PRESS RELEASE

PENSIONS POLICY INSTITUTE

PPI

“4 in 10 retirees facing significant risks around how they access their pension savings unless they engage with guidance and advice services or have robust defaults in place” says Pensions Policy Institute

The Pensions Policy Institute (PPI) is today publishing *How complex are the decisions that pension savers need to make at retirement?*, a report that explores the range of potential decisions people have approaching, at the point of, and during retirement, and how these are likely to change once the new flexibilities for savers with Defined Contribution (DC) pensions are introduced in April 2015.

The report has been sponsored by Fidelity Worldwide Investment, and uses data from the English Longitudinal Study of Ageing to project forward the likely pension and non-pension savings and asset portfolios of the population reaching State Pension Age (SPA) over the next ten to fifteen years. PPI segmentation analysis explores the characteristics of different groups and identifies which groups could be at greatest risk of making poor decisions when they reach SPA if they are not offered adequate support, either through guidance and advice or through the provision of suitable defaults.

Decisions about accessing DC pensions are difficult for people to make as they often require understanding of complex and uncertain concepts such as inflation, investment and market risks and longevity risk. The changes announced in Budget 2014 will mean that, from April next year, many of those reaching retirement with a DC pension pot will have a greater number of options to choose from about how they access their savings. This could make their decisions far more complicated, pushing the burden of managing these risks further onto pension savers, and, in some cases, extending the need for ongoing decision making during retirement.

The research finds that people reaching SPA over the next ten to fifteen years vary considerably in their pension and non-pension savings and asset portfolios. Within this population, there are segments who are likely to require greater support because they will be more reliant on their DC savings to supplement their state pension and secure an adequate income throughout their retirement, with riskier portfolios, lower levels of financial capability and numeracy to make decisions, and pension pot sizes that mean they may not be actively targeted by the advice industry.

The PPI segmentation analysis finds that around 12% of the population analysed (just under 700,000 people reaching SPA in England over the next 10-15 years) will be at “high-risk” of making poor decisions when they reach SPA if they are not offered support through either guidance and advice or suitable defaults. These are groups with a significant level of DC savings (between £19,400 and £51,300 at retirement) who have no additional DB pension to fall back on. A further 29% of people (or 1.6 million over the next 10-15 years) aged 50-SPA in 2014 will be at "medium risk" of making poor decisions. These are groups with over £6,300 in DC savings and who have either little or no additional DB pension.

Daniela Silcock, Senior Policy Researcher at the PPI and lead author of the report said "Over the next ten to fifteen years, we expect around 4 in 10 of those approaching retirement with private pension savings in England to have medium to high levels of risk attached to their decisions. In 2015 we could expect around 100,000 people (or around 20%) of those reaching SPA with private pension savings in England to be in this group, however, over time the numbers will grow as more people reach retirement reliant on a DC pension as a major source of income. By 2024, around 240,000 people (or around 55%) of those reaching SPA with private pension savings in England could be in the medium to high risk group."

The research also found that there is a particular correlation between having low levels of numeracy and having low or no DB savings to supplement DC savings. Those with low levels of numeracy will find decisions about accessing pension savings particularly challenging but will be at greater risk if they also do not have the security of being able to fall back on a secure source of private pension income in the form of an indexed DB pension.

The challenges for these segments will be compounded over the next few years as the industry is still responding to the new Budget flexibilities and rapid changes in the demographics of those reaching retirement with DC pension savings.

Daniela added "While the new Guaranteed Guidance service will offer initial support to those who choose to take up the service and engage ahead of their retirement, it is unlikely to be able to deal with the full range of uncertainties and complexities around individual's circumstances or direct them towards specific products or strategies for accessing their DC pension savings. Independent and trusted guidance and advice services, that can go beyond the Guidance Guarantee and provide more personalised support, should be made readily available to people in these "medium" to "high" risk groups. For those individuals who do not engage and who do not make an active decision there should be robust defaults in place which can accommodate a great variety of needs and characteristics, protect consumers from the greatest risks, and operate well within a new more flexible pensions landscape."

Alan Higham, Director of Retirement at Fidelity Worldwide Investment sponsors of the report, said

"This report provides a timely challenge to policy makers as we work towards April 2015 and the new freedoms. Simply providing more information to consumers does not necessarily guarantee better outcomes and this is particularly true as decisions around DC savings can only become more complex under the new rules."

"Retirement decisions are often irreversible so we must work together as an industry to help consumers make good decisions and not allow them to sleep walk into bad ones. It is clear that reliable, expert advice is essential. The Guidance Guarantee provides a good foundation but we must offer more than the minimum assistance to future retirees and the onus is on more than just the Guidance Guarantee providers. Come April 2015, consumers need our help, expertise and access to reliable, expert advice more than ever and the industry must work with the FCA to create as many good outcomes as possible."

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