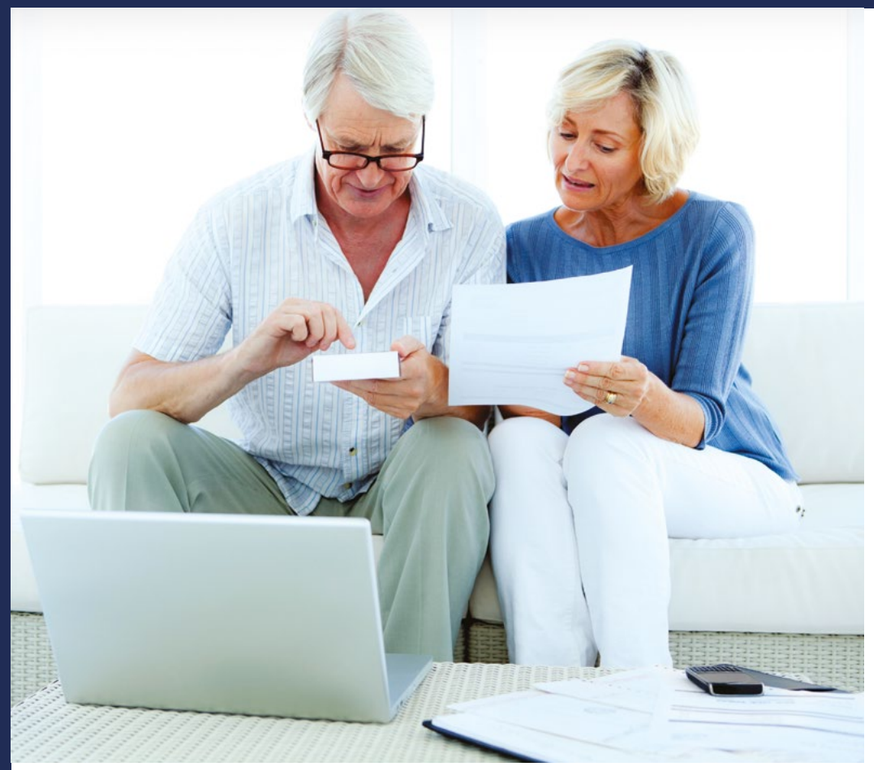
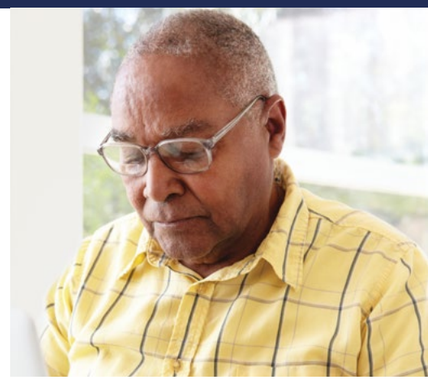
April 2017

One Year On: Part 3 of New Choices, Big Decisions

Exploring Consumer Decision Making and Behaviours Under Pension Freedom and Choice

Prepared by Ignition House





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Foreword

Alistair Byrne,
Senior DC Strategist,
State Street Global Advisors

STATE STREET GLOBAL ADVISORS.

In New Choices Big Decisions we were privileged to have 80 DC pension scheme members share with us their journey towards using the pension freedoms to access their pension pots. It's now time to check in with them and see how they are getting on. Have those who were procrastinating now made a choice? And, do those who made a choice think they did the right thing? What would they do differently?

It's interesting to see that even in the course of year – not that long in the scheme of things – significant life events occur. Many of our participants have seen their circumstances change. Pension pot decisions are driven by life – the positives of new grandchildren and weddings, through to the more difficult times of illness and bereavement. This reinforces that retirement saving products and the investments within them need to be flexible and adaptable.

Changing family circumstances also meet with economic and market uncertainty. The period in question covers both Brexit and the US election. By and large the participants have taken that in their stride, though that may be because, despite the uncertainty, markets have been fairly benign.

We find that many of those who have accessed their pension still focus on the short term – what you can do with the money now, rather than how it will support you in the future into old age. It's good to see there are few regrets, though not much time has passed. Perspectives may change as time passes, and understanding is still building.

As before, we are delighted to have the chance to share this research with you and look forward to discussing what it means for how best to support your scheme members. We are also delighted to continue our collaboration with The People's Pension and grateful for the insightful work that Ignition House have produced for us, and for the ongoing participation of our intrepid decision makers.

Alistair Byrne

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

the people's pension

In this, the third instalment of 'New Choices Big Decisions', we went back to our "gang" to see how they got on with their choices. We explored their thoughts, their emotions and their feelings. We wanted to understand if they had changed their minds, or had any regrets about the decisions they made.

The freedom and choice reforms took the industry by surprise, and to a large extent they are still in their infancy. The industry is slowly innovating and responding to the freedoms, but there is much to do help people navigate the choppy waters.

My big worry though is that, yet again, we risk an over-reliance on getting people to be engaged consumers for them to get half-decent outcomes. This risks repeating the mistakes of the past.

Yes, if you can get the right engagement at the right time that will lead to better outcomes for those members that do engage. But relying on engagement as the only answer risks alienating pension savers, leading to poor decisions.

We need to stop just thinking about retirement in terms of getting people to shop around to get the best deal. Some in the industry no doubt welcome this approach as it turns "at retirement" into a retail sale, meaning higher charges and more profit. We need to turn this on its head.

A key takeaway from this research is that even when savers are engaged they can still struggle to make decisions. And faced with too much information, even an engaged saver can take a punt on what the right decision is. That could lead to some pretty poor member outcomes, especially when viewed over the longer-term.

Because we can't expect savers to be experts, we need good default options – at all stages of the savings journey. And we need those default options to be well governed and have consumer rights and protections at their heart.

I'd like to extend my thanks to all who participated in this research, and to Ignition House for their insight. It has also been a pleasure to continue the collaboration with State Street Global Advisers. As an industry we have some way to go to delivering what members need and want from their retirement savings. But building the evidence base and really understanding their views is a great place to start.

Darren Philp

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Research Objectives

Pension freedoms, introduced in April 2015, have radically changed how people can access their DC pension pots after the age of 55. Much can be learned from the first cohort who are forging new paths through the complexities and challenges of the new landscape.

In the first wave of our longitudinal study, we followed 80 people who intended to take money from their DC pension pot over the course of eight months (from June 2015 to February 2016) as they grappled with their decisions. Our findings were published as part of the New Choices, Big Decisions series of reports and have been widely disseminated to industry, policy makers, regulators and government.

While every person in our study had their own unique set of issues and perspectives, we also found common themes in how individuals approach their decision. We identified seven pension personalities, from the Procrastinating Petes and Paulas, who were overwhelmed by the task at hand, to the I can Do Better Colins and Claires who had lost all faith in pensions and would rather have the money in their control.

Now, one year later, we wanted to catch up with our brave pioneers to find out how they are getting on, to see how their lives have changed and to understand, with the benefit of hindsight, how they now feel about the choices they have made.

There were a number of people who, for one reason or another, had not done anything with their pension pot by the end of our eight-month study. Here, we were particularly keen to find out whether they had now made a decision to access their pension and, if so, what the triggers were for them to finally take action.

2. www.ssga.com/definedcontribution/open_doc.html?docPth=/definedcontribution/uk/docs/New Choices_Big Decisions.pdf
www.ssga.com/definedcontribution/open_doc.html?docPth=/definedcontribution/uk/docs/Part_2_New_Choices_Big_Decisions.pdf

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Summary & Implications

Highlights

While the new pension freedoms have been positive for many, there are few signs that pensioners are unduly "splashing their cash" with many preferring to park their tax free pot in cash savings.

Those that have chosen to spend some cash now have few regrets, with many believing the happiness generated from a holiday or a car now far outweighs any benefit from a potentially 'paltry' income in the future.	However, indecision and confusion remains rife – with many still either deferring decision making or simply taking a chance and hoping everything will turn out for the best.	Those that have made decisions, have often been guided by life events such as the arrival of a grandchild or health issues, rather than by a longer term financial plan.	Those most risk adverse are largely choosing to take an annuity or deposit their pot in cash savings. In many cases, without fully understanding the implications of their choice.

Conclusion

Engagement remains a key challenge. Given this, it is unlikely that 'retail' solutions alone are going to be appropriate. Instead, institutional options, most notably simple and effective default options and access to low cost, trusted advice or tailored decision trees will be increasingly important.

One year on, the first cohort making decisions under pension freedom and choice unanimously agree that the new flexibilities have been good for them personally, and the vast majority are very happy with the decisions that they have made. Perhaps ironically, those feeling the most unsure about their decision are those who have not taken up the new freedoms – our annuity purchasers who chose a guaranteed income for life.

Despite concerns that people will fritter their money away, our respondents appear to be showing considerable restraint. Yes, some people in our study have accessed the whole of their tax free cash to spend on holidays, kitchens and cars without too much thought about whether they have enough saved for their retirement, but most people took 25% of their pot to spend when they annuitized under the old rules, so in many ways the freedoms have simply resulted in people bringing forward these spending decisions by a few years. Whether or not they would have been better off leaving the money in the pot for another year or two, or ten, is a very difficult question to answer given that the future is unknown and future investment returns are uncertain.

We are aware that this cohort will be unlike those who follow, in that they often have multiple DC pensions, are likely to have DB pensions in their household, along with housing wealth and other assets to fall back on. This is certainly true of the participants in our study. So, although the decision to spend tax free cash from one of their DC pots may not turn out to be optimal, it is unlikely to cause widespread consumer detriment for these types of people. The next generation of decision makers may not be so lucky.

Even though many of our respondents have multiple DC pension pots which they can now access to spend if they want, beyond taking a 25% tax free cash withdrawal from one of these pots, we have seen no strong evidence of any widespread 'serial dipping'. Many of our respondents – and especially our younger respondents who are still working – still have some of that initial tax free cash left. This residual has become an important savings buffer, which has meant that very few people have started to think about running down the remaining 75% of their pot.

Even those who have fully encashed have very rarely spent the whole lot. Many have 'taken control' of their money by placing it into cash-based savings, giving them an enhanced sense of financial security and drawing a line under worries about how much their pension money will be worth. Beyond their tax free cash, we have again seen little evidence that they are spending down the rest. On the contrary, they very much see this money as an important safety net for the future. We will not know how this 'de-risking' decision will play out for a number of years. What we can say from our research is that people certainly place significant value on the fact that their money is now 'safe' and cannot fall in value, and feel that this peace of mind today is worth more to them than any extra money they could potentially earn by keeping their money invested.

Pensions Polarisation: annuities vs cash savings for the most risk adverse

We have been fascinated to observe our most risk averse respondents taking two very different routes under the new rules – one route is to pass the investment risk onto the 'experts' by purchasing an annuity; the other is to 'take control' of their money by withdrawing their pension and going into cash based deposits. For those that have opted for the annuity route, we have noted much higher levels of engagement, resulting in an awareness that they cannot or do not want to manage the complexities of making the money last, deciding how to invest their funds and dealing with the risk that their pot could fall themselves. Those that opted to move their pension money into cash based deposits are much more likely to act on gut instinct, believing that pension cannot to be trusted and that they can do better by taking the money under their control, without thinking through the task they have taken on in any detail.

1. www.plsa.co.uk/PolicyandResearch/DocumentLibrary/0564-Pension-Freedoms-no-more-normal.aspx

By the end of Wave 1, there were a significant number of people in our study who, despite telling us that they intended to make an access decision within a three month period, had not decided what to do with their money nearly eight months later. When we last spoke, they were unsure about which path they would take and struggled to make any sense of which of the myriad of options open to them would suit their unique set of circumstances. One year on, the vast majority of our procrastinators have carved sufficient time out of their busy lives to carefully consider what is best for them. Now that the initial excitement of the new freedoms has worn off, many have taken an active decision to do nothing with their pension money. If these results are consistent with how the general population of DC savers are behaving, perhaps around a third of the PLSA's 685,000 active investigators may have decided to park their decision for a later date.

Many simply hope everything will turn out for the best

This study also gives an interesting perspective on one of the hottest policy areas at the moment – engaging people with their pension money. Pension freedoms have certainly changed the way our respondents now feel about their pension money – but perhaps not in the way that policymakers would have wished – as many are using their pot to bring forward planned expenditure, rather than an important source of money to live off in retirement. The very act of taking part in our research should be driving very high levels of engagement amongst our respondents; they have agreed to participate in an ongoing study, have had regular contact with members of the Ignition House team and have benefited from detailed discussions about their decisions. However, what we have seen is that most have not conducted a thorough search process and many still do not fully understand the implications of what they have done. They are simply hoping that everything will turn out for the best.

> "Sometimes it is best to be blissfully ignorant of what you should have done, try not to think too much. Do what you think is right and hope for the best."
>
> *– Male, total encashment*

Therefore, we question whether it will be possible to ever truly engage some people in this complex process, and whether everyone will have the financial capability or confidence to be able to shop around for and manage a DIY drawdown solution for themselves.

This strongly suggests to us that 'retail' solutions are unlikely to deliver optimal outcomes alone; rather 'institutional' solutions offered by providers or trustees (for example, through smart defaults) should be the way forward. There is an obvious need for a trusted, low cost advice solution. The automated advice market is still in its infancy and cannot currently deal with anything much beyond the most basic of circumstances, but we are heartened by the solutions on offer so far and hope to see the market develop rapidly to meet the latent demand.

For those that do not want advice, tailored checklists or decision trees are likely to be much more powerful than a generic, one-size-fits all approach. We hope that our seven pension personalities, developed using the insights from this study, will provide a useful starting point for this work.

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A Year in the Life

Introduction

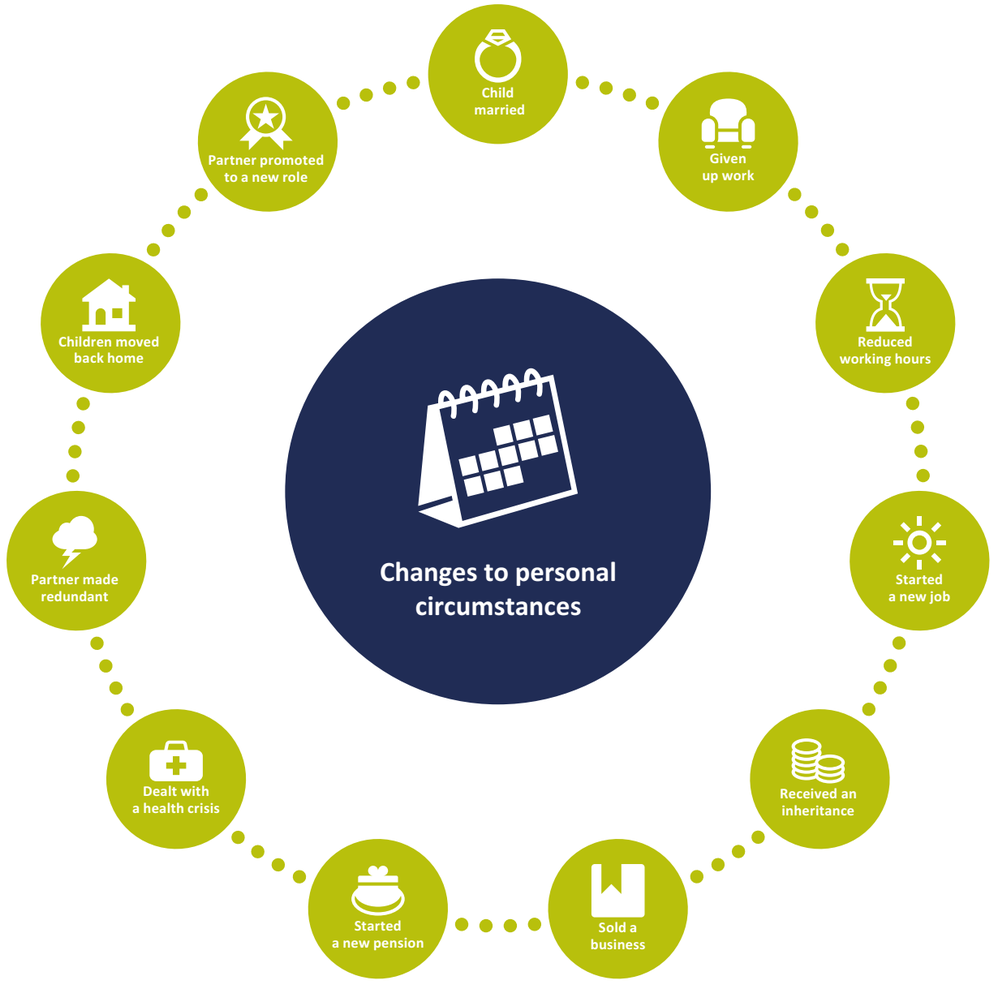
From our previous discussions, we are aware that the triggers for making decisions on DC pension pots are often driven by personal circumstances. We wanted to understand whether there have been any factors; such as a significant change to their finances, to their health, or to their ability to work, which have led our respondents to take any further actions, or made them question their original decision in any way.

In our previous study we also observed people making decisions about their pension at particular times of the year, for example, during summer and Christmas holidays (when they have the time to think and explore options) and around the end of the tax year. Given we were observing this clustering behaviour during the first year that the freedoms were in place, we wanted to test whether this was a one-off event, or whether a definite trend in decision making behaviour is emerging.

That said, any trend in behaviour can always be disrupted by economic or political shocks, and one of the biggest events in the past year was the UK's decision to exit the EU. Many of our respondents were surprised by the result, and very uncertain what impact it will have on their future, the economic outlook, and the pension decisions they have made. Their consensus view at the time, and the one they based their thinking on, was that stock markets would go down – whereas markets have been remarkably resilient.

Many of our respondents have experienced significant life events in the last year

Typically sandwiched between elderly parents and children who are starting to have families of their own, we see that life for our over 55s can change dramatically in the course of a year. Reflecting on these major life changes our respondents have experienced over the last year really brings home the need for flexibility in retirement solutions.



The arrival of new grandchildren often brings new responsibilities and can be the trigger to decide to wind down from work, or to retire completely.

"At this stage I feel I am ready to reduce my working hours and take a day off. I won't get bored, I have a new grandchild this year so I'll be spending more time with them."

– Female, Decided to leave pot untouched

Adult children returning to the nest can put plans to downsize to release more money on hold. Engagements bring the worry of how best to pay for forthcoming weddings.

"If my eldest daughter gets married next year I might have it dip into that to help her out with the wedding. A lot of my peers are doing the same thing."

– Male, Decided to leave pot untouched

A few respondents in our study also had elderly parents pass away, leaving them with inheritances they had not hoped to receive.

"My mother has not survived. She passed away in August and my sister and I are dealing with the estate and so there will be some money coming from the sale of the house. That is the only real change in my life."

– Male, Decided to leave pot untouched

We often hear people talk about how their state of health will be a huge determinant of how they want to access pension money. Thankfully, the vast majority of our respondents have remained in good health over the last year, but a couple had had some serious health issues in the family which has driven a sense of their own mortality, and one was just about to undergo a life-changing operation.

"My brother in law is so healthy, blood pressure normal and so on. He had tightness in his chest and went for investigations, and five weeks later he ended up having a double bypass. It's been a life changing thing for all of us. That was a deciding factor for me."

– Female, Decided to take tax free cash (TFC) and an annuity

"I'm 57 now, life is very uncertain for us, because I don't know how my husband's illness is going to go."

– Female, Decided to leave pot untouched

Despite accessing their pension money, many of our respondents are not ready to 'retire'

Unlike their parents, who followed the same well-trodden path from education to work to retirement, our respondents were rarely taking their DC pension and giving up work completely. On the contrary, one year on many are still working full time.

Some who thought they had given up working for good have subsequently had a change of heart and have re-entered the workforce.

"I wasn't looking to go back to work so my annuity was going to be my income. I had a few weeks off, and then I realised I didn't like not working. I'm not ready for the scrapheap just yet!"

– Female, Decided to buy an annuity

A couple have started new business ventures since we last spoke, whilst others have taken on new jobs or had a promotion. Redundancy plans have been put on hold, with some preferring the security of earning more money over the next few years rather than a lump sum payment today.

"I knew there were redundancies coming up, they gave me a forecast of what they would pay me if I finished and I decided not to go for it."

– Female, Decided to leave pot untouched

Those now in retirement are finding innovative ways to make ends meet

Many of our retirees are aware that their money is unlikely to last their lifetime, and over the past year some have been actively seeking ways to make their money go further in retirement. This has included some innovative solutions, from converting a garage into a granny annex to rent, to house-sitting, to living in low cost countries for extended periods of time.

"My main strategy for survival is very small overheads. I do house-sitting, looking after animals, so I'm off to Cornwall where I'll be using someone else's fuel and there is no wear and tear on my property. I'm not spending any more on food and it's good to have a change of scene. Like a holiday without the cost, and it keeps me busy which is important."

– Male, Full encashment

Certain times of the year are a focus to 'sort out' pension decisions

Our previous research indicated that there are certain times of the year when people are more likely to make key decisions regarding their pensions, particularly around summer holidays and Christmas and New Year. The festive season in particular seems to be a time when people take stock and reflect on their lives, and they have time away from work to think and to explore their options.

We also heard people talk about the tax regime driving their pension decisions, and so it came as no surprise to hear that the end of the tax year was another time of increased activity. As the freedoms had only been in place for a relatively short time when we did our last study, we were keen to find out whether this clustering behaviour was a one-off event, or whether a definite trend in decision making behaviour is emerging.

"So my New Year's resolution is do something about it. I definitely think I will cash in the smaller ones as you are allowed 25% TFC, and then probably start taking the others."

– Male, Still undecided

"I will sit down in January, February and March, and before the end of tax year have to look at whole situation to get it sorted."

– Male, Still undecided

Brexit polarised opinion

One of the biggest events in the past year was the UK's decision to exit the EU. Many of our respondents were surprised by the result, and very uncertain what impact it will have on their future, the economy, and their financial situation.

When we asked our decision makers to reflect on their pension decisions in light of Brexit, those who had fully enchased were pleased with their actions, and felt that this increased level of uncertainty further validated their decision.

"Who knows what is going to happen with the government and coming out of Europe? We know that our ISA isn't going to lose any money, the interest rate might go down, but there is no risk."

– Female, Total encashment

Those who were still invested took a more pragmatic view to wait and see how things turn out. None of those in drawdown or zero income drawdown said that they had moved into less risky funds, or decided to cash their pension in. In fact, they have been surprised, and pleased, at how resilient their drawdown funds have been.

"When we spoke in February this year it was before Brexit; which is slightly unnerving with dire warnings about Armageddon. I have been pleasantly surprised about how well (my pension) has done since then... When the dire warnings started, I thought, well what do I do? Take the rest of my money out? But, I thought, I don't need the money, what would I do with the money, put it in the bank and do nothing?"

– Male, TFC and zero income drawdown

"The current state of the market is a precarious thing with Brexit and Trump. You have to accept there is going to be lows and highs, and that is the gamble you take. Hopefully in ten years' time I will get some sort of return."

– Male, TFC and zero income drawdown

There were a number of people who, for one reason or another, had not done anything with their pension pot by the end of our original study. Here we were interested to know whether the EU referendum and ultimate result had any impact on their decision making. Interestingly, while all were uncertain about what impact, if any, Brexit would have on their retirement plans, their reactions to this uncertainty were very different.

Some, usually the more financially sophisticated, decided to put off making any decision at all, preferring instead to wait to see what happens to the markets. This group were happy to see that stock markets have remained resilient, despite their initial concerns.

"Then of course Brexit happened and all the information I was getting and looking at, it said this was not a good time to cash in the pensions, so I have held back all of them."

– Male, Decided to leave pot untouched

Others took the opposite view, and rushed to access their pension as quickly as possible to move their money out of 'the markets' and into something 'safer', such as cash based deposits or annuities.

"I think, if we were in more stable times I may not have bought an annuity. I might have made a different decision and looked into it more; looked into drawdown."

– Female, Decided to buy an annuity

"Because of the global uncertainty, I thought I just should get on and do it."

– Female, Decided to buy an annuity

"I thought maybe I'd better cash in and have done with it, just in case it got any worse with Brexit and the markets dived, which I thought would happen."

– Female, Decided to fully encashment

Similarly, some decided to put their retirement plans on hold, preferring to earn as much money as possible while they still can.

"Brexit reared its ugly head and Trump reared his ugly head and I decided that as I didn't need to need to do something, I wasn't going to do anything at all. I decided to let the world turn round for a year. I was also going to retire but I haven't. I don't feel confident anything about money or politics at the moment and sometimes the best course of action is to do nothing, which was what I have done."

– Male, Decided to take TFC and ZID

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One year on, who has now made a decision?

Introduction

Of the 80 people in our original study, 37 had not made a decision on what to do with their DC pension money by the end of our original study, despite being convinced at the start of the process that they wanted to access their pension. We found that these people fell into two distinct groups:

- Those who had made an active decision to leave their pension where it is for now (21 of our original 80);
- Those who were so overwhelmed by the whole process that they simply could not decide what to do (16 of our original 80).

In this chapter, we look at each group in turn to explore whether anything has happened over the past 12 months that has led them to access their pension and, if so, what the triggers were for them to finally take action.

Some of the people in our original study made an active decision to leave their pension where it is, and nothing has happened in the last 12 months to make them reconsider their decision

21 people in our original study made an active decision to leave their pension where it is for now. They gave a number of reasons for this, ranging from a change in circumstance over the course of our original study which took away any urgent need to access their pension money (for example, getting a new job following a period of unemployment), to concerns about the economic climate, to a particular intervention by a provider or adviser making them realise they didn't need to access their pension money right away. In Wave 2 we followed up with 14 of these people to see if anything has happened in the past 12 months to make them reconsider their decision.

One year on, most (11 of the 14) had still not accessed their pension. None had experienced any significant change in circumstance over the last year which had resulted in a new need to access their pension money. On the contrary, several have been the beneficiaries of significant inheritances, a couple have sold a buy to let property, and a few have had other savings products mature. Most were still working, or have re-entered the labour market. Those who had put off making a decision in our original study because they were concerned about the economic climate, and in particular the turmoil in the stock markets, are still faced with the same worries and are no closer to making a firm decision.

As a result of their research (and to some extent their participation in our study), this group now understands that they may be better off in the long run by leaving their pension money where it is and, furthermore, what they have saved to date may not be enough to fund the retirement lifestyles they want. With no urgent need for money today, some felt that they could bide their time to try and reach a higher 'target' amount and others are actively looking at ways they can save more into their pension.

"I initially thought it would be nice to have the money, but I've realised that my little girl will be 18 when I am 65 and I should really be thinking about leaving it where it is. I am still working, so I will have that to live on for now."

– Male, Decided to leave pot untouched

"While I am still working, I will take a few steps now to ramp things up a bit. Now that I have had that realisation I am not getting any younger, I will put a bit more in. I have about 12 years to go for the State Pension and the penny has dropped. I don't want to be aged 70 living on the State Pension eating beans on toast, and watching your neighbour go on a cruise. Doing this research brings it home to you how pensions really affect people."

– Female, Decided to leave pot untouched

After considerable reflection, one respondent has come to the conclusion that she may never need to access her pension, and is planning to leave it as an inheritance for her grandchildren. However, she has not reviewed the charges she is paying to her pension provider to make sure they are competitive, nor assessed whether her current investment strategy is appropriate for a 30 year plus time horizon.

"This is a managed plan, so the roughs and smooths are balanced out a bit. I am a low risk taker when it comes to money so while it is a low return, it is better than interest rates at the moment. It's not wildly fantastic, but it is safe, and I'm not getting taxed on it."

– Female, Decided to leave pot untouched

Some in this group now plan to seek financial advice when they finally make their decision, but cost, accessibility, and trust remain key barriers.

"I will get some proper financial advice, I won't rely on the Mail on Sunday."

– Female, Decided to leave pot untouched

"There doesn't turn out to be a facility for people who haven't got large pension pots to access financial advice. I did remember hearing about some financial advisors who were managing to do it cheaper. I would have been happier with that."

– Male, Decided to leave pot untouched

Since the original study, two respondents have decided to cash in their entire pot. Both did so because they saw a projected retirement income figure in their latest annual statement which showed that their pension would be "next to nothing". Neither had a particular need for the money today, but both felt that there was little point leaving their money where it was.

"They were both small pensions, so I decided to take them both all out. My son is a solicitor and he said take the lump sum and enjoy it, as you won't see anything for £20 a month. I got the cheques just before Christmas. I paid some tax. I feel very happy about the decision. I have had two lovely holidays. If it would have been £50 per month that might have been different." "

– Female, Total encashment

All bar two of those still procrastinating at the end of Wave 1 have now made a decision

16 of our original 80 participants were so overcome by the task at hand that they failed to make any decision by the end of our original eight-month study. We wanted to touch base again with this group to find out if they had finally managed to come to a decision.

With the benefit of another year to consider their options, the vast majority (all bar two) have now made a decision. Of the 11 people we spoke to in this follow-up research:

- Three purchased an annuity;
- Two took a cash lump sum from their pot – one fully encashed; the other withdrew his tax free cash and left the remainder of his pot with his existing pension provider;
- Four decided to leave their pension where it is;
- Two are still undecided.

None of our new decision makers expressed regret that it took them so long to make their decision.

"I had good intentions when it came to pensions. You just procrastinate as you need space to digest all the information. It is all very new and there is so much on the internet, and it is a bit of a minefield."

– Female, Bought an annuity

Our new annuity purchasers wanted a low or no risk option and did not want to manage their pension money themselves

Our three new annuity purchasers were all women who had fully retired since we last spoke. All three took their maximum tax free cash, before purchasing an annuity with the remainder of their pension pot. None had spent all of their tax free cash, preferring instead to invest some in cash based deposits and premium bonds.

All three said that they were "risk averse", which was their way of describing a strong aversion to any future investment uncertainty. The current economic climate has certainly played on these fears.

"I didn't want to take any risks. That was my first criteria. If it had been years ago, I might have made a different decision, but there's such a lot of financial uncertainty in the world at the moment that I decided I didn't want to take any risks."

– Female, Bought an annuity

"I thought, well if I don't make my decision soon I never will. Because of the global uncertainty, I thought I just should get on and do it and have that money coming into my pocket now. I like money in my hand and I thought it was better to get it today than leave it."

– Female, Bought an annuity

All three had originally ruled out purchasing an annuity due to perceptions of poor value. However, once they became aware of the alternative drawdown option, they did not want the constant worry of managing their investments themselves nor the worry that they could run out of money in later life. Taking part in this study also opened their eyes to a number of issues they had not previously understood; they now have a much more realistic view on their own life expectancy and also have serious concerns about whether they would have the mental capacity to deal with pension choices at their age. With this in mind, even current annuity rates seemed a reasonable price to pay to have an 'expert' take on the responsibility of delivering a steady, secure, lifetime income.

"I think very few people could handle the income drawdown option unless they're financially savvy. With that you can choose low risk to high risk, but if you're going with low risk you might as well get an annuity."

– Female, Bought an annuity

All three said that they had done their homework in terms of understanding the various annuity options open to them. Before making their decision, they had all been through an extensive search process, and all reported having a useful session with a Pension Wise adviser. However, on probing, two of the three decided not to get an enhanced annuity quote. One because she was afraid of entering her personal details into a website, and the other because she said she was in good health and doubted that she would be eligible for a higher rate.

All three said they considered the merits of an inflation linked annuity, and two in fact opted for this. The third decided she wanted more income up front, but is now questioning her decision as she has heard stories that inflation is about to increase.

"I went for the non-increasing, but now they are talking about inflation and I'm now kicking myself thinking perhaps I should have gone for increasing one after all. It was considerably less each month from what I remember, but we never know what is around the corner."

– Female, Bought an annuity

Two took a lump sum from their pension

Two of our procrastinators took a cash lump sum from their pot – one fully encashed; the other withdrew his tax free cash and left the remainder of his pot with his existing pension provider. Neither had any particular need for their pension money, nor did they feel under any particular pressure to make a decision.

Our full encashment respondent spent some time exploring what to do, but when he had finally made a decision and got in contact with his provider, a well-known high street bank, it came as somewhat of a shock to find out that what his adviser had set up for him some years ago as his 'retirement savings' turned out to be a mix of pensions and other savings vehicles. This meant that the amount of money in his pension was much lower than he expected. As a result, he cashed it all in and 'invested' the money in premium bonds.

Our partial encashment respondent was delighted to find out that he did not have to buy an annuity. He had a clear idea what he wanted to do – take the tax free cash, leave the rest invested and carry on paying into the same pension. He quickly found out that he was not able to do this with his current pension, or provider. He spent some time unsuccessfully searching for a solution and, in the end, paid for an adviser to source a product for him. He used his tax free cash to pay off his mortgage. He does not know if he is paying an ongoing fee to the adviser.

"I took £17,000 to pay my mortgage. I was left with £54,000 and the adviser took 3% which took it to £51,000. Since March I have paid in £200 a month net. I think I got a report in October saying the fund is worth £60,000. So, I thought that is good. I continue to pay in some months where I get the tax added back in, so that goes back in and that fund is growing gradually I suppose."

– Male, TFC and zero income drawdown

Some decided to leave their pension where it is

In the end, four of our 11 procrastinators decided to leave their pension where it is, giving very similar reasons to those who made an active decision to do nothing a year ago:

- They haven't yet found anything better to invest it in;
- They got a new job so the need for money went away;
- Once the initial excitement wore off, they became concerned about spending their pension money now;
- They were worried about the economy and uncertainty as a result of Brexit.

A couple felt that the recent change of Chancellor and focus on Brexit has removed the risk that the Government will remove or reduce the tax free cash allowance, taking away any urgent need to make a decision.

Other than looking at generic articles in the mainstream press, they have ceased all search activity. A couple have made a commitment to themselves to review their situation every birthday, or whenever they received their annual statement. For the rest, they are simply reading mainstream press articles and having occasional conversations with family and friends.

Our two remaining procrastinators are still overwhelmed by the task and are desperately worried about making the wrong decision

One year on, two of our respondents still felt very overwhelmed by the options available to them, and had a paralysing fear that their lack of knowledge and understanding would leave them open to being scammed. They are unlikely to be in a position to make a decision any time soon, and are feeling so overcome by the choices now available to them that they almost wish that the rules had not changed.

"When you had to buy an annuity, you kind of knew there was no choice, and when you have to go down a certain route it is easier! Now I realise they have taken away that restriction, I have all this choice; do I take my money somewhere else and how do I know these are the right people? It is a bit difficult to see the wood for the trees."

– Male, Still undecided

Several respondents were so worried about their own ability to make the right decision that they decided to seek 'advice' – with mixed experiences.

Over the course of the year, some became so daunted by the magnitude of the task and the complexity of the decision that they decided to seek advice. However, our respondents used the term 'advice' to cover a very broad church, ranging from online annuity brokers to fully fledged independent financial advisers.

"I have taken 25% tax free cash and the rest of it is in an annuity. I got an IFA to help me on that. I spoke to someone in work and they recommended someone who sorted all their finances and pensions out for them, and that is why I went with it. It was unbiased. So she shopped around for the best one. It is a minefield if you don't know much about it. So having someone there with my best interests was important."

– Female, Bought an annuity

A couple used the services of an online annuity broker and reported several benefits; the broker helped them to navigate through their options; the broker was acting on their behalf when shopping around; and, perhaps most importantly, the broker was able to take on the responsibility of combining several pots together to make the annuity purchase. Consequently, they say they got a better deal than staying with their own provider, although they could not say exactly how much they had benefited, nor how much they had paid for this service.

"I've contacted [a leading online annuity broker]. It was much more straightforward, because when I tried to do it alone I was totally lost, basically. I don't know why, because I've worked in finance! I started panicking at the market going down, so I was stressed. If it had been a better time then I might have had more time to sort it out myself. I don't know exactly how much I paid the IFA, a bit more than 1% I think."

– Female, Bought an annuity

Some would have liked to have help from an expert but, as in our original study, we found evidence that people with smaller pots are struggling to find an adviser willing to deal with them.

"There is a website – unbiased – which I went on. I asked them to send me some names of IFA's round about my area. I spoke to two or three. One of them wasn't interested and the other one said he'd come and he didn't. This last one was very nice. We talked and he came to the house."

– Male, Decided to leave pot untouched

5

One year on, how do our decision makers feel now?

Introduction

43 of our original 80 respondents accessed part or all of their pension during our initial study window. We followed up with 30 of these decision makers in this second wave.

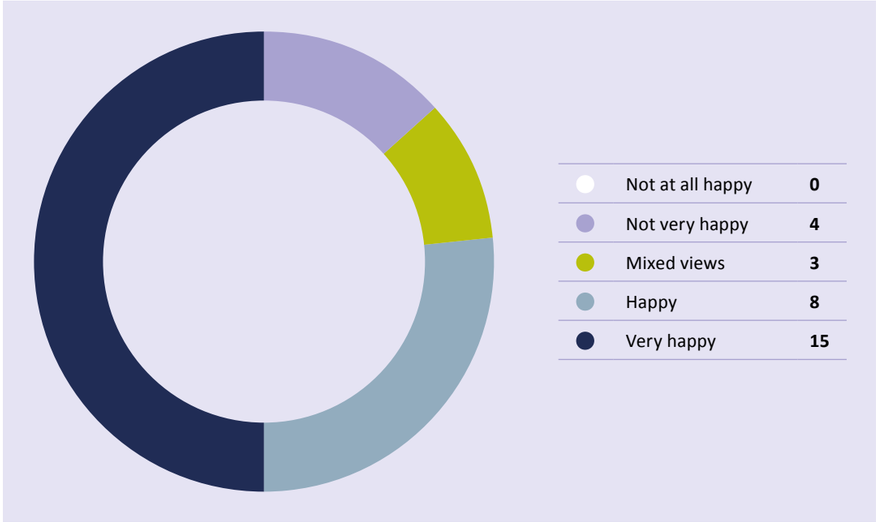
We interviewed a mix of respondents by the original decision made, as shown in the table below, including 11 people who chose to cash in their entire pot, paying tax as a consequence, seven who took a partial lump sum from their pension and parked their decision on what to do with the rest of their money for another day (i.e. a zero income drawdown – ZID), five who took a tax free lump sum and said they would draw a regular income, five who purchased an annuity, and two opted for an annuity/drawdown blend.

Outcome at the end of the original study	Number of research participants included in Wave 2
Fully encashed their pension pot	11 of our original 15
Took a partial lump sum, but not drawing a regular income (ZID)	7 of our original 12
Took a partial lump sum and drawing a regular income	5 of our original 6
Annuity/drawdown blend	2 of our original 4
Bought an annuity	5 of our original 6
All research participants:	**30 of our original 43**

On balance, the majority of our respondents were happy or very happy with their decision one year on

We asked our decision makers how happy they are with their pension choices one year on. The vast majority said they were happy or very happy with their decision.

Figure 1: How happy are you now with the decision you made?



It is very early days, and so any concerns about running out of money in old age seem very far off. None of our decision makers reported having any money worries, and a few who had just paid off their mortgage said that they are financially better off now than at any point in their life.

However, several areas of confusion emerged during our conversations which suggests that there is potential for regret in the future. For example, two of our respondents have now found serious issues with property funds that some or all of their remaining pensions are invested in. Both used an adviser to make these investments, and they are now embroiled in a lengthy process to see if any compensation or redress is due.

"I approached my provider to ask for a quote on an annuity and they said a chunk of it was tied up in a frozen fund. The IFA who recommended it is a personal friend of my wife. She has a pension with them as part of her fund, which is frozen as well."

– Male, Total encashment

One person had taken out an inflation linked annuity without realizing what they had done. Although they were happy to receive the increase, they have no idea of the impact this has had on their initial income levels.

"I took a lump sum and now we have a lovely bit coming in every month. I have just received a rise of £7, so it is inflation linked. I didn't realise it was."

– Female, TFC and annuity

Some of those who are now in some form of drawdown are a bit hazy about how this will work in practice.

"I think you can take bits out – I know you can take other bits out of it – let's hope you can!"

– Male, TFC and zero income drawdown

"The IFA has put it in some sort of fund for me, so I don't really know what I am in. I thought it was going to be another kind of pension. I don't really understand it. I think I can draw another lump sum, I am not sure, sorry. I should have looked that up. So, I am confused.com for that question. I got a quarter of the total fund tax free and the other sum is still there. I think I can take another proportion of that tax free. You know what, I am beginning to wonder. There was so much going on at the time I made the decision I have sort of forgotten."

– Female, TFC and zero income drawdown

Some had taken advice from an IFA, but had no idea whether there were any ongoing charges and what impact this might have on their fund performance.

"How much am I being charged? I will have to check this. I mean, is it every year that they are holding the money that they are taking a percent? I suppose it must be."

– Female, TFC and zero income drawdown

In the remainder of this chapter, we explore each of these groups in turn to see how these decisions have turned out, and how they feel about the choices they have made.

Full encashment decision makers

Our full encashment respondents are very happy to have their pension money in their control

Information they had been receiving in their annual statements led a group of people to believe that their pensions were 'doing nothing' and that they could do better by investing the money themselves. This group typically cashed in all of their pension money, and felt that paying higher rate tax was a small price to pay to get the money in their control.

For some, they almost have a palpable sense of relief that their pension is no longer subject to the vagaries of the stock market and feel that the current economic turmoil has vindicated their decision to cash out and take the money into their control.

"I almost wanted to draw a line under the pension. I do feel that it is mine now and whereas before there was all this uncertainty of thinking well will the markets go up or down? It is an uncertain world at the moment and I would much rather have the money when I know where it is and what to do with it, rather than leave it to the turbulent market. I am not usually a controlling person, but as far as my finances go I wanted to be in control."

– Female, Total encashment

However, few of those who have fully encashed are taking an active role in managing their money – and the minority that do take an interest are creating quite high risk portfolios

Despite being adamant that they can do better than the professional asset managers employed by their provider, much of this money has ended up in savings accounts and cash ISAs. Furthermore, most have simply parked this money and left it. They have not been looking at how their investments are performing compared to the markets, nor have they been shopping around to make sure that they are still earning the best rates. They are aware that inflation is increasing, but have not made any connection with how this will affect the future purchasing power of their pension money.

Rather, their measure of 'success' seems to be that they can now easily access the cash if they want, and that the money has not fallen in value.

"Nothing has come to light that has made me think twice. I am quite happy because I have a healthy bank balance, even though it is earning nothing!"

– Female, Total encashment

"The one I drew last year, it could've gone down. There's no guarantee it would be the same value this year as it was last, so I thought I had nothing to lose".

– Male, Total encashment

At the other end of the spectrum, a small number have taken control of their pension pots because they enjoy dabbling with investments. Typically, they have moved funds to a DIY platform (Hargreaves Lansdown was the popular choice amongst our respondents due to brand recognition and a perception of competitive charges). In the wake of low returns, some have decided to be a little more adventurous, investing in crowdfunding ventures, peer to peer lending and commodities. They are rarely creating diversified portfolios, and view what they are investing in as medium to low risk. Only time will tell how successful these investment choices are.

Figure 2: Joe has decided to invest his pension money himself

Those who encashed to buy a property have not found this as easy as they expected

In our original study, a number of our respondents talked aspirationally about cashing in all or part of their pension to invest in property. Hearsay experiences of friends of friends and mainstream TV programmes drive their perception that "you can't lose with property". However, the small number of respondents who have actually decided to go down this route have found that the reality is somewhat different.

Some have found that their local rental market is not as buoyant as TV programmes would have them believe.

"I have a tenant change coming up and I found it really hard this time to get a tenant, and then I looked online and there's loads of property for rent and I couldn't get a tenant. I said, well is it worth selling it again? Is it worth doing?"

– Female, TFC and zero income drawdown

Others have cashed out their pensions and paid higher rate tax, but have not yet been able to find the right property. In the meantime, they have seen their money sitting in their bank account earning very little interest, while stock markets have performed well.

"We are still thinking about a Buy-to-Let. The banks are offering nothing, so the plan is that we'll definitely be doing something in the early New Year."

– Male, Total encashment

Partial encashment decision makers

Strong present bias means that those who took their tax free cash and spent it have no regrets

So far, those who have spent their tax free money expressed no regrets about the actions they have taken. They feel that the happiness generated from spending the money now – on holidays, cars, home improvements and family – far outweighs any benefit they would have got from receiving that money as a paltry income in the future.

"I don't think about how the pension would have done if I had left it. A bird in the hand is worth two in the bush. I am 100% confident and happy I have done the right thing. It has changed my life now, I can have a few luxuries. We went to Mexico and Tenerife and Skiathos. The rest is in the back pocket. It is nice to have a buffer, so I've got no regrets."

– Female, Total encashment

The remaining 75% of their income is now in some form of zero income drawdown, and strong market conditions mean that many have seen the value of their remaining pots increase over the last year. This has reinforced their view that they made the right decision. It was difficult for them to pin down exactly why their pots have performed well, as few knew very much about their investments. From our conversations, we believe this is a combination of favourable market conditions and, for some, a switch into better performing or better charged funds as a result of moving into some form of drawdown product.

"Well it sat for ages in my pension, and now there is more in the drawdown than I put in. So that made me think I'd made the right decision."

– Male, TFC and zero income drawdown

Despite seeing this growth, none had considered what their pot could have been worth if they had left their 25% tax free cash intact, and only a tiny minority showed any remorse at taking this money a year ago to put into cash-based savings.

"I took my 25% which everyone was allowed when I retired. I actually didn't do anything with it, so I thought well I'll keep it there as a rainy day fund if you like, but in hindsight I was probably better leaving it where it was. I didn't buy a car or pay off a mortgage with it, so it is just sat in Santander earning 3% or whatever. So, really, if I was advised differently, I would have kept it in my pension pot and then it would've been a lot more a month."

– Female, Blend

Those in zero income drawdown are using defaults or choosing from the provider's range of managed funds

In Wave 1 many of our respondents told us that deciding how to invest their money (beyond shopping around for the most competitive ISA rates) was beyond their current capability and something they had limited interest in learning more about. These views have certainly been borne out in the choices made by those entering into zero income drawdown.

If there is a default fund on offer from their provider, this has been a popular choice. If not, respondents have done their best with their limited skill set to construct something that they think will work for them.

"It is split across three different funds. I have always been a risk taker. I just looked on Friends Life website, so I looked at 1-10 risk levels and the fund values, and it's a bit like backing a horse."

– Male, TFC and zero income drawdown

Some expressed very high levels of frustration about being asked to take on such a complex task, which is so far outside their comfort zone.

"To be honest, I don't think we should have private pensions. We should have good state pensions for everyone so you don't have to faff around and worry about private pensions and have to make these agonizing decisions. I think there should have been one fund run by the state, invested properly by the state."

– Female, TFC and zero income drawdown

None of those in zero income drawdown are taking a regular income from their pension yet, but typically plan to take adhoc withdrawals timed to minimise tax

In our original study we found that the framing of tax fee cash was a key driver for people to access 25% of their pot. People rarely considered taking less than 25%, and felt that any tax free money was simply a "no brainer".

As a result, we observed that people were often taking out more money than they needed for their spending plans, and that any residual funds were usually put into cash ISAs or other 'safe' investments such as premium bonds.

One year on, because they have already made the big capital expenditure – the new kitchen, the big holiday, the new car, giving money to their kids – very few have felt the need to dip into this money again, although the temptation is always there.

When probed about how they want to access the remaining 75% of their money the vast majority had no firm plans, usually because they were still working. When specifically asked to think about this, they expected to take irregular lump sums over a relatively short time horizon, typically five to ten years, rather than a regular income stream. If possible, they would like to time future lump sum withdrawals to minimise any tax bill. For example, they will wait to make further withdrawals until they are no longer a 40% taxpayer, or are no longer in paid employment, or will take it all out before the State Pension kicks in to keep their total income under the basic rate tax threshold.

We also heard people divide the money up into various mental 'buckets', some is for future spending on holidays or their children, some is for emergencies, and occasionally there is some left over to live off in the future.

"I did tax free cash and went into drawdown and now have it burning a great big hole in my pocket. I haven't actually spent it, but in your mind you think you could do a lot with it. It is £25,000, so I have given myself £4,000 to do what I want with, £10,000 is locked away for another 10 years until I get the State Pension, and £10,000 is in short term access holiday money."

– Female, TFC and zero income drawdown

Few expect this money to last for life. Most will be overjoyed if it lasts until they are in their mid to late 70s. They have the same ideas for what they will do for when the money runs out as we heard in the previous wave – living off their partner's DB pension, downsizing their home, or simply surviving on state benefits.

Drawdown decision makers

None of those in drawdown or with a blended solution have started to take regular income yet

This group had a very different profile to the zero income drawdown cases. All were people with larger pensions, typically over £150,000, and would almost certainly have been able to access drawdown before the new freedoms came in. They had all consolidated a number of pensions into a SIPP or drawdown account and, when probed, they could give very detailed and coherent answers to what their money was invested in and why they had made these particular choices. They were usually fully aware of the charges they are paying, and have made a choice of provider and product based on cost. They were often advised, or felt very confident to make investment choices on their own.

At present, none were using their drawdown facility to generate a regular income. Some were still working, despite expecting a year ago that their contract work would dry up, some were still using up their tax free cash, and a couple had had annuities from other pensions which they were managing comfortably on. When asked about future plans for this money, their thinking is now more aligned with the zero income drawdown cases – they felt that they would want to take their money in chunks, rather than as an income stream, and want to time these payments to minimise any future tax bills.

Our two respondents with an annuity/drawdown blend both had annuities with GARs. Had this not been the case, they would not have purchased an annuity with that money and would have left the money invested.

Annuity decision makers

So far, our annuity purchasers are the most likely to demonstrate some 'regret'

Perhaps perversely, those who have purchased a secure income for life are the most likely to have some initial regrets, questioning whether they should have taken advice or could have received more money if they had waited longer, or whether the inflexibility of the annuity is really the right thing for them given that circumstances can change quite rapidly.

In the back of their mind is a niggling disappointment with current annuity rates, and the thought that rates might get better in the future.

"I must admit I was disappointed with what I got, but saying that I am not sure how things would have turned out if I had done anything else. Hindsight is a wonderful thing! I was expecting a bit more, but you know that is the way it goes. We have a few other things so it is not desperate, but if I was relying on that I would be in trouble."

– Male, Annuity purchaser

One confused respondent had taken an annuity at 55 while still working just to access her tax free cash, and is now feeling very unsure about the decision she made.

"If I am honest I wish I hadn't done it because of the small amounts I am getting from the three different pensions. I think if I had left them in I would have got a bit more and was probably silly and shouldn't have done it. I thought, I'll take the money as it is tax free and I'll do something with it, but I don't even remember what I did with it, it went into savings."

– Female, Total encashment

It is perhaps understandable that this group are showing signs of self-doubt. They have made an irreversible decision to hand over their money to an annuity provider in return for often quite small sums of money, whereas others still have the money available and the choice to buy an annuity if they wish in the future. Furthermore, our annuity purchasers will not know whether they will be a 'winner' or a 'loser' from this transaction for many more years.

Of course, not all annuity purchasers are feeling so uncertain about their decision. Some are happy to have the security of the regular annuity payment; others are almost entirely focused on what they have done with their tax free cash and see the regular income as just a "little bonus".

"It's a buffer if you like, and we could probably survive if I don't work another day in my life. I wanted some stability and to know what I was going to get."

– Male, Annuity purchaser

"We have had three lovely holidays, we went to Santorini in Greece and Crete and then I went with my daughter to Pathos. We normally would only try and have two holidays but we went a bit crazy. It is giving me a nice little income, so I can cut down on work a bit. I've no regrets at all. I am quite happy. I might have left it till I was 60 and got more money, but we have made good use of the lump sum."

– Female, Annuity purchaser

6

What can we learn from their experiences?

We asked all of our respondents if there was anything that they would have done differently with the benefit of hindsight, and what advice they would give people now starting out on their decision making journey.

Give yourself plenty of time and do your homework

By far the most common piece of advice is to make sure you do your homework and take your time to explore the new choices open to you.

Our respondents said they needed a good six months to fully get to grips with the task at hand, given what they now know about the complexities and the difficulties of fitting the search process around their daily life.

Think about whether you really need the money now

Our respondents were exposed to considerable publicity around the time of the announcement and in the run up to the introduction of the new freedoms, with stories and features appearing in the mainstream media on a very regular basis. Despite this, many have actually decided not to access their pension at this time.

Their advice is to ignore the 'noise' surrounding pensions and think carefully about your own particular situation to decide whether you really need the money now or not.

Use the free resources available

We have consistently heard very good feedback about the Pension Wise service, and many again expressed regret that they had not used it much earlier in their search process.

Their advice is to make the most of the free resources that are available, and do so early on.

Beware of scammers

A large number of our respondents reported that they had been contacted about their pension by someone they believed to be a scammer, offering better than market rates of return on their investments or trying to push them into having a 'free review'. They stressed the old adage – if it sounds too good to be true, it probably is.

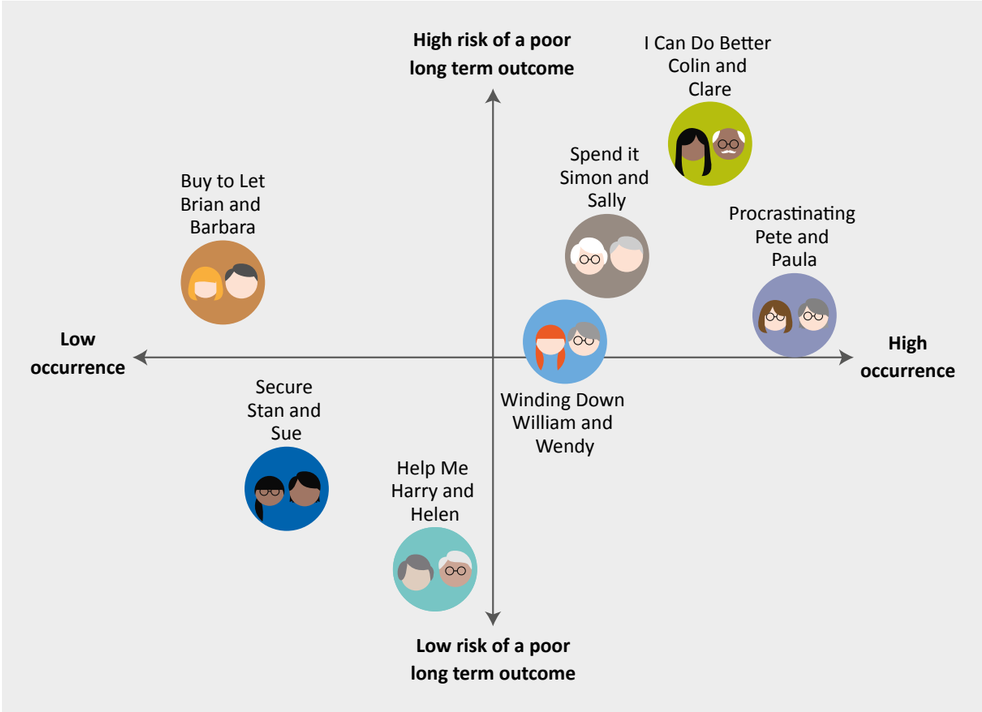
Don't pay more tax than you have to

As the saying goes, "nothing is certain but death and taxes" and our respondents were certainly keen to make sure that the tax man does not get more than his fair share of their pension money.

7

What does this mean for our seven Pension Personalities?

In Wave 1, we introduced you to 'the Gang', our seven pension personalities developed through a comprehensive analysis of the information collected over the nine month study period. One year on, how are 'the Gang' getting on?



Procrastinating Pete and Paula

Procrastinating Pete and Paula

A year ago, we reported that our Petes and Paulas were desperately trying to educate themselves, continuously worrying that they are missing something important and struggling with the complexity of the topic area – the 'unknown unknowns'. With nowhere to go to validate what they have read and no urgent need to access their money we expected them to continue their search for many months, looking for some sort of Holy Grail that will provide the single solution to all their needs.

A year on, we are pleased that many have had the time they need to make a decision, and they have often decided that the best thing to do is to leave their pension alone. As time has passed, the initial excitement of being able to access pension money has worn off they and they are no longer viewing pension money as a windfall. Going through the research process has opened their eyes to the inadequacy of their current provision and some are now making a conscious effort to save more. Providers have the opportunity to reinforce this message, and would benefit from making it as easy as possible for people to pay more in.

There is, unfortunately, always going to be a group who do not feel capable enough to make a decision on their pension. The market has started to deliver low cost automated advice solutions, but so far our Petes and Paulas have not been able to access such services as this area is still very much in its infancy. In the meantime, such people are looking for simple, straightforward solutions that just 'do it for them', so smart defaults very much look to be the way forward for now.

I Can Do Better Colin and Clare

I Can Do Better Colin and Clare

Our Colins and Clares are completely disenfranchised with pensions as a result of 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. To them, pensions are 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.

One year on, our Colins and Clares are unfortunately showing no signs that they are embracing the role of investment manager for their pension money. The cash is now firmly parked in savings accounts and they are not shopping around to make sure that the money is working as hard as possible for them. With no intentions to spend the money in the immediate future, they simply see their actions as a form of 'de-risking'. However, with the prospect of higher inflation levels on the horizon and stock markets performing well, this group are likely to see the purchasing power of this money fall over time, without them even realising it.

Buy to Let Brian and Barbara

Buy to let Brian and Barbara

Our Brians and Barbaras share many of the same characteristics with our 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.

However, it appears that reality is somewhat different. Difficult rental markets and a shortage of suitable housing stock have opened their eyes to the challenges faced by novice landlords. Those who have now purchased their rental properties are now fully aware of the costs and taxes, and few have had the yields they had hoped for. Further Government changes will reduce the attractive of this asset class over the next few years as an income generator. They are relying on capital growth to make up for the higher rate tax they have paid, but they have not seen much growth to date, and Brexit raises serious questions about whether this can be achieved in practice.

Spend it Simon and Sally

Spend it Simon and Sally

Simons and Sallys were focused on accessing their tax free cash in a timely and trouble-free manner and they rarely spent 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 then a flexible access product.

With no signs of any serial dipping, it seems like this group have now had their 'blow out' and are intending to use the rest of their pension money for their retirement.

This gives providers another bite at the cherry in terms of education and communication, as this group will need help managing the bulk of their money, particularly once they have finally stopped working.

Secure Stan and Sue

Secure Stan and Sue

With the scrapping of the second hand annuity market, any annuity purchasers feeling regret about their decision have no opportunity to change their minds. The temptation with this group is to do nothing; they have made an irreversible decision and now they have to live with the consequences.

However, we should not under-estimate the influence that peers have on people's decision making, as no other generation has faced the same opportunities and challenges currently being experienced by our brave pioneers. If our Stans and Sues express these early regrets about their annuity purchase to friends and relatives, we may see even more people put off. This suggests that annuity providers might want to consider sending some reassuring messages to recent annuity purchasers about the decision they have made, at least for the first few early years.

Winding Down William and Wendy

Winding Down William and Wendy

Phased retirement is increasingly becoming the new norm, and the new 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. This has been particularly popular with women who feel cheated that their plans for retirement have been disrupted by the increase to State Pension Age, and are using their DC pension pots to fund the difference.

With our Williams and Wendys, we would encourage them to think carefully about their actions, especially as auto-enrolment means that they will be forgoing employer contributions on the difference between their full time and part time salary.

Help Me Harry and Helen

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Our Harrys and Helens are pleased that they have taken the advice of an expert, and feel comforted that someone has helped them make these difficult decisions. But this delegation sometimes means that are not always on top of what they have done, or what this means for the future.

Some are unlikely to sustain a relationship with their advisor in the long term, and so this very much begs the question of whether enough is being done by the industry to develop solutions and investment strategies which mean that consumers no longer need a regular annual review.

Appendix

Wave 1

Before the decision

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

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

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

During the decision

Explore journeys as people navigate pension freedoms:

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

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

After the decision

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

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

1 hour in-depth interviews with all decision makers

In Wave 2, we re-contacted our survey participants to explore:

- How their lives have changed over the past 12 months, and whether this has led them to take any further actions, or made them question their original decision in any way;
- How they now feel about their decision to access their pension 12 months ago; are they still happy with the choices they made; do they have any regrets; would they make a different decision with the benefit of hindsight;
- For those that decided not to access their pension or were still deciding what to do 12 months ago, have they now accessed their pension and, if so, what triggered them to do so;
- Would anyone do anything differently if they had their time again, and what advice would they give to others who are planning to access a DC pension.

Wave 2

Revisiting the situation

Explore implications of their decision one year on:

- Any changes to circumstances?
- Any further pension access decisions made?
- With the benefit of hindsight how do they feel about their decision?
- Any regrets, anything they would do differently?

In-depth interviews, one year later, with 55 of our participants.

In total, 55 of our original 80 participants took part in this follow up research. Fieldwork took place between November 2016 and January 2017 and consisted of 30 minute follow up telephone discussions and additional face to face interviews to further probe interesting cases. We had a good mix across our various groups.

Outcome at the end of the original study		Number of research participants included in Wave 2
Accessed their pension	Bought an annuity	5 of our original 6
	Entered into drawdown (including zero income drawdown)	12 of our original 18
	Fully encashed their pension pot	11 of our original 15
	Annuity/drawdown blend	2 of our original 4
Did not access their pension	Made an active decision to leave their pension where it is	14 of our original 21
	Still deciding what to do	11 of our original 16
All research participants		55 of our original 80

From the start, we took several measures to 'future-proof' our research to ensure that the insights gathered now could be used beyond explaining the behaviour of the early pioneers:

- 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 has a very different perspective on their pension;
- We limited the number of participants who currently have an ongoing relationship with a financial adviser.

As DC pensions form an important part of their retirement provision, our respondents are a very particular sub-segment of the decision making population and do not necessarily reflect the larger group of people who are cashing in very small pension pots as soon as they hit 55. They are closely aligned to the types of people who the new Pension Minster, Richard Harrington, has publicly described as the "most vulnerable" groups.

We also recognise that out respondents are now somewhat different to the general population as the process of taking part in this research programme may have resulted in higher levels of engagement than we would normally expect to see.