Association of British Insurers

ABI RESEARCH PAPER NO 17, 2009

RETIREMENT INCOME

Consumer wants, needs and priorities

Report from Consensus Research

By Peggy Young, Linda White, Reena Nemchand

EXECUTIVE SUMMARY

Key findings

The ABI commissioned Consensus Research to explore consumers' engagement with the retirement process. The research focused on how consumers make decisions regarding their retirement income, what they want, and how they get and use information. Consensus Research conducted four focus groups and 41 face-to-face interviews.

The key findings are:

- Engagement with retirement income planning was often very limited and haphazard;
- More comprehensive engagement in planning for retirement often starts only a short time before retirement;
- The study's participants are concerned about the current economic climate and its impact on the assets they have accumulated;
- Participants often approach their retirement hoping for the best, rather than having planned in detail;
- Participants tended to make decisions alone or turned to friends and colleagues for advice rather than consulting the financial services sector, financial advisors, or Government; and
- Participants' experience of poor financial advice (and the experiences of people they know) has had a significant impact on their perception of the value of advice.

Economic context

The fieldwork for this study was conducted in January 2009. Many of those participating were very concerned about the economic climate. Some were disappointed with the poor recent performance of their retirement savings and investments. In some instances this contributed to a negative perception of the value of saving for retirement.

Many study participants felt they had been let down by Government (past and current) and financial institutions. They also cite a mismatch between their retirement income expectations and likely or actual outcomes. As a result, some retirees are reluctantly adapting to lower-than-anticipated retirement incomes and pre-retirees may have to consider deferring retirement where possible. However, the research also included participants who felt they were cushioned from the current economic climate.

Retirement income planning

Some participants were diligent planners. However, most of the interviewees exhibited relatively short-term thinking and had planned for retirement only when it was imminent.

Most of the study's participants expected to retire at around 60 (mostly women) or 65 (mostly men). However, there are differences – ranging from an almost instant transition from work into full retirement, to those who wanted to gradually phase out work over a period of time.

Participants described a range of key events that impacted on their retirement plans, ranging from ill health, death of a family member, divorce, redundancy, or a downturn in their own business. Some had taken a reasonably flexible approach to following their retirement plans (if made), due to lower-than-anticipated returns on their retirement savings and other assets.

Participants tended to think about retirement in general terms when they started accumulating wealth. They took a more focused approach as they approached retirement - usually a few years or a few months before the event itself. For some a sense of futility (that it was too late to make a difference) or security (they already had sizeable pension entitlements) resulted in a lower degree of engagement.

Most participants spoke of the impact of inflation but had not taken this into account in their plans for retirement. Similarly, when asked about how they might deal with the costs of living longer than they currently expected, most treated this possibility in a positive light while acknowledging it was not a consideration in any plans they had made.

Information and advice

The research also looked at the information or advice participants had received at the time of their retirement or earlier.

Participants' awareness and use of public sources of information was relatively high. Participants also used a variety of channels to access information. Some were confident in their ability to use the internet, while others were not – preferring telephone, post or face-to-face delivery. Annual statements and pre-retirement 'wake-up' packs were viewed as useful pieces of information.

The importance of starting to save early, knowing how to make adjustments to saving plans in order to achieve their goals, and credible forecasts were seen as useful. Some participants expressed disappointment at the gap between 'indicative' pension forecasts they had been given and actual outcomes.

While some had used financial advisers, participants' mistrust meant there was a tendency to act alone or to turn to non-experts who they feel they can trust – particularly friends and colleagues.

The terms 'information' and 'advice' were generally used interchangeably by participants – they did not interpret 'advice' in terms of a regulated service. Participants preferred tailored, unbiased information using only basic financial terminology.

Experience of the retirement process

Most defined contribution pension holders were aware of the Open Market Option (OMO) and had considered the annuity rates offered by other providers. In addition, those who did not know about the OMO in such terms still expected to be able to 'shop-around'. Retirees who had bought an annuity generally opted for the maximum monthly income. Very few opted for index-linked or joint life annuities, even after consultation with their partner.

Very few participants deferred taking the state pension (in most cases because they wanted to receive their pension entitlement for as long as possible) or considered income-drawdown from private pension savings (this was typically seen as a niche product). However, taking a lump sum at retirement was seen as the 'normal thing to do'.

Retirement income: expectations and reality

Participants generally wanted to receive around two-thirds of pre-retirement income, but in reality expected to get around half the level of pre-retirement income. However, there was significant variation across the sample.

The recent poor performance of most types of assets widened the gap between expectations and experience. Retirement income was also significantly impacted by 'life events', such as a death in the family or divorce.

For those that wanted to boost their income levels in retirement, full or part-time work remained an option - but generally only if the person was still working. Indeed, there was reluctance to resume paid work amongst those already fully retired. Drawing on non-pension savings and investments and downsizing were also identified as important sources of retirement income, in addition to personal and state pension income. By contrast, equity release was often perceived negatively.

Participants found it difficult to project ahead over lengthy timescales, partly because they had difficulty estimating their own life expectancy and also because some did not want to consider their own mortality. For those that did attempt to estimate their remaining life expectancy, it was based mostly on their parents' experience.

Structure of retirement income products

The study's participants were mostly happy with the current range of retirement income products. They were generally seen to achieve a useful balance between receipt of a lump sum and regular monthly income.

We tested the strength of participants' views on the relative appeal of different annuity types by asking them to make choices between features of annuities, (for example level or escalating; single or joint-life) with the maximum possible income (i.e. as provided by a single-life, level annuity) treated as the reference case. The research confirms a tendency to opt for the maximum possible income.

Escalating annuities were preferred by some participants over inflation-linked annuities due to the guaranteed nature of the increase. Most of those with spouses or dependants said they were willing to consider sacrificing some income in return for continued payments to their spouse after their death. Two-thirds thought that a product with the option of taking an additional lump sum would be an attractive feature. On balance however, participants favoured the maximum possible income when subsequently asked to consider these features in relation to each other.

Reflections

Participants' reflections mostly focused on the need to save more and from an earlier stage in life, to improve financial literacy, and to increase their engagement with planning their retirement income. Most would have chosen to stay in their employer sponsored pension scheme and divorcees were particularly vocal about the importance of making individual plans within the context of a marriage or partnership. Some female participants would have given more consideration to their national insurance contributions if they had better understood the implications for state benefits.

CONTENTS

LIST OF TABLES

LIST OF FIGURES

1.0 INTRODUCTION

1.1 Background

The ABI commissioned Consensus Research to explore consumer engagement with retirement, and how people engage with the varying choices and options facing them.

This process, sometimes described as 'decumulation', is the point at which wealth accumulated throughout an individual's lifetime is used to provide retirement income. Consumers tend to draw retirement income from a variety of sources, including the state pension, public and private sector pensions (defined benefit and/or defined contribution schemes), non-pension savings and also by downsizing or releasing equity in their homes.

This study looks at retirement income in its widest sense., considering products used by consumers to provide retirement income – primarily annuities, but also income drawdown and equity release. In addition, we allowed each participant to use their own interpretation of the term 'retirement', as retirement means different things to different people.

1.2 Research objectives

The core objective of the research was to better understand how consumers engage with their options for taking retirement income, by:

- Understanding what consumers want in terms of their retirement income; and
- Profiling how consumers acquire information to inform their retirement income decisions.

We also wanted to improve the existing evidence base by exploring:

- Consumers' expectations for and experiences of life in retirement;
- How consumers understand and take into account the risks they face in retirement - for example, the impact of inflation, living longer than expected or dealing with expenses arising from failing health;
- How much 'flexibility' consumers want from their retirement income;
- Preferences for the pattern or structure of retirement income;
- What features of retirement income products consumers find desirable, and how they view these features in relation to each other;
- What sources of information are used or would be used, if available, in planning retirement income;
- How consumers currently access these sources of information; and
- Barriers to planning income for retirement.

1.3 Project scope

The ABI wanted to take a broad view of the UK 'consumer base' and explore a variety of consumer perspectives. The scope of this qualitative research project was therefore designed to cover a wide cross-section of consumers, based on their:

- Stage in the retirement process (both pre and during);
- Age (within a broad set of parameters);
- Gender (with an even mix of male and female where possible);
- Marital status (the inclusion of singles, couples, divorcees and widows/ers);
- Income (using the proxy of social grade, as defined by the Market Research Society[1]); and
- Location (participants in England, Scotland and Wales, with a mix of urban and rural locations).

Table 1 describes the four groups used in the research.

Table 1 Respondent groups

	Pre-retirement		In Retirement	
	Retiring in next 6 months – 5 years	Retiring within next 6 months	Retired in past 12 months	Retired in past 2-8 years
Approach	Focus Groups	Depth Interview	Depth Interview	Depth Interview
Age	55 - 74	55 - 74	55 - 79	55 - 79

Certain individuals were excluded as potential participants if they:

- Had or expected to have annual household retirement income of over £50,000 (from all sources);
- Had a defined-benefit pension of over £30,000 gross per year; or
- Were going to receive only a state pension and no other sources of income (from non-pension savings or rental income from a property, for example) in retirement.

These individuals were excluded to ensure that the core focus of the report was the mass market, and not those at the extreme ends of the retirement income range. Full details of respondent eligibility, recruitment criteria and participant recruitment guidelines are available from the ABI.

1 Based on the socio-economic classification system used by the National Readership Survey (NRS). This consists of six social grades: A, B, C1, C2, D and E - see http://www.mrs.org.uk/mrindustry/glossary.htm

1.4 Project methodology

A total of four focus groups and 41 face-to-face depth interviews were completed in various UK locations between the 12th and 23rd January, 2009. Table 2 provides a brief overview of the final respondent sample by gender, marital status, social classification and pension plan type, while Table 3 shows where the focus groups and depth interviews took place.

Table 2 Participants by gender, social grade and pension plan

	Retiring in next 6 months – 5 years	Retiring in next 6 months	Retired in past 12 months	Retired in past 2-8 years
Gender				
Male	21	7	7	6
Female	12	8	9	4
Marital Status				
Single	4	1	1	2
Married	23	6	12	5
Divorced	5	3	1	1
Widow / Widower	1	5	2	2
Social grade[2]				
BC1	18	7	11	4
C2D	15	8	5	6
Pension plan type				
Defined benefit	6	6	6	5
Defined contribution	24	8	5	2
Defined benefit and defined contribution	2	0	2	0
Other (i.e. State Pension + other sources of income)	1	1	3	3
Total	33	15	16	10

Table 3 Focus group and depth interviews by location

Location	Number
Depth interviews	
Greater London	9
East Midlands (Birmingham area)	6
Kent	6
Scotland (Edinburgh area)	6
South Wales	6
Yorkshire	6
Reading	2
Focus groups	
London	2
Edinburgh	2

2 Based on the socio-economic classification system used by the National Readership Survey (NRS). This consists of six social grades: A, B, C1, C2, D and E - see http://www.mrs.org.uk/mrindustry/glossary.htm

A selection of case histories, topic discussion guides, respondent profilers (completed by participants prior to the interview) and trade-off exercises (completed by participants during the interview) are available from either Consensus Research or the ABI.

The research format was tailored to each group in terms of interview method and the specific issues covered. The decision to employ focus groups for interviewing those who plan to retire within six months and five years was driven by two primary considerations. Firstly, this format facilitated an assessment of the general degree of engagement with retirement income planning. Secondly, it also allowed constructive debate between participants. Depth interviews were chosen for the remaining three groups because of the personal nature of the subject matter, and to allow individuals to express views or opinions they may not have felt willing to discuss in a focus group environment.

1.5 Note on qualitative research

The study is wholly qualitative in nature and focuses on a specific section of the population. It is designed to explore individuals' views, perceptions, strength of feeling, expectations and experiences in depth. The study does not, therefore, provide statistical data relating to the frequency of views across the general population. Structure of the report

The following section provides context for the research by discussing certain external influences on participants' views, from their perspective. Section 3 discusses the retirement income planning process, while section 4 covers the sources of information and advice used in retirement planning. Section 5 details participant experiences with specific regard to pensions and section 6 contrasts retirement income expectations with the perceived reality. Section 7 looks at participants' views on the structure of retirement income from DC pensions, and finally section 8 discusses some of their reflections on the accumulation and retirement process.

2.0 ECONOMIC CONTEXT

The findings of this study should be set clearly in context, as participants' views and experiences depend heavily on their perception of the general environment in which they occur. Indeed, the timing of this study had a significant impact on participants' views and attitudes.

Rather than give a formal account of the external environment, this section describes the environment through participants' eyes.

2.1 UK economy, Government and financial institutions

The research took place between 12^{th} and 23^{rd} January 2009. Consequently, the economic downturn and media coverage of job losses and global economic turmoil during this period was a significant concern to participants. Participants had seen the value of their retirement savings and other investments affected by falls in the stock and property markets.

Doubts over the security of deposits investments and savings accounts added to their concerns. Furthermore, low UK interest rates reduced the income participants could generate from their savings and caused further concern for those pensioners who may have had to start using up capital:

> *"I just thought that interest rates would stay alright. All I wanted was pocket money that came from the interest."*
>
> (Female, retired in past 12 months, C2D, Wales)

In short, the poor performance of a range of asset classes leading up to the time of the fieldwork was reflected by a strong sense of negativity among some participants towards retirement savings, and the value of their likely or real income in retirement.

Frequent criticism was also directed at both the Government (past and present) and financial institutions. Participants felt that they had been misled and left to cope on their own – feeling that when they were younger, they had been led to believe that the State would look after them in their retirement, and that any pension provision they made for themselves would provide a top-up for a comfortable life:

> *"We were raised in a generation where we believed we were going to be looked after. We had the State Pension and all these promises and suddenly you hit 40 and start to think, "Wait a minute…"."*
>
> (Female, retiring in next 6 months – 5 years, BC1, Edinburgh)

The study's participants felt that Governments over the years had made policy decisions that had had quite negative consequences for them personally. For example, some participants cited the reduction in their potential state pension income as a consequence of following past Government advice to pay lower National Insurance contributions. The

Government was also blamed for the move away from defined benefit to defined contribution pensions.

In terms of provision, the state pension was viewed as too little to live on, and was said to compare poorly with what participants thought other countries provide. This was further compounded by the perceived lack of support for those other than the very poor. Participants also raised objections to being taxed on their income in retirement.

Some participants spoke about their personal disappointment with pension fund performances:

> "*I started planning for retirement 30 years ago. I intended retiring when I was 60 and had everything worked out, but instead of getting about £17,000 a year, I finished up with about £35 a week. So I'm not very happy with the insurance industry.*"
>
> (Male, approaching retirement within 6 months, C2D, London.)

A negative experience with any financial services provider seemed to have had a long-lasting impact and helps to explain why a number of participants chose to invest in property rather than financial assets. Some were disillusioned by pensions and said they would counsel others younger than themselves to avoid pension savings in general.

These external influences left some participants feeling that they must cope on their retirement income as best they can. However, others declared themselves to be personally unconcerned about the economic downturn, although they did worry about others and their children. Sometimes this was due to their personal attitude to life and despite their expected retirement income.

> *"Not too concerned – I'm a survivor, I'll get through it."*
>
> (Male, approaching retirement in next 6 months, C2D, South Wales)

For others, it is precisely because they had made arrangements for their income in retirement that they had fewer concerns, and expected to be cushioned from the economic downturn. This view emerged from participants who were typically either from the BC1 social grade and had built up savings and investments to supplement their pension income, or those with generous defined benefit entitlements:

> *"We were putting away £3,000 a month in savings when we were both working. We are in the fortunate position of having good retirement income and significant amounts of cash in the bank."*
>
> (Male, retired in past 12 months, BC1, Reading)

> *"I've got three small pensions which I paid into myself. I have the State Pension and I've got 70% of my late husband's SERPS as well. I have investments in fixed rate bonds which still produce a reasonable rate."*
>
> (Female, retired in past 12 months, BC1, London)

2.2 The retirement income divide

A fundamental difference in participants' personal circumstances became apparent when they explained the type of their retirement provision. Those on sizeable defined benefit pension schemes, built up over decades of continuous employment, have been able to plan ahead and feel they can rely on obtaining a relatively high and rising income throughout the whole of their life in retirement. These people came from both private and public sector employment, covered a variety of occupations and came from both the BC1 and C2D social grades.

By contrast, those without defined benefit pension entitlements tended to feel that what they are expecting to receive in retirement is determined by luck and timing, even if they had saved into a pension over a good portion of their working life:

> *"25 years ago you expected to get some sort of money that you could live on. It is now pot luck and it shouldn't be... It is very hard to accept, but that is what is happening at the moment."*
>
> (Male, retiring in next 6 months – 5 years, BC1, Edinburgh)

Some participants simply accepted that they would have to make do with whatever they get, acknowledging – with the benefit of hindsight – that the future outcome depended on chance and on making the 'right' choices at various stages of their working lives. Key factors that influenced their position and wealth in retirement included:

- Whether they were employed or self-employed;
- If they were employed, whether this had been long-term with the same employer and whether this was part-time or full-time;
- Whether their employer had a pension scheme at all, and if so, whether this was a defined benefit or defined contribution scheme;
- Whether they had decided to join their employer's pension scheme;
- Level of employer contributions, and their own contributions;
- Redundancy or company closure – whether small early pensions were cashed in and whether they were offered large redundancy lump sums;
- How they balanced the allocation of disposable income between general living costs (home maintenance and food, for example) and expenditure on leisure and luxuries against saving for the future;
- For those in a defined contribution scheme, the performance of their fund and the timing of their retirement;
- What was possible or 'right' for them with respect to personal, occupational and State Pensions at the time; and

- The quality of advice they received (from whatever source – financial advisers, employers, Government) and whether the advice or decision taken was right at the time but wrong in retrospect.

The focus group format allowed participants to compare and contrast their expected retirement outcomes amongst themselves, while keeping their financial details confidential. It was noticeable that defined benefit recipients occasionally voiced complaints about the rigidity of their schemes at the start of the discussions, but these concerns tended to reduce as they learned more about the advantages of their type of pension plan.

3.0 RETIREMENT INCOME PLANNING

Participants tended to focus on the known, the immediate, and what is in their control. As a result, they generally planned their retirement income only to the extent that they were able or interested in doing so. Participants were also aware that their plans could be radically affected by events outside their control. This suggests that a lack of perceived control can contribute to consumers' failure to engage with the process of planning their retirement and how to take income in the future.

Most participants tended to see pensions and retirement initially as a long-term, distant event and were sometimes surprised when it was suddenly upon them. There was a general view that thinking about pensions also meant admitting you are getting older, and participants tended to shy away from considering their long-term situation in retirement.

> *"It's like death. You don't want to think about it. You are too busy living to think about it - the end of it. A pension seems like the end of it."*
>
> (Female, retiring in next 6 months – 5 years, BC1, Edinburgh)

3.1 Definition of retirement

Some participants were following a more traditional path to retirement – by stopping all (mostly full-time) work and spending all their time on non-work activities (at generally around 60 for women and between 60 to 65 for men). However, there were many other paths which participants followed before and after retirement, hence the various interpretations of when retirement happens.

For example, some people classified themselves as technically retired once they drew a State Pension or could access their private pension. However, others elected to carry on working and this was not always driven by financial needs, i.e. because they wanted some degree of activity or participation. Similarly, some gradually reduced work commitments before they retired, cutting down their hours or moved jobs to achieve a gentler transition into retirement.

Early retirement was generally desired, but the outcomes varied from those who were forced to retire (due to ill health, for example) even though they did not consider themselves to be financially secure, to others in more favourable circumstances.

The research revealed a considerable spread of ages between those coming up to retirement and those already retired. For example, the 'in retirement for 2 to 8 years' category included a man who was 62, while the 'will retire in next 6 months to 5 years' category included a man 12 years his senior at 74.

In terms of planning for retirement, people generally had a year or date in mind, which might move forwards or backwards a little as they approach it. Outside events, however, sometimes resulted in significant changes to these original plans.

3.2 Timing retirement: expectations and reality

Those who had already retired, or were doing so imminently tended to retire around two key ages - 60 and 65. The decision to retire at more traditional retirement ages was usually by choice, with participants feeling they deserved a rest after 40 to 50 years of work. The decision by some men to retire early at around 60 is often described in positive tones as the achievement of a long-term goal.

People were often happy to adjust their actual retirement date to fit in with other events – to personalise their retirement a little, instead of simply finishing work on their birthday. For example, some preferred to retire in the summer, at the same time as their partner or slightly before their 65th birthday so they can feel they retired 'early' or because they were not enjoying work.

However, it has already been noted that not all participants followed voluntary paths into retirement. Some participants were effectively forced to retire by their employer, or a lack of business in the case of the self-employed. Others accepted voluntary redundancy agreements. The research also showed that other events beyond employment affected their retirement plans – such as ill health, death of a spouse, divorce, helping children through university and having children late in life. These events often delayed retirement as employment income was still needed, though in some cases the opposite applied as free time was more important than additional income.

Divorce appeared to have a far more significant impact on peoples' retirement plans than the death of a spouse or partner. The need to support any remaining dependants and divide property or other shared assets had a significant impact on individuals' circumstances, as did subsequently entering a new relationship. This study revealed several cases where women in particular had been relying on their ex-husband's pension and savings and so were trying to establish their own pension savings late in their lives.

Finally, the size and recent investment performance of any accumulated wealth had a significant bearing on participants' ability to retire.

> *"I have always been pretty adventurous about what funds I have invested in. I made the mistake of being too adventurous and in the last year we know what has happened to the Stock Market."*
>
> (Male, retiring in next 6 months – 5 years, BC1, London.)

It is clear that while some participants had selected a definitive point for retirement, others were prepared to adapt their plans as they approached retirement. This was often a consequence of seeing how closely their expected outgoings would fit with their projected income in retirement.

The provision of annual pension fund statements and pre-retirement annuity quotes greatly assisted participants' planning, and often acted as a prompt for engagement. The impact of the current economic downturn was particularly evident for those approaching retirement within the next six months to five years, with many saying that their original plans would have to be changed. In some instances this equated to deferring their planned retirement, or adjusting their investment risk.

3.3 Thinking about retirement income

Participants tended to think about their retirement income at two distinct points in their working lives; first when they started accumulating wealth, and second in more specific terms during the period just prior to retirement. Male participants also showed a tendency to review their retirement plans in their late 40s and into their early 50s, to a greater degree than female participants.

In some cases people had considered their retirement income needs early on and were clearly diligent retirement planners.

> *"It's no good preparing for retirement six months before you retire because you would never save enough money."*
>
> (Male, retired in past 12 months, BC1, Sheffield)
>
> *"I decided to pay off my mortgage in 12½ years instead of 25 years. I've always been very financially aware. I took advice and read up on what I was going to do for my retirement."*
>
> (Female, retired in past 2 - 8 years, BC1, London)

In some cases the participant only focused on the initial stages of accumulation and did not appear to be engaged with their expected level of retirement income. Of these participants, three different attitudes emerged:

- Those who understood that their retirement income is not likely to be as high as it might have been, but tended to put this down to events beyond their control:

> *"I started moving jobs a lot and I was aware that by doing that my pension pot would suffer… one company didn't have a pension scheme."*
>
> (Male, retired in past 12 months, BC1, Yorkshire)

- Those who felt secure about their retirement income, knowing that it would be (in some cases more than) adequate. This view was generally held by those with defined benefit scheme entitlements and those in the wealthier BC1 social classification, who often had other types of savings and investments.

> *"Our retirement income is pretty much how we had planned it. Rents have gone down slightly… It is not a fortune but I have nice holidays and we have a nice home."*
>
> (Female, retired in past 12 months, BC1, Surrey)

- Those who were less financially aware and/or interested did not give much thought to retirement at all, expecting the process to resolve itself, or relied on their partner to do all the planning:

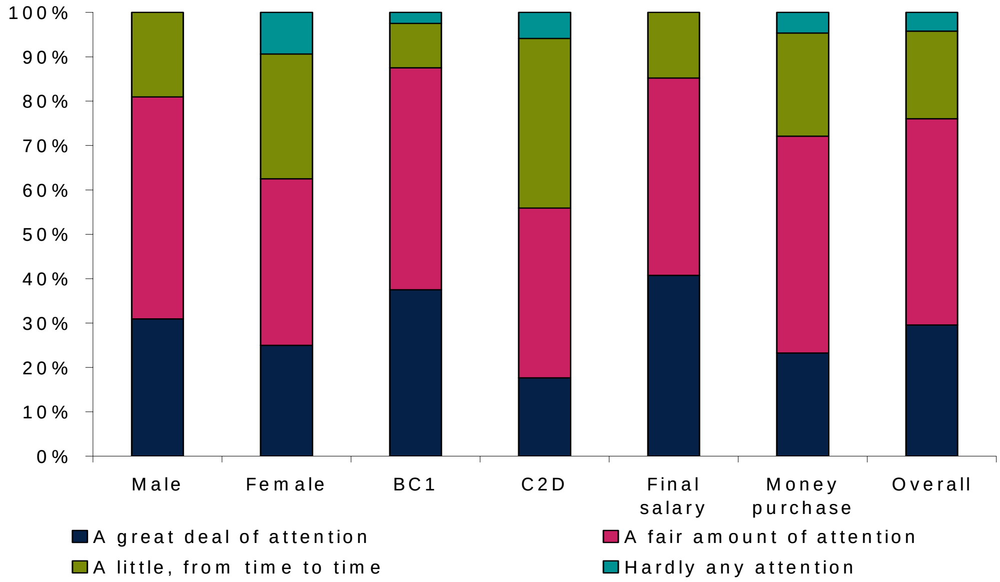
  "I didn't do anything about it earlier… I knew my husband was alright financially so I didn't think it was that important – I kept putting it off."

  (Female, retired in past 12 months, C2D, Wales.)

Much more common, however, was for participants to delay thinking about retirement until retirement was almost upon them – typically the last couple of years or even the last months before they were due to retire. Figure 1 outlines participants' views on their level of engagement with retirement income planning

- Females tended to be slightly less engaged than their male counterparts;
- BC1 participants are much more likely to say that they pay attention to their retirement income when compared to the C2D social grade; and
- There was no apparent difference in levels of awareness between those in defined benefit and defined contribution schemes.

Figure 1 How much attention, generally, would you say you were paying to the level of your (future) retirement income?



Note: 'No attention whatsoever' was provided as an option but not selected by any participants.
Source: Pre-interview self-completed profiling exercise.

3.4 Considerations for planning retirement income

All participants wanted to be able to cover necessary expenses and allow for some element of luxury (for example, to facilitate their social life, eating out and holidays).

Most only considered short-term, recent trends when considering their outgoings and expected income. Participants were well aware of upward trends in food and energy prices, movements in the stock and property markets, interest rates and their prospects for employment should they need to work. Participants also often considered how they would meet sizeable future outlays for definite expected mid-term events – for example, changing car, major household repairs or giving financial help to their adult children and their grandchildren.

The impact of inflation was cited as a long-term concern without participants being specific as to why. There was also a common feeling of helplessness with respect to participants' knowledge and willingness of how to protect themselves from its effects.

Living longer and being in good health is typically seen in very positive terms, rather than as a risk. When it was pointed out that retirement savings may prove inadequate as a result of living longer, participants preferred to mention that they would hope for the best – with an emphasis on enjoying the early years of retirement while they are still young, fit and have the funds to do so. Most participants emphasised the short-term, with little thought that they might still need to live off the same or similar retirement income in their 90s.

Participants were reluctant to engage on the prospect of future unexpected costs, with only a few raising the possibility of ill health and nursing home fees. They also rationalise that they will be doing less, and therefore spending less if they are frail, hence the pressure on their income should be less. Some also mentioned that they can always spend their remaining wealth and then rely on State support:

> *"If you did do (sic) a downturn in health and you can't do anything, you wouldn't be able to spend the money anyway, so there is different ways of looking at it."*
>
> (Male, approaching retirement in next 6 months, C2D, Sheffield.)

Overall, different participants tended to exhibit both optimistic and fatalistic viewpoints; hoping for the best, feeling they cannot cover themselves for every eventuality and assuming they will just manage somehow. Moreover they were typically unwilling to engage with future possible scenarios and assess the potential risks to their retirement income. Their short-term focus was very evident and this had a significant bearing on their decision-making.

3.5 Degree of engagement

Personal circumstances and individual attitudes to life had a major impact on engagement, as did general financial awareness, level of income, social grade the range and number of financial products participants held throughout their working life, and the type of pensions savings they had. For example, participants who had defined benefit pensions tended to exhibit fairly low-key engagement with both the accumulation and retirement income decision-making process as this was of less relevance to them than to participants who had defined contribution pensions.

Participants' views on how they felt about engaging with retirement planning were generally polarised. Some participants said they enjoyed dealing with their finances (mostly men and BC1s), whereas others found dealing with their financial affairs was boring and sometimes conceded that they did not feel comfortable with personal finance in general.

- Around two-thirds of participants disagreed with the statement "I know my finances are in poor shape, but I'd really rather not think about it". Most "completely disagreed" and were likely to be defined contribution scheme members.
- Three-quarters of participants agreed with the statement "I have always tried to look ahead and ensure that I was well provided for in retirement".
- And more than three-quarters agreed that it has always been important to try to maintain their standard of living in retirement (particularly BC1s and women).

3.6 Barriers to planning

Low levels of pension and other savings, poor financial literacy, lack of access to advice and awareness of how to find it, and poor experiences of financial advice all proved to be significant barriers to planning. However, some participants were unable or unwilling to explain what specific factors had stopped them from planning, or taking steps to plan their retirement income.

Some admitted that they did not do any planning whatsoever. Of these participants many raised the reality of limits to the amount they had been able to divert towards pension savings during their working life.

4.0 INFORMATION AND ADVICE

4.1 Sources used

Participants were aware of a range of information sources, including the Department for Work and Pensions (DWP), the Financial Services Authority (FSA) and to a lesser extent the Pensions Advisory Service (TPAS). However, participants' own research tended to centre on sources they trust. The main sources used were their employer, friends and colleagues who are retired or retiring at the same time as them, as well as financial advisers and the media.

Participants commonly stated that they sought information from many sources, yet did not trust certain sources to provide assistance with a decision or financial recommendation. A large number of participants made major decisions themselves. Indeed, the research revealed an undercurrent of isolation, in that some participants felt alone during the process and would have appreciated some form of human contact to talk through their circumstances.

> "*You might think it is just an ordinary question that you are asking about "What if I do this, as opposed to doing that?" and it strikes me that the people that you are talking to don't really know. I find that very scary*."
>
> *"At the end of the day you have to make your own decisions*."
>
> (Female and Male, Both retiring in next 6 months – 5 years, BC1, London)
>
> "*There is no such thing as unbiased advice… So I have done my own thing*."
>
> (Male, retiring in next 6 months, BC1, Kent)

Defined benefit scheme members mainly turned to their employer or colleagues for information. Large employers provided retirement seminars and access to pension fund representatives and financial advisers. By contrast, those in defined contribution schemes had a different relationship with their employers, sometimes having to take a proactive approach in speaking with their human resources department or pension provider. Few consulted family members beyond their spouse, unless there was specific financial or business expertise available in their family.

Some had seen a financial adviser, with a few consulting more than one. Advisers were used in different ways. It might be to gain a general picture of their options at retirement, or it might be for specific advice on where to invest a lump sum or explore their annuity options under the Open Market Option (OMO).

Some participants took a proactive approach in making contact with the DWP by phone or via the DWP website to check on their state pension entitlement and their contributions history. Others were surprised to learn this was possible, and that state pension entitlement was determined by a myriad of factors.

The more financially savvy felt empowered to make decisions themselves by gathering information from broadsheet newspapers, financial advisers' websites and relevant television programmes.

> *"I have consulted one or two IFAs, Googled things like which are the best annuities, best pensions, top 5 performers - that sort of thing. So I've used the web for information."*
>
> (Male, retiring in next 6 months, BC1, London)

A number of additional public sources, such as the Citizens Advice Bureau and organisations that help older people were also consulted.

Participants generally claimed a high degree of awareness of information sources, and while some had clearly been very active in seeking and considering the information they collect, others had gathered very little information. Some cited a lack of time, low level of interest and engagement, and a general assumption that all will be fine.

Defined benefit scheme members tended to use the information provided by their employer and from colleagues, unless they were particularly interested in financial matters. Some defined contribution scheme members felt that their options were limited by the amount of time left to do anything differently and the small size of their pension pot:

> *"There wasn't enough in the pension pot to start ferreting around really."*
>
> (Male, retired in past 2-8 years, C2D, defined contribution, Surrey)

4.2 Helpful sources

Defined benefit scheme members benefited from employer-sponsored interactive seminars where relevant information was commonly available:

> *"I can't fault the information...we had confidence in them and trusted them."*
>
> (Male, retired in past 2-8 years, BC1, South Wales)

By comparison, a number of participants felt that trying to read a booklet on their own about the same issues would be far more difficult. Pension providers' pre-retirement 'wake up' letters and annual balance statements were seen as useful for focusing attention on actual amounts and to set out clear options - for example taking a lower lump sum to increase monthly income.

Friends and colleagues who had retired or were in the process of doing so are seen as very useful and trusted sources. Indeed, some participants spoke of whole groups of friends and colleagues in similar circumstances pooling what knowledge and advice they had gleaned so all could benefit. Moreover, their views are perceived to be unbiased.

"The most helpful information and advice came from friends and colleagues who had retired… I learned a lot through them as they'd been through it."

(Male, retired in past 12 months, BC1, Birmingham)

"I have talked to colleagues who have retired in the past 2-3 years When you talk to people you have known a long time… you tend to believe more what they say"

(Male, retiring in next 6 months, C2D, Sheffield)

The internet allowed a number of participants to gather information to build a picture of the issues and options open to them. Searching for items covering a particular subject or going to specific sites (like the FSA or DWP) all helped. Indeed, access to these websites helped make people feel more confident and hence reduce their dependence on a financial adviser, among those who felt they needed one.

Those who used a financial adviser could be divided into three groups –

- those who trusted the adviser to assist with their decisions (through personal experience or recommendation);
- those who followed their adviser's recommendations up to a point, but with an underlying wariness about the adviser's ultimate motivation; and
- those who only went for information, intent on using that information themselves at a later stage.

4.3 Unhelpful sources

Financial advisers were sometimes viewed with a degree of suspicion. Direct or indirect experience of poor financial advice in the past also had a lasting impact on perceptions.

Other general criticisms focused on the timeliness, accuracy, and clarity or quality of information provided by providers, employers, or Government pension agencies. In some instances employers were late in providing mandatory documentation and certain participants felt they received poor customer service from public information sources.

"They were very, very poor about letting me know what I was entitled to. You only get to know things from listening to other people's experiences."

(Female, retired in past 12 months, C2D, London)

"I don't think that anything was really helpful… They just expect you to understand all this jargon - which you don't."

(Female, retired in past 12 months, C2D, Birmingham)

4.4 Information needed

The terms ‘information’ and ‘advice’ were generally used interchangeably by participants – they did not interpret ‘advice’ in terms of a regulated service.

Participants showed a clear desire for tailored, unbiased information using only basic financial terminology to avoid potential confusion.

Participants would have preferred to learn about contributions, expected income, products, and the importance of starting to save early. They also said forecasts and information on how to boost their pension savings in the later stages of their working life, while there is still time to make a difference, would have been helpful.

For those approaching retirement, participants tended to want accurate forecasts, alongside guidance on what happens next; the options and range of decisions to be made, details of State support and public benefits available to the retired or those over 60, tax details and information on how to access general financial advice on savings and investment products. There was a degree of uncertainty about who to approach for assistance with these needs. Those in retirement wanted further support on financial strategies that might improve their financial position – although some felt they were beyond the point of help.

5.0 EXPERIENCE OF THE RETIREMENT PROCESS

Most retired participants said they moved through the actual retirement process with relative ease, describing it as easy and straightforward. Those with defined benefit schemes generally had fewer decisions and less pressure, but those in a defined contribution scheme also said that the process was clear or fairly clear with not many decisions to make.

Participants tended to conclude that the trade-offs between taking a lump sum or higher future income or between joint and single life annuities were fairly simple.

> *"This decision was quite easy to take. I was prepared to take a lowered monthly payment to get the tax-free lump sum so I could buy a car. I also opted for single life so I could receive the maximum pension."*
>
> (Female, retired in past 12 months, C2D, Kent)

Instead of focusing on annuity decisions, some participants displayed a degree of uncertainty and concern over where best to save or invest any lump sum drawn from their pension savings.

5.1 Pre-retirement communications

The majority of depth interviewees were either approaching or had just been through the retirement process. However, individual circumstances meant that some were too young to receive the state pension whereas others had been receiving it for some time.

While many did recall receiving pre-retirement 'wake up' letters from the DWP and their pension provider or employer, there was often some confusion with annual statements they had received. Moreover, some consumers had been increasingly proactive nearer retirement in seeking updates and estimates and so it was unclear whether the letter they recalled was a response to their request, or was in fact the official 'wake up' letter.

These letters were generally considered helpful in setting out dates, amounts, options, contact numbers, and important administrative details.

5.2 The Open Market Option (OMO)

There was almost universal awareness of the OMO amongst participants with defined contribution pensions, and even those who did not know about 'the OMO' expected to be able to shop around. Some expected to research their options themselves, with others saying they intended to go to a financial adviser for their annuity purchase. Of those who said they would seek advice, participants did not specify who they planned to use or how they would find an adviser if they hadn't used one before.

Most retirees decided to stay with their original provider as the offered rate was either the best or about the same as others. Only a few transferred or planned to transfer to a different provider.

Several participants (mostly C2Ds) were not interested in purchasing their annuity from another provider – they appeared to be motivated by loyalty to their provider or were not interested in reading the relevant paperwork.

> "*I have always found pensions quite complicated, so I thought it was probably easier to leave it as it was*."
>
> (Male, approaching retirement in next 6 months, C2D, Sheffield)

5.3 Inflation-proofing

Participants tended to prefer an annuity that provided the highest monthly income. Only a few opted for annuities with fixed or inflation-linked indexation. A majority held the view that they would deal with rising prices if and when this occurs.

> *"The only decision I had to take was whether I wanted the annuity to be inflation-linked... you couldn't be sure whether you'd live 15 years, so I decided to take the maximum there and then."*
>
> (Female, widow, retired in past 12 months, BC1, London)
>
> "*Level for me. I have worked out how many years I would have to live before taking a lower annuity because it is indexed in some way. I have worked that out and I am not taking that chance*.
>
> *"I would be about 87 or something, and your health can deteriorate rapidly in that time, so I might never get the benefit*."
>
> (Males, retiring in 6 months - 5 years, BC1, London)

It is worth noting that participants were more interested in diverting the conversation away from the future risk of high inflation to current returns on savings, which was felt to be a bigger concern.

5.4 Single and joint-life options

Only one retired respondent chose a joint life policy and remains concerned for his wife's welfare should he pass away.

> *"I think my wife gets a percentage. If I went before my wife, financially she would be in trouble because the State Pension dies with you and the private pension is so small."*
>
> (Male, retired in past 2-8 years, C2D, Surrey)

The remaining retired participants opted for a single life policy – preferring the maximum possible annual income, or they saw their annuity payments as an individual entitlement.

5.5 Deferred pension

Very few participants commented on whether or not they would defer their private pension. Of those that did, almost all preferred to start receiving an income as soon as possible. The only participants who opted to defer annuity payments expected to receive retirement income from multiple sources.

5.6 Income drawdown

Consumers are able to use income drawdown products to keep their pension savings invested and take an income each year, rather than buy an annuity. The only participant who expressed an interest in income drawdown wanted to maximise their available income.

Income drawdown was also mentioned in passing by a couple of the more financially knowledgeable participants but was very much viewed as a niche product feature for those with large pension pots.

> "*I want to spend it now - in 10 years time I might not be bothered. After that, I will just spend [the children's] inheritance.*"
>
> (Male, 12 months into retirement, BC1, Yorkshire)

5.7 Lump sums

The ability to draw a lump sum at retirement seemed to occupy a significant space in participants' minds and the lump sum is seen as more than just cash. It is a pot of money that is under their control, rather than the provider's, is available now, is tax free, and is seen as the normal thing to do. Even a small lump sum is treated as significant. Some participants were confident they could invest their lump sum for above-average returns.

While participants were generally aware of the consequent reduction in regular annuity payments, the appeal of the lump sum is strong. Only one respondent did not exercise the option to withdraw a lump sum at retirement.

The lump sum was either invested to provide extra income and a cushion for the future. Some used it for home improvements or a new car, so that they would be comfortable in their retirement, with major works finished and hence a reduced likelihood of large calls on their capital in the years ahead. Only one respondent used the lump sum to pay for liabilities incurred in the past, namely a business debt.

Depending on the size of the lump sum, participants generally opened a cash ISA, long-term fixed-rate saving accounts or invested in unit trusts and corporate bonds. A few with property interests have invested or plan to invest in this way.

There is clearly a feeling that the lump sum serves as a useful income generator, as capital ring-fenced for the future and as money for immediate use. This benefit was generally felt to outweigh the possibility of low interest rates, investment risk and inflation.

On balance, pre-retirees looked forward to being able to take out a lump sum at retirement and most cited leisure as the main reason for doing so. By contrast, post retirees tended to express their preferences for saving the proceeds from a lump sum and/or using them to improve their life in retirement.

5.8 State pensions

The option to defer was typically understood, but most elected to take the State Pension as soon as possible. There are a variety of reasons behind this. Some needed the money, while others felt it was an entitlement to be enjoyed for as long as possible. Some took the state pension purely because they were afraid of a future reduction in entitlements.

> *"I decided not to defer taking the State Pension because I'd been working full time for 20 years. I want to retire, I want to have a bit of fun - I don't want to carry on working till I drop'."*
>
> (Female, retired in past 12 months, BC1, London)
>
> *"I could have deferred but I thought I would take it now because in two years the Government might not give us a pension, and that was a concern. I felt once you had a pension they couldn't take it from you."*
>
> (Female, retired in past 12 months, C2D, London)

The few that did defer taking a state pension did so because of relatively low pension entitlements, for example because they were generally employed on a part-time basis throughout their working life.

5.9 Decisions to be made by those approaching retirement

The views of those approaching retirement in six months to five years were often based on what they had heard or from the experiences of family members or colleagues.

Their attention was directed towards the issues of when to retire and what their retirement income would be at that point. Additional concerns included the effect of making additional contributions close to retirement and whether or not their pension provider would change their investment strategy to potentially less risky assets as they approach retirement.

Many participants simply wanted to receive as much of their pension savings as possible, as soon as possible.

> *"The general consensus is - what I have heard is - to just take the biggest lump sum possible. The problem is, if you keep it in, you pay tax on it and when you die you don't get it because you never reach the end of your pension pot before you go."*
>
> (Male, retiring in next 6 months – 5 years, C2D, Edinburgh)

6.0 RETIREMENT INCOME: EXPECTATIONS AND REALITY

Retirees were usually enjoying their retirement and placed an emphasis on being busy with family, their social life and hobbies. There was evidence of a gender divide, however, with men far more likely to say that they missed work and that it had taken time to adjust to retirement. Women were often much more positive about retiring.

The transition from regular working income to relatively lower (and fixed) incomes was a concern for some.

> *"All you are doing all the time is spending money rather than seeing money coming in. Food costs more money… petrol costs more money. So it is a matter of juggling. I have got to learn how to earn some money here, put some money there, live on my wits for as long as I can."*
>
> (Male, retiring in next 6 months – 5 years, BC1, London)

6.1 Accumulated wealth, pension savings and other assets

Assets and income held by participants typically comprised a mix of the state pension, non-state pension(s), a lump sum investment, and other savings and investment products accumulated over the years.

Residential property appeared to be a key element of participants' accumulated wealth, but was generally not a prominent feature of their original retirement income plans. However, rising property values and in some cases the acquisition of additional properties meant that participants' were increasingly incorporating property asset disposal or rental income into their retirement income plans. Indeed, a few participants elected to accumulate all their wealth in property, rather than other forms of pension saving.

Some people have also had the benefit of inheritances, private wealth, employee share schemes or voluntary redundancy pay-offs.

Some participants had personal experience of financial loss, relating to past investments and consequently viewed investment with a sense of caution. On balance, participants' appetite for risk and *potential* growth was limited – most wanted reliability and safety.

Of the seven participants without a pension, only two had deliberately chosen not to invest in a pension.

6.2 Expectations and reality

The following insights should be viewed with a degree of caution. Participants generally struggled to estimate their annual gross income and/or were reluctant to reveal personal information. There was also a clear divide between those approaching retirement in the next 6 months to 5 years and the remaining sample.

On balance, the six month to five year pre-retirees would generally like to have a household retirement income of around two-thirds of their current household income, but in reality expected to receive around half of their current income. Women were more optimistic than men in this respect, and those in a defined contribution scheme also tended to have higher expectations. However, Table 4 illustrates the considerable variation across individual estimates.

Table 4 Current expected retirement income

	Current household income	Retirement income wanted/needed	Retirement income actually expect
Female	£21K	£20K	£15K
Male	£45K	£35K	£24K
Male	£46K	£20K	£20K
Male	£59K	£50K	£40K

Source: BC1 pre-retirees.

These participants were still a little way off retirement, and expressed doubts over whether their retirement income will be adequate. In particular, some of those in defined contribution schemes expressed disappointment with their decision to link their pension fund performance with riskier asset classes. Others were not happy with the monthly income from what was perceived as sizeable savings.

> *"£20,000 invested in a pension and all it gives him is £10! How much does one have to put into a pension at our time of life or even younger to get any decent reward when they do retire? Where is the money going to come from to build up the big pension fund?"*
>
> (Male, retiring in next 6 months – 5 years, C2D, London)

Some participants were clearly disappointed by their annual statements or annuity quotations.

> *"Has anyone had a projection from their pension in the last year? I suggest that you do…I think that you will be in for quite a shock."*
>
> *"I have had some statements in and I look at them and think… It means we will have to work so much longer."*
>
> (Female and Male, retiring in next 6 months – 5 years, C2D, Edinburgh)

In order to help to set expectations in the focus groups in a more realistic context, we provided some retirement income estimates to set a benchmark of what the average person lives on in retirement. This was based on an estimate of £184 per week for singles and £329 per week for couples[3]. This came as a shock to many, especially once they realised this included all sources of income and not just pensions. It drew a marked divergence in responses; the BC1 groups wondered how people managed to live on that, while some within the C2D groups thought the sum sounded quite high.

For those very near to retirement or in the early stages of retirement, the research revealed only minor differences between their original retirement income expectations and actual outcomes. This was possibly due to more frequent revision of expectations in response to consideration of their annual pension fund statements. However, for some the divergence between expectations and actual outcomes was considerable – partially due to lower than expected returns on their investments.

These mismatches are explained in various ways: the impact of the economic downturn on their accumulated wealth, a temporary fall in income until the next source of retirement income comes on stream, or changes to expected circumstances for non-financial reasons, such as death or divorce. Poor advice has also had an impact:

> "*I was advised to contract out of SERPS… It was the worst thing that I could possibly have done. I would have been far better off to have kept that in the State Pension scheme because that would be another £50 a week now*."
>
> (Male, retired in past 2-8 years, C2D, Surrey.)

A further complicating factor for some participants was that their household incomes in the years leading up to retirement could also change markedly. For example, certain participants faced a sudden loss in income due to divorce or a partner's death, or a gradual decline in working income as they moved into part-time work. In some cases, household income had been improved as a result of meeting a new partner or ending support for grandchildren in education, for example.

6.3 Variation in retirement income

Participants' actual retirement incomes varied widely, in line with the very broad range of people included in this study. But in proportional terms, they usually received at least half of their pre-retirement household income. Satisfaction with this depended on its perceived adequacy, with a variety of factors contributing to their views.

The mix of different types of pension provision was particularly important. For example, an occupational pension could pay out less than the state pension or far more, depending on what had happened during the participant's working life. This tended to reinforce the importance of a person's past employment history on the retirement income they received or were likely to receive in retirement.

[3] Median weekly net income (before-housing cost) for singles and couples, based on DWP 'Pensioner's Income Series: 2006/07'

It took some time for participants to confidently estimate what their final income in retirement is likely to be, once both partners have stopped working and all pension and other income sources are in payment.

Finally, most retired participants did not reflect negatively on their retirement income relative to their pre-retirement household income. They tended to accept that their income has dropped and that they will have to manage on whatever they now have.

> *"I did not know that I could have done other things to increase my pension income – (but) what I have never had, I will not miss."*
>
> (Female, C2D, retiring in next 6 months, Edinburgh)

6.4 Adequacy of retirement income

The majority of retired participants expressed satisfaction, often strongly so, with their income in retirement. For some, this was because they do indeed have a sizeable retirement income, while for others their personal attitude and expectations play a part. However, several admitted to feeling only fairly satisfied if, for example, they were earning more than twice their retirement income when they were still working. Only one respondent described their financial situation as "*horrible*".

These people were also asked to project ahead to their future years and say whether they think their retirement income will be adequate. Most were again certain, or at least optimistic, that it will be adequate.

Those who are already retired were more positive about the adequacy of their retirement income in comparison to those about to retire within the next six months. However, it is difficult to say whether this was due to differences in retirement income, pension type, or simply that the retired have already been managing on a reduced income for some time and know they can do it. Indeed, a few commented on how they can manage on less than they had originally envisaged as their outgoings are less – for example, they had paid off their mortgage or were no longer saving into a pension.

Participants' expectations of the likely or actual adequacy of their retirement income correlated closely with actual levels of pension savings. Personal attitude played a part, while the state of the economy is reflected by a significant degree of uncertainty:

> "*When you become a pensioner you've got what you've got and there isn't much chance of increasing it… At my level I want someone to help me a little bit more with my savings, to help take away my fear, because I'm very frightened now*."
>
> (Female, retired in past 12 months, BC1, London)

However, others remain calm, taking the view that they will cope and make ends meet, by economising and topping up (typically by using other non-pension savings) or that hopefully returns on their assets will rise again.

The general consensus amongst those due to retire in the next six months to five years was that they expected their expenditure to drop immediately after retirement as they would not have to buy work clothes and commute to work, for example. However, uncertainty remained a common theme:

> *"It is a very worrying situation. We don't know…. In five years' time it might have all changed."*
>
> (Males, retiring in next 6 months – 5 years, C2D, London)

Adequacy (real or perceived) does not simply relate to the size of their likely or actual retirement income. People's outgoings and personal circumstances, their expectations for standard of living and their personal attitudes also had a significant impact on their views.

6.5 Strategies to boost retirement income

Participants generally took the view that they will simply have to make ends meet, no matter what their retirement income. While our line of questioning focused on what they could do to top up their income, their most common response was to focus instead on cutting back on their outgoings. They would therefore sacrifice luxuries first, at whatever level – whether cutting back on the number of holidays abroad or not eating out, cutting down to one car or giving up a car altogether.

Participants also highlighted that enjoyment in retirement is not necessarily income dependant – it is also about having the time to spend with family, particularly on grandchildren, and on hobbies and seeing friends.

The study's participants cited a number of ways for boosting their retirement income should it become necessary. For some, this formed part of their original retirement plans. Suggestions included downsizing, selling a buy-to-let property, cashing in financial investments, using other non-pension savings and using the proceeds from drawing down a lump sum at retirement.

Some participants also mentioned that they may ask family or the state for financial assistance. Indeed, some were clearly irritated that they do not qualify for certain state benefits.

6.5.1 Property-related income

Most of the study's property owners were mortgage-free and lived in a house that was potentially too large for their needs. For most the house was also seen as a key potential source of retirement income. Though many would only contemplate selling if forced to do so, for example should they have to go into a care home.

Participants considered taking in lodgers or students, or working out an arrangement with their children to buy a share of the house or to swap houses. Various property-related options for increasing income ere also considered such as taking a second mortgage or using equity release. However, most were wary of the concept of equity release. Indeed, some very strong views emerged based on what they had read or seen in the media, provider literature, or from the experiences of others.

Some participants invested in additional properties over the years in order to provide rental income or generate capital gains for future realisation. Indeed, the apparent success of property investments was reflected in participants' desire to have done more in this respect.

6.5.2 Work

The various interpretations of retirement and the phased transition to full retirement has blurred the traditional boundaries between work and retirement. In some cases, participants had chosen to defer full retirement in order to boost their pension or build up savings, while a few continued to work during the retirement transition period - in most cases people deferred retirement out of financial need, but also because they were not ready to stop working altogether.

However, the decision to retire but also carry on with work in some form or find new work was far less common. Indeed, a few participants had been offered work post-retirement but chose not to take it. None of the retired participants included in this study had actually stopped work and then re-started to top up their retirement income.

Participants revealed a clear division of views on working in retirement to supplement income:

- some were positive about potential new work plans or possible opportunities;
- some would do it – if it were necessary;
- while others were definitely against it, especially women: "*not after 46 years*"; and
- some felt they had no need to work as they were comfortably provided for.

Resistance to having to re-enter the workplace after "full retirement" was even apparent among those who have already indicated they are worried about their income in retirement. For most, the finality of their decision meant that it was unlikely that they would contemplate starting again – for them retirement meant they had reached a point where they were no longer willing to work:

> "*There comes a time when you've got to say: "that's enough"*."
>
> (Female, retired in past 12 months, C2D, Birmingham)

They also see the possible barriers ahead, such as their age, health, the economy, and their employer's policy on working beyond pre-defined retirement ages.

While some hope that they do not have to work, their preparedness to consider work is partly based on their view of what work would be available, their age, their expected state of health and if it was convenient for them. Considerations included whether it would be part-time or occasional (so they can still enjoy their retirement activities), based locally or less stressful than their previous job. While financial need is a driver, enjoyment also features significantly for these people.

The desire to continue working for enjoyment was more prominent for those in the BC1 pre-retirement classification. Some also cited the relatively high working income they were able to achieve. There was no typical pattern of plans. Some would reduce their workload, others were considering a new business venture or alternative career.

6.6 Ability to envisage future retirement years

Participants were asked to plot their expected retirement income and expenses over time. This exercise proved challenging to some and others found it made them feel quite uncomfortable. They could envisage the near term, but predicting how long they will live for was quite difficult.

Most participants found it useful to consider their parents' age for estimating their likely lifespan, with some caveats. However, participants' estimates of their life expectancy often appeared to be lower than their parents' experiences as they preferred to focus on the years before they become too frail or ill. Thus, while often aware of the rising longevity of British men and women, participants only typically saw themselves living to about 80, or into their mid 80s at most.

Participants' expectations for both retirement income and expenditure often fell over time. Generally because they expected to have more leisure activity and require higher expenditure in the first 5 - 10 years, and they expected to be less active and spend less later in retirement.

Participants were asked to consider retirement events that might involve significant costs, such as the possibility of ill health. By being forced to consider their later years or times when their income might be under pressure, participants revealed concerns over potential health care and nursing home costs.

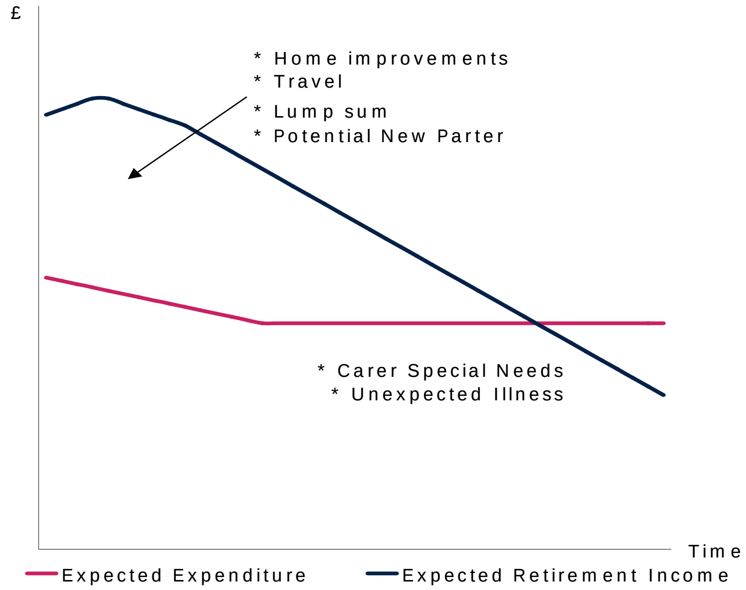
Only one person specifically mentioned the costs involved with care, having seen both his and his partner's parents move into care facilities. By contrast, most participants were rather vague about addressing unexpected health expenses and took the view that they would cope if something happened. The solution for them was to use their house or State support.

Other key expenses included major house repairs (hence the desire to get this completed before retirement), changing the car, holidays or weddings, and a rapid increase in the cost of living, notably through utility bills.

Participants tended to project their expected future expenses and then provide a solution to meet those expenses – such as by selling assets or drawing on other savings. One prominent finding from this exercise was that not all participants expected to have a smooth path for their retirement income.

Figure 2, Figure 3 and Figure 4 provide further illustrations of the projections made by participants in the interview process.

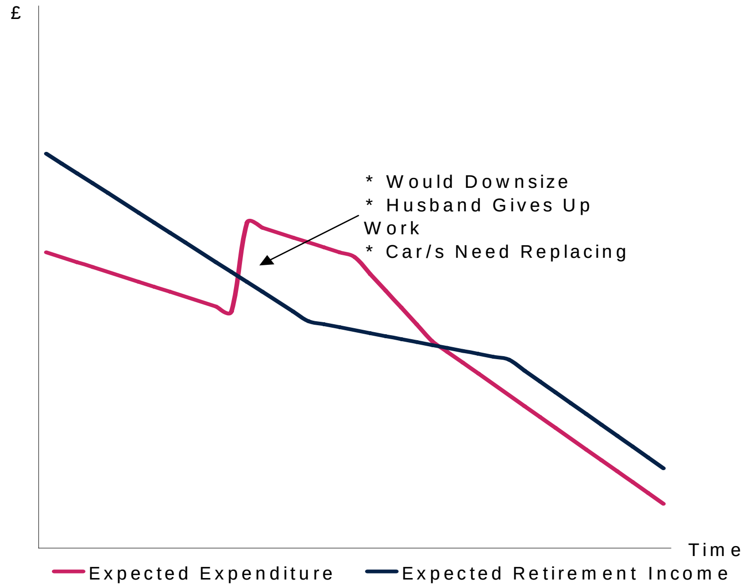
Figure 2 Retirement income and expenses expectations, as completed by individual participant (1)



"My view is very simple: when I'm active I want to spend money and when I'm not active I won't. I see my income first as high then sliding. Surge might be in the first 10 years of retirement, taking the lump sum, travel. The possible danger in exceeding income is illness where you might need a private carer"

(Male, divorced, retiring in next 6 months, BC1, London)

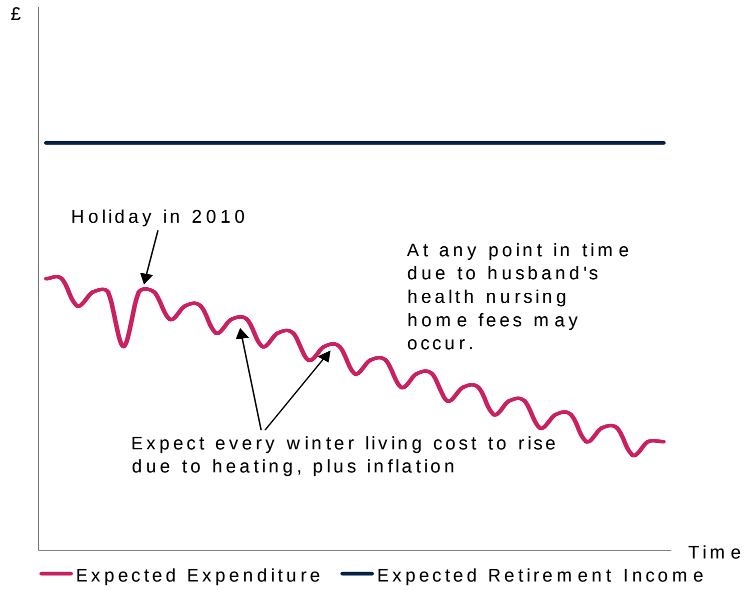
Figure 3 Retirement income and expenses expectations, as completed by individual participant (2)



"I see my income reducing over the years – pensions are not keeping up with the cost of living. In about five years time my husband might give up work. This is the time would look at selling the house and downsizing. I would do something about things before I ever got in debt.

(Female, retiring in next 6 months, C2D, Edinburgh)

Figure 4 Retirement income and expenses expectations, as completed by individual participant (3)



"I expect every winter to have to dip into savings to pay fuel bills. We would like to take a big holiday in 2010. My husband has multiple sclerosis and might need to go into nursing home at some point."

(Female, retired in last 12 months, C2D, London)

Diligent planners had put measures in place for protection, but generally participants were not prepared to fully engage with and calculate the associated risks of events outside of their control. A common refrain was that "*nobody knows what's round the corner*" and hence participants found it far easier to plan their retirement income with respect to immediate and near-future periods and around events within their control, such as buying a new car or going on holiday.

Most participants wanted to "carry on" and hope for the best, enjoying their early retirement years as much as they can.

"I have always worked on the basis that you don't know when you are going to die. You enjoy life now. If you retire at 65 you might live another 20 years. Even if you do live longer than 20 years you won't be running around on all these holidays and things that you do now."

(Male, retiring in next 6 months – 5 years, BC1, London)

"I am just hoping for the best… I think it is a case of what comes and hopefully… You just don't know."

(Men, retiring in next 6 months – 5 years, C2D, London)

7.0 STRUCTURE OF RETIREMENT INCOME PRODUCTS

7.1 Retirement income priorities

When asked what their key priorities are for their retirement income, what it must do or be, participants instantly spoke about being able to live their lives as they wish, maintaining their standard of living or, at least living at a "comfortable" standard.

The key requirement for their retirement income was that it should cover all their living expenses; in particular food and household bills. Indeed, there was little difference in the views of those on defined benefit schemes and those on defined contribution pensions. However, there was a wide spectrum of priorities, depending on participants' current or expected retirement income. Some had relatively modest goals – to keep warm, cover the Council Tax, or pay their car expenses – while others wanted to ensure the cost of running a good quality car and taking regular holidays remained affordable.

> "*It must keep us in our house, warm and cosy, and it must provide holidays, another car, other bits and pieces*."
>
> (Female, retired in past 12 months, BC1, Surrey)

Participants' priorities for their retirement income were generally focused on day–to-day living and their immediate wants and needs. Some expressed a desire to help their children and grandchildren financially. Only a small minority spontaneously mentioned being able to afford private health cover, covering funeral costs or leaving an inheritance.

Participants generally did not talk about inflation-proofing, flexibility, or sufficiency. There was a clear distinction between having the means to get by on the bare minimum and actually enjoying life. Participants also clearly wanted financial "*ease*" and to achieve "*peace of mind*" regarding their retirement income.

> *"It must enable me to live without financial stress. I don't want to worry about the next gas bill*."
>
> (Female, retiring in next 6 months – 5 years, BC1, London)

7.2 Trade-off exercises

Participants were asked to complete two simple trade-off exercises to ascertain how much they valued certain features of annuities, such as indexation, joint-life benefits (following the primary annuitant's death), inheritances (again following the primary annuitant's death) and income flexibility (proxied as the hypothetical ability to withdraw a second lump sum at any time during retirement). Participants were asked to consider whether the cost of these features was worthwhile in terms of a reduction in the maximum possible income achieved with a fixed sum.

Participants with and without spouses were given slightly different exercises to reflect the impact their marital status would have on their decision making process. Full details of the trade-off exercise are available from Consensus Research or the ABI.

The exercise revealed four key findings.

- The range and extent of a person's retirement income choices are limited by the size of their pension. A number spontaneously said that the options and trade-offs would be far greater, and merit greater consideration, if they had a sizeable pension fund.

- Taking the maximum possible income and lump sum is seen as the 'normal' thing to do. It was noted earlier that participants tended to take a short-term approach and were slightly distrustful of features viewed as more complicated than the standard level income, hence the clear belief that it is better to access their pension savings early in retirement.

- It was difficult to anticipate participants' choices (even when they had similar profiles) because each valued different features or their relationship to their personal needs quite differently.

- Participants generally found the trade-off exercise quite easy and quick to complete.

7.2.1 Effect of inflation

Participants were asked to choose between receiving the maximum level income in retirement from a hypothetical 'pension pot', a fixed three per cent escalating income throughout retirement (at a cost of 30% of the initial maximum income), or an increase in line with an indicator of inflation (at a cost of 35% of the initial maximum income).

Of the responses obtained, just under half of the participants preferred to receive the maximum income from the hypothetical annuity, followed by the escalating annuity option. A minority preferred to have the annuity income indexed directly with inflation. This pattern was fairly consistent across all respondent groups, with one exception – those just about to retire within the next six months were most likely to choose the escalating annuity option.

The escalating annuity option was generally selected for a number of reasons:

- it sounded like a good rate in the current economic climate;
- participants liked the guarantee compared to the variability of index-linking; and
- it was slightly cheaper than the index-linked option.

Some participants thought the trade-off cost was too high and did not think that inflation would pose a significant problem in the future.

> "*Why should I have to give up 30 or 35% to get an increase? A big drop - it is a considerable amount to give up*."

(Male, retired in past 12 months, C2D, Edinburgh)

"I have always index-linked whatever I have taken out, but I am less convinced now, particularly at the moment when the index is so low anyway."

(Female, retiring in next 6 months – 5 years, BC1, London)

7.2.2 Joint-life benefit

The next trade-off exercise asked participants to choose between the maximum income from a hypothetical annuity pot, a 50% income for their spouse following their death (at a cost of 10% of the maximum income), or an equivalent income for their spouse following their death (at a cost of 15% of the maximum income).

Only those with a spouse (45 participants) were asked to complete this exercise. Most participants opted to cover their spouse – either at the 50% (19 votes) or 100% (17 votes) level. A mix of influences drove their decisions, including a feeling of responsibility to provide for their partner's welfare.

"If I go before my missus I don't want her having to struggle. I mean, you want to make sure that she has got enough there."

(Male, retiring in next 6 months – 5 years, C2D, London)

"That is quite normal isn't it - to give half to your wife. When you die your pension is cut in half and it is automatic."

(Male, retiring in next 6 months – 5 years, C2D, London)

Nine people opted for the maximum income. More of those approaching retirement would opt for the 100% joint-life benefit income, while none of those who had retired in the past 12 months selected this option. By contrast, they were as likely to choose maximum income as a 50% joint-life benefit.

Among those who opted for a single life annuity, some explained that they had discussed this option with their spouse. They wanted maximum income in the early years of retirement as that is when they expect to have the energy and good health to enjoy their leisure time, and do so while both partners are alive. One respondent recalled the experiences of her mother and mother-in-law.

"They say they would have preferred to have had full pensions when their husbands were alive. They now feel cheated that they were not able to do things with their husbands and family that a full pension would have allowed them to do."

(Female, retiring in next 6 months, C2D, Edinburgh)

Others that did not opt for the 100% spousal benefit explained that their partner was covered by other sources, such as the State Pension, life insurance, property, and other savings and investments – or indeed, their spouse's own pension. Moreover, those on limited incomes felt they did not want to pay an additional premium for a joint-life benefit.

The study included six widows and three widowers, whose experiences were varied. One of them currently receives what she perceived to be a generous income, of 50% of her late husband's pension. Others spoke of receiving little or no extra direct benefit after the death of their spouse, referring instead to additional state benefits or drawing funds from other savings.

7.2.3 Lump sum inheritance benefit

Participants were also asked to choose between a maximum income in retirement, payment of a lump sum equivalent to one quarter of their pension pot after their death (at a cost of 25% of the maximum income) or a lump sum equivalent to half of their pension pot after death (at a cost of 50% of the maximum income).

Most participants had a spouse or children and consequently completed the inheritance exercise, and of these the majority opted for the maximum income option. Those that preferred to leave some level of inheritance tended more towards the 25% level survivor benefit than the 50% option. The pattern of response was generally consistent across all four audiences.

Participants typically thought that the cost of this trade-off was high, but were also motivated to leave an inheritance in support of their spouse or child. As with joint-life benefits, some of those who opted for the maximum income said there were alternative ways they could leave an inheritance. These participants generally were also less concerned about leaving a bequest, often noting that their children wanted them to enjoy their retirement.

7.2.4 Flexibility of income (via withdrawal of a second lump sum)

The final trade-off exercise contrasted receiving the maximum possible income against taking a second lump sum of 10% (at a cost of 10% of the maximum income) or 20% (at a cost of 20% of the maximum income) of the initial pension savings later in retirement, at a time of their choosing.

Opinions were divided fairly evenly between the three options. This pattern of response was generally consistent across pre-retirees and retired participants, although those retiring in the next six months were more in favour of the 20% lump sum option. Most participants who did not choose either lump sum benefit option cited the need for the maximum income or did not believe they would need a second lump sum. The trade-off cost was also mentioned.

However, for others, flexibility is important and was considered a valuable feature.

"You want as many options as possible. Once you have committed yourself to something that is inflexible, then you can't change. If you've got the flexibility built in and something crops up - you have got that option".

(Male, retired in past 12 months, BC1, Yorkshire)

Some participants also saw the lump sum option as an additional means of bringing more of their pension savings under their control – either because they felt they could generate above-average returns or were fearful of an event which precludes them from receiving anything more:

"They do advise you to take the maximum amount because, in case anything goes wrong, at least you have got the money."

(Male, retiring in next 6 months – 5 years, C2D, London)

"I'd rather leave it to the children as opposed to an insurance company – take it out and reinvest it in a bond for my children. Make up on the income. "

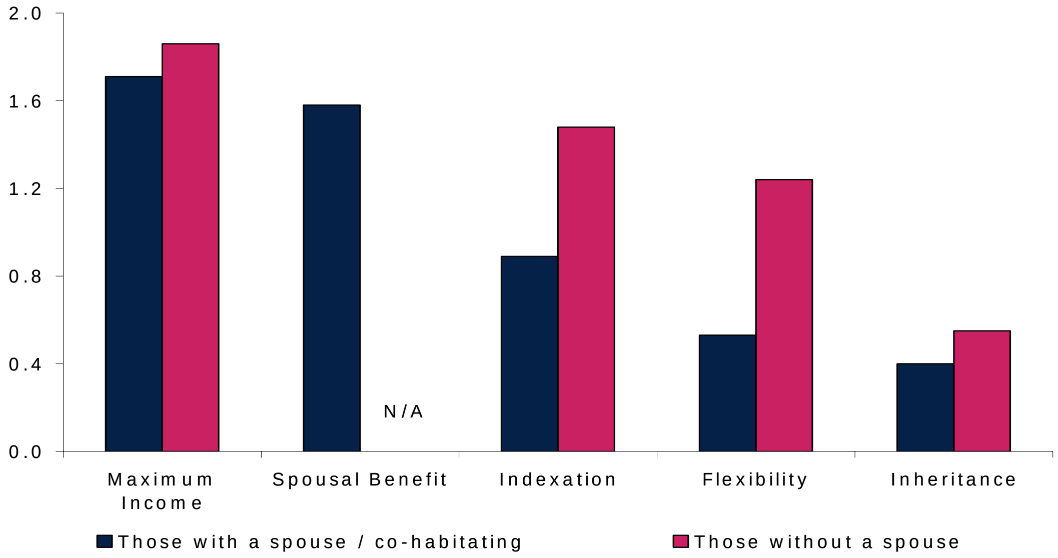
(Male, retiring in next 6 months – 5 years, C2D, Edinburgh.)

7.2.5 Overall ranking

Participants were then asked to prioritise the various benefits outlined above by distributing points among the hypothetical benefit options according to their preferences. There was no restriction as to how they allocated their points (i.e. all points could be allocated to a single benefit, if that was clearly felt to be the most valuable) other than the requirement to allocate all points.

Figure 6 shows that both those with and those without a spouse tended to prefer to receive the maximum income from a pension pot. This generally reflected the responses to the projected retirement income exercise – participants felt their retirement income needs would fall with age so they preferred to receive more in the short term.

Figure 5 Relative trade-off exercise – participants preferences for the five benefit options



Note: small sample sizes for those with (45) and without a spouse (29).

7.3 Preferences

Participants were asked whether they would prefer a different pattern or structure to their retirement income, as an alternative to receiving a predictable monthly income with the additional option of receiving a lump sum on retirement. Their initial response was to say no, with most participants content with the capital amount then the secure regular income provided by an annuity.

Receiving a monthly income was felt to be central to managing household expenses.

> " *I will probably take my pension monthly because I'm used to receiving my salary monthly and have been for many, many years and it tends to make my budget easier because of that*."
>
> (Male, retiring in next 6 months, C2D, South Wales)

Only one person had already elected to have their annuity payments made weekly to help with budgeting.

While there was a general feeling of satisfaction with the existing range of retirement income products, some participants also expressed interest in the option of taking a second lump sum.

"*As a feature it might be very useful... I am not so sure many people would do it because they would have a lower income.*"

(Male, retiring in next 6 months – 5 years, BC1, London)

"You can choose what will be better for you in the long term. Otherwise, if you have no choice, you can't do anything about it."

(Male, retired in last 2 – 8 years, C2D, Sheffield)

A few participants said they could use other retirement income products, such as non-pension savings and investments to provide additional income. Most of those participants who voiced interest in the ability to take an extra lump sum felt this would provide access to income to help with emergencies, expensive events, and changing circumstances. Some participants also saw this option as a way to take control of more of their pension savings and invest in a manner they see fit. There was also a general feeling amongst participants that it is *their* pension savings and they want to make the decision, even if they are wrong:

"Access to money is very important because you never know what may happen in life and you never know what your health situation is going to be. I might meet a new partner, I might want to travel, I might not want to live in this country."

(Male, retiring in next 6 months, BC1, London)

"I think people should be able to choose what they want to do – they've put all the money in, so if they need money desperately… You should have the freedom to do what you want with it."

(Female, retired in last 12 months, BC1, London)

8.0 REFLECTIONS

The final stage of the interview process involved asking participants whether they would have done anything differently with the benefit of hindsight. In addition, we asked those who had just been through the retirement process for their suggestions to make the process easier for those approaching retirement.

8.1 Changes

Some of those in and approaching retirement did not feel they would have done anything differently – being happy with the decisions they made and pleased with the outcome, or accepting that they did the best they could at the time, and did not have the means to do anything differently. Indeed, some made the point that until the recent economic downturn their retirement plans had been on course, but that the economic climate had changed that.

Many, however, think they would have acted differently in order to boost their retirement income. The key changes they would have made included:

- Started to save into a pension much earlier;
- Opted into any employer pension on offer – and stayed in;
- Paid more into a pension or made additional voluntary contributions especially in their later working life when people have more "*spare money*" (i.e. disposable income);
- Generally saved and invested more;
- Paid the full National Insurance contribution;
- Taken more of an active interest in their pension and retirement income – by planning ahead, and taking advice;
- Take nothing for granted – divorced women in particular said they should have ensured they had their own pension and savings.

Participants were prepared to acknowledge their preference for short-term pleasure over deferred income at a later date. Some retired participants acknowledged that they might have acted earlier or selected different annuity features.

The discussion groups for pre-retirees revealed a stark contrast between those on defined benefit schemes and those on defined contribution schemes.

> "*There are two classes of people here tonight. I didn't realise 40 years ago that having money taken off me as a civil servant would actually benefit me. 40 years on you just say, "Thank you for that provision"."*
>
> (Male, expecting to retire in next 6 months – 5 years, BC1, London)

The participants approaching retirement reacted in two distinct ways to annual statement letters showing the performance of their pension savings. The statements either prompted them to prioritise their pension contributions or, conversely, sometimes led to disengagement.

> *"I am quite happy to make my own mistakes and live by them rather than give my money to somebody else… I see that as a preferred option to pensions."*
>
> (Male, expecting to retire in next 6 months – 5 years, BC1, London)

A few said they, with hindsight, they wished they had invested in property.

8.2 Suggestions for improvement

Most suggestions made by retired participants were based on the need to educate the working population about pensions and about saving generally. Participants felt greater efforts should be made to promote:

- The need to engage with and contribute to a pension;
- The value of saving via pension, and address peoples' scepticism about private pensions;
- The various pension options that are currently available: State, personal and occupational;
- The need for younger people to join their employer's scheme and for employers to support this message;
- The need to better communicate what can be done to improve pension funds in the later years of peoples working lives, as they approach retirement
- The need to provide for oneself and take greater interest in their financial affairs
- The range of savings and investment products available; and how to access these
- Jargon-free, reliable information and literature.

Some participants also called for a review of the way pensions are handled in the UK, improved tax allowances (i.e. tax-free), and for a national pension scheme.

> *"I think pensioners should be allowed bigger allowances before tax, or not having to pay tax on investment income because you've already paid tax on it when it was earned. There should definitely be special allowances for pensioners."*
>
> (Female, retired in past 12 months, BC1, London)
>
> *"Have a national pension scheme that everyone has to contribute to where all employers have to also contribute, with flexibility for both to contribute more. It would make no difference to those who have good pension schemes, but takes a lot of stress and worry from those who do not."*
>
> (Male, retired in last 12 months, BC1, Sheffield)

Aims and scope: The Association of British Insurers (ABI) is the trade body representing the UK's insurance industry. The ABI Research Paper series is used to publish the research that the ABI carries out on behalf of its members in order to help inform the insurance industry and contribute to public policy debate.

Series Editor: Rebecca Driver, Director of Research and Chief Economist, ABI

Author: This paper was written by Peggy Young, Linda White and Reena Nemchand from Consensus Research.

ABI Contacts: Copies of ABI Research Papers are available on the ABI website at: http://www.abi.org.uk/Bookshop/default.asp

Copies of ABI Research Papers may also be obtained from Research Department, Association of British Insurers, 51 Gresham Street, London, EC2V 7HQ; Tel: +44 (0)20 7216 7390; Fax: +44 (0)20 7216 7449; email: research@abi.org.uk.

Press queries, please contact the ABI's media team on Tel: +44 (0)20 7216 7394; email: info@abi.org.uk.

ISBN 978 1-903193-45-1

For more information, contact:

Association of British Insurers
51 Gresham Street
London EC2V 7HQ
020 7600 3333

www.abi.org.uk