ignition house

Exploring Consumer Attitudes to Default Funds – Qualitative Consumer Research

Workshop: 11 December 2014

ACTIONABLE, INSIGHTFUL RESEARCH

OUTLINE FOR TODAY'S WORKSHOP

1. Research Aims, Methodology and Sample Framework
2. Savings for Retirement
3. Planning for Retirement
4. What Impact will the Budget Changes have?
5. How Well Equipped are Consumers to Make Investment Decisions?
6. Feedback on Default Funds

RESEARCH AIMS & METHODOLOGY

RESEARCH AIMS

The primary aim of this research is to provide insight into how consumers might behave and approach their retirement decisions in the new liberalised at-retirement landscape

What are their savings for retirement?	➢ To what extent are consumers reliant on pensions for their retirement income? ➢ What role will housing wealth play in retirement?
How will they plan for retirement?	➢ What are the key triggers to start the journey? ➢ What does a comfortable retirement look like? ➢ How much is needed to fund the 'essentials'? ➢ What are their estimates of how long they might live? ➢ How confident are they to make investment choices?
What impact will the Budget changes have?	➢ What is their awareness of the Budget changes? ➢ What are consumers likely to do with their pension pots?

RESEARCH AIMS

The primary aim of this research is to provide insight into how consumers might behave and approach their retirement decisions in the new liberalised at-retirement landscape

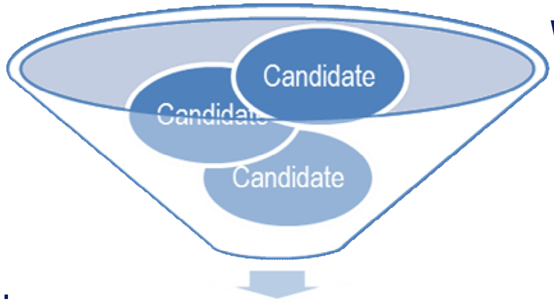
How well equipped are consumers to make investment decisions in the new landscape?	- What is their understanding of how their pensions are currently invested? - What is their appetite for risk/ capacity for loss? - Do consumers risk making poor choices?
Feedback on default funds	- What are their thoughts on having pre-determined investment choices? - How many options should there be? - What factors should the options be based on? - What trade offs are consumers willing to make? - What would the impact be on their portfolio mix? - How should the process work in practice? - To what extent is the decision process automatic? - What are their views on longevity insurance? - How should this be communicated?

We used a mixed qualitative approach, with Focus Groups allowing for more exploratory research and F2F depths to understand retirement journeys and decision making in more detail

RECRUITMENT

We included those:

- ✔ Who had at least one group DC pension pot.
- ✔ Who were members of a group scheme, but not all were currently contributing.



Accepted Candidates

We screened out those:

- ✘ With an IFA
- ✘ >2 Buy to lets
- ✘ Pots over £250k
- ✘ DB entitlement which would be >60% of expected income

FIELD

Focus Group Research

- 3 x 180 minute extended focus groups across three different locations.
- Exploratory in nature, utilising a range of stimulus and exercises.
- Separate groups by age: 50 to 55, 56-60, and 61-65.

Face to Face Depths Interviews

- 33 x 60 to 90 minute face-to-face depth interviews across six locations.
- Small director-level interviewing team.
- Broad geographic spread including cities and more rural locations.

SAMPLE FRAMEWORK

Respondents were recruited across the UK using a detailed recruitment screener - the main criteria were age, DC pension pot size and membership of a group DC scheme

Extended Focus Groups

LOCATIONS

AGE OF RESPONDENTS

Manchester	Age 50-55
London	Age 56-60
Leeds	Age 61-65

PENSION POT

<£30k	7
£30k-£50k	5
£50k-£100k	8
£100k-£250k	2

SCHEME TYPE

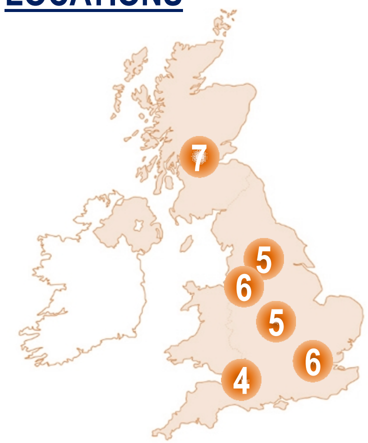
Group
22

GENDER

Male: 12
Female: 10

Extended Face to Face Depths

LOCATIONS



AGE OF RESPONDENTS

Age 55-60	15
Age 61-65	16
Age 66-70	2

PENSION POT

<£30k	6
£30k-£50k	7
£50k-£100k	14
£100k-£250k	6

SCHEME TYPE

Group
33

GENDER

Male: 20
Female: 13

RESEARCH METHODOLOGY: REPORTING CONVENTIONS

This report makes use of verbatim comments and graphics to support the findings

1. **Verbatim Comments**

   These are respondent quotations, based on interview recordings with only very minor editing. The respondent quotations demonstrate their own views and perceptions, and may not always be factually correct.

2. **Graphical Representations**

   The number of consumers giving a particular response is sometimes shown in some report sections as the (n). Counts are provided to indicate the spread and balance of different behaviours or views among consumers.

   Such counts are based on interviewer interpretation of qualitative responses given by respondents and, as such, not all responses have been captured in every instance, resulting in a varying (n).

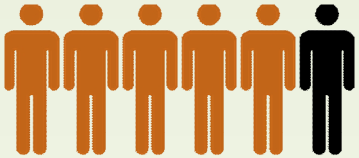
   All counts are indicative only and should not be regarded as statistical measures. The research is not necessarily representative of customers with a DC pension.

SAVINGS FOR RETIREMENT

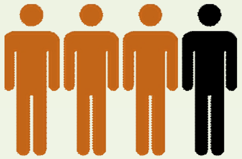
	KEY FINDINGS	IMPLICATIONS
1	Complexity of arrangements means that the current generation usually do not rely solely on DC arrangements for income.	Current generation is more likely to have an underpin of inflation proofed, secure income in BSP, SERPS/S2P, and DB schemes, in addition to housing and savings.
2	Retirees have additional savings and investments, but typically lack confidence and knowledge to choose equity based products.	Left to make choices themselves, savings tend to be placed in cash based investments.
3	Downsizing is the fall-back option for those who will need to top up pension income, but few have fully considered how much this can release.	This 'safety net' may not generate as much additional income as expected.
4	Few reported debts or loans. Most had paid of their mortgages or had relatively small amounts outstanding.	Current generation entering retirement typically do not need to use their pensions to pay off debt, although TFC may be used to pay off the small amounts on their mortgage.

1. Most had more than one pension arrangement, but many were unsure whether they would have enough saved for retirement.

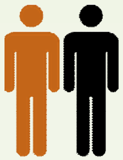
Q. What pension savings do you have?*



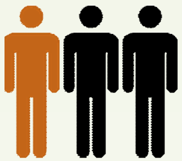
5 out of 6 respondents had more than one pension arrangement



1 in 4 households had a DB pension (either the respondent or their partner)



…but, only 1 in 2 think they have enough saved for a comfortable retirement



…and just 1 in 3 are expecting an inheritance to boost pension savings

* Note: Based on the F2F interviews only. May not be representative of the DC population.

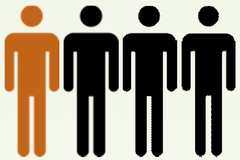
2. Pensions are just one part of the asset pool many respondents have accumulated for retirement income.

Q. What savings and investments do you have?*

Just over 5 in 6 had some form of savings or investments to supplement their pension pot in retirement

3 in 4 had a cash ISA…

…but, just 1 in 3 had equity-based investments



…1 in 4 had a second or buy-to-let property/s

* Note: Based on the F2F interviews only. May not be representative of the DC population.

3. Downsizing rather than equity release is seen as the fall back option.

- The majority of our respondents owned their own home outright or with a small mortgage:
  - Many had paid off their mortgage some years ago.
  - Some reported using some of their tax free cash to pay off the remaining sums.
- Just a couple were worried about paying their mortgage when they came to retire.
- Finishing a mortgage is often a trigger for thinking of retirement, as owning a home outright means that they feel financially secure, and is a welcome reduction in their outgoings.
- Although there is a very strong bequest motive for housing, respondents felt that they would downsize and release equity if required – but few had looked in detail at the practicalities.
- Despite high levels of awareness of the costs of care, and the impact that this can have on housing wealth based on experiences with friends and family, respondents preferred not to think about care needs for themselves and had not made any plans to protect their homes from the costs of long term care. They are focused on the early active years of retirement and can not or do not want to think beyond this for themselves.

PLANNING FOR RETIREMENT

	KEY FINDINGS	IMPLICATIONS
1	Phased retirement up until age 70 is expected to be the pattern for most respondents.	Increased flexibility means new investment strategies will be required to meet changing retirement patterns.
2	Plans are often superficial and focus only on the next year or two. Few have made estimates of how much is need to be 'comfortable', particularly in later life.	Respondents find it difficult to estimate long term income needs and, therefore, how long their pot will last for.
3	Tendency to over-estimate what is needed for 'essential spend'. Actual essential needs are mostly met by BSP/ SERPS and DB entitlement.	For many respondents, their DC pot does not need to deliver a secure income as basic needs can be met from alternative sources.
4	Respondents tended to under-estimate life expectancy, and were not clear on how investment choices would impact how long their money would last.	Consumers are not well equipped to make the decisions that used to be the remit of the annuity provider.

1. There is no typical journey as circumstances vary enormously, but the key triggers to start the process of retirement are reaching a milestone, paying off the mortgage and partner retiring.

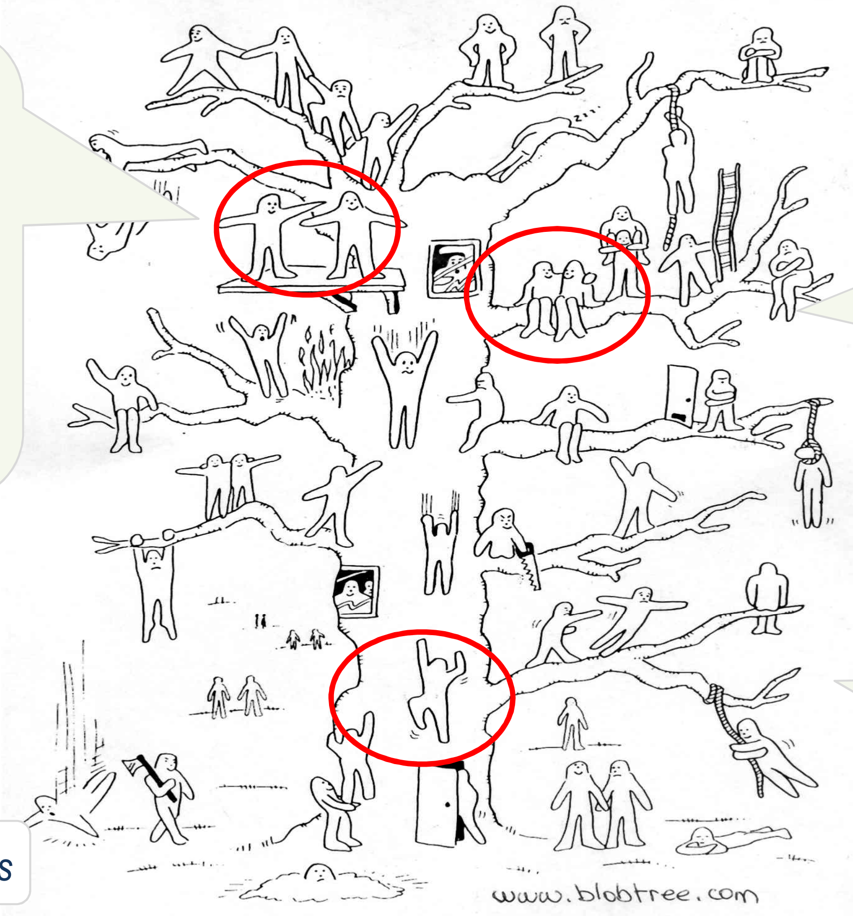
1. Reaching a specific milestone, age 60/65/70
2. Paying off Mortgage
3. Partner Retiring
4. Pension Maturing
5. Health issues

- For those approaching retirement planning for a flexible retirement was the norm. Some were already partially drawing pension income to supplement reduced wages.
- Most expected to finally stop working completely around State Pension Age or at 70, but a few said they would carry on for as long as their health permitted. 70 was felt to be the age at which health would start to fail and when they would start to feel "old".
- Those looking at a set date for retirement at 60 or 65 tended to be in the lower income brackets and had lower educational attainment. They felt they had been working since their teens and had 'done their time'.

2. Majority of respondents were positive about their plans for retirement.

Q. The blob tree is used to help people describe their emotions and feelings. Can you look at the tree and tell me which of the figures best represents how you feel about planning for retirement?

"I feel I am on a firm platform. I don't feel I am going lower than I am at present, but when and if opportunities arise I am ready for an uplift." Male, aged 66-70



"I would say I was stable, but not so far up the tree." Male aged 61-65

"I am still working my way up it." Male aged 56-60

Most popular mentions

4. To enable respondents to fully consider their income needs in retirement, we asked them to complete a homework task.

Respondents were asked to complete a homework exercise to estimate how much income they would need in retirement. They were asked to do this in two different ways:

1. Replacement rate – what percentage of their household income would they need to live off in the early years of retirement (up to age 75) and the later years of retirement (75+). Based on their current household income, this percentage was then converted into an amount to allow for a comparison with the breakdown of estimated expenditure.
2. How much they spent on various categories of household expenditure today, in their early years of retirement and in the later years of retirement. They were asked to give their estimates in today's money to remove the need to consider inflation.

6. The vast majority of our respondents gave significantly higher amounts they wold need to live off when asked for their replacement rate compared to actually working through the numbers.

I thought I would need more. I know exactly what my finances are now.
Female, aged 61-65

It's surprising what you spend on things like food shopping. Hopefully by the time we are retired we can knock the bills down.
Male, aged 61-65

- The average sum derived from the replacement rate was £25k, but the numbers ranged from £12k- £55k.
- After looking at their spending patterns in detail most people estimated they would need around £10-£15k for the early years of retirement, dropping to around £10k for the later years. Here, there was much more consistency - the numbers ranged from £6k to £15k, with just one outlier at £25k (due to renting rather than owning outright).
- The biggest surprise was food expenditure.
- They did not factor in any long term care costs.
- Just a handful reported that their replacement rate was higher than the sum of their spending.

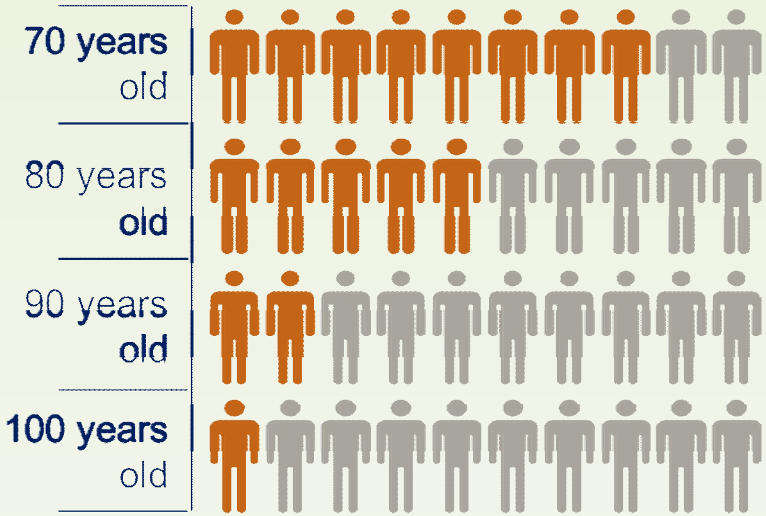
7. Respondents were often pleased to find that that a significant part of their essential spend would be covered by their state pension – meaning that they can probably afford to leave much of their DC pension pot invested.

£15k coming in from the state isn't bad. That is very useful and is a surprise. I think this security is an added bonus.
Male, aged 56-60

I need £10k cover all my essential outgoings, so that would even leave a bit on the side!
Male, aged 66-70

8. There is a tendency to under-estimate longevity, and there is a low awareness that they might be taking money out of the pot for longer than they put in.

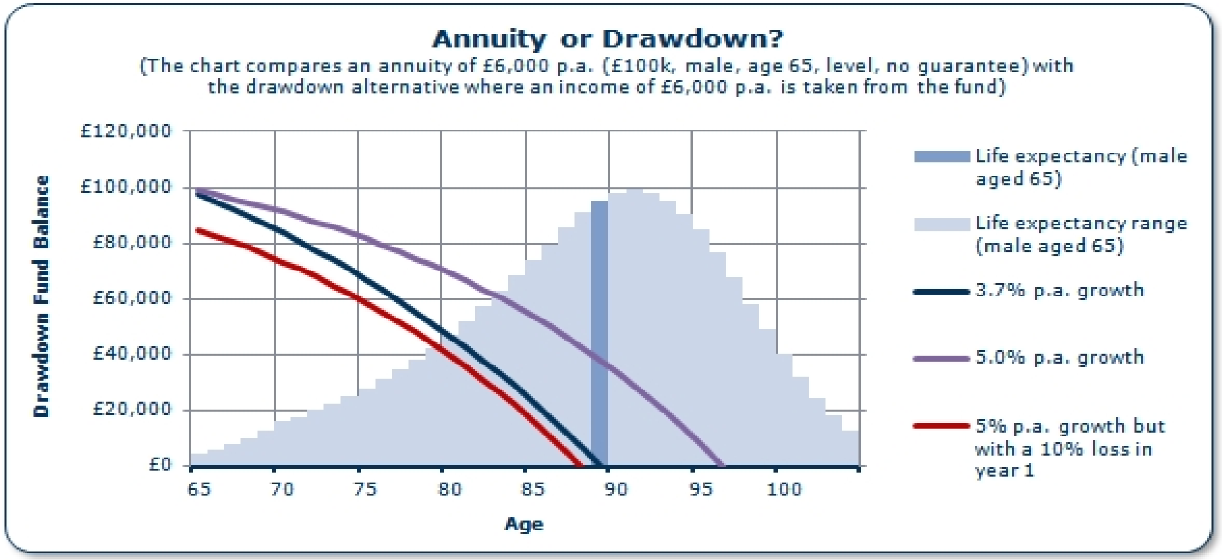
Q. Say there are 10 men who are retiring at 65 in good health. How many of these will live to…?



Real data for a 65 year old male retiring with a £10k pot:
Age 70-97%
Age 80-80%
Age 90-46%,
Age 100-10%

- Although respondents have a reasonable awareness of the average life expectancy, they are likely to over-estimate how many people will die between 65 and 70, and under-estimate how many will live beyond 80.
- It was common for respondents to discuss people they knew or had heard of who had retired at 65 and had died a few years later.
- When told the actual statistics, respondents were surprised how many men and women live beyond 80, even though many had octogenarians in their family.
- It was a surprise to respondents that they might be drawing on their pot for so long.

9. The graphical stimulus helped to bring to life the impact investment decisions will have on how long their money might last for, given how long they could live.



- The shaded blue area showing the "distribution of deaths" helped them to understand that many people would live beyond 90 and that their income was likely to run out, even with 5% growth.
- The revelation that none of the growth rates in the chart could be achieved without some equity exposure was an eye opener for respondents. As a result, they started to understand the importance of investment returns and the consequences of 'safe' cash-based investments on long term income.

WHAT IMPACT WILL THE BUDGET CHANGES HAVE?

WHAT IMPACT WILL THE BUDGET CHANGES HAVE?: SUMMARY

	KEY FINDINGS	IMPLICATIONS
1	Most popular options are to access pensions on an ad hoc basis or to take money out tax efficiently to invest elsewhere.	The majority will do some form of drawdown with at least part of their pot and will, therefore, need help to understand their investment choices.
2	Many would like to take more money up front to spend when they are fit and able, but significant numbers want to do something different.	Default funds are likely to need to be different shapes to meet diverse needs.
3	Property remains a popular option for pension pots – even when respondents consider the risk of investing life savings in a single asset.	More help will be needed to be able to make accurate comparisons.
4	Many mentioned taking money out of the pension to put into 'safer' or 'better' investments – which often meant cash based investments.	Help will be needed to understand what pensions are currently invested in, and the impact of cash based investments for a 20 year investment horizon.

WHAT IMPACT WILL THE BUDGET CHANGES HAVE?

1. Better awareness now that there are some tax implications of withdrawals, but 'taxed as income' is still not fully understood.

- Compared to the Ignition House syndicated research conduced in May 2014:
  - There were good levels of awareness that the Budget had increased flexibility and choice for those in the middle of the process and those in drawdown, and respondents were pleased there was more choice.
  - There was still practically no awareness amongst respondents that you could already access pensions if you are willing to pay a penal rate of tax or have small pots (trivial commutation).
  - There were higher levels of awareness that there are tax implications of taking the pension pot , but still some confusion about how to access money tax efficiently as there was poor understanding that taking lump sums could push them into the 40% tax bracket. There were a couple of cases where plans changed dramatically once the tax situation was fully understood.

2. Respondents are aware there is a plethora of options now available to them, and the most popular options were to take TFC and access the pot on an ad hoc basis, or to take the money out tax efficiently to invest elsewhere.

PRE-BUDGET OPTIONS

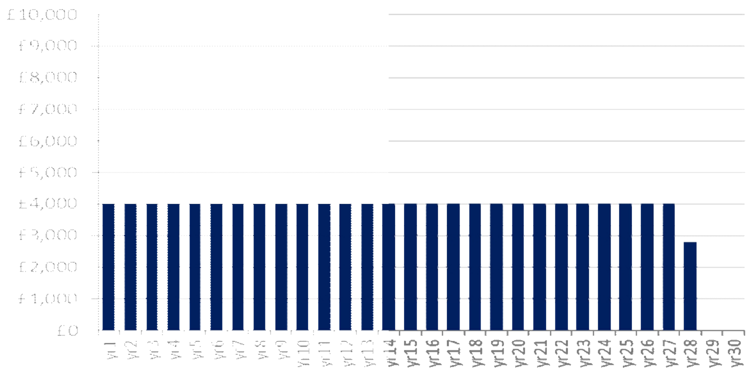
1. Usually a very simple choice: how much TFC and how much can I get from an annuity?
2. For those with pots over £150k, they could choose whether to take an annuity or leave the money invested and to take a certain sum each year, subject to income tax.

POST-BUDGET OPTIONS

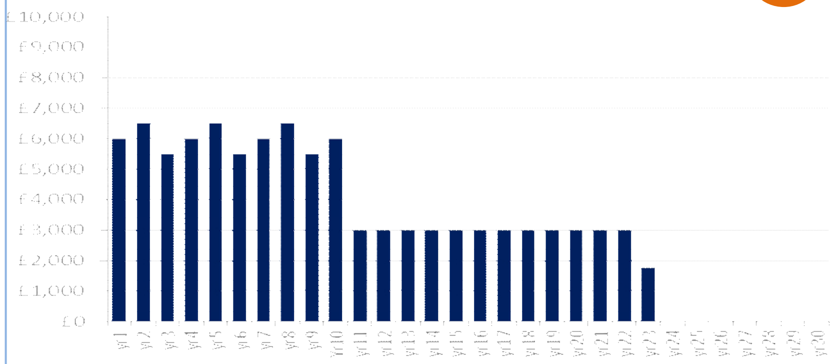
1. Do nothing and money passes to estate
2. Take TFC only, leave the rest invested
3. Take TFC, access the remainder as needed
4. Take TFC and take out a regular income stream
5. Take all the money, pay the tax, and invest elsewhere
6. Take out money tax efficiently over time and invest elsewhere
7. Take TFC, buy an annuity
8. Buy an annuity, no TFC

4. When presented with three potential withdrawal profiles, most respondents could see themselves doing A or B.

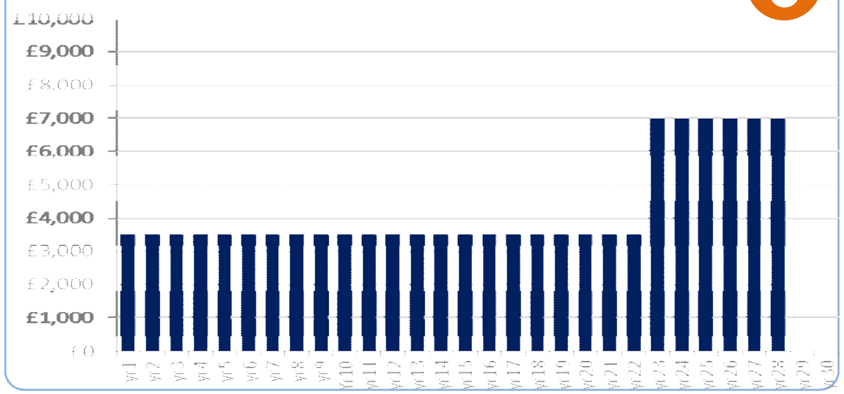
Level (A)



More Income early on (B)



More Income later on (C)



6. Many respondents discussed taking their money out in a tax efficient manner to invest in property – but had not considered the full costs and implications.

- It was common for respondents to discuss accessing funds to invest in property, driven by a mistrust of pensions and providers and the perception that property is a better investment in the long term.
- The possibility to invest in property was raised by both current landlords looking to add to their portfolios and those who had never invested in property before.
- Although they had no firm plans on exactly what they would do to minimise their tax bill, money will probably be withdrawn in phased amounts and invested in low risk investments – probably cash ISAs - until they have enough for the purchase.
- Most were talking about buying property outright. Respondents talked about being able to purchase property abroad for upwards of £20k, and in certain regions they were convinced they could buy outright for around £50k.
- They were not usually considering costs beyond the purchase price in their calculations and, therefore, their comparison of rental yield compared was somewhat over-optimistic.

HOW WELL EQUIPPED ARE CONSUMERS TO MAKE INVESTMENT CHOICES?

	KEY FINDINGS		IMPLICATIONS
1	Most respondents were not confident to invest money in equity-based products and most of their savings were in cash-based products, such as cash ISAs.	→	It is likely that, left to their own devices, respondents would either take pension money out to out in in 'safe' investments – which is unlikely to deliver the best outcome for a 20-30 year investment horizon – or would simply leave it rolling up in their pension.
2	Respondents did not know what their pension was currently invested in – and took very little interest in the topic.	→	The rationale for creating defaults for the accumulation phase would appear to hold true for the decumulation phase.
3	The vast majority of respondents' pensions were currently in some sort of default fund.	→	Are current default funds now fit for purpose – especially those that lifestyle? It is unlikely that people will develop the necessary skills and knowledge to manage investment choices in the decumulation phase themselves.

2. Respondents generally prefer capital protected investments, but have little understanding of the long term impact on pot size or income of this type of investment strategy.

2 out of 3 will take no risk*

1 out of 3 will take a small risk*

"I don't pretend to be a financial person but I prefer to be safe with money. I am not a gambler. I am not prepared to lose." Female, aged 56-60

"I am medium to low risk, looking for 4 to 5% in interest." Male, aged 61-65

"I can't afford for it to go wrong, I am risk averse, something small is better than nothing." Male, aged 56-60

"I'm happy to take a risk and a bit of a loss just as long as it's not too much." Female, aged 61-65

* Note: Based on the F2F interviews only. May not be representative of the DC population.

3. When thinking about the decumulation phase, many respondents talked about taking TFC and "leaving the rest invested", but had no idea what this meant.

> *I am just going to leave it invested… I might leave it to my daughter.*
>
> Male, aged 66-70

> *I will take 25% tax free cash. Before the Budget, I would've used the rest for an income through an annuity. Now I want to have 2 years salary as a safety net saved and I will leave what's left after the tax free cash there and take some if anything comes up.*
>
> Female 61-65

5. Most respondents would appear to be in some sort of default fund.

Q. Do you know where your pension is currently invested?

We had three choices I think. I got the low risk. It was 2009 when I did it.

Female, aged 61-65

I had the choice of a couple of low risk, a couple of medium and a couple of high risk funds. I went all in the middle.

Male, aged 56-60

- Respondents had very limited awareness of what their pensions were currently invested in and the options open to them within the pension wrapper.
- This was an area where they took little interest, as it was not felt to be within their comfort zone.
- When probed by the moderator, the vast majority were in default funds but many had no idea how they had ended up in the fund, and some thought they had no choice.
- A small number were vaguely aware that they had selected from a high/medium/low risk option some time ago, but could not articulate the differences between the choices on offer.

FEEDBACK ON DEFAULT FUNDS

	KEY FINDINGS	IMPLICATIONS
1	Very limited understanding of how pensions are invested meant that considerable education needed to get respondents to understand the issues.	Detailed consumer testing of the default investment propositions will be very challenging.
2	Respondents were very supportive of the idea of default funds and felt that pension providers had a duty to do this.	No barriers to further development.
3	There will be a variety of circumstances in the decumulation phase so a small number of choices would be optimal. More than six will lead to confusion.	Optimal number of choices is 3, and there should be no more than 6.
4	All of the factors tested resonated with respondents, but there are some clear favourites.	Default fund shapes could be built around risk, inflation proofing and flexibility.

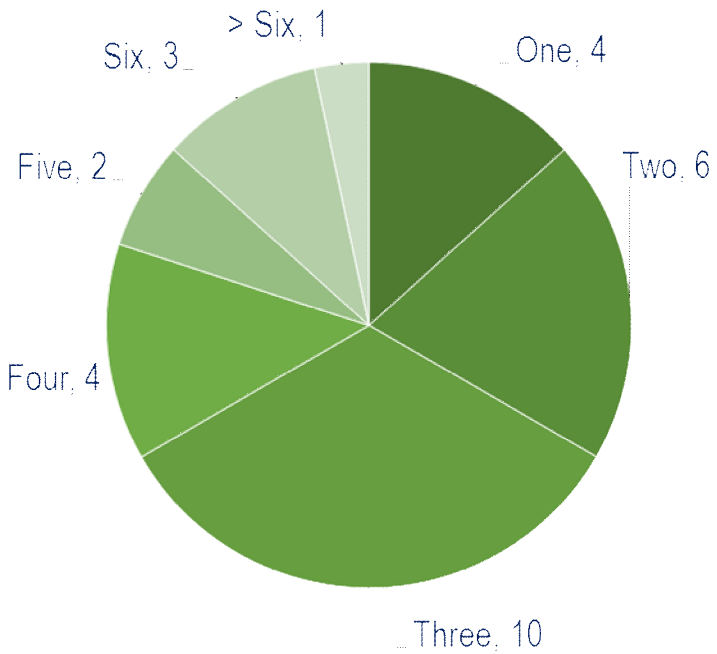
	KEY FINDINGS	IMPLICATIONS
5	Some appetite for reduced flexibility for higher rates of returns. Most needed access to around £10k for ‘emergency funds’.	Options should be offered. Respondents will need education to understand the implications of accessing pensions vs. other savings for emergency funds.
6	Once respondents understood that cash based investments are unlikely to beat inflation, they were willing to take more risk.	Most will want low to moderate risk funds. Some appetite to create their own blend across risk rating. Default funds are likely to result in more equity content.
7	Respondents were not keen for automatic decisions to be taken as they wanted to retain flexibility to deal with unexpected life events.	It will be very difficult to get people to make firm decisions in their 50s and 60s – set review points will probably need to be built in to default fund design.
8	The concept of longevity insurance was understood, and resonated with respondents.	The key barrier will be the cost. Annual premiums of more than £500 will be difficult to justify the maximum premium is likely to be £1,000.

1. Unprompted, respondents had no awareness of why a different default fund would be required for their retirement years.

- Respondents' lack of knowledge and understanding meant that they needed considerable help to understand why the default funds they are invested in today may not be appropriate for the next 20 to 30 years.
- Respondents had very limited awareness of lifestyling in their default funds and why this was being done.
- They had no idea that pension providers were building lifestyle funds on the assumption of an annuity purchase, and were in agreement that this should no longer be the assumed path for them.
- The moderator referred to the stimulus to discuss the impact that different investment returns could have on how long their money could last for, with particular emphasis on the need for equity exposure to keep up with inflation. Respondents felt that this was a very useful graphic and were consequently able to understand the concepts well.

3. Most would want a small number of choices, up to a maximum of six.

Q. How many options do you think you should have to choose from?



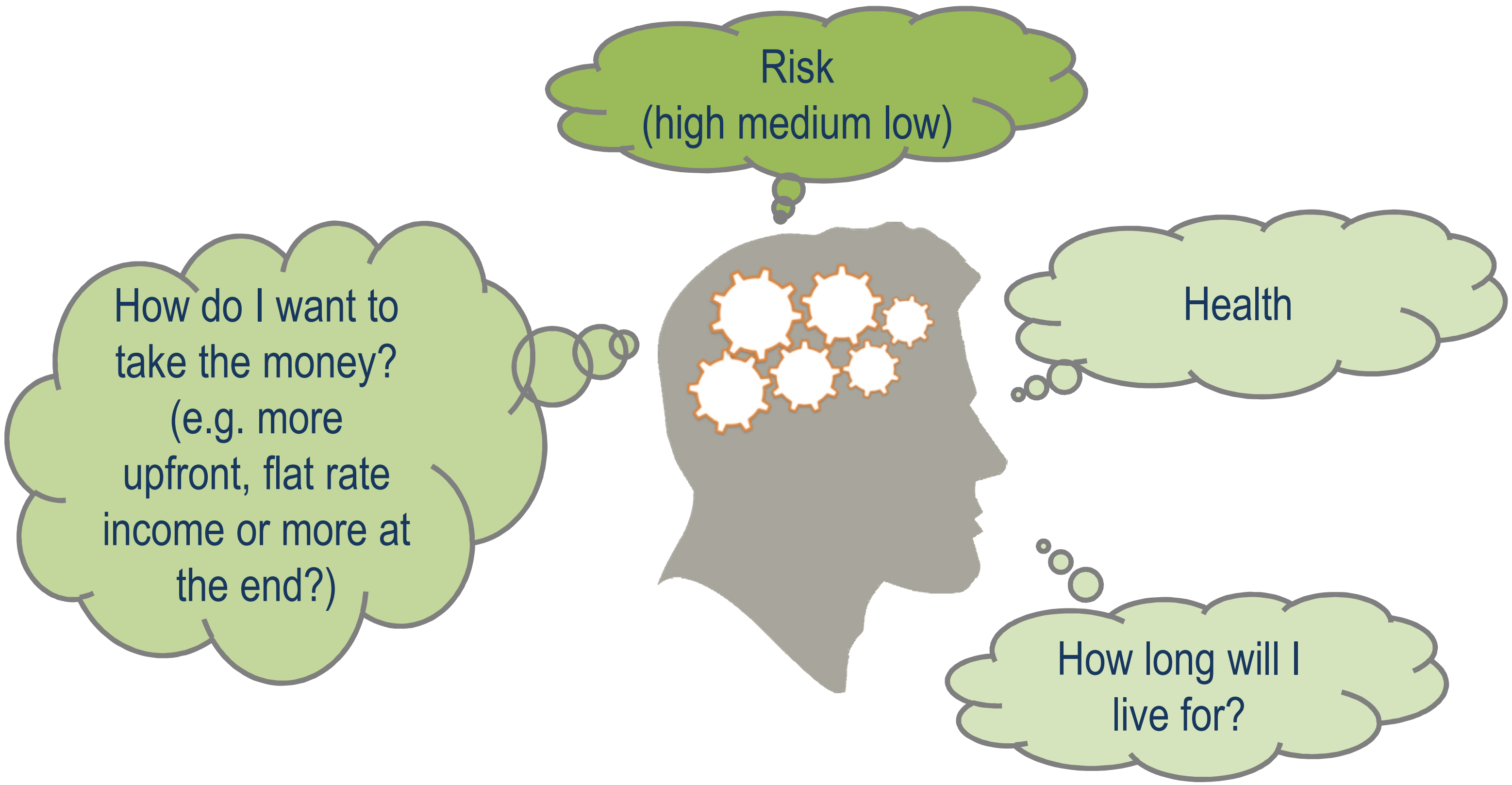
Note: Based on F2F interviews only so may not be representative of DC population

n=30

- Respondents felt that there could be a variety of needs and circumstances in the accumulation stage – so a 'one size fits all' approach is not ideal.
- Most would therefore prefer some choice.
- Three options was the most popular, as this was felt to offer enough choice, but no so much choice they would become confused.

5. Unprompted, by far the most popular factor mentioned was risk.

Q. What factors do you think the choices should be based on?



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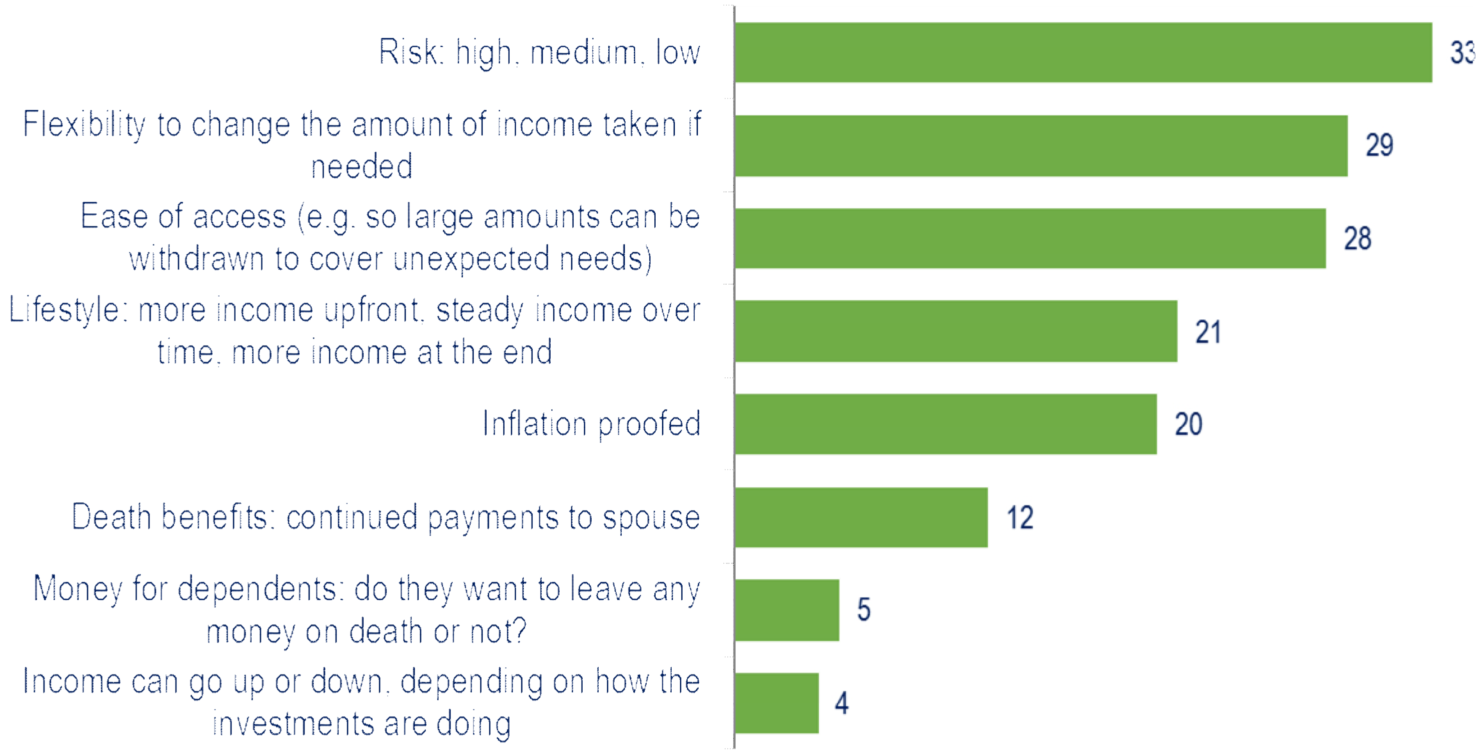
6. We tested a number of factors see if respondents could understand why this might be important to think about, and whether the factor resonated with them.

Factor	Can they understand why it is important?	How important is it to them?	Comment
Risk	Yes	High	Already familiar
Lifestyle	Yes	High	Easy to pick an option
Money for dependents	Yes	Medium	Pension is for them/house for kids
Death benefits	Yes	Medium	Couples with DC only wanted this
Ease of access	Yes	High	Highly valued by all
Flexibility to change income	Yes	Medium	Valued to mitigate uncertainty
Inflation Proofing	Yes	Medium	Valued – but no consideration of 'price', nor protection in BSP/DB
Ability to cope with varying income	Yes	Medium	Some had a sufficient buffer of secure income in BSP/DB

7. The most popular factors of those tested are risk, ease of access and flexibility to change the amount of income.

Q. Thinking about the factors we have discussed, which are the three most important choices for you?

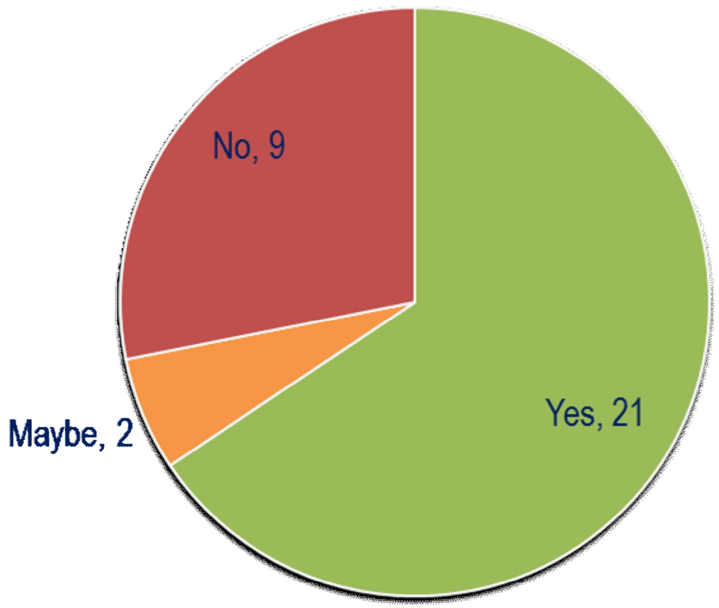


Note: Based on F2F and Focus Group interviews only, may not be representative of DC population.

n=50

8. On further reflection, many would be willing to trade off more risk for higher returns.

Q. Would you take more risk to potentially get a higher return and therefore more income, knowing that your income could also go down? How much of a reduction in income could you take?



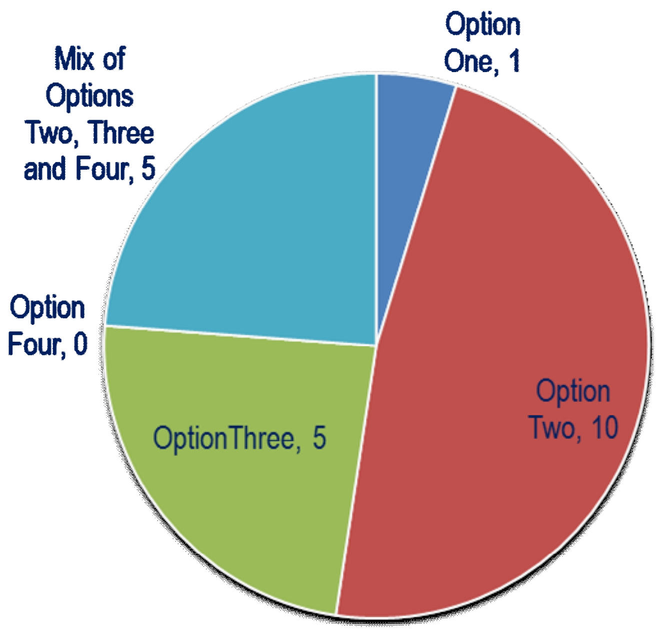
Note: Based on F2F interviews only, may not be representative of DC population

n=32

- Respondents willing to take a risk have a capacity for around a 10% loss – 20% starts to look "scary".
- Those who are more likely to want to take a risk are:
  - those with more than £50k in their pot;
  - those with DB income sources (themselves or their partner) or SERPS delivering a secure underpin.
- There were a couple of respondents with very little savings who would take a higher risk – rationale was that this is their only opportunity to be able to make up some of the shortfall.

9. From the risk/ return options presented in the groups, most respondents chose Option 2 or Option 3. There were a small number who wanted to take a blended approach.

Q. What risk would you be willing to take?



Note: Based on focus group interviews only, may not be representative of DC population

n=21

SHOWCARD

Option 1: Holding all in cash: Return might be 1-2%, the initial value of the pot will not fall but as this will not keep up with inflation the real value of the pot, and the amount of income that can be taken out of it will decline over time.

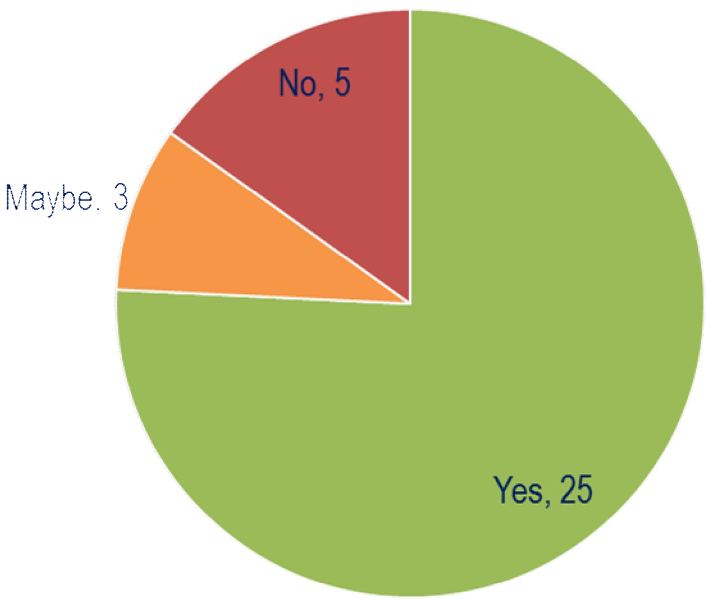
Option 2: Low risk portfolio (mainly bonds, some shares): expected return might be about 4%, will just about keep ahead of inflation but in a bad year could lose 10% in value.

Option 3: Medium Portfolio (say 60% shares, 40% less risky assets): expected return might be 5-6%, will beat inflation, in a bad year could be down 15-20%.

Option 4: High Risk portfolio (say 80%+ in shares): expected return might be 6-7%, will beat inflation, in a bad year could be down 25-30%.

11. Many would be willing to have less flexibility for higher returns.

Q. Would you accept less flexibility in terms of access to your money in return for a higher rate of return?



Note: Based on F2F interviews only, may not be representative of DC population

n=33

- The concept of locking money away for a higher return was well understood by respondents – unprompted they would often make analogies to fixed term savings accounts or bonds.
- Most felt that they would not need access to all of their pension money, all of the time. Respondents tended to think in terms of having an absolute amount – usually around £10k- they could access if they needed it, rather than a % of their fund.
- They needed prompting by the moderator to consider whether taking money from the pension for emergencies would be a better or worse solution than accessing other savings.
- They would want to lock in for no longer than 3-5 years.

12. Death benefits are a 'nice to have'.

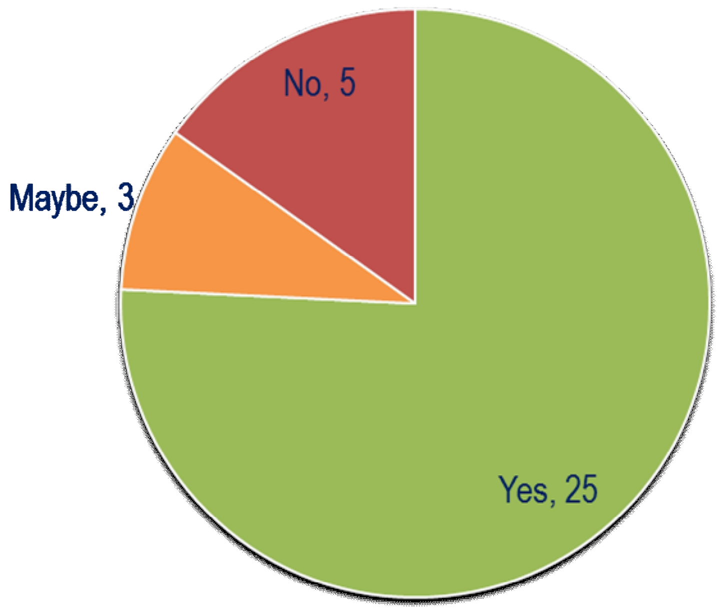
- We asked respondents to consider whether they would take a reduced income or more risk in return for death benefits. This trade off exercise was only conducted within the focus groups.
- There were mixed views on whether respondents would like an income to continue to be paid after death to a spouse at all – some did not have spouses, some had other income sources which would continue (DB) after their death, and some felt that they simply wanted to maximise income in the early years.
- As an exercise, respondents in the groups were then asked to say where their tipping point would be for the 'cost' of a 50% spouses benefit . From a starting income of £6,000 p.a. with no protection, very few would accept an drop in income to less than £5,000 p.a.
- We then asked respondents in the groups whether they would be willing to take more *risk* with their portfolio for either death benefits or payments to dependents. The consensus was that they were more willing to take an increased risk for their spouse rather than dependents (as there are other provisions in place for the children), but were unwilling to go above Option 3 to achieve this.

13. Inflation-proofing is initially very popular - and even after consideration of the 'cost' most would be willing to take some risk to keep pace with inflation in the longer term.

- We asked respondents to consider whether they would take more risk to inflation proof their income or the value of their pot. This trade off exercise was only conducted within the focus groups.
- Initially, all focus groups had rated inflation as one of their three most important factors. To place this into context, the moderator discussed with the group whether they already had inflation proofed income (BSP and/or DB pensions) and asked them to consider how much of their income needs would be covered by this already.
- The group then looked again at the four investment options to fully understand what risk would need to be taken to inflation proof their pot.
- After careful consideration, most respondents came to the conclusion that taking more risk to inflation proof would still be worthwhile as long as that meant they could be in Option 2 or 3. Option 4 was a step too far.

14. Respondents are not sure why automatic transfer to drawdown is needed as they don't understand how the current rules work.

Q. Should your pension pot automatically convert into a drawdown account when you retire unless you choose to do something else?



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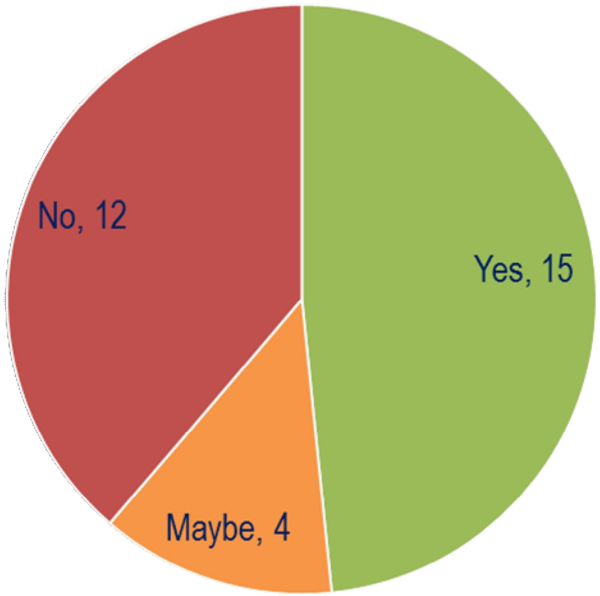
n=30

- Respondents have no idea about the current pension rules. They were under the impression that they could simply take income (as much or little as they like) out of their pension pot without the need to convert that pot to a drawdown product.
- They were, therefore, confused when asked whether their pot should simply roll into drawdown unless they specifically chose an annuity as this is what they thought would happen anyway.
- That said, they were reluctant that decision should be made for them and would prefer to make a choice.
- They felt that the appropriate time to make this choice was a couple of years before retirement.

17. Respondents are not keen to give up their new found flexibility and many would be reluctant to commit to securing an income for their later retirement years.

Q. Should there be an option for you to say if you want to secure all your funds at any point?



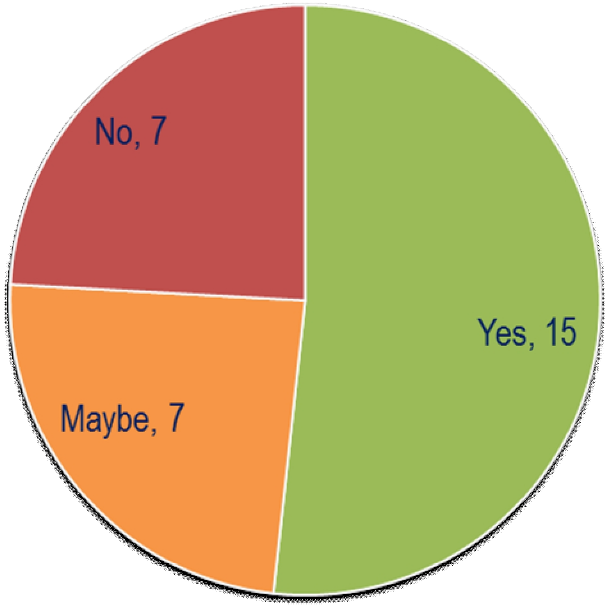
Note: Based on F2F interviews only, may not be representative of DC population

n=31

- Respondents could see the merits of securing an income at some point in the future when they were no longer willing or able to make decisions on the pot any more, so the option would be valued. However, they were very unwilling to purchase an annuity to do this.
- They would want to retain as much flexibility as possible so were not warm to the idea of automatic conversion to a guaranteed income in later life, especially if this meant buying an annuity.
- They would prefer to leave their options open for as long as possible, so at face value are unlikely to want to commit to the option of securing an income until they are in their 70's or beyond.

18. Many respondents were warm to the concept of a longevity insurance product, but it will depend on the cost.

Q. Would you be interested in purchasing insurance up front that provides you with a guaranteed income if you live beyond a certain age?



Note: Based on F2F interviews only, may not be representative of DC population

n=29

- Respondents could see how this could offer them a 'safety net' against the risk that they life too long or take out too much income.
- The biggest barrier mentioned would be the cost.
- We tested where the tipping point would be for a £5,000 secure income starting at 85,with premiums commencing aged 65.
- The vast majority felt that between £500-£1,000 per annum would be about the most they would want to and could afford to pay.
- After considering these cost, some then felt that it would be too much of a 'gamble' and they would prefer to take their chance on running out of money.

20. Communications will need to adapt to meet the needs of the older age groups.

- No clear preference for channel – paper, email and phone are all acceptable.
- Content needs to be jargon free and use language that resonates with the lay person.
- Mixed views on visuals, but case studies and examples are useful.
- Annual statements should be paper.
- Respondents would like a helpline to ask questions to a 'real person', based in the UK.
- Communication strategy may need to change as they get older to focus more on paper rather than electronic communications.
- Font size will need to be large to start and increase as they get older.
- Sentences need to be short and simple. Bullet points may be useful style devices to get the message across succinctly.
- Communications should be kept short, especially as people get older. Summaries would be useful.

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