# Drawdown Doldrums:
# Barriers and challenges faced by people accessing their defined contribution pensions

PensionBee

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# About PensionBee

PensionBee is the UK's leading online pension provider, enabling customers to interact with their savings through its unique combination of smart technology and dedicated customer service. Since it was founded in 2014 PensionBee has grown rapidly by helping consumers solve the challenges they face when it comes to locating, combining, and managing their pension savings. It now counts over 85,000 active customers aged 18-80, with over £800 million in assets under administration. By focusing on ease of use, full transparency on fees, and jargon-free communication, PensionBee has become one of the UK's most trusted pension providers with a >95% customer retention rate and a 4.7/5 Excellent Trustpilot score.

# About the author

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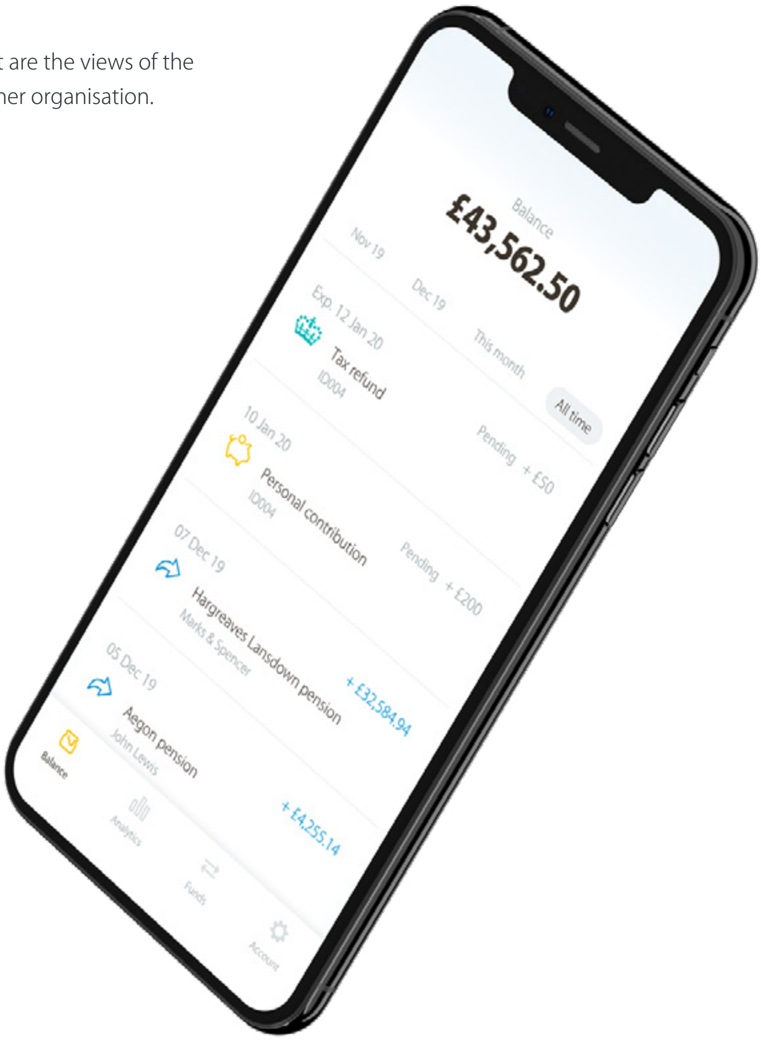
The opinions and recommendations contained in the report are the views of the author and do not necessarily represent the views of any other organisation.



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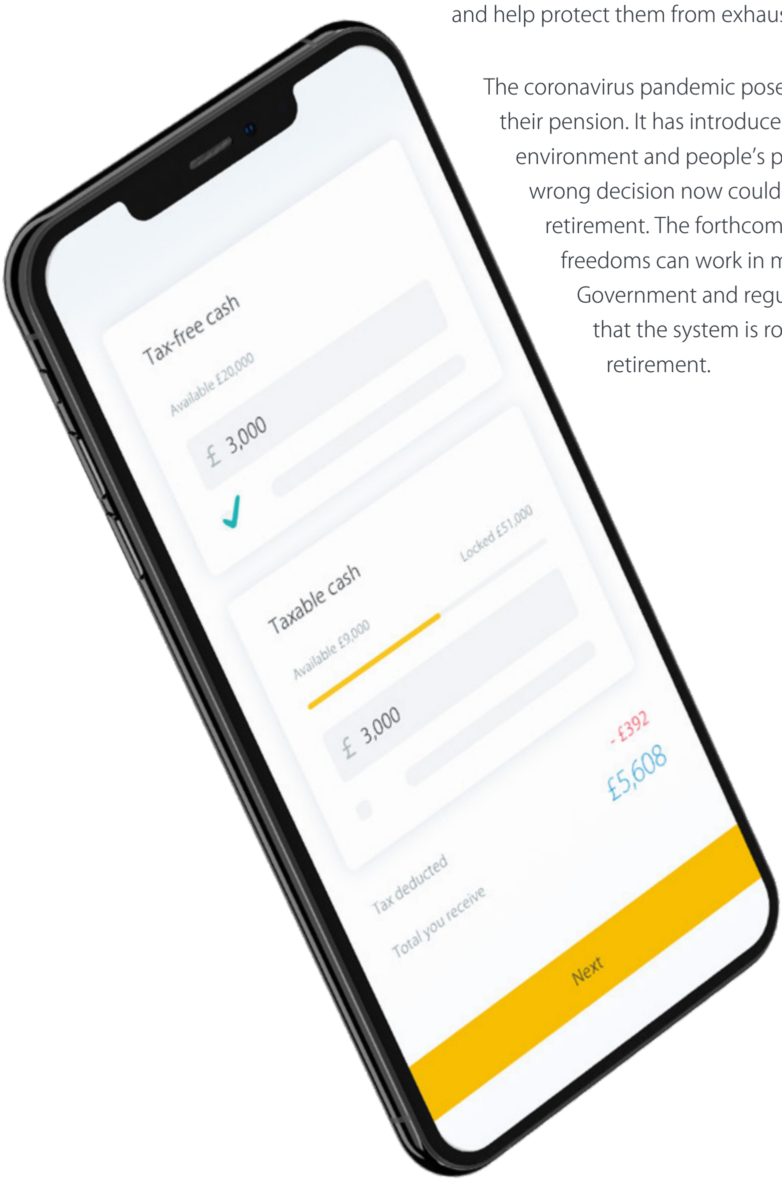
# Executive summary

The pension freedoms were the single greatest change to pensions for a generation. Automatic enrolment has brought millions of extra people into saving for retirement and people are reaching retirement with more wealth in their pensions than ever. Despite this, plummeting interest and annuity rates have made it harder to generate sustainable levels of retirement income.

Decisions about how to access their pensions are now more complex and many people will take the path of least resistance. However, inertia still rules the market and an overwhelming majority of people who don't take advice are not shopping around and simply taking what is on offer from their existing pension provider.

Innovation has been very limited since the pension freedoms and any innovation that has occurred was aimed at those with large pension funds who can access independent financial advice. Innovation is most needed for those who are withdrawing all of their pension or accessing income drawdown without advice.

People in non-advised drawdown are making complex decisions without access to impartial advice or support. They are at risk of paying extra tax, being in inappropriate investments, losing Financial Services Compensation Scheme (FSCS) protection, being scammed, paying high charges or withdrawing so much that they run out of money or have to cut the level of income they are taking. These people urgently need good-value, simple to understand products which require minimal consumer engagement, help them feel in control of their pension and to take decisions, deliver them a reasonably reliable income and help protect them from exhausting their pension fund.




The coronavirus pandemic poses a particular challenge to people accessing their pension. It has introduced extra volatility, both in the general economic environment and people's personal financial situation. People making the wrong decision now could damage their prospects of enjoying a comfortable retirement. The forthcoming years will be a key test of whether the pension freedoms can work in more volatile times and whether the industry, Government and regulators have taken the necessary steps to ensure that the system is robust enough to help people enjoy a comfortable retirement.

PensionBee commissioned this report and research to understand the barriers and challenges faced by those aged 55-70 making plans to access, and at the point of accessing, their DC pension.

These barriers and challenges include:

# The impact of coronavirus

> **"The coronavirus has made me feel less secure…I have been having letters through from my pension provider saying "Don't panic"…It has made me think I should take more of an interest in my pension…If there was some huge catastrophe close to when I was going to cash it in then that would really mess up my life."**
> – Ann, 55

- The coronavirus pandemic has made decisions about accessing pensions harder, there is more worry and a greater appetite to access advice and guidance. But only a small minority of people have been contacted by their provider and feel very well supported to make decisions about accessing their pension.
- Many people surveyed were worried about the value of their pension as a result of the pandemic and 40% of those working said they would withdraw money from their pension if they became unemployed.

# The state of consumer pension planning for retirement

- For many, pensions have become disconnected from retirement. People are accessing their pension early, leading to them paying too much tax and losing out on potential returns.
- Charges are complex and difficult to compare, many accessing income drawdown are paying high charges – costing people £40 to £50 million extra each year[1]. People need simple charging structures and products which offer value for money.
- It can be difficult to make decisions about investments and pension providers are not asking people how they plan to access their pension or helping those without advice choose an appropriate investment strategy – this highlights the need for clear investment pathways, however the Financial Conduct Authority (FCA) has delayed the implementation of the new rules.
- Retirement income decisions are daunting and complex and people are less confident making decisions about pensions than other, widely held financial products.
- Those for whom a Defined Contribution (DC) pension is going to be their main source, or a significant source, of income may not have access to good value products and support to help them make a plan and decide how to access their pension.
- People lack basic information about their DC pensions or don't know how to find it. It is time consuming and difficult for people to gather the information they need to take a decision.
- There are low levels of trust and satisfaction among holders of DC pensions.

> **"People don't have enough to live on and are therefore tempted to release whatever pension funds they have available. I think that is a mistake because they could be in poverty later in their lives."**
>
> – Kelly, 65

# Experiences with accessing a pension

> **"I want to get the money out because it is currently locked away. That's the problem with pensions, you may get a better return on your money, but it's more locked up than normal money in the bank."**
>
> – Peter, 66

A dash for cash is occurring due to a desire for control, which is the most popular reason for people accessing their pension. People are paying extra tax and reducing their long-term returns. Many of those accessing their pension are not blowing the money, opting to preserve it in other ways, such as keeping it in a Savings account or Cash ISA, which could reduce their long-term retirement income. Giving people greater control over their pension and reassuring them that the money is easily accessible if they need it could persuade them to keep their money invested for longer.

- People are accessing their pension without taking independent advice or guidance and are choosing retirement income products without considering important factors which might influence their decision.
- Retirement income products do not accommodate the changing preferences people have to access secure income as they get older.
- Shopping around and switching for those without advice is complex and few do so.
- People are surrendering valuable guarantees and paying more tax than is necessary when they access their DC pension – the pension freedoms have raised £6.2 billion in extra tax revenue for the Treasury, £2.4 billion more than expected[2].
- People don't understand what represents a sustainable withdrawal rate and many are taking out too much. People continuing with high withdrawal rates during market downturns will run out of money. Decisions about how much to withdraw each year are complex and pension providers are doing little to help people understand sustainable withdrawal rates or develop withdrawal strategies.

The research suggests that there is a lot more for industry, Government and regulators to do to enable people to take active decisions about their DC pensions which will help them enjoy a comfortable retirement. The development of better products and processes is unlikely to be driven by the choices made by savers. Tackling these barriers and challenges quickly will require pension providers developing new products, innovating and acting in the best interests of their customers, regulators intervening where they witness poor practice and Government setting a framework which helps promote customer focussed innovation.

## The key recommendations are:

1. Make people feel in control by innovating for people relying on their DC pension and those accessing their pension without advice

2. Improve access to financial data and use it to help people plan and take decisions

3. Develop simple investment and communication pathways for people and help them access advice and guidance

4. Ensure all products have clear, simple charging structures and offer value for money

5. Give guidance on sustainable withdrawal rates and help people make a plan and develop a withdrawal strategy

6. Support customers during the coronavirus pandemic

# Introduction

## The Government's long-term objectives of the pension freedoms are:

- Giving people more choice to provide them with greater flexibility in later life
- Supporting people to make informed decisions about their retirement
- Enabling a more competitive and innovative retirement market

Empowering people to make their own choices was predicted to stimulate innovation and competition in the market. The Government expected that people would exercise their new found freedom in ways which would drive the market. Pension providers would be encouraged to respond to these choices and would have much greater freedom to innovate and create products and processes which better met their customers evolving needs:

> **"The shape of the market will…be driven by the choices people make, placing power back into the hands of savers. The government expects this to stimulate innovation and new competition in the retirement income market, with providers creating new products to satisfy individual consumer needs and meet new social challenges such as funding care later in life."**
>
> – HM Treasury, 2014 Consultation, Freedom and choice in pensions[3]

## People reach retirement with more DC pension assets than ever

The pension freedoms were introduced alongside automatic enrolment which has meant that more people are reaching retirement age with higher levels of DC pensions wealth. The percentage of people aged 55-64 with DC pensions wealth has increased from 28% in 2008 to 50% in 2018.[4] Although bringing millions of people into pensions has stopped the average fund size from increasing, many more people are reaching retirement with significant amounts of DC pensions wealth. One quarter of those aged 55-64 with a DC pension now have a fund size larger than £90,000, up from £51,500 in 2008.[5]

## More difficult than ever to generate secure income from those assets

But despite this increased wealth, the ability of those people to generate a higher and sustainable level of retirement income has been hit by declining interest and annuity rates. The higher pension fund (£90,000) in 2020 now generates almost exactly the same income from an annuity as the smaller fund (£51,500) did in 2008.[6] Interest rates on Cash ISAs and Savings accounts have declined from over 6% in 2008 to less than 1%.[7] The declining returns available from their assets mean that if customers are going to meet their income needs in retirement they will need to consider how quickly they withdraw their capital, which if done excessively, could lead to the risk of them running out of money.

## Pension freedoms have increased complexity of retirement income decisions

The pension freedoms have increased the complexity of retirement income decisions for individuals. Simply expanding the choices available is unlikely to result in people becoming more empowered. The system still relies on people at retirement accessing guidance and advice, becoming informed, engaged and taking active decisions. Behavioural biases will mean that most people will struggle to make these decisions and there may be a strong trend towards the 'default' option, with people either taking what they are offered or choosing the middle of multiple options.

> **"I found it very difficult to get clear information, particularly on charges. Charges are often very complex. Investment charges, fund charges, charges every time you drawdown, and they seem to mount up."**
>
> – Fred, 66

## Most people take the path of least resistance

Income drawdown has become the norm and the most popular option for people who don't cash in their pension pot. There are also an increasing number of people accessing income drawdown without taking advice – 37% of all drawdown customers were non-advised, compared to 5% prior to the introduction of the pension freedoms. Non-advised drawdown is sold almost exclusively to existing customers of pension firms – inertia still rules the market. 94% of non-advised drawdown sales were to existing customers, meaning that people did not shop around or switch providers compared with 35% of advised sales. This means that there is only limited market pressure on the large pension firms to improve the service available to non-advised drawdown customers. Driven by a desire for control and a lack of trust, thousands of people have cashed in their pension or taken a lump sum withdrawal and put the money into products with low long-term returns.

# Limited innovation aimed at helping those using income drawdown without taking advice

There has been limited innovation since the introduction of the pension freedoms. New guaranteed drawdown products, which combined flexibility with some level of guarantee, had been launched but then withdrawn.[8] Unscrupulous firms encouraged people to make inappropriate transfers out of Defined Benefit (DB) schemes.[9] New tools were launched to help manage income drawdown but these were mainly aimed at advisers and only reach a small part of the market. The most significant innovation has been towards introducing new investment choices and reviewing default investment options. The main step forward for non-advised savers was the introduction of Pension Wise, but take-up rates are still not high enough – 75,000 to 100,000 people each year are accessing their pension without taking any form of advice or guidance.[10]

Innovation is most needed for those who are withdrawing all of their pension or accessing income drawdown without advice. People in non-advised drawdown are making complex decisions without access to impartial advice or support. They are at risk of paying extra tax, being in inappropriate investments, paying high charges or withdrawing so much that they run out of money or have to cut the level of income they are taking. There has not been innovation aimed at these people to provide them with a good-value, simple to understand product which required minimal consumer engagement, helped them feel in control of their pension and to take decisions, deliver them a reasonably reliable income and help protect them from exhausting their pension fund.

# Coronavirus poses clear challenges and will be a key test of whether the pension freedoms, industry, regulators and Government can deliver for people

The coronavirus pandemic poses a particular challenge to people accessing their pension. It has introduced extra volatility, both in the general economic environment and people's personal financial situation. It has brought to an end five years of economic growth and strong investment returns since the freedoms were introduced. Central banks have slashed interest rates to zero. Millions of people will become temporarily or permanently unemployed, reducing their income and prompting some to access their pension. Thousands of older people will suffer the loss of a partner and have to reevaluate their financial situation and retirement income choices.

People making the wrong decision now could damage their prospects of enjoying a comfortable retirement. The forthcoming years will be a key test of whether the pension freedoms can work in more volatile times and whether the industry, Government and regulators have taken the necessary steps to ensure that the system is robust enough to help people make good decisions and enjoy a comfortable retirement.

# Key findings from the PensionBee research

To help understand the barriers and challenges people face when they access or consider accessing their DC pensions and the impact of the coronavirus on their decisions, PensionBee surveyed 961 people aged 55-70

| | |
|---|---|
| Accessed | Those who had taken action and accessed their DC pension |
| Considered accessing | Those who have tried to access or considered accessing their DC pension but didn't complete the process |
| Not considered accessing | Those who have not tried to access or considered accessing their DC pension |

**The coronavirus pandemic meant that decisions about accessing their pension were more difficult, many were worried about the value of their pension, there was an increased appetite for advice and guidance and 40% of those working said they would withdraw money from their pension if they became unemployed. Despite all this worry, concern and extra difficulty taking decisions, very few people had been contacted by their pension provider, and only around one in 10 felt very well supported to take decisions.**

- One third (34%) of people agreed that decisions about accessing their pension were harder due to the coronavirus pandemic. 68% were worried about the value of their pension.
- 22% agreed that they were more likely to make a withdrawal due to the pandemic and 40% of those working agreed that if they became unemployed due to the pandemic they would access their pension and take money out of it.
- 55% of those who had not yet accessed their pension agreed that the pandemic meant that they were more likely to take guidance or advice.

- 69% said that their pension provider had not contacted them at all regarding the coronavirus pandemic and 12% said that they had just been told that there might be difficulties contacting their provider.
- Only 10% said they had been contacted by their provider to explain the implications of the pandemic for how they might access their pension and just 7% had been contacted by their provider to prompt them to seek impartial financial advice or guidance before accessing their pension.
- Only 11% of people felt very well supported to take decisions about their pension during the coronavirus pandemic. 38% of all people felt fairly well supported. Those who had already started to access their pension and had been contacted by their pension provider were more likely to say that they felt very well supported (26%) or fairly well supported (54%).
- Only 16% of people considered reducing their withdrawal amounts on account of coronavirus-induced decreases in pension values, suggesting many could be at risk of running out of money early in their retirement.

**Despite more than five years since the introduction of the pension freedoms and the increasing importance of DC pensions, the pensions industry has failed to help consumers increase their confidence and retirement planning capability. Many found decisions about pensions and retirement income daunting and complex and were more confident making decisions about other, widely held financial products than they were about pensions. As a result, only half had thought a great deal about how they would manage throughout their retirement.**

- Regarding their main source of income in retirement, 24% said this would be a DC pension, 21% their DB pension and 36% their State Pension.
- 52% had given a great deal of thought as to how they will manage financially throughout their retirement, 39% had given a little thought to it and 10% had not really thought about it.
- All groups, generally, had lower levels of confidence in making decisions about pensions than other commonly held financial products such as Savings accounts, Cash ISAs, current accounts, car insurance and mortgages.
- 54% found decisions about pensions and retirement income daunting and complex and 28% put off retirement planning as they were afraid of making the wrong decision.

**Underscoring the delays in the Financial Conduct Authority's implementation of the Retirement Outcomes Review, people found it difficult to gather basic information about their pension, many don't have a clear plan, and pension providers are not asking people how they might want to access their pension.**

- 35% of those who had not accessed their pension did not know how to find out about the amount they could expect to receive in retirement.
- The most popular choices for information people wanted to see through Pensions Dashboards were their estimated retirement income (85% said this was essential or very important), their State Pension (83%), the amount they were being charged by their pension provider (77%), and any guarantees attached to their pension (77%). This was followed by details of their pension providers (76%), where their pension is invested (66%), and any employer matching contributions available (60%).
- Many who have not accessed their pensions lack a clear plan. Only around a third of people (30%) have a clear plan regarding how they will access their DC pension, around a half (55%) do not have a clear plan, and the remaining 15% didn't know they had to make a choice.
- Pension providers were failing to ask people who were yet to access their pension how they might do it. 67% had not been asked by any of their pension providers how they might access their DC pension.
- Almost 60% said that they found it hard to compare charges between different pension schemes.

**Beyond the ambitions of regulators, there remains a psychological disconnection between accessing a pension and retirement which is leading many to access their pots early, paying extra tax and losing out on long-term returns. A desire for control is leading to a dash for cash, as people are prompted to access their pension to take money out of it and put it in a Savings account or Cash ISA for a rainy day.**

- 44% agreed that taking money out of their pension would make them feel more in control of it, increasing to 53% amongst those who had accessed their pension.
- A desire to take control was the most frequent factor which had prompted people to access their pension with 30% saying they had accessed it because they wanted to take control of their pension by withdrawing it to put in a Savings account or investments.
- 28% had been prompted to access their pension as they needed extra income to meet day to day expenses, and those working or temporarily unemployed were more likely to cite this reason (34%) than those retired (21%).
- In terms of sources of information and advice, 32% who had accessed their pension took financial advice and 13% had a conversation with a Pension Wise adviser. 27% relied on written information or a conversation with their pension provider or by using Google search.

**Accessing a pension is confusing and time-consuming. People who considered accessing their pension are failing to complete the process due to inertia or confusion rather than because they feel in control of their pension. For the vast majority of people, accessing a pension took over four weeks and more than half of those considering a withdrawal said they would be less likely to do so if they thought they could access it easily on demand.**

- People who tried to or considered accessing their pension didn't go through with it due to the process being too complicated (19%), being confused about the options (27%), inertia (24% said they never got round to it), or because they were worried about paying too much tax (14%).
- For most of those who had not considered accessing their pension, this was because they didn't need the money (56%). Only 8% said that it was because they trusted their pension provider and 8% because they already felt in control of their pension.
- 75% of people had to wait four weeks or longer to access their pension savings after deciding to withdraw some money. More than one in five people had to wait more than three months to receive their pension. Pension provider inefficiency may be contributing to unnecessary withdrawals, with 58% of those considering accessing their pension agreeing they would be more likely to leave it where it was if they could access it easily.

**People making withdrawals from their pension are not blowing the money, but many could be taking decisions which reduce their long-term retirement income. Many people do not have a clear idea of what amount represents a sustainable withdrawal amount: how much they could take out each year and not be at risk of running out of money.**

- Of those who had accessed their pension, 60% said they had taken a lump sum, 20% had bought an annuity, 15% said they had moved into income drawdown and 10% said they had fully withdrawn their DC pension fund.
- 22% saved the largest share of the money they took out and 14% invested it, raising questions regarding why they did not simply keep their money in their pension. 17% used it to pay off debt and 10% used it for a special purchase. Only 17% used the largest share of the money they took from their pension to pay for day-to-day expenses.
- Around one third said that a sustainable withdrawal amount was greater than 8% a year and a further one in seven said that they didn't know.

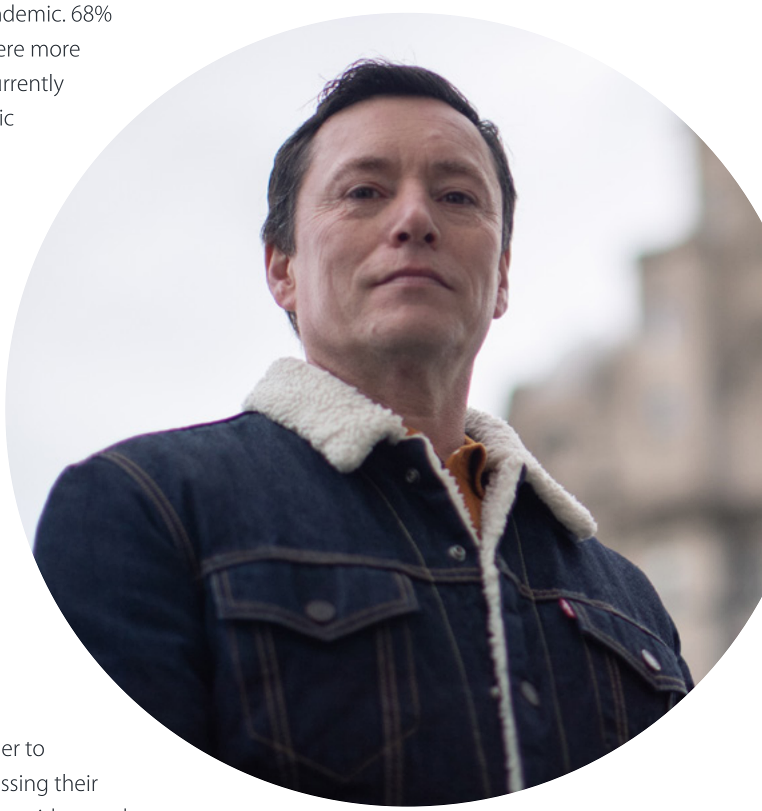
# Barriers and challenges for people accessing their DC pensions

**The results of the PensionBee research were supplemented by analysis of the FCA's Financial Lives Survey and Retirement Outcomes Review to identify the barriers and challenges faced by people at each stage of the process of making plans to access their DC pension and at the point of accessing their DC pension.**

## Impact of the coronavirus pandemic

### Taking decisions about pensions during the coronavirus pandemic

**The coronavirus pandemic makes decisions about how and when to access pensions harder:** One third of people agreed that the decision was harder due to the pandemic. 68% were worried about the value of their pension. 22% agreed that they were more likely to make a withdrawal due to the pandemic and 40% who were currently employed agreed that if they became unemployed due to the pandemic they would access their pension and take money out of it. Those accessing their pension in an unplanned way during a time of market volatility could result in individuals crystallising losses, paying extra tax and increasing their risk of running out of money.



**There is an increasing appetite to access advice and guidance**: 55% of those who had not yet accessed their pension agreed that the pandemic meant that they were more likely to take guidance or advice.

**Very few people have been contacted by their pension provider to explain the implications of the coronavirus pandemic for decisions they might want to take about their pensions:** Despite all this worry, concern and extra difficulty in taking decisions, very few people reported being contacted by their pension provider about the coronavirus pandemic. Only 10% said they had been contacted by their provider to explain the implications of the pandemic for how they might access their pension. Just 7% had been contacted by their provider to prompt them to seek impartial financial advice or guidance before accessing their pension. Only 11% of people feel very well supported by their pension provider to take decisions about their pension during the coronavirus pandemic.

# Making plans / before accessing their DC pension

## Sources of income

**Those for whom a DC pension is going to be the main source, or a significant source, of income may not have access to good value products and support to help them make a plan and decide how to access their pension.** For these groups, making the wrong decision could have a significant impact on their overall standard of living in retirement and many will not have final salary pensions to fall back on.

**People may not understand their spending and income needs throughout their retirement:** 46% of people accessing their pensions had only given a little thought or no thought as to how they will manage financially throughout their retirement.

# What prompted them to access or consider accessing their pension?

## People are accessing their pension early, leading to them paying too much tax and losing out on potential returns. There were two main reasons for this:

- **Accessing pensions had become disconnected from retirement:** Accessing pension funds early has become the norm, with two-thirds of pension pots being accessed before the age of 65 and those working were more likely to say that they accessed the money in their pension fund to help them meet day-to-day expenses.
- **Many people do not feel in control of their pension and want to take control of the money by withdrawing it and putting it in a Savings account or other investments:** A desire to take control of their pension by taking the money out was the single most popular reason which had prompted people to access their DC pension.

**People who considered accessing their pension are failing to complete the process due to inertia or confusion rather than because they feel in control of their pension.** Those who considered accessing their pension but didn't go through with it, said they failed to complete the process due to inertia, confusion about their options or problems with the process, rather than for more positive reasons such as they trusted their pension provider or already felt in control of their pension.

**Retirement income decisions are unfamiliar, daunting and complex:** People are less confident making decisions about pensions than other widely held financial products and many find decisions about pensions and retirement income daunting and complex.

# Accessing the information they need to make a plan

**People lack basic information about their DC pensions or don't know how to find it out:** Many people aged 55-64 do not recall receiving, have not reviewed or do not know where to find basic information about their DC pensions, including how much it is worth, how much income it will generate when they access it, where it is invested, the level of charge, their current contributions and whether they will be sufficient to maintain a reasonable standard of living when they retire. One third don't know how to find out how much income their pension will generate when they retire and many tend to overestimate their expected income and under-estimate how long they are going to live.

**It is time consuming and difficult for people with multiple pension pots to gather information they need about their pensions to take retirement income decisions and the first versions of Pensions Dashboards might not display the necessary data:** There is no easy way for people to see all of their pension information in one place, with sufficient detail to help them make decisions about retirement income and whether they would be better off consolidating their pensions in one place. On current plans, it could take several years before the information available on Pensions Dashboards will help them take retirement income decisions.

**There are low levels of trust and satisfaction among holders of DC pensions:** People have lower levels of trust in and satisfaction with their DC pension provider than providers of any other major financial products and services.

**People can't access comprehensive information about their non-pension savings and investments:** This means they can lack information about how to maximise the income they can receive from these sources and help them decide how to access their DC pension.

## Making an overall plan

**People may not have a clear idea about how their income and expenditure needs will change throughout their retirement or have a clear way of developing a plan:** Only around a third of people (30%) have a clear plan regarding how they will access their DC pension, around a half (50%) do not have a clear plan, and the remaining 15% didn't know they had to make a choice.

## Accessing advice and guidance

**People are accessing their pension without taking independent and impartial advice or guidance:** Only 44% took independent financial advice or had a conversation with a Pension Wise adviser. 27% relied on written information from their pension provider, a conversation with their pension provider, by searching using Google or used no sources of information or advice before accessing their pension. People may feel that they do not need advice/ guidance, cannot access it or do not know where to find a trusted provider of it. Encouragement to access advice and guidance may come too late in the process or not be sufficiently strong enough.

# Point of access

## Retirement income products

**People are making choices about retirement income products without considering important factors which might influence their decision:** Many people choosing retirement income products are failing to consider important influences on their choices such as the investment risk, their health and tax considerations.

**Taking the full 25% tax-free lump sum acts as a strong anchor:** The desire to take the entire 25% tax-free lump sum acts as an important anchor for people, even if they do not have a need for it or a plan for what to do with it. For those who just took the 25% lump sum, around a quarter put some of the money into a current or savings account to save for a rainy day and 11% used the largest share of the money they withdrew in this way. 11% used the money to save in a Cash ISA and 7% used the largest share of the money in this way.

**There has been limited innovation in the market for retirement income products since the introduction of the pension freedoms:** Firms have concentrated on the advised market and have not addressed the needs of those non-advised customers accessing income drawdown or making ad-hoc lump sum withdrawals from their pension.

**Products and processes do not accommodate the changing preferences and needs of people through retirement:** Younger people and those still working tend to have preferences for flexibility and older and retired people prefer guaranteed income. Retirement income products and processes do not accommodate the changing consumer needs and wants as people age and move away from a preference for flexibility and towards an increasing desire for a secure income.

**Shopping around and switching for those without advice is very complex and few do so:** Most people without access to advice take the path of least resistance and there is only very limited shopping around and switching. The development of more suitable and better value retirement income products is unlikely to be driven by the choices made by savers. It is likely to be driven by the decisions made by pension schemes which are focussed on the needs of their customers.

**It is harder for vulnerable customers to take decisions and their pension provider might not know about their vulnerability or take action to help them:** As people get older they are more likely to develop a specific vulnerability such as ill health, cognitive decline, bereavement or caring responsibilities which will make it more difficult to take complicated decisions about retirement income. They may have infrequent contact with their provider which will mean only limited chances for their provider to detect the vulnerability and respond to the person's individual needs.

## Guarantees and tax

**The high value of guarantees is not highlighted to people and therefore these might not be taken up.** People may not be aware of, or may underestimate, the benefit of valuable guarantees such as GARs.

**People accessing their DC pension fund may pay more tax than is necessary, eroding their potential retirement income.** 61% of people don't consider the tax implications for how they access their DC pension fund and the pension freedoms have raised £6.2 billion in extra tax revenue for the Treasury, £2.4 billion more than expected.[11]

## Investment options

**People find it difficult to engage and make decisions about investments: This leads to risks that people will remain in inappropriate investments.** Those invested in cash will achieve very low long-term returns and increase the chance that they will run out of money in retirement.

**Pension providers are not asking people how they plan to take their pension or helping those without advice choose an appropriate investment strategy:** The FCA has delayed the rules which would have required pension providers to offer people simple choices of investment pathways.

## Charges

**Charging structures can be complex and difficult to compare:** Many people do not understand pension charges and almost 60% said that they found it hard to compare charges between different schemes. For those who don't take advice, there is little switching or shopping around. This means that there are only very limited competitive pressures on firms to reduce charges for people accessing their pension through income drawdown without advice.

**Many people accessing drawdown without advice are paying high charges:** More than 70% of non-advised drawdown customers pay more than 0.75% in charges costing them £40 to £50 million extra a year and more than £175 million since the pension freedoms were introduced.[12] The long-term impact of high costs and charges for income drawdown could be significant and result in people having to take less income out of their pension or running out of money quicker.

**The FCA has delayed the introduction of rules which could have reduced charges for some of those accessing income drawdown without advice:** As part of the investment pathways rules, the FCA told firms to "challenge themselves" regarding their level of charges. These rules have now been delayed until February 2021. Excessive charges are likely to continue until the FCA is willing to intervene.

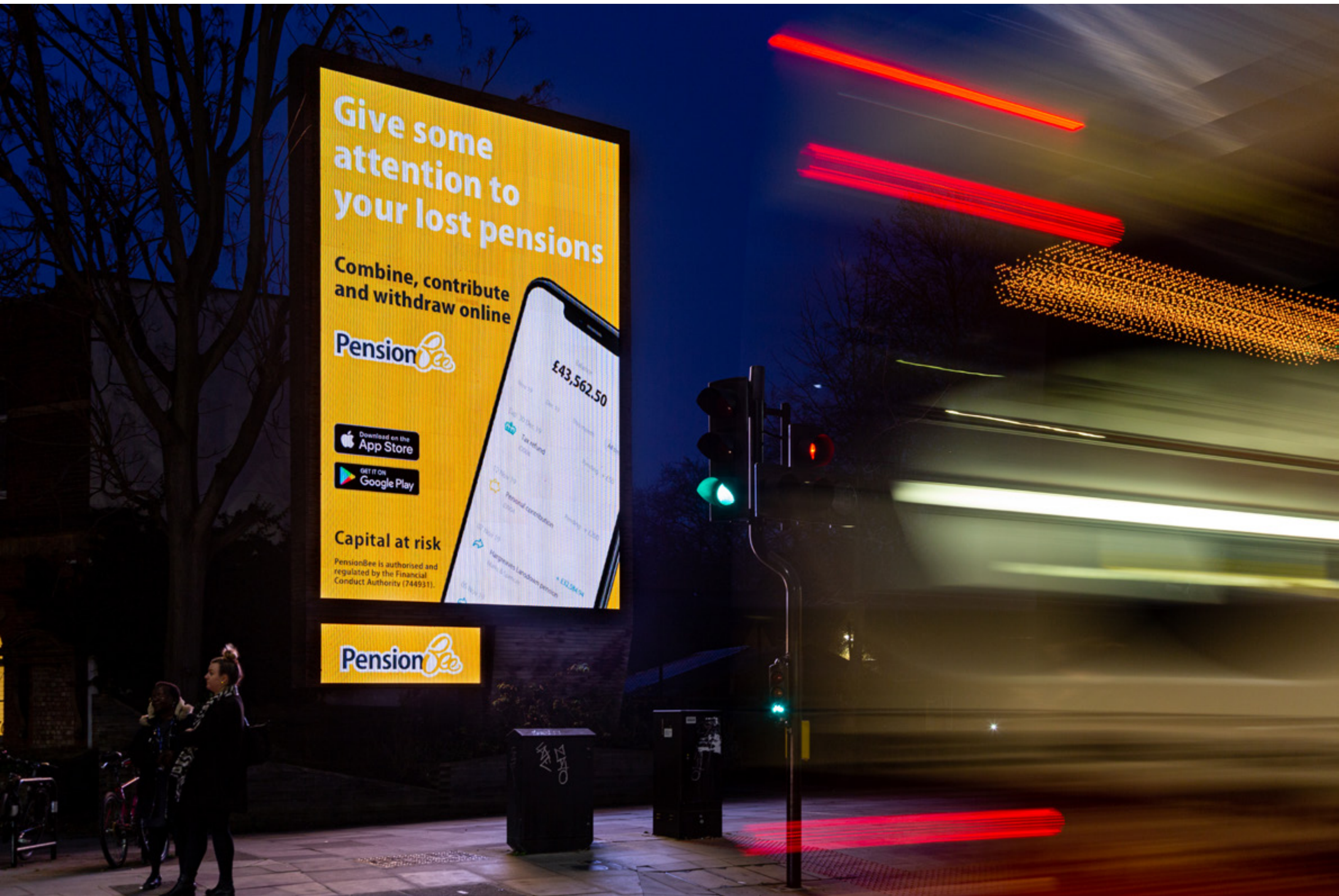
# Withdrawal amounts

**Decisions about how much to withdraw each year and when to review it are complex and pension providers are doing little to help people understand sustainable withdrawal rates or to develop withdrawal strategies:** Many people have little idea about sustainable withdrawal rates and tend to overestimate the amount they can withdraw without running the risk of exhausting their DC pension fund. One third said that a sustainable withdrawal rate was 8% or higher and one in seven said that they didn't know.

**People continuing with high withdrawal rates during market downturns will run out of money:** Whether people run out of money will be largely determined by the decisions they make around retirement. People continuing with their current high withdrawal rate or increasing it during times of market turmoil and low returns increase the risk of running out of money.

# What to do with the money

**People accessing their pension are not blowing the money but are using it in ways, such as keeping it in a savings account or cash ISA, which could reduce their long-term retirement income:** 22% said they had saved the largest share of the money they withdrew from their pension in a savings account or cash ISA and 14% said that they had invested it elsewhere. They are withdrawing the money and putting it in products which they find easier to understand and are more confident about taking decisions about. Most people taking withdrawals from their DC pension are not blowing the money but risk taking decisions which damage their prospects of a comfortable retirement. People withdrawing money from their pension to put in a savings account are paying extra tax and reducing their long-term retirement income. If they could be convinced that they are in control of their pension and that it is there if they need it then they could gain greater long-term returns and pay less tax overall.



# Recommendations

## The research findings suggest a lot more for industry, Government and regulators to do to enable people take decisions about their DC pensions which help them enjoy a comfortable retirement

To tackle some of these barriers and challenges quickly we will have to rely on pension providers innovating and acting in the best interests of their customers. Regulators need to intervene where they see poor practice and the Government needs to set an overall framework which helps more people achieve a comfortable retirement.

### 1 Make people feel in control by innovating for people relying on their DC pension and those accessing their pension without advice

- Innovation needs to be focussed on developing better products and processes for non-advised customers entering income drawdown or considering fully withdrawing their pension fund.
- It is important that these products improve trust and engagement by making people feel in control of their pension – encouraging them to leave it invested where appropriate and maximising their long-term sustainable levels of retirement income.
- People should know that their pension is accessible easily if they need it and products should help people avoid just taking all of the 25% tax-free lump sum at once or cashing in their entire pension to put it into a savings account to keep for a rainy day.
- Products should take into account the shifting preferences of people towards security and guaranteed income as they get older.

## 2

## Improve access to financial data and use it to help people plan and take decisions

- Open Banking data should be used to help people understand their current levels of spending and how they might change throughout their retirement. It could also be used to help people understand their overall level of income and the amount of tax they might pay if they accessed their pension.
- Standards for Pensions Dashboards should be developed so that people can see all of their pensions data in one place and be equipped with the information they need to take decisions about retirement income, including data about charges and investments.
- People should be able to share their pensions data easily and securely with providers of advice and guidance.
- People should be given control of their financial data by introducing Open Finance to enable them to access and share data about their ISAs, investments and fixed-term savings accounts.

## 3

## Develop simple investment and communication pathways for people to help them access advice and guidance

- Pension providers should ask people how they might access their pension – help them make a plan, highlight the factors they might want to take into account and prompt them to access advice and guidance.
- The FCA should reverse the delay to the implementation of the investment pathway rules, so that once people are asked how they want to access their pension they are offered a choice of simple, investment solutions.
- The Government should expand access to guidance and advice and prompt more people to access it, by making it the default for people accessing their DC pension.
- Pension providers should introduce policies to help them identify vulnerable customers and support them to make decisions.
- Help customers consider tax and valuable guarantees, by providing clear information to customers with guarantees and giving people statements about how much tax they have paid and be given the opportunity to pay all or part of the money back into the pension scheme and receive the tax back.

## 4 Ensure all products have clear, simple charging structures and offer value for money

- Pension providers and the FCA must support people by ensuring that all investment solutions available offer value for money and that all costs and charges are disclosed to people.
- The FCA must be willing to intervene to prevent excessive charges being levied on customers.

## 5 Give guidance on sustainable withdrawal rates and help people make a plan and develop a withdrawal strategy

- Pension providers should develop and expand the availability of tools to help people manage income drawdown and take complex decisions about how much to withdraw.
- Guidance should be given by pension providers on potential longevity and what represents a sustainable withdrawal rate.
- Pension providers should help people develop a withdrawal strategy and review it where appropriate.

## 6 Support customers during the coronavirus pandemic

- Pension providers should contact customers to explain the implications of the coronavirus pandemic for decisions customers could make about accessing their pension and prompt them to seek advice and guidance.
- Those making regular withdrawals should be helped to understand the implications of investment performance to determine if they need to review the level of their withdrawals.

# Research methods

## Pension access – customer journey

### To help understand the barriers and challenges faced by people accessing their DC pension, PensionBee commissioned New City Agenda to produce two reports

This report covers the barriers and challenges faced by people when making plans about how to access, and at the point of accessing, their DC pension. A second report will cover the barriers and challenges they face after they have accessed their pension, including how to avoid being scammed.

**The report covers the barriers and challenges faced by people at each of the following stages:**

### Making plans / before access

- Financial situation: Background on their finances and the relative importance of DC pensions wealth in their total assets and what other sources of income they expect in retirement.
- Understanding their income needs in retirement: Maximising income from other sources before accessing their pension.
- Prompting: What prompts people to consider that they have a need to access their pension?
- Knowledge and understanding / trust and confidence: Levels of knowledge and understanding about retirement income decisions and products. Levels of trust and confidence and how this affects their choices.
- Information gathering / sources of advice: Gathering information about all of their pension funds and accessing other sources of information and advice.
- Consolidation: Do people want to consolidate all of their DC pensions in one place, when is this appropriate, and how able do people feel about making the decision about which pension to choose?

### Point of access

- Decisions about which type of retirement income product to use: Full withdrawal vs annuity vs UFPLUS vs income drawdown?
- Guarantees: Are people aware of and do they take up any Guaranteed Annuity Rates?
- Tax considerations: How much tax will be paid on the money they withdraw?
- Investment options: Where is their pension invested?
- How much to withdraw: What are people’s views regarding sustainable withdrawal rates?
- What to do with the money: What have people done with the money they have withdrawn from their pension?

# The research

To help understand the barriers and challenges people face when they access or consider accessing their DC pensions, PensionBee surveyed 961 people. All of the respondents were members of the general population, rather than being customers of a specific pension provider, were aged 55-70 and currently held, or had accessed, a DC pension. The sample was divided into three groups:

- Accessed: Those who had taken action and accessed their DC pension
- Considered accessing: Those who have tried to access or considered accessing their DC pension but didn't complete the process
- Not considered accessing: Those who have not tried to access or considered accessing their DC pension.

## The survey covered the followed subjects:

- The impact of the coronavirus pandemic on their decisions to access their pension
- How well supported they felt by their pension provider during the coronavirus pandemic
- Attitudes to and confidence in financial decision making and retirement planning
- Income, financial position and sources of retirement income
- Degree of planning for retirement
- What prompted them to access their pension or consider accessing it
- What caused those who considered accessing their pension to give up and not complete the process
- Did they try to track down their lost pension pots and what information they would like to see on a pensions dashboard
- How they had accessed their pensions, the factors they took into account and what they did with the money
- Satisfaction with the overall process
- Sources of information and advice accessed

Customers can take out a tax-free lump sum from their pension pot from the age of 55 onwards. There is no upper age limit, but in order to include people in the sample who had accessed their pension since the pension freedoms were introduced, a maximum age of 70 was set for participation in the surveys. Since the pension freedoms, the norm has been for people to access pensions before the age of 65. This is borne out by the profile of customers in the survey who had accessed their pension fund:

- Two-thirds (68%) were aged between 55 and 64; and
- One-third (32%) were aged 65 or over.

Reflecting the age profile of those who had accessed their pension, only 43% identified themselves as retired, 37% in full-time employment or self-employment, and 13% in part-time employment or self-employment. This reflects other research which has found that many people are accessing their DC pension funds while still working.

Of those who had tried to or considered accessing their pension but not gone through with it, or not considered accessing their pension, 86% were aged between 55 and 64, and 14% were aged 65 or over.

# Research findings: Impact of the coronavirus

## Impact of the coronavirus on decisions about accessing DC pensions

The coronavirus pandemic poses a particular challenge to people accessing their pension. It has introduced extra volatility, both in the general economic environment and people's personal financial situation.

It has brought to an end five years of economic growth and strong investment returns since the freedoms were introduced. Stock markets fell sharply, dropping more than 30% in the month to 23 March 2020. Since then, prompted by massive stimulus efforts from Governments and central banks they have rebounded and are now only slightly below the levels they were a year ago. But levels of uncertainty remain high and it is unclear how people, companies and markets will react once the extensive economic stimulus and furlough schemes are wound down later this year.

Central banks have slashed interest rates to zero. This has led to drops in annuity rates. Interest rates on Cash ISAs and Savings accounts have also been cut. It is now even harder for those retiring to achieve adequate levels of retirement income without taking extra risk.

8.7 million people have already had their jobs furloughed by the end of May, meaning that a quarter of the UK workforce is now covered by the furlough scheme.[13] Millions of people will become temporarily or permanently unemployed, reducing their income and prompting some to access their pension. Temporary payment holidays have been granted on mortgages, credit cards and other debts, but these only last until October. Thousands of older people will suffer the loss of a partner and have to re-evaluate their financial situation and retirement income choices.

People making the wrong decision now could damage their prospects of enjoying a comfortable retirement. The forthcoming years will be a key test of whether the pension freedoms can work in more volatile times and whether the industry, Government and regulators have taken the necessary steps to ensure that the system is robust enough to help people make good decisions and enjoy a comfortable retirement.

The Coronavirus pandemic has made decisions about accessing pensions harder for many people. One third (34%) of people agreed that the decision was harder due to the pandemic. This increased to more than half (51%) amongst those who had tried to or considered accessing their pension but hadn't gone through with it.

Many are also worried about the impact of the pandemic on the value of their pension. 68% of people agreed that they were worried about the value of their pension. Levels of worry are higher amongst those who had tried to or considered accessing their pension (80%) and those who had not tried or considered accessing their pension (69%) than those who had accessed (63%). Only a quarter (26%) had reviewed where their pension was invested due to the pandemic.

Taking money out in an unplanned way during a time of market volatility could result in individuals crystallising losses, paying extra tax and increasing their risk of running out of money. There was only limited appetite to make extra withdrawals from their pension due to the coronavirus pandemic. 22% agreed that they were more likely to make a withdrawal due to the pandemic, 13% that they were more likely to cash in their entire pension, and 17% agreed that the pandemic made them more likely to take money out of their pension to put in a Savings account.

The exception to this was amongst those who were currently working, where 40% agreed that if they became unemployed due to the pandemic they would access their pension and take money out of it. Those who had already started accessing their pension (43%) or tried to or considered accessing it (54%) were more likely to say that they would do this than those who said they had not previously considered accessing their pension (28%).

Amongst those who had already started accessing their pension, there was only limited appetite to cut the level of withdrawals due to the pandemic. Only 16% agreed with the statement that they were more likely to cut their level of withdrawal due to the pandemic, compared to 47% who disagreed.

Those who were yet to access their pension said they were more likely to take guidance or financial advice before doing so. 55% of those who had not yet accessed their pension agreed that the pandemic meant that they were more likely to take guidance or advice, rising to 66% who had tried to or considered accessing their pension in the past but had not gone through with it.

**"Pensions are almost certain to go down in a market like this, so yes, I am worried…The pitiful interest rates I am getting have halved overnight."**

– Kelly, 65

**"Initially I was very worried as my pension fund went down by £7,000 or £8,000."**

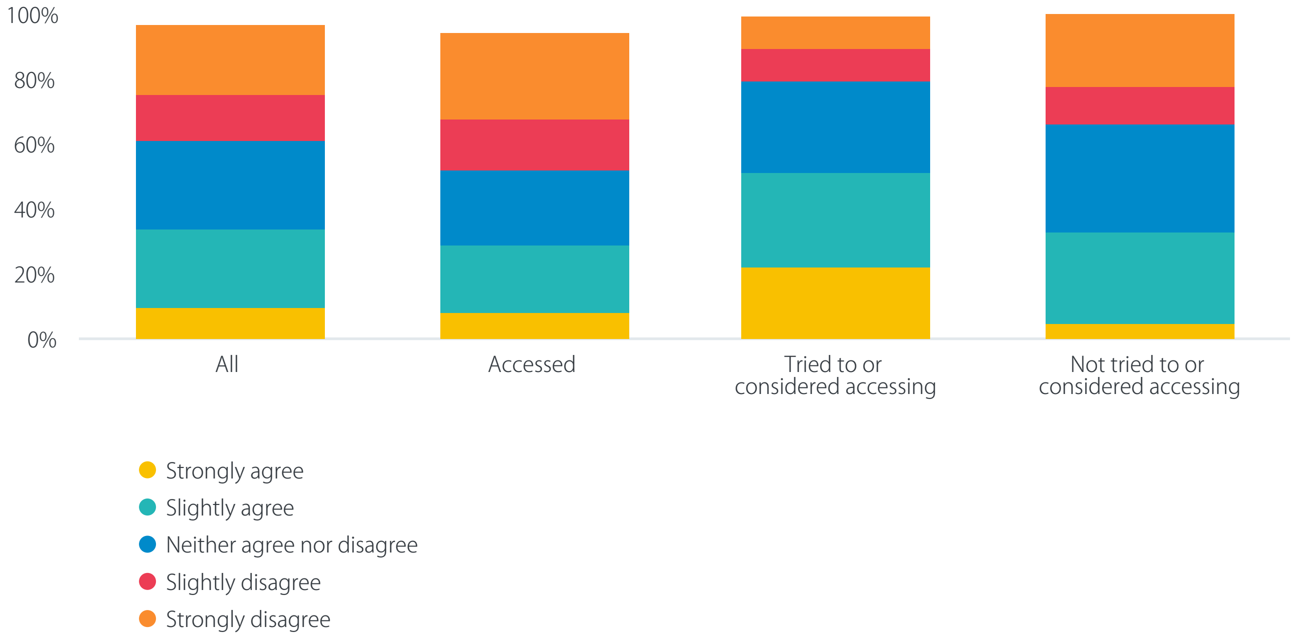
– Angela, 63

**"I feel like I have become a bit more aware of Pension Wise – the coronavirus has made me a bit more aware of Pension Wise."**

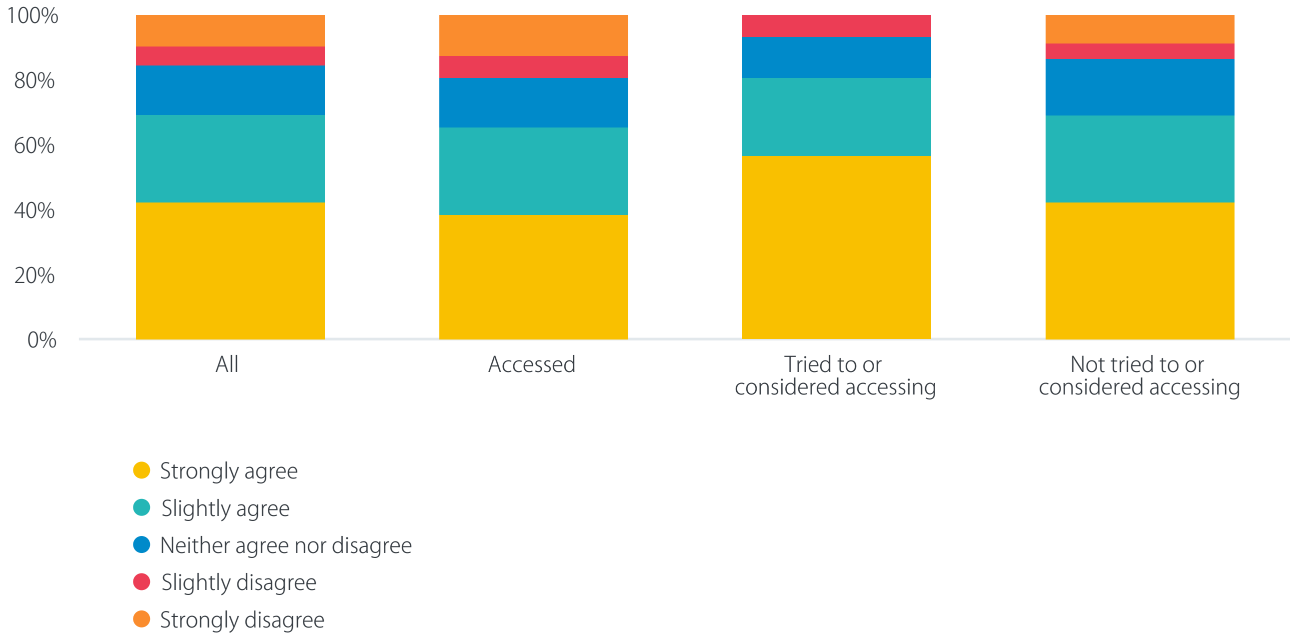
– Ann, 55

## To what extent do you agree or disagree with the following statement about your pension and saving for retirement?

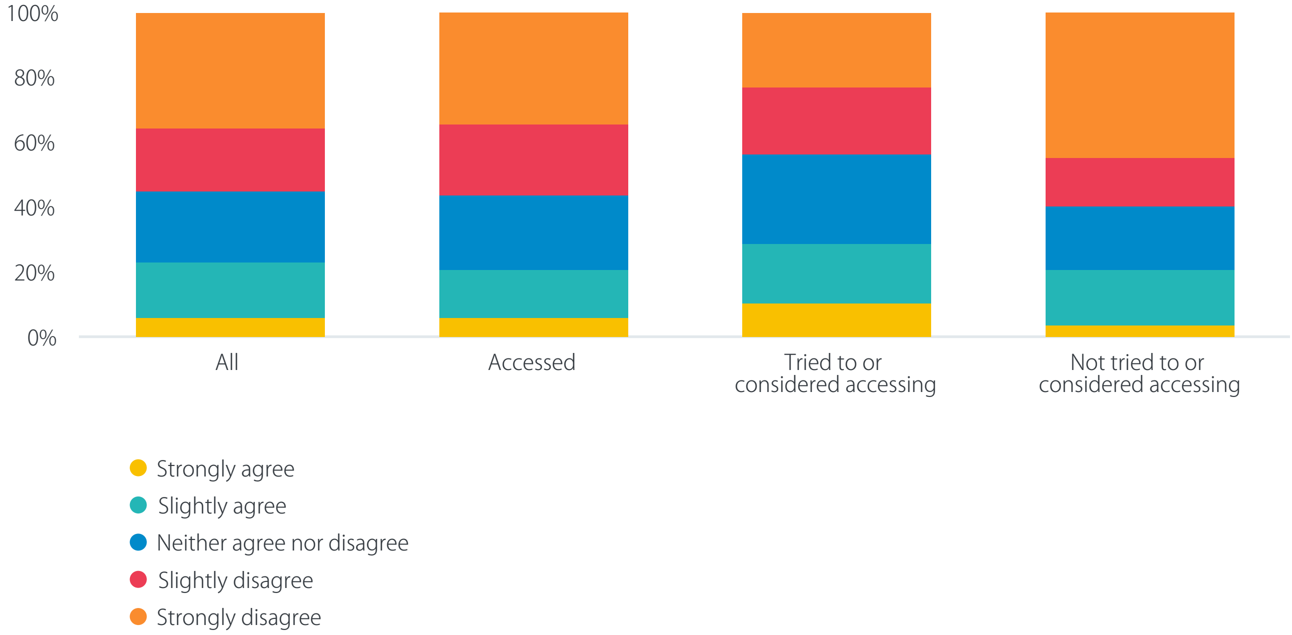
### "The coronavirus pandemic has made it harder to make a decision about accessing my pension"



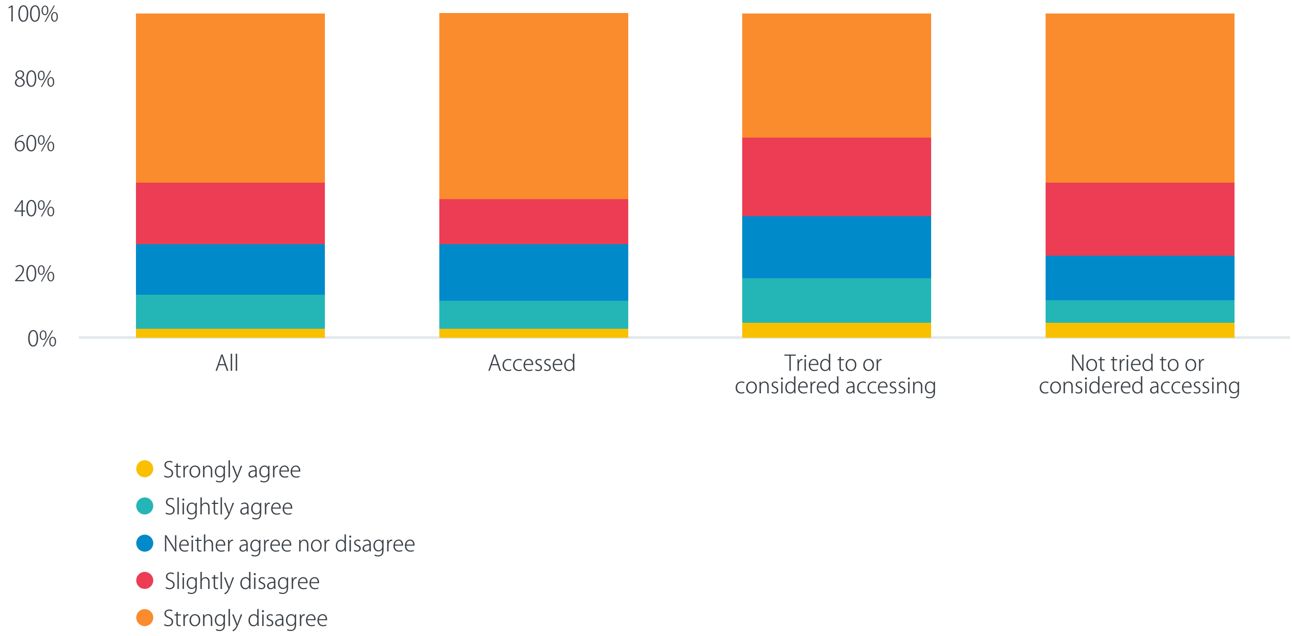

### "I am worried about the impact of the coronavirus pandemic on the value of my pension"



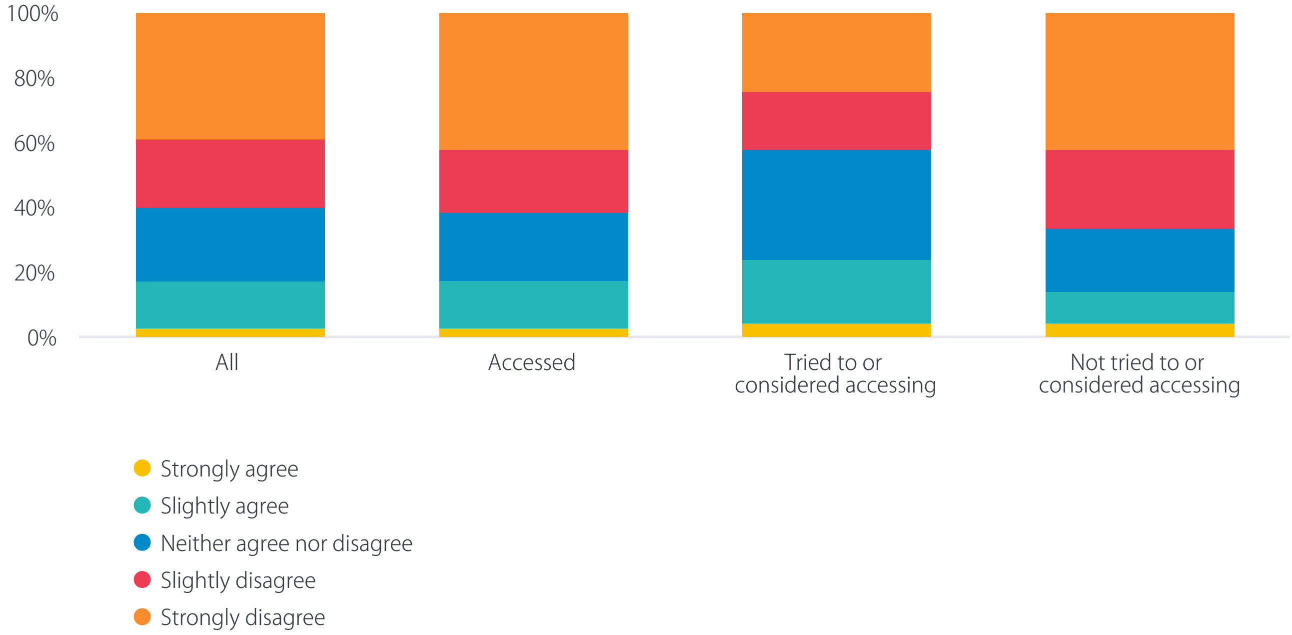
## "I am more likely to make a withdrawal from my pension due to the coronavirus pandemic"



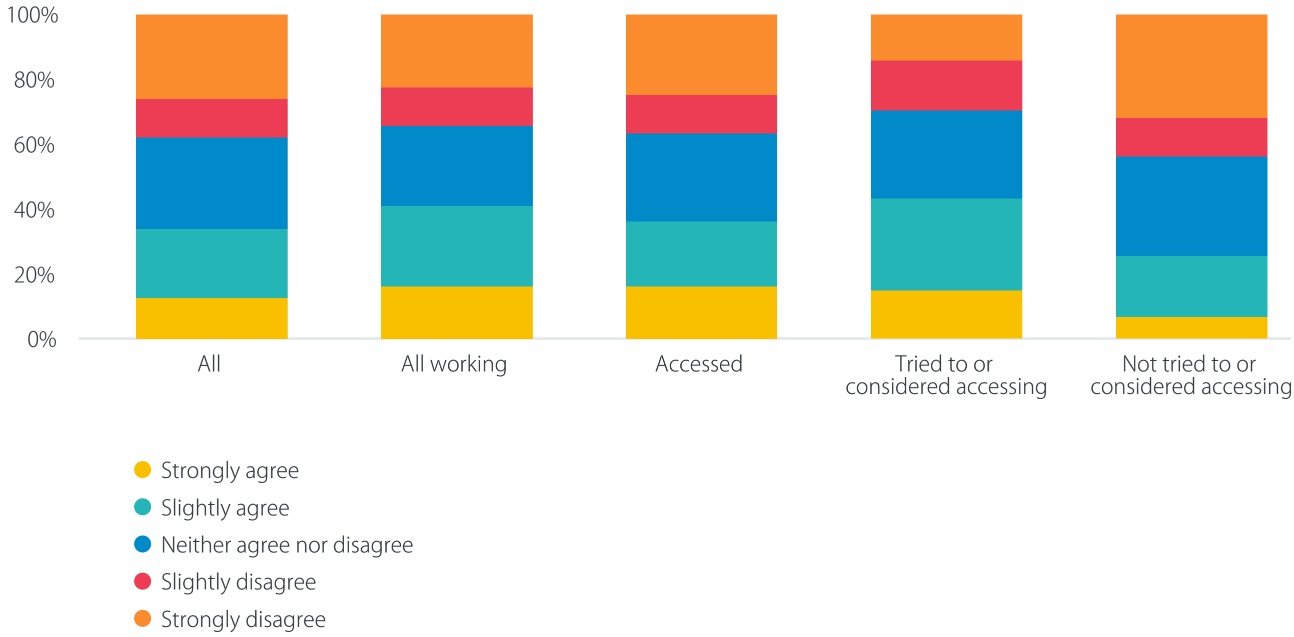

## "I am more likely to cash in my entire pension due to the coronavirus pandemic"



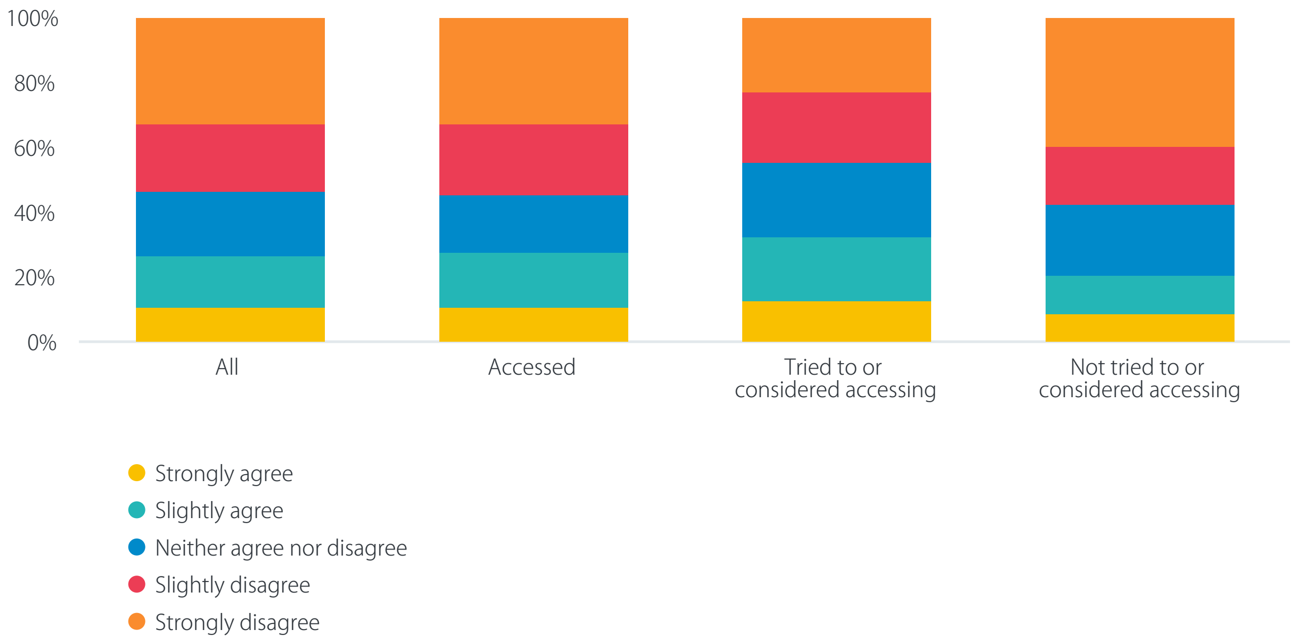
## "The coronavirus pandemic means I want to take money out of my pension to put in a savings account"



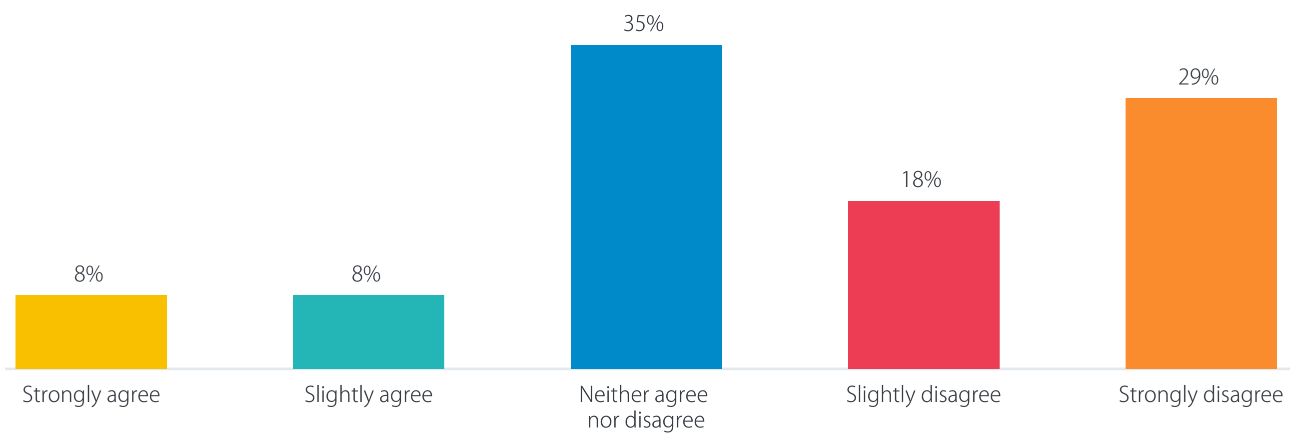

## "If I become unemployed due to the pandemic, I will access my pension and take money out of it"



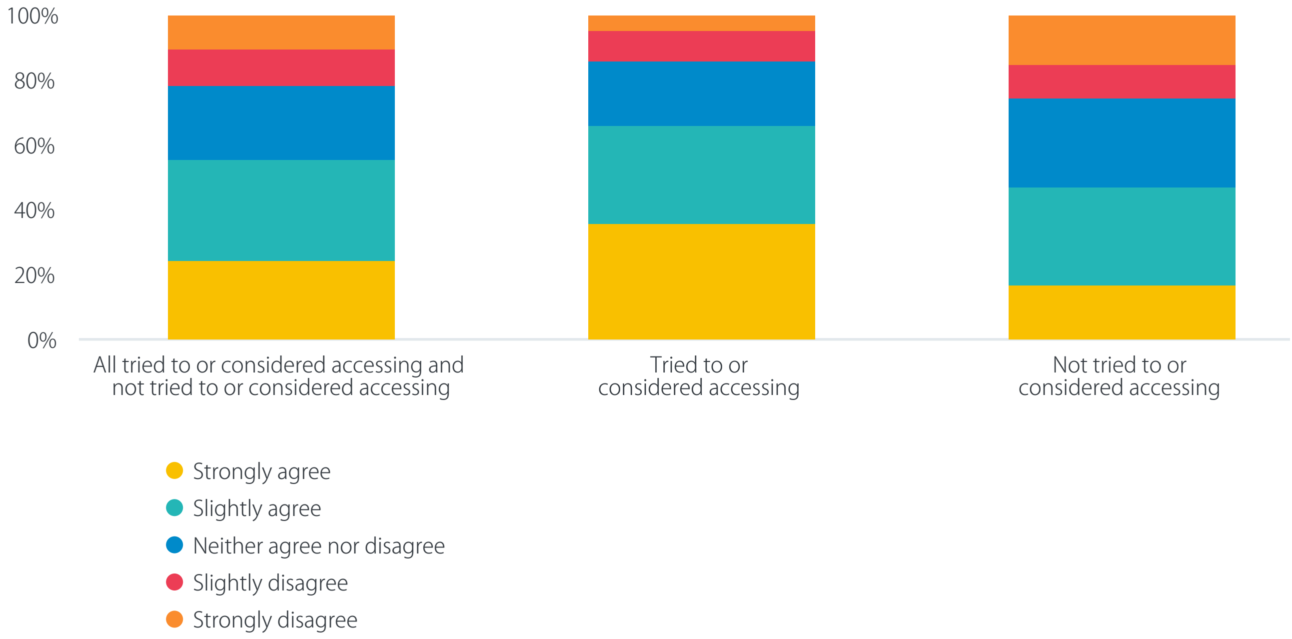
## "I have reviewed where my pension is invested due to the coronavirus pandemic"




## "I'm more likely to cut my level of pension withdrawals due to the coronavirus pandemic"



## "The pandemic means I'm more likely to take guidance or financial advice before accessing my pension"




# Responses from pension providers to the pandemic and how well supported people feel to take decisions

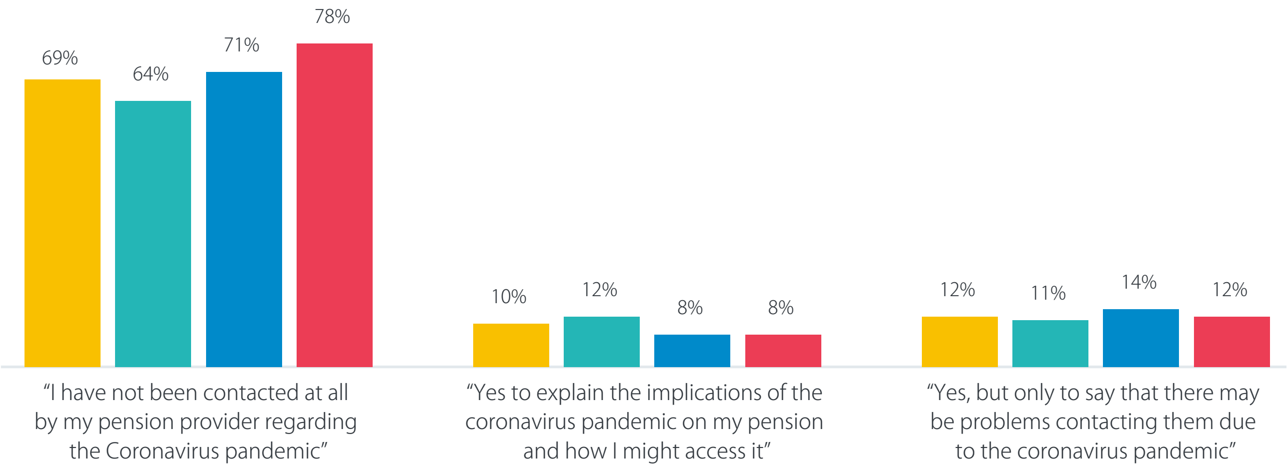
Despite all this worry, concern and extra difficulty in taking decisions, very few people reported being contacted by their pension provider about the coronavirus pandemic. 69% said that their pension provider had not contacted them at all regarding the coronavirus pandemic and 12% said they had been contacted by their pension provider, but only to say that the pandemic meant that there may be problems if customers tried to contact them during this time.

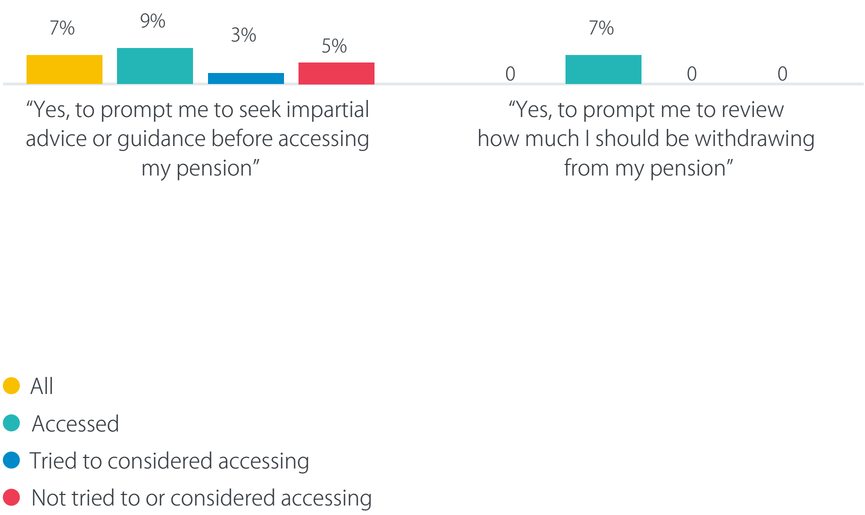
Only 10% said they had been contacted by their provider to explain the implications of the pandemic for how they might access their pension. Just 7% had been contacted by their provider to prompt them to seek impartial financial advice or guidance before accessing their pension. This seems like a particularly wasted opportunity due to the stronger desire amongst people to use advice or guidance before accessing their pension as a result of the pandemic.

Only 7% of those who had already accessed their pension said that they had been contacted by their provider to prompt them to review the level of withdrawals they were taking. For those who had reduced their expenditure or did not have an immediate need for the money, leaving the money invested during a time of market volatility could result in higher levels of overall retirement income.

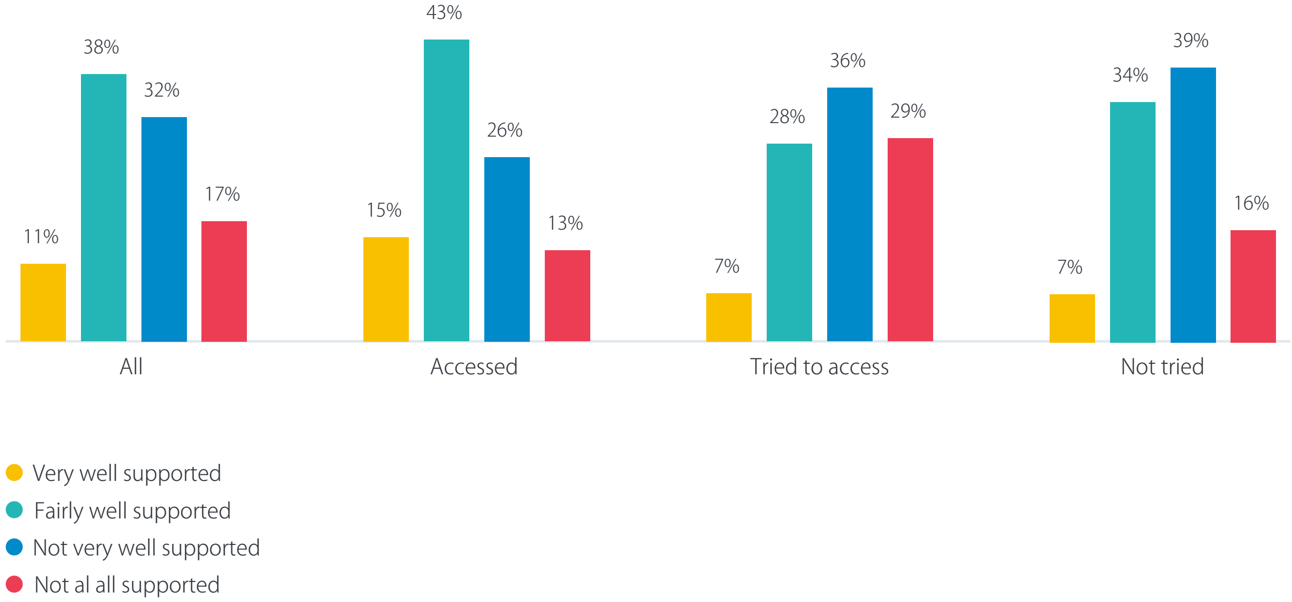
Unsurprisingly, probably in part due to this lack of contact from their pension provider, only 11% of people felt very well supported to take decisions about their pension during the coronavirus pandemic. 15% of those who had already started to access their pension felt very well supported, compared to 7% of those who had not yet accessed their pension. 38% of all people felt fairly well supported. Those who had already started to access their pension and had been contacted by their pension provider where that communication had some substance to it were more likely to say that they felt very well supported (26%) or fairly well supported (54%).

# Have people been contacted by their pension provider regarding the coronavirus pandemic?



# How well supported do people feel by their pension providers to take decisions about their pension during the coronavirus pandemic?

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**Barrier and challenge:** The coronavirus pandemic has made decisions about how and when to access their pension more complicated. Those accessing their pension in an unplanned way during a time of market volatility could result in individuals crystallising losses, paying extra tax and increasing their risk of running out of money. The pandemic also means that there is a greater appetite to take advice and guidance before accessing their pension.

**Barrier and challenge:** Very few people had been contacted by their pension provider to explain the implications of the coronavirus for how they might access their pension, to prompt them to seek advice and guidance or to review the level of withdrawals. Only a small minority of people felt very well supported by their pension provider to take decisions.

# Research findings: State of consumer planning for retirement

### Financial situation and sources of income in retirement

## Background on their finances and the relative importance of DC pensions wealth in their total assets and what other sources of income they expect in retirement

The first stage for any person accessing their DC pension will be to take stock of their financial situation, their existing assets and the sources of income they will be able to access in retirement. They will also need to determine or have a rough idea of how much income their assets will generate in retirement. The income they would expect to receive would be divided into two categories:

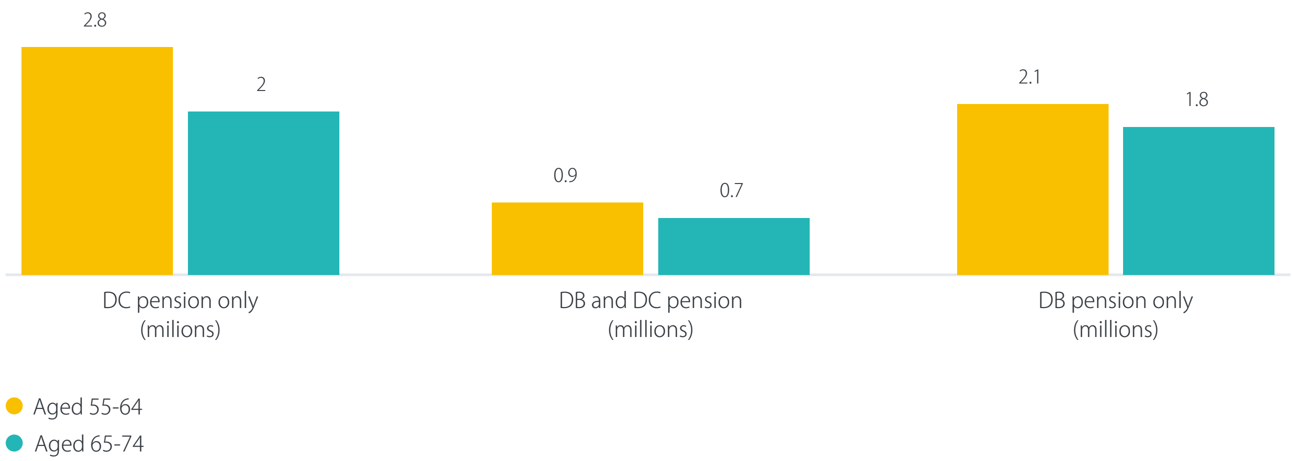
- Secure sources of income: State Pensions, Final-Salary schemes and annuities which will continue to be paid no matter how long that person lives.
- Variable source of income: DC pensions, cash savings and income from other investments which, depending on returns and longevity, could run out or need to be reduced.

50% of adults aged 55-64 hold a DC pension and 40% hold a DB pension. But the extent of overlap between these groups is limited with only 12% holding both a DB and DC pension.

42% of adults aged 65 to 74 hold a DC pension and 38% hold a DB pension, with 10% holding both a DB and DC pension.[14]

This means that at least 2.8 million adults aged 55 to 64[15] will be relying solely on their DC pensions as a source of private pension income in retirement – they will not be able to fall back on a DB pension if they take inappropriate decisions about their retirement income and exhaust or erode their DC pension.

### Number of adults holding DC and DB pensions



In terms of our sample, on average people expected to have 2.3 sources of income other than their DC pension and 40% of people expected to have 3 or more sources of income. Only 14% of people said that their State Pension would be their only source of income in retirement, other than their DC pension.

The most common sources of income people expected to have, or were using, in retirement were State Pensions and other forms of cash savings. This was followed by DB pensions and non-pension investments.

Regarding the main source of income in retirement, 24% said that this would be their DC pension, 21% their DB pension and 36% their State Pension. A further 6% said cash savings, 3% Buy-to-Let or rental income and 4% said income from working or running a business.

| | **Characteristics of this group** | |
|---|---|---|
| **Main source of income** | **More likely** | **Less likely** |
| **State pension** | Older<br>Lower overall income<br>Smaller DC pension pots<br>Lower levels non-pension savings and investments | Have a DB pension<br>Have non-pension investments |
| **DC pension** | Younger<br>Larger DC pension pots | Have a DB pension |
| **DB pension** | Larger DC pension pots<br>Higher levels of non-pension savings and investments<br>Higher overall income | |

Those whose main source of income were DB pensions were more likely to have larger levels of DC pensions and higher levels of non-pension investments and savings, and also higher levels of overall annual income. Although some in this group will struggle in retirement, many possess the best of both worlds – a guaranteed DB pension to fall back on combined with the flexibility of a DC pension and high levels of other assets.

Those who said their main source of retirement income was, or was going to be, the State Pension tended to be older, have lower incomes and smaller DC pension pots – 57% had less than £50,000 in their DC pension pot. They were also less likely to have final salary pensions and were far less likely to have non-pension investments. 45% had less than £10,000 in cash savings and non-pension investments.

Those who said their main source of income was, or was going to be, a DC pension were more likely to be younger, and although some have very large DC pensions, 52% of those who had accessed their pension had a DC pension pot of between £20,000 and £150,000, and 44% of this group have less than £20,000 in savings and investments outside of their pension, indicating that the DC pension represents the majority of their financial wealth. Those whose main source of income was going to be a DC pension were also less likely to have a final salary pension scheme.

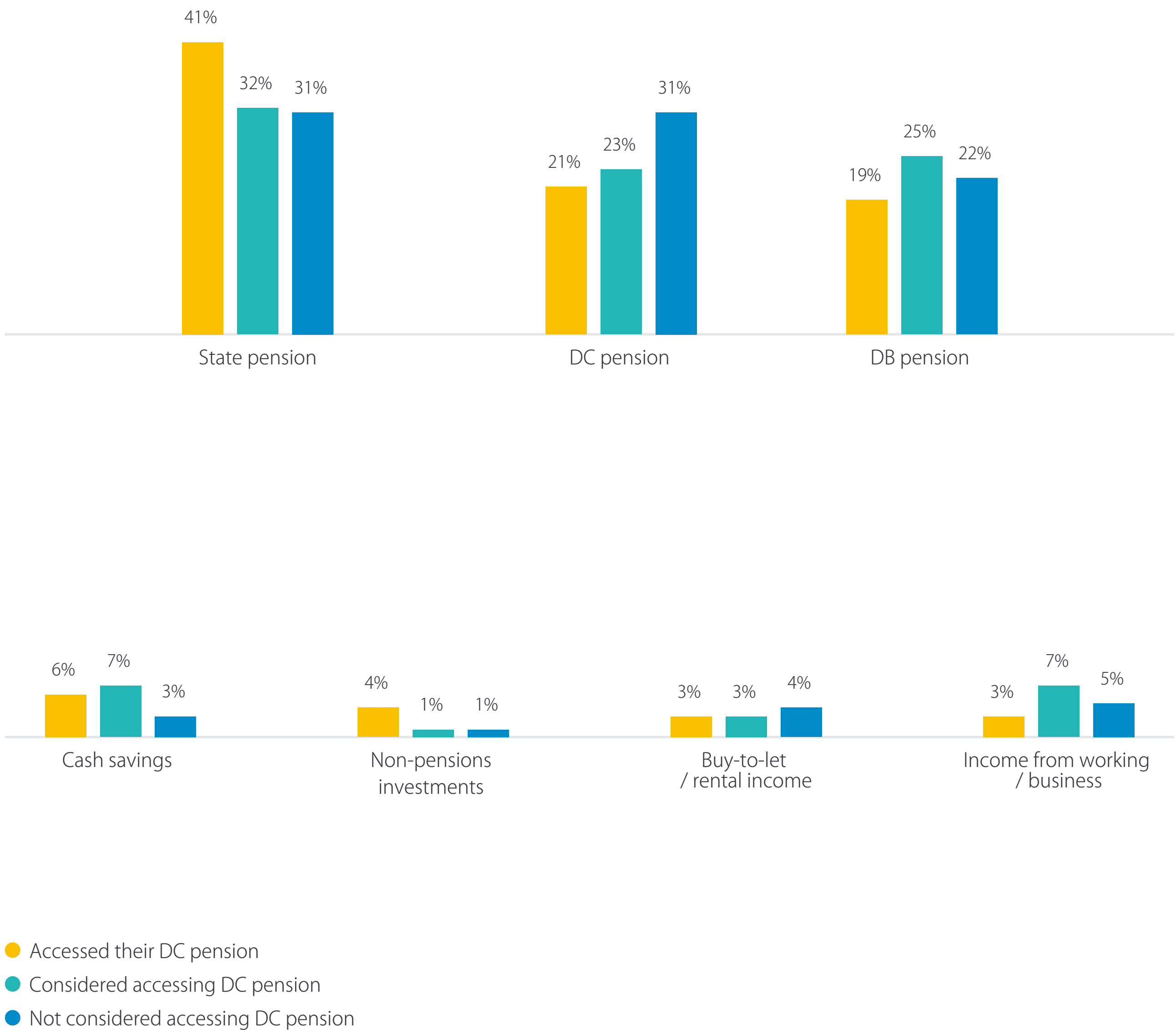
Those whose main source of income was going to be a DC or State Pension are groups which would particularly benefit from innovation in the market – their DC pension is going to be their main source, or a significant source, of income and many do not have final salary schemes or large amounts of savings and investments to fall back on if they take the wrong decision. Those whose main source of income was a State Pension have smaller than average DC pensions and many will not be able to access or afford financial advice.

As the group whose main source of income was going to be a DC pension are also more likely to be working and be younger, some of this group will also have the ability to increase their pension contributions (or delay taking money out of their pension), to ensure they reach retirement with a higher DC pension pot and are able to achieve higher levels of sustainable retirement income.

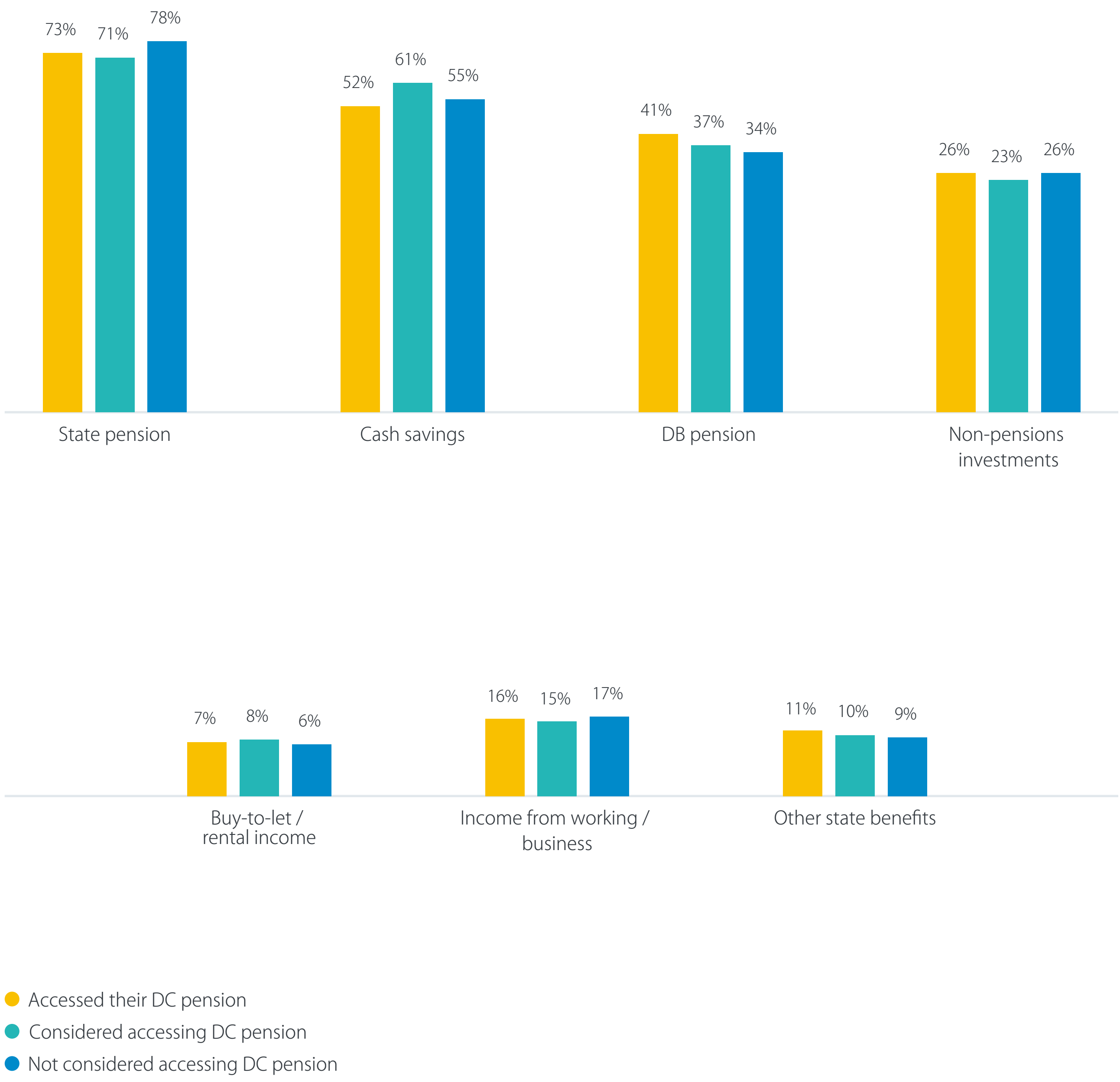
**“We’re quite cash rich at the moment, so we would probably keep our pensions where they are for a few years and live off savings and investment interest. We would take a cash lump sum when we have depleted our savings, and then do a drawdown. I think we’d want to manage it ourselves rather than buy an annuity, because we have a final salary pension each as well. I see the pension bee pot as a bonus pots, for my gym membership or treats.”**

- Jill, 55

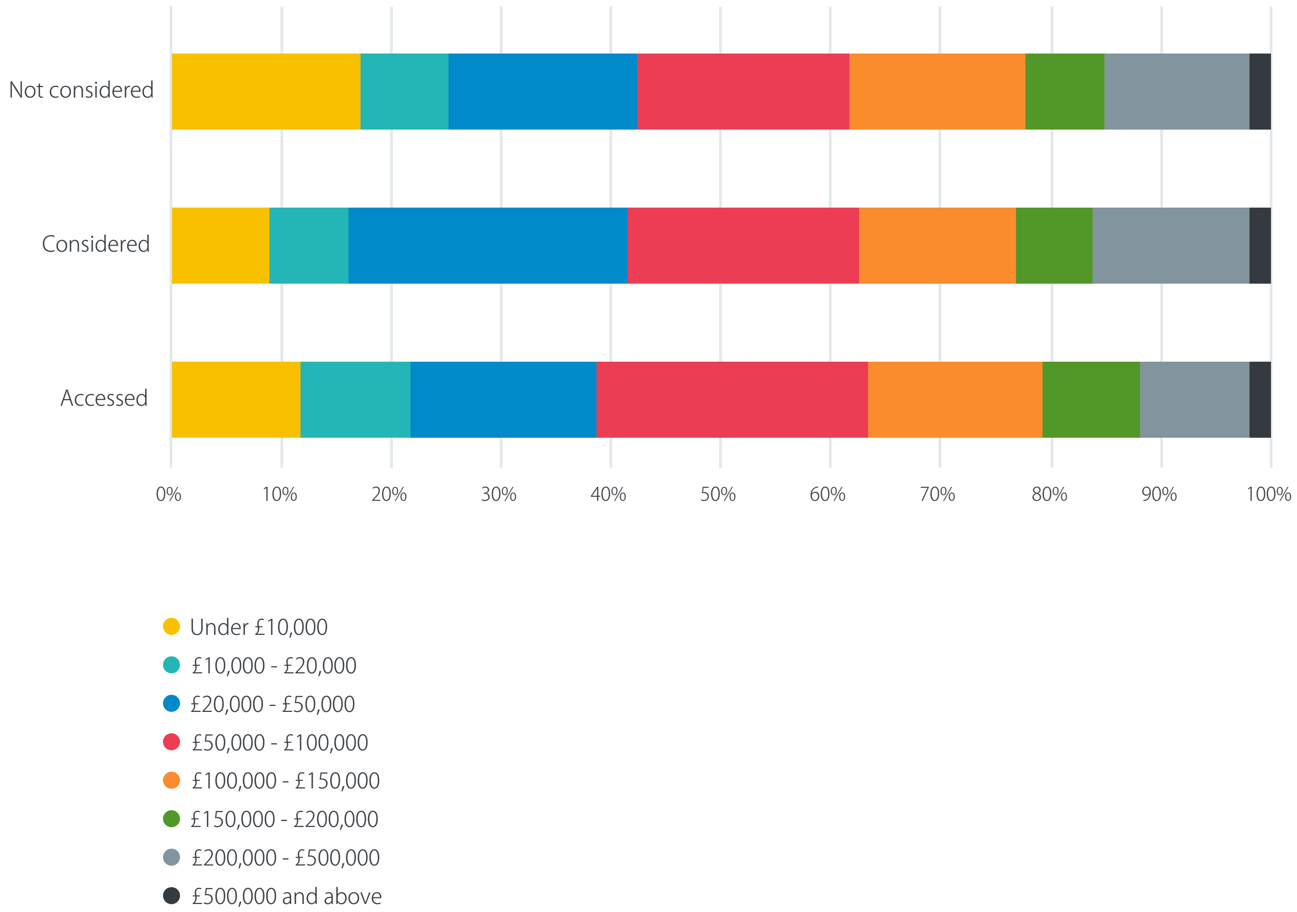
## Main source of income in retirement



## Sources of income in retirement other than DC pension



## Size of DC pension fund[16]




**Barrier and challenge:** Those whose main source of income in retirement is going to be a DC pension may not have access to good value products and support to help them make a decision. For these groups, making the wrong decision could have a significant impact on their overall standard of living in retirement and many will not have final salary pensions to fall back on.

## Understanding their income needs in retirement

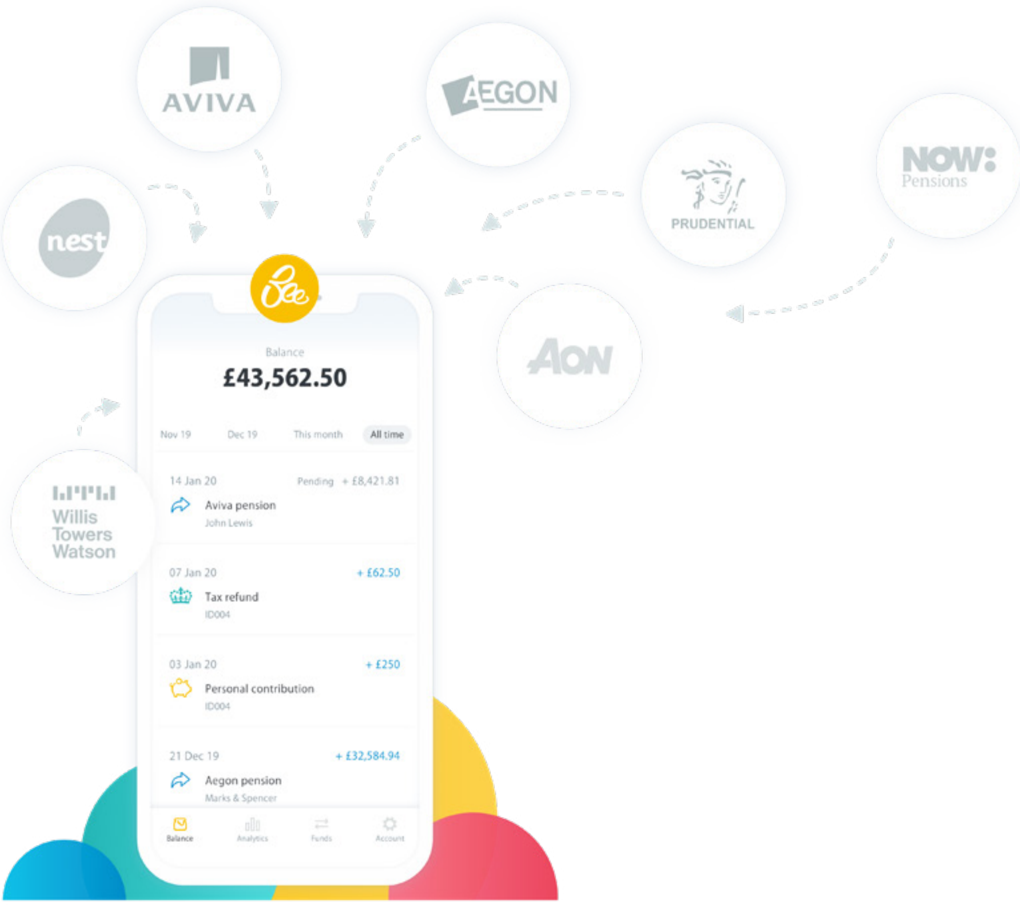
# Maximising income from other sources before accessing their pension

Many people have limited understanding of their income and spending needs in retirement and how they will differ from their income and spending needs whilst working. Across our sample, 52% had given a great deal of thought to how they will manage financially throughout their retirement. Those who had accessed their pension, and those who were already retired, were more likely to have given this a great deal of thought. But worryingly, 45% of those who had accessed their pension, and were not retired, had only given a little thought to how they would manage financially throughout their retirement, and 9% had not really thought about it. This indicates that many are accessing their pension without a clear plan for how they will meet their income and expenditure needs throughout their retirement.

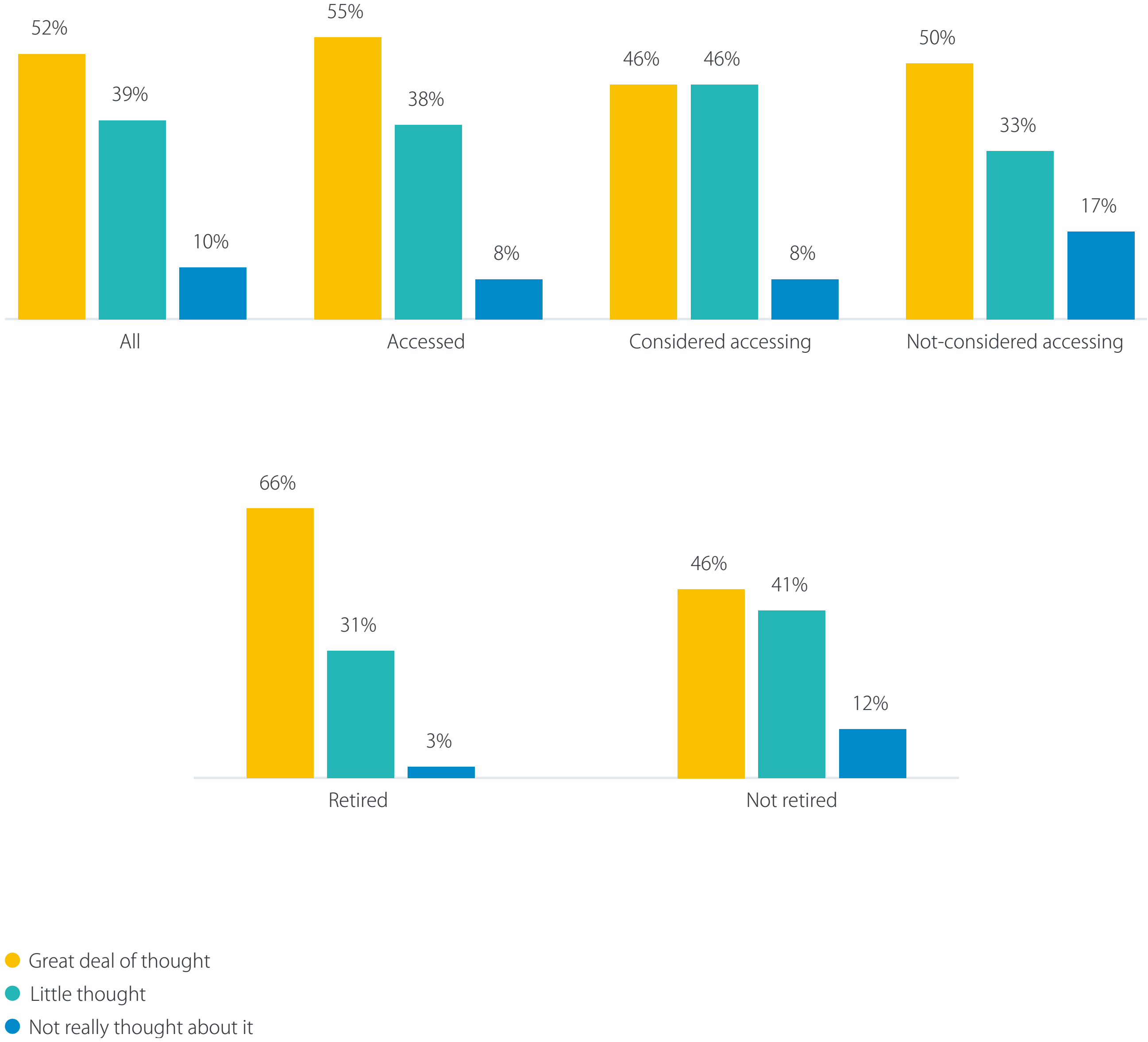
60% had more than £20,000 in cash savings and non-pension investments, and just over half were expecting to use or were using cash savings and around a quarter were expecting to use or were using non-pension investments as sources of income in retirement. There was generally a relationship between the size of the DC pension pot and overall levels of non-pension cash savings and investments – those with large DC pension pots also tended to have higher levels of non-pension cash savings and investments.

People should try and maximise the returns and income they can expect to receive from these products. Actions they should take include shopping around and switching Savings accounts and Cash ISAs to those which pay higher rates of interest and other investments to those with lower levels of charges.

Decisions about how to access their pension and their overall level of withdrawals they need to make will need to be informed by the amounts of money they have available in cash savings and non-pension investments. In some cases, as we explore below it may make more financial sense for people to keep the money invested in their pension rather than withdraw it and put it in their Savings account, Cash ISA or in other investments.



## Level of thought given to how they will manage financially throughout their retirement



## Amount of savings and non-pension investments


**Barrier and challenge:** People can't access comprehensive information about their non-pension savings and investments which they need to help them understand how to maximise income from their assets and help them decide how to access their DC pensions.

**Barrier and challenge:** People may not have a clear idea of how their income and expenditure needs will change throughout their retirement or have a clear way of developing a plan.

# Prompts for people to access their pension

## What prompts people to consider that they have a need to access their pension

We asked all those who had accessed or considered accessing their pension what prompted them to take that course of action.

## Those who accessed their pension

### The motivations of those who had accessed their pension can be divided into the following categories:

**Taking control of their pension:** This was the most popular reason for accessing their pension with 30% of respondents wanting to take control of the money in their pension by moving it into a savings account or other investments.

**Income for day to day expenses:** 28% said that they had been prompted to access their pension as they needed extra income to meet day to day expenses. Those working or temporarily unemployed were more likely to cite a need for extra income to meet day-to-day expenses as a prompt to access their pension (34%) than those retired (21%). However, although accessing their pension was supposed to be for extra income, most reported to have taken lump sums, including 60% who said that they had just taken just the 25% tax-free lump sum. This reflects other research which found that to get a regular income from their pension was only a key motivation for a very low percentage of people accessing their pension by moving into income drawdown.[17]

**Buy something special:** 20% were prompted by the desire to use their pension to buy something special, with this group being more likely to use part or the main chunk of their pension for home improvements.

**Prompted by the change in rules:** Some had also been prompted by the Government changing the rules, with 11% giving this reason. This had meant that the pension which was once seen as being locked away for retirement could now be accessed.

**Transition to retirement / stopping work:** 9% mentioned that they had been prompted to access their pension due to them retiring or stopping work.

**Worried about investments falling in value / mistrust of pensions / high charges:** 13% had accessed their pension because they were worried about the investments falling in value, 4% as they didn't trust their provider, and 3% because the charges were too high. Other research has found that a general mistrust of the pension sector, fuelled by negative news stories, rather than individual experience with their provider, had partly prompted decisions to access pensions.

**A life event:** 3% cited a life event such as moving house, emigration, divorce, redundancy, their ill health or that of a relative.

**Pay off debts or a mortgage:** 2% said that they were prompted to access their pension specifically to pay off debts or a mortgage.

> **"I accessed my pension as I had been long-term sick and couldn't survive on the money I was getting from the Government."**
> – Angela, 63

“We are at a point in our lives where we don’t want to keep investing. In your 30s, you try to invest in lots of different things so that when you retire you can reap some of the benefits. We now want to retire and enjoy our lives. We can’t take it with us. We have that attitude. But you can’t go too mad. We try to be careful. Still have nice holidays and enjoy ourselves, but be careful.”

- Peter, 66

“I have used my DC pension to bridge the gap until I get to the State Pension age next year. If I hadn’t drawn on it there would be no holidays and no new car.”

– Kelly, 65

## Those who tried to access or considered accessing their pension but didn’t go through with it

### The motivations of those who had considered or tried to access their pension, but didn’t go through with it, differed in a number of respects:

**Worried about investments falling in value:** Perhaps reflecting the time period the survey was done, which was during the market turmoil associated with the coronavirus pandemic, 32% said that they had considered or tried to access their pension because they were worried about the investments falling in value.

**Taking control of their pension:** They were less driven by a desire to take control of their pension with only 20% saying they had considered or tried to access their pension for this reason.

**Income for day to day expenses / to buy something:** Fewer said that they had been prompted to consider accessing their pension for day-to-day expenses or to buy something – perhaps reflecting that a greater proportion were still working.

**Prompted by the Government changing the rules or felt under pressure:** They were more likely to say that they had considered or tried to access their pension because they had heard about the Government changing the rules (20%) or felt under pressure to do something with it (12%).

# Why those who considered to or tried to access their pension didn't go through with it

Those who had considered or tried to access their pension had a variety of reasons for not going through with it. These were overwhelmingly negative reasons relating to inertia or problems with the process or confusion around their options. This suggests that many could have easily gone through with the process even if it was not in their best long-term financial interests.

**Problems with the process or deciding what to do:** 27% said that they were confused about the options and 19% said that the process was too complicated. These groups were more likely to say that they did not feel confident making decisions about pensions, with 48% saying that they were not very confident or not at all confident in making financial decisions about pensions. 7% said that they couldn't access advice about their options.

**Inertia:** 24% said that they didn't get round to it and 8% said that the process took too long.

**Worried about paying too much tax:** 14% had not accessed their pension as they were worried about paying too much tax, this group tended to have higher than average incomes.

**Positive reasons:** Only a small proportion of those who had not accessed their pension had done so for positive reasons such as that they already felt in control of their pension (11%) or that they trusted their pension provider (7%).

**Changed plans:** 4% mentioned that their plans had changed, citing delays to retirement.

**Still working or no need for extra income:** 4% said that they had not accessed it as they were still working, had put off retirement or on reflection decided that they had no need for the extra income.

**"I don't plan to retire in a conventional way, and so I don't envisage having to access my money until I'm forced to do that. I'd probably need it much later for care, I don't have any family. That's why I don't want to see it as something that I can access. A lot of people that I know who have retired spend it on cruises and all sorts of things that I'm not really interested in."**

– Kate, 55

# Why people hadn't considered accessing their pension

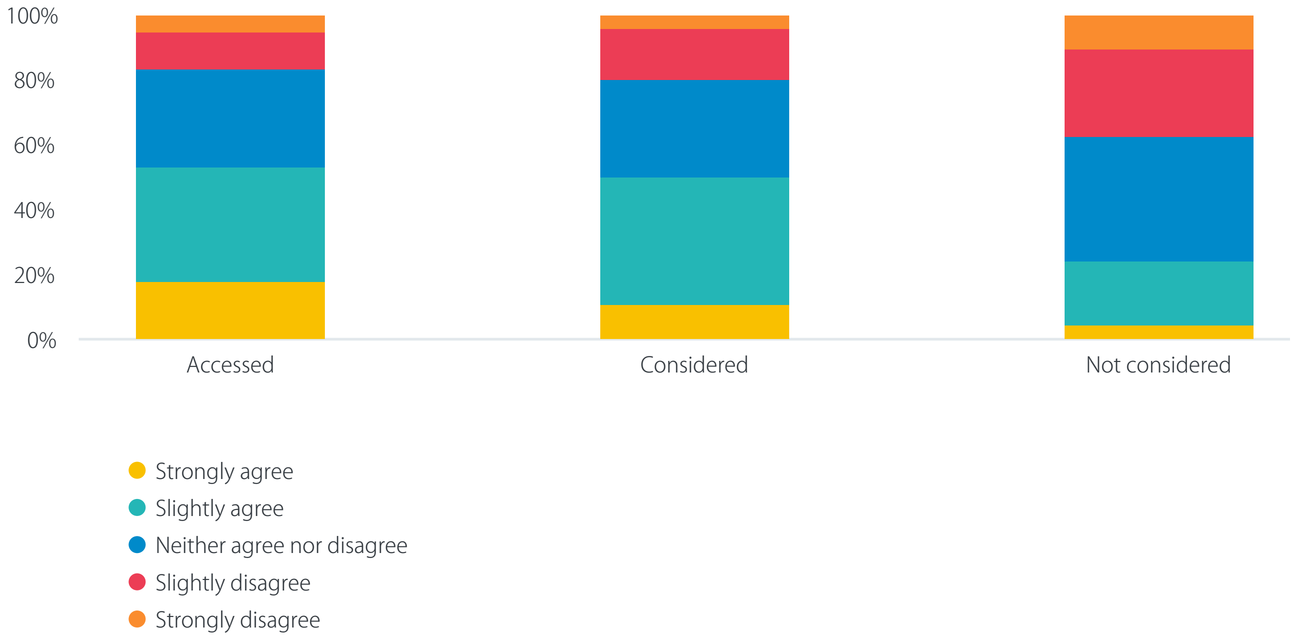
Among those who hadn't considered accessing their pension, the majority (57%) said that they hadn't considered accessing it as they didn't need the money. Only a relatively small percentage said that they hadn't accessed it for positive reasons such as they already felt in control of their pension (8%), or that they trusted their pension provider to act in their best interests (8%).

# Making people feel in control of their pension

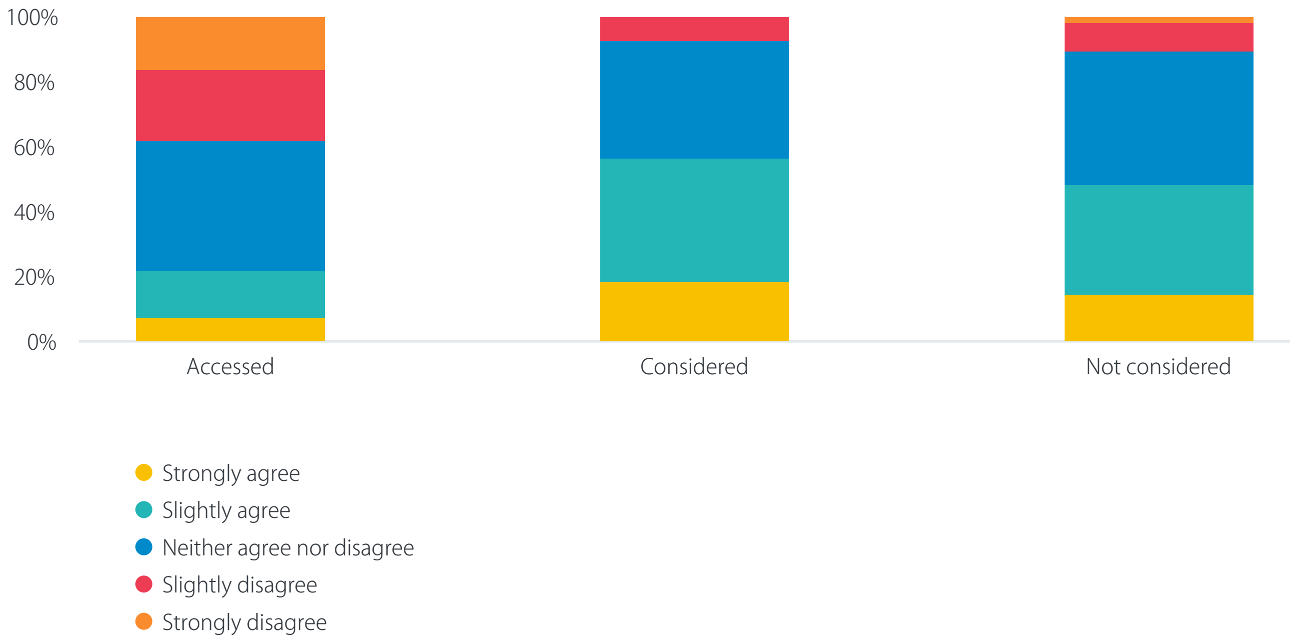
In our research the desire for people to take control of their pension by withdrawing it and putting it in a savings account or other investments was the single greatest reason which had prompted people to access their DC pension. This was moving their pension to a product which they found easier to understand and were more confident taking decisions about. 53% of people who had accessed their pension agreed that taking money out of their pension meant that they would feel more in control of it. This finding echoes previous research which found that many accessing their pension did not do this to spend their money, and most still view the money withdrawn as a source of future income – they just didn't want that income to be delivered from a pension. Some took their tax-free cash only, and were planning to withdraw the remainder of their pot over time in a way that minimises their tax bill.

For those who had considered accessing their pension, 50% felt that taking the money out of their pension would mean that they felt more in control of it. They also wanted to be reassured that they could access their pension easily, with 58% agreeing that this would mean they would be more likely to leave the pension where it was. 33% to 49% of those who had not accessed their pension agreed that having a phone app which enabled them to see their balance and pay-in would mean that they were more likely to leave their pension invested.

**"Taking the money out of my pension means I would feel more in control of it"**



## "If I knew I could access my pension easily I would be / would have been more likely to leave it where it was"




**"Annuity rates were very low and insurance companies were paying appalling rates. It was good that they intervened to stop that – but what the Government did say was that you could have [your pension] and buy a Lamborghini if you want. Of course, for people who are facing financial difficulties it is all too easy to just release all of that pension, but people don't think about how they are going to cope…they don't think about how much they need to manage as a pensioner with the same outgoings. I don't think there were enough protections for people who were not financially aware."**

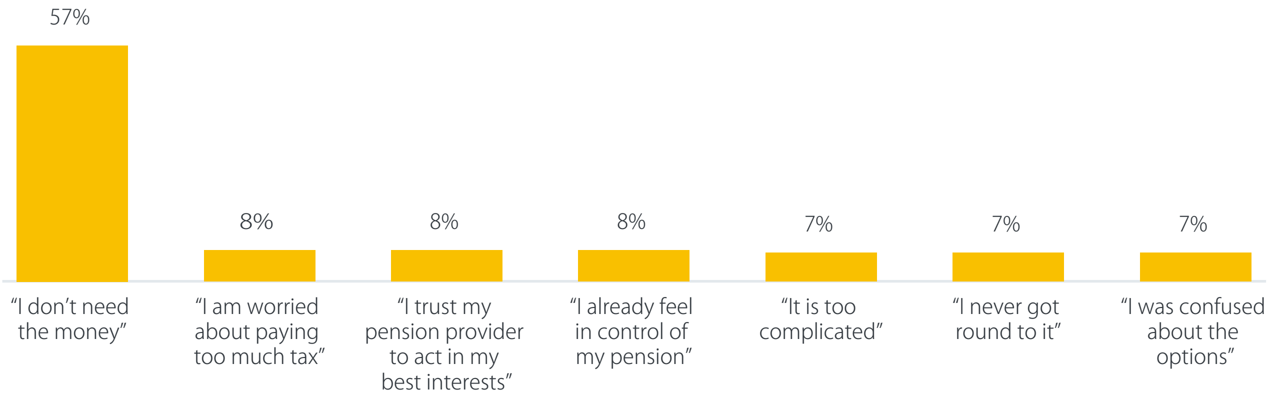
– Kelly, 65

## Having a phone app to see my balance and pay in would encourage me to keep my pension invested

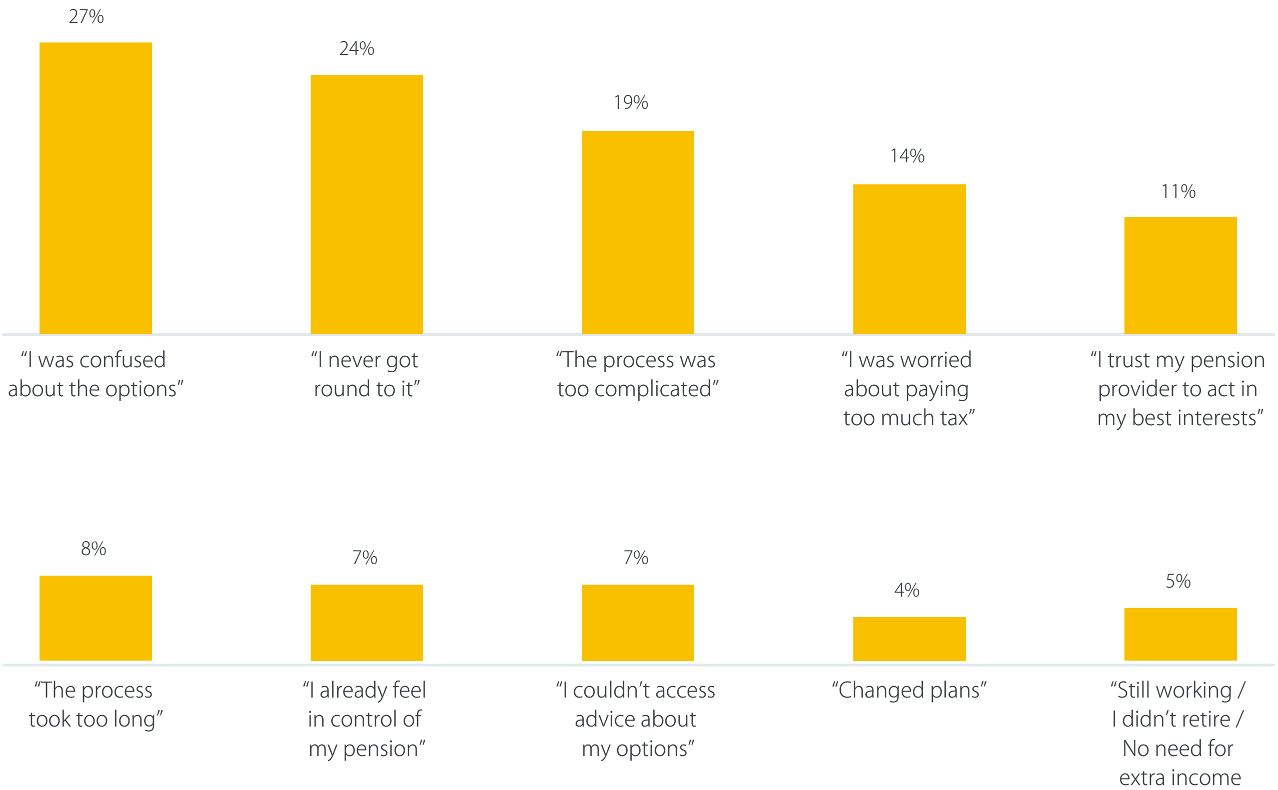

> "[The pension provider's] systems are just old fashioned. The presentation of it and the amount of information that is available. It is online but looks like something out of the 1980's. It's on a PC, not an app or a phone."
>
> – Fred, 66

> "I have to admit, I... [check my pension balance on my app] once a week. It's not even that I have very much in there, but it's fun for me. It's my personality that I find it quite calming to think, that's okay, that's okay, that's okay."
>
> – Celia, 59

## Why have people not tried to access their DC pension?




## Why those who tried to or considered accessing their pension didn't go through with it



# What prompted people to access or consider accessing their DC pension

This research supports previous conclusions regarding the extent to which accessing or considering accessing DC pensions has become disconnected from retirement. There were strong desires among many to take control of their pension by withdrawing the money. Those in work were more likely to say that they had accessed their pension to give them more income for day to day expenses or to buy something special. Only a small proportion of those who had considered accessing their pension said that they decided not to because they had kept working or had not retired. In the wider market, accessing pots early has become 'the new norm'. 72% of pension pots have been accessed by people under 65, most of whom have taken lump sums.[18] Taking benefits early could mean that there is less available when they actually retire or the money has to last for a longer period. People could also lose out on potential growth by accessing their money early, with the returns available in savings accounts much lower than those available in a pension.

This could be a particular issue for those who just accessed their 25% tax-free lump sum. Taking 25% as a lump sum acts as a strong anchor with the result that many people take this amount even if they did not have an urgent need for the money or indeed a planned use for it.[19] As we discuss later, the largest share of the accessed lump sum is, in many cases, placed in a Current account, Savings account or Cash ISA and kept for a rainy day or until a use is found for it.

Accessing their pension whilst still working could also increase the amount of tax being paid. In our research, 50% of those who accessed their pensions were still working, 32% of those working had an income of above £37,500, and 12% had an income of above £50,000.

!

**Barrier and challenge:** Accessing a pension has become disconnected from retirement. This can lead to people accessing their pension too early, losing out on potential returns and paying too much tax.

**Barrier and challenge:** Many people do not feel in control of the money in their pension. There is a strong desire among many to take control of the money in their pension by withdrawing it and putting it into a savings account or other investments.

# Knowledge and understanding / trust and confidence

## Levels of knowledge and understanding about retirement income decisions and products.

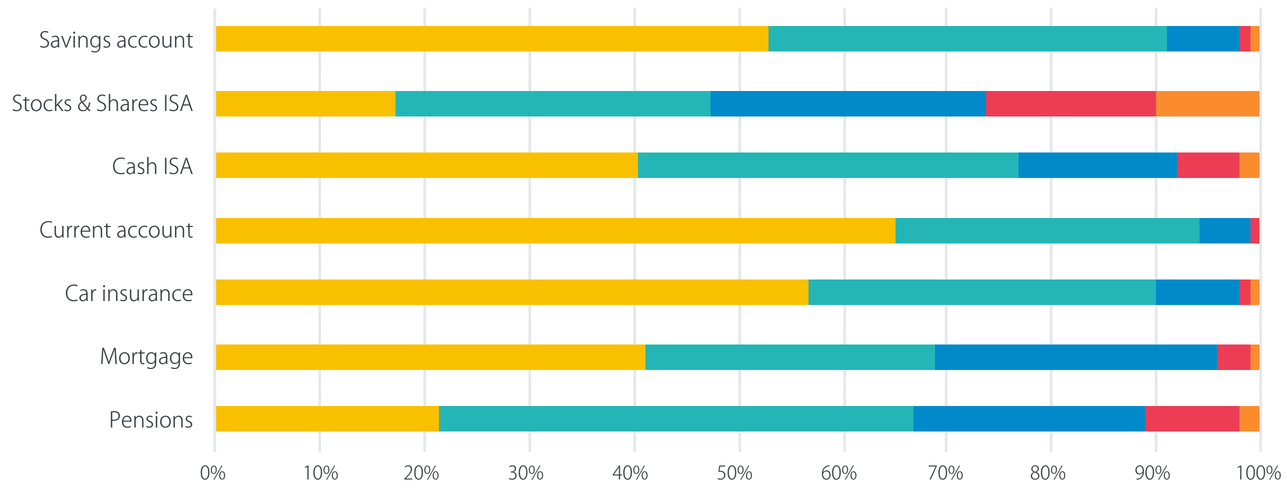
## Levels of trust and confidence and how this affects their choices.

We asked people about their attitudes to retirement income decisions and their confidence in making financial decisions about pensions and a range of other financial products. Research participants were most confident in making financial decisions about current accounts, car insurance and savings accounts. They were least confident in making decisions about Stocks and Shares ISAs, closely followed by pensions. Those who had accessed their pension tended to be more confident in their ability to make financial decisions about pensions (66% very confident or fairly confident), than those who had not considered accessing their pension (54%), or those who had considered accessing but not gone through with it (47%). Overall, those who had accessed their pension were more confident about making financial decisions about all financial products in the survey.

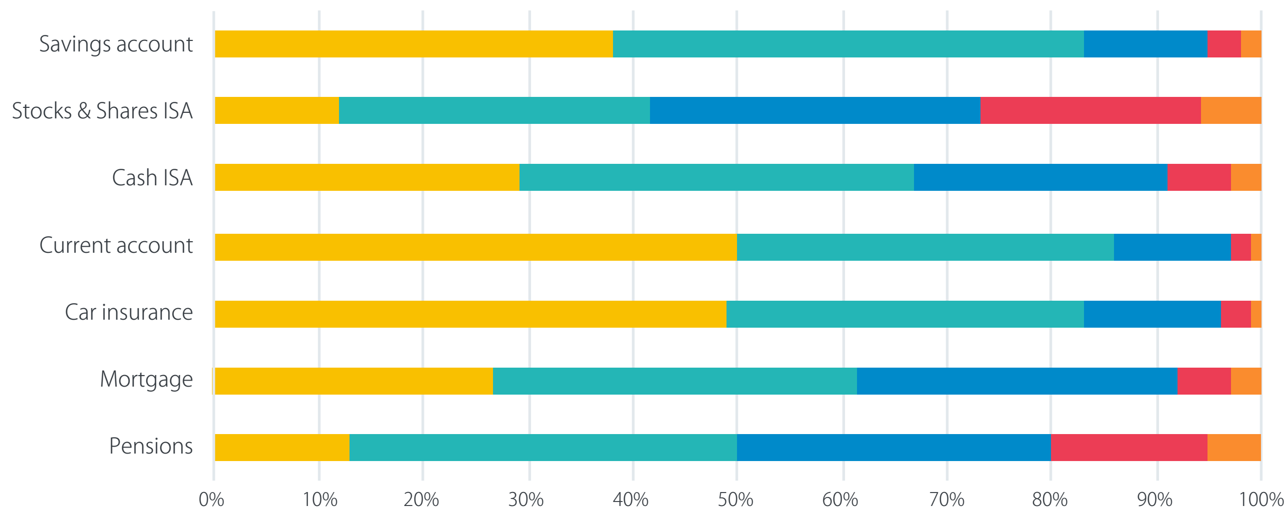
However, even though a majority of research participants were - in making financial decisions about pensions, 48% who had accessed their pension said that they found decisions about pensions and retirement income daunting and complex. 18% said that they put off retirement planning because they were afraid of making the wrong decision. Those who had considered accessing their pension were more likely to say that they found decisions daunting and complex (69%) and put off retirement planning (49%).

# Confidence in financial decision making

## Confidence in financial decision making – those who had accessed their pension



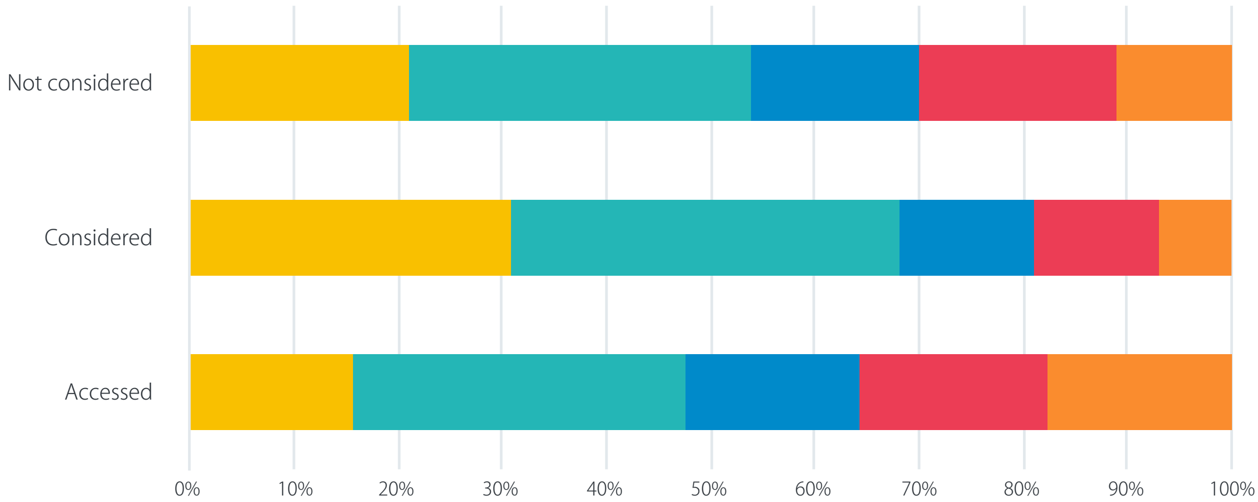

## Confidence in financial decision making – those who had not accessed their pension



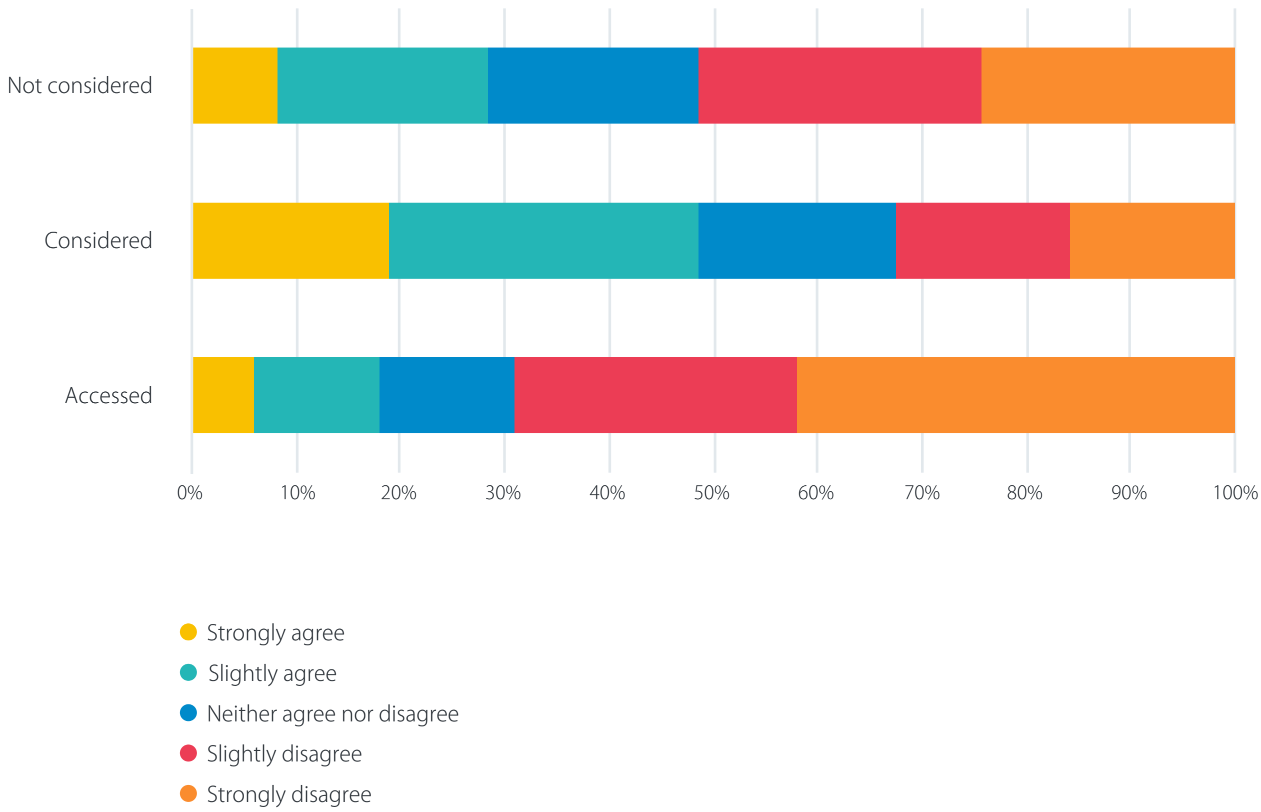

- Very confident
- Fairly confident
- Neither confident nor not confident
- Not very confident
- Not at all confident

# Attitude to decision making

## "I find decisions about pensions and retirement income daunting and complex"




## "I put off retirement planning because I am afraid of making the wrong decision"



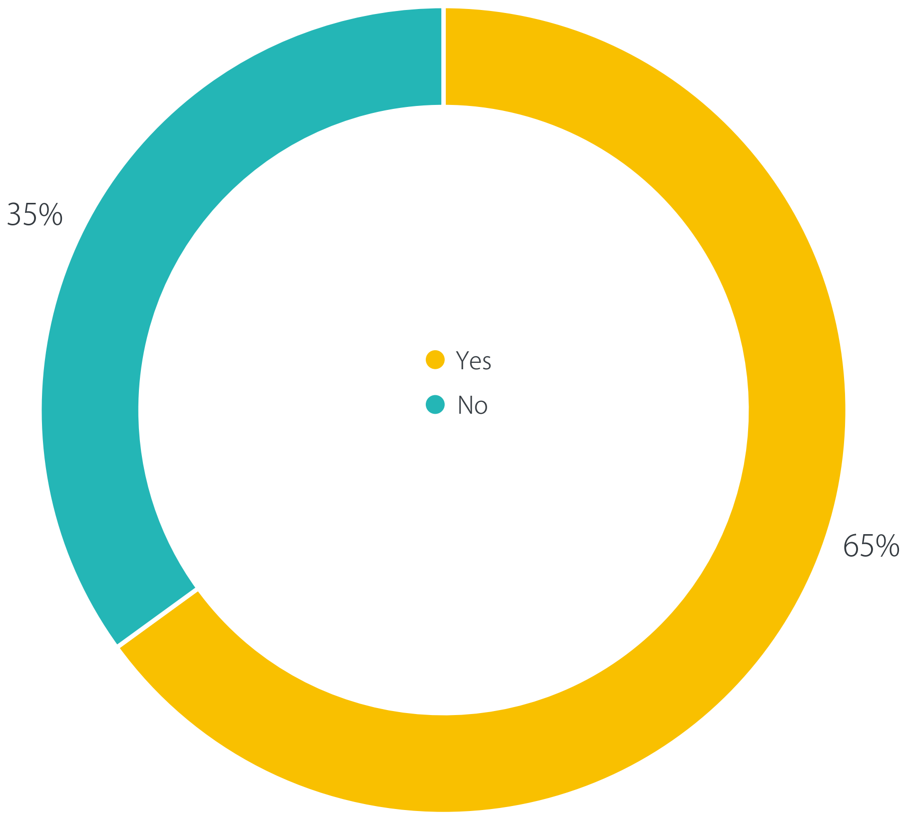
# Expected income

Many of those who had not accessed their pension had only a limited understanding of how much income they might receive. Only 65% of those who had not accessed their pension knew how to find out the amount they could expect to receive in retirement. This was only slightly higher (68%) among those who had considered accessing their pension, compared to those who had not considered accessing their pension (62%).

For those who had not yet accessed their pension we asked what amount of income they expected to receive from their DC pension. This found that some had seemingly unrealistic expectations for how much income they could obtain from their pension and that this was most common for those with smaller pension pots. This could indicate that research participants were either over-optimistic about potential returns and the amount of sustainable, long-term income which their pension would generate, or were planning to withdraw a higher proportion of their pension each year.

## Understanding of expected pension income

**Do you know how you could find out about the amount you can expect to receive in retirement from your pension?**



# Expected longevity

Unrealistic expectations of income could be driven by both high expectations of potential returns and low expectations about how long they expect to live and how long their pension needs to last. The FCA financial lives survey found that 50% of those aged 55-64 expect to live to age 80 or less, under-predicting potential longevity.[20]

# Trust and confidence

Along with confidence in decision-making, levels of trust and confidence can influence how people take decisions about how to access their pensions. The FCA Financial Lives survey found that holders of DC pensions exhibit lower levels of satisfaction with and trust in their provider than holders of other financial products. Rather worryingly, levels of satisfaction and trust are lower among those aged 55 to 64 than among younger people. 38% of those aged 55 to 64 have low levels of satisfaction compared to 36% among all holders, and 39% have low levels of trust compared to 34% among all holders. Around one in seven of those aged 55 to 64 feel they could not say how satisfied they are with their provider (15%) or how much they trust their provider (13%). Of the providers of 22 different types of financial products examined in the FCA's Financial Lives survey, DC pensions were ranked right at the bottom of the tables, coming 21st out of 22 for satisfaction and 22nd out of 22 for trust.[21].

!

**Barrier and challenge:** People are less confident making financial decisions about pensions than other commonly held products including mortgages, savings accounts, cash ISAs and car insurance. This stands to reason as these products are widely held and frequently purchased.

**Barrier and challenge:** People find decisions about pensions and retirement income daunting and complex and many tend to put them off for later.

**Barrier and challenge:** People do not know how to find out how much income their pensions might generate when they retire and tend to overestimate their expected income and under-estimate how long they are going to live.

**Barrier and challenge:** People have lower levels of trust in and satisfaction with their DC pension provider than providers of other financial products and services

# Information gathering / sources of advice

## Gathering information about all of their pension funds and accessing other sources of information and advice.

## Do people want to consolidate all of their DC pensions in one place, when is this appropriate and how able do people feel about making the decision about which pension to choose?

The first stage for any consumer approaching retirement will be to gain a comprehensive picture of their pension entitlements. This would need to include their State Pension and any public and private sector DB and DC schemes. At the moment to access information about their pensions the consumer would have to obtain a State Pension forecast and to consult statements for their private and public sector pensions or access the information through an online portal for each of the different schemes if one was available. Those with multiple schemes would need to be aware of and approach each of their different pension schemes and then collate and consolidate this information. On receiving this information they would then either need to take advice or decide for themselves whether they wanted to and would be better off consolidating all of their DC pensions in one place, and whether they should choose one of their existing schemes or a new scheme.

Many people aged 55-64 do not recall receiving, have not reviewed or do not know where to find, basic information about their DC pensions, including how much it is worth, where it is invested, the level of charges and their current contributions and whether they will be sufficient to maintain a reasonable standard of living when they retire. This lack of engagement is disappointing given how close they are to the time when they might be accessing or considering how to access these funds. This lack of engagement could pose barriers and challenges when people are deciding how and when to access their pensions.

**Of those 55-64 year olds with a DC pension:**

- 47% have not reviewed their DC pension in the last 12 months to see how much their pot is worth.[22] Around one quarter (26%) do not know how much their pension pot is worth.
- 43% of those contributing to a DC pension do not know how much they and their employer pay in each year.[23]
- 32% haven't considered how much they should be paying into their DC pension each year to maintain a reasonable standard of living when they come to retire. 36% have thought about it a little.
- 17% with at least one DC scheme do not recall receiving an annual pension statement in the last 12 months. 10% could recall receiving it but haven't read it.[24]
- 57% with at least one DC scheme are not aware of the charges incurred in their DC pension(s), 9% are aware of charges for only some of their schemes.[25]
- Of those who are not aware of charges, 62% do not know how they would find what charges they might be paying for their DC pension schemes.[26]
- Only 26% have ever reviewed where their pension is invested. 67% have never reviewed where their DC pension is invested and 7% don't know if they have ever reviewed where it is invested.[27]
- 78% have never transferred other pensions into their DC pension.[28]

The Money and Pensions Service (MaPS) has established a programme to deliver Pensions Dashboards – digital services which enable people to see all of their pension information in one place. The Government has introduced legislation to compel pension schemes to provide information to dashboards and MaPS has published documents proposing the scope and the detail of data which will be provided.[29]

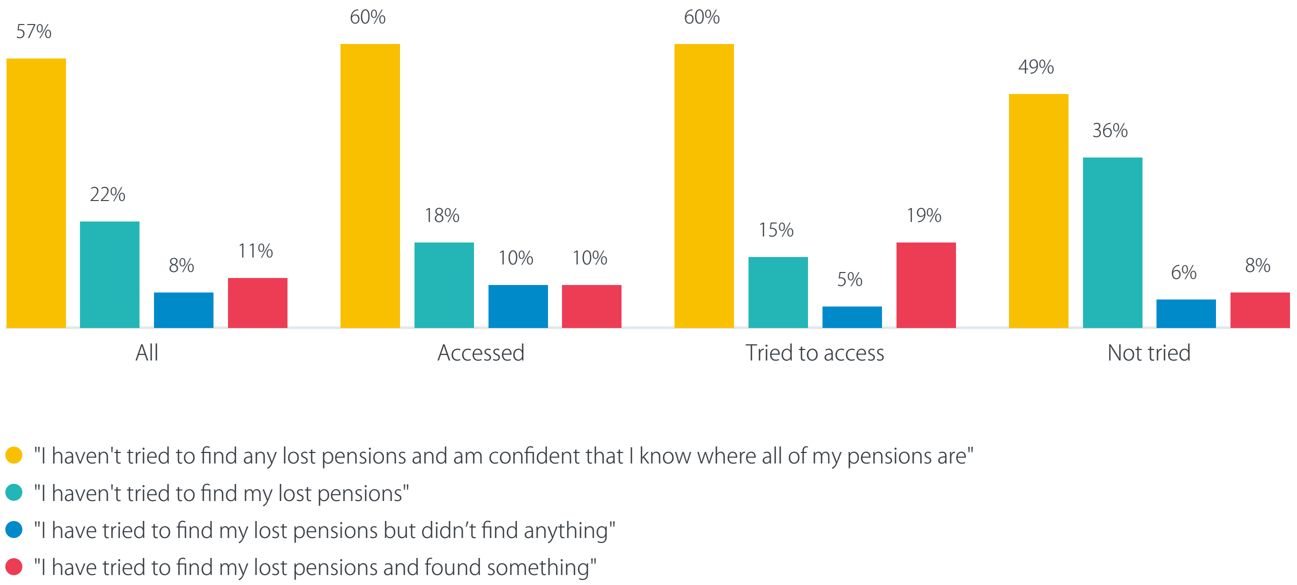
In the PensionBee research, 22% of people haven't tried to find their lost pensions and 57%, are confident that they know where all of their pensions are and therefore haven't searched for their pensions. 8% have tried to find their lost pensions but didn't find anything, and 11% have tried to find their lost pensions and found something. To put it another way, 58% of those who have tried to find their lost pensions have found a pension as a result of their search.

In terms of what information people said was essential or very important for them to see on Pensions Dashboards, the most popular choices were their estimated retirement income (85% said this was essential or very important), their State Pension (83%), the amount they were being charged by their pension provider (77%), and any guarantees attached to their pension (77%). This was followed by details of their pension providers (76%), where their pension is invested (66%) and any employer matching contributions available (60%).

The current data scope and data standards papers indicate that the first versions of Pensions Dashboards should only provide basic information about the location of a consumer's pensions, their value and a projection of the possible income in retirement. It could exclude information about charges and investments. The basic information will help people understand where their pensions are and how much income they might generate but will be insufficient to help them to make complicated and difficult decisions about retirement income. It could also exclude information which many people view as essential or very important for them to see on Pensions Dashboards.

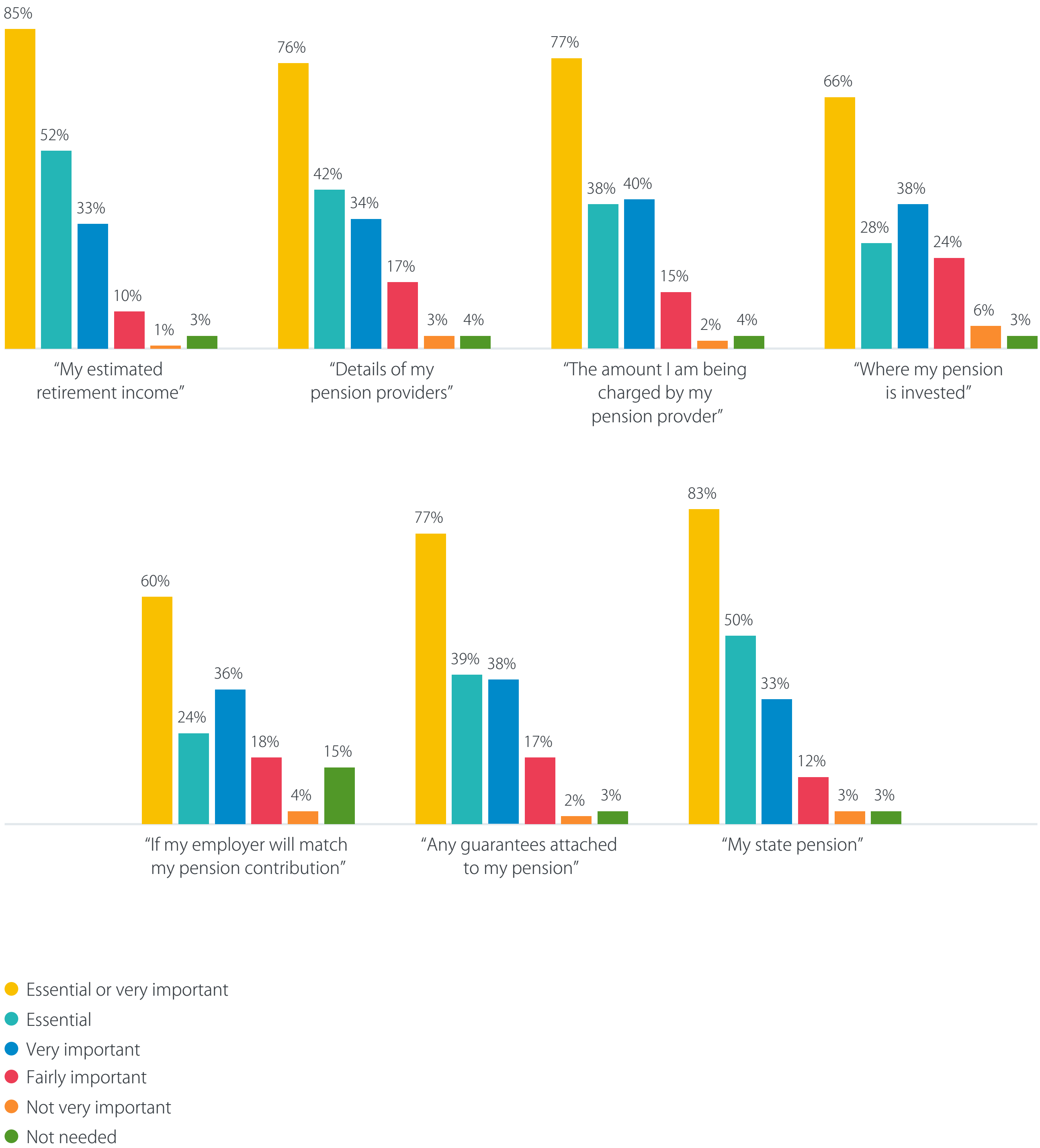
# Have people tried to find lost pensions

## Which of the following statements best reflects whether you have tried to find any pensions which you may have lost track of over the years? If you picked other, please specify.



# Information people want to see on pensions dashboards

## The government is developing a service called a pensions dashboard where you will be able to see details of all your pensions in one place. What information would you like to see included?



> **“I talk to people and I say it this way: ‘can you remember the days when pensions were terrifying and there was some old guy up some corridor in some webby room in his office, and he was man who did pensions, and you’d had no idea what he did, and you never asked and it was very scary. And now, things have moved on moved on moved on and now the technologies to make our pensions work better are so brilliant.”**
>
> – Celia, 59

> **“I am financially astute but accessing pensions and tracking down the information was a daunting process.”**
>
> – Kelly, 65

## Accessing sources of information and advice

On average, those accessing their pension had looked at or used 1.7 of the sources of information and advice listed in the survey. 55% said that they had only used one source of information and advice before accessing their pension. 29% said that they had only used one of the sources of information and advice before accessing their pension and this source was not a regulated financial adviser or a conversation with an adviser from Pensions Wise.

32% said that they had received advice from a regulated financial adviser such as an IFA. Those who said they had taken regulated financial advice were more likely to have large DC pension pots and also more likely to say that they were happy with their choices they had made with their pension arrangements. In terms of how they had accessed their pension, those taking advice were more likely to have said that they had moved their pensions to a new provider, and less likely to have taken all of their DC pension fund in one lump sum or to say that they were not sure how they had accessed their pension. 13% had had a conversation with a Pension Wise adviser, although 31% said they had looked at the Pension Wise website.

27% relied on written information from their pension provider, a conversation with their pension provider, by searching using Google or used no sources of information or advice before accessing their pension. This means that they are not getting access to independent or impartial advice and if they are with a pension provider which provides unclear information or doesn’t treat them fairly, then they will be at greater risk of suffering detriment.

The FCA Financial Lives survey found that of people who had not taken regulated financial advice when accessing their pension, 45% said that they had no need, 11% that they did not know how or enough to find an adviser, 10% had issues with fees and 19% lacked confidence and trust in advisers.[30]

“I haven’t sought advice, to be honest. I haven’t really felt the need to at the moment. I don’t have big funds where I would be prudent to do so…I don’t find the fees that they may charge particularly appealing.”

– Sam, 57

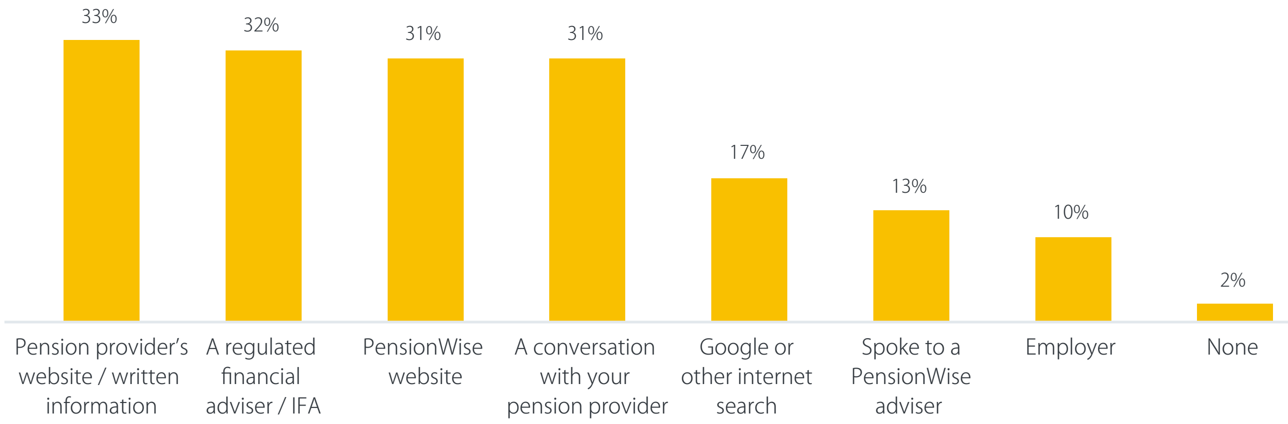
“I had an independent financial adviser and I trust him to give financial advice as he has been in the business for 30 years…I didn’t bother with Pension Wise, I don’t have a lot of faith as they got my State Pension wrong and have done me out of a lot of money.”

– Angela, 63

“When I have to make a decision I will probably use comparison websites to see what annuity rates are out there.”

– Ann, 55

## Sources of information and advice used before accessing their pension




In the wider market, the introduction of the pension freedoms has increased the proportion of people buying some retirement income products without advice. Prior to the pension freedoms only around 5% of income drawdown plans were sold without regulated advice and this has now increased to 30%.

Overall, in 2018/19 providers recorded that 48% of pension funds were accessed without advice or guidance being taken by the plan holder.[31] For 37% of pension funds that were accessed, the holder was recorded as taking regulated advice. There were a further 15% of pension funds where the customer did not receive regulated advice but did receive guidance from the government's free Pension Wise service. Those with larger pots are more likely to seek advice than those with smaller pots. Well over 80% of people with pot sizes above £100,000 would take advice compared to just 36% of people with a pot size of £10,000 to £29,999.

## Proportion of people taking advice by pot size

Take up of Pension Wise guidance has increased slightly over the five years since the introduction of the pension freedoms. It varies by product type, and is highest amongst those buying annuities and lowest amongst those using income drawdown.[32] The Financial Guidance and Claims Act 2018 included provisions setting out a requirement for a stronger nudge towards pensions guidance at the point people apply to access or transfer their pension savings. Trials are being conducted with three providers testing approaches which see the provider offering to book a Pension Wise appointment for the customer, and the customer being transferred to MaPS to make an appointment.[33]

When accessing advice and guidance about retirement income it would be beneficial for people to be able to share more comprehensive information with the providers of advice and guidance. This would improve the process for the consumer and enable more cost-effective services to be developed.

**Barrier and challenge:** People find it time consuming and difficult to gather and understand information about where their pensions are, how much they are worth and key information about charges and investments.

**Barrier and challenge:** People are accessing their pension without taking independent and impartial advice or guidance. They may feel that they do not need advice/guidance, cannot access it or do not know where to find a trusted provider of it. Encouragement to access advice and guidance may come too late in the process or be insufficiently strong enough.

> **"Even though I was financially aware, I thought, I don't know where to put my money. If I put it in my employer's scheme – I thought "That's too easy I am probably not going to get the best rate there". I did a bit of work online and went on Moneysavingexpert. Pension Wise had just been introduced. I booked an appointment, listened to what they said and then made my own judgment. They won't say to you "the Prudential is the best scheme for you" or "the Royal London is the best scheme for you". It will help point you in the right direction…I came away more confident in my own abilities but I then did have to go and see a financial adviser and pay for that service because I couldn't make the decision between all the different schemes."**
>
> – Kelly, 65

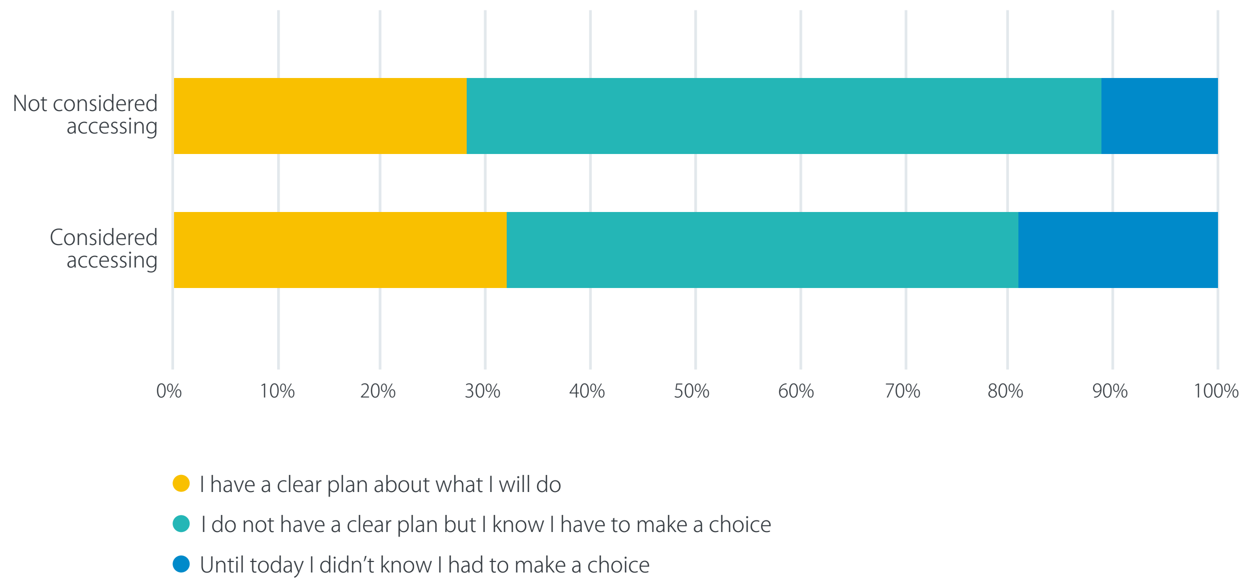
# Overall plans for access

## Do people have a clear plan for how they will access their pension and what engagement have they had from their providers?

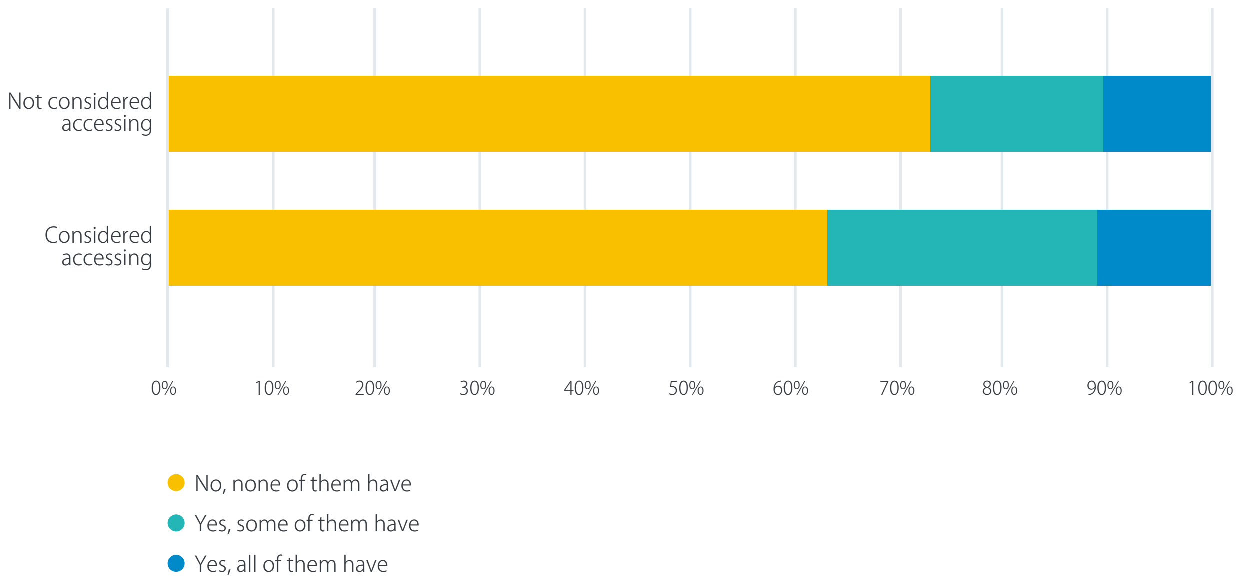
Among those who have not yet accessed their pension the majority do not have a clear plan about how they will do it. Only around a third (30%) have a clear plan about what they will do.

Those who were more confident in making decisions about pensions were more likely to have a clear plan, but there were also clear relationships between the actions of their pension provider and whether people had a clear plan about what to do. Those who had been contacted by their pension provider and asked how they were likely to take their pension were more likely to have a clear plan and to know that they had to make a choice. There was a similar relationship where those who said that the information from their pension provider about their options was clear were also more likely to have a clear plan and to know that they had to make a choice. .

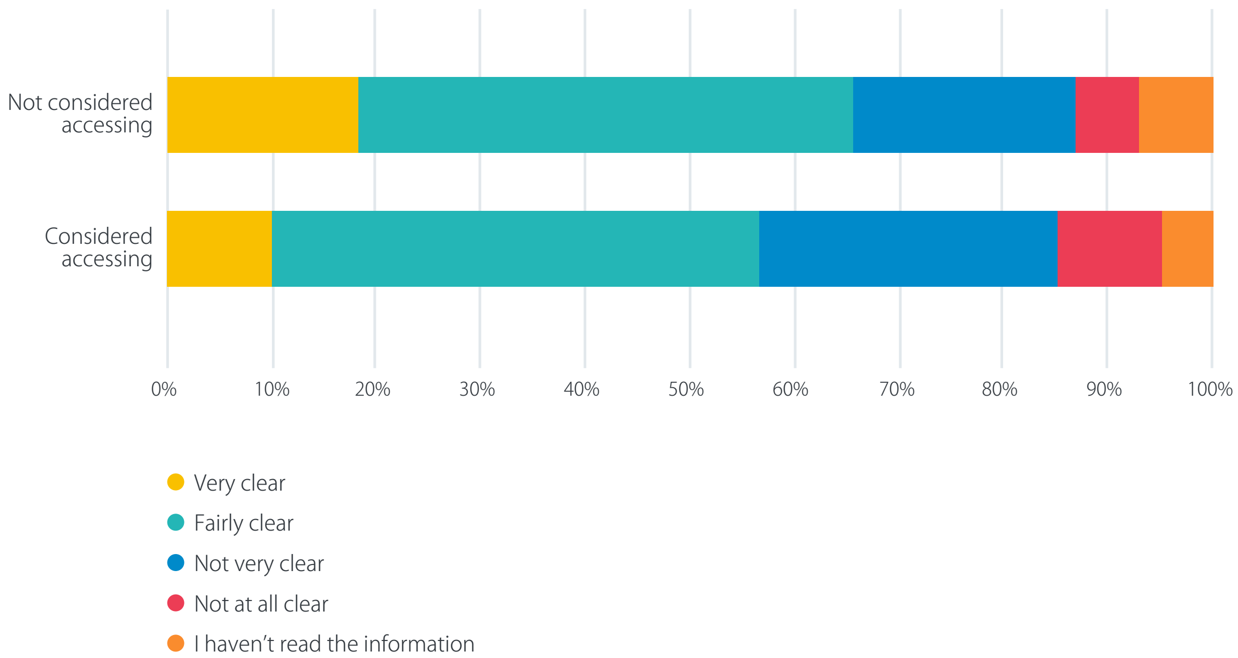
### Thought given to options for accessing DC pensions



## Have your DC providers asked you how you are likely to choose to take your pension




## How clear would you say you found the information from your pension provider about your options for accessing your pension?

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**Barrier and challenge:** People approaching retirement do not have a clear plan about how they will access their DC pension or do not know they have to make a choice.

**Barrier and challenge:** Pension providers are not asking people how they plan to access their pension and some are not providing clear information about the optionsv

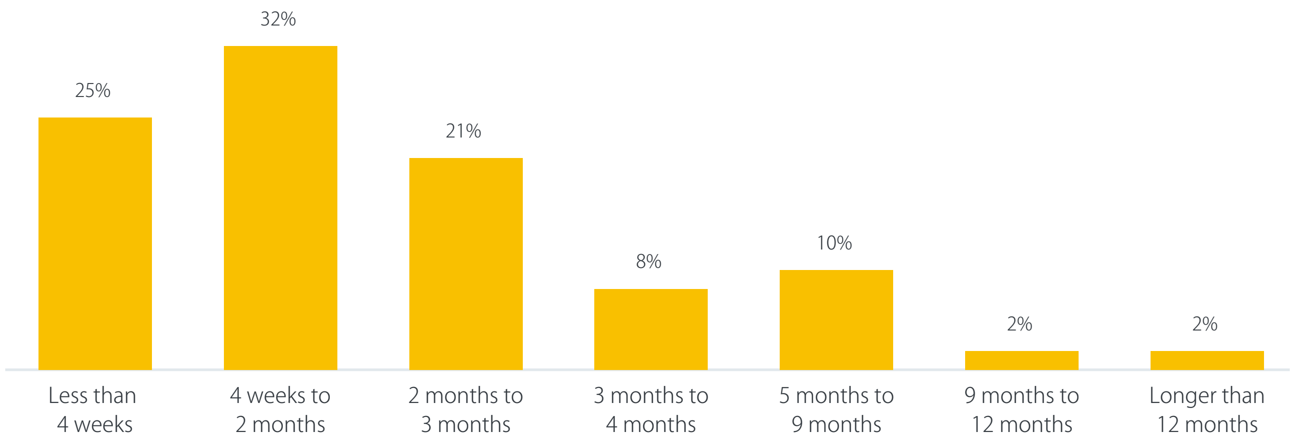
# Research findings: Experiences at the point of accessing a pension

## Length of time it took to access their pensions

We asked those who had accessed their pension, how long it took for them from making a decision to access their pension to completing all of the necessary administration and taking out the money. Those who said they had gone into income drawdown were more likely to say that the process was longer overall and a larger percentage said that it took longer than five months to complete. Those who had bought an annuity were most likely to say that the overall process was completed within three months.

## Length of time to access DC pensions

### How long did it take you from deciding to access your pension to completing all of the necessary administration and taking out the money?

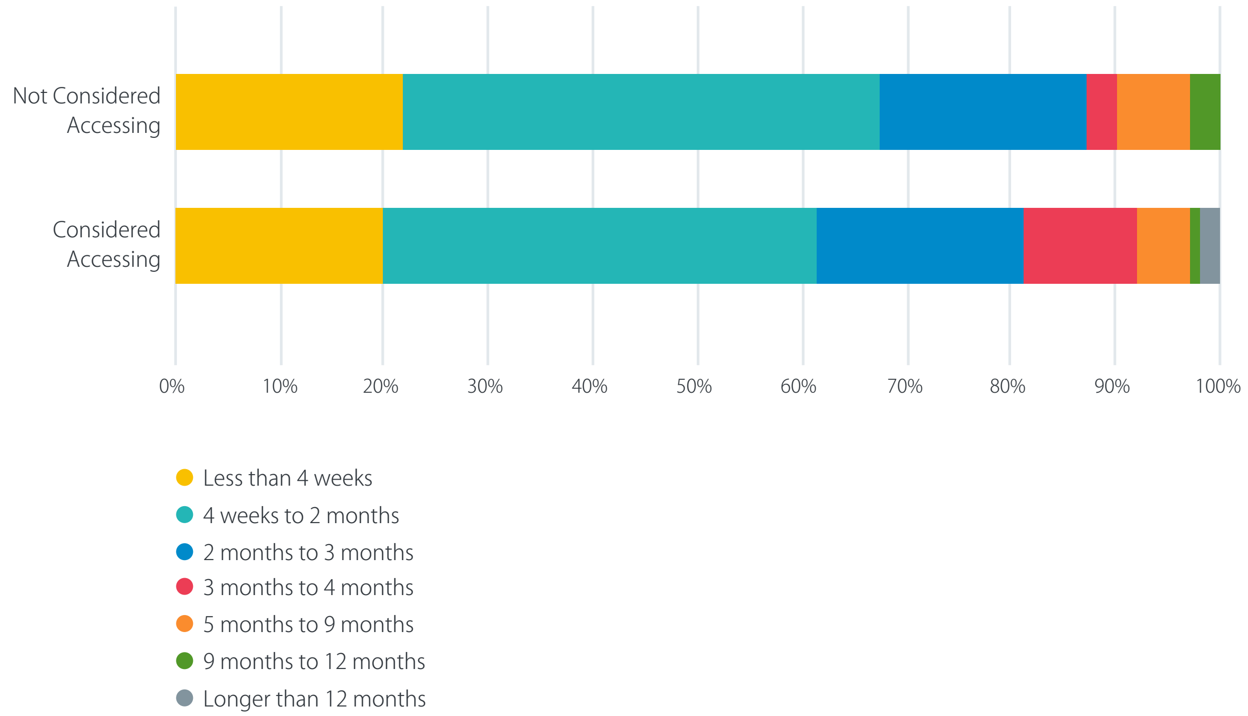



We also asked those who had not yet accessed their pension how long they expected the process to take. This shows that these groups believe that the process would be slightly quicker than the actual experience of those who had accessed their pension.

> “I hope it’s an easy process [to access my pension] because I’ve got a few debts I’d like to pay off. It’s more beneficial than keeping money in the pot. As a pension pot it’s not big enough, it would be a pittance. I have properties which would be my retirement income.”
>
> – Simon, 53

## How long people think it will take to access their DC pension

### When you access your pension and take money from it how long do you think it will take to make a decision and complete the process?

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**Barrier and challenge:** People face long and complex administrative processes when trying to access their DC pension.

# Decisions about how to access their pension and which type of retirement income product to use

## Full withdrawal vs annuity vs UFPLUS vs income drawdown

### There are five main types of retirement income products which people could use to access their pension. These are:

**Full withdrawal:** The consumer takes the entire pension fund in one payment with 25% being paid tax-free and 75% being taxed at the marginal rate.

**Partial withdrawal through an Uncrystallised Funds Pension Lump Sum (UFPLUS):** This is a partial withdrawal in the form of a lump sum with 25% being paid tax-free and 75% being taxed at their marginal rate.

**Conventional annuities:** An annuity provides a secure income for the rest of the consumer's life in return for the accumulated pension fund.

**Income Drawdown:** This involves leaving the pension fund invested and taking income by making regular or ad-hoc withdrawals. When entering drawdown the consumer can take up to 25% of their fund tax-free and then make withdrawals from the rest of the fund which are taxed at their marginal rate.

**Hybrid products:** These include investment-linked, fixed-term and variable annuities or drawdown products which have some element of guarantees. These are effectively packages of investment products, combined with some guarantees of the amount of income they will deliver or how much of a consumer's fund they will return after a set number of years.

Prior to the introduction of the pension freedoms annuities dominated the retirement income products market – accounting for 94% of the retirement income products sold in 2012. The overwhelming number of annuities sold were standard or conventional rather than the hybrid or investment linked products. Income drawdown was the exception with only 6% of people opting for this route and with the vast majority taking advice. Prior to the introduction of the pension freedoms, income drawdown was seen as risky and potentially unsuitable for those people with smaller pension pots.

## Methods of access used by people in the overall retirement income market

### People are using the wider range of options now available to them:

- The most popular option in terms of the number of pots accessed is to fully withdraw the entire pension pot
- Drawdown is the second most popular option and has more than double the sales of annuities
- Only a small proportion of people opt for the UFPLUS option
- 18% of those aged 55-64 who have accessed a DC pension in the last two years responded to the FCA financial lives survey by saying that they did not know what they have done (e.g. taken annuity, income drawdown).[34]

## Popularity of the different options chosen differs depending on the size of the pot[35]:

- Pots that were fully withdrawn tended to be smaller (90% below £30,000) than pots that were used to purchase retirement income products (30%-46% below £30,000).
- As pot size increases the propensity for full cash withdrawal reduces.
- Pots that were used to buy drawdown tended to be larger than those used to purchase annuities.
- A higher proportion of pots between £50,000 and £249,999 were used to purchase annuities compared to other pot sizes.
- Drawdown is relatively more popular amongst younger people with 31% of those aged 55-64 using income drawdown compared to just 8% who buy annuities.
- Annuities are more popular amongst older groups with around 20% of people aged 65 buying annuities compared to around 30% using income drawdown.
- Only around 43% of people shopped around and switched to a different provider when buying an annuity.
- 68% of people buying income drawdown products use advice compared to 34% buying annuities.
- Non-advised drawdown is sold almost exclusively to existing customers of pension firms. Providers with an existing customer base mostly cross-sell to their existing customers.
- 94% of non-advised drawdown sales were to existing customers, meaning that there was very limited shopping around and only a small proportion of people switch providers, this compares to only 35% of advised drawdown sales being to existing customers.

Overall, most people who do not take advice choose the path of least resistance. They accept the drawdown option offered by their pension provider without shopping around. 94% of non-advised drawdown sales were made to existing customers. This suggests limited competitive pressure to offer good processes and value for money products to non-advised drawdown customers. The process of comparing providers and shopping around for income drawdown can be very complex and there will be particular barriers for people who are not confident in making decisions about pensions and retirement income products.

There has been a long history of trying to prompt people to shop around for annuities, but these attempts normally relied on disclosure of information and in general have been a dismal failure. Only 43% of people are shopping around and buying an annuity from an alternative provider.[36] Annuity providers are leaving the open annuity market, reducing choice for people. People who do not switch or take advice are still at risk of receiving poor annuity rates. Despite a significant amount of FCA activity in the annuity market aimed at trying to prompt people to shop around, the proportion of people shopping around and switching annuity provider has only increased slightly since 2012. Enhanced annuities, which pay a higher rate for people suffering health problems were predominantly sold to people who received financial advice. Large insurance companies were still more likely to sell their customers a standard annuity than an enhanced annuity. In 2016 the FCA found that for those companies who had existing accumulation pension business, two out of seven large insurance companies and two out of four medium-sized insurance companies failed to sell enhanced annuities.[37]

> **"What I understand about pensions is that you can buy an annuity with the whole lot, or you can take a lump sum and buy an annuity with the rest."**
> – Mitch, 53

# How people in the PensionBee research accessed their pension

We asked those who had accessed their pension how they had done it. To try and reduce the proportion of people answering 'don't know', we provided a variety of different options. The most common answer was that they had taken a lump sum and left the remainder still invested with their existing provider (47%), and a further 13% said that they had taken a cash lump sum and left the remainder invested but with a new provider. 20% said that they had bought an annuity and 15% said that they had moved into income drawdown. 10% said that they had fully withdrawn their fund.

- Older people (aged 65 and over) were more likely to say that they had bought an annuity (33%) than those aged 60 to 64 (18%) and 55 to 59 (9%).
- Those with smaller pension funds (worth less than £20,000), were more likely to say that they had fully withdrawn their pension fund (26%).

Of those who said they had taken cash lump sums, three quarters said that they had just taken the 25% tax-free lump sum. This proportion was slightly lower among those who said that they were in income drawdown where 60% said that they had just taken the tax-free lump sum. Younger people (those aged 55 to 59) were more likely to say that they had just accessed their tax-free lump sum. We believe that the majority who have taken a lump sum will actually have moved into income drawdown, but are less aware of the technical term. Some will have taken UFPLUSs and a number could also have taken lump sums by withdrawing the entirety of one of their DC pension schemes but leaving the remainder invested in other schemes.

## How people had accessed their DC pension

| | | Just taken just tax-free lump sum |
|---|---|---|
| **Taken a cash lump sum, but the remainder is still invested – with existing pension provider** | 47% | 75% |
| **Taken a cash lump sum, but the remainder is still invested – with a new pension provider** | 13% | |
| **Moved money into a pension account to withdraw it as cash over a period of years (income drawdown)** | 15% | 60% |
| **Bought an annuity** | 20% | |
| **Taken all of my cash out in one go** | 10% | |
| **Not sure: I get an income or have taken a cash lump sum from my pension but am unclear how it works** | 5% | |

We also asked what factors they had taken into account when deciding how to access money in their pension. It is concerning that only 27% of people considered the risk of running out of money, although this increased to 40% among those people who said that they had gone into income drawdown. Those entering income drawdown were more likely to have considered more factors overall. Those buying annuities were more likely to have considered their health when making a decision, and those withdrawing all of their pension were more likely to have considered the risk of losing money in investments.

# Factors considered when deciding how to access their pension

## When deciding how to take money from your pension(s), which, if any, of the following did you consider?

| | | More likely to have been considered by those taking their pension using this method |
|---|---|---|
| **The monthly income I want** | 49% | Income drawdown |
| **How long I am likely to live** | 45% | Income drawdown |
| **The tax implications of my choices** | 39% | Income drawdown |
| **My health** | 27% | Annuities |
| **The risk of running out of money in my pension** | 27% | Income drawdown |
| **The risk of losing money in investments** | 19% | Full withdrawal |
| **My dependants** | 17% | Income drawdown |
| **Being able to leave an inheritance** | 13% | |
| **None** | 4% | |

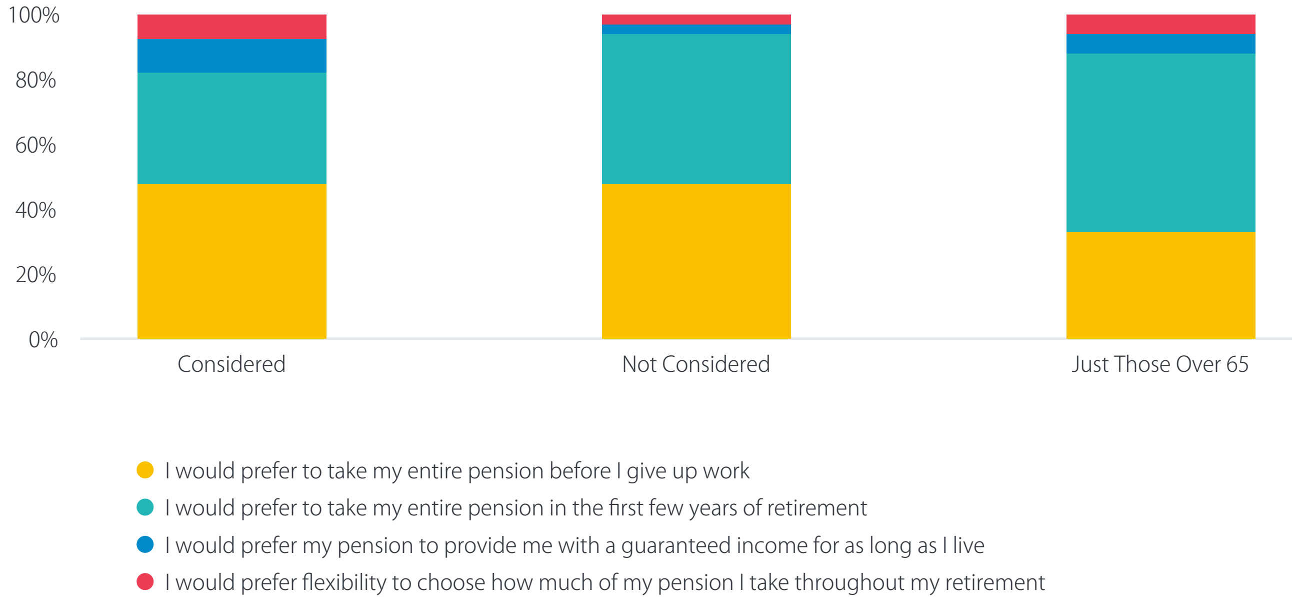
We also asked those who had not yet accessed their pension what would be their preferred approach to taking their money from their DC pension and what option they thought they would actually take when accessing their pension.

Older people, and those who were already retired, were more likely to say that they would prefer their pension to provide them with a guaranteed income for as long as they live. This finding is aligned with other research conducted by the FCA which found that the desire for a guaranteed income increases with age.

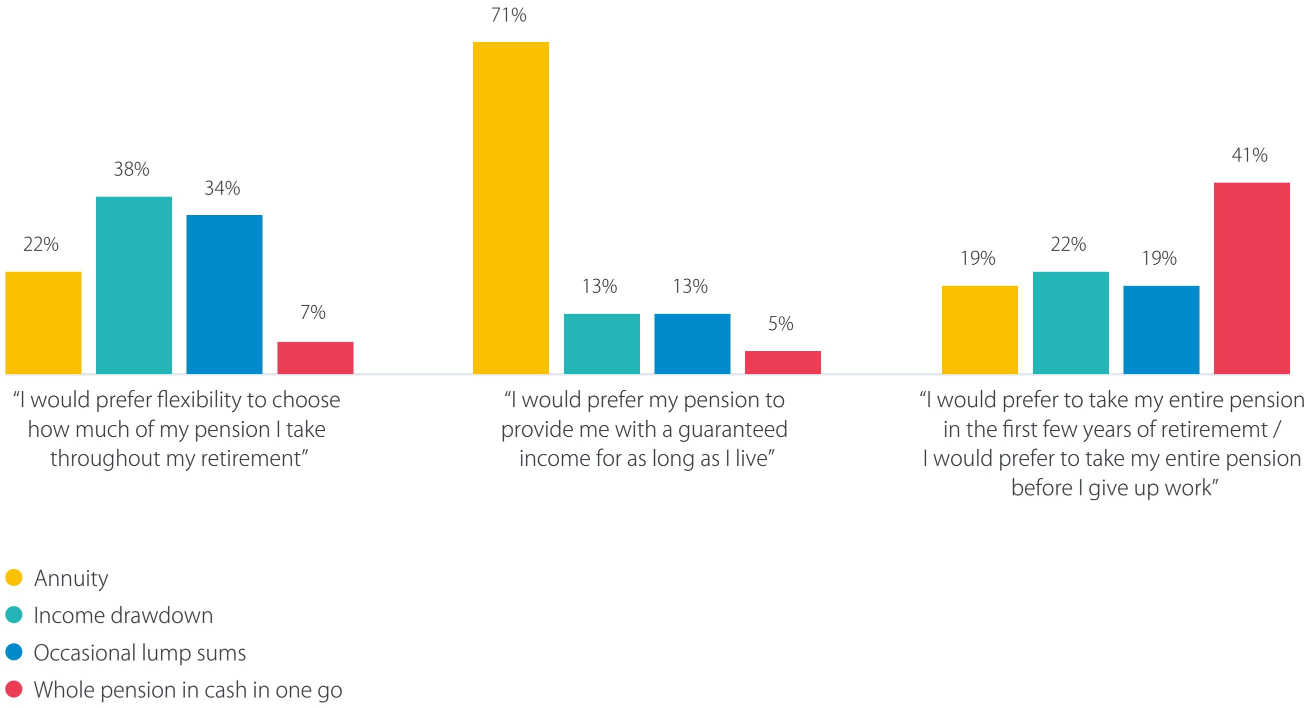
Preferences for the approach they wanted to take broadly accorded to what they planned to do with their DC pension. However, this was slightly less so for annuities, where only 71% of those who said their preferred approach was for a guaranteed income planned to buy an annuity. Those with smaller pension funds (less than £50,000), were more likely to be planning to take their whole pension in cash in one go.

> **"I will try to retire when I am 65, and I will use the money to do a monthly drawdown, and the same thing with the other pension. I have a pension with my old job, which is about £15k. So I would drawdown from that too."**
> – Celia, 59

## Preferred approach for taking money from their DC pension



## Preferred approach to taking DC pension




**Barrier and challenge:** Many people choosing retirement income products are failing to consider important influences on their choices such as the investment risk, their health and tax considerations.

**Barrier and challenge:** The desire to take the entire 25% tax-free lump sum acts as an important anchor for people, even if they do not have a need for it or a plan for what to do with it.

**Barrier and challenge:** There has been limited innovation in the market for retirement income products since the introduction of the pension freedoms. Firms have concentrated on the advised market and have not addressed the needs of those non-advised customers accessing income drawdown or making ad-hoc lump sum withdrawals from their pension.

**Barrier and challenge:** Processes and retirement income products do not accommodate the changing consumer needs and wants as people age and their move away from a preference for flexibility and towards an increasing desire for a secure income.

**Barrier and challenge:** Most people without access to advice take the path of least resistance and there is only very limited shopping around and switching. The development of more suitable and better value retirement income products is unlikely to be driven by the choices made by people. It is likely to be driven by the decisions made by pension schemes which are focussed on the needs of their customers.

**Barrier and challenge:** As people get older they are more likely to develop a specific vulnerability such as ill health, cognitive decline, bereavement or caring responsibilities which will make it more difficult to take complicated decisions about retirement income. They may have infrequent contact with their provider which will mean only limited chances for their provider to detect the vulnerability and respond to the person's individual needs

# Guarantees

## Do people take advantage of valuable guarantees in their pensions?

Older pension schemes can come with valuable guarantees that people would want to take into account when considering whether to transfer their pensions or how to access them. The most common form of guarantee is a GAR, which means the person has a certain minimum rate that they can use to buy an annuity. The audit of charges in legacy pension schemes found that 56% of pensions invested in traditional with-profits funds had GARs in excess of 8%. An 8% annuity rate would pay-out more than 64% more income than the current best rate available in the open market for a 65 year old.

The introduction of the pension freedoms has meant that fewer people are taking advantage of the GARs that have been offered. The FCA found that just over half of people (57%) with a guarantee failed to take it up.[38] Some people might choose to give up a GAR in order to withdraw a lump sum from their pension and all those with a fund of over £30,000 have to take advice before accessing a pension with a guarantee.

The FCA found that 80% of people who had a GAR attached to their withdrawn pension pot were aware that they had one. The FCA also found that the spending behaviour of those with a GAR who were aware of it was in line with people overall. 35% saved the majority of the money they withdrew from their pension pot 18% spent all of the pot and 18% invested the majority of it in capital growth. Slightly fewer paid off debts (16%).[39]

The two main reasons for not taking up the GAR among those who had fully withdrawn their pension were[40]:

- The belief that they wouldn't have benefited much from the guarantee as the pot was small (37%) (rising to 57% for those with the smallest pot size of between £10,000 and £14,999 and the rest had a pot size between £15,000 and £29,999);
- The belief that they may have benefited from the guarantee but that they needed the cash instantly (24%), (a further 10% said they didn't think they would have benefited from the guarantee but also wanted the cash instantly).

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**Barrier and challenge:** People may not be aware of or may underestimate the benefit of valuable guarantees such as GARs.

# Charges

## Are people getting value for money from their pension and how able do they feel to make comparisons between the charges in different schemes?

People leaving their pension invested or using income drawdown could incur initial and ongoing charges. The level of charges for income drawdown is currently outside of the scope of the Government's charge cap (0.75%) for qualifying automatic enrolment pension schemes. There are five main types of charges which people could pay:

- **Administration charges specific to drawdown:** These could include (a) Set-up fees for entering income drawdown (b) Annual fees for being in income drawdown (c) Charges for altering the level of drawdown payments (d) Charges for altering the frequency of payments or making one-off withdrawals (e) Charges for depleting the fund or reducing it below a certain size.
- **Investment charges:** The costs and charges paid in return for managing the funds and investments. These include (a) Direct Fund Management costs and charges paid to the fund manager, which could include initial charges, annual charges and performance fees (b) Legal and audit fees which would be included in the Total Expense Ratio (c) costs incurred by any stock lending undertaken by the fund (d) commission payments made to the financial adviser who sold the consumer the investment (these have been banned for new business from 1st January 2013, but existing legacy arrangements can continue).
- **Platform charges:** The costs of holding the pension funds and investments through a platform such as a SIPP. These could include (a) Initial/set up fees (b) Annual fees which could be charged as a fixed fee, a percentage of the investment held on the platform or both (c) Administration charges for transferring in/out or on death (d) Net interest margin on cash held in the bank account on the platform.
- **Transaction costs within and between funds:** These include (a) The costs incurred both by the investor when switching between different pension funds (b) The transaction costs incurred within individual funds as a result of the fund manager buying and selling the assets.
- **Advice costs:** If the consumer receives advice about whether to enter income drawdown, how their investments should be managed and how much they should withdraw each year then they would need to pay initial and/or ongoing charges to a financial adviser.

# FCA analysis of charging structures and levels

## The FCA's analysis of charging structures and levels for drawdown[41] found the following issues:

- Charging structures can be complex. Many providers use a combination of administration and fund charges. People comparing only one headline charge would find it difficult to select the best value provider unless the figure included all charges. Some products have contingent charges which are only paid when undertaking specific activities such as switching an investment, withdrawing money or getting a paper statement. Others have tiered charges with higher charges for those with lower pot sizes.
- Total charges vary substantially across providers with average total charges ranging from 0.4% to 1.6%. By switching from a higher cost provider to a lower cost provider, people could increase the annual income from their pot by 13%. For an individual with a pot of £100,000 this would be an extra £650 per year.
- Nearly a quarter of people who did not take advice are paying 1.5% or more of their pension pots in charges every year.
- People holding cash face administration charges with some providers but not with others.

People, particularly those accessing income drawdown without advice, are at risk of paying excessive charges, with around 200,000 paying more than 0.75% a year in charges, which has already cost them around £175 million in excessive charges since the pension freedoms were introduced with this overcharging costing them a further £40 million to £50 million extra a year.

The FCA had told firms to "challenge themselves" on the charges they imposed on people using drawdown without advice and who use one of the investment solutions required by the new investment pathways rules.[42] The FCA has not introduced any formal charge cap for non-advised drawdown and has now delayed the introduction of the new investment pathway rules until 1st February 2021.

The implication of all the different charging structures is that it will be difficult for people to understand and compare the total cost of income drawdown. In our research, a majority of people said that they found it hard to compare charges between different pension schemes. The FCA found that the majority of people are not aware of charges and many do not know where to find out the level of charges. Shopping around for income drawdown is likely to be even more difficult and complex than shopping around for an annuity. Inertia and complexity could mean that those people are at risk of paying higher charges. Nearly 90% of those not taking advice in the FCA's survey opted to stay with their existing provider when accessing drawdown. This compares to closer to half of those who receive advice.

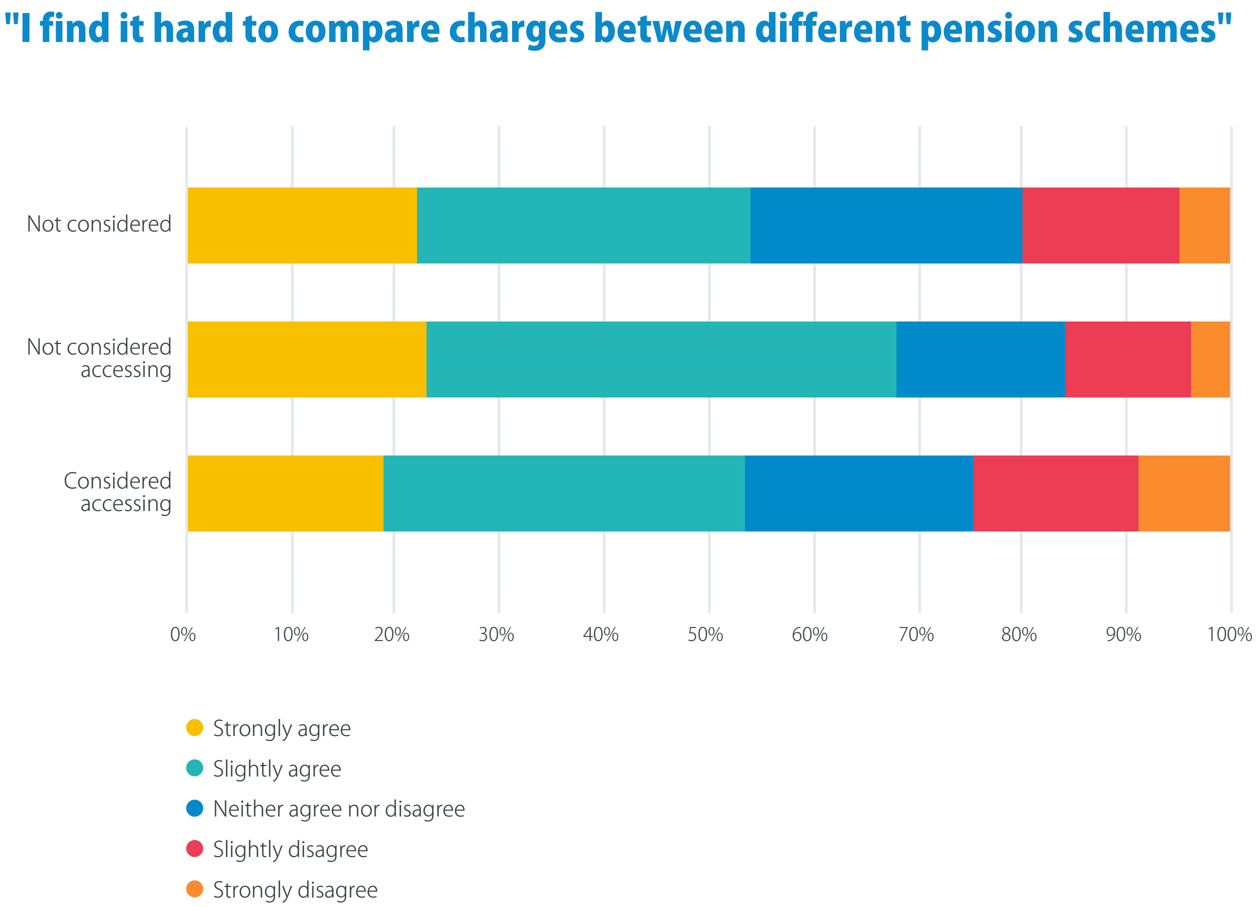
“I retired earlier this year and was looking to convert my pension funds into drawdown in some way. I have pensions with Aegon and Scottish Widows, and I started talking to them about options, I also started researching the market. I found it very difficult to get clear information, particularly on charges. Charges are often very complex. Investment charges, fund charges, charges every time you drawdown, and they seem to mount up. Standard Life had a better scheme, but even then the charges were quite complicated, and even then you'd have to move your pension to a Standard Life pension fund and then to a separate drawdown account.”

– Fred, 66

“There was information online but… this was complicated. Working out what it was going to cost was still not very clear”

– Fred, 66

# Difficulty of comparing charges between pension schemes




**Barrier and challenge:** The long-term impact of high costs and charges for income drawdown could be significant and result in people having to take less income out of their pension or running out of money quicker.

**Barrier and challenge:** Charging structures can be complex, people do not understand pension charges and find it hard to compare charges between different schemes. There is little switching or shopping around. This means that there are very limited competitive pressures on firms to reduce charges for people accessing their pension through income drawdown without advice.

**Barrier and challenge:** The FCA has delayed the introduction of rules which could have reduced charges for some of those accessing income drawdown without advice

# Tax considerations

## Are people at risk of paying too much tax when they access their pension?

61% of research participants who had accessed their pension said that they had not considered the tax implications of their choices for how they accessed their pension. Those who were on higher incomes or those who had given a great deal of thought for how they will manage financially throughout their retirement were more likely to have considered the tax implications of their choice.

Those withdrawing all of their pension pot in one go are at particular risk of paying more tax than is necessary. This is more likely to be the case the larger the pot that is withdrawn and the higher the people's other income.

Despite the extra tax which will be paid a significant number of people are withdrawing their pension pot in one go. Across the market, 32% of those accessing pots worth between £30,000 and £50,000 and 16% of those accessing pots worth £50,000 to £100,000 are withdrawing the full amount in one go. Many people are also accessing their pots prior to normal retirement age, with 56% of pots accessed by those aged 55-64 being fully withdrawn.

The FCA found that when it came to gathering information "the most common considerations centred on tax and charges although few knew the intricacies of this and a number voiced shock at receiving a much higher tax bill than anticipated". It also was a concern that "A small number of basic rate tax payers also were not aware they could pay 40% of their pension withdrawal as they did not understand what 'marginal tax rate' meant".

The pension freedoms have raised far more money in tax than expected. The source of this extra tax comes from two important effects. In enabling people to make withdrawals from pensions earlier than they might otherwise have done the policy brings forward tax revenue. It will also lead to an absolute increase in the amount of tax paid if large lump-sum withdrawals push people into higher rate tax bands. This is also more likely to happen if people take withdrawals from their pension whilst they are still working.

Overall, the introduction of the pension freedoms raised £2.0 billion (67 per cent) more than the original Office of Budget Responsibility (OBR) estimate over the 2015-16 to 2018-19 period due to more funds being withdrawn than originally assumed.[43] This pattern has continued in 2019-20. The earliest cohorts have continued to withdraw funds at a consistent rate, whereas the OBR had previously expected their withdrawals to have diminished by this stage. The OBR increased its income tax forecast by £0.4 billion in 2019-20 in the light of these changes.[44] This means that the pension freedoms have now resulted in a windfall of around £6.2 billion for the Treasury, over £2.4 billion more than expected. This windfall for the Treasury is, of course, balanced by people paying more than they need to in tax, reducing the overall retirement income they can expect from their pensions. Overall, the OBR judged that the pension freedoms will increase the level of tax raised until 2030, after which the level of tax raised will reduce.

**Question:**

"Have you thought about what it's going to be like to take money out of your pot?

**Answer:**

"I have no idea how it works, do you get taxed on it?"
– Jim, 53

## Expected and actual short-term tax take from pension freedoms

| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | Total |
|---|---|---|---|---|---|---|
| **Expected** | 0.3 | 0.6 | 0.9 | 1.2 | ~0.8 | 3.8 |
| **Actual** | 1.5 | 1.1 | 1.1 | 1.3 | ~1.2 | 6.2 |

Source: Office for Budget Responsibility, Economic and Fiscal Outlook March 2014; Office for Budget Responsibility, Economic and Fiscal Outlook November 2017; Office for Budget Responsibility, Economic and Fiscal Outlook, March 2020

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**Barrier and challenge:** People accessing their DC pension fund may pay more tax than is necessary, eroding their potential retirement income.

# Investment options

People entering income drawdown will remain in the default investment strategy set by their scheme, the investment strategy they would have chosen previously or will have to choose a new investment strategy. If the consumer has received advice about drawdown then the adviser is likely to make a personal recommendation regarding the investment strategy. Those people who do not take advice will either have to choose a new investment strategy themselves or remain in the strategy they chose when they last made a decision or the default investment strategy offered by their pension scheme.

Some pension schemes will have a default strategy which includes 'lifestyling' which means that as the consumer approaches retirement their investments are gradually moved into safer assets. Prior to the introduction of the pension freedoms the default investment strategy for many schemes was designed for those buying an annuity at retirement. This could mean that at retirement age the consumer's pension fund was invested in 75% bonds and 25% cash.

Following the introduction of the freedoms pension schemes reviewed their default investment approach and many now broadly offered a trident of investment options / glide paths in the run up to retirement and an actual default. These three default options / glide paths could be broadly categorised as those targeting:

- Cash withdrawals (majority cash)
- Secure income / annuities (mixture of bonds and cash)
- Income drawdown / invest into retirement (mixture of equities, bonds or a multi-asset fund).

The new default *default* (the investment option which the customer would be placed in if they failed to make an active choice) could be one of these approaches depending on decisions about the pot size and member characteristics or it could be another investment mix such as a multi-asset fund. Stakeholder pensions were required to use a lifestyling strategy but in other types of pension scheme there may be no such approach in place. Lifestyling as a concept was only introduced around 10 years ago so it is less likely to apply in older schemes. This means that the investment strategy at retirement might no longer be suitable as it could either be the one selected by the consumer when they joined the scheme or the one set by the scheme provider when it was established.

FCA analysis showed that for 12 leading workplace pension providers, 61% of people were in default investment strategies that targeted drawdown or a 'universal position' – a middle position to balance the potential that a consumer may enter drawdown or buy an annuity. However, 38% were still in default lifestyle strategies targeting annuities.[45] This is high, given that current data suggest only 10-15% of people entering retirement choose an annuity.

The investment strategy of the scheme after retirement has significant implications for the amount of risk the individual's pension will be subject to, the level of income they can withdraw and how likely they are to run out of money. Broadly, a low-risk investment strategy will reduce the level of income that can be taken from the scheme, but reduce the risk of having to make cuts to the level of income and the probability of the consumer running out of money unexpectedly. However, for a given level of income a lower risk portfolio will lead to the consumer being more likely to run out of money. A higher risk investment strategy, with exposure to riskier assets is more likely to provide growth over the longer-term, but with the trade-off of increased risk and volatility for the consumer's investments. A higher risk strategy could mean that people could face a greater prospect of having to reduce their income because of poor investment performance and running out of money if they fail to cut their income. The returns achieved in the first decade after retirement have the most significant impact on the overall amounts people can withdraw without running out of money.

The FCA found that there was a widespread lack of awareness about investment choices. 37% of people said they knew exactly where their money was invested, 34% had only a broad idea and 28% were not sure.[46] There were three main reasons why people did not engage in their investment choice:

- they felt this was only a small investment that was not going to be central to their retirement income and so it was not worth devoting more time to it
- not being interested in investing
- not being confident in making investment choices.

Some pension providers allowed people to select investments as they wished, without guiding this process too much. Other providers restricted the investment options presented to people and tried to guide people to investments suitable for their needs through a mix of structure and information.

The FCA had proposed rules that pension providers must offer non-advised people investment pathways. People entering drawdown, or transferring-in assets already in drawdown, without taking advice must be offered the option of investment pathways and presented with four choices for how they might want to use their drawdown pot. For each of the options under the investment pathways the provider must offer an appropriate investment solution:

- **Option 1:** I have no plans to touch my money in the next five years
- **Option 2:** I plan to use my money to set up a guaranteed income (annuity) within the next five years
- **Option 3:** I plan to start taking my money as a long-term income within the next five years
- **Option 4:** I plan to take out all my money within the next five years

These rules should lead to benefits to people. Our research shows that many people do not feel confident making decisions about pensions and retirement income. Only 11% had been asked how they planned to take their pension by all of their pension providers.

On 6th April 2020 the FCA announced that due to the impact of the coronavirus pandemic, the implementation of these rules will be delayed by six months until 1st February 2021.[47]

# People investing in cash

## People can be classified as 'in cash' either if they hold their entire drawdown pot in their cash account or hold their pension pot in cash-like assets

### The FCA found that:

- The risk of losing their money is an important factor influencing peoples' investment decisions.
- A much higher proportion of non-advised customers hold their pot in cash than for advised customers. The proportion of non-advised customers in cash varies substantially across providers and with pot size.
- Holding cash does not appear to be temporary. Many people appear to remain in cash for a prolonged period.
- For some providers holding money in cash has been the default arrangement if a consumer does not make an alternative choice, and many people are not aware that their money is held in cash.[48]

Holding their pension fund entirely in cash can significantly reduce the level of withdrawals which a consumer can make and increase the risk of them running out of money. A higher proportion of people not taking advice are in cash than advised people. Overall, the FCA found that around 32% of people not taking advice were wholly holding cash, compared to 6% those who received advice. The FCA estimated that over half of the people holding their entire fund in cash were suffering harm as a result. Those with smaller than average pension pots are also more likely to hold their entire fund in cash. The FCA has proposed new rules that drawdown providers must ensure that non-advised people entering drawdown invest wholly or predominantly in cash only if they have taken an active decision to do so. They must also give warnings to those who do decide to invest in cash, as well as those already in cash when the rules and guidance come into force. The introduction of these rules has been delayed until February 2021.

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**Barrier and challenge:** People find it difficult to engage and make decisions about investments and risk being in inappropriate investment strategies.

**Barrier and challenge:** Pension providers are not asking people how they plan to take their pension or helping those without advice choose an appropriate investment strategy. The FCA has delayed the rules which would have required pension providers to offer people simple choices of investment pathways.

**Barrier and challenge:** People invested in cash in their pension will achieve very low long-term returns and this increases the chances that they will run out of money in retirement.

# How much to withdraw / sustainable withdrawal rates

## Do people understand how much the level of sustainable withdrawals they can make from their pension? How much are people withdrawing from their pensions?

People entering income drawdown or taking regular lump sum withdrawals will need to take (with or without advice/guidance) complicated decisions about how much income to withdraw each year and how often the level should be reviewed. Ideally, they need to be helped to develop a withdrawal strategy.

The general advice for those entering income drawdown used to be to only take the 'natural income' from their fund to avoid eroding their capital. But only those with very large pension funds are likely to be able to attain their desired level of income without eroding capital – the key question for those with smaller funds will be over what time period the capital could be eroded. If people withdraw too much of their pension each year then they could run out of money. On the other hand, if they restrict withdrawals because they are worried about running out of money they might under-consume in the first few years of their retirement and still be left with significant funds on death.

Our research confirms previous findings that people are known to under-estimate their life expectancy and over-estimate how much income their pension will deliver. A consumer with a spouse/partner would also have to take into account how long their partner might live when deciding how much to drawdown each year. People who die before the age of 75 will be able to pass on their accumulated fund without paying tax. If they are above the Inheritance Tax threshold then it may be worth them using other assets first before starting to use their DC pension.

Up to the beginning of 2020, investment returns since the pension freedoms have been introduced have generally been good. They have been around 7% and 10% a year after charges depending on the level of risk in the portfolio.

40% of all research participants who had accessed their pension said that they were making regular withdrawals from it. Those making regular withdrawals were more likely to say that they had moved their pension into income drawdown.

We asked all participants how much they thought they could withdraw each year from a pension fund worth £50,000 and never be at risk of running out of money. This was deliberately left as an open question to avoid people being guided by any possible answers provided to them.

The most common answers were either £2,000 or £5,000, followed by £2,500, indicating that people could be guided by rules of thumb, either 4%, 10% or 5% when considering what might be a sustainable withdrawal rate.

The results indicate that only a relative minority of people have a clear idea about what represents a sustainable withdrawal rate. Around one third of participants gave answers which were 8% or higher and around one in seven said that they didn't know. There were only minor differences in the answers given by those who had accessed their pensions already and those who had not.

These results mirror the actual behaviour of people in the market. The FCA found that in 2018/19, withdrawal rates of 8% and over were the most common rate across all pot sizes except for the largest pots (£250,000 and above in value, where the most common withdrawal rate was 2%-3.99%).[49] Overall, 40% of withdrawals were at an annual rate of 8% and over, and nearly three quarters were at a rate of 4% and over. Even for younger pension holders there were significant withdrawals at rates of 8% and over - 44% of withdrawals for the 55 to 64 age group were at this rate.

High withdrawal rates increase the chances of people running out of money, particularly if they continue to make these withdrawals during periods when their investments are performing poorly. A person who started with a pension fund of £50,000 at the start of the pension freedoms and has been making withdrawals of £4,000 a year would have had £43,500 at the start of 2020. Following recent market falls the value of their fund would have reduced to £31,600 at the start of April 2020, with the £4,000 annual withdrawal rate now representing around 12.5% of the fund. If they continue withdrawing £4,000 a year and markets perform poorly then they could run of money soon:

If markets recovered to the levels they reached at the end of May 2020 and then grew gradually by 6% a year, that person would eventually run out of money in early 2031 – with their pension fund lasting them another 11 years.

If there was a further market slump over the end of the next year, with values falling by around 25% before a sharp bounce back over the year to the middle of 2022, that person would run out of money in early 2029 – with their pension fund lasting them another nine years.

If there was a smaller market fall of around 20% over the next year and then two years of zero returns, that person would run out of money in the middle of 2027 – with their pension fund lasting them another seven years.

**“Normally with pension money you don’t look at it that often, so it wasn’t a problem not having it on a phone. Coming up to drawdown I was looking at it more frequently. The whole presentation of it was old fashioned.”**

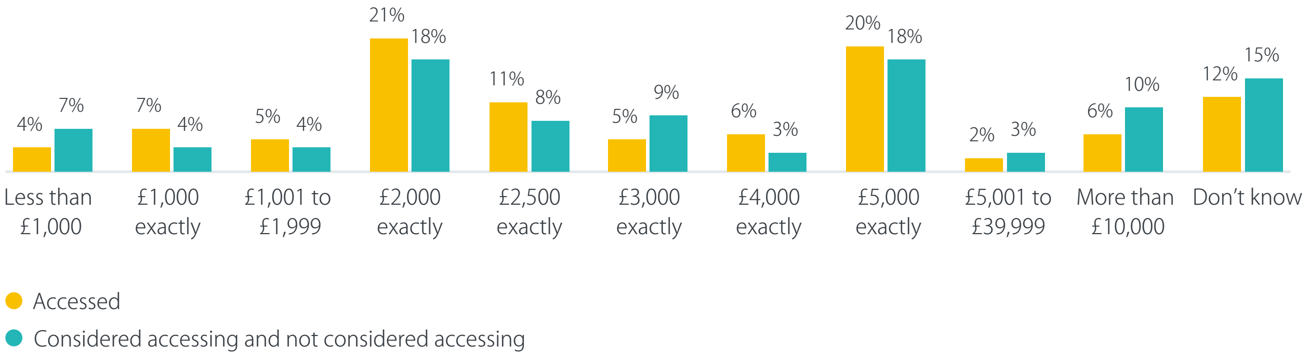
– Fred, 66

**“I want my pension fund to last until I die. I will budget, once I start taking it I will pay more attention so I can see how much I have got. I will consider a guess of how long I am going to live combined with how much I am going to spend.”**

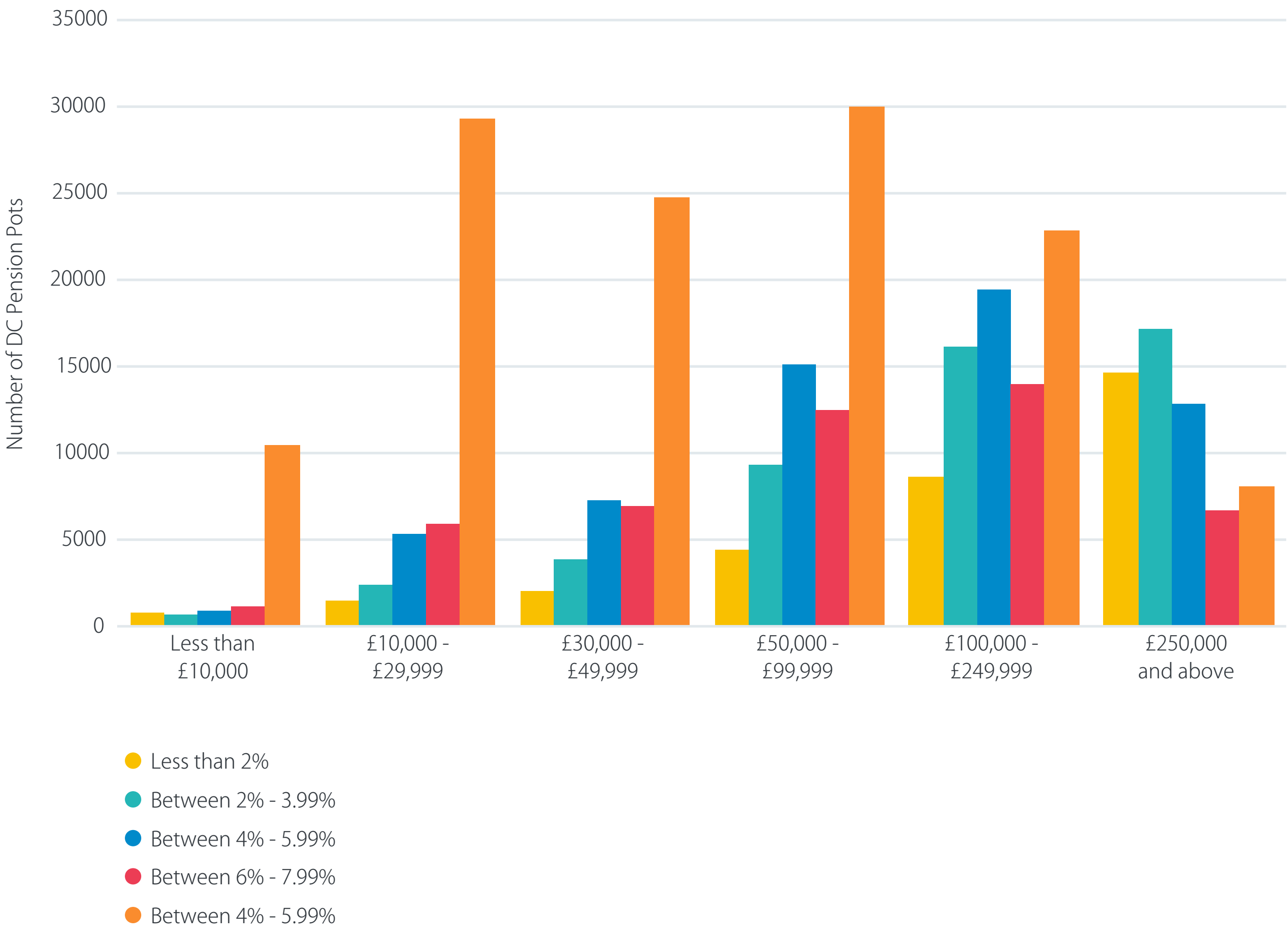
– Ann, 55

# Understanding of sustainable withdrawal rates

## Assume you had a pension of £50,000, what is the maximum amount of money you think you could withdraw from the pension each year and never be at risk of running out of money before you die?




## Pension withdrawal rates by pot size



**Barrier and challenge:** Decisions about how much to withdraw each year and when to review it are complex and pension providers are doing little to help people understand sustainable withdrawal rates or to develop withdrawal strategies.

**Barrier and challenge:** People have little idea about sustainable withdrawal rates and tend to overestimate the amount they can withdraw without running the risk of exhausting their DC pension fund.

**Barrier and challenge:** Whether people run out of money will be largely determined by the decisions they make around and throughout retirement. People continuing with their current high withdrawal rate or increasing it during times of market turmoil and low returns will face an increased risk of running out of money.

# What people do with the money withdrawn from their DC pension

## What are people doing with the money they have taken out of their DC pension?

We asked those who had accessed their pension what they had done with the money and which use accounted for the largest share of the money from their pension. For those who had not yet accessed their pension we asked them what they planned to do when they did take the money.

Those who had accessed their pension cited an average of 1.5 different uses for the money. These uses included:

**Pay for day-to-day expenses:** A surprisingly low percentage said that they had used any, or the largest share of the money they had accessed from their pension to pay for day-to-day expenses. Only 24% said that they used part of the money to put in their current or savings account to pay for day-to-day expenses and 17% said that the largest share was used in this way. Those who were already retired were more likely to say that they used the largest share to pay for day-to-day expenses.

**Current or Savings account to keep for a rainy day or a Cash ISA:** 22% said that they had saved the largest share, either by putting it in a Savings or Current account to save for a rainy day or a Cash ISA. This group were more likely to have been prompted to access their pension by a desire to take control of it and also slightly more likely to say that they didn't trust their pension provider. Those who had taken all of their DC pension in one lump sum were much more likely to have used the largest share to put in a savings account for a rainy day. The FCA found that withdrawing and saving the money was also driven by a mistrust in pensions based on press coverage or a view that the rules were likely to change again so they should access their pension while they could. Mistrust was also driven by a perception that their pension money was 'doing nothing' sitting in the pot. Further, people felt that pensions are impossible to understand and are risky. They preferred to move their savings to products they could understand and believed they could trust, such as ISAs.[50]

“About half of the money I took out [of my DC pension] was going into savings, a peer-to-peer investment or a Stocks and Shares ISA. It allowed me to feel comfortable rather than feeling I had to watch every penny… Financial security has always been really important to me. I logged in and checked my pension value every month, my pension was going down as well as up, but if you put it in a Cash ISA it is just going to go up.”

– Kelly, 65

“I want to have that money [which I have withdrawn from my pension] as emergency money. [When we were suffering difficulties in our business] I got pretty nervous about it, and I didn't have any money laying by. Since then things have improved, we can withdraw money that we had saved in the premium bonds, so that situation is no longer the same. However, it's kind of insurance money in a way…The 25% [I have withdrawn] I want to keep just in case if there is a problem work wise it will give me just enough money to tide me over…I really don't have any firm ideas about what to do with the rest.”

– Sam, 57

**Put into other investments or a Stocks and Shares ISA:** 14% had used the largest share to buy other investments, including by putting the money in a Stocks and Shares ISA. Those who used the largest share in this way were more likely to have high levels of wealth held in savings and investments outside their pension and were more likely to feel confident making financial decisions about Stocks and Shares ISAs.

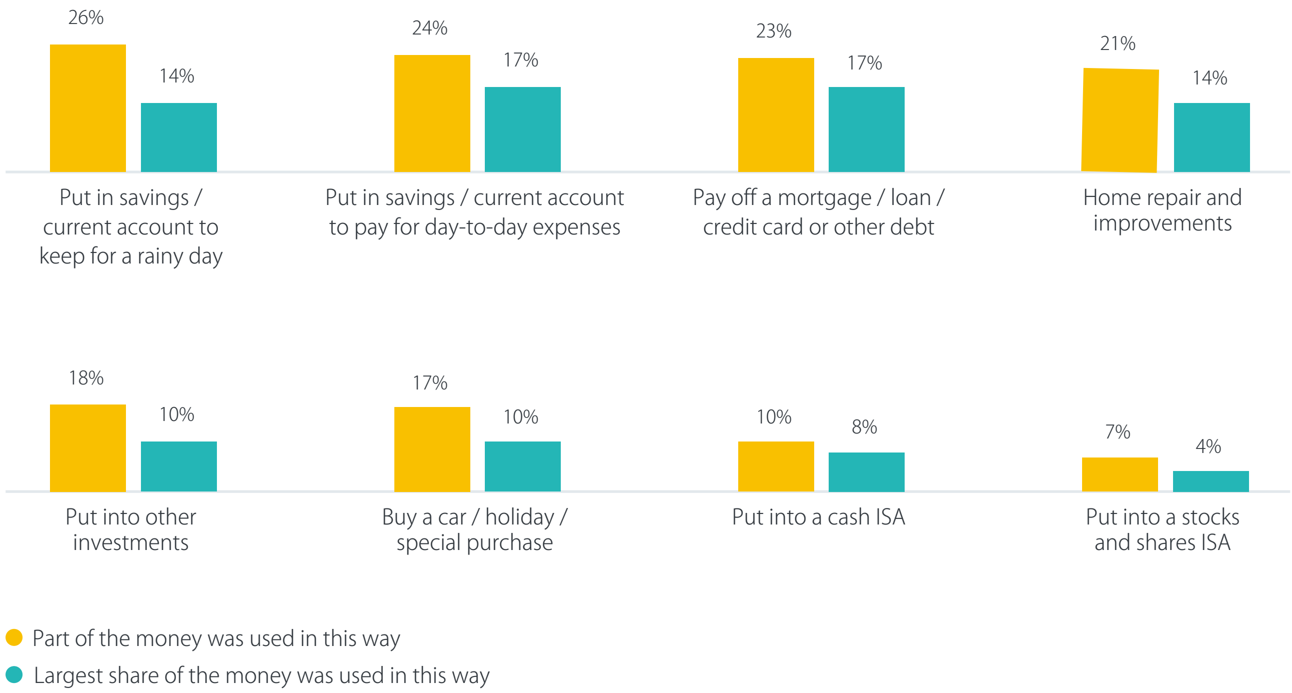
> **"I am taking the 25% to pay off debt, and a little bit for contingency for my business, as I am coming up for my first year of trading. If I need to pay my personal bills before I pay myself. I have no intention of taking the rest until I am 67- 68."**
>
> – Victor, 55

**Pay off debt:** 17% used the largest share to pay off debt. Those who were working and those who had withdrawn all of their DC pension were more likely to say that the largest share was used to pay off debt. Those who used the largest share of the money they accessed from their pension to pay off debt were more likely to have low levels of wealth outside their pension, with 76% of them having less than £20,000 in savings and investments outside their pension. This indicates that for many of them, the money they accessed from their pension could have been the only way for them to clear their debts quickly.

**Buy a car/holiday/special purchase:** 10% used the largest share in this way, with 2% mentioning that it was to do with buying a house or flat, and one person saying that they used the largest share to get married.

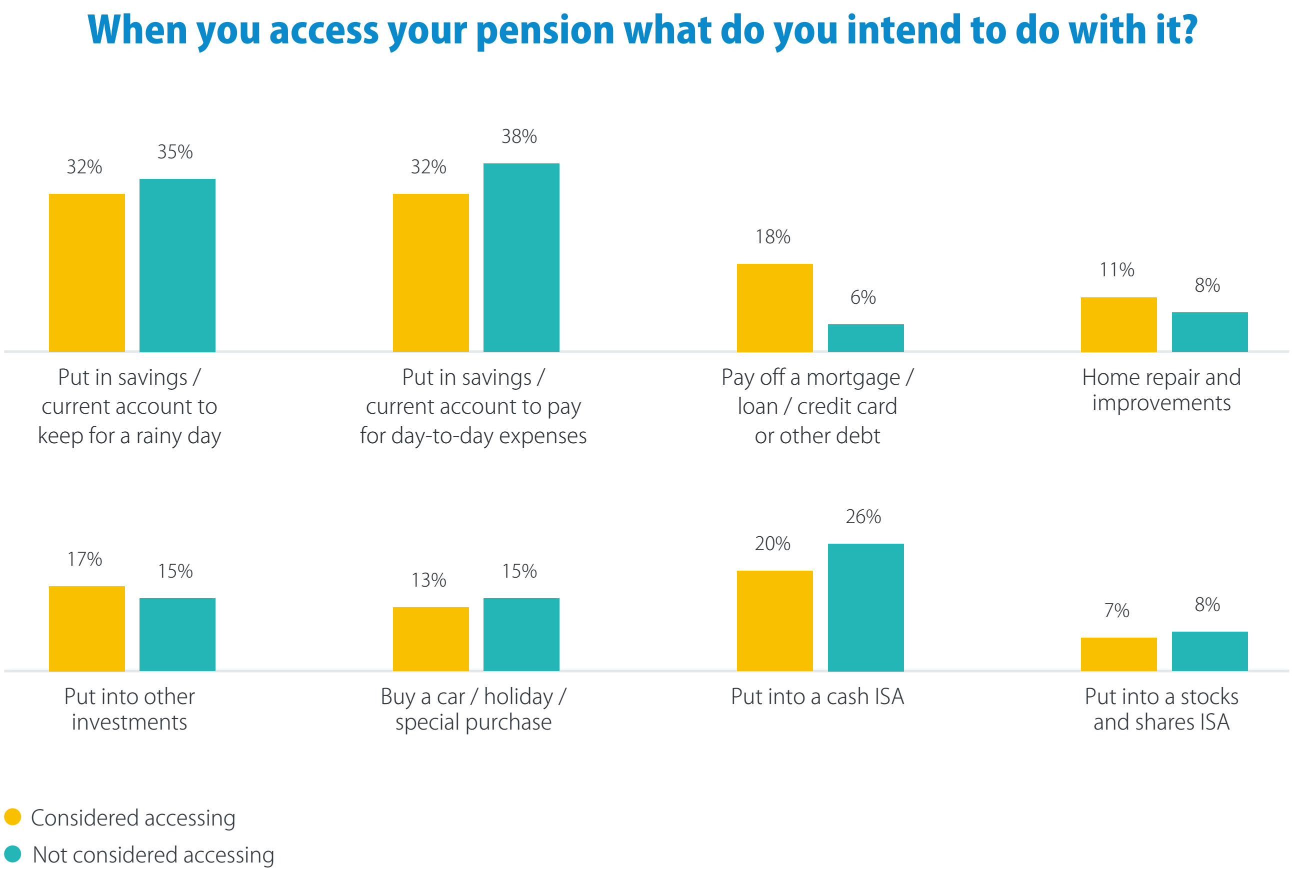
# What people did with the money withdrawn from their pension

## What people did with the money that was withdrawn from their accounts




We also asked those who were yet to access their pension what they planned to do with the money they withdrew. Compared to those who had accessed their pension, this group was more likely to say that they would use the money for day-to-day expenses, to put in a Savings account for a rainy day or into a Cash ISA.

# What those who have yet to access their pension intend to do with the money




Overall, our results indicate that most people accessing their pension are not blowing the money, indeed many are saving or investing it outside their pension. But this could still be detrimental for them if it reduces long-term returns or results in them paying too much tax.

People withdrawing money from their pension and keeping it in a Savings account risk taking a number of hits to their retirement income. Apart from the tax-free lump sum, taking money out of a pension will normally immediately reduce the capital saved by 20% or 40%, depending on the amount taken out and the tax rate applied. People could also take a second tax hit on the return on the savings unless they hold it in an ISA or are earning interest below the tax-free personal savings allowance. The returns available on cash are very low and unlikely to be able to keep pace with inflation, and although peoples' absolute levels of capital will be secure they are more likely to run out of money due to the low returns received. This chance of running out of money will increase further if they withdraw money from their pension during a period of market turmoil after the value of their investments has already fallen.

Taking a tax-free lump sum from a pension and using it to invest outside of their pension (preferably held within an ISA) might make financial sense for some people – depending on their financial circumstances and attitude to risk. Taking a taxed withdrawal from a pension to invest in similar funds outside a pension will not make financial sense for most people. It would immediately reduce the capital available for investment by 20% or 40%, depending on the amount taken out and the tax rate applied. If the funds are held outside an ISA then the income produced from them and potential capital gains would be taxable.

Leaving the money invested inside the pension would also result in them passing tax-free to the consumer's spouse, partner or other dependents should the consumer die before the age of 75.

Using the money from a pension to invest in a buy-to-let or rental property could lead to significant increased risk for people. They would be concentrating their investments in a single asset and would face higher tax on the returns. Given the size of most pension funds, many would also have to take out a buy-to-let mortgage, increasing the risks they were running in retirement if the rent failed to cover the mortgage payments.

**Factors which will determine whether people should make withdrawals from their pension fund to repay debt include:**

- Overall level and type of debt
- Interest rates charged and whether they can be reduced by refinancing debt
- When the debt is due for repayment and whether there are any Early Repayment Charges
- Whether there are any alternative repayment strategies/vehicles in place
- Attitude to risk
- Access to emergency fund
- Whether the consumer might have to incur significant expenditure during their retirement in the near future.

The interest rates on unsecured debts such as overdrafts, credit cards and personal loans could be high and exceed the returns available from the pension. This means that people overall could benefit from accessing their pension flexibly to repay this debt. However, they should only consider doing this if they do not have any alternative means of repaying the debt such as sufficient cash in savings accounts or other income. If the debts are manageable and could be cleared in a relatively short timescale then the consumer could consider refinancing them by using a special offer such as a 0% balance transfer deal and clearing them over the life of the deal.

For mortgages, whilst fewer people will have mortgage debt at retirement, the absolute size of these debts is likely to be much greater. Many of those with a need to repay a mortgage post retirement will have an interest-only mortgage. FCA modelling predicts that just under half of interest-only mortgage holders, whose loans mature around 2020, will have a shortfall between their mortgage and their expected repayment vehicle. In these circumstances, if their lender refuses to extend their mortgage term, then if the consumer wants to remain in their house and does not have other assets they may have little choice except to use some of the DC pension.

Whether a consumer would be better off using their DC pension pot to repay their mortgage will depend on their financial circumstances and attitude to risk. If they are paying a high interest rate on their mortgage, which could exceed the return they could gain on their pension, and they are risk averse, then using the DC pension to repay the mortgage would be more suitable. On the other hand, the consumer could have a long-term deal on their mortgage rate and be paying interest at close to the Bank of England base rate and have a high attitude to risk. In these circumstances the return from investing the DC pension could exceed the return from repaying the mortgage. People should also consider whether they have any expenses in the future which can only be met by taking on additional debt. For example if a consumer knows that they are going to need to spend money on essential house maintenance that they would only be able to get by taking on expensive credit card debt then it may make more sense not to use the DC pension or their other financial assets to repay the mortgage.

If people do need to access their pension to clear debts then they should do it in the most tax efficient way possible.

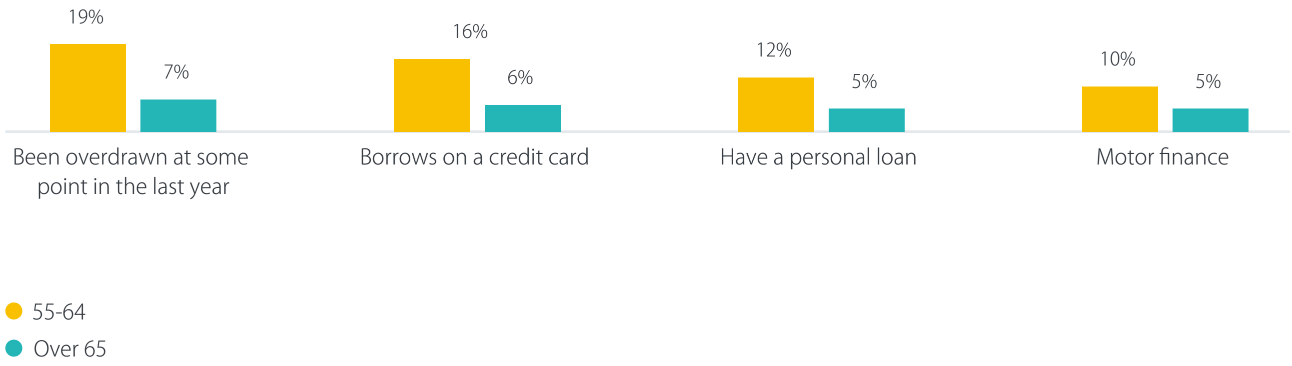
“I will use the tax free amount to pay off debts. I would continue to invest the rest. I would consider funds and perhaps revise my investments.”

– Julie, 53

“I knew that I could take 25% tax-free. When I retired I needed to buy a car so I took 25% of my DC pension to buy a car. I took the rest of [the pension fund] in four tranches.”

– Kelly, 65

## Type of debt by age[51]




## Mortgage debt[52]

| | 55-64 | 65-74 | Over 75 |
|---|---|---|---|
| **Have a mortgage** | 25% | 8% | 4% |
| **Average mortgage debt** | £80,000 | £90,000 | £70,000 |
| **Percentage of mortgage holders owing more than £150,000** | 14% | 15% | 8% |

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**Barrier and challenge** Most people taking withdrawals from their DC pension are not blowing the money but risk making decisions which damage their prospects of a comfortable retirement. People withdrawing money from their pension to put in a savings account are paying extra tax and reducing their long-term retirement income.

**Barrier and challenge:** Many are taking the money out to keep for a rainy day in a Savings account or Cash ISA. They are withdrawing the money and putting it in products which they find easier to understand and are more confident about taking decisions about. If they could be convinced that they are in control of their pension and that it is there if they need it then they could gain greater long-term returns and pay less tax overall.

# Endnotes

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[3] HM Treasury (2014), Freedom and choice in pensions, Cm 8835
[4] ONS (2018), Wealth and Assets Survey, Table 6.8; FCA (2017), Financial Lives Survey, Table 298, P_ACDV8 - Summary: All pensions schemes held, accumulating and decumulating
[5] ONS (2018), Wealth and Assets Survey, Table 6.8
[6] Annuity rates for a 65 year old male for a level annuity have declined from around 7.9% in 2008 to 4.8% in 2020.
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[9] FCA (2018), Key findings on [the FCA's] recent work on pension transfer advice, Less than 50% of the advice they reviewed within 18 firms was found to be suitable
[10] IPSOS Mori / Money and Pensions Service (2020), Pension Wise service evaluation, 2018/19, Page 4
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[13] HMRC (2020), Coronavirus statistics, https://www.gov.uk/government/collections/hmrc-coronavirus-covid-19-statistics
[14] FCA (2017), Financial Lives Survey, Table 298, P_ACDV8 - Summary: All pensions schemes held, accumulating and decumulating
[15] 38% of 7.5 million adults aged 55-64
[16] The size of pension fund for those who had accessed their pension fund represents the size of their pension fund before they accessed it
[17] Natcen / PPI (2018), Retirement Outcomes Review: final report: annex 5, Non-Advised Flexi-Access
Drawdown Pensions Customer Research, Page 50
[18] FCA (2017), Retirement Outcomes Review, Interim Report
[19] Ignition House (2017), Retirement Outcomes Review: Interim Report: Annex 3 Qualitative consumer research for assessing the non-advised journey Page 16; Natcen / PPI (2018), Retirement Outcomes Review: final report: annex 5, Non-Advised Flexi-Access Drawdown Pensions Customer Research, Page 50
[20] FCA (2017), Financial Lives, page 21
[21] FCA (2017), Financial Lives, page 174
[22] FCA (2017), Financial Lives, Pension Accumulation, Table 11
[23] FCA (2017), Financial Lives, Pension Accumulation, Table 5
[24] FCA (2017), Financial Lives, Pension Accumulation, Table 24
[25] FCA (2017), Financial Lives, Pension Accumulation, Table 29
[26] FCA (2017), Financial Lives, Pension Accumulation, Table 32
[27] FCA (2017), Financial Lives, Pension Accumulation, Table 36
[28] FCA (2017), Financial Lives, Pension Accumulation, Table 46
[29] The Pension Dashboard Programme papers on data scope and data availability can be found here: https://maps.org.uk/wp-content/uploads/2020/04/pdp-data-scope-working-paper.pdf
https://maps.org.uk/wp-content/uploads/2020/04/pdp-data-definitions-working-paper.pdf
[30] FCA (2017), Financial Lives, Pension Decumulation 2, PD45
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[40] IFF Research (2017), Retirement Outcomes Review Interim Report: Annex 4, Consumer research for fully withdrawn pension pots, Prepared by IFF for the Financial Conduct Authority, page 32
[41] FCA (2018), Retirement Outcomes Review, Final Report, page 38
[42] FCA (2019), CP19/5 Retirement Outcomes Review: Investment pathways and other proposed changes to our rules and guidance, Para 8.31
[43] OBR (2014), Economic and Fiscal Outlook March 2014; OBR (2017), Economic and Fiscal Outlook November 2017
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[52] FCA (2017), Financial Lives, page 116-117

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