

May 2016

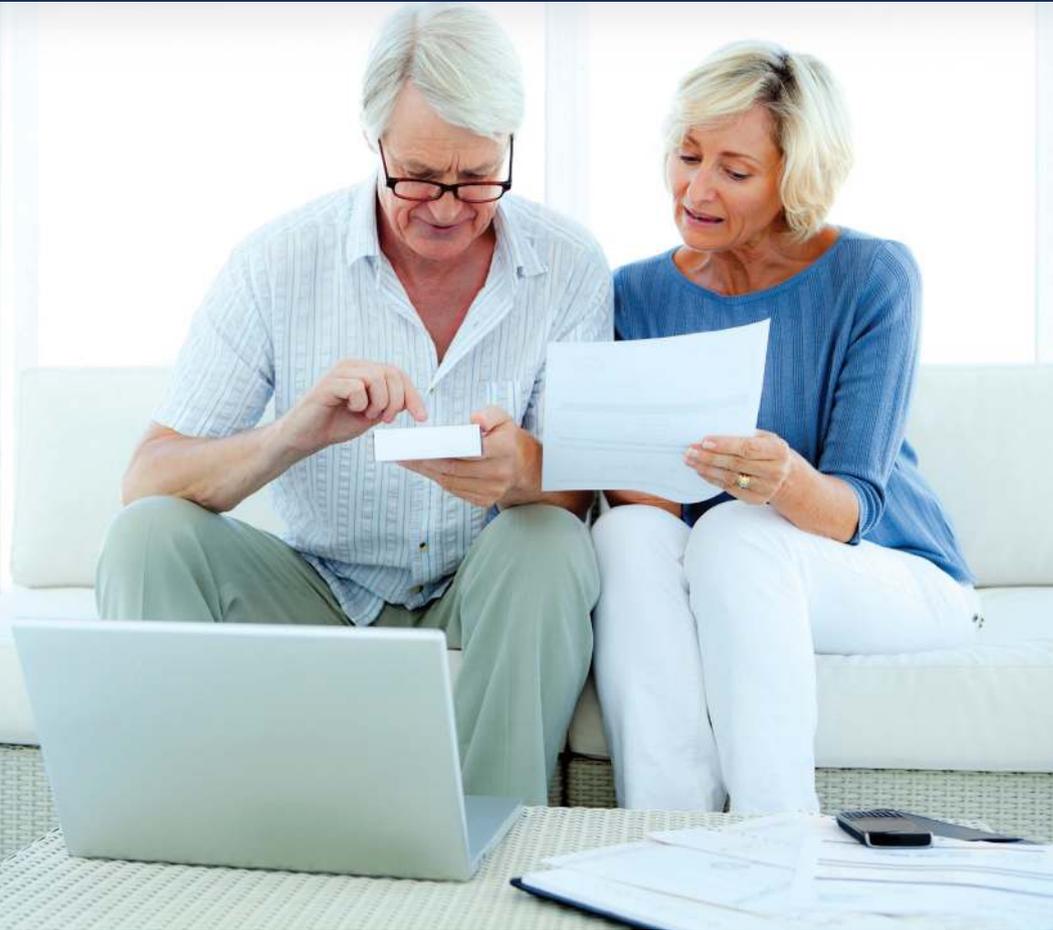
Pensions Personalities: Part 2 of New Choices, Big Decisions

Exploring Consumer Decision Making
and Behaviours Under Pension
Freedom and Choice

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



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Foreword



Alistair Byrne,
Senior DC Strategist,
State Street Global Advisors

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In our recently published report ‘New Choices: Big Decisions’ we heard first hand of the challenges pension scheme members face in making decisions about how to access their retirement assets. While every person in our sample had their unique issues and perspectives, we also found common themes in how individuals were approaching the decision. This report captures those common themes in seven pension personalities where we describe the motivations and goals of each member type and outline their typical journey. We will introduce you to Procrastinating Pete, Buy to Let Barbara and a host of other colourful characters.

The individuals in our sample have good reasons for approaching decisions in the way that they do. But, we are conscious that there are also potential pitfalls and some of the members risk getting a poor

outcome. Throughout the report, we have set out our views on how the industry – sponsors, trustees, providers, advisers – can help members avoid the pitfalls and mitigate the potential for poor outcomes. These range from setting appropriate defaults and paths of least resistance through to improving the clarity and consistency of communications and the way choices are framed.

As before, we are grateful to Ignition House for authoring the research and delighted to co-sponsor the work with The People’s Pension. Together we are keen to foster an active debate about how to make Freedom and Choice work for our scheme members and help ensure good retirement outcomes. We hope you find this report thought provoking and we look forward to discussing it with you.

Alistair Byrne



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

the
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When it comes to decision-making at retirement, it's clear that people take a varied approach – but there are some strong common themes.

From the ultra-cautious Procrastinating Petes and Paulas (by far the largest group), to the I Can Do Better Myself Colins and Clares, who would rather take their money and stick it in the bank than leave it invested in their pension. While individual choice is important, it's this group that is a big worry. Has trust in pensions really sunk so low? And if so, what can we do to restore it?

So what does all of this tell us? The key lesson we've learned is that people are different in terms of the products and options they need to access when they want to retire. They also have different needs in how we as an industry engage with them before they make their decision. The work the Association of British Insurers is doing to create a common language for pensions could pay dividends.

Engagement is important and if done well can lead to better outcomes. But robust and well governed defaults are important too. We need to make sure that we design 'one-size-fits-all' defaults for a group of savers who, in the main, are not sure how best to use their pension and will put off making a decision.

Under freedom and choice there is more onus on the saver to make decisions and get things right. The industry needs to get better at helping people and communicating in a jargon-free way, but savers will need to look after themselves too. This research suggests 10 questions savers should really ask themselves before they access their pension savings, and these apply across the board. Whatever their behavioural bias, many who retire today will live into their nineties. Making every penny of their pension savings count has never mattered more.

Darren Philp

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Research Objectives and Methodology

Pension Freedoms, introduced in April 2015, have radically changed how people can access their DC pension pot after the age of 55.

Now one year in, evidence is emerging which quantifies what people are doing with these new freedoms. However we still have limited insight into perhaps the most important question for the industry – why they are acting in this way. This longitudinal study fills this gap by following a large group of people who intended to take money from their DC pension pot through their entire decision making journey.

Our first report *New Choices, Big Decisions*¹ summarised the key findings from this research. In particular, it showed how savers are struggling to compare options and get the right information at the right time. Perhaps this is not surprising when they face a landscape which is both complex and challenging to navigate.

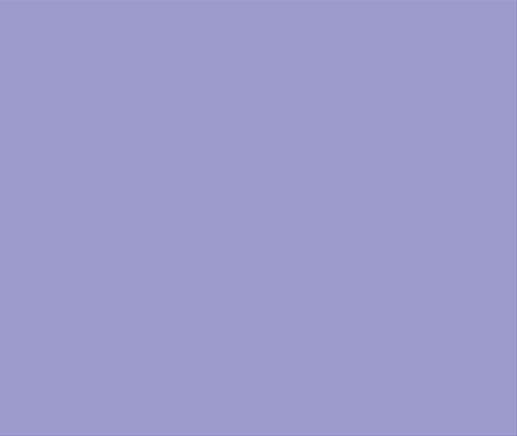
All of the respondents in our research demonstrated their own unique priorities, beliefs and preferences. Yet strong common themes and traits were evident across groups. In this follow-up report we capture these themes in a series of personas. Each of our seven personas represents a cluster of people who exhibit similar behavioural patterns in their decisions and retirement choices. Our hope is that, by understanding these typical behaviours, the industry will be able to develop ways to better meet member needs going forward.

| Persona 1 | Persona 2 | Persona 3 | Persona 4 | Persona 5 | Persona 6 | Persona 7 |
|---|---|---|---|--|---|---|
|  |  |  |  |  |  |  |
| Procrastinating Pete and Paula | Can Do Better Colin and Clare | Buy to Let Brian and Barbara | Spend it Simon and Sally | Winding Down William and Wendy | Help Me Harry and Helen | Secure Stan and Sue |

1. www.ssga.com/definedcontribution/uk/docs/New%20Choices_Big%20Decisions.pdf

Research Methodology

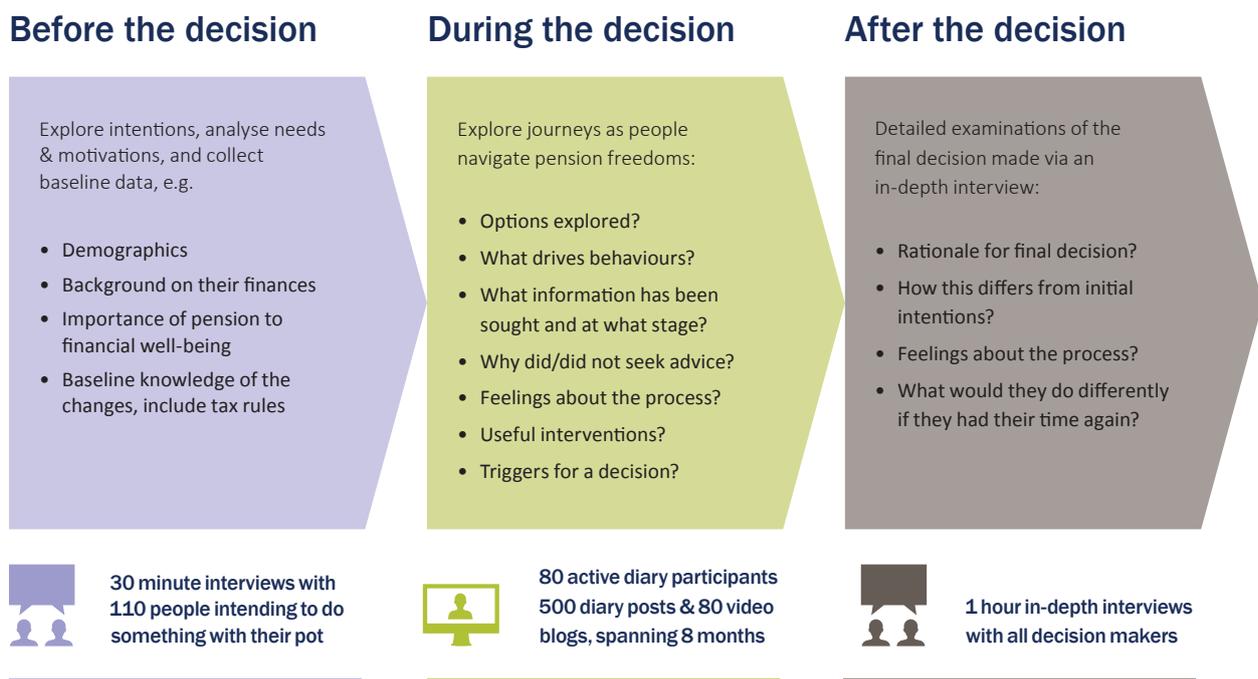
Our personas have been developed through a comprehensive analysis of the information collected from our large scale, longitudinal qualitative research project. In total, we tracked 80 55-70 year olds across eight months of fieldwork – from June 2015 to February 2016. All respondents took part in an in-depth interview at the start of the project, during which time we explored intentions and discussed their needs and motivations. Respondents were asked to keep a diary for the duration of their decision making process in which they detailed their thoughts as they explored their options. Diary entries were recorded using a mixture of video blogs, written online blogs, emails and phone interviews.



Finally, we conducted hour long interviews with each respondent to explore the rationale for their final decision.

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

Figure 1: Research process



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

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

Persona 1

Procrastinating Pete and Paula

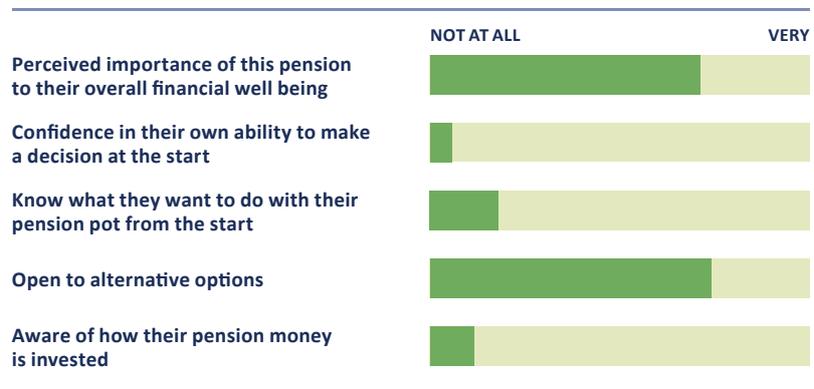


Procrastinating Petes and Paulas, by far the largest group we observed, clearly understand the importance of their pension and the decision they face, but are starting from a very low baseline of knowledge.

“It’s a minefield”

They are desperately trying to educate themselves and there is no shortage of information for them to access. They worry that they are missing something important and struggle with the complexity of the topic area – the ‘unknown unknowns’. They feel they have nowhere to go to validate what they have read and are unsure that they have fully understood all the options and their implications.

With no urgent need to access their money they will continue their search for many months, looking for some sort of Holy Grail that will provide the single solution to all their needs.

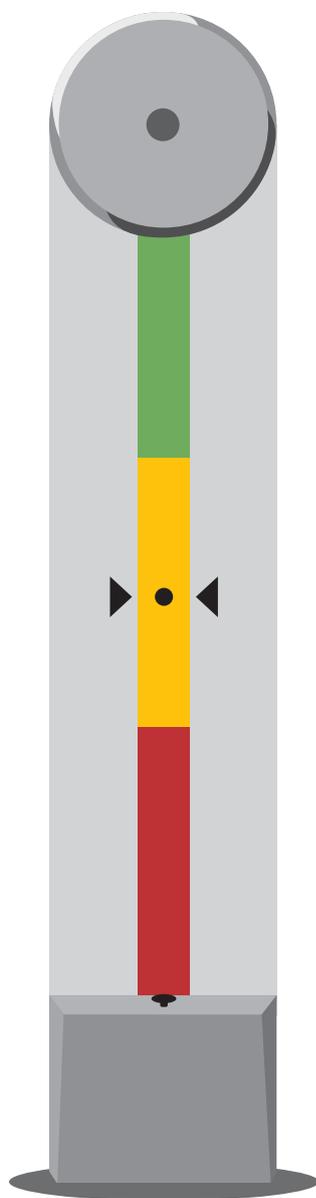


The key issue they face is how to translate what they reading about the options now open to them into an actual action plan for their individual circumstances. These pioneers are desperately worried about making a mistake and have no norms or points of reference to work from as they are the first cohort to experience life under the new rules.

Propensity to have a poor outcome

At the moment, it is difficult to say what the future will hold for this group as they are paralysed by fear and unable to take the next step.

The danger they face is that they will ultimately tire of hunting around for information they can relate to and take the easy route into a solution which may result in a sub-optimal outcome.



For illustrative purposes only.

Potential Pitfalls

- ✘ **Terminology used by the pensions industry is very confusing:** To most people draw-down simply means “taking my money out”. They are confused with the myriad of different methods to achieve this, and struggle to get to grips with alien concepts such as UFPLS, SIPP, and flexi access draw-down. Marketing names simply confuse them further.
- ✘ **Confusion could lead to them to take the path of least resistance:** The more confused they get, the more likely they are to be driven by inherent behavioural biases and heuristics. We have already observed examples of this behaviour, including accessing 25% tax free cash because it is the thing to do rather than thinking through whether they need this money or how best to invest it, or sticking with their existing provider rather than shopping around for the best product.

What can the industry do?

- ✔ **Better Information, not more information:** The stock industry response to consumer confusion is to call for more communication and education. However, we believe that this will only serve to confuse them further. Instead, Procrastinating Petes and Paulas would undoubtedly benefit from less information, but information that has been tailored rather than a one size fits all approach. Devices such as story-telling and ‘People Like Us’ comparisons could be used to bring the options to life. Gamification and ‘what happens if’ scenarios could help people to compare and contrast future outcomes to determine whether the choices they are making today will stand the test of time.
- ✔ **Consistent industry lexicon:** Procrastinating Petes and Paulas waste a lot of time trying to piece together what they are reading from different sources. A consistent set of simple, intuitive names and terms would help them to navigate their way through the different options.
- ✔ **Smart ‘defaults’ and new ‘norms’ for those following the path of least resistance:** Those who do not feel able to equip themselves with enough knowledge to decide what to do will be comforted that the default solution has been designed by experts to suit most people. The more sophisticated will have a benchmark to compare different options against.
- ✔ **Earlier interaction with Pension Wise:** Increase awareness to seek help from Pension Wise at the very start of their journey, perhaps encouraging them to do this even before they have made an approach to their provider to get a valuation.
- ✔ **Innovation to facilitate access to low cost ‘advice’:** ‘Advice is in the eye of the beholder’ and industry distinction between ‘advice’ and ‘guidance’ mean little to real people. Consumers have no concept of the differences between advice, guidance and information and, quite frankly, don’t care – they just want some ‘help’. They are currently finding it very difficult to access anything that resembles a middle ground between generic information about the different options open to them and paying more than they would want for a personal recommendation. More innovation is needed to fill this gap.

Persona 2

Can Do Better Colin and Clare



I Can Do Better Colins and Clares have completely lost their faith in pensions and the pensions industry.

“My pension is rubbish, I can do better myself”

They have seen too many bad news stories over the years (they will refer to Maxwell, Equitable Life or deficits in general) – and every front page headline of yet another ‘pension crisis’ only serves to reaffirm these views. Pensions are seen as overly complex, opaque, inaccessible and poor value for money.

Although they rarely have any idea what their pension is invested in, or indeed how it has performed compared to alternatives, Colins and Clares believe that they can do better themselves if they take their pot and invest it themselves in something they can understand and control.

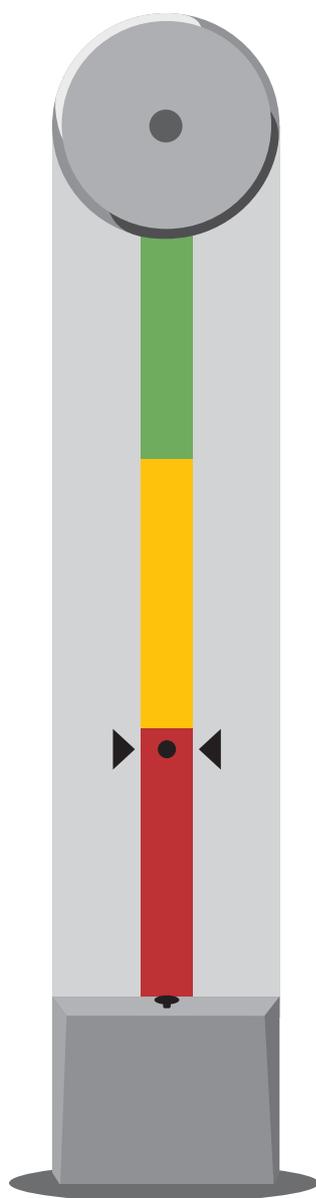
The vast majority of Colins and Clares have no investment experience, so cash ISAs and high interest deposit accounts are their favoured vehicles. They feel reassured that they know how savings accounts and cash ISAs work. ISAs and savings accounts are ‘safe’ and cannot fall in value, whereas a pension feels like a black box. They have no idea what impact this investment strategy will have over their lifetime.



A small minority at the other end of the spectrum do have an active interest in investments. These hobbyist investors usually have accounts on one of the major platforms but will not always have a well-diversified portfolio. We have observed some investing significant sums into such eclectic or popular destinations as eco hotels, ‘top pick’ shares, and directly investing substantial parts of their money in a limited number of well known blue chip companies.

Propensity to have a poor outcome

Putting money into cash ISAs is not necessarily bad for those who only want their money to last for 5 years or so, but is unlikely to be the best strategy for those with a longer time horizon.



For illustrative purposes only.

Potential Pitfalls

- ✘ **Inflation risk:** Over time, the value of cash savings may fall as low returns are eroded by inflation. This may be acceptable if the consumer has a short time horizon (say 5 years) for their money to last, or a small fund, but is not likely to be suitable for the rest.
- ✘ **Longevity risk:** Low returns increase the risk that the pot will run out before death.
- ✘ **Diversification risk:** Without help, it is unlikely that unsophisticated investors will be able to construct a well-diversified risk-appropriate portfolio themselves.
- ✘ **Potential for increased costs:** Moving from a collective institutional arrangement to a retail investment is likely to impact on costs. Consumers have no idea what their pension fund currently costs, so have no way to benchmark alternatives.
- ✘ **Tax:** A minority are so disillusioned with pensions that they are willing to pay 40% tax to withdraw their fund. Many more are happy to take a 20% hit to have the money in their control. They have not made any calculations of the returns they would need to generate to offset this reduction.
- ✘ **Scams:** The low interest rate environment is driving some to seek alternative investments. Their low baseline knowledge leaves them vulnerable to scams.

What can the industry do?

- ✔ **Help consumers understand the implications of deposit-based investments:** No one we spoke to had a conversation with their provider about the long term risks of investing in cash. Much more could be done here to raise awareness. For example, simple models which show the age pension money will run out under different investment scenarios can be very effective in bringing this issue to light.
- ✔ **Help consumers understand the investment return needed to offset their tax bill.** Again, encouraging consumers to use simple models to understand the consequences of their actions will help them to decide whether this is, indeed, the right choice for them.
- ✔ **Increase awareness of cash-based investments in pension wrappers.** Respondents in our study were surprised to learn that they could move pension funds into cash fund, and may have thought twice about paying tax to move outside the pension wrapper if the rate was competitive. Terminology will be key here – using jargon such as ‘money market funds’ will be a complete turn off, and will not get the right messages across.
- ✔ **Easy access to well-constructed ‘default’ funds** with clear articulation of the benefits in terms of diversification, professional management and cost.

Persona 3

Buy to Let Brian and Barbara

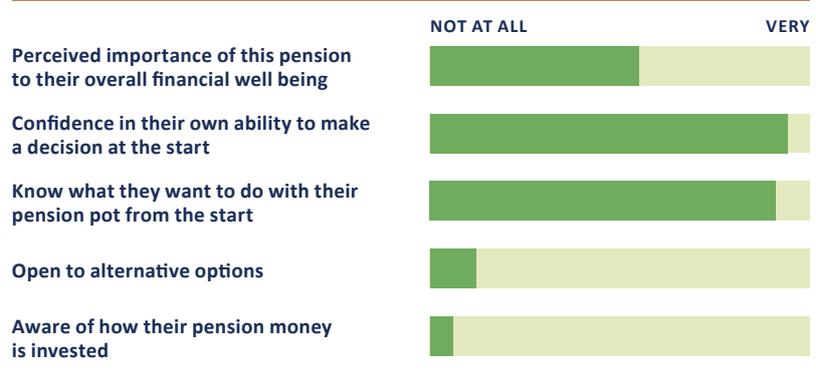


Buy to Let Brians and Barbaras are absolutely convinced that ‘you can’t go wrong’ with property.

“You can’t lose with property”

They share many of the same characteristics of the I Can Do Better Colins and Clares – a loss of faith in pensions and a desire to have their money in an investment which they can control and understand. The key difference is their unwavering faith in bricks and mortar.

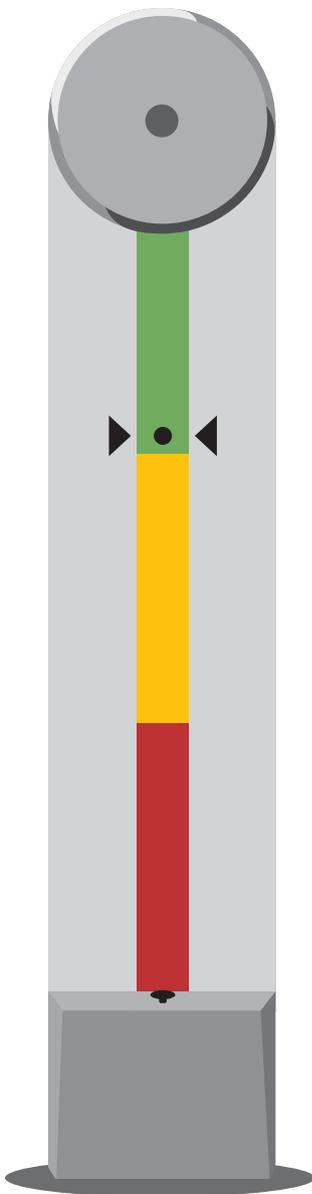
In theory, the match between consumers’ needs in retirement and property investment is good – there is an asset to pass on to dependants, the value of the asset is likely to grow over time, and there is a steady inflation-linked income stream. These are invariably the reasons given by the Brians and



Barbaras for their decision, but they have rarely gone any further than this in their thought process. They have rarely considered the fixed costs involved in the initial property purchase (such as stamp duty and solicitor’s fees), and have not factored for common ongoing costs (void periods, legal fees for tenancy agreements, mortgage interest costs, wear and tear repairs, insurance, letting fees and so on). Brians and Barbaras have buried their head in the sand about the illiquid nature of the asset and capital gains tax eroding any gains.

Propensity to have a poor outcome

Novice property investors, risking all their retirement savings on the performance of one illiquid asset, are taking a huge gamble that growth in the residential market will be sustainable in the longer term despite the Government's desire to cool the market.



For illustrative purposes only.

Potential Pitfalls

- ✘ **Liquidity risk:** An often cited benefit of the Pension Freedoms is flexible access to money. Here, people are locking retirement savings into a highly illiquid asset.
- ✘ **Diversification risk:** Brians and Barbaras are investing large parts of their retirement savings not just in a single asset class, but in a single asset.
- ✘ **Optimism bias:** Strong evidence that Brians and Barbaras are not considering the potential downsides to their decisions.
- ✘ **Political risk:** Recent changes to stamp duty and tax treatment of mortgage interest payments will reduce future returns from any buy to let (BTL) investment. The Bank of England has again raised concerns about the over-heated BTL market and is considering further measures to cool off demand, which are likely to adversely impact future revenue streams and the capital gains.
- ✘ **Systemic risk:** All BTL owners are affected by changes at the same time, which could result in asset price falls if investors lose confidence as a result of any cooling off measures.
- ✘ **Tax:** A minority are so disillusioned with pensions that they are willing to pay 40% tax to withdraw their fund. Many more are happy to take a 20% hit to have the money in their control. They have not made any calculations of the returns they would need to generate or the timescales required to offset this initial reduction in capital.

What can the industry do?

- ✔ **Help people understand the risk they are taking by investing in a single asset.**
- ✔ **Help people understand the costs involved and the yield needed do better than keeping money in diversified portfolio** – again, encouraging consumers to use simple models and calculators to understand the consequences of their actions will help them to decide whether this is, indeed, the right choice for them.
- ✔ **Promote residential property funds as a potential alternative?**

Persona 4

Spend it Simon and Sally

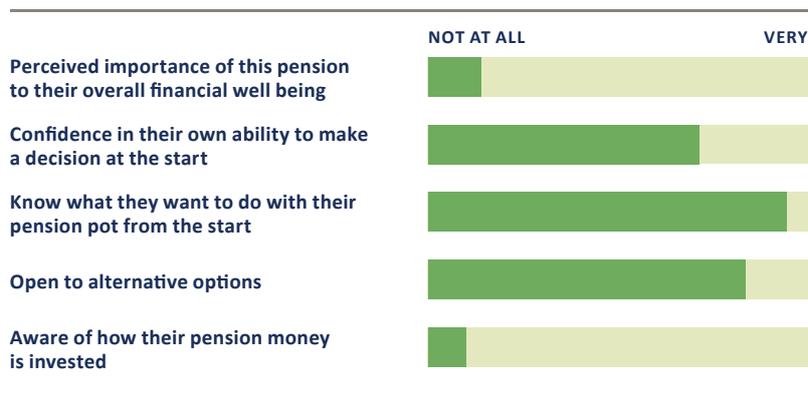


There is no evidence that Spend it Simons and Sallys will blow their pension pots on a Lamborghini, but they are more than happy to take some of their pension money to enjoy now – usually some tax free cash or a small pension – to spend on holidays, home improvements, a new car, or a treat for family members.

“I’ve worked hard all my life and I deserve a treat”

Unexpected events, such as a family wedding, can also drive their desire to access a chunk of pension savings. There are usually no plans to access remainder of their pension for some time, and so they end up in ‘zero income draw-down’.

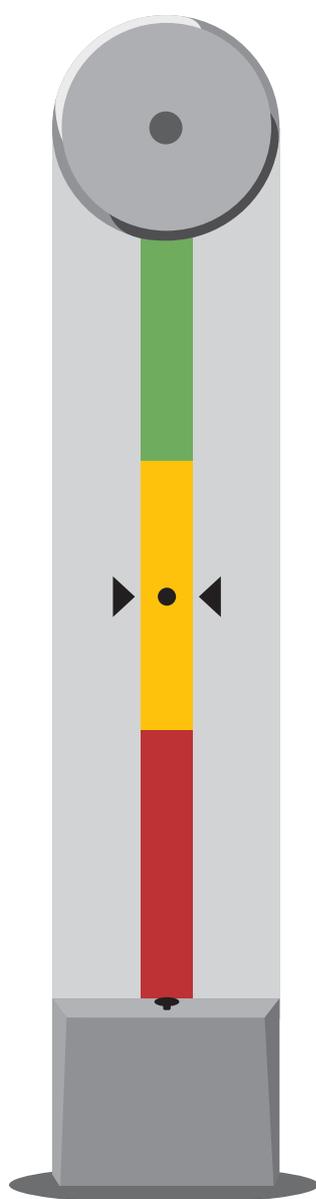
Most Simons and Sallys have sufficient savings sitting in cash ISAs or deposit accounts to cover these expenses, but are reluctant to touch these. Somehow the pension feels like ‘free money’ or an unexpected windfall. They feel they might miss out if they don’t take some money now.



We observed a lot of contradiction. In one breath, Simons and Sallys will tell you that they feel comfortable taking a slice of their pension money now as it is not their main pension, or that it is only part of their pension money, or that they will be OK as they are still working and contributing to a pension. Yet, in the next breath, they will tell you they are worried about having enough money saved to retire and will have to work well into their late 60s and 70s.

Propensity to have a poor outcome

Spending small amounts of money today may not feel like it will make much difference to financial well-being, but with so many people reporting they will need to work longer to fund a comfortable retirement, in reality, it is likely that every penny saved will be needed.



For illustrative purposes only.

Potential Pitfalls

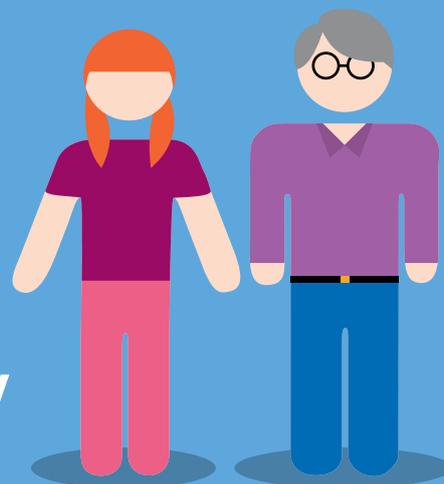
- ✘ **Optimism bias:** Strong evidence that Simons and Sallys are not fully considering the potential downsides to their decision to spend some of the pension savings now. For example, we observed that many of those who are happy to spend now as they have a partner's DB scheme to provide the main source of income in retirement have not considered what happens if that partner dies first. Furthermore, people who think they can downsize their property to fund future shortfalls have not considered what happens if they cannot release the equity they expect.
- ✘ **Spending down assets with more growth potential:** Simons and Sallys may be better off in the long run accessing cash savings instead of running down pension pots once they have depleted their tax free cash.
- ✘ **Is the remaining money in the best place?** Simons and Sally are focused on accessing their tax free cash in a timely and trouble-free manner and rarely spend any time thinking about the remainder of their pot. Very few shopped around, and those that did only did so because their existing provider did not offer a flexible access product. None considered whether or not their existing pension is offering value for money, or whether their investment mix is still appropriate.

What can the industry do?

- ✔ **Help consumers understand that 'every little bit helps' for funding retirement income:** Simons and Sally could benefit from understanding the real 'cost' of their actions. For example, messages which say that for every pound of pension money you spend at 55 you will need to save an extra £x a month, or work an extra x days, to replace it. For example someone age 55 on average earnings, taking 25% tax free cash from a £100k pot, would have to work five more years to have the same size of pot they would have had at age 65 if they hadn't taken the tax free cash.
- ✔ **Re-engage people with their pensions to ensure that pension money is mentally accounted for, and not just seen as a bit of unforeseen spare cash.** Initiatives such as the Pensions Dashboard and pot aggregation will help consumers reconnect with small, dormant pots.
- ✔ **Ask difficult questions to encourage people consider the worst case scenario.**
- ✔ **Facilitate shopping around or ensure internal products are 'best in class':** Help Simons and Sallys understand the importance of moving to a better performing product and signpost products that offer the best value for money. Of course, the industry will need to develop a clear definition of what value for money means.

Persona 5

Winding Down William and Wendy



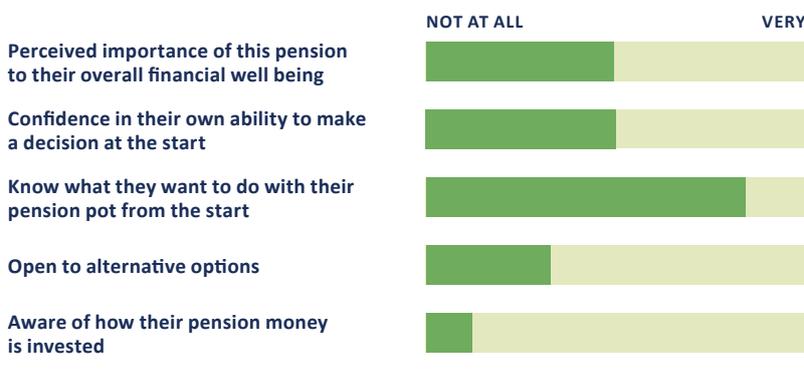
Winding Down Williams and Wendys want to enjoy life to the full now whilst they are fit and able. Rather than ‘working until they drop’, Williams and Wendys would rather use their pension money now to fund a phased retirement.

“I’ll use my pension as a top-up so I can work part time”

They plan to continue working for the foreseeable future, but reduce their working hours – typically to two or three days a week.

Phased retirement is increasingly becoming the new norm, and the new Pension Freedoms are opening up this opportunity to more people than ever before, allowing Williams and Wendys to access their pension pots early and flexibly to supplement their income in the first stages of their retirement.

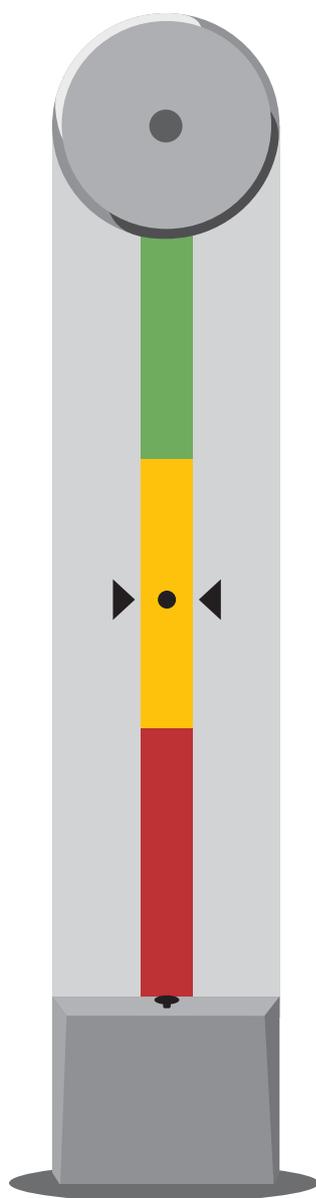
Our Williams and Wendys (who all had pots of less than £250k – and many had significantly less than this) did not expect their pension to last for life; they are simply looking to top up income for as long as possible, or to fill a gap until another source of income kicks in. This could be the State Pension, a final salary pension, or a partner retiring with larger pension provision. Wendys, in particular, feel cheated that their plans for retirement have been disrupted by the increase to State Pension Age, and are using their DC pots to fund the difference.



Williams and Wendys took 25% of their pot as a tax free lump sum in the first instance, perhaps spending some of this on a holiday or home improvements, and plan to spread their withdrawals over a number of years to manage their tax bill. They have not yet figured out how this will work in practice; their assumption is that the provider will sort it all out for them at source.

Propensity to have a poor outcome

Living for today and bearing the consequences tomorrow seems very attractive at the time, but a few extra years of full-time work in their late fifties and early sixties could make a big difference to lifetime well-being.



For illustrative purposes only.

Potential Pitfalls

- ❌ **Can they really live off the State Pension when their money runs out?** Williams and Wendys often say that they have not saved enough for retirement, and that their money will not last until death. If they find that the State Pension is not sufficient, they may need to continue working into their 70s and 80s, when they may not be as fit and able, or as productive, as they are today.
- ❌ **Reduced pension contributions:** Reduced earnings also mean reduced pension contributions. Not only are this group running down existing pension provision during their economically productive years, they are forgoing future contributions.
- ❌ **Need to mitigate tax liabilities:** This group have a tricky balancing act to make sure that they do not pay more tax than they need to.

What can the industry do?

- ✅ **Help people understand the trade-offs and implications of funding a phased retirement from their pension pot.**
- ✅ **Develop and promote simple draw-down solutions that target short withdrawal time horizons:** Pension Freedoms open up the opportunity of phased retirement to people with smaller pots. Our Williams and Wendys are realistic about how long they want their pot to last – they are not looking for it to last their lifetime, rather to supplement their income over a five to ten-year time horizon. Yet they don't know how best to manage their pot or their withdrawals to achieve this and believe that current flexible access products place all of the burden on them to make the right decisions.
- ✅ **Help employers understand the implications for their business.** Employers, particularly smaller employers, will need help to identify and deal with both the opportunities and challenges of the new retirement journey.

Persona 6

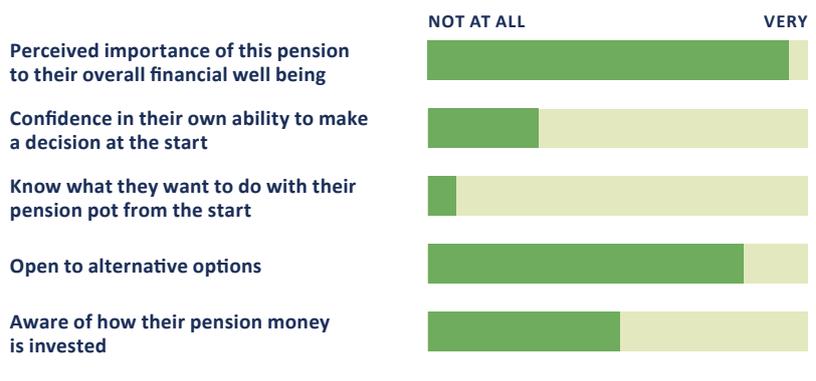
Help Me Harry and Helen



Pensions are very important for financial well-being in retirement and our Help Me Harrys and Helens are determined to make the right decision.

“Having read about the potential dangers, it was sensible to seek advice”

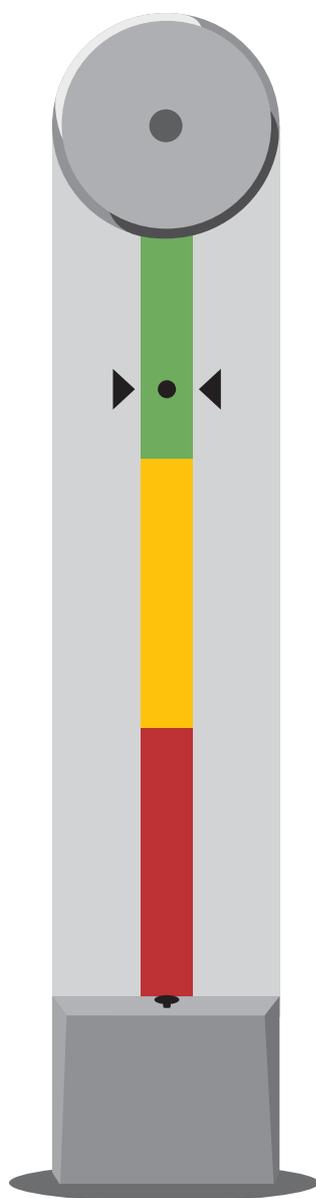
They have a long time horizon for their money and want to do all they can to make their money last for life. They dislike annuities and want to be able to access their money in retirement. This group knows they have a challenge to meet these needs, and are diligent in their research. They read articles, have numerous conversations with their providers, and are the most likely group to contact Pension Wise for a discussion.



At some point, they come to the conclusion that they will never be able to develop sufficient knowledge themselves to get to the best solution and they then go on to employ the services of a financial adviser. Some get to this stage very quickly; others will reach this stage after many hours of individual research. Unlike other groups, Harrys and Helens see the value in financial advice, despite the cost. They are comforted that the research they have done at least enables them to ask the right questions to the adviser.

Propensity to have a poor outcome

Expert advice ensures the initial suitability of this group's choice of products and investment strategy. The big question is whether they will keep this relationship up in the longer term, and the cost of doing so, given most advisers will make an annual charge between 0.5 and 1% of their pot.



For illustrative purposes only.

Potential Pitfalls

- ✘ **Difficulty finding an adviser they trust who will deal with them.** Due to their small pot sizes, many of our Harrys and Helens were disappointed to find out that advisers were not particularly keen to take on their business. Others said that they felt some advisers they approached were simply 'stamping out' solutions without taking their particular needs and wants fully into account.
- ✘ **Initial cost of advice can significantly deplete the starting value of smaller pension pots.**
- ✘ **What happens in the long run for those with smaller pots?** With ongoing charges on an ever depleting pot, at some point these customers may not be economical for advisers to serve. What will Harrys and Helens do in their later retirement years?

What can the industry do?

- ✔ **Better signposting to advisers who are willing to take on smaller pots.**
- ✔ **Initiatives and solutions to help lower the overall cost of advice –** initiatives such as the portable fact-find will help, especially if there is some element of consumer self-service. Automated advice, sometimes called robo-advice, is in its infancy in the UK but early indications are that the FCA is keen for this sector to develop.
- ✔ **Solutions which will mean that consumers do not need a regular annual review –** they will need to take responsibility to re-engage with an adviser if their situation has changed. The industry needs to develop a warning system to alert the consumer and the adviser know if the projected plan looks like it is going off track. Examples of this in the past have been the Red, Amber Green warnings on endowment mortgages.

Persona

7

Secure Stan and Sue



Secure Stans and Sues are, by far, the most risk averse group we encountered – and they are happy to describe themselves as such.

“I don’t want to take any risk with my future”

They are more than willing to sacrifice flexibility for the security of a known income for life. They say that they have made sacrifices over the years to accumulate their pot and would be extremely unhappy to see it fall in value. They are unsettled by stock market volatility and say that they would constantly worry about their money if they were exposed to any form of investments in their retirement years. They do not want to have make pension decisions in retirement. They usually have the main or only pension in the household and feel they have a responsibility for maintaining the household finances in retirement.

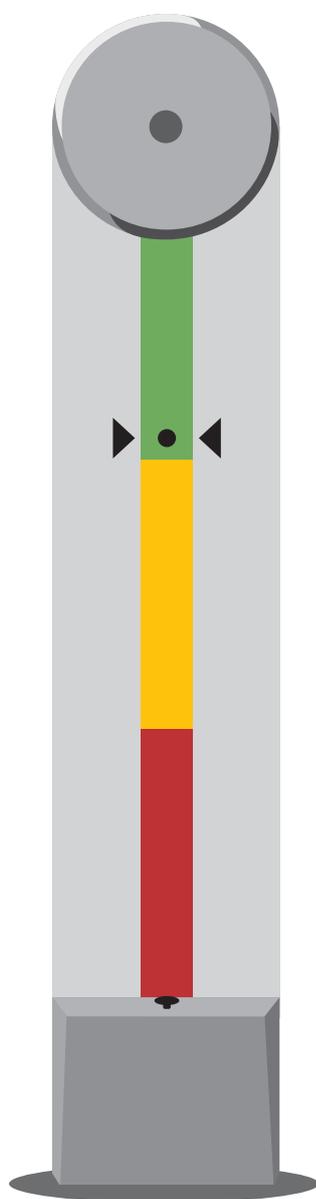
Secure Stans and Sues often start their journey with the intention of purchasing an annuity, despite the recent Pension freedoms, and often believe it is the only product that meets their needs. Many have no dependants and are not worried by the prospect of having no residual pot to pass on upon death.



That said, not everyone who buys an annuity can be characterised as a Secure Stan or Sue. We found that people taking an annuity when they find out that there is Guaranteed Annuity Rate (GAR) are very different. Here, they tend to have multiple pension pots; overall pension savings are much larger and this pot is usually just a small part of their overall provision. Their motivation for purchase is very different – they are clear that they are getting a “good deal” which they could not get elsewhere, and are willing to give up flexibility for a “return” of 10-12%.

Propensity to have a poor outcome

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



For illustrative purposes only.

Potential Pitfalls

- ✘ **Who can I trust?** Secure Stans and Sues are very aware that they should shop around for the best annuity rates, but are often unsure how to go about it or who to trust to take them through this process. Some find their way to an annuity broker via an online search, but may not recognise who is providing the service (referring to the person they are dealing with as an 'adviser'), nor the fees that are involved.
- ✘ **Low awareness of some of the options available:** We found a poor understanding of enhanced annuities and a low awareness of value protection. This is a concern for those taking a DIY approach to shopping. Furthermore, we found no awareness of the so called 'third way' variable annuity products available on the market, which offer the combination of a secure income and access to their money, albeit at a cost.

What can the industry do?

- ✔ **Don't neglect the annuity market:** Although the annuity market has seen a sharp decline in sales and attention has naturally focused on draw-down, there will be a core of consumers who are willing to forgo flexibility for security who should not be forgotten by the industry. The inherent issues observed in the market before Pension Freedom and Choice have not gone away, which means that the industry still has a responsibility to reinforce key messages – such as the need to shop around for the best rate and the how a small difference in rates can have a significant impact over the long term.
- ✔ **Promote awareness of the range of annuity options available** such as value protection and enhanced annuities.
- ✔ **Develop, and increase awareness, of 'Third Way' products:** More innovation is needed to develop cost effective 'Third way' products which combine flexible access with secure income. For example, combining income drawdown with a deferred annuity that begins payment from age 80 or 85.

Conclusions

All of the respondents in our research demonstrated their own unique priorities, beliefs and preferences. Yet strong common themes and traits were evident across groups.

We have captured these themes in our seven ‘pension personalities’, which represent the majority of people making choices under the new rules. By understanding the lens through which they see the world, their goals and pain points, we can start to move away from a one size fits all approach to truly creating personalized solutions to help them make the most of their money under the new freedoms.

Even among our 80 respondents, we have observed that some personalities are more prevalent than others, and some have more risk of a poor outcome in the future. A full scale quantitative survey will be needed to validate these findings, but our insights provide a useful starting point.



Procrastinating
Pete and Paula

It is difficult to say right now how life will turn out for our largest group, the Procrastinating Petes and Paulas. There is much the industry can do to help them navigate their way through the options now open to them. Early consultations with Pension Wise will be invaluable to start them on the right path. Better communications, less confusing terminology and ‘default’ solutions will all play their part. The emergence of automated advice will provide people with access to help at a low cost, but at present this market is in its infancy and therefore only available to a very small number of pioneers.



I Can Do Better
Colin and Clare

The group that concerns us the most are the I can do Better Colin and Clare. This is by far the most prevalent group amongst those who have actually made a decision. It will be difficult to break their poor perceptions of pensions, but their low levels of knowledge and experience mean that the investment choices they make are unlikely to deliver the best result in the long term. More is needed to help them understand the long term risks inherent in a cash-based investment strategy, coupled with widespread access to good ‘default’ funds.



Winding Down
William and Wendy

As they enter into the final stage of their working lives, our Winding Down William and Wendys want to ease off and enjoy life a bit more, which is perhaps not surprising when so many in this ‘Sandwich Generation’ have taken on responsibility for caring for elderly parents or grandchildren, or both. Our Williams and Wendy’s need a bit more help to truly understand the trade-offs they are making. A few extra years in work could make all the difference.



Spend it
Simon and Sally

Spend it Simon and Sallys, caught up in the excitement of being able to access a chunk of their pension money, are truly taking on board the mantra of live a little. For many with the safety net of a large DB scheme and significant housing equity, they probably can afford a treat. But, should they be funding this from their DC pension when they many have money sitting in deposit accounts and cash ISAs making very little return? And, do they really need to spend it, or is it just burning a hole in their pocket? Again, Sallys and Simons would benefit from taking a step back to carefully consider the implications of their actions. We have seen evidence in this research that interventions, particularly from providers, can have a positive impact but there too many cases where such interactions are purely transaction and these ‘killer questions’ are not being asked.



Buy to Let
Brian and
Barbara

The UK’s love affair with bricks and mortars, fuelled by daytime TV success stories, means that many people aspire to own a buy to let property. Access to pension money means that this vision can now be a reality. Property feels more real than their pension – they can touch it, they understand it, and the rise in popularity of online property sites means they can easily see how much it has grown in value. Many dreams are shattered when the tax implications of a complete withdrawal are fully understood, but a hard core of Buy to Let Brian and Barbaras are convinced that they can make up this difference and that you can’t lose with property, without really understand the risks and costs involved in being a novice landlord.



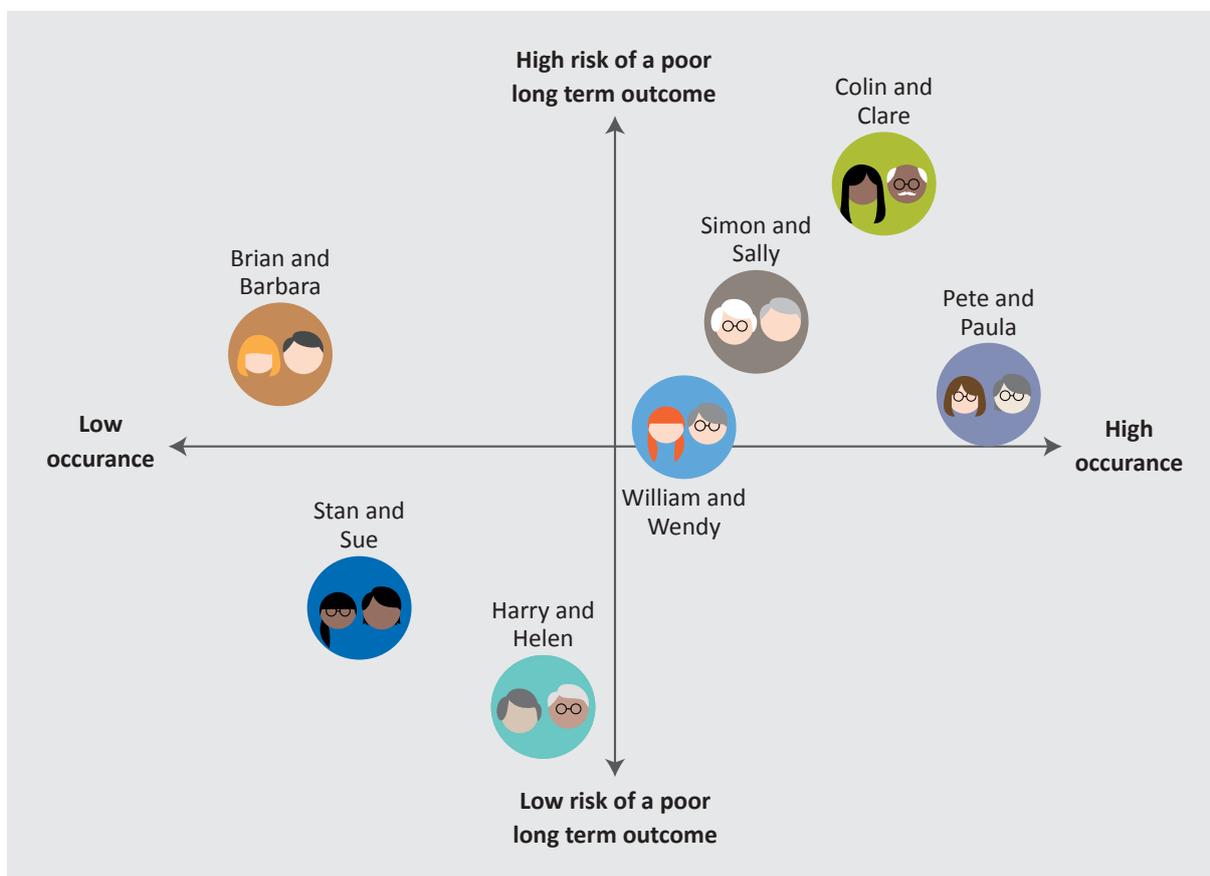
Help Me
Harry and Helen

Of least concern to us are the Help Me Harry and Helens and the Secure Stan and Sues. It would be hugely beneficial if we could lessen the ongoing impact of the cost of advice on Harry and Helen’s smaller pots, perhaps automated advice solutions will deliver this in the future. We will wait to see if new mass market ‘Third way’ solutions that combine flexible income with secure income emerge. These products could help Stan and Sue be more confident in adding a level of flexibility to their retirement.



Secure
Stan and Sue

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



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Registered office: 20 Churchill Place, Canary Wharf, London E14 5HJ.

Telephone: +44 (0)20 3395 6000.

Facsimile: +44 (0)20 3395 6350.

Web: www.ssga.com/ukdc

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DCUK-0292

The People's Pension Disclaimer:

The People's Pension Trustee Limited
Manor Royal, Crawley, West Sussex, RH10 9QP.

Telephone: 0300 2000 555.

Facsimile: 01293 586801.

Web: www.bandce.co.uk

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