The Unpredictability of Retirement

Understanding Retirement:
An NAPF Research Programme

January 2015

About the Understanding Retirement series

Working lives are changing, retirement is changing, pensions are changing. In July 2014 the NAPF launched a major research series examining the nature of retirement, its impact on pension savers, pension schemes and other retirement savings as well as employers.

The purpose of the series is to inform both public policy and the design of private sector pension and retirement income products, as well as helping to shape the guidance and help that is needed as retirement approaches at the point of retirement and beyond.

Phase One of the research examined the expectations and the reality of retirement today for those recently retired and those coming up to retirement in the next 20 years; essentially the generation of 'baby boomers' born between 1946 and 1965. It considers, among others, the following questions:

- To what extent are the expected changes in retirement evident today?
- What are the triggers and barriers driving retirement decisions?
- How is retirement being experienced – the good, the bad, the indifferent?
- How is pension provision (and other investments and savings) shaping retirement expectations and experiences?
- What are those hoping to retire in the near future expecting from retirement and their pensions?

Subsequent phases of the research will explore the impact of Freedom and Choice on decision making, the retirement journey and retirement outcomes for those making decisions in 2015, while the third phase will explore the relationship between 21st century retirement for the baby boomers and the needs of employers.

Acknowledgements

The NAPF would like to thank the following people who helped deliver the research that supports this report:

- Elizabeth Montgomery and Alison Lyon from Sharp Research who carried out the qualitative research;
- Steve Pick from from Critical Research who conducted the quantitative fieldwork;

We would also like to thank all the participants who took part in this research. For further information about this report or the wider research programme, please contact Liz Spratt on 020 7601 1734 or by email *Elizabeth.Spratt@napf.co.uk*

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Foreword

From within the pensions industry it is easy to overlook or misunderstand the experience of savers themselves as they approach retirement. Now, as we continue to implement huge reforms in pensions, it will be crucial to understand savers' expectations and aims for their retirement and how they will be affected after April 2015.

The research we have conducted for this first phase of our Understanding Retirement series examines attitudes to retirement among three groups of people aged 50-70, Satisfied Sarah & Simon, Maggie & Malcolm in the Middle and Pinched Penny & Paul. Retirement for this demographic will be very different to the expectations they will have inherited from their parents or grandparents. This is partly as a result of social and economic changes since the mid-late 20th Century, but also as a result of the Government's Freedom and Choice reforms. These mean that up to 5 million people retiring in the next five years will be experiencing a new path into retirement, with new decisions and new risks.

The conclusions are clear. To give savers the best possible chance of managing their money, we will need to give them three things:

- Clear pathways that are easy-to-understand and provide access to good-value solutions;
- Visible and easy-to-obtain guidance that makes savers aware of their options; and
- High-quality products designed to meet the needs of savers.

This has consequences for schemes, employers and the rest of the pensions industry. To help members get the best possible outcomes, we must improve our understanding of their expectations and the decisions they face. This in-depth research with 1,000 people thinking about retirement aims to inform pensions policy and the design of private sector pension and retirement income products, and help to shape the guidance and help that is needed in retirement and beyond. It asks what savers want from retirement how retirement has changed, how retirement decisions are driven and how pensions policy and the market impacts those decisions.

Later research in this series will show how the first wave of retirees under Freedom and Choice experience these reforms. The programme will give our members and the industry as a whole a full account of how a new picture of retirement is coming into focus in the 21st Century. For all of us engaged in securing good outcomes for members, it is essential reading.

As ever, the NAPF wants to work with everyone engaged in pensions and retirement policy as we develop our research programme and our policy thinking. A collaborative approach across the industry will help us to deliver solutions that work in the long term.

Joanne Segars

Executive Summary

While many have talked about the death of retirement as we have come to know it, today's retirees still dream of, and expect, an extended period of comfortable retirement. However, the idea of retirement engenders mixed feelings of apprehension and anticipation. Times have changed and the latest reforms to pensions to be introduced in April 2015 add to the feelings of uncertainty. In this report we map out the changes that have led to unpredictable retirement and then examine in more detail the expectations and experience of those approaching retirement and those who have recently retired.

20th Century retirement: new but predictable

The experience of retirement in the second half of the 20th Century, shaped as it was by changes in social policy, employment patterns and the emergence of more widespread occupational pensions, has framed consumer expectations of both when retirement should occur and what it will be like. From a position where retirement was a luxury at the start of the 20th Century, by the end of the century retirement had come to be seen as a right, a largely predictable event and a period of life that combines more freedom with, to a greater or lesser degree, some financial constraints. The way in which today's retirees respond to changes in pension policy will, in part be a reflection of the experience of their parents and older colleagues in the latter part of the 20th Century.

21st Century retirement: changing and unpredictable

The first fifteen years of the 21st Century have witnessed major transformations of the global economy, UK pension policy and, more gradually, the concept of retirement. Changes have included: the near collapse of Defined Benefit (DB) pensions in all but the public sector; falling and now rising participation in workplace pensions; austerity and limited opportunities for investment and savings growth; the decline and then revival in the value of state pensions; the shifting state pension age (SPA); a decline in home ownership and an on-going debate about the funding of social care in later life; and, most recently, the changes being introduced through the Freedom and Choice agenda in 2015. All of these changes have reversed the predictability of when retirement will occur and what it will look like.

Malcolm in the middle

The cohort that includes both recent retirees and those approaching retirement (those aged 50-70 today) were all born at the end of or after the second world war. Most are classified as baby boomers. Their experience of retirement is being shaped by the economic and social environment and pension policy of the second half of the 20th Century and the more recent changes to pension policy in the first 15 years of the 21st Century.

A clear divide is emerging between those baby boomers who have already retired and those who have yet to do so. Proportionately, among those yet to retire there are half as many 'satisfied Sarahs' with good DB pensions than among those already retired and 64% more 'pinched Pennys' with only a state pension. 'Malcolm in the middle' with a mix of Defined Contribution (DC) and other savings become the dominant typology among those heading for retirement. That difference alone suggests that those facing retiring in a world of freedom and choice will not experience the same retirement as their slightly older peers.

4.8 million Malcolms aged over 50 are having to face not only the growing unpredictability of retirement but also the complexity of making a very different set of decisions about what to do with their pension savings.

When to retire?

Pensions, whether private or state, continue to act as an important trigger for retirement. For Penny, reliant on the state pension, reaching SPA is a natural time to retire, although poor health can often trigger earlier retirement. For Sarah, with the benefit of a good DB pension, early retirement is often triggered by having adequate pension and other savings as well as being tired of working. For Malcolm, things are much less clear.

Financial security?

In spite of having very different pension provision, a working Malcolm has a similar expectation of their income needs in retirement to Sarah. Sarah and Penny might be thought of as realistic in their expectations. Malcolm however, may be more disappointed.

Penny and Sarah experience different extremes in retirement, the former often struggling to make ends meet, the latter typically experiencing a comfortable retirement. Malcolm sits somewhere in the middle: cutting back more than Sarah but not struggling as much as Penny.

Of the three groups, Malcolm faces the most uncertainty at retirement. He cannot predict his income easily and knowing how to convert his savings to an income will be challenging, even before the changes introduced in the 2014 budget.

Supporting retirement decisions

For those faced with the prospect of converting their pension funds into an income in retirement, the prospect of making that decision and controlling their funds in retirement is seen in both a positive and negative light. On the one hand, many are delighted with the prospect that they do not have to buy an annuity. On the other, many fear that they do not have the capability to make the right decision, will run out of money and worry about inflation and long term care needs. Some explicitly and some implicitly hanker after a world of greater simplicity where decisions are made for them.

For Malcolm, making financial decisions at retirement involves making calculated guesses: how long will my savings last? how long will I live? how much income will I need through my retirement? Decisions now have to be made within the wider context of significant reforms around pensions and the impact of austerity. Decisions are also made complex by the stark contrast between the stated preference for a secure lifetime income and the poor reputation of the very products that can deliver that.

For many Malcolms, sources of expert help are limited due to the limited availability of advice to those with moderate incomes and wealth. A significant proportion do not expect to seek help and among those that do, the majority will not seek formal advice but will consult organisations that can only give guidance. To navigate the market, many Malcolms will need help, specifically:

1. **Pathways:** Clearly defined pathways into retirement should be developed so that people have easy access to at least one straightforward, good value option.
2. **Guidance:** The Government's Pension Wise service should be promoted heavily to ensure people use it to explore the wider range of options available to them.
3. **Products:** Savers should also be able to choose from a full range selection of high quality products built around their needs.

The foundations of retirement: 20th Century

The experience of retirement in the second half of the 20th Century, shaped as it was by changes in social policy, employment patterns and the emergence of more widespread occupational pensions, has framed consumer expectations of both when retirement should occur and what it will be like. From a position where retirement was a luxury at the start of the 20th Century, by the end of the century retirement became a right, a largely predictable event and a period of life that combines more freedom with, to a greater or lesser degree, some financial constraints. The way in which today's retirees respond to changes in pension policy will, in part be a reflection of the experience of their parents and older colleagues in the latter part of the 20th Century.

Examining the foundations of retirement in the 20th Century we look to provide the contextual basis for our research among those approaching retirement and the recently retired in the 21st Century. This chapter provides an overview of the history of pension provision, and details some of the sociological changes that affected retirement in the 20th Century.

State pensions and the norming of retirement

Before the introduction of state pensions there was no commonly accepted age of 'retirement'. In Britain older workers, who were no longer able to work, were supported through the Poor Law, and some supplementary income from family or charities. State pensions were therefore pivotal to the development of retirement as a concept.

The first state pension was introduced in Germany under Bismarck in 1889. This provided support to regularly and better-paid, mainly male, industrial workers and was implemented to stabilise the German economy, as much as for the wellbeing of older people.

In Britain discourse as to how best to support poor older workers was high on the political agenda at the turn of the 20th Century. The state pension, although influenced by the German system, focussed on supporting the very poor (rather than driven by economic considerations) and led to the eventual introduction of universal state pensions in 1945 (as a result of the Beveridge report). State pension provision introduced the concept of an age at which departure from the workforce became a societal norm.

"...I don't remember my parents ever wanting for anything from a state pension, you know..."

Female, late retired, lower income

The state pension, alongside the provision of universally free health care under the NHS, transformed the experience of growing old – providing support for those of an older age and allowing them to enter into a period of retirement.

Occupational pensions, retirement and workforce management

Alongside the state pension, occupational pension schemes grew in membership in the 20th Century. Occupational schemes were often used as a tool to manage the workforce and introduced for the financial benefit of the company, not only the employee.

Before the introduction of the state pension, there were only a limited number of occupational pension schemes, such as the Bank of England and the Civil Service Pension Schemes, that provided support for old age. These occupational pension schemes included recommended retirement ages, which reflected a point when physical and cognitive health began to delcine; for the civil service this was 60 in the 1850s[1].

With industrialisation and a reliance on the speed of the production line, there became a greater awareness among employers that older workers may reduce the productivity of a company. Pensions were viewed as a mechanism for regulating the number of older workers in the workplace (as is reported to be the case for Rowntree, for example[2]), leading to the removal of those who were considered to be surplus.

"...And it [a defined benefit pension scheme] grows every year, like if I was at work...and my husband has as well, so we are in a really fortunate position, where we don't have to worry financially...."

Female, Late retired, lower income

Occupational pension schemes also provided employers with tax breaks. The 1921 Finance Act introduced tax relief on pension scheme contributions and investments, which helped to incentivise the growth in occupational pension scheme numbers.

Membership of occupational pension schemes increased rapidly after the Second World War, especially defined benefit (DB) pension schemes, although membership often remained limited for women in work. Active membership of DB occupational pension schemes peaked in 1967 at 12.2 million (almost double the membership of 6.2 million in 1953).

Although DB offered many benefits to employees, these schemes were also used to manage the workforce. In the 1960s and 1970s final salary pension schemes were also used to reduce employment costs of older workers and to combat under-employment among younger people, by retiring members of the workforce well before the age of 65.

From manufacturing to a service economy

The 20th Century was characterised by boom and bust economics - from the recession of the 1920s to stagflation in the 1970s, and recession again in the early 1990s. The impact of periods of decline

[1] Sourced on 21/01/15 at http://qlearn.org.uk/mod/page/view.php?id=751
[2] Sourced on 21/01/15 at: http://www.open.edu/openlearn/society/politics-policy-people/sociology/retiring-lives-old-age-work-and-welfare/content-section-3.2

was high levels of unemployment, and in the 1980s and 1990s older workers typically took earlier retirement in these periods. Indeed it has been estimated that for each percentage point increase in local unemployment rates there is an increase in the conditional probability of retirement by 0.29 percentage points[3].

At the same time as boom and bust economics, significant changes to economic composition occurred – which had an impact on the employability of older workers. In the first half of the 20th Century the economy was driven largely by manufacturing industries, with nearly a third (28 per cent) of all output being generated and nearly a quarter of all employment (24 per cent) being created within this sector[4]; manufacturing also typically had high levels of male employment. By the end of the 20th Century although overall output levels in the manufacturing sector had experienced only small reductions (with 22 per cent of the output still being generated by manufacturing), employment levels in this sector had decreased to just 14 per cent of the overall workforce[5]. Service industries predominated generating 66 per cent of output and employing three quarters of overall workforce[6].

This decline in manufacturing led to a decrease from 7.1 million manufacturing jobs at the end of 1978, to 5.3 million by the end of 1983[7]; anecdotal evidence has suggested that it was the older workers who lost out more than younger workers, resulting in a move towards a greater dependence on benefits and/or early retirement[8].

"...I've invested in property as well...that would be my income ...it was a case of trying to get a couple of properties before a certain age, so that that – so they're buy to lets, so it's the rental income."

Female, Planning to retire early, higher income

Personal wealth

Alongside state provision for retirement there was an increase in personal wealth, in particular in relation to assets invested in property. Changes in the tenure of home ownership created an additional financial security in retirement.

There was a substantial rise in the number of householders owning properties; in 1918 the predominant form of tenure was renting, with 77 per cent of households belonging to this category[9]. However with widescale regeneration after the Second World War house building, coupled with rising wages in comparison to house prices, resulted in an increase in the number of householders owning their properties. By 1971 the number of owner occupied

[3] The Centre For Market And Public Organisation, *Booms, busts and retirement timing*, December 2010
[4] ONS, A century of labour market change: 1900 to 2000, 2003
[5] ibid
[6] ibid
[7] ONS, Pension Trends – Chapter 4: The Labour Market and Retirement,2013
[8] ibid
[9] Source on 21/01/15 at: http://www.ons.gov.uk/ons/rel/census/2011-census-analysis/a-century-of-home-ownership-and-renting-in-england-and-wales/short-story-on-housing.html

household was 50 per cent; the introduction of right to buy increased the number of owner occupied households further to 68 per cent by 1991[10].

Many older people who had purchased property over the latter half of the 20th Century and paid off their mortgages were in a financially strong position entering retirement, with limited housing costs. During the final part of the 20th Century, housing also became seen as a suitable investment for retirement with the growth in buy to let properties and mortgages.

> *"...I can remember my parents looking like very old people at what we consider now [to be] a relatively young age and I think generally, the population in those days, many, many people never reached the age to draw their pension..."*
>
> *Male, planning to retire early, higher income*

Health and longevity

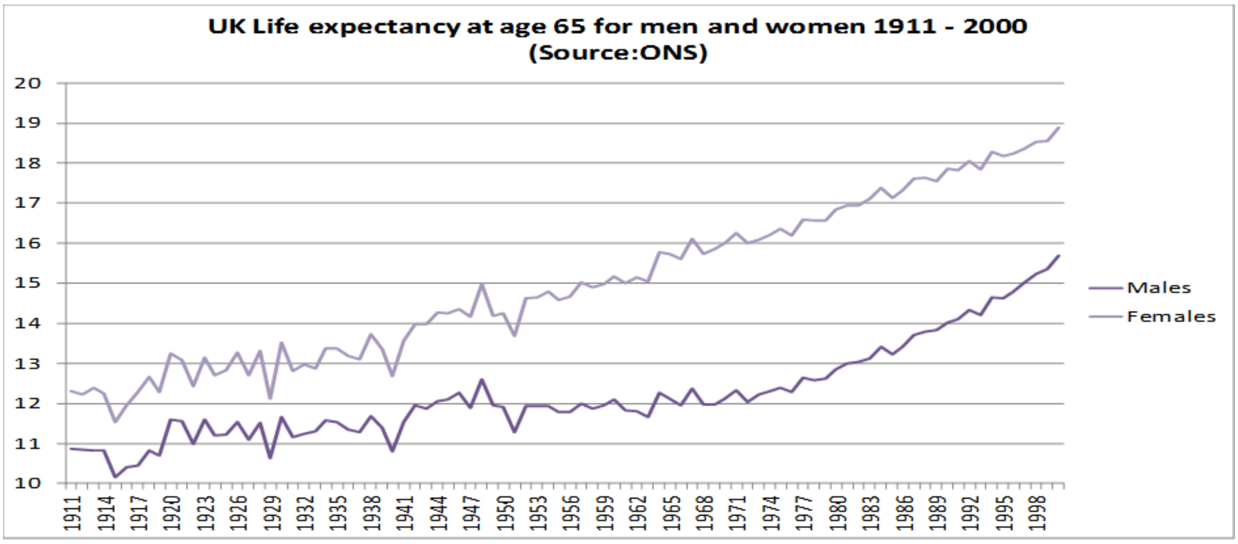
Overall the UK population grew over the 20th Century by 54 per cent from 38 million in 1901 to 59 million in 2001[11]; however the pace of growth slowed over the course of the century. Between 1901 and 1911 the population grew at a rate of one per cent per annum; by the end of the century (between 1981 and 1991) the growth rate had fallen to just 0.26 per cent per annum[12].

The growth experienced was not as a result of a higher birth rate - the number of births declined throughout the 20th Century, with peaks only experienced after the Second World War. Population growth was due to a reduction in infant mortality in the early years of the century and improvements in later life expectancy as the century progressed. However until the 1970s/1980s there was little concern about the impact of the declining birth-rate and ageing population on the nation's workforce, and older workers frequently retired early.

Improvements in public health, medication and nutrition drove longevity, and between 1900 and 2000 life expectancy increased by over 30 years for both men and women (from 44 to 76 years for men, and 48 to 81 years for women)[13]. In 1901 the proportion of the population over 50 was around 15 per cent; in 1951 it had risen to 25 per cent and 31 per cent by 1991[14]. Not only were more people likely to receive their pension but they were likely to live longer in retirement. 'In retirement' life expectancy has seen marked improvements since the end of the second world war. Today a man retiring at the age of 65 can expect to live for 18 years in retirement and a woman for 21 years[15].

Figure 1: UK Average life expectancy at age 65 for men and women 1911-2000

[10] ibid
[11] House of Commons Library, A Century of Change: Trends in UK Statistics since 1900, 1999
[12] Ibid
[13] ONS, Mortality in England and Wales: Average Life Span 2010, 2012
[14] House of Commons Library, A Century of Change: Trends in UK Statistics since 1900, 1999
[15] ONS, Life expectancy at birth and at age 65 by local areas in the United Kingdom, 2006-08 to 2010-12, 2014



Source: ONS 2010-based National Population Projections

Those approaching retirement therefore increasingly anticipated a longer period in retirement, supported by state and/or occupational pensions.

A predictable retirement?

The two key certainties of 20th Century retirement were withdrawal from the workforce and receipt of a pension. The quality of retirement varied and was largely polarised between two extremes. For the luckiest this was retirement with a good DB pension, a guaranteed income and good quality of life in retirement (as well as the potential for an early retirement). For those on lower incomes not in membership of a scheme the reality they faced was retirement on a state pension only – however this would at least be expected to pay for the basics. For many of those in the middle, savings with the bank or insurance companies such as Prudential provided a top-up to the state pension.

By the last quarter of the 20th Century, most of the working population expected not only to retire in their early 60s but to do so in relative comfort, either as a result of workplace pension provision, their own savings or through releasing equity in their property. Retirement as a right and a social norm had arrived.

The forewarnings of unpredictability

However, changes were taking place that would make retirement less of a certainty. The financial stability of DB schemes, coupled with government policy in the 1980s had started to change the occupational pension scheme landscape; employers increasingly offered Defined Contribution schemes (DC) over DB schemes.

This change has meant a large degree of uncertainty for scheme members: whilst DB schemes offer a pension of a fixed proportion of an employee's salary based on the number of years' service accrued, DC pension schemes, based on the amount of money invested (by both employers and employee) investment performance and annuity prices, offer less security. There is no guarantee about the level of income that scheme members will receive.

There was also a change in to the methodology for calculating the monetary value of the state pension; until 1980 the state pension had been uprated in line with national earnings, but the Social Security Act 1980 changed this to be in line with inflation only. As a result pensioners' incomes have not risen as favourably as the working population.

The 20th Century was a heyday for growth in pension provision, but at the end of the 20th Century, the future of pensions, and therefore retirement, had become much less certain. Those retiring in the 21st Century are faced with a more unpredictable retirement, shifting working patterns and less certain financial futures. Government, employers and the pension sector all face challenges in helping retirees address these uncertainties.

Uncertain futures: 21st Century retirement

The first fifteen years of the 21st Century have witnessed a major transformations of the global economy, UK pension policy and, more gradually, the concept of retirement. The near collapse of DB pensions in all but the public sector, falling and now rising participation in workplace pensions, austerity and limited opportunities for investment and savings growth, the decline and then revival in the value of state pensions, the shifting SPA, a decline in home ownership and an on-going debate about the funding of social care in later life and, most recently, the changes being introduced through the Freedom and Choice agenda in 2015; all of these changes have reversed the predictability of when retirement will occur and what it will look like.

In the 21st Century expectations of retirement are beginning to evolve. For some there is a less clear cut transition from working to non-working life, and for many much less certainty about retirement finances. The early years of the 21st Century are perhaps best viewed as a transitional phase between the traditionally viewed expectations of retirement, tied to a chronological age to a new more fluid, no 'one size fits all', retirement.

What is without question is that the relative predictability of 20th Century retirement has been replaced with a great deal of uncertainty as to what it is to be a 21st Century pensioner, particularly in terms of finances.

Pension reform

The 21st Century has seen a significant overhaul of pensions, triggered by economic crisis and austerity, an ageing population and a culture of low savings. There are also rising levels of public concern about the availability of state support for those in retirement and those needing care in later life.

Key recommendations from the Pensions Commission in 2002 led to the Pensions Act 2007, the Pensions Act 2011 and most recently the Pension Act 2014. These acts have provided the legislative basis for the complete reform of pensions in the UK (both state and private pensions). Key changes have included:

"... probably some people in this room have been affected by the change in when you get your pension, so if you were planning 5 years ago, when the government couldn't decide what the ages were for women and things like that, it really does have an impact on when you go..."

Male, retiring late, lower income

- Automatic enroling eligible workers into workplace pension schemes;
- Reforming the state pension into a single-tier pension at a flat rate, set above the basic level of means tested support for people who reach SPA on or after 6 April 2016;
- Increasing the SPA to 67 for both men and women by 6 April 2028.

As a result those born after 1953 have not or will not be able to draw their state pensions when they had originally planned. Indeed the scale and pace of legislative changes has meant that today's workers have less confidence about how their pensions will change in the future, and when they may be able to retire. **Todays' over 50s are living in a very different era of pensions, with much less certainty about their retirement outcomes.**

Freedom and Choice: changes to accessing pension income

One of the most fundamental changes to retirement, and accessing retirement incomes, has been seen within the Coalition Government's Freedom and Choice agenda. Freedom and Choice is designed to offer more flexibility in accessing DC pensions.

".. it [recent announcements] might change my approach - it would depend on the figures. I don't want to draw it out too early. I would wonder if I am doing the right thing. I would talk to my IFA first."

Female, intending to retire at state pension age, higher income

From 6 April 2015, people with DC pensions will be allowed to either buy an annuity, opt for a 'drawdown' pension with no limits on how much they take, take a slice of their pension pot or take all of their pension pot and spend or invest it how they like.

NAPF research, along with several other studies of consumer behaviour, all point to an increase in consumer confusion and uncertainty, albeit that consumers welcome the new freedoms being afforded to them. Most consumers with private pension savings now face a new set of challenges that will fundamentally affect their well-being in later life, including:

- When to access their pension savings (and for a minority whether to access at all or leave for the next generation);
- Whether to turn their savings into an income in retirement and/or withdraw it as a lump sum;
- If converting to an income whether to secure an income for life through an annuity or take some risk and draw an income from an invested pot of money.

Pensioner incomes

Pensioner incomes increased throughout the 20th Century with a diversification in the variety of income streams available during retirement and a rise in real terms for state pensions; both of these corresponded with a reduction in the overall level of pensioner poverty. Pensioners are, at least in real terms, better off than they have ever been before.

Pensioner poverty affected 4.7 million pensioners in 1994/95; by 2012/13 this was just 1.8 million pensioners[16]. Over the same time period the basic state pension increased in real terms from £97 per week to £107. By 2012/13 state benefits accounted for under half (44 per cent) of pensioners' incomes, with occupational pensions making up 27 per cent, earnings 17 per cent, investment income seven per cent, and personal pensions four per cent[17].

Many of today's retirees still have DB occupational pension schemes – which generally provide for the highest incomes. In 2012 9.5 million were receiving pensions[18]; with just 100,000 from DC schemes in the private sector[19].

However with active membership of DB schemes decreasing (as more schemes closed to new members), a greater proportion of the population will soon retire with a DC pension (or with no pension) and with this less certainty about their returns. Those already retired with a DC scheme have had first-hand experience of this.

The value of the state pension in relation to earnings dercreased during the latter part of the 20th century and early part of the 21st (representing just 17.70 per cent of average earnings in 2012 compared to 21.09 per cent of average earnings in 1972).[20] However, the introduction of the triple lock in 2010 is gradually restoring some of that difference, albeit that the state pension age is now rising. Those entering retirement in the future, dependent on a DC or a state pension, are more likely to do so with greater uncertainty around their financial security.

The decline of home ownership

And it is not only the value of pension income that has the potential to affect financial stability of future retirees, but also changes to housing tenure. Traditionally those entering retirement have done so as home owners (and with mortgages paid off before retirement); pensioners have not had to worry about significant housing costs in retirement – but this may soon start to change.

"We were fortunate: our generation were the property owning generation, so come roughly retirement age, you've got an asset. You know, if they can't afford to buy a house, they're never going to have that asset ..."

Male, late retired, lower income

In 2011, for the first time since 1953, there was a decline in the level of home ownership in the UK with just 64 per cent of households being owner occupied[21]. This reduction has been linked to the difficulty for first time buyers getting on the housing ladder – indeed only nine per cent of 25-34 year olds are owner

[16] DWP, Households Below Average Income, an analysis of the income distribution 1994/95 – 2011/12 June 2013 (United Kingdom), 2013
[17] DWP, The Pensioners' Incomes Series United Kingdom, 2012/13, 2014
[18] ONS, Occupational Pension Schemes Survey, 2012, 2012
[19] ibid
[20] House of Commons Library, Historical Rates of Social Security Benefits, 2013
[21] Sourced on 21/01/15 at: http://www.ons.gov.uk/ons/rel/census/2011-census-analysis/a-century-of-home-ownership-and-renting-in-england-and-wales/short-story-on-housing.html

> *"... As you get towards retirement age, it would be nice not to have a mortgage or [just] something very small, so most of the equity is yours, so you know straight away you can get funds if you need them by just trading down"*
>
> *Male, plans to retire early, higher income*

occupiers. Although this will not affect current retirees, this will have an impact for the 21st Century pensioners of future years[22].

There are also an increasing number of people reaching retirement with a mortgage still to pay off; the Financial Conduct Authority (FCA)'s research on interest -only mortgages found that 40,000 households with owners aged above 65 will see their interest-only mortgage mature between 2017 and 2032 – with half of these households having a shortfall of more than £50,000[23]. This change is important to note, as owning a property and downsizing after retirement is often viewed as a way of releasing equity.

For generations yet to retire the reduction in owner occupation and the instability of renting in the private market will reduce assets available when approaching retirement and will have an impact on expenses and the management of finances in retirement.

Managing debt in retirement

Total personal debt in the UK stood at £1.46 trillion at the end of October 2014[24]. Increasing consumption and the effect of the recession has led to debts; with increasing insolvencies from 7.2 per 10,000 adults in 2000 to 22.4 per 10,000 adults in 2013[25]. Although insolvency rates are rarely high among the older population there is evidence that this is changing.

Age UK has examined personal debt in the over 50s, and whilst it was identified that those in this age range were the least likely to have personal debt, there were differences between age bands in the over 50s cohort. Those in their 50s, for example, were more susceptible to debt than those in their 60s and 70s[26]. Polling has also demonstrated that demand for credit among over 55s remains at high levels[27] .

Although debt has historically not been a problem faced by older people, this may change as the next generation approach retirement. With decreasing incomes and more limited equity, those retiring with debt will need to develop effective strategies for debt management. Our research has

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[22] ibid
[23] Age UK, Problem Debt Among Older People: Age UK's summary of research by the International Longevity Centre – UK, 2013
[24] Sourced on 21/01/15 at: http://www.bankofengland.co.uk/statistics/Pages/bankstats/default.aspx
[25] Sourced on 21/01/15 at: https://www.gov.uk/government/statistics/insolvency-statistics-individual-insolvencies-by-region-2013
[26] Age UK, Problem Debt Among Older People: Age UK's summary of research by the International Longevity Centre – UK, 2013
[27] Sourced on 21/01/15 at: http://www.keyrs.co.uk/news/key/pensioners-expect-borrow-money/

identified that some workers retired later than planned in order to clear debts, and also sometimes used their lump sum for this purpose as well.

Health and retirement

Men aged 65 in 1951 were expected to live for 12 additional years, with women expected to live for an additional 16 years[28]. There are now 11 million people in the UK aged 65 or over[29], and one-third of babies born in 2012 are expected to survive to their 100th birthday[30]. With this substantial increase in longevity, there is now extra uncertainty around life expectancy and the financial resources required.

> *"I think its because you're nearly at retirement age or just over you start thinking about your health and you think, no matter how healthy and how good you are, it's a downward slope."*
>
> *Female, retired early, higher income*

Further more with increased longevity there is a greater risk of living longer in poorer health. An estimated four million people aged 65 and older in the UK have a limiting longstanding illness[31]; this not only affects their quality of life but has a financial impact on long term care needs which must be planned for. To deal with the demands of such health needs, public spending on long term care is projected to rise by around £14bn by 2061/62[32]. On average men in the UK aged 65 can expect to live for just under 10 years in good health whilst women aged 65 can expect to live for an additional 12 years in good health[33].

> *"My brother, who about 3 months into his retirement was playing tennis with his grandchildren of 4 and 6. He had a small bleed and went into a coma in front of them, and never recovered. His pension was stopped the minute he became ill. My sister in law does get a small pension now. Random events are so important."*
>
> *Female, planning to retire at state pension age, higher income*

Whilst people are aware that they may live longer, it is often difficult to estimate both how long, and how much money will be needed to support an extended life.

It has been demonstrated that people generally underestimate their life expectancy by a number of years[34], and our research supports that there is an uncertainty around this with just over one in ten believing their savings will have to last

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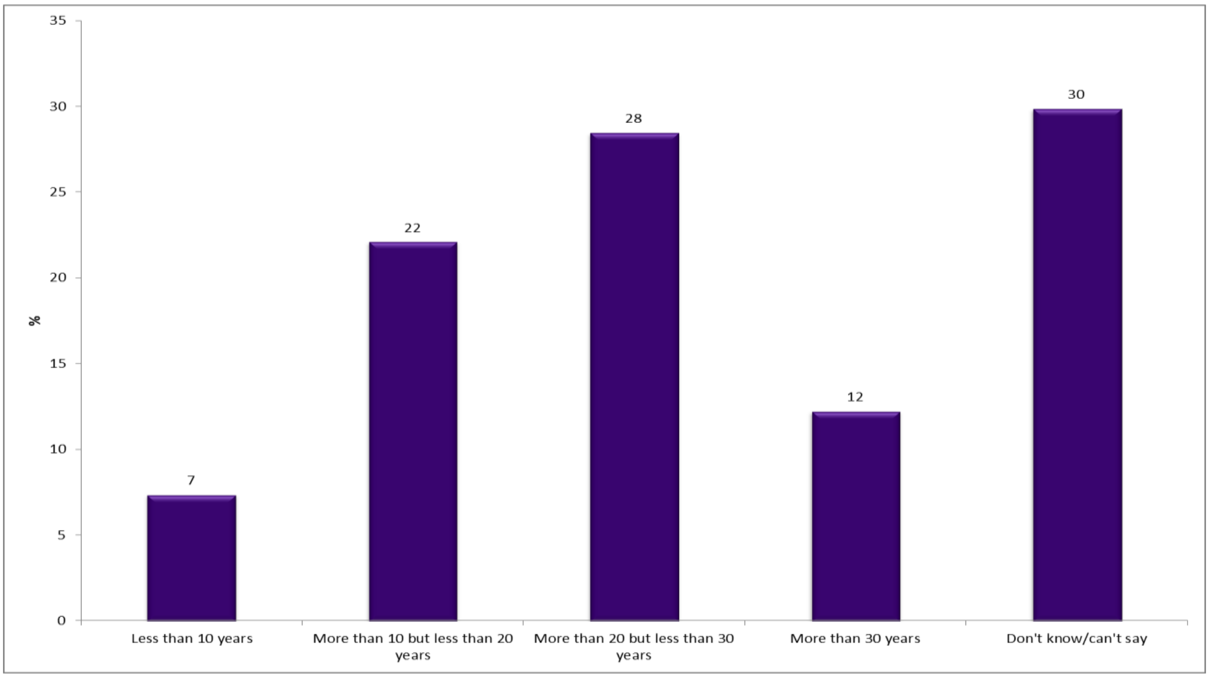
[28] DWP, Cohort estimates at life expectancy at aged 65, 2011
[29] Age UK, Problem Debt Among Older People: Age UK's summary of research by the International Longevity Centre – UK, 2013
[30] ONS, Historic and Projected Mortality Data from the Period and Cohort Life Tables, 2012-based, UK, 1981-2062, 2013
[31] Age UK, Later Life in the United Kingdom, November 2014
[32] Silcock D and Sinclair D, *The cost of our ageing society*, December 2012
[33] ONS, Pension trends chapter 3: life expectancy and healthy ageing, 2012
[34] Dormont B et al, Individual uncertainty on longevity, 2014

over 30 years. With more than 95,000 people aged 65 in 2012 likely to reach their 100th birthday in 2047[35], an increasing number of over 50s should plan for a longer retirement.

Figure 2: How long do you think your money will have to last for in retirement?



Base All respondents with pensions or private savings (921)

With uncertainty over longevity, and health in older age, those approaching retirement face tough decisions on how to manage their finances so that they have enough income to support them through ever increasing years in retirement.

Working into retirement

An answer to uncertain and sometimes reduced incomes may be to work in retirement. Legislation removing the default retirement age has sought to eliminate age discrimination faced by those working past the age of 65 years.

The removal of the default retirement age, in addition to the increase in the SPA and a weaken economy, has led to a limited but noticeable increase in the number of over 50s working in the traditional retirement period. Seventy two per cent of men and 70 per cent

> *"I've had a major career for 28 years …I've had my own company as a property developer building blocks of flats and the fact being is that when I retire, I'll go crazy; I mean I don't want to retire, but health-wise and age-wise, I am going to have to do that. I mean my mum; you know, who wants to go out playing bridge and scrabble…? I'd rather be up ladders with a hard helmet and stuff like that; but you know, the fact being is, I won't be able to possibly physically do that as well as mentally: my head will go mad."*
>
> *Female, pre-retirement, higher income*

[35] ONS, What are the Chances of Surviving to Age 100?, 2012

of women are now in employment between the age of 50 and their respective SPAs; 12 per cent of men and women are now working beyond the current SPAs[36].

"My ideal mix will be working 1-2 days a week somewhere. Maybe doing something voluntary. Maybe something like B&Q. I don't want to do too much. Maybe I'll drive a van. I want to do something where I don't have too much responsibility".

Male, retired at state pension age, higher income

Evidence from our research supports this finding; with 19 per cent of those who consider themselves to be retired undertaking some paid work, often through choice. However, this needs to be balanced against the view held by the majority of the retired that they would not want to return to work, even part-time.

For those employed after the SPA there is generally a preference for part-time work, whilst the majority under SPA work full-time. In April-June 2012, around 67 per cent of those who were in employment and working after the SPA did so on a part-time basis; compared to about 33 per cent who were employed full-time[37].

Generally employment after the SPA is within highly skilled professions for men, including: managers, directors and senior officials, professional occupations, and the skilled trades. By contrast women are typically more often employed in elementary occupations (such as cleaners), administrative positions[38].

Irrespective of the type of role taken, retirement is no longer solely typified by economic inactivity and pensioners will need to consider what role paid employment will play in their retirement, and how it will interact and supplement their pension incomes. **The decision to work, or not to work, will also be affected by the pension choices they have made over the course of their working life and how they choose to use their pension at retirement.**

[36] ONS, Pension Trends – Chapter 4: The Labour Market and Retirement, 2013
[37] ONS, Older Workers Statistical Information Booklet 2013, 2013
[38] ibid

Satisfied Sarah, Pinched Penny and Malcolm in the middle

The cohort that includes both recent retirees and those approaching retirement (those aged 50-70 today) were all born at the end of or after the second world war. Most are classified as baby boomers. Their experience of retirement is being shaped by the economic and social environment and pension policy of the second half of the 20th century and the more recent changes to pension policy in the first 15 years of the 21st.

A clear divide is emerging between those baby boomers who have already retired and those who have yet to do so. Proportionately, among those yet to retire, there are half as many 'satisfied Sarahs' with good DB pensions than among those already retired and 64% more 'pinched Pennys' with only a state pension. 'Malcolm in the middle' with a mix of DC and other savings become the dominant typology among those heading for retirement. That difference alone suggests that those facing retiring in a world of freedom and choice will not experience the same retirement as their slightly older peers.There are 4.8 million baby boomer Malcolms yet to retire.

This section describes three distinct groups of over 50 year olds identified first in our qualitative research. Each group is likely to experience a different retirement outcome as a result of their pension choice; our analysis of survey data has further developed their story[39]. The segmentation is drawn from a sample of UK adults aged 50-70, most of whom are characterised as baby-boomers.

We explore the experiences of these groups, both working and retired: Satisfied Sarah (or Simon), Malcolm (or Maggie) in the middle and pinched Penny (or Paul). Table 1 below provides pen portraits of our over 50 year old groups.

In dividing the aged 50-70 population into these three broad segments, the following criteria were used and are shown in Table 1 below:

- Sarah (or Simon) has a good (self-defined) DB pension. There are approximately 4.8 million Sarah and Simons, both retired and pre-retired;
- Penny (or Paul) has only a state pension. There are approximately 3.3 million Penny and Pauls, both retired and pre-retired;
- Malcolm (or Maggie) has either a good DC pension, a mix of pension provision or other savings and investments[40]. Malcolm and Maggies are by far the largest group in our population, numbering approximately 7.6 million, both retired and pre-retired.

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[39] For more information on the methodology please see annex A
[40] Those who had an occupational pension but could not state the pension type consisted of nine respondents.

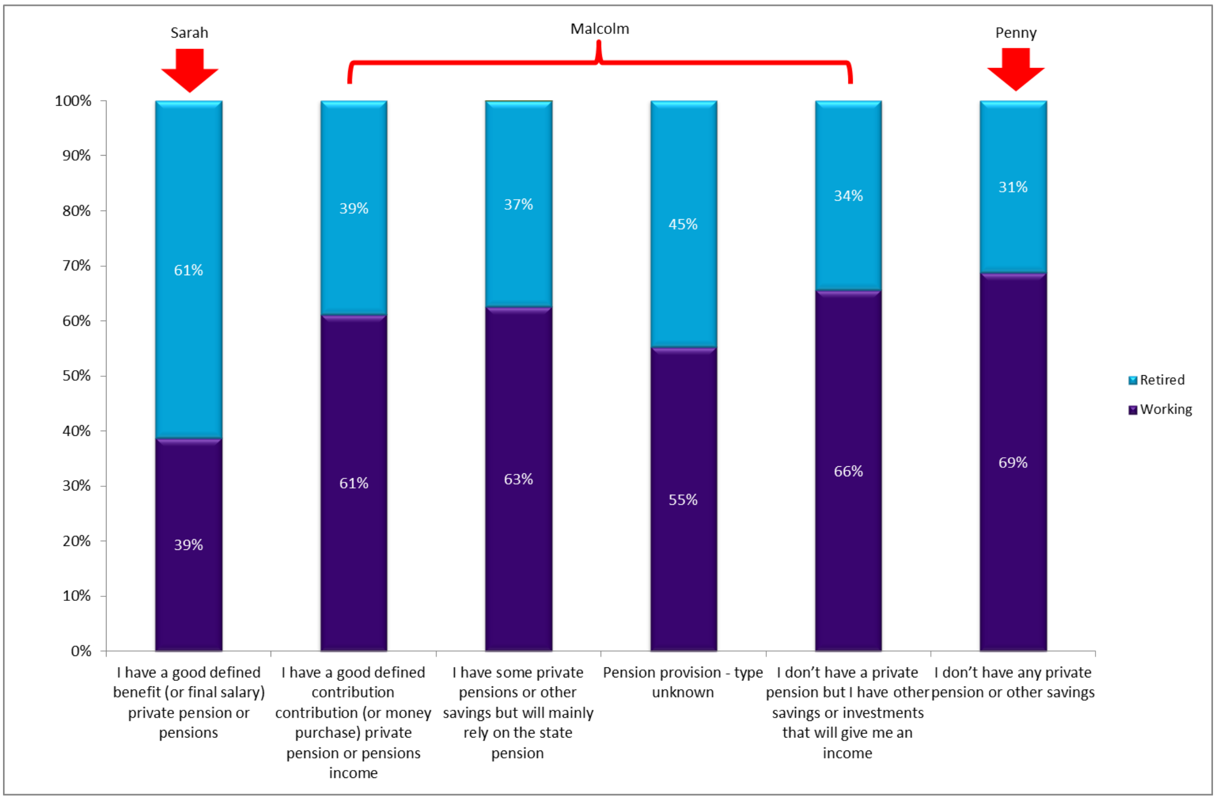
As DB coverage continues to decline and automatic enrolment begins to build the number with some private pension provision, we might expect the group represented by Malcolm to grow even further and the number of Pennys and Sarahs to shrink.

Table 1: Over 50s retirement experience portraits[41]

Satisfied Sarah (or Simon)	Malcolm (or Maggie) in the middle	Pinched Penny (or Paul)
Occupation: University lecturer **Retirement**: Early retiree **Pension type**: Defined benefit **Housing tenure**: Owner occupier, mortgage paid off.	**Occupation**: Retail manager **Retirement**: Uncertain date **Pension type**: Defined contribution Housing tenure: Owner occupier, mortgage to pay off	**Occupation**: Factory worker **Retirement**: SPA **Pension type**: State Pension only **Housing tenure**: Private rental sector
Sarah works all her life as a University lecturer, excluding a career break for five years to have a family. She retires at the age of 55, with a good final salary pension scheme that allows her to live a comfortable life with time for following her hobbies and pursuits. She volunteers at her local charity and is a trustee at the local school. Sarah owns a house with her husband, and additionally provides some financial support to her children who are both of university age.	Malcolm looks forward to retiring at or before the SPA, having worked for two major retail stores throughout his working life. Malcolm thinks he may get to retire earlier, but it hasn't quite worked out. Malcolm does have concerns about his retirement income – and isn't sure whether he will have enough money to keep living the lifestyle he has become accustomed to. Malcolm would like to pay off his mortgage before he retires, and maybe provide some financial help to his children to get them on the property ladder. He may have to work longer than planned.	Penny retires at SPA, although she had expected to retire a lot earlier, but didn't due to the equalisation of the SPA. Penny earned minimum wage at the factory she worked at, which she got used to getting by on. She expects retirement to be hard, but no harder than it has been. However Penny does have some specific worries about retirement, such as cut backs in state benefits and not having enough money to pay for birthday presents for her grandchildren or any treats or days out for herself. She might see if she can find a job to help her get by, but her employment opportunities are limited.

[41] The typologies described on the following page are designed to be indicative rather than having been drawn from the statistical analysis.Those who selected that they had 'none of the above' when asked which type of pension provision they had were not included in any of the three categories to avoid making assumptions about their access to finance in retirement. Data was analysed across this group and their responses did not reflect any of our three main categories. This group consisted of 88 over 50 years old (weighted n).

Figure 3: Thinking about your saving for retirement, which of the following applies?

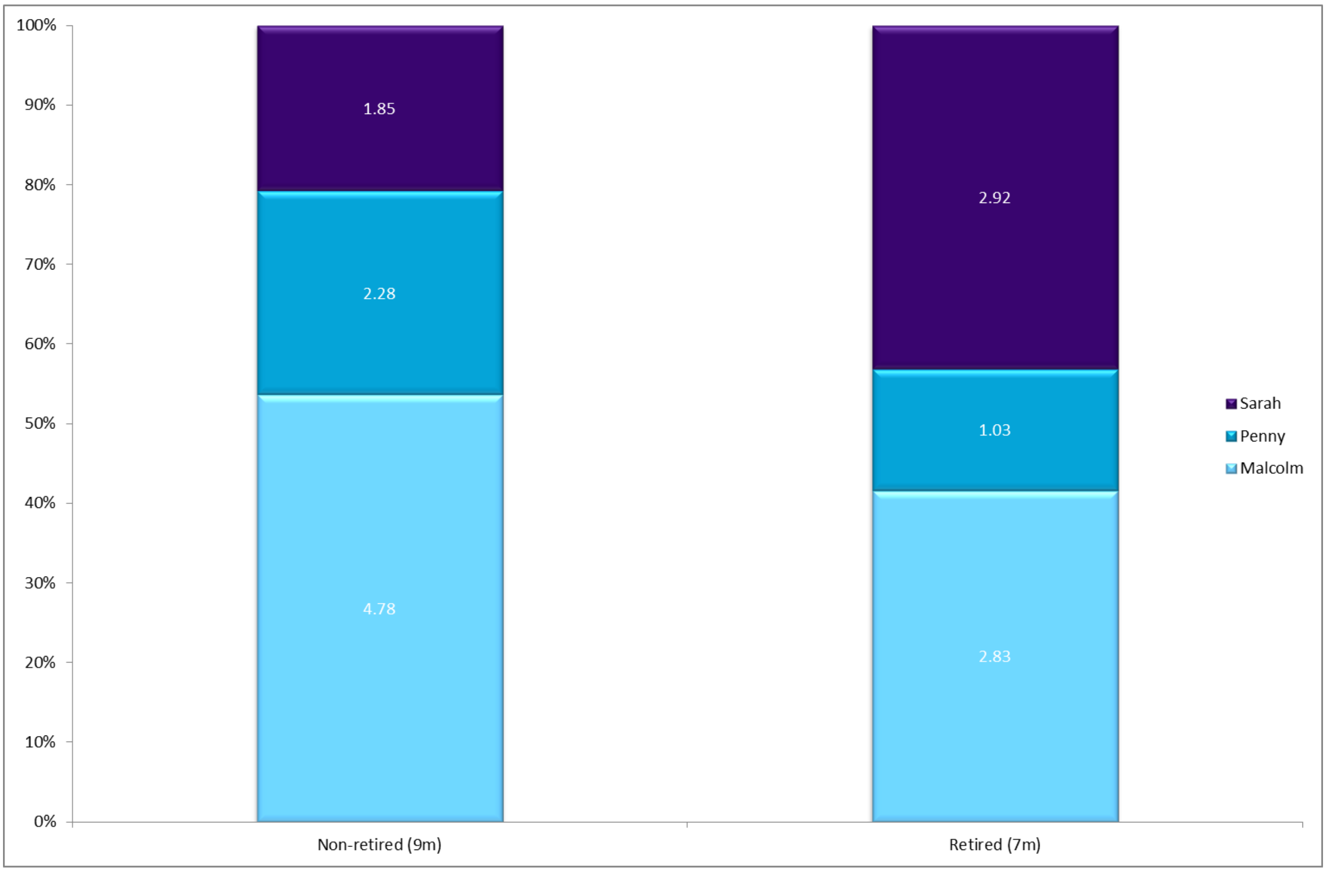


Base: Good DB (351), Good DC (147), some private pension (305), other savings (108), state pension only (243), Private pension (type unknown)(9)

Malcolm and Penny are more likely to be working whilst Sarahs with their DB pension are more likely to be retired. Looking at the data another way, around 40 per cent of the retired aged 50-70 are Sarahs, while only around 20 per cent of the working are Sarahs; almost certainly a stark illustration of the decline in good DB provision. More worryingly, only 15 per cent of the retired aged 50-70 are Pennys while the proportion rises to 25 per cent among those not yet retired. The proportions of Malcolms rises from 42 per cent to 54 per cent. This almost certainly speaks to a forthcoming fall in pensioner income derived from private pensions.

The analysis highlights a group of 4.8 million baby boomer Malcolms yet to retire. It is this large group who will face the most difficult decisions about their retirement in the coming few years.

Figure 4: Estimated number of each category in the UK population



Base: 15.7 million (source ONS)

Table 2: Demographics for retirement categories (Adults aged 50-70)

	Average Age (median)	Household Income, £ (median)	% Male	% Female	% Living by yourself	% Living with a spouse or partner	% Living with other family	% Other living arrangement	Estimated number in UK population (millions)
Working Sarah	54	37,520	60	40	24	67	8	2	1.85
Working Malcolm	56	30,000	57	43	25	65	10	0	4.78
Working Penny	55	12,500	32	68	24	60	14	2	2.28
Retired Sarah	63	30,000	62	38	26	68	6	0	2.92
Retired Malcolm	65	20,000	41	59	32	64	4	0	2.83
Retired Penny	65	8,213	30	70	34	57	5	4	1.03

When to retire

Pensions, whether private or state, continue to act as an important trigger for retirement. For Penny, reliant on the state pension, reaching SPA is a natural time to retire, although poor health can often trigger earlier retirement. For Sarah, with the benefit of a good DB pension, early retirement is often triggered by having adequate pension and other savings as well as being tired of working. For Malcolm, things are much less clear.

Expected triggers for retirement

State and private pensions both play a role in the timing of retirement for the over 50s. Despite the relative drop in the value of the state pension in relation to working incomes, when asked when they anticipated retiring two fifths of over 50 year olds (40 per cent) anticipated they would retire, or had already retired, as a result of reaching the SPA.

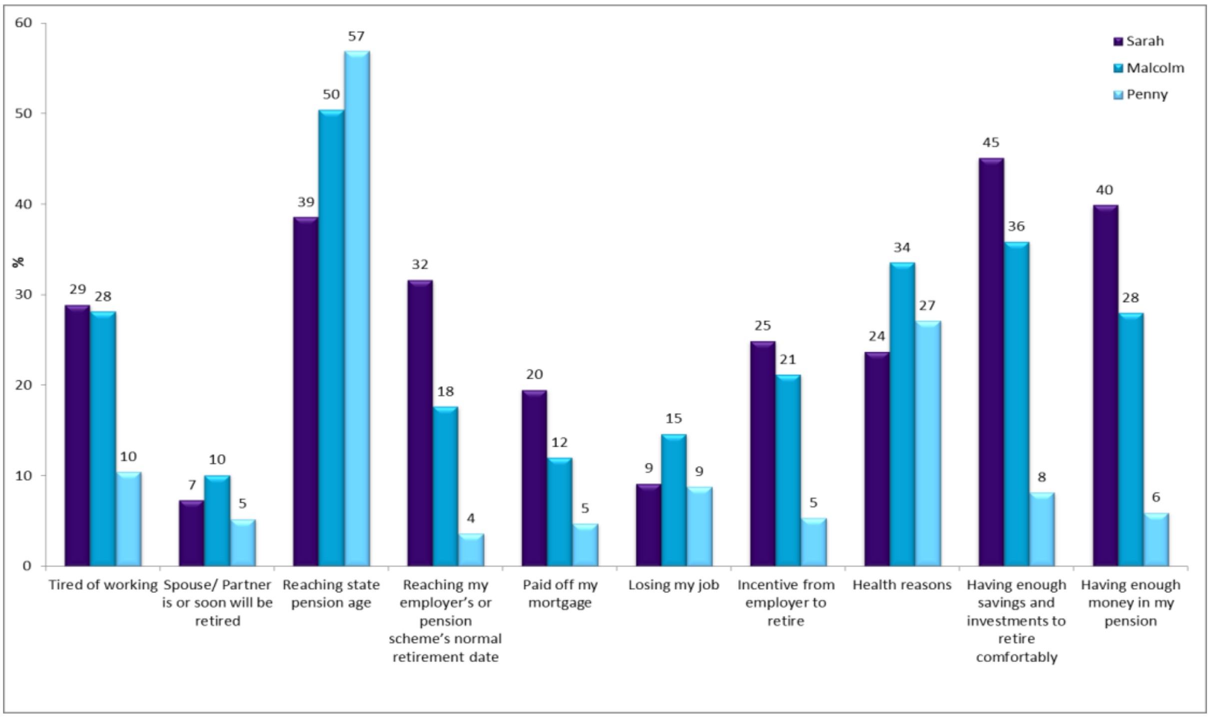
Penny is the most likely to consider the SPA as the trigger for retirement, with Sarah the least likely to do so. With only a state pension to support them the SPA is naturally a key driver of retirement for over 50s like Penny. For Sarah having enough money is the most likely trigger for retirement.

Malcolm has a much more fragmented group of likely triggers with a combination of financial, state pension and health events shaping likely retirement age. This all points to different transitions or timing for retirement for Malcolms.

"…I thought that I would probably be happy to retire at state pension age: I think it was 55 at that time. Had I known I would have to work until I was 67 I would have had a different perspective. 10 years makes a huge difference…"

Female, pre retirement, higher income, small pension pot

Figure 5: What do you expect to trigger your retirement?



Base: Working Sarah (136), Working Malcolm (357), Working Penny (168)

Actual triggers for retirement

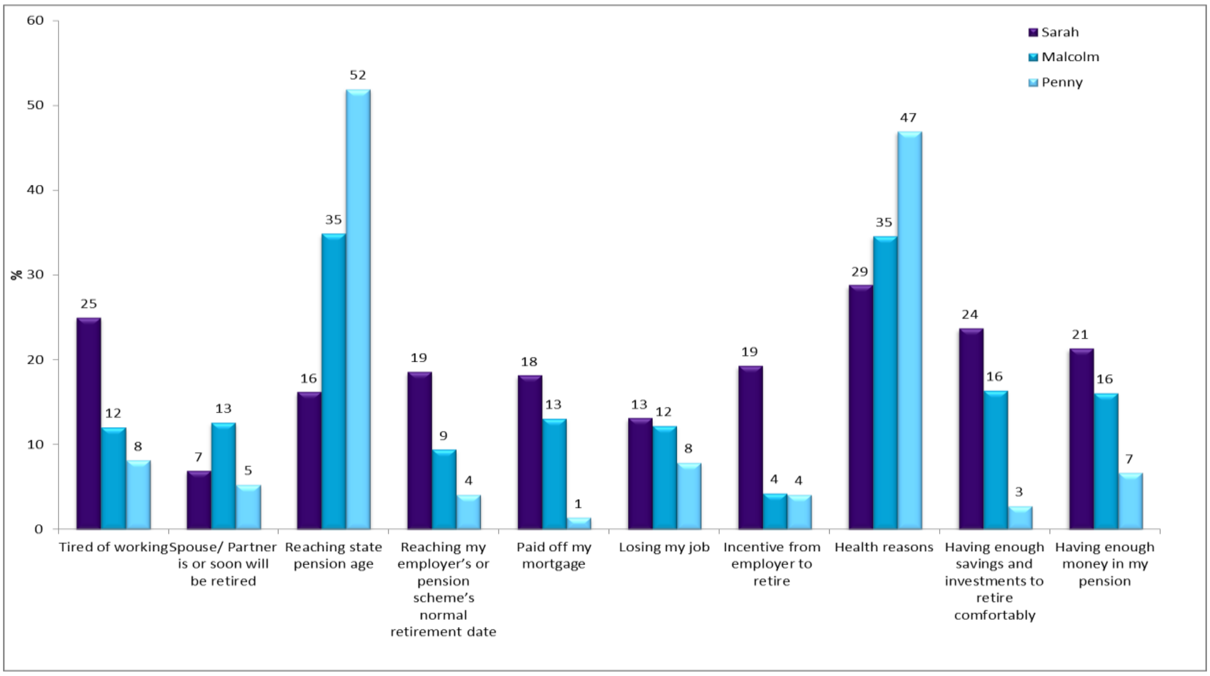
Among those already retired, the most commonly cited triggers of retirement were:

- health reasons and being tired of working for Sarah;
- reaching SPA and health reasons for both Malcolm and Penny.

Other triggers were less frequently cited for Malcolm and Penny, but a greater variety of triggers played a role for Sarah.

Poor health was more often cited as a trigger after than before retirement; noticeably significantly more retired Pennys cited poor health as a trigger than Pennys who were working.

Figure 6: What triggered your retirement?



Base: Retired Sarah (215), Retired Malcolm (212), Retired Penny (76)

For the majority of over 50 year olds the SPA, although increasing, is still perceived as a benchmark for the likely point of retirement; but there are signs that this may be changing.

With an increase in the number of over 50 year olds approaching retirement with a DC pension or other savings, there could potentially be a rise in the number of people working past SPA. Our research demonstrated that even now 30 per cent of working Malcolms thought that they would not retire until after SPA.

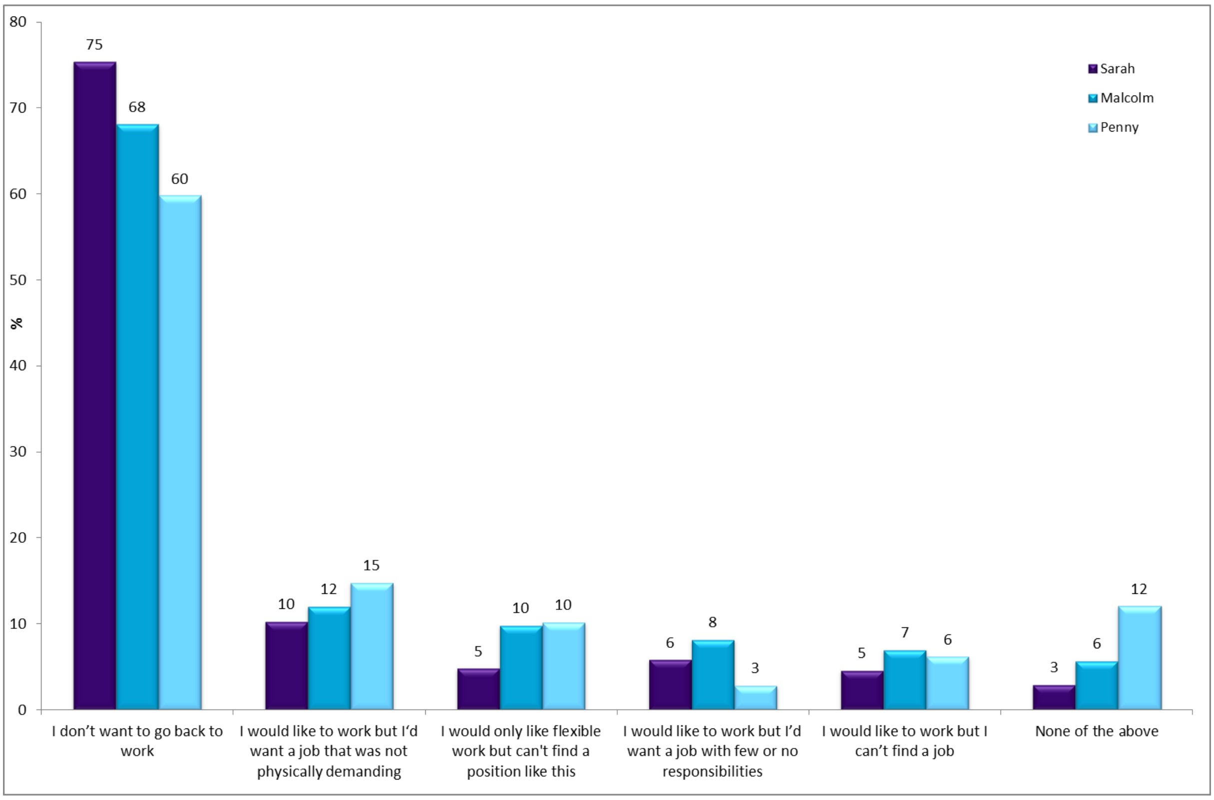
Increases to the SPA is also creating uncertainty with working baby boomers increasingly uncertain when and whether they will receive a state pension. Moreover, they lack certainty about the income that can be generated by their DC pot and, in common with others, worry about their health and their ability to continue working.

Working past SPA

Retirement remains predominantly about not continuing to do paid work. Eighty eight per cent of Pennys, 81 per cent of Malcolms and 78 per cent of Sarahs are retired and not doing any paid work.

For those who are retired and not working, the majority across all our groups do not want to go back to work. Although there has been an increase in the number of retired people working in the UK, most older people still prefer to move straight into retirement. Once there, most (70 per cent) do not want to go back to paid work, particularly Penny and to a slightly lesser extent, Malcolm. However, a significant minority of those who are retired but not working would like to do so, but would need to find work that was not physically demanding, was flexible, or with few responsibilities (see Figure 7).

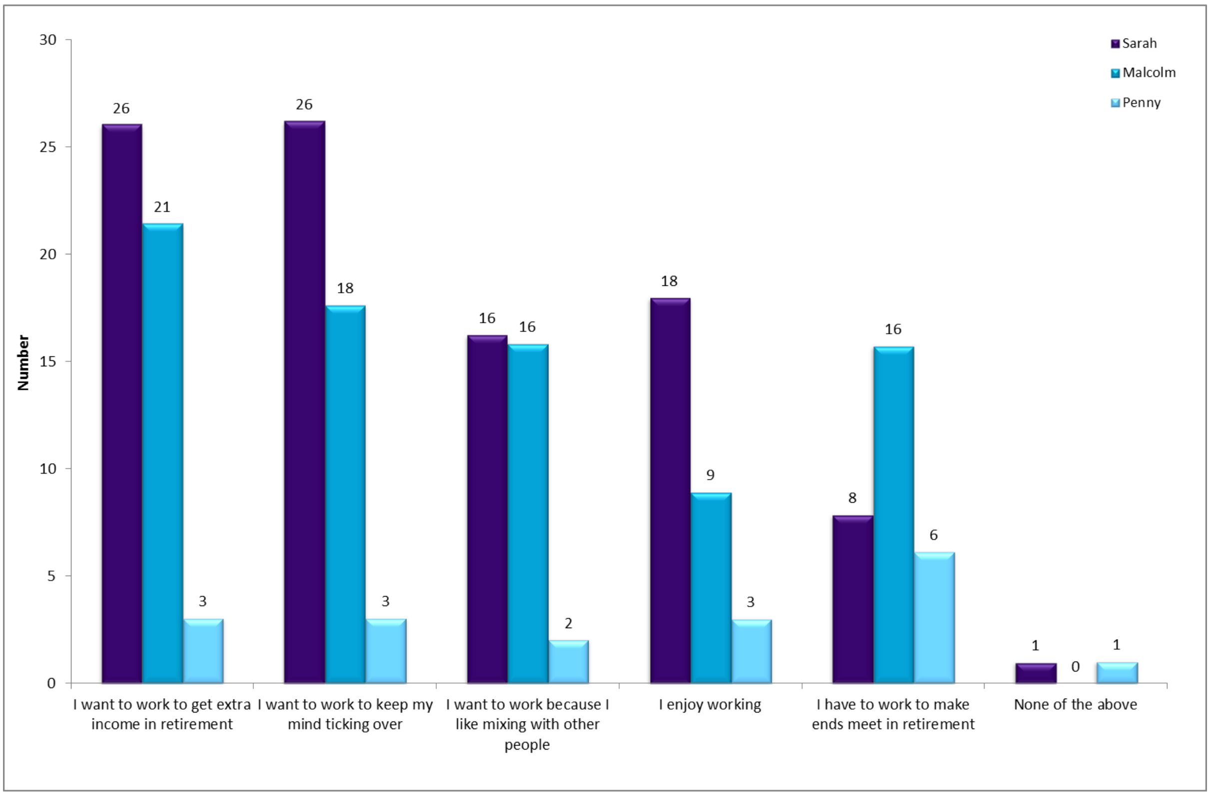
Figure 7: Thinking about paid work, which of the following best describes your attitude to paid work?



Base: Retired Sarah (215), Retired Malcolm (212), Retired Penny (76) [Asked only of those already retired and not working]

However, work plays an important role in supplementing pensions among some of the retired. Only a minority of over 50s continue to work in retirement (22 per cent of Sarahs, 19 per cent of Malcolms and 12 per cent of Pennys). For Sarah and Malcom this is typically to earn extra income and keep their minds busy. However, a number of Malcolms work in retirement in order to make ends meet. For Penny working in retirement is most likely to help make ends meet rather than keeping their mind busy. However, of our three groups, Pennys are least likely to be in work during retirement. This may be due to limited opportunities to work, a preference not to work or, simply that they have become used to making ends meet.

Figure 8: Which of the following best describes why you are still doing some work?



Base: Retired and still working Sarah (40), Retired and still working Malcolm (39), Retired and still working Penny (9) [Asked only of those already retired]

In the following section of this paper we explore the financial expectations and implications of retirement for our three groups.

Financial security in retirement

In spite of having very different pension provision, a working Malcolm has a similar expectation of their income needs in retirement to Sarah. Sarah and Penny might be thought of as realistic in their expectations. Malcolm however, may be more disappointed.

Penny and Sarah experience different extremes in retirement, the former often struggling to make ends meet, the latter typically experiencing a comfortable retirement. Malcolm sits somewhere in the middle: cutting back more than Sarah but not struggling as much as Penny.

Of the three groups, Malcolm faces the most uncertainty at retirement. He cannot predict his income easily and knowing how to convert his savings to an income will be challenging, even before the changes introduced in the 2014 budget.

Income needs in retirement

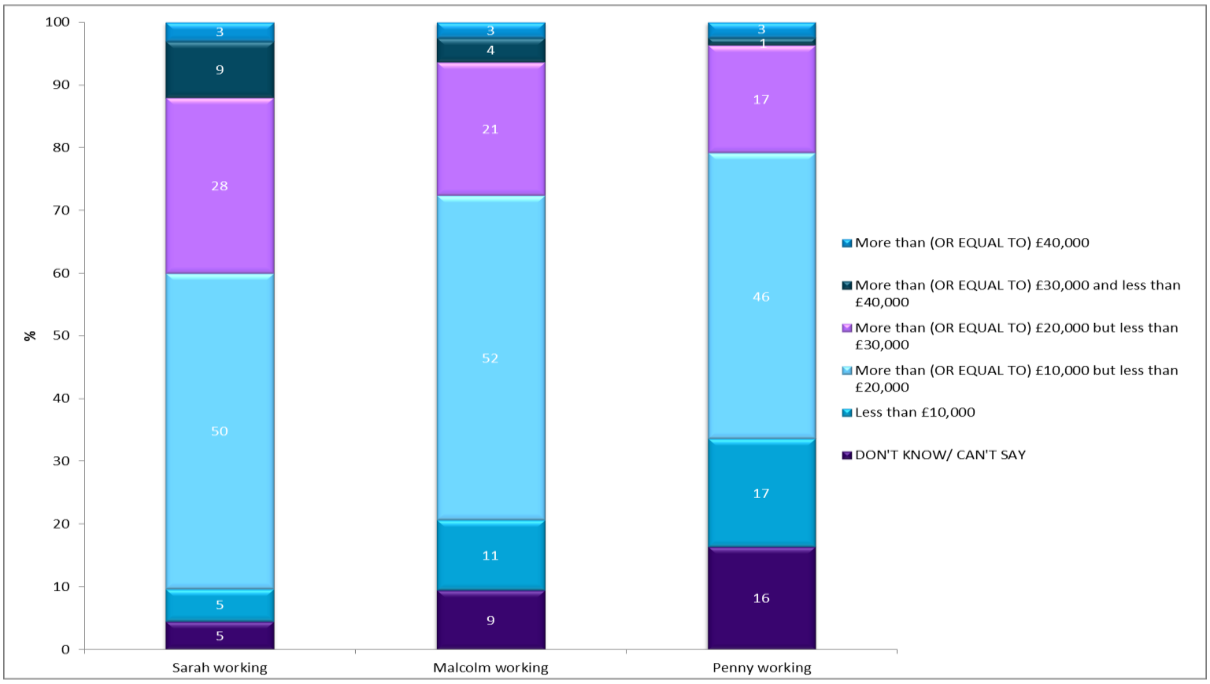
For the majority the SPA is viewed as the chronological marker for retirement; however it was private pension incomes which were considered to provide financial security in old age.

Whether retired or working, £10,000 to £20,000 a year was most commonly felt to be the level of income required to live comfortably in retirement; this is more than twice the level provided by the basic state pension.

"...I think it makes a difference between surviving – because obviously, if all you had was a state pension, you'd have to live on it; but a private pension means that you actually have a bit of icing on the cake..."
Male, retired later, lower income

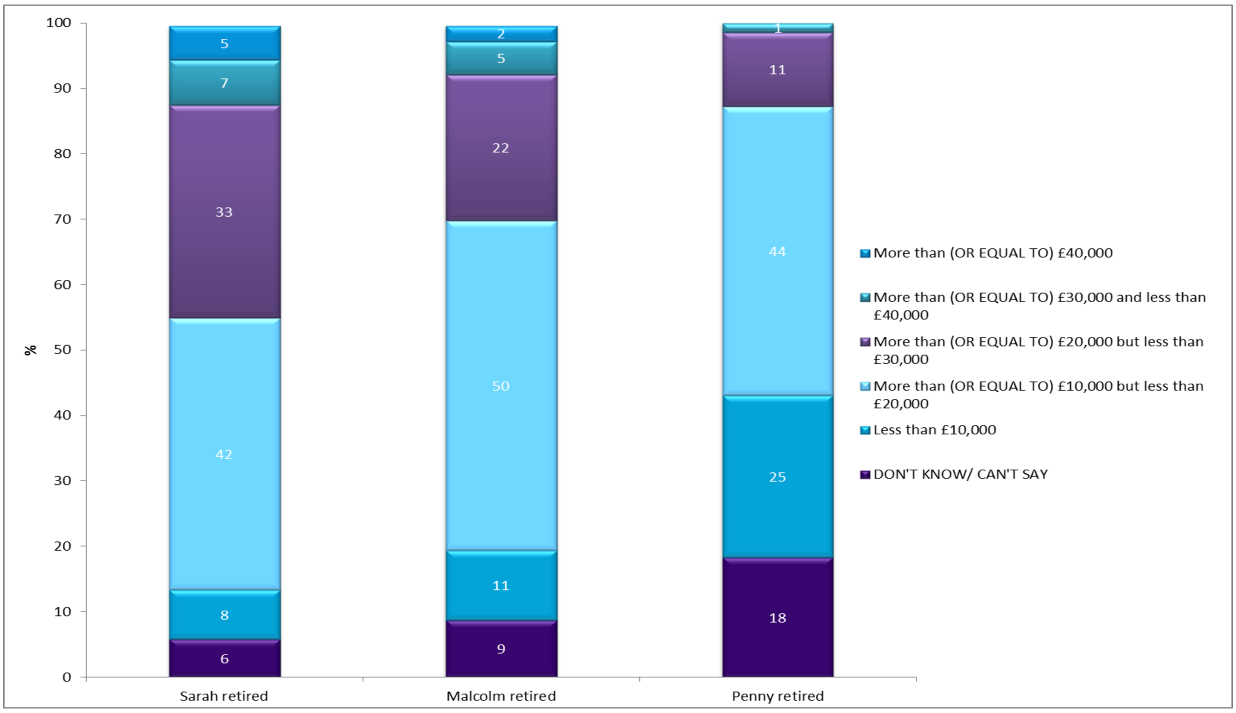
- Only one in five Pennys felt that they need more than £20,000 with an almost equal proportion feeling that they could make do with less than £10,000.
- Malcolms generally felt that they could live on a little less than Sarah but the difference is not that marked.
- There is very little difference between the expected need before retirement and the income people in retirement say that they need.

Figure 9: How much money do you think you will personally need each year to live comfortably in retirement?



Base: Working Sarah (136), Working Malcolm (357), Working Penny (168)

Figure 10: How much money do you think you personally need each year to live comfortably in retirement?



Base: Retired Sarah (215), Retired Malcolm (212), Retired Penny (76)

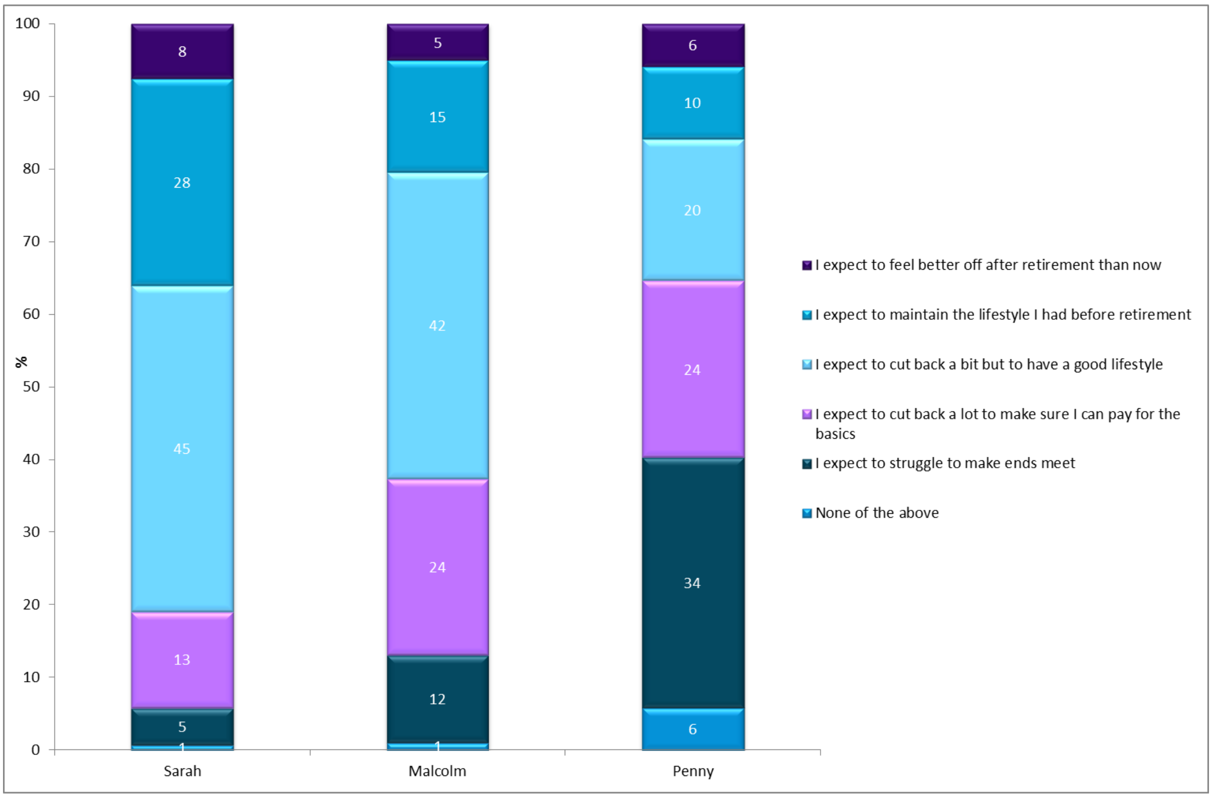
Expectations of financial well-being

Although the SPA was viewed as a key trigger for retirement, drawing a state pension alone was generally not considered to provide enough financial security during retirement. Those yet to retire with only a state pension (Penny) were much more likely to expect to struggle to make ends meet in retirement than Malcolm or Sarah:

- One in three typical Pennys thought they would struggle to make ends meet in retirement.
- By contrast one in three Sarahs felt that they would be able to maintain their lifestyles in retirement (or be better off).
- Most Malcolms expected to cut back a little or a lot in retirement but did not generally expect to struggle to make ends meet.

Moreover, Sarah is considerably more likely to be comfortable that she can sustain her income in retirement (67 per cent very or quite comfortable) than Malcolm (49 per cent) and Penny (24 per cent).

Figure 11: Which of the following statements best describes how well off you expect to feel in retirement?



Base: Working Sarah (136), Working Malcolm (357), Working Penny (168)

Experience of financial well-being in retirement

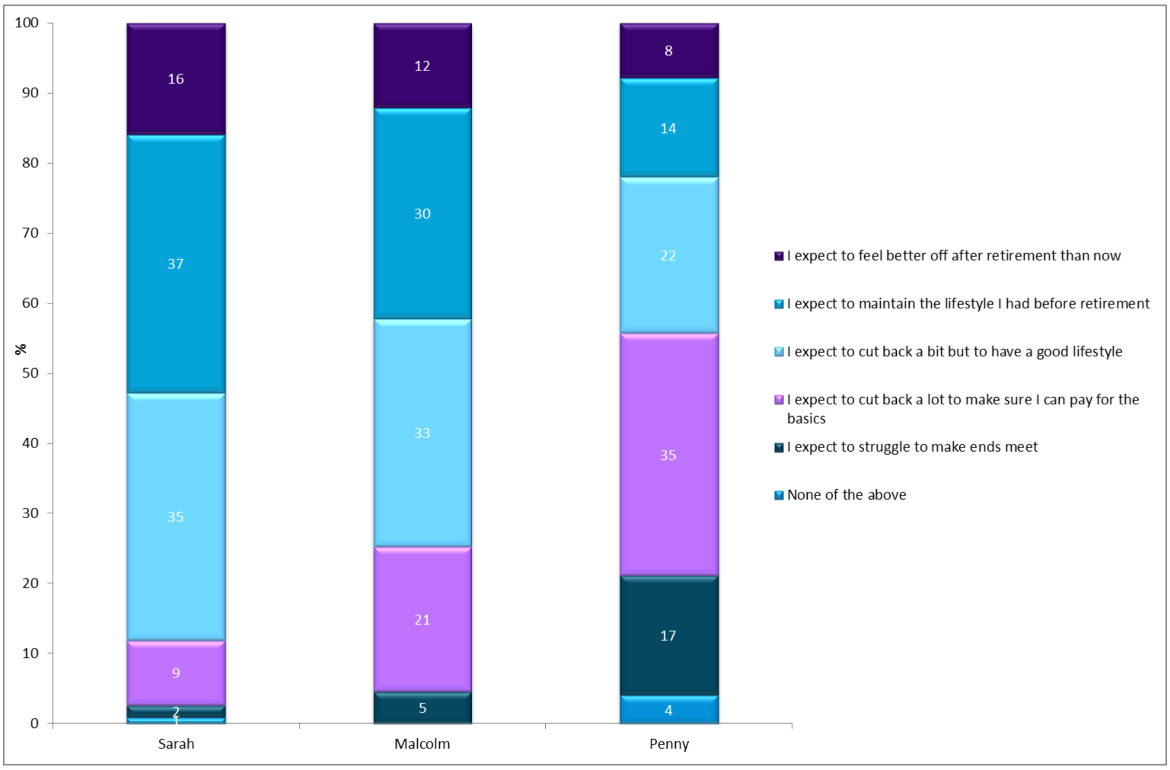
Unsurprisingly, Penny reports being least financially well off in retirement, with over a third having had to cut back to even pay for the basics.

> *"...I think it's good that we have it, but you couldn't realistically live on it, so we have to make our own arrangements to boost it or in property..."*
> *Female, plans to retire early, higher income*

Sarah and Malcolm are generally experiencing more comfortable retirements: either maintaining the lifestyle they had before retirement or cutting back a bit but generally having a good lifestyle.

Once again, the marked differences between the experiences of Penny, Malcolm and Sarah illustrate the role private pensions make between just surviving and living comfortably in retirement.

Figure 12: Which of the following statements best describes how well off you are in retirement?



Base: Retired Sarah (215), Retired Malcolm (212), Retired Penny (76)

A comparison between the expectations of financial well-being in retirement and the experience of those already retired reveals a potentially interesting age effect. Among Penny's 34 per cent expect to struggle to make ends meet before retirement but only 17 per cent do so in retirement, suggesting perhaps that the retired find ways of adjusting to their new levels of income.

Current retirement incomes

The retirement incomes of today's Pennys, Malcolms and Sarahs demonstrate the effect of having none, a predominantly DC pension and a DB pension:

- A typical Penny has a household retirement income of just over £8,000 per year (66 per cent of the household income or working Pennys).
- A typical Sarah has a household retirement income of £30,000 (80 per cent of the household income of working Sarahs).
- A typical Malcolm falls between the two with a household retirement income of £20,000 (67 per cent of the household income of working Malcolms).

Retirement income uncertainty

It was noticeable from interviews that retirement is a more worrying experience for those who enter with financial uncertainty.

Sarah and Penny (the former retiring with a good DB pension and the latter relying on a state pension) are relatively clear about their financial position, and therefore what their lifestyles will be like.

For Malcolm, there is far less clarity on the choices they should make and on the returns they may get, making the whole experience less clear. The speed of pension reform, coupled with the economic crisis appears to be heightening these concerns. Furthermore, the shift from DB to DC is exposing a greater proportion of the retiring population to these uncertainties.

Helping Malcolm with retirement income decisions

For Malcolm, making financial decisions at retirement involves making calculated guesses: how long will my savings last? how long will I live? how much income will I need through my retirement? Decisions now have to be made within the wider context of significant reforms around pensions and the impact of austerity. Decisions are also made complex by the stark contrast between the stated preference for a secure lifetime income and the poor reputation of the very products that can deliver that.

For many Malcolms, sources of expert help are limited due to the limited availability of advice to those with moderate incomes and wealth. A significant proportion do not expect to seek help and among those that do, the majority will not seek formal advice but will consult organisations that can only give guidance. To navigate the market, many Malcolms will need help, specifically:

1. **Pathways** Clearly defined pathways should be developed so when people in DC schemes are paralysed by complex decisions, their savings will still be put to work productively for them throughout their retirement, which is likely to be longer than they think.
2. **Guidance** The Government's 'Pension wise' service should be promoted heavily to ensure the public are highly aware of it and have a clear understanding of the services it will offer. However, for many Macolms, guidance is unlikely to be enough.
3. **Products** Savers should be able to choose from a selection of products that are easy to understand, help them navigate the complexities and be confident that the products offer reliability and good value.

Financial security in retirement

Private pensions enable a more comfortable retirement. For Malcolm, the size of a private pension pot and what he does with this pot affects financial outcomes in retirement. However this sometimes can be a surprise - some 50 year olds expect larger returns, than they can necessarily expect from their saving levels.

Evidence from in-depth interviews suggested that some with private DC pensions face unexpected

"...The original illustrations they provided of eight per cent and 10 per cent a year have not been realistic. Some have just grown by three per cent or less and some have even shrunk ..."

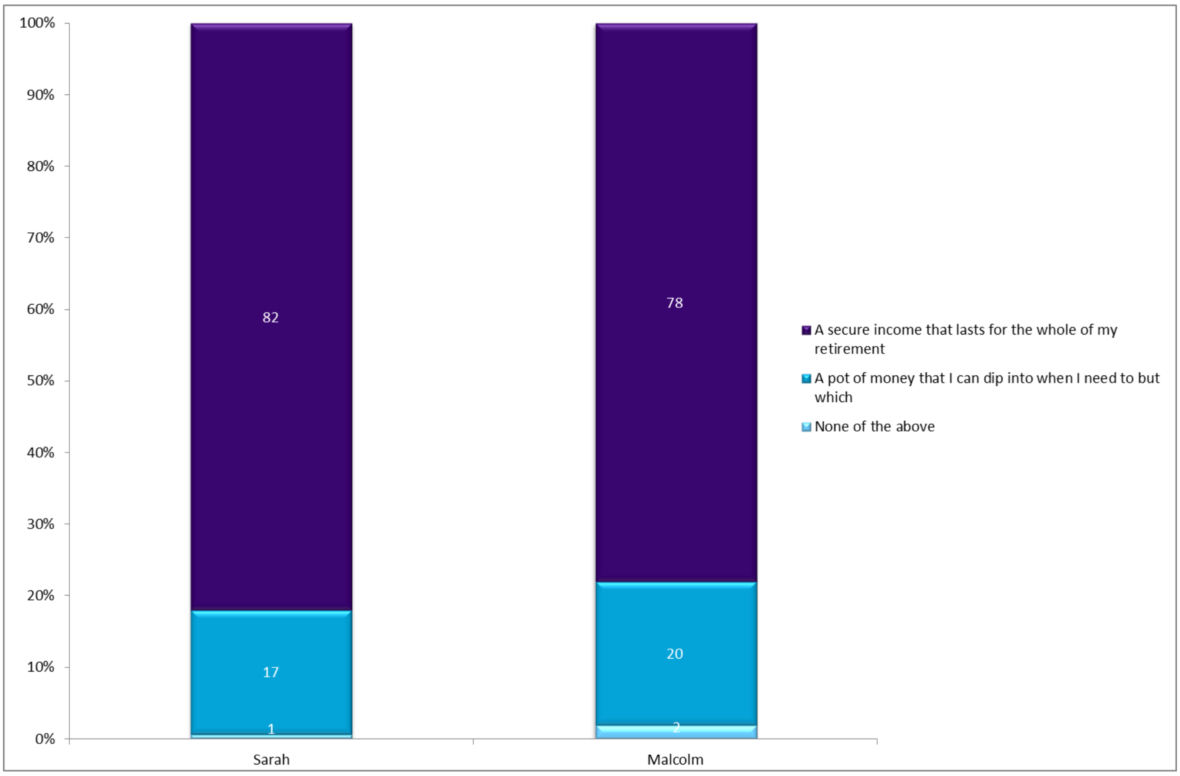
Female, pre-retirement, higher income, small pension pot financial outcomes in their retirement due to the recession; a number have seen their pension pots reduced. Although private pensions undoubtedly could allow retirees to live more comfortably, for some this is or will not be at the level of income anticipated.

Although those with large or good DB pensions may be well off, those with average or smaller DC pots may need to supplement their incomes in the future.

The changes introduced in the 2014 budget to the way income can be accessed in retirement have the potential to seriously affect financial security in old age. NAPF research suggests that the overwhelming majority of those age over 50 would prefer to have a secure income that will last for the whole of their retirement.

When faced with a binary choice between a secure lifetime income and a flexible pot which they can dip into when they wish, the vast majority say that they would prefer a secure income. This is consistent with a number of other research studies but, again, as other research studies have shown, the preference is at odds with attitudes to annuities which are generally out of favour. **The tension between attitudes to annuities and the preference for a secure lifetime income make it particularly difficult to predict what Malcolm might choose to do with his DC pension pot at retirement but clearly points towards the need for help and support in making that decision.**

Figure 13: Which of the following do you think is most important to you in retirement?



Base: Working Sarah (136), Working Malcolm (357)

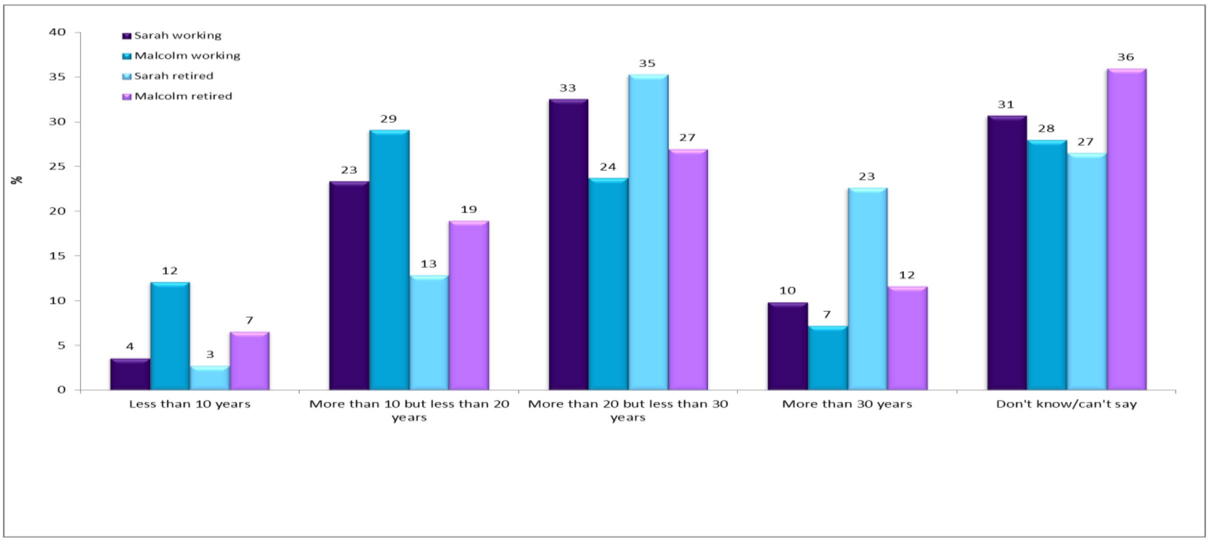
> *"......even with… this planning…with a pension pot that seems quite good, when you actually retire and you collect your pension and no money is coming in apart from that on a regular basis, you really have to think about your lifestyle…we wanted to maintain the lifestyle that we had when he was working full-time and I was as well and there's no way that we can do that. You have to make cutbacks …"*
>
> *Female, early retired, high income*

Understanding longevity

One of the most important factors that will shape retirement income decisions is understanding how long income in retirement needs to last. Over 50 year olds were asked how long they thought their money would need to last in retirement. There was no certainty about the duration that private pensions and savings would need to last - obviously life expectancy, and health, are often difficult topics to speculate about.

- Broadly equal proportions of working and retired Sarahs believed their savings would need to last either more than 20 years but less than 30, or stated that they did not know how long their pensions and savings would need to last for.
- Broadly equal proportions of working and retired Malcolms stated either more than 10 years but less than 20, or stated that they did not know how long their pensions and savings would need to last for.

Figure 14: How long do you think your money will have to last for in retirement?



Base: Working Sarah (136), Retired Sarah (215), Working Malcolm (357), Retired Malcolm (212),

With such uncertainty about longevity and investment returns, dealing with finances can be tougher than expected at retirement.

Pension reform and making financial decisions

So what does pension reform mean for those who are looking to start to draw their pension over the next year? Malcolm will find pensions decisions greatly affected by Freedom and Choice with the ability to draw money from their pension pot from the age of 55. Sarah will also face a choice as to whether to remain in a DB scheme or transferring to DC. PPI research has identified that those with a DC pension face making increasingly complex financial decisions[42].

"...I don't quite understand them yet. Initially this year after the budget the people who were concerned were people with pension pots of £20k who can take the lot and buy an annuity... As I understand it people with larger amounts of money can now manage it themselves..."

Male, intending to retire late, lower income

Although the changes were viewed positively by the over 50s, they were sometimes misunderstood.

The financial situations that retirees find themselves in – with clear cut financial outcomes for some (Sarah and Penny), but less clarity about finances for others (Malcolm) – means that distinct support is required for different pension outcomes.

Seeking help

Despite all the changes and uncertainty it was only approaching or at the point of retirement that decisions about finances were made, *if they were considered at all.*The greatest proportion of each group of our over 50s did not expect to seek help as they feel comfortable making their own decisions. Only just over a fifth of those similar to Sarah and Malcolm would look to seek help at the time of their retirement, and only a tenth of those similar to Penny. (This perhaps reflects that financial decisions are less complex for retirees like Penny). It is difficult to evaluate whether this will change as those currently working move closer to retirement; the profile for our retired over 50s groups seeking help is very different to those yet to retire. Research by the CII[43] indicates that a significant proportion of Malcolms do expect to access guidance about their new options.

Sources of help for making financial decisions

With a sizeable proportion planning to make their own financial decisions, obtaining support to make decisions was often considered to be a minefield, and in need of simplification. With complex changes as a result of the Budget 2014, it is important that those nearing retirement have sources of guidance that they can access to help them make the most appropriate decision in relation to their finances.

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[42] PPI, Transitions to Retirement - 'How complex are the decisions that pension savers need to make at retirement?, 2014

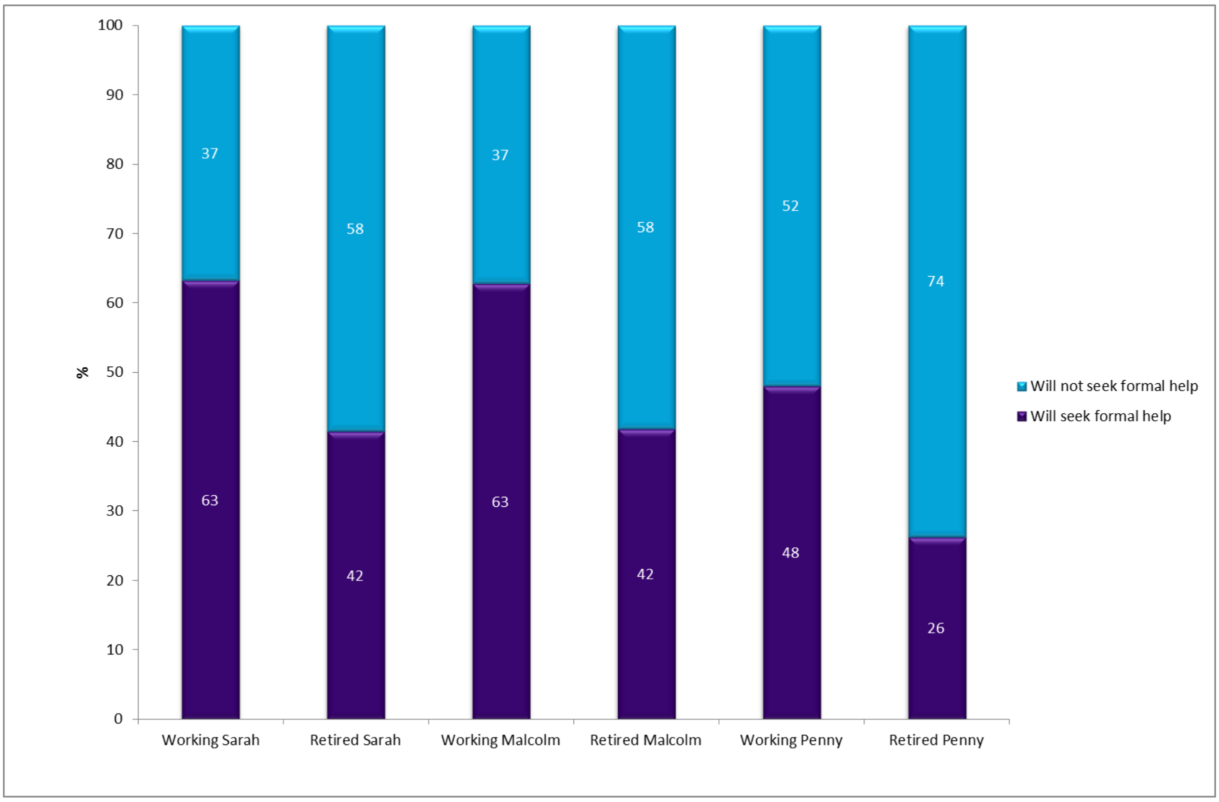
[43] CII, Guaranteed Guidance for retirement: What consumers want, 2014

Half of all over 50 year olds were looking to seek, or had sought, formal help in making their financial decisions at retirement. Of those not seeking formal help, nearly a third did not plan to do so because they were comfortable making financial decisions, whilst four per cent *only* seeking help from friends and family.

Uptake of formal help varied between our over 50s groups; across all groups those yet to retire were more likely to state that they would seek formal help than those already retired.

Working and retired and Pennys were least likely to seek formal help – again reflecting their simpler financial decisions.

Figure 15: Proportion who would seek formal against informal help about their finances



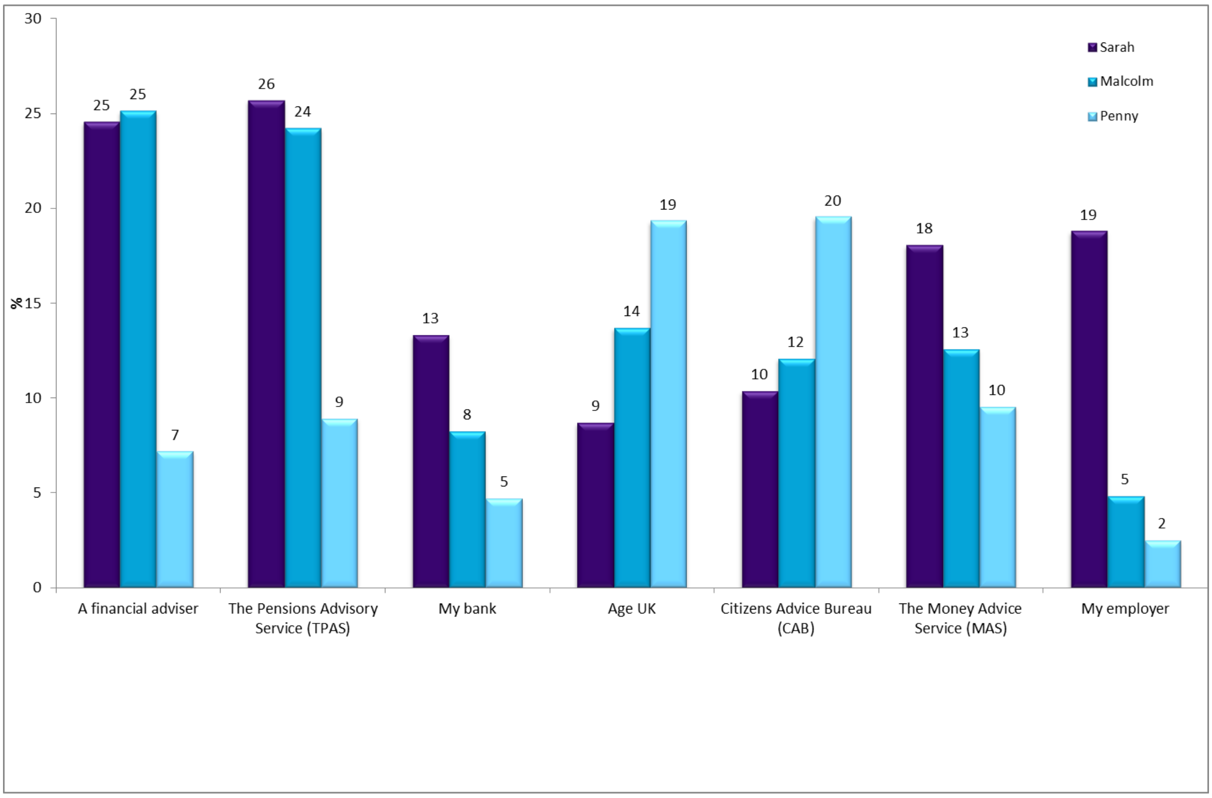
Base: Working Sarah (136), Working Malcolm (357), Working Penny (168), Retired Sarah (215), Retired Malcolm (212), Retired Penny (76)

For those yet to retire the most frequently sought form of formal help was from financial advisers (for 21 per cent of working over 50s), however there were differences between the over 50s groups:

- For those similar to Sarah the most frequent source used was most The Pension Advisory Service, followed by a financial adviser and then their employer;
- For those similar to Malcolm the source most frequently used was a financial adviser, followed by the Pensions Advisory Service and Age UK;

- For those similar to Penny the source most frequently used was the Citizens Advice Bureau (CAB), Age UK and the Money Advisory Service (MAS).

Figure 16: From whom would you first seek help in making decisions about your finances in retirement?



Base: Working Sarah (136), Working Malcolm (357), Working Penny (168)

"...I had a half day retirement seminar at work - they told you about keeping fit and healthy. They were treating us like we were 90 - it was extremely patronizing. I would have liked to have done something more interesting with that half day..."

Female,early retired, lower income

Even though those yet to retire planned to use a more diverse range of sources than those already retired, seeking help from charitiable organisations was still limited. There was some variation by retirement profile.

Working Pennys were much more likely to use both CAB and Age UK than working Sarahs and Malcolms. Working Pennys were much less likely to use the Pensions Advisory Service than working Sarahs and Malcolms, and the Money Advisory Service than Sarahs.

Overall there is a lack of awareness of the support provided by statutory agencies and charities; this was reflected in qualitative interviews, where interviewees frequently mentioned that there was a need for independent guidance, or support from government.

For our future retirees employers were also rarely considered as the first port of call(for only seven per cent of those yet to retire); working Sarahs were much more likely to seek help from their employer than both Malcolm or Penny.

Interviewees acknowledged that employers providing DB pension schemes had improved the amount of information they provided in recent years especially in relation to recent legislative changes – but this does not provide support to those entering retirement with a DC scheme. However some interviewees recounted that retirement courses were poorly designed.

Several respondents in focus groups felt that pension schemes and providers were particularly poor at providing good advice for non-technical audience.

With many good sources of free independent help available, it is important that awareness of resources for those approaching retirement is increased. At the same time communications and support from government about changes to pensions need to be improved. As the age that a private pension can be accessed has reduced, this advice needs to be provided at an appropriate time – so that decisions are not made too late in life, or in haste.

"...I need help, but am planning to get this from friends who have retired. I am unlikely to use an IFA since they look after their own interests not mine..."

Male, plans to retire later, lower income

Informal advice

Family and friends, whilst not considered to be formal help, were a source of help for many over 50 year olds. However, while the experience of peers may have been helpful in the past, with a rapidly changing market in 2015, it is unlikely to be enough for those now approaching retirement.

Overall 21 per cent of over 50 year olds planned to seek advice from friends and family (either friends and family alone, or as part of a range of sources). Working over 50 years olds were more likely to state that they would seek advice from friends and family than those over 50 year olds who were retired.

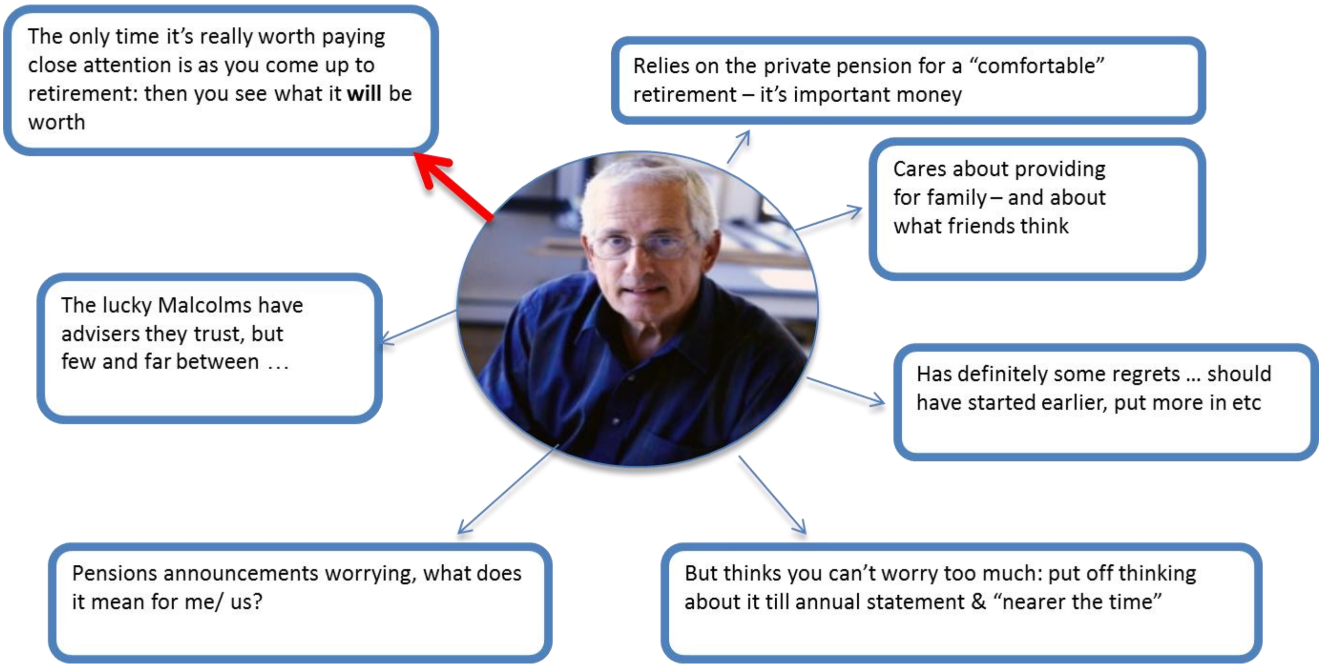
Helping Malcolm with unpredictability and complexity

For Malcolm the uncertainties of retirement and retirement income are captured in the diagram below. Faced with the unpredictability of retirement, complex decisions on whether to take the money from their pension or leave it in, uncertainty about how best to generate a secure retirement income and complex products and risks, Malcolm may well feel paralysed and unable to make an active decision.

To navigate the market, many Malcolms will need help, specifically:

1. **Pathways**. Clearly defined pathways into retirement should be developed so that people have easy access to at least one straightforward, good value option.
2. **Guidance** The Government's Pension Wise service should be promoted heavily to ensure people use it to explore the wider range of options available to them.
3. **Products** Savers should also be able to choose from a full range selection of high quality products built around their needs.

Figure 17: Summary of retirement issues facing 'Malcolm'



Annex 1: Methodology

In June 2014 the NAPF commissioned quantitative and qualitative research to examine to provide a clearer understanding of retirement. The research aimed to:

- Understand triggers and barriers to retirement;
- Understand the difference that private pensions make to retirement;
- Covering both access and use today, and how this will change in future;
- Explore if there are differences between the experiences vs. expectations of retirement;
- Identify trends in attitudes towards and experience of retirement;
- Describe current and potential sources of help, support and advice.

Qualitative research

The qualitative research consisted of a series of focus groups and telephone interviews in July 2014. Four focus groups were undertaken; two in St Albans and two in Manchester. Thirty telephone interviews were conducted – each 35-50 minutes in length.

The sample selected consisted of a range of early, late and standard pension age retirees, pre and post retirement, with private pensions (DC and DB), and a small group of those with state pension or very small state pensions only (both pre and post retirement).

The qualitative research was conducted by Sharp Research.

Quantitative research

Quantitative research was conducted in September 2014. A phone survey of sample of 1,243 adults aged 50-70 was carried out, with 1,000 interviews undertaken online and 243 by phone; the results are weighted to be representative of the population.

The questionnaire explored current working status and attitudes to work, and the triggers for retirement, age of retirement.

The quantitative research was conducted by Critical Research.

Reporting

For quantitative results, tables and figures report the base, which refers to the group who were asked the question, weighted to be representative of the UK population; please note that bases vary throughout the survey.

Throughout the report percentages in figures and tables may add to more than 100 per cent due to rounding.

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January 2015

‘Securing the future of pensions’