The evolving retirement landscape

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We'd like to thank...

The evolving retirement landscape

- Why is the retirement landscape evolving?

- What are individuals doing with DC savings?

- How do the needs of retirees affect decisions about retirement income?

- How are combinations of savings and assets evolving?

Why is the retirement landscape evolving?

- Future retirees are likely to:
  - ➤ Live longer
  - ➤ Take their State Pension later
  - ➤ Reach retirement with a greater reliance on DC savings as opposed to DB entitlement
  - ➤ Have near total flexibility in accessing savings

- The evolving retirement landscape:
  - ➤ Changes in the wider pensions landscape: DC on the rise
  - ➤ Legislative changes: Pension freedoms and Automatic enrolment
  - ➤ Demographic changes: increasing longevity
  - ➤ Changing transitions into retirement: no longer a single decision

- Future retirees will face more complex decisions

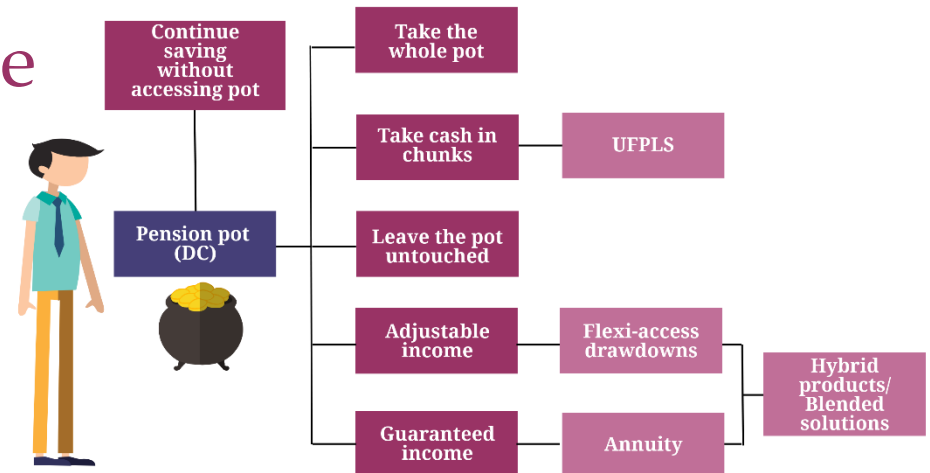# The evolving retirement landscape

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What are individuals doing with DC savings?

- On average, pots are being accessed at younger ages, and in many cases before retirement

- Pot size can influence retirement income decisions

- Decisions may also differ by age, although full withdrawal is the most commonly used option across all age groups

- However, most pots have not yet been accessed

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How do the needs of retirees affect decisions about retirement income?

- Many people have not given much consideration to how they will access their retirement savings

- There are low levels of understanding and engagement, even among people who have already accessed their pots

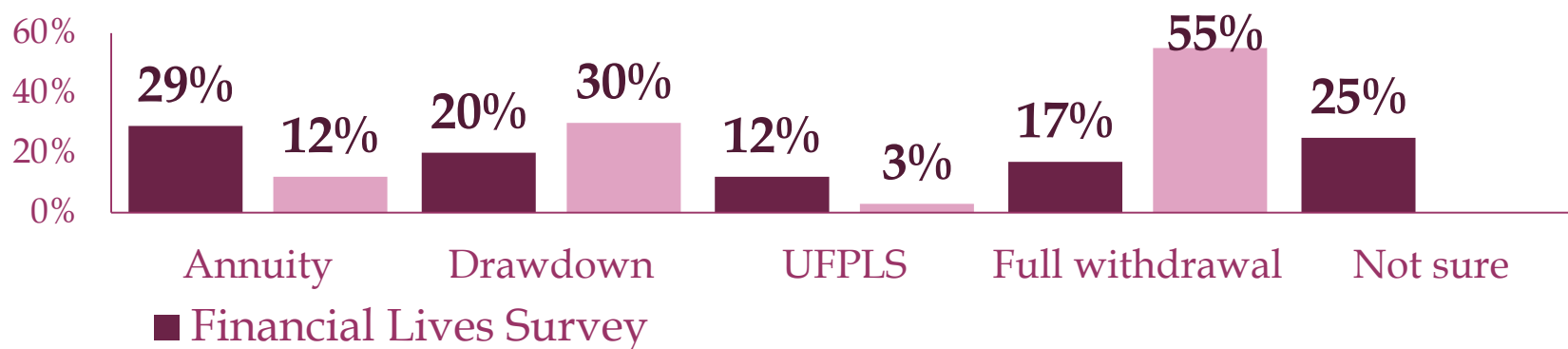|	Annuity	Drawdown	UFPLS	Full withdrawal	Not sure
Financial Lives Survey	29%	20%	12%	17%	25%
Pots accessed for the first time since October 2015 (FCA Retirement income market data)	12%	30%	3%	55%	

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Individuals with moderate to high levels of DC savings and no or low DB entitlement are most at risk of making decisions that can have a significant negative impact on their retirement outcomes

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DB

Yearly entitlement above £7,000

Yearly entitlement to £7,000

Yearly entitlement below £7,000

Low DC/ Considerable DB 29%

Some DC/ Considerable DB 1%

Moderate DC/ Considerable DB 2%

High DC/ Considerable DB 2%

Low DC/ Some DB 14%

Some DC/ Some DB 2%

Moderate DC/ Some DB 2%

High DC/ Some DB 1%

Low DC/ No DB 11%

Some DC/ No DB 13%

Moderate DC/ No DB 12%

High DC/ No DB 13%

← Savings of below £24,400 →

Savings of £24,400

← Savings of above £24,400 →

DC

The average 'at risk' individual

80% - 100% are homeowners
Around half of homeowners own without mortgage

Non-pension savings above £155,000		Non-pension savings below £1,000	
16%	50%	25%	10%
Mod. DC No DB	High DC Some DB	Mod. DC No DB	High DC Some DB

Levels of non mortgage debt are around average - £8,000

How are combinations of savings and assets evolving?

- These 'at risk' groups are currently relatively small, but they will grow in the future

- There will be an increasing number of people reaching retirement faced with decisions that have the potential to have a significant negative impact on their retirement outcomes

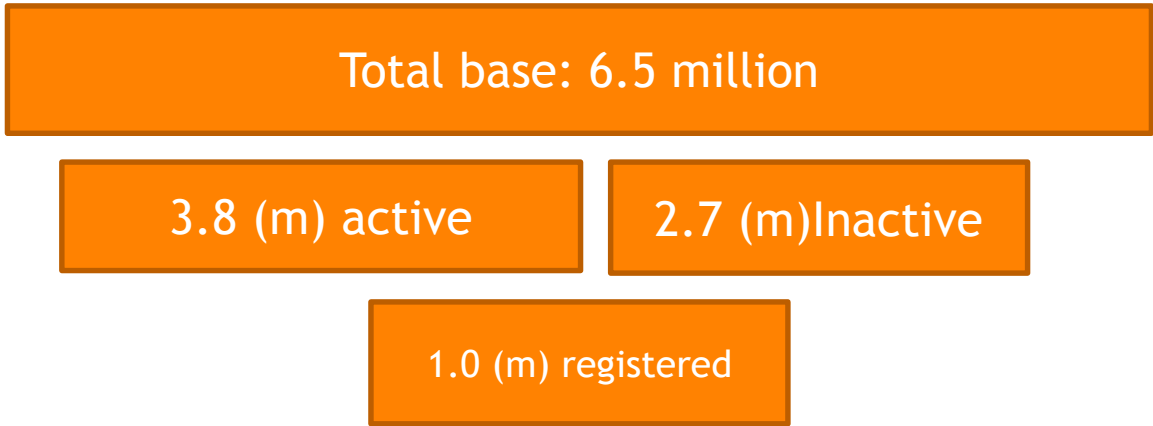**Mark Rowlands**

Director of Customer Engagement

NEST

PPI – Evolving Retirement Landscape

Mark Rowlands – Director of customer engagement

8 May 2018

NEST's current member base

Total base: 6.5 million

3.8 (m) active

2.7 (m)Inactive

1.0 (m) registered

Metric	Number
Total members	6.5 million
Active members	3.8 million (59%)
Registered members	1,014,063 (16%)
Retirements processed	36,474 (1%)
Opt-outs	595,355 (8%)

NEST member demographics

Other pension schemes held by NEST members

	Whole of NEST	Over 45's
NEST ONLY:	53%	24%

Under 25   25 to 34   35 to 44   45 to 54   55 to 64   65 plus

Legend:
- NEST pension only
- 1 other
- 2 others
- 3 or more
- Not sure but more than 1
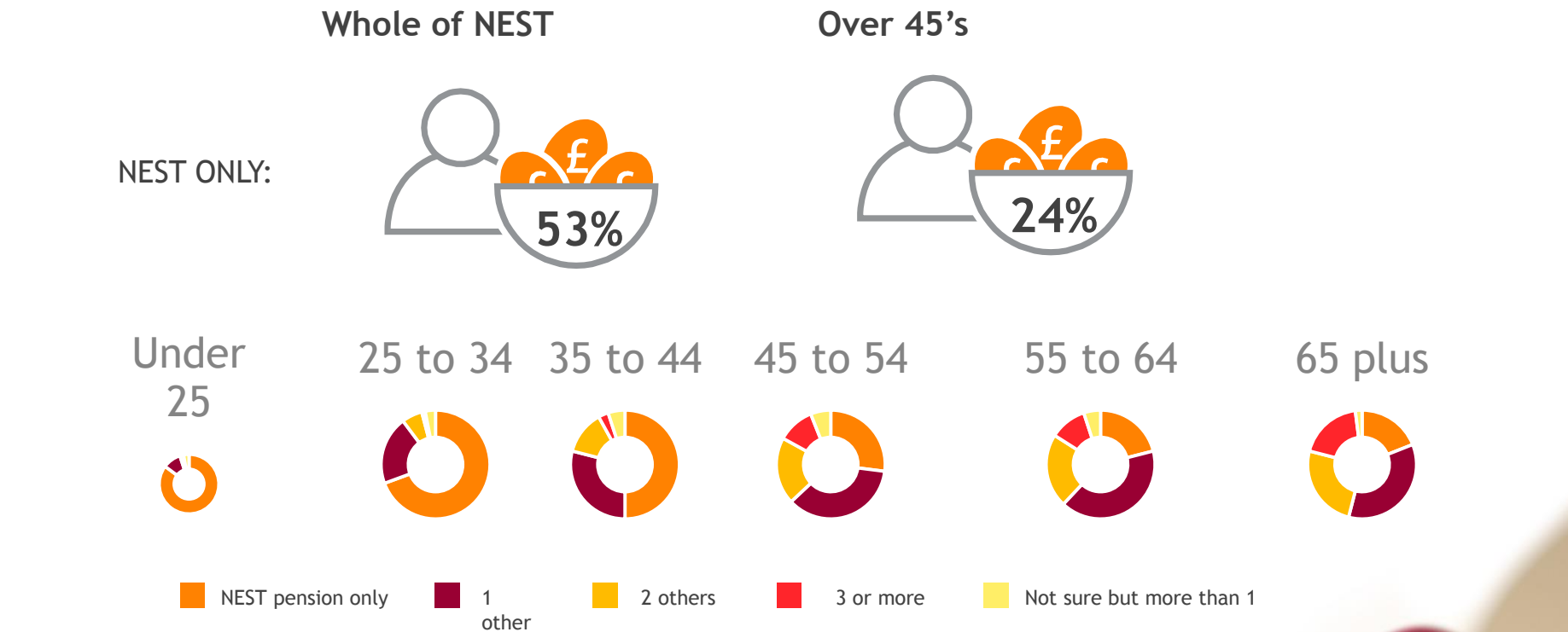
NEST member expected outcomes – what they currently expect

Total membership

| 34% | 6% | 31% | 9% | 20% |

Legend:
- ■ Expect NEST to pay me a regular income
- ■ Will use the money in my pension pot to buy something from elsewhere
- ■ Don't know-haven't really thuoght about it
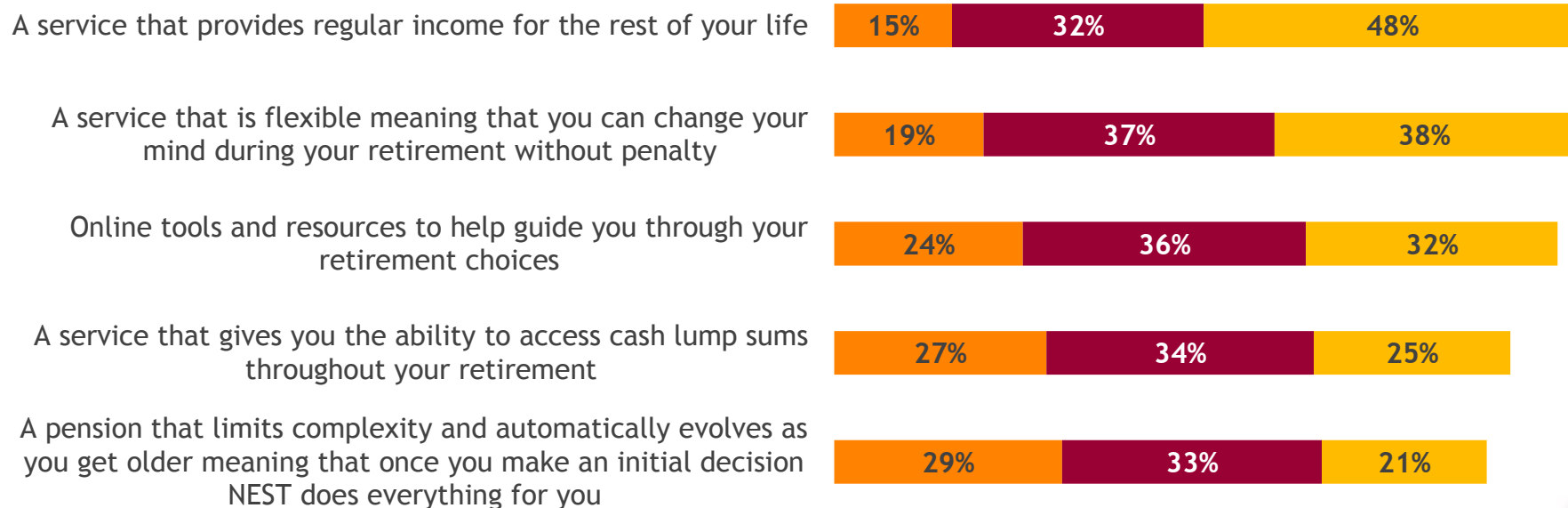- ■ Don't know - don't really understand the options
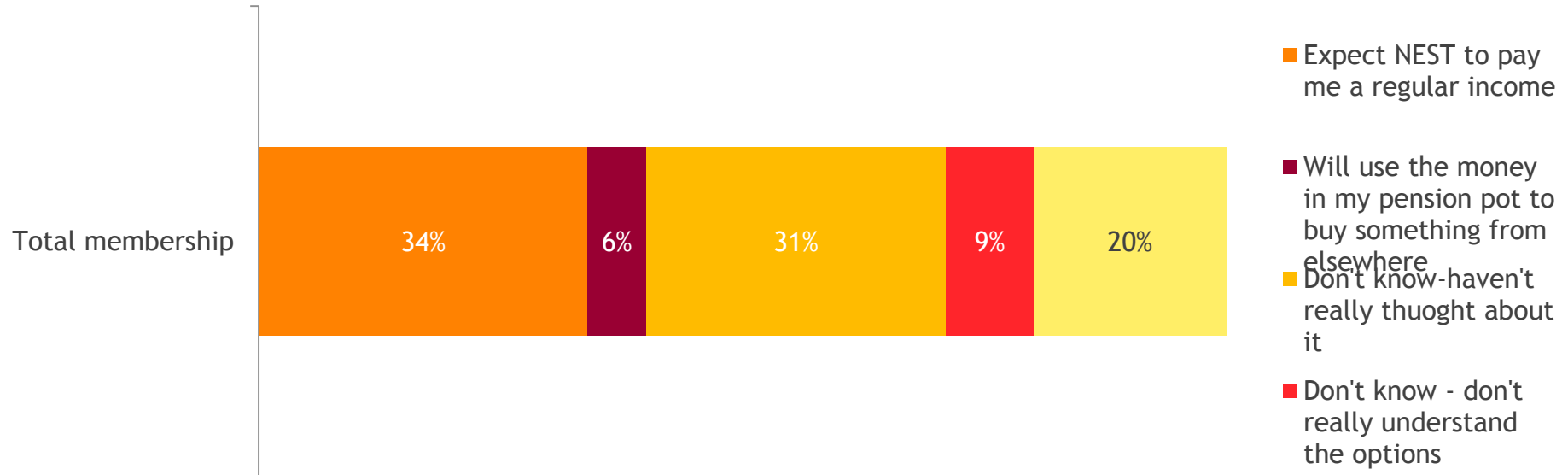
6% will shop around, 1/3rd expect income from NEST, 2/3rds don't know

Over 60's – 68% don't know

What members would like from a retirement solution..... income for life and flexibility

How important do you think it is that NEST offers the following types of solution?
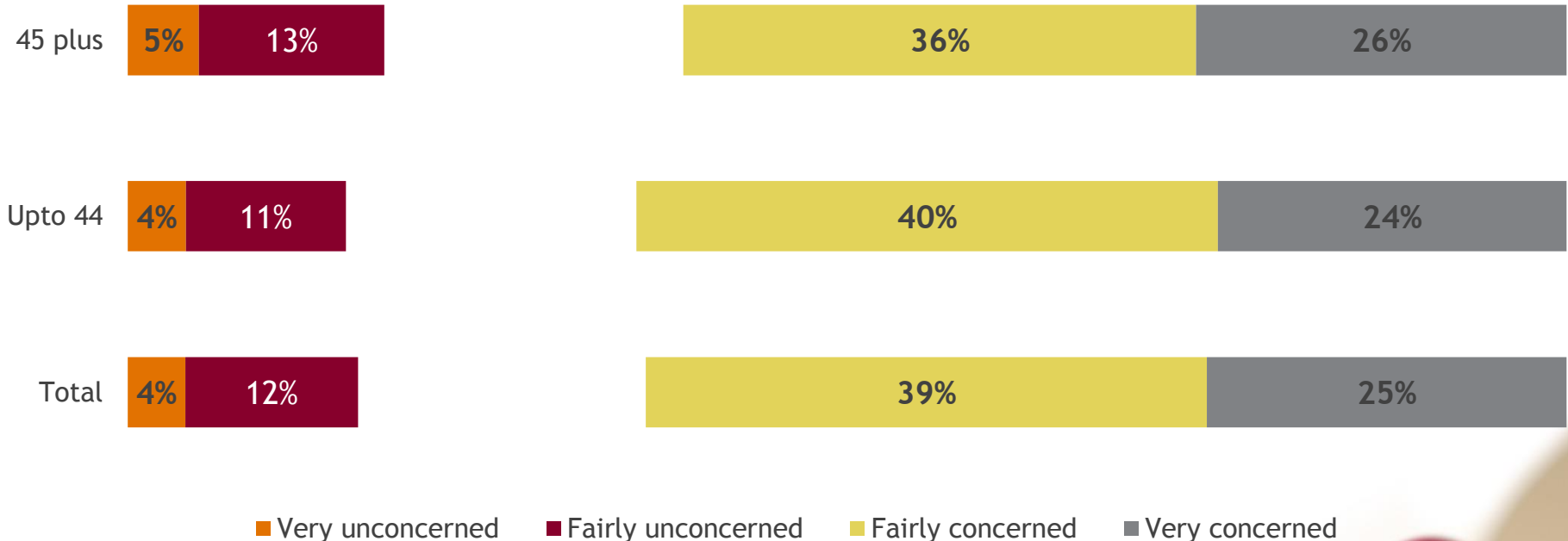
A service that provides regular income for the rest of your life
| 15% | 32% | 48% |

A service that is flexible meaning that you can change your mind during your retirement without penalty
| 19% | 37% | 38% |

Online tools and resources to help guide you through your retirement choices
| 24% | 36% | 32% |

A service that gives you the ability to access cash lump sums throughout your retirement
| 27% | 34% | 25% |

A pension that limits complexity and automatically evolves as you get older meaning that once you make an initial decision NEST does everything for you
| 29% | 33% | 21% |

■ Important ■ Very important ■ Essential

Base: All.

Just under two thirds of members think they'll feel concerned when making decisions at retirement

How concerned do you think you'll be when it comes to deciding what to do with your pension pots at retirement?

	Very unconcerned	Fairly unconcerned	Fairly concerned	Very concerned
45 plus	5%	13%	36%	26%
Upto 44	4%	11%	40%	24%
Total	4%	12%	39%	25%

■ Very unconcerned   ■ Fairly unconcerned   ■ Fairly concerned   ■ Very concerned

Education vs nudges – a false conflict?

The 'old' way – informed choice

The challenge
Low financial literacy / asymmetries of information

The solution
Education and information create active consumers acting in their own interest

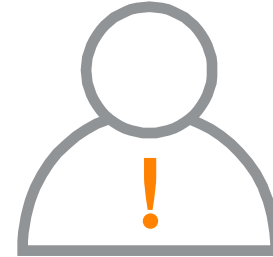## The 'new' way - behavioural finance

The challenge
Behavioural biases

The solution
Defaults and other nudges use these biases to encourage 'good' behaviours

… but are these approaches really in conflict?
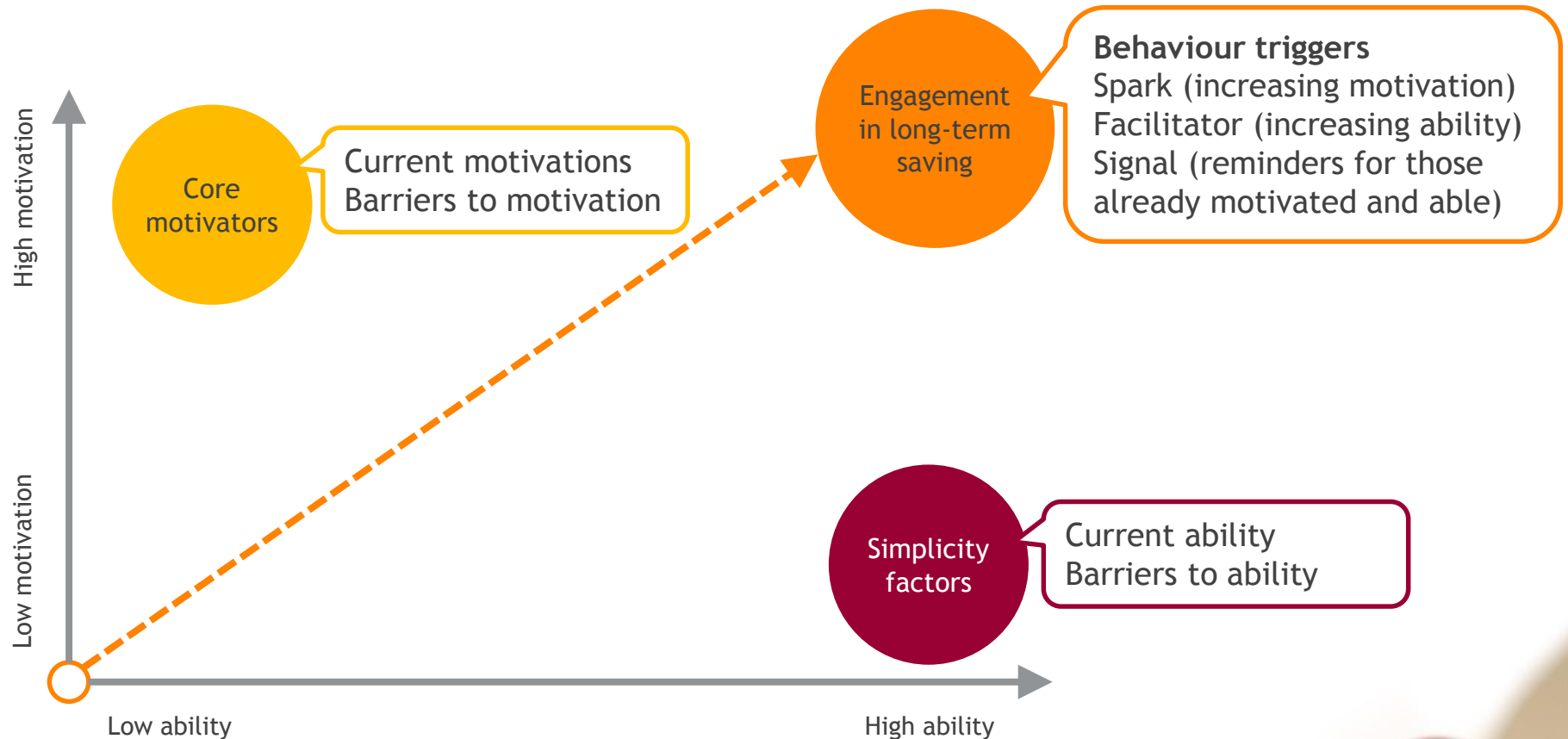
The need to change behaviours

More comms   ≠   **More awareness**

More awareness   ≠   **Changed behaviour**

Changing behaviour: the Fogg model

High motivation

Low motivation

Core motivators
Current motivations
Barriers to motivation

Engagement in long-term saving

Behaviour triggers
Spark (increasing motivation)
Facilitator (increasing ability)
Signal (reminders for those already motivated and able)

Simplicity factors
Current ability
Barriers to ability

Low ability

High ability

Guided Retirement Pathways

> sustainable income

> manage investment risk

> manage inflation risk

> spend pots

> longevity protection

> offer flexibility

> good value

> strong governance

Legal information

Jeremy Speechley

Insight and Evaluation Manager

The Pensions Regulator

Panel discussion and Q&A

- **Michelle Cracknell – Chair**
- **Lauren Wilkinson – PPI**
- **Tim Fassam - Prudential**
- **Mark Rowlands – NEST**
- **Jeremy Speechley – TPR**

Thank you for coming

Please join us for refreshments