PRESS RELEASE

PENSIONS POLICY INSTITUTE

"Pensions industry needs to provide effective default solutions for DC savers moving into retirement" says Pensions Policy Institute

The Pensions Policy Institute (PPI) is today publishing '*Supporting DC members with defaults and choices up to, into, and through retirement: qualitative research with those approaching retirement*', a report sponsored by State Street Global Advisors. This new research comes at a critical stage with the new Budget retirement income reforms going live in April this year.

The research uses insights from a series of in-depth interviews and focus groups with savers approaching retirement with Defined Contribution (DC) pensions that make up the majority of their private pension savings.

It explores preferences for how, in light of the new legislation, they might wish to draw a retirement income, the financial trade-offs that they are willing to make, and the default products and strategies that could best support them.

The research finds that the Budget freedoms are popular with DC savers. However once they begin to understand the full scale of choices and trade-offs involved in deciding how to access their DC pension pots at retirement they can quickly become daunted. This suggests that disengagement and inertia amongst consumers from April 2015 is a key risk without the provision of effective default strategies and appropriate guidance and advice.

The idea of their pension scheme or existing provider offering a default investment or drawdown option into retirement resonated with DC savers, with some believing that providers even had a 'duty' to offer this – though they recognised the importance of wider individual and household circumstances and the need for there to be some element of choice for those who want it.

The PPI research uncovers a number of specific risks which policy makers, regulators and the pensions industry should work together to address. These include:

- Reluctance or inability to plan beyond the next few years, which means locking into a specific course of action either before or at retirement is generally unpopular;
- Poor understanding of both spending needs throughout retirement and likely life expectancy and, in particular, the probability of living beyond age 85, which means DC savers are likely to underestimate the importance of longevity insurance;
- Perceptions that there are 'safer' or 'better' investments they can use outside of pensions, which, when probed, are based on misguided beliefs or have not been properly thought through;
- Lack of engagement (even very close to retirement) – leading to the potential for consumer detriment if the defaults available are not suitable and designed in the best interest of savers.

Commenting on the research, PPI author Melissa Echalier said:

"The findings from the research were encouraging, in that while those with DC pensions were disengaged with the decisions they will need to make at retirement they were capable, when supported, of making some important trade-offs. These included trading-off their appetite for risk, the degree of protection they would like against rising costs of living in retirement, and the level of flexibility and ease of access they have to their DC pension funds. The risk is that without access to advice or suitable defaults in place they make poor decisions, which could include taking their fund as cash and placing it in very low return investments."

Alistair Byrne, Senior DC Strategist at State Street Global Advisors added:

"We need to begin putting in place arrangements to implement the Freedom and Choice reforms now, and the PPI's research provides strong evidence to build on. It's clear that default investment strategies in DC plans need to cope with uncertainty around when people will retire and how they will access their retirement savings. The industry needs to put in place well governed retirement income defaults that provide members with value for money and flexible access to their assets, without overwhelming them with complex choices."

The qualitative research, conducted by Ignition House on behalf of the PPI, is the first of two stages in the project. The second stage of this research will build on these findings to explore the potential challenges around comparing different options for DC savers at retirement, with a particular view to exploring the tools, visuals and rules of thumb that might help to benchmark different options available for providing income in retirement.

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Notes for editors

1. The Pensions Policy Institute (PPI) is an educational research charity, which provides non-political, independent comment and analysis on policy on pensions and retirement income provision in the UK. Its aim is to improve the information and understanding about pensions policy and retirement income provision through research and analysis, discussion and publication. Further information on the PPI is available on our website www.pensionspolicyinstitute.org.uk.

2. '*Supporting DC members with defaults and choices up to, into, and through retirement: qualitative research with those approaching retirement: qualitative research with those approaching retirement'* is the first stage of a two stage major research report, sponsored by State Street Global Advisors, and part of the PPI's Transitions to Retirement research series. The first major report, published in November 2014, focused on the complexity of decisions DC savers face at retirement. The Transitions to Retirement research series should serve as a timely, invaluable and independent assessment of how well equipped the UK pensions landscape is to support good member outcomes in retirement. The series as a whole is being sponsored by a consortium: Age UK, Fidelity Worldwide Investment, The Investment Association, Partnership, The Pensions Advisory Service, The Pensions Regulator, the People's Pension, and State Street Global Advisors.

3. State Street Global Advisors (SSgA) is a global leader in asset management. The firm is relied on by sophisticated investors worldwide for its disciplined investment process, powerful global investment platform and access to every major asset class, capitalization range and style. SSgA is the asset management business of State Street Corporation, one of the world's leading providers of financial services to institutional investors.

4. Ignition House is a specialist financial services research agency, which has a reputation for excellence built around the skills, knowledge and experience of the senior team who have a unique combination of skills drawn from our backgrounds in financial research, economics, public policy and management consulting. Janette Weir, Ignition House's Managing Director who led on this qualitative research, is an industry expert in conducting pension research with consumers, and has been actively involved in understanding consumers' reactions to the pension liberalisation reforms announced in the 2014 Budget through both syndicated and bespoke projects. The qualitative research included in-depth interviews and three focus group discussions with 55 individuals aged 55-70 with DC savings in workplace pension schemes that make up the majority of their private pension savings.

5. A 'default investment strategy' is the investment approach chosen by a DC pension scheme or provider to be used where the scheme member has not actively chosen the investment strategy for their assets.