discussing whether or not to access some of their pension money with friends or family of a similar age. Some felt that as they were all dealing with the same issues, and could benefit from learning from each other's experiences.

> *"My neighbour had done it. Me and my husband were downsizing anyway and we decided we will help the kids."*
>
> Female, 55-59 years old, £31k-£75k pot

Some explicitly reported that the ease with which colleagues or friends talked about getting their hands on their pension money to spend on a big ticket item such as a car, kitchen or holiday inspired them to take a similar course of action.

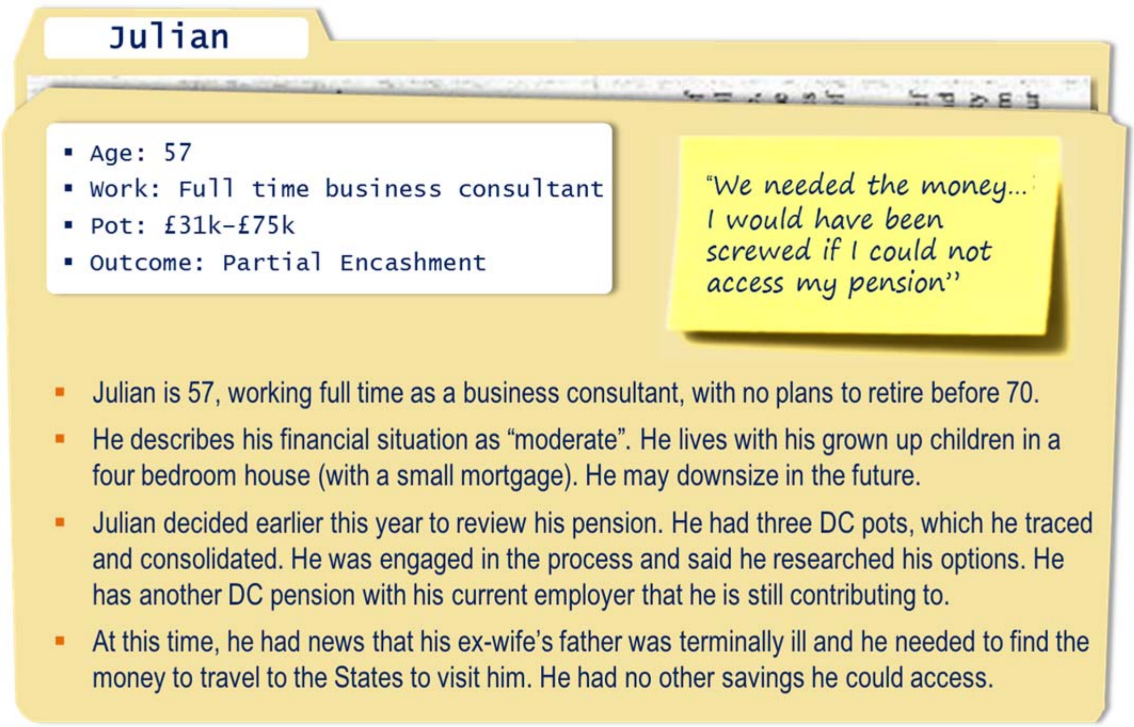
> *"My brother told me! We were talking and he was saying he had taken it out and bought a car. Wow, can I do that too? I had never even thought about it. Never crossed my mind that I had one as well. It was only when he started talking about his."*
>
> Female, 55-59 years old, £31k-£75k pot

4.3.7 To meet an urgent need

A few of our 55 to 59 year olds accessed their pension to meet an urgent need; either to pay for an unexpected cost or to replace lost income due to an unplanned reduction in income, which could arise from redundancy or ill health. Respondents in this situation described the pension freedoms as "fortuitous" or a "life-saver" and said that they would have been in a great deal of difficulty if they had not been able to access their pension early.

> *"It was quite fortuitous that the Government came out at the time to say we could access it."*
>
> Female, 55-59 years old, £75k-£250k pot

Figure 7: Case Study: Julian had an urgent need for a lump sum



For the rest, spending would appear to be much more discretionary. We asked respondents to imagine that the tax-free cash limit was, in fact, a different figure – say 10% rather than 25% and asked whether they would still have drawn out the same amount to spend. For many, the answer was very clear. The attraction of having tax-free money was the main driver for the amount accessed and they would not have wanted to "lose" any of their pot.

We also told respondents that they have always been able to access tax-free cash at age 55 – that rule has not changed. This came as a surprise as in their minds the money was locked away until at least 60. We confirmed that they had the ability to do this, but would have had to buy an annuity with the remaining 75%. Had this continued to be this situation, again just a couple had such an urgent need for money that they still would have considered accessing their pension early.

Finally, we asked early access respondents whether they had any alternative savings that they could have used instead to make their purchases. The vast majority said that they did, but were very reluctant to touch their "rainy day" money. If the pension money had not been available, they would probably not have made the purchase or gone for a cheaper alternative.

> *"I wouldn't have bought the kind of car I've got now, because it's top of the range. I would still have bought a new car because I was having issues with the car I've got. I probably would've exchanged the car I've got and then put 2 or 3 thousand into buying the new car."*
>
> Female, 55-59 years old, £10-£30k pot

> *"I might've done a little bit at a time… I'll do a little bit here and a little bit there. Because my other bits of savings are savings for emergencies, and this was like a bonus. A windfall."*
>
> Female, 55-59, £10-£30k pot

> *"I've got some savings. I've got some rainy day money – but this was like free money."*
>
> Male, 55-59, £30-£75k

4.4 Motivations for access for the over 60s

Our over 60s could be broadly split into two groups:

1. those still working with no immediate plans for retirement, and
2. those who recently retired or are in phased retirement.

The first group (those still working with no plans to retire) gave very similar reasons and motivations for full or partial encashment as the under 60s. As with the under 60s, most accessed their pension to spend some of their money today or to take control of their money and reinvest it outside of their pension. The vast majority took the maximum tax-free cash permissible. Again, factors such as present bias, the windfall effect and a general mistrust of pensions were very important underlying motivations for these decisions.

The second group (those who recently retired or entered phased retirement), primarily accessed their pension to deliver an immediate income, either by purchasing an annuity or through drawdown.

Due to the peculiarities of our sample design, many of our annuity purchasers purchased their annuity via a referral from their pension provider[25] and a quarter had a Guaranteed Annuity Rate. Some purchased an annuity because they wanted a guaranteed income, some because they were too daunted to research the alternatives.

[25] We included 31 referral respondents in the research to explore whether referral arrangements, offered by some existing product providers, are beneficial or detrimental to consumer decision making. For this reason, our over 60s cohort is likely to have been made up of more respondents of this type than if we had recruited more widely.

Figure 8: Case Study: Susan purchased an annuity because she was daunted by the prospect of remaining invested

Susan

- Age: 63
- Work: Employed Part-time
- Pot: £30k-£75k
- Outcome: Annuity + TFC

"I think annuity is really old school. I kept looking at it and I didn't know what was the best to be quite honest with you. I went with the safe bet I think.

- Susan is single, has two children and is employed as an admin assistant. She decided to take her pension in May to supplement her income as she reduces her working hours.
- Susan took the maximum TFC (bought a new car) and bought an annuity with the remainder. She says she did a bit of research and was aware of the different options available to her, but confessed she had no real idea what she was doing and did not feel comfortable making investment decisions herself nor paying a fee out of her pot to access advice. She felt that an annuity was the "safe bet".
- She purchased her annuity from her existing pension provider. She was aware that she could have gone elsewhere, but went for the "easier option". She doubted that she would have gained much by shopping around because "rates would be much of a muchness".

Drawdown was far more popular amongst our non-referral retirees. Indeed, most of our over 60s were pleased that they no longer had to buy an annuity and felt "lucky" to have more choices compared to previous retirees. A few opted for regular income drawdown (usually via a SIPP), but most favoured taking big, lumpy payments from their pension rather than a regular income stream.

> *"I'll take the rest of the money as and when I need it. I have a final salary already sorted. I have a house that might need work on it. I have two grandsons…"*
>
> Male, 60-70 years old, £31k-£75k pot

For those not buying an annuity, few saw their remaining pot as something to generate an income for life. Rather, most had a relatively short planning horizon and it was rare to hear of plans for drawing income for longer than ten years. For many, particularly those with a DB underpin, their DC pots were there to fund the early "fun" years of retirement, or to help their family. If they did run out of money, most expected to be able to generate additional funds from downsizing, but without having a firm view of how much additional money this would release.

> *"I've never had it better in my life. My wife has inheritance, we work three months a year on cruise ships and a have a £7,000 mortgage on the property that we can pay off anytime we want. So we want to spend rather than save at the moment. If we live for another 15 years we have plenty of money for that."*
>
> Male, 60-70 years old, £31k-£75k pot

That said, respondents agreed that, as they have been sensible enough to save, they are sensible enough not to blow all their money.

> *"You get these horror stories, you had David Cameron on the television and somebody asked him, is it a good idea to do this because people are going to be drawing out all their money and spending it stupidly? David Cameron said, and he hit the nail right on the head, anybody sensible enough to set up a pension are not going to be stupid enough to blow it on a flash car, and he's right. You have to have a clear idea of what you want to do."*
>
> *INT: What are you going to do with the remainder of your pot?*
>
> *"If we want to go on a cruise, we'll go on a cruise. If we want a new car, we'll get a new car. We can do that. I'm going to be alright until I'm 80 and why do I want a big bank account when I'm 80? If you want to take pots out for the next 10-15 years, it is set up for that. I have no intention of taking it all."*
>
> Male, 60-70 years old, £31k-£75k pot

With their tax-free pension money in the bank, plus other household income, few of our drawdown respondents had made any plans yet on what to do with the remainder of their pension pot beyond having another look at their pension when they need to. Yet, as with the under 60s, many in zero income drawdown did not know what product they were in, what they are invested in, the charges applied to their account, or why they should think about shopping around for a drawdown product.

4.5 Conclusions

The new pension freedoms mean that pensions are no longer entirely seen as income for retirement, and that new social norms are emerging to access the tax-free element of their pension money early for discretionary purchases such as cars, holidays and home improvements. Under the old rules, many would have taken this tax-free cash money at 60 or 65; they are simply bringing forward their consumption decisions. For the over 60s, the new social norm is that they no longer have to take a regular income, which they feel better fits with their lifestyle.

We found that people of all ages want to behave responsibility with their defined contribution pension pot and can give coherent reasons for the actions that they have taken. Indeed, very few of the early encashment respondents we spoke to talked about taking their pension out to “blow the lot”, but a number of strong behavioural biases and framing issues are driving short-term spending decisions to the possible detriment of their future self. In particular, the framing of tax-free cash and use of the consumption frame in annual statements are strong drivers of early encashment behaviour. Low understanding and engagement, particularly around life expectancy and the amount of money needed for retirement, are often incorrectly resulting in an over-confidence in their decision to spend today.

Furthermore, a historic lack of engagement with pensions is driving the perception that their pension is somehow different to their savings. Some are so disengaged that they now see their pension as a “windfall” which makes them more likely to want to spend the money today, rather than in the future. Going forward, it will be important to try to reconnect people with the concept that the pension is their money to mitigate this windfall effect.

We observed a pervading sense of mistrust of pensions which has been formed over a number of years, based on a long history of bad news stories and a lack of understanding of pensions and how they work. Such perceptions are very deep-seated and will not be quickly or easily reversed. Rather, they are likely to be reinforced by continuing coverage about the future of tax relief and DB deficits.

The language of pensions, particularly now we have added drawdown, flexi-access drawdown, UFPLS, and so on into the assortment of jargon they are faced with when trying to navigate their new choice set, is confusing and only serves to further reinforce their sense that pensions are a black box, operating for the benefit of the provider rather than the consumer, and are not to be trusted.

For some, these negative feelings are so strong that they are driving a desire to take out all of their pension money as soon as they possible to have the money in their “control”. They still view this money as an important part of their retirement plan and are not looking to spend the money; they just want to hold it in a different type of investment, one that they feel they can understand.

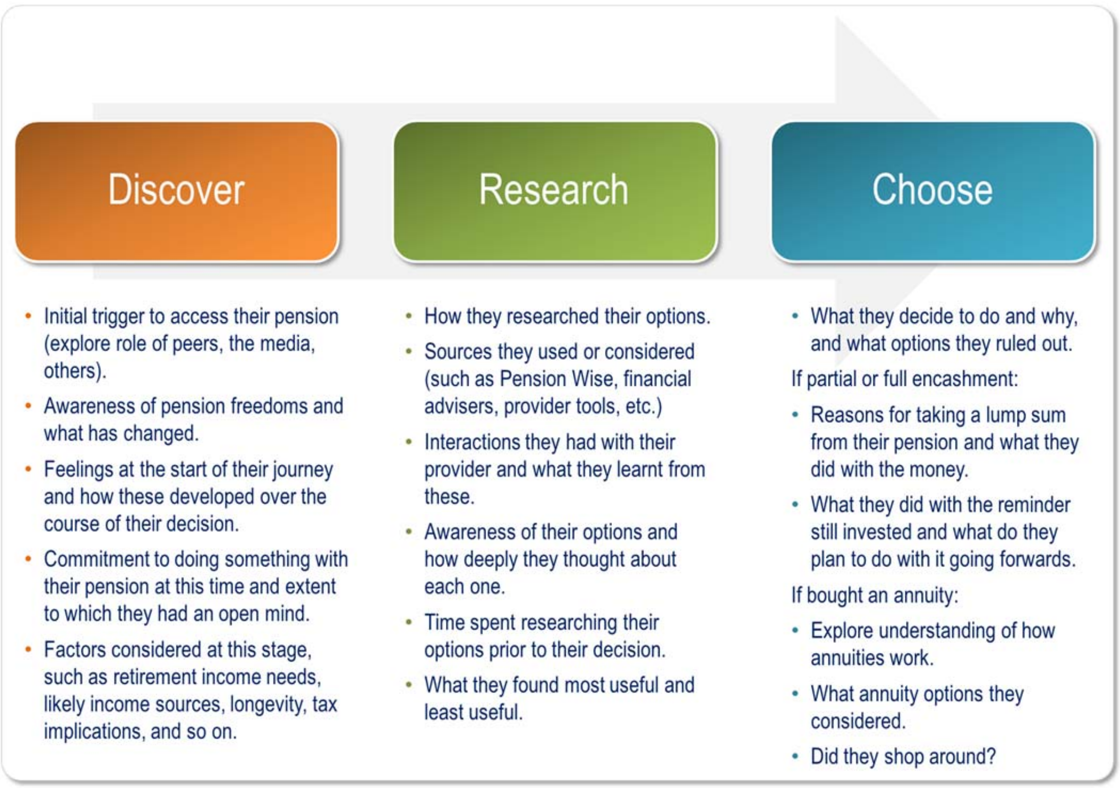
5. The Journey to Early Access

5.1 Introduction

The new pension reforms have fundamentally changed retirement income decisions; consumers are no longer obliged to undergo a one-off, irreversible conversion of accumulated pension savings into retirement income, they face a myriad of options, including some which were previously only available to those with large pots taking full financial advice.

Now that consumers have the ability to access more complex products without advice, we wanted to understand whether non-advised consumer journeys have become more complex as a result, and to what extent consumers are able to navigate the new choice set. We talked in some detail about the decision making journey with all of our respondents, but with a particular focus on our early encashment respondents. We explored three phases of decision making to compare and contrast the early access journey with those making decisions later in life.

Figure 9: We explored three phases of the decision making to compare and contrast early access journeys with those making decisions in later life



5.2 Discover

5.2.1 Respondents initially heard about the freedoms from the media and friends and family

All of our respondents felt that the pension freedoms were “big news” and, as a result, had been very well publicised. In common with our older respondents, our 55 to 59 year olds had heard about the changes in the national news, from mainstream media and from TV adverts about Pension Wise.

> *“Television. I saw an advert on the television. I think that’s where I saw it. Yes, it was more of the Pension Wise adverts. I felt delighted. So, then I looked up on the internet and read more about it.”*
>
> Female, 55-59 years old, £10k-£30k pot

> *“I heard it on the TV. There was lots of talk on the TV. I heard you could cash them in, but I didn’t know to what extreme you could do it, or who could do it.”*
>
> Female, 55-59, £31k-£75k pot

In all age groups, some respondents felt that the pension freedoms were “too good to be true”. Many could not quite believe that the Government had decided to open pensions up in this way. Once they heard the news, they quickly followed up with some of their own research, usually looking for corroborating information online and occasionally phoning their provider immediately.

> *“I remember it was a Budget, one of those Budget things, and I think I thought it was a bit weird and I took a double take and I thought, people can’t take their pensions now, and it turns out they can! But the very thought that people could, I couldn’t believe it! But, then I kind of readjusted my own plans to work out what that meant for me.”*
>
> Male, 55-59, £75k-£250k pot

Many of our respondents said they had pension conversations with their friends, family or co-workers.

> *“I actually went out for a meal with family and friends and my sister in law said oh I’m going to cash my pension in, and then we sort of got into a chat and I said ooh that’s quite an idea. So, when I got home, I got my*

paperwork that they send you, my yearly statements. And from that I made the phone calls."

Female, 55-59, £31k-£75k pot

5.2.2 *At the outset, most were pleased to be given the opportunity to access their pension, but slightly apprehensive about the path ahead*

We asked our early access respondents to think about how they felt at the start of the process, using a set of positive and negative words as a thought starter.

Figure 10: Please circle all the words below that sum up how you felt when you first started to think about what to do with your pension money?

Note: A larger font denotes a more popular answer. A highlighted font indicates the three most popular answers.

Respondents typically used positive word such as "pleased", "optimistic" and "sensible" to describe the changes, but were more likely to circle negative words such as "apprehensive", "cautious" and "wary" to describe how they felt about the process.

"I was quite pleased that it was an option. A little bit apprehensive about what I was doing. Although I've done my research right, and I know it's the right thing to do, I suppose in the back of my mind I thought, oh am I doing the right thing? But I'm pretty sure that I have. So, I put apprehensive and confident."

Female, 55-59, £10k-£30k pot

That said, the "cautious" and "apprehensive" feelings were usually not related to their decision to take money, or what to do with it. On the whole they felt positive that they could make a sensible decision, and that they would not "blow" their money or pay more tax than they wanted to. Rather, our early access respondents were worried about whether they had understood the changes correctly (particularly the tax rules), apprehensive about how easy the process of actually getting their money from their provider would be, and had a general concern about pension scams.

> *"I just put 'pleased', 'apprehensive', and 'cautious'. It's complex. You speak to these people on the phone who won't advise you anything, so unless you're prepared to pay and get proper advice – and all the scams and everything that's a big thing. You don't know whose scamming."*
>
> Male, 55-59, £10k-£30k pot

> *"I've got 'uneasy', 'vulnerable', 'apprehensive' and 'doubtful'. I was always concerned about filling in the forms correctly. You do something out of order and then you get yourself into some trouble that I couldn't get out of and I was concerned, am I making the right decision?"*
>
> Female, 55-59, £31k-£75k pot

We found that the few 55-59 year olds in our sample who were making income decisions were, on the whole, slightly more positive than those making encashment decisions. This largely reflected their relief at not having to buy an annuity any more.

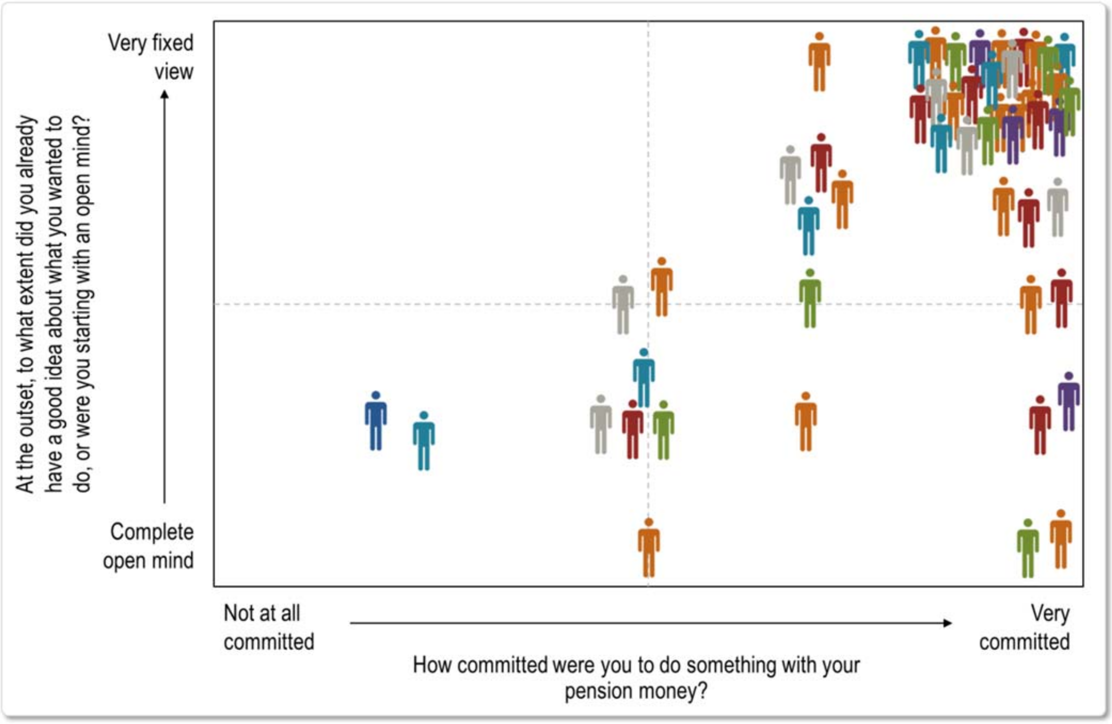
5.2.3 Most early encashment respondents had a very fixed view on what they wanted to do, and were rarely undertaking an exploratory journey

The vast majority of our full or partial early encashment respondents had made up their minds to access their pension from the very start, based on what they were reading and hearing in the media, and from observing the experiences of friends, family and colleagues. They were very set on this path, and felt that they would have needed a very strong intervention to make them think twice about what they were doing.

Most could not think of anything that they could have heard or read which would have changed their mind but, when prompted, examples could have been:

- A much larger than expected tax bill;
- A large withdrawal penalty;
- A very difficult and convoluted process.

Figure 11: Most early encashment respondents had a very fixed view on what they wanted to do?



5.3 Research

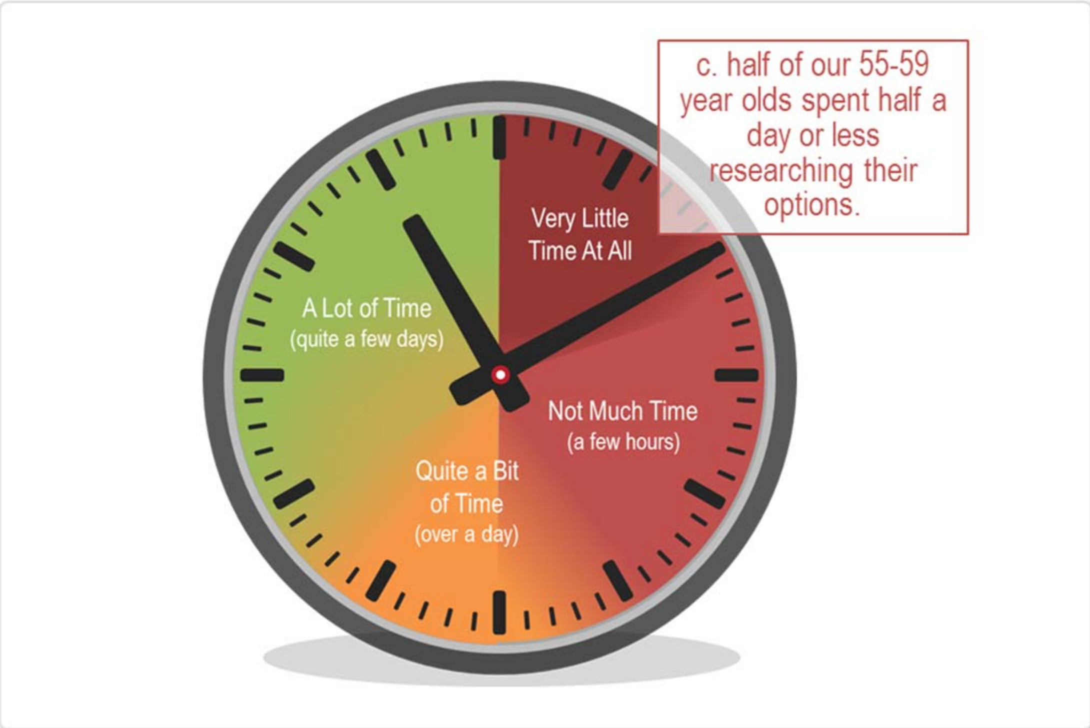
5.3.1 Early access respondents rarely spent much time researching their decumulation options

Historically, for those with smaller pots, the decision to access tax-free cash was directly linked to a retirement income decision. If you wanted tax-free cash, within a short period of time you had to buy an annuity with the reminder of the pot. Pension freedom and choice has broken this link, and many of our 55 to 59 year olds drew a clear decision between the decision to take some money to spend now, and making decisions on what to do with their pots when they retired and needed an income.

To them, the decision to access some money now was perceived to be a very simple one - a "no brainer". The decision about what to do with the remainder of their pension money was much more "scary", but one that they felt they will not need to face for time, given that many of our respondents were in their mid-50s and still working and did not expect to retire for the foreseeable future.

This means that most of those aged 55-59 years old taking tax-free cash for cars, holidays, kitchens, and so on, spent very little time, if any, finding out about the decumulation options available to them. Indeed, around half of our 55 to 59 year old respondents said they spent half a day or less researching their decision, and a significant proportion of this time was spent understanding the process and the tax rules or planning what to do with their tax-free cash once withdrawn.

Figure 12: Early access respondents rarely spent much time researching their options



They were often very surprised to be asked this question, as they did not see the relevance to what they had done. In their minds, accessing money from the pension to spend on these items was just like taking money out of their bank account and so their key area of interest was about the process and whether any charges or penalties would apply, not what impact this might have on a future retirement that is still some way away. Such respondents had not made a pension income decision – they had made a cash withdrawal or consumption decision.

> *"I just said to them [the provider] I want the cash I want it all out. How long will it be? And she says about two weeks, and that was it."*
>
> Male, 55-59, £30k-£75k pot

About one in ten of our early encashment respondents said they had thought about the pros and cons of leaving their pot untouched. However, on probing, they revealed that this was a very top level thought which was quickly dismissed, and that they had not made any firm calculations or estimates of the impact of taking their money now.

Most were aware of annuities and had a broad sense of how they work (in that they pay a fixed, known income for life and that once the annuity is purchased there is no further access to the money). Just over one in ten said that they had thought briefly about the option of an annuity, but they quickly ruled it out after a short review of potential income illustrations in their statements and/ or looking at rates in generic tables online or in newspapers, such as the money pages of the Daily Mail.

Drawdown was commonly referred to as "taking my money out as and when I need it", rather than taking a regular income stream. This was usually felt to be a decision for the future, so they paid little attention to how it would work in practice. From what little they had seen, they felt that the language used to describe drawdown was very off-putting; they found it difficult and confusing and it often felt like jargon.

5.3.2 There was good awareness of Pension Wise, but those making early encashment decisions did not feel the need to use this service

Most early encashment respondents had heard of the Pension Wise service and they felt it had been well publicised on TV and in their provider's literature, but very few made contact or visited the website.

They understood they could seek help from this service, but felt that it was not warranted given that they were simply making a decision to withdraw some money. In contrast, when they finally stop work and need to think about taking a retirement income – a decision that was described as far more complex - they recognised that they may need much more help to understand their options. At this point, they may well seek help from Pension Wise, or pay to see an adviser.

> *"You got documentation through telling you about Pension Wise and so on... I already knew what I wanted to do, so I never bothered."*
>
> Female, 55-59, £10k-£30k pot

This mirrors the experiences of respondents who were actually making an income decision (both those under 60 and over 60 years old). Here, there was a much higher propensity to read the Pension Wise leaflet and look at the website. A number of our respondents also booked a phone or face-to-face appointment. Those that used the service generally gave good feedback about their experience, although a couple commented that it was a bit superficial and they did not learn much if anything that was new.

"I saw an advert on the television, a Pension Wise advert. Then I looked it up on the internet. I decided to make an appointment with the Pension Wise people and go and discuss it with them… it was explained to me that I needed to reinvest [the remainder] and all these low risk, medium risk and high risk options were explained to me. I've gone for the option of putting part of it in the low risk and the rest of it's in the medium risk. It was very clearly set out on the website about what to do."

Male, 60-70 years old, £75k to £250k pot

"I did use Pension Wise initially as I say, I thought it was quite good and the website was helpful, but it was a little bit basic. I probably should've gone there first, but I didn't. I hunted around and then I went to there. I had a telephone chat, it was okay, but I think by that stage I was really past the knowledge they were going to give me."

Male, 55-59 years old, £75-£250k pot

5.3.3 Those undertaking full or partial encashment typically had a very transactional contact with their provider

Respondents reported that they would often phone their provider to get a valuation early in their decision making journey, and then again at various points along the way to check their understanding of things such as the tax situation and to get a general understanding of the process they would need to go through to get their money out.

The vast majority reported receiving an information pack from their provider, which they generally felt to be informative. However, they demonstrated high levels of confirmation bias as they tended to skim to the parts which focused on the decision they wanted to make, rather than undertaking a thorough review of all the information available.

Beyond this, they had very little interaction with their provider as they felt that they were making a very simple decision.

5.3.4 Many on a 'dash for cash' path had negative views on any provider interventions to try to get them to think more deeply about their options

A pervading undercurrent of mistrust meant that some of our early access respondents took a very dim view of some of the interventions put in place by providers designed to help people to think about their decision in more detail. They usually perceived this to be a delaying tactic by the provider rather than an additional layer of protection for their benefit.

> "I sort of said what I wanted to do and then had half an hour of formal cautions and warnings that they have to give out… 'you realize that taking money out now means you may not have enough to live on later, blah, blah, blah'. It was such a long, long pile of stuff that they read out. I almost lost the will to live… I did find it slightly obstructive in in terms of the process, you know, just to access my money."
>
> Male, 55-59, £31k-£75k pot

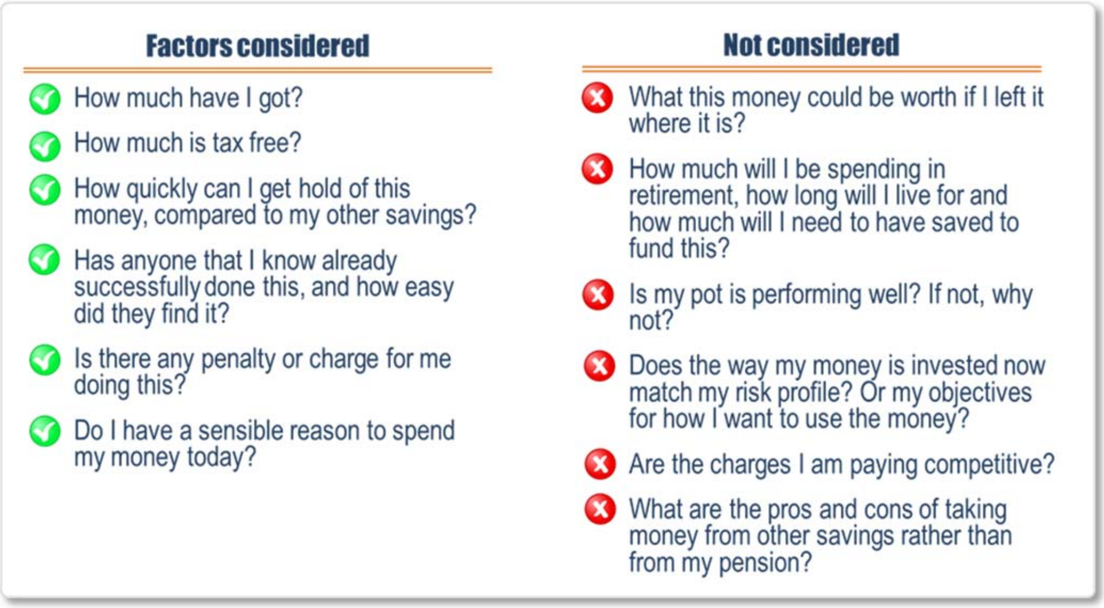
> "I had to do that with [pension provider]. Loads of documents that were trying to change my mind."
>
> Female, 55-59, £10k-£30k pot

At best, many felt that that such interventions were simply a "back covering" exercise by providers to be endured, and only a couple felt that it was a useful way to get them to stop and think twice about their actions. Unfortunately, this approach sometimes had a perverse effect, making certain people even more determined to get their money out as quickly as possible.

5.3.5 A very short, process driven decision journey means that consumers consider very few factors in any depth

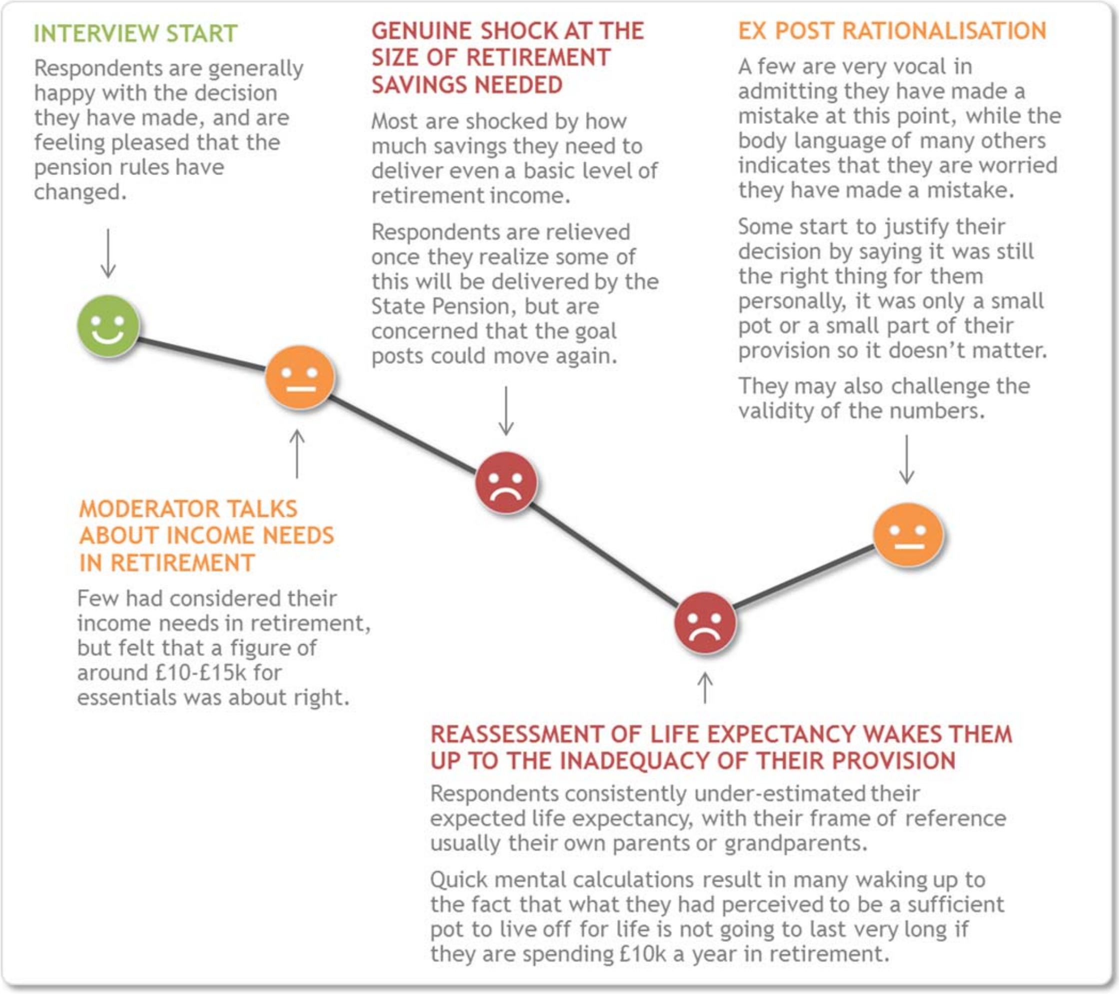
Most of our 55-59 year old respondents spent very little time considering their decision to access their pension, and they focused very much on process related matters; such as how much money was in their pension, how much they could access tax-free, how quickly they could access it, what the process involved, and whether there were any penalties or charges to pay. Rarely did they consider any of the broader issues around how much they would need to live off, how long they might live for and what their pensions might be worth if they had left them in situ for a few more years.

Figure 13: Very few factors were considered in any depth



As part of our discussions, we took these respondents on a journey of discovery to open their eyes to some basic information about longevity and the amount of money needed to live off in retirement. Many respondents had a ‘penny drop’ moment during these discussions, which made them start to question whether they had acted too hastily, without understanding all the facts.

Figure 14: Some respondents started to question their decision after we revealed some facts about the retirement income needs and longevity for the average person



Two pieces of information were particularly impactful. First, information about life expectancy helped our respondents to re-evaluate assumptions made about how long pension money would need to last for. Time horizons for our respondents typically stretched for five to ten years after retirement, with most unwilling or unable to plan beyond their mid-80s. It came as a big shock to know that around 1 in 10 could make it to a hundred. Few said that they had thought about their retirement income needs in the later years of retirement when making their retirement income decision and many did not want to think about this stage of their lives.

Second, respondents were asked to say how much they would need to have saved in a pot to provide the equivalent of the state pension. Most woefully under-estimated the amount required, typically thinking of pots around £50k-£100k. When told the figure was nearer to £250k (which is substantially more than the vast majority had saved in all of their pots combined), they started to understand how much would be needed to deliver even a very basic lifestyle and questioned whether spending their money today (often on holidays or cars) really would make no difference to them.

> *"So, all the people out there that took, at the age of 55, money out of their pension pots that was tax-free, they will need that back in there to last them for that long? That's a shock, absolutely. I think, what would've been nice at the time, if somebody would've said to me, 'okay, its fine, it is your money, you can have this money out if you want, but, if you take that out, the money you'll have left in your pot, if you carry on working until you're 67 or 70, will not be enough for your old age pension to retire on.' I'd have thought twice about that then. It does make you think, am I doing the right thing? It would have changed my decision if I'd have known. There is always a catch and in my instance is that there won't be enough in my pot, because I've taken that out. Instead of getting my holiday and car and whatever I'd have wanted now, I would've saved up for it."*
>
> Female, 55-59 years old, £31K-£75K pot

> *"I've had a lot of lightbulb moments! I'll got home tonight thinking, oh dear me! I think it's in the back of your mind, why would I not have left it? And I took the lot! I'm looking at it from that perspective now, why didn't I just leave it? I just thought it wouldn't be worth anything. Isn't that about me burying my head and not really realizing the situation? If I'd have known, yes I would've made different decisions.*
>
> Female, 55-59 years old, £31K-£75K pot
>
> *"Maybe after what we've heard I think I've been a bit blinkered. That's what I'm thinking now. Have I been too blinkered, too set on a certain path?*
>
> Female, 55-59 years old, £10K-£30K pot

5.4 Choose

5.4.1 Decisions are often being driven by the tax system but, perhaps understandably, there is evidence to suggest that they do not completely understand the rules

We observed that many of the decisions being made by our 55-59 year olds are being driven by the tax system rather than any assessment of need. Tax planning is now a key component of consumers' decision making process, and featured strongly in our discussions.

However, while most of our respondents were interested in minimising any tax paid, a small number of our basic tax payers were not aware they could pay 40% on their pension withdrawal as they were not clear what 'marginal tax rate' meant. Fortunately, none of these respondents withdrew enough to tip them over the threshold and into this situation.

Perhaps understandably, beyond the basic interaction with income tax, there was very limited knowledge of the tax treatment of pensions. Few understood what happens to unused pots upon death and why pensions might be more favourable than other savings vehicles for IHT planning[26], nor that money in a pension is treated differently for means tested benefits, social, and long term care compared to other types of saving[27].

Respondents with DB schemes also had no understanding of whether their scheme allowed the possibility to take their DC pot completely free of tax if combined with taking their DB pension benefits, which may have made it attractive to wait a few more years to access DC money.

We also came across a number of people in work who were accessing money from one pot and yet contributing to another. In such cases, they were unware that this would result in a lower cap on the amount of contributions that could be made each year. However, when the rules were explained by the moderator, none felt that this would be an issue as they were nowhere near breaching the new £10k annual limit.

[26] www.pensionwise.gov.uk/when-you-die

[27] www.pensionwise.gov.uk/benefits

5.4.2 Full encashment respondents were aware they would have to pay tax, but were not always sure about what this would mean in practice

Any concerns that people are encashing their money and receiving a surprise tax bill were quickly dismissed. All of our total encashment respondents were aware that they would pay tax on 75% of their pot.

> *"When I reached 55 I decided, because of the new law, to access it. I contacted [provider] and had a long conversation – the dos and don'ts, and so on. They sent me a pack. I had to read over it… I cashed the whole lot. The value of the pot was £110,000. I paid tax on it on the emergency tax code. I suppose which was more than I should have paid. I am reclaiming the residue from HMRC. I came out with £72,000 and I paid the rest in tax."*
>
> Female, 55-59 years old, £75k-£250k pot

Respondents justified the tax to themselves in a number of ways:

- It's a windfall - 75% of something is better than 100% of nothing.
- I will have to pay tax on the rest at some point anyway, so why not now?
- It's only a small amount, so paying tax won't make any difference.
- I'm sure to make the money back quickly with a property investment.
- I don't have any choice. I need the money now.

That said, some were surprised to have an emergency tax code applied, and were unsure what this would mean in terms of receiving a rebate.

Although our full encashment cases understood they had had to pay tax on 75% of their pension, a small number were surprised at receiving an additional tax bill from HMRC. They had not realised that withdrawals from their pension could have an impact on the amount of income tax they had to pay on their earnings in that tax year.

> *"There's another issue I've just come across; I did pay tax on my pension, quite a lot of tax, a good few thousand. Now I just had a letter last week off the tax office saying I'm now £1,200 in arrears with them. Apparently with my earnings and the pension I went over the tax bracket and I've now got to pay this back to them. It was a surprise, because I actually expected a tax refund, because of how much tax I paid on the pension when I got it out. You have to be so careful."*
>
> Female, 55-59 years old, £10-£30k pot

5.4.3 Hardly any of our partial encashment respondents shopped around for a drawdown provider

Partial encashment respondents of all ages very much wanted to follow the path of least resistance. If their provider allowed them to access their money in the way they wanted to, they were more than happy to stay, demonstrating high levels of inertia.

Indeed, for most, it did not even cross their minds to consider moving provider. After all, in their minds, they were making a decision to access a small proportion of their pension money either to spend now or place in an alternative savings vehicle outside of a pension; they were not making a decision on what to do with the remainder still invested and were certainly not making a long term pension income decision.

> *"I could not be bothered moving it somewhere else. The thought of having to go though and read all the ins and outs of it... No. I had enough going on in my life at that time. As long as I wasn't getting done, that was the main thing I was worried about."*
>
> Female, 55-59 years old, £31k-£75k pot

Respondents were also very unclear whether or not they had made a decision to crystalise their pension benefits - or indeed what this means for them. Most were only able to describe what had happened to the remaining portion (usually 75%) of their pot in the most basic of terms, simply referring to "just leaving the rest where it was."

> *"I had taken a lump sum out of it, which bought me a motor home, and a new car... The rest is just sitting there."*
>
> Male, 55-59 years old, £75k-£250k pot

> *"The rest is still sitting there. I didn't take it out."*
>
> Male, 55-59 years old, £31k-£75k pot

> *"I'm going to draw it as a pension when I retire. For now, I've just left it."*
>
> Male, 55-59 years old, £31k-£75k pot

We have inferred from our discussions that the majority are in some form of zero income drawdown product rather than UFPLS (most partial encashment respondents said they withdrew 25% of their pot and most described all of this withdrawal as being tax-free). However, respondents were unaware that they may be in some form of drawdown product as a result of their withdrawal.

> *"I know there are various types of drawdown. I don't fully understand it... I'm not sure anyone does actually. It is quite complex with some pretty complex names!"*
>
> Male, 55-59 years old, £75k-£250k pot

When asked directly by the moderator to talk through the pros and cons of searching the market for an alternative drawdown provider, most said that they doubted there would be much to gain by moving elsewhere and generally felt that there would be little difference in the products on offer. The vast majority had no idea where to go to shop around, or how to compare one drawdown proposition against another. If forced to choose, they would most likely focus on features that are difficult to compare across providers, such as brand recognition or trust.

> *"If Standard Life was that good and Aviva and Pru were that bad, everyone would put their money in Standard Life. They don't. No one is going to fly away with it... so, I'm leaving it."*
>
> Male, 60-70 years old, £31k-£75k pot

In the back of their minds, a complete lack of understanding and familiarity with this area meant that they were often scared that they may be open to a scam. In this sense, they knew their provider was a safe bet, having had a relationship with them for some years, despite having derided their providers earlier in our conversations about poor historic returns.

Unless they consolidated into a SIPP, awareness of investment performance and charges was extremely limited. We came across a couple of examples where the respondent could recall being asked to re-assess their risk profile, but these were the exception rather than the rule.

> *"I think the only thing I was slightly worried about was the other 75%, knowing that it didn't just stay as it was. I had to make a decision on what to do with it. That was the only thing that slightly worried me. But, then I found out that with this pension provider it was just so easy to tick boxes, and have the rest of the money invested in low risk, medium risk, rather than me having to make individual decisions on what amounts to go where."*
>
> Female, 55-59 years old, £31k-£75k pot

In common with the under 60s, we observed very few factors being considered in any depth, beyond the basics by those over 60 going into zero income drawdown. Tax-free cash in the bank plus other household income means that, for many of the over 60s in our sample, the decision on what to do with their remaining pot has also been parked for now. It is likely that many will want to take it out in lumps, over a number of years, rather than as a regular income stream. As with the under 60s, many did not know what product they were in, what it is invested in, the charges, or why they should think about shopping around.

5.4.4 *Most annuity purchasers stayed with their same provider, even though they knew that they could shop around*

The message that you should shop around for a better annuity certainly resonated with our respondents although most chose not to go down that path, giving a variety of reasons.

Some looked at generic rates online and thought that there was not much difference so it was not worth the time and effort. Some thought that as their pot was so small, it would not make any material difference if they did manage to get a slightly better rate.

There was a strong sentiment that the big providers offering annuities were much of a muchness, and so they preferred to stay with the one they felt they already had a relationship with.

Some occasionally expressed concerns that there might be a charge or a commission to move, which would offset any benefits of a better rate. Others felt that there might be a long delay if they wanted to move, or the provider might make it a difficult process, which they wanted to avoid if possible.

They often did not get a personal quote based on their particular circumstances as they were frightened that they might be entering their details into a scammer's website.

5.5 Conclusions

Early encashment respondents had a very fixed idea of what they want to do from the start, and focus almost entirely on this during their very short decision making journey. Such high levels of confirmation bias mean that it is likely to be very difficult to implement effective interventions.

We certainly observed that for our respondents the current one size fits all intervention approach appears to be having little or no effect, and indeed may even be reinforcing their negative perceptions of pensions. However, we do not know the broader market impact as those who may have been encouraged to leave their money or explore a different route were, of course, outside the scope for this research. What our research does suggest is that different types of interventions may be needed for different groups. Further work will be needed to test this hypothesis.

All respondents were aware of the headline tax implications of total encashment, even if some were a little hazy on the concept of marginal tax rates. However, some reported surprise at paying emergency tax and paying higher rate tax on their earnings, suggesting that more could be done to make people aware of these second order effects.

We also found evidence to suggest that early encashment cases taking tax-free cash only do not even understand that they have made a decumulation decision, never mind what kind of decumulation decision they have chosen, nor the ramifications of this decision. To them they have simply taken some money from their pension and “left the rest with their provider”. As a result, it rarely crossed their minds to question whether they are still in the right product with the right charges and investment strategy, and only the most sophisticated thought about switching to another provider for a better deal.

Even when prompted, the vast majority felt that they would not know how to go about shopping around, other than looking features that are difficult to compare across providers, such as brand recognition or trust.

It would appear that the issues of inertia, complexity aversion, and a preference to take the path of least resistance traditionally seen in the annuity market are now manifesting in the drawdown market, but we do need to recognise that what people are asked to do is a highly complex task and that they are coming from such a low level of awareness that they often don’t know the right questions to ask, let alone how to answer those questions.

6. Can Further Information Help Consumers

6.1 Introduction

We wanted to understand whether further information or additional support could help consumers with their decision making. We focused on two particular areas of interest:

- Could checklists help improve consumers' understanding and consideration of their options**?**
- How effective could prompts and illustrations be to help consumers to consider more carefully the decision to access their DC pension savings earlier than they necessarily need to?

In this section, we draw on evidence collected from Element 1 of the research (*Freedom to Access Pensions at 55*), and from Element 2 of the research (*Ability to Assess and Compare Retirement Income Options*). In total, sixty-five respondents participated in Element 1, and most were aged 55 to 59. Forty-eight respondents participated in Element 2, and these were a mixture of 55 to 59 year olds and over 60 year olds.

6.2 Checklists

6.2.1 Respondents overwhelmingly agreed that checklists could be a powerful planning tool

Checklists have already proven to be extremely effective in a wide range of settings, and we wanted to assess whether the idea of a checklist could translate into the pension space. We explored what the timing, content, size, structure, the source of a checklist might need to be like.

We found that the concept of a checklist resonated with respondents of all ages. They had experience of using lists in their everyday lives (common examples given were packing for a holiday and shopping) and some also used more formal checklists in their workplace.

Our respondents strongly agreed with the benefits of a checklist commonly described in academic literature and felt that such a tool would be very useful in making pension decisions. Support for checklists resonated the most with the women in our research, those using checklists regularly in their work, and those with a technical background (for example, engineers, town planners, risk assessors).

"I do like a checklist. It gives me peace of mind, because I know I've done it then. I have lists for everything."

Female, 60-70 years old, £31-75k pot

"It's about not missing things out and knowing what's vital."

Female, 60-70 years old, £75k-£250k pot

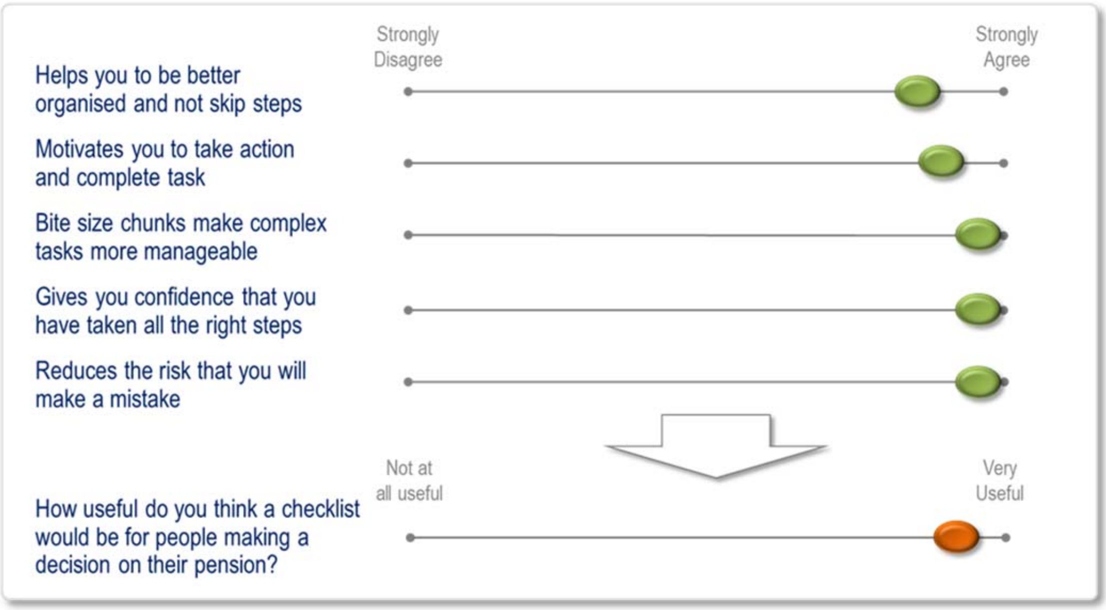
"It could've reduced some of the worry about it. It would've been nice to have most of the information at your fingertips, rather than googling it for hours to find out."

Male, 55-59 years old, £31k-£75k pot

"I would've loved a checklist, and yes, I would've used it. It would give you peace of mind. It would motivate people to make new investment choices they wouldn't have thought of doing before."

Female, 60-70, £30-£75k pot

Figure 15: Respondents agreed that checklists could be a powerful planning tool



Very few could recall seeing a checklist during their search process. A couple of respondents could recall receiving a checklist either from their provider or an independent source such as Pension Wise or Which? Only the most engaged said that they had made their own checklist and worked through it.

6.2.2 *When asked to design a checklist, respondents described something more akin to a personal planning portal*

Although they could see the benefits of a point-in-time checklist to help specifically with at retirement decisions, respondents said that they would also value some form of checklist much earlier on to help them understand whether they are saving enough for retirement. Respondents often cited their 50th birthday as a significant milestone when thoughts turned to the possibility of exploring phased or early retirement.

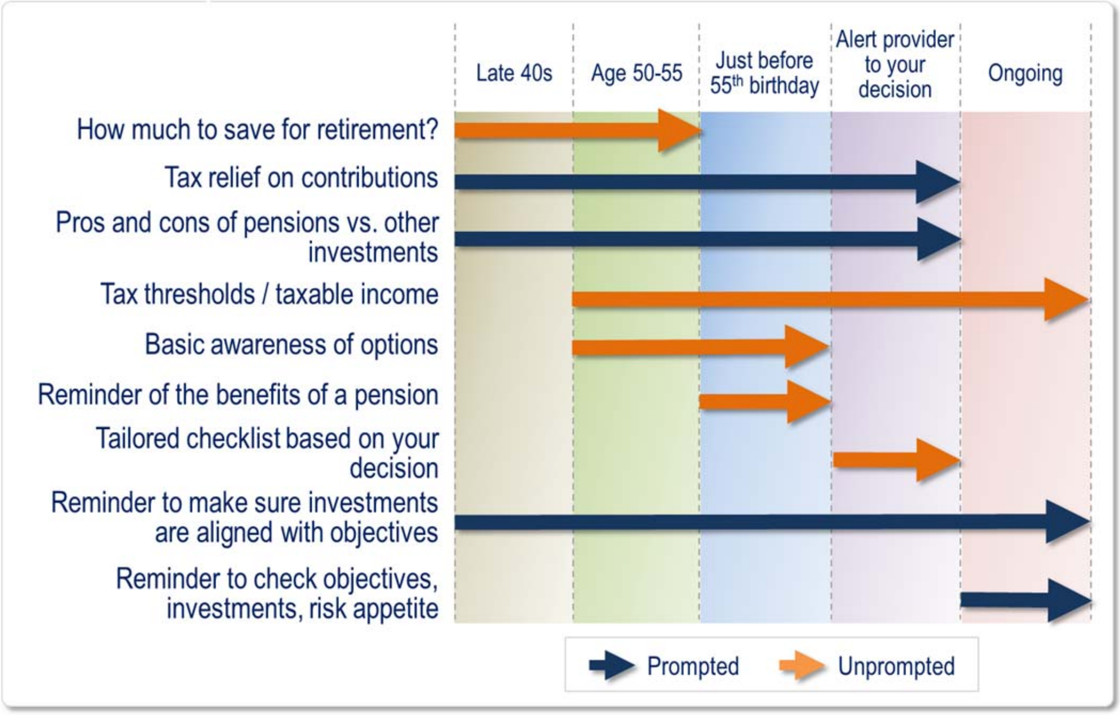
> *"I think it's not just about retirement its more about lifestyle, I think it's the lifestyle isn't it, when you retire? The paperwork in some way has to generate your interest in what kind of lifestyle you want to have in retirement."*
>
> Male, 60-70 years old, £31-£75k pot

A significant number also felt that a checklist for those in their 40s would be useful to help them understand whether they were on target for reaching their retirement goals and, if not, what extra saving would be required.

> *"There should be an advert that says 'if you're 40-55 look at this'. I do think you've got to wake us up to the need to pay more in, because some of us don't want to be woken up to it."*
>
> Male, 60-70 years old, £31-£75k pot

When prompted to think about the choices people would have to make in drawdown, they agreed that continuous or regular checklists would be useful, especially as a reminder to take action for those experiencing declining cognitive functionality as they get into their 70s and beyond.

Figure 16: When asked to design a checklist, respondents described something more akin to a personal planning portal

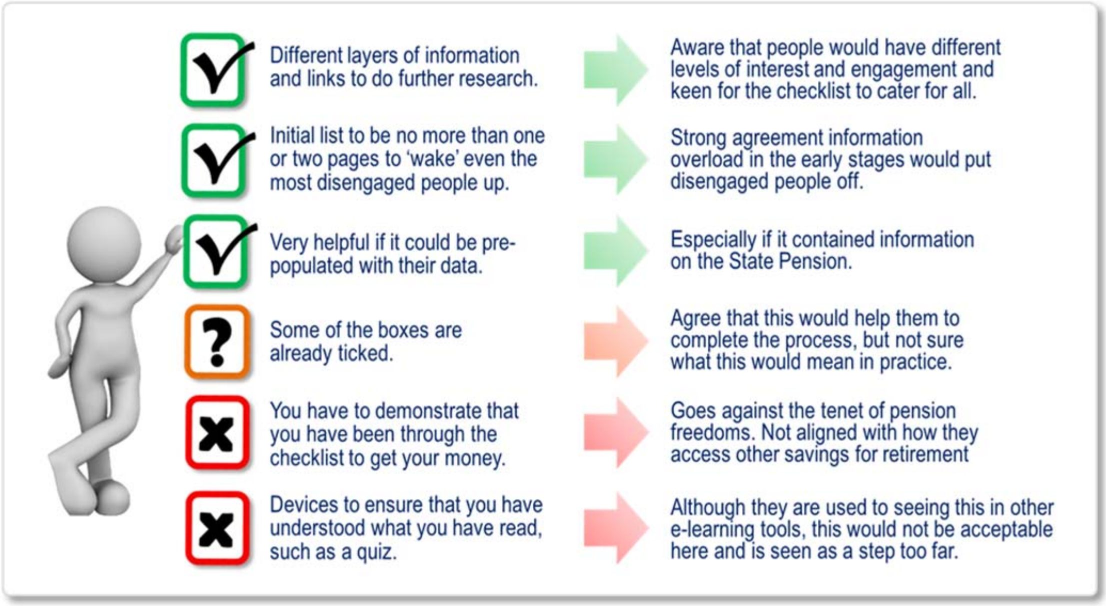


6.2.3 *Respondents had a consistent idea of how they would like a checklist to work in practice, and were strongly against any compulsion to complete*

We prompted respondents to think about how a checklist could work in practice, and in particular whether there should be a requirement to demonstrate that the checklist had been completed before the provider allowed access to the pension.

Many felt very strongly that the checklist should not be compulsory, but the more financially sophisticated and those who had been on more of a decision making journey to consider all the options were more open to this suggestion.

Figure 17: Respondents had a consistent idea of how they would like a checklist to work in practice



6.2.4 *Respondents also had very consistent views on how the checklist concept should be delivered*

There was complete agreement amongst all of our respondents that there should be a single checklist that is used by everyone in the industry.

There was very strong support for any checklist to be *designed* by an independent source rather than their provider – (e.g. FCA, DWP, "the Government", SAGA, Which?, Martin Lewis) – but the checklist can be *delivered* by their provider.

In their minds, delivery will almost certainly require a multi-channel approach. There will be some top-level questions designed to wake up the completely disengaged which could be delivered as a paper version, but more detail than that will need to be done online.

We heard strong support for the checklist as a separate communication, as many felt it would simply get lost in the wake up pack or general information sent by providers as there is already too much to digest. Some suggested that a top level checklist could form the first couple of pages of any application form.

6.2.5 Overwhelming support for the FCA to take the checklist idea to the next stage

The vast majority agreed that this idea was worth pursuing further and that the FCA was an appropriate body to take the lead on making this happen. If a checklist had been available when they were making their decision most felt that it would have made a difference to them, either in terms of giving them more confidence about what they were doing, or reducing the amount of time spent trying to understand what to do.

> *"I mean it would've made a big difference. It might've focused me on what to ask instead of going through things about four times and saying I don't understand."*
>
> Female, 60-70 years old, £10k-£30k pot

> *"If there was a list I would've probably looked at that. I did what I thought was right, but if I'd had a checklist I would've probably gone through it and thought about other things like getting little lump sums or maybe done a different decision."*
>
> Male, 60-70 years old, £31k-£75k pot

6.3 Prompts and illustrations

6.3.1 The concept of a 'rule of thumb' resonated with all respondents but many struggled to accept some of the stimulus we showed

The first cohort of people accessing money under the new freedoms are the pioneers, which means that there is no strong cohort experience to draw on.

Looking at countries such as Australia and the USA, where similar freedoms have been the norm for some time, we see the presence of a set of commonly accepted 'rules of thumb' which are useful short cuts to help guide consumers to make good decisions. There have also been some studies exploring the merits of such heuristics for the UK market[28].

We explored whether some of these simple rules of thumb, based on existing international experience, could be useful helping consumers in the UK navigate their pension decisions.

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[28] *Myths and Rules of Thumb in Retirement Income*, Pension Policy Institute, September 2015

We also used a set of illustrations to explore how effective such rules could be to 'nudge' consumers away from common misperceptions, such as "you can't lose with buy-to-let".

Respondents in our study understood the concept of a rule of thumb and could see how these had been effective in public health matters. The examples given of "eating five a day" and "clunk, click every trip" were widely recognised.

We showed our respondents a set of seven pension rules of thumb. We asked them talk us through what they thought each rule was about, and to say whether or not it could have been useful for them to have seen that rule as they went through their decision making process.

The purpose of this exercise was not to test whether these are the *right* set of prompts; rather to get a top level understanding of whether consumers engaged with the concept and explore some specific examples to see whether consumers found those helpful.

Figure 18: We showed our respondents a set of seven pension rules of thumb

We found that respondents struggled the most with the rules which challenged their perception that pensions were "bad", and these types of statements certainly had the most push back. Our respondents struggled with idea that their pension savings could potentially double in value every 10 years (as this had certainly not been the experience of many over the previous ten years) and that their pension should be the last savings you access, as this very much goes against the grain of what they thought they had been hearing from the media. The most financially sophisticated felt that messages that only showed the upside of pensions were very misleading.

> *"I agree with that statement, but looking back on my own pension, it was never going to rise more than £260 a year. These are all, it 'might' do that, or it 'might do this."*
>
> Female, 55-59 years old, £31k-£75k pot

> *"Well, they might also halve! Not all pension funds perform well."*
>
> Male, 55-59 years old, £31k-£75k pot

If they could accept these messages as the *truth* then it could make them think twice about taking money from a pension instead of using cash-based savings, but it would be a big challenge to reverse their current thinking.

> *"I didn't know that was true, but, wow. So, in actual fact, it's probably better to put it in my pension than to leave it in the (cash) ISA."*
>
> Female, 55-59 years old, £31k-£75k pot

There were mixed responses to the message that if you leave money in a savings account for ten years it will probably buy less than if you spent it today. For some, this message simply reinforced their desire to spend today. For others, it did wake them up to the impact of inflation on long term savings in cash ISAs and deposit account savings.

> *"Yeah, it probably would because the savings rate is less than inflation, so it's probably true."*
>
> Male, 55-59 years old, £10k-£30k pot

The most powerful rules were the ones which spoke about life expectancy and how much they need to save for retirement.

There was initial shock and disbelief about the statement that each generation lives ten years longer than the last, but when told by the moderator that it could be backed up with statistical evidence, they started to come around to the idea and often referenced long living relatives in their own family.

> *"If I'm going to live to 100, then perhaps I don't have as much as I thought I'd have!"*
>
> Female, 55-59 years old, £31k-£75k pot

The statement that they needed to save 33 times what they spend in retirement was simple to understand and apply, but truly shocking when they considered what their own situation would be. For some, this number was just so far from what they could achieve it simply reinforced their views to spend all their pension money now. That said, there was strong support for people to be made aware of this sort of rule from a very early age.

> *"This is the one that makes me stop and think the most."*
> Female, 55-59 years old, £31k-£75k pot

> *"That sort of statistic is really interesting if it can be relied upon. This is a really useful one, because it is one of the key factors I could consider."*
> Female, 55-59 years old, £75k-£250k pot

There was a lot of push back on the validity of the number. Given there is already some variation on the *right* figure to use in this type of rule, for any number to be believable there would need to be a consistent approach taken by the industry.

Conversely, the statement to work one a day a week for your future self was very confusing. Very few had heard of the *20% rule*, or the rule that you should save half your age, but those that had felt this was a natural extension of that idea. However, many were very shocked to hear that they would need to save 20% for a comfortable retirement and, again, questioned the validity of the number. Some felt that this target was so unrealistic, especially for the younger generation, that it would have the perverse effect of putting people off saving for retirement altogether.

6.3.2 Respondents struggled to understand a couple of the illustrations without moderator help, but once understood most were felt to be useful

We showed respondents a number of illustrations to explore the extent to which such devices could help consumers to more carefully consider the decision to access their DC pension savings earlier than they necessarily need to.

The illustrations were specifically designed to challenge many of the commonly held perceptions people have about pensions, specifically:

- "My pension is doing nothing where it is";
- "You can't lose with property";
- "I can do better by putting my pension money somewhere better/ safer";
- "It won't make any difference if I access my pension now".

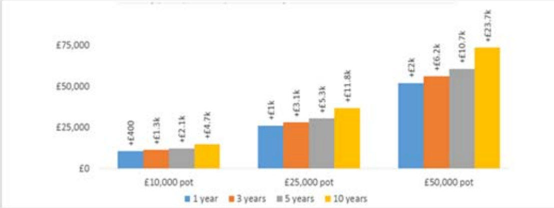
It is important to note that these commonly held perceptions may be correct for some - and certainly a few of our respondents had formed these views based on a thorough review of their situation and the options available to them. However, for many more, these perceptions are simply gut feelings and may result in ill-informed decisions.

We used a number of simple examples to create the illustrations. The assumptions used were broadly realistic, but not necessarily completely factually correct. We were not looking to test the relative merits of any specific illustration nor make any judgements about the types of remedies that might be appropriate. Rather, we were looking to gauge whether these *types* of illustrations could help consumers consider their decision more carefully.

Figure 19: We showed our respondents a set of five illustrations to challenge certain perceptions

1. Leaving your pension to let it grow: What it could be worth in the future

To challenge the perception: 'My pension is doing nothing.'



2. Value of a pension pot compared to cash savings

To challenge the perception: 'My pension is doing nothing.'

	After 5 years	After 10 years	After 20 years
£10,000 in Savings (or cash ISA)	£10,900	£11,900	£14,150
£10,000 in Pension	£12,150	£14,750	£21,700
Difference	*-£1,250*	*-£2,850*	*-£7,550*
To have £10,000 in today's money you would need...	*£11,040*	*£12,190*	*£14,860*

3. Cost of accessing a pension to invest in a cash savings account/ISA

To challenge the perception: 'I can do better by putting my money in a cash ISA.'

Example based on a person with a £50,000 pension pot who is still in employment and earning the average UK wage (£26k) when they access their pension. Interest rate for cash savings of 1.75%.

Amount in pension pot when accessed	£50,000
Tax paid	-£11,700
Number of years it takes to earn enough interest to make back the lost tax	16 years
Amount the pension would have been worth if it had been left invested	£93,000
Taking cash early has cost	-£43,000

4. Accessing a pension to invest in a buy-to-let

To challenge the perception: 'You can't loose with property.'

Example based on a 55 year old man with a £100k pension who is not in employment when he accesses his pension. Assumes an average annual rental yield of 6% (higher than the UK average of 5%).

Amount in pension pot when accessed	£100,000	
Tax paid	-£19,200	
Buy-to-let property purchase costs	-£3,550	
Property purchase	£77,000	
Annual Rental Yield (after rental costs)	£3,300	(3.3%)

5. Opportunity cost of spending TFC

To challenge the perception: 'It won't make any difference if I treat myself now.'

Example based on a 55 year old with a £40,000 pension pot who withdraws 25% tax free (£10,000) to spend and leaves the remainder invested.

The amount of years it will take for your pension pot to get back to its original value	8 years
Value of £10,000 spent at age 65	£14,730
Value of £10,000 spent at age 70	£17,880
Value of £10,000 spent at age 85	£26,340

Respondents were easily able to follow the column chart (Illustration 1) which represented potential future returns in a pension, and also had no issues with the tables showing the value of a pension pot compared to cash savings over time (Illustration 2) and the opportunity cost of investing in a savings account/cash ISA (Illustration 3).

They took some time to work through the buy-to-let example (Illustration 4), and they sometimes needed moderator help to understand why so much tax was being paid and what the rental costs would be. They would probably not have been able to work this out for themselves without help.

Illustration 5 – the opportunity cost of spending tax-free cash early – resonated with our respondents, because most had taken their tax-free lump sum from their pension. Respondents quickly grasped that this illustration was telling them that it would take some time (eight years in this example) to make back their 25% withdrawal, and this came as a surprise to many. Few intuitively understood the additional details on how much their withdrawal could have been worth in the future if they have left it in their pension. Furthermore, once explained by the moderator, strong present bias means that they often still preferred to spend the money today, saying that they could get more enjoyment from £10k today than £26k in 20 years, when they might not be around.

> *"I think those figures are OK. They show you what it is worth in ten years' time, or however long it is, but I don't think that would be a consideration. The whole point of the 25% tax-free cash is to take it and spend it."*
>
> Male, 55-59, £75-£250k, Partial Encashment

Spontaneously, they suggested that for real impact it would need to be used in conjunction with some other intervention explaining how much they need to have saved for retirement (such as the *33x rule*).

6.3.3 Around half of our full encashment cases might have followed a different path as a result of seeing our examples

Our full encashment respondents had often accessed their pension to invest in cash (ISAs, savings accounts, and so on), which were perceived to be better, safer, easier to understand or more accessible investments. A number had a penny drop moment after seeing our illustrations. For some, it was the first time they could recall seeing any concrete examples that showed why investing in pensions could be better in the long term than a cash ISA.

Seeing the real cost of full encashment (Illustration 2) in terms of the initial tax paid as well lost investment returns, also really helped to put that decision in perspective. The loss of £43,000 was felt very strongly and, as a result, around half felt that the illustration we showed would have made them think twice about their decision and could possibly have changed their mind.

Respondents had very polarised views on our BTL illustration (Illustration 5). Those respondents who actually accessed their pension to invest in property almost universally discounted the example as not applicable to their situation, either because their situation was unique (for example they were renovating an existing BTL property purchased some time ago or an inheritance, or were purchasing a property for a family member and therefore, their decision was not purely financial), or because they felt they could get better rental yields in their area than those shown in our example. In contrast, those respondents with no intention to invest in property said that the illustration was useful to confirm their existing view. Nevertheless, most agreed that the illustration was useful for others thinking of going down this path.

A few of our respondents fully encashed to invest directly in equity outside of their pension or to start a retirement businesses. Here, they felt that they would achieve a better return than a cash ISA, so discounted our illustrations as not relevant to their decision.

6.3.4 *Examples that demonstrated the impact of taking all their money out reinforced our partial encashment respondents' views that they had made a sensible choice*

For those accessing only part of their pot, the full encashment example (Illustration 3) was the least powerful. They were fully aware that they could have accessed their entire pot but had already elected not to do so (largely to avoid paying the tax). Nevertheless, they felt it would have been very useful to see something like this as part of their journey to confirm their thinking, and to drive home how much money they could be giving up.

> *"It is quite useful because it's making you see that it's a ridiculous thing to do."*
>
> Female, 55-59 years old, £31-£75k pot

Our partial encashment respondents were much more interested in the BTL example (Illustration 4) as many admitted that they would have considered this route if their pot was big enough, believing that "you can't lose with property". However, this view was not based on any firm data, and seeing the calculations in black and white definitely challenged their thinking. They were often surprised at the amount of tax paid and the purchase costs, and they had often not realised that the recent changes to stamp duty now makes such an investment much less attractive.

> *"If I saw this I'd probably think, 'Oh I won't buy a second property'."*
>
> Female, 55-59 years old, £31-£75k pot

They often questioned the validity of the 6% yield, recalling success stories they had heard about friends of friends. However, they felt that if these figures were indeed correct then it would probably not be worth the hassle for these sorts of returns.

> *"To be quite honest, if you're only going to get that 3.3% yield (net), you're better off leaving your money in the pension pot."*
>
> Male, 55-59 years old, £31k-£75k pot

That said, many were still attracted to this option as they firmly believed that they would be able to generate significant asset growth. Further stimulus to compare historic net returns on housing and pension investments may be required.

6.3.5 Our partial encashment respondents had mixed views on the illustrations that showed the real impact of spending TFC early

Illustration 1 (*Leaving your pension to let it grow*), illustration 2 (*Value of a pension compared to cash savings*) and illustration 5 (*Opportunity cost of spending tax-free cash*) were the most relevant for our partial encashment respondents as they all alluded to the potential trade-offs respondents had made by accessing their pension early.

Perhaps not surprisingly, it was difficult for many to break away from their desire to spend tax-free cash today rather than at some point in the future, but some did at least admit that seeing examples like Illustration 5 would have made them think twice about their decision.

> *"I think those figures are OK. They show you what it is worth in ten years' time or however long it is, but I don't think that would be a consideration for me. The whole point of the 25% tax-free cash is to take it and spend it."*
>
> Male, 55-59 years old, £75k-£250k pot

By far the most powerful illustrations appear to be the ones that show a loss, particularly for those respondents that had no plans to spend all of their tax-free cash immediately. Again, around half of our respondents said that they might have considered taking a different approach if they had been exposed to examples like these at an early enough stage in their journey.

> *"I might think differently from now on and see what we can do, maybe talk to my husband about changing our ISAs and putting it in investments."*
>
> Female, 55-59 years old, £31-£75k pot

> *"It really is quite stark, you see the difference, particularly if it's in red and it's a negative figure – that shows you what you've lost. I think if I was taking money out to put on a deposit, you really would have made me think twice about it."*
>
> Male, 53-54 years old, £75k-£250k pot

6.4 Conclusions

There is strong support for the concept of a checklist, and respondents can clearly see how a simple list of questions could improve their decision making process and potentially improve the choices they are making.

There is a clear view on what the checklist could look like – a single list of questions, developed by an independent body, with the option for paper and online delivery. Some would like the industry to go further and produce something akin to a personal planning portal, which may become a realistic option with the advent of the Pension Dashboard.

At face value, nudges and illustrations would appear to have some merit and are worth further exploration. There are early indications that a significant number of people in our research would have found them useful and may have altered their behaviour as a result. More work will, of course, be needed to develop and test these ideas further, but there are early indications that very simple messages which show losses would appear to be the most powerful.

We are mindful that such messages will need to challenge consumers' strongly held belief sets. This research clearly shows that not all messages will resonate with everyone. This suggests that to maximise their impact there will almost certainly need to be a segmented approach taken, based around whatever decision path the consumer is set on.

7. The Impact of Certain Firm Activities on the Customer Journey

7.1 Introduction

The FCA was interested in exploring whether certain firm activities interfere with the consumer journey working well and prevent consumers from making informed decisions. We looked in some detail at two key questions:

- Does the way that providers communicate through their websites, including tools and calculators, affects customers' choices? The FCA particularly wanted to understand to what extent online offerings help consumers to make informed decisions or whether instead they contribute to poor choices and / or may cause them to pay excessive or unnecessary charges.
- Are preferred provider / referral arrangements, offered by some existing product providers, of help to consumers or whether in fact they deter consumers from shopping around and potentially lead to poor decision-making?

In this section, we draw on evidence collected from Element 3 of the research (*Provider Tools, Calculators & Other Online Communications*) and Element 4 (*The Impact of Referrals*). Thirty-four respondents participated in Element 3 and thirty-one in Element 4.

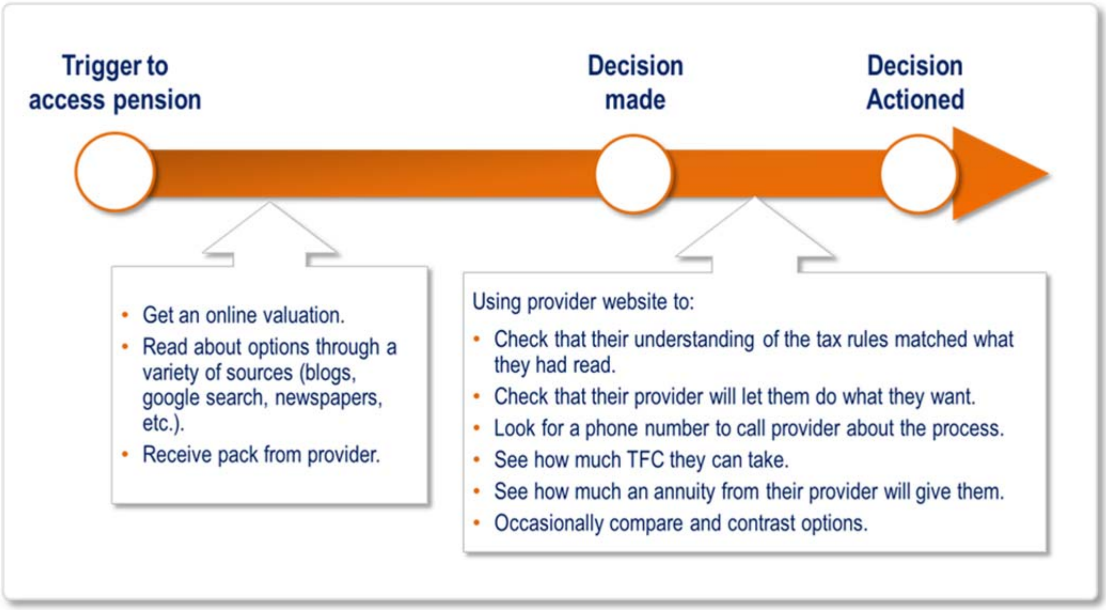
We undertook a distinct recruitment exercise to find respondents that had used their provider website or online tools or had been through a referral process. For the latter we used providers' customer lists obtained through the FCA.

7.2 Provider tools, calculators and other online communications

7.2.1 The majority of our respondents were using their provider's site in a very transactional way and few said that it had any impact on their decision

Respondents who participated in this element of the research were usually quite far into their decision journey before they looked at their provider's website for anything more than a valuation, and were often only using it for peace of mind.

Figure 20: Respondents were quite far into their decision journey before they looked at their own provider's site for anything more than a valuation



They typically spent half an hour or less on the site, and were mostly looking to validate what they had read elsewhere.

> *"I was only looking to confirm what I already know from other sources, mainly financial pages of the Sunday Times. I wanted to check that 25% could be accessed tax-free."*
>
> Male, 60-70 years old, £31k-£75k pot

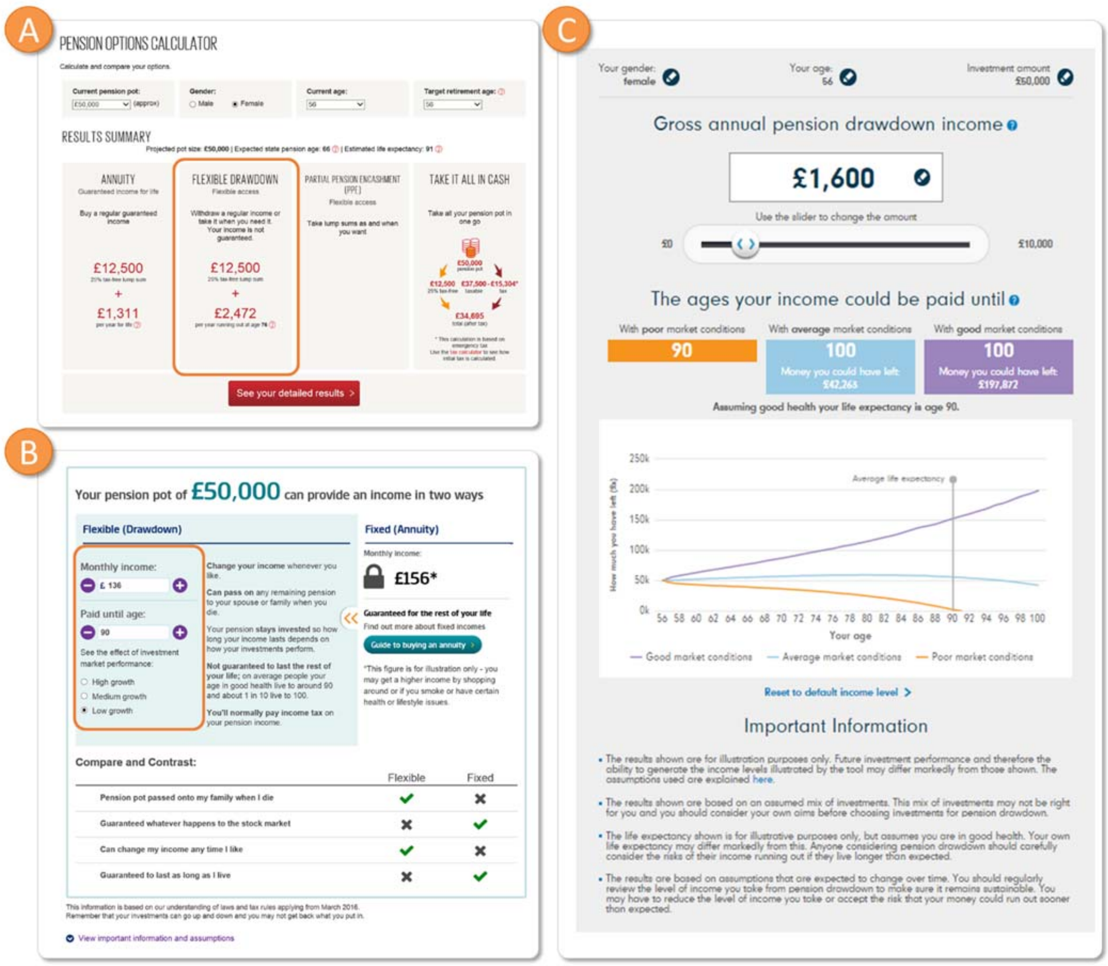
> *"I went there just to read and confirm what I had already been told. It was easier to read, digest and consider in my own time."*
>
> Female, 60-70 years old, £31k-£75k pot

Most reported that their interactions with their provider's website had very little impact on their final decision. Some reported that the key influencing factor was a discussion with their provider, rather than the information they were seeing online.

7.2.2 Respondents were very surprised to find that websites present the same information in different ways

It did not cross most people's mind to look at websites from other providers, and even if they had thought about it, they would have no idea which site to go to. To help respondents understand that there may be differences between websites, in the assumptions used to show different retirement income options and the way the different outputs are shown, we gave them examples from three large providers' websites to compare and contrast.

Figure 21: We provided respondents with three examples to demonstrate how different providers use different underlying assumptions in their tools and display the outputs in different ways



Respondents initially focused on the headline rates, but when asked to look closely at the numbers they started to become anxious when it became clear that they were not giving the same results, questioning why there were differences in how long the money would last, what investment returns had been assumed, and how the tax-free lump sum had been treated.

They admitted that they rarely look at the underlying assumptions. As a part of the research we asked respondents to look through a number of websites, noting their reactions. The respondents admission was clearly demonstrated, where none of our respondents clicked through to find out more. Furthermore, even when shown the assumptions page by the moderator, they still struggled to understand what the assumptions meant in practice.

7.2.3 Respondents preferred simple outputs

We showed our respondents three examples of the way in which outputs could be presented, representing the spectrum of complexity currently in the market: one site gave a single deterministic[29] outcome, a second was a deterministic model but with the option of choosing high, medium or low risk investments, and the final (and most complex) gave the outputs of a stochastic[30] model.

Respondents were very surprised to see that providers could present the outputs in very different ways, and this got them thinking what their provider had done.

Many struggled to understand what the stochastic model was showing, assuming that the options were based on different levels of risk rather than different market conditions. They felt that this was far too complex and had it been on their provider site, they probably would have clicked off it straight away.

When asked which of the deterministic options they preferred, there were mixed views but, on balance, the most simplistic option was the winner.

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[29] Deterministic models provide an output that is fully determined by the inputs.

[30] Stochastic models estimate probability distributions of potential outcomes by allowing for random variation in one or more inputs over time.

7.2.4 Once they became aware of the differences between sites, respondents felt very strongly that this should be addressed by the FCA to ensure consistency

Respondents said that they would implicitly trust that the information on their provider's websites was factually correct, and that they had not questioned whether the way it was presented could influence their decision making. Respondents were, therefore, very surprised to see that different sites could look very different and also use very different assumptions in their tools and calculators.

They recognised that some sites were much more comprehensive than others, and that some information was more clearly presented.

Respondents believed that sites would be regulated to ensure consistency – and were shocked and angry to find out this is not the case.

7.2.5 That said, very few of those going to their provider website actually used tools or calculators to compare their options

Less than a quarter of our 55-59 year olds reported using tools or calculators to directly compare and contrast annuities and drawdown, usually because this is a decision for the future or because they intend to encash their pot (in one go or over time). We saw much higher tool use amongst the over 60s group, where around half were using some combination of annuity calculators, retirement income calculators, tax calculators and tools to compare and contrast options. Again, the rest reported that they had already made up their mind what they wanted to do and therefore had limited interest in exploring the 'what ifs'. Some went as far to say that using tools to compare and contrast options was simply a "distraction" and would only serve to delay their decision making process.

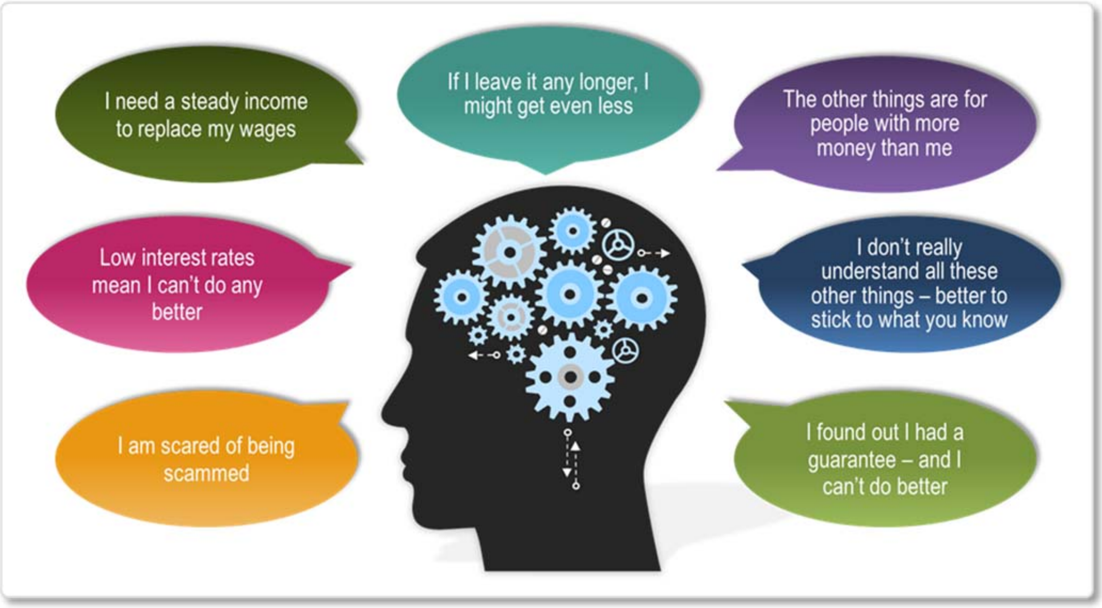
7.3 Referrals

7.3.1 Referral respondents were a little different to the rest of the respondents in our research

We recruited our thirty-one referral respondents directly from provider contact lists. Many of our referral respondents were no longer working and were looking at their pension to deliver a secure income. They tended to be more reliant on DC pension income to cover basic living expenses than respondents in other parts of our research.

They had typically made their mind up from the start of the process, before any provider intervention, that they wanted to buy an annuity. There were a number of reasons given for this, with any guaranteed rates often being the icing on the cake rather than the key driver.

Figure 22: Referral respondents gave a number for wanting to purchase an annuity



7.3.2 *Referral respondents were much more disengaged with, and wary of, pension freedoms than the people we saw in the other elements of this research*

Most said they were aware of the new pension freedoms, but this was really just background "noise" as they had no intention of looking at any alternative to an annuity.

> *"I have seen information about the changes, but I decided not to take any notice of it."*
>
> Male, 55-59 years old, £75k-£250k pot

> *"I don't think I read anything. We were always determined to take the endowment, we were never going to take the whole lump and spend it."*
>
> Male, 60-70 years old, £31k-£75k pot

A couple talked about hearing messages that the Government was telling them they could take out their whole pot, but reading or hearing about the potential for pension scams and fraud made them feel "unsure", "vulnerable" and "a bit terrified" of taking an alternate route. A small number felt that the decision on what to do with their money was already so daunting that adding any extra complexity would make the task impossible for them to navigate alone. A couple thought that the changes would not make any real difference for them, given that interest rates were no better than annuity rates, and they would have to pay tax.

They tended to have a much lower awareness of the Pension Wise service and very few took up the option to make contact, as they typically felt they already knew what to do and that it was a pretty straightforward process.

7.3.3 Triggers for making a decision were typically that their pot had "matured", they had reached a milestone birthday, or that they had stopped work and needed an income

The most common trigger mentioned for accessing their pot was that they had reached a certain age and that their pot had "matured". This was either their own perception, or as a result of receiving a wake up pack from their provider which they interpreted to mean that they had to do something.

> *"I had the date in my diary. I keep a folder on everything and I knew it was going to mature at that time, and then we got a letter. The letter come through well in advanced telling me it was going to mature."*
>
> Male, 60-70, £31k-£75k pot

Others had made a decision to stop full time work. For some this triggered a need for income, for others the fact they could access an income triggered the decision to stop work. A few had been made redundant or suffered health problems in the past and had struggled financially up to this point, but were not aware they could have had their money sooner. A couple decided to access their pension because they were worried that a combination of falling annuity rates and pots falling due to poor performance might leave them "with nothing" if they waited much longer.

7.3.4 Most recall receiving an information pack, but focused on the annuity sections

The vast majority could recall receiving a pack from their provider and said that they had read it. However, when asked what options were available to them, most talked about the various options available on annuities (guaranteed periods, spouse's pension, and so on) rather than the broader choice set available (drawdown, annuity, cash, and so on).

> *"I knew that my pension pot wasn't enough to warrant an awful lot of choices. I needed all that money for regular income so I could survive. The other choices you had was that you had to – I think this is where I got a little bit confused and I really didn't like the way things were going. I was told that I could protect it for 5 years, 10 years, I could take it now and it would never increase, or if I did have it increasing then it would change the amount I got. So, for just such a small amount of money, I just couldn't understand all the choices."*
>
> Female, 55-59 years old, <£10k pot

The vast majority were aware of the ability to take 25% tax-free cash, but a handful decided to maximise their income by taking less than the permitted amount.

This focus on an annuity purchase means that the vast majority were unable to talk in any detail about drawdown and how it works. The few that did try to look into drawdown reported that it was very confusing and they didn't really understand it. The complexity of the language used around drawdown was confusing, and the different alternatives felt very daunting.

7.3.5 Most could recall their provider trying to talk to them about the various options, but they had little interest in any alternatives

The vast majority contacted their provider at the very start of the process to get a valuation, to understand the process and to make sure that there were no hidden costs or penalties. They often then called their provider again once they had read their pack, just to make sure they fully understood what it had said.

Many could recall being told about the various options on the phone, but they did not take much notice as they had already made their mind up to purchase an annuity by this point. Several reported that they found the contact they had with their provider to be frustrating due to these safeguarding processes.

> "It made the ten minute conversation last 45 minutes, because they had to keep stopping and reminding, it was in their script to do that, and obviously I understand they had to keep stopping and covering themselves, but it just made it such a long process. To be honest, it was quite annoying for me."
>
> Male, 60-70, £31k-£75k pot

7.3.6 A couple reported that the requirement forcing them to see an adviser to access their money was much too onerous

A few of our referral cases did want to take up the new freedoms, but were told by their provider that they needed to see an adviser (usually because they had a GAR). They found this process very difficult as they had had no previous experience of using an adviser and found it very difficult to find one to take on their case. This was particularly frustrating for those with smaller pots. In the end, they got fed up with the process, and reverted to the path of least resistance, taking an annuity with their existing provider.

7.3.7 *Respondents knew they should shop around for an annuity, but chose not to*

Respondents were aware that they should shop around, but gave the usual reasons for not taking any action: preferring to stay with their current provider, perceptions that there is very little between the providers, concerns about any costs of moving, concerns about time delays, and not knowing how to go about it.

> *"You can tend to get bogged down with too much information. It's like car insurance where there's a million providers, and I think you get a bit bogged down and I was afraid of that with this pension scenario. So, I thought if I can keep it in one place, maybe the charges you know will all be there or thereabouts."*
>
> Male, 55-59 years old, £10k-£30k pot

> *"It was getting very close to my 65th birthday, and we thought if we started messing around it was going to take it way beyond and we just felt it wasn't worth the hassle to do that."*
>
> Male, 60-70 years old, £31k-£75k pot

7.3.8 *Few knew the exact nature of the provider's referral service, but were not unduly concerned*

We had mixed levels of understanding about whether a referral had taken place. Some felt that they had simply been transferred to another part of the same company, others were clear that a separate organization was taking on their provider's annuity business.

> *"It is with one of their sister companies, but because it was all in house, I was quite happy to just go ahead with it."*
>
> Male, 55-59 years old, £10-£30k pot

It is perhaps not surprising that this confusion has arisen, as these longstanding customers have seen many name changes over the years as providers have sold or merged businesses.

Once told that a third party had been involved, they were not unduly concerned about this as they were convinced that their provider would have conducted some due diligence to get the best deal for their customers.

When asked whether they thought any commercial consideration had taken place, a couple could recall seeing something about a payment in their documentation, but they were not able to give any specific information. Their general perception was that it seemed "reasonable". The rest were a little surprised, but on reflection felt that this was normal business practice, and they were not unduly worried. This view was reinforced when they remembered any payment had not come directly out of their pot, which may have been the case if they had used their own broker or adviser.

> *"They must have an arrangement between them. No one would do anything for the purpose of making a loss."*
>
> Male, 60-70 years old, £75k-£250k pot

> *"It wouldn't make a difference to me because if I'd have started going to other places for my annuity then charges would've come in and I would've been out of pocket."*
>
> Female, 55-59 years old, £10-£30k,

7.3.9 *For many, if the referral service did not exist they admit they would have struggled to find a pension on their own, and would not know where to go for advice*

Some respondents said they would have found it quite difficult to compare and contrast quotes on their own. They felt pleased that their provider could offer a solution, and felt that the search costs would have been very high for the difference it would have made to their income.

> *"I would've had a bit of a headache.... As I say if we would have had a computer it would've been different."*
>
> Male, 60-70 years old, £10k-£30k pot

Most recognised that they had low levels of financial capability, and said that they don't always trust their own ability to distinguish between scammers and genuine advice. They were consequently more wary than usual about being subject to a scam. This wariness also extended to financial advisers, who they typically thought were still acting on commission and therefore could have some bias in the advice they gave.

> *"At the end of the day I would've felt very uncomfortable discussing it with anyone independent, who could possibly steer me the wrong way or, eventually end up costing me more."*
>
> Male, 60-70 years old, £31k-£75k pot

For some, it simply came down to the small size of their pot. They felt that the pot was so small that any potential uptick in rates would make so little difference to their financial well-being that is was not worthwhile given the time and effort required.

A couple noted that some of the better deals were only available from firms that they had not heard of. This caused them some concern, as they questioned the long term financial viability of these organisations.

7.4 Conclusions

Consumers were disturbed to see the considerable differences in the ways providers present online information and felt strongly that the FCA should intervene to ensure more consistency. However, the fact that so few were actually using provider sites in their search process, and those that did reported that what they saw had little or no impact on their decision making, very much calls into question whether the benefits would be worth the additional cost to providers. Of course, as the market develops, the use of online tools may well change and develop, which may make intervention more beneficial.

Our evidence would suggest that consumers like the referral arrangements offered by some existing providers, even if they do not fully understand the exact process they have been through. Without this service is it highly unlikely they would have shopped around themselves, and therefore would have ended up with less income.

We found that there was no evidence that the service is driving such consumers to purchase an annuity. On the contrary, they had already decided on this path from the start and the referral service was simply fulfilling this need.

8. Technical Appendix

8.1 Research Framework

We used a mixed qualitative research approach, with focus groups allowing for more exploratory research and face-to-face interviews to understand pension access decision making in depth. In total, 171 pension decision makers participated in this study, with fieldwork taking place in October 2016. All respondents had accessed a defined contribution pension in the last six months and did so without receiving regulated financial advice.

To qualify for the research, respondents must have accessed one or more of their defined contribution pensions between January and September 2016. By 'accessed' we mean that they must have released some money from their pension. So, they might have purchased an annuity to receive a regular guaranteed income, taken their whole pension pot as cash, taken a partial cash lump sum, or started to drawdown a regular income. They may or may not have crystallised their pension benefits.

The FCA was particularly interested in consumers who have accessed some or all of their pension savings early. We used an age range of 55-59 as a broad-brush measure for early access[31] and set age quotas to ensure good coverage of this group in the research.

We did not set any quotas by type of access decision, but attempted to recruit a good mix of respondents across the research programme to broadly represent the range of pension decision makers[32]. It is also important to recognise that respondents were not making this pension access decision in isolation, and many had other DB and DC pension arrangements, and other assets earmarked for retirement.

[31] We included three 53-54 year olds in our 55-59 age group, who were in the process of making a pension access decision.

[32] According to the FCA's data for the period Q4 2015 to Q3 2016, 556,964 pension pots were accessed for the first time. Of these, 15% purchased annuities, 53% withdrew all their monies (with the majority being people with pots less than £10,000), 29% commenced new drawdown policies, and UFPLS payments were made from 3% of pension pots. 40% of all policies accessed for the first time in Q3 2016 were by consumers aged 55-59. Here, 63% took full encashment, 32% took a partial lump sum and 4% purchased an annuity.

	Full Encashment	Partial Encashment	Regular Income[33]	
			Annuity	Drawdown
Respondents aged 55-59	21	61	8	2
Respondents aged 60-70	6	32	38	3

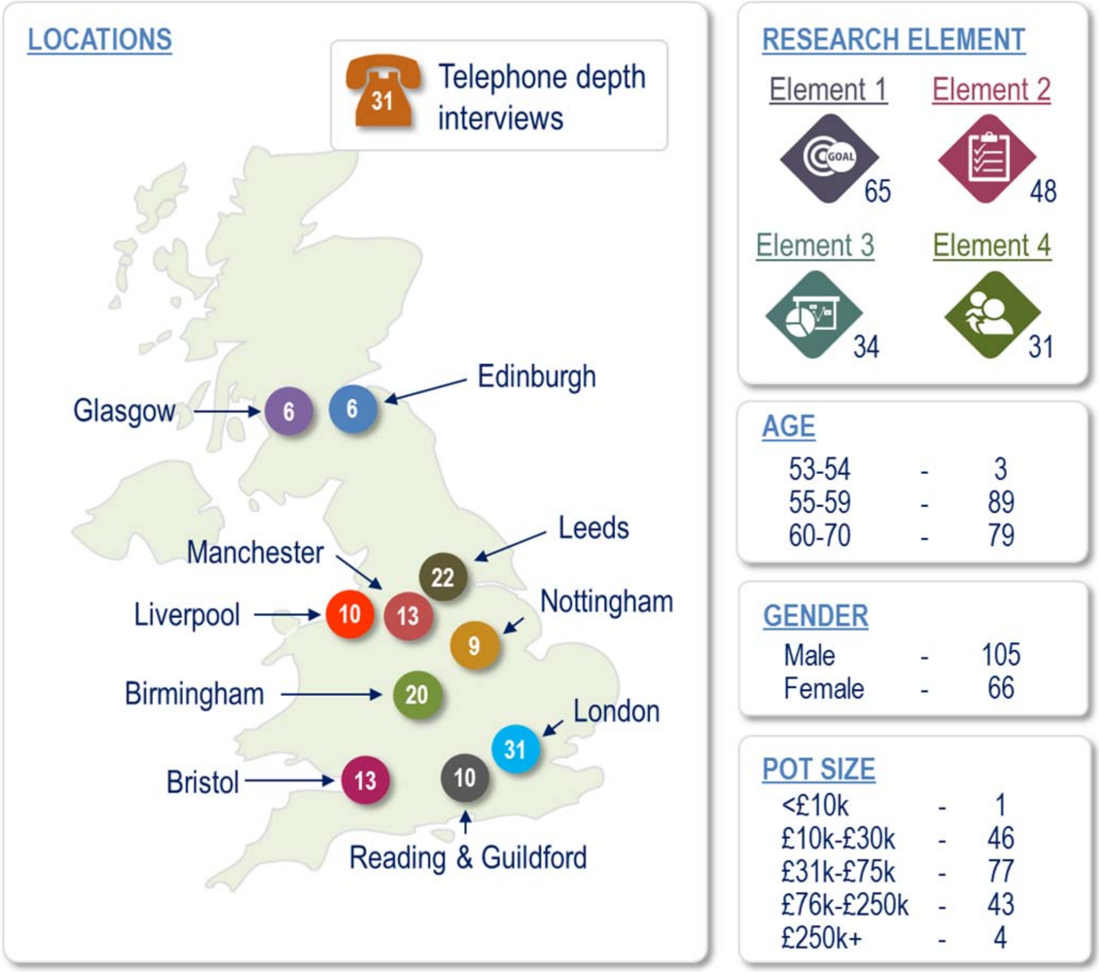
We excluded anyone who had made a pension decision that did not involve releasing part or all of their pension; for example if they had consolidated their pensions, switched pension provider, or made an investment or contribution decision without releasing any money.

We focused entirely on non-advised decision makers; that is, people who did not receive regulated financial advice in respect to this specific DC pension transaction, regardless of whether they have received regulated financial advice in the past. Some of our respondents had never received financial advice before, some had received financial advice in the past, but not in connection with their recent DC pension access decision, and some went to see a financial advisor for a free consultation as part of their decision, but elected not to use them. We also included people who sought 'advice' in the non-regulated sense, from family or friends, through their workplace, from Pension Wise, or from other sources.

We recruited respondents from across the UK using a detailed recruitment screener, with quotas set to ensure a good mix of respondents by gender, age, pension pot size and pension engagement levels.

[33] Respondents that accessed their pension to receive a regular income, either through regular income drawdown or an annuity, may also have taken a partial lump sum at the same time.

Figure 23: Achieved research quotas by location, age, gender and pot size



We were particularly interested in speaking to people that might be defined as 'disengaged' - *those for whom the decision is a default or much of the decision is left to others* – as this group may have been particularly vulnerable to making poor decisions or failing to consider a wider range of options. We included a number of questions to ascertain engagement levels via our recruitment screener; such as asking potential respondents how much time they spent researching their options before making their final decision, and describing the extent to which they felt they exhausted all of their options.

We used a number of specialist qualitative recruitment agencies to source respondents. Agencies were given the brief of the types of respondents to find and used a combination of networking and recruitment from panels to find respondents. They used a detailed screening questionnaire, approved by the FCA, to ensure that respondents met our qualifying criteria. All respondents were then screened for a second time by Ignition House analysts to ensure they met our criteria.

In addition, we recruited some respondents directly from customer lists. These were supplied to the FCA by the pension providers themselves. We sent a warm-up letter to potential list respondents prior to contacting them by telephone and, again, used a screening questionnaire to ensure they met the qualifying criteria.

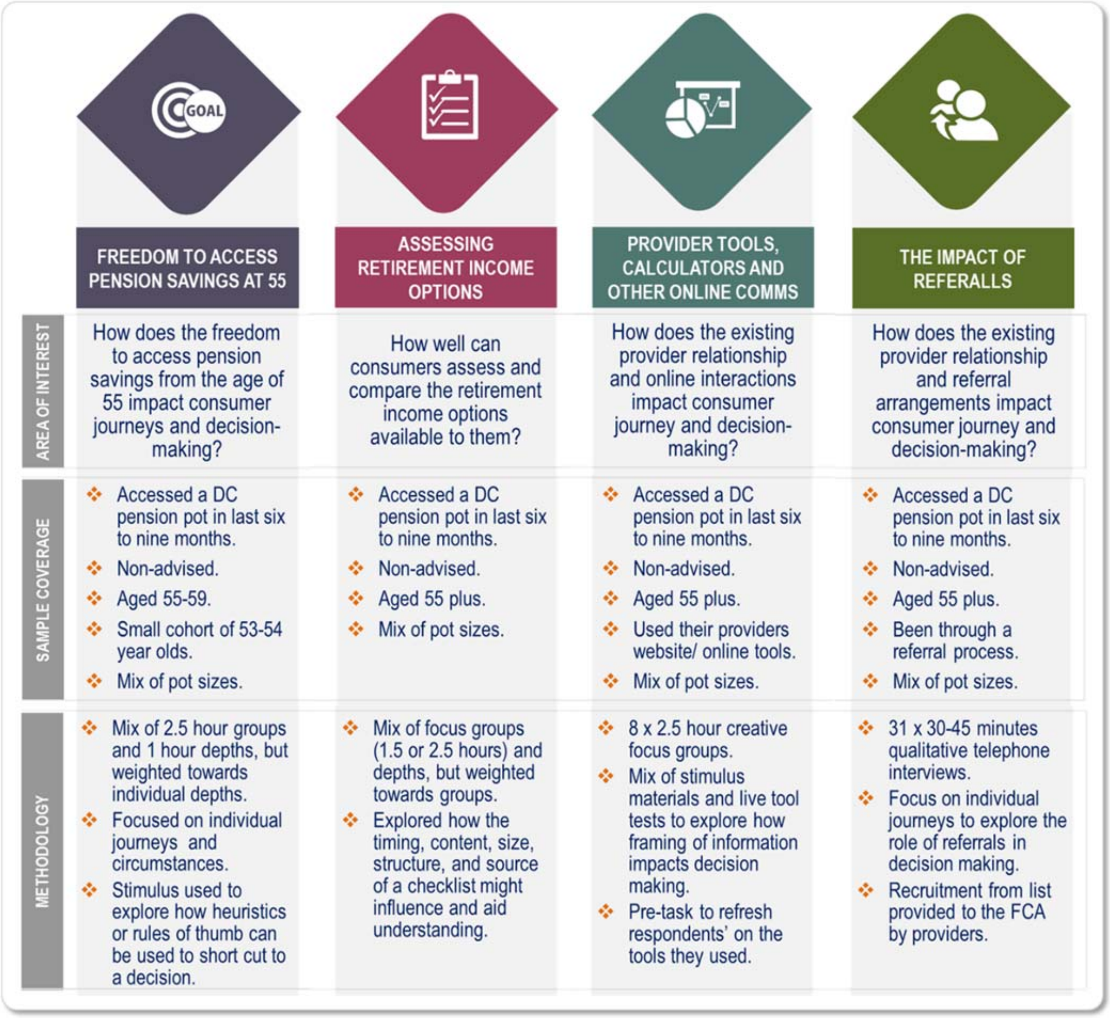
8.2 Research Design

The FCA had a very broad set of requirements for this qualitative research study. For this reason, it was not possible to cover all of these requirements through a single group or set of interviews: time would not allow, nor would the questioning of an individual consumer on all topic areas have been productive, even if as an individual she or he had covered each of the areas of interest. For this reason, we split the research programme into four distinct elements:

- Element 1: Freedom to Access Pensions at 55. How does the freedom to access pension savings from the age of 55 impact consumer journeys and decision-making?
- Element 2: Checklists. How well can consumers assess and compare the retirement income options available, and could the use of a checklist reduce the error rate?
- Element 3: Provider Tools, Calculators & Other Online Communications. How does the way that providers communicate through their websites, including tools and calculators, affect customers' choices?
- Element 4: The Impact of Referrals. Are preferred provider / referral arrangements, offered by some existing product providers, beneficial in helping consumers or deterring consumers from shopping around and leading to poor decision-making?

Each research element had a different consumer sample and methodology (summarised in Figure 24). That being said, we recognise that there are linkages and interconnections between each research element, and this report draws on insights from across all elements of the research.

Figure 24: Sample coverage and methodology by research element



8.3 Testing Behavioural Biases

Existing research has identified behavioural biases at play within consumers' retirement journeys, which are likely to still exist in the new pensions' landscape. For example, our qualitative research for RIMS[34] found that people tend to put off planning until very near to retirement, don't think about the lifetime value of small differences in income, under-estimate their life expectancy, look to maximise income in their early years of retirement and are reluctant to consider the impact of running out of money in later life. A separate

[34] *Exploring Consumer Decision Making and Behaviour in the At-Retirement Landscape*, Ignition House research for the FCA, December 2014

experiment on framing decumulation options conducted for RIMS[35] found that consumers' choices about decumulation are materially affected by the way the information is presented to them.

We wanted to understand whether the increased choice and flexibility introduced by the new pension freedoms has changed this in any way. For example, as more consumers access income drawdown products, are the drivers the same? Is it complexity, comparability or simply the type of choices consumers want to make and the lifestyles they want to lead? Are behavioural biases leading consumers to misjudge their needs in ways they later regret and from which they suffer harm?

In approaching this work, we tested for a number of potential biases that could be at work in this setting. The main biases we sought to test were, present bias, anchoring, framing, herding, mental accounting, choice overload, decision staging, loss aversion, salience of costs and fees, ex-post rationalisation and over confidence.

We focussed on these biases specifically as they are likely to be present and some have been identified as being at play in other research looking at Pension Freedom and Choice.[36] Each bias is explained below with a rationale as to why it may be present when individuals are making decisions about accessing their retirement savings.

Present bias – There is considerable evidence that individuals value immediate benefits more than the same or even greater benefits that will occur in the future and this is driven by hyperbolic discounting. As such, the ability to access the pension today may result in individuals being more focussed on the tangible ability to access their pot rather than the value of the pot as a source of retirement income at some point in the future. Individuals often do not connect with their future-self and make decisions today that their future-self would not make with the benefit of hindsight.

Anchoring – When individuals are presented with numbers for a decision, these numbers serve as the reference point from which decisions will be based. Within the context of

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[35] Does the framing of retirement income options matter? A behavioural experiment, FCA, December 2014

[36] New Choices, Big Decisions: Exploring Consumer Decision Making and Behaviours under Pension Freedom and Choice, the People's Pension and State Street Global Advisors, February 2016

Freedom and Choice in Pensions: A Behavioural Perspective, ideas42, 2015

Exploring Consumer Decision Making and Behaviour in the At-Retirement Landscape, Ignition House research for the FCA, December 2014

Pension Freedom and Choice, key numbers that could serve as potential anchors are, 25% tax-free cash and the shift from age 65 to age 55 as the age when pensions can be accessed either partially of fully.

Framing – In presenting choices to individuals, the manner in which a choice is presented influences how individuals respond to the choice. One common way of presenting the same decision differently is to emphasise either the negative or the positive aspects of a choice. Similarly, in the context of Pension Freedom and Choice, whether a decision is presented in the investment or consumption frame could influence the decisions an individual makes.

Herding – In arriving at decisions, it is well established that individuals make decisions relative to what others are doing or have done. This herd effect means that individuals do not base their decisions on the information set that is relevant to them, rather they go with the wisdom of the crowd. Given the new freedoms that now exist from age 55, there is no real information set as to what is the correct decision is likely to be. Consequently, following what others have done or are doing is likely to be present in some of the behaviour we observe. Moreover, as individuals are non-advised, external independent sources of information, such as an assessment and recommendation from an IFA are not part of the experience of this sample, and so the wisdom of the crowd may prevail.

Mental Accounting – Individuals view assets as belonging to three different mental accounts: current wealth, current income, or future income. As such, individuals have a different level of willingness to consume money in these accounts (Marginal Propensity to Consume [MPC]). Current income has high MPC while future income has low MPC. Under Pension Freedom and Choice, future income, in the form of pension savings are now more tangible and present. Individuals may, therefore, now account for their pension in a different mental account i.e. it has moved from future income to another account that has a higher MPC, which could influence the decision to access and consume pension savings.

Choice Overload – Individuals struggle to make choices when they are presented with too many options. This can be a result of the absolute number of choices or via the number differentiating features across choices. There is, therefore, the potential for people to do nothing, as it is too difficult to make an informed decision, or choose the easiest option.

Decision Staging – The decision of what do under Pension Freedom and Choice is a difficult and complex decision for the majority of people. The process of decision staging i.e. how long/complicated decisions are made is usually via an iterative process whereby individuals assess successively their different options. In doing so, they tend to screen on a subset of characteristics and make their decisions based on these. It is likely, that if individuals are decision staging in this manner then they will be screening their options based on a subset of product characteristics when choosing what they see as being their best option.

Loss Aversion – One of the key findings of prospect theory is that losses and gains affect individuals differently and that losses are felt twice as much as gains (Kahneman and Tversky, 1979). In the context of Pension Freedom and Choice, individuals may be concerned about making the wrong choice and therefore could choose to do nothing to avoid the regret of making a decision that negatively affects their retirement wealth.

Choice Supportive Bias – Within the sample of individuals that will be examined, almost all will have made some sort of decision with respect to their pension. However, as part of the process of analysis individuals are going to be faced with looking at alternatives that they ignored and looking closely at the decision they made. It is, therefore, possible that individuals start to question the choice they made and for some it may be apparent that other options could have been better. However, individuals are likely to struggle with such information and will ex-post rationalize their choice and exhibit some sort of choice supportive bias. In doing so, they will conclude that the choice they made was correct and the new information received would not have changed their decision. As part of this process, they may downplay the weaknesses of the choice that they made and emphasize weaknesses of forgone alternatives and similarly emphasize the strengths of their original choice and downplay the strengths of alternatives.

Overconfidence – Individuals often overestimate their ability relative to their actual observable performance and this can manifest itself in optimism about their choices relative to others. In the context of Pension Freedom and Choice, it is likely that individuals will at some point display overconfidence in their choices, simply because they believe that their ability to make a decision is superior and that they have made the right decision for them. Overconfidence and optimism is also a powerful tool in the ex-post rationalisation of a decision that an individual has made, even when there is evidence that this may not be the case.

8.4 Recruitment Screener

Q1 **a. Do <u>you</u> or have <u>you ever</u> worked in any of the following occupations?**

b. Does any member of your <u>family</u> or <u>close friends</u> work or have they <u>ever</u> worked in any of the following occupations or industries?

	a	b
ADVERTISING	1	1
FINANCIAL SERVICES	1	1
MARKETING	1	1
MARKET RESEARCH	1	1
JOURNALISM	1	1
PUBLIC RELATIONS	1	1
INSURANCE	1	1
NONE OF THESE	2	2

IF RESPONDENT SAYS "YES" TO ANY CODED 1 - CLOSE INTERVIEW

Q2 **Have you attended any group discussions or depth interviews in the last year? If so, what subjects have you attended a discussion or interview on?**

WRITE IN...

IF RESPONDENT HAS ATTENDED A GROUP DISCUSSION OR DEPTH INTERVIEW WITHIN THE LAST 12 MONTHS <u>RELATED TO PENSIONS</u> - CLOSE INTERVIEW.

Q3 **Can you tell me your age at your LAST BIRTHDAY?** → SEE QUOTAS

Under 53	1	THANK AND CLOSE
53-54	2	LIMITED NUMBER FOR ELEMENT 1 ONLY
55-59	3	
60-70	4	
>70+	5	THANK & CLOSE

Q4 **When you are thinking about choosing financial products and services such as pensions and investments, which of the following statements best describes how you normally go about deciding which product to take out?** (READ OUT)

1. I am the sole decision-maker
2. I discuss things with my partner, but I tend to make the final decision
3. I make decisions jointly with my partner
4. I discuss things with my partner, but they tend to make the final decision
5. I leave it all up to my partner /someone else → <u>CLOSE, BUT ASK PARTNER WHETHER THEY WOULD BE WILLING TO PARTICIPATE INSTEAD</u>

Q5 **We are looking for consumers who have accessed one or more of their pension pots in the last 6 months. By access, we mean make a decision to start taking an income from the pot or take some or all of the pot as cash. Have you accessed a pension pot or pots in the last 3 to 6 months?**

1. No → CLOSE
2. Yes, taken a cash lump sum, but the remainder is still invested - with existing provider.
3. Yes, taken a cash lump sum, but the remainder is still invested - with a new provider.
4. Yes, taken all of my cash out and put it somewhere else or used it – e.g. a savings account, cash or equity ISA, investment account, property purchase, etc.

5. Moved my money into an investment account to withdraw the money as cash over a period of years (sometimes called a drawdown account).
6. Bought an annuity from an insurance company to get a regular guaranteed income in retirement.
7. Moved my pension to a new provider, but the pension is still invested and I am still making contributions to it. → CLOSE
8. Consolidated my pensions with a single provided, but the pension remains invested and I am not taking cash or an income from it. → CLOSE
9. Other (please specify and check with Joseph)

Q5a **When was this? Here we are referring to when you finished your journey and accessed the pot/ pots?** Should be post March 2016

Q6 **And this pension that you accessed, which of the following descriptions best sums up the type of pension you had?**

1. A pension you set up yourself or through a financial adviser. This could be a personal pension, a stakeholder pension or a SIPP (Self Invested Personal Pension). → ASK Q7b

2. A pension set up by your employer or past employer that is NOT based on your salary, but on how much you saved up in your pension fund. The pension fund will be made up of contributions either you or your employer (or both of you) have made and also affected by the rate of return achieved on your investments. This is sometimes called a defined contribution pension, a group personal pension, a group stakeholder pension or a money purchase scheme. → ASK Q7a

3. A pension set up by your employer that IS based on your salary. This is sometimes called a final salary, career average, or defined benefit pension. This is a pension set up by your employer which promises to pay a specified monthly income in retirement based on your salary and how long you worked for the employer. Defined benefit pensions pay out a secure income for life which increases each year. Your employer contributes to the scheme and is responsible for ensuring there's enough money at the time you retire to pay your pension income. You can contribute to the scheme too. They usually continue to pay a pension to your spouse, civil partner or dependants when you die. → CLOSE IF ONLY OPTION SELECTED

4. A pension set up by your employer as a top up to a defined benefit pension (final salary or career average). This top up is usually known as an AVC – Additional Voluntary Contributions - or FSAVC – Free-standing Additional Voluntary Contributions. It would have been introduced by your employer to allow employees to build up additional pension benefit on top of the final salary pension. Your contributions would have been invested in an investment fund for you, allowing you to access the pot when you retire, either as a cash lump sum, usually tax-free, or to deliver a regular income. → ASK Q7a

5. I don't know → ask them to refer to their pension documents and call back

Q7a **What was the name of your employer that provided you with this pension?** (Enter multiple employers if they accessed more than one occupational pension)

Recruiter Note: Look out for public sector employers, privatised companies such as Royal Mail and BT and large financial services providers as this may indicate a defined benefit pension (which is out of scope)

Q7b **And what financial company was this pension with at the time when accessed it?** (Enter multiple providers if they accessed more than one pot)

Recruiter Note: We are expecting to see a known financial service provider (such as Aviva, Friends Life, Phoenix, Prudential, Legal and General, Scottish Widows, Royal London, Scottish Life, Standard Life, AXA, Friends Provident, Zurich). If they struggle to answer, ask them to check their documents. It could be that they have a DB pension (so this question would not make sense) and we would want to screen out, or that they did not pay much attention (disengaged), in which case include them.

Q8 **Can I just check, roughly how much money was in this pot (or pots) at the time you accessed them?** → SEE QUOTAS

1. Less than £10k THANK AND CLOSE
2. £10k – £30k
3. £31k – £75k
4. £75k - £250k
5. £250k+
6. Don't know – ASK RESPONDENT TO CHECK PAPERWORK AND RECONTACT

Q9 **Thinking about this pot (or pots) you accessed recently, did you take any advice from a regulated financial advisor?**

1. Yes, I used the services of a financial advisor for advice and to action my decision. I paid a fee for this. → CLOSE
2. I have a financial advisor who has helped me in the past, but I did not use them for this pot.
3. This pension was originally set up by a financial advisor, but I did not use them to make this decision.
4. I went to see a financial advisor for a free consultation regarding their pot, but chose not to use them (e.g. cost too much/ could do it myself).
5. I received financial advice from my pension provider or workplace, but not from a specialist financial advisor. I did not pay a fee for this advice.
6. I received financial advice from Pension Wise, Citizens Advice Bureau, The Money Advice Service, or the Government, but not from a specialist financial advisor. I did not pay a fee for this advice.
7. I received advice from a friend, family, or work colleague, but not from a specialist financial advisor. I did not pay a fee for this advice.

Q10 **Thinking about this pot (or pots) you accessed recently, did you visit your pension provider's website whilst you were making your decision? If so, do you remember reading or using any materials such as a pension planning tool on this site that helped you make a decision?**

1. Yes (please specify)________________________________ → ELEMENT 3
2. No → ELEMENT 1 or 2

Q11a **Thinking about the decision you made to access this pension pot (or pots), roughly how much time would you say you (or you and your partner collectively) spent researching your options before making your final decision?**

1. Very little time at all, I just contacted my pension provider
2. Not much time at all – probably a few hours
3. Not that much time really – probably at least half a day
4. Quite a bit of time – probably over a day
5. A lot of time – quite a few days

Q11b **To what extent would you say you exhausted all you options before accessing this pension pot (or pots)?**

1. Not at all, I did not really look into any options other than what I did
2. Not really, I did a bit, but certainly did not exhaust all my options
3. Quite a bit, I looked into quite a few different options
4. A lot, I spent a lot of time looking at each and all of my options

If they answer 1, 2, or 3 on Q10a AND 1 or 2 on Q10b code as disengaged. Otherwise code as engaged.

Q12 **And how important would you say that this pension pot (or pots) will be to your overall household financial wellbeing in retirement, taking into account things like other savings you might have, your partner's pension and the State Pension?**

1. It is vitally important for me as it will be main source of income in retirement
2. It is important to me as it will be a key source of income for retirement
3. It is quite important, but I intend to supplement my income in retirement from other sources / carrying on working part time to supplement my income
4. It is not really that important

Q13 **Gender**

1. Male
2. Female

Q14 **Single or married/ co-habiting**

1. Single
2. Couple

Q15 **Now thinking about savings and investments, can you tell me which of the following brackets, if any, best describes the current value of your savings and investments, including savings accounts, ISA's, stocks and shares, but excluding property and pensions?**

1. Less than £10,000.00
2. £10,000.00 - £29,999.99
3. £30,000.00 - £39,999.99
4. £40,000.00 - £49,999.99
5. £50,000.00 - £59,999.99
6. £60,000.00 - £69,999.99
7. £70,000.00 - £79,999.99
8. £80,000.00 or more

Q16 **What is your total household income per year in terms of earnings, before taxes and other deductions to the nearest £5,000?**

1. Less than £2,500
2. £2500 - £4,999
3. £5,000 - £9,999
4. £10,000 - £14,499
5. £15,000, - £19,999
6. £20,000 - £24,999
7. £25,000 - £29,999
8. £30,000 - £34,999
9. £35,000 - £39,999
10. £40,000 – £44,999
11. £45,000 - £49,999
12. £50,000 - £54,999
13. £55,000 - £59,999
14. £60,000 - £64,999
15. £65,000 - £69,999
16. £70,000 – £74,999
17. £75,000 - £79,999
18. £80,000 - £84,999
19. £85,000 - £89,999
20. £90,000 - £94,999
21. £95,000 - £99,999
22. £100,000 or more
23. DK/ NA/ Ref/ Prefer not to say

8.5 Topic Guide: Element 1

BACKGROUND AND WARM UP

- Explore background, occupation, family situation.
- How would you describe your financial situation?
- What are your hopes and expectations for retirement? Do you feel that you will have enough money set aside for retirement when the time comes?

DISCOVER PHASE

- Explore initial trigger for thinking about accessing pension?
- Probe for influences at this stage, such as the role of peers and media. Explore what themes or options they focused on?
- Explore awareness and understanding of Pension Freedom and Choice.
- Exercise: How did you feel when you first started to think about what to do you're your pension money?
- What factors did you consider (longevity, income needs in retirement, and so on)? Moderator to use stimulus to fill any gaps in knowledge.
- How long did it take you to make a decision? Did this differ at all from expectations?
- How committed were you to do something with your pension at this stage?

RESEARCH PHASE

- Where did you go to research your options (websites, family, friends, provider, workplace, media, and so on)?
- Probe for awareness of the Pension Wise service? Did you visit the Pension Wise website? Did you book an appointment? What were your experiences?
- Did you contact your provider? When was this? How did you get in touch? What did you find out? What impact did it have?
- Did you look at any online information from your provider or other sources? Explore fully the use of tools/ calculators.
- Did you approach a financial adviser? Why/ why not? What were your experiences?
- How long did it take you to become aware of the various options available? Did you look at each one and weigh up the pros and cons?
- What information was most useful at this stage? What were the most useful messages? What was conflicting? Any surprises along the way?

EXPLORING THEIR FINAL DECISION

- What did you decide to do in the end? Why was this? What had the most influence on your decision?
- *If taking some cash as a lump sum*: why did you want to do this? Why take it now rather than wait a few years? How much did you take? Did you pay tax and what is your understanding of how tax is applied to pension withdrawals? Did you know you could take less than 25%? What did you do with your lump sum (explore fully). Did you need to access their pension or could you have used other savings and investments?
- *If taking payments out of the pot as income*: why did you do this? Why now rather than wait a few years? How much did you take? What are your plans for the pot going forwards? How long do you expect the pension pot to last and how do you feel about this? What charges are you paying and why might this be important? Did you look at alternative products from other providers?
- *If bought an annuity:* why did you want to do this? Why do it now rather than wait till a later date/when retired? What is your understanding of how an annuity works? What is your understanding of the different annuities and annuity options that are available? Did you shop around? Why, why not (explore fully)?

TESTING PROMPTS / ILLUSTRATIONS

- Exercise: Thinking now about making a retirement decision, how does this compare to other financial decisions you need to make in your daily lives.
- In other walks of life, we have rules of thumb to help us take short cuts towards making good decisions, especially faced with very complex tasks. Can you think of any rules of thumb outside of financial arena?
- Show *Pension Rules of Thumb* show cards x 7. Which rules of thumb resonate the most? Which are the easiest to understand? Which have the most impact?
- Show *Useful Information* Stimulus x 5. For each, explore thoughts on the information shown, how easy it is to understand, how it makes them feel, how useful it would have been to see this information when they were making their access decision, whether this information would have made them think twice about their decision or whether they would have made a different choice.

WRAP UP

- Final thoughts on the most useful interventions to help people think carefully about what they are doing with their pension money?

8.6 Topic Guide: Element 2

BACKGROUND AND WARM UP

- Explore background, occupation, family situation.
- How would you describe your financial situation?
- What are your hopes and expectations for retirement? Do you feel that you will have enough money set aside for retirement when the time comes?

PENSION DECISIONS

- Exercise: Are there any generic things that anyone making a decision on their pension pot now should be thinking about? Moderator note: Only prompt if needed. Once mentioned, explore their level of understanding around each area, the extent to which they actually considered this as part of their decision, and what false assumptions, heuristics or biases affected their thinking. Once discussed, use each mention to provide an element of education, followed up by further questioning:
  - Work out how much income you will need.
  - Work out if you can afford to retire.
  - Find out what you will get from the State.
  - Review what savings you/ your partner have.
  - Estimate how long you will need your retirement income to last for.
  - Find out what retirement income options are available, how these differ, and which might be most suitable.
  - Consider how much flexibility you want or need.
  - Find out how much you will be taxed.
  - Find out what kind of pension you have and what benefits it includes.
  - Did you consider whether it was better accessing the pot or leaving it where it was for now?
- Exercise: We are now going to look in detail at some of the sorts of things people are doing with their pension money – so, for example, exchanging their pension pot to secure a guaranteed income in retirement or taking a lump sum to spend it on a home improvement. Moderator to work with the group to brainstorm ideas for each scenario. Moderator to draw on experiences of people that have done this. Explore their drivers for wanting to do this and check whether they did or didn't think about the items identified by the group.
  - **SCENARIO 1:** I want a guaranteed income for life, thinking about buying an annuity.
    - Make sure I understand what an annuity is. Discuss the pros/cons.

- Could I get more money by waiting a bit?
- Do I have any secure income already? Where is this coming from? Is this enough to meet my essential spend?
- How worried would I be about making investment choices in the future? How comfortable am I to make those choices now?
- Would I be worried if my income went up and down a bit? Would I be worried about making my income last for life?
- How confident do I feel about making decisions every year? Would I prefer to make a decision now and not have to worry about it again? What age might this all get too much?
- Would I want an income for a spouse? What does this mean in terms of income?
- Would I want Inflation proofed income? What is the cost of this?
- Can I get extra money for ill-health, drinking smoking etc
- No return of pot on death – is that OK?
- No access to money in case of an emergency – is that a trade-off I am willing to make? Any other sources of emergency funds, and is this enough?
- Trade off TFC for extra income?
- No opportunity to flex income up or down – fixed rate for life. Does this suit my needs?

- **Scenario 2:** *I want to take a lump sum (I want a new kitchen).*
  - Do I actually need to do this? Do I need do it now? Is this the best use of money? Or nice to have?
  - What will happen to my money if I wait a year or two?
  - Why is my pension no longer seen as money for retirement?
  - Do I have enough saved for retirement?
  - What impact does spending now have on my future?
  - Could I fund this purchase from other sources? Would this have been better?
  - Probe risks, investments, returns, costs, penalties etc.
  - I am doing the most tax efficient thing? Am I happy to pay tax?
  - Does my provider allow me to do this? What fees do they charge?
  - What am I doing with the rest of the money?
  - Should I be shopping around for a better deal? Probe how to do this.

- **Scenario 3:** *I want to take control of my pension and put it into an ISA/ savings*
  - Where is my pension money currently invested, how is it doing? How does this compare to putting it in a cash ISA?
  - Will money in cash ISA keep pace with inflation over 5/10/20 years?
  - Could moving money into safer assets within the pension do the same thing/meet the same need for me? Can you do this in a pension?
  - How keen/knowledgeable am I on investments?
  - How much time am I willing to spend making sure getting the best deal/ got the right risk level, etc?
- **Scenario 4:** *I am fed up working full time and want to use some of my pension money to fund part time work*
  - How long will my money last for?
  - How long will I live? What will I do in later years if the money runs out?
  - What is the impact on how long the money will last for?
  - Have I considered the loss of pension contributions as well as the loss of salary from reducing my hours?
  - How long extra have to work part time for to be comfortable to retire?

INTRODUCING CHECKLISTS

- Exercise: Thinking now about making a retirement decision, how does this compare to other financial decisions you need to make in your daily lives.
- When you are faced with other types of complex decisions in your day to day lives, what kinds of techniques do you use to make sure that you have covered all the angles and thought about every possibility?
- Prompt for usefulness of checklists and examples from everyday life or from their work.
- Why are checklists used? What are their benefits?
- How useful do you think a checklist would be for those people in the process of making a decision on their pension?
- Did anyone use a checklist when making their decision?

DEEP DIVE PENSION CHECKLIST

- What sorts of questions should our checklist have in it?
- Should the checklist just be about thinking about a decision on your pension, or should it be broader than that. Probe: for example how much you need to live off, how long you think you will live for, how you think about your retirement savings as a whole, not just your pension?
- What is the ideal length of the checklist: number of questions, time needed to fill it in, how much data you need?
- How useful would it be to pre-populate some of the checklist?
- At what stages in the process would you have liked to have had a checklist? Is it a one-time only action, or would it be useful over time?
- Who should issue a checklist/s? Who would you trust?
- What is the best way to deliver a checklist to you?

WRAP UP

- If you had had access to a checklist at the very start of your journey, what impact do you think it would have had on your decision? Do you think you would have reached a different outcome? Could it have changed the way you went about making your decision? Or help overcome any of the issues or challenges you faced during the process?
- Final thoughts on checklists or prompts to help people think through what they are doing?

8.7 Topic Guide: Element 3

BACKGROUND AND WARM UP

- Explore background, occupation, family situation.
- How would you describe your financial situation?
- What are your hopes and expectations for retirement? Do you feel that you will have enough money set aside for retirement when the time comes?
- What did you do with your pension pot?

UNDERSTANDING THE ROLE OF TOOLS AND CALCULATORS IN THEIR DECISION

- Where did you go to find out what you could do?
- Why did you decide to look at the online information from your provider? At what stage of the journey did you do this? Why then? How do you feel about this now? Did your experience meet your expectations? Probe fully why/why not.
- Did you use any of their comparison tools or calculators? What did you learn? Did anything surprise you/ shock you? Did this experience have any influence on your final decision? In what way?
- How much do you trust the information that comes out of provider tools? Why do you say that?

LIVE TOOL TEST

Respondents to spend 20 minutes exploring the at retirement section of a pension provider's website (rotate provider for each group) unguided and a further 10-15 minutes reviewing selected retirement tools as directed by the moderator. Respondent to capture their thoughts individually in a workbook. Moderator to debrief for 20-25 minutes.

- What were your general impressions of the information on the site? (Not look and feel)?
- How did this site compare to your provider? Was anything different to what you took away from your provider's website when you used it? Did you learn anything new?
- What areas did you focus your attention on? Did you approach the task in a linear fashion, so starting to look at the options one by one, or did you look at things of interest to you? What order did you do this in? Probe whether the way the information is presented has any impact what they take away from the tool.
- Did anything surprise or shock you?
- What are your views on the tool/s reviewed (questions vary by website/tool). What are your views on the options and how these are presented? Which seem most attractive to

you and why? Which are least attractive? What are your thoughts on the income figures shown? Which caught your eye? Did you play around with the numbers? Did you notice the various options and what is the relationship between these and the income figures? How are these numbers calculated? Are these figures the amount you would actually receive? What assumptions are being used?

TESTING HOW FEATURES IMPACT BEHAVIOURS

- Ordering Stimulus 1, 2, and 3: We are going to have a look at a couple examples of home pages from various provider websites. Which of the options seems the most attractive to you and why? Which ones would you want to explore in more detail? Which would you look at first? What do you think about the language used?
- Presenting Outcomes Stimulus A and B: This page shows two different outcomes for a flexible drawdown option. What numbers are you drawn to? Which one seems the best? Why? Which one is giving you the most money? What do you think of the annuity rates shown? How does this compare to the flexible drawdown? Moderator reveal that both examples are based on entering the same customer details – do they look the same? Which one is 'right'? How do they feel about this?
- Presenting Outcomes Stimulus C: What are your thoughts on this? Can you describe to me what you think this graph is showing? Which number are you attracted to? Why? How have the numbers been calculated? Are these numbers guaranteed? Does this feel more certain that the others?
- Do you have a preference (A, B or C)? Is it a surprise that providers' tools might show different results?

WRAP UP

- Final thoughts and recommendations on what you have seen?

8.8 Topic Guide: Element 4

- Explore background, occupation, family situation.
- How would you describe your financial situation?
- Thinking about the pot you recently had with [PROVIDER], how important is this pension going to be to your overall financial wellbeing in retirement?
- Did this pension have any special features that you are aware of? (e.g. a GAR)
- Was this the only pension you were looking into doing something with at this time? How did you decide which one to access in the end?

DISCOVER PHASE

- Thinking back to the very beginning, what was the initial trigger for you to start to think about accessing this pension? What role did peers/ the media play?
- How did you feel at the start the start of the process?
- To what extent did you already have a good idea about what you wanted to do, or were you starting with an open mind? What needs were you looking to meet at that time?
- How committed were you to doing something with this pot, rather than leaving it where it was?
- And what were your expectations for how the process would work? How long did you think it would take for you to come to a decision on what to do? How long did it actually take you? Why was that?
- And what was the trigger for finally wanting to do something?

RESEARCH PHASE

- Where did you find out what you could do? Probe:
- Did you use any online tools from your provider, or other sources? What did you learn from these tools? What else could have helped you?
- Were you aware of the Pension Wise service? If so, what were your thoughts? Did you make an appointment?
- Of the options open to you, how deeply would you say that you looked into each one?
- At what stage in the process did you contact your provider? Why then? What was the trigger? How did you contact them? What were you hoping to get out from that interaction?

- Talk me through that conversation… what did you find out? What can you recall they told you? What was the outcome? Did they send you any materials to read? What did you think of these?
- How much would you say your interaction with your provider had an influence on what you did? Why do you say that?
- Which of the options we talked about earlier did your provider offer? What are your thoughts on this? Did you consider going to another provider? Why/ why not.

EXPLORING AWARENESS AND UNDERSTANDING OF THE REFERRAL

- So, you decided to [OUTCOME]. What is your understanding of who [OUTCOME] is with? Why do you think that?
- Do you recall being referred to another provider at any stage in the process? If yes, who is your product actually with [check against data]?
- What was the reason for the referral? How was this explained to you? How do you feel about this? What is your understanding of the relationship between the two? What do you know about the referral company?

EXPLORING THE ROLE OF THE REFERRAL IN THEIR FINAL DECISION

- What would you have done if your provider had not offered a referral service?
- How confident are you in being able to find a solution on your own? Where would you go? How much time do you think it would take you to do the necessary research and how confident are you to make comparisons between the products on offer? What features would you look at to decide which was the best one?
- Did you do any research to see how what was offered to you by [REFERRAL COMPANY] stacked up in the market? Why/ why not? Why might it be beneficial to do so?
- Now that you know that [REFERRAL COMPANY] is your provider, would that have made any difference to your decision to shop around?
- Do you think there is any financial incentive given by [REFERRAL COMPANY] to [PROVIDER] for the referral? How would you feel if this were the case? Would you do anything different if you had known about this? Why do you say this?

WRAP UP

- So now we have had this conversation, do you wish you had done anything different? Probe fully.
- Any final thoughts on what we have been discussing today?